

**Private Financing and Human Resource Practices of Small Local and Foreign-Owned Cosmetological Businesses**

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**Abstract:** There exists a growing body of empirical studies that explore both the sources of small, micro and medium enterprises (SMME) funding, and the quality of their human resource practices. However, there is paucity of literature that interrogates the impact of private funding of local and foreign SMMEs on the quality of human resources. Nevertheless, the wide recognition of the economic significance of SMMEs in emerging economies and the pivotal role that funding plays in the growth of such firms suggest that the nexus between SMME private funding and human resourcing is integral to this condition and growth. As a result, the current study examined the influence of private financing of local and foreign-owned hair salon SMMEs on the quality of their human resources, in an attempt to bridge the aforementioned research gap. The study, which drew on a quantitative approach, is based on a survey conducted on 150 South African and foreign immigrant-owned hair salon businesses. The findings suggest that the private financing structure was dominated by a combination of debt and equity financing, followed by debt financing, with equity financing as the least employed funding model. The study established the significant impact that access to private equity financing has on recruitment, selection and compensation. However, the level of private debt financing, attractiveness of interest rates for private debt financing and financial value of funding from private institutions (banks) do not have any impact on human resources management practices. A major observation from the results is that, some aspects of private financing impact negatively on human resources management albeit a small effect size, which somehow raises critical questions about the popular claims that financing, contributes positively to the quality of human resources of firms.

**Keywords:** *Hair salons, private financing, small foreign owned businesses, private equity*

## 1. Introduction

The reality that small, cosmetological South African businesses, such as hair salons, tend to be predominantly female managed and foreign immigrant-owned entities, makes them susceptible to financial exclusion as they may not qualify for funding options availed by national and private funding institutions. Both local and foreign immigrant female-owned small, micro and medium enterprises (SMMEs) encounter gender discrimination when seeking finance from traditional South African financial institutions and state-owned institutions (Small Enterprise Development Agency, n.d.; United National Development Programme, 2014). The United National Development Programme (2014) bemoans that South African women entrepreneurs still encounter difficulties in accessing finance despite the existence of various financial institutions and funding mechanisms that specifically target women-owned businesses. The foreign and female-owned SMMEs encounter challenges such as poor access to financial assistance, credit and lack of collateral. In addition, their business activities tend to fall predominantly in the informal sector, where engagement in value-adding activities, prospects of business growth, and transition to the mainstream economy is severely limited (Small Enterprise Development Agency, n.d.).

In addition to the literature focusing on meagre financial resources availed to SMMEs, there exists a further stream of research that focuses on the nature of SMMEs' human resource practices (Kim & Gao, 2010; Lee, Lee & Wu, 2010; Laforet, 2013; Mpiti, 2016; Nyamubarwa, 2016). The predominantly informal, intuitive, ad hoc and unsophisticated nature of human resource practices of SMMEs (Rand & Torm, 2012; Sheehan, 2013; Mpiti, 2016; Nyamubarwa, 2016) is attributed to the lack of financial resources to sponsor the establishment and operation of complicated human resourcing processes (Mpiti, 2016; Rambe & Mpiti, 2017). The largely informal human resource management (HRM) practices of SMMEs are normally in sync with the efficient management of their impoverished resource base and afford them increased flexibility to respond to the ever-changing, complex business environments they operate in (Kim & Gao, 2010). Conversely, the lack of formal, written HR policies often contributes to high employee absenteeism, turnover, and low employee motivation (Laforet, 2013; Nyamubarwa, 2016). Therefore, one of the critical and yet underestimated

requirements for SMME success is the presence of a supportive human-resource base, as it fosters an ideal environment within which latent human potentialities are realised (Falkena et al., 2001). As such, formalised HRM practices are desirable as they impact positively on the business strategy and leverage a firm's performance (Lee, Lee & Wu, 2010; Nyamubarwa, 2016). Nonetheless, the SMMEs' more sophisticated HR practices require stable and consistent private funding, which is highly dependent on the sophistication of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMMEs (Falkena et al., 2001).

A gap exists between literature that examines the financing of SMMEs on the one hand (Falkena et al., 2001; Fatoki, 2014; Mpiti, 2016) and the formalisation of human resource practices of SMMEs on the other (Cameron & Miller, 2008; Umer, 2012; Sheehan, 2013; Nyamubarwa, 2016). In addition, there is a paucity of literature that explores the intersection between private financing and human resource practices of SMMEs in emerging economies. Hence, this research explores the impact of private funding on the human resourcing of hair salon SMMEs. While Severino (2012) attempts to bridge the research chasm between SMME private financing and SMME human resource practices by arguing that the profitability of equity or quasi-equity investments in African SMMEs has been compromised by the low levels of human resources and scarcity of local capital, the study adopts a continental perspective rather than a micro perspective adopted in this study. The other complicated dimension is that many entrepreneurs incubate their small businesses with very limited capital and that financial capital is not significantly related to the probability of being a nascent entrepreneur (Davidson & Honing, 2003; Hurst & Lursadi, 2004; Simpeh, 2011). As such, the way in which the private financing of SMMEs relate to the quality of human resourcing of such SMMEs remains speculative. The ambiguity of this relationship is further compounded by the reality that most South African SMMEs, including hair salons, operate as low-productivity self-employment or "survivalist" entities for poor households (Davies & Thurlow, 2009; Demacon Market Studies, 2010), which undermines their capacity to develop formalised human resource practices. The current study, therefore, breaches the knowledge gap between the private funding-human resources relationship by examining the influence of private funding on the quality of SMMEs' human resources within the context of an emerging economy.

The study addresses three research questions and these are:

- What is the composition of the private funding in hair salon SMMEs operating in the Mangaung Metropolitan Area (MMA) of the Free State Province in South Africa?
- Which human resource practices are prevalent among these SMMEs operating in MMA in the Free State Province?
- How is the impact of private funding on the quality of human resources of Afro hair salons in the MMA constituted?

The rest of the paper is structured as follows: the research background and problem statement are outlined, followed by a brief literature review, research methodology, findings and discussion, study implications and the final section focuses on the conclusion to the study.

**Problem background:** The gulf between the SMME financing literature (Falkena et al., 2001; International Finance Corporation 2011; Mahembe, 2011; Timm, 2012, Fatoki, 2014) and SMME human resourcing (Horwitz, 2013; Almeida et al., 2015; Davis & Luiz, 2015; Nyamubarwa, 2016) stems from the varied foci of these discourses. The literature on SMME financing has foregrounded: SMMEs' limited awareness of external funding opportunities, nascence of the African financial systems and high cost of borrowing (Beck et al., 2009); SMMEs' bureaucracy which complicates their capacity to capitalise on available funding opportunities (Lekhanya & Mason, 2014), the complexities in meeting loaning requirements (Chimucheka & Mandipaka, 2015) and limited access to financing opportunities (Schmidt, Mason, Bruwer & Aspeling, 2016). This foci on funding can be contrasted with the research on SMME human resourcing that is pre-occupied with the significance and challenge of the adoption of human resources in SMME development (Hung, Cant & Wiid, 2016); the low human resource and technological capabilities of SMMEs (Hussain, Si & Wang, 2010), and the influence of human resource management (HRM) practices on SMMEs' financial and non-financial performance (Din, Bibi, Karim & Bano, 2014). Tiwari and Saxena (2012) acknowledge that the implementation of HRM practices affects employees' attitude, employee-employer relations, employee productivity and the financial performance of the firm. However, the body of literature seems to ignore the

significance of financing on the operationalisation of HRM practices. As a result, financial matters are mentioned as performance outcomes of good human resource practices (Din, Bibi, Karim & Bano, 2014), just as the contribution of public and private partnerships (including financial partnerships) in accelerating SMME development and productivity is foreground (Hussain, Si & Wang, 2010) at the expense of HRM practices.

There are a number of factors that explain the SMMEs' limited pre-occupation with the quality of human resources. These include the size of SMMEs and limited funding, which collectively undermine the development of full-fledged human resource departments and culminates in the fusion of managerial and administrative roles in an individual owner/manager. The Infrastructure Dialogues Report (2015) highlights that the vibrancy, energy and entrepreneurship exhibited in the township economies, where most hair salons and their customers are mostly situated, is nevertheless characterised by the SMMEs' co-existence with poverty, poor facilities and financial investments, and a state of fragmentation among these SMMEs. The characteristic smallness of the SMMEs also deters them from instituting sophisticated human resource systems and hence, their reliance on informal or quasi-formal human resource practices. Critics such as Umer (2012), Blackburn, Hart and Wainwright (2013) and Nyamubarwa (2016) identify informal relationships as one of the key defining characteristics evident in the way SMMEs conduct their business and HR practices. Therefore, resource constraints compel SMMEs to employ limited HR professionals in as much as these businesses encounter difficulties in recruiting and retaining employees, hence their reluctance to engage in costly or restrictive practices (Cardon & Stevens, 2004; Bhatti et al., 2012).

**Large corporation focus:** The issue of the quality of SMME human resourcing is often ignored due to literature's pre-occupation with large multinational corporations and their subsidiaries (see Aytac, Mousseau & Örsün, 2014; Horwitz, 2015) or with the HRM practices of developed countries (Almeida, Fernando, Hannif & Dharmage, 2015). Mainstream human resource literature takes little account of the SMMEs' conditions, a situation reflected in an acute shortage of research on HR practices in SMMEs (Richbell, Szerb & Vitai, 2010, Nyamubarwa, 2016). Nonetheless, an avalanche of employee-related problems and the increasing dissatisfaction of employees with the work place experience (Barrett, 2004) demonstrates the need for [small] organisations to create new human resource systems that deal effectively with changes taking place both internally and externally (van der Walt & Swanepoel, 2015). The reality that recruitment, selection, compensation, employee relations, performance appraisal, training and development challenges are not unique to large corporations implies that SMMEs are not immune to these challenges as well, considering that SMMEs often lack of coping mechanisms and rely on the authoritative leadership of their owner/managers. The Human Resource Development Strategy for South Africa (HRD-SA) 2010 – 2030 recognises the growing complexity of the work place, how it is being accelerated by the dynamic impact of globalisation on national economies, production and trade, and has placed HRD at the heart of contemporary development strategies.

**Problem statement:** The gulf between literature that explores the private funding opportunities of SMMEs in emerging economies on the one hand (Falkena et al., 2001; Mahembe, 2011; Timm, 2012; Fatoki, 2014) and SMME HRM practices on the other (Kim & Gao, 2010; Laforet, 2013; Nyamubarwa, 2016) complicates the understanding of the impact of private financing on human resourcing of SMMEs. Despite the postulated positive relationship between finance and the performance of SMMEs (Zhenxing & Zheng, 2008; OECD, 2015), there is limited literature that explores the influence of private finance on the human resourcing of SMMEs (Mpiti, 2016; Rambe & Mpiti, 2017). Yet well managed and sufficiently resourced human resources are one of the most strategic factors that provide flexibility and adaptability to organizations (Khatri, 1999; Tiwari & Saxena, 2012). This limited focus on the financing-HR relationship within SMME context could be attributed to the absence of formal HR departments in most SMMEs (Aldrich & Von Glinow, 1991), the difficulty of recruiting and retaining employees due to lack of financial resources (Cardon & Stevens, 2004; Bhatti et al., 2012) and their avoidance of complicated recruitment processes to reduce their overheads. In fact, the SMMEs' small operational budgets, infusion of management and ownership roles to reduce operational costs and lack of or a small HR complement, preclude the understanding of the exact impact of financing on the human resource quality of local and foreign-immigrant SMMEs such as hair salons. As such, the influence of private funding on the quality of human resources remains unclear and ambiguous, hence this study.

## 2. Literature Review

**Private financing for SMMEs:** Private funding is described as the monetary “support received from commercial banks, retail banks, financial credit schemes, micro lending institutions, personal savings, borrowing from family and friends, individual lending schemes (matshonisas) and community and collective savings (stokvels)” (Rambe & Mpiti, 2017:106). Despite the diverse private funding options, such as private commercial banks, micro financial institutions, community group savings and individual private lenders (see Rwigema & Venter, 2004; Mutezo, 2005; Calvin & Coetzee, 2010; Consultative Group to Assist the Poor, 2012) that are available to SMMEs, the small businesses that are predominantly foreign-owned, such as hair salons, are confronted with multiple challenges such as lack of sufficient collateral, weak (or limited) credit histories (Falkena et al., 2001), lack of financial management records (Rambe & Mpiti, 2017), high credit risk and a high failure rate (Dzansi, 2004; Agbobli, 2013; Agbotame, 2015). These challenges present small businesses with a dire need for greater financial institution variety, increased innovation and a greater emphasis on financial mentoring (Falkena et al., 2001) for them to increase their breadth of financing, reduce the cost of borrowing and make better choices about responsible spending. The challenge, however, is to locate literature that targets hair salons in particular as most literature focuses on the funding challenges faced by SMMEs in general.

The literature focusing on the private funding of SMMEs emphasises inter alia: the unambitious and limited range of SMME support systems especially the refinancing or guarantee instruments offered by the primary banks (Severino, 2012); bolstering access to finance for female-owned SMMEs (International Finance Corporation 2011); possible public-private partnerships to augment the financing of SMMEs (Timm, 2012) and the breadth and extent of financial credit access in South Africa (Mahembe, 2011). Studies have also documented SMME financial access challenges such as limited awareness; skewed distribution of financial challenges in cities, exorbitant costs of browsing support services and cumbersome administrative processes (Berry et al., 2002; Mahembe, 2011; Mpiti, 2016) and the problematic lumping of small and micro enterprises in the determination of financial options (United Nations Development Programme [UNDP], 2014). However, the nexus between private funding interventions and the quality of human resources of SMMEs still remains a grey area.

**SMME human resources:** Studies which examine the lack of financial support in SMMEs normally focus on the provision of human resources, accounting and marketing planning training to SMMEs (Small Enterprise Development Agency (SEDA), undated), as well as the need to increase the volume and quality of human resource skills in the industry through knowledge exchange and technology transfer via increased interaction and mobility (Business Partners and Limited and the SME Toolkit South Africa, 2015). The studies often cite the shortage of human resource and business skills, adverse economic conditions, escalating business costs and a hostile regulatory environment as major constraints to the growth prospects of SMMEs in South Africa (UNDP, 2014). Studies have also unpacked the predominantly informal, intuitive and ad hoc character of most SMME human resource processes (Umer, 2012; Sheehan, 2013; Nyamubarwa, 2016) and the way in which the selection of the senior managers is based on family kinship ties [and friendship networks] rather than management skills (Cameron & Miller, 2008:5). Nevertheless, the human resource practices of SMMEs, especially those of hair salon businesses, remain an underexplored terrain. The existing research has indeed considered contextual and organisational variables, such as firm location, size and duration of existence of the business, and the availability of institutional support and that of an HRM department, which collectively shape the formalisation of human resource processes (Urbano & Yordanova, 2008; Jan de Kok et al., 2011; Nyamubarwa, 2016) rather than the quality of human resources per se.

**Influence of private financing on the SMME human resources:** The prominence of SMME human resource issues in recent years (Hussain, Si & Wang, 2010; Tiwari & Saxena, 2012; Din et al., 2014; Hung et al., 2016) has tended to ignore the influence private financing on the quality of such SMME human resources. The few exceptions that highlight the financing-human resource relationship tend to emphasise the sequential order in which financing and HRM matters are addressed. Dun, Short and Liang (2008) observe that most SMMEs' commencement of operations is characterised by a focus on financial and marketing aspects of the businesses at the expense of HRM issues. The SMMEs' limited access to financial resources (Levy, 1993) and the higher

transaction costs they encounter when obtaining credit (Saito & Villanueva, 1981), may make the location and hiring of right employees a challenge for small businesses (Hull, 2013).

### 3. Methodology

**Research design:** The research adopted a survey design, in which primary research data was extracted from South African and foreign-owned hair salon businesses located in the Free State province. Surveys are appropriate for research seeking to assess the current status, opinions, beliefs and attitudes of respondents from a known population (McMillan & Schumacher, 2001). The Industrial Development Corporation and National Youth Development Agency approximated the number of hair salons in the Free State at around 500 (i.e. a known population). A survey was the most ideal in examining hair salon owner/managers' perspectives on the impact of private funding on human resourcing practices of their businesses.

**Sample and sampling method:** De Vos and Strydom (2005) highlight that a sample of 20% (i.e. 100 individuals) should be drawn from a total population of 500 individuals. The research, however, catered for low response rates associated with surveys by using a sample of 150 hair salon owner/managers drawn from the population of hair salon businesses in the province. Stratified sampling was also employed owing to the existence of sharp variations in the number of hair salons in the metropole, cities, towns and rural areas. These samples were drawn at each of the noted levels and in proportion to the general population size of those levels.

**Measuring instrument and data collection:** The study employed a Lickert scale based questionnaire, which comprised closed ended questions. The questions embodied in the measuring instrument emerged from a rigorous review of literature covering the issues under investigation. The instrument had four sections covering sample demographics, the business' profile, private funding and human resources practices and the elements of business competitiveness. Two research assistants assisted the researcher with the collection of data. The survey was administered during the times that were convenient to the hair salon owner/managers. The research team travelled to the different geographical areas to administer the questionnaires, as the small hair salon businesses were spread around in the Free State Province. The self-administration of the questionnaire contributed to the achievement of a high response rate to the survey. Of the 150 questionnaires distributed, 110 were successfully completed and returned, representing a response rate of 73%.

### 4. Results

**Data analysis:** Data was first entered into excel, cleaned to eliminate incomplete responses and correct errors and exported to the Statistical Package for the Social Sciences (SPSS) version 22 for detailed analysis. Descriptive statistical analysis such as frequency tables (comprising means and percentages) were employed for analysis and presentation of demographic data. Correlation analysis was conducted to determine the relationship between private funding and the quality of human resources of small hair salon businesses. The results of the analysis were presented in correlation tables.

**Reliability analysis:** A reliability analysis was conducted on constructs in the questionnaire with the summary of the results presented in Table 1. The table reports on the constructs that are relevant to this study. Except for equity financing, which has a low Chronbach's alpha co-efficient, all the other constructs reflected comparably high alpha coefficients, thus signifying higher levels of reliability. The lower alpha values for equity could be attributed to the fewer items for this construct.

**Table 1: Reliability analysis of constructs**

Construct	Number of items	Alpha value
Level of debt financing	9	0.632
Level of equity financing	4	0.478
Recruitment and selection	11	0.875
Compensation	9	0.701

The overall reliability statistics of the entire questionnaire, which include all Likert scaled questions, were also calculated. The Likert scaled questionnaire which had 165 items showed a high internal consistency (Cronbach's Alpha= of 0.937). The Shapiro-Wilk test rejected the normality hypothesis for all the 4 variables (i.e. the level of debt financing, and levels of equity financing, recruitment and selection and compensation). Thus, the non-parametric techniques for assessing group variances on the 4 variables were conducted. The Mann-Whitney U Test was conducted to establish the variations relationships between financing and human resources by nationality of owner/managers. These results are discussed in the findings of the study.

**Demographic information:** This section provides an overview of the demographic profile of the owner/managers sample. The profile included the gender, age and educational status of the respondents. There was a moderately balanced representation of male hair salon owner/managers (53.6%) and female owner/managers (46.4%). The higher representation of males in such business contradicts Mosweunyane's (2013) finding on hair salon owner/management which observed that there were more (60%) female hair salon owner/managers than male managers (40%) in the North West Province of South Africa. About 55.5% of Afro hair salon owner/managers in the Mangaung Metropolitan Area were a youthful population aged between 25-34 years, and these were followed by the 35-44 years group which amounted to 24.5%. Hence, it can be interpreted that a majority (80%) of the respondents belonged to the economically active population of the nation. The findings somehow corroborates Woldie, Leighton and Adesua's (2008) finding that the younger owner/managers possessed the necessary motivation, energy and commitment to work and were more likely to take business risks than their older counterparts, which was established from their investigation on the business enterprise sector.

There was a fair balance between foreign owner/managers (50.9%) and South African citizens (48.2%). This buttresses Kalitanyi and Visser's (2010) claim that foreign-owned SMMEs constitute a significant element of South Africa's changing economy and landscape in the country's different cities. They elaborate that foreign migrant involvement in the nation's SMME sector is predominantly visible in a narrow band of retail and service than in the production sectors. The majority (61.8%) of the respondents were sole proprietors, while 39% were partnerships. This probably reflects the technical and financial complexity of establishing other business arrangements, such as private corporations, which demand more technical skills and finance to establish and run sustainably. A sizable percentage (47.3%) of the businesses had between two and five employees and many businesses (84.5%) had a turnover of less than R 100 000. In addition, a majority (75.2%) of the businesses had been in existence for not more than six years. A consideration of these phenomena, therefore, demonstrates the small size and perhaps infancy of the hair salon businesses.

**Composition of private financing-a summary:** The nature of private financing of Afro hair salons was considered using Likert scale question summaries. These questions were grouped into constructs which were summarised as latent factors that were later used in the inferential analysis. Many hair salons (47.3%) got their start-up capital from both debt and equity financing. The other businesses got their start-up capital from debt financing only (36.4%), equity financing only (14.5%) and from the Sector Education Training Authority (SETA). Debt financing comprised of borrowings from friends and family or from the bank/micro credit institutions. The composition of debit financing, itself a component of private funding, was also disaggregated into various constituents. A majority (52.7%) of hair salon businesses secured their debt funding from community or group savings, followed by the *Matshonis*, individuals mostly located in former black townships who lend money for short durations at high interest rates to borrowers (50.9%), and then retail banks (50%). About 47.7% of hair salon SMMEs had secured debt funding from trade credit, 28.2% from micro credit schemes and 25.5% from NGOs.

**Extent of Debt Financing:** The study explored the extent to which hair salon SMMEs borrowed from various lenders in order to determine the composition of debt financing among these businesses.

Many businesses had not received financing from bootstrapping (79.1%), NGOs (78.2%), leasing companies (78.9%) nor micro credit firms (56.4%). Most businesses, however, claim to have received funding from *Matshonis*, community or group savings and debt financing from banks, which shows that SMMEs have easy access to these forms of financing.

**Equity Financing:** The study explored the sources of equity financing available for hair salon SMMEs. A majority (81.8%) of these businesses considered family and friends as their main source of equity financing. This could be a clear reflection of the easy accessibility and the inexpensive nature of such financial support as these sources may not impose interests on money borrowed by owner/managers. The second highest (22.7%) source of equity funding is the contribution from the entrepreneur and team members, which suggests some personal or group investment into these SMMEs. Only 11.8% of the SMMEs had been financed by business angels while 8.2% of them had borrowed money from venture capitalists.

**Extent of Equity Financing:** The study also examined the extent of access to equity funding by interrogating the degree to which SMMEs borrowed from these sources.

**Table 2: Level of debt financing**

		Frequency Distribution						Descriptives		Latent Factor Coefficients	
		None borrowed	Least Lender	Moderate lender	Third biggest lender	Second biggest lender	Biggest lender	Mean	StdDev		
<b>Debt financing from private institutions</b>											
Q21.1	Debt financing amount received from bootstrapping	Count	87	6	6	1	2	8			
		%	79.1%	5.5%	5.5%	0.9%	1.8%	7.3%	1.63	1.45	0.572
Q21.2	Debt financing amount received from Trade credit	Count	54	17	24	6	1	8	2.15	1.47	0.629
		%	49.1%	15.5%	21.8%	5.5%	0.9%	7.3%			
Q21.3	Debt financing amount from <i>Matshonis</i>	Count	46	9	16	11	10	18	2.85	1.92	0.578
		%	41.8%	8.2%	14.5%	10.0%	9.1%	16.4%			
Q21.4	Debt financing amount from Community or group saving	Count	40	3	31	13	14	9	2.86	1.69	0.586
		%	36.4%	2.7%	28.2%	11.8%	12.7%	8.2%			
Q21.5	Debt financing amount from micro credit firms	Count	62	15	19	10	2	2	1.92	1.25	0.530
		%	56.4%	13.6%	17.3%	9.1%	1.8%	1.8%			
Q21.6	Debt financing amount from leasing companies	Count	86	11	6	2	2	2	1.43	1.03	0.545
		%	78.9%	10.1%	5.5%	1.8%	1.8%	1.8%			
Q21.7	Debt financing amount from NGOs	Count	86	6	4	8	1	5	1.61	1.33	0.574
		%	78.2%	5.5%	3.6%	7.3%	0.9%	4.5%			
Q21.8	Debt financing amount from banks	Count	39	13	18	16	14	7	2.76	1.68	0.240
		%	36.4%	12.1%	16.8%	15.0%	13.1%	6.5%			
Cronbach's Alpha									0.632		
% of total variation accounted for by latent factor									29.56%		

**Table 3: Level of equity financing**

		Frequency Distribution						Descriptives		Latent Factor Coefficients	
		None borrowed	Least Lender	Moderate lender	Third biggest lender	Second biggest lender	Biggest lender	Mean	StdDev		
<b>Equity financing from private institutions</b>											
Q22.1	Equity financing amount from entrepreneur and team members	Count	89	10	7	3	1	0			
		%	80.9%	9.1%	6.4%	2.7%	0.9%	0.0%	1.34	0.79	0.648
Q22.2	Equity financing from friends and family	Count	31	13	31	18	6	11	2.89	1.59	0.222
		%	28.2%	11.8%	28.2%	16.4%	5.5%	10.0%			
Q22.3	Equity financing from business angels	Count	85	11	5	6	2	0	1.43	0.95	0.821
		%	78.0%	10.1%	4.6%	5.5%	1.8%	0.0%			
Q22.4	Equity financing from venture capitalist	Count	91	5	10	2	2	0	1.35	0.86	0.868
		%	82.7%	4.5%	9.1%	1.8%	1.8%	0.0%			
Cronbach's Alpha									0.478		
% of total variation accounted for by latent factor									47.41%		

Table 3 indicates that the majority of businesses (82.7%) did not receive equity financing from venture capitalists. Venture capitalists are often reluctant to invest their money in SMMEs due to their high risk of failure. The findings suggest that most business (80.9%) did not receive equity financing from entrepreneurs and team members. This is surprising as entrepreneurs and team members would be expected to invest in their SMME business over and above different forms of borrowings. Most SMMEs (78.0%) did not receive equity funding from business angels. A business angel is an individual funder who finances someone's businesses but prefer to keep his/her identity unknown to the general public. It can be assumed that most business angels are reluctant to invest in high risk businesses for fear of losing their money. The high failure rate of new start-ups explains both the general unwillingness of these business angels to invest in SMMEs and their risk averse behaviour. Nevertheless, equity financing came mainly from friends and family (31.9%) - a clear indication of significance of donations/support from family or friends.

**Human resources management practices of hair salons:** The study also examined the HRM practices of hair salon business before relating them to funding. The practices considered here included recruitment, selection, training, development and compensation.

**HR Recruitment and selection:** The study investigated whether small businesses followed the proper procedures when recruiting and selecting their personnel. The results are presented in Table 4 below.

**Table 4: HR recruitment and selection**

Human resources: Recruitment and Selection		Frequency Distribution					Descriptives				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	%Agree/ Strongly Agree	Mean	StdDev	Latent Factor Coefficient	
Q37. Someone is responsible for human resources in the business	Count	3	9	39	31	28					
	%	2.7%	8.2%	35.5%	28.2%	25.5%	53.6%	3.65	1.04	0.753	
Q38. We recruit, select, appoint, train and develop human resources	Count	2	5	47	32	24					
	%	1.8%	4.5%	42.7%	29.1%	21.8%	50.9%	3.65	0.93	0.744	
Q39. Business emphasises qualifications in its recruitment and selection	Count	4	13	38	29	25					
	%	3.7%	11.9%	34.9%	26.6%	22.9%	49.5%	3.53	1.08	0.757	
Q40. The business emphasises relevant experience when recruiting and appointing	Count	1	8	22	45	34					
	%	0.9%	7.3%	20.0%	40.9%	30.9%	71.8%	3.94	0.94	0.775	
Q41. The business emphasises knowledge of hair salons employees	Count	1	4	19	51	35					
	%	0.9%	3.6%	17.3%	46.4%	31.8%	78.2%	4.05	0.85	0.733	
Q42. We employ friends, family members, relatives, acquaintances	Count	35	18	31	16	10					
	%	31.8%	16.4%	28.2%	14.5%	9.1%	23.6%	2.53	1.32	0.138	
Q43. The business provides a clear and comprehensive job description	Count	1	3	23	47	36					
	%	0.9%	2.7%	20.9%	42.7%	32.7%	75.5%	4.04	0.86	0.642	
Q44. The business provides clear job specifications	Count	2	3	20	56	29					
	%	1.8%	2.7%	18.2%	50.9%	26.4%	77.3%	3.97	0.85	0.706	
Q45. The business appoints candidates in terms of relevant experience, skills and qualification	Count	3	8	38	26	35					
	%	2.7%	7.3%	34.5%	23.6%	31.8%	55.5%	3.75	1.07	0.713	
Q46. Reference checks are part of recruitment	Count	0	9	27	43	31					
	%	0.0%	8.2%	24.5%	39.1%	28.2%	67.3%	3.87	0.92	0.746	
Q47. The business possess overall knowledge of HR recruitment process	Count	0	6	49	24	31					
	%	0.0%	5.5%	44.5%	21.8%	28.2%	50.0%	3.73	0.94	0.776	
	Cronbach's Alpha							0.875			
	Cronbach's Alpha without Q42							0.905			
	% of total variation accounted for by latent factor (without Q42)							54.14%			



A majority (71.8%) of hair salons prioritise the possession of relevant experience when selecting prospective employees, while 49.5% claimed that their businesses emphasised the possession of qualifications during employee selection. The fact that most hair salon businesses rely more on technical hand work than academic knowledge might explain the less emphasis on prospective employees' academic qualifications. Business knowledge of hair salon employees (78.2%) and reference checks (67.3%) were constitutive components of the selection criteria of employees of hair salons. The high percentages on knowledge of the hair salon industry and employee reference checks is commendable. However, hair salon businesses have complicated HR practices. For instance, while it was observed that many provide clear job descriptions (75%) and job specifications (77.3%) to employees, some owner/managers (23%) admitted to hiring family members and acquaintances, which is a problematic HR practice.

**HR Compensation:** The study also investigated the way employees are compensated and whether access to private funding influences human resources practices within small businesses.

**Table 5: HR compensation**

		Frequency Distribution					Descriptives			
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	%Agree/ Strongly Agree	Mean	StdDev	Latent Factor Coefficient
<b>Human resources: Compensation</b>										
Q48. Salaries are in accordance with labour market standards	Count	1	7	17	33	52				
	%	0.9%	6.4%	15.5%	30.0%	47.3%	77.3%	4.16	0.97	0.472
Q49. Employees are registered for income tax	Count	39	25	12	22	12				
	%	35.5%	22.7%	10.9%	20.0%	10.9%	30.9%	2.48	1.43	-0.398
Q50. Employees are compensated according to hours of work	Count	8	18	20	29	35				
	%	7.3%	16.4%	18.2%	26.4%	31.8%	58.2%	3.59	1.29	0.317
Q51. Access to private funding influences employee training	Count	10	8	34	33	25				
	%	9.1%	7.3%	30.9%	30.0%	22.7%	52.7%	3.50	1.19	0.772
Q52. Access to private funding influences retention of employees	Count	12	13	41	23	21				
	%	10.9%	11.8%	37.3%	20.9%	19.1%	40.0%	3.25	1.21	0.841
Q53. Access to private funding influences employee compensation	Count	10	19	25	36	20				
	%	9.1%	17.3%	22.7%	32.7%	18.2%	50.9%	3.34	1.22	0.759
Q54. Employee pay rates are kept confidential	Count	1	1	16	36	56				
	%	0.9%	0.9%	14.5%	32.7%	50.9%	83.6%	4.32	0.82	0.734
Q55. Employee salary is determined based on comparison with competitors	Count	9	19	30	33	19				
	%	8.2%	17.3%	27.3%	30.0%	17.3%	47.3%	3.31	1.19	0.427
Q56. Salary ranges are used to determine salary rates	Count	2	2	28	45	32				
	%	1.8%	1.8%	25.7%	41.3%	29.4%	70.6%	3.94	0.89	0.683
Cronbach's Alpha								0.701		
Cronbach's Alpha (when Q49 is omitted)								0.795		
% of total variation accounted for by latent factor (Q49 excluded)								43.04%		

A majority (83.6%) of hair salons held the opinion that their businesses keep employee records confidential and that salary ranges are used to determine salary rates (70.6%). However, the businesses displayed complex organisational processes. The majority (77.3%) of the respondents claim that their companies offer market-related salaries and only 30% confirmed that their employees are registered for income tax payments. In addition, more than half (58%) of the respondents claimed that their employees are paid according to the hours they worked. Hair salons owner/managers offer more or less the same salaries as other hair salons. A total of 40% of the firms believed that access to private funding influences the training of employees and 50.9% professed that access to private funding influences employee compensation. Having access to private funding allows the owner/manager to take their employees for training to improve their skills and pay their salaries.

**Debt financing by nationality:** A Mann-Whitney two-sample rank-sum test was conducted to examine whether there were significant differences in debt financing between the levels of nationality. The Mann-Whitney two-sample rank-sum test is a non-parametric alternative to the independent samples *t*-test, which does not share the independent samples *t*-test's distributional assumptions (Conover & Iman, 1981). There were 53 observations in group SA\_Citizen and 57 observations in group SA\_Non\_Citizen (see Table 6). The results of the Mann-Whitney *U* test were not significant,  $U = 1370, z = -0.84, p = .399$ . The mean rank for group SA\_Citizen was 52.85 and the mean rank for group SA\_Non\_Citizen was 57.96. This suggests that the distribution of debt\_financing for group SA\_Citizen is not significantly different from the distribution of debt\_financing for the group SA\_Non\_Citizen. This probably shows that both South African citizens and foreign nationals encounter the same lending conditions from debtors such as family members, friends and business angels. Table 6 presents the results of the Mann-Whitney *U* test.

**Table 6: Mann-Whitney Rank Sum Tests for debt financing, equity financing, recruitment and section and compensation by nationality of hair salon owner/managers**

Variable	SA_Citizen	SA_Non_Citizen	<i>U</i>	<i>z</i>	<i>p</i>
Debt_financing_	52.85	57.96	1370.00	-0.84	0.399
	Mean Rank				
Variable	SA_Citizen	SA_Non_Citizen	<i>U</i>	<i>z</i>	<i>p</i>
Equity_financing	49.72	60.88	1204.00	-1.86	.063
	Mean Rank				
Variable	SA_Citizen	SA_Non_Citizen	<i>U</i>	<i>z</i>	<i>p</i>
Recruitment and_	67.82	44.04	2163.50	-3.92	<
Selection_					0.001
	Mean Rank				
Variable	SA_Citizen	SA_Non_Citizen	<i>U</i>	<i>z</i>	<i>P</i>
Compensation	59.09	52.16	1701.00	-1.14	0.253

**Equity financing by nationality:** A Mann-Whitney two-sample rank-sum test was conducted to examine whether there were significant differences in equity financing between the levels of nationality. There were 53 observations in group SA\_Citizen and 57 observations in group SA\_Non\_Citizen (see Table 6). The results of the Mann-Whitney *U* test were not significant,  $U = 1204, z = -1.86, p = .063$ . The mean rank for group SA\_Citizen was 49.72 and the mean rank for group SA\_Non\_Citizen was 60.88. This suggests that the distribution of equity\_financing for group SA\_Citizen is not significantly different from the distribution of equity\_financing for group SA\_Non\_Citizen.

**Recruitment and selection by nationality:** A Mann-Whitney two-sample rank-sum test was conducted to examine whether there were significant differences in recruitment and selection between the levels of nationality. There were 53 observations in group SA\_Citizen and 57 observations in group SA\_Non\_Citizen (see Table 6). The results of the Mann-Whitney *U* test were significant,  $U = 2163.5, z = -3.92, p < .001$ . The mean rank for group SA\_Citizen was 67.82 and the mean rank for group SA\_Non\_Citizen was 44.04. This suggests that the distribution of recruitment and selection for group SA\_Citizen is significantly different from the distribution of recruitment and selection for group SA\_Non\_Citizen. The difference in recruitment and selection in the two levels of nationality is perhaps the result of the South African sample's acquaintance with a well-established labour regulation regime and the efficiency driven nature of their economy. In contrast, the

SA Non-citizen sample may not be sufficiently grasping the labour laws that affect recruitment and selection and the risks associated with non-compliance with these regulations.

**Compensation by Nationality:** A Mann-Whitney two-sample rank-sum test also determined whether there were significant differences in compensation between the levels of nationality. There were 53 observations in group SA\_Citizen and 57 observations in group SA\_Non\_Citizen, as shown in Table 6 outlining the results from the Mann-Whitney *U* test. The results of the Mann-Whitney *U* test were not significant,  $U = 1701$ ,  $z = -1.14$ ,  $p = .253$ . The mean rank for group SA\_Citizen was 59.09 while that for group SA\_Non\_Citizen was 52.16. This suggests that the distribution of compensation for group SA\_Citizen is not significantly different from the distribution of compensation for group SA\_Non\_Citizen. The familiarity of each group with the compensation structures of the other group (due to the informality of the HRM systems) probably explains their almost identical rewarding systems.

**Effects of private funding on human resources:** The correlation analysis method was also used to determine the nature of the relationship between private funding and human resources. Table 7 below presents the correlations between the various private funding variables, discussed in the previous sections, and the already discussed human resources variables.

**Table 7: Correlations between private funding and human resources**

Correlations		Private Funding							Human Resources	
		Level of Private Financing	Debt	Equity	Attractiveness of Interest rates for Private Financing	Attractiveness of Interest rates for Private Equity Financing	Accessibility of funding for Private debt Financing	Accessibility of funding for Private Equity Financing	Financial Value of funding from Private Institutions (Banks)	Human Resources Recruitment and Selection
Private Funding	Level of Private Debt Financing	Correl	-							
		p-value								
		N								
	Level of Private Equity Financing	Correl	0.136							
		p-value	0.168	-						
		N	105							
	Attractiveness of Interest rates for Private Debt Financing	Correl	0.817**	0.129						
		p-value	0.000	0.186	-					
		N	105	107						
	Attractiveness of Interest rates for Private Equity Financing	Correl	0.056	0.700**	0.202*					
	p-value	0.566	0.000	0.036	-					
	N	106	109	108						
Accessibility of funding for Private debt Financing	Correl	0.716**	0.170	0.751**	0.169					
	p-value	0.000	0.078	0.000	0.077	-				
	N	106	109	108	110					
Accessibility of funding for Private Equity Financing	Correl	0.030	.798**	0.040	0.738**	0.229*				
	p-value	0.765	0.000	0.680	.000	0.016	-			
	N	105	108	107	109	109				
Financial Value of funding from Private Institutions (Banks)	Correl	0.570**	0.155	0.587**	0.203*	0.582**	0.127			
	p-value	0.000	0.113	0.000	.036	0.000	0.194	-		
	N	104	106	106	107	107	106			
Human Resources Recruitment and Selection	Correl	0.055	-0.198*	-0.014	-0.185	-0.188*	-0.204*	-0.017		
	p-value	0.581	0.040	0.884	0.054	0.050	0.034	0.863	-	
	N	105	108	107	109	109	108	106		
Human Resources Compensation	Correl	0.080	-0.273**	0.006	-.299**	-0.166	-0.281**	0.051	0.658**	
	p-value	0.419	0.004	0.952	0.002	0.084	0.003	0.601	0.000	
	N	105	108	107	109	109	108	106	108	

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

**Private funding and human resources:** The accessibility of funding for private equity financing has a significant negative impact on recruitment and selection (correlation=-0.204, p-value=0.034) and compensation (correlation=-0.281, p-value=0.003). This contradicts claims that the availability of financial resources is critical for an improved recruitment and selection of an enterprise's employees. The results in Table 7 show that the level of private debt financing, attractiveness of private debt financing interest rates and the value of funding from private institutions (banks) do not have any impact on the human resources management two constructs of recruitment and selection, and compensation (small correlations and p-values>0.05). The level of private equity financing has a negative impact on recruitment and selection (correlation=-0.198, p-value=0.040) and compensation (correlation=-0.273, p-value=0.004). The attractiveness of interest rates for private equity financing has a negative impact on compensation (correlation=-0.299, p-value=0.002). The accessibility of funding for private debt financing has a negative impact on recruitment and selection (correlation=-0.188, p-value=0.050). Therefore, it is important to note that, while some aspects of private finance have a negative impact on human resources management, the effect size of such an impact is very minimal, for none of the absolute correlation values are greater than 0.300. Thus, the general observation is that private funding has a limited impact on human resources management.

**Discussion-SMME Financing:** While a combination of debt and equity comprised almost half (47.3%) of the total financing for small businesses, debt financing was considerably higher than equity financing, thus demonstrating the small businesses' complexities in generating funding internally. This finding corroborates evidence from literature where the low equity capital generation capacity of small firms is identified as a major constraint to the growth of small firms (International Finance Corporation 2011; Severino, 2012). Severino (2012) affirms that SMMEs' equity capital constraints are a consequence of their owners' financial incapability, which forecloses their access to financial opportunities and business growth potential. Our finding contradicts Fatoki's (2014) claim that South African SMME operations can enhance their credibility when sourcing funding externally by first seeking internal equity before considering other funding sources.

In terms of debt financing, most hair salon SMMEs relied heavily on *Matshonisa* (private individual lenders) and community or group savings to finance their businesses. The popularity of these funding sources stems from their perceivably relaxed lending procedures, especially the exclusion of collateral from borrowers. While this finding resonates with the claim by Falkena et al. (2001) that non-bank financial intermediaries play a significant role in SMME enterprise lending, the same finding contradicts their claim that these intermediaries are imposing constraints on SMMEs' lines of credit. Our finding is, nevertheless, consistent with the reality that South Africa's black-owned businesses rely more on informal financial options, such as *Matshonisas*, community savings and funeral and burial schemes as such businesses are financially excluded by formal financial institutions such banks (SEDA, undated).

Banks were sometimes another credible source of funding as noted in the 50% of SMMEs that borrowed from the banks. This finding is surprising and somewhat contradicts conventional wisdom about SMMEs' complexities of accessing finance from retail and commercial banks due to lack of tangible assets or collateral (Gichuki, Njeru & Tirimba, 2014; Mwaka, 2014; Mpiti, 2016). Alternatively, this points to local banks' diversification of their funding portfolios to include pro-poor lending, even though they may be extending small amounts of credit to reduce their risk vulnerability. Many hair salons had not received funding from bootstrapping, NGOs, leasing companies and micro credit firms. Perhaps, this scenario can be attributed to insufficient information about their funding procedures due to their poor marketing or the associated high costs of borrowing. In addition, the dominance of national and provincial government agencies that provide loan facilities to SMMEs, such as the National Youth Development Agency, SEDA and Small Enterprise Finance Agency (SEFA), may eclipse the visibility of the aforesaid funding modalities (Small Enterprise Finance Agency, 2015).

With regard to equity, borrowing from family and friends constituted the prime forms of lending, while borrowing from entrepreneurs and team members, business angels and venture capitalist were the least represented. While this evidence signifies the equity problem, it contradicts Mason and Harrison's (2013) observation that entrepreneurs and team members may invest their assets in high risk-high return enterprises in exchange for the firm's equity. Our findings buttresses literature, which suggests that national

institutions should increase financial stimulus for small businesses due to the reluctance of venture capitalists and business angels to support emerging businesses and SMMEs' high risk of failure (Falkena, 2001; Cobbett, 2008). The same findings resonate with Timm's (2012) claim that unlike other emerging markets such as Chile and Malaysia, which are increasing angel investment networks by funding businesses through angel investors' collaboration with state entities to mitigate the risk of investing in small business entities, South Africa lacks a business angel-investing environment.

**Human resourcing practices:** Hair salon businesses had complicated HRM practices. For instance, the possession of relevant experience was noted as an integral requirement for their recruitments, even though they did not hire highly educated employees. The reluctance or inability to hire highly educated personnel is inconsistent with the recognition that educated personnel are more productive and have more learning and innovative abilities (Batra & Tan 2003; Hussain, Si & Wang, 2010). Our findings on the recruitment of people with lower education attainments cohere with observations on the low human resource capabilities of SMMEs, especially qualification-job match, which constrain the SMMEs' development in emerging economies (Hussain, Si & Wang, 2010). Hair salons' deployment of trained personnel, however, resonates with Onsongo's (2015) study on factors influencing the growth of hair salon enterprises in Kisii Town, Kenya, which reported that the hair salons require highly trained and knowledgeable staff that keeps abreast with industry demands and offer quality products and services.

The finding on many SMME owner/managers' engagement in HRM practices is inconsistent with the literature on SMMEs. Lockyer and Scholaries (2005) revealed a general lack of systematic procedures for employee resourcing and a limited tradition of legitimate human resource practices within SMMEs. In addition, the owner/managers' claim that they paid their employees market competitive salaries demonstrates their businesses' compliance with national labour relations. The Government Notice Report on Bargain Council for hairdressing, cosmetology beauty and skincare states that no employer shall pay and no employee shall accept a salary lower than the prescribed national minimum salary for that trade/profession (Oliphant, 2013).

**Relationship between financing and human resource practices:** The accessibility of funding for private equity and debt financing has a significant negative impact on recruitment and selection, and compensation. This contradicts Hussain, Si and Wang's (2010) finding that access to financial resources is integral to the development of an effective technical and HR programme, which is vital for the development of small enterprises. The findings also contradict the Board of Governors of the Federal Reserve Systems Report (2012) finding that the provision of equity is fundamental to a healthy and thriving human resource compliment. The levels of private debt financing, attractiveness of interest rates for private debt financing and financial value of funding from private institutions (banks) do not have any impact on the two constructs of human resources management, namely, recruitment and selection, training and compensation (small correlations and p-values>0.05). Since the dominant forms of debt financing were from banks and from community group savings, it could argue that these institutions are loaning SMMEs small amounts, which do not impact considerably on the businesses' recruitment and compensation processes. The risk averseness of banks is well documented (Fatoki, 2014; Mpiti, 2016; SEDA, undated). In the same vein, community group savings also involve small amounts, which may be inconsequential to the human practices of SMMEs.

The level of private equity financing has a negative impact on recruitment and selection and compensation. The reality that family members and friends provided private equity funding suggests that these lenders can demand equity from the businesses either as co-owners/managers or demanding competitive salaries. This interpretation on hiring family and friends contradicts Kanu's (2015) finding on Sierra Leone SMMEs' engagement in formal HRM practices, which were observed as positively influencing the HR development and sales. The current study demonstrates that the attractiveness of interest rates for private equity financing has a negative impact on compensation. Perhaps, attractive interest rates compel owner/managers to recoup profits, which they in-turn channel to quick loan repayments. This may mean that SMME employees end up as the victims of their success as money intended for their competitive salaries gets diverted to repay loans.

## 5. Conclusion

The current study interrogated the three issues: (1) the constitution of private funding options available to resource-constrained foreign and locally owned hair salon businesses, (2) the quality of the human resources of the SMMEs and (3) the relationship between private funding and human resources practices. Almost half of the hair salons surveyed with regard to the constitution of private funding, employed a combination of both debt and equity funding. However, a sizable percentage of SMMEs relied on debt financing after equity and debt financing had been disaggregated, while a small percentage employed equity capital. This demonstrates the complexity of generating equity financing internally and contradicts the firm life-cycle theory that emphasises the need for small firms to generate financial resources internally for their increased growth before resorting to debt financing. Hair salons' dependence on family members and friendship networks for debt financing also demonstrates the constricted sources of external financing for SMMEs. As a result, SMMEs collectively need a more conducive economic environment for the diversification of their internal and external sources of funding. To this effect, venture capital and business angels are strong, under-exploited avenues that the South African government can strengthen through increased public-private partnerships with these financiers to share and externalise risks for small businesses.

Although small businesses appointed well experienced staff and remunerated them competitively, they also displayed unsophisticated recruitment practices, such as recruiting family members/friends and personnel with low educational attainments. This, at face value, may not be a problem in view of the fact that hair salon related tasks may not necessarily require tertiary level attainments, innovation, productivity and open learning requirements of firms, but it is common knowledge that enterprises may be compromised by the use of such cheap labour. The diversification of funding and pursuit of higher education attainments by hair salon owner/managers themselves could be the entry point to the development of the educational threshold for the SMME work force. While accessibility of funding for debt financing has a positive but insignificant impact on recruitment and selection and point to the capacity of funding to leverage HRM practices of hair salons, all the other private finance-HRM relationships were negative. The reality that the level of private debt financing, attractiveness of interest rates for private debt financing and the financial value of funding from private institutions (banks) do not have any impact on the human resources management constructs (i.e. recruitment and selection, and compensation), may imply different issues. These include the insufficiency of funds borrowed for overhauling HRM practices or the possible diversion of funds intended for salary increments to debt servicing leading to stagnancy of salary levels. Hence, the diversity of pro-poor funding sources meant for SMMEs would contribute to the overhaul of their HRM practices.

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