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A Study on the Challenges Faced by Small Entrepreneurs in Managing Capital Finance - "THE CASE ANALYSIS WITH BLANTYRE VENDORS"

Nomsa I. Kabango, Dr. T. Rita Rebekah

Master of Business Administration,Dmi-St. Eugene University,Zambia

ABSTRACT

The research was based on challenges faced by small entrepreneurs in accessing capital finance, it was conducted in Blantyre, Malawi. The objectives of the study were to determine challenges facing SMEs operating in Blantyre town in accessing finance, establishing the coping mechanism employed by SMEs operating in Blantyre town in managing these challenges and determine how the challenges faced by the SMEs affects the performance of the business. A number of 30 small entrepreneurs were randomly selected to participate in the study. Research questions were formulated on the objectives of the study for data collection, a survey was used for this descriptive research and analyzed in percentage analysis. The study showed that many small entrepreneurs face a lot of challenges, and these affects the business growth. Some recommendations were pointed out after the study like, a business owner could report business conditions that are not accurate. One way to address this weakness would be to conduct personal surveys where the researcher could ask additional questions to help ascertain the accuracy of reported information.

INTRODUCTION

Capital finance is one of the most important resources needed to start and develop Small and Medium Enterprises (SMEs). Capital finance is needed to start an SME through the creation of other factors of production such as land and labor. However, in underdeveloped countries 50% of all SMEs close shop in between first to five years. There is growing recognition of the important role small and medium enterprises (SMEs) play in economic development. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Mullineux, 1997). The purpose of this paper is to discuss challenges faced by SMEs in raising finance to fund their operations, ways of reversing the trend, and recommendations of alternative source of funding.

Entrepreneurship fervor in the 1980s became a worldwide movement, spreading across countries regardless of level of development or even of their basic mentality or value orientation towards business activities. Entrepreneurship is the process of developing, organizing, and running a new business to generate profit while taking on financial risk. Therefore, entrepreneurs are people that practice entrepreneurship. The term entrepreneurship is equated with new venture creation and small business management as well as the concepts of owner management and self-employment.

There is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. For example, in Canada SME is defined as an enterprise that has fewer than 500 employees and small enterprise as one that has less than 100 employees. On the other hand, the World Bank defines SMEs as having no more than 500 employees. In so, SMEs can be defined in two ways: based on the number of employees in an enterprise and/or the enterprises fixed assets. The size of the enterprise's employment is the most important criterion used in Malawi. In other definitions, SMEs in developing countries based on the number of employees in an enterprise. A small enterprise has between 5 and 19 workers and takes the example of the ubiquitous small shops in the cities such as hair dressing saloons and chop bars. A medium enterprise has 20 to 99 workers, and these include manufacturing firm and exporting companies.

Financial capital is an important type of capital that helps companies or businesses to create wealth. For small entrepreneurs in Blantyre, they use capital to buy more equipment, buildings, or materials, which they then use to make goods or provide services. Corporations and individual entrepreneurs use it to invest in, create, or expand a business. Hence its purpose is to acquire or purchase the physical capital necessary to produce goods and services. To generate income and achieve capital profits, financial capital is required. It allows businesses to exploit profitable investment possibilities without setting aside cash. This is simply forbusinesses monetary resources. Financial Capital mainly comprises two sources, debt, and equity; retained earnings, if any, are also a part of it.

LITERATURE REVIEW

MAIN LITERATURE REVIEW

Working capital structure is mostly referred to the elements of working capital and it shows which of the possible components is responsible for investment in working capital. Working capital structure is encapsulated in the concept of working capital management, which refers to the financing, investment, and control of the net current assets within the policy guidelines. Working capital can be regarded as the lifeblood of the business and its effective provision can do much to ensure the success of the business, while its inefficient management or neglect can lead to the downfall of the enterprise.

Small business managers experience problems in raising capital for the development of their businesses. Access to finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty eradication in developing countries. Despite their dominant numbers and their Working Capital Financing Preferences importance in job creation, SMEs have traditionally faced difficulty in obtaining formal credit or equity. The most important barriers are low purchasing power, followed by the lack of Working capital and official bureaucracy.

THEORETICAL REVIEWS

- **Theories of capital structure choice**

Theory of corporate finance suggests that financing decisions may be irrelevant for firm strategy. Their theorem, also known as the capital structure irrelevance principle, implies that demand for financial capital would be fully determined by demand for investment, reflecting the firm's ability of generating positive present values of investment. However, later literature, which started with paper, advocates that choice of financial channels may differentially affect firm value largely because of capital market imperfections. The above-mentioned capital market imperfections and factors of their attenuation, therefore, not only have an impact on the level of the used and available financial capital, but very importantly on the costs of and hence the choice of the source of finance debt, equity, alternativesources of finance, or their combination(Myers and Majluf's (1984)). The theories of firm capital structure that deals with the question of how to attenuate the costs of financing by optimizing the firms' capital structure (firm leverage) considering various firm or sectorial characteristics.

A wide range of theories recognize the existence of capital market imperfections while at the same time considering financial markets to be perfectly competitive. These theories rationalize the optimal choice of capital structure that minimizes financial costs because of taxes, asymmetric information, conflicts of interest between management and shareholders. Since the financial markets are assumed to be perfectly competitive, these costs are passed back to the firm in the form of higher cost of capital, thus providing incentives to choose an optimal capital structure. This will tackle mainly onthe below theories of capital structure choice (Guriev and Kvasov. (2009)).

- **The trade-off theory of capital structure**

The trade-off theory considers a fusion of factors that jointly determine the firm optimal capital structure. Holding the firm's assets and investment plans constant, a firm optimizes its debt ratio by considering the trade-off between the costs and benefits of borrowing. In the core of the theory are tax advantages of borrowing that are balanced against the costs of financial distress. Costs of financial distress encompass costs of bankruptcy or financial embarrassment. The firm is assumed to substitute debt for equity, or vice versa, until the value of the firm is maximized, the firm is viewed as setting a target debt-to-value ratio, which the firm gradually moves towards.

RESEARCH METHODOLOGY

RESEARCH DESIGN

The study is primarily a quantitative study that had used a survey approach to collect primary data. A survey is usually associated with a deductive approach, Saunders et. al, (2004). The reason for using this approach is primarily because the collected data through survey will be sufficient data drawn from a large sample size that allow for generalization from the findings obtained from the field. A descriptive survey research design enables the collection of detailed data.

The researcher will employ a case study approach to collect data. The approach will allow the researcher to concentrate on a real scenario. The case study will also allow the researcher to give his own judgments and opinions since he was interacting with the participants under study.

POPULATION OF THE STUDY

According to Cooper and Schindler (2008), target population is explained as those people, events, or records that contain the desired information which can answer the measurement questions. The population of the study comprised of business owners in Blantyre.

SAMPLING PROCEDURE

This research will use simple random sampling technique to select the respondents for questionnaire survey. This type of sampling is also known as chance sampling or probability sampling where every item in the population has an equal chance of inclusion in the sample (Kothari, 2010). This method was preferred because it saved time and provided an equal opportunity for the business owner's participation. It also avoids sample selection bias. Kothari (2008), recommends that if the population from which a sample is to be drawn, does not constitute a homogenous group as in this study then stratified random sampling should be applied in order to obtain a representative sample.

Thus, this research will also use stratified random sampling and purposeful sampling design (techniques) to obtain the respondent for questionnaire survey and interview respectively.

SAMPLE SIZE

Best & Kahn (2006) also adds that a sample size equal to or above 10% is valid to generalize results for the whole population. Therefore, the sample covered will be at least over 30 business owners. In addition, Saunders et al. (2007) state that a sample size of at least 30 can be used to generalize the results for the entire population.

SAMPLING AREA

A sampling area is a list of all the items in the study. It's a complete list of everyone or everything a researcher want to study. However, in this case, the researcher is more interested on assessing the challenges faced by small entrepreneurs in accessing capital finances using Blantyre as a case study. All entrepreneurs in Blantyre market vendors stand an equal chance of being picked and any outcome from the research represents a fair judgement and or participation to all participants in the sample.

SOURCES OF DATA COLLECTION

There are numerous sources through which one can obtain data for research work. According to Yin (1994), data can be sourced through documentation, archival records, interviews, direct observation, participant observation and fiscal artifacts. The researcher of this study employed interviews through questionnaires in accessing data for the research.

METHODS OF DATA COLLECTION

The study will use structured questionnaire to collect primary data from the respondents. The questionnaire was chosen because of the following reasons: there is low administration cost even when the universe is large, it is free from the bias of the interviewer because answers are in respondents own words, respondents have adequate time to give well thought answers, and large samples can be used hence the results can be more dependable and reliable (Saunders et al., 2007). The questionnaire will consist of both open and closed questions to allow respondents to express their views. Before its administration, the questionnaire will be pre-tested to ensure collection of valid and reliable data. The questionnaires will be distributed to selected business owners and then collected later at an agreed time. Secondary data will be collected from books and journals as the best sources of secondary data collection.

TOOLS FOR DATA COLLECTION

Data collection tools refer to the devices used to collect data, such as a paper questionnaire or computer-assisted interviewing system. In this study data will be collected using paper questionnaire. The data collected will be encoded into the computer and statically analyzed by using statistical package (Access or Excel). The frequency and percentages will be used to determine the profile of the respondents. Mean and standard deviation will be used to analyze the performance of the existing system.

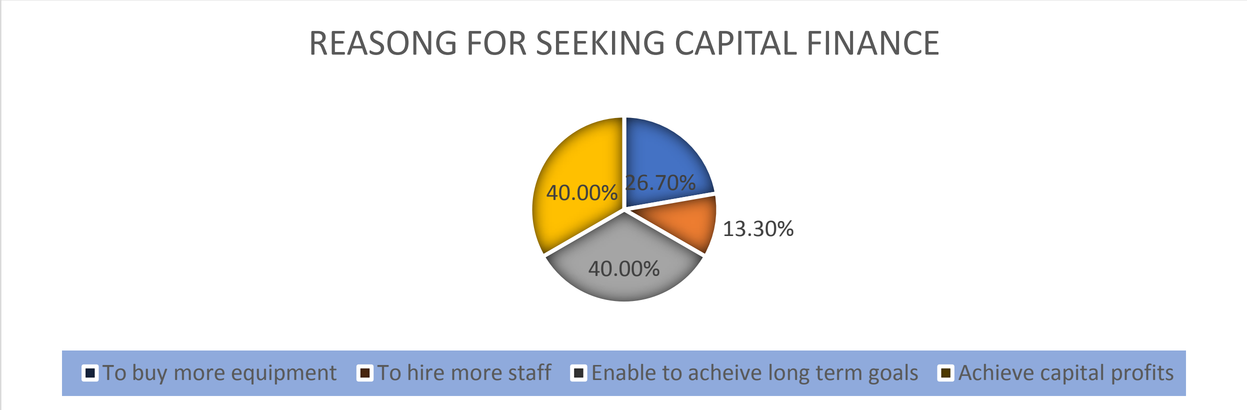
TOOLS FOR DATA ANALYSIS

The data collected from the sample will be organized and analyzed using Scientific Package for Social Scientist (SPSS). The qualitative data will be analyzed using a deductive approach. Then the data analyzed will be translated descriptively to draw conclusions from the tested sample. After analyzing the data, it will then be compiled into clear and logical format. This will be done to convey the research results and recommendations with supporting evidence and conclusions.

ANALYSIS

This will show how data is graphed and explained in percentages, this information was collected from 30 respondents who answered questions concerning "**A study on the challenges faced by entrepreneurs in managing capital finance".** The following tables and charts represent the information for a particular question relating to research objectives:

REASON FOR SEEKING CAPITAL FINANCE

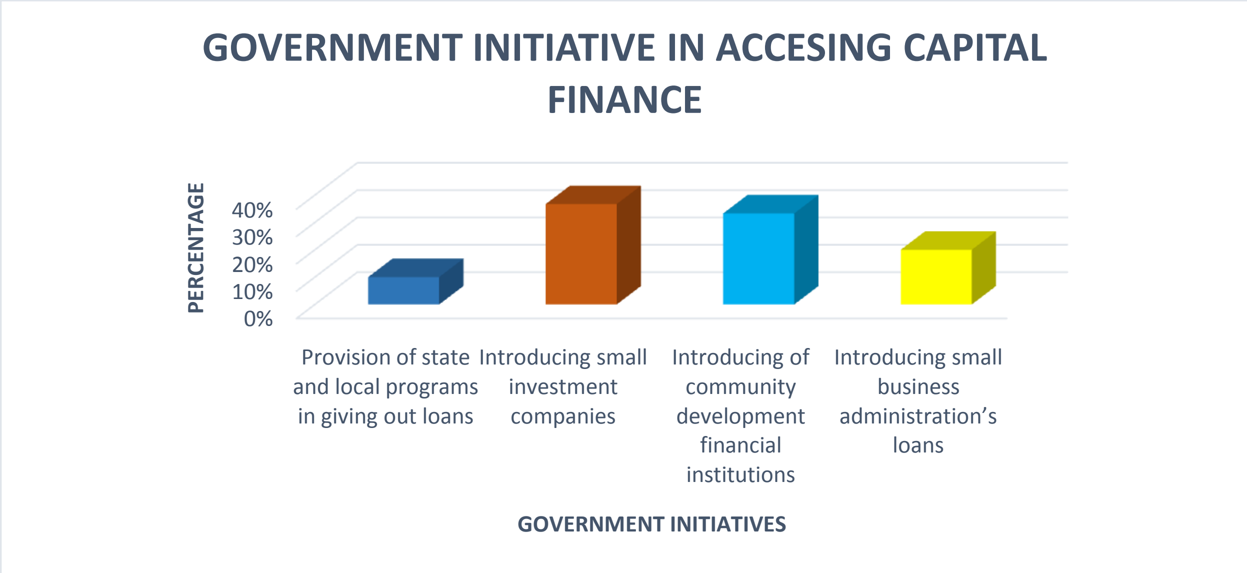


The chart above show the reasons why the respondents applied for the capital finance and a frequency of 8 respondents indicated that they needed to buy more equipment's for the business represented by 26.7%, 4 respondents representing 13.3% applied to hire more staff, 40.0% of the respondents applied the capital finance to achieve long term goals and 40.0% of the respondents had an aim of achieving capital profits.

GOVERNMENT INITIATIVE IN ACCESSING CAPITAL FINANCE

FREQUENCY TABLE

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
Provision of state and local programs in giving out loans	3	10.0	10.0	10.0
Introducing small investment companies	11	36.7	36.7	46.7
Introducing of community development financial institutions	10	33.3	33.3	80.0
Introducing small business administration's loans	6	20.0	20.0	100.0
Total	30	100.0	100.0	



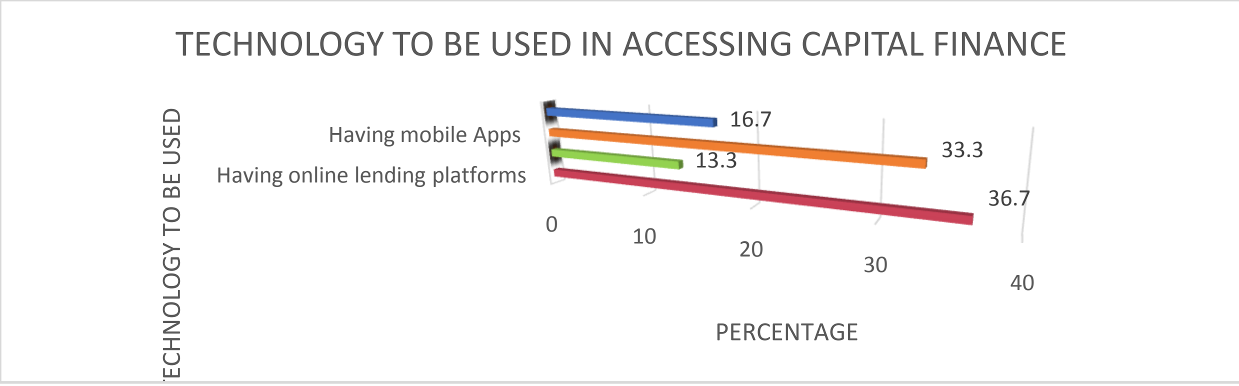
The chart and table above show the information on the government initiatives to be put in place to help the entrepreneurs in accessing capital finance. 10.0% of respondents said there should be a provision of state and local programs in giving out loans, 36.7% said there should be an introduction of small investment companies,33.3% said there should be an introduction of community development financial institutions and 20.0% said and introducing to small business administration's loans would be a good idea too.

TECHNOLOGY TO BE USED IN ACCESSING CAPITAL FINANCE

FREQUENCY TABLE

Particulars	Frequency	Percent	Valid Percent	Cumulative Percent
Having online lending platforms	11	36.7	36.7	36.7
Having crowdfunding platforms	4	13.3	13.3	50.0
Having mobile Apps	10	33.3	33.3	83.3
Having digital payment system	5	16.7	16.7	100.0
Total	30	100.0	100.0	

The table above and chart below shows the information on the technologies to be used in accessing capital finance. 36.7% said there is a need in having online lending platforms, 13.3% said they should have crowdfunding platforms, 33.3% said having mobile applications would help and lastly 16.7% said having a digital payment system can be good as well.



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