CHALLENGES OF FINANCING SMALL AND MEDIUM ENTERPRISES' GROWTH THROUGH PUBLIC EQUITY IN SOUTH AFRICA

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ABSTRACT

The article establishes why small and medium enterprises (SMEs) are not listing on the Johannesburg Stock Exchange to raise the much-needed capital to grow. Financing at this stage should transform the firm from small or medium sized to large.

Literature from journals, books, theses and dissertations was reviewed and content generated to crystallise the research question and findings.

SMEs undergoing rapid growth often lack the capital required to grow into large firms. The Johannesburg Stock Exchange offers capital worth millions of dollars on the Alternative Exchange (AltX) platform, created specifically for SMEs, but the uptake is low. The study found that challenges exist on both the supply and demand sides of public equity finance, and these include high listing costs, lack of marketing and the negative attitude of SMEs towards the bourse.

The stock market should package their offering to SMEs at the adolescence growth stage better to entice more of them to list. An understanding of the factors that inhibit listing may contribute to making it easier for more SMEs to access funding and for the bourse to grow.

There are limited studies on this form of SME financing and this study contributes to the pool of literature on the subject.

Keywords: SME Growth, Finance, Public Equity, Alternative Exchange (AltX).

INTRODUCTION

Since the 1950s, there has been attempts by various scholars to explain the growth phenomena of firms (Penrose, 1952). The use of the biological metaphor of a life cycle, where a firm's life is likened to a biological organism characterised by birth, youth, maturity, old age and death has gained credence. This study focusses on the adolescence phase located within the youth stage of the life cycle. It is at this stage that the small and medium enterprise (SME) has the potential to grow to a large sized firm. At this adolescence stage, rapid growth and expansion of the firm is expected (Churchill & Lewis, 1983; Hanks, 1990). Indicators of this growth could include revenue volume, employment and number of business partners (Matejun, 2013).

Funding, amongst other issues, is critical at the adolescence growth stage (Churchill & Lewis, 1983; Scott & Bruce, 1987; Hanks, 1990; Lester et al., 2003; Matejun, 2013) and forms the primary resource for growth (Brown et al., 2017). According to Ross, Westerfield & Jordan (2003); at this growth stage, enterprises can either use internal capital or obtain external capital using debt and/or equity. The availability of public equity as a vehicle to finance growth and the up take thereof is the focus of this study.

In South Africa, the Johannesburg Stock Exchange (JSE) established the AltX (Alternative Exchange) in 2003 as a platform for SMEs to raise capital through public equity. The potential benefits would include increased credibility and visibility of the firm (Wehinger & Nassr, 2015); lower failure rate (Gupta & Gregoriou, 2017); better employees (JSE, 2019); and growth to the mainboard (Cleary et al., 2017; JSE, 2019; Van Heerden, 2015). Oftentimes, SMEs undergoing rapid growth lack the capital required to grow into large firms. The Stock Exchange offers capital worth billions of dollars (Harwood & Konidaris, 2015), but there are only 42 SMEs listed on the AltX, out of 86 000 SMEs in South Africa (Small Business Institute [SBI] 2018). The question is, why do SMEs in the growth stage not utilise available public equity for their growth? Could it be that, the funding is available, but not accessible? This is indicative of challenges that possibly exist on the supply and demand sides of public equity financing. These hinder SMEs to list on the Stock Exchange and raise the much needed capital to grow. Data on SME access to finance in South Africa is limited (Finfind, 2017). Although there are a number of previous studies on access to finance in South Africa (for example, Finfind, 2017; Fatoki & Garwe, 2010; Makina et al., 2016; Banking Association of South Africa (BASA), 2018; Serame, 2019); these pertain more to loan financing and not public equity financing. The few studies on SME public equity financing (not necessarily South African) include Wehinger & Nassr, (2015); Abor (2007); Van Heerden (2015); Zvendi (2015). This study draws on these latter studies to establish what these challenges are, to enable the Johannesburg Stock Market to better package their offering to entice more SMEs at adolescence growth stage to list. If more of them list and grow, benefits are expected to accrue to the economy. As pointed out by Wehinger & Nassr (2015); the development of this market segment could promote investment in SMEs and together with securitisation and other non-bank debt financing instruments, encourage an enhanced allocation of risk and risk taking, and thus support growth.

The study first discusses the growth of a firm, then financing growth through public equity, with a focus on the supply and demand challenges of public equity finance. Findings and recommendations are presented before concluding.

METHODOLOGY

This paper is based solely on literature. The source of the literature reviewed was databases such as Researchgate, Emerald, Elsevier and Google Scholar. The search engines were identified as highly regarded in academic circles. The key search words included small business, SME growth, growth stage models, SME finance, public equity and AltX. Articles, journals and books that focussed mainly on financing SME growth as well as Alternative Stock Exchanges were chosen. However, it should be noted that there was limited literature, especially of a scholarly nature, whose focus was the JSE Alternative Exchange (AltX). Furthermore, the sub topics/themes of the study were compiled from the work of authors and scholars who have done extensive work on growth stage models, for example, Churchill & Lewis (1983); Scott & Bruce (1987); Hanks (1990); Lester et al. (2003); Matejun (2013); Wehinger & Nassr (2015) who studied SME public equity financing. Other older and recent sources were consulted in the compilation of the article.

LITERATURE REVIEW

The literature review is in three sections; the growth of SMEs, then financing the growth of SMEs using public equity and finally the gaps between the supply and demand sides of public equity finance.

Growth of SMEs

There are over one hundred growth stage models available, which differ in the number of stages, names, and how a firm migrates from one stage to the other. However, regardless of the number of stages or names assigned to each stage, the models have a considerable amount of commonality among them (Hanks, 1990; Lester et al., 2003). Most use the biological metaphor of a life cycle to explain the growth of firms, characterised by birth, youth and death (Penrose, 1952; Lester et al., 2003; Gupta, Guha & Krishnaswami, 2013). In summary, the models reveal the following:

Birth Stage

The stage has various labels in different models such as, Existence (Churchill & Lewis, 1983; Lester et al., 2003), Inception (Scott & Bruce, 1987) and Start-up (Hanks, 1990). This is the stage that an entrepreneur identifies a need in a market, sufficient number of customers and forms a business to serve this market (Hanks, 1990). Challenges faced include limited skills and competences in management and entrepreneurial attitudes. However, the most significant challenge faced is start-up capital (Churchill & Lewis, 1983; Matejun, 2013) to invest in plant and machinery and working capital (Hanks, 1990). Once the SME overcomes these challenges, it moves into the Youth Stage.

Youth Stage

There are various phases within the Youth stage depending on which model is used. These are (a) Survival/ Expansion, (b) Success/ Growth and finally (c) Take-off/Dynamic growth/Separation and Expansion. The focus of this study is on the last phase, the *Take-off/ Dynamic growth/Separation and Expansion phase.* At this point, the SME has achieved financial health, has sufficient size and earns average or above average profits (Churchill & Lewis, 1983), but desires to grow even more. It is a stage whereby rapid growth and expansion of the firm is expected (Churchill & Lewis, 1983; Hanks, 1990) with characteristics of rapid increases in quantitative growth indicators such as revenue volume, employment and number of business partners (Matejun, 2013). The stage is likened to human adolescence, in which a child transforms into an adult (Sawyer et al., 2018). This stage in the human growth process consists of growth spurts, biological growth and development, brain growth (Sawyer et al., 2018) and rapid growth in height (Cole et al., 2015). Similarly, it is stated in literature that the Take-off/Dynamic growth/Separation and Expansion stage is a stage of rapid growth. Since biological metaphors are already used to explain the growth of firms, the authors will name the stage on which this study will focus on, the "adolescence" growth stage of the firm. This is adopted to differentiate it from the other stages within the Youth stage as well as to have one common name to use.

Churchill & Lewis (1983) point out that the key issue in this phase is how to finance the rapid growth. They further explain that not only is capital for the growth required, but also cash flow to keep the business running and profitable (Churchill & Lewis, 1983). Scott & Bruce (1987) mention two key issues at this stage namely financing growth and maintaining control. In terms of financing growth, they emphasize the importance and necessity of long term funds such as debt and equity partners. They also point out that dividends may be necessary to lure in investors. This then suggests that listing on the Stock Exchange or obtaining private equity may be necessary at this stage. Hanks (1990) adds that major capital investments are required to develop the capacity to produce in large volumes. There is need for the business to generate enough revenue to continue operations as well as financing sufficient growth to stay competitive (Lester et al., 2003). Expansion capital may be needed for additional equipment, material inputs, expanded distribution networks and skilled labour. Matejun (2013) adds that at this point, there might be investors who want to support the firm with growth capital, enabling it to move from SME to large firm status. The question becomes, will the firm and investors be able to find each other? Will this be on a private or public equity market? Discussions and studies on public equity markets for small and medium businesses is very limited, especially in South Africa.

It is further noted in the models of Churchill & Lewis (1983); Lester et al. (2003) that this is a pivotal period in a company's life because if the owner rises to the challenge of growing the business, it could become a large company. However, too often, the owner fails to grow the business at this stage because he/she either fails to access the amount of capital required to grow the business and/or tries to grow the business too fast and runs out of money (Churchill & Lewis, 1983) and/or the firm fails to generate sufficient revenue to survive (Lester et al., 2003). The business then fails to enter the next stage of growth (Churchill & Lewis, 1983) namely Maturity.

Maturity

This stage is referred to as Resource Maturity (Churchill & Lewis, 1983) or Consolidation (Hanks, 1990) or Success (Lester et al., 2003), where the business is large (Hanks, 1990; Lester et al., 2003). This is the stage where "*The business has arrived*" and "*It is a formidable force in the market*" (Churchill & Lewis, 1983). It has the advantage of size as well as financial and human resources (Churchill & Lewis, 1983). This stage is characterised by a consolidation of all the financial gains brought on by growth, expansion of the management force, minimisation of inefficiencies that growth can produce (Lester et al., 2003) as well as the professionalization of the company (Churchill & Lewis, 1983). This is a low growth stage as focus turns away from growth to profitability, as well as process efficiencies (Hanks, 1990).

The focus of this study is on the growth of the firm from adolescence to Maturity. The key issue that inhibits this growth highlighted in the literature is finances. How can this finance be accessed at the adolescence stage?

Financing the adolescence growth stage through public equity

According to Ross et al. (2003) SMEs can either use internal capital or obtain external capital by borrowing (debt financing) or selling a portion of the business (equity financing). Although at this stage of growth, finances can be obtained from retained earnings, banks, venture capitalists as well as crowd funding platforms, the focus of this study is public equity. Public equity is referred to as capital raised when the shares of a private company become available to the public on the stock market (Harvey, 2016).

Access to equity markets has been made easier in many countries through the establishment of an Alternative Exchange which caters specifically to SMEs such as AIM in UK, MOTHERS in Japan, BSE SME in India, ChiNext in China and JSE AltX in South Africa (Inamdar, 2016). These have lower listing requirements and provide a platform for SMEs in the growth phase to access capital for expansion (McNeil, 2017). In South Africa, the Johannesburg Stock Exchange (JSE) established the AltX (Alternative Exchange) in 2003. The platform is meant for smaller companies to raise growth capital, improve their profile as well as widen their investor base (JSE, 2019). Amongst other benefits, access to equity markets has allowed many SMEs to obtain the capital required to grow either organically or through acquisitions (McNeil, 2017).

Listing on AltX and growth of firm

Since inception in 2003, there are firms that newly listed on the AltX, firms that subsequently delisted and firms that have migrated to the Mainboard. In total, on AltX's 10th anniversary, there were 89 listings and 23 migrations to the Mainboard.

Nicole Cheyne, the client relationship manager at AltX, stated that "*Many companies like Rockcastle and Curro have migrated from AltX to the JSE's Mainboard and immediately became mid-cap companies due to the phenomenal growth they were able to achieve through their initial AltX listings*" (JSE, n.d.). In other words, the firms have grown to meet the substantially higher requirements of the mainboard listing, which include a subscribed capital of R25 million compared to R2 million at AltX. The migration means that a firm is able to move from the adolescence stage to the maturity stage due to having raised sufficient capital to grow on the AltX. All stage growth models reviewed in this study (Churchill & Lewis, 1983; Scott & Bruce, 1987; Hanks, 1990; Lester et al., 2003; Matejun, 2013) mention the need to finance rapid growth at the adolescence stage. In particular, Scott & Bruce (1987) emphasize the importance and necessity of long-term funds at this stage such as debt and equity partners. They explain that dividends may be necessary to lure in investors to finance this rapid growth. Therefore, listing to raise capital may have a positive impact on the growth of a firm, enabling its move to maturity stage by migrating from AltX to the Mainboard.

Benefits of listing

The benefits of listing are numerous and some are briefly discussed next.

Growth and risk capital availability - The amount of capital available on this platform has been shown to be in the billions of Rands, R23 Billion (Harwood & Konidaris, 2015). There is, therefore capital for financing growth of small and medium firms.

Credibility-Wehinger & Nassr (2015) reported that firms that list on these exchanges enjoy increased visibility, credibility and better management systems due to public accountability amongst other things. Furthermore, a listing increases the status of a firm which gives other stakeholders such as banks and other investors, confidence as they know that the financial information and actions will be subject to the strict requirements of the JSE (JSE, 2019). The JSE (2019) adds that listing gives the firm a wider shareholder base and broadens its exposure. Therefore, a firm gains credibility in the eyes of its clients and investors by being listed on the stock exchange.

Lower failure rate-Gupta & Gregoriou (2017) observed that SMEs listed on the Stock Exchange have lower likelihood of failure and lower likelihood of financial distress and bankruptcy than their unlisted counterparts. Therefore, these firms are unlikely to fall back to the survival stage or diminish as predicted by Churchill & Lewis (1983). Listing will enable the company to attract and maintain good employees (JSE 2019), thereby likely improving its performance.

Growth to the next stage Maturity- SMEs list on the Stock Exchange for various reasons, however, the most common one, is to position the firm for growth (Cleary et al., 2017). Growth on the Stock Exchange means migrating from the SME Exchange (AltX) to the Mainboard. The JSE AltX has the highest migration rate from AltX to the Mainboard compared to its peers (JSE, n.d.). Aggarwal & Thomas (2017) found that listing of SMEs on the Stock Exchange improves their asset size and capital structure relative to their unlisted counterparts, implying that listing promotes growth of the SME.

SMEs and the AltX

In 2009, there were 76 SMEs listed on the Alternative Exchange. By the end of 2019, this number had deteriorated to 42 (JSE, 2019). The Small Business Institute has estimated that there are 86 000 SMEs in South Africa (Small Business Institute [SBI], 2018). This means that only 0.05% of SME are listed on the AltX. Comparatively, the Mainboard had 317 firms listed by the end of 2019. There are 5 700 large enterprises in South Africa (Small Business Institute [SBI], 2018). This means that 6% of large firms in South Africa are listed on the JSE.

The growth models show that the need for capital is more prevalent when the firm is growing from Take-Off to Maturity (Churchill & Lewis, 1983; Scott & Bruce, 1987; Hanks, 1990; Lester et al., 2003; Matejun, 2013), than when the firm has already reached Maturity (Churchill & Lewis, 1983). It would therefore, be desirable for a higher percentage of SMEs to be listed on the AltX compared to the big companies on the Mainboard. This would possibly have a double impact of ensuring the financing of SME growth, and increase the number of candidates to graduate to the main bourse.

However, despite their need for capital as well as the benefits listed above, there is a significant number of SMEs not using public equity or listing on the AltX platform, even though there are billions of Rands available. This state of affairs may be indicative of what, Wehinger & Nassr (2015) refer to as the challenges present on the supply and demand sides of public equity that inhibit SMEs at the growth stage from listing. This is the problem that this research is seized with. There is abundant studies confirming the difficulties of SMEs accessing finance, especially loan finance. If this form of finance is not easily available, why do these firms not go for public equity, which is readily available and not fully utilised? Does this mean that this financing platform is also not easily accessible? These challenges of availability and accessibility are analysed next.

Challenges on the Supply and Demand Side of Public Equity

Challenges exist on both the supply and the demand sides. The former is analysed first.

Challenges on the supply side

The challenges include, (1) listing requirements, procedures and regulations, (2) the cost of listing and compliance and (3) lack of marketing/awareness.

Listing requirements, procedures and regulations –Table 1 shows the listing requirements for both Mainboard and AltX.

Table 1
LISTING REQUIREMENTS ON THE JSE (JSE, 2019, Harvey, 2016)

REQUIREMENT	MAIN BOARD	ALTX
Share Capital	R25 million	R2 million
Profit History	3 years	3 years if the firm can’t produce a profit forecast for the remainder of the financial year during which it will list
Pre-tax forecast profit	R15 million	N/A
Shareholder spread	20%	10%
Number of shareholders	500	100
Sponsor	Sponsor	Designated Adviser
Publication of financial results in press	Compulsory	Voluntary
Number of transaction categories	3	2
Special requirement	N/A	Financial Director
Educational requirements	N/A	All Directors to attend Director Induction Programme

Table 1, shows that the listing requirements for AltX are considerably lower and less stringent than the Mainboard. However, listing requirements on Alternative Exchanges around the world may still be too stringent and too broad for the large spectrum of SMEs (Inamdar, 2016; Wehinger & Nassr, 2015). Inamdar, (2016) indicated that the first two SME exchanges in India failed due to stringent listing regulations. The success of their third attempt was due to simple and low listing procedures amongst other things (Inamdar, 2016). Quartey, Turkson, Abor & Iddrisu, (2017) who conducted a study on West African countries added that SMEs are unable to access equity markets because of the stringent eligibility criteria. Zvendi (2015) found that Nigeria has the most stringent rules for SMEs to list such as audit results of less than nine months and the need to submit a comprehensive business plan. This then suggests that even though the listing requirements, are lower on the AltX, they may still negatively affect the ability of an SME to list.

On the contrary, the London based AIM is alluded to be one of the most successful Alternative Exchange in the world (Zvendi, 2015; London Stock Exchange, 2020) with 863 companies listed (as at December 2019) and £9 billion worth of growth capital raised since launch (London Stock Exchange, 2020). Surprisingly, AIM has flexible and balanced regulatory requirements such as no minimum company size, no trading records and no minimum capital required (Zvendi, 2015). He adds that while South Africa requires 10% of the company’s shares to be in the hands of the public, AIM has no such prescription. This may suggest that lowering the regulatory requirements may lead to a more successful AltX by enabling SMEs to list at lower stock exchange requirements. However, Harwood & Konidaris (2015) mention that although regulatory requirements may be an issue, they cannot simply be reduced to become attractive to the SMEs. They warn that lowering these regulations can reduce investor confidence and protection. This may result in a situation where SMEs queue for equity which will not be available (investor flight) due to lack of investor confidence. Investor confidence is key in a capital market.

Nevertheless, learning from the success of AIM, would lowering listing requirements encourage SMEs to list? Are the listing requirements on AltX too high and therefore discouraging SMEs from listing?

Cost of listing and compliance - Even though the cost of listing is lower than the Mainboard, it is still discouragingly high especially for smaller firms in the SME category (Harwood & Konidaris, 2015; Wehinger & Nassr, 2015). Wehinger & Nassr (2015) emphasize that cost of listing is the largest impediment for SMEs. Ross et al. (2003) give an example of Multiform which raised $7.15 million in public equity but ended up only keeping less than $6 million after expenses. Some companies like 4sight which underwent the listing process on AltX in October 2017, stated that "*A portion of the funds will be used to settle costs associated with the capital raising as the majority of the costs associated with listing have been settled at the date of the Prospectus*" (4Sight, 2017). This statement demonstrates that it is costly for SMEs to list on the exchange. Therefore, it may be possible that firms are not listing on the AltX because the costs are too high. On the contrary, the JSE (2019) states that its listing costs are "extremely" low compared to international standards. According to Section 17 of the JSE listing requirements, the following fees are required from the SME as per the JSE Limited 2019 Price List:

Table 2
LISTING AND OTHER FEES OF SECURITIES ON THE JSE (JSE, 2019)
(R1 = $16, approximate in the past 3 years)

	Fee (including VAT)	
	Mainboard	**AltX**
Initial Listing Fees	R8 340 for market capitalisation not exceeding R2.5 mil	R1250 for monetary value of securities not exceeding R2 million
Annual listing fees	R47 700	R35 600
Documentation Fees	R93 000	R93 000
Sponsor Fees	R60 000 plus 36 000 for annual review	R60 000 plus 36 000 for annual review
Fees applicable to auditors and their advisors	R29 000 plus R20 000 for annual review	R29 000 plus R20 000 for annual review

Table 2, shows that the amount for listing is approximately R185 000 on AltX. This excludes the recurring annual fees to remain listed which is approximately R100 000. However, compared to other stock exchanges, the listing fees of the JSE AltX are low. For example, the initial listing fee (although there are other applicable fees at listing) on AltX is R1250. The initial listing fee on India's Alternative Exchange (BSESME) is 20 000RS (BSEIndia, 2019), which equates to R4000. The initial listing fees on the Japanese Alternative Exchange Mothers is JPY 1 million (JPX, 2019) which equates to R138 000, while on AIM, the fees are R219 000.

Nevertheless, Harwood & Konidaris (2015) conclude that initial costs on the alternative stock exchanges should be reduced (without affecting the prudential need of the investor) because SMEs in emerging markets are relatively smaller. Some firms still list at these costs as they conclude that the long term rewards will off-set these initial costs (Harvey, 2016). Even though costs are high in some countries, AIM is still successful without reducing costs for the issuer (Harwood & Konidaris, 2015). This might be because the SMEs that list on AIM have higher average market capitalisation than in South Africa and are able to afford these listing costs.

Even though the costs of the JSE are lower than other stock exchanges, these costs may still be too high for the average SME in South Africa. The average company on the AltX has a market capitalisation of R190 million (Tlhwaele, 2019). This is indeed the higher end of the medium firms which can clearly afford listing fees of R185 000. For the lower market SME capitalisation, these costs could be considered high. If this is the case, is the high cost inhibiting SMEs to list and obtain the much-needed capital to grow?

Lack of marketing/awareness -Wehinger & Nassr (2015) reported that the educational gap of SMEs to equity financing is the reason why they do not list on these exchanges. They further state that this leads to loss of confidence on the part of the SME, making them reluctant to go through the listing process. In India, two Alternative Exchanges failed before the success of the current third one. From the lessons learned, Inamdar (2016) states that lack of marketing efforts amongst investors, institutions as well as SMEs was one of the reasons the previous exchanges failed.

The JSE has a mandatory Director Induction Programme. This is a programme where SMEs are taught listing requirements and investor relationships (Harwood & Konidaris, 2015). However, this training seems to occur once the SME has shown interest. There is no evidence that the JSE has any outreach programmes to attract SMEs. India, on the other hand has roadshows and marketing programmes to attract SMEs while Brazil has outreach programmes with industry and business associations that approach companies countrywide (Harwood & Konidaris, 2015). However, despite this, Brazil attracts on average, 2 new listings per annum. This may suggest that the lack of marketing awareness about the AltX is not a significant reason why SMEs do not list. Nigeria, the same as South Africa, has Designated Advisories (DA), however, unlike in South Africa, the Nigerian DAs actually approach SMEs to educate them on the importance of listing (Zvendi, 2015). Zvendi (2015) further mentions that China established the Institute of Technical Information of China as well as the Supported and Consultative Center for SMEs where information and seminars and access to electronic databases is free and as a result, obtain 80 new listings on average per annum (Harwood & Konidaris, 2015; Inamdar, 2016). Zidana (2015) states that the lack of publicity has led to zero SME listings on the Malawi Stock Exchange. The results from the different markets seem mixed. Is this an indication of the insignificance of marketing/awareness of the AltX to SMEs?

Challenges on the demand side

The Theory of Planned Behaviour (Ajzen, 1991) was used by Espel et al. (2009) to analyse SME financing behaviour. Their study focused on the SME owner manager's perspective when evaluating their use of private equity. The same theory was applied in this study to explain the demand side perspective in evaluating the use of public equity for the business. The theory states that a specific behaviour depends on the intention to perform this behaviour (Espel et al., 2009; Pengfei et al., 2016). In other words, financing one's business with public equity depends on the intention to do so. This theory has three constructs to explain SME behaviour towards public equity; attitude, social norm and perceived behavioural control (Ajzen, 1991; Espel et al., 2009).

Attitude-Espel et al., (2009) explain that this construct is driven by aspects such as perceived value addition of public equity and the negative attitude of perceived loss of control of the firm.

Perceived loss of control -Wehinger & Nassr (2015) state that SME owners who do not wish to relinquish any share of ownership or control of their business, will not list on the public market, especially family owned businesses. This is because once a company goes public, it is required to have a Board of Directors who then make decisions in the interest of the shareholders (Harvey, 2016). Abor (2007) had previously stated that companies prefer debt over equity because they do not want to lose control of their company. Damodaran (2011) indicates that shareholders have the power to replace managers whom they feel are not maximising their wealth, either directly (through annual meetings) or indirectly (through Board Members). It is through Board Members that Steve Jobs was fired from the same company he founded. It can be concluded that avoiding relinquishing control of their companies may be the reason why SMEs are reluctant to list.

Furthermore, Wehinger & Nassr (2015) mentioned that some companies felt that the minimum amount of ownership required by the stock exchange was unacceptable to them. South Africa requires a minimum of 10% of the company's shares to be in the hands of the public, Nigeria 15%, Kenya 20%, India 25% and Zimbabwe is proposing 30% (Zvendi, 2015). Even though a shareholder stake of 10%-30% may be considered too high to give up, these amounts are hardly controlling stakes in a firm. In other words, a firm owner would not lose control of the firm by giving up 10% or 30% of its shares. AIM has no minimum prescription on the number of shares that should be in public hands, (Zvendi, 2015). Perhaps this attracts SMEs to list on the AIM exchange. Therefore, the minimum prescribed shareholder stake may be a hindrance to SMEs listing on the exchange. The view might be that they do not want to lose control of the firm to public/shareholders. Learning from AIM, should minimum shareholder stake not be prescribed? And if so, would this encourage SMEs to list?

Social Norm-According to Espel et al. (2009) this construct explains the influence of external and internal financial decision makers of the firm. They point out that if decision makers are involved and have a positive attitude towards public equity, then the SME is more likely to use public equity. Translated into this study, This then imply that external and internal decision makers have to be involved and must have a positive attitude towards public equity for the SME to list.

External decision makers include investors and the general public of the country. Those who are already investing in the JSE might have a negative perspective towards the AltX because of concerns such as low liquidity. Harwood & Konidaris (2015) reveal that the liquidity ratio on AltX is 13% compared to 39% on the Mainboard. They add that investors need sufficient liquidity to know they can exit from the investment should the need arise. Wehinger & Nassr (2015) point out that because of low liquidity, it may take investors years before they can sell their holdings in a company and this deters them from investing in these markets. Wehinger & Nassr (2015) add that institutional investors normally look for larger trades while the Alternative Exchange only provides small size offerings. Potential investors may therefore have size and liquidity restrictions on their investments (Harwood & Konidaris, 2015; Zidana, 2015). Nevertheless, the JSE has prescribed a minimum number of shareholders to ensure "reasonable" liquidity (JSE, 2019), as somehow, liquidity is linked to numbers of shareholders to ensure a sufficient amount of buying and selling (London Stock Exchange, 2020). The issue becomes; how does ensuring "*Reasonable*" size and liquidity levels (mainly on favour of investors), impact the bourse's accessibility conditions for SMEs? Does this favour the demand or supply side or is an equitable balance achievable? The answer may only come from the market participants themselves.

Perceived Behavioural Control - Espel et al. (2009) note the level of understanding SME owners and managers possess regarding equity (management skills and education) as an important factor. They list perceived access of equity as another factor that plays an important role in this construct. When an SME at adolescence growth stage considers listing on AltX, there are several listing requirements that must be adhered to as shown in Table 1. It has been noted that these requirements may still be too high, stringent and too broad for the large spectrum of SMEs (Inamdar, 2016; Wehinger & Nassr, 2015). For example, having 100 shareholders for an SME is not common. According to Zvendi (2015); the success of AIM is due to flexible regulations tailored for SMEs, such as no minimum company size. AIM accommodates companies from a market capitalisation of zero (£0) million, (London Stock Exchange, 2020), meaning any SME can list. This therefore opens up the pool of potential companies that can list.

It is further noted that even though the listing costs on AltX are lower than the Mainboard, they are still discouragingly high especially for smaller firms in the SME category (Harwood & Konidaris, 2015; Wehinger & Nassr, 2015). It may be that SMEs perceive the AltX to be inaccessible, and therefore a hindrance to listing.

FINDINGS AND DISCUSSION

The aim of the study was to assess the challenges of financing SME growth through public equity in South Africa. This was done through an analysis of the demand side (adolescent SMEs) and the supply side (JSE and ALTX) in particular and other exchanges in general. The purpose was to find common ground between both sides of public equity, to enable SMEs to list and raise the much-needed capital for growth. The findings are summarised in Table 3.

TABLE 3
CHALLENGES FOR SMEs TO LIST ON AltX AND THE POSSIBLE EFFECTS ON LISTING

Challenges for SMEs to list on the AltX	Possible effect on listing
Supply side	
1. Listing requirements, procedures and regulations may be too stringent for SMEs (Inamdar, 2016; Wehinger & Nassr, 2015; Quartey et al., 2017).	1. This challenge may be hindering listing. Less stringent listing requirements may encourage listing (Zvendi, 2015).
2. Cost of listing and compliance may be too high (Harwood & Konidaris, 2015; Wehinger & Nassr, 2015; Harvey, 2016; Ross et al., 2003).	2. This challenge may be hindering listing as it is in the range of R185 000 on AltX with an additional amount of R100 000 per annum to maintain listing.
3. There may be lack of marketing/awareness on the part of the Stock Exchange (Wehinger & Nassr, 2015; Inamdar, 2016; Zvendi, 2015; Zidana, 2015)	3. This challenge may not be hindering listing. Increasing marketing/awareness may not necessarily encourage SMEs to list. Both Brazil and China have good marketing however, Brazil only attract 2 new listings per annum on average compared to 80 in China (Harwood & Konidaris, 2015; Inamdar, 2016).
Demand side	
1. SMEs may be viewing listing on the Stock Exchange as relinquishing share ownership or losing control of their business (Wehinger & Nassr, 2015; Harvey, 2016, Abor, 2007; Zvendi, 2015).	1. This challenge may be hindering listing. Reducing the minimum prescribed shareholder stake may encourage SMEs to list. AIM has no minimum shareholder prescription and is successful (Zvendi, 2015).
2. SMEs may not be listing due to the negative perspective of investors about the liquidity of AltX (Wehinger & Nassr, 2015; Harwood & Konidaris, 2015).	2. This challenge may be hindering listing. However, the JSE claims to ensure "reasonable" liquidity by prescribing 10% shareholder spread (JSE, 2019) and thereby enabling sufficient buying and selling of shares.
3. Perceived access to the stock market – SME may be perceiving AltX as inaccessible due to the high listing requirements and costs (Wehinger & Nassr, 2015; Harwood & Konidaris, 2015).	3. This challenge may be hindering listing. Flexible listing requirements such as those of AIM enable SMEs to have access to the stock exchange and therefore encourage SMEs to list (Zvendi, 2015).

As shown in Table 3, there are challenges on both the supply and demand side of public equity that inhibit SMEs from listing. Listing requirements are still considered too stringent for SMEs (Inamdar, 2016; Wehinger & Nassr, 2015; Quartey et al., 2017). To attract listing, AltX could possibly lower some of the listing requirements such as the amount of equity that should be in the hands of the public. This particular requirement, which is 10% on AltX, seems to have a negative effect in that the SME perceive this as loss of control of the firm to the public. However, the JSE has set such a high shareholder spread to ensure liquidity and not deter investors (Wehinger & Nassr, 2015). Therefore, a balanced set of listing requirements should be sought to best satisfy both parties.

The cost of listing on AltX is in the region of R185 000 with an additional amount of R100 000 per annum for compliance. AIM's listing requirements, are in the region of R219 000 with an additional amount of R170 000 per annum for compliance (London Stock Exchange, 2020). Even at these costs, AIM remains a successful Alternative Exchange. However, these listing costs may be too high for SMEs in emerging markets such as South Africa and deter them from listing. AltX should consider lowering these costs to a price that accommodates SMEs in South Africa.

SMEs perceive the Stock Exchange as inaccessible due to these stringent requirements as well as high listing costs. AltX should consider flexible listing requirements such as those of AIM to accommodate and improve SME access to the Stock Exchange (Zvendi, 2015).

Lack of marketing/awareness creates a few more challenges especially in how SMEs perceive the AltX. There are many benefits that SMEs may not be aware of in listing which include growth to the Mainboard (Cleary et al., 2017; JSE, 2019; Van Heerden, 2015) and growth from adolescence to maturity stage. It is noted from literature that both Brazil and China have good marketing, however, Brazil only attract 2 new listings per annum on average compared to 80 in China (Harwood & Konidaris, 2015; Inamdar, 2016). This statistic suggests that lack of marketing may not be a significant reason why SMEs do not list and therefore increasing awareness may not necessarily encourage listing.

RECOMMENDATION

Based on the above findings, it is recommended that the AltX lower listing requirements such as shareholder spread, i.e., the amount of equity in the hands of the public. This may even reduce the fear SMEs have of losing control of their firms to the public. In addition, the AltX is recommended to reduce cost of listing to enable more SMEs access to the Stock Exchange. Although it has been found that marketing may not necessarily encourage SMEs to list, AltX should also increase its marketing efforts as this may change how SMEs perceive the Stock Exchange in terms of accessibility and value add to the SME. These recommendations are made, taking into cognisance that the needs of the supply side (investment size and liquidity) is taken into account. Investor confidence should always be guaranteed to avoid possible capital flight. Failure to do so may creates a different problem, where many SMEs may want to list but have no or limited investors available. This would be a worse problem (where demand over-strips supply) than the current one. The current situation is driven by market forces (both SME and investor interests) and therefore seems tenable. Investors can in many cases, move their capital around, while SMEs also have choices to fund growth through public equity or not.

CONCLUSION

This study has shown that the key issue for SMEs to grow from adolescence to maturity is finances. The study focussed on obtaining this capital using public equity from the Alternative Stock Exchange (JSE AltX). The AltX was created specifically for SMEs to obtain capital for growth. It was found that there are only a few SMEs listed on the stock exchange, an indication that there are challenges inherent on the supply and demand side of public equity finance.

It should be noted that these findings and recommendations are limited to the literature consulted and the methodology followed. Many questions asked in the study, could be addressed in future empirical research. One such specific study could be the effect of the theory of planned behaviour on the low listing of SMEs on the AltX. An attempt to provide answers in this study could have been speculative. Failure to provide answers to some of these questions is an acknowledged limitation of the study. The study has found that there are limited studies on public equity financing of SMEs, with most studies focusing on debt/loan finance. This study makes an important contribution by focusing on the neglected area. Most economies (especially developing) bemoan the lack of investment. This study's attempts to establish reasons why SMEs do not take up equity funding to grow and why public equity markets do not attract the expected portfolios to invest in, contributes to current dialogue. The scientific enquiry provides information on which appropriate decisions and interventions can be taken to improve prevailing situations. Any future research around funding of SMEs using public equity is therefore encouraged.

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