

UNIVERSITY OF CAPE TOWN



# Barriers to MSMEs Growth and Performance in the Free State Province: A Focus on DFI Funded Enterprises

A Minor Dissertation

Submitted to

The **Development Finance Centre (DEFIC)**  
University of Cape Town Graduate School of Business

In partial fulfilment  
of the requirements for the Degree of  
**Master of Commerce in Development Finance**

by

Lemphane Andrew Mokalake

MKLLEM002

March 2025

**Supervisor:** Prof. Abdul Latif Alhassan

The copyright of this thesis vests in the author. No quotation from it or information derived from it is to be published without full acknowledgement of the source. The thesis is to be used for private study or non-commercial research purposes only.

Published by the University of Cape Town (UCT) in terms of the non-exclusive license granted to UCT by the author.

### Declaration

I, **Lemphane Andrew Mokalake (MKLLEM002)**, hereby declare that the work on which this thesis is based is my original work (except where acknowledgements indicate otherwise) and that neither the whole work nor any part of it has been, is being, or is to be submitted for another degree in this or any other university. I authorise the university to reproduce for the purpose of research either the whole or any portion of the contents in any manner whatsoever.

Signature: 

Signed by candidate
---------------------

 .....

Date: .....

## ABSTRACT

Micro, Small and Medium-sized Enterprises (MSMEs) are vital for economic development, but they face a number of challenges, including financial exclusion, limited entrepreneurial skills, and regulatory burdens. While financial inclusion is a policy priority, its linkage with the performance of MSMEs remains ambiguous. Development Financial Institutions (DFIs) have shown mixed results, with high loan impairments and insufficient focus on micro and small businesses. This dissertation explores issues of access to finance, managerial skills, and institutional support, among others, as some of the major factors influencing the performance of MSMEs funded by the Free State provincial DFI. This dissertation collected primary data through structured questionnaire from 50 MSME owners to analyse the effect of financial literacy, digital literacy, human capital, post-funding support and MSMEs financial performance.

The findings from the regression analysis reveals that, this dissertation identified managerial skills, digital literacy, and human capital are positive determinants for MSME performance, which indicates the importance of leadership, technology adoption, and skilled labour. However, training programmes demonstrate a negative relationship, indicating the gap between training content and practical needs. Post-funding support has turned out to enhance success significantly, emphasising the role of mentorship, advisory services, and capacity building for sustainable growth.

Policies can enable the provincial government, banking institutions, and DFIs to improve access to low-cost capital. When used in conjunction with financial literacy courses, they have the potential to help reduce MSME's underperformance and create an enabling business climate. Policies have to target strengthening the capacity, transparency and accountability of finance institutions that extend finance to MSME's. Simplifying process and reducing bureaucracy can enhance the efficiency of institutions. Provincial government needs to launch support schemes that addresses money, management, and market challenges in a holistic way. Literacy programmes have to incorporate field applications and interactive tips to foster skills.

## Acknowledgements

I would like to extend my deep appreciation to my mother, Makholoso Pascalina Mokalake, for her continued support and encouragement in the pursuit of this study. I wish to thank my sister and brothers, Motlalepule Mokalake, Thabo Mokalake and Mmusi Mokalake, for their continued help during the pursuit of this study. Above all, special thanks are directed to my supervisor, Prof. Latif Alhassan, for the many useful suggestions provided during this work, which could not have been possible without his guidance and support. Many thanks to all the respondents to my study. To my two sons, Thuto Mokalake and Tsebo Mokalake, thanks for the support, patience, and prayers. Lastly, I would also like to thank my friends Boitumelo Matshediso, Makanyane Nteo, Phololo Morolo, Dakela Maleka, and all others for their encouragement and contributions. May God bless you all.

## List of Tables

1. TABLE 1 SCHEDULE 1: The new National Small Enterprise Act thresholds for defining enterprise size classes by sector, using two proxies.....	7
2. TABLE 2. List of Development Finance Institution (DFIs).....	9
3. TABLE 3.1 Description of Variables.....	29
4. TABLE 3.2 Reliability Measure Threshold.....	31
5. TABLE 4.1 The profile of the respondents.....	35
6. TABLE 4.2: KMO and Bartlett's Test.....	35
7. TABLE 4.3: Reliability Coefficient.....	37
8. TABLE 4.4: Correlation Results.....	40
9. TABLE 4.5: Regression Results.....	44

## List of Abbreviations

1. AVE	Average Variance Extracted
2. CIPC	Companies and Intellectual Property Commission
3. CA	Cronbach's alpha
4. DFIs	Development Financial Institutions
5. FDC	Free State Development Corporation
6. IMF	International Monetary Fund
7. IDC	Industrial Development Corporation
8. GDP	Gross Domestic Product
9. KMO	Kaiser-Meyer-Olkin Measure of Sampling Adequacy
10. MAX	Maximum
11. MSMEs	Micro, Small and Medium-sized Enterprises
12. MIN	Minimum
13. OLS	Ordinary Least Squares
14. NEF	National Empowerment Fund
15. NYDA	National Youth Development Agency
16. SD	Standard Deviation
17. SEFA	Small Enterprise Finance Agency,
18. SARS	South African Revenue Services
19. WEF	Women Enterprise Fund

**Table of Contents**

**CHAPTER 1..... 1**

**INTRODUCTION ..... 1**

    1.1 Background to the Study ..... 1

    1.2 Research Problem and Questions ..... 2

    1.3 Research Objectives ..... 4

    1.4 Scope and Justification of the Study ..... 4

    1.5. Organisation of the Study ..... 4

**CHAPTER 2..... 6**

**LITERATURE REVIEW..... 6**

    2.1 Introduction ..... 6

    2.2 Definition of SMMEs ..... 6

    2.3 Overview of MSMEs and DFIs in the Free State..... 8

    2.4 Governance Framework and Regulation..... 10

    2.5 Theoretical Framework or Conceptual Framework ..... 10

    2.6 Review of Empirical Literature ..... 12

**CHAPTER 3..... 15**

**METHODOLOGY..... 15**

    3.1 Introduction ..... 15

    3.2 Research Approach ..... 15

    3.3 Research Design ..... 17

    3.4 Measurement and Decsription of Variables ..... 20

    3.5 Estimation Technique..... 29

**CHAPTER 4..... 31**

**RESULTS AND DISCUSSIONS..... 31**

    4.1 Introduction ..... 31

    4.2 Descriptive Statistic..... 31

    4.3 Corelation Results ..... 36

    4.4 Regression Results ..... 38

**CHAPTER 5..... 41**

**CONCLUSION AND RECOMMENDATIONS ..... 41**

    5.1 Introduction ..... 41

    5.2 Summary and Conclusion ..... 41

    5.3 Practical Implications ..... 44

    5.4 Recommendations ..... 46

**References..... 51**

# CHAPTER 1

## INTRODUCTION

### 1.1 Background to the Study

In South Africa, DFIs were established as a direct result of the legislative regime of the day, primarily to promote economic development by providing financial support and resources to key sectors, such as infrastructure, agriculture, manufacturing, and MSMEs. DFIs invest in these sectors in an effort to spur economic development, employment, and poverty reduction. They also try to fill market gaps that commercial banks or other private investors may avoid funding due to high risks or low profitability. When this is the case, DFIs finance and provide technical support for projects that are highly developmental but fail to attract private capital.

Given that MSMEs are the principal drivers of national GDP, their role cannot be completely ignored. At times, unclear and confusing policies and regulations create impediments to the effective use of development finance. It is crystal clear that transparent and supportive policies help create an environment that attracts investment for economic development. According to Junaidi et al., (2023), offering training in management skills and practices enhances the business performance of MSMEs. Moreover, it highlights a disparity in performance and practices between MSMEs that have received training and those that have not.

It is generally accepted that the existence of DFIs can increase MSMEs' chances of survival and improve their performance by successfully resolving their financial inclusion issues. However, as most studies concentrate on the financial inclusion of small businesses, elements that are crucial to their success or failure after the funding phase appear to be ignored. There are stronger arguments for the government to provide these small enterprises with extra post-funding assistance. Furthermore, it is shocking to learn about the high rate of impairment on business loans made to MSMEs when looking at the DFIs' annual financial statements. As a result, it became necessary to evaluate or look at the MSMEs' success or survival rate after gaining access to the considerable support. Identifying the root causes of the current success or high failure rates of these MSMEs will enable the government to develop and provide effective solutions to address these issues. This, in turn, will enhance government support for programmes that guarantee success, leading to desired economic growth and reduced unemployment at both national and provincial levels.

## 1.2 Research Problem and Questions

Ellen et al., (2014) state that in developing countries, MSMEs play a key role in economic development. They help reduce poverty, increase GDP, and ultimately contribute to the country's economic growth. As a result, MSMEs' financial inclusion has emerged as a policy priority for the developing world's financial stability and long-term economic expansion. Nonetheless, there appears to be disagreement in the research about the connections between economic growth, financial stability, and financial inclusion.

More often than not, the success or failure of MSMEs appears to be associated with access to finance or lack thereof (financial exclusion). The entrepreneurial skill, educational background, and relevant experience or passion of the entrepreneur in the chosen line of business seem to be secondary if not completely ignored or rendered irrelevant. The same applies to the opportunistic behaviour of some people who pose as entrepreneurs when they are not. That, to a certain extent, indicates the relationship between the success or failure of MSMEs and entrepreneurial skill, educational background and relevant experience or passion of the entrepreneur.

Most studies indicate that the reasons for the failure of MSMEs are often due to a lack of financial access for owner managers and insufficient education. These findings are supported by various authors. Rokhman et al., (2023) discuss the relationship between human capital and MSME performance, with competitive advantage as a mediating factor. Riswanto et al., (2019) examine how market orientation and dynamic marketing capabilities affect business performance in MSMEs. Madhushani et al., (2017) explore the factors influencing the business success of MSMEs in Sri Lanka, providing empirical evidence from the Kurunegala District. Ogubazghi & Muturi, (2014) investigate the effect of the age and educational level of owner managers on MSMEs' access to bank loans in Eritrea, focusing on evidence from Asmara City. Additionally, Lwesya et al., (2021) investigate the use of non-financial business support services for MSME development in Tanzania. That said, the government has introduced support programmes to ensure these businesses have access to advice and assistance for any problems they might encounter. And its intervention through the DFIs seems to dispel that notion, because most DFI balance sheets show a high impairment rate of loans disbursed to MSMEs. The implication is that a significant number of MSMEs managed to access finance from the

DFIs despite the stringent requirements of the National Credit Act 34 of 2005 (NCA). However, they were unable to survive due to a number of reasons.

To further advance her argument, Ntiso (2010) stated previous research indicates that DFI lending programmes still benefit mainly established and larger businesses with a track record and collateral. She cited Mutezo (2005), who noted that “research further shows that DFIs have very few programmes aimed at micro and small businesses”. She further submitted that the way DFIs handle financing for MSMEs may be more detrimental to their growth than beneficial. The large, established businesses are a market that is served by banks. Therefore, these DFIs’ programmes continue to leave the SMME market underserved.

Furthermore, these studies identified various factors that may be critical to the success of MSMEs but limited such to a specific sector. For example, a study carried out by Mbhungu et al., (2017) was limited to the retail sector. That limitation to specific sectors and government intervention in an endeavour to address the financial exclusion of MSMEs justifies the need for further investigation in either the success or failure of these enterprises.

Another issue that appears to be the reason why MSMEs are not flourishing as expected is excessive legislation. This seems to dissuade entrepreneurs from operating a professionally run or formalised businesses, pushing them instead towards informal business practices to avoid the cumbersome process of ensuring compliance. Mothamaha (2015) argued that the possibility of avoiding and evading taxes convinces people or MSMEs to move from formal to informal sectors and it was limited to Thabo Mofutsanya area. Furthermore, government regulations in both goods and labour markets drive the growth and impact of informal activities and the informal sector’s size. This includes hiring an accountant to manage taxes, which reduces their proceeds, and ensuring registration with regulatory bodies, undergoing audits or annual reviews, and adhering to a myriad of legislative requirements.

These legislative burdens can discourage MSMEs from continuing to operate as formal businesses. Therefore, the question remains: is financial inclusion still the primary issue, or are there other significant problems, such as legislative requirements, that seriously affect these MSMEs? The following research question will guide the assessment of the broader challenges facing MSMEs in the Free State province (Free State):

- What are the barriers to performance of MSMEs funded by DFIs in the Free State?

### **1.3 Research Objectives**

Examining the performance of MSMEs in the Free State that get funding from DFIs is the aim of the study. The study's specific goal is to determine:

- a) To examine the barriers to performance of MSMEs funded by DFIs in the Free State.

### **1.4 Scope and Justification of the Study**

Recognising the importance of MSMEs in economic growth, the government established the Department of Small Business Development. According to Masutha and Rogerson (2014), the National Planning Commission (2012) projected that MSMEs would be responsible for 90% of the 11 million jobs targeted for creation by 2030.

This study would examine the current performance of MSMEs in the province and the variables that contribute to such success or failure. It should find out the extent to which the assistance given by the provincial government through the DFI addressed the problem of financial inclusion of MSMEs.

It is often known that MSMEs are important for creating jobs and promoting economic growth. However, given the rising unemployment rates at the national and provincial levels, one might wonder if this trend is a result of MSMEs failing to create jobs or of the government's continued incapacity to adequately address the issues that these businesses face outside of financial inclusion. The report would help the South African government by giving much needed clarity on whether to keep assisting MSMEs or concentrate on the problem that will guarantee their sustainability. Sustainability will result in economic growth and job creation, which will reduce poverty.

### **1.5. Organisation of the Study**

There are five separate chapters in this dissertation. The study's objectives, research questions, problem statement, and justification are all outlined in Chapter 1, which also gives the study's contextual background. It also provides definitions for important terms used in the study. The literature review is given in Chapter 2, with particular attention to the role that MSMEs play in creating jobs, boosting economic growth, and reducing poverty, as well as the crucial elements that affect their performance outside of the financial assistance provided by DFIs. The research approach, design, population, sampling strategies, data collection methods, and data analysis

procedures are all covered in detail in Chapter 3. The research findings are presented and discussed in Chapter 4, along with analyses and interpretations of the data gathered and an examination of their implications. Finally, Chapter 5, which also provides the conclusion and recommendations, highlights the limitations of the study, summarises the performance of MSMEs in the Free State as discussed in the preceding chapters, and suggests future research directions.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

MSMEs play a pivotal role in the economic landscape of South Africa, contributing significantly to economic growth, job creation, and social development. However, definitions of MSMEs vary widely across different contexts. Abor (2017) emphasises that there is no universally recognised definition of MSMEs, noting the significant differences between developed and developing countries' perspectives.

This chapter reviews existing literature on several key areas affecting MSME development. First, it explores the role of DFIs such as the Free State Development Corporation (FDC) in addressing financial inclusion and economic growth. Second, it examines the broader challenges MSMEs face in South Africa, particularly concerning access to finance, managerial skills, and the effectiveness of government support initiatives. Furthermore, it delves into entrepreneurial factors, such as educational qualifications and digital literacy, which influence MSME performance. Finally, it assesses the effectiveness of DFIs and MSME support mechanisms, providing a foundation for the study's focus on the FDC and its impact on MSME success.

#### **2.2 Definition of MSMEs**

Even though Abor (2017) is of the view that there seems to be no generally recognised definition of MSMEs and that what is considered an MSME in a developed country will vary significantly from what constitutes an MSME from a developing country context. In the South African context, there were revisions made to the legal definition of MSMEs in March 2019. The revised definition also entirely removed "gross asset value" as a metric because it was difficult to measure and the "very small enterprises" definition no longer exist.

As result, "small enterprise" is officially defined in Section 1 of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003, 2004 and 2019 (NSB Act) as: "a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy mentioned in column1 of

the Schedule and classified as a micro, a small or a medium enterprise by satisfying the criteria mentioned in columns 3 and 4 of the Schedule”.

Table. 1 SCHEDULE 1: *The new National Small Enterprise Act thresholds for defining enterprise size classes by sector, using two proxies.*

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
<b>Sectors or sub-sectors in accordance with Standard Industrial Classification</b>	<b>Size or class of enterprise</b>	<b>Total full-time equivalent of paid employees</b>	<b>Total annual turnover</b>
Agriculture	Medium	51 - 250	≤ 35,0 million
	Small	11 - 50	≤ 17,0 million
	Micro	0 - 10	≤ 7,0 million
Mining and Quarrying	Medium	51 - 250	≤ 210,0 million
	Small	11 - 50	≤ 50,0 million
	Micro	0 - 10	≤ 15,0 million
Manufacturing	Medium	51 - 250	≤ 170,0 million
	Small	11 - 50	≤ 50,0 million
	Micro	0 - 10	≤ 10,0 million
Electricity, Gas and Water	Medium	51 - 250	≤ 180,0 million
	Small	11 - 50	≤ 60,0 million
	Micro	0 - 10	≤ 10,0 million
Construction	Medium	51 - 250	≤ 170,0 million
	Small	11 - 50	≤ 75,0 million
	Micro	0 - 10	≤ 10,0 million
Retail, motor trade and repair service	Medium	51 - 250	≤ 80,0 million
	Small	11 - 50	≤ 25,0 million
	Micro	0 - 10	≤ 7,5 million
Wholesale	Medium	51 - 250	≤ 220,0 million
	Small	11 - 50	≤ 80,0 million
	Micro	0 - 10	≤ 20,0 million
Catering, Accommodation and other trade	Medium	51 - 250	≤ 40,0 million
	Small	11 - 50	≤ 15,0 million
	Micro	0 - 10	≤ 5,0 million
Transport, Storage and communication	Medium	51 - 250	≤ 140,0 million
	Small	11 - 50	≤ 45,0 million
	Micro	0 - 10	≤ 7,5 million
Finance and Business Services	Medium	51 - 250	≤ 85,0 million
	Small	11 - 50	≤ 35,0 million
	Micro	0 - 10	≤ 7,5 million
Community, Social and Personal Services	Medium	51 - 250	≤ 70,0 million
	Small	11 - 50	≤ 22,0 million
	Micro	0 - 10	≤ 5,0 million

*Source: National Small Enterprise Act: Schedule 1: Amendment*

MSMEs make a vital contribution to economic growth through demand and supply stimulus of value-added goods and services and development. However, one of MSMEs' main challenges is lack of access to financial capital and information about available opportunities (finance, markets, training, and so on).

### **Success**

As stated by April (2005), success is apparent both publicly and on a deeply personal level. It is a complex matter, extending beyond organisational, financial, and strategic performance. Supporting this view, he cited Wickham (1998) who posited that success is attained when an organisation uses its performance to meet or surpass the financial, social, and personal growth expectations of its stakeholders.

### **Failure**

Failure is the lack of success in achieving a desired goal, objective, or expected outcome. Failure can be characterised by an inability to meet expectations, a setback in progress, or an unsuccessful attempt to accomplish a specific task or endeavour. It is a relative concept that depends on predefined criteria, and it can occur in various contexts, including personal, professional, academic, and business endeavours.

## **2.3 Overview of MSMEs and DFIs in the Free State**

As we already explain MSMEs play a crucial role in building a strong economy. Nevertheless, a significant obstacle faced by MSMEs is their limited access to financial capital and information regarding available opportunities, such as financing options, market access, and training. According to Abor (2017) about 90% of firms in Africa and other developing nations are MSMEs, which play a significant role in the expansion of most economies worldwide. Even in industrialised countries with enormous multinational firms, MSMEs play a dominating role in these economies.

In the post-apartheid South Africa, many people in the country lacked access to credit from traditional banks, with only a selected few having access to formal financial services. As a result, the government had a significant task of addressing major development disparities and promoting financial inclusion and wealth generation while reducing financial hurdles for

MSMEs. DFIs emerged as an appropriate platform or government tool, offering financial support to promising entrepreneurs who were unable to secure funding from commercial banks for various reasons. They may have different aims, but their ultimate goal tends to be helping financial intermediation to enable a country to achieve long-term economic development. Xu et al., (2019) added that the role of DFIs is usually underrated or underplayed, while they are handy policy tools to correct market failures, create new markets, and drive structural change. From a free market perspective, DFIs are seen as government intervention in the financial markets, and this leads to inefficient allocation of resources and rent-seeking.

According to Mopeli (2018), the government needed to change how DFIs work to ensure everyone can take part in the economy equally and to reduce the high levels of inequality from the apartheid era. South Africa has several DFIs that offer financing in various parts of the economy, each focusing on different areas. While national DFIs are widely recognised, provincially based DFIs often operate within localised contexts. However, their proximity to communities positions them favourably to identify and enhance local capabilities.

Rajagopaul et al., (2020) also argued that DFIs help MSMEs in South Africa grow and succeed by providing financial and other types of support. These businesses make up more than 98% of all businesses in the country, employ 50-60% of the workforce in various sectors, and create 25% of new private sector jobs. Yet they are most at risk from many factors while, in turn, stimulating the country’s economic growth. It is because of the pivotal role played by the DFIs that different provincial departments responsible for economic growth in South Africa have deemed it fit to establish provincial DFIs over and above the national DFIs. The Free State has established the FDC. There are other national sister DFIs with footprints within the province such as the Small Enterprise Finance Agency (SEFA), National Empowerment Fund (NEF), National Youth Development Agency (NYDA), Land and Agricultural Development Bank of South Africa (Land Bank) and Industrial Development Corporation (IDC).

*Table 2. List of Development Finance Institution (DFIs)*

<b>DFI</b>	<b>Footprints</b>
FDC (Free State)	Provincial
SEFA	National
NEF	National
NYDA	National
Land Bank	National

## 2.4 Governance Framework and Regulation

The FDC is constituted under the FDC Act No.6 of 1995 as amended and is a Schedule 3, Part D, as a public entity governed by a duly appointed Board of Directors, acting as the accounting authority as prescribed by the FDC Act, and as contemplated in the Public Finance Management Act 1 of 1999 (PFMA). In addition to its founding act, the corporation's functions are also governed by a range of legislative instruments, policy frameworks, and guidelines.

Nevertheless, the question remains: how does performance rate after government intervention through the DFIs? Success for these small businesses is deemed to be their ability to remain in business, service their loan obligation for the foreseeable future, and/or grow to the next level. Consequently, the measurement of performance will involve determining the percentage of MSMEs funded by the DFI within the selected sample, based on the total number of MSMEs included in the sample. As a result, this meet the policy objective of economic growth, financial inclusion, and job creation.

“However, several studies have shown that financial inclusion without a financially literate population has less significant bearing on financial well-being of the citizens.”  
(Kamanga, 2018, pp 9-10).

## 2.5 Theoretical Framework or Conceptual Framework

Empirical studies have proved that the human capital theory is critical to success, as is the lack thereof, to the failure of the MSMEs. Fatoki (2011) supported his perspective by referencing Ahmad et al. (2010), who highlighted that in the context of SMEs, the essential resources are typically possessed by the individual entrepreneurs themselves. These resources are often manifested in their skills, knowledge, experience, and education. Furthermore, the lack of separation between ownership and control in SMEs suggests that business owners themselves are responsible for the direction, growth and development of their firms. It can be contended that this responsibility serves as the foundation for the theory of business strategy. Undoubtedly, there is a demand for the development of MSMEs. It is widely acknowledged that the process of entrepreneurial development involves various significant institutions.

Consequently, when evaluating the success or failure of MSMEs, it is essential to look beyond just funding and explore the implications of institutional theory.

### **2.5.1 Human Capital Theory**

This theory focuses on the MSME owner's capabilities, skill level, knowledge, experience, and educational background. Rokhman et al., (2023) cited Brinker (2000) in advancing his argument that the training programmes, competencies, recruitment, mentorship, learning programmes, individual potential, and personality are just a few quantifiable forms of human capital necessary for entrepreneurial success. Training programmes are critical in equipping employees and business owners with the necessary skills and knowledge to perform their roles effectively, followed by continuous learning programmes which ensures that they stay updated with the latest industry trends, technologies, and best practices. These training and learning programmes foster adaptability and resilience, thus improving efficiency, productivity, and innovation within the business. It is through mentorship that guidance, support, and advice from experienced individuals or institutions responsible for MSME development is provided to less experienced employees or business owners. This can accelerate learning, enhance leadership skills, and provide valuable insights for business growth. Thus, human capital seems to be the seedbed in which the success or failure of the MSMEs is cultivated.

### **2.5.2 Business Strategy Theory**

Achyarsyah et al., (2023), argued that the development of business strategy is shaped by both entrepreneurial orientation and the external environment. To have a significant impact on innovative business strategies, it is crucial to refine and constantly enhance entrepreneurial orientation and adapt to changes in the external environment. The continuous adaptation maintains the business' relevance or competitive advantage, which are the unique attribute or set of attributes that allow it to outperform its rivals. That advantage can come from various factors such as lower costs, superior product quality, better customer service, innovative products, strong brand reputation, or more efficient operations. It enables the business to generate greater sales or margins, and retain more customers than its competitors. It is for this reason that Rokhman et al., (2023) argued that MSMEs with a competitive advantage can always understand market structure changes and choose an effective marketing strategy. MSMEs without a competitive advantage may struggle to attract and retain customers, achieve sustainable profitability, and differentiate themselves in the marketplace. Over time, that can lead to declining market share, reduced revenues, and financial instability, which might

eventually threaten the viability of the business. Therefore, it is crucial for MSMEs to continually identify and develop their competitive advantages to remain competitive and successful.

### **2.5.3 Institutional Theory**

The entrepreneurial development process involves several prominent institutions, which has resulted in the use of institutional theory as a framework for various research domains. According to Bamfo et al., 2023 institutional theory provides a framework for understanding the actions of small businesses and the roles of government enterprise support organisations, financial institutions, higher educational institutions, and international organisations in developing countries. Institutions in developing countries establish the regulatory, normative, and cognitive frameworks for small businesses. These frameworks dictate the rules that small businesses are expected to follow, and their entrepreneurial capacity depends on adhering to these rules. Sarmah et al., 2019 argued that, the government should create supportive policies and an environment that encourages entrepreneurship. As the population continues to grow, entrepreneurship will become essential for survival and sustainability. Kusumawardhani et al., (2015) showcased an outcome in which the integration of public subsidies, specifically for soft loans, to bolster technological advancements, marketing efforts, and overall business capacity, has effectively led to the establishment of science-based MSMEs. That approach resulted in heightened productivity, enhanced human-resource management, and improved marketing strategies.

## **2.6 Review of Empirical Literature**

In South Africa, there are several DFIs that play significant roles in promoting economic development and supporting various sectors. Each DFI has its specific mandate, target sectors, and programmes to support economic growth, job creation, and social development in the country. It is widely believed that the presence of DFIs can contribute to the enhanced performance and increased survival prospects of MSMEs through the effective resolution of their financial inclusion challenges.

However, factors critical to the success or failure of these MSMEs beyond the funding phase seem to be overlooked, as most studies focus on the financial inclusion of these enterprises. There are more compelling reasons for government to intensify its post-funding support to these small businesses.

According to Kalane (2015), using quantitative research method suggested that it has also been established that the educational qualifications as well as managerial skills also play a critical role in the failure or success of the SMEs and these factors are beyond funding requirements. April (2005) submitted that, the owner's unwillingness to take chances and their lack of expertise are two important reasons that contribute to the collapse of several MSMEs..

Upon completion of 100 educational workshops nationwide over two decades, involving thousands of MSME founders. Crane (2020), “discovered that most founders of MSMEs lack fundamental business knowledge, fail to appreciate the importance of well-documented factors related to venture success, are often in a state of denial regarding their poor business management acumen, and lack awareness and a willingness to use widespread educational resources that could actually help them avoid venture failure. Simply put, MSMEs are failing due to poor management”.

In their research, Solihudin et al., (2022) used a descriptive-quantitative method and conducted a literature content analysis. In addition to reviewing existing literature, they circulated questionnaires to MSME owners. The findings of the study revealed that MSMEs prioritise digital marketing as their primary focus. A significant majority of MSME actors are very open to engaging in e-commerce, highlighting the need to improve their digital financial literacy. To ensure long-term sustainability post-COVID-19, MSME owners have used a mix of offline and online marketing strategies. Solihudin et al., (2022) further submitted that, “the degree to which the government is prepared to construct digital-based business governance (the Making Indonesia 4.0 Roadmap) is not sufficient for the level of urgency with which its use is required during the pandemic”.

Kiraka et al. (2015) employed a mixed method approach, combining qualitative and quantitative methodologies, to conclude that apart from training, there were limited additional services accessible to the majority of women borrowers who received Women Enterprise Fund (WEF) loans. These services were insufficient to significantly support businesses in their growth trajectory or encourage innovations. Furthermore, “for the borrowers, the challenges included limited and shrinking markets/competition, lack of business knowledge, misconception about the purpose of the fund, diversion of the funds, low literacy among segments of women borrowers, lack of loan securities and domestic interference”.

According to the findings of Madhushani et al. (2017), the results obtained from the ANOVA and t-test indicated that both the origin of enterprises and the level of education significantly influenced the success of businesses. The study further revealed that educational background did not provide practical skills necessary for effectively managing a business. These findings suggest that to achieve success as an MSME owner, it is crucial to focus on improving marketing strategies, adopting, and demonstrating advanced technology, and gaining access to capital. Additionally, other stakeholders involved in the development of MSMEs, such as government agencies, business development services, and business support institutes, should be prepared to offer assistance in these areas.

In conclusion, the research and studies discussed shed light on the multifaceted challenges and opportunities faced by MSMEs in South Africa. While DFIs play crucial roles in promoting economic development and addressing financial inclusion challenges, it is evident that success or failure beyond the funding phase depends on a combination of factors. Educational qualifications, managerial skills, digital literacy, and marketing strategies are just some of the elements that significantly impact the survival and growth of MSMEs.

To ensure the sustainable development of MSMEs, it is imperative for government agencies, business development services, and other stakeholders to intensify their post-funding support. Offering comprehensive training, fostering business acumen, and providing access to capital and resources are essential steps in empowering MSME owners to overcome challenges and seize opportunities. By addressing these critical factors and facilitating an enabling business environment, South Africa can unleash the true potential of its MSME sector, contributing to long-term economic growth, job creation, and social development.

## **CHAPTER 3**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the research methodology for identifying contributing factors to the success or failure of MSMEs funded by the DFI in the Free State. A combination of random and cluster sampling will ensure a representative sample. Random sampling gives each population member an equal chance of selection, while cluster sampling involves selecting geographical clusters for comprehensive data collection. Data analysis will involve both descriptive and inferential statistics to interpret primary data from questionnaires and secondary data from DFI records. Regression analysis will also be used to identify key factors impacting MSME success or failure. This model allows us to understand the impact of various factors on the success or failure of MSMEs funded by DFI in the Free State Province, facilitating targeted intervention to enhance their performance. The study uses composite scale including seven point Likert scale for skills and experience, and a nominal scale for educational background.

#### **3.2 Research Approach**

There are three research approaches, namely quantitative, qualitative, and mixed approach. Quantitative approach focuses on objective, measurable data and seeks to quantify relationships between variables. It involves numerical data and statistics, and aims to test hypotheses or answer specific research questions. In distinguishing between a quantitative and qualitative approach Saunders et al., (2009) cited Robson (2002): “Qualitative data are associated with such concepts and are characterised by their richness and fullness based on your opportunity to explore a subject in as real a manner as is possible”. Quantitative research aims to establish relationships, patterns, or generalisations, often focusing on variables and cause and effect relationships.

Firstly, the research is deemed to be descriptive research, which is concerned with determining and documenting the success or failure rate of a specified MSMEs population. It answers the following research questions:

- What are the root causes of the high success or failure rates of MSMEs funded by DFIs in the Free State, particularly concerning financial inclusion, entrepreneurial skills, educational background, and relevant experience?
- What is the impact of legislative requirements on the operation and success of MSMEs in the Free State?

It strives for objectivity and aims to minimise the influence of the researcher's bias. Secondly, the study seeks to explore in-depth insights and understanding of how the owner's qualifications, business strategy, and institutional support contribute to the success or failure of the enterprise. As a result, the chosen research approach will be quantitative in nature and will follow these steps:

Step 1: Obtain data on MSMEs funded by the DFI in the Free State (FDC) and collect data on financial inclusion metrics and MSME success indicators. This could include data on the number of MSMEs funded, their business sector, the amount of funding received, and their current operational status.

Step 2: Conduct surveys among MSMEs that received funding to gather data on their success metrics (e.g., revenue growth, employment generation, business survival rate).

Step 3: Distribute structured questionnaires to a sample of MSMEs to quantify the prevalence of identified factors and, design and distribute surveys to collect data on the educational background, entrepreneurial skills, and relevant experience of MSME owners.

Step 4: Perform regression analysis to identify and quantify the impact of various factors on MSME performance. Use statistical techniques such as correlation analysis and multiple regression to examine the relationship between these variables and MSME success. Analyse the correlation between financial inclusion and MSME performance. Use regression models to determine the strength and nature of this relationship. Interview MSME owners, legal experts, and policymakers to understand the specific legislative challenges faced by MSMEs. Conduct focus groups with MSME owners to discuss how they navigate regulatory requirements and the impact on their operations.

### **3.3 Research Design**

The case study will assess the survival or failure rate of MSMEs supported by the Free State through its provincial DFI, along with the factors that contributed to their success or failure.

#### **3.3.1 Sample and Data Collection**

The study will primarily use structured data collection methods, such as surveys and numerical measurements, and will use both the primary and the secondary data. Collecting secondary data from reputable sources, such as requesting the provincial DFI for a loan book of all MSMEs funded during the period stipulated above. It is necessary to verify operational status through other institutions of government (e.g., CIPC, SARS, etc)

The study will involve arranging interviews with the business owners of the chosen MSMEs (operational or non-operational) within the province. Additionally, standardised questionnaires will be circulated to gather information from these owners. It is also necessary to obtain informed consent from MSME owners/participants.

The objective of this research is to evaluate the present success or failure rate of MSMEs in the province and identify the factors that contribute to their success or failure. This assessment aims to determine the effectiveness of the provincial government intervention through the DFI in addressing the financial inclusion challenges faced by MSMEs. The case study will be conducted in all five districts of the Free State, namely: Fezile Dabi, Mangaung, Lejweleputswa, Thabo Mofutsanyana, and Xhariep districts.

#### **3.3.2 Population and Sampling Strategy**

Uusiku (2018) described a population as a group of objects that a study focuses on. In this research, the population includes MSMEs and DFIs in the Free State, specifically those operating in the province and MSMEs that have received financial support. Historically, the province economy revolves around agriculture, mining, and manufacturing and has faced various challenges. Given the province's landlocked position and relative distance from major ports and economic hubs, MSMEs within it might face difficulties accessing larger markets and export opportunities. But the province also offers unique opportunities for these MSMEs, particularly in agri-processing, agricultural services, and related industries.

Through FDC, funding is provided for start-up enterprises and those enterprises that need finance to grow. These finances are provided to businesses involved in various sectors of the economy. “The FDC provides products and services to SMMEs and co-operatives in the form of financial support (business loans) as well as business development support (facilitating training and mentoring service providers). The provincial loan products offered to Free State entrepreneurs by the FDC are:

- Start-up loans for recently established businesses that are mainly at formative stages
- Expansion loans offering viable to expand
- Business take-over finance to assist potential clients to acquire a business as a going concern
- Bridging finance for SMMEs with short-term cash-flow problems with contracts or tenders” (Free State Development Corporation, n.d.).

A sampling strategy refers to the method used to select a subset of MSMEs from a larger population to be included in the study. A sample must accurately represent the population it is drawn from, reflecting its essential characteristics in a comprehensive manner. The research approach chosen is a quantitative approach. Therefore, the following sampling strategies are possible:

### **3.3.3 Probability Sampling**

The method provides a strong foundation for research studies as they offer unbiased and representative samples, allowing researchers to draw valid conclusions about the entire population based on the characteristics observed in the sample.

In an attempt to ensure that the selected sample is representative of the population, so that the findings can be generalised to the larger group, the strategy adopted will be a mixture of random and cluster sampling. Under random sampling, every member of the population has an equal chance of being selected for the study. Cluster sampling involves dividing the population into clusters or groups, often based on geographical locations or other naturally occurring divisions. For this study, the five districts of the Free State will serve as clusters. The districts were chosen as clusters based on their geographical boundaries and administrative significance. From each cluster, a random sample will be drawn. In preparing the data, upon receipt of the MSMEs loan book from the DFI, all accounts with

zero balance will be investigated to determine whether they have been fully repaid or if the funding has been approved but not yet disbursed, with the latter being automatically discarded. Based on the remaining population, a stratified random sampling method will be employed to select a targeted total of 50 MSMEs, with 10 MSMEs randomly chosen from each of the five districts of the Free State. This ensures that the sample is representative of the broader population, allowing the findings to be generalised, ensuring statistical power and achieving the desired confidence level. For example, the sample size was determined to ensure a 95% confidence level with a 5% margin of error, which is considered sufficient for applying the results to the larger population. Each cluster will have an equal number of units of analysis, ensuring balanced representation across all districts. The survey will cover the period from 2012 to 2018, with data analysis employing descriptive statistics to provide insights into the data set's distribution, variability, and central tendencies. The study will then compare findings between successful and failed MSMEs, carefully examining the characteristics of each to identify factors contributing to MSME success or failure.

### **3.3.4 Data Source and Collection**

Data is raw factual information that can be processed, interpreted, and analysed to extract insights, patterns, and trends. It is fundamental to scientific inquiry because it serves as the foundation for generating knowledge, testing hypotheses, and making informed decisions in fields ranging from natural sciences to social sciences and beyond. At this stage of the study, we will conduct a comprehensive examination of the existing information related to the current rate of success and failure among MSMEs, along with the underlying reasons using the primary data.

#### **3.3.4.1 Primary Data**

Primary data is defined as data that is collected directly through first-hand experiences, observations, or experiments specifically for the purpose of the research. The primary data for the current study would be responses from questionnaires issued to selected MSMEs that received funding from the provincial DFI. The data will be used to measure the following variables: access to finance, financial literacy of MSME owners, managerial skills, human capital, digital literacy, business strategy, institutional support, market access, training programmes, and post-funding support.

In analysing the data, the statistical methods will be used to analyse the MSMEs loan data and responses from the questionnaires. These will be descriptive statistics to summarise the data, as well as inferential statistics to draw conclusions about the broader population of MSMEs based on our sample. Regression analysis or other predictive models might also be used to identify factors that significantly impact the success or failure of these businesses.

### 3.3.4.2 Descriptive Methods

This method is a research approach that focuses on the systematic collection, presentation, and analysis of raw information (factual), or data to extract insights, patterns, and trends. It forms the backbone of scientific inquiry across various fields, including natural and social sciences, as it underpins the generation of knowledge, testing of hypotheses, and informed decision making.

### 3.3.5 Regression Model

The study investigates 10 explanatory variables: educational qualifications, managerial skills, digital literacy, business strategy, institutional support, market access, and training programmes. These factors are anticipated to affect the performance of MSMEs funded by the DFI, determining their success or failure. The regression model employed in the study is:

$$sf_i = \beta_0 + \beta_1 EQ_i + \beta_2 ms_i + \beta_3 dl_i + \beta_4 bs_i + \beta_5 is_i + \beta_6 ma_i + \beta_7 tp_i + \epsilon_i$$

where  $sf_i$  represents performance of respondent  $i$ . The variables  $eq$ ,  $ms$ ,  $dl$ ,  $hc$ ,  $bs$ ,  $is$ ,  $ma$  and  $tp$  represent educational qualifications, managerial skills, digital Literacy, business strategy, institutional support, market access, and training programmes respectively.

## 3.4 Measurement and Description of Variables

Existing literature that has been developed and validated provides this study with tools and a basis for measuring the independent variables that affect the success or failure of MSMEs. That foundation enables more focused research and interventions. The study uses composite scale

including seven point Likert scale for skills and experience, and a nominal scale for educational background.

### **3.4.1 Dependent Variable**

**MSMEs Performance:** This is measured through various indicators such as, profitability, revenue growth, number of employees, or achievement of business goals. Longevity is used to show business stability; profitability indicates financial health; revenue growth shows expansion potential; number of employees indicates operational scale; and achievement of business goals reflects strategic success. The study will use profitability to measure performance of the MSMEs. Profitability will be assessed using metrics such as net profit margins and return on assets (ROA), as seen in studies such as Joshi et al. (2024) and Pagaddut (2021). Furthermore the study will also use market access and number of employees to measure MSMEs growth. To gather data, the questionnaire will ask questions such as: what is the percentage of your business's net profit margin over the last three financial years; and what is the current ROA from your business?

### **3.4.2 Independent Variables**

#### **a) Financial Literacy of Owners**

This refers to the knowledge, skills, and understanding that individuals possess to make knowledgeable and efficient choices about how to use and manage their financial resources. Understanding financial literacy is not just necessity; rather, it is a fundamental skill. It involves knowledge and abilities in managing finances and making smart decisions to keep a business running smoothly while avoiding financial issues. It is critical to enable MSMEs to make informed decisions about taking on debt, managing credit, and protecting their business against potential financial setbacks. Llewellyn (2021) argued educational limitations can impact people's ability to understand financial products, the roles these products play in the financial system, and how to use these products effectively. A lack of financial literacy (basic knowledge of finance) and poor financial capability (skills and ability to use financial products well) can both be significant barriers. MSME owners might manage funds poorly, causing financial problems for their business. That means they might not use credit, investment opportunities, or insurance products properly, making MSMEs more vulnerable to economic shocks. A questionnaire will be distributed to assess MSMEs' financial literacy by examining their

understanding, attitudes, and behaviours concerning financial matters. This approach aligns with several studies in the field. For instance, Marini, Yusmaniarti, Faradilla, and Setiorini (2024) measure financial literacy by assessing MSME owners' knowledge of fundamental financial concepts such as interest rates, inflation, and the value of money over time.

#### **b) Managerial Skills**

This covers experience and skills in managing businesses, potentially assessed through years of experience or specific training. According to Ng'ora, et al. (2022), findings indicate that the managerial abilities of MSME owners and managers greatly enhance the performance of their businesses. Specifically, skills in financial management, marketing, human relations, and entrepreneurship are essential for the successful operation of small businesses. MSMEs owners' ability to effectively manage the MSMEs finances (financial management skills) helps in planning and controlling their budgets, ensuring that resources are allocated efficiently and costs are kept under control. By managing cash flows properly, the owner ensures the business can pay its bills, avoids money problems, and seizes growth opportunities. Financial skills allow for the development of strategic plans, financial forecasting, and analysis, helping businesses to set realistic goals and track performance against them. They also assist in making informed investment decisions and accessing various funding sources, whether through loans, investors, or grants.

Effective marketing skills are crucial for the success of MSMEs. Understanding market trends, customer needs, and the competitive landscape through market research allows MSMEs to position their products or services effectively. Additionally, branding and promotion strategies enhance brand visibility and reputation, helping to attract and retain customers. Strong sales strategies developed through marketing expertise drive revenue growth, while customer relationship management fosters loyalty and repeat business by building and maintaining strong relationships with customers.

#### **c) Digital Literacy**

This is the ability to use digital tools and platforms for business, including e-commerce. According to Suryani et al, (2022), "digital literacy can also be called the use of the internet as the first reference to find information and can also be said as a person's ability to use the internet as a medium in finding information". In line with Diptyana et al., (2022)'s findings, it is the duty of the MSME owners to improve their levels of digital literacy as a way of ensuring

business growth and community economy. Relating to this, digital tools like accounting software and financial planning applications allow owners of MSMEs to track records, expenses, and project future financial results. Setting this aside, other benefits of automating processes such as invoicing, payroll, and inventory management include fewer errors and less time wasted on financial operations. In the same vein, an online presence via website creation and maintenance, and leveraging social media platforms will ensure the MSMEs raise their visibility in attracting new customers. Knowing how to set up and manage e-commerce platforms would expand their reach, so increasing their sales. These would then have the digital marketing skills, including social media marketing and email campaigning. This identifies effective marketing for MSMEs and secures better returns on investment. The level of digital literacy in the study will be measured according to how capable MSMEs are of using digital tools in carrying on with business, understand online communication, and effectively managing information in a digital format through survey and/or questionnaire. It is in line with, for instance, Diptyana, Rokhmania, and Herlina (2022) who measured knowledge, skills, and attitude concerning the use of digital technologies for business purposes as an attempt to measure digital literacy in MSMEs. Similarly, Athia et al. demonstrated the ability of MSMEs in using digital platforms to enhance their performance during the COVID-19 pandemic as one way of assessing digital literacy.

#### **d) Business Strategy**

According to Nursetiana, et al. (2022), business strategy is defined as the actions and decisions taken by MSMEs to achieve competitive advantage and improve business performance. It encompasses two key components: strategic planning and adaptability. The later provides a framework for understanding the external environment that can impact strategic planning and adaptability. External environment factors include Political, Economic, Social, Technological, Environmental, and Legal (PESTEL) factors. Each of these elements plays a critical role in shaping a company's strategic decisions and its ability to adapt to market changes. Nursetiana, et al., (2022) cited Aribawa (2016) arguing that performance is the achievement of an organisation in meeting its strategic and set goals through expected behaviours. Good performance by an MSME strengthens its role as a key part of the economy and makes it increasingly important in the national economy.

The presence and quality of business strategies, including market orientation and adaptability to external changes, guarantees to the greater extent the MSMEs success or survival. MSMEs can adopt various business strategies to enhance their financial and or operational performance. These strategies include effective financial management through regular budgeting, forecasting, and cost control to manage expenses and improve profit margins. Diversification by introducing new products and expanding into new markets can also boost performance. Improving operational efficiency by optimising processes and adopting technology can enhance productivity.

This study will use a structured survey to assess business strategy. This will include questions about different strategic orientations, such as whether the business focuses on having a clear long-term vision, differentiation, or focus strategies. It will also examine how often MSMEs review their strategies and the actions they take to adjust, such as launching new products, entering new markets, or starting marketing campaigns. Additionally, the survey will assess how its business strategy helps the MSMEs remain competitive in the market.

#### **e) Institutional Support**

This covers support from various institutions, including government policies, business development services, and educational institutions. Ashoka et al. (2019) described institutional support as a key component of the economic climate for firms and industries. It is made up of institutions and powers that influence business operations by means of active support and judgments. The assistance could be in the form of regulations, laws, funding support, and non-monetary support, and they all are very significant to the way firms conduct their operations. According to Sarmah et al. (2019), as the population continues to grow, entrepreneurship will become essential for survival and sustainability. Therefore, the government should create supportive policies and an environment that encourages entrepreneurship. Institutional support has been paramount for improving financial performance for MSMEs through diversification of funding sources, reduction of risk to lenders, and access to essential capital from DFIs and commercial banks. Training and mentorship provided by agencies like the Small Enterprise Development Agency (SEDA) improve business skills among owners through trained decision making and operational efficiency. Government procurement, trade missions, and networking create new markets that help drive sales and revenue. For example, lighter regulation and digital instruments in regulation will reduce the administrative burden and allow MSMEs to attend to the core operation of their business more. Innovation through incubators and accelerators keeps

MSMEs competitive. Institutional support of various kinds, such as financial support, post investment services, training, market access, and regulatory support, will be assessed through structured surveys and/or interviews.

#### f) **Market Access**

Availability and accessibility of markets for the MSMEs' products or services. Athia et al, 2023 argued that every business must engage in marketing to introduce their products and services to potential customers. Through marketing, the benefits of a product are communicated to the target audience. Additionally, businesses can capitalise on the needs of their customers. Effective marketing goes beyond merely maximising product sales. SEDA helps funded businesses expand their market reach by facilitating participation in trade fairs, exhibitions, and creating business links both locally and internationally. Access to wider markets creates avenues for MSMEs to tap into larger pools of customers, both within their countries and abroad, thereby increasing sales and revenues. This lowers dependence on one particular market and decreases risks related to economic downturns. Greater access to wider markets may also have the added advantage of economies of scale for MSMEs, thus reducing per-unit costs with an increase in their production volumes, improving their profit margins. This also connects the MSMEs with a larger set of suppliers to source high-quality inputs at a lower price, thus offering high quality products at low prices. The consequence of this is that such exposure to different kinds of markets will drive innovation in the way MSMEs cater to diverse customer preferences and various regulatory requirements, thereby making them more competitive. Entering new markets increases the visibility and reputation of MSMEs, building brand recognition and fostering customer loyalty. Diversified sources of regular income enhance cash flow management to allow better financial planning and investment. Second, operating across diversified markets provides valuable insights into different business environments and consumer behaviours, which may facilitate strategic decisions and thereby improve the performance of their operations. Finally, expanded market access helps MSMEs build networks and partnerships that can provide collaboration, shared resources, and new business opportunities.

The study will use a structured survey or questionnaire to assess market access, focusing on the geographic reach of MSMEs, including their ability to enter local, regional, and international markets. A rating scale will be used, where 1 represents strong disagreement, 3 represents a neutral response, and 5 represents strong agreement with the given statements. The statements

will assess market access through digital marketing, such as (a) My business has easy access to local, regional, and national markets; (b) Digital marketing has increased my customer base; (c) Online platforms have made it easier to reach new markets; and (d) The use of digital marketing has improved customer engagement in various markets.

#### **g) Training Programmes**

According to Anuradha et al., (2020), studies have shown that well designed training programmes can significantly enhance productivity across organisations, regardless of their size or scope of operations. Therefore, participation in and the quality of training programmes available to MSME owners is critical for the success of their businesses. In South Africa, training programmes for MSMEs are designed to support their growth and sustainability. Such training programmes are often facilitated primarily by some government departments and agencies, with SEDA playing an instrumental role. Table 1 above provides a list of development finance agencies in the Free State that also offer training to MSMEs. Training provided also aims to develop entrepreneurial skills and train MSME owners/staff to manage finances more effectively, resulting in better cash flow management and improved financial decision making. Furthermore, training helps MSMEs gain a better understanding of different financing options, such as loans, grants, and venture capital, and how to access these resources. As result, the study will use questionnaires to measure MSMEs training.

**TABLE 3.1 Description of variables**

Variable	Symbol	Measurement
<b>Dependent Variables</b>		
MSMEs Performance	sfi	Respondents are asked to select their current net profit margins: a rating scale takes on a value of (1) Less than 10%; (2) 10%-20%; (3) 21%-30%; (4) More than 30% and also asked to rate their ROA: (1) Less than 10%; (2) 10%-20%; (3) 21%-30%; (4) More than 30%
<b>Independent Variables</b>		
Financial Literacy of Owners	eqo	A rating variable takes on a value of 1: Strongly disagrees, 2: Disagrees, 3 if the respondent is neutral, 4: Agrees and 5: Strongly agrees. The following statements relate to the respondent's financial understanding: I understand financial concepts such as cash flow, savings, investment, and debt management; I am confident in managing the financial planning of my business; and I am familiar with the financial products and services available for my business.
Managerial Skills	ms	A rating scale takes on a value of 1 if the respondent rates their skills as poor; 3 if the skills are rated as moderate; and 5 if the skills are rated as excellent. The following statements relate to the respondent's managerial skills: Leadership and decision making; Team management and delegation; Strategic planning; Financial management; and Problem solving.
Digital Literacy	dl	Respondents are asked to rate their familiarity with the following digital marketing concepts, using a scoring scale where 1 indicates Not Familiar, 3 indicates Moderately Familiar, and 5 indicates Extremely Familiar. The core topics are social media marketing, website administration, search engine optimisation (SEO), online payment systems, and email marketing.
Business Strategy	bs	A rating variable takes on a value of 1: Strongly disagrees, 2: Disagrees, 3 if the respondent is neutral, 4: Agrees and 5: Strongly agrees. The following statements relate to the respondent's business strategy: I have a clear long term vision for my business; I regularly review and adjust my business strategy; and My business strategy helps me stay competitive in the market.
Institutional Support	is	A Likert scale takes on a value of 1: Strongly disagrees, 2: Disagrees, 3 if the respondent is neutral, 4: Agrees and 5: Strongly agrees. The following statements relate to the respondent's perceptions of institutional support: Financial support programmes are accessible and helpful; Government policies encourage business growth; and non-governmental organisations provide adequate support for MSMEs.
Market Access	ma	A rating variable takes on a value of 1: Strongly disagrees, 2: Disagrees, 3 if the respondent is neutral, and 5: Strongly agrees. The following statements relate to the respondent's market access through digital marketing: My business has easy access to local, regional, and national markets; Digital marketing has increased my customer base; Online platforms have made it easier to reach new markets; Using digital marketing has increased customer engagement in different markets.

Training Programmes	tp	A rating scale takes on a value of 1 if the respondent indicates the training was not effective; 3 if the training was moderately effective; and 5 if the training was extremely effective. The following statements relate to the effectiveness of the training programmes: Overall training programme, Skills developed from training, and Bookkeeping training.
---------------------	----	--

### 3.5 Estimation Technique

#### 3.5.1 Reliability Analysis

Reliability analysis is essential in ensuring that the measurement instruments used in this study produce consistent and dependable results. A reliable instrument minimises measurement errors and enhances the credibility of the findings. This study employs Cronbach's Alpha to assess the internal consistency of the constructs under investigation.

##### 3.5.1.1 Cronbach's Alpha

According to Bujang et al. (2018), Cronbach's alpha is a way to measure internal consistency or reliability across multiple items, measurements, or ratings. It gives an indication of how consistently a certain questionnaire, instrument, or rating measures the same concept when considered by the respondents. The values of Cronbach's alpha range from 0 to 1, with higher values suggesting that the items are measuring the same dimension. Conversely, a small Cronbach's alpha close to 0 is an indication of the failure of some items to measure the concept under consideration. That simply means items of one construct, such as financial literacy, digital literacy, human capital, or other kinds are highly interrelated. Generally, a Cronbach's alpha above 0.7 is acceptable to reflect good internal consistency.

In this study, the reliability of the following key constructs is tested: educational qualifications (eq), managerial skills (ms), digital literacy (dl), business strategy (bs), institutional support (is), market access (ms) and training programmes (tp) respectively

The following thresholds will guide the interpretation of reliability results:

#### Table 3.2 Reliability Measure Threshold

Reliability Measure	Acceptable Threshold	Action Plan if Below Threshold
Cronbach's Alpha	$\geq 0.7$	Very good-Acceptable
Cronbach's Alpha	Between 0.6 and 0.7	Adequate-Acceptable
Cronbach's Alpha	$< 0.5$	Remove and rework weak items

#### 3.5.2 Regression Estimations

The study employs Ordinary Least Squares (OLS) regression to examine the relationship between the business performance of MSMEs and various independent variables, such as educational qualifications (eq), managerial skills (ms), digital literacy (dl), business strategy

(bs), institutional support (is), market access (ms) and training programmes (tp) respectively. Zdaniuk (2024) defined OLS as a method used to measure the relationship between one or several independent explanatory variables and an interval or continuous outcome variable. The objective is to obtain minimum squared error, in which the error is the difference between the estimated and actual value of the outcome variable. OLS is appropriate for this study because it allows the identification of the key factors influencing MSME performance while controlling for other variables. It relies on several important assumptions. Firstly, the relationship between the dependent and independent variables must be linear, which holds in this model, as factors like financial capital, skills, and market access are expected to influence business performance in a linear way. By minimising the residual errors, it provides the best linear unbiased estimates of the coefficients, ensuring that the model can predict business performance as accurately as possible given the available data. Secondly, the observations should be independent, meaning the error terms ( $\epsilon_i$ ) from different respondents should not be correlated, ensuring that errors reflect only random variation. Thirdly, homoscedasticity assumes that the variance of the error terms remains constant across all levels of the independent variables, so the spread of residuals is similar across predicted values. Fourthly, the error terms should follow a normal distribution, which is important for hypothesis testing and creating confidence intervals. Finally, there should be no multicollinearity, meaning the independent variables should not be highly correlated with one another, as this can make it difficult to assess the individual effects of each variable on business performance.

## **CHAPTER 4**

### **RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

This chapter presents the analysis of data and discusses the research findings based on the study's research questions and in accordance with the methodology outlined in Chapter 3. It also evaluates multicollinearity and applies OLS regression to examine the relationships between MSME performance (the dependent variable) and various independent variables, such as educational qualifications, managerial skills, digital literacy, business strategy, institutional support, market access, and training programmes. Regression analysis has been used to study how these factors singly and jointly influence the success or failure of MSMEs and provide an insight into the significance and impact of various factors. The data collection has been done through self-administered questionnaires. The structural model has been analysed to establish the relationships between independent and dependent variables. The findings, regression coefficients, and  $R^2$  explaining the variation in MSME performance are presented and discussed.

#### **4.2 Descriptive Statistic**

The profiles of the respondents are displayed in Table 4.1. Despite a roughly equal gender distribution, men made up the majority of survey respondents. The majority of responders are above 41, despite the fact that the age groups are somewhat scattered. Most respondents were between the ages of 41-50 and 51-60, as the accompanying statistic illustrates. With 26% of respondents in each age group and 52% in both, respondents between the ages of 31 and 40 made up the next largest share (22%). Ten percent of responses were in the 20-30 age range, sixteen percent were in the 60-plus age range, and zero percent were under the age of twenty. The age distribution of the sample's participants shows how the more mature age group owns MSMEs. The result is shown in the Table 4.1.

**Table 4.1: The Profile of the respondents**

	Description	Frequency	Percent
Gender	Male	29	58
	Female	21	42
	Total	50	100
Age	20-30	5	10
	31-40	11	22
	41-50	13	26
	51-60	13	26
	>60	8	16
	Total	50	100
Access to finance (source)	Business loan	29	58
	Grant	16	32
	Equity and loan	5	10
	Total	50	100
Ease of accessing finance	Very difficult	13	26
	Difficult	5	10
	Neutral	15	30
	Easy	8	16
	Very easy	9	18
	Total	50	100
Amount accessed	Below R100 000	6	12
	R100 000-R500 000	26	52
	R500 000-R1 000 000	4	8
	R1 000 000-R5 000 000	14	28
	Total	50	100

(Source: Fieldwork 2024)

#### 4.2.1 Reliability Results

Adequacy of the sample was measured by using the Kaiser-Meyer-Olkin (KMO) measure. This is described in Table 4.2 below. The KMO value lies between 0 and 1, with a higher value indicating better adequacy. A minimum value of 0.7 is considered to denote moderate adequacy. It is to be noticed that the KMO value here is 0.618, which is marginally below the threshold but within acceptable limits. Bartlett's Test of Sphericity was conducted to see if there were significant relationships among the variables. The null hypothesis, H<sub>0</sub>, states that there are no significant interrelationships among variables; the alternative hypothesis, H<sub>1</sub>, states that there is such a relationship. The chi-square value obtained was 73.817 with 15 degrees of

freedom and was significant at less than 0.001. Since this value is less than 0.05, one rejects the null hypothesis; hence, there are significant relationships among the variables.

KMO Measure of Sampling Adequacy.		0.618
Bartlett's Test of Sphericity	Approx. Chi-Square	73.817
	Df	15
	Sig.	<.001

The reliability and validity of the key variables checked were MSMEs performance, access to finance, financial literacy, managerial skills, digital literacy, education, business strategy, institutional support, market access, training programmes, and post-funding support.

The result of the reliability analysis using Cronbach's Alpha showed that MSME performance has the highest reliability, with a value of 0.715, while that of training programmes has the lowest, 0.543. Though the generally accepted value of Cronbach's Alpha 0.7 and above, values between 0.5 and 0.7 are considered acceptable in exploratory research. The average variance extracted (AVE) varied from 0.146 to 0.411, with digital literacy having the highest AVE, hence moderately valid. While AVE values below 0.5 generally denote poor convergent validity, Ghadi et al., 2012 cited Hair et al., 2010, establish that AVE below 0.5 is acceptable provided the composite reliability is above 0.6. Given that some of the variables fall below the threshold of 0.5, their measures of reliability indicate that they still are valid. These results confirm the internal consistency and validity of the constructs measured in this study.

Table 4.3 presents the reliability test results for the study. Reliability analysis was conducted for each variable, with MSMEs performance yielding a Cronbach's Alpha of 0.737, access to finance at 0.738, financial literacy at 0.707, managerial skills at 0.712, digital literacy at 0.723, human capital at 0.708, business strategy at 0.673, institutional support at 0.736, market access at 0.669, training programmes at 0.669, and post-funding support at 0.712. In general, a Cronbach's Alpha of 0.7 or higher is considered acceptable for internal consistency, while values between 0.5 and 0.7 may still be acceptable in exploratory research. The Cronbach's Alpha for each item was also examined to assess whether removing a specific item would improve the reliability of the scale. A higher Cronbach's Alpha indicates that an item is consistent with the scale, whereas a lower Cronbach's Alpha suggests potential redundancy or inconsistency. It is used to demonstrate the contribution of each and every question on the overall reliability.

Managerial skills mean of 4.05 and business strategy mean of 4.28 are highly rated, suggesting that they are areas of strengths for the respondents. Standard deviation of 0.619 and 0.800 indicates consistent responses. Both financial literacy and human capital means are above average at 3.99 and 3.41 respectively, indicating respondents are fairly equipped in these areas. By contrast, the post-funding support has a mean of 1.75, which is very low, showing a wide gap in support after funding is received. Access to finance has a mean of 2.31, implying that it is perceived as “difficult” and, therefore, a major challenge for respondents/MSMEs. Its standard deviation of 0.454 suggests most respondents share this perception. For instance, digital literacy and market access have a mean of 3.43 and 3.44, respectively, suggesting that it is only moderate; hence, variability may suggest the unequal access to resources and opportunities by MSMEs. A mean of 2.91 for institutional support and training programmes also suggests room for improvement.

**Table 4.3: Reliability Coefficient**

CONSTRUCT	ITEMS	LOADINGS	CA	CR	AVE
MSME performance	What is your current net profit margin? (Net profit margin is the percentage of revenue remaining after all expenses have been deducted.)	0.894	0.737	0.888	0.799
	How would you rate the ROA of your business in the last year? (ROA is calculated by dividing your net income by total assets.)	0.894			
Financial literacy	I understand financial concepts such as cash flow, savings, investment, and debt management.	0.890	0.707	0.920	0.793
	I am confident in managing the financial planning of my business.	0.891			
	I am familiar with the financial products and services available for my business.	0.89			
Managerial skills	Leadership and decision making.	0.893	0.712	0.951	0.793
	Team management and delegation.	0.892			
	Strategic planning.	0.89			
	Financial management.	0.889			
	Problem solving.	0.891			
Digital literacy	Social media marketing.	0.888	0.723	0.951	0.794
	Website management.	0.893			
	SEO.	0.887			
	Online payment systems.	0.89			
	Email marketing.	0.898			
Human capital	Formal education (school, university).	0.901	0.708	0.922	0.797
	Professional training (workshops, certifications).	0.89			
	On-the-job training.	0.887			
Business strategy	I have a clear long-term vision for my business.	0.889	0.673	0.918	0.788
	I regularly review and adjust my business strategy.	0.890			
	My business strategy helps me stay competitive in the market.	0.884			
Institutional support	Financial support programmes are accessible and helpful.	0.894	0.736	0.922	0.797
	Government policies encourage business growth.	0.892			
	Non-governmental organisations provide adequate support for MSMEs.	0.893			
Market access	My business has easy access to local, regional and national markets.	0.886	0.669	0.935	0.782
	Digital marketing has increased my customer base.	0.884			
	Online platforms have made it easier to reach new markets.	0.884			
	The use of digital marketing has increased customer engagement in different markets.	0.883			
Training programmes	Overall training programme.	0.885	0.669	0.917	0.786
	Skills development from training.	0.886			
	Bookkeeping training.	0.888			
Post-funding support	Mentorship or advisory services.	0.891	0.712	0.92	0.794
	Business expansion support.	0.890			
	Monitoring and evaluation by the funding institution.	0.892			

Note: C = Cronbach's alpha; AVE = Average variance explained; SD = Standard deviation; Af = access to finance; Fin\_lit = financial literacy; Man\_Skill = managerial skills; Dig\_Lit = digital literacy; Hum\_cap = human capital; Bus\_strat = business strategy; Inst\_Sup = institutional support; Mar\_acc = market access; Train\_prog = training programmes; Pf\_sup = post-funding support

### **4.3 Corelation Results**

The linear relationship between the predictors and MSME performance is grounded in theoretical frameworks, including human capital, business strategy, and institutional theories, with each variable's coefficient representing its direct impact on performance. The assumption of independence of observations was confirmed, as the error terms ( $\epsilon_i$ ) were verified to be independent, ensuring that the results were not influenced by correlations among responses, thereby enhancing the robustness of the findings across the sample. Homoscedasticity was ensured, as the residual plots showed a constant variance of the error terms following the predicted values. Normal distribution of residuals provided evidence of the normal distribution of errors, which the statistical significance of coefficients and confidence intervals depended on. See below Table 4.3

**Table 4.4: Correlation Results**

	Access_Fin	Fin_Lit	Man_Skills	Dig_Lit	Hum_Cap	Bus_Strat	Int_Sup	M_Access	Train_Prog	PF_Sup
Access_Fin	1									
Fin_Lit	0.00116112	1								
Man_Skills	0.20517145	0.74392229	1							
Dig_Lit	0.37179153	0.27482829	0.33298701	1						
Hum_Cap	-0.1041485	0.5766693	0.43908553	-0.383488	1					
Bus_Strat	0.22100978	0.02546033	0.08620082	0.15568809	0.23508653	1				
Int_Sup	0.22372503	-0.0086385	0.14484385	0.18913154	0.04175414	0.57669737	1			
M_Access	0.22522274	-0.158876	0.21937086	0.27265459	-0.0736767	0.30772466	0.35954354	1		
Train_Prog	0.54078113	0.44845428	0.63707508	0.44004014	0.33720253	0.2856886	-0.0308635	0.29130169	1	
PF_Sup	0.16676761	-0.1246042	-0.0666371	0.31086049	-0.2667676	0.06283994	0.18818321	0.51781745	0.37166696	1

Note: Fin\_Lit = financial literacy; Man\_Skills = managerial skills; Dig\_Lit = digital literacy; Hum\_Cap = human capital; Bus\_Strat = business strategy; Int\_Sup = institutional support; M\_Access = market access; Train\_Prog = training programmes; PF\_Sup = post-funding support

#### 4.4 Regression Results

The regression determinants of MSME performance for the Free State are presented in Table 4.5. The R squared ( $R^2$ ) of 0.287 indicates that the model is able to account for approximately 28.7% of MSME performance variation. Even if this displays good model fit, the adjusted R squared value of 0.169 reports that, controlling for number of predictors, there is accounted for variance in just 16.9%, drawing attention to potential impact of the non-significant predictors. F-value of 2.420, p-value 0.036, indicates the model to be significant at 5% level and establishes that together the predictors have an effect on MSME performance. Support for this hypothesis is provided where independent variables are significant in predicting MSME performance. The comparatively lower  $R^2$  value and also  $R^2$  being lower than adjusted  $R^2$ , nevertheless, indicates that some of the predictors may not add much to the model. Generally, while the regression model fits well and is statistically significant, the marginal significance level indicates that the predictors and MSME performance relationship may not be robust at the conventional 5% significance level. This implies that the effect of the independent variables on MSME performance may be confounded by other unobserved variables or even model specification issues.

The regression results indicate that financial literacy has a positive and significant impact on MSME performance at the 5% significance level. The standardised coefficient (0.399) indicates a moderate positive influence, showing that an increase in financial literacy can enhance MSME performance. The results supports Llewellyn (2021), which argued that educational limitations can impact people's ability to understand financial products, the roles these products play in the financial system, and how to use these products effectively. This aligns with the hypothesis that better financial knowledge can lead to improved business decisions and outcomes.

As per regression analysis results, managerial skills negatively influence MSME performance, with a significant effect at the 5% level. The negative Beta (-0.549) is quite strong, suggesting that as managerial skills, as measured, increase, performance decreases. The finding dispels Ng'ora, et al. (2022) findings, which indicate that the managerial abilities of MSME owners and managers greatly enhance the performance of their businesses. That unexpected finding may indicate potential issues with how managerial skills were assessed; or that higher managerial focus might be related to overly complex strategies not suitable for MSMEs; or, alternatively, the subjectivity of the respondents.

The digital literacy coefficient is negligible but significant negative MSME performance predictor of -0.204 and 0.172 p-value. It means digital literacy, although the key determinant to technology embracement and productivity effectiveness (Kusumawardhani et al., 2015), is not a decisive factor for MSME success in this study. Its insignificance might imply digital literacy alone may not be enough without complementary materials or proper executing mechanisms.

The regression model indicates that business strategy also has a positive but insignificant impact on MSME performance since its coefficient is 0.292 and p-value is 0.234. The results affirm Achyarsyah et al, (2023), who argued that the development of business strategy is shaped by both entrepreneurial orientation and the external environment. Even though a good strategy theoretically helps MSMEs adjust to market forces, manage competition, and evade risks, the evidence in this case suggests that business strategy may not be a key driver of MSME performance in this specific instance. Further studies could be required in order to see whether the employed strategies are rightly matched with market forces as well as business needs.

The regression model indicates that institutional support is a significant and negative predictor of MSME performance with a coefficient of -0.307 and p-value of 0.048. This indicates that poor or weak institutional support could hinder the performance of MSMEs due to incompatibility of support services, bureaucratic hurdles, or inadequate implementation of support programmes. These findings agree with Sarmah et al. (2019), who hypothesised that the government would come up with supportive policies and an environment favourable for entrepreneurship.

Market access correlates positively but marginally with MSME performance with a coefficient of 0.107 and p-value of 0.395. It supports Athia et al., 2023, who argued that every business must engage in marketing to introduce their products and services to potential customers. This is to say, while in theory better market access should improve performance, it apparently does not in this study. It could say that perhaps the effect of other factors, such as market competitiveness or the nature of access, are mediating and so not apparently showing an independent effect.

The regression attests to the existence of a positive relationship between training programmes, at 0.324, to the MSME performance, but is a marginally non-significant predictor of MSME performance with p-value 0.056. While training programmes have a tendency to contribute positively, the proximity to the level of significance demonstrates that they are on the verge of making a significant contribution. But it also implies that existing training schemes might not be appropriate for the pragmatic needs of MSMEs. Rokhman et al., (2023), as they quote Brinker (2000), explain that continuous learning and adaptive training can render MSMEs more robust and creative, making training more aligned with industry needs and realistic business problems.

**Table 4.5: Regression results**

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.448**	1.089		2.248	0.030
Fin literacy	0.53**	0.26	0.399	2.037	0.048
Managerial skills	-0.832**	0.344	-0.549	-2.416	0.020
Digital literacy	-0.204	0.147	-0.205	-1.389	0.172
Business strategy	0.292	0.242	0.25	1.207	0.234
Inst support	-0.307**	0.150	-0.398	-2.040	0.048
Market access	0.107	0.124	0.147	0.859	0.395
Train_ prog	0.324*	0.165	0.365	1.965	0.056
F	2.42				
Sig.	0.036				
The R Squared	0.287				
Adjusted R Squared	0.169				
Observations	50				

Note: \*\* and \* denotes significance at 5% and 10% respectively.

## **CHAPTER 5**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter gives a detailed discussion on findings and results, highlighting relevance against the objectives of the study. In this section, the demographic and analytical trend in the respondents and their dataset and emerging trends are elaborated upon. The chapter proceeds to discuss the implications brought about by such findings, theoretical and practical, for insight into the performance of MSMEs and those factors that may affect such performance. Finally, it presents some actionable recommendations to help address the challenges faced by MSMEs.

#### **5.2 Summary and Conclusion**

The study employed both descriptive and regression analysis for the data analysis. The descriptive analysis has shown that, out of 50 respondents, gender distribution was nearly balanced, with a slight male majority. MSME ownership was dominated by individuals aged 41-60, which amount to 52%, while the younger age group 20-30 represented only 10%, emphasising the maturity of business owners. Forty two percent of MSMEs perceived themselves as moderately successful, while 10% identified as highly successful. But 30% said they were in some form of failure. The fact that there was a large difference between success and failure cases proved that the need for specialised help was required at different levels of performance.

Success did not always correspond to ROA. MSMEs within the 11%-15% range always fell into the low performance category, while enterprises with negative ROA, less than 0, had the highest performance. These findings suggest that other factors may be contributing to the dynamics of success among MSMEs and that the same are not well reflected by traditional financial measures. MSMEs with 5-15 employees showed better performance than smaller or larger enterprises. Low margins are a strong predictor of failure. Surprisingly, MSMEs with less than a 10% profit margin had the highest performance, while the ones above 30% always failed. Declines in revenue exceeding 20% corresponded with high success scores, possibly due to strategic adjustments. Increased revenue, however, correlated with lower success scores, highlighting differences in operational strategies.

## **Barriers and Constraints**

The outcome of the regression analysis reveals the most significant drivers of MSME success. Managerial ability, strategy, and training activities were found to be significant drivers of MSME success. Financial literacy, support from institutions, and access to markets, however, were deemed gaps that hindered MSME growth.

The study undertaken in this paper was aimed at validating the success and failure determinants of MSMEs financed by DFIs. The regression revealed that managerial ability was a negative determinant of MSME success with a coefficient of -0.832, suggesting that ineffective managerial ability is a constraint to MSME performance. Financial knowledge was positive, with a coefficient of 0.53, suggesting its applicability in increasing MSME performance.

Market access did not play a significant role in MSME success, with the insignificant but positive coefficient of 0.107. Institutional support was negatively significant with a coefficient of -0.307, indicating that it could never have been sufficient or properly implemented. Business strategy contributed highly and positively, with a coefficient of 0.292, and training programmes contributed weakly and positively, with a coefficient of 0.324, though this result was slightly insignificant ( $p=0.056$ ).

The inverse success trends were observed as high success scores correlated with lower profit margins and revenue declines, potentially reflecting strategic efficiency in resource allocation. MSMEs with 5-15 employees performed better, suggesting optimal workforce sizes for sustainability. Finally, a weakness was observed with post-funding support and financial literacy as major hindrances, underlining the importance of external interventions.

## **Conclusion**

This study, therefore, adds to the literature by establishing the main determinants of MSME success in the Free State. From the findings, it becomes apparent that access to finance and managerial skills play an enabling role in driving success. However, institutional support, market access, and financial literacy training challenges call for targeted intervention. Success in MSMEs is highly linked to institutional support and access to markets. While the latter requires effectiveness and orientation of institutional support to their needs, market access is one critical factor for growth and profitability. Improvement in these areas will definitely ensure a more enabling business environment.

Business strategy also plays a vital role in the success of MSMEs, helping to build competitive advantage and ensure efficient resource use. The owners of MSMEs should continuously review and refine their strategies to remain competitive. Training and advisory programmes on strategic planning could improve performance and resilience. Besides, financial literacy is usually considered crucial for sound financial decision making and long-term business sustainability. Low levels of financial literacy support business failure. Financial literacy programmes, like training in budgeting, financial planning, and debt management, should be given high priority by policy makers and support organisations to provide MSMEs with necessary prerequisites to effectively manage resources, thereby facilitating access to finances for their sustainable growth. Access to finance remains key in determining the successes of MSMEs, such that it acts as a bedrock to operation, expansion, and competitiveness. Policies are avenues through which government, financial institutions, and DFIs may effectively facilitate access to finance at cheap rates. Combined with related training on financial literacy, the results will cut across the reduction of failure rates, while developing a viable ecosystem.

The surprising relationships that were found among profit margins, revenue changes, and success scores reveal the intricacies of MSME dynamics, thus calling for a conceptual shift from the traditional growth-oriented approach. Further research on the subtleties of MSME performance will help refine the strategies needed to make sure that the pursuit of sustainable economic growth and financial inclusion becomes a reality both in the Free State and beyond. The findings generally contribute to the existing literature on pillars of policy support, financial literacy, and managerial skills that underpin the success of MSMEs. They relax some of the assumptions of profitability and growth of revenues; hence, they give new insights on how MSMEs overcome financial constraints and challenges from the market. These contributions go a long way towards shaping effective policies and interventions that are targeted at the reality of MSMEs within the Free State and beyond.

### **5.3 Broader Context and Theoretical Implications**

In this respect, the study identifies business strategy effectiveness and management capabilities as key drivers of success in MSMEs. Quite surprisingly, the inverted relationship between low profit margins and excellent performance runs opposite to the very widely held perception that profitability and business performance are intertwined. This may imply that MSMEs with low

profit margins are more prudent or efficient, hence a call for model developments in MSMEs' performance in resource-poor environments.

The inverse relationship observed between revenue growth and success scores may indicate that MSMEs with declining revenues have indeed adopted adaptive strategies to enhance their sustainability, while those with growing revenues may be challenged either by scalability issues or resource misallocation. This, therefore, calls for a reevaluation of growth-centric approaches to MSMEs performance in favour of a more nuanced understanding of adaptive resilience.

### **5.3.1 Practical Implications**

#### **Targeted Training for MSMEs**

The negative influence of financial literacy points to the failure in the efficiency of training programmes for MSME owners. DFIs and the provincial government should offer customised training in specific challenges faced by MSME owners in bookkeeping, cash flow management, and strategic decision making.

#### **Entrepreneurial Management Attention**

The robust positive effect of managerial skills underlines the demand for mentoring and advisory services. Practical managerial training could improve the ability to apply funding effectively towards competitiveness and sustainability.

#### **Revisiting Institutional Support Mechanisms**

The negative impact of institutional support shows that something is wrong in the systems so far devised to support MSMEs. The DFIs will have to review their service delivery models with a view towards making available support mechanisms relevant, accessible, and effective.

#### **Enhancing Market Access**

The large negative effect of market access implies that MSMEs face problems in reaching or competing in markets. Policies should be focused on improving networking opportunities, integration with supply chains, and marketing support to reach their target audiences.

#### **Continuous Support Post-Funding**

The positive role of post-funding support shows that DFIs and MSMEs have to interact continuously. This may involve periodic follow ups, resource provision, and troubleshooting for the sustainable growth path of the businesses.

### **5.3.2 MSME Implications**

Improving their financial literacy and digital skills along with capital access will create profitability and resiliency among MSMEs to sustain their operations, reinvest for growth, and reduce risks related to failures. The use of communication devices and enabling technology has greatly expanded access. In order to compete favourably in the value chain and to attract the necessary attention from potential clients as well as investors, MSMEs must therefore make a concerted effort to improve their capacity. Additionally, it is critical that MSMEs make use of the enabling technologies to construct the right networks, obtain the necessary knowledge, and develop the skills necessary to facilitate trade and transactions. The MSMEs further enhance skilled management or human capital that fosters innovation and thus develops long-term competitiveness.

### **5.3.3 Provincial Economy Implications**

For the provincial economy, successful MSMEs contribute to job creation, increased revenue generation, and economic stability, supporting broader development goals. Alternatively, failure of these MSMEs will contribute to increased unemployment rate within the Free State. As a result, poverty and crime will increase. The provincial DFI will rely solely on the provincial fiscus to survive and to execute its funding mandate.

### **5.3.4 DFIs Implications**

For DFIs, these results highlight the need for streamlining funding processes, providing focused financial and mentorship support, and ensuring that training programmes are more aligned with the needs of MSMEs. These measures go a long way towards enhancing MSME performance, while also strengthening the effectiveness of DFIs to achieve economic growth and financial inclusion goals. If not, DFI failure due to high impairment of non-performing loans would render it bankrupt and dependent for its survival on the provincial fiscus, including delivering on its mandate.

## **5.4 Recommendations**

### **5.4.1 Mentorship Programmes: Support for Mature Entrepreneurs**

The age distribution of MSME ownership indicates that a majority of the enterprises belong to people within the 41-60 years age group. Policies should be focused on leveraging experience from mature entrepreneurs while encouraging young people into the MSME space through entrepreneurship education and youth-focused financing programmes.

### **5.4.2 Addressing Market Access Barriers**

The fact that market access indicators all show just modest ratings indicates some kind of structural obstacles to the scaling up process of MSMEs. These could include entry barriers in infrastructure deficits, networks, and large enterprise competition. The provincial government may facilitate the use of collaboration platforms such as trade expos, simplification of regulatory processes, encouragement of links with the private sector through various government initiatives and e-commerce solutions in order to provide MSMEs with a level playing field.

### **Comprehensive MSME Supporting Policies**

The provincial government should design comprehensive support programmes covering financial, managerial, and market challenges. The financial literacy initiatives should include practical applications and hands-on guidance in skill development.

### **Strengthening Institutional Capacity**

Policies should be more directed towards promoting the capacity, transparency, and accountability of institutions supporting MSMEs. Simplifying processes, together with a reduction in bureaucratic hurdles, would surely enhance institutional effectiveness.

### **5.4.3 Unexpected Results**

#### **Profit Margins and Performance**

In fact, the unforeseen result that MSMEs with the lowest profit margin, less than 10% indicate the highest performer, might suggest that those businesses, while being very tightly constrained financially, have to act more sustainably, focusing their attention on the efficiency and value of strategic resources. On the other hand, high-margin MSMEs may experience inefficiency or difficulties in securing their viability in the longer term. Regarding cost structure, market dynamics, and operational models, further investigation of mechanisms is therefore necessary.

### **Negative Impact of Financial Literacy**

This perhaps explains that MSME owners, subsequent to the elementary training provided, are overestimating their financial capabilities and, hence, have become overconfident in taking financially unsound decisions. Alternatively, the contents of the programmes on financial literacy are too far away from the practical realities facing the MSMEs.

### **Negative Institutional Support**

This could be due to bureaucratic processes that are not straightforward, or supporting services that are not in step, or simply lack of faith in institutions. Institutional support may be inaccessible, irrelevant, or insufficient for the needs of MSMEs.

### **Adverse Effect of Market Access**

While better market access may support success, MSMEs may face challenges in gaining entry and competing in saturated or highly competitive markets. Partial knowledge about marketing and brand visibility or limited production capacity might just worsen matters.

### **Alignment with Existing Literature**

Sarmah et al. (2019) emphasised the need for policies that encourage entrepreneurship. The findings of this study confirm this, as MSMEs in the Free State continue to struggle with access to financial services, indicating that existing policies may not be sufficiently enabling. Kusumawardhani et al., (2015) found that public subsidies, particularly for soft loans, enhanced MSMEs' technological advancements and marketing. Similarly, the results of the study highlight the role of DFIs in funding MSMEs but suggest that post-funding support is lacking, limiting long-term benefits. Solihudin et al., (2022) emphasised digital governance policies. The findings agree with the above, as it indicated that digital literacy is still at a moderate level, implying that in this regard, perhaps government intervention is still lacking.

### **The Importance of Human Capital**

The findings of this research confirm human capital theory by reiterating that the owners' experiences, skills, and knowledge determine their chances of succeeding. For instance, managerial skill positively correlated with performance. Indeed, Rokhman et al. (2023), and Brinker (2000) agreed that for a person to be successful as an entrepreneur, they should be able and undergo the necessary training or mentorship. These findings also agree with the views of

Fatoki (2011), who echoed that the personal ability of an entrepreneur is very vital for the growth of SMEs.

However, the contribution of this paper to the existing literature is a nuanced perspective on the negative relationship between financial literacy and the success of MSMEs. Though Crane (2020) illustrated positive implications for training, the result indicates that sometimes financial literacy programmes can be devoid of practical applicability or alignment with the real life challenges that MSMEs face. That divergence underlines the need for better design and delivery of training programmes, such that business owners are equipped with actionable, context-specific skills.

### **Theory of Business Strategy**

The results indicate that this study supports business strategy theory concerning the contributions related to competitive advantage and flexibility in company performance. That is justified by Achyarsjah et al. (2023), who noted that sustaining competitiveness calls for an entrepreneurial mindset and perpetual adaptation to changing external circumstances. In this study, MSMEs were found to be struggling with using market access and institutional support to their advantage, further confirming that strategic means are required to navigate market dynamics and external influences. This study puts the determination of the success of MSMEs on support post-funding. While other literature, such as Rokhman et al., (2023), identifies competitive advantage to be a driver for sustaining profitability, our study identifies the post-funding support as a practical mechanism for bridging the gap between funding and strategic implementation, hence enabling businesses to stay competitive in evolving markets.

### **Institutional Theory**

Results point out some efficiencies in institutional support, in tune with the previous work focusing on institutional development by Bamfo et al. (2023) and Kusumawardhani et al., (2015), relating to an adequate regulatory, normative, and cognitive framework that would spur growth in various sectors of their economies. Most MSMEs, as with those indicated in the results obtained by Solihudin et al., (2022), faced various challenges: a non-commensurate institution or, on the contrary, a total void in such an institution. While Kusumawardhani et al., (2015) reported success regarding the impact of integrated public subsidies on MSME development, this paper identifies that the institutional support mechanisms set up in the Free State are seemingly insensitive to the practical needs of its MSMEs. This highlights the need

for a more focused and accessible institutional framework in promoting MSME growth and sustainability.

### **Empirical Literature**

This paper, therefore, complements the empirical research into challenges faced by MSMEs, particularly in the South African context. In agreement with Kalane (2015), the study pinpoints managerial skills and post-funding support as the crucial factors that will ensure MSME success beyond the provision of financial resources. The findings also echo April's (2005) argument that the inability to take risks and poor managerial skills contribute to SME failure. However, this study advances the discourse by highlighting the complex relationship between financial literacy, institutional support, and MSME success. While most past research has normally reported positive expectations for these factors, this study unpacks nuanced interactions between these factors and how, at times, they produce counterintuitive effects that are detrimental to performance. In this regard, for example, negative influences of financial literacy and institutional support will indicate underlying structural or implementation issues that need further investigation. When support is poorly matched to business needs or when attempts at financial literacy are not contextually positioned, they can impede rather than enhance performance. By examining these interactions within regression analysis, this study extends the literature by demonstrating that the effectiveness of support measures depends not only upon their availability but also upon how they are implemented and taken up in distinct MSME contexts. That indicates a critical research deficit and implies the need for additional context driven research on the development of MSMEs.

### **Challenges in Training and Post-Funding Support**

Kiraka et al., (2015) established that women borrowers had inadequate business support except for training. Similarly, this study has shown that post-funding support for MSMEs is still poor. That means that funding mechanisms are in place, but they do not effectively work because of inadequate mentorship and capacity building programmes.

### **Advances and Contributions**

#### **Avenues for future research**

The results of this study challenge conventional metrics of MSME success to include resilience, efficiency, and adaptability as key complementary factors to financial performance. While the existing literature highlights the availability of funding, what our findings actually reveal is that

structured post-funding support impinges long term sustainability among MSMEs. Unlike existing studies, our research suggests that workforce size 5-15 employees, is a critical determinant of success that could inform future MSME policies.

Furthermore, future research should be encouraged to incorporate interaction variables in the analysis to examine potential moderating effects between explanation variables. For example, exploration of whether financial constraint affects MSME performance can be moderated by levels of digital literacy or levels of management experience would have greater insight into the character of barriers faced by MSMEs. This kind of analysis would enhance the explanatory capability of the model and provide more specific policy and support implications.

### **Focus on Post-Funding Support**

The current study indicated the need for continued support beyond funding, an issue which has also been partially identified through literature gaps in the works of such authors as Kiraka et al., 2015. In focusing on post-funding engagement, the research provides points at which DFIs can ensure their impacts on MSMEs are positive.

### **Financial Literacy: An Essential Critical Analysis**

The negative association of financial literacy with success, which was not expected, therefore adds considerable depth to existing studies by suggesting the need for more practical and contextual financial training programmes.

### **Integration of Institutional and Market Dynamics**

It also embeds institutional theory with practical considerations in respect of MSME development by highlighting the issues of institutional support and access to markets. Thus, it contributes to a better understanding of the external barriers impeding MSME success.

### **Background to MSMEs in South Africa**

These findings contribute to the local knowledge regarding MSMEs' dynamics in South Africa but also bear key messages for government and practitioners who look forward to enhancing DFIs' contribution toward economic development and job creation.

## References

1. Abor, J. Y. (2017). *Entrepreneurial finance for MSMEs: A managerial approach for developing markets*. Cham, Switzerland: Springer.
2. Achyarsyah, M., Hendrayati, H., Syahidah, R. K., Nurdin, M., & Muhammad, A. (2023). Business strategy models MSMEs corn in West Java: An overview of the aspects of entrepreneurial and environmental orientation external. *Jurnal Manajemen Industri dan Logistik*, 7(1).
3. Anuradha, T. S., & Ramesh, H. N. (2020). Training as an effective tool for developing performance of msmes – an empirical evidence. *Shanlax International Journal of Management*, 7(3), 82-88.
4. April, W. I. (2005). *Critical factors that influence the success and failure of SMEs in Namibia in the Khomas Region* (Doctoral dissertation, Stellenbosch: University of Stellenbosch).
5. Athia, I., Soetjipto, B. E., & Efendi, E. (2023). the improvement of MSMEs' business performance during the covid-19 pandemic through financial and digital literacy. *Jurnal Ekonomi Bisnis dan Kewirausahaan (JEBIK)*, 12(1), 92-109.
6. Ashoka, M. L., Rakesh, T. S., & Abrishami, M. (2019). A study on MSME entrepreneurs' perception towards financial institutional support. *Journal of Entrepreneurship & Management*, 8(3), 31-38.
7. Bamfo, B. A., Asiedu-Appiah, F., & Ameza-Xemalordzo, E. (2023). Developing a framework for entrepreneurship ecosystem for developing countries: The application of institutional theory. *Cogent Business & Management*, 10(2), 2195967.
8. Bhattacharjee, S. B., & Bhattacharjee, B. (2015). Competitive advantage through HRM practices in MSMEs. *International Journal of Management and Humanities*, 1(7), 15-22.
9. Bujang, M. A., Omar, E. D., & Baharum, N. A. (2018). A review on sample size determination for Cronbach's alpha test: a simple guide for researchers. *The Malaysian Journal of Medical Sciences: MJMS*, 25(6), 85.
10. Crane, F. (2020). Why MSMEs are failing: Evidence from the real world. *Journal of the International Council for Small Business*, 1(3-4), 139-147.
11. Diptyana, P., Rokhmania, N., & Herlina, E. (2022). Financial literacy, Digital Literacy and financing preferences role to Micro and Small enterprises'

- performance. *International Journal of Entrepreneurship and Business Development*, 5(02), 346-358
12. Ellen, C., Anantadjaya, S. P., & Saroso, T. (2014). Determinants of entrepreneurial success on Indonesian food service MSMEs. *RIBER: Review of Integrative Business & Economics Research*, 3(1), 81-98.
  13. Fatoki, O. O. (2011). The impact of human, social and financial capital on the performance of small and medium-sized enterprises (SMEs) in South Africa. *Journal of social sciences*, 29(3), 193-204.
  14. Free State Development Corporation. (n.d.). Enterprise development. <https://www.fdc.co.za/index.php/whatwedo/enterprise-development>
  15. Ghadi, I., Alwi, N. H., Bakar, K. A., & Talib, O. (2012). Construct validity examination of critical thinking dispositions for undergraduate students in University Putra Malaysia. *Higher Education Studies*, 2(2), 138-145.
  16. Junaidi, J., Lubis, Z., Effendi, I., Aulia, M. R., Utami, M. P., & Supriatna, D. (2023). Strategy enhancement performance MSMEs through PTPN III partnership program. *Devotion Journal of Community Service*, 4(2), 438-445.
  17. Kalane, L. (2015). *Reasons for failure of SMEs in the Free State* (Doctoral dissertation, University of the Free State).
  18. Kidali, F. K. (2020). *Access to credit and growth of micro, small and medium-scale enterprises in Kenya* (Doctoral dissertation, University of Nairobi).
  19. Kiraka, R., Kobia, M., & Katwalo, A. M. (2015). Micro, small and medium enterprise growth and innovation in Kenya: A case study on the Women Enterprise Fund.
  20. Kusumawardhani, D., Rahayu, A. Y., & Maksum, I. R. (2015). The role of government in MSMEs: The empowerment of MSMEs during the free trade era in Indonesia. *Australasian Accounting, Business and Finance Journal*, 9(2), 23-42.
  21. Llewellyn, D. T. (2021). Introduction: financial inclusion-an overview of key issues. *Inclusive Financial Development*, 1-12.
  22. Lussier, R. N., & Corman, J. (1995). There are few differences between successful and failed small businesses. *Journal of Small Business Strategy*, 6(1), 21-34.
  23. Lwesya, F., Mwakalobo, A. B. S., & Mbukwac, J. (2021). Utilisation of non-financial business support services to aid development of micro, small and medium enterprises (MSMEs) in Tanzania.
  24. Mabhungu, I., & Van Der Poll, B. (2017). A review of critical success factors which drives the performance of micro, small and medium enterprises.

25. Madhushani, R. D. T. D., Athauda, A. M. T. P., & Wijeyewardena, H. M. S. L. (2017). Factors Influencing the Business Success of MSMEs in Sri Lanka: The Empirical Evidence from Kurunegala District. *Applied Economics & Business*, 1(1).
26. Marini, M., Yusmaniarti, Y., Faradilla, I., & Setiorini, H. (2024). Measuring the financial performance of Msmes from the perspective of financial literacy, financial inclusion and financial technology. *EKOMBIS REVIEW: Jurnal Ilmiah Ekonomi dan Bisnis*, 12(1), 285-296.
27. Ng'ora, S., Mwakalobo, A. B. S., & Lwesya, F. (2022). Managerial skills for micro, small and medium-sized enterprises (MSMEs). *Management Dynamics in the Knowledge Economy*, 10(4), 343-359.
28. Nkosi, T. (2017). *The risk appetite of development finance institutions (DFIs) and funding for start-ups in South Africa*. (Thesis). University of Cape Town, Faculty of Commerce, Research of GSB. Retrieved from <http://hdl.handle.net/11427/27369>
29. Ntiso, L. A. (2010). *Credit financing for SMMES in the Free State: development financing institutions versus commercial banks* (Doctoral dissertation, University of the Free State).
30. Nursetiana, N., Hanifah, I. A., & Ismawati, I. (2022). The effect of business strategy, innovation, organisational culture on the performance of micro small medium enterprises (MSMES) moderated by financial literature. *Fair Value: Jurnal Ilmiah Akuntansi dan Keuangan*, 4(10), 4416-4426.
31. Ogubazghi, S. K., & Muturi, W. (2014). The effect of age and educational level of owner/managers on SMMES' access to bank loan in Eritrea: evidence from Asmara City. *American Journal of Industrial and Business Management*, 4(11), 632.
32. Pagaddut, J. G. (2021). The financial factors affecting the financial performance of Philippine MSMEs. *Universal Journal of Accounting and Finance*, 9(6), 1524-1532.
33. Sarmah, A., Saikia, B., & Tripathi, D. (2019). Business success factors of micro small and medium enterprises (MSMEs): findings from Kamrup-rural of Assam. *Advances in Economics and Business Management*, 6(5), 418-424.
34. Solihudin, A. R., & Rahmi, M. (2022, July). Building digital transformation towards MSME business sustainability post pandemic. In *UMMagelang Conference Series* (pp. 1-6).
35. Suryani, U., Abdinagoro, S. B., Arief, M. A., & Hamsal, M. (2022, February). Impact of digital literacy and market orientation through e-commerce adoption on the MSME

- performance moderated by O2O business adoption. In *Proceedings of the International Conference on Family Business and Entrepreneurship* (Vol. 2, No. 1).
36. Supriyanto, A., Basri, Y. Z., Wati, L. N., & Mariyanti, T. Entrepreneurial human capital as performance improvement MSMEs in Indonesia.
  37. Rokhman, M. T. N., Ratnawati, R., & Rahayu, Y. N. (2023). Relationship between human capital and MSMEs performance with competitive advantage as a mediation. *Jurnal Aplikasi Manajemen*, 21(1), 191-204.
  38. Uusiku, E. P. (2018) The impact of microfinance on the growth of micro, small and medium enterprises in Namibia
  39. Xu, J., Ren, X., & Wu, X. (2019). Mapping development finance institutions worldwide. *Beijing: Institute of New Structural Economics at Peking University*.
  40. Zdaniuk, B. (2024). Ordinary least-squares (OLS) model. In *Encyclopedia of quality of life and well-being research* (pp. 4867-4869). Cham: Springer International Publishing.