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STRATEGIC FINANCIAL RESOURCES PROVISION FOR START-UP SMALL ENTERPRISES TO AVERT SMALL BUSINESS FAILURE: A LITERATURE OVERVIEW

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ABSTRACT

Small business start-up face viability challenges and most of them fail to survive in their first few years. Among the many factors leading to failure is lack of or limited provision of financial support for start-up enterprises. Research into the financial challenge among SMEs has been numerous and there is a large of literature that explores the financial dimension of small business start-ups. The study adopted a literature over to establish themes for strategic financial resources provision among start-up enterprises to avert small business failure. The study established four themes related to strategic financing among small business startups. These are: (1) scarcity of finance, (2) centrality of the financial concept, (3) strengthening support institutions, (4) simplifying the funding process and (5) simplifying the funding procedure. The study found that addressing the stated themes can result in survival and viability of small business start-ups. In particular, the centrality of the finance concept implied that the provision of adequate financial resources had the capacity to lead to the improvement of all other business success criteria. The study recommends for the improvement of the funding process and also aiding the acquisition of vital skills for small business administration. Relevant government institutions are recommended to strengthen their support to small business start-ups.

Keywords: Small business, financing, entrepreneurship, business incubation, business accelerator.

INTRODUCTION

With the worldwide recognition that small businesses and entrepreneurship in general contribute significantly to economic development, small enterprises often fail in their start-up phases (African Development bank Group [AfDB], 2021; Acheampong & Esposito, 2014). Due to this recognition research into the viability of entrepreneurial ventures has been immense over the years. This study provides an overview of literature on strategic financial strategies for averting the failure rate of small enterprise start-up. While there are many factors that influence the success and failure of start-up enterprises, funding has often been recognized as a critical component within small business literature. Obtaining small business start-up finance in many African countries tend to be a challenge partly when considering that entrepreneurship is risk taking and possible financiers may not appreciate the emerging enterprise during its formative years (AfDB, 2021). The financing model normally start with the founder and co-founder and then later investors may be involved and as confidence on the successes of an enterprise rise stock financing may then emerge. As

recognized in Memba, Gakure & Karanja (2012) many African start-up enterprises fail because of inadequate financial resources. In many Africa like South Africa, the pre-independence era was characterised by racial exclusion in economic activities and the attainment of independence was expected to lead to a new dimension. As noted by the AfDB (2021), the attainment of independence did not result in adequate support for entrepreneurship and private capital generation. At that time finance for small business start-up was often associated with Nongovernmental organisations. Government support for small business start-up through provision of start financial resources is a recent phenomenon. In Africa, it has been observed that banks, insurance firms and financial markets often tend to financially support established enterprises that have collateral, leaving small business start-ups with a significant challenge for raising start-up finances (AfDB, 2021).

Small enterprises and financing

While SMEs in South Africa provide jobs to more than 60% of the national work force, they are considered to suffer from one of the highest mortality rates in their start-up phases (SiMODiSA, 2014). Funding is often regarded as the major factor influencing the success of start-up small enterprise. The most common sources of finance for start-up firms are debts and equities (Ag Decision Maker, 2022). The numerous research into small enterprise start-up financing means that it is essential to consider literature overviews which provide a summary of existing themes in order to understand the present state as well as future directions of essential phenomena. Small business start-up can be considered as the step where entrepreneurship is activated. The essence of start-ups and entrepreneurship in general is important as provided by the African Development Bank Group [AfDB] (2021) that reveals that development challenges are opportunities for entrepreneurship. While there are many ways of funding for small business start-up, the Seed Academy (2015) study indicated that self-funding was most dominant at eighty three percent while other forms of funding such as loans, venture funding, investor funding, crowd funding, private as well as public venture funding represented a smaller percentage. In European countries, government venture capital funds (GVCFs) are said to have emerged after the World War and have contributed significantly to the development and growth of small enterprises (Albaz, Dondi, Rida & Schubert, 2020). Start-up enterprise in South Africa and many other African nations face a significant challenge in financing their operations. With reports that small businesses face viability challenges in their start-up phases, finance of small business start-ups may be the reason why many small business fail in their first few years operations (Pedchecko, Strilec, Kolisnyk, Dykha & Frolov, 2018).

Methodology

This study adopted a literature overview methodology to establish strategic financial resources provision for start-up small enterprises to avert small business failure. Green, Johnson, and Adams (2006) considers this as an essential knowledge to summarise and highlight major contents in research publications. This methodology is also supported in Snyder (2019) in which it is mentioned that literature reviews allow for an appreciation of present knowledge as well as recognition of future directions for certain phenomenon of interest. The study was, therefore, rooted in the qualitative paradigm based on the qualitative analysis of literature. Essentially, themes from previous publications on the financing of start-up small enterprises were considered following

Braun and Clarke's ideas that thematic analysis involves data reduction into key patterns that have implications to a phenomenon of interest. Therefore the study involved the identification of key themes within small enterprise start-up enterprises. Fereday and Muir Cochrane (2006) seem thematic analysis as an essential process that involves reading and rereading relevant literature until certain themes which summarises the data have been established. As such, data saturation is an important attribute in the generalization of certain themes that can be considered to be effectively summarizing data of interest. The articles that were reviewed in this study were searched from Google scholar which is a popular data base for wide international published articles covering various fields. This database was selected for its convenience as well as relevance as it is open access and covers a broad range of research fields. The search process involved typing the phrase 'small business finance' and related short phrases and articles that emerged were first assessed for their focus on small business and on start-up financing. The analysis strategy immediate and sequential whereby an article was reviewed and its major points on strategic funding for small business start-ups were noted and notes were taken. When the search process was initiated 10988 articles appeared. And their relevance was considered as well as their year of publication to ensure that they met the present context. After a review of the first relevant article, the next was identified and analysed. The process was continued until data saturation was achieved. Saturation was deemed to have been achieved when the review notes being taken started to revolve around the same thing and to reflect one another. Saturation was achieved after the review of thirty (30) articles. This demonstrated that issues of small business start-up financing lacks depth and the literature easily reflected one another. Therefore, while there were many articles published in relation to small business start-up financing, the findings of the studies seemed to easily reflect one another.

FINDINGS

Theme1: Scarcity of start-up funding

All the articles provided arguments that financing a start-up enterprises pose a great problem and the characteristics of money scarcity significantly hinder small business success (Pedchecko, Strilec, Kolisnyk, Dykha, & Frolov, 2018). Rupeika-Apoga (2014) asserted that financial resources for the start up enterprises were a major challenge that affected the initiation of the small business venture as well as future survival.

Theme 2: The centrality of the finance concept

Evidence from the study demonstrated that financial resources are a central concept for the small business start-up as it implies many other small business survival functions can be attained (Pedchecko, et al., 2018). To this end Olaroe (2014) posit that funding remains the cause of failure among small business start-ups in many countries. In Ogeta's (2016) study the centrality of startup finances is provided with indications that when all other factors for small business growth are held constant, provision of finance led to success of the enterprises suggesting that financial resources had the capacity to result in improvement of other critical success factors. The centrality of the finance concept need also be considered in connection with technological acceleration which have meant the need for technological strengths for successful enterprise formation and growth. Technology is the application of knowledge products like machinery and equipment and these

products are developed from such knowledge, so technology plays a huge role in organisations because it's used on a daily basis and forms part of the organisation resources they use to provide a product or a service. Louw and Venter, (2010) suggest that technology change can be both creative and disruptive to an organization. Pearce and Jones and George (2019) suggest that technology is always changing and technology breakthrough can have a sudden and dramatic effect on organisation, technology can either bring about a new product in the market or it can shorten the anticipated life of manufacturing facility. Organisations need to be aware of technological changes and most important be creative in technological changes and in cooperating it in the strategies..

Theme 3: Enriching financial support

The theme of enriching financial support was found related to angel investors who were found to provide extra aid to the start-up enterprises other than finance only (Ramadani, 2012; Pedchecko, et al., 2018). This theme seems to be related to the function of business incubators and accelerators who tend to nurture and support small enterprises at their establishment phases (AfDB, 2021). Olaroe (2014) also recognizes that entrepreneurs require support in many areas of business including management and business intelligence and it is essential that those who provide their finances also explore other forms of support for the entrepreneur to increase the probability of success for the start-up small enterprise. The enriched financial support perspective also seemed important to ensure that financial support provided is effectively used for the continued viability of small business.

Theme 4: Simplifying the funding process

The studies reviewed that many start-up enterprises find it difficult to access funds in formal institutions owing to complicated requirements, collateral and long approval time to get finances from relevant institutions (Ogeta, 2016). In Ackah and Vuvor's (2011) study it was established that methods such as debt financing from formal institutions was associated with challenges such as the provision of collateral, higher interest rates and short loan-repayment time periods which many start-ups found difficult to fulfil. The literature also took note that unprecedented changes have been witnessed in the business environment over the past years and small enterprises have been significantly affected when relative to established enterprises. As such, the contemporary small business start-up context is presently characterised by technological advancements associated with the Fourth Industrial revolution as well as increased virtualization related to the Covid-19 pandemic. These changes have been characterised by the elimination of historical global boundaries, broadening of the macro environment to assume a global scale and the strengthening of both business opportunities as well as opportunities (Jones & George, 2019:124). As such the literature suggested the significant need for aiding small business finance.

Theme 5: Strengthening support institutions

Strengthening the role of relevant institutions that facilitate start-ups was also deemed to be an essential theme for start-up enterprises. In the view of Albaz, et al. (2020) the role of strengthening relevant institutions can be entrusted to governments. Government are deemed to be critical in strengthening institutions that ensure confidence, growth and competitiveness of entrepreneurs

during their start up phases. Bowmaker-Falconer and Herrington (2020) found that the perception of entrepreneurship as a good career is increasing and the need to support such institutions as those involved in funding, education and general support for entrepreneurial ventures is increasing. To Schaikwyk and Dubihlela (2014) business incubators represent an important institutional requirement that can be useful in strengthening support institutions. Albaz, et al (2020) provides that the role of strengthening support institutions lies to a greater extent with the government. As such government may be expected to be significantly involved in strengthening relevant institutions for small business start-ups. Strengthening support institutions can also be conceptualised in relation to improve all financial institutions that are essential for small enterprise start-up. The economy of a country is the set of systems for the production and consumption of goods and services, the supply of money, the regulation of trade and industry, expenditure, taxes, interest rates and all other linked issues. According to Hill and McShane in Louw and Venter (2010: 173), there are four important factor institutions in the economic environment and these are: the growth rate of the economy (linked to central banks and money supply management), the level of interest rates (linked to financial institutions), currency exchange rates and price inflation. The growth rate of the economy as measured by the Gross Domestic Product (GDP), impacts on consumer spending, business expansion and profitability while the interest rates influence exports and imports. Inflation, measured by the Consumer Price Index (CPI), upset the economy by slowing its growth rate, depreciating the currency, increasing interest rates and creating greater uncertainty, thereby impacting on profitability (Louw & Venter, 2010). The government tries to control the supply of money through fiscal policies. The income levels, disposable income, unemployment rates, stock market indices are all indicators of the economic performance. In today's business environment, the formation of trade blocks, free trade areas and foreign direct investments (FDI) have become important players in the economic environment (Venter & Louw, 2010). Furthermore, the legal/regulatory business environment is made up of national statutes (including civil, criminal and labour laws), contract law, licenses, consumer protection laws, company law, environmental law and any other regulatory restrictions to business practice which must be strengthened small business start-up support.

CONCLUSION

This study considered strategic financial resources provision for start-up small enterprises to avert small business failure and insure continued viability of start-up entrepreneurial ventures. The literature review methodology demonstrated that there are four important themes related to strategic financial support that are critical for small business start-ups. It was observed that financial support is not easy and many small enterprises rely on self-financing for their start-ups. The study also found that small business start-ups faced many challenges that include lack of managerial capabilities, business intelligence, poor market networks and industry knowledge. The literature review showed that with adequate financial support, many of the general factors for small business start-up success can be addressed. Additionally, it was also found that enriching financial support was essential for ensuring the viability of small start-up enterprises. The study also pointed to the need for strengthening the role of relevant institutions such as educational institutions to

provide appropriate entrepreneurial knowledge. The role of banks, the public and private sectors and their associated institutions was found to be essential in this study.

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