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# FACTORS INFLUENCING FINANCIAL RESOURCES AVAILABILITY ON THE PERFORMANCE OF MICRO BUSINESSES IN INGQUZA HILL LOCAL MUNICIPALITY

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## ABSTRACT

*Access to financial resources remains a persistent constraint for micro businesses operating in rural South Africa, limiting their growth potential and long-term sustainability. This paper aims to examine the effects of alternative financing sources on the performance of micro businesses, with financial resource availability (FRA) serving as a mediating variable. Specifically, the study evaluates how personal savings, family and friends' support, retained profits, suppliers' credit, and bank loans influence financial resource availability and, in turn, micro business performance. Grounded in the Resource-Based View, Institutional Theory, Transaction Cost Theory, and Financial Constraints Theory, the study contributes to understanding financing dynamics within underdeveloped rural contexts. A quantitative research design was employed, and primary data were collected using structured questionnaires administered to 370 micro business owners operating in the Ingquza Hill Local Municipality, Eastern Cape Province, South Africa. Structural Equation Modelling (SEM) was applied to assess both direct and indirect relationships among the study variables and to test the mediating role of financial resource availability. The main findings of the study demonstrate that: (i) bank loans exert the strongest positive influence on financial resource availability ( $\beta = 0.798$ ;  $p < 0.001$ ), followed by personal savings ( $\beta = 0.220$ ;  $p < 0.001$ ); (ii) family and friends' support ( $\beta = 0.071$ ;  $p = 0.261$ ) and retained profits ( $\beta = -0.046$ ;  $p = 0.382$ ) do not significantly affect financial resource availability; and (iii) suppliers' credit has a significant but negative effect on financial resource availability ( $\beta = -0.167$ ;  $p = 0.038$ ). Furthermore, financial resource availability shows a strong and significant positive effect on micro business performance ( $\beta = 0.753$ ;  $p < 0.001$ ), confirming its mediating role. The study offers theoretical and practical insights for policymakers, financial institutions, and development agencies seeking to promote inclusive financing strategies for rural micro enterprises.*

**KEYWORDS:** Bank loans; Entrepreneurship; Family and friends' support; Financial resource availability; Micro-business performance; Personal savings.

## 1. INTRODUCTION

Micro businesses play a critical role in South Africa's economic landscape, particularly in rural municipalities where formal employment opportunities are limited and entrepreneurship serves as a key mechanism for income generation, poverty reduction, and local economic development. In regions such as the Ingquza Hill Local Municipality, micro enterprises constitute a substantial share of economic activity and household livelihoods. Despite their socio-economic importance, these businesses continue to experience low performance levels and high failure rates, largely attributable to persistent financial constraints that limit their ability to sustain operations, invest in productive assets, and respond to competitive pressures (Ngwenya, 2020; Statistics South Africa, 2022). The limited availability of financial resources has therefore emerged as a central challenge undermining the growth and sustainability of rural micro businesses.

Access to finance remains uneven across spatial and institutional contexts in South Africa, with rural enterprises facing more severe barriers than their urban counterparts. Scholars argue that micro businesses in rural areas are structurally disadvantaged due to weak financial infrastructure, limited collateral, low financial literacy, and informality, which collectively restrict engagement with formal financial institutions (Ligthelm, 2017; Chimucheka & Rungani, 2019). At the same time, macroeconomic conditions such as high poverty levels and weak local demand further constrain revenue generation, reinforcing a cycle in which poor performance reduces access to finance, and limited finance perpetuates poor performance (Adeniran & Johnston, 2022; Statistics South Africa, 2022). Understanding the determinants of financial resource availability within this context is therefore essential for designing effective interventions aimed at strengthening rural micro-enterprise performance.

The existing literature on small and medium enterprise (SME) financing reflects ongoing debates regarding the relative effectiveness of internal versus external sources of finance. While some scholars emphasise the importance of internal financing mechanisms such as personal savings and retained profits in mitigating financial risk and information asymmetry (Myers & Majluf, 1984; Freel, 2021), others highlight the role of external financing, including bank loans and supplier credit, in enabling scale expansion and productivity improvements (Berger & Udell, 1998; Petersen & Rajan, 2017). However, much of this literature is concentrated on

urban settings and formal enterprises, with limited empirical attention given to rural micro businesses operating under constrained institutional environments (Polat & Giroto, 2021; Zwane, 2021).

Empirical studies conducted in South Africa and other developing economies have examined small business performance and financing challenges, yet few have explicitly modelled financial resource availability as a mediating mechanism linking financing sources to performance outcomes. Studies by Njobeni (2015), Mahambe (2017), Chipphanda (2016), Malaka (2018), and Zwane (2021) provide valuable insights into SME performance drivers but do not adequately capture how different financing sources translate into performance through financial availability. Similarly, studies conducted in other contexts, such as Owusu (2021) in Ghana, offer comparative perspectives but fail to address the unique institutional and socio-economic conditions of Ingquza Hill Local Municipality. This study responds to these gaps by empirically testing a mediation model that links financing sources, financial resource availability, and micro business performance within a rural South African context.

Guided by the Resource-Based View, Institutional Theory, Transaction Cost Theory, and Financial Constraints Theory, this study aims to examine the determinants of financial resource availability and their influence on the performance of micro businesses in Ingquza Hill Local Municipality. Specifically, the study investigates whether personal savings, family and friends' support, retained profits, suppliers' credit, and bank loans positively influence financial resource availability, and whether financial resource availability, in turn, enhances micro business performance. Accordingly, the study hypothesises that each financing source has a positive effect on financial resource availability and that financial resource availability positively affects micro business performance.

To address these objectives, the study adopts a quantitative research approach using survey data collected from owners and managers of micro businesses operating in Ingquza Hill Local Municipality between 2022 and 2024. Structural equation modelling and path analysis are employed to examine direct and indirect relationships among the study variables and to test the proposed hypotheses. This methodological approach allows for a rigorous assessment of the mediating role of financial resource availability in explaining performance outcomes.

This paper is organised as follows. Following the introduction, the second section presents a review of

relevant theoretical and empirical literature. The third section outlines the research methodology, including the study context, data collection procedures, and analytical techniques. The fourth section reports and analyses the empirical findings, followed by a discussion of results and implications. The final section concludes the paper by summarising key findings, highlighting policy and practical implications, acknowledging limitations, and suggesting directions for future research.

### 1.1. Empirical Objectives

Premised on the purpose of the study, the following empirical objectives were presented:

1. To investigate the impact of personal savings on financial resource availability in Ingquza Hill Local Municipality.
2. To test the influence of family and friends' support on financial resource availability in Ingquza Hill Local Municipality.
3. To determine the effect of retained profits on financial resource availability in Ingquza Hill Local Municipality.
4. To evaluate the influence of suppliers' credit on financial resource availability in Ingquza Hill Local Municipality.
5. To explore the effect of bank loans on financial resource availability in Ingquza Hill Local Municipality.
6. To assess the influence of financial resource availability on the performance of micro businesses in Ingquza Hill Local Municipality.

## 2. LITERATURE REVIEW

The literature review provides the researcher with an understanding of the current state of knowledge in the selected topic, as well as its boundaries and limitations (Malki, Uman, & Pittino, 2020). A literature review provides a broad overview of the current literature, helping researchers identify relevant theories, approaches, and gaps in the body of knowledge that can be applied to their dissertation, thesis, or paper (McCombes, 2023). In this paper, Resource-based View Theory (RBV) and Financial Constraints Theory (FCT) will be employed. The research variables include Personal savings, Family and friends' support, retained profits, suppliers' credit, Bank loans, availability of financial resources, and the Performance of micro businesses.

### 2.1. Theoretical Grounding

#### 2.1.1. Resource-Based View (RBV)

The RBV, introduced by Penrose (1959) and

refined by Barney (1991), posits that firms achieve a sustainable competitive advantage through valuable, rare, inimitable, and non-substitutable resources. For micro businesses, key resources include financial capital (personal savings, family support, retained profits, supplier credit, and bank loans), human skills, and reputation.

In the context of micro businesses in Ingquza Hill Local Municipality, RBV can provide valuable insights into the role of internal resources in driving firm performance. The RBV theory has been applied in various contexts, including micro businesses, to examine the relationship between firm resources and performance (Ganco & Agarwal, 2009). Research has shown that micro businesses with limited resources often rely on external partnerships and collaborations to access critical resources and capabilities (Lavie, 2006). In South Africa, studies have highlighted the importance of micro businesses, particularly in the context of limited resources and high competition (Fatoki, 2014).

#### 2.1.2. Financial Constraints Theory (FCT)

The Financial Constraints Theory (FCT) was developed by Stewart C. Myers and Nicholas S. Majluf in 1984. This theory posits that firms face financial constraints that limit their ability to access external funding, hindering investment, growth, and performance (Beck, 2006). The theory emphasizes the need for financial inclusion policies, such as microfinance, credit guarantees, and digital banking, to ease these constraints and enhance business sustainability. This theory affects micro businesses' performance by reducing revenue growth, lowering profitability, limiting job creation, increasing business closures, and reducing contributions to local economic development (Jensen & Teece, 1996). In the context of micro businesses in Ingquza Hill Local Municipality, financial constraints may be particularly binding due to limited access to formal financial institutions and high transaction costs.

### 2.2. Empirical Literature

The previous evidence on the seven research constructs used for this paper is described in this article.

#### 2.2.1. Personal savings

Personal savings are often a primary source of startup capital, providing entrepreneurs with the funds to launch and grow their businesses (Bradley & Klein, 2021). According to Klein (2018), personal savings are the amount of money micro business owners set aside from their personal income or

profits. A higher level of personal savings can indicate a more stable financial foundation, reducing reliance on external funding sources (Malaka & Mahembe, 2017). The RBV framework views savings as a valuable internal resource that supports competitiveness (Barney, 1991). In rural contexts such as Ingquza Hill, economic challenges like inflation and unemployment reduce savings capacity, highlighting the need for improved financial literacy and institutional support (Farlie, 2023). A study by Carter et al. (2021) found that personal savings were a significant predictor variable of new venture performance.

### **2.2.2. Family and friends' support**

Khumalo (2022) suggests that it refers to the financial assistance provided by entrepreneurs' family members and friends to support their business ventures. Support from family and friends offers an informal yet critical source of finance, especially where formal credit is inaccessible (Aldrich, 2019). Research by Petersen and Rajan (1994) showed that family and friends may offer more flexible repayment terms, such as interest-free loans or delayed repayment schedules. While a study by Weiss (2011) found that family and friends may lower transaction costs compared to formal financial institutions, making it easier for micro businesses to access capital. Studies have found that family and friends support is often used to finance business start-ups and growth, and that entrepreneurs who receive family and friends support tend to perform better than those who do not (Carter et al., 2021). However, studies have also highlighted the risks associated with relying on family and friends for finance, including the potential for conflicts and the lack of formal repayment terms (Chinomona, 2021; Fairlie & Kranshinsky, 2022).

### **2.2.3. Retained profits**

Retained profits refer to the portion of a business's profits that are reinvested in the business rather than distributed to shareholders or owners (Reynolds, 2021). These profits can be used to finance new projects, purchase assets, or simply maintain the business's operations (Chinomona 2019). Studies have found that retained profits are primarily used to finance business growth and expansion, and that businesses that retain more profits tend to be more competitive (Berger, 2017). Abor and Biekpe (2006) found that retained earnings are among the most critical internal financing sources for SMEs in Ghana, suggesting that higher profitability can make retained earnings a reliable source of funding.

However, in resource-constrained contexts, limited profitability, high operating costs, and poor record-keeping hinder reinvestment (Fatoki, 2014; Herrington & Kew, 2016).

### **2.2.4. Supplier's credit**

Suppliers' credit is a common source of finance for micro businesses, particularly for those in the retail and manufacturing sectors (Petersen & Rajan, 2017). Suppliers' credit is a vital source of financing for micro businesses (Chrisman, 2020). Research has shown that suppliers' credit can provide micro businesses with much-needed finance to support their operations and growth (Wen, Choi, & Chung, 2019). In the context of this study, suppliers refer to businesses that provide goods or services to businesses on a deferred payment basis. A study by Giannetti and Petersen (2019) states that late payments can erode the trust between the buyer and supplier, making it challenging to maintain a healthy working relationship. Effective management, trust-building, and timely repayment are essential for sustaining this financing channel.

### **2.2.5. Bank loans**

Bank loans are a traditional source of finance for micro businesses, particularly for those with an established credit history (Hamilton, 2020). Bank loans are financial assistance provided by commercial banks to support the business activities of entrepreneurs and micro businesses. Bank loans offer formal financing options that support expansion and operational growth (Beck et al., 2016). However, stringent requirements, collateral demands, and high interest rates often limit micro business access, especially in developing economies (Cole, 2019; FinFind, 2023). Government initiatives such as SEDA, SAMAF, and NEF have attempted to bridge this financing gap, yet accessibility remains uneven. Effective financial management and creditworthiness are critical to leveraging bank loans for sustainable growth.

### **2.2.6. Financial resources availability**

Financial resource availability refers to the extent to which micro businesses in Ingquza Hill Local Municipality have access to financial resources, such as cash, credit, or investments, to support their operations and growth (Barney, 1991). Financial resource availability mediates the relationship between financing sources and performance outcomes. Businesses with greater liquidity, credit access, and investment opportunities exhibit superior resilience and adaptability (Adomako &

Danso, 2020). Research highlights that adequate financial resources enhance strategic flexibility, competitiveness, and long-term sustainability (Carter et al., 2021). However, developing economies face persistent funding gaps that restrict growth potential (Bryman, 2021).

**2.2.7. Performance of Micro businesses**

According to Sidik (2021), the performance of micro businesses is the outcome variable of interest in this study. Leitner and Gudenberg (2020) add that micro business performance refers to the ability of micro businesses to achieve their goals and objectives and to sustain themselves over time. Micro business performance reflects the extent to which firms achieve growth, profitability, and sustainability (Sidik, 2021). Studies link financial access, entrepreneurial capability, and innovation to improved performance (Bell, 2019; Carter et al., 2021). The RBV theory explain that firms with

stronger resources and adaptive capabilities perform better under uncertainty (Barney, 1991; Teece et al., 2019). Measuring performance remains challenging due to inconsistent metrics, but access to finance remains a consistent determinant of success.

**2.3. Conceptual Model and Hypotheses Development**

Following previous discussions in the literature, the conceptual model depicted in Figure 1 was established. The variables predictor are personal savings, family and friends’ support, retained profits, suppliers’ credit, and bank loans are the predictor variables, financial resource availability serves as the mediator variable, and the outcome variable for the current study model is the performance of micro businesses. The hypotheses that were developed explain the relationships among the constructs in detail.

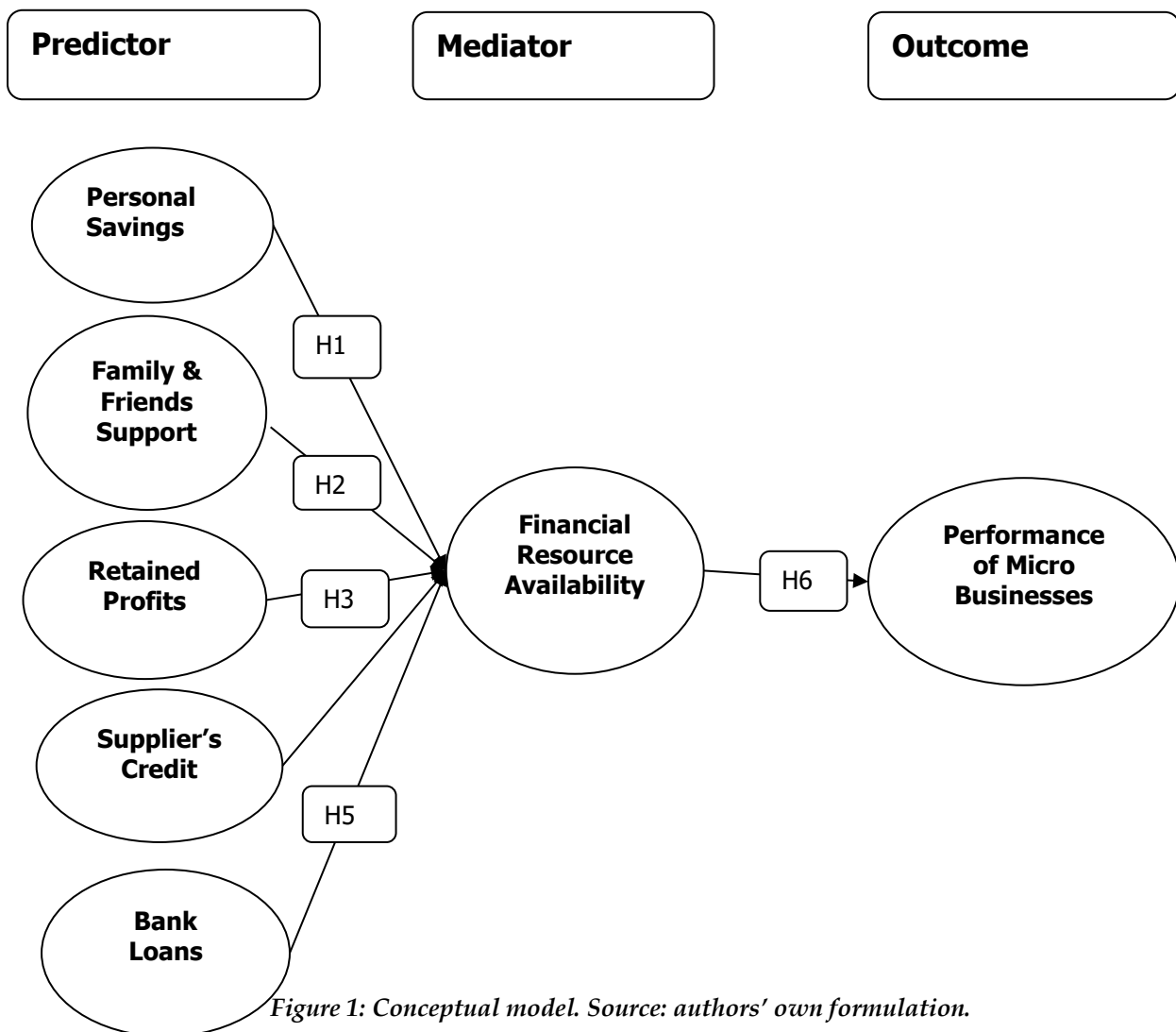


Figure 1: Conceptual model. Source: authors' own formulation.

### 2.3.1. *Personal Savings and Financial Resources*

#### *Availability*

Personal savings show how we manage our financial resources, represent our willingness towards money and in general, money management, economic and financial (Kim, Lee, & Kim, 2018). Prior studies have shown that personal savings rates are influenced by factors such as income, financial literacy, debt, age, and financial goals (Benrheim et al., 2021; Lusardi & Mitchell, 2020). The study suggests that these macroeconomic variables affect individuals' ability and willingness to save, which, in turn, affects the overall availability of financial resources in the economy (Bérubé & Côté, 2000). Further, in the Southern African Development Community (SADC) region, a study by FinMark Trust (2017) reveals that a significant proportion of small business owners rely on personal savings to commence operations. Hence, it can be hypothesised that:

H1: There is a positive relationship between personal savings and financial resources availability.

### 2.3.2. *Family and Friends' Support and Financial Resources Availability*

Emotional and practical support from family and friends can provide micro businesses with the encouragement and advice they need to secure financial resources (Anderson, 2023). Microbusiness owners who have a strong support network of family and friends are more likely to overcome obstacles and achieve business success (Baucus & Haynes, 2023). In the South African context, Neneh and Welsh (2022) examined female technology entrepreneurs and identified that combinations of family and friends' support significantly enhance business performance. Their study highlights the importance of both emotional and instrumental support from family members in facilitating access to financial resources and improving firm performance. The following hypothesis is proposed based on these findings:

H2: There is a positive relationship between family and friends' support and the availability of financial resources.

### 2.3.3. *Retained Profits and Financial Resources Availability*

It is believed that the relationship between retained profits and the availability of financial resources can also be understood through the lens of financial management (Block & Hirt, 2017). A study by Carpenter & Peterson (2022) shows that retained

profits is a significant predictor of financial resources availability in small businesses. Abdesamed and Wahab (2024) found that small business owners in Algeria heavily relied on internally generated funds, including retained profits. Muriithi (2017) observed that internal financing, including retained profits, significantly influences the sustainability and expansion potential of SME in Kenya. The study noted that firms with consistent profit retention had better liquidity and access to growth capital without needing to approach financial institutions. Thus, it can be hypothesised that:

H3: There is a positive relationship between retained profits and financial resources availability.

### 2.3.4. *Suppliers' Credit and Financial Resources Availability*

Supplier's credit provides buyers with short-term financing, enabling them to manage their working capital and maintain liquidity (Nguyen, 2019). Firms that use suppliers' credit have better financial performance, in terms of profitability and liquidity (Gundlach & Cadotte, 2023). A study by Barnes (2024) highlighted the importance of supplier's credit as a source of external funding for micro businesses particularly in environments with limited access to traditional financing channels. Further research by Otto (2023) explored SMEs' perception of their trade credit management effectiveness. Moreover, a study by Fishman and Love (2003) using data from 39 countries found that industries in countries with weaker financial systems relied more heavily on supplier credit. Hence it can be hypothesised that:

H4: There is a positive relationship between suppliers' credit and financial resources availability.

### 2.3.5. *Bank Loans and Financial Resources Availability*

Doe & Johnson (2021) explain bank loans as a type of financing provided by banks to individuals, businesses, allowing them to borrow money for various purposes such as working capital, investment, or personal expenses. For micro and small enterprises (MSEs), especially in rural and underserved areas, access to bank loans significantly determines the level of financial resources available to sustain and grow operations (Beck & Demirguc-Kunt, 2006). a study by Nguyen et al. (2020) in Vietnam shows that firms with better access to bank credit experienced improved liquidity and investment in productive resources. Molefe and Chiloane Tsoka (2023) found that access to bank

loans remains a major challenge for township-based microenterprises in the Eastern Cape. As a result, based on the literature and empirical evidence presented above, it is hypothesised that:

H5: There is a positive relationship between bank loans and financial resources availability.

### **2.3.6. Financial Resources Availability and Performance of Micro Businesses**

The availability of financial resources can impact the performance of micro businesses, but its effect largely depends on how these resources are allocated and utilized (Lianxi, 2021). According to Beck and Demirgüç-Kunt (2006), micro and small enterprises often face difficulty accessing startup capital due to a lack of collateral, credit history, and formal business registration, which limits their long-term viability. A study by De Clercq & Joseph (2023) emphasizes the importance of financial resources availability for micro businesses. Research by Abor and Quartey (2010) suggests that firms with better access to finance experience faster growth in sales, employment, and profitability. Therefore, deducing from the aforementioned literature we postulate the following hypothesis:

H6: There is a positive relationship between financial resources availability and performance of micro businesses.

## **3. METHODOLOGY**

This investigation is based on a positivist paradigm, as it seeks to discover a connection between the variables. Since statistical analysis achieves outcome exactness, a quantitative approach was used. The population of this paper comprises micro-business owners in the Ingquza Hill Local Municipality. This study used the list of all registered and unregistered micro businesses at Ingquza Hill Local Municipality, provided by the South African Revenue Service (SARS), and the Ingquza Hill Local Municipality Integrated Development Plan (IDP) from Flagstaff Mall to Ntlenzi A/A unit. The study's sample size is 370. The sample size was determined using a Priori sample size calculator for Structural Equation Modeling. This was because there was no well-established total number for the study's target population. After obtaining ethical clearance from Walter Sisulu University Committee and the letter of approval from the Municipality, two assistants were recruited to assist me with distributing and collecting

the data. The questionnaires made it clear that the respondents' identity would be protected and that the inquiry would be kept confidential and was conducted solely for academic purposes.

### **3.1. Measurement Instruments**

A questionnaire was chosen as a measuring instrument. Research scales were designed based on previous works done. Proper changes were made in order to fit the current research context and purpose. Personal savings was measured using 3-item scale developed by Thaler & Benartzi (2004), family and friend's support was measured using 4-item scale developed by Lin (2001), retained profits was measured using 4-item scale developed by Linter (1956), supplier's credit was measured using 3-item scale developed by Berger and Udell (1998), and bank loans was measured using 3-item scale developed by Lusardi and Mitchell (2014). In addition, financial resource availability was measured using 3-item scale developed by Lusardi and Mitchell (2014). Performance of micro businesses adapted from Charman, Petersen, and Piper (2012) used 3-item scale measure. All measurement items were affixed to strongly disagree (1) to strongly agree (5) Likert-scale continuum.

### **3.2. Sample Demographic Characteristics**

The family size running the business of the sample is illustrated in Table 1. Family members who are 4-6 running the business made up the majority of the respondents (n = 145; 39.2%). The majority of respondents (n = 195; 52.7%) stated the business had 5 or more employees. According to Table 1, the results indicate that the majority of micro businesses in the study area are organised as cooperatives, accounting for 44.9% (n = 166) of the sample. Additionally, the data indicate that the majority of businesses surveyed lack consistent internet access. Specifically, 46.2% of businesses reported never having internet access, while 37.3% reported it sometimes having access. Only 16.5% of businesses reported always having internet access. This is demonstrated in Table 1 below. Lastly, it presents the distribution of participants based on the key necessities their enterprises require to exploit identified market opportunities. Of the 370 respondents, 189 (51.1%) indicated that partnerships were essential, 150 (40.5%) identified a need for skills, and 31 (8.4%) cited a need for budget.

**Table 1: Sample demographic characteristics.**

		Frequency	Percentage
Family size running the business	1-3 members	127	34.3
	4-6 members	145	39.2
	7+	98	26.5
	Total	370	100.0
Number of non-family employees	0-2	36	9.7%
	3-4	139	37.6%
	5+	195	52.7%
	Total	370	100.0
Type of business ownership	Cooperative	166	44.9
	Partnership	118	31.9
	Sole-proprietorship	86	23.2
	Total	370	100.0
Businesses with internet access	always	61	16.48%
	sometimes	138	37.30
	never	171	46.22
	Total	370	100.0
Which of the following necessities does the enterprise need to exploit identified opportunities?	Budget	31	8.4%
	Skills	150	40.5%
	Partnership	189	51.1%
	Total	370	100.0

Source: Researcher's construction (2025).

#### 4. DATA ANALYSIS

To capture the obtained data, an excel spreadsheet was used. The data were encoded and statistical analysis was performed using the Statistical Package for the Social Sciences (SPSS) and the Smart PLS program for structural equation modeling (SEM). Smart PLS has evolved into a powerful tool for investigating random models with multiple constructs and indicators (Chinomona and Dubihlela 2014). Smart PLS is suitable for small sample sizes and facilitates both exploratory and confirmatory testing. It is robust to deviations for multivariate normal distributions (Hair et al. 2013). Smart PLS was

more suitable and befitting the current study's intent because the current study sample size is relatively limited. The sample size for this study is 370, which is higher than the required minimum sample size of 80 when using PLS in this study (Chinje and Chinomona 2015).

##### 4.1. Reliability Analysis

The various methods used to evaluate the reliability and validity of the study's variables are described by the statistical measures of accuracy tests shown in Table 2.

**Table 2: Accuracy analysis statistics.**

Constructs	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average Variance Extracted (AVE)	Outer Loadings
Personal Savings	0.928	0.937	0.954	0.874	0.952 0.953 0.900

<b>Family and friends' support</b>	0.893	0.899	0.926	0.758	0.817 0.876 0.898 0.889
<b>Retained profits</b>	0.896	0.900	0.927	0.761	0.854 0.860 0.884 0.892
<b>Supplier's credit</b>	0.836	0.847	0.901	0.746	0.842 0.931 0.826
<b>Bank loans</b>	0.804	0.892	0.874	0.699	0.848 0.806 0.854
<b>Financial resources availability</b>	0.882	0.897	0.928	0.811	0.920 0.945 0.832
<b>Performance of micro businesses</b>	0.898	0.898	0.936	0.831	0.931 0.924 0.879

*Source: Researcher's construction (2025).*

Table 2 indicates that the more the correlation between the items, the closer the measured items are to each other. The internal consistency of each variable in the analysis was also assessed using Cronbach's alpha coefficient. "The higher the internal consistency of the scale's items, the closer the coefficient is to 1.00". (Malhotra 2010, p. 724). All of the alpha values were above the recommended threshold of 0.7, ranging from 0.833 to 0.933. This means that all of the variables were reliable (Hair et al. 2013). The findings yielded CR indices ranging from 0.804 to 0.928. The CR amount shown exceeds the evaluation criterion by more than 0.70, which is adequate for the internal consistency (Nunnally 1978, p. 247; Chin 1998, p. 320), indicating that the scales are compositely reliable.

Furthermore, the study's convergent validity was determined by computing AVE values. In a reflective model, AVE is the average of communalities for each latent factor. The AVE values should be at least 0.50, according to Malhotra (2010), which means that the construct explains at least half of the variance in the observed variables. AVE values below 0.50, according to Chin (1998), suggest error variance levels that exceed the explained variance. As a result, the AVE values identified in this analysis were within the appropriate range ( $0.699 \leq AVE \leq 0.874$ ), meaning that each indicator variable shared more

variance with its respective construct. Despite previous studies' recommendations (Henseler et al. 2016; Verkijika and De Wet 2018), discriminant validity was evaluated using the hetero-trait-monotrait ratio (HTMT) criterion (Table 3), suggesting that HTMT is more appropriate for evaluating discriminant validity than Fornell-Larcker's widely used criteria. Discriminant validity is achieved when the HTMT value is less than 0.9 or 0.85 when taking a more conservative stance (Neneh 2019; Verkijika and De Wet 2018).

The Hetero-Trait Mono-Trait (HTMT) ratio of correlations was used to assess discriminant validity among the study constructs. According to Henseler et al. (2015), an HTMT value below 0.90 (or more conservatively, 0.85) indicates adequate discriminant validity. Most construct pairs in Table 5.5 fall below the 0.90 threshold, suggesting that the constructs are empirically distinct. However, pairs exceed the recommended cut-off, suggesting possible concerns about discriminant validity. Notably, the HTMT value between Supplier's credit and Bank loans is 1.041, which is considerably above the threshold. Similarly, bank loans and retained profits (0.975) and suppliers' credit and retained profits (0.971) slightly exceed the 0.90 limit. These high values raise concerns about discriminant validity, suggesting respondents may have perceived these constructs as

conceptually similar. This can be due to overlapping measurement items, conceptual proximity in the financing context, or the way these financing

methods are used interchangeably in practice by micro businesses.

**Table 3: Discriminant validity (hetero-trait-monotrait-ratio).**

	1.000							
	0.790	1.000						
	0.842	0.728	1.000					
	0.818	0.613	0.845	1.000				
	0.534	0.836	0.622	0.410	1.000			
	0.975	0.812	0.726	0.670	0.618	1.000		
	1.041	0.843	0.749	0.679	0.664	0.971	1.000	

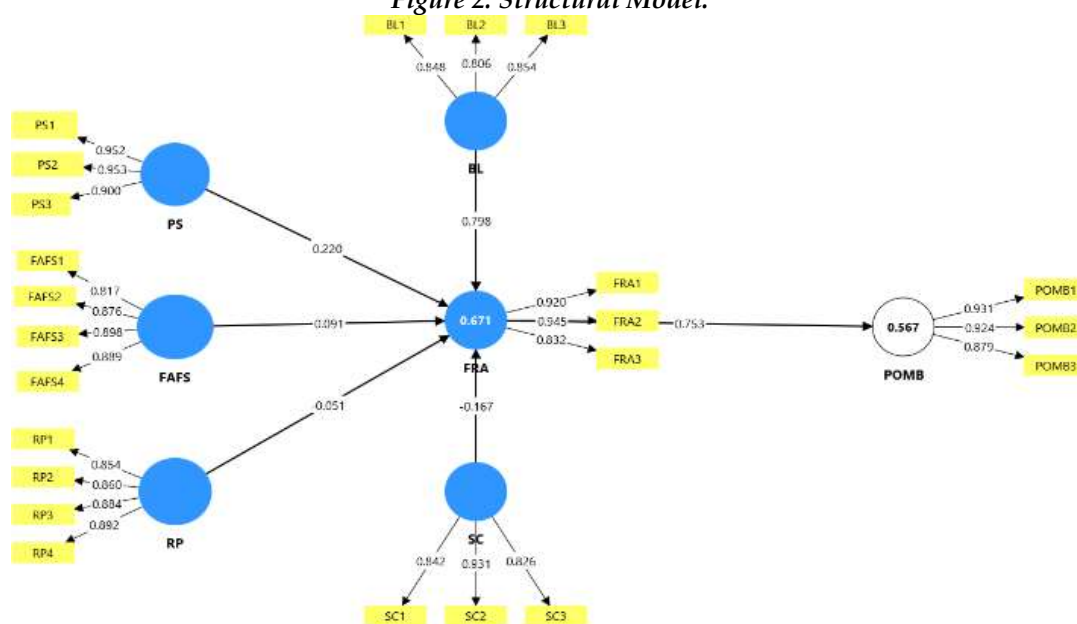
Source: Researcher's construction (2025)

**4.2. Assessment of the Goodness of Fit (GoF)**

The global goodness of fit of the calculation is

0.661, exceeding the Gof >0.36 recommended threshold. The study concludes that there is a good overall fit with the research model.

**Figure 2: Structural Model.**



Source: Researcher's construction (2025).

**4.3. Path Model Results and Factor Loadings**

Figure 2 depicts the structural model's PLS estimation results and the item loadings for the study constructs.

**4.4. Outcomes of Hypotheses Testing**

The study put forward six hypotheses. H2 and H3

were the only hypotheses that were not statistically significant. BL and FRA ( $\beta=0.798$ ;  $t=11.163$ ;  $p=0.000$ ), and FRA and POMB ( $\beta=0.753$ ;  $t=26.257$ ;  $p=0.000$ ) had the strongest connections. The relationships between PS and FRA ( $\beta=0.220$ ;  $t=5.124$ ;  $p=0.000$ ), and SC and FRA ( $\beta=-0.167$ ;  $t=2.073$ ;  $p=0.038$ ) were then discussed. Table 4 below show the results of structural equation model analysis

**Table 4: Results of structural equation model analysis.**

→	H1	0.220	5.124	0.000	Highly significant & supported
→	H2	0.091	1.313	0.189	Insignificant but supported
→	H3	-0.051	0.734	0.463	Insignificant but supported
→	H4	-0.167	2.073	0.038	Significant & Supported
→	H5	0.798	11.163	0.000	Highly Significant & Supported
→	H6	0.753	26.257	0.000	Highly significant and supported

Source: Researcher's construction (2025).

**4.4.1. Outcomes after the testing of hypothesis 1**

The results indicate that personal savings (PS) have a significant positive effect on financial resource availability (FRA) among micro businesses. The path coefficient was  $\beta = 0.220$ , with a high level of significance ( $t = 5.124$ ,  $p = 0.000$ ). This provides strong support for H1, confirming that personal savings contribute meaningfully to the availability of financial resources.

**4.4.2. Outcomes after the Testing of Hypothesis 2**

The results of H2 testing indicate that family and

friends' support (FAFS) has a positive but statistically insignificant relationship with financial resource availability (FRA). Specifically, the path coefficient was  $\beta = 0.091$ , with a t-value of 1.313 and a p-value of 0.189. Since the p-value is greater than 0.05, the hypothesis was not supported. This implies that although financial assistance from family and friends may be available, it does not consistently translate into a significant improvement in the financial resources available to micro businesses.

**4.4.3. Outcomes after the testing of hypothesis 3**

The results of H3 testing indicate that retained profits (RP) have a statistically insignificant negative

relationship with financial resource availability (FRA). The path coefficient was  $\beta = -0.051$ , with a t-value of 0.734 and a p-value of 0.463. Since the p-value exceeds the 0.05 threshold, H3 is not supported. This means that retained profits do not meaningfully enhance financial resource availability among micro businesses in this context. The weak negative coefficient suggests that even when businesses retain earnings, these are not effectively utilised or are insufficient to impact resource availability.

#### 4.4.4. Outcomes after the testing of hypothesis 4

The test of Hypothesis 4 (H4) revealed that suppliers' credit (SC) has a statistically significant negative relationship with the availability of financial resources (FRA). The path coefficient was  $\beta = -0.167$ , with a t-value of 2.073 and a p-value of 0.038, which is below the 0.05 threshold, confirming significance. Thus, H4 is supported statistically, but the relationship is negative.

#### 4.4.5. Outcomes after the testing of hypothesis 5

The test of Hypothesis 5 (H5) confirmed a strong, positive, and statistically significant relationship between bank loans (BL) and financial resource availability (FRA). The results showed a path coefficient of  $\beta = 0.798$ , with a t-value of 11.163 and a p-value of 0.000, well below the 0.05 threshold. This indicates that access to bank loans substantially increases the availability of financial resources for micro businesses. Thus, H5 is strongly supported.

#### 4.4.6. Outcomes after the testing of hypothesis 6

The results of Hypothesis 6 (H6) confirm a strong, positive, and highly significant relationship between the availability of financial resources (FRA) and the performance of micro businesses (POMB). The path coefficient was  $\beta = 0.753$ , with a t-value of 26.257 and a p-value of 0.000, far below the 0.05 threshold. This provides strong evidence that enhanced availability of financial resources significantly improves the performance of micro businesses.

### 4.5. Study's Contribution

The findings can assist local and national policymakers in designing targeted financial inclusion policies, subsidy programs, and credit facilities that better reflect the financing realities of micro businesses in rural municipalities. Development agencies and NGO's can use the insights to tailor their support mechanisms, such as mentorship, financial training, and microcredit schemes, to empower local entrepreneurs. By

improving access to finance and business performance, the study indirectly contributes to job creation, poverty alleviation, and sustainable local economic development.

#### For Micro Entrepreneurs:

1. seek to diversify funding sources, avoiding over-reliance on informal support such as family or personal savings.
2. Invest in financial education to improve decision-making around savings, credit use, and profit reinvestment.

#### For Government and policymakers:

1. Introduce tailored financial policies and incentives to stimulate microenterprise growth, such as grant schemes, loan guarantees, and tax reliefs.
2. Facilitate partnerships between public institutions and private financial institutions to improve rural credit access.

#### For Financial Institutions:

1. Design flexible loan products with reduced collateral requirements and affordable interest rates for micro businesses.
2. Offer financial education alongside loan disbursements to ensure responsible use of funds and increase repayment rates.

#### For Academic Researchers:

1. Future studies should expand on this framework by exploring other mediating or moderating variables such as entrepreneurial orientation, gender, and digital adoption.
2. Replication of the study in other rural municipalities will enhance generalizability and validate the proposed theoretical model.

The study provides insights for industry practitioners, marketers, and policymakers, guiding micro business owners on diversifying financing strategies and informing business support organizations on entrepreneurship training. It also supports policy formulation for financial inclusion, suggesting targeted interventions like credit guarantee schemes. Academically, it adds context-specific research on Ingquza Hill Local Municipality, tests a mediation model, and provides a foundation for future comparative studies.

### 4.6. Limitations and Future Research Directions

This study contributes to theory by applying RBV, Institutional Theory, and TCT to rural micro businesses and showing how financial resource availability mediates the link between financing sources and business performance. Practically, the findings guide policymakers, NGOs, and financial institutions in improving financial inclusion,

designing flexible credit products, and strengthening financial literacy, while encouraging entrepreneurs to diversify funding sources. Recommendations emphasise tailored financial policies, capacity-building programmes, and the need for further research that explores new financing models, variables, and contexts using advanced methods such as SEM. Future studies should expand to other municipalities, examine digital financing tools, and include longitudinal or sector-specific analyses. Key limitations include the focus on one rural area, reliance on self-reported data, a limited range of financing sources, and the exclusion of other influential factors, which may restrict generalisability.

## 5. CONCLUSION

This paper investigated the impact of financial resource availability on the performance of micro businesses in Ingquza Hill Local Municipality. The

results show that personal savings, supplier credit, and bank loans significantly influence financial resource availability, while family and friends' support and retained profits have insignificant effects. The study further confirms that financial resource availability has a strong positive impact on micro-business performance, underscoring the importance of accessible financing for growth and sustainability. Overall, the findings highlight that improving financial resource availability is essential for strengthening the performance, resilience, and long-term viability of micro businesses in rural areas. The study was conducted to provide empirical solutions to the challenges micro businesses face in accessing, managing, and leveraging financial resources for growth and sustainability. In particular, it addresses limited access to formal funding sources, over-reliance on informal financing, and low financial literacy, which hinder business performance in rural municipalities such as Ingquza Hill Local Municipality.

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