

# **CASH FLOW MANAGEMENT PRACTICES: AN EMPIRICAL STUDY OF SMALL BUSINESSES OPERATING IN THE SOUTH AFRICAN RETAIL SECTOR**

*Augustine Oghenetajiri Aren\*, Athenia Bongani Sibindi\*\**

## **Abstract**

The small, micro and medium business enterprises (SMMEs) sector is universally acclaimed for fostering economic growth in many economies. The health of this sector is largely premised on the observance of prudent financial management tenets, mainly cash flow management. In this study we interrogate the influence of cash flow management practices on the survival or growth of the SMMEs by conducting a survey amongst the SMMEs operating in the retail sector of Pretoria in South Africa. We find evidence that cash flow management is extremely important to the survival of a business, particularly small businesses, and poor cash flow management can also lead to small business failure. We also proffer policy advice as to the remedial actions needed to safeguard this sector.

**Keywords:** Cash Flow, Small Business, Economy, Financial Management, South Africa

*\* Postgraduate Student- c/o University of South Africa, Department of Finance, Risk Management and Banking, P.O Box 392, UNISA, Pretoria 0003.*

*Email: [43833659@mylife.unisa.ac.za](mailto:43833659@mylife.unisa.ac.za)*

*Tel: +27(0)12-429 3757*

*\*\* Lecturer-University of South Africa, Department of Finance, Risk Management and Banking, P.O Box 392, UNISA, Pretoria 0003.*

*Email: [sibinab@unisa.ac.za](mailto:sibinab@unisa.ac.za)*

*Tel: +27(0)12-429 3757*

*Fax: +27 (0) 86-569-8848*

## **1. Introduction**

The significant and dynamic contributions of small businesses to the economy of countries cannot be overestimated. Small businesses are, globally, recognized as the backbone of country economies; instruments for fostering economic growth, entrepreneurship, and resourcefulness. It is estimated that 91% of formal business entities in South Africa are small, micro, and medium enterprises (SMMEs) and that these SMMEs contribute between 52 to 57% to the GDP and provide about 61% to employment (Abor and Quartey, 2010). Despite the notable contributions of small businesses as drivers of economic growth in terms of employment creation, and tremendous GDP contributions, SMMEs globally still face high failure rates with South Africa having one of the highest SMME failure rates in the world. The astonishing and unarguable contribution of SMMEs to the South African economy in terms of job creation, poverty alleviation and eradication, thus makes the issue of the growth and survival of small businesses a particularly exigent matter for academic discussion and study.

“Cash is King” – a widely quoted adage in finance, fundamentally accentuates the importance of cash and good cash flows to any business or organisation. Under the premise that efficient cash flow management processes results in the success of business, the present study sets out to examine cash flow management of SMMEs in the South African retail sector, and recommend ways in which these SMMEs can ensure efficient cash management processes.

A large body of academic literature has been devoted to the concept of cash flow and cash flow management. These include the works of Soenen (1973), Berryman (1983), Drever and Hartcher (2003), Mackevičius and Senkus (2006), Cui, Hastak, and Halpin (2010), Morin and Maux (2011) amongst others. They emphasise and reiterate the importance of good and effective cash flows and cash management for organisations/businesses. Important and relevant as this may be, as proper cash flow management to the growth and survival of a business cannot be over-emphasised, limited research has been conducted to probe the challenges, and difficulties faced by small, micro, and medium enterprises (SMMEs) in sustaining good cash flows and efficient

cash management processes. Research into the small business sector in South Africa has been insufficient and inadequate, and this has hampered the development of the sector (Mbonyane and Ladzani, 2011).

It is estimated that the failure rate of SMMEs in South Africa is between 70% and 80% (Fatoki, 2011). In consonance with this statement, SME South Africa (2012) identified poor inventory and cash flow management among the top ten reasons why small businesses fail. Several reasons are cited for this alarmingly high failure rates among small businesses in South Africa, inter alia, poor cash flow management. The rationale for undertaking this study will thus be to examine the reasons for such outrageous and startling failure rates among SMMEs, primarily giving cognisance to the current cash management processes and pressing cash management needs of retail SMMEs in South Africa. This research effort seeks to unravel the challenges of cash flow management faced by SMMEs in the South African retail sector and recommend ways to improve and ensure healthy cash flows for these businesses. The rest of the paper is organised as follows; a literature review is conducted in the next section, the research methodology is outlined in Section 3, the research findings are discussed in Section 4 and Section 5 concludes.

## **2. Literature Review**

### **2.1 SMMEs: Definitions and categories**

From the review of past research and academic books, it is noted that there is no single, universally accepted definition of the term 'SMEs'. Various research articles and books conducted on the topic of SMMEs, as well as various countries and economic legislations, have differing definitions of SMEs. In reviewing past literature, several definitions of SMEs were provided, as these definitions vary from one country to the other, and what constitutes an SME has been argued differently in different research articles and books written by various research minds.

Other research articles use measures such as the number of employees; annual sales or receivables; net worth, and the relative size of the business within its sector. Given the disparate criteria for defining SMMEs, it is evident that the definition of small businesses differs from country to country, and industry to industry. Businesses considered as SMEs are those with less than 200 employees in the United Kingdom, less than 500 employees in the United States of America, and a maximum of 100 employees for the Organization for Economic Co-operation and Development (OECD) (Anderson, 2011). The Dalberg report on Support to SMEs in Developing Countries (2011) outlines the European Union definition of SMMEs as follows: "The category of micro, small and medium-sized enterprises is made up

of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro."

The National Small Business Act (South Africa) defines a "small business" as a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a micro-, a very small, a small, or a medium enterprise (SMME). Brand, Du Preez, and Schutte (2007) elucidate that the term 'SMME' is mostly South African-related and includes 'micro' enterprises, as opposed to the more general accepted term 'SME'".

### **2.2 SMMEs in the South African Retail sector**

The retail sector forms a critical element of a community's economic and social welfare and provides people with choices of products and services (Ligthelm, 2008). Small business or Microenterprise activity in retail trade is considered the most prevalent entrepreneurial activity in the informal sector of Africa. In a census of microenterprises conducted, it was found that about 70% of South African micro-businesses are concentrated in the retail sector (Ligthelm, 2006). SMMEs operating in the wholesale and retail trade, repair of motor vehicles, motor Cycles, personal and household goods, and hotels and restaurants, industry, make up 22.9% of the formal sector, and 51.7% of the informal sector of the South African economy (The Department of Trade and Industry, 2008).

The National Small Business Act of 1996 classifies small businesses into four categories: micro, which includes survivalist enterprises; very small; small; and medium (Luiz, 2011). Given the numerous, and sometimes conflicting definitions of SMEs in various research papers and books, and thus in order to simplify the research process, this research effort employs the definition of SMMEs operating in the retail sector, as set forth by the National Small Business Amendment Bill (South Africa) of 2003, as "enterprises which employ fewer than 200 persons, and which have an annual total turnover not exceeding 39 million rand, and/or an annual total gross asset value (fixed property excluded) not exceeding 6 million rand".

### **2.3 The important, but precarious nature of SMMEs**

Globally, the momentous importance and contribution of SMMEs to various national economies cannot be overestimated. SMMEs play a significant role in the contribution to the Gross Domestic Product (GDP) of

the economy as well as in the creation of employment opportunities for the employable workforce. Bruwer (2012) asserts that in South Africa, there are an estimated number of 3,830,511 small medium and micro enterprises (SMMEs) currently in operation. He further postulates that these business entities play a pivotal role in the creation of jobs, the alleviation of poverty and the overall enhancing of the economy. According to Indexmundi (2012), the estimated GDP of South Africa stood at a mammoth \$491.4 billion (R3.149 trillion) in 2004. Of this total GDP, they believe that SMMEs contributed 35% thereof, which translates to \$171.9 billion (R1.102 trillion) (De Jongh, Van der Merwe *et al*, 2012).

To further emphasise the notable contribution of SMMEs to the South African economy, Thwala and Phaladi (2009) in their research study on the problems facing small contractors in the North West province of South Africa, report, estimate that in 1995 the overall contribution to the total GDP was 20.8% for small enterprises, 11.9% for medium enterprises, and 67.3% for large enterprises. As regards contribution to formal employment it was estimated at 29.5% for small enterprises, 15.3% for medium enterprises, and 55.2% for large enterprises. This statement is corroborated by a more recent study conducted by Fatoki (2012) in the area of new SMMEs and their financial management practices in South Africa, which points to the increasing contribution of SMMEs to the South African economy. According to the same study micro, very small and small enterprises contribute between 27-34% of the Gross Domestic Product and 72% of all jobs in South Africa.

Despite the noted contributions of SMEs to the world, and local economy in terms of increase in GDP, poverty alleviation, and job creation, SMEs worldwide, have a precarious nature, and are highly prone to failure. Past Research conducted estimate that 40% of new business ventures fail in their first year, 60% in their second year, and 90% in their first 10 years of existence (Cant, 2012). In South Africa, the number of SME failures in year 5 varies between 50 and 95% and about 75% of new SMEs do not become established firms. This makes the failure rate of SMMEs in South Africa one of the highest in the world (Neneh, 2012)

#### **2.4 Reasons why small businesses fail?**

Van Scheers (2011) avers that a number of challenges have been identified as proffering to the failure of SMEs, not only in South Africa, but also worldwide. A number of research articles have cited several reasons why small businesses fail. Franco and Haase (2009) in reviewing past literature for their study on Failure factors in small and medium-sized enterprises, identified a lack of qualifications and experience possessed by SME founders or managers, as severe constraints on SME's development. Van Scheers (2011) reaches a conclusion in her research study that

a positive correlation exists between marketing skills challenges and business failure in South Africa. Other reasons adduced for SMMEs failure include; Lack of Business management training and skills (Ngwenya, 2012), poor bookkeeping, inexperience in the field of business and the lack of technical knowledge, poor managerial skills, lack of planning, and lack of market research (Okpara, 2011), the lack of institutional support, along with inadequate legislation and excessive regulations (Franco and Haase, 2009), to name but a few. However, in reviewing past and current academic literature on the causes of SMEs failure, one recurring factor which is continuously highlighted as possibly the most important reason why small businesses fail, is that of poor cash flow management. Hatten (2012) in discussing managing cash flow as an important principle of small business management asserts that each business day approximately a dozen U.S small businesses declare bankruptcy. The majority of these business failures are caused by poor cash-flow management.

#### **2.5 Poor cash flow management and SMMEs failure**

Most of the successful small businesses ensure that they maintain a sound cash flow position for the business. Good cash flow management is essential because most of the SMEs that have failed, failed due to poor cash flow management (April, 2005). It is generally acknowledged as the single most pressing concern of most small and medium-sized enterprises (SMEs). These premises accentuate the cardinal influence that proper and effective cash flow management has on the failure or success of a business, particularly SMMEs. Drever and Hartcher (2003) in their research paper exploring the issues relating to cash flow management practices on small businesses in a regional area of Australia, postulate the inevitable link between small business failure and poor or careless financial management. All too often, poor cash management systems have led small business managers to liquidate or reorganize under Chapter 7 or 11 of the Bankruptcy Code, and not just SMMEs, but even large corporations cannot afford to overlook the preeminent value of effective cash management (Harvard Business School, 1998).

#### **2.6 Techniques and methods for managing and/or improving a business' cash flow**

Given the indubitable effect that poor cash flow management can have on businesses, particularly SMMEs, it is imperative that small businesses know how to-, and, manage their cash flows effectively. Different articles and books recognize several techniques and tools for managing cash –

### **2.6.1 Receivables, Payables, and Inventory management (Cash flow cycle)**

Zimmerer *et al.* (2008) in writing about managing cash flow in Small businesses, postulate that the first step in effectively managing cash is to understand the businesses' cash flow cycle- which is the time lag between paying expenses to creditors and receiving payments from customers (debtors). They further assert that for small businesses to lower the possibility of a cash crisis, focus need to be paid on the three primary causes of cash flow problems, namely – Accounts receivable, Accounts payable, and Inventory, which they term “The Big Three of Cash Management”. This assertion is supported by Cui, Hastak, and Halpin (2010) who also postulate that effective cash flow management involves forecasting, planning, monitoring and controlling of cash receipts and payments. Rodriguez (2011) avers that many of the key elements of a sound cash-management system deal with accounts receivable. Since every dollar of accounts receivable equals a dollar of cash invested on the balance sheet, it stands to reason that the quicker those receivables are collected, the more cash is available for additional investments” These findings are supported by Brigham and Daves (2007) who observe that the shorter the cash conversion cycle, the lower the required net working capital, and the higher the resulting free cash flow. An intelligent analysis of customer payment histories and collections processes can significantly improve a company's cash position (Harvard Business School, 1998). It is recommended that businesses find ways to speed up their receivables, while extending their accounts payables period, without destroying their credit ratings. This is the essential of effective working capital management, resulting in higher free cash flows (Brigham and Daves, 2007).

### **2.6.2 Maintaining an Optimal cash balance**

Cash flow problems can force a profitable firm into bankruptcy because the firm is unable to pay its bills. Failure to correctly assess timing and control of cash flows is one of the primary causes of small business bankruptcy (Cheatham, Dunn, and Cheatham, 1989) Cash management is a vital task because cash is the most important, yet the least productive asset that a small business owns (Zimmerer *et al.*, 2008). All businesses require cash to finance their daily transactions. In addition to the transaction motive, businesses need to hold additional cash for unexpected requirements, or for precautionary purposes. The opportunity cost of holding excess cash, however, could be high, especially under high interest rates. A target cash balance that involves a trade-off analysis of covering cash deficiency and avoiding excessive cash balance, thus needs to be established (Cui, *et al.*; 2010). A cash flow forecast, or

budget, is a recommended cash management tool, which can help small businesses predict their business' cash inflows and outflows over a certain period, and also identify potential cash flow gaps- periods when cash outflows exceed cash inflows when combined with the business' cash reserves. Using cash budgets, aging schedules, and float to control the inflow and outflow of cash is paramount for effective cash management (Hatten, 2012). Thus, the cash flow forecast, or budget, as a tool, can be used by small businesses to ensure that it is not overwhelmed by unexpected fluctuations in cash flows.

### **2.6.3 Building and promoting a cash culture**

Van Scheers (2010), in her research study determining the challenges faced by small family groceries shops in South Africa, identified financial problems as a major challenge faced by small grocery shops. She posits- that the granting of consumer credit also presents significant challenges for small businesses. No less than 41.8 % ‘agree’ or ‘strongly agree’ that, bad debts pose a serious problem to their businesses. Cash flow is thus, a fundamental determinant of the survival of small businesses especially; not accounting profit or loss from credit sales; but cash flow. Building a “cash culture”, is thus, one such cash management practice that will ensure that businesses achieve sustainable, long-term improvements in cash management (Koon and Meng, 2012). SMEs, thus need to limit the amount of trade credit granted to customers, especially those with poor credit records, and insist on cash payments for a majority of its' transactions. This ensures the liquidity of small businesses and limits the costs of bad debts incurred.

## **3. Methodology**

### **3.1 Research design**

A qualitative research study was conducted. The specific type of qualitative research design used was a survey research study. Survey research involves acquiring information about one or more groups of people by asking them questions. It can be about their characteristics, opinions, attitudes or experiences.

The population for this study consisted of registered retail SMMEs located within the Pretoria Central and Pretoria East area (specifically Sunnyside, Pretoria CBD, Arcadia, Atterbury, Hatfield, Menlyn, and Brooklyn) of the city of Tshwane in the Gauteng province of South Africa. One of the primary attributes of qualitative research is the small number of participants in the study. The data for this study was collected from 31 SMMEs owners, managers, accountants and sales clerk responsible for the cash management process of their respective businesses

(n=31). The research study primarily made use of the *purposive sampling* and *quota sampling* methods. In qualitative research, the sample is intentionally selected according to the needs of the study, commonly referred to as 'purposive sampling' or 'purposeful selection'. Participants were therefore, chosen from the different categories comprising SMMEs, namely- small-, medium-, and micro-, enterprises, until the target number was met.

### **3.1 Data collection**

The data for this study was collected by means of interviews and questionnaire. Based on the research objective and research questions, an interview schedule and questionnaire was developed to collect data from the research study sample. Interviews were conducted with 25 selected respondents, while six of the selected respondents refused to be involved in the interview process and opted rather to fill out the questionnaire. In the interview process, a series of semi-structured and open-ended questions were asked. During the interview process, the interviewer made notes, and responses were recorded with the aid of a tape recorder, with the explicit knowledge and permission of the respondents, to ensure that their responses could be replayed and transcribed accurately ensuring that main points discussed were not forgotten or misinterpreted. Clarifying questions were asked on some of the responses provided, as well as the explanation of certain terms and concepts to respondents who had difficulties comprehending them. Probing questions not included in the interview schedule were also asked to elicit from respondents, a richer data pertinent to answering the research objectives and secondary questions

The semi-structured questionnaire developed, containing close and open-ended questions was self-administered to different respondents across the disparate retail SMMEs. In accordance with the objective of the research study, the questionnaire was sub-divided into 4 sections. The first section solicited information about respondents' profile. This was done to determine demographic / background information about the respondents. Section B contained questions pertaining to the SMMEs being surveyed such as the location of the business, nature of business, number of employees appointed, etc. Section C, and Section D elicited responses concerning the cash management process of the respondents' SMME and in the opinion of the respondent, based on their knowledge and experience, the relationship between cash management and business failure, respectively.

### **3.2 Responses to Questions**

All questionnaires handed out to respondents were answered and returned. Respondents did not rush through the questions due to time constraints. Respondents who received questionnaires had ample

time (1 – 2 weeks) to think through and provide answers to the questions. Further discussions were held with some respondents to clarify their answers and provide additional information on some of the questions not properly answered or to which the answers provided were not properly understood. The data collection process took place over a period of three weeks.

### **3.3 Data analysis**

Data analysis for this study was done by means of content analysis. Taylor-Powell and Renner (2003) define content analysis as a basic approach for analysing and interpreting qualitative and narrative data. The content analysis of the qualitative data was done by the researcher supported with the aid of the ATLAS.ti 6.0 CAQDAS (Computer-aided qualitative data analysis software). Qualitative analysis software allows researchers to do many things that are difficult or impossible to do by hand (Remler and Van Ryzin, 2011). The data content analysis process was done as suggested by Taylor-Powell and Renner (2003), Zhang and Wildemuth (2009), Andres (2012), Friese (2012), and Maxwell (2013).

The data to the research study, namely the contents of the interviews conducted as recorded with a tape recorder, and the responses to the questionnaire, were prepared and analysed. The recorded interview proceedings were transcribed and coded using the ATLAS.ti data analysis software. The questionnaire responses were carefully analysed and coded by the researcher in line with the research objectives and questions. During the analysis of the transcripts and questionnaires, certain recurring answers, and themes started to form, and these were identified as they stood out amongst other data. These recurring themes from the interview transcripts and the questionnaires were taken note of, coded, and categorized by the researcher with the aid of the CAQDAS software. Certain themes and responses remained consistent and key to the research study. Connections were made between these key categories and themes discovered in the coded data and at this stage these key themes and categories identified that answered the research study objectives and secondary questions, as well as recommendations and information pertinent to the research study were interpreted and noted. This data analysis process is consistent with that proffered by Maxwell (2013) who articulates that the main categorizing strategy in qualitative research is coding and that in doing qualitative research, the goal of coding is not primarily to count things, but to break down the data and reorganize them into categories which facilitate comparison between items in the same category and thus aid in the development of theoretical concepts.

Finally, the findings of the analysis, and results concerning the research study were presented using descriptive statistical analysis, with the aid of

Microsoft Excel 2010, which was used in the organisation and presentation of the data analysis results and findings. The results and findings of the data analysis process were presented in the form of tables, charts, figures, graphs, as well as percentages.

This research effort employed the use of *methodological triangulation*, which is the use of more than one method for gathering research data (Interviews and questionnaires used), and *data triangulation* which involves using different sources of information (SMME owners, managers, accountants, and sales clerk surveyed) in order to increase the validity of a study.

#### 4. Research Findings and Discussion

The questionnaires were dispensed to-, and interviews were sought with-, a total of 31 SMME owners, managers, and accountants/financial officers who took part in the research study. 25 interviews were conducted, and 6 of the participants refused to take part in the interview process and opted to rather fill out the questionnaire instead.

##### 4.2 Brief overview of the Research

The overall objective of this research study was to determine ways and methods SMMEs in the retail sector can improve their cash flow management processes in order to ensure consistent, reliable and healthy cash flows.

In reviewing past and relevant literature on the subject of small businesses, both locally and internationally, the high failure rate of small businesses was noted, especially in South Africa. Several factors responsible for such high failure rates in SMMEs were promulgated. Poor cash flow management inter alia was cited as a major reason why small businesses in South Africa and all over the world, failed (Berryman, 1983, Drever and Hartcher, 2003, Morin and Maux, 2011, Agyei-Mensah, 2012; Cant and Wiid, 2013). This research effort thus sought out to examine the cash management practices of retail SMMEs concentrated in the Pretoria Metropolis of the Gauteng province of South Africa, as well as ascertain the factors that influenced their cash flows. The findings of the research study are subsequently presented.

##### 4.3 Section A. (Demographic and Background information)

This aim of this section was to establish the job titles of staff in charge of the cash management process of the respective SMMEs, and as well as to ascertain the ethnicity and educational background of the respondents.

###### 4.3.1. Job title

Of the 31 respondents, 32.26% were owners, 54.84% managers, 3.23% accountants/financial managers and 9.67% sales clerks. (See Table 1 below)

**Table1.** Job titles of staff responsible for cash flow management

Title of personnel	Size of enterprise			Total (n)	Percentage (%)
	Micro enterprise	Small enterprise	Medium enterprise		
Owner	5	5	0	10	32.26
Manager	3	10	4	17	54.84
Accountant/Financial manager	0	0	1	1	3.23
Other (Sales clerks)	1	2	0	3	9.67
<b>Total</b>	<b>9</b>	<b>17</b>	<b>5</b>	<b>31</b>	<b>100</b>

###### 4.3.2 Ethnicity

Of the 31 respondents, 41.94% were African, 38.71% were Whites, 16.12% were Indians, and 3.23% were

Coloured. This is as depicted in Table 2 and Figure 1 below.

**Table 2.** Ethnicity distribution

Ethnicity	Frequency (n)	Percentage (%)
African	13	41.94
White	12	38.71
Asian	0	0.00
Indian	5	16.12
Coloured	1	3.23
<b>Total</b>	<b>31</b>	<b>100</b>

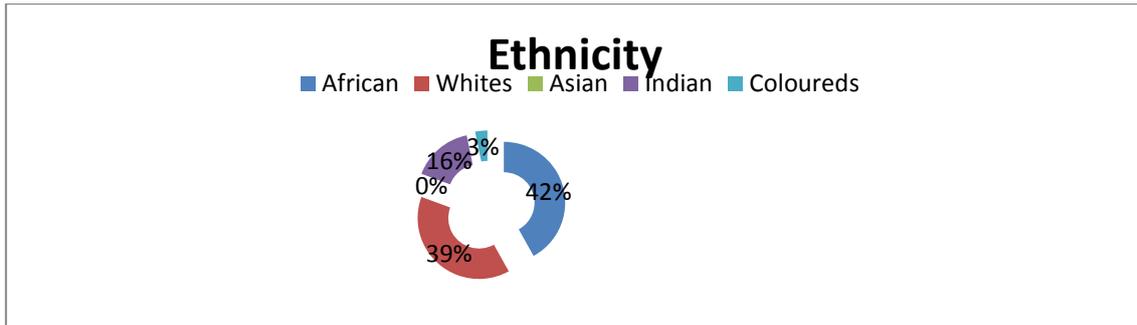


Figure 1. Distribution of Ethnicity

**4.3.3 Educational qualification**

The findings from the research study with regards the educational qualification of respondents is presented in Fig. 2 below. 9.68% of respondents had studied up

to primary level or below, 25.81% had completed their secondary education, 12.90% had technical/vocational training, and 51.62% had tertiary qualifications and above.

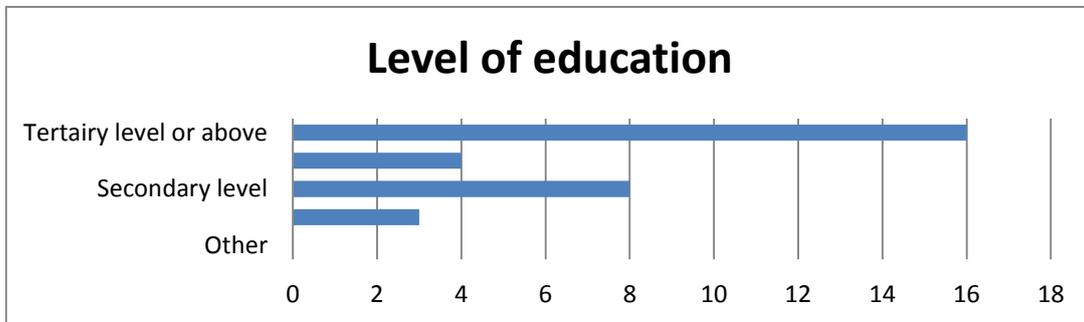


Figure 2. Educational qualification

**4.4 Section B (Information about respondent SMMEs)**

Section B solicited responses about the nature of the respondents SMMEs. Questions asked included the classification categories of the respondent SMME, the nature of business the SMME was involved in [these preceding questions were to ensure that SMMEs surveyed, complied with the definition of retail SMMEs as defined by the National Small Business

Amendment Bill (South Africa, 2003), the area the business was located, and the number of years it had been in existence.

**4.4.1 Classification category of SMME**

Of the 31 SMMEs surveyed, 9 (29.03%) were micro enterprises, 17 (54.84%) were small enterprises, and (5) 16.13% were medium enterprises (Refer to Fig.3 below).

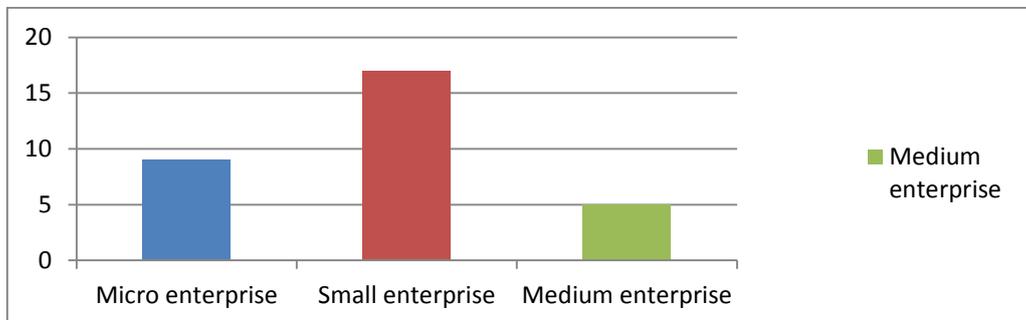


Figure 3. SMME distribution

Majority of the respondent SMMEs were reluctant to disclose their annual turnover, which is one of the metrics used by the National Small

Business Amendment Bill (South Africa, 2003) in defining small retail businesses. Therefore, the respondent SMMEs were classified according to the

number of employees they employed. Retail SMMEs employing less than 5 employees were classified as “micro enterprises”, less than or equal to 50 employees (i.e.  $5 \leq 50$ ), were classified as “small enterprises”, and enterprises employing between 50 and 200 employees (i.e.  $50 \leq 200$ ) were classified as “medium-sized” (National Small Business Amendment Bill, South Africa, 2003). This metric was used in conjunction with the Companies and Intellectual Property Registration Office (CIPRO) website where the information provided by respondents such as the category of the business, number of years since existence, nature of business conducted, was cross-checked against the CIPRO registration database to ensure validity and reliability of the data collected.

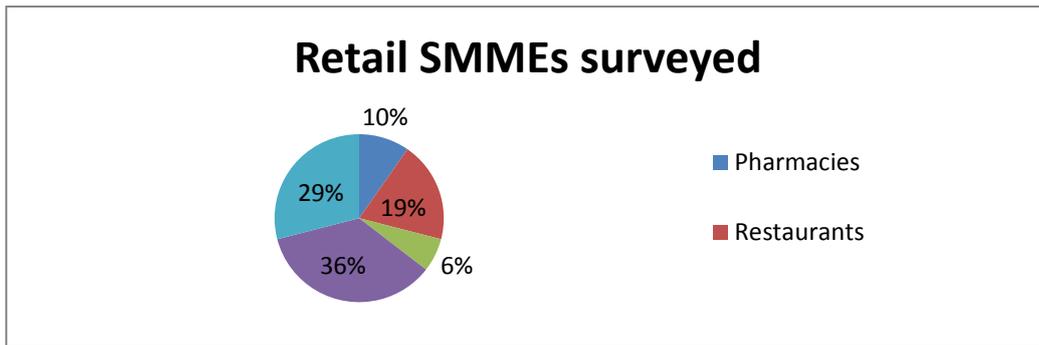
**4.4.2 Location**

The population for this study consisted of registered retail SMMEs located in the city of Pretoria in the Gauteng province of South Africa. The sample comprised of 31 SMMEs who are operating from

Pretoria. Of the SMMEs who participated in the research study, eight were from Brooklyn, three from Menlyn, six from Hatfield, and four from Atterbury. The remaining 10 SMMEs were surveyed from the Pretoria central metropolis- two from Sunnyside, four from Arcadia, and four from the Pretoria CBD area.

**4.4.3 Nature of business SMMEs are engaged in**

9.68% of businesses surveyed were retail pharmacies, 19.35% were restaurants, 6.45% were bookshops, 35.49% were retail clothing, handbags, and shoe wear shops, and the remaining 29.03% comprised of shops that retailed general household items, gifts and other consumables such as- household furniture and arts, kitchen utensils, leisure goods (wine, coffee, etc.), gadgets (security and travel), apple products (iPads, iPhones, iPods and apple accessories) baby toys, perfumes, and a meat and vegetable shop which sold convenience products like bread, milk, and included a bakery and a butchery. This is outlined as in Fig. 4 below.



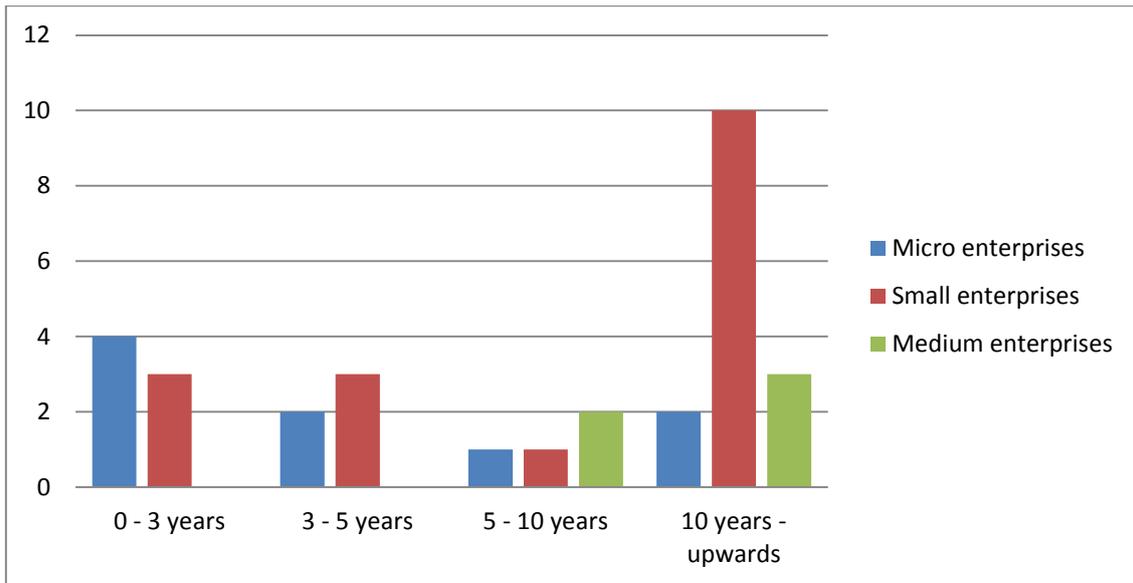
**Figure 4.** Types of retail SMMEs surveyed

**4.4.4 The number of years respondent SMMEs have been in business**

Past research conducted estimate that 40% of new business ventures fail in their first year, 60% in their second year, and 90% in their first 10 years of existence (Cant, 2012). In South Africa, the number of SME failures in year 5 varies between 50 and 95% and about 75% of new SMEs do not become established firms. This makes the failure rate of SMMEs in South Africa one of the highest in the world (Neneh, 2012). This question was aimed at

determining the number of years, the retail SMMEs surveyed had been in existence.

22.58% of SMMEs had been open for 0 to 3 years, 16.13% had been open for 3 to 5 years, 12.90% for 5 to 10 years, and an amazing 48.39% of retail SMMEs surveyed had been in business for 10 years upwards (Refer to Fig.5 below). Two retail SMMEs surveyed- a retail shop in Arcadia selling men’s clothing and shoes, has been open for 95 years, while the second retail shop located in the Atterbury value mart shopping mall, which specializes in retail travel and corporate bags, has been open since 1887.



**Figure 5.** Distribution of years among SMMEs

Of the 15 SMMEs that have been in existence for 10 years - upwards, 66.67% of these are small enterprises, 20% are medium enterprises, and the remaining 13.33% are micro businesses. 4 retail SMMEs report to being in business for 5 - 10 years. Of these, 50% are medium enterprises, and the remaining 50% are micro-, and small businesses, making up 25% respectively. The remaining 12 retail SMMEs report to have been in business for 5 years or less. Micro enterprises make up 50% of this number, and small enterprises make up the remaining 50%.

In the interview process, 2 retail SMMEs disclosed that their business had failed previously. The manager of a small restaurant located in Brooklyn, indicated that a second branch of the business was opened in a different location but it failed within its 1st year. The second SMME, a bookshop situated in Pretoria CBD (a micro business), revealed that his business failed initially within 6 months of it opening.

**4.5 Section C (Cash management practices of SMMEs)**

**Table 3.** Question of whether the SMME has formal cash management processes or not

	Size of enterprise	Size of enterprise	Size of enterprise	Total (n)
Response	Micro	Small	Medium	
Yes	4	16	5	25
No	5	1	0	6
<b>Total</b>	<b>9</b>	<b>17</b>	<b>5</b>	<b>31</b>

25 of the 31 SMMEs surveyed, responded to having formal and in-depth cash management processes/techniques, while 6 retail businesses had no formal processes for managing their cash flow. 94.12% of small businesses, and 100% of medium-sized retail businesses, had formal processes for managing their cash flows, while only 44.44% of micro retail businesses attested to having such processes.

Of the 25 SMMEs that affirmed they had formal cash management processes for managing their cash flows, 11 SMMEs described their cash management process as basic, 7 SMMEs described their cash management process as “not basic but somewhat limited”. Only 7 SMMEs attested to having comprehensive cash management processes. The 7 SMMEs that revealed they employ comprehensive cash management processes in managing their cash

flows, comprised of the 5 medium-sized businesses surveyed in the study, and 2 small businesses; one pharmaceutical retail store, and one restaurant. The study revealed that no micro enterprise surveyed had comprehensive cash management processes for managing their cash flows.

The most used cash management techniques by SMMEs was the cash float. 96.77% of retail SMMEs used this technique. One medium firm however, didn’t use this technique. The least most used cash management technique was the accounts receivables. This was corroborated by the same result when retail SMMEs were asked if they offered goods on credit. 77.42% of retail SMMEs did not use accounts receivables and did not offer goods on credit. 5 out of the 7 retail SMMEs that did credit sales were medium enterprises. The analysis of the questionnaires and interviews revealed that micro-,

and small businesses shy away from offering goods on account or credit (Refer to Table 4 below).

**Table 4.** Common cash management techniques

Techniques	YES	NO	NOT FAMILIAR	Total (n)	Percentage (%)	
					YES	NO
Accounts receivable	7	24	0	31	22.58	77.42
Accounts payable	17	14	0	31	54.84	45.16
Cash Budgets	22	9	0	31	70.97	29.03
Cash float	30	1	0	31	96.77	3.23
Credit sales	7	24	0	31	22.58	77.42
Cash flow cycle	11	20	(20)*	31	35.48	64.52
Stock/Inventory management	29	2	0	31	93.55	6.45
Cash culture	27	4	0	31	87.10	12.90
Process for recording cash	29	2	0	31	93.55	6.45

Another technique not used by retail SMMEs surveyed was the cash flow cycle. 64.52% of SMMEs were not familiar with the cash management technique. They had either not heard about it or did not employ it in their business. In explaining what a cash flow cycle was, and how it had to do with accounts payables, receivables, and inventory management, the term “working capital management” was brought up. 87.10% of retail SMMEs surveyed didn’t know what it was or what it meant. When asked if they had cash reserves for their business (working capital), only 10 of the 31 SMMEs disclosed to having working capital that the business was run with.

These findings are in consonant with those of Agyei-Mensah (2012) who found that only 3% of responding SMEs always have shortage of cash for spending while 60% always or sometimes have a surplus of cash. Nevertheless, only about 27% of SMEs deposit cash surplus into bank accounts, while up to 63% did not know how to use the temporary cash surplus for profitable purposes. This finding reveals that cash surplus rather than cash shortage is a problem for these SMMEs.

#### 4.5.1 POS and security systems

Of the 31 SMMEs surveyed, 64.52% had Point-of-sale (POS) till systems they used in their business transactions. Majority of small-, and medium retail enterprises used POS till systems complete with touch screens, bar code scanners, pin pad machines for credit and debit card payments, cash registers, and software programs such as Quickbooks, Micros,

Titan, Integrity, ProPharm for Pharmacies, and Orderwise. These point-of-sale systems recorded sales, kept debtor and creditor records, did stock control; what stock was leftover, and what had been sold; helped in dispensing medication for pharmacies, helped in simplifying the ordering of stock, and payroll system amongst other benefits. 4 out the 31 SMMEs had sensormatic security systems, which are Electronic Article Surveillance (EAS) and Radio-Frequency identification (RFID) technology systems to prevent shoplifting. The remaining 35.48% comprised of all the micro SMMEs surveyed and a few small businesses. These retail businesses still operated a manual cash management system ranging from the use of manual invoice books, not accepting debit and credit cards, to the basics of just receiving cash payments, writing cash received in a notebook and handing the cash over to the store owner at the end of business day instead of banking in the business’ account.

Despite the low percentage of retail SMMEs surveyed that do not use computerised systems, when asked whether or not POS systems if used by retail SMMEs would increase the survival rate of small businesses in the retail sector of South Africa, 93.55% of the retail SMMEs responded in the affirmative. The remaining 6.45% replied to the contrary. These findings are in line with that of McChlery, Meechan, and Godfrey (2004) who establish the use of computerised accounting systems as prominent catalyst in promoting efficient financial management in SMMEs.

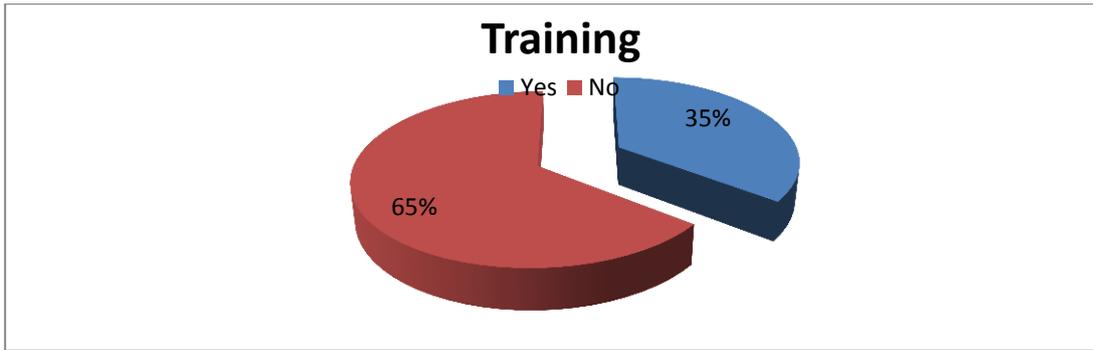


Figure 6. Training distribution

20 out of the 31 retail SMME respondents attested to having received no formal training to equip them for their role in cash management in the business (Fig.6 above). When asked if education or training could help small business owners run their businesses and manage their cash flows more effectively, 90.32% of respondents replied in the affirmative. However, when asked between education

versus experience, which played a more important role in small business success and survival, 67.74% of respondents chose experience, 12.90% chose education, and the remaining 19.36% responded that both education and experience were equally important for small business owners/managers (See Fig.7 below).

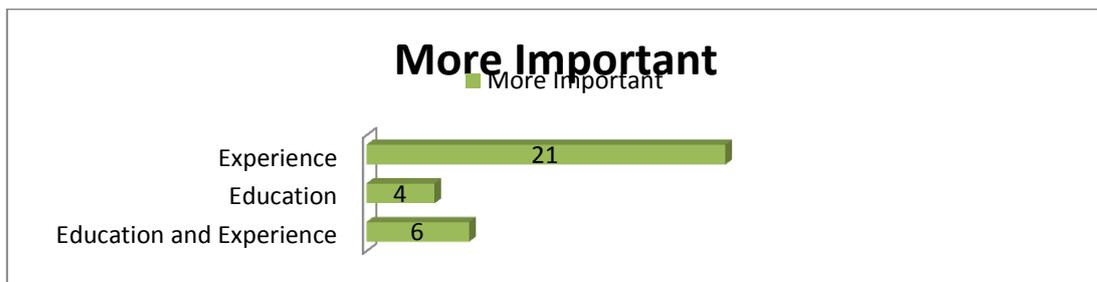


Figure 7. Education versus experience

**4.6 Section D (Cash flow management and small business failure)**

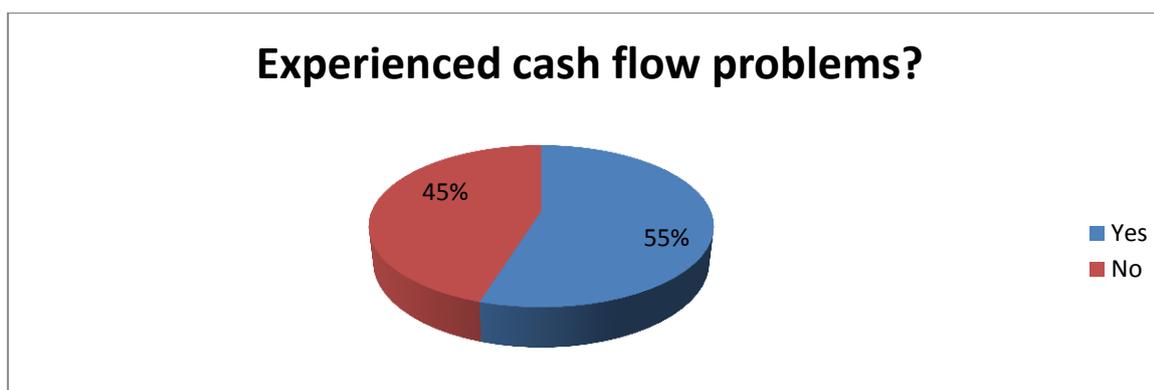
This section was to determine if respondents considered proper cash management as an important factor to the survival and success of a business, especially small businesses.

Table 5. 'Poor cash flow management can lead to small business failure'

Extent	Frequency (n)	Percentage (%)
Strongly agree	27	87.10
Agree	4	12.90
<b>Total</b>	<b>31</b>	<b>100</b>

In line with the above assertion, when asked if their business had experienced any cash flow problems since inception, 17 of the 31 retail SMMEs surveyed replied to the affirmative, while the remaining 14 SMMEs said they hadn't experienced any cash flow problems till date (See Fig.8. below). These findings are in line with research done in the field of small businesses and go a long way in corroborating Okpara (2011) who adduces those management problems, including accounting, finance, personnel, and management issues, as a major cause

of business failure for small businesses. Most small business managers claim that cash management is their leading concern. Small business managers face different cash management challenges than their counterparts in larger companies. Compared to larger firms, small businesses often have under-staffed and under-trained accounting staffs, volatile cash flows dependent on a single product line, limited access to new capital, and a significant share of their net worth tied up in working capital (Harvard Business School, 1998).



**Figure 8.** SMMEs and cash flow problems

A further inquiry into problems, difficulties, and/or challenges experienced by retail SMME owners/managers, revealed several macro- and micro-environmental variables which negatively affected retail SMMEs. It can be deduced from the analysis of the data that cash flow problems were not the only difficulties experienced by small retail businesses. One recurrent problem majority of respondents complained about was excessive rental. One retail business owner situated in Pretoria CBD commented:

Another recurrent problem cited by majority of respondent retail owners was the issue of theft. These difficulties/challenges experienced by SMMEs operating in the retail sector in the Gauteng province of South Africa are summarised and as follows:

- Excessive rental prices
- Theft (Employee theft and shop-lifting)
- Seasonal sales leading to inconsistent cash flows
- Mismanagement of cash float and stock by employees leading to damages and loss of stock
- Over-ordering of stock, abysmal inventory control, budgeting and working capital management
- Bad debts from credit customers
- Competition from larger enterprises
- Inadequate location
- Unfavourable government regulations i.e. taxation, pricing structure
- Labour issues i.e. staff issues, remuneration issues

## 5. Conclusion

The aim of the present study was to examine the influence of good cash flow management practices on the survival and/or growth of the SMMEs operating in the metropolis of Pretoria. The motivation behind the study derived from previous studies published in the subject area of financial management on SMMEs that conjecture that small business failure can inevitably be related to poor or careless financial management (See for example Berryman, 1983 and Harvard Business School, 1998). We find strong evidence (87.10% of retail SMMEs surveyed strongly agreed) that cash flow management is extremely important to

the survival of a business, particularly small businesses, and poor cash flow management can lead to small business failure. These findings thus adduce to the fact that cash flow is the life blood of all businesses and is the primary indicator of business health. By improving their existing cash management techniques such as cash budgets, cash floats, inventory control, cash flow cycle, and incorporating new and proven cash management techniques such as working capital management, POS systems, using cash reserves etc., small and medium retail businesses can improve their cash flows and ensure their business' liquidity.

It is also important to note that cash flow management is not the only factor that impacts on the survival of small businesses, (Franco and Haase, 2009; Van Scheers, 2011; Ngwenya, 2012; Seeletse, 2012; Cant and Wiid, 2013). Several other factors mentioned by respondents, that impact on small business survival, include-location, proper training for owners/managers, qualified staff, quality product offering, proper knowledge of product and target market, excellent customer relations and service, discipline, perseverance, and hard work.

We also wish to proffer policy advice to the newly created ministry dedicated to SMMEs in South Africa. Firstly there is a need to create an enabling environment to ensure the success of the SMES. There is a dire need for the entrepreneurs, especially the small ones to be trained in financial management, and procurement practises amongst others. Secondly there is a need to make available credit to the SMMEs at concessionary rates to help finance their working capital requirements.

## References:

1. Abor, J. & Quartey, P. 2010, "Issues in SME development in Ghana and South Africa", *International Research Journal of Finance and Economics*, vol. 39, no. 6, pp. 215-228.
2. Anderson, W. 2011, "Internationalization opportunities and challenges for small and medium-sized enterprises from developing countries", *Journal of African Business*, vol. 12, no. 2, pp. 198-217.

3. Berryman, J. 1983, "Small business failure and survey of the literature", *International Small Business Journal*, vol. 1, no. 4, pp. 47-59.
4. Brand, R., Du Preez, N. & Schutte, C. 2007, "A business framework to network small South African enterprises for sustainability", *South African Journal of Industrial Engineering*, vol. 18, no. 2, pp. 187-201.
5. Brigham, E.F. and Daves, P. R. 2007. *Intermediate financial management*. 8<sup>th</sup> ed. Mason, Ohio: Thomson/South-Western.
6. Bruwer, J. 2012, "The entrepreneurial mindset profile of South African small medium and micro enterprises (SMMEs) in the Cape Metropole", *African Journal of Business Management*, vol. 6, no. 15, pp. 5383-5388.
7. Cant, M. 2012, "Challenges Faced By SME's In South Africa: Are Marketing Skills Needed?", *International Business & Economics Research Journal (IBER)*, vol. 11, no. 10, pp. 1107-1116.
8. Cheatham, L.R., Dunn, J.P., & Cheatham, C.B. 1989, "Working capital financing and cash flow in the small business", *Journal of Business and Entrepreneurship*, 1(2): 1-12
9. Cui, Q., Hastak, M. & Halpin, D. 2010, "Systems analysis of project cash flow management strategies", *Construction Management and Economics*, vol. 28, no. 4, pp. 361-376.
10. de Jongh, H., Martin, W., Redenlinghuis, J., Kleinbooi, C., Morris, D., Fortuin, A. & Bruwer, J. 2012, "Utilisation of adequate internal controls in fast food small medium and micro enterprises (SMMEs) operating in Cape Metropole", *African Journal of Business Management*, vol. 6, no. 31, pp. 9092-9095.
11. Department of Trade and Industry. South Africa. 2008. *Annual Review of Small Businesses in South Africa 2005-2007* [online]. 3<sup>rd</sup> ed. Pretoria. Department of Trade and Industry. Available from: [http://www.dti.gov.za/sme\\_development/docs/smme\\_report.pdf](http://www.dti.gov.za/sme_development/docs/smme_report.pdf) [Accessed 12 April 2014]
12. Drever, M., & Hartcher, J. 2003, "Issues relating to cash flow management for SMEs after the introduction of the GST", *A paper presented at the Small Enterprise Association of Australia and New Zealand 16th annual Conference, Ballarat, 28 Sept-1 Oct, 2003*. University of Ballarat, Ballarat, Australia
13. Fatoki, O. 2012, "An Investigation into the Financial Management Practices of New Micro-enterprises in South Africa", *Journal of Social Science*, vol. 33, no. 2, pp. 179-188.
14. Franco, M. & Haase, H. 2010, "Failure factors in small and medium-sized enterprises: qualitative study from an attributional perspective", *International Entrepreneurship and Management Journal*, vol. 6, no. 4, pp. 503-521.
15. Frieze, S. 2012. *Qualitative data analysis with ATLAS.ti*. London: SAGE Publications
16. Hatten, T.S. 2012, *Principles of small business management*, South-Western Cengage Learning.
17. Le Maux, J. & Morin, D. 2011, "Black and white and red all over: Lehman Brothers' inevitable bankruptcy splashed across its financial statements", *International Journal of Business and Social Sciences*.v2 i20, , pp. 39-65.
18. Ligthelm, A. 2008, "The impact of shopping mall development on small township retailers", *South African Journal of Economic and Management Sciences= Suid-Afrikaanse Tydskrif vir Ekonomiese en Bestuurswetenskappe*, vol. 11, no. 1, pp. 37-53.
19. Ligthelm, A. 2006, "Size estimate of the informal sector in South Africa", *Southern African Business Review*, vol. 10, no. 2, pp. 32-52.
20. Luiz, J. 2002, "Small business development, entrepreneurship and expanding the business sector in a developing economy: The case of South Africa", *Journal of Applied Business Research*, vol. 18, no. 2, pp. 53-68.
21. Mackevičius, J. & Senkus, K. 2006, "The system of formation and evaluation of the information of cash flows", *Journal of business economics and management*, vol. 7, no. 4, pp. 171-182.
22. Maxwell, J. A. 2013. *Qualitative research design: an interactive approach*. 3<sup>rd</sup> ed. Thousand Oaks, California: SAGE Publications.
23. Mbonyane, B. & Ladzani, W. 2011, "Factors that hinder the growth of small businesses in South African townships", *European Business Review*, vol. 23, no. 6, pp. 550-560.
24. Morin, D. & Maux, J. L. 2011, "Black and white and red all over: Lehman Brothers' inevitable bankruptcy splashed across its financial statements", *International Journal of Business and Social Science*, vol. 2 no.20, pp. 39-65.
25. Neneh, N.B. 2012, "An exploratory study on entrepreneurial mindset in the small and medium enterprise (SME) sector: A South African perspective on fostering small and medium enterprise (SME) success", *African Journal of Business Management*, vol. 6, no. 9, pp. 3364-3372.
26. Ngwenya, F. 2012. *The small and medium-sized enterprises as a vehicle for employment creation in South Africa: proceedings of the Clute Institute International Conference, Bangkok, Thailand, March 2012* [online]. Available from: <http://conferences.cluteonline.com/index.php/IAC/2012/BK/paper/viewFile/1060/1070> [Accessed 13 April 2014]
27. Okpara, J.O. 2011, "Factors constraining the growth and survival of SMEs in Nigeria: Implications for poverty alleviation", *Management Research Review*, vol. 34, no. 2, pp. 156-171.
28. Rea, L. M., and Parker, R. A., 2005. *Designing and conducting survey research: a comprehensive guide*. 3<sup>rd</sup> ed. San Francisco: Jossey-Bass.
29. Remler, D. K., and Van Ryzin, G. G. 2011. *Research methods in practice: strategies for description and causation*. California: SAGE Publications
30. Rodriguez, M.A. 2011, "Cash is king—How OBM helped a North American telecommunications organization obtain \$76 million in receivables", *Journal of Organizational Behavior Management*, vol. 31, no. 3, pp. 163-178.
31. Soenen, L.A. 1973, "The Concept of Cash Flow: Techniques for Speeding up the Flow of Cash", *Management Decision*, vol. 11, no. 5, pp. 314-322.
32. Taylor-Powell, E., & Renner, M. 2003. *Analyzing Qualitative Data* [online]. University of Wisconsin-Extension. Available from: <http://learningstore.uwex.edu/assets/pdfs/g3658-12.pdf> [Accessed 22 September 2013]
33. Thwala, W.D. & Phaladi, M.J. 2009, "An exploratory study of problems facing small contractors in the North West province of South Africa", *African Journal of Business Management*, vol. 3, no. 10, pp. 533-539.
34. van Scheers, L. 2010, "Challenges of small family groceries shops in South Africa", *World Journal of*

- Entrepreneurship, Management and Sustainable Development*, vol. 6, no. 3, pp. 221-231.
35. Zhang, Y., & Wildemuth, B. M. 'Qualitative Analysis of Content'. [online] In: Wildemuth, B.M. (Ed.), *Applications of Social Research Methods to Questions in Information and Library Science*. Available from: [http://www.ischool.utexas.edu/~yanz/Content\\_analysis.pdf](http://www.ischool.utexas.edu/~yanz/Content_analysis.pdf) [Accessed 25 September 2012]
36. Zimmerer, T.W., Scarborough, N.M., & Wilson, D. 2008. *Essentials of entrepreneurship and small business management*. 5th ed. Upper Saddle River, New Jersey: Pearson/Prentice Hall.