

The Impact of Human, Social and Financial Capital on the Performance of Small and Medium-Sized Enterprises (SMEs) in South Africa

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ABSTRACT The study investigates the impact of human, social and financial capital on the performance of Small and Medium-Sized Enterprises (SMEs) in South Africa. The failure rate of SMEs is very high in South Africa and it is important to investigate factors that can impact on the performance of SMEs. Objective and subjective methods were used to measure performance. Data was collected through the use of self-administered questionnaire in a survey. Data analysis was done through descriptive statistics, chi square, Pearson correlation and regression analysis. The results indicate that there is a significant positive relationship between human, social and financial capital and the performance of SME.

I. INTRODUCTION

The SME sector plays a vital role in creating jobs and wealth in an economy. SMEs (refer to Table 1 for the definition of SMEs in South Africa) are an essential source of jobs, entrepreneurial spirit and innovation and are thus crucial for fostering competitiveness (Temtime and Pansiri 2004; Wong et al. 2005). The South African economy is characterised by a low growth rate, a high inflation and a high rate of unemployment. SMEs employ half of the working population and contribute 50% to the gross domestic product of South Africa (Gumede 2004; Mutezo 2005; Rogerson 2008). However, despite the noted contribution of SMEs as pointed out above, SMEs in South Africa suffer from a high failure rate. According to Brink et al. (2003), it is estimated that the failure rate of SMEs in South Africa is between 70% and 80%. As a result, many SMEs do not reach their full potential and fail to grow, resulting in lost jobs and wealth for their region in which they are based. Sha (2006) notes that given this high failure rate, it becomes vital to research the factors that are required to enable the SMEs to survive. Problems encountered by small businesses are numerous and can be described amongst others as being environmental, financial or managerial in nature.

Ahmad et al. (2010) point out that for SMEs, the critical resources are likely to be held by the individual entrepreneurs that are likely to be reflected in their skills, knowledge, experience and education. The lack of separation between owner-

Table 1: Definition of small and medium enterprises in South Africa

Sector		Total full-time employee(less than)	Total annual turnover (less than)	Total gross asset value (less than)
Manufacturing	Medium	200	R40m	R15m
	Small	50	R10m	R3.75m
Retail	Medium	120	R30m	R5m
	Small	50	R15m	R2.5m
Wholesale	Medium	120	R50m	R8m
	Small	50	R25m	R4m
Business services	Medium	120	R20m	R4m
	Small	50	R10m	R2m

ship and control in SMEs suggests that business owners themselves are responsible for the direction and development of their firms. Hence, the success or failure of the SMEs is largely influenced by the skills and abilities of the owners. Marshall and Oliver (2005) observe that the hardships encountered by entrepreneurs often stem from a lack of knowledge or skill, a lack of finances, or the lack of a supportive social network. In the entrepreneurial process, there are three basic categories of capital that contribute to a successful venture: human, financial, and social. Herrington et al. (2009) find that lack of education (a subset of human capital) and training is the most important cause of failure for new SMEs in South Africa. Gumede and Ramussen (2002) find that most SMEs in South Africa do not engage in networking, implying a lack of social capital.

Empirical literature on the impact of social, human and financial capital on firm performance remains inconclusive. Wu (2008) notes that the relationship between social capital and firm performance has attracted increasing scholarly attention in recent years such as Arregle et al. (2007) and Burt (2007). However, the empirical results from the studies on the direct effects of social capital on firm performance so far remain largely inconclusive, ranging from a positive relationship to insignificant relationship. Park and Luo (2001) and Andersson et al. (2002) find a significant positive relationship between social capital and firm performance. Rowley et al. (2000) did not find a significant positive relationship between social capital and firm performance.

Leitao and Franco (2008) also observe that empirical research has obtained a range of results regarding the relationship between human capital and performance, but those results are not consensual. Studies examining this relationship have not yielded consistently solid results. Van Praag and Cramer (2001), Bosma et al. (2004) find a positive relationship between human capital and firm performance. Other empirical studies such as Shiu (2006), Appuhami (2007) and Chan (2009) find insignificant relationship between human capital and firm performance. Clarke et al. (2010) acknowledge that the inconsistent empirical evidence does not lead to a compelling conclusion regarding the relationship between human capital and firm performance.

Atieno (2009) observes that SMEs need external finance to reduce the impact of cash flow problems. External financing is needed for SMEs to start and expand operations, develop new products, invest in new staff or production facilities. The availability of finance for investment in positive net present value projects is vital to the sustainability and viability of SMEs. Clarke et al. (2010) provide empirical evidence that access to financial capital positively impacts on firm performance. Martinovic (2008), however, concludes that abnormally high debt to equity ratios can also prove harmful if the firm is excessively leveraged. This implies that the use of debt (a source of financial capital) can negatively impact on the performance of SMEs.

In addition, a thorough review of the literature revealed that no South African study has investigated the impact of social, human and financial capital on the performance of SMEs.

Related studies such as Kunene (2008) focused on the entrepreneurial and business skills for SMEs in the clothing industry. Tustin (2003) examined small business skill audit and Coldwell (2010) investigated the relevance of leaning in organisations in South Africa. Based on the inconclusive empirical evidence and the dearth of empirical studies in South Africa, the objective of the study is to investigate the impact of social, human and financial capital on the performance of SMEs in South Africa.

The rest of the study is organized as follows: Section 2 reviews the theoretical and empirical literature on social, human and financial capital. Section 3 explains performance and in addition discusses the objective and subjective measures of performance. Section 4 focuses on the research methodology. Section 5 discusses the research results. Section 6 explains the managerial implications and section 7 examines the limitations of the study and areas for further research.

II. LITERATURE REVIEW AND HYPOTHESES

II.1 Theoretical Framework

II.1.1 Human Capital

Sullivan and Sheffrin (2003) define human capital as the stock of competences, knowledge and personality attributes embodied in the ability to perform labor so as to produce economic value. Human capital represents the investment people make in themselves or by their organisations that enhance their economic productivity. Human Capital theory was proposed by Schultz (1961) and developed extensively by Becker (1964). Schultz (1961) in an article entitled "Investment in Human Capital" introduces his theory of Human Capital. Schultz argues that both knowledge and skill are a form of capital, and that this capital is a product of deliberate investment. The concept of human capital implies an investment in people through education and training. Schultz compares the acquisition of knowledge and skills to acquiring the means of production. The difference in earnings between people relates to the differences in access to education and health. Schultz argues that investment in human capital leads to an increase in human productivity, which in turn leads to a positive rate of return.

Becker (1964) in his book entitled 'Human Capital' views human capital as similar to physical means of production such as factories and machines. Human capital is a means of production into which additional investment yields additional output. Human capital is substitutable, but not transferable like land, labor, or fixed capital. Bruderl et al. (1992) were the first researchers to fit human capital theory in the entrepreneurial context by arguing that although the general application of human capital is on employees, there is no reason why it should not apply to entrepreneurs as well. Accordingly, entrepreneurs with higher general and specific human capital can be expected to show higher levels of performance than those with lower levels of general and specific human capital. This is termed as entrepreneurial human capital. According to Hesses and Terjesen (2008), entrepreneurial human capital refers to an individual's knowledge, skills and experiences related to entrepreneurial activity. Entrepreneurial human capital is important to entrepreneurial development. Ganotakis (2010) used the Resource Based Theory (RBT) to explain the importance of human capital to entrepreneurship. According to RBT, human capital is considered to be a source of competitive advantage for entrepreneurial firms.

II.1.2 Social Capital

Wu (2008) points out that there is lack of consensus on a precise definition of social capital. Acquaah (2008) defines social capital as the actual and potential resources embedded in networking relationships that are accessed and used by actors (for example, managers of business enterprises) for actions (for example, conduct of enterprise business activities). Baker (1990) defines social capital as a resource that actors derive from specific social structures and then use to pursue their interests; it is created by changes in the relationships among actors. Acquaah (2008) notes that social capital can be divided into internal and external social capital. While internal social capital deals with the structure and social networking relationships among actors (that is, individual members) within a system or organization, external social capital focuses on the structure and social networking relationships.

According to Premanatne (2002), social capital theories include the transaction cost theory, resources dependency theory and social network

theory. Premanatne (2002) argues that one of the widely used theoretical approaches to study enterprise social capital is the transaction cost theory. A transaction means a transfer of a good or a service between technologically separable interfaces. Transaction costs means all costs involved in a transfer of goods and services from one unit to another. Commons (1931) and Coase (1937) introduced the idea that transactions form the basis of economic thinking. Commons argues that individual actions are really transactions instead of either individual behavior or the exchange of commodities. Williamson (1981) extended the theoretical framework of transaction costs by demonstrating that transaction cost economics is used to explain a number of different behaviours such as day to day buying. This involves considering as transactions not only the obvious cases of buying and selling and emotional interactions. According to Williamson (1981), the determinants of transaction costs are frequency, specificity, uncertainty, limited rationality, and opportunistic behavior. Premanatne (2002) notes that transactions are characterized by high asset specificity, small numbers bargaining and uncertainty. Given these characteristics, market transactions tend to become prohibitively costly. In such a situation, firms attempt to overcome transaction costs by vertical integration or of looking for other alternatives to the market. Accordingly, small firms in particular have to cooperate with other organizations to minimise transaction costs.

Pfeffer and Salanick (1978) introduced the Resources Dependency Theory (RDT). RDT focuses on how the external resources of organizations affect the behavior of the organization. According to the RDT, successful performance of a firm depends on resources and supporting networks. The resources and supports are, particularly important for small firms who have to depend on some external actors. Firms are linked to their environments by federations, associations, customer-supplier relationships, competitive relationships, and a social-legal apparatus that define and control the nature and limits of these relationships as well. According to Barnes (1954), social network theory views social relationships as consisting of nodes and ties. Nodes are the individual actors within the networks, and ties are the relationships between the actors. Premaratne (2002) and Jaafar et al. (2009) observe that social relationships are crucially im-

portant to the entrepreneurial process because the information needed to start and grow a business is passed to the entrepreneur basically through the existing social networks of friends. Entrepreneurs must build reputation-enhancing relationships with outside resource providers who are willing to share valuable information, technology goods, and finance. Uzzi (1999) demonstrates that the closeness of relationships range from between arm's length to an embedded one. Arm's length ties are characterized by lean and infrequent transactions. They function without prolonged personal or social contact between actors. Embedded ties or relationships create long-term social contacts.

II.1.3 Financial Capital

According to Van Praag (2003), financial capital includes debt and equity. This is known as capital structure. Sogorb Mira (2002) points out that the most relevant capital structure theories that explain the capital structure of small and medium enterprises (SMEs) are those related to static trade-off, adverse selection and moral hazard (agency theory) and the pecking order theory. Andree and Kallberg (2008) point out that the genesis of modern capital structure theory lies in the work of Modigliani and Miller (1958) in their famous proposition I – often referred to as the “irrelevance theorem”. The theorem suggests that, under certain perfect market assumptions, such as absence of taxes, bankruptcy costs, agency costs and asymmetric information, the value of the firm is unaffected by how the firm is financed. This implies that the choice of capital structure does not affect a firm's market value. It is the assets of a firm that determine the value of the firm and not the way by which these assets are financed. The initial perfect market assumptions, on which the 1958 theory of Modigliani and Miller was based, were later reviewed in 1963 with the introduction of the tax benefits of debt. This is attributed to the fact that a perfect market does not exist in the real world. Since interest on debt is tax-deductible, thereby creating tax savings for the borrower, it becomes possible for firms to minimize their costs of capital and maximize shareholders' wealth by using debt. This is known as the leverage effect of debt (Modigliani and Miller 1963). According to Miller and Modigliani (1963), a firm should have 100% debt in its capital structure. This way the

firm can take absolute advantage of the tax-shield.

Scott (1972) and Kraus and Litzenberger (1973) point out that theoretically, 100% tax shield does not exist in reality because of distress costs. Therefore, the optimization of capital structure involves a trade-off between the present value of the tax rebate associated with a marginal increase in leverage and the present value of the costs of bankruptcy. According to Stiglitz and Weiss (1981), agency problems such as asymmetric information and moral hazards can impact on the availability of credit and hence the capital structure of SMEs. Stiglitz and Weiss termed this phenomenon credit rationing. According to Myers (1984), the Pecking Order Theory (POT) suggests that there is no well-defined optimal capital structure; instead the debt ratio is the result of hierarchical financing over time. The foundation of POT is that firms have no defined debt-to-value ratio. Management has a preference to choose internal financing before external financing. When a firm is forced to use external financing sources, managers select the least risky and demanding source first. When it is necessary to issue external sources, debt issuance is preferred to new equity.

II.2 Empirical Review

II.2.1 Human Capital and Firm Performance

According to Ganotakis (2010), human capital can be divided into general human capital and specific human capital. General human capital for the case of the entrepreneur is usually measured by the educational qualifications and by the total number of years of working experience. Specific human capital includes specific business education, specific skills, industry related experience and managerial experience. The SME Financing Data Initiative (2009) examines the role of experience in SME growth using the Managerial Capacity Index (MCI). The MCI presents a composite measure of managerial experience and activity. The study finds that a high score in the managerial capacity index is positively associated with both strategic planning practices and high firm performance and growth.

Lefebvre and Lefebvre (2002) report that innovative and managerial capabilities of the management team are strongly associated with ex-

port performance and firm growth. Martin and Staines (2008) find that lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail. The distinguishing feature of high growth and low growth small firms is the education, training and experience of senior managers. Lyles et al. (2004) evaluate managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience versus new venture performance. The results show that relative profits tend to be high when an entrepreneur has more education and experience in the line of business. On the other hand, profitability tends to be low when the entrepreneur has only start up and managerial experience, but lacks an educational background. The results confirm the importance of education to new venture success.

Bosma et al. (2004) also find that the endowed level of talent of a small business founder is not the unique determinant of performance. Rather, investment in industry-specific and entrepreneurship-specific human capital contributes significantly to the performance of small firm founders. The result shows that human capital appears to influence the entire set of performance measures (profitability, employment and survival). Former experience of the business founder in the industry in which he starts his business appears to improve all performance measures. Moreover, experience in activities relevant to business ownership increases the firm's survival time. Finally, high-educated people make more profits, while those who have experience as an employee create more employment. Other empirical studies, such as Smallbone and Welter (2001) and Hisrich and Drnovsek (2002), find that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the performance of new SMEs. Herrington and Wood (2003) point out that lack of education and training have reduced management capacity in SMEs in South Africa. This is one of the reasons for the low level of entrepreneurial creation and the high failure rate of new ventures. Lack of skills, experience and knowledge are also key limiting factors for entrepreneurship in South Africa. SME owners in South Africa often lack the expertise,

experience and training related to the business they establish. Because of the managerial deficiency, there is the prevalence of necessity (survivalist) compared to opportunity entrepreneurial activity in South Africa.

Leitao and Franco (2008) point out that empirical research has obtained a range of results regarding this relationship between human capital and performance, but those results are not consensual. Empirical literature such as Shiu (2006), Appuhami (2007) and Chan (2009) find insignificant relationship between human capital and firm performance. In view of the evidence provided in the review of empirical literature, this study hypothesises that owners' human capital is positively associated with the performance of SMEs.

II.2.2 Social Capital and Firm Performance

Okten and Osili (2004) examine the impact of social capital on the growth of SMEs. The results suggest that social capital has an influence on the growth of an SME, especially through contacts with other entrepreneurs. Social capital helps SMEs to tap resources in external environment successfully and pave the way to new markets. Shane and Cable (2002) agree that social capital through networking can be used to reduce information asymmetry in creditor/debtor relationships. Access to financial capital is one of the determinants of the success of SMEs. Ngoc et al. (2009) agree that networks also help a firm learn appropriate behaviour and therefore obtain needed support from key stakeholders and the general public. Robb and Fairlie (2008) examine the reasons why Chinese, Indians and Korean SMEs are successful in the diaspora. Hayer and Ibeh (2006) find that social capital helps SMEs to internationalise. Gumede and Rasmussen (2002) observe that the social capital of SMEs in South Africa is limited. Very few SMEs in South Africa engage in networks, like business associations. Kiggundu (2002) and Barr (2002) argue that networks contribute to business success and continuity. However, it seems as if the South African entrepreneur experiences difficulties in establishing and maintaining business networks which function effectively.

Roxas (2008) notes that on the empirical level, the links between social capital and other variables like economic development, organisational performance, and particularly innovation perfor-

mance are not unequivocal. Acquah (2008) agrees that the effect of social capital on business activities and performance is complex and evidence exists to suggest that social capital does not always benefit the outcomes of business activities by enhancing performance. Rowley et al. (2000) and Atieno (2009) find that not all measures of social capital enhance firm business performance. Based on the empirical evidence, this study hypothesises that owners' social capital is positively associated with the performance of SMEs.

II.2.3 Financial Capital and Firm Performance

Elsenhardt and Martin (2000) use the Resource Based Theory to demonstrate the importance of financial capital to the performance of SMEs. Access to financial capital to purchase fixed and current assets is important to a sustaining a firm's competitive advantage. Empirical studies such as Wiklund and Shepherd (2004), Zhou and Chen (2008) identify that SMEs need financial capital to obtain physical resources in order to take advantage of business opportunities. Lack of physical resources is a critical failure factor SMEs. According to Bolingtoft et al. (2003), to establish and sustain an SME, the entrepreneur needs to have access to different types of resources (i) human capital; (ii) physical capital; and (iii) financial capital, each playing different, but equally important roles during the life cycle of a new SME. Bolingtoft et al. (2003) further point out that there are many explanations offered for the failure of new SMEs. One of the most frequently cited reasons is resource poverty. Garcial-Teruel and Martinez-Solano (2007) point out that non-availability of working capital is a major constraint to the survival and growth of new SMEs.

Pretorius and Shaw (2004) posit that financial capital can be internal or external. A vast majority of SMEs depend on internal finance. Internal finance is often inadequate for SMEs to survive and grow. Carpenter and Petersen (2002) find that growth of SMEs is constrained by dependence on internal finance. Fierce competition in the light of globalization trends, rapid technological development, shorter product cycles, and innovation requirements has put pressure on SMEs to increase and speed up their development investments. It is, however, increasingly difficult to keep the costs within the constraints

of self-financing. Therefore, SMEs need capital from external sources. Consequently, it is hypothesised that there is a positive relationship between access to external financial capital and the performance of SMEs.

II.2.4 Performance

Investorwords (2011) defines performance as the results of activities of an organization or investment over a given period. Lumpkin and Dess (1996) point out that it is essential to recognize the multidimensional nature of the performance construct. Thus, research that only considers a single dimension or a narrow range of the performance construct (for example, multiple indicators of profitability) may result in misleading descriptive and normative theory building. Research should include multiple performance measures. Such measures could include traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as overall satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among privately held firms. This is consistent with the view of Zahra (1993) that both financial and non-financial measures should be used to assess organisational performance.

Hudson et al. (2001), Phillips et al. (2003) and Chong (2008) assert that SMEs may be differentiated from larger companies by a number of key characteristics such as personalised management, with little devolution of authority, severe resource limitations in terms of management, manpower and finance, reliance on a small number of customers, and operating in limited markets; flat, flexible structures and reactive, fire-fighting mentality. The significant differences in the structure and philosophy of SMEs indicate a need to assess the performance of SMEs differently from large firms. The resource limitations associated with SMEs indicate that the dimensions of quality and time are critical to ensure that waste levels are kept low, and that a high level of productivity performance is attained. Similarly, the reliance on a small number of customers suggests that to remain competitive, SMEs must ensure that customer satisfaction remains high and that they can be flexible enough to respond rapidly to changes in the market.

Chong (2008) declares that there are four main approaches to measure the performance of organisations. These are the goal approach, sys-

tem resource approach, stakeholder approach and competitive value approach. The goal approach measures the extent an organization attains its goals while the system resource approach assesses the ability of an organization obtaining its resources. For the stakeholder approach and the competitive value approach, these evaluate performance of an organization based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors. Among these, goal approach is most commonly used method due to its simplicity, understandability and internally focused. Information is easily accessible by the owners-managers for the evaluation process. The goal approach is a better fit for the SMEs where targets are being set internally based on the owners-managers' interests and capability to achieve.

According to Richard et al. (2008), the goal approach directs the owners-managers to focus their attentions on the financial (objective) and non-financial measures (subjective). Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on equity, sales growth, and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, customer satisfaction, employee satisfaction, customer loyalty, brand awareness and owner's satisfaction with way the business is progressing. Atieno (2009) notes that financial measures are objective, simple and easy to understand and compute. However, financial measures suffer from being historical and are not readily available in the public domain especially for SMEs. In addition, profits are subject to manipulations and interpretations. The solution to the limitations of financial measures is to apply the non-financial measures, though subjective in nature, as supplements to the financial measures. The combinations of these two measures help the owners-managers to gain a wider perspective on measuring and comparing their performance. Meilan (2010) agrees that this is a holistic approach and Balanced Scorecard approach to performance evaluation for SMEs.

III. RESEARCH METHODOLOGY

The empirical approach consists of data collection through the use of self-questionnaires in a survey. The study was conducted in King Williams' Town and Port Elizabeth in the Eastern

Cape Province of South Africa. The study focused on SMEs in four sectors: manufacturing, retail, wholesale and service. The population of SMEs in the two towns was obtained from the Yellow Pages Telephone Directory. The number of employees was used to identify firms that are SMEs. The population of SMEs was 694. Raosoft Sample size calculator was used to determine the sample size. Raosoft takes into consideration the margin of error, the confidence level, the population and the response distribution in arriving at the sample size. The minimum recommended sample size using Raosoft was 248. However, 332 questionnaires were distributed because of the limitations associated with self-administered questionnaires such as non-response and 122 were returned. The response rate was 36.8%. The question items were developed after a thorough review of literature related on human and social capital and performance such as Atieno (2009), Ganotakis (2010), Man and Wafa (2008).

Both Likert scale questions and dichotomous questions were used to elicit responses from the respondents. Human capital was measured using the following variables: education, working experience, related experience, managerial experience, business education and competency in the four management functional areas: financial management, personnel management, marketing management and general administration. Social capital was measured using the following variables: social interaction, relationship quality and customer and general networks. Financial capital was measured using access to external debt capital. Performance was measured through both financial (objective) and non-financial (subjective) methods. This is consistent with similar empirical studies such as Bosma et al. (2002) and Leitao and Franco (2008). Financial measures focused on satisfaction with sales growth and profitability growth. Non-financial measures focused on increase in the number of employees, performance relative to competitors and satisfaction with overall business performance. The performance measures were averaged. Kolmogorov-Smirnov test was used to measure the normality of the data. There were only two cases of missing values and pairwise deletion method was used to treat the missing values. Data analysis was done using the Statistical Analysis Software. Statistical analysis included descriptive statistics, chi square, Pearson correlation and regression analysis. The SMEs in-

Table 2: Biographical information

<i>Age</i>	<i>21-30</i>	<i>31-40</i>	<i>41-50</i>	<i>51-60</i>	<i>Above 60</i>
Frequency	12	72	16	12	8
<i>Gender</i>	<i>Male</i>	<i>Female</i>			
Frequency	88	32			
<i>Product</i>	<i>Manufacturing</i>	<i>Wholesale</i>	<i>Retail</i>	<i>Service</i>	
Frequency	21	21	62	16	
<i>Legal Status</i>	<i>Sole P.</i>	<i>Partnership</i>	<i>Close Corp.</i>	<i>Company</i>	
Frequency	18	14	76	12	
<i>Year of Operation</i>	<i>4-7</i>	<i>8-11</i>	<i>Above 11</i>		
Frequency	77	28	15		
<i>Number of Employees</i>	<i>1-50</i>	<i>51-100</i>	<i>101-150</i>	<i>151-200</i>	<i>201-250</i>
Frequency	87	33	-	-	-

cluded in the survey have being in operation for more than three years. This is necessary to enable them compare their performance over a certain number of years. To ensure validity and reliability a panel of experts was used to evaluate the research instrument for conceptual clarity. The questionnaire was pre-tested in a pilot study. The pre-testing led to the removal of confusing items and rephrasing of other items. The Cronbach's alpha was used as a test of reliability.

IV. RESULTS

Table 2 depicts the biographical information of the respondents. Most of the respondents are in the 31-40 age group. Males dominate and most of the respondents are in the retail business. Close corporation is the most common form of business ownership and most business owners are small enterprises.

The chi square was used to measure association between human, social and financial capital and the performance of SMEs. The mean of the five performance measure was used to evaluate the performance of SMEs. The results as depicted in Table 3 indicate that there is a significant association between all the variables of human capital and performance of SMEs (Phi greater than 0.5, P value less than 0.05). For social capital, the results indicate that there is a significant association between all the measures of social capital and performance of SMEs. Only relationship with government is insignificant (Phi 0.230, P value 0.23). The results also indicate that access to external financial capital (debt finance) is significantly associated with the performance of SMEs (Phi 0.653, P value 0.001).

The Pearson correlation was used to investigate the relationship between the aggregate measures of human, social and financial capital and

the performance of SMEs. The results ($r=0.7120$, P value less than 0.05) for human capital, ($r=0.7802$, P value less than 0.05) and ($r=0.634$, P value less than 0.05) for access to external capital indicate that all these variables significant correlate with the performance of SMEs. The Cronbach's alpha are greater than 0.7 for the three variables indicating the reliability of the variables (Table 4).

Regression analysis was used to determine the direction and strength of the relationship between human, social and financial capital and the performance of SMEs. The results indicate that human capital (parameter estimate 0.6151, p value less than 0.05), social capital (parameter estimate 0.5899, p value less than 0.05) and financial capital (parameter estimate 0.6434, p value less than 0.05) have strong positive relationships with the performance of SMEs (Table 5).

V. CONCLUSION

The empirical findings of this research show that there is a significant positive relationship between social capital, human capital and financial capital and the performance of SMEs. This is consistent with the theories of human capital by Schultz (1961) and Becker (1964) that investment in human capital leads to an increase in human performance. In addition, the resource dependency theory of social capital developed by Pfeffer and Salancik (1978) demonstrates that successful performance of firms depend on their external networks. Modigliani and Miller (1963) and Myers (1984) suggest that firms should use debt before external equity. Carpenter and Peterson (2002) point out that the growth of SMEs is constrained by dependence on internal finance. This suggests that access to external debt finance can improve firm performance.

Table 3: Chi-square test for the association between, human, social and financial capital and performance of SMEs

	<i>Phi</i>	<i>P-value</i>
<i>Human Capital</i>		
Educational qualifications	0.6703	0.003
Work experience prior to starting the business	0.5702	0.001
Related experience prior to starting the business	0.7802	0.001
Managerial experience prior to starting the business	0.5313	0.001
Business education	0.5834	0.001
Financial management competence	0.5334	0.001
Marketing management competence	0.5768	0.001
Personnel management competence	0.6334	0.001
General management competence	0.5795	0.001
<i>Social Capital</i>		
(a) General and Customer Network		
Belong to a professional association/ chamber of commerce	0.5439	0.001
Attend conference, training and seminar	0.5092	0.001
Have relationship with government agencies	0.2306	0.230
Use accountant to prepare financial statements	0.5534	0.001
(b) Social Interaction		
Maintain close social relationship with customers	0.5553	0.001
Maintain close personal level with customers	0.5658	0.001
(c) Relationship Quality		
Always keep promises to customers	0.5755	0.001
<i>Financial Capital</i>		
Access to external financial capital (debt)	0.6533	0.001

Sig. 0.05

Table 4: Pearson correlation results for the relationship between, human, social and financial capital and performance of SMEs

	<i>R</i>	<i>p-value</i>	<i>Cronbach's alpha</i>
Human capital	0.7120	0.001	0.821
Social capital	0.7802	0.001	0.762
Financial capital	0.6348	0.002	0.629

Sig. 0.05

Table 5: Extract of regression results for the relationship between, human, social and financial capital and performance of SMEs

	<i>Parameter estimate</i>	<i>p-value</i>
Human capital	0.6151	0.001
Social capital	0.5899	0.004
Financial capital	0.6434	0.002

Sig. 0.05

VI. RECOMMENDATIONS

To improve social capital, SME owners should always ensure that they maintain strong network ties with customers, suppliers, commercial banks and government agencies. SME owners need to take responsibility to improve their networking. Entrepreneurs need to attend seminars and trade fairs and also join trade associations. Government agencies such as Small En-

terprise Development Agency and the Development Corporations can organize training for new SMEs. Awareness should be created for training programmes through advertisements in local and national media. To improve human capital, there is the need for personal development by SME owners in the area of business and financial management skills through training. SME owners need to create a positive attitude towards entrepreneurship and training.

Educational institutions should introduce and strengthen entrepreneurial education. When learners are oriented into entrepreneurship from an early age, it becomes easier to develop successful ventures. Presently, entrepreneurship is predominantly been presented to students in management, business and economic related courses and not to students in all the faculties in the universities in South Africa. This will be in line with the suggestion by Kiggundu (2002) that entrepreneurship education should become a mainstream activity in the educational systems of African countries. The government should broaden its efforts to ensure that a high level of financial literacy is universal to entrepreneurs. Furthermore, a "learning from peers" or mentorship approach can be instituted by government agencies to help new SMEs. New SMEs should look at using non-executives at an early stage to bring

external expertise and guide investment decisions.

To improve access to financial capital, SMEs need to get investment ready by providing collateral or liaise with government agencies that can provide guarantees. Commercial banks can create awareness of their funding requirements especially the importance of collateral through advertisements and communication with trade associations. The websites of the big four commercial banks (ABSA, Standard Bank, First National Bank and NEDCOR) have addressed business plan preparation by new SMEs. However, it is important to provide awareness to new SMEs that such facilities exist. The use of computers and internet is very low amongst SMEs in South Africa. Government agencies such as SEDA can subsidize the cost of computers to new SMEs and also offer training on how to use the internet. Similarly, the South African Business Toolkit was launched in 2008 to assist entrepreneurs to assess their investment readiness through the latest information and communication technologies. Awareness need to be created for programmes like this through advertisements in local and national media. Subsidies could also be provided to help the owners of SMEs to obtain the professional advice they require to make them business ready.

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