
Contributing Factors to Entrepreneurial Orientation for Rural Small and Medium Enterprise Survival and Growth

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Abstract: In the economics and entrepreneurship literary works, studies examining the connection of entrepreneurial orientation (EO) with firm performance have generated much interest of late. Empirical research investigating business performance factors has demonstrated small and medium enterprise (SME) EO significantly improves their survival and profitability. The connection has, however, received little or no recognition within the SME landscape. Results from the study this article reports on, showed small or insufficient local markets for SMEs to sell their goods, an absence of funding, as well as stringent regulatory requirements negatively impact SMEs' ability to grow, as well as the EO for their survival and development. This research, therefore, analysed this link in the context of SMEs in rural areas of KwaZulu-Natal (KZN). According to the current research, to achieve outstanding performance and a lasting edge over rivals, SME owners-managers ought to embrace an EO attitude. This paper sheds light on the significance of institutional and financial factors for EO among SMEs in the rural areas of the KZN province of South Africa.

Keywords: entrepreneurial orientation (EO); profitability; rural areas; small and medium enterprises (SMEs); survival

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Introduction

Entrepreneurial orientation (EO) is perceived as the process of choosing how an organisation will approach innovation, proactiveness, risk-taking (Andres et al., 2022), and the trends, procedures, and behaviours that it adopts to enter a new or established market (Lumpkin & Dess, 1996). It can be regarded as a type of strategic orientation, since it shows how an organisation intends to compete, while also viewed as the techniques, processes, and decision-making styles of entrepreneurial management. (Pidduck et al., 2023), and/or an illustration of the strategic position of a business that determines its structure and methods (Wiklund-Engblom et al., 2023). SMEs must develop ways to survive in the highly competitive business environment as, being entrepreneurially oriented entails being aware of the difficulties presented by the business environment and constantly developing ways to overcome them, irrespective of

rivals. As EO is market-driven, it is essential to business success in a competitive context (Wiklund-Engblom et al., 2023). Every aspect of EO is focused on retaining existing clients ahead of the competition or bringing in new customers; it encompasses all the strategies that specify how an organisation will pursue its objectives in an exceedingly competitive market.

For the past 50 years, the entrepreneurship topic has fascinated many researchers, however, they cannot reach a compromise on the subject of entrepreneurial spirit, nevertheless, the “entrepreneurial orientation” (EO) concept has been studied from various perspectives, including business development, prosperity, breakthroughs, and jobs, along with shifts, expansion, and worth (Adedoyin et al., 2021). Described as the process of assembling a unique set of resources to take advantage of an opportunity for value creation (Rigtering & Behrens, 2021), entrepreneurship is further defined as opportunistic effort that generates worth, as well as risks, and is closely linked with innovation (Fleisher et al., 2021).

The foundation of entrepreneurship within a business is the entrepreneur’s orientation toward finding untapped or underutilised marketplace possibilities and developing a special set of capabilities to exploit these (Parnell, 2023). In addition, the strategic significance of EO involves managerial regeneration, prevailing in the global marketplace, discovering novel techniques to augment income sources, and expand efficiency, as well as introduce innovations in the marketplace, and using business assets effectively, in order to achieve outstanding results and a long-term advantage over rivals (Kiani et al., 2022; Covin & Wales, 2019). A rural firm’s EO and geographic location could also influence its longevity, ability to survive, and grow (Sakib et al., 2022), while EO and location could be key influencing factors to SME success in markets with geographic specialisations (Samudzimu & Munkumba, 2022). Salih and Hamad (2023) further opine the differences in resource and benefit accessibility, such as customer buying ability and workforce availability, explain SME growth opportunity variances in rural communities.

Khoza et al. (2022) highlight many people draw conclusions and assumptions regarding SME failure in rural KZN to grow and create sufficient employment opportunities. However, although growth in the country’s entrepreneurship is increasing, Khoza et al. (2022) point out South Africa (SA) still lags other countries, for example, Brazil and India, with India actively advancing SME growth and improving rural entrepreneurship (Fatima et al., 2021). More people have also come to realise entrepreneurship propels economies forward (Fernandes et al. 2022); by combining resource-inputs with innovative ideas, rural SMEs create value through launching new products, hiring fresh personnel, and establishing new enterprises (Karitu et al., 2022). How effectively EO can spur rural business growth, nevertheless, largely depends on institutional and financial considerations (Devkota et al., 2022), with official and informal laws and regulations (institutional factors) that encircle and influence rural SMEs, moulding their activities (Karitu et al., 2022). Commercial, political, and legislative elements work in harmony to form the norms and regulations that govern the operating environment of rural entrepreneurs (Javeed et al., 2022). Cakranegara et al. (2022) add, although institutions have codified and written restrictions such as statutes and laws, finding the right combination might be difficult. Hlongwane (2023) further established government initiatives and policies for rural SMEs positively impact their development.

Financial factors that affect rural SMEs in SA include meagre personal savings, help from relatives and close associates, and commercial banks as main funding avenues open to financial support (Zhou et al., 2023). Zarrouk et al. (2020) assert interpersonal acquaintances remain essential for protecting SMEs from financial and institutional risks that hinder growth, while Reddy and Mamabolo (2023) claim SMEs in SA cannot thrive and grow without loan financing. Further factors include the unknown modalities the government currently uses in subsidising rural SMEs (Ananzeh et al., 2022), although, Reddy and Mamabolo (2023) assert institutions and their offerings will become more distinguishable in the market. The study aimed to determine contributing factors examining and describing the effect of EO among SMEs, for survival and growth in rural areas of the KZN province of SA. The study was in response to frequent SME sector failures, linked to several important issues particular to rural KZN, with this paper specifically addressing the objectives related to its examination of institutional as well as financial factors perceived to affect SME EO for their survival and growth in rural areas of KZN. Despite their potential, SMEs face many challenges in the rural KZN areas, where some challenges identified are access to financing and unfavourable institutional and regulatory frameworks. Most rural KZN SMEs never continue past the survival phase, because their EO remains low. The following questions were examined in this paper: What effects do institutional factors have on EO for SME growth and survival in KZN rural areas? What impact do financial variables have on EO for SME growth and survival in KZN rural areas??.

The hypotheses proposed by the study in order to address these problems are: Ha1: There is a relationship between regulations on governing/public procurement and bureaucracy as institutional factors that hinder EO for SME survival and growth in rural KZN areas. Ha2: There is a relationship between bank bureaucracy in obtaining loans and high interest rates as financial factors that affect EO for SME survival and growth in rural KZN areas.

Theoretical framework

The path taken by entrepreneurship is complex, involving strategies, skills, and aspects of the business environment that will contribute to the success of the enterprise, claim Cowden et al. (2024) and Morgan and Anokhin (2023). A favourable or adverse business environment might have significant consequences on SMEs' choices regarding EO implementation. However, SMEs can react swiftly to market rivals through innovation management, a component of EO (Clark et al., 2024). The increased ability to identify competitive moves early on may support greater innovative collaboration between organisational units Susanto et al. (2023). Our theoretical framework was established using the resource-based view (RBV), a managerial framework to aid organisations in discovering and leveraging resources to gain a competitive edge, and contingency theory as a foundation. The RBV, which Penrose initially created in 1959, explained how an organisation may expand while considering the limited resources available to sustain its operations (Pereira Júnior & Pereira, 2023). Poazi Deinmodei (2023) developed new RBV keywords to draw attention to the exceptional performance of SMEs by examining how enterprises employed their valuable resources to develop and execute their plans (Lau & Michie, 2024). Kero and Bogale (2023) proposed the fundamental tenets of the RBV framework, stating there may be a range of strategic business resources, some possibly rare, valuable, irreplaceable and imperfectly imitable.

A rural SME can determine how much its strategic assets and abilities will improve its competitiveness by using the RBV (Rihayana et al., 2023). Furthermore, SMEs may have visible or invisible assets (Kruesi & Bazelmans, 2023). According to Purnomo (2024), visible resources are observable assets that contribute to the success of SMEs. EO, managerial skills, and strategic knowledge are examples of invisible resources. Akbarov (2024) affirms the contingency theory assumes enterprising SMEs are subject to the risk of unforeseen circumstances, while pursuing their goals. Since both internal and external influences can shape a choice, there is no one ideal approach to run a firm or make decisions (Malik & Mushataq, 2024). Rural SMEs could, therefore, use RBV to help EO develop unique core skills to beat competitors by approaching problems in a new way. Rural SMEs also need to implement the contingency theory, which holds that the optimum method to run a business, manage a team, or plan, relies on the circumstances.

Conceptual framework of rural SMEs

Pidduck et al. (2023) utilise EO to describe an entity's commitment to entrepreneurial endeavours or its actions that mirror or operate as for an entrepreneur. According to Lumpkin and Pidduck (2021), EO is related to a business's strategy position, which encompasses the practices, policies, and projects that allow it to create wealth through the pursuit of entrepreneurial initiatives. Consequently, EO has been examined as an organisational phenomenon and is crucial to comprehending the entity's entrepreneurial practices and norms (Lubis et al., 2023). Two primary theoretical conceptualisations serve as the foundation for the study of EO: a multidimensional and a unidimensional approach. The evaluation of each EO category independently determines the methodology.

Morgan and Anokhin (2023) explain the unidimensional approach sees EO as a single, conceptual entity, where its several aspects interact with each other within the business entity (Lubis et al., 2023). As explained by Moretti et al. (2020), entrepreneurial businesses need to quickly lower excessive levels in every dimension. Moraes Silva et al. (2020) point out this most widely accepted EO concept has gradually changed in study from analysing entrepreneurial traits to focusing on the distinctive qualities of an innovative firm. In addition to trying to understand EO elements, Crush et al. (2023) and Mozumdar et al. (2022) suggest a one-dimensional approach that blends proactivity, innovation, and risk-taking. These experts contend an organisation can only be categorised as entrepreneurial when it exhibits a high level of each of these characteristics.

Lumpkin and Pidduck (2021), however, examined the concept of a one-dimensional approach for EO and suggested each of the three dimensions might change on its own. Instead, scholars have suggested a complex approach that incorporates characteristics such as competitive aggression and autonomy. In view of the many cultural contexts, several dimensions were presented, and organisations may display high levels of some

dimensions and low levels of others (Ma et al., 2023; Lyons & Zhang, 2023). According to Lumpkin and Dess (1996), there are five key components necessary to understand EO from a multidimensional perspective: innovativeness, risk-taking, proactiveness, competitive aggressiveness, and autonomy. The links of the five variables to SME efficiency may vary depending on their independence (Lumpkin & Pidduck, 2021; Maesela et al., 2024). This new revolutionary strategy emphasises entrepreneurship in the managerial framework that initiated conceptual propagation under the EO conception (Wiklund-Engblom et al., 2023).

The EO for rural SMEs, moreover, acknowledges entrepreneurs as the driving force behind GDP growth and expansion, without which other development-related factors will be wasted or dissipated (Chokera & Mutambara, 2023; Clark et al., 2024). Therefore, the purpose of this study was to investigate how individual attitudes impact the EO for SME survival and expansion in eThekweni's rural communities. Additionally, the components of rural entrepreneurial resources that influence EO for SME growth and survival in rural areas were examined.

EO among SMEs in rural KZN

The concepts and practices that underpin entrepreneurial decisions and behaviours are known as EO (Lubis et al., 2023). Consequently, EO may be viewed as the entrepreneurial strategy providing important stakeholders a competitive edge, while supporting the principles of their firm Ngo 2023. SMEs in rural KZN can thrive and endure through internal and exterior business environment elements (Mabasa et al., 2023), nevertheless, rural KZN SME failures stem from weak strategic plans and inability to adopt an EO (Dabić et al., 2022). Ng and Hamilton (2021) refer to the approach of an SME owner-manager to innovation, leadership, and risk-taking as EO and highlight rural SME survival and growth in KZN tend to increase with scale but their growth is prone to wane over time.

Many rural KZN SMEs also employ unskilled labour, and do not have adequate financial resources to adopt new technologies, operating without the conveniences of contemporary amenities (Chinomona, 2023). Kansheba and Wald (2022) believe four theoretical viewpoints can be used to define SME growth, namely the configuration, motivational and strategic adaption perspectives, as well as the RBV. Rural SMEs, furthermore, need EO to strengthen their position in the industries they operate (Shah et al., 2023).

Institutional impacts on EO for rural SMEs in KZN

According to Hussain et al. 2018, the conditions influencing new enterprises' access to financing and innovation are defined by the policy and regulatory framework in emerging markets. Some social institutional costs, which include business formalities, high political risk, high costs of compliance, and bureaucratic formalities, as well as high taxation, negatively impact investment Cowden and Tang (2022). This is particularly so, because in most emerging markets there is a weak legal framework to support investors and enforce most contracts, thus enhancing perceived risks and capital costs. This aspect of regulation affects access to credit, especially among newly established businesses. High capital adequacy ratios made mandatory for the banks, constrains the flow of funds to small businesses since banks prefer to lend only to minimum-risk debtors. Also, one of the constraints negatively affecting the development of a sound credit market includes the absence of credit information systems and the poor implementation of creditor rights. Limited access to credible information further limits access to formal finance, as most startups cannot produce records required to demonstrate creditworthiness.

As per Bollaert et al. (2021), policies directed towards financial inclusion can seemingly enhance access to finance for startups. Some regulatory changes include mobile banking and other electronic payment systems, which have helped increase financial services through improved availability and reduced cost. For instance, mobile money services available for sub-Saharan Africa (SSA) have created enhanced access to financial services, particularly by enabling startups to conduct payments and access loans without formal banking facilities. Another way in which governments impact funds availability is through fiscal policies.

The term "institutional milieu/environment" refers to the formal and informal rules and regulations that surround an entrepreneur's activities and impact how a business is operated (Lyons & Zhang, 2023). Politics, laws, and economic forces all combine to create the standards and rules establishing the framework that controls how SMEs conduct business (Buratti et al., 2023). Lyu et al. (2023) clarify both explicit and implicit constraints make up the institutional framework, such as laws, norms, constitutional documents, and customs, as well as expectations, traditions, internalised rules of conduct, and even social contracts. Furthermore, fundamental laws, suggested activities, and regulations impact the initiatives and amenities rural SMEs need (Rubyutsa et al., 2023).

SA's fundamental laws, rules, and regulations impact rural SME EO and expansion (van Wyk & Venter, 2023). Furthermore, the United Nations Conference on Trade and Development (UNCTAD) Report (2023) emphasised an environment that permits an entrepreneur to establish, run, oversee, and, when needed, close a business, which Lekhanya (2016) points out requires a setting with guaranteed legal requirements for disclosure, licensing, and registration processes, as well as safeguarding tangible and intangible property, to unleash the power of their EO (Ngibe & Lekhanya, 2019).

Financial factors that hinder EO for rural KZN SME survival and growth

The biggest obstacle facing rural SMEs, particularly those from emerging economies, according to the Organization for Economic Development (OECD), is their financial limitations, specifically due to their inability to access traditional banking institutions (Organization for Economic Development (OECD), 2019). As these enterprises are considered high-risk, have little to no security, a bad credit history, or irregular cash flow, lenders do not want to provide them loans (Correia et al., 2023). In addition, although most businesses are unable to access traditional finance sources due to high borrowing costs Oguiuba et al. (2023b), high interest rates, and unfavourable loan terms (Adam et al., 2022), many rural SME owners-managers lack financial literacy, which makes it challenging to personally manage their finances or find funding options (Msomi & Olarewaju, 2021b). Consequently, SME owners-managers rely on money from friends and family, which is typically insufficient and unsuitable for growth (Andersson et al., 2023). Furthermore, complicated regulatory frameworks, exorbitant compliance costs, and unwelcoming tax laws hinder business operations and deter investment (Rens, 2021). These combined limitations result in rural SMEs only able to operate in a very strict financial environment, which contributes to their high failure rates.

One feature common in developing nations is the absence of unrestricted access to financing for SMEs (Megersa, 2020), where the lack of debt finance is seen as the main obstacle to rural SME survival and expansion in SA (Nkwini & Mashau, 2020). Not only are SMEs unable to develop a compelling business plan to convince potential financiers, they face obstacles to market access, and complex enterprise laws and regulations that all detrimentally impact SME capacity to secure capital (Msomi & Olarewaju, 2021b). Moreover, the RBV theory forms the basis for EO and dependable funding access, which when combined, strengthen core rural SME competencies for long-term viability and positive performance (Le Duc, 2022). In addition, access to capital and funding is problematic, where acquiring funding impacts rural SME ability to survive and expand (Organization for Economic Development (OECD), 2019), while cash flow and investment are shown as further problem areas for rural SMEs (Andersson et al., 2023; Zarrouk et al., 2020). While family capital is heavily relied on by these SMEs (Hossain et al., 2023), financial institutions see SMEs negatively from a risk-averse standpoint (Bamfo et al., 2023). Furthermore, Enaifoghe and Vezi-Magigaba (2023) state financial management principles of rural SME in SA are applied from a short-term financial viewpoint, according to individual owner-manager objectives, whereas African rural SME financial oversight functions and procedures are centred solely on cash-based data, particularly for effective financial asset use, without controlling fund allocation within official accounting framework parameters (Arain et al., 2024).

Methodology

This study employed a quantitative research design, deemed appropriate considering its basic capacity to investigate the relationships between variables in an effective manner. In general, a quantitative study methodology is defined as “social investigation which utilizes scientific techniques and factual assertions”; in this case, the critical factors affecting EO for SME survival and growth in rural areas of KZN are the focus of the study (Makarova et al., 2023, p. 325). The design of this small-scale study used a positivist approach that was exploratory in nature, since it allowed the researcher to analyse the critical factors affecting EO for SME survival and growth in rural areas of KZN. Using an exploratory research design aimed to answer questions and address the SME EO phenomena. Utilising a quantitative research technique, the study was carried out among SMEs in rural KZN that were officially registered with the Department of Trade, Industry and Commerce (DTIC) of the SA government at the time of the study (Department of Trade and Industry (DTI), 2022). These SMEs were the study's target population. According to the Small Enterprise Development Agency (Small Enterprise Development Agency (SEDA), 2021), there are an estimated 1,600 SMEs in all the rural areas. It is, nevertheless, unknown how many are unregistered.

A quota sampling technique was employed to choose respondents from five rural KZN areas—Bhekulwandle, Kwangcolosi, KwaXimba, and Umbumbulu, as well as Umdumezulu — because there was no appropriate

sampling frame from which to construct a probability sample. These areas were chosen due to their sizable rural populations, which made it possible to identify a substantial number of SME owners-managers. According to the DTI’s definition of SMEs, the sample quotas were determined by the number of employees and the geographic area. Convenience sampling was used to select the sample components for each quota category. Informed consent was obtained from all participants (Krejcie & Morgan, 1970). The study used a closed-ended, structured questionnaire as measuring tool, created from the literature review as main source of information, to measure the variables among the identified rural KZN SMEs, thus ensuring valid and dependable findings, in line with the study content and predictability. Every item was a closed-ended question with a 5-point Likert scale response range, from “Strongly Agree,” with 5 as value, to “Strongly disagree,” at a value of 1. To guarantee the right person would complete the questionnaire and they would receive whatever assistance they required, the questionnaire was personally administered by the researchers and research assistant after obtaining informed consent. Prior to the main study, the questionnaire underwent a pilot test to determine its ability to gather the data required and improve and eliminate any potential ambiguities.

Means and standard deviations are examples of descriptive statistics employed in this study, in addition to validating data coding. In order to determine a particular response from a respondent to a particular question, frequencies—displayed in graphs and tables—were also used. The study employed the Analysis of Variance (ANOVA) test, which examines two or more groups of cases in a single variable for multiple independent samples. When the requirements for an ANOVA were not fulfilled, the Welch test was used. The linear association was measured using Pearson’s correlation coefficient. To determine whether a mean score differs significantly from a scalar value, one sample t-test was used. In order to confirm the validity and reliability of the results, a chi-square test analysis was also carried out using correlation analysis. The Spearman rho test determined the link between the variables, and Cronbach’s coefficient alpha was used for internal consistency checks (Arain et al., 2024). The data were analysed using the Statistical Package for Social Sciences (SPSS) version 29.0.

The set of items in the construct was subjected to component analysis using Promax rotation in order to investigate the data structure, this is when constructs are measured using multiple items, which reduces them to a small number of latent variables, allowing the data structure to be investigated. Some elements were eliminated throughout the factor analysis process, because they were either cross loaded onto multiple factors or did not load strongly enough into any. Cronbach’s alpha was used to assess the reliability of merging elements into a single latent variable. A minimum alpha value of 0.7 is deemed sufficient (Ekinici et al. 2023). Furthermore, when the Bartlett’s test of sphericity is significant, and the Kaiser-Meyer Olkin Measure of Sampling Adequacy (KMO) is more than 0.6, the factor extraction is considered successful.

The researchers complied with the issues of reliability, when gathering, analysing and interpreting data (Creswell, 2009). Pilot testing the questionnaire procedure reduced any possible inconsistencies and improved its reliability by ensuring it was not unduly lengthy or complicated to complete. The 31 pilot study respondents were excluded from the main research study. Internal consistency was tested using the Cronbach’s coefficient alpha (Govindasamy et al., 2024)

Results

Following a presentation of the data using tables and graphs, the findings were examined in accordance with the study goals. The final usable sample is detailed in Table 1 below.

Table 1. Biographical details of surveyed rural SMEs

Variables	Category	Frequency	Percentage
Location of SMEs	Bhekulwandle	63	20.4
	Kwangcolosi	63	20.4
	KwaXimba	66	21.4
	Umbumbulu	63	20.4
	Umdumezulu	54	17.4
How SMEs are owned	Owner and Manager	309	100.0
Years of operation	1 year or less	50	16.2
	1–2 years	82	26.5

(Continued)

Table 1. (Continued)

Variables	Category	Frequency	Percentage
	3–5 years	65	21.0
	6–8 years	53	17.2
	More than 10 years	59	19.1
Types of businesses	Agriculture	20	6.5
	Mining	16	5.2
	Construction	69	22.3
	Wholesale/retail	36	11.7
	Financial services	31	10.0
	Manufacturing	28	9.1
	Motor trade	19	6.1
	Communication	33	10.7
	Personal services	20	6.5
	Catering	37	11.9

Among the respondents in the specified rural regions, the KwaXimba area accounted for the largest percentage with 66 (21.4%), followed by Bhekulwandle, Kwangcolosi, and Umbumbulu at 63 (20.4%), and Umdumezulu with 54 (17.5%) respondents. All respondents, or the 309 (100%) SMEs that responded, oversaw their businesses as owners-managers and sole proprietors. In terms of how long SMEs have been in business, 65 (21.0%) have been in business for 3–5 years, while the majority—82 or 26.5%—have been in business for 1–2 years. Most SMEs—69, or 22.3%—were in the construction sector, followed by the catering industry—37, or 11.9%—and wholesale/retail enterprises—36 or 11.7, while 33 or 10.7% provided communication services, 31 (10%) offered financial services, and 28 (9.1%) were in the manufacturing sector. The biographical information of participants supplied the contextual knowledge needed to understand specific social, cultural, or interacting situations.

A one-sample t-test was employed to assess whether the rural entrepreneurs agreed or disagreed with five items pertaining to the effect of government restrictions towards rural EO on a scale of 5. Details of the extracted factors are shown in Table 2 below.

Table 2. One sample t-test results: Government restrictions

Government restrictions	n	Mean	Standard deviation	t	df	p-value
Environmental regulations continue to be a barrier to business expansion.	309	4.35	.987	24.026	308	<.001
Regulations on governing/public procurement make it difficult for businesses to expand.	309	4.06	.826	22.456	308	<.001
Business growth is hampered by stringent government restrictions and licensing requirements.	309	4.06	1.081	17.263	308	<.001
Government policies make it difficult for us to expand our business.	309	4.29	1.000	22.706	308	<.001
Bureaucracy hampers business growth.	309	4.19	.985	21.186	308	<.001

There is significant agreement that: environmental regulations continue to be a barrier to business expansion; regulations on governing/public procurement make it difficult for businesses to expand; business growth is hampered by stringent government restrictions and licensing requirements; government policies make it difficult for SMEs to expand their businesses; and bureaucracy hampers business growth.

A one sample t-test was employed to assess whether the rural entrepreneurs agreed or disagreed with six items pertaining to financial challenges on a scale of 5 (Table 3).

Table 3. One sample t-test results: Financial challenges

Financial challenges	n	Mean	Standard deviation	t	df	p-value
Business plans are excessively expensive to prepare and have a negative impact on business growth.	309	4.31	1.302	17.695	308	<.001

(Continued)

Table 3. (Continued)

Financial challenges	n	Mean	Standard deviation	t	df	p-value
The amount of time it takes for a bank loan to be granted has an impact on business growth.	309	4.28	.770	29.265	308	<.001
Most banks refuse to lend to SMEs.	309	4.39	1.034	23.552	308	<.001
Bank bureaucracy prevents SMEs from obtaining loans.	309	3.96	.904	18.696	308	<.001
Business expansion is hampered by high collateral requirements.	309	4.14	.956	20.997	308	<.001
High-interest rates on loans have a negative impact on business growth.	309	4.04	1.193	15.255	308	<.001

Factor analysis with Promax rotation was applied to these 11 items measuring Government restrictions and financial challenges. Items H2 is dropped because it did not load strongly enough onto any factor while G4 and G5 were dropped because they cross loaded onto multiple factors. Two factors were extracted which account for 47.66% of the variance in the data. A Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) of .720 and a significant Bartlett’s test indicates that the data was adequate for successful and reliable extraction. Rotation converged in 3 iterations.

The extracted factors and the item loadings are summarised in Table 4 below:

Table 4. Government restrictions and financial challenges – data structure showing factor loadings

	Factor	
	1	2
H3 Most banks refuse to lend to SMEs.	.774	
H4 Bank bureaucracy prevents SMEs from obtaining loans.	.689	
H1 Business plans are excessively expensive to prepare and have a negative impact on business growth.	.675	
H5 Business expansion is hampered by high collateral requirements.	.657	
H6 High-interest rates on loans have a negative impact on business growth.	.478	
G2 Regulations on governing/public procurement make it difficult for businesses to expand.		.784
G3 Business growth is hampered by stringent government restrictions and licensing requirements.		.644
G1 Environmental regulations continue to be a barrier to business expansion.		.633

Details of the extracted factors are shown Table 5.

Table 5. Extracted factors: Government restrictions and financial challenges

Factor	Construct	Items included	Variance extracted	Cronbach’s alpha
1	Financial challenges (FIN)	H1, H3-H6	32.5	.779
2	Government restrictions (GOV)	G1-G3	15.1	.709

The values achieved for Cronbach’s alpha indicate that there are good internal consistency and the composite variables formed by calculating the average of the agreement scores for all items included in the variable are reliable. Composite variables are formed for each factor by calculating the average of the agreement scores for all items included in a variable.

Table 6. One sample t-test results: composite variables

Sub-constructs	n	Mean	Standard deviation	t	df	p-value
Financial challenges (FIN)	309	4.1670	.79238	25.889	308	<.001
Government restrictions (GOV)	309	4.1553	.77173	26.316	308	<.001

There is a significant difference in agreement that government regulations affect business growth (GOV) depending on number of years in business, $F(4, 304) = 2.846, p = 0.024$. Tukey’s post hoc analysis shows agreement that Government restrictions negatively affect business growth is significantly higher for those in business for 1–2 years (4.3) than for those in business for 6–8 years (3.9), $p = 0.010$.

There is a significant difference in agreement that government regulations affect business growth depending on business location, $Welch(4, 147.225) = 12.525, p < 0.001$. Results from Games-Howell post hoc testing show agreement that Government restrictions negatively affect business growth is significantly higher in the

Kwangcolosi (mean = 4.4, $p < 0.001$), KwaXimba (mean = 4.3, $p < 0.001$) and Umdumezulu (mean = 4.2, $p = 0.041$) areas than in the Umbumbulu area (mean = 3.7).

There is a significant difference in agreement that financial challenges affect business growth depending on business location, Welch (4, 148.869) = 30.894, $p < 0.001$. Results from Games-Howell post hoc testing show that agreement that financial challenges negatively affect business growth is significantly higher in the Bhekhulwandle (mean = 4.3, $p < 0.001$) Kwangcolosi (mean = 4.5, $p < 0.001$), KwaXimba (mean = 4.4, $p < 0.001$) and Umdumezulu (mean = 4.4, $p < 0.001$) areas than in the Umbumbulu area (mean = 3.2).

Discussion

Since institutions evolve over time and significantly impact how differently the economy runs, the institutional framework and economic strength of a country are closely related (Chiengkul et al., 2023). Institutional environments in nascent economies are often less developed or less established (Ozen et al., 2023), while entrepreneurship can be more unexpected and costly in developing countries, because of underdeveloped institutions (Phillips et al., 2023). A clearly defined framework for law, the judicial system, government tenders, and trade, as well as commerce to motivate citizens to participate in marketplaces at reasonable costs, is crucial for promoting EO (Singh & Rassindren, 2023). Sound regulation, furthermore, promotes development of new markets and a free-market system or perfect competition, while a well-functioning legal framework facilitates execution of agreements (Hodgson, 2023). de Vries (2023) states reputable organisations can reduce trading risks, ambiguity, and transaction costs necessary for successful entrepreneurship. Emerging economies are, meanwhile, defined as “fast-growing and liberal economies” (Boettke & Candela, 2023b, p. 183), with a dynamic institutional environment at the aggregate level, due to their rapid growth that influences industrial environment and provides prospects to entrepreneurs to find and exploit business opportunities at individual level (Mousseau, 2023). Every aspect of EO is thus influenced by the entrepreneur’s assessment and engagement with the institutional environment of a nation (Smith & Lanivich, 2023), as well as the available resources (Michaelides & Papadakis, 2023), which serve as foundation for identifying potential opportunities that could develop into business ventures.

Entrepreneurs must adapt to the institutional context as they operate, which impacts EO traits, including risk tolerance, inventiveness, and proactive behaviour (Chhabra et al., 2023). National institutions can provide one nation a competitive advantage over another, creating an environment that promotes risk-taking and initiative among entrepreneurs (Halizah & Darmawan, 2023). Institutional settings may, however, be hostile and impose unnecessary rules, fundamentally changing the corporate environment, or fostering fierce rivalry between competitors (Clark et al., 2024). The concurrent existence of a poor institutional framework and fierce competition may, therefore, impact proactivity and risk tolerance of EO, as entrepreneurship has often been associated with a tendency for risk-taking (Kreiser et al., 2023). Compared to major corporations such as Multi-National Corporations/Enterprises (MNCs/MNEs) that benefit from institutional and regulatory limits brought about by monopolies, SMEs in emerging nations, however, benefit less than optimally from global economic breakthroughs (Abubakar, 2023). The study findings, which show SME owners-managers in rural KZN still have difficulty complying with institutional and environmental requirements, are positively correlated with this. In addition, unfair competition from lower production costs as a result of economies of scale in the formal sector is a major barrier for many rural SMEs, particularly traders and micro-manufacturers (Ng’ombe et al., 2023). The empirical survey results corroborate the difficulties in complying, as 86% respondents indicated government procurement laws hinder EO for rural KZN SMEs to survive and grow, and 80% respondents noted environmental regulations as a continued barrier to business expansion.

Winczorek and Muszynski (2023) claim an unfavourable fiscal or taxing framework with complicated laws and legislation can seriously hinder SME EO, survival, and expansion. The survey findings support this, with 81% respondents identifying strict government rules as a major barrier to rural SME growth, and 77% respondents agreeing strict government regulations and licensing requirements hinder their ability to survive and expand in rural KZN. Changwasha and Mutezo (2023) maintain rural KZN SMEs face substantial obstacles in developing operational and administrative procedures that adhere to public sector regulations. These include quick and costly procedures in transferring stocks, registering real estate, and acquiring licenses and permissions Dwikat et al. (2023). The survey findings show 82% respondents indicated bureaucracy also prevented rural KZN SMEs from expanding, surviving, and achieving their goals. As per the literature review, rural SMEs encounter considerable difficulties in EO, survival, and expansion, attributable to external finance scarcity, while also connected to a

higher probability of failure (Dwumah et al., 2024). Moreover, the size of a business affects their ability to secure finance, particularly in emerging and transitioning economies (Ogujiuba et al., 2023a). Expertise and collateral security are two other factors that influence funding availability (Mkansi & Nsakanda, 2023, p. 46). Since business registration is costly and non-registration avoids paying significant fees, many SMEs in developing countries operate as informal enterprises (Thatsarani et al., 2023).

When Gutierrez and Rodriguez-Lesmes (2023) compared the formal and informal business sectors in 13 different countries, they discovered the formal sector was more likely than the informal sector to have a bank account and a loan. For SMEs in SA rural areas, Moumbark and Koudalo (2023) found the two most popular financing options are bank loans and self-finance. Furthermore, according to the analysis reported in this article, 89% respondents said high business plan costs, used to convince lenders, kept them from launching their SMEs, whereas 86% respondents indicated bank loan authorisation time impacts business growth, directly related to 79% respondents specifying bank bureaucracy prevents loans to their rural SMEs. The findings provide more credence to most banks not considering SMEs when making loans to clients, revealing additional significant barriers to SME EO for survival and expansion in rural KZN, with 82% respondents stating these as high banking fees and loan interest rates, along with collateral requirements, supported by 74% respondents.

Theoretical and practical implications for SMEs

SME owners-managers as well as SA government agencies must be knowledgeable on the relevant theories for SMEs to grow and succeed, particularly those that operate in rural areas. It is imperative new theoretical insights on optimisation of social, economic, and environmental advantages of rural enterprises be developed and applied. In addition, it remains essential to address the dearth of theoretical frameworks and models critical to rural SME survival and growth in SA, particularly in rural KZN. This implies SME owners-managers should recognise the role they play in the country's economy and in helping achieve its goals for long-term prosperity. The growth of firms is hampered by several issues, such as limitations on government procurement, bureaucracy, and cumbersome institutional laws, where the expense, for example, in creating a business plan, prevents rural SMEs from obtaining bank financing, hindering expansion. The two biggest obstacles to SMEs' entrepreneurial drive are high loan interest rates and collateral requirements. To generate economic benefits that will sustain long-term growth, small business owners-managers must, therefore, equip themselves with the necessary knowledge in accounting, bookkeeping, budgeting, and financial management skills. Furthermore, as explained, different SME attributes affect their inclination towards EO and their capacity to promote sustainable development in rural KZN communities, while it was also demonstrated rural SMEs will collapse without government assistance and adequate funding.

Complicated and repressive policies and procedures destroy SMEs by encouraging excessive compliance expenses and other pointless formalities. Bureaucratic obstacles should be eliminated, business registration processes should be simplified, and many regulations should be made more transparent. Since anyone may quickly connect and obtain funds without having to be from a certain area, mobile payments, digital money, and other online financing options can promote financial inclusion. This can be accomplished by the government approving regulations on digital finance that will safeguard consumers and promote the sector's growth. A result of the nation's innovation-friendly laws is that the SA government can offer incentives to investors in SMEs. For example, it can reduce capital gains taxes, permit tax deductions for capital investments, or offer incentives for startup investment. These incentives have the potential to boost capital accessibility by encouraging both domestic and foreign investors to fund early-stage SMEs. A direct or indirect government investment in venture capital funds that target start-up businesses in one or more industries with significant growth potential is one of the tools that can be employed, in addition to lowering the risk involved with the initial investment, they can mobilise private finance and provide the necessary quantity for expansion. Authorities and other financial institutions must, in addition, implement credit guarantee schemes that lower loan risks and encourage banks to lend to small businesses, in order to increase the amount of capital available for startups in emerging markets. SMEs will be able to flourish and obtain investment when compliance barriers are reduced, and regulations simplified.

To reach as many SMEs as possible, mobile money and other digital financing services can serve as a remedy for the credit gap. To increase the appeal of funding to prospective private investors, governments must establish tax havens for both domestic and foreign investors. Additionally, entrepreneurs will receive training on financial management and funding sourcing in order to solve the deficiency in financial management abilities. By adding

alternative information sources to credit reporting systems, credit risk assessments can be improved, and credit services can be extended to new start-ups with little to no credit history. The goal of each of these recommendations is to create an atmosphere that supports and encourages microbusiness owners-managers and economic expansion.

Conclusion

Notwithstanding their potential, SMEs face many challenges in the rural KZN areas, mainly attributed to challenges regarding financing access and unfavourable institutional and regulatory frameworks. Respondents further affirmed onerous institutional regulations, bureaucracy, and licensing requirements impede rural business expansion. Considering crucial financial aspects, it was discovered creating a business plan is prohibitively expensive, preventing SMEs from obtaining bank financing, inhibiting their growth and discouraging EO. The time bank loans take to be approved and most banks outright refusing to lend money to rural SMEs out of mistrust, only serve to compound their financial difficulties. Moreover, high loan interest rates and collateral requirements are two main roadblocks to SME EO, needed to survive and expand in KZN rural areas., with support also required in matters of standard compliance, regulatory and accreditation requirements, networking, and workshops, as well as skills-training, access to raw materials, and integration with MNEs.

SMEs must accomplish their objective of improving financing accessibility through context-appropriate policy measures, particularly in emerging economies. Enhancing financial accessibility and reducing funding barriers to assist the expansion of entrepreneurial endeavours are two benefits of government interventions. To create a favourable environment for SMEs to thrive, authorities must simplify the regulatory environment by eliminating the obstacles in tax laws, investment policies, compliance rules, and regulations governing SME registration. Entrepreneurial training and certification should be a top focus for owners-managers of rural SMEs. This implies certain entrepreneurship concepts and practices require specialized understanding. As an example, promoting and publicizing different entrepreneurship strategies with an emphasis on remote communities; key factors driving EO; entrepreneurial partnerships; entrepreneurship conferences and financial literacy workshops; and more creative business models based in rural areas. To include a rural SME monitoring mechanism, officials at all levels of government should reevaluate the general framework of the local prosperity recommendations. Through rural governments, this would enable the authorities to monitor and evaluate SMEs throughout all regions, with a particular emphasis on rural areas. In order to strengthen the rural economy and start striking a balance between promoting rural community and local government development, this study also suggests public-private partnerships be encouraged, in addition to motivating SMEs to operate and invest in rural areas, which will encourage bright young individuals to stay and start their businesses in the same rural communities where they were born.

The study is not without limitations. Only five rural communities in the KZN province were included in the study; no other rural areas were involved. Therefore, it is inappropriate to extrapolate the results to other rural communities within the province. More research with a larger sample size is recommended, and caution should be used when extrapolating the results, considering this was a small-scale, exploratory, quantitative study. The closed-ended, structured questionnaire utilised in this study prevented participants from sharing more regarding their opinions of the institutional and financial limitations affecting their business's EO, survival, and expansion.

Declarations

Interdisciplinary Scope: This study analyses the significance of institutional and financial factors for EO among rural SMEs in the KZN province of South Africa. It examines the connection of EO with firm performance, highlighting the many challenges in rural KZN areas, mainly attributed to challenges regarding financing access and adverse institutional and regulatory frameworks. By examining crucial financial aspects, the research underscores the need to create a favourable environment for rural SMEs to thrive.

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