

# Financial capital and business growth among entrepreneurs in a developing nation, with specific reference to South Africa

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## Keywords

Financial capital, business growth, human capital, social capital, gender and race

## Extended Abstract

Financial capital is one of the necessary resources required for a business to start up and operate. The importance of the financing decision of SMMEs consequently has important implications for the economy, given the role that they play in employment growth, competition, innovation and export potential. Gender has also been an issue in financing and success of SMMEs. Research on female or women business owners is extensive in the industrialized countries, especially the United States of America and Canada. However, treatments of the effects of gender and race on the access of business finance in the context of developing economies, such as South Africa, have been limited. South Africa has a slightly higher population of females than males. Thus, the role women business owners' play in facilitating enterprise development is of increasing importance.

Anecdotal evidence posits that women in business often claim they are discriminated against in both overt and subtle ways. Women entrepreneurs often lack financial and management competencies. Evidence on whether female business owners are disadvantaged in gaining access to financial capital is contradictory. While some studies have found evidence of discrimination, a number of studies found that differences can be explained by business characteristics rather than gender and race the studies conducted previously were predominantly in developed countries. Very few studies have included race groups in their studies on access to financial capital. Studies' comparing the race groups and gender in accessing financial capital is rare or non-existent in a developing nation, like RSA.

During the apartheid era in RSA, white business owners had easier access to bank finance compared to black owned businesses. Women business owners were also disadvantaged in the loan experience with banks. South African women, irrespective of their racial identity, have always stood in the secondary echelon of society. Emerging from the long period of struggle for a democratic society, after its first democratic elections in 1994, South Africa implemented equal opportunity and affirmative action legislation as a system of national strategy, to redress the past imbalances created by apartheid. Hence women's issue came to the fore, such as their rights, equality, welfare and empowerment. Since 1994, financial institutions had to be equitable in their lending processes across racial and gender lines.

In the context of a developing economy, this study aims to investigate the differential effects of human and social capital of entrepreneurs in sourcing financial capital, with specific reference to South Africa. The study also investigates if human capital and social capital is associated with business growth from a gender and a race perspective.

The financing of business owners should be of considerable interest to business owners, policy makers, academics, and practitioners. To the extent that growth and viability

of black-owned and women businesses may be limited by a relative lack of capital, policy makers may be concerned about addressing such issues. For academics, gaining further knowledge about those factors that underpin financing decisions would be of benefit in terms of understanding how the financial markets operate and the nature of the imperfections.

This study employed survey research design methodology in which a combination of research methods will be used. These included questionnaire survey, face to-face interviews and literature review. The sample of SMME owners were sourced from the main trading areas in the City of Cape town of the Western Cape Province. This study will be contextualized in the SMME sector. Exploratory data analysis was used as an initial assessment of the individual variables. Various data analyses techniques, including chi-square, factor analyses and regression analyses were conducted to investigate relationships between the factors of human capital, social capital and its association with accessing financial capital, and business growth.

The findings revealed the following:

- 1) Human capital was not associated with success in accessing bank finance.
- 2) Social capital was associated with success in accessing bank finance.
- 3) Male business owners and female business owners are equally likely to be successful in the bank application process, although the application rate was much lower by female owners.
- 4) White owned businesses are more successful than black owned businesses in their bank application.
- 5) Human capital was positively related to business growth.
- 6) Social capital was positively related to business growth.
- 7) Male business owners reported a higher business growth than female owners.
- 8) White business owners reported a higher business growth than black owners.

The findings should guide policy makers and government to address the inequality in the success of bank application concerning race and also to strategies on ways to encourage females to grow their businesses, thereby contributing positively to employment growth and inequality in the economy.

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