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**THE RELATIONSHIP BETWEEN HUMAN, SOCIAL AND FINANCIAL CAPITAL
AND SMALL AND MEDIUM ENTERPRISE (SME) PERFORMANCE IN SOUTH
AFRICA.**

Thesis submitted in the fulfilment of the requirements for the degree

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Master of Commerce

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By

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JANUARY 2024

DECLARATION

I, the undersigned, Masiso Siso, hereby declare that this thesis is my own original work in design and execution and that it has not been submitted, nor will it be presented at any other University for the award of a similar or any other degree.

Signature Masiso Siso

Date 16 January 2024

DEDICATION

To my guiding lights.

Kubheka

Masobode

Wena owasobodela udlubu nokhasi

Mgwaqo awedlul'esibayeni, ngoba kuvalwe ngamakhanda amadoda

Mbend'ebomvu enjengetolwane

Boya obuningi obungangenyathi

Mboko'ebomvu KaMagayiza esunduza abeSuthu namaNdebele

Sicabha esihle esakhothwa izinyoni zakwaKhathide

Siso

Bhodloza

Umhlathi ongahlulwa thambo

Silwane esagwinya amathe kwabaleka izizwe

Jamela

Wena owageza ngobisi lwenzinkomo zamadoda

Kwangento yalutho

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I also wish to convey my appreciation to the following individuals who have played a pivotal role in this journey:

- Enkosi Faku, Nyawuza, Thahla kaNdayeni ngokundikhuthaza nokundixhasa. Undibonise ububele nothando ndiludinga kakhulu.
- A special thanks to my supervisors Prof Lynette Louw and Prof Nadine Oosthuizen your unwavering support and guidance has brought me one step closer to my realising my dreams.
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- Thanks to my friends and everyone for their insights, counsel and aid.

ABSTRACT

The COVID-19 pandemic has had a severe impact on developing countries, exacerbating economic stagnation, high poverty rates, and unemployment. South Africa, in particular, faces significant challenges, with a 35.3 percent unemployment rate and a 17.4 percent GDP decline in 2021. Small and Medium Enterprises (SMEs) are crucial during these economic challenges, traditionally employing a substantial workforce and contributing significantly to the GDP. Despite their importance, SMEs often struggle, with a small percentage surviving the initial two years. Limited research has been conducted on the resources and capabilities crucial for enterprise performance in South Africa. While studies in developed countries exist, few explore the relationship between resources and capabilities facilitating SME performance in developing contexts. This study focuses on human capital, bonding, bridging, and linking social capital, and financial capital as key resources and capabilities.

Given the backdrop that many entrepreneurs in South Africa may not possess formal education or extensive work experience, this study contends that financial literacy—encompassing financial knowledge, behaviour, and attitude—serves as a proxy for human capital. Additionally, a notable portion of entrepreneurs in South Africa face a deficit in the skills and knowledge essential for identifying entrepreneurial opportunities. Even among those possessing these capabilities, the challenge lies in the lack of necessary resources, including social and financial capital, to effectively transform such prospects into viable new ventures.

This study employed a causal research design and adopted a quantitative research approach within a post-positivist paradigm. The primary objective was to investigate the relationship between the following independent variables; human (where financial literacy was used as a proxy which consisted of financial knowledge, attitude and behaviour), bonding, bridging and linking social capital, and financial capital and the dependent variable; SME performance. An online self-administered questionnaire was used to gather data from SME owners/managers. A pilot study was undertaken, in which an electronic link to the questionnaire was sent to potential respondents. Potential respondents were identified using purposive and convenience sampling methods. Data collection yielded 334 usable responses from SME owners/managers in South Africa.

After cleaning the data, the analysis examined the relationship between independent and dependent variables. Confirmatory Factor Analysis (CFA) and Cronbach Alpha Coefficient analysis were used to confirm the validity and reliability of the measurement instrument, respectively. Descriptive statistics, regression, and correlation results were reported. Furthermore, a group mean analysis, including independent sample t-tests and one-way ANOVAs, were performed to investigate potential significant differences in variables based on demographic and enterprise related variables.

The findings revealed a significant positive relationship between financial capital and SME performance. This indicates that an entrepreneur's ability to access financial capital or possess financial capital contributes to the performance and success of enterprises in South Africa. This finding underscores the crucial role of financial capital in facilitating the growth and sustainability of enterprises, as it provides a buffer against unfavourable economic shocks, enables entrepreneurs to pursue more capital-intensive strategies, and affords them more time to learn and overcome challenges. Conversely, no significant relationships were found between financial knowledge, behaviour, and attitude, bonding, bridging, and linking social capital, and SME performance. This study contributes to the development of SMEs in South Africa by identifying the critical resources and capabilities essential for their survival and growth. Additionally, it offers valuable recommendations for policymakers to create a conducive environment for entrepreneurs and suggests potential educational initiatives and support structures. Furthermore, this study advocates for the exploration of innovative financing approaches to build a financial cushion and bolster resilience against economic upheavals.

Keywords: Enterprise performance, human capital, social capital, financial capital, Small and Medium Enterprises, resource-based theory



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CHAPTER 1

OVERVIEW OF THE STUDY

1.1 INTRODUCTION

The COVID-19 pandemic has had a detrimental impact on the economies of developing countries, which were already contending with challenges such as stagnant economic growth, elevated poverty rates, and unemployment (Açıkgöz and Günay, 2020; Loayza, 2020; Bai, 2020; The World Bank, 2020). South Africa serves as a prominent illustration of the profound repercussions of COVID-19 on emerging economies. As reported by Stats SA (2020) and Wasserman (2021), the country experienced a loss of 2.2 million jobs and a reduction of R29 billion in personal income distributed to employees in 2020. This highlights the limitations faced by the South African government and the public sector in generating employment, alleviating poverty, and stimulating economic growth (Sguazzin, 2020).

In the context of these constraints, the role of Small and Medium Enterprises (SMEs) becomes crucial, given their capacity to drive economic growth (Fatoki and Patswawairi, 2012; St-Pierre, Foleu, Abdulnour, Nomo and Fouda, 2015). The National Small Enterprise Act (1996) defines a small enterprise as one with 11 to 50 employees and annual revenue ranging from R15 million to R80 million, depending on the sector. Medium enterprises, on the other hand, have 51 to 250 employees and annual revenue ranging from R35 million to R220 million, also depending on the sector (National Small Enterprise Act, 1996).

Despite the pivotal role of SMEs in economic growth, only a limited percentage manage to survive the initial two years of operation (Cant and Wiid, 2013; Fatoki, 2014). The causes of failure vary significantly, with factors such as the lack of knowledge and skills related to day-to-day business operations, absence of supportive social networks, inadequate funding, and unprofitability identified by Fatoki (2011) and Asah (2019). These factors imply that entrepreneurs lack essential skills and resources, including human, social, and financial capital, as well as financial literacy. Furthermore, Fatoki (2011) suggests a lack of separation between ownership and control in SMEs, with owners and/or managers often actively involved in day-to-day operations, impacting their ability to effectively balance ownership and control and, consequently, influencing SME performance.

To address the high failure rate of SMEs, extensive research has investigated factors influencing enterprise performance, as evident in studies by Peel and Bridge (1998), Fatoki (2011), Mukumba (2014), Naudé, Zaefarian, Tavani, Neghabi, and Zaefarian (2014), Nkwabi and Mboya (2019), and Qalati, Li, Ahmed, Ali, and Khan (2020). Previous entrepreneurship research has linked performance to the entrepreneur's personality, with Cantillon (1755) proposing that enterprise performance depends on the entrepreneur's risk-taking propensity. Say (1880) and Marshall (1890) further emphasised that successful entrepreneurs should be innovators, leaders, and possess specialised abilities, including experience and business knowledge. While literature underscores risk-taking as a crucial attribute, Schumpeter (1934) contends that innovation is the key attribute.

Given the challenges faced by SMEs, access to strategic resources and capabilities becomes crucial for their success. Therefore, understanding how entrepreneurs leverage and deploy these resources is pertinent for this study. Among various theories on factors influencing enterprise performance (such as economic, psychological, and opportunity-based entrepreneurship theory), the resource-based theory emerges as the most suitable for assessing SME performance in this study. The resource-based theory underscores the significance of entrepreneurs' access to resources and capabilities as determinants of performance (Barney, 1991). Alvarez and Busenitz (2001), Kellermanns, Walter, Crook, Kemmerer, and Narayanan (2016), and Zahra (2021) postulate that the availability of strategic resources and capabilities is a vital facilitator, particularly those that are valuable, rare, and inimitable. It enables entrepreneurs to promptly identify and capitalise on opportunities, thereby creating and sustaining a competitive advantage. The researcher argues that while entrepreneurs' inherent characteristics and abilities are important, they may be futile if the entrepreneur does not possess the necessary resources and capabilities. Additionally, the researcher suggests that one's ability to exploit opportunities will not be of aid if the entrepreneur lacks the necessary resources and capabilities to do so.

Davidsson and Honig (2003) assert that strategic resources and capabilities comprise human, social, and financial capital, leading to a competitive advantage. Becker (1964) characterises human capital as the knowledge and skills acquired through formal education, work experience, and training. However, Unger, Rauch, Frese, and Rosenbusch (2011) reason that task-related competencies, such as the owner's experience, start-up experience, industry

experience, and business-related, contribute towards enhanced enterprise performance. Carter, Brush, Greene, Gatewood, and Hart (2003); Davidsson and Honig (2003); Bosma, Van Praag, Thurik, and De Wit (2004); Marshall and Oliver (2005); Fatoki (2011); Cetindamar, Gupta, Karadeniz, and Egrican (2012), and Chikwendu (2019) indicate that human capital enables the entrepreneur to recognise and strategically pursue opportunities that contribute to the enterprise's survival and growth. Moreover, human capital assists entrepreneurs in obtaining resources and accumulating new business-related competencies, such as marketing (Unger *et al.*, 2011).

Bourdieu (1986) defines social capital as a combination of existing and potential resources when an individual has access to a strong network of institutional relationships and mutual acquaintances. Bourdieu (1986) and Coleman (1988) augment this perspective, asserting that social capital serves as a function where resources become available to an actor, aiding in facilitating specific actions. These resources are available to the actor due to their social structures; without these social ties, the actor would not have access to the resources or incur significant transaction costs. Social capital consists of strong and weak ties, and these ties depend on the amount of time, emotional intensity, intimacy, and reciprocal service (Granovetter, 1973).

Evans and Jovanovic (1989) refer to financial capital as the capital or the access to it, in the form of equity, debt, or both, that will serve as the financial input of the enterprise. Bosma *et al.* (2004) also suggest that financial capital includes the revenue-generating ability of the entrepreneur. Entrepreneurs with financial capital, according to Carter *et al.* (2003), Simpeh (2011), and Elsafty, Abadir, and Shaarawy (2020), can obtain resources that will aid in effectively creating new enterprises and exploiting entrepreneurial opportunities, leading to improved enterprise performance.

Linder, Lechner, and Pelzel (2020) emphasise that all three forms of capital—human, social, and financial—are equally important, and that value is mutually created. Furthermore, they assert that human and social capital assist entrepreneurs in discovering fewer contested opportunities, whereas financial capital helps them pursue these opportunities.

The following section discusses the problem statement and research objectives of the study. Thereafter, the hypothesis and research questions are presented and the research design and methodology are outlined.

1.2 PROBLEM STATEMENT

To date, limited research has been conducted on the resources and capabilities required for enterprise performance in South Africa. While several studies in developed countries have investigated the relationship between various resources and capabilities (see Davidsson and Honig, 2003; Bosma *et al.*, 2004; Marshall and Oliver, 2005; Danes, Stafford, Haynes and Amarapurkar, 2009; Cetindamar *et al.*, 2012; Linder, Lechner and Pelzel, 2020), limited research can be found specifically relating to the holistic relationship between human, social, and financial capital and SME performance. Moreover, scant research investigating the relationship between human, social, and financial capital and enterprise performance has largely focused on entrepreneurs from developed countries with high levels of education (such as postgraduate degrees) and industry-specific experience. As such, individuals were assumed to possess specific skill sets such as financial literacy. Financial literacy, according to the Organisation for Economic Cooperation and Development (OECD) (2013) and Lusardi (2019), is defined as the knowledge and understanding of financial concepts as well as the capacity to apply that information to make effective financial decisions. Thus, financial literacy comprises financial knowledge, financial attitude, and financial behaviour (refer to Chapter 3 Section 3.4.1).

The aforementioned studies assume that individuals with high levels of human capital will be financially literate. Based on this assumption, financial literacy was not included in these studies. Engström and McKelvie (2017) challenge the exclusion of financial literacy as a component of human capital in a context where formal education is often limited and of low quality. Furthermore, Unger *et al.* (2011) demonstrate that less developed countries have a weak relationship between human capital (namely, formal education and work experience) and enterprise performance. Given the difference in economic contexts between developed and developing countries, this study will include financial literacy as a proxy for human capital (refer to Chapter 3 Section 3.4.3 for a detailed explanation). As a developing country, the South African economy is characterized by low-quality education and an unemployment rate of 32.6 percent (Herrington and Kew, 2018; United Nations (UN), 2020; Stats SA, 2021). It is arguable

that entrepreneurs in South Africa may not have high levels of human capital, given the lack of opportunities compared to entrepreneurs in developed countries. Thus, the entrepreneurs' understanding of knowledge and skills that are pertinent to the day-to-day running of the enterprise is more appropriate in a developing country's context (Engström and McKelvie, 2017).

A number of studies that have been conducted suggest that entrepreneurs lack access to critical resources and capabilities that contribute to enterprise performance (see Muniady, Mamun, Mohamad, Permarupan and Zainol, 2015; Smith, Smith and Shaw, 2017; Maritikke, 2018; Chikwendu, 2019; Klaas, 2022;). Chikwendu (2019) found that a number of entrepreneurs in South Africa have the skills and knowledge to recognize an entrepreneurial opportunity, yet they lack the necessary social connections to convert such a prospect into a new venture. In addition, researchers (see Evans and Jovanovic, 1989; Copper, Gimeno-Gascon and Woo, 1997; Kuzilwa, 2005; Asah, 2019; Linder, Lechner, and Pelzel, 2020) found that financial capital plays a role in the success of the enterprise. While there is an overwhelming amount of research on human, social, and financial capital in both developing and developed contexts, limited research exists on the holistic relationship between these resources and capabilities and SME performance.

1.3 PURPOSE OF THE STUDY

The study intends to furnish both nascent and established entrepreneurs with guidance regarding the fundamental resources and capabilities that necessitate development. Furthermore, it offers insights for training providers to augment entrepreneurial success through targeted educational initiatives. Through an exploration of the interrelationship between human, social, and financial capital and SME performance, the study aspires to make a substantive contribution to entrepreneurship literature, assisting entrepreneurs in comprehending the impact of these "capitals" on SME performance.

In addition, the study facilitates the identification of high-potential and high-risk SMEs, thereby empowering nascent entrepreneurs, investors, and financial institutions to make well-informed decisions prior to lending or investing. Educators and policymakers stand to gain valuable insights from the study, aiding them in the development of curricula, facilitation of workshops, and formulation of policies conducive to entrepreneurial activity. Ultimately, by

discerning the factors conducive to SME survival, the study endeavours to mitigate SME failure rates and fortify the potential economic growth of South Africa.

1.4 RESEARCH OBJECTIVES

The following section presents the primary and secondary research objectives of this study.

1.4.1 Primary research objective

The primary objective of this study was to investigate the relationship between human capital (where financial literacy was used as a proxy, with the following sub-factors; financial knowledge, attitude and behaviour), bonding, bridging and linking social capital and financial capital and SME performance in South Africa.

1.4.2 Secondary research objectives

In achieving the primary objective, the following secondary objectives were formulated, namely:

- To develop a conceptual framework that will be empirically tested in this study.
- To determine the relationships between the independent variables (human capital, bonding, bridging and linking social capital and financial capital), and the dependent variable (SME performance).
- To determine whether the independent variables (human capital, bonding, bridging and linking social capital and financial capital) predicts the dependent variable (SME performance).
- To determine whether there are any statistically significant differences in the independent (human capital, bonding, bridging and linking social capital and financial capital) and dependent variable (SMEs performance) according to the demographic variables (such as gender, age, highest qualification, and academic field).
- To determine whether there are any statistically significant differences in the independent variables (human capital, bonding, bridging and linking social capital and financial capital) and dependent variable (SMEs performance) according to enterprise related variables (such as role of the respondent, size of the enterprise and enterprises' years of operation).
- To make recommendations based on the findings of this study.

1.3 HYPOTHESES

The variables selected for inclusion in this study's framework are human, social and financial capital. Following the introduction and background of the study, the problem statement (with the main research question formulated) and objectives, the following hypotheses are formulated for empirical testing. Table 1.1 presents the hypotheses of this study. Thereafter, Figure 1.1 presents the hypothesised framework, note that hypothesis H^4 and H^5 are not presented in the figure as these hypotheses are not part of the hypothesised framework. However they are incorporated into the analysis (refer to Chapter 5 Section 5.9.2).

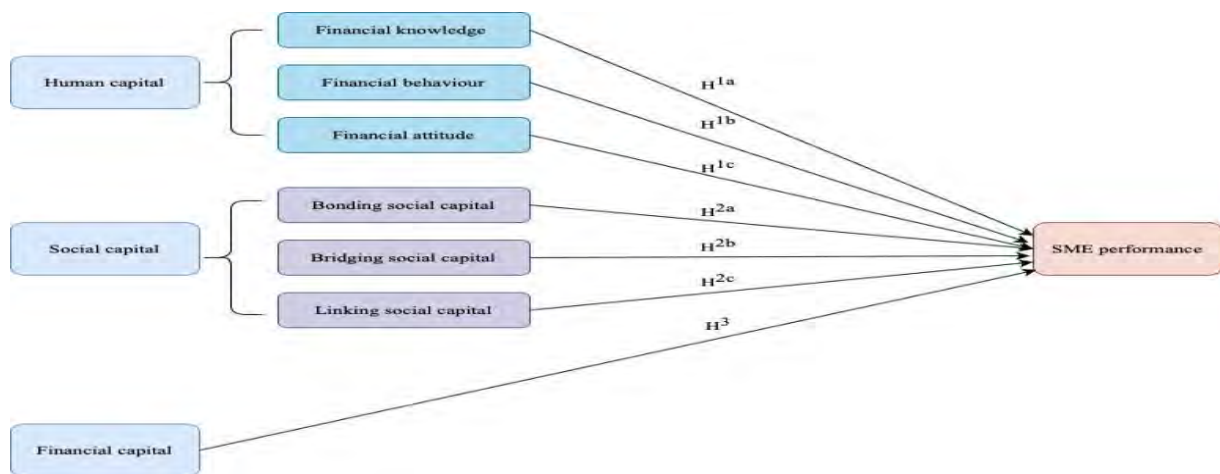
TABLE 1.1: HYPOTHESES FORMULATED FOR THIS STUDY

HYPOTHESES NUMBER	HYPOTHESES
H^1	There is a significant relationship between human capital and SME performance.
H^{1a}	There is a significant relationship between financial knowledge and SME performance.
H^{1b}	There is a significant relationship between financial behaviour and SME performance.
H^{1c}	There is a significant relationship between financial attitude and SME performance.
H^2	There is a significant relationship between social capital and SME performance.
H^{2a}	There is a significant relationship between bonding social capital and SME performance.
H^{2b}	There is a significant relationship between bridging social capital and SME performance.
H^{2c}	There is a significant relationship between linking social capital and SME performance.
H^3	There is a significant relationship between financial capital and SME performance.
H^4	There are statistically significant differences in human, social and financial capital and SMEs performance according to selected demographic variables.
H^{4a}	There are statistically significant differences in human, social and financial capital and SMEs performance according to the gender of the respondent.
H^{4b}	There are statistically significant differences in human, social and financial capital and SMEs performance according to the age of the respondent.
H^{4c}	There are statistically significant differences in human, social and financial capital and SMEs performance according to the highest qualification of the respondent.

HYPOTHESES NUMBER	HYPOTHESES (continued)
H^{4d}	There are statistically significant differences in human, social and financial capital and SMEs performance according to the academic field of respondent.
H^5	There are statistically significant differences in human, social and financial capital and SMEs performance according to selected enterprise-related variables.
H^{5a}	There are statistically significant differences in human, social and financial capital and SMEs performance according to the role of respondents in the enterprise.
H^{5b}	There are statistically significant differences in human, social and financial capital and SMEs performance according to the size of the enterprise.
H^{5c}	There are statistically significant differences in human, social and financial capital and SMEs performance according to the enterprises' years of operation.

Source: Researcher's construction

FIGURE 1.1: HYPOTHESISED FRAMEWORK



Source: Researcher's construction

The following section will discuss the methods, process, techniques used in the study to collect and analyse data. In addition, the ethical considerations for the study are discussed.

1.4 RESEARCH METHODOLOGY, PROCESS, AND ETHICAL CONSIDERATIONS

The study adopts a quantitative research approach situated within the positivist paradigm, commonly utilised in quantitative research where data is collected and analysed to ascertain the objective truth (Kothari, 2004; Creswell, 2009; Neuman, 2014; Sekaran and Bougie, 2016).

The population under scrutiny in this study comprises all SMEs located and operational in South Africa. Inclusion criteria encompass the enterprise meeting the SME definition, being situated and operational in South Africa for more than three years, and the completion of the online questionnaire by the manager and/or owner of the SME. A data collection company is engaged to distribute the online self-administered questionnaire to potential respondents in their database. Eligible respondents meeting the inclusion criteria are permitted to participate in the study by completing the questionnaire.

The questionnaire, divided into five sections, includes a cover letter. The initial section incorporates screening questions to verify respondents' adherence to the study's inclusion criteria. Section A focuses on acquiring information about the owner's/manager's financial literacy, serving as a proxy for human capital in this study (refer to Chapter 3 Section 3.4.3 for a detailed discussion). This section comprises three sub-sections: financial knowledge, behaviour, and attitude. Section B explores the social capital of respondents, further divided into three sub-sections: bonding, bridging, and linking social capital. Section C delves into the financial capital of respondents, while Section D gathers information about SME performance. The reliability of the scales for all sections in the questionnaire, based on previous research, will be discussed in Chapter 4, Section 4.12.

A pilot study is conducted to ensure the comprehension, reliability, and validity of the questionnaire (Van Teijlingen and Hundley, 2010; Saunders, Lewis and Thornhill, 2012). This preliminary investigation aims to determine the worthiness of pursuing the study and to ensure the measuring instrument aligns with its intended purpose. The questionnaire is distributed to 30 respondents with characteristics similar to the main sample, leading to minor corrections, such as rephrasing unclear statements and eliminating redundant ones. These adjustments, along with respondents feedback, are integrated into the final questionnaire draft. Following the pilot study, primary data collection for the main study is executed, with incomplete responses disregarded before analysis.

Descriptive statistics, including frequencies, measures of central tendencies, and graphical measures, are used to summarise and describe the sample. Confirmatory factor analysis (CFA) was used to confirm the extent to which the data met the expected structure based on theory, considering that the measuring instrument was based on existing and adapted scales from

previous studies. The minimum acceptable factor loading in this study was 0.3. Cronbach's alpha coefficient scores greater than 0.6 is deemed as satisfactory in evaluating the extent to which observed variables reliably measure latent constructs.

Multicollinearity between sub-factors of independent variables is examined using CFA analysis and Spearman Rank Pearson's correlation. The direction and strength of relationships between independent and dependent variables are assessed using Spearman Rank Pearson's correlation. Multiple linear regression analysis determines whether SME performance is significantly predicted by human, social, and financial capital. Group mean analyses (Independent sample t-tests and one-way ANOVAs) are used to explore significant differences in independent and dependent variables according to demographical variables. A p-value greater than 0.05 ($p \geq 0.05$) is deemed statistically significant within the study. A detailed explanation of the data analysis procedures is provided in Chapter 4, Section 4.13.

An ethics application is submitted through the Ethical Review Application System to the Rhodes University Human Ethics Standards Committee before commencing data collection. Approval is granted with the reference number 2022-5229-7220, and Chapter 4 Section 4.14 elaborates on the steps taken to adhere to ethical research standards. The following section provides an outline of the study.

1.5 STRUCTURE OF THE STUDY

The study is divided into six chapters to allow for a methodological flow of the study.

Chapter 1- Introduction, problem statement and scope of the study: This chapter provides an introduction and background to the study, followed by an outline of the objectives of the study and the research hypothesis. The chapter concludes with the key contributions of the study, research methodology followed and ethical considerations.

Chapter 2- A conceptualisation of Small and Medium Enterprises (SMEs): Chapter 2 examines the literature on SMEs pertinent to the study, initiating with a discourse on the definition of SMEs in the South African context. It emphasises the pivotal role of SMEs in fostering economic development and growth. The chapter also outlines the factors impeding

SME performance, including deficient management skills, financial illiteracy, and a dearth of networking opportunities. Conclusively, it discusses the performance metrics used to assess SME success, providing a comprehensive foundation for subsequent chapters.

Chapter 3- Overview of the entrepreneurship theory and literature: This chapter offers a concise discussion on entrepreneurship theories that centre on factors influencing the performance of SMEs. The resource-based theory is selected to underpin the study, and the resources and capabilities that contribute to enterprise performance, human, social and financial capital, are explained. The chapter explores what these resources are, how they contribute to enterprise performance and why they suitable for the study. The chapter concludes with a conceptualised framework of the relationship between human, social and financial capital and SME performance.

Chapter 4- Research methodology: Chapter 4 outlines the research methodology followed by the study. The research paradigm is explored, and its ontology, epistemology and methodology are discussed. Thereafter, the research design and strategy are discussed. A hypothesised model of the relationship between human, social and financial capital and SME performance is presented. The chapter also identifies the appropriate population and sampling method for the study. It concludes with a discussion on the method of data collection, data analysis techniques used in the study and ethical considerations.

Chapter 5- Empirical results: This chapter reports on the data analysis and presents the revised hypothesised model of the relationship between human, social and financial capital and SME performance.

Chapter 6- Summary, conclusion and recommendations: Chapter 6 provides an overview of the study and the research methodology followed. Thereafter, a detailed discussion and interpretation of the main empirical findings is presented. The contributions and limitations that arose from the study are also discussed and recommendations are made.

CHAPTER 2

A CONCEPTUALISATION OF SMALL AND MEDIUM ENTERPRISES (SMES)

2.1 INTRODUCTION

Chapter 1 provided an overview of the study, commencing with a background that underscores the significance of SMEs for the growth and development of South Africa's economy. The research problem was articulated, aiding in the determination of the primary research objective and secondary goals. Subsequently, the research methodology, ethical considerations, and the structure of the chapters for this study were elucidated.

Understanding SMEs, along with their significance and contribution to the economy and society, is crucial for identifying factors that support their growth and development. In this chapter, a conceptualisation of SMEs is presented. Although the importance of SMEs has been extensively researched and widely acknowledged globally, these enterprises still encounter numerous challenges hindering the realisation of their full potential.

This chapter commences with a discussion of the various SME definitions, acknowledging the lack of global consensus in defining SMEs worldwide due to varying stages of economic development. The explanation delves into the absence of a universally accepted definition and its impact on the development of SMEs. Following this is an examination of SMEs in South Africa, describing their essence, importance, and contributions. A subsequent discussion addresses the challenges faced by SMEs in South Africa, contributing to the high failure rate of these enterprises. The chapter concludes with an overview of the performance measures of SMEs, encompassing a discussion of methods to assess performance.

2.2 DEFINING A SMALL AND MEDIUM ENTERPRISE

SMEs have been recognised as anchors for unstable economic situations or unprecedented conditions (Sidek, Rosli, Hasbolah, and Khadri, 2020). In many economies, SMEs still represent more than half of all businesses and are the principal source of employment. The World Bank (2020) affirms that SMEs account for approximately 90 percent of businesses worldwide and more than 50 percent of all jobs. Furthermore, formal SMEs contribute approximately 40% to the gross domestic product (GDP) in emerging economies (Muriithi,

2017; The World Bank, 2020; Sidek *et al.*, 2020). In 1981, Birch (1981), in his study titled "Who creates jobs", was the first to acknowledge small businesses with fewer than 20 employees as responsible for 67 percent of jobs and those with fewer than 100 employees as contributors to 80 percent of jobs in the United States.

Despite the invaluable contribution of SMEs worldwide, there is a lack of agreement on an accepted definition of what constitutes an SME. Gibson and Van der Vaart (2008), Haselip, Desgain, and Mackenzie (2014), and Sidek *et al.* (2020) explain that the lack of a consistent definition of an SME is due to the diverse stages of economic development of countries, the structure of the private sector, and SME policy frameworks. As such, SMEs are often characterised quantitatively by the total number of employees, total investment, and sales turnover. A purely quantitative approach to defining an SME is often limiting; thus, researchers tend to include qualitative characteristics (Haselip, Desgain, and Mackenzie, 2014). Berisha and Pula (2015, p. 22) describe an SME in qualitative terms as a "business that is managed by its owner(s) in a personalised manner, has a small share of the market in economic terms, is independent in the sense that it does not form part of a larger enterprise and is relatively free from outside control in its principal decisions."

As previously mentioned, the different stages of economic development in countries are the leading cause of the lack of a clear and universal definition of SMEs. Table 2.1 describes SMEs in high, upper-middle, lower-middle, and low-income economies in the United States, South Africa, the Philippines, and Malawi, each representing the various income levels. Table 2.1 reveals that high-income economies usually have a higher threshold of employees and annual turnover when defining SMEs than low-income economies. Accordingly, a medium enterprise in an upper-middle-income economy such as South Africa is considered a small enterprise in a high-income economy such as the United States. A small enterprise in a lower-middle-income economy such as the Philippines is viewed as a Small and Medium Enterprise in a low-income economy such as Malawi. Hence, the lack of a universal definition of an SME. Although not all SME descriptions are confined to a country's level of economic development.

TABLE 2.1: SME DEFINITIONS IN HIGH, UPPER-MIDDLE, LOWER-MIDDLE AND LOW-INCOME ECONOMIES

SMALL AND MEDIUM ENTERPRISES IN HIGH-INCOME ECONOMIES		
United States		
	Total number of employees	Annual turnover (US\$)
Small Enterprise	Less than 250 depending on the industry	Less than US\$ 7m depending on the industry
Medium Enterprise	Less than 500 depending on the industry	Less than US\$ 25m depending on the industry
SMALL AND MEDIUM ENTERPRISES IN UPPER-MIDDLE-INCOME ECONOMIES		
South Africa		
Small Enterprise	Less than 50 depending on the industry	Less than US\$ 300 000 depending on the industry
Medium Enterprise	Less than 200 depending on the industry	Less than US\$ 3.8m depending on the industry
SMALL AND MEDIUM ENTERPRISES IN LOWER-MIDDLE-INCOME ECONOMIES		
Philippines		
Small Enterprise	Less than 100 depending on the industry	Less than US\$ 310 000 depending on the industry
Medium Enterprise	Less than 200 depending on the industry	Less than US\$ 2.03m depending on the industry
SMALL AND MEDIUM ENTERPRISES IN LOW-INCOME ECONOMIES		
Malawi		
Small and Medium Enterprise	Less than 100 depending on the industry	–

Source: Sidek et al., (2020)

For the purpose of this study, SMEs in South Africa are defined according to the National Small Enterprise Act 1996. Accordingly, an SME is defined as a separate and distinct entity managed by one or more owners and is conducted in any economic sector or sub-sectors of the country, including its branches or subsidiaries. The Act further classifies a small enterprise as employing 11 to 50 individuals and having an annual revenue ranging from R2 million to R25 million, depending on the sector (National Small Enterprise Act, 1996). Similarly, a medium enterprise is defined as employing 51 to 200 individuals and having an annual revenue ranging from R4 million to R50 million, depending on the sector (National Small Enterprise Act, 1996). Table 2.2 provides a summary of SME classifications in South Africa.

TABLE 2.2: SME CLASSIFICATION ACCORDING TO SIZE, NUMBER OF EMPLOYEES AND ANNUAL REVENUE

SIZE OF ENTERPRISE	NUMBER OF EMPLOYEES	ANNUAL REVENUE (R)
Small Enterprise	Fewer than 50, depending on the industry	R2 million – R25 million, depending on the industry
Medium Enterprise	Fewer than 200, depending on the industry	R4 million – R50 million depending on the industry

Source: Adapted from the National Small Enterprise Act (1996)

Sidek *et al.* (2020) highlight that SMEs contribute to equal income distribution, poverty alleviation, the production of export goods, innovation, and entrepreneurship activities. According to Berisha and Pula (2015), the absence of a globally accepted definition of an SME renders it virtually impossible to compare the economic performance of SMEs within a country, across sectors, and between countries. Furthermore, Berisha and Pula (2015) argue that the lack of a universal definition makes it challenging to accurately measure the contribution of SMEs to employment, GDP, and other macroeconomic factors. Consequently, the absence of a universal definition makes it even more challenging for policymakers to formulate appropriate policies, strategies, and support programmes. To address this, Madani (2018) recommends having at least two definitions of an SME: a globally accepted statistical definition and a standard definition based on a country's ecosystem.

The following section explores the definition of SMEs in a South African context, their importance, and the total early-stage entrepreneurship activity (hereafter TEA). The section also examines the growth in the number of SMEs in each province from 2008 to 2020.

2.3 SMEs IN A SOUTH AFRICAN CONTEXT

The National Development Plan (hereafter NDP) hopes that by 2030, South Africa will have eliminated poverty and reduced inequality by developing an inclusive economy, creating opportunities, enhancing the state's capacity, and promoting leadership and partnerships (NDP, 2011). However, this plan's feasibility is diminishing, as The World Bank (2021) reported that South Africa's economy shrank by 7 percent in 2020, resulting in an additional 2 million people becoming poorer and exacerbating the country's economic struggles. In addition, the economy's downturn was further exacerbated by strict lockdown regulations that were enforced to help curb the spread of Covid-19 (The World Bank, 2021).

As such, the need for SMEs has become more pressing if South Africa hopes to accomplish the goals set out in the NDP and the Sustainable Development Goals (SDGs). SMEs in South Africa are expected to assist in meeting the objectives set out in both the NDP and SDGs, given their notable ability to grow the economy, absorb excess labour, develop the community, and reduce poverty and crime (Neumark, Wall and Zhang, 2011; Tendai, 2012; Muriithi, 2017; Bayraktar and Algan, 2019; Sidek *et al.*, 2020; Kavese, 2021). On the other hand, researchers (see Davis, Haltiwanger and Schuh, 1996; Parker, 2000; Bayraktar and Algan, 2019 and Yakob, Yakob, Bam, and Ahmad Rusli, 2021) assert that it will be challenging for SMEs to achieve the goals set out in the NDP and SDGs because of SME's high failure rate, unsatisfactory sales, lack of competitiveness, fragility, low wages, and poor working conditions.

Notwithstanding SMEs being of utmost importance in contributing towards economic development, South Africa is currently facing a decrease in entrepreneurship activity. The total early-stage entrepreneurship activity (TEA) indicator measures the number of individuals aged between 18 and 64 years who are in the process of starting or have recently started a business (Herrington and Kew, 2018; Bowmaker-Falconer and Meyer, 2022). Herrington and Kew (2018) describe these entrepreneurs as nascent entrepreneurs who have committed assets to the business but have not paid salaries or wages for more than three months. In addition, TEA is also described as an entrepreneur who has moved beyond the nascent stage and has paid salaries or wages for more than three years but less than 48 months (Herrington and Kew, 2018).

Herrington and Kew (2018) indicate that the TEA dropped to 10.8 percent in South Africa, which is 4.9 percent less than economies of a similar income level and 2.8 percent less than the global average. Despite an increasing number of individuals who perceive South Africa as a favourable place to start a business and believe they have the competencies to do so (Herrington and Kew, 2018), the decrease in TEA is concerning. The decrease in TEA is due to a high fear of failure caused by an individual's economic outlook, societal norms, and regulations, resulting in fewer people pursuing entrepreneurial opportunities. Herrington and Kew (2018) confirm that the fear of failure in South Africa spiked to 49.8 percent, which is 8.1 percent more than the global average and 6.3 percent more than economies of similar income levels.

The decline in the number of individuals starting businesses is evident as Kavese (2020) reports that over 12 years from 2008 to 2020, the number of SMMEs has only increased by 7.5 percent, which means there has been a 0.63 percent annual increase in the number of SMMEs in South Africa. The sluggish growth in SMMEs can be attributed to unfavourable economic times, namely, the 2008 financial crisis, where South Africa experienced the first recession since 1991. Steytler and Powell (2010) explain that South Africa's economy relies heavily on financial services and the export of manufactured goods and primary commodities (such as crude oil, coal and copper). As such, when the recession occurred, demand for credit and consumer demand diminished, and export and import volumes dropped (Steytler and Powell, 2010). The reason behind the slow growth of SMEs in South Africa is complex and multifaceted. It is not limited to the economic struggles in South Africa but also includes overtraded markets, finance, and inadequate infrastructure.

Table 2.3 presents the development of SMMEs in the nine provinces in South Africa from 2008 to 2020. The table shows the number of SMME owners, the percentage increase/decrease (referred to as the growth rate) and the percentage of SMMEs located in each province (referred to as the distribution rate). Table 2.3 reveals that the Northern Cape (-31.20% growth) and KwaZulu-Natal (-3.30% growth) showed negative growth rates. The Free State (1.80% growth) and the Eastern Cape (6.0% growth) have a growth rate of 6 percent and less over the past 12 years. The Western Cape and Limpopo were the least affected as they experienced a growth of 26.10 percent and 23.80 percent, respectively. In addition, the Western Cape and Mpumalanga experienced a constant increase in the distribution of SMMEs from 2008 to 2020.

In summary, it is evident from Table 2.3 that the South African government must invest more in the development of SMMEs in the Northern Cape, KwaZulu Natal, Free State and Eastern Cape Province, given that these provinces had lower growth rates than the national average of 7.5 percent over 12 years. Despite their importance, SMEs face numerous challenges including deficient management skills, financial illiteracy, and a dearth of networking opportunities which are discussed in the next section.

TABLE 2.3: THE PROVINCIAL GROWTH AND DISTRIBUTION OF SMMES

PROVINCES	NUMBER OF SMMES			GROWTH RATE (%)	DISTRIBUTION (%)		
	2008	2015	2020	2008-2020	2008	2015	2020
Northern Cape	26 902	16 067	18 519	-31.20	1.20	0.70	0.80
KwaZulu-Natal	428 298	375 258	414 071	-3.30	19.50	16.70	17.50
Free State	108 245	106 582	110 183	1.80	4.90	4.70	4.70
Eastern Cape	217 843	194 535	231 011	6.00	9.90	8.60	9.80
Gauteng	717 907	793 099	783 410	9.10	32.60	35.20	33.10
Mpumalanga	195 174	162 543	214 393	9.80	8.90	7.20	9.10
North West	94 903	97 974	79 203	16.50	4.30	4.40	3.40
Limpopo	196 998	263 070	243 924	23.80	9.00	11.70	10.30
Western Cape	213 210	242 869	268 799	26.10	9.70	10.80	11.40
Total in RSA	2 199 480	2 251 997	2 363 513	7.5	100	100	100

Source: Kavese (2021)

2.4 CHALLENGES FACING SMEs IN SOUTH AFRICA

Against the backdrop of SMEs' important role and contribution toward economic growth, social development, innovation, and environmental sustainability, several challenges affect SMEs' ability to realise their full potential. Subsequently, only a portion of small enterprises develop and grow to become medium-sized eventually, and a fraction of them expand into large enterprises depending on the entrepreneur of the enterprise. Several researchers have investigated factors that lead to the failure of SMEs. Common themes identified are the lack of management skills, financial literacy, supportive social networks or networking, overtraded markets, access to finance and lack of infrastructure (Abor and Quartey, 2010; Chittithaworn, Islam, Keawchana and Yusuf, 2011; Cant and Wiid, 2013; Bouazza, Ardjouman and Abada, 2015; Muriithi, 2017).

2.4.1 Lack of management skills

South Africa has one of the highest failure rates of SMMEs, with five out of seven businesses failing within the first year (BusinessTech, 2021). The high failure rate can be attributed to the lack of entrepreneurial education at primary and secondary school levels and vocational, professional, and tertiary levels (Fatoki and Garwe, 2010; Bowmaker-Falconer and Herrington, 2020; BusinessTech, 2021). The failure rate can also be attributed to the limited opportunities for individuals to receive training in starting and managing successful businesses. Fatoki and

Garwe (2010) and Chimucheka (2014) indicate that the lack of education and training has contributed to the high failure rate and the low level of entrepreneurial creation. Some entrepreneurs have managed to survive without the necessary entrepreneurial education. Bouazza, Ardjouman and Abada (2015) and Muriithi (2017) deduce that the lack of education has resulted in entrepreneurs' management style being on a trial-and-error basis, driven by short-term gains with minimal attention to long-term strategic planning. Consequently, the lack of education hinders their growth and eventually leads to failure.

Bowmaker-Falconer and Herrington (2020) emphasise that education, specifically entrepreneurial education, is a foundation requirement for starting a business and succeeding as an entrepreneur. Asah, Fatoki and Rungani (2015) concur that knowledge, skills, behaviours and attitudes contributing to personal effectiveness to produce economic value are critical resources for success as they influence the enterprise's strategic decisions and implementation. However, Bosma, Van Praag, Thurik and De Wit (2004) and Unger *et al.* (2011) caution that having management skills unrelated to the day-to-day running of the business (i.e., general management skills) may result in lower performance.

2.4.2 Lack of financial literacy

According to the Organisation for Economic Cooperation and Development (OECD) (2013) and Lusardi (2019), financial literacy is defined as the knowledge and understanding of financial concepts and the capacity to apply that information to make effective financial decisions. As such, entrepreneurs with financial literacy can identify and respond to a change in the business ecosystem and the economy; Yakob *et al.* (2021) indicate that this leads to more effective and innovative solutions for business performance. Furthermore, Usama and Yusoff (2019) suggest that financial literacy improves profitability, market participation, consumption smoothing, and access to financing sources. Consequently, financial literacy has become essential to the enterprise's survival and growth, especially during difficult economic conditions.

In 2018, the OECD ranked South Africa as the worst country out of 30 countries for financial literacy (Botha, 2021). This finding is unsettling as entrepreneurs in developing countries operate in turbulent economic times with unstable exchange rates, undeveloped information infrastructure, high transaction costs, political unrest, high inequality and worsening unilateralism in trade (Ye and Kulathunga, 2019). Considering these economic upswings and

downturns, entrepreneurs desperately need financial literacy programmes for the survival and development of their enterprises. Furthermore, technological advancement has exposed entrepreneurs to advanced and complex financial products and services (Sabana, 2014), making financial literacy essential for making informed decisions. Studies on the challenges influencing SMEs agree that financial illiteracy is the most crucial challenge contributing to several SME failures (Oseifuah, 2010; Sabana, 2014; Yakob *et al.*, 2021). This is despite the various interventions such as workshops, short online courses, and training programmes undertaken by government agencies and the private sector to improve entrepreneurial skills.

2.4.3 Lack of supportive social networks or networking

An increasing number of entrepreneurs seem not to understand that an enterprise is a networking activity that involves the interaction with stakeholders (such as shareholders, suppliers and customers) as a means of accessing knowledge, resources, information and complementary assets (Brüderl and Preisendörfer, 1998; Mlotshwa and Msimango-Galawe, 2020). Brüderl and Preisendörfer (1998), Horney, Pasmore and O'Shea (2010), Senik, Scott-Ladd, Entekin and Adham (2011), Bennett and Lemoine (2014), Sarada and Tocoian (2019) and Mlotshwa and Msimango-Galawe (2020) suggest that when operating in a volatile, uncertain, complex and ambiguous (hereafter VUCA) environment leveraging on social networks may help businesses survive.

The ability to have and maintain strong and diverse social networks has become an essential tool in achieving sustainable competitive advantage. Fatoki and Garwe (2010) and Fatoki (2011) emphasise that networks assist entrepreneurs in developing and accessing valuable ideas. In addition, entrepreneurs can access various resources and opportunities they would not have been able to find or access. Bongomin, Ntayi, Munene and Malinga (2017) add that networking can positively influence educational outcomes. Social networks facilitate learning within a social structure so people can share knowledge and information. Furthermore, entrepreneurs gain access to markets, business advisors, venture capitalists, customers, and suppliers, enhancing their entrepreneurial success (Senik *et al.*, 2011; Dzomonda and Masocha, 2019), resulting in high performance, growth and survival of enterprises.

2.4.4 Overtraded markets

Herrington and Kew (2018) explain that the root cause of the challenges faced by SMEs is the entrepreneur's adoption of the "me too" attitude, where an entrepreneur does not start a business

because they have identified a gap in the market. Instead, they imitate products or services that already exist. This results in several entrepreneurs starting businesses that operate in grossly overtraded and highly-priced markets without the necessary skills or finance. The "me too" attitude has resulted in an influx of small enterprises which eventually fail and make failure a norm in society. A culture of failure makes people sceptical of entrepreneurship as a respectable career path, increasing the fear of failure and causing fewer individuals to start businesses. Birch (1981) and Fatoki (2014) observe that failure is detrimental to societies' view of entrepreneurship and the economy. Failure results in lost employment and productivity and decreased employee purchasing power due to unpaid wages, debts, poverty reduction and income equality.

As previously indicated, the "me too" attitude has resulted in grossly overtraded markets where entrepreneurs do not understand the dynamics of competition in their respective industries and lack knowledge, skills, abilities and behaviour that can assist them in finding a competitive advantage. This attitude is a clear indication of a lack of market research by entrepreneurs, where entrepreneurs fail to conduct a Strength, Weakness, Opportunity and Threat (hereafter SWOT) analysis or Porter's five forces analysis to understand where their business will fit in the industry (Firmansyah and Amer, 2014).

2.4.5 Lack of access to finance

Despite the extensive documentation and countless government and private sector interventions to create a conducive environment for SMEs to access credit, SMEs still struggle to acquire finance from financial institutions (Fatoki and Odeyemi, 2010; Fatoki and Asah, 2011; Mazanai and Fatoki, 2012; Machirori and Fatoki, 2013; Asah, 2019). Fatoki and Garwe (2010) assert that a lack of access to finance is the second most reported contributor to SME failure and is a significant contributor to the decrease in TEA in South Africa. Oyelana and Fiseha (2014) and Bouazza, Ardjouman and Abada (2015) add that when entrepreneurs are granted access to finance, it is often limited to short periods. For this reason, entrepreneurs cannot obtain the necessary capital to finance long-term projects that require significant investments. The inability to access the necessary credit limits entrepreneurs' operations as they cannot expand operations and invest in new equipment or staff that will improve processes and contribute to their success.

Fatoki and Smit (2011) and Asah (2019) draw attention to the reality that new SMEs are often not investment-ready as they lack management competencies, collateral, quality business proposals and business networking. Thus, financial institutions are reluctant to provide finance to SMEs. Rungani and Fatoki (2010) and Fatoki (2014) denote that due to SMEs not being investment-ready, financial institutions have had to resort to offering finance at high interest, high collateral and loan guarantees; therefore, only two percent of SMEs can access finance (Fatoki and Smit, 2011; Asah, 2019). Consequently, SMEs resort to internal finance, such as personal savings and loans from family and friends, which is often inadequate to sustain the enterprise.

2.4.6 Lack of infrastructure

Fatoki and Garwe (2010), Fatoki (2014), Dietrich (2019) and Bowmaker-Falcon and Meyer (2022) identify poor infrastructure as one of the challenges that hinder the development of SMEs in South Africa. Bowmaker-Falcon and Meyer (2022) report that the infrastructure has drastically declined over the past seven years due to an increase in failing municipalities, a decline in infrastructure maintenance and continuous power outages. Quality infrastructure is pertinent to the development of the economy as it allows for the efficient production and performance of the enterprise's output, profit and employment generation levels in the economy (Obokoh and Goldman, 2016). The lack of quality infrastructure has resulted in several SMEs having to discontinue operations or rely on costly alternatives to survive, negatively impacting the enterprise's profitability and performance.

The following section examines SMEs performance and how best performance can be measured.

2.5 PERFORMANCE OF SMEs AND PERFORMANCE MEASURES

The definition of SME performance and its measurement continues to evoke debates due to its complexity and multidimensionality. Murphy, Trailer and Hill (1996) state that the lack of consensus among researchers is not surprising as there is little agreement on the definition and goals of entrepreneurship. Resultantly, the purpose of SME performance and the variables used to measure it are expected to vary widely. The following section discusses four common approaches in literature used to measure SME performance: goal, system resource, competitive

value and stakeholder approach (Molnar and Rogers, 1976; Murphy, Trailer and Hill, 1996; Fatoki, 2011; Santos and Brito, 2012; Klaas, 2020).

2.5.1 The goal approach

The goal approach suggests that the enterprise should be assessed by the goals that it has set for itself (Etzioni, 1964; Fatoki, 2011; Aminu and Shariff, 2015). The goal approach is popular amongst owners of SMEs due to its "simplicity, understandability and internal focus" (Chong, 2008, p.2). Despite its popularity, it is problematic to use goals as a standard for measuring performance. Yuchtman and Seahore (1967) and Molnar and Rogers (1976) concur that using goals as a measure may be misleading as it is easy to alter, exclude and misrepresent them. Furthermore, goal achievement may be challenging to measure when objectives are multiple, transitional, intangible or part of a means-end chain (Molnar and Rogers, 1976). The goal approach makes it problematic for enterprises to compare their performance as they would have varied and conflicting objectives

2.5.2 The system resources approach

The system resources approach proposes that enterprise performance should be assessed by its ability to exploit its environment by acquiring scarce and valued resources (Georgopoulos and Tannenbaum, 1957; Molnar and Rogers, 1976). The more proficient the enterprise is in acquiring scarce and valued resources, the more efficient it is compared to its competitors. The systems approach compensates for the shortfalls of the goals approach, allowing for comparative evaluation amongst enterprises. Nevertheless, both the goals and systems strategy fail to consider stakeholder groups' perspectives on performance..

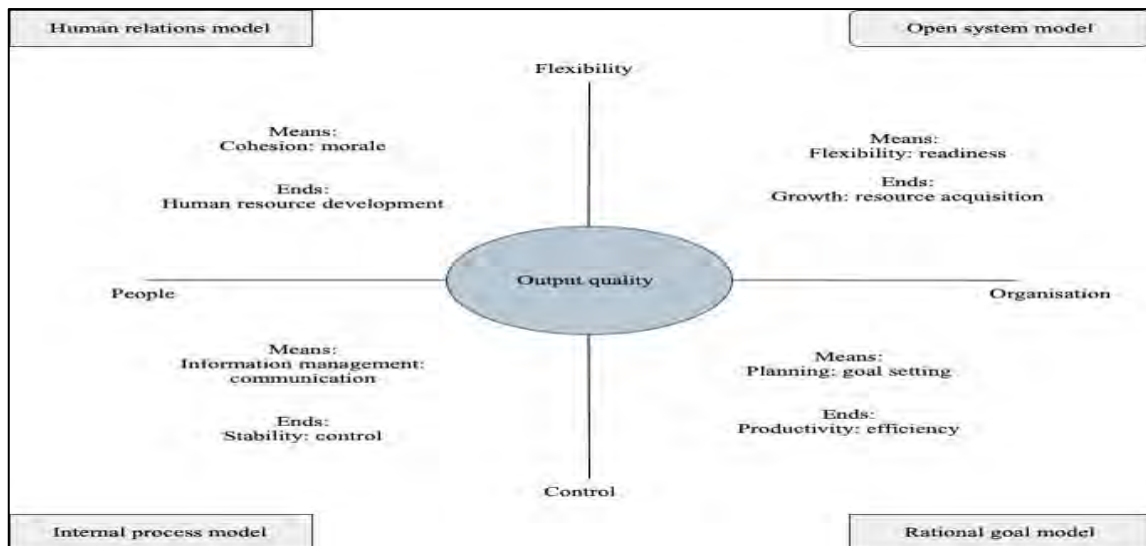
2.5.3 The competing values approach

The competing values approach assesses performance using three values: enterprise focus (see first quadrant), preference (see second quadrant) and means and ends (see third quadrant) (Quinn and Rohrbaugh, 1981). Enterprise focus and enterprise preference form four quadrants, as seen in Figure 2.1. The first set of values is enterprise focus, which has an internal outlook on the well-being and development of individuals in the enterprise and an external outlook on the well-being and development of the enterprise itself (Quinn and Rohrbaugh, 1981; Yu and Wu, 2009). The second set of values is the enterprise preference for structure, which distinguishes between stability and control, and flexibility and change (Quinn and Rohrbaugh, 1981; Yu and Wu, 2009). The third set of values is enterprise means and ends, which includes

the core processes of an enterprise, for instance, planning and goal setting and the final outcomes, for instance, resource acquisition (Quinn and Rohrbaugh, 1981; Yu and Wu, 2009).

The values outlined by the competing values approach lead to all sorts of paradoxes where the enterprise simultaneously values adaptability, flexibility, stability, and control. Ibrahim, Hamatineghad, Ramezanineghad and Eydi (2013) explain this paradox, indicating that the approach is about balance. Once the balance is found, an enterprise can have a fixed and flexible structure, satisfy staff, and achieve the enterprise's objectives (Ibrahim *et al.*, 2013). Yu and Wu (2009) advise that the framework be viewed holistically as trade-offs between values can lead to poor performance.

FIGURE 2.1: THE COMPETING VALUES APPROACH



Source: Quinn and Rohrbaugh (1981)

2.5.4 The stakeholder approach

The stakeholder approach considers different perspectives and explores the level of satisfaction of the various stakeholder groups. The approach suggests that enterprise performance should be evaluated in terms of the total value created by the enterprise for its legitimate stakeholders (Freeman, 1984; Fatoki, 2011; Santos and Brito, 2012; Asah, 2019). Freeman (1984) explains that a legitimate stakeholder is any group of individuals who have an influence or are influenced by the achievement of the enterprise's goals. Clarkson (1995) proposes that the enterprise's primary stakeholders are shareholders, employees, suppliers, and customers, who have a direct exchange relationship with the enterprise. Satisfying every stakeholder may be

an unachievable objective; therefore, Santos and Brito (2012) urge managers to prioritise by evaluating the stakeholders' credibility, power, and urgency of demands. The stakeholder approach also allows the researcher to use financial and non-financial measures to assess performance, which will be elaborated on in the next section.

2.5.5 Performance approach selected for the study

The stakeholder approach was adopted for this study when measuring the performance of SMEs. The stakeholder approach is appropriate for this study as it allows the researcher to differentiate between factors that contribute to performance and the outcomes of performance, considers the perspective of various stakeholders and allows comparative evaluation amongst other enterprises. Given the complex nature of enterprise performance, the stakeholder approach also allows the researcher to use financial and non-financial measures to assess performance.

Vij and Bedi (2016) highlight that previously, performance was measured using only outcome-based accounting indicators such as profitability and growth. Over time, this approach was viewed as "static, difficult and complex to understand, too financial, short-sighted, provides little indication of future performance, has little regard for competitors and customers" (Vij and Bedi, 2016, p.605). Performance measurement was then transformed into a dynamic and futuristic approach to include subjective measures. Non-financial performance measures included customer and employee satisfaction owner's, satisfaction with performance compared to competitors, and overall satisfaction with performance.

In the stakeholder theory, high performance is conceptualised as the ability of the manager to satisfy all its stakeholders (Santos and Brito, 2012). These include shareholders, employees and customers, as they are directly influenced and can directly influence the enterprise. The following paragraphs explain how the study measures the satisfaction of these stakeholders.

Santos and Brito (2012) state that shareholder satisfaction is achieved by superior financial performance, which is reflected in profitability, growth and market value. Profitability is the enterprise's ability to generate revenue (Hofstrand, 2009). Fatoki and Garwe (2010) and Zulkiffli and Perera (2011) view growth as the enterprise's ability to increase in size or move from one growth stage to another. Market value is the price the marketplaces on the enterprise.

The current study measures financial performance using return on equity (hereafter ROE), return on assets (hereafter ROA), profitability growth, sales growth, cash flow and turnover.

Customer satisfaction is crucial in determining enterprise performance when stakeholder theory is used. Oliver (1981), Giese and Cote (2000) and Santos and Brito (2012) indicate that customers are satisfied when the enterprise provides them with goods or services that meet their expectations. For the enterprise to meet its customers' expectations, it needs to engage and understand the customer's needs and offer products of good quality. The study measures customer satisfaction by requesting that the owner/manager indicate whether they are satisfied with the feedback they receive from customers. Owners/managers who indicate that they are unsatisfied with customer feedback signal to the researcher that customers are unsatisfied with the goods or services provided by the enterprise, as unsatisfied customers are more likely to complain about the goods supplied or services received.

Moreover, employee satisfaction is achieved by an enterprise when it can attract and retain its employees and has a low turnover rate. Wan (2007), Da Borralha, Neves de Jesus, Pinto and Viseu (2016) and Kurdi, Alshurideh and Alnaser (2020) suggest that employee satisfaction is achieved when the enterprise invests in its employees by providing them with training and development, growth opportunities, a conducive working environment and good employment benefits. In measuring employee satisfaction in this study, the owner/manager was requested to indicate whether the number of employees in the enterprise has increased over the last three years. When the owner/manager indicates that the number of employees has increased, it signals to the researcher that the enterprise has been able to retain and attract employees, as unsatisfied employees are more likely to stop working in the enterprise.

This chapter is summarised in the next section.

2.6 SUMMARY

This chapter provided an overview of SMEs, particularly in South Africa. It commenced with a definition of SMEs in low, lower-middle, upper-middle and high-income countries. It also explored why there is no globally accepted definition of an SME and its effect on the development of SMEs globally. SMEs in South Africa were defined according to the National Enterprise Act of 1996. The importance of SMEs for economic development was highlighted. It noted that South Africa needs an influx of SMEs to attain the goals stated in the NDP and

SDGs. However, researchers have warned the government about its over-reliance on SMEs and the declining number of SMEs, specifically in the Northern Cape, Free State, KwaZulu-Natal, and Eastern Cape.

Furthermore, the chapter investigated factors that contribute to the failure of SMEs and factors that prevent them from realising their full potential. It was established that a lack of managerial skills, financial literacy, supportive social networks or networking, overtraded markets, access to finance and infrastructure hinder the success of SMEs. As such, South Africa must address these challenges and create an environment that will foster the success and growth of SMEs, considering their invaluable contribution to the economy.

The chapter concluded by discussing the performance and measures of performance for SMEs. The different techniques for measuring performance, such as goal, systems resource, competing values, and stakeholder approach, were presented. The stakeholder approach was deemed the most appropriate to measure performance for this study; financial and non-financial measures were used. Financial measures of performance used included ROE, ROA, sales growth, profitability growth, cash flow growth and turnover growth. Non-financial measures of performance used included customer satisfaction, employee growth, and owner/manager satisfaction.

The following chapter provides an overview of entrepreneurship theory and literature and proposes the conceptual framework for this study.

CHAPTER 3

OVERVIEW OF ENTREPRENEURSHIP THEORY AND LITERATURE

3.1 INTRODUCTION

The previous chapter provided a conceptualisation of SMEs, more specifically, SMEs in South Africa. The chapter also identified factors that hinder the growth and survival of SMEs. This chapter aims to provide a theoretical and literature review of the resources and capabilities that an enterprise needs to succeed. The first section provides an overview of entrepreneurship theories, such as economic, psychological, and opportunity-based theories. These theories aid in understanding the characteristics of a successful entrepreneur, for instance, their traits and behaviour. The following section discusses the resource-based entrepreneurship theory, serving as the theoretical underpinning of the study. The section highlights who developed the theory, how it was designed and practical applications of the theory. Thereafter, the researcher identifies critical resources and capabilities based on the resource-based theory that entrepreneurs need to succeed, including human, social and financial capital. The resource-based theory suggests that these resources assist the entrepreneur when identifying and exploiting opportunities that result in sustained competitive advantage and SME success.

3.2 OVERVIEW OF ENTREPRENEURSHIP THEORIES

Richard Cantillon was the first researcher to coin the term entrepreneur and acknowledge the existence of entrepreneurs in an economic system (Van Praag, 1999). Cantillon (1755) describes an entrepreneur as buying a product at a set price and selling at an uncertain one. Consequently, the entrepreneur bears all the risks involved in the exchange. Cantillon (1755) also emphasises that an entrepreneur is an arbitrageur or speculator who is insightful, intelligent and a risk taker. After Cantillon's discovery, several researchers emerged where some criticised his theory, developed it further or researched different perspectives on why some entrepreneurs perform better than others (Say, 1880; Marshall, 1890; Knight, 1921; Schumpeter, 1934; McClelland, 1961; Rotter 1966; Kirzner, 1973 and Drucker, 1985). The most common theories that support SMEs and entrepreneurship are economic entrepreneurship theories, psychological entrepreneurship theories, opportunity-based theories of entrepreneurship and resource-based theory.

The economic entrepreneurship theories explore how economic factors influence entrepreneurial behaviour (Simpeh, 2011). These concepts revolve around Knight's ideas, positing that entrepreneurs share similar abilities, with their distinction lying in their varying perceptions of risk. According to this perspective, a successful entrepreneur can effectively manage risk and make sound, judgmental decisions (Meza and Southey, 1996). The economic entrepreneurship theory is rooted in the classical, neoclassical and Austrian Market Process (hereafter AMP). According to Van Praag (1999), the classical economic theory focuses on the right to free trade, competition and specialisation. This theory recognised an entrepreneur as a producer and distributor in a competitive market. The neoclassical economic theory suggested that the value of products and allocation of resources was determined by the cost of production and consumer tastes and preferences; as such, the role of the entrepreneur would be to identify opportunities or trends that will allow him to develop new products or services (Simpeh, 2011). Lastly, AMP theory suggests that an entrepreneur's purpose is to innovate by creating new products or services (Van Praag, 1999).

Psychological entrepreneurship theories focus on an individual's enduring inborn characteristics or potential. The theory suggests that personality can predict whether one will become an entrepreneur and distinguish between successful and unsuccessful entrepreneurs (Burns, 2001; Simpeh, 2011). The psychological entrepreneurship theories consist of three subset theories: trait theory, need for achievement and internal locus of control theory. The trait theory postulates that one's inborn qualities or potential can predict whether one becomes an entrepreneur (Burns, 2001; Simpeh, 2011). The need for achievement theory indicates that individuals' need to succeed drives them to be successful (McClelland, 1961). Lastly, the internal locus of control theory by Rotter (1966) explores the extent to which individuals feel responsible for reaching their goals. The theory proposes that individuals who assume responsibility for their success or failure have an internal locus of control, and those who attribute their success or failure to external agents have an external locus of control.

The opportunity-based entrepreneurship theory suggests that entrepreneurs do not create change as indicated by the AMP theory; instead, they exploit opportunities that result in change (Drucker, 1985). These opportunities appear when the entrepreneur knows about a particular resource's value or how to combine resources into a new product (Alvarez and Busenitz, 2001). The theory views a successful entrepreneur as one who can identify and exploit opportunities.

In the same logic as Drucker (1985), the researcher argues that a successful entrepreneur is not successful because of their inborn characteristics (as suggested by psychological entrepreneurship theories) and abilities (as suggested by economic entrepreneurship theories). Instead, a successful entrepreneur needs access to resources as these characteristics and abilities are futile without key strategic resources and capabilities. Furthermore, the researcher puts forward that one's ability to exploit opportunities is hindered if the entrepreneur does not have the necessary resources and capabilities. Accordingly, the entrepreneurship theories discussed were found unfitting for this study, as the theories argue that successful entrepreneurship results from one's inborn characteristics, abilities and ability to exploit opportunities. This study adopted the resource-based theory, which postulates that entrepreneurs with access to resources and capabilities have an advantage over their competitors. The resource-based theory is discussed in the section that follows.

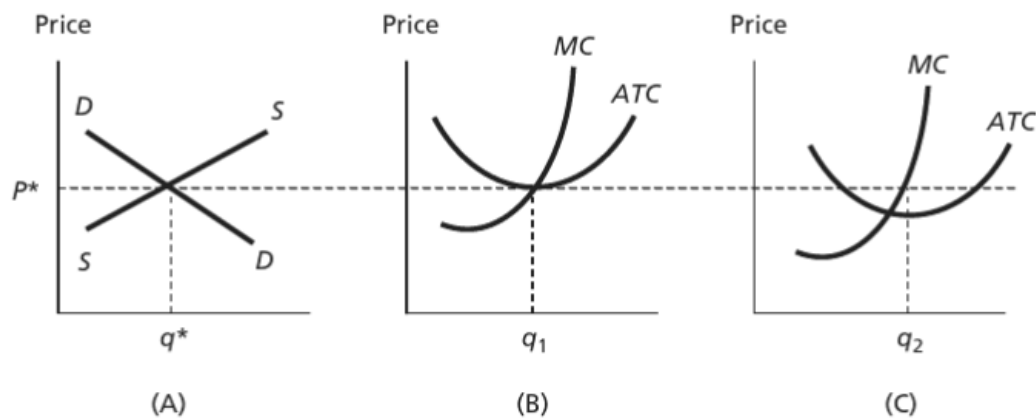
3.3 RESOURCE-BASED THEORY

As highlighted in the previous section, several researchers have grappled with why some enterprises perform better than others. In 1871, David Ricardo offered an explanation that significantly contributed to the resource-based theory. Ricardo explained that a competitive advantage is created when an individual possesses relatively fixed resources that are not sensitive to market price changes. Ricardo's analysis gained considerable popularity as it examined the economic consequences of "original, unaugmentable and indestructible gifts of nature" such as land (Barney and Clark, 2007, p.8). Ricardo centred his discussion on the economic effects of land, as the total supply of land is relatively fixed and cannot be increased in response to an increase in demand or price (Ricardo, 1817; Barney and Clark, 2007; Barney and Hesterly, 2015).

Ricardo's analysis examined how an individual's possession of a relatively fixed resource that is not sensitive to market price changes gives them an edge over their competitors. Alvarez and Barney (2007) and Barney and Hesterly (2015) illustrate this using two enterprises that follow traditional profit-maximising logic by producing a quantity (q) where marginal costs (MC) equal marginal revenue (MR). Assume Enterprise A has new technology which cuts production costs; this results in Enterprise A having an average total cost (ATC) less than the market-determined price and earning an above-normal economic profit (refer to Figure 3.1 frame C). The technology Enterprise A possesses gives them a competitive advantage. In contrast,

Enterprise B, which does not have Enterprise A's technology, would generate zero economic profit (refer to Figure 3.1 frame B). Enterprise B would generate revenue equal to ATC (refer to Figure 3.1 frame B); however, this theory only holds if the technology that aids Enterprise A is not available to other enterprises, resulting in Enterprise A's sustained competitive advantage.

FIGURE 3.1: RICARDIAN ANALYSIS

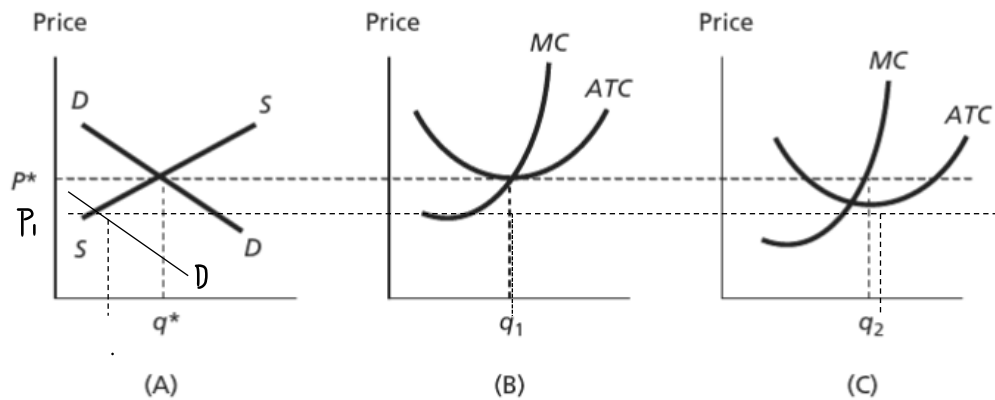


S= Supply; D= Demand; p^* = Price; q = quantity

Source: Barney and Hesterly (2015)

Unfortunately, two instances endanger Enterprise A's competitive advantage. The first would be the demand curve shifting to the left (down), translating into a price decrease (refer to Figure 3.2 frames A, B and C as you did previously). Enterprise B would cease production as the production costs would be higher than the market-determined price, resulting in a loss (Barney and Clark, 2007; Barney and Hesterly, 2015). In addition, Enterprise A would have no profits, making it unprofitable to produce. Secondly, firms such as Enterprise B could discover low-cost technology that aids in cutting production costs as well, reducing Enterprise A's competitive advantage. Assuming that the technology is available to other firms that wish to enter the market, the profit that Enterprise A once made due to its competitive advantage could disappear entirely.

FIGURE 3.2: RICARDIAN ANALYSIS WHEN COMPETITIVE ADVANTAGE IS LOST



Source: Adapted from Barney and Hesterly (2015)

Barney and Hesterly (2015) argue that although the Ricardian analysis is viewed as the foundation for RBV theory as it provides an economic perspective to resource-based theory, it has not addressed the price the enterprise had to pay to achieve a competitive advantage. Therefore, Barney (1986 a) proposes that some enterprises perform better than others because of the resources the enterprise controls. This gives rise to the resource-based theory and provides a blueprint for how enterprises can gain a competitive advantage.

According to Barney (1986a, 1996) and Barney and Hesterly (2015), the resources alluded to in the previous paragraph as contributors to enterprise performance are the tangible and intangible assets that the enterprise commands and uses to develop and implement strategies. Tangible assets include buildings, equipment and vehicles, and intangible assets include the enterprise's reputation among stakeholders, intellectual property and organisational support (for instance, culture and organisational structure). Barney, Ketchen Jr and Wright (2011) and Barney and Hesterly (2015) note that for the enterprise to take full advantage of these resources, it needs the capabilities to do so, such as marketing skills and teamwork and cooperation among its management team. Capabilities are a subset of the enterprise's resources that allow the enterprise to exploit other resources that the enterprise controls (Barney, Ketchen Jr and Wright, 2021). As such, the resources and capabilities possessed by an enterprise are essential in developing and implementing strategies that will lead to a competitive advantage.

The resource-based theory is founded on two assumptions; the first is that the enterprise's bundle of resources and capabilities is unique, costly and complex to imitate (Wernerfelt, 1984; Barney, 1986a; Newbert, 2007; Barney, Ketchen Jr and Wright, 2021). When resources are heterogeneous and imperfectly mobile, the enterprise can take advantage of resource endowments that exist for extended periods (Alvarez and Busenitz, 2001; Newbert, 2007; Barney, Ketchen Jr and Wright, 2011; Nason and Wiklund, 2018). For this purpose, the enterprise will have a resource-based competitive advantage. However, not all resources and capabilities give the enterprise a competitive advantage over other enterprises. Barney (1986a, 1986b, 1991) and Madhani (2010) recommend that the resources the enterprise holds should be valuable, rare, inimitable and organisational (hereafter VRIO) (refer to Figure 3.3) for the enterprise to have sustained competitive advantage. The following paragraphs discuss what VRIO resources and capabilities are and how they assist the enterprise to achieve sustained competitive advantage.

3.3.1 Valuable

Barney (1991) and Barney and Hersly (2015) describe valuable resources as resources the enterprise can use to exploit an external opportunity and neutralise an external threat. Barney (1986 a) and Galbreath (2004) add that a valuable resource allows the enterprise to satisfy customer needs better than competitors and lower costs. Thus, valuable resources provide strategic value and empower the enterprise to develop and implement strategies that enhance efficiency and effectiveness. Barney (1986 b) explains that when the market views a resource and capability as having the potential to yield significant returns (i.e., valuable), then the market-determined price of the product will be greater than the actual value. Enterprises that acquire the resource after the market price has increased will suffer an economic loss.

3.3.2 Rare

The VRIO framework requires that resources should also be rare. The Oxford Dictionary (2022) defines a rare resource as unavailable in large quantities and of interest or value. Consequently, a rare resource allows enterprises to enjoy a competitive advantage when implementing a value-creating strategy, as competitors cannot easily obtain the resource (Barney, 1991). Galbreath (2004) gauges the rarity of a resource by counting the number of enterprises in the industry with the same resource. When several enterprises in the industry share the same valuable resource, the resource's ability to create a competitive advantage is diminished. Barney (1991), however, points out that a resource that is not rare but valuable can

help ensure the enterprise's survival granted that the resource is exploited to create a competitive advantage.

3.3.3 Costly to imitate

Thirdly, the VRIO framework requires resources to be imperfectly imitable. Barney and Hesterly (2015) and Madhani (2010) outline that imperfect imitability occurs when other enterprises in the industry do not possess the same resource and cannot obtain a direct duplicate or substitution. When other enterprises attempt to get or duplicate the resource, Barney and Hesterly (2015) state they should incur a cost disadvantage such that the cost outweighs the benefits. Barney (1991) notes that other enterprises may find copying or imitating the resource costly due to unique historical conditions, causal ambiguity, social complexity and legal property rights. A unique historical event or time can give the enterprise a competitive advantage (Barney, 1986a, 1991; Barney and Hesterly, 2015). For example, an enterprise may gain access to low-cost resources due to its place in time or an event; as such, the enterprise will have an advantage as it was the initial occupant of the market.

Barney (1986 a) conveys that causal ambiguity occurs when the enterprise's managed resources and capabilities are imperfectly understood. Furthermore, social complexity occurs when the enterprise's resources and capabilities involve complex phenomena that are challenging and costly to duplicate (Barney, 1991; Barney and Hesterly, 2015), such as relations with managers of the enterprise, the enterprise's culture and the enterprise's reputation among key stakeholders. Lastly, legal property rights such as patents, trademarks and copyrights prevent other enterprises from replicating the enterprise's resource, especially when competitors easily identify and understand the resource (Galbreath, 2004). In cases where resources and capabilities possess the above-discussed characteristics, they become imperfectly imitable for long periods, which results in the enterprise retaining its competitive advantage.

3.3.4 Organisational support

Lastly, the VRIO framework requires a resource to be valuable, imitable, and rare and organisational support in achieving sustained competitive advantage. Barney and Hesterly (2015) outline that an enterprise needs to be conducive (i.e., well organised in terms of formal reporting structure and explicit management control systems) to allow the enterprise to exploit the potential offered by the resource.

As shown in Figure 3.3, the VRIO framework indicates that valuable and rare resources and capabilities result in the enterprise obtaining a competitive advantage and enjoying an improved performance in the short term. However, when the resources and capabilities are also inimitable and have organisational support, the enterprise will have a sustainable competitive advantage in the long term.

FIGURE 3.3: THE VRIO FRAMEWORK

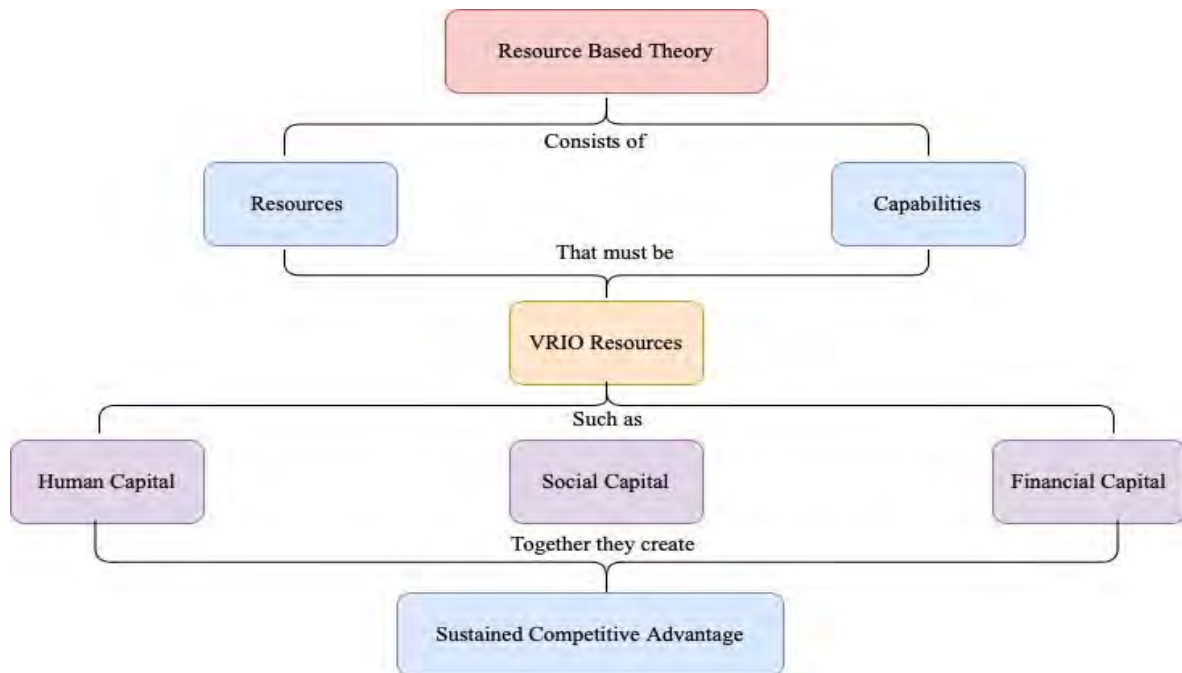


Source: Madhani (2010)

Over time, the resource-based theory evolved to incorporate three resources and capabilities that contribute to sustained competitive advantage, as shown in Figure 3.4, which provides an overview of the resource-based theory. Aldrich (1999), Davidsson and Honig (2003), Fatoki (2011) and Ganotakis (2012) propose that human, social and financial capital are crucial resources and capabilities inherited from the VRIO framework and may result in sustained competitive advantage and sustained performance. These resources and capabilities have their theoretical bases, which are part of the resource-based theory and will be discussed in Section 3.4.

Theorists (see Foss, 1998; Truijens, 2003; Kraaijenbrink, Spender and Groen, 2010; Madhani, 2010; Almarri and Gardiner, 2014) have voiced their concerns with the resource-based theory indicating that the terminology used is vague, vast and all-inclusive. According to Madhani (2010), the theory lacks common terms, such as capabilities, assets, resources, and competencies, which researchers often use interchangeably but have different meanings for others. There have also been extensive criticisms of the theory's methodological shortcomings. Almarri and Gardiner (2014) point out that some of the resources referred to in the theory are intangible, making it challenging to measure them consistently. Despite these concerns, the resource-based theory is most suited to this study.

FIGURE 3.4: OVERVIEW OF THE RESOURCE-BASED THEORY



Source: Researcher's construction

Considering the number of challenges entrepreneurs face in South Africa (refer to Chapter 2) and their VUCA environments, some control is needed. The resource-based theory provides the entrepreneur with some certainty as they would be in control of their success or failure. The theory indicates that when these resources (human, social and financial capital) are effectively combined, it will enable them to exploit opportunities, create new ventures, increase performance, and achieve sustainable competitive advantage as well as cope with external factors that they have no control over (Alvarez and Busenitz, 2001; Kellermanns *et al.*, 2016; Zahra, 2021). The following sections discuss human, social and financial capital as resources the enterprise needs to succeed.

3.4 HUMAN CAPITAL THEORY

Human capital theory recently gained momentum in the field of entrepreneurship and is of interest to entrepreneurship researchers who wish to observe the effects of human capital on various factors. According to Schultz (1959) and Becker (1964), the theory was initially developed to understand the relationship between employees' earnings and their investment in human capital. Schultz (1959) and Becker (1964) postulated that an individual's economic performance and level of productivity were dependent on the level of investment in schooling,

on-the-job training and other types of experience. Entrepreneurship researchers later adopted the theory where human capital was included in prediction models of entrepreneurship success.

Entrepreneurship researchers (see Van Praag and Cramer, 2001; Aldrich and Ruef, 2006; Ganotakis, 2012; Martin, McNally and Kay, 2013) proposed that formal education, work experience or training increase one's cognitive abilities, which results in increased productivity and efficient potential activity. Subsequently, if a profitable opportunity for new economic activity presented itself, individuals with a high quality of human capital would perceive and exploit the opportunity. However, Davidsson and Honig (2003) contend this view and propose that to achieve increased productivity, human capital must be related to the day-to-day tasks of the entrepreneur. In a similar fashion to Davidsson and Honing (2003), this study argues that high levels of education, work experience, or training may not translate to increased performance. Rather, an entrepreneur with knowledge of the day-to-day tasks of running an enterprise and knowledge of the industry in which they operate has an advantage over their competitors. As such, specific skill sets and knowledge, such as financial literacy, are viewed as more advantageous than historical measures of human capital.

The following sections provide an overview of financial literacy, and its importance for entrepreneurs and explains why financial literacy is a proxy of human capital in this study.

3.4.1 Financial literacy

Researchers have often implied that it is impossible to succeed without the ability to read and write; equally, financial literacy is crucial to the success of individuals in the contemporary VUCA economic environment. Lusardi (2019) stresses that knowing your ABCs in economics and finance has grown to be just as important as the ability to read and write. The need for a financially literate society was sparked by the financial crisis and an increase in complex financial services such as cashless transactions, internet banking, and online trading (Klapper, Lusardi and Oudheusden, 2015; Smit, 2021). Despite the importance of financial literacy, researchers, policymakers, and educators are yet to decide on a universally accepted definition for financial literacy (Huston, 2010; Nicolini, Cude and Chatterjee, 2013; Mashizha, Sibanda and Maumbe, 2019; Usama and Yusoff, 2019; Graña-Alvarez, Lopez-Valeiras, Gonzalez-Loureiro, and Coronado, 2022). Oseifuah (2010, p. 167) defines financial literacy as "the ability to make informed judgements and decisions regarding the use and management of money." Nicolini, Cude and Chatterjee (2013) define financial literacy as the essential knowledge

individuals need to survive in today's world. In addition, Huston (2010) and Fatoki and Oni (2014) describe financial literacy as one's ability to understand and use personal finance-related information.

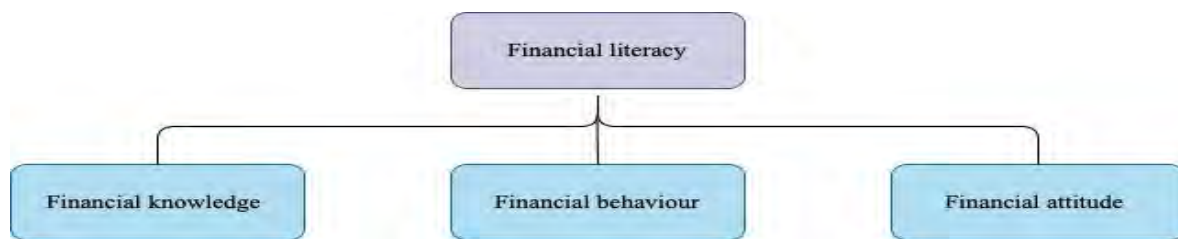
The above definitions of financial literacy provide a one-sided picture of financial literacy as the researchers focus on a particular concept: financial knowledge. Mabula and Ping (2018), OECD (2013) and Lusardi (2019) provide multi-dimensional definitions of financial literacy, which include financial knowledge, attitude and behaviour. According to Mabula and Ping (2018) and OECD (2013), financial literacy is the knowledge and understanding of financial concepts and the capacity to apply that information to make effective financial decisions. Furthermore, Lusardi (2019) explains that financial literacy is not only one's understanding of financial concepts but also the skills, motivation and confidence to employ that knowledge and understanding to make effective decisions across different financial situations. Hence, the aforementioned definitions indicate that achieving financial literacy requires a solid foundation in finance, adopting appropriate financial behaviours, and cultivating a positive attitude towards finance.

Although financial literacy is primarily viewed in literature from a personal capacity, Usama and Yusoff (2019) indicate that entrepreneurs operate in dynamic environments where financial markets are more competitive and financial portfolios are more complex; therefore, financial literacy is crucial for entrepreneurs to avoid information asymmetries. According to Bongomin *et al.* (2016) and Usama and Yusoff (2019) financial literacy also assists the entrepreneur in implementing effective financial management strategies for the enterprise. In addition, financially literate entrepreneurs can manage resources and use financial information accurately to improve the enterprise's profitability (Usama and Yusoff, 2019). Bruhn and Zia (2011); Mashizha, Sibanda and Maumbe (2019) and Graña-Alvarez *et al.* (2022) add that financial literacy encourages and allows the entrepreneur to participate in financial markets to accumulate assets, smooth consumption and access more sources of finance.

Nevertheless, some researchers argue that financial literacy discourages entrepreneurship activity. Fretschner and Lampe (2019) state that financial education has discouraged uncertain students from undertaking a new enterprise as they realised the potential risk and cost implications of starting a business. Regardless, research has found that it equips entrepreneurs with the skills to calculate, manage, and mitigate those risks (Bruhn and Zia, 2011; Graña-

Alvarez *et al.*, 2022). For this purpose, financial literacy can assist risk-averse entrepreneurs in transitioning into risk-takers by providing them with the necessary skills to manage risks, allowing them to create and establish the enterprise. As previously noted, financial literacy is not merely about knowing how money works (financial knowledge) but also about adopting the appropriate financial behaviour and attitude, as shown in Figure 3.5. The following subsections will discuss financial literacy components, including financial knowledge, behaviour and attitude.

FIGURE 3.5: COMPONENTS OF FINANCIAL LITERACY



Source: Researcher's construction

3.4.1.1 Financial knowledge

As previously indicated, researchers have often used financial literacy and financial knowledge interchangeably and synonymously. However, Huston (2010) clarifies that financial knowledge is a part of, but not equivalent to financial literacy. Financial literacy has two characteristics: knowledge and understanding of financial concepts and the ability to use that knowledge to make sound financial decisions confidently. Financial knowledge is the entrepreneur's understanding of fundamental financial models that will aid, support and enrich the entrepreneur's decision-making process (Akhtar and Liu, 2018). Abdullah and Chong (2014); Lind, Ahmed, Skagerlund, Strömbäck, Västfjäll and Tinghög (2020) and Kaiser, Lusardi, Menkhoff and Urban (2022) refer to financial knowledge as the stock of knowledge the entrepreneur has on financial concepts (such as inflation, diversification), financial numeracy and financial products and services (such as awareness of banking and credit loans) which is acquired through education or experience. Furthermore, Antoni, Dlepu and Notshe (2020) and Rahim and Balan (2020) add that financial knowledge is one's ability to understand key financial concepts, enabling them to confidently make sound choices that will enhance their monetary prosperity.

According to Rahim and Balan (2020), entrepreneurs with financial knowledge are more financially responsible and make better monetary choices. In addition, studies suggest that entrepreneurs with financial knowledge take part in "best monetary practices" such as saving, are up to date with their credit and regularly check their credit reports and keep a record of sales and expenses (Njoroge, 2013; Rahim and Balan, 2020).

3.4.1.2 Financial behaviour

Financial behaviour is defined by Smit (2021) as the observable financial activities of individuals who participate in the economy. Yuesti, Rustiarini and Suryandari (2020) add that it is how the individual behaves in a financial situation and how psychology influences corporate and financial market decisions. Hence, financial behaviour involves one's emotions, traits, and preferences that shape one's actions and provide the confidence to plan, manage, and control financial resources to execute one's action decision. Smit (2021) indicates that one needs a good financial background to apply their knowledge in their day-to-day financial circumstances confidently.

Antoni, Rootman, and Struwig (2019) indicate two types of financial behaviour: responsible and risky. Responsible financial behaviour is characterised by one's ability to manage money responsibly, which results in a positive financial outcome (Antoni, Rootman, and Struwig, 2019). Responsible financial behaviour is determined by an individual's ability to confidently organise and complete actions that result in financial success. For instance, one's ability to manage cash inflow and outflow, credit management, savings and investment.

In contrast, risky financial behaviour refers to money management practices with negative financial outcomes (Dew and Xiao, 2013; Antoni, Rootman, and Struwig, 2019). For example, overspending and obtaining large, riskier and pricier loans than other alternatives. Smit (2021) identifies that risky financial behaviour is influenced by one's risk appetite and perception; whether the entrepreneur chooses to invest in a particular project depends on their belief of the potential harm or possibility of loss they can incur.

3.4.1.3 Financial attitude

Yuesti, Rustiarini and Suryandari (2020) view financial attitude as the inclination to behave in a particular manner due to some economic and non-economic beliefs held by an individual. Rahim and Balan (2020) propose that financial attitude is a psychological inclination expressed

when evaluating prescribed financial management practices. Akhtar and Liu (2018) add that one's ability to analyse financial information and draw a logical decision will positively influence their long-term well-being. In short, a financial attitude refers to one's view, opinion and judgement about their finances. Çoşkun and Dalziel (2020) state that feelings and thoughts reinforce financial behaviour as a financial attitude influences financial behaviour.

3.4.2 Financial literacy and enterprise performance

The economic importance of financial literacy is widely documented, and there is mounting empirical literature on the influence of financial literacy and enterprise performance (Akhtar and Liu, 2018; Mashizha, Sibanda and Maumbe, 2019; Ye and Kulathunga, 2019; Agabalinda and Isoh, 2020; Fauzi, Antoni and Suwarni, 2020; Mpaata, Koskei and Saina, 2020). The bulk of the literature is focused on undeveloped and low-income countries, where it examines the level of financial literacy of owners/managers and women entrepreneurs, the saving and investment behaviour of entrepreneurs, and financial preparedness for retirement in the SME sector.

Oseifuah (2010) was one of the first researchers to provide a South African financial literacy and entrepreneurship perspective. The study investigated the impact of financial literacy on youth entrepreneurship in the Vhembe District; the data was collected using a structured questionnaire. The questionnaire evaluated the entrepreneurs' mathematical and computer literacy, financial attitude, financial knowledge and behaviour. The study's main findings were that youth entrepreneurs in the Vhembe district had an above-average level of financial literacy. In the same way, Fatoki (2014) examined the level of financial literacy of micro-enterprises in South Africa. However, the study found low levels of financial literacy.

Eniola and Entebang (2017), Mashizha, Sibanda and Maumbe (2019) and Yakob, Rusli, Yakob and Bam (2021) investigated the influence of financial literacy and the level of financial literacy of SME owners. These studies were conducted in Nigeria, Zimbabwe, and Malaysia, examining respondents' understanding of financial knowledge, financial awareness, and financial attitude. The findings indicate that financial literacy positively and significantly influences SME performance. Yakob *et al.* (2021) also found that financial literacy assisted managers and owners in making accurate financial decisions, thus reducing their administrative costs, conducting cost-benefit analyses, decreasing staff turnover and investing in profitable

investment schemes. Eniola and Entebang (2017), Mashizha, Sibanda and Maumbe (2019) and Yakob *et al.* (2021) found that entrepreneurs have low levels of financial literacy.

3.4.3 Justification for using the financial literacy as a proxy for human capital

South Africa is often applauded as a developing country for its developmental achievements post-apartheid, where GDP increased by three percent per year for 14 years. However, this success was short-lived as South Africa started to experience high levels of unemployment, inequality and poverty. Moyo, Mishi and Ncwadi (2022) explain that these ills are partly due to the low-quality education a significant proportion of the population receives. The education system in South Africa is ranked as one of the most unequal systems in the world, with crumbling infrastructure, overcrowded classrooms and relatively poor educational outcomes (Hogan, 2020; Mohamed, 2020). Stats SA (2021) and Nkosi (2021) report that 31.5 percent of individuals between five years and older have attended some kind of educational institution; of these individuals only 87.6 percent attended primary or secondary school and 5.6 percent managed to enrol to a tertiary institution. These statistics are appalling, as education is fundamental to the economy's robustness, competitiveness, productivity and sustainable growth (Herrington and Kew, 2018).

Furthermore, a lack of quality education has resulted in a domino effect as individuals without education struggle to enter the workforce, therefore increasing unemployment rates due to a lack of skills and qualifications. Bowmaker-Falconer and Meyer (2022) add that these individuals who are not educated and do not have work experience or training cannot become successful entrepreneurs as they lack critical skills (such as self-confidence, risk-taking propensity and opportunity identification) that support them during the entrepreneurship process. Chimucheka (2014) emphasises that the lack of education, work experience, or training is why some SMEs fail within the first two years of operation.

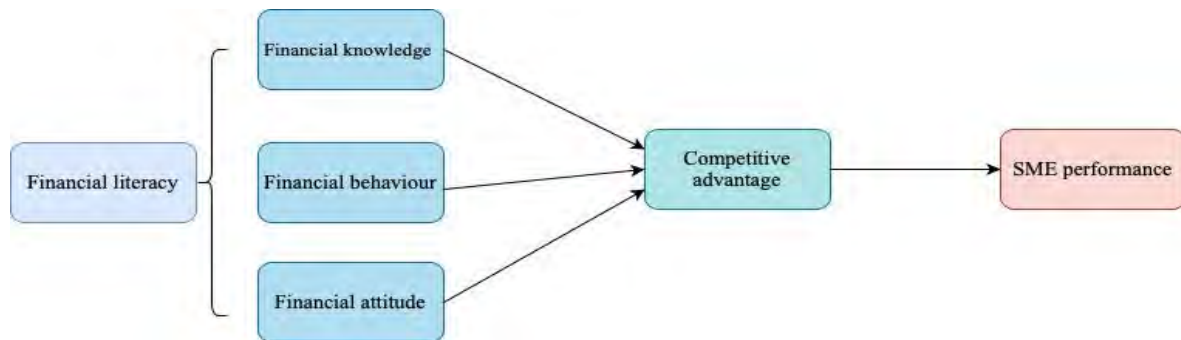
Kavese (2020) provides insight into the level of education of entrepreneurs located and operational in the Eastern Cape province, South Africa. Kavese (2020) shows that in the Eastern Cape province 13.8 percent of entrepreneurs have some tertiary education (diploma or degree) and 25.9 percent have completed their secondary education. These low figures suggest that several entrepreneurs in South Africa are largely without education. In addition, the high unemployment rate and the adversity of finding employment in South Africa suggests that a large number of entrepreneurs may not have previous work experience. With that in mind, the

researcher argues that traditional measures of human capital (such as formal education and work experience) are blinkered. The study holds that having a specific skill set is more valuable than completing formal education; hence, financial literacy was found fitting as a measure of human capital.

The importance of financial literacy for entrepreneurs in South Africa cannot be overemphasised. Rahim and Balan (2020) indicate that financial knowledge assists entrepreneurs in accessing credit and selecting credit options that are well-suited to their specific requirements. Furthermore, understanding the time value of money also helps the entrepreneur appreciate the role of inflation in predicting these changes and adjusting accordingly. Secondly, Rahim and Balan (2020) stress that entrepreneurs need to use their financial knowledge by creating budgets, managing their credit, and keeping records as it contributes to performance, limiting the enterprise's exposure to bankruptcy and minimising reckless spending. In addition, entrepreneurs can easily identify cost-saving and revenue-enhancing strategies. Lastly, Eniola and Entebang (2017), Akhtar and Liu (2018) and Rahim and Balan (2020) highlight that entrepreneurs need to have a positive attitude towards their finances. This allows the entrepreneur to take risks, initiate and act proactively; however, entrepreneurs with a less positive attitude tend to be risk averse.

Given the empirical literature, this study hypothesises a relationship between financial literacy, which includes financial knowledge, behaviour and attitude, and SME performance, as shown in Figure 3.6.

FIGURE 3.6: THE RELATIONSHIP BETWEEN FINANCIAL KNOWLEDGE, BEHAVIOUR AND ATTITUDE AND SME PERFORMANCE



Source: Researcher's construction

3.5 SOCIAL CAPITAL THEORY

The social capital theory was developed in the 1980s, where the importance of social contracts and networks for entrepreneurs and enterprise performance was explored by Bourdieu (1986) and Coleman (1988). Bourdieu (1986) defined social capital as a combination of existing and potential resources that arise from an individual's access to a strong network of institutional relationships and mutual acquaintances. Similarly, Bourdieu (1986) and Coleman (1988) define social capital as a function where resources are available to an actor to facilitate specific actions. These resources are available to the actor due to their social structures; without these social ties, the actor would not have access to the resources or incur significant transaction costs.

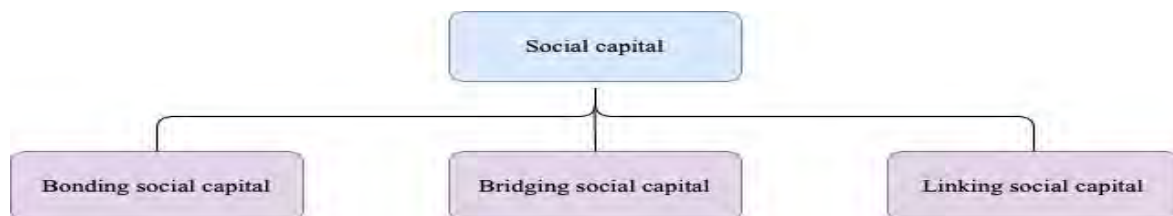
According to Poder (2011), social capital occurs when several factors exist. These factors include an obligation and expectation, the presence of trust, the sharing of information or resources, norms and penalties to deter transgressions, relationship authority, and networking or social organisation. Social capital can increase enterprise performance when these factors are in place. Lin and Smith (2001) and Poder (2011) explain that social capital results in performance as it facilitates a flow of information. When entrepreneurs have social ties with individuals in more influential positions or are better informed on the market, they can access critical information through these networks.

In addition, social networks may influence agents who play a crucial role in decisions affecting the entrepreneur (Lin and Smith, 2001; Fang, Duffy and Shaw, 2011). For instance, by "putting in a good word" for an individual, they may gain an advantage during the decision-making

process, given that the social tie holds a position of power or is placed strategically. Moreover, a well-established social network can legitimise the enterprise (Fang, Duffy and Shaw, 2011). For example, when a newly established enterprise has connections with a well-established brand or individual, it provides social credentials to the enterprise to access resources. Lin and Smith (2001) outline that social networks reinforce identity and recognition.

Social capital is underpinned by social relations or connections between people, as shown in Figure 3.7. These ties consist of strong and weak ties. Granovetter (1973) explains the strength of a tie as dependent on the amount of time, emotional intensity, intimacy (ability to confide), and reciprocal service. To have social capital, "one must be related to others, and it is those others, not themselves, who are the source of their competitive advantage" (Portes, 1998, p.7). Over time, strong ties have been recognised as bonding social capital, weak ties as bridging social capital, and a new form of social capital was discovered, referred to as linking social capital. The following section will discuss the three ties in social capital theory: bonding, bridging and linking social capital.

FIGURE 3.7: COMPONENTS OF SOCIAL CAPITAL THEORY



Source: Researcher's construction

3.6.1 Bonding social capital

Bonding social capital is described as strong ties that are within (Claridge, 2018), homogeneous (Putnam, 2000; Weiler and Hinz, 2019), exclusive (Putnam, 2000; Martikke, 2017), and inward-looking (Putnam, 2000) and closed (Poder, 2011). Martikke (2017) points out that these ties are closely connected and have strong bonds such as familial relations, friendships or closely-knit organisations and groups. As indicated by Granovetter (1973), for strong ties between individuals, they should spend a significant amount of time together, be emotionally intense, confide in each other, and have a culture of reciprocation. Maritikke (2018) indicates that bonding social capital can be claustrophobic and stagnant. In addition, Portes (1998) and Putnam (2000) illustrate that dense networks such as bonding social capital tend to convey

redundant information and, as such, will only help one "get by" as opposed to bridging social capital, which helps entrepreneurs "get ahead".

Bonding social capital is paramount for nascent and developing entrepreneurs as it allows them access to emotional support and scarce or limited resources and provides a sense of community (Smith, Smith and Shaw, 2017). However, creating these ties may seem tedious and time-consuming as the entrepreneur dedicates themselves to network-deepening behaviours such as frequent communication, network preservation and relational embedding (Smith, Smith and Shaw, 2017; Ceci, Masciarelli and Poledrini, 2020).

3.6.2 Bridging social capital

On the other hand, bridging social capital has been described as weak ties that are connecting (Claridge, 2018), heterogenous or individuals with dissimilar social ties (Putnam, 2000; Weiler and Hinz, 2019), and inclusive (Putnam, 2000; Martikke, 2017), outward-looking (Putnam, 2000) and open (Poder, 2011). Bridging social capital acts as a bridge to connect people of different ethnicities and socioeconomic statuses with shared interests and goals. It includes business associates, friends and acquaintances from other ethnic groups (Klaas, 2020). Maritikke (2018) highlights that bridging social capital allows a broader space to access information and resources.

Entrepreneurs who develop weak ties have access to a more extensive and diverse network that allows them access to the resources they need to succeed. However, this requires the entrepreneur to engage in network-broadening behaviours, for instance, being outward-looking, connecting with a broad range of people, and building reciprocity with a diverse range of people (Smith, Smith and Shaw, 2017). Unlike bonding social capital, bridging social capital is said to help entrepreneurs "get ahead" (Putnam, 2000).

3.6.3 Linking social capital

Linking social capital involves hierarchical relations where individuals have ties with people of a higher level than themselves. Claridge (2018) states that the critical feature in linking social capital is that relations are of higher social status, wealth, and influence. As such, linking social capital is often described as vertical (Maritikke, 2018). Contrary to bonding and bridging social

capital, linking social capital is purely based on social positions and power, and the higher the people on the hierarchy, the stronger the link. Klaas (2020) suggests that entrepreneurs with connections to people of higher social status and power, such as political leaders, financial managers and experienced business owners, can assist entrepreneurs with nascent and developing enterprises. For example, when an entrepreneur needs a low-interest loan from the bank but lacks the necessary collateral, knowing the financial manager may assist in obtaining that loan. Claridge (2018) draws attention to the dark side of high levels of linking social capital, where connections were discovered between linking social capital and nepotism, corruption and suppression.

Social capital is the process of developing bonding, bridging and linking ties that provide the individual access to information, influence, legitimacy and solidarity. However, these ties have a reciprocity culture where donors who provide access to resources expect to be fully repaid (Adler and Kwon, 2002). Social capital has been heavily criticised by Portes (1998), Poder (2011), Smith, Smith and Shaw (2017), Claridge (2018) and Weiler and Hinz (2019). These researchers critique that social capital may result in the exclusion of outsiders, restrict members' freedom, and cause a member to become dependent on the network.

3.6.4 Social capital and enterprise performance

Burton and Vu (2021) emphasise the significance of social capital for organisations, particularly for new enterprises, as it plays a vital role in mitigating the inherent risks associated with their novelty and limited scale. These new enterprises with social capital can survive environmental jolts and experience superior performance. Johannisson (1988) concludes that nascent entrepreneurs often depend on trial and error as a time-consuming and costly strategy. Hence, social capital mitigates these risks by providing entrepreneurs access to mentors, role models and other business colleagues with experience in starting and developing an enterprise.

Akintimehin *et al.* (2019) explored the influence of internal and external social capital on enterprises' financial and non-financial performance in the Nigerian informal sector. The study revealed a significant relationship between internal social capital and non-financial performance, yet no association was found between internal social capital and financial performance. Regarding external social capital, no relationship was found between financial and non-financial performance. Smith, Smith and Shaw (2017) took a more modern approach

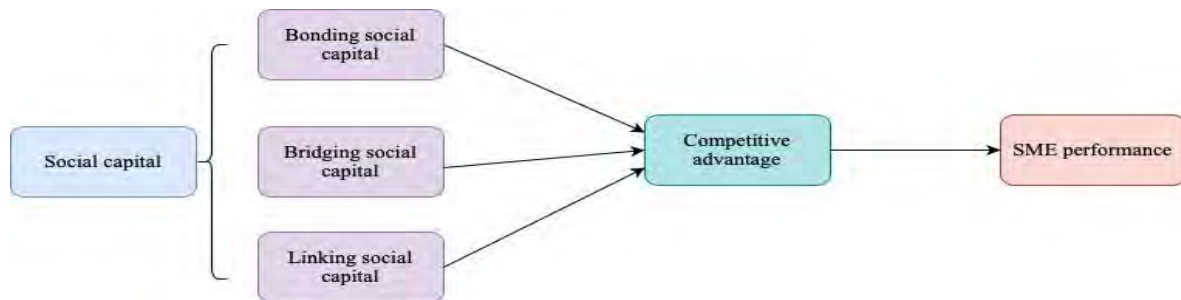
when investigating social capital. In their study, Smith, Smith and Shaw (2017) noticed a surge in entrepreneurs using social media such as Facebook and LinkedIn to interact with others. These networking sites allowed entrepreneurs to develop weak ties (i.e., bridging social capital) and manage strong-tie relationships (i.e., bonding social capital). As a result, they developed a conceptual framework that explored social networking sites' impact on entrepreneurs bridging and bonding social capital online.

Dzomonda and Masocha (2019) investigated the relationship between social capital and entrepreneurial success in South Africa. The authors propose that financial and other critical resources entrepreneurs require are linked to social networks and platforms in society. When entrepreneurs gain access to these networks, they can organise resources that give the enterprise a competitive advantage over other enterprises. The study deduced that social capital predicts entrepreneurial success as networks provide entrepreneurs with new opportunities and access to business advisors, funders, customers, and suppliers, enhancing their success. Gumede and Rasmussen (2002) and Fatoki (2011) highlight that social capital in South Africa is limited as SMEs have little engagement with business networks like Chambers of Commerce or Business Forums.

3.6.5 Justification for using social capital

Social capital provides the entrepreneur with the rare opportunity to gather valuable information; a network developed may be an excellent soundboard to test ideas, obtain moral support and provide access to suppliers and customers. Chikwendu (2019) points out that entrepreneurs may have the ability and knowledge to recognise a given entrepreneurial opportunity yet lack the social connections necessary to convert such a prospect into a new venture. Given the empirical literature, this study hypothesises a relationship between social capital, which includes bonding, bridging and linking social capital and SME performance (refer to Figure 3.8).

FIGURE 3.8: THE RELATIONSHIP BETWEEN SOCIAL CAPITAL AND SME PERFORMANCE



Source: Researcher's construction

Thus far, social capital has been discussed and referred to as a function where resources are available to an actor facilitating specific actions. These resources are available to the entrepreneur due to their social structures; without these social ties, the entrepreneur would not have access to the resources or incur significant transaction costs. The financial capital theory will be discussed next.

3.7 FINANCIAL CAPITAL THEORY

Financial capital was discovered to be an essential resource for successful entrepreneurship in 1989 when Evans and Jovanovic (1989) questioned whether an individual needed wealth to start a business. Evans and Jovanovic (1989) based their study on Frank Knight's view, which states that the entrepreneur's role is to bear risks and finance their venture because capital markets provide inadequate capital to entrepreneurs. This contrasts Joseph Schumpeter's viewpoint in 1934, where he believed that an entrepreneur's task involves recognising economic trade prospects and relying on the capital markets to locate a capitalist willing to assume the associated risks. Evans and Jovanovic (1989) described financial capital as the capital or the access to it, in the form of equity, debt or both, that will serve as the financial input of the enterprise.

In their study, Evans and Jovanovic (1989) made three key findings that shaped how financial capital (for instance, wealth and assets) is viewed in entrepreneurship studies. Firstly, they found that wealthy people are more prone to becoming entrepreneurs than less affluent people. Evans and Jovanovic (1989) suggested that less wealthy people face liquidity constraints that discourage and exclude them from participating in entrepreneurial activities. Secondly, Evans

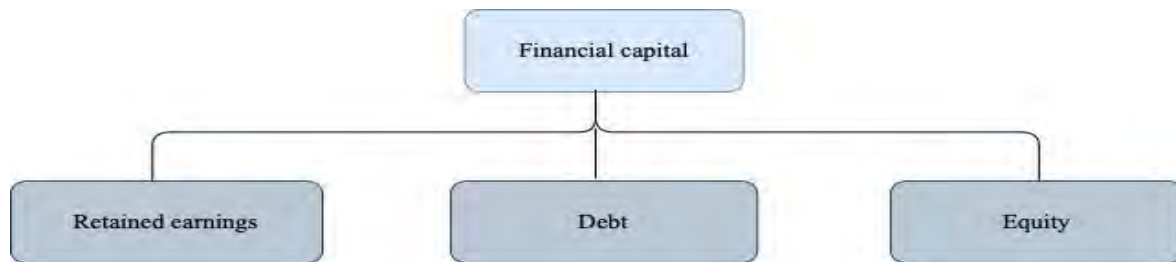
and Jovanovic (1989) put forward that more affluent people have more initial assets; as such, they can earn more since wealthier people start the enterprise with more efficient capital levels. Lastly, the study suggests that less wealthy individuals will be forced to contribute more assets (such as savings or personal investments) to the enterprise. However, Hurst and Lusardi (2004) found no empirical relationship between wealth and the propensity to start a business, be it a business in a capital-intensive industry.

Nevertheless, financial capital is still deemed one of the most crucial resources for entrepreneurs, particularly nascent and developing entrepreneurs. Copper, Gimeno-Gascon and Woo (1997) concur that financial capital cushions entrepreneurs against unfavourable shocks and allows the entrepreneur to pursue more capital-intensive strategies that will be sheltered against imitation. Linder, Lechner, and Pelzel (2020) argue that entrepreneurs with sufficient financial capital are less constrained by financial issues; therefore, they can manage the risks associated with being small and new more effectively. Financial capital also gives the entrepreneur more time to learn and overcome challenges.

For this purpose, the researcher argues that financial capital is mandatory in the start-up and survival of the enterprise as it assists the entrepreneur in achieving a high level of performance and sustained competitive advantage over its competitors. Kuzilwa (2005) and Asah (2019) outline that the lack of financial capital or access to financial resources restricts the entrepreneur from launching start-up operations, decreases the chances of survival and inhibits the entrepreneur from expanding the enterprise and developing new products.

Financial capital consists of retained earnings, debt and equity (see Figure 3.9), also known as the enterprise's capital structure. Martinez, Scherger and Guercio (2019) add that capital structure explains how the enterprise finances its investments and operations by using various sources of funds. The pecking order theory best explains how SME owners/managers decide on the enterprise's capital structure (Sogorb Mira, 2002; Martinez, Scherger and Guercio, 2019; Fatoki, 2011). The pecking order theory suggests that owners/managers do not have a well-defined optimal capital structure. Instead, they have a hierarchy when choosing their source of funding (Fatoki, 2011). Owners/managers are more inclined to exhaust internal (such as retained earnings) than external (such as debt and equity) funding sources. From this perspective, when owners/managers are obligated to acquire external funding sources, the owner/manager selects less risky and costly.

FIGURE 3.9: COMPONENTS OF FINANCIAL CAPITAL



Source: Researcher's construction

3.7.1 Financial capital and enterprise performance

Eisenhardt and Martin (2000) used the resource-based theory to show the importance of financial capital for the performance of enterprises. They (Eisenhardt and Martin, 2000) demonstrated that financial capital is crucial for the survival and growth of the enterprise as financial capital allows enterprises to purchase fixed and current assets that are key in sustaining the enterprise's competitive advantage.

Abiodun and Amos (2018) examined the impact of financial capital on women-owned SMEs' performance in Nigeria. Abiodun and Amos' (2018) findings reveal a positive relationship between the performance of women entrepreneurs and financial capital. Abiodun and Amos (2018) note that financial capital allows entrepreneurs more freedom to innovate and exploit opportunities that will enable them to grow the enterprise. In contrast, Orser, Riding and Manley (2006) and Cetindamar *et al.* (2012) argued that although women and men have unequal footing when partaking in entrepreneurial activities, no gender differences were observed in the impact of financial capital and performance and access to finance in their study. Cetindamar *et al.* (2012) confirm the relationship between financial capital and enterprise performance.

3.7.2 Justification for using financial capital theory

The importance of financial capital cannot be overemphasised, as entrepreneurs with financial capital can effectively exploit opportunities that arise and endure any threats that surface. Danes *et al.* (2009) and Linder, Lechner and Pelzel (2020) argue against the gambler's ruin hypothesis, suggesting that entrepreneurs with significant financial capital will outlive their competitors despite lacking human or social capital. Accordingly, they caution entrepreneurs against overreliance on financial capital. Based on the available empirical literature, this study

hypothesises that there is a relationship between financial capital and SME performance, as shown in Figure 3.10.

FIGURE 3.10: THE RELATIONSHIP BETWEEN FINANCIAL CAPITAL AND SME PERFORMANCE



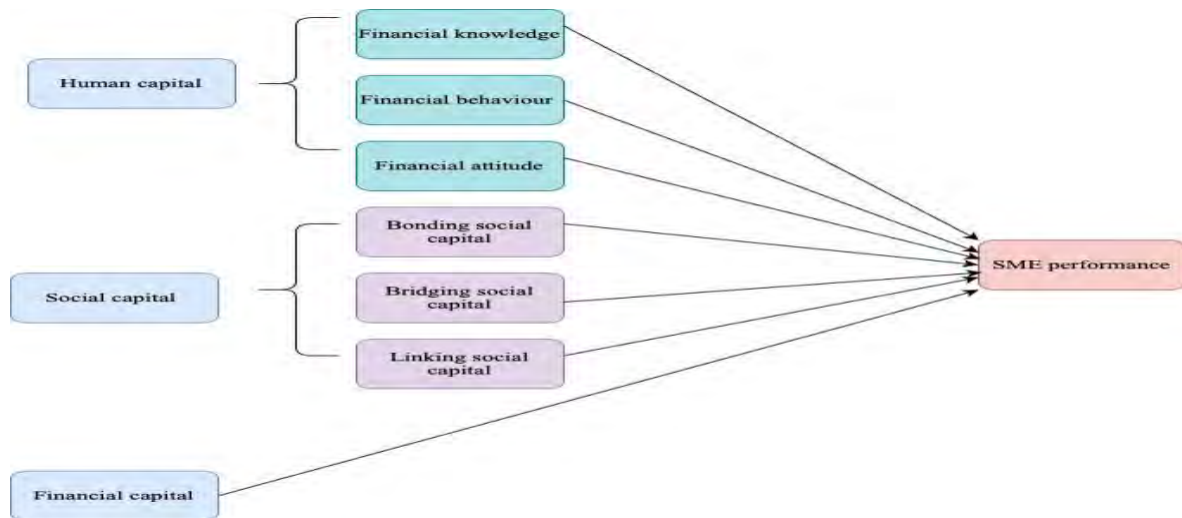
Source: Researcher's construction

This section presented a discussion on the significance of financial capital in driving the success of an enterprise. Financial capital safeguards entrepreneurs, protecting them from adverse shocks and enabling them to pursue capital-intensive strategies less prone to imitation, thereby fostering enterprise success. The following section presents the conceptual framework of this study based on the theories discussed.

3.8 CONCEPTUALISED FRAMEWORK

Leshem and Trafford (2007) depict a conceptual framework as a map of the researcher's study as it organises and supports concepts used, thus providing a clear picture of the research process. Rocco and Plakhotnik (2019) add that conceptual frameworks are used to demonstrate, understand and define the research's main ideas and existing relationships. Based on the financial literacy, social capital and financial capital theories, figure 3.11 illustrates the study's conceptual framework, providing the basis for testing H^1 to H^3 .

FIGURE 3.11: CONCEPTUALISED FRAMEWORK



Source: Researcher's construction

3.8 SUMMARY OF CHAPTER

The chapter provided a review of theories and literature on entrepreneurship. The entrepreneurship theories discussed were economic, psychological, opportunity-based and resource-based theory. The theories suggested that an individual's inborn characteristics and ability to exploit opportunities determine whether or not they become a successful entrepreneur; resultantly, these theories were found unsuitable for the study. The resource-based theory was considered more appropriate for the study. The resource-based theory highlights that an entrepreneur needs the following to be successful. Firstly, human capital, which includes formal education, experience and training. The study also considered the circumstances (for instance, lack of quality education and high unemployment) surrounding South Africa, and it is argued that it is unfitting to consider traditional (such as formal education, experience and training) forms of human capital as contributors to success. The study argues for the use of financial literacy as a proxy for human capital as it considers the entrepreneur's ability to evaluate the benefits and costs of opportunities that arise.

Secondly, the entrepreneur needs social networks such as bonding, bridging and linking social networks. The last component is financial capital, which includes the entrepreneur's debt and equity; together, these capitals assist the entrepreneur in gaining a sustained competitive advantage. All three forms of capital are equally essential, and value is mutually created.

Human and social capital assist the entrepreneur in discovering less contested opportunities, while financial capital helps to pursue these opportunities.

The following chapter will discuss the research methodology followed by the study.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

The previous chapter provided an overview of entrepreneurship theories, providing a theoretical understanding of what contributes to entrepreneurs' success. The resource-based theory was selected for the study as it premises that successful entrepreneurship results from the entrepreneur's ability to access resources and one's capabilities rather than one's genetic makeup.

Research is commonly described as a voyage of discovery (Kumar, 2018). Two crucial decisions need to be made before undertaking this journey. The first is deciding on what needs to be researched (the research topic and question), and the second is how to find answers to the research question. The path taken to find these answers constitutes the research methodology. Research methodology refers to the specific techniques used to identify, process and analyse information for the study. This chapter explains the research methodology's procedures and techniques for locating, selecting, processing and analysing information regarding human, social and financial capital and SME performance.

The chapter discusses two popular research paradigms and their ontology, epistemology and methodology. An outline of research designs is provided, indicating which design is more appropriate for the study. Furthermore, this chapter suggests the research strategy followed and highlights the study area. Reference is made to the sampling methods available, and a suitable sampling method and sample size are chosen. An overview of the measuring instrument and pretesting of the instrument are provided. The chapter concludes by discussing how ethical considerations are maintained during data collection and how data is analysed.

4.2 RESEARCH PARADIGM

A paradigm is referred to as the researcher's view of the world (ontology) and how knowledge is created (epistemology) (McKerchar, 2008). Cohen and Manion (1994), Bogdan and Biklin (1998) and Khaldi (2017) add that a paradigm is the theoretical assumptions, laws, and procedures that members of a particular scientific community follow. Research has been

dominated by two paradigms: positivism and interpretivism. Khaldi (2017) and Creswell and Creswell (2018) indicate that positivists view the world as an objective entity that can be understood and described objectively. In contrast, interpretivism suggests that multiple social realities are shaped by the researcher's perceptions (Collis and Hussey, 2014; Creswell and Creswell, 2018).

The 19th century brought new paradigms to light; these paradigms contest previous paradigms by offering different views of the world and how knowledge is created, while others were updated to reflect modern behaviours and beliefs. These paradigms included the post-positivist, transformative and pragmatist. According to Creswell and Creswell (2018), the post-positivist paradigm was developed by researchers looking for a less stringent version of the positivist paradigm. These researchers (see Khaldi, 2017; Creswell and Creswell, 2018) argued that although the world is an objective entity outside and independent of the observer's mind, it cannot be understood with complete objectivity. Thus, the post-positivist acknowledges that theories, hypotheses, background knowledge and values can influence what one observes.

A post-positivist stance was adopted in this study to allow the researcher to consider social realities and phenomena extensively. Unlike the positivist paradigm, the post-positivist paradigm enables the researcher to have a broad perspective by considering real-world problems. The post-positivist paradigm is appropriate for this study as it enables the researcher to examine the causal relationship between SME performance and human, social and financial capital while considering the problems faced by entrepreneurs (such as the impact of Covid-19 on operations post-pandemic, a lack of formal education and access to finance). In addition, the paradigm will allow the researcher to make inferences about the factors that aid in the performance of SMEs in South Africa.

4.3 RESEARCH DESIGN

Research design is a blueprint of how the researcher plans to answer their research questions to get the most valid results when conducting their research (Collis and Hussey, 2014; Babbie, 2020). The researcher can choose from three main research designs: exploratory, descriptive and causal, or a combination of them.

Babbie (2020) and Saunders, Lewis and Thornhill (2016) describe an exploratory research design as a method used when the researcher intends to explore a particular topic or provide more information. An exploratory research design is said to fit studies that wish to explore uncharted waters or provide deeper insight into a research phenomenon (Collis and Hussey, 2014). Considering the vast amount of research on SME performance and factors affecting SME performance, an exploratory research approach was deemed unsuitable for this study.

A descriptive research design is appropriate for studies that seek to accurately describe and understand certain events, persons or situations (Babbie, 2020; Saunders, Lewis and Thornhill, 2016). The descriptive research design was found unsuitable for this study as it measures variables without influencing them; consequently, the researcher would be unable to conclude the relationship between human, social and financial capital and SME performance.

Hair *et al.* (2016) view a causal research design as a method to test for causal relationships, whether event X results in event Y. In the context of this study, a causal research design was the most appropriate as this study seeks to determine whether human, social and financial capital results in SME performance. Moreover, the presence of a cause-and-effect relationship was supported by the following conditions:

- Time sequence. This study aims to determine whether changes in human, social and financial capital result in changes in SME performance.
- Covariance. A change in human, social or financial capital should result in a change in SME performance.
- Nonspurious. This research was devoid of outside factors that may influence causality, and there were no such elements that required controlling or eliminating.
- Theoretical support. The literature review provides a logical explanation regarding theories for why the cause-and-effect relationship exists (refer to Chapter 3).

4.3.1 Research strategy

As previously mentioned, a research design is a blueprint for how the researcher intends to answer their research question. The critical element of this blueprint is the research strategy, which provides the researcher with a methodological connection between the research philosophy and the techniques chosen to gather and analyse data (Saunders, Lewis and

Thornhill, 2016). Research strategy is determined by the research philosophy and design method. For example, studies that are primarily quantitative use either an experimental or survey research strategy. On the other hand, strategies associated with qualitative research methods use case studies, ethnographic action research, grounded theory, or narrative inquiry.

Considering this study's deductive and quantitative nature, the survey research strategy is most appropriate to this study. It allows the researcher to gather data from a population too large to observe, considering that this study required data from SMEs located and operational in South Africa. In addition, the survey research approach allows the researcher to make inferences about the characteristics and behaviour of the population based on the results. Lastly, survey research aids researchers in determining which factors enhance the performance of SMEs by asking questions that will describe the trends, behaviour and attitudes of SME owners.

In this section, different research designs and strategies were discussed. The researcher explained why specific designs were unsuitable for this study. Ultimately, the causal research design was chosen due to its ability to test relationships. The survey research design was selected as the preferred data collection method due to its cost-effective and timely nature, enabling the researcher to reach a broader audience. The following section describes the study site at which the research was conducted.

4.4 STUDY SITE

South Africa is often described as a paradox and one of the world's most unequal countries (Francis and Webster, 2019). Over half of South Africa's population lives in poverty, with stagnant economic growth and rising inflation, while unemployment continues to skyrocket (Francis and Webster, 2019; World Bank, 2020; Ngqakamba, 2021). In contrast, South Africa has been praised for establishing one of the most progressive constitutions in the world, which promotes the principles of democracy, social justice, and fundamental human rights (Business Media MAGS, 2023). Given the nature and challenges surrounding South Africa, developing SMEs is crucial to propel the country's economic growth and alleviate poverty and inequality. Consequently, understanding factors contributing to SMEs' performance is vital in ensuring the survival and growth of SMEs in South Africa. The study site deemed appropriate for the study was South Africa.

The following section will describe the research population and sampling used in this study, followed by an explanation of the data collection approach and data analysis,

4.5 RESEARCH POPULATION

A population is an intended audience, occasion, or object the researcher wants to examine (Sekaran and Boughie, 2016). Hair *et al.* (2016) also describe a population as a collection or sum of all the items, subjects or things that make up a large society the researcher wants to study. In short, a population is a group of individuals or an array of items precisely defined to be studied by the researcher.

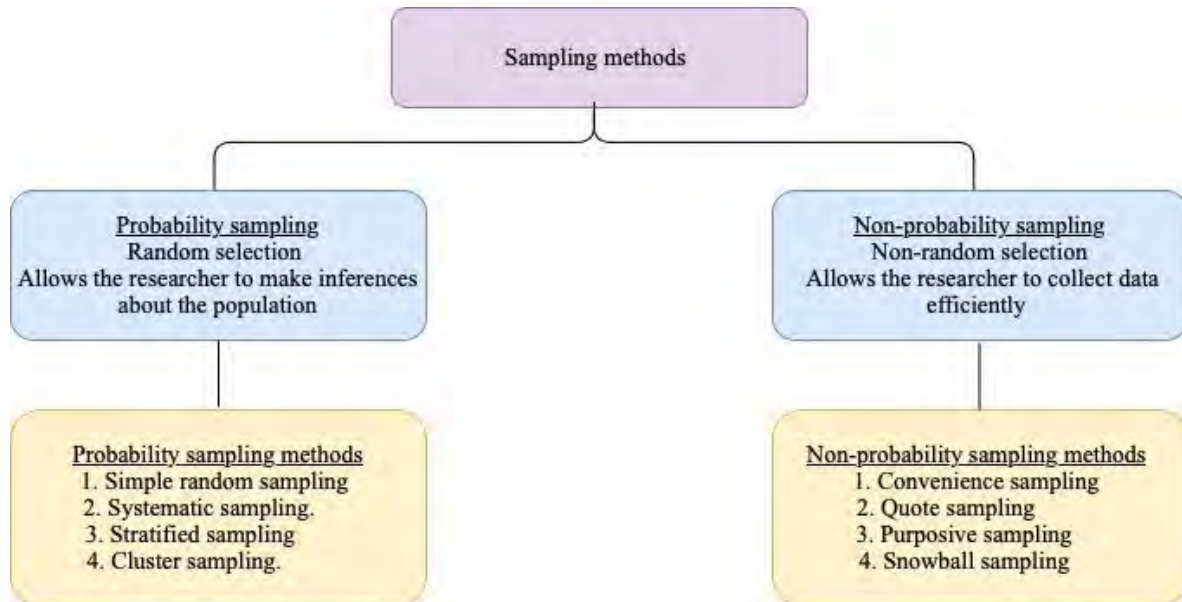
Given the definition of a population, this study's population consisted of all SMEs located and operational in South Africa for at least three years. SMEs were required to be in operation for more than three years to ensure that the owner/manager can compare their performance over a certain number of years. The study defines a small enterprise as an enterprise with 11 to 50 employees and annual revenue ranging from R2 million to R25 million, depending on the sector. In addition, a medium enterprise has 51 to 200 employees and annual revenue ranging from R4 million to R50 million, depending on the sector (refer to Chapter 2 for a detailed discussion on SMEs) (National Small Enterprise Act, 1996). Due to the unavailability of a comprehensive list of SMEs in South Africa, the study makes an approximation based on the findings of a Small Enterprise Development Agency (2019) study, which suggests that there are approximately 736 198 formal SMMEs in the country. Note that this figure includes micro enterprises that are not included in this study.

4.6 SAMPLING METHODS

A sample is a smaller portion of the population the researcher wants to study. Acharya, Prakash, Saxena and Nigam (2013) and Taherdoost (2022) concur and further explain that sampling is a convenient tool in research that allows the researcher to conduct a study on a population subset. Sampling assists researchers by making research more affordable, less time-consuming and uncomplicated compared to studying an entire population. A sample can be drawn from a database where elements comprising a population are listed, also known as a sampling frame (Welman, Kruger and Mitchell, 2005). Two types of sampling methods are available: probability sampling and non-probability sampling. The following section discusses commonly

used probability and non-probability sampling methods, and Figure 4.1 displays the different sampling methods available.

FIGURE 4.1: SAMPLING METHODS



Source: Adapted from Collis and Hussey (2014); Sekaran and Boughie (2016) and Babbie (2020)

4.6.1 Probability sampling

Collis and Hussey (2014); Sekaran and Bougie (2016) and Babbie (2020) view probability sampling as the equal chance of elements in the population being selected for the study. Therefore, random selection is pivotal in probability sampling. Acharya *et al.* (2013) find that probability sampling is well-liked amongst researchers as it ensures the generalisability of the study's findings to the target population. Moreover, researchers using probability sampling are more likely to have a sample representing their population. Probability sampling encompasses simple random, systematic, stratified and cluster sampling. Since probability sampling is not appropriate to this study, the sampling methods will not be discussed.

4.6.2 Non-probability sampling

Non-probability sampling can be seen as the opposite of probability sampling. In contrast to probability sampling, elements in the population lack assigned probabilities for selection in the study (Welman, Kruger and Mitchell, 2005; Sekaran and Bougie, 2016). Thus, elements to be included in the study are selected based on the researcher's subjective judgement. Sekaran and

Bougie (2016) deem non-probability sampling suitable when the researcher wants to get data quickly and inexpensively. Although non-probability sampling is less stringent than probability sampling, it is limiting as researchers cannot make inferences about the wider population.

Under the umbrella of non-probability sampling, there are four standard sampling methods: convenience, quota, purposive and snowball sampling. A summary of the discussed non-probability sampling methods and their advantages and disadvantages are provided in Table 4.1 below. To find the most suitable sampling method, the researcher should consider their research question, the methodology for the study and their knowledge of the population and its size. Based on this, convenience and purposive sampling, within the scope of non-probability sampling, is appropriate for the study. Thus, only convenience and purposive sampling methods will be further discussed in this section.

4.6.2.1 Convenience sampling

Convenience sampling is a method where researchers rely on available and most accessible participants to be part of the study's sample. As participants choose to participate in the study, Berndt (2020) reasons that they are more likely to be committed and give truthful answers. The convenience sampling approach is well-liked amongst students as it is inexpensive and less time-consuming than other sampling methods (Taherdoost, 2016a). Despite its advantages, convenience sampling has some limitations; Acharya *et al.* (2020) note that variability and bias cannot be measured or controlled. Furthermore, findings are limited to the study's sample like other non-probability methods.

4.6.2.2 Purposive sampling

Purposive sampling involves the researcher using their judgment to identify elements that will be included in the study. Researchers choose these elements based on who they believe will enable them to answer their research questions and meet their objectives (Saunders, Lewis and Thornhill, 2012; Sekaran and Bougie, 2016). This sampling method depends on the researcher's ingenuity and previous research experience with recruiting participants (Welman, Kruger and Mitchell, 2005) to ensure that selected participants are representative of the relevant population. Purposive sampling is prone to researcher bias, particularly when the researcher needs to document the criteria for sampling. Consequently, Sekaran and Bougie (2016) advocate for using this method when very few people have the information you require.

TABLE 4.1: SUMMARY OF NON-PROBABILITY SAMPLING METHODS

NON-PROBABILITY SAMPLING METHOD	ADVANTAGES	DISADVANTAGES
The convenience sampling method recruits participants based on free will.	Participants are more likely to provide honest responses and remain committed to the study. Also, provides efficient and cost-effectiveness data gathering.	This method limits the researcher from generalising the population based on the sample and may result in selection bias.
The quota sampling method divides the population into stratum based on individuals' shared or unique characteristics.	This method is efficient and less complex. Also, allows the researcher to explore differences in subgroups.	The process used to select potential respondents tends to disregard essential characteristics of the population.
The purposive sampling method allows the researcher to select participants based on their qualities.	This method allows the researcher to make logical, analytical, or theoretical generalisations.	This method is prone to bias as the researcher depends on their subjective judgement.
The snowball sampling method recruits future participants using existing ones by requesting that they ask people they know to participate.	This method is instrumental when the researcher wants to study a close-knit group.	This method is prone to research bias.

Source: Adapted from Berndt (2020)

4.6.3 Justification for sampling methods adopted for this study

The convenience sampling method was suitable as it allowed the researcher to collect data from a large sample quickly and effectively from the most readily available respondents. In addition, the purposive sampling method allowed the researcher to collect information about a particular type of entrepreneur that met the inclusion criteria for the study. The researcher used a data collection company to distribute the online self-administered questionnaire to individuals on their database (refer to Section 4.10 for more information regarding the data collection company). To ensure that these potential respondents meet the inclusion criteria for the study, screening questions were included. Potential respondents must be the owner/manager of an SME. The enterprise must be considered an SME, as defined previously in Chapter 2 Section 2.2, situated and operational in South Africa for over three years. As previously indicated, SMEs were required to be in operation for more than three years to ensure that the owner/manager can compare their performance over a certain number of years. Those who met the inclusion criteria for the study and were willing to participate were allowed to complete the

questionnaire. The use of a non-probability sampling method was due to a lack of a sampling frame of SMEs located and operational in South Africa. Increased legislation surrounding data protection and privacy in South Africa (such as the Protection of Personal Information Act (PoPIA) 2013) has made it more difficult for researchers to access a comprehensive list of SMEs with their contact details from organisations involved in their development. As such, organisations like Chambers of Commerce were unwilling to provide researchers with their list of members and contact details for research purposes.

The following section explains how the study's sample size was calculated.

4.7 SAMPLE SIZE

A sample size is the population subset that symbolises a study's primary interests. Researchers are often conflicted about what makes a good sample; some argue that a good sample is large. Faber and Fonseca (2014) and Morse (2000) cast doubt on this assumption, indicating that samples should not be too large or too small as both scenarios have limitations that may compromise one's findings. Faber and Fonseca (2014) explain that a sample that is too small prevents the researcher from making inferences about the population. In contrast, a sample that is too large may exaggerate differences that have been detected. Accordingly, Collis and Hussey (2014) propose that a good sample accurately reflects the population and allows the researcher to generalise. In addition, a good sample should be chosen at random, large enough to allow the researcher to draw accurate, unbiased conclusions.

Researchers (see Fatoki, 2011; Asah, Fatoki and Rungani, 2015; Asah, 2019; Klaas, 2020) have commonly utilised the Raosoft Sample Size calculator to compute the sample size in their studies. This tool is widely recognised for considering factors such as the margin of error, confidence level, population size, and response distribution, contributing to determining an appropriate sample size for research studies. As previously estimated, the population for the study is 736 198 SMMEs (refer to Section 4.5). This study followed similar methodology in determining the sample size which is explained in the following sub-sections.

4.7.1 Margin of error

The margin of error is a statistic indicating how much error the researcher can tolerate in their results (Barlett, Kotrlik and Higgins, 2001; Saunders, Lewis, and Thornhill, 2012). Thus, the

larger the margin of error, the less confidence the researcher will have in their findings as a true reflection of the entire population. Barlett, Kotrlik and Higgins (2001) indicate that the rule of thumb concerning the margin of error in education and social research is that a five percent margin of error is acceptable for categorical data, and a three percent margin of error is acceptable for continuous data. A five percent error margin was used to determine the appropriate sample size for this study.

4.7.2 Confidence level

The confidence level indicates the amount of uncertainty the researcher can tolerate. Barlett, Kotrlik and Higgins (2001) observe that researchers conducting educational and social research find a 95 percent confidence interval fitting when determining marginal relationships, differences or a statistical phenomenon. However, some researchers prefer a margin of error of 99 percent when conducting research that may cause significant financial or personal harm (Barlett, Kotrlik and Higgins, 2001). The higher the confidence level required for the study the larger the sample size must be. The study considered a 95 percent confidence level.

4.7.3 Response distribution

Raosoft suggests the use of a 50 percent response distribution as it gives the largest sample. The study used the Raosoft calculator at a five percent margin of error and a 95 percent confidence level and the minimum sample recommended for the study was 384. This is supported by Krejcie and Morgan (1970); Saunders, Lewis and Thornhill (2016) and Ahmad and Halim (2017) where a sample size table is used to determine the appropriate sample size for the study.

The following section presents the methods of data collection used in this study.

4.8 METHODS OF DATA COLLECTION

Welman, Kruger and Mitchell (2005) indicate that there are two approaches that researchers may use when collecting data either primary or secondary data. Primary data collection refers to original data and involves the researcher collecting the data from the source of interest. In contrast, secondary data refers to data previously collected by someone else for a different purpose and is now being reused for the current study. For this study, primary data was

collected from SME owners/managers in South Africa using an online self-administered questionnaire.

The questionnaire used a five-point Likert scale as a convenient method to measure respondents' opinions (Boynton and Greenhalgh, 2004). Respondents were requested to respond to a five-point Likert interval scale where 1 (one) denoted strongly disagree, and 5 (five) denoted strongly agree in Sections A to D in the questionnaire. The questionnaire consisted of a cover letter and five sections in total. The researcher used closed-ended statements to collect numerical data to determine whether there is a relationship between human, social and financial capital and SME performance. Even though closed-ended questions are said to be limiting and less rich since researchers provide respondents with a set of possible responses, this is offset by the efficiency and cost-effectiveness of closed-ended questions. The data was collected post COVID-19 in 2023.

The questionnaire is divided into the following sections:

- Screening Questions

The questionnaire began with screening questions to ensure potential respondents satisfied the study's inclusion criteria as mentioned in Section 4.6.3.

- Section A: Human Capital

Section A focused on gathering information about the owner's/manager's financial literacy (refer to Chapter 3 Section 3.4.3 to understand why financial literacy is a proxy for human capital). Three sub-sections canvassed information on financial knowledge, behaviour, and attitude. A total of 19 statements were included in Section A. The researcher used this data to determine whether there is a relationship between human capital and SME performance.

- Section B: Social Capital

Section B focused on gathering information about the owner's/manager's social capital. Three sub-sections canvassed information on bonding, bridging and linking social capital. A total of 17 statements were included in Section B. The responses from the statements assisted the researcher in finding information about how well-connected the entrepreneur is, their social skills and social networks. The information collected from this section assisted the researcher in determining the relationship between social capital and SME performance.

- Section C: Financial Capital

Section C focused on gathering information about the owner's/manager's financial capital. The section included six statements that provided the researcher with information about how the enterprise is financed and the entrepreneur's ability to access finance. Responses collected from the section were used to determine the relationship between financial capital and SME performance.

- Section D: SME Performance

Section D focused on gathering information about the performance of the enterprise. A total of seven statements were included in Section D. Responses from the statements were used to provide the researcher with information about the performance of the enterprise. The information collected from the section was used to determine whether human, social and financial capital contributed to the performance of the enterprise.

- Section E: Demographic Characteristics of Respondent

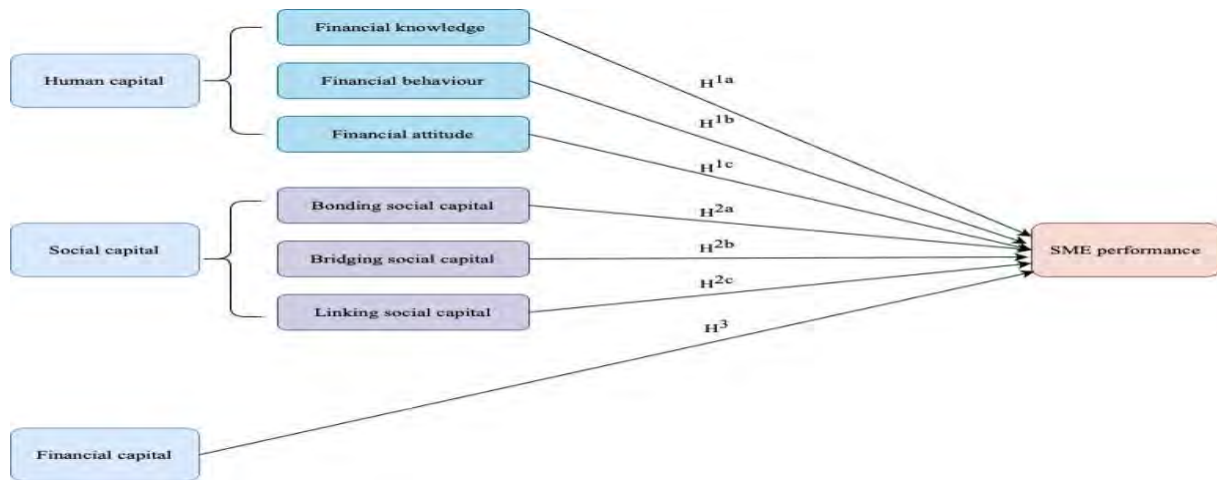
Section E included four questions to gather information about the following demographic characteristics of respondents, including age, gender, highest qualification, and academic field. An additional two questions were added to Section E to gather general feedback from respondents regarding the study.

The following section explains the hypothesised model of the study; the model shows various hypothesised relationships between the independent and dependent variables and the operationalisation of the variables.

4.9 HYPOTHESISED MODEL AND OPERATIONALISATION OF VARIABLES

Chapters Two and Three provide theoretical and empirical evidence on the proposed relationships between human, social, and financial capital and SME performance. From this, a conceptual framework was developed to guide the researcher in understanding and defining this study's main aim and the relationships between the independent and dependent variables. Given the conceptual framework, various hypotheses have been developed to test the relationship between independent and dependent variables. The hypothesised model demonstrates the relationships between the various hypotheses (see Figure 4.2).

FIGURE 4.2: HYPOTHESISED FRAMEWORK



Source: Researcher’s own construction

The hypotheses, which were formulated to assist the researcher in testing the relationships in the proposed framework are presented in Table 4.2. Note that H^4 and H^5 , which investigate whether there were significant differences between the independent and dependent variable/s according to demographic and enterprise-related variables, are discussed in Chapter 5 Section 5.9.

TABLE 4.2: HYPOTHESISED RELATIONSHIPS

HUMAN CAPITAL	H^{1a} : There is a significant relationship between financial knowledge and SME performance.
	H^{1b} : There is a significant relationship between financial behaviour and SME performance.
	H^{1c} : There is a significant relationship between financial attitude and SME performance.
SOCIAL CAPITAL	H^{2a} : There is a significant relationship between bonding social capital and SME performance.
	H^{2b} : There is a significant relationship between bridging social capital and SME performance.
	H^{2c} : There is a significant relationship between linking social capital and SME performance.
FINANCIAL CAPITAL	H^3 : There is a significant relationship between financial capital and SME performance.

Source: Researcher's own construction

4.9.1 Operationalisation of variables

Welman, Kruger and Mitchell (2005) explain the operationalisation of constructs as a process where the researcher transforms theoretical concepts into well-refined, measurable and observed variables. This allows the researcher to turn abstract concepts into concrete and quantifiable measures that can be studied and analysed, thus enabling the development of measurement scales (items) to measure variables. The operationalisation of independent and dependent variables is discussed in the following sections.

4.9.1.1 Independent Variables

In Chapter 3, the resource-based view theory was used to identify resources and capabilities that contribute to the performance of SMEs, namely, human, social and financial capital. The section below presents the operational definitions of the independent and dependent variables. Since items were drawn from existing measuring instruments, their reliability is also discussed.

- **Human Capital**

Human capital refers to an individual's possession of knowledge and skills that have been acquired through investments in formal education, work experience and training (Becker, 1964). Considering that several entrepreneurs in South Africa lack secondary and tertiary education and work experience (Kavese, 2021), which are critical determinants of human capital development, this study argues that financial literacy is a pertinent indicator of human capital (refer to Section 3.4.3). Financial literacy was previously defined as the knowledge and understanding of financial concepts and the capacity to apply that information to make effective financial decisions (Mabula and Ping, 2018; OECD, 2013). In this study, the researcher explored the financial literacy levels as proxy for human capital, categorised as financial knowledge, behaviour and attitude, of SME owners/managers in South Africa.

- **Financial Knowledge**

Five items were used to measure the independent variable, financial knowledge (see Table 4.3) to assess financial concepts such as such as the time value of money, sources of finance and diversification. These items were adapted from Lusardi and Mitchell (2011) and Rahim and Balan (2020). Rahim and Balan (2020) reported a satisfactory reliability Cronbach's alpha

coefficient score of 0.745 for financial knowledge. On the other hand, Lusardi and Mitchell (2011) did not provide a reliability score, however they indicate that the items were tested in a number of surveys (such as the 2004 Health and Retirement Study and the National Longitudinal Survey of Youth) and they established that these items accurately capture individual's levels of financial literacy. This aided the researcher in determining the entrepreneur's financial knowledge.

TABLE 4.3: OPERATIONALISATION OF FINANCIAL KNOWLEDGE

FINANCIAL KNOWLEDGE		
Financial knowledge is an individual's ability to understand key financial information and the ability to use that information to make informed and responsible financial decisions. Consequently, entrepreneurs with financial knowledge will apply the best monetary practices, such as having sufficient cash reserves, observing credit reports, abstaining from financial account overdrafts, and revolving credit.		
Items		Adapted from
A.1	I know I will earn a higher return on my savings account than by investing in shares.	Lusardi and Mitchell (2011); Rahim and Balan (2020)
A.2	I know that shares with high returns are likely to have low risks.	
A.3	I know that investing in a portfolio with a single asset is a safer option.	
A.4	Suppose that the interest rate on the enterprise's savings account was 1% per year and that inflation was 2% per year. After one year, the enterprise can buy less than today with the money in this account.	
A.5	Suppose the enterprise had R100 in a savings account, and the interest rate was 2% yearly. After five years, the savings account will have exactly R102 if you leave the money to grow.	

Source: Researcher's own construction

- Financial behaviour

Seven items were used to measure the independent variable, financial behaviour (see Table 4.4). These items were adopted from a scale used by Dew and Xiao (2013) and Rahim and Balan (2020). The scales used by Rahim and Balan (2020) reported a satisfactory Cronbach's alpha coefficient reliability score of 0.779 for financial behaviour. Dew and Xiao (2013) developed a Financial Management Behaviour Scale in their study; the scale demonstrated good reliability with a Cronbach's alpha coefficient score of 0.810. This aided the researcher in determining the entrepreneur's financial behaviour.

TABLE 4.4: OPERATIONALISATION OF FINANCIAL BEHAVIOUR

FINANCIAL BEHAVIOUR		
Financial behaviour refers to how individuals behave after acquiring the necessary financial education. Consequently, entrepreneurs who exhibit positive financial behaviour are more likely to engage in budgeting, maintain savings, possess debt management skills, and demonstrate reduced overspending on products and services.		
Items		Adapted from
A.6	I have financial objectives for my enterprise.	Dew and Xiao (2013); Rahim and Balan (2020)
A.7	I have separate savings accounts for my business and personal use.	
A.8	My debt management skills enable me to finance the enterprise.	
A.9	I will pay interest if I repay a loan after the due date.	
A.10	I keep track of my enterprise's expenses regularly.	
A.11	I can perform a financial analysis on my enterprise's statements, for instance, calculating the gross profit margin and net profit margin.	
A.12	I prepare my enterprise's financial statements on my own.	

Source: Researcher's own construction

- Financial attitude

Seven items were used to measure the independent variable, financial attitude (see Table 4.5), to gather data on the entrepreneur's risk-taking, training, and social factors. These items were adopted from a scale that Rajna and Anthony (2011) and Rahim and Balan (2020) used. Rajna and Anthony's (2011) scales showed satisfactory reliability with a Cronbach's alpha coefficient score of 0.747, while Rahim and Balan (2020) reported satisfactory reliability with Cronbach's alpha coefficient score of 0.764 for financial attitude. This aided the researcher in determining the entrepreneur's financial attitude.

TABLE 4.5: OPERATIONALISATION OF FINANCIAL ATTITUDE

FINANCIAL ATTITUDE		
Financial attitude refers to the capacity to analyse financial information and make rational decisions contributing to long-term well-being. Therefore, the financial attitude of entrepreneurs can be characterised as their perspective, opinion, and assessment of their own financial situation.		
Items		Adapted from
A.13	I am interested in learning more about how to manage my enterprise's finances.	Rajna and Anthony (2011); Rahim and Balan (2020)
A.14	It is important to develop a regular saving pattern and stick to it.	
A.15	It is important to keep money aside for emergencies.	
A.16	I prefer saving instead of spending.	
A.17	Having a budget is essential to manage the enterprise successfully.	
A.18	Conducting a financial analysis regularly is important.	
A.19	Having a financial plan is important for making financial investment decisions.	

Source: Researcher's own construction

a) Social capital

Social capital is referred to as a combination of existing and potential resources that arise from an individual's access to a strong network of institutional relationships and mutual acquaintances. Bourdieu (1986) and Coleman (1988) add that social capital is a function where resources are available to an actor to facilitate specific actions. These resources are available to the actor due to their social structures; with these social ties, the actor would have access to them and incur significant transaction costs. In this study, the researcher explored the social capital categorised as bonding, bridging and linking social capital that SME owners/ managers in South Africa possess.

- Bonding social capital

Six items were used to measure the independent variable, bonding social capital (refer to Table 4.6), to gather data on the entrepreneurs' close-knit relationships and whether these relationships have assisted the entrepreneur in accessing emotional support or scarce or limited resources. The items were adapted from scales used by Fornoni, Arribas and Vila (2011), Elsafty, Shaarawy and Abadir (2020) and Klaas (2020)). Elsafty, Shaarawy and Abadir (2020) used a 6-point Likert scale to measure the bonding social capital of respondents; the study had a Cronbach's alpha coefficient score of greater than 0.700 for all its social capital sub-factors. Klaas (2020) explored the effect of social capital on the performance of SMMEs in the Makana

Municipality. The study demonstrated an excellent reliability Cronbach’s alpha coefficient score of 0.988. Fornoni, Arribas and Vila (2011) developed a three-dimensional measurement tool that can be used to investigate the role of social capital in entrepreneurship. However, they did not test their measurement tool for reliability. This aided the researcher in determining the entrepreneur’s bonding social capital.

TABLE 4.6: OPERATIONALISATION OF BONDING SOCIAL CAPITAL

BONDING SOCIAL CAPITAL		
Bonding social capital refers to close and strong bonds; this may be with family members, close friends or spouse. Bonding social capital assists in accessing emotional support and scarce or limited resources and provides a sense of community.		
Items		Adapted from
B.1	My family is aware of my enterprise and what it does.	Fornoni, Arribas and Vila (2011) Elsafty, Shaarawy and Abadir (2020); Klaas (2020)
B.2	My close friends are aware of my enterprise and what it does.	
B.3	I have close friends and family that support my enterprise.	
B.4	My spouse/partner is aware of the enterprise and what it does.	
B.5	My spouse/partner supports my enterprise.	
B.6	My relationships with my spouse/partner, family and friends benefit my enterprise.	

Source: Researcher’s own construction

- Bridging social capital

Six items were used to measure the independent variable, bridging social capital (refer to Table 4.7), to gather data on the entrepreneur's sparse relationships and whether these relationships have assisted the entrepreneur in "getting ahead" in business. The items were adopted from a scale used by Luthans, Luthans and Luthans (2004), Fornoni, Arribas and Vila (2011) and Klaas (2020). Klaas (2020) demonstrated an excellent reliability Cronbach's alpha coefficient score of 0.982 for bridging social capital. Fornoni, Arribas and Vila (2011) did not test their measurement tool. As such, they do not indicate a Cronbach's alpha coefficient score. Elsafty, Shaarawy and Abadir (2020) had a Cronbach's alpha coefficient score greater than 0.700 for all its social capital sub-factors. This aided the researcher in determining the entrepreneur's bridging social capital. Note that a typing error occurred during the coding of the questionnaire onto SurveyMonkey with item B.10 and B.12. Item B.12 was intended to read as “My relationships with my *suppliers* help me perform better than my competitors.” As such this was acknowledged as a limitation of this study.

TABLE 4.7: OPERATIONALISATION OF BRIDGING SOCIAL CAPITAL

BRIDGING SOCIAL CAPITAL		
Bridging social capital refers to open and weaker ties with acquaintances, friends, business associates or societies/communities. Bridging social capital assists entrepreneurs in accessing a broader space to access information and resources.		
Items		Adapted from
B.7	I am a member of a Chamber of Commerce or Business Forum.	Fornoni, Arribas and Vila (2011); Elsafty, Shaarawy and Abadir (2020); Klaas (2020)
B.8	I attend events hosted by the Chamber of Commerce or the Business forum to which I belong.	
B.9	I have many business contacts.	
B.10	My relationships with my business contacts help me perform better than my competitors.	
B.11	I have a good relationship with my suppliers and those I do business with.	
B.12	My relationships with my business contacts help me perform better than my competitors.	

Source: Researcher's own construction

- Linking social capital

Six items were used to measure the independent variable, linking social capital (refer to Table 4.8), gather data on the linking relationships the entrepreneur has and whether these relationships have assisted the entrepreneur in accessing untapped markets in business. The items were adopted from a scale used by Fornoni, Arribas and Vila (2011), Elsafty, Shaarawy and Abadir (2020) and Klaas (2020). Fornoni, Arribas and Vila (2011) developed a three-dimensional measurement tool that can be used to investigate the role of social capital in entrepreneurship. However, they did not test their measurement tool for reliability. Elsafty, Shaarawy and Abadir (2020) had a Cronbach's alpha coefficient score greater than 0.700 for all its social capital sub-factors. This aided the researcher in determining the entrepreneurs' linking social capital. Klaas (2020) demonstrated an excellent reliability Cronbach's alpha coefficient score of 0.978 for linking social capital.

TABLE 4.8: OPERATIONALISATION OF LINKING SOCIAL CAPITAL

LINKING SOCIAL CAPITAL		
Linking social capital involves hierarchy relations where individuals have ties with people of a higher level than them. Claridge (2018) states that the critical feature in linking social capital is that ties are of higher social status, wealth, and influence. Linking social capital assists entrepreneurs in getting ahead in business by accessing untapped markets.		
Items		Adapted from
B.13	I have contacts or relationships with individuals who can provide me with access to better financing opportunities for my enterprise.	Fornoni, Arribas and Vila (2011); Elsafty, Shaarawy and Abadir (2020); Klaas (2020)
B.14	I have contacts or relationships with individuals who can provide me with access to better markets for my enterprise.	
B.15	I have contacts or relationships with individuals who can somehow provide me with accurate and valuable information that I can use to the advantage of my enterprise.	
B.16	I have relationships with individuals who are more successful in business than I am.	
B.17	I have contacted the individuals mentioned above to ask for assistance in my business.	
B.18	I respect and value the opinions of individuals who are less successful in business than I am.	

Source: Researcher's construction

b) Financial capital

Evans and Jovanovic (1989) described financial capital as the capital or the access to it, in the form of equity, debt or both, that will serve as the financial input of the enterprise. Copper, Gimeno-Gascon and Woo (1997) indicate that financial capital cushions entrepreneurs against unfavourable shocks and allows the entrepreneur to pursue more capital-intensive strategies that will be sheltered against imitation. Linder, Lechner, and Pelzel (2020) argue that entrepreneurs with sufficient financial capital are less constrained by financial issues; therefore, they can manage the risks associated with being a small and new enterprise more effectively. In this study, the researcher explored whether SME owners/managers in South Africa possess or have access to financial capital.

Six items were used to measure the independent variable, financial capital (refer to Table 4.9 to gather information on whether the entrepreneur used external capital or personal savings to start the enterprise and the revenue and revenue-generating ability of the entrepreneur. These items were adapted from scales Fatoki (2011) used with a Cronbach's alpha coefficient score of 0.629 for the variable financial capital. This aided the researcher in determining the entrepreneur's financial capital.

TABLE 4.9: OPERATIONALISATION OF FINANCIAL CAPITAL

FINANCIAL CAPITAL		
Financial capital is the substantial financial input a firm needs (Bosma, Van Praag and Wit, 2000). Financial capital is a crucial resource that cushions entrepreneurs against unfavourable shocks and allows entrepreneurs to pursue capital-intensive strategies.		
Items		Adapted from
C.1	A portion of the enterprise's initial (start-up) capital consisted of money I saved.	Fatoki (2011)
C.2	A portion of the enterprise's initial (start-up) capital consisted of money I borrowed from a financial institution (for example, a personal loan, overdraft or term loan).	
C.3	A portion of the enterprise's initial (start-up) capital consisted of funding offered by government assistance schemes for SMEs.	
C.4	A portion of the enterprise's initial (start-up) capital consisted of money I borrowed from friends and family.	
C.5	I have sufficient capital to grow my enterprise.	
C.6	I have access to capital to grow my enterprise.	

Source: Researcher's own construction

4.9.1.2 Dependent variable: SME performance

The dependent variable was identified as SME performance. Chapter 2 provided an overview of SME performance and the various approaches to measuring the performance of an enterprise. This study determines SME performance using financial and non-financial performance measures. The operational definition and statements and the nine items to measure the dependent variable (SME performance) are summarised in Table 4.10. The items were adopted from previous studies and have reported satisfactory levels of validity and reliability (Santos and Brito, 2012; Aminu and Shariff, 2015; Asah, 2019). Asah (2019) had a Cronbach's alpha score of 0.839, Aminu and Shariff (2015) had a Cronbach's alpha coefficient score of 0.840, and Santos and Brito (2012) had a Cronbach's alpha coefficient greater than 0.800.

TABLE 4.10: OPERATIONALISATION OF SME PERFORMANCE

SME PERFORMANCE		
Enterprise performance is the total value created by an enterprise for its internal and external stakeholders. Enterprise performance is measured using financial and non-financial measures.		
Items		Source adapted from
D.1	I am satisfied with my sales growth from the start of Covid-19 (2020) to the present (2023).	Santos and Brito (2012) Aminu and Shariff (2015); Asah (2019)
D.2	I am satisfied with my profitability growth from the start of Covid-19 (2020) to the present.	
D.3	I am satisfied with the overall financial performance of my enterprise from the start of Covid-19 (2020) to the present.	
D.4	I am satisfied with the feedback received from customers.	
D.5	I am satisfied with the enterprise's overall performance compared to competitors' overall performance.	
D.6	The number of employees in the enterprise has increased in the last three years.	
D.7	My enterprise has expanded from inception to date (for example, micro-enterprise to a small enterprise or a small enterprise to medium enterprise).	

Source: Researcher's own construction

The following section discusses the process used to distribute the online self-administered questionnaire.

4.10 DISTRIBUTION OF THE ONLINE SELF-ADMINISTERED QUESTIONNAIRE

The researcher engaged with Cint, a data-collecting company, to facilitate the collection of data from SMEs for this study. Cint operates as a global platform renowned for digital-survey-based research, boasting an extensive consumer network spanning 130 countries, including South Africa (Cint, n.d). Upon collaboration, the company received a questionnaire template, which was subsequently encoded into SurveyMonkey, a survey software. The online self-administered questionnaire was then disseminated to potential respondents within their database. Before completing the questionnaire, potential respondents had to answer screening questions to ensure alignment with the study's inclusion criteria. Only those meeting the criteria proceeded to complete the questionnaire. Subsequently, upon conclusion of data collection, Cint provided the researcher with respondent feedback in an Excel document format, which was subsequently prepared for data cleaning, capturing, and analysis.

The section to follow presents an overview of the pilot study.

4.11 PRETESTING THE ONLINE SELF-ADMINISTERED QUESTIONNAIRE

Researchers are generally advised against conducting a study without pretesting the measuring instrument. This is because pretesting a questionnaire gives the researcher feedback on whether the measuring instrument is feasible, relevant, clearly worded and unambiguous (Hair *et al.*, 2016). Most importantly, conducting a pilot study shows the researcher whether the study is worth pursuing and if the items in the measuring instrument measure what was intended for it to measure. Consequently, the measuring instrument was piloted to 30 respondents with similar characteristics as the main sample. The pilot study gave the researcher minor corrections, such as rephrasing statements that were not clearly worded and deleting redundant statements. These corrections and views expressed by respondents were incorporated into the final draft of the questionnaire.

The validity and reliability of the measuring instrument used in this study are discussed in the following section.

4.12 VALIDITY AND RELIABILITY OF THE MEASURING INSTRUMENT

Ensuring the validity and reliability of the measuring instrument is paramount in research as it ensures the accuracy and credibility of the measuring instrument used and the subsequent results. Welman, Kruger and Mitchell (2005) indicate that a valid measuring instrument should accurately represent the phenomenon under investigation, and a reliable measuring instrument should ensure consistency and stability. The following are the formal control processes taken to ensure that the data collected and processed is valid and reliable.

4.12.1 Validity

Heale and Twycross (2015) and Babbie (2020) define validity as the extent to which the measuring instrument mirrors the actual meaning of concepts. Simply put, validity refers to the extent to which a test measures what it is intended to measure. Validity ensures that the study's results can be accurately applied and interpreted. This study used content and construct validity to confirm the validity of the questionnaire.

4.12.1.1 Content validity

The supervisors and lecturers in the Department of Management at Rhodes University assisted in validating the content of the questionnaire. They did this by ensuring that the conceptualisation of the variables was aligned with the statements in the questionnaire. The researcher also requested entrepreneurs to assist in validating the questionnaire's content in the pilot study. Furthermore, in validating the content validity of the questionnaire, it was ensured that the statements in the questionnaire corresponded with the literature referred to in the study, that statements were clearly worded, and that the questionnaire was structured logically (Taherdoost, 2016 b).

4.12.1.2 Construct validity

Taherdoost (2016 b) explains that construct validity assesses how adequately the researcher has translated a variable's concept, idea or behaviour into a functioning and operating reality. A confirmatory factor analysis (CFA) was conducted to establish the validity of the questionnaire. The CFA tests the validity by examining the correlation between variables measured and whether the individual statements load onto the constructs. A factor loading score greater than 0.3 was considered acceptable for the study. The CFA is explained in Section 4.13.2.1.

4.12.2 Reliability

Reliability refers to the accuracy and credibility of the research findings. The question is whether the results of the study can stand up to the closest scrutiny and provide stable and consistent results (Carmines and Zelle, 1979 as cited in Babbie, 2020; Raimond, 1993 as cited in Taherdoost, 2016 b). In other words, if another researcher were to repeat the same research, that researcher should obtain the same results as initially.

The reliability of the study was confirmed by calculating Cronbach's alpha coefficients. Cronbach's alpha coefficients indicate the extent to which all the items in the questionnaire measure the same attribute (Welman, Kruger and Mitchell, 2005). A Cronbach's alpha coefficient score between 0.6 and 0.7 is acceptable (Alhija, 2010; Hair *et al.*, 2016)). For the purpose of this study a Cronbach's alpha score of greater than 0.6 is considered as acceptable. The reliability of the questionnaire was further ensured by conducting a pilot study, the supervisors and other experts in the field checking the questionnaire, limiting open-ended

questions, and conducting a thorough literature review (Cant, Gerber-Nel, Nel and Kotzé, 2013).

The data analysis techniques used in this study are presented in the following section.

4.13 DATA ANALYSIS

Data analysis involves systematically using statistical and logical techniques to describe, illustrate, summarise, and assess data. Kaliyadan and Kulkarni (2019) add that data analysis allows researchers to investigate variables, their effect, relationships and how they interact with the world. The Statistical Package for Social Science (SPSS) version 28 was used for data analysis. SPSS is a statistical software that supports researchers with data preparation and management, analysis, and reporting. It also helps to ensure high accuracy and quality results. Quantitative data analysis involves two approaches, descriptive and inferential statistics, which are discussed in the next section.

4.13.1 Descriptive statistics

Collis and Hussey (2014) and Kaliyandam and Kulkarni (2019) refer to descriptive statistics as commonly used to describe the sample and summarise data more compactly. Descriptive statistics allow the researcher to present data uncomplicatedly using tables, charts and other graphical techniques. The most frequently used descriptive statistics include frequency tables, modes, mean, median, ranges, standard deviation, percentages and ratios (Collis and Hussey, 2014; Hair *et al.*, 2016). The following descriptive statistical techniques were used in this study:

4.13.1.1 Frequency distribution

A method for describing the number of observations for each potential value of a variable is the distribution technique. The frequency distribution technique was used in this study to display how frequently each possible value of a variable appears in a dataset (Camm, Cochran, Fry and Ohlmann, 2019). Frequency tables and graphs were used in this study to achieve this.

4.13.1.2 Central tendency

The central tendency technique is used to estimate the middle or average of the data set. Three main methods are used estimate the centre of the dataset: mode, median and mean. The mode identifies the most frequently occurring value in the dataset (Camm *et al.*, 2019). It is

commonly used to measure the central tendency of categorical data, as it is classified into mutually exclusive categories, making it easier to identify the most popular category. The median aids in identifying the middle value of an ordered dataset. Lastly, the mean is the most widely used measure of central tendency, where the researcher determines the arithmetic mean of the dataset (Camm *et al.*, 2019). This study used a mean and standard deviation when analysing the data.

4.13.2 Inferential statistics

Inferential and descriptive statistics are closely linked and complement each other in their analysis and interpretation. With descriptive statistics, researchers can describe and summarise data, while inferential statistics enable researchers to draw conclusions and make predictions based on the data collected (Morgan, Barrett, Leech and Gloeckner, 2020). There are two main uses of inferential statistics: estimating specific population characteristics and testing the hypothesis. The following inferential statistics were used in this study and are discussed in the paragraphs below: factor analysis, correlation test, regression coefficient, independent t-test and analysis of variance (hereafter ANOVA).

4.13.2.1 Factor analysis

Factor analysis is a multivariate statistical tool that determines interrelationships between many variables (Hair *et al.*, 2014). The analysis groups variables with commonalities and assumes that they represent a dimension within the data. Factor analysis may be used as a form of data reduction and summarisation technique where the grouped variables created can be used as a guide to developing a new composite variable, which is known as exploratory factor analysis (hereafter EFA) (Yong and Pearce, 2013; Sekaran and Bougie, 2016; Taherdoost, Sahibuddin and Jalaliyoon, 2022). On the other hand, factor analysis can confirm relationships between variables when the researcher has ideas about the correlation of variables; this form of factor analysis is called confirmatory factor analysis (hereafter, CFA). Taherdoost, Sahibuddin and Jalaliyoon (2022) highlight that an EFA is advantageous when the researcher wants to uncover structures among a set of variables to allow for the formation and refinement of theory or to reduce the amount of data. A CFA is valuable when the researcher has preconceived thoughts on how the data correlations should be based on theory; the researcher would require the factor analysis to take a confirmatory stance to assess the extent to which the data meets the expected structure (Koran, 2020). This study used CFA to validate and assess relationships between the sub-factors of the independent variables. Moreover, the validity of the questionnaire was

confirmed using CFA. Considering that the measuring instrument was based on existing and adapted scales from previous studies, the minimum acceptable factor loading in this study was 0.3.

4.13.2.2 Correlation analysis

According to Sekaran and Bougie (2016), a correlation coefficient test measures the strength of a linear relationship among variables. The test determines the degree of association between variables in a data set. There are three standard measures of correlation: Pearson Product Moment correlation coefficient, Spearman Rank and Kendall's tau coefficient (Sekaran and Bougie, 2016; Saunders, Lewis and Hill, 2016). Hauke and Kossowski (2011) and Armstrong (2019) elucidate that the Pearson Moment correlation coefficient determines the direction, strength and significance among pairs of variables assessed at an interval-and-ratio level. In contrast, the Spearman rank and Kendall's tau coefficient are nonparametric rank statistics using ordinal scale variables that measure the strength of association between two variables (Hauke and Kossowski, 2011). The Spearman rank coefficient used in this study determined whether sub-factors of the independent variable were related to the dependent variable and the strength of the relationship.

4.13.2.3 Regression coefficient

The regression coefficient measures the strength of the relationship between the dependent variable and one or more independent variables by analysing the impact of the changes in the independent variable on the dependent variable (Olive, 2017). Saunders, Lewis and Hill (2016) add that the analysis determines the proportion of variation, which the dependent variable can statistically explain. The linear regression analysis uses a single independent variable to calculate the coefficient determination and regression equation (Hair *et al.*, 2016). In contrast, the multiple linear regression analysis uses two or more independent variables (Hair *et al.*, 2016). This study used a multiple linear regression analysis to determine whether SME performance is significantly predicted by human, social and financial capital.

4.13.2.4 Independent T-test

Hair *et al.* (2016) explain that a independent T-test is widely used in hypothesis testing to understand the difference between two group means being compared. It also estimates whether the difference between the two group means occurs purely by chance (Hair *et al.*, 2016). There are two popular types of T-tests for metric data: independent and paired T-tests. The

independent T-test analyses the differences between two means from independent groups. On the other hand, a paired T-test analyses the before and after treatment of the same group. This study used the independent T-test to determine whether there are significant differences in the independent and dependent variables according to the demographical groupings.

4.13.2.5 Analysis of variance (ANOVA)

Much like T-tests, the ANOVA measures the difference between variable means. However, the ANOVA test is not limited to two groups when comparing means (Hair *et al.*, 2016; Sekaran and Bougie, 2016). The analysis can be used to compare group means of multiple groups simultaneously. There are two types of ANOVA tests: one-way and two-way ANOVA. A one-way ANOVA uses a single independent variable to determine the existence of statistical significance, while a two-way ANOVA uses two independent variables. In this study, a one-way ANOVA was used to confirm the results obtained in the T-test. A p-value of greater than 0.05 was used to determine the statistical significance of the study.

The ethical considerations and research standards followed in this study are discussed in the following section.

4.14 ETHICAL CONSIDERATIONS

Ethical research is the ability to acknowledge that the search for truth and knowledge is essential, but respect for human dignity is more important. Bulmer (2001) adds that ethical research involves taking responsibility for one's research subjects, thus acknowledging the effects of the researcher's actions upon subjects and acting in a manner that preserves their rights and integrity as human beings. The following steps were taken to ensure that ethical research standards were followed:

- The researcher submitted an ethics application to the Rhodes University Ethics Standard Human Committee for permission to distribute the online self-administered questionnaire to SME owners. The ethical application was granted (approval number 2022-5229-7220).
- In ensuring that the questionnaire meets ethical standards, the researcher excluded questions that may cause embarrassment or harm to the respondent. In addition, to protect respondents' rights to privacy and anonymity and preserve confidentiality, the researcher excluded questions requiring personal information such as names, contact details and identification numbers.

- The respondents were required to consent to participate in the study before completing the online questionnaire. The respondent clicked on the link and was redirected to a page that briefly describes the study. Once the respondent had read the outline of the study, an informed consent form appeared where the respondent was required to choose whether to provide consent or not. If the respondent had not consented, the respondent was not allowed to complete the questionnaire; instead, the respondent was redirected to a message thanking them for their time. However, respondents who provided consent could proceed with the questionnaire.
- At the end of the online self-administered questionnaire, respondents were requested to provide their email addresses should they require feedback regarding the outcome of the study. Respondents who provided the researcher with their email addresses were assured that their contact details would only be used to provide feedback and would be treated confidentially.

The chapter concludes with a summary of the research methodology followed in this study.

4.15 SUMMARY OF CHAPTER

The chapter commenced with a discussion of research paradigms, examining each paradigm's ontology, epistemology, and methodology. For this study, the post-positivist paradigm was found fitting due to its modern outlook and ability to allow researchers to consider social realities and social phenomena.

Thereafter, the chapter explored the various research designs available, such as the exploratory, descriptive, and causal research designs. This study was found to be causal in nature as it sought to understand whether there were any relationships between human, social and financial capital and SME performance. An online survey research strategy was used to collect data from SME owners and managers located and operational in South Africa. Besides being inexpensive and efficient, it allowed the researcher to precisely capture respondents' knowledge, attitude and behaviour.

Various probability and non-probability sampling methods were highlighted to determine the subset of the population that the researcher would study. After carefully investigating these methods, the purposive and convenience sampling method within the scope of non-probability sampling was selected for this study. The purposive sampling method allowed the researcher

to identify specific individuals that were required for the study, and the convenience sampling method allowed researchers to collect data from a large sample quickly and effectively.

The study used an online self-administered questionnaire to collect data from SME owners and managers located and operational in South Africa. Before the main study, a pilot study was conducted, which assisted the researcher in checking that the questionnaire was feasible, relevant, clearly worded and unambiguous. The criteria to ensure the validity, measured by a CFA and the reliability of the scales in the measuring instrument, measured using Cronbach's alpha coefficients, were discussed. Data were analysed using Statistical Packages for Social Science (SPSS) version 28, where the descriptive and inferential statistics used in this study were explained.

The following Chapter 5 presents the results of the study.

CHAPTER 5

EMPIRICAL RESULTS

5.1 INTRODUCTION

The previous chapter presented the research methodology followed in the study. The chapter identified that the post-positivist research paradigm was suitable for the study because it allows the researcher to consider social realities and phenomena. It was indicated that the study followed a survey research approach. The researcher gathered data from owners/managers of SMEs located and operational in South Africa using an online self-administered questionnaire. The purpose of this chapter was to provide a discussion of the results obtained from the statistical analysis. In addition, the chapter reported on the relationships between the independent (Human, Social and Financial Capital) and dependent (SME Performance) variables.

The chapter begins with an overview of the number of respondents who completed the online self-administered questionnaire and the study's response rate. A demographic profile of the respondents is presented by providing information regarding their gender, age, education, and role within the enterprise. Subsequently, a summary is provided of how respondents responded to statements related to their human, social and financial capital and SME performance on the 5-point Likert scale in the online self-administered questionnaire. The chapter also reports on the validity and reliability of the measuring instrument and descriptive statistics and the correlations between factors. In conclusion, a discussion of which hypotheses were supported and which were not, is provided.

5.2 DATA CLEANING AND RESPONSE RATE

As explained in Chapter 4 Section 4.10, the online self-administered questionnaire was emailed to 1 669 potential respondents. The researcher received 335 responses; however, it is noteworthy that the number of responses ($n = 334$) is less than the minimum sample size of 384 (as per the calculation provided in Chapter 4 Section 4.7), making this one of the limitations of the study. Of the responses received, one was partially completed and was deleted. Thus the total number of usable questionnaires received was 334 and the effective response rate was 20.00 percent, as shown in Table 5.1.

Table 5.1 summarises the response rate for the study.

TABLE 5.1: RESPONSE RATE

	RESPONDENTS
Questionnaires emailed	1 669
Partially completed	1
Removed during clean-up	1
Usable questionnaires received	334
Effective response rate	20.00 %

Source: Researcher's construction

Moreover, during data cleaning, a discrepancy was identified in item B.12. The intended wording was 'My relationships with my *suppliers* help me perform better than my competitors.' However, the actual question displayed to respondents was, "My relationships with my *business contacts* help me perform better than my competitors." This inconsistency between the intended and actual wording of the item compromised the data integrity and validity for item B.12; as such, the item was deleted.

The following section will provide insight into the demographic profile of the respondents.

5.3 DEMOGRAPHIC PROFILE OF THE RESPONDENTS

The section provides an overview of the demographic profile of respondents. Table 5.2 below summarises and compares different sets of demographic data found in the study.

TABLE 5.2: DEMOGRAPHIC PROFILE OF RESPONDENTS

GENDER	NUMBER OF RESPONDENTS (N=334)	PERCENTAGE (%)
Female	179	53.60
Male	151	45.20
Other	4	1.20
AGE	NUMBER OF RESPONDENTS (N=334)	PERCENTAGE (%)
29 years old or younger	137	41.00
30-39 years old	129	38.60
40 years old or older	68	20.40

EDUCATION QUALIFICATION	NUMBER OF RESPONDENTS (N=334)	PERCENTAGE (%)
Matric	63	18.90
Diploma	47	14.00
Advanced Diploma	21	6.30
Degree	143	42.80
Post-graduate Degree	58	17.40
Other	2	0.6
ACADEMIC FIELD	NUMBER OF RESPONDENTS (N=334)	PERCENTAGE (%)
Agriculture, Engineering and Science	75	22.50
Commerce	104	31.00
Health Science	30	9.00
Humanities	42	12.60
Law	20	6.00
Other	63	18.90
NUMBER OF EMPLOYEES	NUMBER OF RESPONDENTS (N=334)	PERCENTAGE (%)
11-49 employees	132	39.50
50-200 employees	202	60.50
NUMBER OF YEARS OPERATIONAL	NUMBER OF RESPONDENTS (N=334)	PERCENTAGE (%)
3-7 years	138	41.30
8-12 years	109	32.60
16-20 years	47	14.10
More than 20 years	40	12.00
ENTERPRISE LOCATION	NUMBER OF RESPONDENTS (N=334)	PERCENTAGE (%)
Eastern Cape	111	33.20
Free State	11	3.30
Gauteng	123	36.80
KwaZulu Natal	28	8.40
Limpopo	7	2.10
Mpumalanga	13	3.90
North West	0	0.00
Northern Cape	1	0.30
Western Cape	40	12.00
ROLE OF THE RESPONDENT IN THE ENTERPRISE	NUMBER OF RESPONDENTS (N=334)	PERCENTAGE (%)
Manager	190	56.90
Owner	144	43.10

Source: Researcher's construction

- The gender representation of the respondents was as follows: 53.60% identified as female, and 45.20% identified as male. Those identifying as non-binary or unwilling to disclose their gender were grouped into the 'other' category (1.20%).

- The largest group of respondents (41.00%) were 29 years old or younger, followed by 30–39-year-olds (38.60%) and 40-year-olds or older (20.40%).
- Regarding the educational qualification of respondents, the majority of respondents' highest level of education was tertiary education. Of these, 42.80% obtained a university degree, and 17.40% received a post-graduate degree. The remaining respondents held a matric certificate (18.90%), diploma (14.00%), or advanced diploma (6.30%).
- Commerce-related subjects were the most popular major among respondents (31.00%). This was followed by Science, Engineering, and Agriculture (22.50%), Humanities (12.60%), Health Sciences (9.00%), and Law (6.00%). The remaining 18.90% of respondents selected "other" for their field of study.
- Two categories were used to determine the size of the enterprise: 11-49 employees (small enterprise) and 50-200 employees (medium-sized enterprise). The study found that 39.50% of respondents indicated they owned/managed a small enterprise (11-49 employees), while 60.50% owned/managed a medium-sized enterprise (50-200 employees).
- The number of years the SME has been in operation was identified. Respondents (41.30%) highlighted that their enterprise had been in operation for three to seven years, 32.60% had been operational for eight to 12 years, 14.10% had been operating for 16 to 20 years, and 12.00% had been operating for more than 20 years.
- The study encompassed SMEs across all nine South African provinces. Gauteng Province had the highest concentration, with 36.80% of respondents having their SMEs located there. Eastern Cape followed closely at 33.20%, with Western Cape (12.00%), KwaZulu-Natal (8.40%), Mpumalanga (3.90%), Free State (3.30%), Limpopo (2.10%), Northern Cape (0.30%), and North West (0.00%) trailing behind.
- The study found that 56.90% of individuals who responded to the questionnaire fulfilled a managerial role, and 43.10% were enterprise owners.

In summary, the demographics of the study show that most of the respondents are females between the ages of 29 years and younger, and they hold a degree in the Commerce field. These women entrepreneurs are managers of small enterprises operating for approximately three to seven years and are primarily located and operational in Gauteng. The following section uses descriptive statistics to report the feedback provided by the respondents.

5.4 DESCRIPTIVE STATISTICS

The following section presents a detailed explanation of the respondent's responses to the statements in the online self-administered questionnaire. The respondents were required to complete a 5-point Likert scale questionnaire for each variable: financial literacy (a proxy for human capital as discussed in Chapter 3 Section 3.4.3), social capital, financial capital and SME performance.

5.4.1 Human capital

The following paragraphs provide an overview of respondents' feedback on financial literacy consisting of financial knowledge, behaviour, and attitude statements as a proxy for human capital (refer to Chapter 3 Section 3.4.3 detailed discussion).

5.4.1.1 Financial knowledge

As discussed in Chapter 3, financial knowledge is an entrepreneur's understanding of fundamental financial concepts that will aid, support, and enrich the entrepreneur's decision-making process (Akhtar and Lui, 2018). The online self-administered questionnaire probed respondents about their knowledge of inflation, the time value of money, diversification, and risk and return investment. The results are presented in Table 5.3.

Firstly, respondents were asked to rate their understanding of investing principles (statement A.1). The study found that 35.40% (n=119) of respondents disagreed. Statement A.2 examined respondents' perceptions of risk and returns, and the results indicated that 47.00% (n=157) of respondents disagreed. Furthermore, the respondents were tested for their knowledge of the diversification of assets (statement A.3), and the study found that only 31.20% (n=105) of the respondents disagreed. Statement A.4 revealed that 61.70% (n=206) of respondents agreed that inflation decreases the value of an enterprise's savings account. Lastly, respondents were asked about their understanding of the time value of money (statement A.5), and the results revealed that 51.80% (n=173) of the respondents disagreed with this statement.

TABLE 5.3: FINANCIAL KNOWLEDGE

STATEMENTS		STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
		%	%	%	%	%
A.1	I know I will earn a higher return on my savings account than by investing in shares.	16.20	19.20	15.50	27.20	21.90
A.2	I know that shares with high returns are likely to have low risks.	20.40	26.60	20.60	21.90	10.50
A.3	I know that investing in a portfolio with a single asset is a safer option.	10.80	20.40	24.20	31.10	13.50
A.4	Suppose that the interest rate on the enterprise's savings account was 1% per year and that inflation was 2% per year. After one year, the enterprise can buy less than today with the money in this account.	6.30	8.70	23.30	44.00	17.70
A.5	Suppose the enterprise had R100 in a savings account, and the interest rate was 2% per year. After five years, the savings account will have exactly R102 if you leave the money to grow.	28.10	23.70	15.50	19.50	13.20

Source: Obtained from statistical analysis

5.4.1.2. Financial behaviour

Financial behaviour involves one's emotions, traits, and preferences that shape their behaviour and provide confidence in planning, managing, and controlling financial resources to execute their plan (Rahim and Balan, 2020). An online self-administered questionnaire assessed respondents' financial behaviour in several key areas: budget planning, debt management, saving habits, and record-keeping abilities. Descriptive statistics for these aspects are presented in Table 5.4.

Statement A.6 investigated financial goal setting. A high proportion of respondents (80.80%, $n = 270$) indicated having established financial objectives for their enterprises. Statement A.7 focused on saving habits. The results showed that most respondents (87.70%, $n = 294$) maintained separate accounts for personal and business use. Debt management skills were explored in Statement A.8. Here, 77.50% ($n = 259$) of respondents expressed confidence in their ability to manage debt for their enterprises. Additionally, 80.80% ($n = 270$) understood

that late loan payments incur interest charges (Statement A.9). Statements A.10 and A.11 examined expense tracking and financial analysis capabilities. For expense monitoring (Statement A.10), a significant percentage (88.30%, n = 295) of respondents reported keeping track of their business expenses. Similarly, a substantial portion (85.30%, n = 285) indicated the ability to perform financial analysis (Statement A.11). Finally, record-keeping practices were evaluated in Statement A.12. The study found that over half (52.40%, n = 175) of the entrepreneurs prepared their enterprises' financial statements.

TABLE 5.4: FINANCIAL BEHAVIOUR

STATEMENTS		STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
		%	%	%	%	%
A.6	I have financial objectives for my enterprise.	2.10	3.00	14.10	45.20	35.60
A.7	I have separate savings accounts for my business and personal use.	1.50	2.70	8.10	34.70	53.00
A.8	My debt management skills enable me to finance the enterprise.	2.10	4.20	16.20	48.20	29.30
A.9	I will pay interest if I repay a loan after the due date.	3.00	6.30	9.90	44.60	36.20
A.10	I keep track of my enterprise's expenses regularly.	0.60	3.30	7.80	42.80	45.50
A.11	I can perform a financial analysis on my enterprise's statements, for instance, calculating the gross and net profit margins.	0.60	3.30	10.80	48.20	37.10
A.12	I prepare my enterprise's financial statements on my own.	4.50	23.40	19.70	31.10	21.30

Source: Obtained from statistical analysis

5.4.1.3 Financial attitude

Akhtar and Liu (2018) referred to financial attitude as one's ability to analyse financial information and draw a logical decision to influence long-term well-being positively. Consequently, entrepreneurs' financial attitudes are their views, opinions, and judgments regarding their finances. The online self-administered questionnaire probed respondents about their interest in improving their financial knowledge and attitudes towards saving and monitoring their finances. The results are presented in Table 5.5.

While a significant majority (88.90%, n=297) expressed interest in learning more about managing their finances (statement A.13), an even more significant proportion (93.70%, n=313) valued consistent saving habits and agreed saving for unexpected expenses is crucial (statements A.14 and A.15). Interestingly, only 81.10% (n=271) preferred saving over spending (statement A.16). Financial management practices received strong agreement: 90.10% (n=302) agreed regular financial analysis is essential (statement A.18), and 92.50% (n=309) considered budgeting crucial (statement A.17). Finally, 91.00% (n=301) agreed financial objectives are paramount for investment decisions (statement A.19).

TABLE 5.5: FINANCIAL ATTITUDE

STATEMENTS		STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
		%	%	%	%	%
A.13	I am interested in learning more about how to manage my enterprise's finances.	0.90	2.40	7.80	35.00	53.90
A.14	It is important to develop a regular saving pattern and stick to it.	0.30	2.10	3.90	38.60	55.10
A.15	It is important to keep money aside for emergencies.	0.90	1.50	3.90	26.00	67.70
A.16	I prefer saving instead of spending.	0.30	4.50	14.10	35.60	45.50
A.17	Having a budget is essential to manage the enterprise successfully.	0.60	1.50	5.40	29.00	63.50
A.18	Conducting a financial analysis regularly is important.	0.60	2.40	6.90	32.30	57.80
A.19	Having a financial plan is important for making financial investment decisions	0.30	1.80	6.60	30.80	60.50

Source: Obtained from statistical analysis

In summary, the survey revealed a generally positive financial attitude among respondents, although there's potential to improve their financial knowledge (Table 5.4 and 5.5). While they exhibited positive financial behaviours like budgeting, debt management, and record-keeping (statements A.10, A.8, A.12), a gap emerged between their interest in learning more (statement A.13) and their understanding of investment principles (statements related to investment and diversification).

5.4.2 Social capital

Bourdieu (1986) defines social capital as a combination of existing and potential resources that arise from an individual's access to a strong network of institutional relationships and mutual acquaintances. The researcher examined how sociable SME owners/managers are and how their networking skills contribute to the enterprise's growth and development. This section of the online self-administered questionnaire required respondents to reflect on statements related to their social capital, categorized as bonding, bridging, and linking social capital. The following section provides an overview of respondents' feedback on statements related to their bonding, bridging, and linking social capital.

5.4.2.1 Bonding social capital

In Chapter 3, bonding social capital is described as strong bonds that are within, homogenous, exclusive and closed, such as familial relations, friendships, or closed-knit organizations and groups (Putnam, 2000; Martikke, 2017; Claridge, 2018; Weiler and Hinz, 2019). The results are presented in Table 5.6.

Statements B.1 and B.2 asked respondents whether their families and close friends are aware of their enterprise and its purpose; the study revealed that more than 80% of respondents agreed that their family and close friends are familiar with the enterprise. In addition, statement B.3 showed that 86.20% (n=288) of the respondents felt supported by their family and close friends. Furthermore, respondents were asked whether their spouse/partner is aware (statement B.4) and in support (statement B.5) of the enterprise; the analysis revealed that more than 86.50% of respondents agreed that their spouse/partner is aware and supports the enterprise. Lastly, statement B.6 asked respondents whether these relationships (family, close friends and spouse/partner) benefitted the enterprise; 76.00% (n=254) agreed.

TABLE 5.6: BONDING SOCIAL CAPITAL

STATEMENTS		STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
		%	%	%	%	%
B.1	My family is aware of my enterprise and what it does.	0.60	2.10	8.40	37.10	51.80
B.2	My close friends are aware of my enterprise and what it does.	1.20	3.90	12.90	37.40	44.60
B.3	I have close friends and family that support my enterprise.	1.20	4.20	8.40	40.40	45.80
B.4	My spouse/partner is aware of the enterprise and what it does.	0.30	0.30	8.40	33.80	57.20
B.5	My spouse/partner supports my enterprise.	0.90	1.20	11.40	31.40	55.10
B.6	My relationships with my spouse/partner, family and friends benefit my enterprise.	0.90	4.80	18.30	35.00	41.00

Source: Obtained from statistical analysis

5.4.2.2 Bridging social capital

Researchers (see Putnam, 2000; Poder, 2011; Martikke, 2017; Clandge, 2018; Weiler and Hinz, 2019) define bridging social capital as connecting, heterogeneous, inclusive, outward-looking, and open ties. This may involve ties an individual has with business associates, friends, and acquaintances. The online self-administered questionnaire asked respondents about the number of business contacts they had and if these contacts helped them perform better than their competitors. The results are presented in Table 5.7.

The respondents were asked whether they belonged to a Chamber of Commerce or Business Forum (statement B.7) and attended the events hosted (statement B.8). The study found that 51.50% (n=172) respondents belonged to a Chamber of Commerce or Business Forum and 58.60% (n=196) respondents attended the events hosted. The results also revealed that 77.50% (n=259) of the respondents had many business contacts (statement B.9), and 86.50% (n=289) indicated that these contacts helped them perform better than their competitors (statement B.10). In addition, 91.00% (n=304) of the respondents asserted that they have good relationships with their suppliers and those they conduct business with (statement B.11). As

indicated in Section 5.2, a discrepancy was identified with item B.12 as such this item was deleted during the data cleaning of this study.

TABLE 5.7: BRIDGING SOCIAL CAPITAL

STATEMENTS		STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
		%	%	%	%	%
B.7	I am a member of a Chamber of Commerce or Business Forum.	8.70	24.00	15.80	31.40	20.10
B.8	I attend events hosted by the Chamber of Commerce or the Business forum to which I belong.	6.90	17.10	17.40	32.90	25.70
B.9	I have many business contacts.	0.90	4.80	16.80	44.30	33.20
B.10	My relationships with my business contacts help me perform better than my competitors.	0.00	2.40	11.60	47.60	38.40
B.11	I have a good relationship with my suppliers and those I do business with.	0.60	0.90	7.50	39.50	51.50
B.12	My relationships with my business contacts help me perform better than my competitors.	-	-	-	-	-

Source: Obtained from statistical analysis

5.4.2.3 Linking social capital

Linking social capital refers to relations where individuals have ties with others at a higher level than they do. Claridge (2018) adds that a critical feature in linking social capital is ties with individuals of higher social status, wealth, and influence. The online self-administered questionnaire explored whether respondents had contacts or relationships with individuals who could assist them in obtaining better financing opportunities, access to better markets, and access to accurate and valuable information. The results are presented in Table 5.8.

The results revealed that more than 79.00% of the owners and managers had access to individuals who could assist them in accessing better financing opportunities (statement B.13, n=266), better markets (statement B.14, n=269), and accurate and valuable information (statement B.15, n=273). In addition, respondents were asked whether they had contacted the abovementioned individuals to ask for assistance, and 80.50% (n=269) of the respondents had contacted these individuals (statement B.17). Furthermore, respondents were asked whether

they had relationships with more successful individuals in business (statement B.16) and whether they respected and valued their opinions (statement B.18). More than 83.00% of respondents agreed to that they have relations with successful individuals (n=300) and appreciated the views of individuals less successful (n=280).

TABLE 5.8: LINKING SOCIAL CAPITAL

STATEMENTS		STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
		%	%	%	%	%
B.13	I have contacts or relationships with individuals who can provide me with access to better financing opportunities for my enterprise.	1.50	6.00	12.90	48.50	31.10
B.14	I have contacts or relationships with individuals who can provide me with access to better markets for my enterprise.	0.90	5.40	13.20	48.50	32.00
B.15	I have contacts or relationships with individuals who can somehow provide me with accurate and valuable information that I can use to the advantage of my enterprise.	0.90	3.30	14.10	48.50	33.20
B.16	I have relationships with individuals who are more successful in business than I am.	0.30	1.50	8.40	41.30	48.50
B.17	I have contacted the individuals mentioned above to ask for assistance in my business.	1.50	5.40	12.60	46.10	34.40
B.18	I respect and value the opinions of individuals who are less successful in business than I am.	0.90	2.10	13.20	41.60	42.20

Source: Obtained from statistical analysis

In summary, the study found that respondents had strong social networks and social networking skills. The bonding social capital of the respondents was stable and robust as they had strong bonds with their spouse/partner, family, and close friends. The results revealed that their close networks knew intimately about the enterprise and its day-to-day dealings; however, they felt these networks did not benefit the enterprise's performance. The study also explored the respondents' weaker social ties with their business contacts and suppliers. The respondents had a broad network of business contacts and good relations with their suppliers, and they used these relations to get ahead of their competitors. In addition, a substantial number of the

respondents did not belong to a chamber of commerce or business forums and did not attend events or meetings they hosted. Finally, the respondents reflected on their ties with individuals of power or higher social standing. The study found that the respondents maintained connections with individuals of higher standing or influence who could potentially assist them in advancing their ventures. However, only a few respondents sought these contacts for support.

5.4.3 Financial capital

Evans and Jonovic (1989) define financial capital as capital or access to it in the form of equity, debt, or both, which serve as the financial input of the enterprise. The results of the enterprise's initial capital are presented in Table 5.9. The results revealed that 86.80% (n=290) of the respondents indicated that their initial capital consisted of money they had saved (statement C.1) and 60.70% (n=203) stated that they had borrowed money from financial institutions (statement C.2). Fifty percent (n=167) of the respondents borrowed their initial capital from friends and family (statement C.4) and only a small percentage (40.40%. n=135) of the respondents' initial capital consisted of money they received from government assistance schemes (statement C.3). Lastly, respondents were asked whether they had sufficient capital (statement C.5) or access to it to grow the enterprise (statement C.6); the results revealed that 66.10% (n=221) had adequate capital and 76.90% (n=257) had access to it.

TABLE 5.9: FINANCIAL CAPITAL

STATEMENTS		STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
		%	%	%	%	%
C.1	A portion of the enterprise's initial (start-up) capital consisted of money I saved.	1.50	3.60	8.10	41.90	44.90
C.2	A portion of the enterprise's initial (start-up) capital consisted of money I borrowed from a financial institution (for example, a personal loan, overdraft or term loan).	10.80	14.70	13.80	35.30	25.40
C.3	A portion of the enterprise's initial (start-up) capital consisted of funding offered by government assistance schemes for SMEs.	24.00	21.90	13.70	26.00	14.40
C.4	A portion of the enterprise's initial (start-up) capital consisted of money I borrowed from friends and family.	17.70	21.90	10.40	32.30	17.70
C.5	I have sufficient capital to grow my enterprise.	2.40	8.70	22.80	39.50	26.60
C.6	I have access to capital to grow my enterprise.	1.80	6.60	14.70	47.60	29.30

Source: Obtained from statistical analysis

5.4.4 SME performance

According to Santos and Brito (2012), Aminu and Shariff (2015) and Asah (2019), enterprise performance is determined by the total value created by the enterprise for its stakeholders. The results of financial and non-financial performance measures are presented in Table 5.10. The first statement requested that respondents reflect on the sales growth from the beginning of the pandemic to the present (2023). The findings showed that only 49.10% (n=164) of the owners/managers were satisfied with their sales growth (statement D.1), and 51.20% (n=171) were satisfied with their profitability growth (statement D.2). In addition, respondents were asked about their satisfaction with the overall financial performance of the enterprise (statement D.3), just over half (55.00%, n=171) of respondents were satisfied with their performance.

As previously indicated, the online self-administered questionnaire also examined enterprises' non-financial performance. The study found that 87.10% (n=291) of respondents were pleased

with customer feedback (statement D.4); however, only 76.00% (n=254) were satisfied with their overall performance compared to that of their competitors (statement D.5). Respondents reflected on whether the enterprise had expanded from its inception to date and whether there was an increase in the number of employees (statement D.6). Most respondents (70.90%; n=237) indicated that the enterprise expanded from its inception to date and 73.90% (n=247) of owners/managers stated that they had employed more individuals in the last three years (statement D.7).

TABLE 5.10: SME PERFORMANCE

STATEMENTS		STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE
		%	%	%	%	%
D.1	I am satisfied with my sales growth from the start of Covid-19 (2020) to the present.	5.10	24.00	21.80	29.90	19.20
D.2	I am satisfied with my profitability growth from the start of Covid-19 (2020) to the present.	5.10	22.20	21.50	33.50	17.70
D.3	I am satisfied with the overall financial performance of my enterprise from the start of Covid-19 (2020) to the present.	4.80	18.00	21.50	34.70	21.00
D.4	I am satisfied with the feedback received from customers.	0.90	3.60	8.40	48.50	38.60
D.5	I am satisfied with the enterprise's overall performance compared to competitors' overall performance.	1.50	6.90	15.60	48.20	27.80
D.6	The number of employees in the enterprise has increased in the last three years.	3.00	12.30	13.80	42.80	28.10
D.7	My enterprise has expanded from inception to date (for example. micro-enterprise to a small enterprise or a small enterprise to medium enterprise).	2.70	5.70	17.70	47.90	26.00

Source: Obtained from statistical analysis

The following section reports the descriptive statistics of the sample data.

5.5 DESCRIPTIVE STATISTICS OF THE SAMPLE DATA

The following sections describe the sample and summarise the responses provided in the study. Table 5.11 summarises the mean and standard deviation obtained after analysing the various variables in the study. The table shows the average responses provided by the respondents and the variability of these responses. The mean scores for each variable were classified as Disagree [1-2.599], Neutral [2.600-3.599] and Agree [3.600-5].

TABLE 5.11: DESCRIPTIVE STATISTICS FOR DEPENDENT AND INDEPENDENT VARIABLE (N=334)

VARIABLE	MEAN	STANDARD DEV (SD)
Financial knowledge	3.065	0.910
Financial behaviour	4.158	0.592
Financial attitude	4.445	0.588
Bonding social capital	4.299	0.615
Bridging social capital	3.777	0.800
Linking social capital	4.160	0.616
Financial capital	3.442	0.816
SME performance	3.720	0.799
Social capital	4.079	0.565

Source: Researcher's construction

The majority of respondents were neutral (mean = 3.065), and there was significant variability (SD = 0.910) in responses regarding statements related to their financial knowledge. In addition, the study found that the majority of respondents agreed with statements regarding their financial behaviour and attitude, with minimal variation in responses provided. The mean scores for financial behaviour and financial attitude were 4.158 and 4.445, respectively, with standard deviation scores of 0.592 and 0.588.

A similar feedback pattern was provided regarding the respondents' bonding, bridging, and linking social capital. The majority of respondents agreed with the statements, with slight variations. The mean scores for bonding, bridging, and linking social capital were 4.299, 3.777, and 4.160, respectively, with standard deviations of 0.615, 0.800, and 0.616, respectively. Regarding social capital inclusively, this study found that respondents agreed with statements with minimal response variation (mean = 4.079; SD = 0.565).

Most respondents were neutral regarding their level of agreement with statements related to their financial capital. However, there was significant variability in the responses. Financial capital's mean score and standard deviation were 3.442 and 0.816, respectively. The responses pertaining to the respondents' SME performance were neutral, with slight variations. The mean score and standard deviation were 3.720 and 0.799.

The following sections present the validity results based on the CFA and the reliability of the study.

5.6 VALIDITY OF MEASURING INSTRUMENT

It is of utmost importance for researchers to obtain the validity of their intended measuring instrument, as it ensures that the measuring instrument mirrors the actual meaning of the concepts. Additionally, obtaining validity ensures that the study's findings can be accurately applied and interpreted. The content validity of the study was obtained by conducting a pilot study and several experts in the field (such as academic researchers and entrepreneurs) who confirmed that the items on the online self-administered questionnaire reflected the conceptualized variables. The construct validity of the study was determined using confirmatory factor analysis (hereafter CFA). The CFA was used to confirm the extent to which the data met the expected structure based on theory, considering that the measuring instrument was based on existing and adapted scales from previous studies. The minimum acceptable factor loading in this study was 0.3.

5.6.1 Confirmatory factor analysis

A CFA was used to determine the validity of the hypothesised framework used in the study. It measures how accurately the observed variables align with theoretical constructs. The CFA was conducted for this study's independent (financial knowledge, behaviour and attitude, bonding, bridging, and linking social and financial capital) and dependent (SME performance) variables.

5.6.1.1 Financial knowledge, behaviour and attitude

The following section discusses the factor loadings of each sub-variable: financial knowledge, financial behaviour, and financial attitude (see Table 5.12). In terms of financial knowledge, five items were developed to measure respondents understanding of financial concepts. The

CFA revealed that all the statements were greater than 0.30; as such, they were retained for further analysis. The study also examined respondents' financial behaviour. Seven items were developed to determine financial behaviour; however, only six items were retained. Item A.12, "I prepare my enterprise's financial statements on my own", obtained a low factor loading of 0.269 and was removed. The remaining items had factor loadings greater than 0.4. Lastly, seven items were developed to measure respondent's financial attitudes. The CFA revealed that all seven items had a factor loading greater than 0.60; as such, the items were retained for further analysis.

TABLE 5.12: FACTOR LOADINGS FOR FINANCIAL KNOWLEDGE, BEHAVIOUR AND ATTITUDE

CODE	ITEM	FACTOR LOADING
FINANCIAL KNOWLEDGE		
A.1	I know I will earn a higher return on my savings account than by investing in shares.	0.594
A.2	I know that shares with high returns are likely to have low risks.	0.754
A.3	I know that investing in a portfolio with a single asset is a safer option.	0.731
A.4	Suppose the enterprise had R100 in a savings account, and the interest rate was 2% per year. After five years, the savings account will have exactly R102 if you leave the money to grow.	0.346
A.5	Suppose the enterprise had R100 in a savings account, and the interest rate was 2% per year. After five years, the savings account will have exactly R102 if you leave the money to grow.	0.651
FINANCIAL BEHAVIOUR		
A.6	I have financial objectives for my enterprise.	0.619
A.7	I have separate savings accounts for my business and personal use.	0.701
A.8	My debt management skills enable me to finance the enterprise.	0.505
A.9	I will pay interest if I repay a loan after the due date.	0.457
A.10	I keep track of my enterprise's expenses regularly.	0.674
A.11	I can perform a financial analysis on my enterprise's statements, for instance, calculating the gross profit margin and net profit margin.	0.634
A.12	I prepare my enterprise's financial statements on my own.	0.269
FINANCIAL ATTITUDE		
A.13	I am interested in learning more about how to manage my enterprise's finances.	0.695
A.14	It is important to develop a regular saving pattern and stick to it.	0.685
A.15	It is important to keep money aside for emergencies.	0.770
A.16	I prefer saving instead of spending.	0.570
A.17	Having a budget is essential to manage the enterprise successfully.	0.794
A.18	Conducting a financial analysis regularly is important.	0.789
A.19	Having a financial plan is important for making financial investment decisions.	0.832

Source: Researcher's construction

5.6.1.2 Human capital

As previously indicated, human capital is a 2nd order factor and comprises three sub-variables: financial knowledge, financial behaviour, and financial attitude. The overall 2nd order factor was tested to determine whether the three sub-variables explained human capital. The study found that financial knowledge had a negative factor loading of -0.079, and as such, it was removed from the analysis (see Table 5.13). The analysis was re-run with financial behaviour and financial attitude; however, the CFA did not run as the analysis only included two items. Therefore, financial knowledge, behaviour and attitude could not explain human capital.

When the identified factors cannot explain a 2nd order factor, this case is commonly referred to as the Heywood case. Hair *et al.* (2016) explain that the Heywood case occurs when standard estimates are greater than one with a negative variance. Heywood cases arise for many reasons, including outliers, small sample sizes, model misspecifications, item-per-construct rule, and missing values (Farooq, 2022).

The researcher believes that the Heywood case occurred due to the item per construct rule of thumb and having a small sample size. Hair *et al.* (2016) discuss the item-per-construct rule of thumb, suggesting that it is good practice to have at least three or four items per construct for the construct to be adequately identified. The financial knowledge, behaviour, and attitude constructs had five, seven, and seven items, respectively; thus, the constructs might have been over-identified. Hair *et al.* (2016) alluded that having a host of items may aid in increasing reliability estimates and generalisability, but more items require a larger sample size.

Farooq (2022, p.88) provides the following solution for resolving the Heywood case; "dropping the troublesome indicators, fixing the improper estimates to a plausible value, obtaining a larger sample, increasing the number of indicators per factor, or using an inequality restriction to prevent implausible values." In this study, the hypothesised framework had to be respecified considering the Heywood case; thus, financial knowledge, behaviour, and attitude were independent variables, and human capital was removed as a 2nd order factor.

TABLE 5.13: FACTOR LOADING FOR HUMAN CAPITAL

HUMAN CAPITAL	FACTOR LOADING
Financial knowledge	-0.079
Financial behaviour	0.716
Financial attitude	0.952

Source: Researcher's construction

5.6.2 Social capital

This study employed a CFA to assess the validity of social capital measures. This investigation disaggregates social capital into three independent variables: bonding, bridging, and linking social capital. This disaggregation allowed for a more nuanced and comprehensive analysis compared to treating social capital as a singular construct. In addition, a multifaceted approach fosters a deeper understanding of the multifaceted nature of social capital and its potential influence on various outcomes. Consequently, the following section presents the factor loadings of bonding, bridging and linking social capital (see Table 5.14).

Six items were developed to measure the bonding social capital variable; after conducting a CFA, all the items had a factor loading greater than 0.50. As such, all the items were retained for further analysis. Six items were developed to measure the bridging social capital of respondents; however, after conducting CFA, only five items were retained for further analysis. Item B.11, "I have a good relationship with my suppliers and those I do business with", had a low factor loading score of 0.290; as such, it was removed. In a similar fashion to bonding social capital, linking social capital consisted of six items. All the items had factor loading scores greater than 0.40, and items were retained.

Lastly, overall social capital was tested to determine whether the three sub-variables explained social capital. The study found all the sub-variables had a factor loading greater than 0.50, thus indicating that these variables explain social capital (refer to Table 5.15).

TABLE 5.14: FACTOR LOADINGS FOR BONDING, BRIDGING AND LINKING SOCIAL CAPITAL

CODE	ITEM	FACTOR LOADING
BONDING SOCIAL CAPITAL		
B.1	My family is aware of my enterprise and what it does.	0.655
B.2	My close friends are aware of my enterprise and what it does.	0.588
B.3	I have close friends and family that support my enterprise.	0.659
B.4	My spouse/partner is aware of the enterprise and what it does.	0.790
B.5	My spouse/partner supports my enterprise.	0.820
B.6	My relationships with my spouse/partner, family and friends benefit my enterprise.	0.584
BRIDGING SOCIAL CAPITAL		
B.7	I am a member of a Chamber of Commerce or Business Forum.	0.873
B.8	I attend events hosted by the Chamber of Commerce or the Business forum to which I belong.	0.912
B.9	I have many business contacts.	0.424
B.10	My relationships with my business contacts help me perform better than my competitors.	0.356
B.11	I have a good relationship with my suppliers and those I do business with.	0.290
LINKING SOCIAL CAPITAL		
B.13	I have contacts or relationships with individuals who can provide me with access to better financing opportunities for my enterprise.	0.745
B.14	I have contacts or relationships with individuals who can provide me with access to better markets for my enterprise.	0.763
B.15	I have contacts or relationships with individuals who can somehow provide me with accurate and valuable information that I can use to the advantage of my enterprise.	0.808
B.16	I have relationships with individuals who are more successful in business than I am.	0.521
B.17	I have contacted the individuals mentioned above to ask for assistance in my business.	0.685
B.18	I respect and value the opinions of individuals who are less successful in business than I am.	0.482

Source: Researcher's construction

TABLE 5.15: FACTOR LOADING FOR SOCIAL CAPITAL

SOCIAL CAPITAL	FACTOR LOADING
Bonding social capital	0.590
Bridging social capital	0.544
Linking social capital	0.943

Source: Researcher's construction

5.6.3 Financial capital

Table 5.16 below presents the validity results for the independent variable, financial capital. Six items were developed to measure the financial capital of respondents; however, after conducting a CFA, only five items were retained for further analysis. The results showed that C.1, "A portion of the enterprise's initial (start-up) capital consisted of money I saved," had a low factor loading of 0.189 and was deleted.

TABLE 5.16: FACTOR LOADINGS FOR FINANCIAL CAPITAL

CODE	ITEM	FACTOR LOADING
C.1	A portion of the enterprise's initial (start-up) capital consisted of money I saved.	0.189
C.2	A portion of the enterprise's initial (start-up) capital consisted of money I borrowed from a financial institution (for example, a personal loan, overdraft or term loan).	0.604
C.3	A portion of the enterprise's initial (start-up) capital consisted of funding offered by government assistance schemes for SMEs.	0.704
C.4	A portion of the enterprise's initial (start-up) capital consisted of money I borrowed from friends and family.	0.582
C.5	I have sufficient capital to grow my enterprise.	0.404
C.6	I have access to capital to grow my enterprise.	0.457

Source: Researcher's construction

5.6.4. SME performance

Table 5.19 below presents the validity of the dependent variable, SME performance capital. Seven items were developed to measure SME performance. After conducting the CFA, the analysis revealed that all seven items had factor loading scores greater than 0.40; as such, all the items were retained for further analysis.

TABLE 5.17: FACTOR LOADINGS FOR SME PERFORMANCE

CODE	ITEM	FACTOR LOADING
D.1	I am satisfied with my sales growth from the start of Covid-19 (2020) to the present.	0.876
D.2	I am satisfied with my profitability growth from the start of Covid-19 (2020) to the present.	0.897
D.3	I am satisfied with the overall financial performance of my enterprise from the start of Covid-19 (2020) to the present.	0.852
D.4	I am satisfied with the feedback received from customers.	0.496
D.5	I am satisfied with the enterprise's overall performance compared to competitors' overall performance.	0.593
D.6	The number of employees in the enterprise has increased in the last three years.	0.617
D.7	My enterprise has expanded from inception to date (for example, micro-enterprise to a small enterprise or a small enterprise to medium enterprise).	0.571

Source: Researcher's construction

The reliability of the measuring instrument is discussed in the following section

5.7 RELIABILITY OF MEASURING INSTRUMENT

In Chapter 4, reliability was described as the accuracy and credibility of the researcher's findings. In conducting research, it is imperative that researchers ensure the validity and reliability of their findings by subjecting them to rigorous examination and testing (Babbie, 2020; Taherdoost, 2016b). Cronbach's alpha coefficients were calculated to determine the reliability of the measuring instrument used in this study. A Cronbach's alpha coefficient greater than 0.6 was considered satisfactory for this study (Hair *et al.*, 2016). Table 5.18 exhibits the reliability scores for the variables investigated in the current study. All variables displayed a good Cronbach's alpha coefficient greater than 0.60, indicating that the constructs used were reliable and accurate. All variables demonstrated adequate reliability scores and were included in the study for further analysis.

TABLE 5.18: RELIABILITY SCORES OF VARIABLES

VARIABLES	CRONBACH'S ALPHA COEFFICIENTS
Financial knowledge	0.755
Financial behaviour	0.763
Financial attitude	0.887
Bonding social capital	0.836
Bridging social capital	0.753
Linking social capital	0.831
Financial capital	0.684
SME performance	0.884
Social capital	0.721

Source: Researcher's construction

The following section reports the linear correlations discovered in the study between independent and dependent variables.

5.8 SPEARMAN RANK CORRELATION

The Spearman Rank Correlation is a descriptive statistic used to determine linear correlations. It is also used to measure the strength and direction between two variables. Table 5.19 provides a guideline for interpreting the correlation coefficient. In addition, Table 5.20 below presents Spearman Rank Correlation results.

TABLE 5.19: CORRELATION INTERPRETATION

SPEARMAN RANK CORRELATION	STRENGTH	DIRECTION
$0 = r $	None	None
$0.000 < r < 0.300$	Weak	Positive
$0.300 < r < 0.500$	Moderate	Positive
$ r > 0.500$	Strong	Positive

Source: Researcher's construction

The Spearman Rank Correlation analysis conducted in this study revealed several noteworthy associations among the variables examined. financial knowledge exhibited both negative and positive correlations with other variables. Specifically, it showed a weak negative correlation with financial attitude ($r = -0.108^*$, $p < 0.05$) and a strong negative correlation with financial capital ($r = -0.502^{**}$, $p < 0.01$). Conversely, it demonstrated a weak positive correlation with SME performance ($r = 0.249^{**}$, $p < 0.01$) and social capital ($r = 0.115^*$, $p < 0.05$). However,

no significant associations were found between financial knowledge and financial behaviour or bonding, bridging, and linking social capital.

Financial behaviour displayed significant correlations with several variables. It exhibited a strong positive correlation with financial attitude ($r = 0.637^{**}$, $p < 0.01$), bonding social capital ($r = 0.600^{**}$, $p < 0.01$), linking social capital ($r = 0.531^{**}$, $p < 0.01$), and inclusive social capital ($r = 0.569^{**}$, $p < 0.01$). Moderate and weak positive correlations were also observed with bridging social capital ($r = 0.372^{**}$, $p < 0.01$) and SME performance ($r = 0.277^{**}$, $p < 0.01$), respectively. However, no significant correlation was found between financial behaviour and financial capital. Financial attitude exhibited strong positive correlations with bonding social capital ($r = 0.659^{**}$, $p < 0.01$), linking social capital ($r = 0.589^{**}$, $p < 0.01$), and inclusive social capital ($r = 0.609^{**}$, $p < 0.01$). Moderate and weak positive correlations were also observed with bridging social capital ($r = 0.321^{**}$, $p < 0.01$) and SME performance ($r = 0.229^{**}$, $p < 0.01$), respectively. Similarly to financial behaviour, no significant correlation was found between financial attitude and financial capital.

Bonding social capital demonstrated moderate and strong positive correlations with bridging social capital ($r = 0.394^{**}$, $p < 0.01$) and linking social capital ($r = 0.571^{**}$, $p < 0.01$), as well as a weak positive correlation with SME performance ($r = 0.246^{**}$, $p < 0.01$). However, no significant correlation was found between bonding social capital and financial capital. Bridging social capital exhibited a strong positive correlation with linking social capital ($r = 0.539^{**}$, $p < 0.01$) and moderate correlations with financial capital ($r = 0.477^{**}$, $p < 0.01$) and SME performance ($r = 0.372^{**}$, $p < 0.01$). Linking social capital showed weak and moderate correlations with financial capital ($r = 0.263^{**}$, $p < 0.01$) and SME performance ($r = 0.388^{**}$, $p < 0.01$). Moreover, financial capital demonstrated a moderate correlation with SME performance ($r = 0.458^{**}$, $p < 0.01$) and inclusive social capital ($r = 0.298^{**}$, $p < 0.01$).

In summary, the strongest significant correlations were observed between financial behaviour and financial attitude, as well as financial attitude and bonding social capital. A weak negative association was discovered between financial knowledge and financial attitude. Additionally, a strong negative association was found between financial knowledge and financial capital. The following section reports the outcome of the hypothesized relationships.

TABLE 5.20: SPEARMAN RANK CORRELATION RESULTS

VARIABLE	FINANCIAL KNOWLEDGE	FINANCIAL BEHAVIOUR	FINANCIAL ATTITUDE	BONDING SOCIAL CAPITAL	BRIDGING SOCIAL CAPITAL	LINKING SOCIAL CAPITAL	FINANCIAL CAPITAL	SME PERFORMANCE	SOCIAL CAPITAL
Financial knowledge	1								
Financial behaviour	-0.103	1							
Financial attitude	-0.108*	0.637**	1						
Bonding social capital	-0.085	0.600**	0.659**	1					
Bridging social capital	0.222	0.372**	0.321**	0.394**	1				
Linking social capital	0.103	0.531**	0.589**	0.571**	0.539**	1			
Financial capital	-0.502**	0.104	0.021	0.061	0.477**	0.263**	1		
SME performance	0.249**	0.277**	0.229**	0.246**	0.372**	0.388**	0.458**	1	
Social capital	0.115*	0.569**	0.609**	0.649**	0.621**	0.985**	0.298**	0.413**	1

*Correlation is significant at the 0.05 level (2-tailed)

**Correlation is significant at the 0.01 level (2-tailed)

5.9 MULTIPLE LINEAR REGRESSION ANALYSIS AND HYPOTHESES TESTING

The study's primary goal was to investigate the relationship between financial knowledge, financial attitude, financial behaviour, social (including the sub-variables of bonding, bridging, and linking social capital), and financial capital and SME performance. A multiple linear regression analysis was employed to investigate this relationship.

5.9.1 Multiple linear regression analysis

In Section 5.6.1.2, it was explained why financial knowledge, behaviour, and attitude could not explain human capital due to the occurrence of the Heywood case; as such, these variables were treated as independent variables when conducting the regression analysis. Furthermore, social capital was also broken down into bonding, bridging, and linking social capital as independent variables to provide a more nuanced and comprehensive analysis. This section presents the outcomes of the regression analysis; a model summary and Analysis of Variance (hereafter ANOVA) were performed.

Table 5.21 summarises the model fit statistics. R-squared (hereafter R^2) and adjusted R-squared (hereafter Adj. R^2) were used to assess how well the regression model fits the data (Hair *et al.*, 2016). In this study, the model exhibited a moderate fit, with $R^2 = 0.291$ and Adj. $R^2 = 0.275$. These findings suggest a moderate positive linear relationship between the predictor variables and the dependent variable and approximately 29.10% of the variance. Furthermore, a Durbin-Watson test was conducted; Brooks (2008) suggests that a Durbin-Watson value between 1 and 10 indicates no significant multicollinearity. The analysis revealed a Durbin-Watson statistic of 1.868, indicating moderate multicollinearity.

TABLE 5.21: MODEL SUMMARY FOR MULTIPLE LINEAR REGRESSION ANALYSIS

MODEL	R	R-SQUARED	ADJUSTED R-SQUARE	STD. ERROR OF THE ESTIMATE	DURBIN WATSON
1	0.539a	0.291	0.275	0.818	1.868

a Predictors: (Constant), Financial capital, Financial attitude, Financial knowledge, Linking social capital, Bonding social capital, Financial behaviour, Bridging social capital

b Dependent Variable: SME performance

Subsequently, an ANOVA was conducted to assess the overall significance of the model and determine if the independent variables have a statistically significant influence on the

dependent variable. As shown in Table 5.22, the ANOVA results revealed a statistically significant relationship ($p < 0.01$) between the independent and dependent variables, with an F-statistic of 19.081 and a mean square of 12.766. This indicates that the model significantly explains the variance in SME performance.

TABLE 5.22: ANOVA RESULTS FOR MULTIPLE LINEAR REGRESSION ANALYSIS

MODEL		SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
1	Regression	89.361	7	12.766	19.081	<0.001b
	Residual	218.110	326	0.669		
	Total	307.471	333			

a Dependent Variable: SME performance

b Predictors: (Constant), Financial capital, Financial attitude, Financial knowledge, Linking social capital, Bonding social capital, Financial behaviour, Bridging social capital

Thereafter, a multiple linear regression analysis was conducted. A summary of the findings is presented in Table 5.23 below, and based on these findings, a discussion is provided.

Hypothesis 1: H^{1a} , H^{1b} and H^{1c} : There is a significant relationship between financial knowledge, attitude and behaviour and SME performance.

This study found that financial knowledge, behaviour and attitude were not statistically significant predictors of SME performance. The analysis revealed that financial knowledge had a positive beta of 0.069 and a p-value of 0.240. In addition, financial behaviour had a beta of 0.093 and a p-value of 0.207, while financial attitude had a positive beta of 0.013 and a p-value of 0.856. As a result, there was no significant relationship between financial knowledge, attitude and behaviour and SME performance; as such, hypothesis H^{1a} , H^{1b} and H^{1c} was not supported.

Hypothesis 2: H^{2a} , H^{2b} and H^{2c} : There is a significant relationship between bonding, bridging and linking social capital and SME performance.

In a similar fashion, the analysis revealed that bridging, bonding and linking social capital did not have a statistically significant relationship with SME performance. The regression analysis showed that bridging social capital had a beta of 0.040 and a p-value of 0.556. In addition, linking social capital had a beta of 0.072 and a p-value of 0.241, while linking social capital had a beta of 0.129 and a p-value of 0.061. Consequently, there was no significant relationship

between bonding, bridging and linking social capital and SME performance, hypothesis H^{2a} , H^{2b} and H^{2c} was not supported.

Hypothesis 3: H^3 : There is a significant relationship between financial capital and SME performance.

Based on the results in Table 5.23, financial capital has a statistically significant positive relationship with SME performance. The findings demonstrated a positive beta of 0.401 and a p-value <0.001 . Consequently, the researcher supported H^3 and concluded that there is a relationship between financial capital and SME performance.

TABLE 5.23: STATISTICAL SIGNIFICANCE OF INDEPENDENT VARIABLES MODEL COEFFICIENTS

Model	UNSTANDARDISED COEFFICIENTS		STANDARDISED COEFFICIENTS	T-VALUE	P
	B	STD. ERROR	BETA		
1 (Constant)	-2.953	0.045	-	0.000	1.000
Financial knowledge	0.069	0.059	0.064	1.177	0.240
Financial behaviour	0.093	0.074	0.086	1.265	0.207
Financial attitude	0.013	0.073	0.013	0.181	0.856
Bonding social capital	0.040	0.069	0.039	0.590	0.556
Bridging social capital	0.072	0.061	0.071	1.174	0.241
Linking social capital	0.129	0.068	0.124	1.880	0.061
Financial capital	0.401	0.069	0.357	5.839	<0.001

a Dependent Variable: SME performance

5.9.2 Independent T-test and analysis of variance of results (ANOVA)

This section discusses the findings of the T-test and Analysis of Variance (hereafter ANOVA) and whether they revealed any statistically significant differences in factor scores according to demographic variables. The independent sample T-test was used to determine whether there were any significant differences between the two groups, and the ANOVA was conducted for three or more groups. In particular, this section examines whether demographic variables, such as gender, played a role in how respondents responded to the statements about their financial knowledge, bonding, bridging and linking social capital, and SME performance. Similar to Section 5.7, the mean scores for each factor were classified as Disagree [1-2.599], Neutral [2.600-3.599] and Agree [3.600-5.000].

Hypothesis 4: H^{4a} : There are statistically significant differences in human, social and financial capital and SME performance according to the respondent's gender.

An ANOVA was conducted to determine any statistically significant differences between gender and independent and dependent variables. Table 5.24 illustrates that significant differences were found in financial knowledge and financial capital. No significant differences were found between gender and the other independent and dependent variables. The study found that both female (mean = 3.239; SD = 0,844) and male (mean = 2.853; SD = 0.943) respondents exhibited a neutral stance towards their financial knowledge. The analysis also showed gender-based differences with financial capital. Both genders displayed neutral stances; however, females (mean = 3.554; SD = 0.757) scored slightly higher than males (mean = 3.321; SD = 0.862).

TABLE 5.24: MEAN AND STANDARD DEVIATION FOR THE GENDER GROUP COMPARISON

FACTOR		MEAN	STANDARD DEV (SD)
Financial Knowledge	Female	3.239	0,844
	Male	2.853	0.943
Financial Capital	Female	3.554	0.757
	Male	3.321	0.862

Source: Researcher's construction

Hypothesis 4: H^{4b} : There are statistically significant differences in human, social, and financial capital and SME performance according to the respondent's age.

A one-way ANOVA was used to assess whether there were significant differences between independent and dependent variables according to respondents' age. The analysis showed a significant difference between SME performance and the age of respondents. No significant differences were found between other variables. A Levene's Homogeneity of Variance test was employed; the test revealed that the variables violated the homogeneity assumption. As such, an ANOVA was conducted, which indicated a significant overall difference between SME performance and age. Subsequently, the post-hoc analysis revealed differences amongst age groups. Thereafter, the descriptive statistics (as shown in Table 5.25) provided a clearer picture of differences in factor scores. The analysis revealed that respondents below 29 years old (mean = 3.780; SD = 0.736) and respondents between 30-39 years old (mean = 3.800; SD = 0.806) agreed with statements related to the performance of the enterprise. Whilst the oldest age group (40 years or older) had a neutral stance towards these statements (mean = 3.448; SD = 0.860).

TABLE 5.25: MEAN AND STANDARD DEVIATION FOR THE AGE GROUP COMPARISON

FACTOR		MEAN	STANDARD DEV (SD)
SME Performance	Below 29 years old	3.780	0.736
	30 – 39 years old	3.800	0.806
	40 years old or older	3.448	0.860

Source: Researcher's construction

Hypothesis 4: H^{4c} : There are statistically significant differences in human, social and financial capital and SME performance according to the respondent's highest qualification.

No significant differences were found in the average score according to the respondent's highest qualification. The ANOVA revealed significant differences between financial knowledge and bonding social capital, however, Tukey's HSD analysis revealed insignificant (sig > 0.05) overall differences in factor scores across all variables. As such, the test failed to pinpoint specific group differences.

Hypothesis 4: H^{4d} : There are statistically significant differences in human, social and financial capital and SME performance according to the respondent's academic field.

A one-way ANOVA was employed to determine the influence of respondent's academic field on independent and dependent variables. The ANOVA demonstrated a significant overall difference in the factor scores for financial knowledge, bridging social capital and financial capital. However, no significant differences were found for other variables. Levene's Homogeneity of Variance test confirmed that the variances met the assumptions for further analysis. Subsequently, the Turkey HSD test identified differences among respondents in commerce, law, health science and agriculture, and engineering and science fields. Descriptive statistics were used to determine differences, as shown in Table 5.26.

The analysis indicated that respondents whose academic background related to Commerce (mean = 2.940; SD = 0.938), Health Science (mean = 3.567; SD = 0.963) and Law (mean = 2.770; SD = 0.811) had a neutral stance towards statements related to their financial knowledge. The study also found that respondents with a commerce background agreed with statements about their bonding social capital (mean = 3.909; SD = 0.773). Moreover, the study investigated respondents' financial capital and uncovered that those in Agriculture, Engineering And Science (mean = 3.669; SD = 0.861) background had also agreed with these statements.

TABLE 5.26: MEAN AND STANDARD DEVIATION FOR THE ACADEMIC FIELD GROUP COMPARISON

FACTOR		MEAN	STANDARD DEV (SD)
Financial knowledge	Commerce	2.940	0.938
	Health Science	3.567	0.963
	Law	2.770	0.811
Bridging social capital	Commerce	3.909	0.773
	Other	3.468	0.833
Financial capital	Agriculture, Engineering and Science	3.669	0.861
	Other	3.159	0.790

Source: Researcher's construction

Hypothesis 5: H^{5a} : There are statistically significant differences in human, social and financial capital and SME performance according to the respondent's role in the enterprise.

A T-test was conducted to determine significant differences between the role of respondents and independent and dependent variables. Unlike previous analyses, a T-test was used to determine whether there were any significant differences between the two groups (i.e., manager and owner/manager). The test revealed significant differences between the respondent's role and their bonding social capital and the performance of the enterprise. Table 5.27 details the descriptive statistics. The analysis showed that the owner had a higher level of agreement with statements related to their bonding social capital (mean = 3.993 SD = 0.794) and SME performance (mean = 3.868 and SD = 0.780) than respondents who purely played a managerial role.

TABLE 5.27: MEAN AND STANDARD DEVIATION FOR THE ROLE IN THE ENTERPRISE GROUP COMPARISON

FACTOR		MEAN	STANDARD DEV (SD)
Bonding social capital	Manager	3.684	0.794
	Owner	3.993	0.794
SME performance	Manager	3.608	0.797
	Owner	3.868	0.780

Source: Researcher's construction

Hypothesis 5: H^{5b} : There are statistically significant differences in human, social and financial capital and SME performance according to the size of the enterprise.

An independent T-test was conducted to examine the influence of size of the enterprise on the independent and dependent variables. Specifically, the test aimed to identify significant differences between small enterprises (11-49 employees) and medium enterprises (50-200 employees). Levene's Homogeneity of Variance test confirmed the assumption of equal variances across groups. Subsequently, a Tukey's Honestly Significant Difference (HSD) test was conducted to pinpoint specific group differences. The results revealed a significant overall difference in factor scores for financial knowledge, bridging social capital, and linking social capital. Notably, no significant differences were found for other variables.

To gain a clearer understanding of these disparities, descriptive statistics were analysed for financial knowledge and linking social capital (Table 5.28). Interestingly, the analysis indicated a neutral stance towards financial knowledge statements among owners/managers in small (mean = 3.167; SD = 0.851) and medium enterprises (mean = 2.999; SD = 0.943). However, owners/managers from medium enterprises displayed a higher level of agreement regarding bridging (mean = 3.855; SD = 0.759) and linking social capital (mean = 4.221; SD = 0.590) compared to their counterparts in small enterprises.

TABLE 5.28: MEAN AND STANDARD DEVIATION FOR THE SIZE OF THE ENTERPRISE GROUP COMPARISON

FACTOR		MEAN	STANDARD DEV (SD)
Financial Knowledge	11 - 49 employees	3.167	0.851
	50 - 200 employees	2,999	0.943
Bridging Social Capital	11 - 49 employees	3.657	0.847
	50 - 200 employees	3.855	0.759
Linking Social Capital	11 - 49 employees	4.067	0.645
	50 - 200 employees	4.221	0.590

Source: Researcher's construction

Hypothesis 5: H^{5c} : There are statistically significant differences in human, social and financial capital and SME performance according to the enterprises' years of operation.

No significant differences were found in the average score according to the years the enterprise has been operational. The one-way ANOVA revealed insignificant (sig > 0.05) overall differences in factor scores across all variables.

5.10 SUMMARY OF HYPOTHESES AND SIGNIFICANT RELATIONSHIPS

The primary aim of this study was to investigate whether there is a relationship between human, social, and financial capital and SME performance. The first hypothesis (H^1) investigating whether a significant relationship between human capital and SME performance was not supported due to a Heywood case. As such, subfactors under human capital were regarded as independent variables (financial knowledge, behaviour, and attitude). These subfactors were tested to determine whether they had a significant relationship with SME performance (see H^{1a} , H^{1b} H^{1c}). This study found no significant relationship between financial knowledge, behaviour, and attitude and SME performance.

Regarding social capital, it was disaggregated into sub-factors; bonding, bridging, and linking social capital (see H^{2a} , H^{2b} H^{2c}). This study found no significant relationship between bonding, bridging and linking social capital and SME performance. Moreover, a relationship between financial capital and SME performance was investigated. Upon analysis the study uncovered that financial capital had a significant positive relationship with SME performance. Lastly, the study investigated whether there were any statistically significant differences in human, social, and financial capital and SME performance according to the demographic and enterprise-related variables. This hypothesis (H^4 and H^5) is supported and discussed in detail in Section 5.8. The table below presents a summary of the results for the hypotheses tests.

TABLE 5.29: SUMMARY OF RESULTS FOR THE HYPOTHESES TESTS

HYPOTHESIS NUMBER	HYPOTHESIS	SUPPORTED	STATISTICAL SUPPORT
H^1	There is a significant relationship between human capital and SME performance.	-	Disregarded after conducting CFA, refer to Section 5.5.2.1
H^{1a}	There is a significant relationship between financial knowledge and SME performance.	Not supported	b = 0.069; t = 1.177; p = 0.240
H^{1b}	There is a significant relationship between financial behaviour and SME performance.	Not supported	b = 0.093; t = 1.265; p = 0.207
H^{1c}	There is a significant relationship between financial attitude and SME performance.	Not supported	b = 0.013; t = 0.181; p = 0.856
H^2	There is a significant relationship between social capital and SME performance.	-	-
H^{2a}	There is a significant relationship between bonding social capital and SME performance.	Not supported	b = 0.040; t = 0.590; p = 0.556
H^{2b}	There is a significant relationship between bridging social capital and SME performance.	Not supported	b = 0.072; t = 1.174; p = 0.241
H^{2c}	There is a significant relationship between linking social capital and SME performance.	Not supported	-
H^3	There is a significant relationship between financial capital and SME performance.	Supported	b = 0.401, t = 5.839, p < 0.001

HYPOTHESIS NUMBER	HYPOTHESIS	SUPPORTED	STATISTICAL SUPPORT
H^4	There are statistically significant differences in human, social and financial capital and SME performance according to demographic variables.	-	-
H^{4a}	There are statistically significant differences in human, social and financial capital and SME performance according to the respondent's gender.	Supported for financial knowledge and financial capital	-
H^{4b}	There are statistically significant differences in human, social and financial capital and SME performance according to the respondent's age.	Supported for SME performance	-
H^{4c}	There are statistically significant differences in human, social and financial capital and SME performance according to the respondents highest qualification.	Not Supported	-
H^{4d}	There are statistically significant differences in human, social and financial capital and SME performance according to the respondents' academic field.	Supported for financial knowledge, bridging social capital and financial capital	-
H^5	There are statistically significant differences in human, social and financial capital and SME performance according enterprise related variables.	-	-
H^{5a}	There are statistically significant differences in human, social and financial capital and SME performance according to the role of the respondent.	Supported for bonding social capital and SME performance	-
H^{5b}	There are statistically significant differences in human, social and financial capital and SME performance according to the size of the enterprise.	Supported for financial knowledge, bridging and linking social capital.	-
H^{5c}	There are statistically significant differences in human, social, and financial capital and SME performance based on the age of the enterprise.	Not supported	-

Source: Researcher's construction

5.11 SUMMARY OF CHAPTER

This chapter presents the results of the statistical analysis, which examined the relationships between the independent variables (human, social, and financial capital) and the dependent variable (SME performance). The study received 334 complete responses, yielding a 20.00 percent response rate. The demographic profile of the respondents revealed that the majority were female, aged 29 or younger, and held degrees in commerce. These respondents were primarily managers of small enterprises, operating for approximately three to seven years, and located in Gauteng.

The chapter begins with a detailed exploration of the descriptive statistics for each item on the online self-administered questionnaire. This analysis provided insights into the respondents' perceptions and feedback regarding the various constructs. The findings indicated that respondents exhibited a neutral stance towards their financial knowledge and financial capital. They also expressed agreement with statements related to their bridging social capital and SME performance. Furthermore, respondents reported higher levels of agreement with statements concerning their financial behaviour, financial attitude, bonding social capital, and linking social capital.

The validity and reliability of the measurement instrument were rigorously assessed. Content validity was established through a pilot study and expert reviews, which confirmed that the questionnaire items accurately reflected the conceptualised variables. Construct validity was evaluated using a CFA, while the accuracy and credibility of the findings were determined by calculating Cronbach's alpha coefficients, which demonstrated adequate reliability for all variables.

Spearman correlation analysis was employed to examine the linear correlations, strength, and direction between the variables. The results revealed the strongest significant correlations between financial behaviour and financial attitude, as well as financial attitude and bonding social capital. Interestingly, a weak negative association was found between financial knowledge and financial attitude, and a strong negative association was observed between financial knowledge and financial capital.

The primary objective of this study was to investigate the relationships between the independent variables (financial knowledge, financial behaviour, financial attitude, bonding social capital, bridging social capital, linking social capital, and financial capital) and the dependent variable (SME performance). Multiple linear regression analysis was used to determine the predictive capacity of the independent variables. The findings indicated that financial capital had a positive relationship and could significantly predict SME performance. Additionally, T-tests and ANOVAs were conducted to ascertain whether the independent and dependent variables differed according to various demographical characteristics, such as gender, age, highest qualification, and academic field and enterprise-related variables such as the role of the respondents, size of the enterprise and years of operation.

The analysis revealed several statistically significant differences among the variables; however, the enterprise's years of operation and the respondents' highest qualification did not influence the independent and dependent variables.

The following chapter concludes the study and summarises the previous chapters, conclusions, and recommendations.

CHAPTER 6

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

The previous chapter presented the results obtained from the statistical analysis and reported the relationships between the independent (human, social, and financial capital) and dependent (SME performance) variables. The purpose of this chapter is to present an overview of the study, including the literature reviewed and the research process that followed. A discussion and interpretation of the main empirical findings follows, as well as the respondents' demographic profile and the results' validity and reliability. In addition, the chapter provides a summary, discussion, and interpretation of the significant relationships identified during data analysis. Furthermore, suitable recommendations are made based on these relationships, which will assist SME owners/managers. In addition, policymakers and educators of entrepreneurship, by knowing which resources contribute to the performance of SMEs in South Africa, can develop critical policies and curricula to foster these resources. Finally, the study's contributions are considered, and the limitations and opportunities for future research are provided.

6.2 OVERVIEW OF RESEARCH

Small and medium-sized enterprises (SMEs) have been acknowledged as vital contributors to unstable economic conditions and unprecedented circumstances (Sidek *et al.*, 2020). They are instrumental in driving economic growth, promoting social development, fostering innovation, and ensuring environmental sustainability. Furthermore, SMEs are an ubiquitous feature of both developed and developing economies, comprising the vast majority of businesses worldwide. Despite their crucial role, it is estimated that up to 80 percent of SMEs in South Africa fail within the first two years of operation (Fatoki, 2014; Cant and Wiid, 2013).

Several challenges affect SMEs' ability to realise their full potential, including the lack of managerial skills, financial literacy, networking skills, and access to finance and infrastructure. These factors suggest that SME owners and managers lack human, social and financial capital. Studies (Unger *et al.*, 2011; Marvel, Davis and Sproul, 2014; Linder, Lechner and Pelzel, 2020) indicate that entrepreneurs can discover fewer contested opportunities with human and social

capital while financial capital helps them pursue them. Furthermore, Engström and McKelvie (2017) noted that an entrepreneur's ability to evaluate perceived opportunity requires a sound level of financial literacy.

Multiple research endeavours have been undertaken to explore the impact of human, social, and financial capital on SME performance. However, it is noteworthy that a relatively small number of these studies have examined this from the viewpoint of a developing country. Thus, they fail to account for the diverse challenges that such countries face, such as widespread poverty, income inequality, limited access to quality education, and high levels of unemployment. Therefore, the primary goal of this study was to investigate the relationship between financial knowledge, behaviour, and attitude (proxies for human capital), social (including bonding, bridging, and linking social capital), and financial capital and SME performance in South Africa. This study followed an approach different from previous studies by including financial literacy as a proxy of human capital. This study acknowledged that entrepreneurs in South Africa frequently lack access to secondary and tertiary education, training, and meaningful work experiences, all of which are critical components of human capital. Consequently, the research presented the case for financial literacy as a more compassionate and practical measure of human capital, given the unique challenges faced by entrepreneurs in South Africa.

6.3 RESEARCH PROCESS

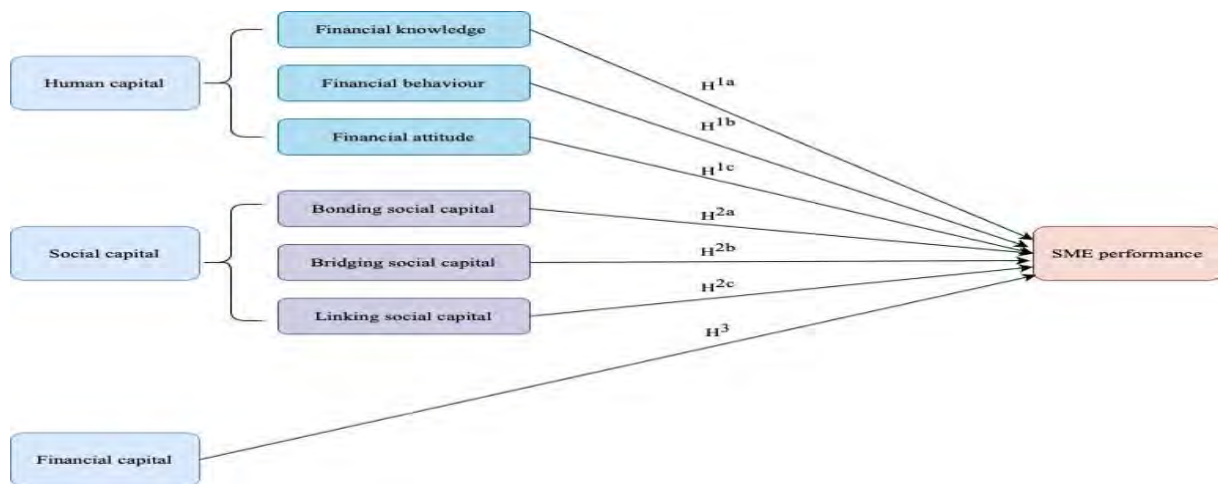
This study commenced with a comprehensive literature review of the importance and challenges SMEs face in South Africa. In Chapter 2, the study conceptualises SMEs by defining what SMEs are. It examined the definitions of SMEs in low, lower-middle, upper-middle, and high-income countries due to the lack of a universally accepted definition of SME. SMEs were defined according to the National Enterprise Act of 1996. This chapter also explored the importance of SMEs for economic development, the factors that contribute to the decline of SMEs, and the factors that prevent them from realising their full potential.

Thereafter, an overview of entrepreneurship theories were provided. Cantillon (1755), a seminal entrepreneurship author, argued that enterprise performance depends on the entrepreneur being a risk-taker. Say (1880) and Marshall (1920) added that the entrepreneur should be an innovator and leader and possess specialised abilities such as experience and

business knowledge. Although the literature on attributes that contribute to enterprise performance highlights risk-taking as a fundamental attribute, Schumpeter (1934) claims that innovation is the key attribute. The above-mentioned theories were found unsuitable for the study, as the researcher argues that successful entrepreneurship is not due to one's inborn characteristics or ability to exploit opportunities but rather one's ability to access resources. As such, the study's theoretical framework was based on the resource-based theory (refer to Chapter 3 for a detailed discussion).

Considering the comprehensive literature review, a hypothesised model was developed (see Chapter 3). This hypothesised model investigated the relationship between the independent variables, human (financial literacy was deemed a proxy for human capital and included these sub-variables financial knowledge, behaviour, and attitude), social (bonding, bridging, and linking social capital), and financial capital, and the dependent variable, SME performance. See Figure 6-1 of the hypothesised model for ease of reference.

FIGURE 6.1: HYPOTHESISED MODEL OF RELATIONSHIP BETWEEN HUMAN, SOCIAL AND FINANCIAL CAPITAL AND SME PERFORMANCE



Source: Researcher's construction

To test the hypothesised model, specific procedures and techniques were followed to locate, select, process, and analyse information regarding human, social, and financial capital and SME performance. A post-positivist research paradigm was adopted because of its modern outlook and ability to allow researchers to consider social reality and phenomena. A causal research design was followed to determine whether any relationships exist between human,

social, and financial capital and SME performance. Furthermore, a survey research strategy was used to collect data for this study. An online self-administered questionnaire was emailed to SME owners/managers located and operating in South Africa.

The items on the online self-administered questionnaire were adopted from previously developed measurement instruments. The items were reworded and restructured to suit the context of this study. A pilot study was conducted before the main study. This helped ensure the online self-administered questionnaire was feasible, relevant, and clearly worded. Refinements were made to the questionnaire; thereafter, a link to the online self-administered questionnaire and a cover letter were distributed via email to respondents. The link to the online self-administered questionnaire was sent to 1 669 potential respondents who were identified using a convenience sampling technique, as discussed in Chapter 4 Section 4.6. A total of 334 useable responses were obtained.

Subsequently, the data was cleaned to ensure it was ready for the analysis. The demographic profile of respondents was analysed, revealing that most respondents were female between the ages of 29 years and younger and held a degree in the commerce field. These women are primarily managers of small enterprises operating for approximately three to seven years and are mainly located and operational in the Gauteng province.

Descriptive statistics were conducted for each item using an online self-administered questionnaire. The analysis revealed that respondents had moderate levels of financial knowledge; however, they indicated positive financial attitudes and financial behaviour. In addition, the study found that the respondents had strong bonds, a broad network of business contacts, and good relations with their suppliers, and they used these relations to get ahead of their competitors. The study also discovered that respondents have connections with individuals of higher power or influence who can assist them in developing their enterprise; however, a small number of respondents contacted these individuals to ask for assistance from their enterprise. The study revealed that financial capital consisted of the money they saved, and the majority of respondents had adequate capital or access to it to grow the enterprise. Overall, respondents were satisfied with the performance of the enterprise; they indicated that they were recovering well from the impact of COVID-19. Finally, only a small percentage of respondents believed their profitability and sales growth lagged because of the pandemic.

The validity and reliability of the measuring instrument were determined. The content validity of the study was determined by conducting a pilot study and requesting several experts in the field to review the measuring instrument. A CFA was conducted to confirm the construct validity of the questionnaire; while conducting the CFA, problems were experienced with the variable human capital (see Chapter 5, Section 5.5.2.1.4). Consequently, human capital was removed as a 2nd order factor and financial knowledge, financial behaviour, and financial attitude were used as independent variables. Furthermore, the accuracy and reliability of the study's findings were determined by calculating Cronbach's alpha coefficient. All the variables demonstrated adequate reliability scores greater than 0.6 and were included for further analysis.

Moreover, a spearman rank correlation was conducted to determine any correlation between independent and dependent variables. Upon analysis, the strongest significant correlations were determined between financial behaviour and financial attitude, as well as financial attitude and bonding social capital. Intriguingly, a weak negative association was found between financial knowledge and financial attitude, and a strong negative association was observed between financial knowledge and financial capital. However, the multiple linear regression analysis uncovered that only financial capital had a positive relationship with SME performance.

6.4 ACHIEVEMENT OF THE RESEARCH OBJECTIVES

Table 6.1 summarises the study's objectives and the relevant chapter(s) where these objectives were discussed.

TABLE 6.1: THE ACHIEVEMENT OF RESEARCH OBJECTIVES AND THE RELEVANT CHAPTER(S)

PRIMARY OBJECTIVE	RELEVANT CHAPTER(S)
The primary goal of this study was to investigate the relationship between human (financial knowledge, financial behaviour and financial attitude), social (bonding, bridging and linking social capital) and financial capital and SME performance in South Africa.	All chapters
SECONDARY OBJECTIVE	
To develop a conceptual framework that will be empirically tested in this study.	Chapter 5
To determine the relationships between the independent variable (human, social and financial capital) and the dependent variable (SME performance).	Chapter 5
To determine whether the independent variables (human, social and financial capital) predicts the dependent variable (SME performance)	Chapter 5
To determine whether there are any statistically significant differences in human, social and financial capital and SME performance according to demographical variables.	Chapter 5
To determine whether there are any statistically significant differences in human, social and financial capital and SME performance according to enterprise-related variables.	Chapter 5
To make recommendations based on the findings of the study regarding the relationship between human, social and financial capital and SME performance.	Chapter 6
METHODOLOGICAL OBJECTIVES	
To undertake a literature review of the role, importance and challenges of SMEs in South Africa.	Chapter 2
To undertake a literature review into the role of human, social and financial capital in the performance of SMEs in South Africa.	Chapter 3
To develop a hypothesised model of the relationship between human (financial knowledge, financial behaviour, financial attitude) social and financial capital and SME performance.	Chapter 4
To find a research design and methodology fitting to achieve the primary and secondary objectives of the study.	Chapter 4
To develop a measuring instrument to collect data that was used to assess the hypothesised relationships.	Chapter 4 Annexure A
To report on the results obtained from the statistical analysis conducted.	Chapter 5
To make recommendations based on the findings of the study regarding the relationship between human, social and financial capital and SMEs performance.	Chapter 6

6.5 DISCUSSION AND INTERPRETATION OF THE MAIN EMPIRICAL FINDINGS

The following subsections provide detailed discussion and interpretation of the empirical findings. These sections focus on how human, social, and financial capital contribute to SME

performance, and offer suitable recommendations to SME owners/managers in developing these capitals to improve their enterprise performance (both financial and non-financial).

6.5.1 Demographic profile of respondents

The respondents in this study can be described as the owners/managers of successful SMEs. Due to the lack of separation between ownership and control, this study included owners of SMEs and managers, as they are often responsible for the daily running of an enterprise (Fatoki, 2011). These individuals are primarily young female adults, mostly well-educated, and have a commercial background. These women are mostly managers of small enterprises that have been operating for approximately three to seven years and are primarily located and operational in the Gauteng Province of South Africa.

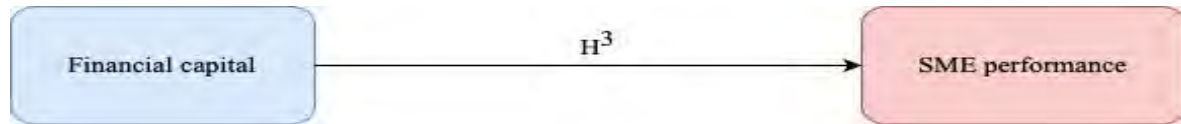
The researcher found it surprising that most owners/managers in the study were female adults from South Africa, as ownership and management were traditionally considered male responsibilities in African countries (Garwe and Fatoki, 2012). In addition, many owners/managers are young, indicating that young people have more appetite for entrepreneurship, which was previously reserved for the older generation (Business Tech, 2013). The increasing number of young entrepreneurs in South Africa (as seen in this study) illustrates that individuals see entrepreneurship as an alternative to finding employment due to South Africa's high unemployment rate. This suggests good progress towards the development of entrepreneurs, as Bowmaker-Falconer and Meyer (2022) emphasise that women and youth are critical levers for economic growth and development in South Africa.

6.5.2 Discussion and interpretation of significant relationships identified and recommendations made

A multiple linear regression analysis was conducted to identify relationships between the independent and dependent variables, as seen in Table 5.29 in Chapter 5 of this study. Upon analysis, the study only found a significant positive relationship between financial capital and SME performance (hypothesis: H^3). Note that other hypothesis including; H^{1a} ; H^{1b} H^{1c} ; H^{2a} ; H^{2b} ; H^{2c} are not supported. This section presents a discussion and interpretation of the relationship between financial capital and SME performance. In addition, suitable recommendations are presented for developing SME performance in South Africa.

Figure 6.2 represents the relationship between Financial Capital and SME Performance, one of the secondary objectives listed in Table 6.1.

FIGURE 6.2: THE RELATIONSHIP BETWEEN FINANCIAL CAPITAL AND SME PERFORMANCE



Source: Researcher's construction

The study's findings demonstrated that Financial Capital is significantly and positively related to SME Performance. Therefore, hypothesis H^3 was supported. This suggests that SMEs are more likely to perform better if they have sufficient capital or access to capital in the form of debt (for example, loans) or equity (for example, venture capitalists or angel investors). This is supported by existing literature (Orser, Riding and Manley, 2006; Danes *et al.*, 2009; Cetindamar *et al.*, 2012; Adomako and Danso, 2014; Derera, Chitakunye and O'Neil, 2014; Abiodun and Amos, 2018; and Linder, Lechner and Pelzel, 2020). These studies indicate that entrepreneurs with Financial Capital can effectively exploit opportunities, weather any threats that surface, and allow for the pursuit of capital-intensive strategies better protected from imitation. Furthermore, Financial Capital enables enterprises to purchase fixed and current assets (such as buildings, machinery, and vehicles) that are key to sustaining a competitive advantage.

In light of the relationship between Financial Capital and SME performance, the following recommendations are proposed:

- The researcher suggests that SME owners/managers should explore more affordable funding methods, such as low-interest loans, government grants, crowdfunding, and using venture capitalists or angel investors. This ensures owners/managers have sufficient capital to sustain and grow their enterprise.
- The researcher proposes that SME owners/managers actively familiarise themselves and apply for funding or credit offered by government agencies, such as the Small Enterprise Development Agency (SEDA), Small Enterprise Finance Agency (SEFA), or National Youth Development Agency (NYDA).

- The researcher proposes that SME owners/managers form a group where they put money together like a stokvel, and this money can be loaned from the stokvel by entrepreneurs to finance the business.
- Educators of entrepreneurship and organisations involved in the development of SMEs (for instance, Chambers of Commerce or Business Forum) and government agencies should offer training sessions where potential or nascent entrepreneurs learn how to find sources of financing and what kind of financing is suitable for their enterprise. In addition, they can learn how to complete credit application forms and other required documents.
- It is imperative that government agencies and organisations involved in the development of SMEs engage the services of consultants to aid SME owners/managers in their loan applications and devise plans for loan repayment.
- Given the growing number of young entrepreneurs, it is acknowledged that these individuals often lack collateral and have poor credit ratings. As a result, it is recommended that financial institutions, such as banks, reformulate their lending practices to accommodate this demographic.

6.5.3 Recommendations based on the Independent T-test and ANOVA results

A group comparison was conducted to determine whether there were any statistically significant differences in human, social, and financial capital and SME performance according to demographical variables. The findings revealed significant differences in financial knowledge, bridging and bonding social capital, financial capital, and SME performance according to the respondents' gender, age, role in the enterprise, size of the enterprise, and academic field. However, no statistical differences were found between the independent and dependent variable and the respondents' highest qualification and number of years the enterprise has been operational.

6.5.3.1 ANOVA: Gender

- **Financial knowledge and gender**

The study revealed a disparity in financial knowledge, with male respondents scoring higher on the financial knowledge compared to female respondents. This suggests that male respondents had a greater level of financial knowledge in this study. The gender gap in financial literacy has left several researchers puzzled (see Chen and Volpe, 1998; Lusardi and Mitchell, 2007, 2008; Wagland and Taylor 2009; Lusardi, Mitchell and Curto, 2010; Oseifuah, 2010;

Fillpiak and Walle, 2015; Hasler and Lusardi, 2017; Tinghög, Ahmed, Barrafreem, Lind, Skagerlund and Västfjäll, 2021; Rink, Walle and Klasen, 2021). Ute and Yabibal (2015) investigated whether the gender gap in financial literacy is due to nature or nurture. They conducted a quasi-experiment to compare the financial literacy of individuals living in a matrilineal environment with those living in a patriarchal environment. Ute and Yabibal (2015) found that, on average, women were less knowledgeable than men regarding financial instruments and practices. However, Fillpiak and Walle (2015) discovered no differences in financial knowledge among individuals living in matrilineal cultures. In contrast, women who lived in a patriarchal environment were financially less literate than matrilinear women. These findings indicate that culture and gender norms embedded in society have largely contributed to the gender gap in financial literacy, resulting in women being risk-averse, lacking the necessary confidence to make financial decisions, and uninterested in improving financial knowledge.

Interestingly, in 2020, the Financial Sector Conduct Authority (FSCA) conducted a study on the financial literacy of South Africans and found that female respondents were more financially literate than men (Klassen, 2022). This finding is staggering in a patriarchal society such as South Africa, given that men traditionally manage household finances. This suggests a form of financial emancipation over time as women become more educated and employed. As such, for South Africans to continue in this trajectory, this study recommends that educators at all levels of education should incorporate financial education into their curriculums. For instance, these educators can have guest speakers who educate students about personal finance, investing, and budgeting. In addition, educators can include savings and investment simulations such as the Johannesburg Stock Exchange (hereafter JSE) Investment Challenge to allow students to practice investing in shares without risk. Moreover, organisations involved in developing SMEs should encourage women empowerment by hosting workshops or seminars that train women entrepreneurs on key financial skills that will assist them in the enterprise's day-to-day running.

The study advocates that policymakers adopt a formal tone and incorporate financial literacy into educational curriculums at an early age to provide young girls with a strong foundation of financial knowledge. Additionally, policymakers can implement policies that promote financial inclusion among women and remove obstacles that hinder access to banking services and credit. Lastly, it is suggested that women entrepreneurs place significant emphasis on

enhancing their financial literacy. This may involve associating oneself with other entrepreneurs who possess greater financial acumen, as Danes (1994), Shim, Barber, Card, Xiao and Serido (2009), Gudmunson and Danes (2011) and LeBaron and Kelley (2021) suggest that individuals tend to acquire financial knowledge, attitude and behaviour from socialisation agents such as family, friends, peers. Additionally, this study recommends that women entrepreneurs seek opportunities to expand their financial knowledge and expertise.

- **Financial capital and gender**

The study found that female respondents felt they had sufficient start-up capital and access to capital to grow their enterprise, unlike their male counterparts. This finding is surprising, as studies often find that female entrepreneurs have difficulty obtaining formal financial support compared to men (see Abor and Biekpe, 2006; Orser, Riding and Manley, 2006; Derera, Chitakunye and O'Neil, 2014; Derera, Chitakunye, O'Neill and Tarkhar-Lail, 2014; Solano and Rooks, 2018; Camarena, Feerey and Lecy, 2021; Lueg and Ni, 2020; Brixiová, Kangoye, and Tregenna, 2020). These studies indicate that female entrepreneurs are often on the back foot when trying to obtain formal financial support because of discrimination in lending practices and discriminatory sociocultural values and traditions. Derera, Chitakunye and O'Neil (2014) explore the impact of gender on start-up capital in South Africa and find that women entrepreneurs do not have the same opportunities as men in accessing start-up capital. They (Derera, Chitakunye and O'Neil, 2014) deduced that land in South Africa was traditionally owned by men and women were deprived of positions of power. Thus, women often do not meet these requirements when applying for loans because they cannot provide collateral and lack managerial experience. While access to capital remains a significant barrier to women becoming entrepreneurs, Atarah, Pephrah, Amartey and Bamfo (2019) indicate that more women are finding innovative ways to overcome it. Atarah *et al.* (2019) found that women use social capital to access various resources to start and run their enterprises. Their social networks have given them access to formal financial support such as loans, overdrafts, supplier credit, interest-free loans from family and friends, and investors.

Although this finding is noteworthy, the study proposes that women entrepreneurs participate in training workshops focusing on debt management and effective debt repayment strategies when using debt to expand their enterprise. These training workshops can be facilitated by organisations involved in developing SMEs, and educators of entrepreneurship can include this in their curriculums. Moreover, this study recommends that policymakers remove barriers that

prevent women entrepreneurs from accessing debt and develop policies that allow them to access funding. The study also recommends that entrepreneurs use social networks to access financial support.

6.5.3.2 ANOVA: Age

- **SME performance and age**

The results of this study indicate that the age of respondents impacts the enterprise's performance. Respondents who were 39 years or younger revealed that they were satisfied with the financial and non-financial performance of the enterprise. In comparison, respondents who were 40 years or older were less satisfied with the performance of the enterprise. This finding is surprising, as one would expect that SMEs operated by an older owner/manager would succeed, as they may have accumulated enough capital and have more experience, expertise, and extensive social networks. From the perspective of seasoned SME owners/managers, it is possible to infer that the current economic climate may be challenging, particularly compared to their past experiences.

Furthermore, the pandemic has profoundly impacted the business landscape, which may have caused significant disruptions for older generations, in particular. This study recommends that SME owners/managers prepare better for future pandemics or unexpected crises, allowing them to mitigate risks better, navigate challenges, and sustain their operations during these times. In addition, government agencies can assist SMEs during pandemics by providing financial assistance, stimulus packages, advisory services, tax relief and incentives. Organisations involved in developing SMEs and entrepreneurship educators should also offer workshops or seminars to train owners/managers on developing risk mitigation strategies.

6.5.3.3 Independent T-test: Role of the respondent

- **SME performance and the role of the respondents**

The study found that the respondent's role in the enterprise contributes to SMEs' financial and non-financial performance. The owners of SMEs were more satisfied with their performance than the managers were. In many small enterprises, the owner is often not involved in the daily operations of the enterprise, and these responsibilities are often delegated to the manager. Agency theory explains that the separation of ownership from control may result in a lack of alignment between the owner and manager (Schulze, Lubatkin, Dino and Buchholtz, 2001).

The theory points out that conflicts of interest and information asymmetry between owners and managers cause bias that affects their behaviour and decision-making (Schulze, Lubatkin, Dino and Buchholtz, 2001). This can result in a goal misalignment, where the owner and manager may have different objectives for the enterprise. For instance, the owner may value the long-term growth and profitability of the enterprise, whereas the manager may value short-term performance or personal objectives. Goal misalignment may explain the lack of agreement regarding satisfaction with the enterprise's performance. Managers may be less satisfied with the performance of SMEs due to the effects of COVID-19, decreasing the profitability and growth of enterprises. This may have resulted in their personal goals not being obtained or not meeting the incentivising targets.

Furthermore, agency theory highlights that the relationship between the owner and the manager may result in information asymmetry. Managers may possess more detailed information about the enterprise as they are involved in its day-to-day operations. The information asymmetry between owner(s) and manager(s) can also explain the lack of agreement regarding satisfaction with SME performance. Managers may have more detailed information regarding the effect of COVID-19 on the growth and profitability of the enterprise and whether the enterprise is recovering well from these effects, which may explain why managers are less satisfied with the performance of the enterprise. However, owners may base their level of satisfaction with the performance of the enterprise on a helicopter view of the enterprise's performance.

It is highly recommended that owners and managers maintain formal and professional communication regarding the objectives of the enterprise so that all parties are fully informed and work collaboratively towards a shared vision. Furthermore, it is suggested that SME owners implement performance-based incentives aligned with the enterprise's goals and regularly monitor the organisation's performance while maintaining accountability.

- **Bonding social capital and the role of the respondent**

As previously discussed, the agency theory assists in understanding the inherent differences between managers and owners, such as conflicts of interest, varying levels of personal investment, and divergent long-term perspectives. Consistent with this theory, the T-test analysis showed significant differences between managers and owners' levels of bonding social capital. Owners of SMEs indicated that they had closer and stronger bonds with their family,

close friends, and spouses/partners than managers. Additionally, these bonds contributed toward the performance of the enterprise.

The agency theory suggests that owners, having a direct personal stake in the success of the enterprise, are more likely to prioritise the development and maintenance of their social networks, as these networks facilitate resource sharing, support, and advice, which are crucial for the long-term growth of the enterprise. In contrast, managers may not be as invested in the enterprise's long-term growth, and cultivating such networks may not be a priority for them. Thus, this study recommends that owners incorporate the development of social networks as part of the key performance indicators for managers. Broadening the social networks managers can assist the enterprise in accessing crucial resources and contribute to the overall success of the enterprise.

6.5.3.4 Independent T-test: Size of the enterprise

- **Financial knowledge and the size of the enterprise**

The study found that respondents with small enterprises had lower levels of financial knowledge than those with medium-sized enterprises. Entrepreneurs with Medium enterprises may have more financial knowledge as they have more resources. Medium enterprise owners/managers have access to funds to invest in financial education and can hire professional advisors or employ financial managers to provide expertise and guidance. In addition, medium-sized enterprises have more complex financial operations than small enterprises; for instance, larger enterprises may have complex financial structures and financial reporting requirements. As such, understanding and handling these complexities requires an advanced understanding of the financial concepts and practices that force entrepreneurs to improve their financial literacy. This study recommends that owners/managers of small enterprises take it upon themselves to improve their financial knowledge by attending workshops or training sessions to teach them how to save, invest, prepare financial statements, and conduct financial analyses.

- **Bridging and linking social capital and the size of the enterprise**

The study found that respondents with medium-sized enterprises had more social ties with acquaintances, friends, business associates, societies/communities and individuals with larger social networks, wealth, and influence. The contacts consisted of individuals who could assist the owner/manager access better financing opportunities, better markets, and accurate and

valuable information. Considering the large number of employees, an increase in social capital is expected in larger businesses, such as medium-sized enterprises. Larger enterprises allow owners/managers to build far-reaching and diverse relationships, resulting in access to adequate resources and information. In large enterprises, social networks are often entangled, resulting in repeated and frequent social interactions, thus reinforcing relationships. Medium enterprises are perceived as more reliable and trustworthy by stakeholders. This assists businesses in facilitating more robust and more influential relationships, thus increasing the social capital of medium-sized enterprises. Lastly, larger enterprises with more resources can be leveraged to expand their social networks by attracting individuals who will contribute to SME performance. This study recommends that owners/managers of small enterprises enhance their social capital by attending networking events, industry conferences, and local business forums. In addition, they can join associations, such as Chambers of Commerce or Business Forums, as these can facilitate connections with individuals in the same industry, potential partners, suppliers, and experts in the field. The study also recommends that owners/managers actively engage in social media such as LinkedIn and Twitter to connect with customers, industry influencers, and other enterprises.

6.5.3.5 ANOVA: Enterprise age

The study found no significant differences between enterprise age and the independent (financial knowledge, social capital, financial capital) and dependent (SME performance) variables. This finding is particularly interesting given that several researchers have discovered that enterprise age contributes to performance, innovation and entrepreneurial orientation (see Hill and Rothaermel, 2003; Anderson and Eshima, 2013; Arend, 2014; Bartz and Winkler, 2016; Coad, Holm, Krafft, and Quatraro, 2018; Cowling, Liu and Zhang, 2018;). Cowling, Liu, and Zhang (2018) investigated the influence of enterprise age and entrepreneurship experience on SME performance after the global financial crisis of 2008/09. The study revealed that young SMEs performed better than older SMEs and were among the fastest-growing enterprises despite the economy being characterised by high inflation and low growth. This finding suggests that younger businesses often struggle to survive, requiring them to be daring enough to take risks, originate ground-breaking ideas, and be versatile in adapting to market demands to thrive. Anderson and Eshima (2013) concur that younger firms are more entrepreneurial and less bureaucratic, which helps them pursue precarious opportunities with greater growth potential and better alignment with market needs.

6.5.3.6 ANOVA: Highest education qualification

In a similar fashion with the ANOVA on enterprise age, no significant differences between the respondents highest education qualification and the independent (financial knowledge, social capital, financial capital) and dependent (SME performance) variables. This finding is noteworthy as in today's knowledge economy, one's success is derived from investments in learning activities of explicit knowledge (Marvel, Davis and Sproul, 2014). Consequently, individuals who invest in their knowledge gain an understanding of principles, facts, and processes. Extensive research has pointed out that human capital which consists of education, experience and training contribute to the performance of the enterprise (see Van Praag and Cramer, 2001; Aldrich and Ruef, 2006; Ganotakis, 2012; Martin, McNally and Kay, 2013). Cooper, Gimeno-Gascon and Woo (1994, p. 376) note that education is related to the "knowledge, skills, problem solving ability, field, motivation and self-confidence". This basket of competencies allows the entrepreneur to cope with problems that arise which aids in the growth and development of the enterprise (Ojokuku and Sajuyigbe, 2015). Moog (2002) and Krasniqi and Mustafa (2016) add that an entrepreneur with a higher level of education can access, evaluate, and utilise information and is more efficient in obtaining loans from banks and investors. Unger *et al.* (2011) emphasises that human capital that is specific to enterprise or industry that the entrepreneur operates in provides a superior competitive advantage.

6.5.3.7 ANOVA: Academic fields

- **Financial knowledge and academic field**

The study found that respondents who majored in law had a better understanding of finance related concepts than those with commerce and health science majors. Several studies agree with this finding; they found that academic field, educational level, age, gender, marital status, and work experience are positively associated with a higher score for financial literacy (see Chen and Volpe, 1998; Lusardi and Mitchell, 2006; Mandell and Klein, 2007; Lusardi and Mitchell, 2008; Lusardi, Mitchell and Curto, 2010; Lantara and Kartini, 2015). By taking law and commerce majors, individuals are more likely to be exposed to opportunities to strengthen their knowledge in finance, as they are taught various financial concepts and have access to resources and expert guidance. Similarly, Section 6.5.3.1, the study found that male respondents were more financially literate than female respondents. This study recommends that educators at all levels of education should incorporate financial education into their

curriculum. In addition, organisations involved in developing SMEs should host workshops or seminars to train women entrepreneurs on key financial skills that will assist them in the day-to-day running of the enterprise.

- **Bridging social capital and academic field**

The study found that respondents who majored in commerce related subjects had more outward-looking and open social ties. They had more connections with individuals of different ethnicities and socioeconomic statuses with shared interests and goals. This finding points out a gap in the manner in which different academic fields impart knowledge and skills. It may be the case that commerce students are taught the importance of developing networks and using them to one's advantage. On the other hand, academic fields may foster shared values and norms amongst students. Thus, students from this field may be more connected and find it easier to connect and collaborate.

- **Financial capital and academic field**

The study found that respondents who majored in agriculture, engineering and science had sufficient start-up capital and access to capital to grow their enterprise. It is well documented that individuals who specialise in academic fields, such as medicine, science, or economics, earn more than those in social care or creative arts (see Belfield, Britton, Buscha, Dearden, Dickson, Van der Erve, Sibieta, Vignoles, Walker and Zhu, 2019; Britton, Dearden, van der Erve and Waltman, 2020). These findings suggest that individuals in higher-earning fields can save enough money over time to use as start-up capital or money to grow their enterprise. The study proposes that respondents also explore other funding options, such as angel funding, government schemes, and loans because sufficient capital or access to capital provides entrepreneurs with a cushion against unfavourable shocks and allow them to pursue capital-intensive strategies.

6.6 CONTRIBUTIONS OF THE STUDY

This research contributes to the growing body of knowledge on entrepreneurship by focusing on the performance of SMEs in an upper-middle-income economy, such as South Africa. The study examines the resources entrepreneurs need in South Africa to establish sustainable businesses, considering issues such as poverty, inequality, and high unemployment rates. Using the Resource-Based View (RBV), the researcher draws attention to the critical role of human,

social, and financial capital in the financial and non-financial performance of SMEs in South Africa. Unlike prior studies, this study highlights the significance of evaluating human capital beyond conventional metrics, such as formal education and work experience, by incorporating financial literacy as a foundational element. This study defines financial literacy as a combination of financial knowledge, financial behaviour, and financial attitudes, which no prior study has investigated globally or in the South African context. The findings of this study can aid policymakers in devising effective policies and regulations to support the survival and growth of SMEs in South Africa. Furthermore, entrepreneurship educators can develop curricula that harness these resources, such as financial literacy programs targeted towards entrepreneurship education.

6.7 LIMITATIONS OF THE STUDY AND RECOMMENDATIONS FOR FUTURE RESEARCH

Researchers often encounter limitations when conducting research, which should be accounted for when interpreting and generalising the study's findings. Similar to other studies, this study has various limitations that may present opportunities for future research.

- This study used a non-probability convenience sampling technique in which the researcher used the most accessible and available respondents as part of the study's sample. Although researchers frequently use this technique, as it is inexpensive and less time-consuming, it allows for biases that may prevent the sample from accurately representing the population. Therefore, it is recommended that a probability sampling technique should be used to determine a single sample.
- When investigating whether Financial Literacy, a 2nd order factor of financial knowledge, financial behaviour and financial attitude, as a component of human capital has a significant positive relationship with SME performance, it was found during the CFA analysis that financial knowledge, financial behaviour and financial attitude could not be grouped under human capital due to the occurrence of a Heywood case (refer to Section 5.5.2.1). Thus, financial literacy cannot be considered a component of Human Capital. Heywood cases arise for many reasons, including outliers, small sample sizes, model misspecifications, item-per-construct rule, and missing values (Farooq, 2022). The researcher recommends that future researchers should consider increasing their sample size, strictly adhering to the item per construct rule, and respecifying the model.

- Moreover, this study recommends that future research should investigate other forms of capital such as psychological capital and their relationship with the performance of SMEs. In addition, the study recommends that future researchers could conduct a comparative study. Since this study is based in a developing country, future researchers could explore developed countries and see if these resources and capabilities contribute to the performance of SMEs.

6.8 CONCLUDING REMARKS

The present study underscores the crucial relationship between financial capital and SME performance in South Africa. This research identified financial capital as a pertinent resource for entrepreneurs to establish a sustainable enterprise. In addition, this study offered valuable recommendations to policymakers, organisations involved in SME development, entrepreneurship educators, and SME owners/managers. The researcher hopes that these recommendations will contribute to a decrease in the SME failure rate, thereby enhancing the economic growth of South Africa. South Africa's current economic instability has led to a rise in SME numbers, which could be a cornerstone for the country's income equality, poverty reduction, generation of export goods, and promotion of innovation and entrepreneurial endeavours. However, for this potential to be realised, the South African government must establish an environment conducive to establishing and growing SMEs. Many SME owners/managers in South Africa express concerns about the lack of government support, which is reflected in various challenges such as increased operating costs due to constant power outages, inadequate funding allocation for SMEs, and limited government support. There is still significant room for improvement in South Africa's ability to harness the full potential of SMEs for the country's growth and development.

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ANNEXURE A: QUESTIONNAIRE

Screening Questions

*Please indicate whether you are the owner or manager of the enterprise by making a cross on the right-hand column.

Owner	1
Owner and manager	2
CEO	3 End
Director	3 End
Managing director	4 End
CFO	5 End
Manager	6
Employee	7 End

*Please indicate the number of employees your enterprise currently employs by making a cross on the right-hand column.

10 or less	1 End
11- 49	2
50-150	3
151-200	4
201 or more	5 End

* Where is your enterprise located and operational?

Eastern Cape	1
Free State	2
Gauteng	3
KwaZulu-Natal	4
Limpopo	5
Mpumalanga	6
Northwest	7
Northern Cape	8
Western Cape	9

*Please indicate the years the enterprise has been operational by making a cross on the right-hand column.

Less than 2 years	1 End
3-7 years	2
8-12 years	3
16-20 years	4
More than 20 years	5

PARTICIPANT CONSENT

- I hereby certify that my response to the information in this document is correct to the best of my knowledge.
- I understand the purpose of the research study and my involvement in it.
- I understand the benefits of participating in this research study.
- I understand that I may withdraw from the research study at any stage without any penalty.
- I understand that participation in this research study is done voluntarily.
- I accept that I will not be identified, and no confidential information will be required.
- I confirm that I am not participating in this study for financial gain.
- I hereby give consent to the researcher to use the information contained in this document to complete their research study and for academic publication.
- I hereby give consent to the researcher to reuse the data supplied in the questionnaire for academic purposes.

Voluntary Consent

Based on the above, I hereby agree to voluntary consent to participate in this research as described in the attached cover letter.

Yes	1
No	2 End

Section A: Human Capital

The following statements relate to your **business knowledge**. Please indicate the extent to which you agree or disagree with these statements using an (x) on the 5-point scale, where 1 (one) denotes that you strongly disagree with the statement. In contrast, 5 (five) indicates you strongly agree with the statement.

	Mark using an (x)	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
A	Financial Knowledge					
A.1	I know I will earn a higher return on my savings account than by investing in shares.	1	2	3	4	5
A.2	I know that shares with high returns are likely to have low risks.	1	2	3	4	5
A.3	I know that investing in a portfolio with a single asset is a safer option.	1	2	3	4	5
A.4	Suppose that the interest rate on the enterprise's savings account was 1% per year and that inflation was 2% per year. After one year, the enterprise can buy less than today with the money in this account.	1	2	3	4	5

A.5	Suppose the enterprise had R100 in a savings account, and the interest rate was 2% per year. After five years, the savings account will have exactly R102 if you leave the money to grow.	1	2	3	4	5
	Financial Behaviour					
A.6	I have financial objectives for my enterprise.	1	2	3	4	5
A.7	I have separate savings accounts for my business and personal use.	1	2	3	4	5
A.8	My debt management skills enable me to finance the enterprise.	1	2	3	4	5
A.9	I will pay interest if I repay a loan after the due date.	1	2	3	4	5
A.10	I keep track of my enterprise's expenses regularly.	1	2	3	4	5
A.11	I can perform a financial analysis on my enterprise's statements, for instance, calculating the gross profit margin and net profit margin.	1	2	3	4	5
A.12	I prepare my enterprise's financial statements on my own.	1	2	3	4	5
	Financial Attitude					
A.13	I am interested in learning more about how to manage my enterprise's finances.	1	2	3	4	5
A.14	It is important to develop a regular saving pattern and stick to it.	1	2	3	4	5
A.15	It is important to keep money aside for emergencies.	1	2	3	4	5
A.16	I prefer saving instead of spending.	1	2	3	4	5
A.17	Having a budget is essential to manage the enterprise successfully.	1	2	3	4	5
A.18	Conducting a financial analysis regularly is important.	1	2	3	4	5
A.19	Having a financial plan is important for making financial investment decisions.	1	2	3	4	5

Section B: Social Capital

The following statements relate to your **networking skills and social networks** (for instance, family, friends, or business associates). Please indicate the extent to which you agree or disagree with these statements using an (x) on the 5-point scale, where 1 (one) denotes that you strongly disagree with the statement. In contrast, 5 (five) indicates you strongly agree with the statement.

	Mark using an (x)	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	Bonding Social Capital					
B.1	My family is aware of my enterprise and what it does.	1	2	3	4	5
B.2	My close friends are aware of my enterprise and what it does.	1	2	3	4	5
B.3	I have close friends and family that support my enterprise.	1	2	3	4	5
B.4	My spouse/partner is aware of the enterprise and what it does.	1	2	3	4	5
B.5	My spouse/partner supports my enterprise.	1	2	3	4	5
B.6	My relationships with my spouse/partner, family and friends benefit my enterprise.	1	2	3	4	5
	Bridging Social Capital					
B.7	I am a member of a Chamber of Commerce or Business Forum.	1	2	3	4	5
B.8	I attend events hosted by the Chamber of Commerce or the Business forum to which I belong.	1	2	3	4	5
B.9	I have many business contacts.	1	2	3	4	5
B.10	My relationships with my business contacts help me perform better than my competitors.	1	2	3	4	5
B.11	I have a good relationship with my suppliers and those I do business with.	1	2	3	4	5
B.12	My relationships with my business contacts help me perform better than my competitors.	1	2	3	4	5
	Linking Social Capital					
B.13	I have contacts or relationships with individuals who can provide me with access to better financing opportunities for my enterprise.	1	2	3	4	5
B.14	I have contacts or relationships with individuals who can provide me with access to better markets for my enterprise.	1	2	3	4	5
B.15	I have contacts or relationships with individuals who can somehow provide me with accurate and valuable information that I can use to the advantage of my enterprise.	1	2	3	4	5
B.16	I have relationships with individuals who are more successful in business than I am.	1	2	3	4	5
B.17	I have contacted the individuals mentioned above to ask for assistance in my business.	1	2	3	4	5

B.18	I respect and value the opinions of individuals who are less successful in business than I am.	1	2	3	4	5
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Section C: Financial Capital

The following statements relate to your **financial capital or access to finance**. Please indicate the extent to which you agree or disagree with these statements using an (x) on the 5-point scale, where 1 (one) denotes that you strongly disagree with the statement. In contrast, 5 (five) indicates you strongly agree with the statement.

	Mark using an (x)	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	Financial Capital					
C.1	A portion of the enterprise's initial (start-up) capital consisted of money I saved.	1	2	3	4	5
C.2	A portion of the enterprise's initial (start-up) capital consisted of money I borrowed from a financial institution (for example, a personal loan, overdraft, or term loan).	1	2	3	4	5
C.3	A portion of the enterprise's initial (start-up) capital consisted of funding offered by government assistance schemes for SMEs.	1	2	3	4	5
C.4	A portion of the enterprise's initial (start-up) capital consisted of money I borrowed from friends and family.	1	2	3	4	5
C.5	I have sufficient capital to grow my enterprise.	1	2	3	4	5
C.6	I have access to capital to grow my enterprise.	1	2	3	4	5

Section D: SME Performance

The following statements relate to the **performance of your SME**. Please indicate the extent to which you agree or disagree with these statements using an (x) on the 5-point scale, where 1 (one) denotes that you strongly disagree with the statement. In contrast, 5 (five) indicates you strongly agree with the statement.

	Mark using an (x)	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
D.1	I am satisfied with my sales growth from the start of Covid-19 (2020) to the present.	1	2	3	4	5
D.2	I am satisfied with my profitability growth from the start of Covid-19 (2020) to the present.	1	2	3	4	5
D.3	I am satisfied with the overall financial performance of my enterprise from the start of Covid-19 (2020) to the present.	1	2	3	4	5
D.4	I am satisfied with the feedback received from customers.	1	2	3	4	5
D.5	I am satisfied with the enterprise's overall performance compared to competitors' overall performance.	1	2	3	4	5
D.6	The number of employees in the enterprise has increased in the last three years.	1	2	3	4	5
D.7	My enterprise has expanded from inception to date (for example, micro-enterprise to a small enterprise or a small enterprise to medium enterprise).	1	2	3	4	5

Section E: Demographic information

E.1. Please indicate your age category by making a cross on the right-hand column

Below 20 years	1
20-29 years	2
30-39 years	3
40-49 years	4
50-59 years	5
Above 60 years	6

E.2. Please indicate your gender category by making a cross on the right-hand column

Female	1
Male	2
Non-binary	3
I prefer not to say	4
Other	5

E.3. Please indicate your highest education qualification by making a cross on the right-hand column

Matric (Grade 12)	1
Diploma	2
Degree	3
Advanced Diploma	4
Post-graduate degree	5
Other:	6

E.4. Please indicate the academic field of your qualification by making a cross on the right-hand column.

Agriculture, Engineering and Science	1
Health Science	2
Humanities	3
Commerce	4
Law	5
Other	6

E.5. Please indicate whether you would like a copy of the study once the study is complete.

Yes If yes, provide your email address:	1
No	2

E.6. Please indicate any additional questions you feel should have been included in the questionnaire or any other feedback or comments you would like to provide.

Thank you, I appreciate your cooperation.

ANNEXURE B: COVER LETTER

Dear Owner/ Manager of Small and Medium Enterprise (SME)

RE: The relationship between human, social and financial capital, and the performance of Small and Medium Enterprises (SMEs) in South Africa.

You are invited to participate in a study titled "The relationship between human, social and financial capital and the performance of Small and Medium Enterprises in South Africa ". The aims to find out how your business know-how, your networks, and access to business finance have affected the success of your business. It is anticipated that this study will identify the value (importance) of business know-how, networking skills and access to business finance on the performance of SMEs and provide recommendations on factors needed to improve the likeness of success of new and developing SMEs. In addition, the study will assist educators in developing curriculums that foster the necessary skills for entrepreneurial success.

I, therefore, appeal to you to share your views by completing the attached questionnaire. The questionnaire will take 20 minutes to complete. There are no right or wrong answers in the questionnaire, and all your opinions are important. The structure of the questionnaire is as follows:

Section A: Business know-how, social networks, and access to finance

Section B: Performance of SMEs

Section C: Demographic information

Please note that your participation in this survey is voluntary, completely anonymous, and no confidential information is required. All data will be used for research purposes only. Once the research has been completed, the data will be handed to the Research Supervisors, Professor L. Louw, and Professor N. Oosthuizen of the Department of Management at Rhodes University, for storage for five years. This research has been approved (approval number 2022-5229-7220) by the Faculty of Commerce Higher Degrees Committee and the Rhodes University Ethics Committee.

Kindly contact the researcher or supervisors should you require more information

regarding the questionnaire and study. Should you wish to have a copy of the study once it is completed, please provide the researcher with your email address at the end of the questionnaire.

Thank you again for sharing your views on these important issues.



Masiso Nomakha Siso
Researcher
Tel: 061 343 5593
Email: masisonyana@gmail.com

Professor Lynette Louw
Research Supervisor
Tel: 046-6038738
Email: l.louw@ru.ac.za

ANNEXURE C: INFORMED CONSENT FORM

Department of Management

Research Project Title:	The relationship between human, social and financial capital, and the performance of Small and Medium Enterprises (SMEs) in South Africa.
Principal Investigator:	Professor Lynette Louw and Professor Nadine Oosthuizen
Student:	Masiso Siso

PARTICIPANT CONSENT

- I hereby certify that my response to the information in this document is correct to the best of my knowledge.
- I understand the purpose of the research study and my involvement in it.
- I understand the benefits of participating in this research study.
- I understand that I may withdraw from the research study at any stage without any penalty.
- I understand that participation in this research study is done on a voluntary basis.
- I accept that I will not be identified and that no confidential information will be required.
- I confirm that I am not participating in this study for financial gain.
- I hereby give consent to the researcher to use the information contained in this document for the purpose of completing his research project and for academic publication.

Voluntary Consent

Based on the above, I hereby agree to a voluntary consent to participate in this research as described in the attached cover letter.

***Required**



Yes



No

PROCEED

ANNEXURE D: ETHICS APPROVAL



Rhodes University Human Research Ethics Committee

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<https://www.ru.ac.za/researchgateway/ethics/>

17 January 2023

Ms Masiso Siso,
Department of Management,
Rhodes University.

Dear Ms Siso

Re: Protocol amendment for *The relationship between human, social and financial capital and Small and Medium Enterprises (SMEs) performance in the Eastern Cape, South Africa.*

This letter confirms that the RU-HREC has reviewed the proposed changes to your research protocol and approved your request to include Managers of Small and Medium Enterprises as research participants provided they participate in their own capacity and are not recruited via their places of work.

Approval has been granted for 1 year. An annual progress report will be required to renew approval for an additional period. You will receive an email notifying you when the annual report is due.

Approval number: 2022-5229-7220

Sincerely,



Dr Janet Hayward
Chair of Rhodes University Human Research Ethics Committee