AN ASSESSMENT OF THE FINANCIAL MANAGEMENT SKILLS OF SMALL RETAIL BUSINESS OWNERS/MANAGERS IN Dr JS MOROKA MUNICIPALITY

by

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DECLARATION

Student number: (0768 4606)

I declare that:

An assessment of the financial management skills of small retail business owners/managers in Dr JS Moroka Municipality is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

.... Date: ....

Signature

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ABSTRACT

South Africa abandoned its apartheid system in 1994, which enabled the country to be integrated into the global economy. Due to the lack of global competitiveness, between 70 and 80% of start-ups fail within five years (Goosain, 2004:23). People lost their jobs and the unemployment rate escalated from 17% to 28% (Kingdon and Knight, 2003). Government increased its support to small businesses in order to stimulate economic growth and development as an alternative means of job creation. However, studies conducted to determine the performance of small businesses reveal that most of these businesses fail irrespective of the support they receive from government due to a lack of financial management skills. The study being reported here investigated which financial management skills owners/managers of small business have and which ones are lacking in order to recommend appropriate training interventions required to develop and improve the financial management skills of such owners/managers and ultimately the management of their businesses.

A literature review was conducted regarding the small business environment, training interventions and financial management skills. Financial management skill sets relevant to small business were identified and listed for empirical research purposes. Empirical research was conducted on the target population within the indicated geographical area.

The study confirmed that most small business owners/managers have limited financial skills. Recommendations will be put forward on the type of skills future training needs to focus on.

Keywords: Small business, financial management skills, business owners/managers, training

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LIST OF ACRONYMS

GEM	-	Global Entrepreneurship Monitor
SMMEs	-	Small, medium and micro enterprises
GDP	-	Gross domestic product
USA	-	United States of America
LBSCs	-	Local business services centres
RFIs	-	Retail financial intermediaries
MACs	-	Manufacturing advice centres
BMR	-	Bureau of Market Research
Unisa	-	University of South Africa
SPSS	-	Statistical Package for Social Sciences

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CHAPTER 1

1.1 BACKGROUND OF THE RESEARCH

Goosain (2004:23) found that 70% to 80% of the small businesses started in South Africa fail each year. Landzani and Van Vuuren (2004:157) add that when many small businesses emerge, a considerable number of them fail at the infancy stage and some fail within few years after start-up. According to the Global Entrepreneurship Monitor (GEM) (2004:10), the failure is attributable to a lack of business management skills, especially financial management skills. In order to succeed and survive in the market place, GEM (2004:12) suggested that a conducive environment be develop for small businesses.

In order to create an enabling environment for small businesses requires that the issues that stifle their development and growth be addressed. Initiatives such as a friendly regulatory environment, access to information, advice, finance and marketing and differential taxation support for managerial training are necessary to enable small businesses to survive and adapt in the changing and challenging environment (Government Gazette, 1995:10). In the next section, issues that justify the support of small businesses are discussed.

Throughout the world, small, medium and micro enterprises (SMMEs) play a role in absorbing labour, penetrating new markets and generally enhancing an enabling environment for entrepreneurship. This is partly due to the fact that SMMEs tend to be more labour-intensive and therefore have a higher labour-absorption capacity than big businesses (Jacqui and Macquet, 2002:11). SMMEs can be established for any business activities, in urban or rural areas, in big cities or very small villages (Amin, 2004:371). For instance, in the United States of America (US) small businesses introduce innovative products and services, created jobs, opened foreign markets and in the process sparked the US economy. In Japan, small businesses account for the bulk of the country's established businesses that provide sustainable jobs. In Taiwan, small businesses account for 98% of the gross domestic product (GDP) (Landzani, 2004:154). SMMEs in South Africa can follow this example and make a contribution to economic growth and reduce unemployment (Government Gazette, 1995:5).

It is against this background that the South African government identified small businesses as a vehicle to address the challenges of job creation, economic growth and income redistribution (Government Gazette, 1995:4). Central to this thinking is the national government's plan and strategy to assist the SMME sector by creating an environment in which entrepreneurs flourish, in which investment opportunities are created and in which productivity is improved (Landzani, 2004:13).

In 1995, government developed a national strategy for the promotion and development of small business in South Africa (Government Gazette, 1995:5). Subsequent to the introduction of the national small business strategy was the establishment of the new institutional structures designed to support, coordinate and monitor the progress of the small business sector (Rogerson, 2004:767). The new institutional structures consist of the following role players:

- Ntsika Enterprise Promotion Agency;
- Khula Enterprise Limited and Khula Credit Guarantee;
- the national small business council; and
- business partners.

Ntsika's mandate was to facilitate access to non-financial areas of small business support such as skills training and information. Khula`s central activity was to facilitate access to finance for small business development. Khula provides loans and guarantees for retail banking institutions servicing the small business sector. Business partners are specialist investment groups, providing debt and equity investment, mentorship and property management services for small and medium enterprises in South Africa.

To facilitate communication between Khula and Ntsika, a national small business council is established. The national small business council is an autonomous body led by the private sector consisting of small business representatives and associates. The council's main objectives are to promote the interests of the small business sector at national, provincial and local level and to submit recommendations to government regarding existing and proposed legislature impacting on small businesses. The main implementers of the programmes designed by Khula and Ntsika are highlighted below (Broembsen, 2003:5).

A critical component of the support strategy was the establishment of a set of decentralised local business services centres (LBSCs), provincial small business desks in each province, tender advice centres, retail financial intermediaries (RFIs) and manufacturing advice centres (MACs) (Rogerson, 2004:767).

In support of the Khula and Ntsika programmes, the National Skills Authority introduced the National Skills Development Strategy. The main objective of this strategy is to stimulate and support skills development in small businesses (Erasmus, 2005:15).

Despite the introduction of a national strategy for the promotion and development of small business and the National Skills Development Strategy, research conducted by Roodt (2005:20) showed that about 30% of people participating actively in the small business sector lack business skills. These findings are consistent with the research conducted by Ligthelm and Van Wyk (2004:1). This latter study showed that one out of every three small businesses owners/managers is functionally illiterate. Owners of small businesses lack essential financial/accounting skills, information technology skills and business skills required for effective management of small businesses.

1.2 PROBLEM STATEMENT

Given that SMMEs can reduce the unemployment problems faced by South Africans but fail particularly due to lack of business management skills, it becomes imperative to investigate which financial management skills owners of small businesses have and which ones they lack and what the implications for training and development are.

1.3 OBJECTIVES OF THE STUDY

The main objective of this study was to determine which financial management skills owners/managers of small businesses in Dr JS Moroka Municipality have and which ones they lack and to recommend appropriate training required for developing and improving their financial management skills. In order to achieve this objective, the following secondary objectives have been developed.

- to investigate the current experience, training and education of small business owners with respect to financial management skills;
- to determine their financial management skills;
- to explore which training needs they have with respect to financial management skills; and
- to recommend possible suitable training providers of financial skills development.

1.4 LITERATURE REVIEW

The literature review centred on the following themes: overview of small businesses, skills development and financial management skills.

1.4.1 Small business sector

Policy makers have a growing concern about the increase in unemployment, lack of job creation, poor economic growth and globalisation. They believe that small business development is the solution to this concern (Shafeek, 2006:25). The rationale for promoting small businesses is that this sector has a positive impact on the gross domestic product (GDP). The objective of this section is to define small businesses and to classify them into various categories using the National Small Business Act 102 of 1996. This is in line with the argument by Bridge and McMahon (2003:184) whose definition of small business is a point of departure for any study on the small business sector because it enables the researcher to limit and focus the study on small business. There is no single, uniformly accepted definition of a small business. Gibson and Holmes (2001:1) argue that small businesses are best defined and identified by their inherent characteristics. From this point of view, Shafeek (2006:28), Gibson and Holmes (2001:01) and Nieman, Hough and Nieuwenhuizen (2006:5) consider a business to be small if it has the following characteristics:

- no public negotiability of shares of ownership;
- independently owned and operated;
- owner personally guarantee any existing or planned financing;
- closely controlled by owner, and the principal decision-making functions rest with the owner;
- less than 20 full-time employees; and
- a relatively small share of the marketplace or relatively little impact on its industry.

The criteria set out above are not much different from the ones listed in the National Small Business Act 102 of 1996. The Act classifies small businesses into the following categories: small, medium and micro business with the general term “small business” and the acronym “SMMEs”. The classification is based on the number of employees each business employs, the turnover generated annually by the business, and the business asset value. The classification is considered when policies and programmes intended to support and develop small businesses are designed. This is necessary because the financial support and training needs for small business differ from that of micro businesses (Broembsen, 2003:12).

The focus for this study was limited to micro and small businesses. These businesses employ between 5 and 10 employees, generate an annual turnover of about R150 000 to R250 000 and has a total gross asset value (excluding fixed property) ranging between R100 000 and R250 000.

1.4.2 The issue of skills in small businesses

Skill is knowledge demonstrated by actions or the ability to perform in a certain way. Skills are acquired through training and education (Perks & Smith, 2006:4). Education and training create circumstances in which a person can acquire and apply the skill that will help him/her achieve the objective of the business. Skills development can be achieved through training and education (Erasmus, 2005:1, 2, 28). The difference between education and training is that education prepares the individual for life while training prepares him or her to perform specific tasks. In this study, the focus was on skills development through training.

Landzani (2004:154–156) argues that changing circumstances require that small business managers/owners receive regular training in order to reduce failure rates, increase profits and achieve growth. This is necessary because most small business owners start their businesses without appropriate training.

This study was intended to support the above argument by investigating the current state of financial management skills and to make recommendations regarding the types of financial management skills training required. The following section gives an overview of financial management followed by a list of financial management skills.

1.4.3 Financial management of small businesses

A business must have the necessary resources at its disposal if it is to function efficiently. In order to accumulate the resources, funds are raised from the investors and lenders and invested in fixed and current assets. Once resources have been raised, operation starts. During the operation, funds are earned and expenses are paid. From the time of inception throughout its lifespan, the business uses funds. Hence, there is a continual flow of funds to and from the business. The management of these funds is called financial management (Badenhorst-Weiss, Brevis-Landsberg, Cant, Du Toit, Erasmus, Kruger, Machado, Marx, Mpofu, Rudansky-Kloppers, Steenkamp, Strydom, Vrba, 2010:420–421). The financial management function is distinguished from other business functions such as marketing, human resource and operation management but should not be seen in isolation from them. All other business functions have financial implications for the business (Conradie and Fourie, 2002:5). In a business organisation, financial management is performed by a financial manager.

Marx, De Swardt, Beaumont-Smith and Erasmus (2010:10) summarise the duties of the financial manager as follows:

- investment decision-making;
- financing decision-making;
- management of cash flow; and
- ensuring profitability.

Table 1 lists the main financial management tasks in the first column, followed by the specific skills required to execute these financial management tasks in the next column. The various sources are indicated in the last column.

Table 1.1: Financial management skills

Main skills	Specific skills	Authors
Investment decision-making	• Capital budgeting • Management of net working capital	Nieman et al. (2006:11)
Financing decision-making	• Knowledge of various sources of funds • Calculate the cost of capital • Select optimal capital structure	Atrill and McLaney (2006:407) Gitman (2010:504–580)
Cash-flow management	• Preparation of cash budget • Management of cash conversion cycle	Nieman et al. (2006:101) Gitman (2010:641–643)
Financial statement analysis	• Collecting, analysing and communicating financial information	Atrill and McLaney (2006:02)
Planning, control and reporting	• Profit planning • Cash planning	Walker and Petty (2001:61)

In this study, the concept "financial management skills" will be referring to those skills listed in Table 1.1. These skills will be used as a guideline for the development of the questionnaire and the interview schedules. The results of the analysis will be presented and compared with the skills listed in Table 1.1.

1.5 RESEARCH METHODOLOGY

This study consisted of two parts, namely a literature review and the empirical research component.

As stated before, the literature review was used to define fundamental concepts, discuss small businesses and categorise financial management skills. Information was gathered from secondary and primary sources using books, journal articles, theses, government publications and interviewer-administrated questionnaires.

A quantitative approach was used in this study. A quantitative approach is highly formalised, controlled and has a range that is exactly defined (Segoale, 2001:19). A quantitative approach was mainly used in this dissertation because of its relevance to the research topic and objectives. The objective was to measure data rather than to explore and evaluate meanings. The quantitative approach allowed the use of structured questionnaires to gather quantifiable data, which could be analysed statistically to produce quantified results. The quantitative research design used in this study will be discussed in the following sections.

1.5.1 Research design

Tustin, Ligthelm, Van Aardt, Van Wyk and Martins (2005:7, 82) define research as a systematic and objective collection, analysis and interpretation of data in order to address the research problem. The master plan that specifies the methods and procedures for collecting and analysing the data is called the research design. A research design known as a descriptive survey was used in this study. This method yielded quantitative information that could be analysed statistically. The selection of this method was based on the objective of the study, the type of data and the analysis techniques, which were employed in this study.

Survey research acquires information by asking questions, tabulating the answers and summarising the responses with percentages, frequency counts, or more sophisticated statistical indices, and then to draw inferences about a particular population from the responses of the sample (Leedy & Ormrod, 2005:183–184).

Sekaran (2003:118) states that at least the following topics should be covered in research design:

- data collection methods
- questionnaire design
- sampling, and
- data analysis.

These topics will be discussed in the sections below.

1.5.2 Data collection

Data collection in descriptive surveys is normally conducted by face-to-face interviews, a telephone interview or a mail questionnaire. In this study, data were collected by means of interviewer-administrated questionnaire. The usage of this method was based on its ability to generate a high response rate (Leedy & Ormrod, 2005:184). Prior to the interview, a motivational letter was sent to the respondents explaining the objectives and importance of the study.

1.5.3 Questionnaire design

As stated earlier, research involves the collection of data. Saunders, Lewis and Thornhill (2005:283) list the following methods of primary data collection, which may be used in research: paper-and-pencil interviewing, self-administered questionnaires, observation and experimentation. In this study, primary data was collected by means of a paper-and-pencil interview. This method requires that questionnaires be designed in advance. The design of questionnaires was influenced by the research objectives, which were the assessment of the financial management skills, the nature of the data and the method of data collection (interviewer-administrated questionnaires). The researcher has an option to choose among the unstructured, semi-structured and structured questions. The decisions are influenced by the methodological paradigm employed in the study (Tustin et al, 2005:392-395).

In this study, structured questions and structured responses (closed-ended responses) were formulated. A structured question asks the respondent to make a choice among a set of alternatives given by the researcher. The advantage of this type of question is that it helps the respondent to make quick decisions and the answers can easily be coded for analysis. Structured responses in turn are pre-determined and will not allow the respondents to answer in any way they want (Sekaran, 2003:239). To ensure that the question-naires yielded valid and reliable data they were pre-tested to ten respondents. This entailed correlating data collected with data from the same questionnaire collected under as near equivalent conditions as possible. The guideline used to design questionnaires was followed when questionnaires were designed to encourage participants to be co-operative and to make sure that the questionnaires yielded responses that could be interpreted. Leedy and Ormrod (2005:190) recommend that questions should be as brief as possible, using clear, unambiguous language, worded in a way that does not give clues about desirable responses, and be consistent.

1.5.4 Population

A population may be defined as a full set of cases or study objects, which may be individuals, groups, organisations or human products from which data can be sourced (Maphutse, 2003:58). In this study, the targeted population comprised managers/owners of small businesses in Dr JS Moroka Municipality, Mpumalanga Province.

The province of Mpumalanga is located in the northeastern part of South Africa, and is bordered by Mozambique to the east and the Kingdom of Swaziland to the south and east. Mpumalanga also shares common borders with the Limpopo to the north, Gauteng to the west, the Free State to the southwest and KwaZulu-Natal to the east. The nine provinces of South Africa are shown in figure 1.1 below:

Figure 1.1: Map of South African provinces

Source: http://.www.places.co.za/html//visualfind.html

About 3,1 million people (7,3% of South Africa population) live in Mpumalanga Province. The province has a land surface area of 78 370 km^2 which represents 6,4% of South Africa's total land area. The economy of the region is supported by manufacturing, mining, agriculture, forestry, power generation and tourism. The province is divided into three district municipalities, which are in turn subdivided into 18 local municipalities. Dr JS Moroka Municipality is one of the 18 local municipalities. Dr JS Moroka is a rural municipality with Siyabuswa as its head office. The municipality is 250 square kilometres in extent, consists of 30 wards and has 71 villages of which 90% are rural villages (Small enterprise and human development, 2007:01). According to the municipal database, there are 401 small businesses registered with them. These businesses are grouped into liquor stores, butcheries, general dealers, tuck shops and restaurants. A sample frame was drawn from this database.

1.5.5 Sampling

Sampling is the process of obtaining a portion of the population from which data are to be obtained (Tustin et al., 2005:101–103). The selected portion is called a sample. The reasons for sampling especially for this study are highlighted in the next section.

Fridah (2004:1) lists the following reasons for sampling: economy, timeliness, the large size of the population, inaccessibility of some of the population and destruction of the observations. In this study, economy, timeliness and inaccessibility of some of the population were the rationale for sampling. For instance, it would have been more expensive to conduct a survey on the entire population, also known as a census (Kruger, 2008:101-102). A census would have taken more time to conduct and analyse than was available for making the requisite decisions. A sample provided the necessary information quickly (Mouton, 2011:100).

In this study, a sample of 100 small retail businesses[2] was selected from the population. A selected sample is representative of the population and unbiased. The findings of the research can only be accepted if the sample is representative of the population. A sample of 100 small businesses was drawn from the population using a probability sampling technique.

[2] The statistics of each group will be described in Chapter 3

Tustin et al. (2005:100–103) list two types of sampling, namely probability sampling and non-probability sampling. Probability sampling was used in the current study. A probability sample was obtained through a random selection procedure. With this method, every element or unit of the population has an equal chance to be chosen for the sample (Leedy & Ormrod, 2005:198-199). A stratified sampling technique was used to draw the sample from the population to construct the sample frame. The choice of the probability method of sampling and ultimately stratified technique in this study was influenced by the nature of the problem, the population and the extent to which the researcher wished to generalise the findings to the population and to keep the possibility of bias at the minimum (Kruger, 2008:66).

1.5.6 Data analysis

The data was analysed statistically by means of the Statistical Package for the Social Sciences (SPSS). Descriptive statistics was generated by constructing a frequency distribution and then using the following descriptive statistics techniques to obtain the results:

- measure of central location;
- measure of variability; and
- measure of scewnes and kurtosis.

The usage of the above measures resulted in the calculation of the arithmetic mean, median, mode and the standard deviation which were used to interpret the results. It was critical to ensure that the data were reliable and valid in order to be considered accurate (Du Plessis, 2004:92).

1.5.7 Reliability and validity

The reliability and validity of the data collected were considered in this study in order to ensure that the questionnaire measures what it intended to measure.

Reliability refers to the consistency of the measurement instrument. In other words, reliability is the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects (Segoale, 2001:24). To enhance reliability in this study, the instruments were administered consistently so that there was standardisation of the use of the instrument from one respondent to the other.

Validity refers to the extent to which an instrument measures what it is supposed to measure (Leedy & Ormrod, 2005:190). When the measuring instrument is valid, the researcher will have confidence that the conclusion drawn from the study is warranted and defensible (Mouton, 2005:122-123). To ensure that validity was considered in this study, the triangulation strategy was applied. Triangulation is a strategy where multiple sources of data are collected with the hope that they will all converge to support a particular hypothesis (Leedy & Ormrod, 2005:99).

1.6 CHAPTER OUTLAY

The research is set out in six chapters:

Chapter 1: Introduction

Chapter 2: Literature review

Chapter 3: Research methodology

Chapter 4: Analysis and interpretation of the results

Chapter 5: Small business training service providers

Chapter 6: Summary, conclusion and recommendations

1.7 SUMMARY

This chapter introduced the background to the study, the problem statement, objectives of the study, research design and chapter outlay.

The majority of businesses in South Africa fail each year as a result of a lack of financial management skills. Initiatives in order to support businesses, such as a friendly regulatory environment, access to financing and differential taxation have been undertaken by the South African government through its National Strategy for the promotion and development of small businesses. Small businesses proved worldwide to be the engine of economic development. Despite the efforts taken by the concerned stakeholders to boost small businesses, research indicates that most of them still fail due to a lack of financial management skills. This study investigated which financial management skills owners of small businesses have and which ones they lack and what the implications for training and development are.

Specific attention was paid to the definition of the concept of skills, and financial management skills were classified accordingly. The classification of the financial management skills together with the objectives of the study was used in the design of the questionnaires.

This chapter highlighted the research design that was used in the study. It was mentioned that data were collected by means of the interviewer-administered questionnaire. The questions and responses were structured. Research was not conducted on the whole population. A sample was drawn from the population using the probability-sampling technique. The data were analysed by means of the SPSS package. The reliability and validity of the data were tested.

Since the focus of this research was on the financial management skills of small businesses owners/managers, the following chapter outlines the small business environment and discusses various financial management skills in detail.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter focuses on the theoretical and empirical literature relating to small businesses.

The chapter is organised into three parts. Part one consists of Sections 2.2 to 2.4, which present an overview of small businesses with respect to the definition of a small business, the classification according to the small business sector and the role of small businesses in economic development. In Sections 2.5 and 2.6 of Part two, skill is defined and its role in enhancing small business success within the South African context is highlighted. Part three, which consists of Section 2.7, dwells on financial management skills, which were used as a basis for the design of the questionnaire.

2.2 DEFINITION OF SMALL BUSINESS

Defining small business is a "vexing and enduring difficulty" (Gibson and Holmes, 2001:1), because there is no single definition of small business that is universally accepted. For instance, different sectors of the economy have different interpretations of the small business. Badenhorst et al. (2010:52–53) concluded that, although different countries define small businesses differently, it is accepted practice to make use of quantitative and qualitative criteria when attempting to define small businesses. The argument is supported by Nieman et al. (2006:10) who agree that a definition based on quantitative and qualitative factors will consider the measure of size, such as number of employees, the gross assets, sales turnover as well as different types of ownership and different sectors of the economy, like manufacturing, wholesalers, retailing, mining, motor and textile industries.

Taking into account the above guidelines, the definition by Bridge and McMahon (2003:184), supported by that of Gibson and Holmes (2001:6–9) has been accepted for the purpose of this study. The definition highlights both quantitative and qualitative aspects of small businesses. From this point of view, a small business is defined as one which possesses at least the following characteristics:

- management of the business is independent – usually the manager is also the owner;
- capital and ownership are provided by an individual or a small group;
- the area of operation is mainly local, with the workers and owners living in one home community; however, the market need not be local;
- the business should be relatively small when compared with the biggest units in the field, and this measure can be in terms of sales volume, number of employees or other significant components;
- control over business operations and decisions resides with one or two persons who are usually family members;
- the equity in the business is not publicly traded; and
- the personal security of the owner is required to secure the business debt.

The above definition is consistent with that of the National Small Business Act 102 of 1996. The Act classifies businesses in the small sector and defines each category accordingly. The categories will be discussed in the ensuing sections for the purpose of demarcating the study to an appropriate sector.

2.3 CLASSIFICATION OF SMALL BUSINESS SECTOR

The small business sector is highly diverse. From a broad strategy perspective and the designation of policies to address them, the Government Gazette (1995:7) made a distinction into small, medium and micro business with the general term "small business", and the abbreviation SMMEs is widely used to contrast this sector with big(ger) businesses. Throughout this study, the term "small business" will be used. The Government Gazette (1995:7) defines each of the small business sectors as follows:

- **Survivalist** enterprises are activities by people unable to find a paid job or unable to get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities into viable business.
- **Micro-enterprises** are very small businesses, often involving only the owner, some family member(s) and, at the most, one or two paid employees. They usually lack formality in terms of business licences, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or

business skills among their operators. However, most micro-enterprises advance into viable small business.

- **Small enterprises** constitute the bulk of established businesses, providing employment for between five and fifty paid employees. They are likely to operate from business or industrial premises, are registered for tax purposes and meet other formal business registration requirements.
- **Medium enterprises** are still viewed as owner/manager-controlled. The employment of 200 people and capital assets (excluding property) of approximately R5 million are often seen as the upper limits for inclusion in this category.

A further distinction can be made between SMMEs and SMEs where SMEs refers to only small and medium-sized enterprises. This study was limited to micro and small enterprises because the context within which the empirical investigation was conducted is dominated by these categories.

2.4 THE ROLE OF SMALL BUSINESSES IN ECONOMIC DEVELOPMENT

Small business literature supports the argument that the small business sector contributes substantially to economic growth, job creation, more equal income distribution and to the alleviation of poverty (Broembsen, 2003:4). For instance, in Europe, 99,8% of private businesses are small businesses and they generate half of Europe's turnover and employ about 53% of the workforce (Reijonen and Komppula, 2007:689). Central to this thinking is the belief by the Department of Trade and Industry that the small business sector can combat unemployment and its related problems in South Africa and help with the redistribution of income (Kesper, 2004:1–3). The empirical evidence on the importance of small businesses to the economy of South Africa is revealed by research conducted by the Global Entrepreneurship Monitor (GEM, 2004:11).

According to the GEM, the small business sector in South Africa represents 97,5% of the total number of the businesses, contributes 34,8% of the GDP, employs 55% of the labour force and approximately 42% of the total remuneration is generated by this sector. Table 2.1 provides a breakdown of the contribution of the large and small business sector to the GDP and employment to the South African economy.

Table 2.1: Estimated percentage contribution by size of business

Sector	Micro	Small	Medium	Large
Percentage contribution to GDP	5,8	13,9	15,0	65,2
Percentage contribution to employment	12,2	28,7	13,0	46,1

Source: Adapted from Intsika (2001) in Landzani (2004).

A comparative analysis between small businesses in South Africa and Europe as indicated by the above information reveals that, although there are more small businesses in South Africa than in

Europe, their contribution to the GDP and employment is far less than that of the ones in Europe. Dube (2007:3) argues that the success of small businesses to sustain and increase the GDP and employment is impaired by the common weakness from which many of them suffer, namely a lack of management skills which lead to their failure.

It is estimated that 400 000 small businesses fail each year in the United States of America (Roodt, 2005:18). It was mentioned earlier that in South Africa, between 70 and 80% of start-ups fail within five years. R68 million has been lost by the South African economic sector as a result of the failure of approximately 117 247 small businesses that have been receiving government assistance (Mutezo, 2005:37). Dube (2007:35) concludes that the overriding reason for the failure is inadequate technical and managerial skills. Although small businesses face multiple problems and challenges, skills have been singled out here since other variables were beyond the scope of this study.

For most small business to succeed it is critical to ensure that the surroundings in which they operate are supportive and to encourage the development of an environment that is conducive to the establishment and growth of business (Henriksen, 1999:1).

In recognition of the necessity of an enabling environment, there have been a number of initiatives by different organisations, agencies and government departments over the past years to unlock the potential of the South African small business sector (South

African Chamber of Business [SACOB], 1999:3). In an effort to support and promote small businesses, the government of South Africa identified training in entrepreneurship skills and management as a priority. In the subsequent section, the initiatives taken by the government of South Africa to promote skills will be evaluated.

2.5 THE ISSUE OF SKILLS IN SOUTH AFRICAN SMMEs

A study undertaken by McGrath (2003:57) revealed that the apartheid policies in South Africa had a fundamental impact on the educational level and skills development within townships. The majority of the population was not given equal access to basic education and education offered was of a poor quality. As a result, McGrath (2003) argues that the legacy of poor education and training, especially for black South Africans, had a negative impact or constraints on the development of small businesses. Previously disadvantaged South Africans were educated to enter the labour market as employees not as entrepreneurs (Louw, 2003:06).

When the government of the national unity took over in 1994 it became clear that it intended working very hard on the issues of skills development. In 1997 the Department of Labour introduced its skills development plan (McGrath, 2003:57). Since then, the development of skills has been given increasing attention in the President's state of the nation addresses and it became an integral part of the programme of action for the second Mbeki presidency. Although the focus in the Green Paper (1997:124) on the National Skills Development Strategy was primarily on larger businesses, it did acknowledge the importance of including small businesses within the proposed National Skills Development Strategy. A Green Paper is a tentative government report of proposal that attempts to take into account the feasibility of the proposal being presented to parliament and enactment of the proposal into law (Government Gazette, 1997:10). The Department of Labour is generating R3 billion per annum for skills development through its levy-grant system and it maintains the high profile of skill issues through the National Skills Development Strategy (McGrath, 2003:1).

2.6 DEFINITION OF SKILLS

According to Kathryn (2005:1098), "skill" refers to the knowledge and ability that enable one to do the work. Skill is knowledge acquired through training and it is demonstrated by actions. This definition is consistent with that of Perks and Smith (2006:3), which states that skill is knowledge acquired through formal or informal training as well as through practice. In this study, the focus was on financial management skills

Boehlje, Dobbins and Miller (2006:2–19) list business management skills as:

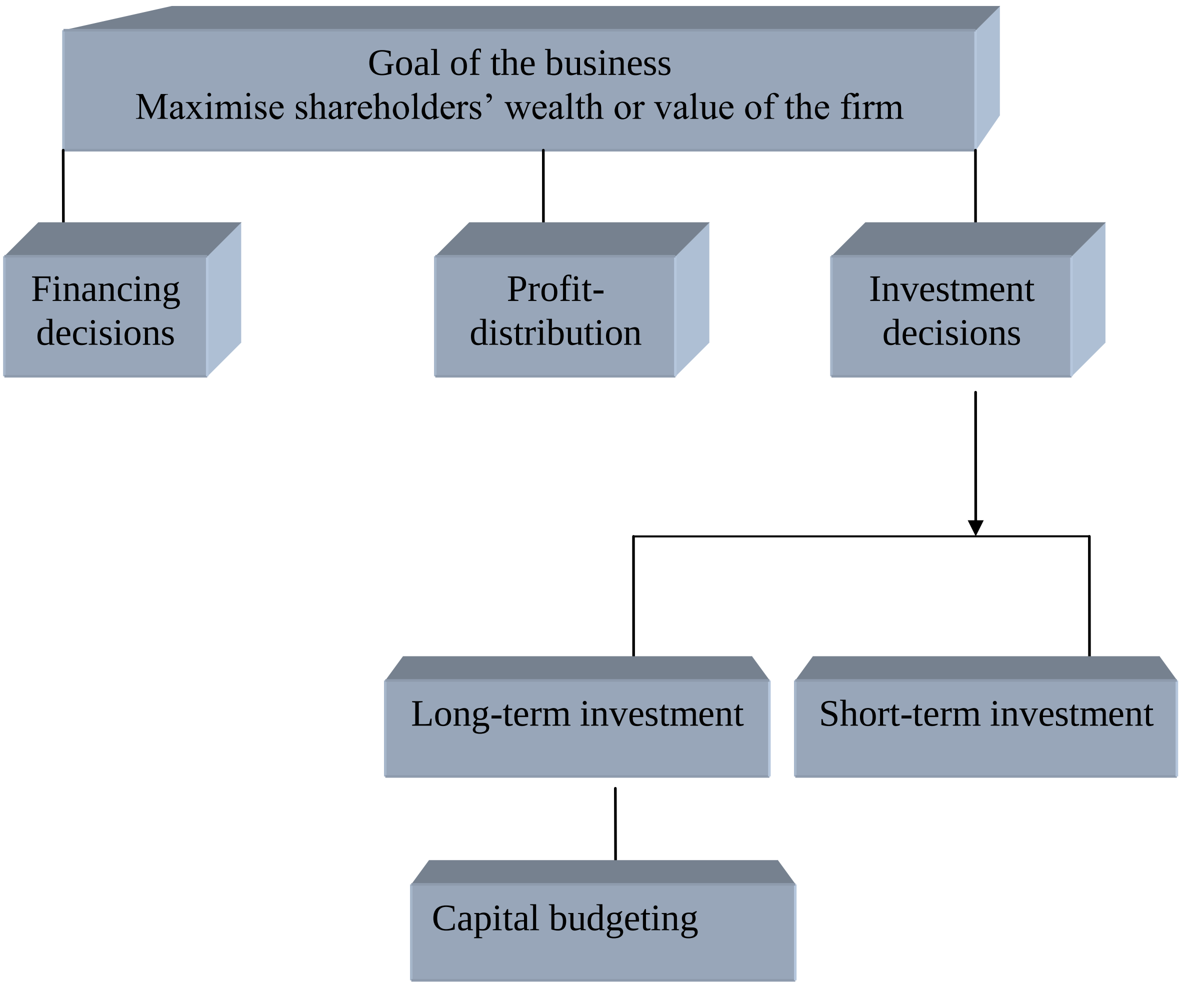
- operational management
- financial management
- personnel management
- strategic positioning
- relationship management
- risk management.

The objective of the current study was to assess financial management skills. The focus was furthermore limited to financial management skills. In search of a sound conceptual understanding of financial management skills, the following section explores financial management skills of small business owners.

2.7 FINANCIAL MANAGEMENT IN SMALL BUSINESSES

Nieman et al. (2006:95) state that financial management is responsible for acquiring the necessary financial resources to ensure the most beneficial results over both the short and the long term and making sure that the business makes the best use of its financial resources. Dayananda, Irons, Harrison, Herbohn and Rowland (2002:1) add that the financial manager is engaged in two primary tasks, namely financing and investment decision-making. Gitman (2010:394) and Marx et al. (2010:10) state that, in addition to financing and investment decision-making, the financial manager must ensure that cash is managed efficiently so that the business can become profitable. All the primary functions are interrelated. An investment project, whether of a long-term or short-term nature, cannot be undertaken without adequate financing. The profit distribution decisions are a function of or result from investment and financing decisions taken previously (Perks & Smith, 2006:15). The three functions are depicted in Figure 2.1 to give a conceptual overview of the financial management functions. The figure also indicates that financial management tasks should strive to achieve the overall objective of the business (McMahon & Stanger, 1995:21–22). These functions will be discussed in the subsequent sections, starting with the objective of the business. The other topics, which are related to financial management that will also be discussed, are cash flow management, analysis of the financial statement and record keeping.

Figure 2.1: Financial management functions of the business



Source: Dayananda et al. (2002:2).

2.7.1 Objective of the business

A fundamental assumption underlying the theory of business management is that managers have one basic overriding goal, namely to create value for shareholders or to maximise the value of the firm (Brigham and Daves, 2004:6). Dayananda et al. (2002:1) add that, although various objectives or goals are possible in the business, the most widely accepted objective for the business is to maximise the value of the business to its owners. Maximisation of shareholders’ wealth is a broader goal than maximising profit as it is linked with return, risk, growth, stability, control and at same time presumably satisfying shareholders. However, value maximisation or shareholders’ wealth maximisation as a goal of a small business is a controversial issue.

Danielson and Jonathan (2006:3–4) argue that shareholders’ wealth maximisation may not be the objective of every small business. McMahon and Stanger (1995:21) further questioned whether maximising the value of the firm to its owners is a valid and useful objective for small business. They assert that entrepreneurs may establish a business as an alternative to unemployment or as a way to avoid employment boredom. In each case, the primary objective of the entrepreneur may be to maintain the viability of the business, rather than to maximise the value. Research conducted by Spence and Rutherfoord (2000:131–132) revealed that the main objective of owner-manager business is to maximise profit. Profit is the motivational factor to start and keep the business and to always overcome other social motivation. These authors concluded that in a small business environment, the financial goal should be to strive for profit maximisation. The discussion of the financial management below will take this argument into consideration.

2.7.2 Long-term financing decisions

Reference was made earlier that financing decisions involve the acquisition and management of funds used in the business. Edward and Pointor (1994:170–171) mention that what matters most in financing decisions is the selection of the appropriate mix of debt and equity or optimal capital structure, and to determine the correct cost of capital. The cost of capital is beyond the scope of this study as only the capital structure will be discussed below.

2.7.3 Capital structure decisions in small business

Gandreau (2005:15) defines capital structure as the relative amount of long-term debt and equity. In publicly traded companies, debt mostly consists of loans from financial institutions and debentures from institutional investors, while equity consists of ordinary and preference shares. Gandreau (2005) further asserts that capital structure is important because there exists in practice a capital structure that minimises the cost of capital and maximises the value of the business. At this point, the capital structure will be optimal. Optimal capital structure can mean the difference between success and failure. In the following sections, attention is given to the capital structure of small businesses.

Access to financing has an impact on the way in which the business is financed or the manner in which it structures its capital structure. Research conducted by Mutezo (2005:31–34) revealed that access to financing problems faced by small businesses influences and determines their capital structure. For instance, requirements of lending institutions and conditions in the equity markets make it difficult if not impossible for small businesses to obtain funds. This is caused by the fact that most small businesses fail in such a way that banks are exposed to a high risk when extending credit to them. To take high risk, banks require collateral and charge a high interest rate, which some of small businesses do not have or cannot pay. As a result, formal financial institutions structure their products to serve the needs of large businesses (Mutezo, 2005: 31–34).

Another factor that causes an obstacle for small businesses to access financing is the requirement stipulated in the Usury Amendment Act 30 of 1993. The Act places an upper limit on an interest that may be charged on a loan less than R6 000, and an upper limit as well on loans greater than R6 000 but less than R500 000. This has the effect of precluding the lending institution from recovering its costs on loans below a certain level. Faced with the inability to recoup their costs by charging high interest rates, most lending institutions simply refuse to grant loans to what they judge as high-risk applicants, and this may also discourage loan applications from small borrowers. Whilst the objective of the Act is to protect small business borrowers from "exploitation", the net effect is that access to smaller loans is severely constrained (South African Chamber of Business [SACOB], 1999:13).

With respect to equity, research (Shafeek, 2006:8) found that most equity lenders prefer to lend a large amount of money in which small businesses may not be interested. A further concern is the risk aversion of institutional investors who tend to focus on safer and larger investments. Shafeek, (2006:8) concluded that small businesses are left with one option, to use own capital or to borrow from friends and families. This causes the capital structure of small businesses to differ from that of large businesses.

2.7.4 Investment decision-making

Investment is defined as the current commitment of funds by individuals, companies or institutional investors to real and/or financial assets for a period of time in order to accumulate wealth in the long term (Marx et al., 2010:3–4). Although investment may include some shares and bonds, for the most part it consists of the real assets that comprise current assets and fixed assets of a business (Meridith and Williams, 1986:208). In this study, investment refers to the acquisition and management of fixed and current assets. The topics that will be discussed with respect to investment management are capital budgeting and net working capital management.

2.7.5 Capital budgeting decisions in small business

There is only one capital budgeting theory of finance and the theory holds for all businesses regardless of size or type. This being the case, managers should use the same criteria for investment in small businesses as are used for investment in larger businesses (Dhanmondi and Chowdhury, 2009:112). Dhanmondi and Chowdhury, (2009:113) further suggest that businesses should only make investment in projects or assets if such investment is in line with the goal of the business. In order to achieve the goal, capital budgeting principles must be applied when assets are purchased.

Brigham and Daves (2004:2) define capital budgeting as a whole process of analysing projects and deciding on which ones to include in the capital budget. Capital budgeting decision-making is done for a long-term period and normally involves the acquisition of fixed assets or the addition of a new product line (Chadwick and Kirkby, 1995:69). Capital budgeting processes require that the relevant cash flows that will rise as a result of investment be measured and the appropriate capital budgeting techniques be applied to decide whether or not the investment project should be accepted or not (Gitman, 2010:376). The cash flows referred to and capital budgeting techniques will be discussed below.

Begemann (2001:76) states that cash flows that should be estimated or which are normally distinguished for a capital budgeting process are:

- initial investment;
- expected cash flow per period over the expected life of the project; and
- expected terminal cash flow resulting from the termination of the project.

Once cash flows have been developed, they must be analysed using capital budgeting techniques to determine whether a project is acceptable or not. Taylor (2002:1) states that capital budgeting techniques that are used include the payback period, accounting rate of return, internal rate of return and the net present value. Capital budgeting theory requires that the exercises of capital budgeting techniques should strive to achieve the goal of the business as indicated in Figure 2.1. In this regard, Smart, Megginson and Gitman (2007:322) assert that investment be undertaken when projects have positive net present value and are rejected when the net present value is negative because positive net present value investment adds value to the company. However Danielson and Jonathan (2006:3–4) argue that there are various reasons to question the applicability of this theory to small businesses. It is from this brief discussion that attention is diverted to the applicability of the capital budgeting theory to small businesses.

Many small businesses have limited management resources and lack expertise in financial management and accounting. As a result, these businesses may not be able to make reliable estimates of future cash flows or evaluate projects using discounted cash flows (Brigham & Daves, 2004:2).

Small businesses also experience problems in accessing financing options like bank loans and public capital markets. This compels them to maintain a sufficient cash balance in order to respond to profitable investment as it becomes available. Therefore, capital market constraints provide small businesses with economic reasons to be concerned about how quickly a project will generate cash or pay back the initial investment (Padachi, 2006:47). Padachi (2006:49) concluded that small businesses turn to unsophisticated capital budgeting techniques such as the payback period rather than using sophisticated capital budgeting techniques.

Finally, in capital budgeting decision-making, the weighted average cost of capital is used to discount the project’s cash flows to arrive at the net present value. The weighted average cost of capital is used because the whole business is viewed as a portfolio. Owners and managers of small businesses do not view their businesses as part of a diversified portfolio but more as a capital project. Palliam (2005:335–340) further argues that publicly traded companies calculate the cost of capital as a weighted average cost predicted typically by information from financial markets. Small businesses do not have market-based information. This makes the model presented above to be of limited usage in small businesses. Palliam (2005) concluded that some of the most interesting questions in small business finance research relate to the extent to which the principles of corporate finance “fit” the small business. Dhanmondi and Chowdhury (2009:114) add that the theory of capital budgeting, which is constructed under the assumption related to large incorporated companies, is not fully applicable for small businesses due to its complexity and inappropriateness to them.

2.7.6 Working capital management

Reference was made that businesses typically make long-term investment in fixed assets such as land, buildings, equipment and vehicles. In order to use their fixed assets, businesses need working capital for the day-to-day activities.

Working capital refers to investment in short-term assets like cash, inventory and accounts receivable. Marx et al. (2010:183–184) state that management of working capital involves decisions to determine the extent to which the current liabilities should be used to finance current assets. Current liabilities include short-term financing such as accounts payable and short-term loans. A cash conversion cycle is a key factor in the management of working capital.

A cash conversion cycle represents the average days between the date when the firm must start paying its suppliers and the date when it begins to collect payment from its customers. The decision about how much to invest in accounts receivable and inventory and how much credit to accept from suppliers is reflected in the business' cash conversion cycle (Smart et al., 2010:806). The proper management of working capital should give a desired impact in profitability, liquidity or risk (Gitman, 2010:641). The balance among profitability, risk and liquidity should be maintained in the management of working capital at all times.

Decisions that tend to increase profitability tend to increase risk, and conversely decisions that focus on risk reduction will tend to reduce potential profitability (Teruel and Solano, 2007:164). Gitman (2010:629) suggests that liquidity is necessary to support the cash needs of the business but should not be achieved at a high cost, which may translate to low profit and high risk. High profit must be accompanied by enough cash flow, which will enable the business to meet its short-term obligations. (Padachi, 2006:47) adds that profitability should be translated into cash from operations within the same operating cycle in such a way that the business does not need to borrow to support its working capital needs. In this way, the objectives of profitability and liquidity would be synchronised. This is necessary because working capital management is of particular importance to the financial health and success of businesses of all sizes.

Although the efficient management of working capital is critical to businesses of all sizes, it is the small businesses that should address this issue more seriously (Padachi, 2006:45–48). The amount of capital invested in working capital of small businesses is often high in proportion to the total assets employed as compared to larger business. Small businesses have limited access to long-term capital markets, and they tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their needed investment in cash, accounts receivable and inventory compared to large businesses. However, research by Padachi (2006:45–48) indicated that small businesses are not very good at managing the working capital. As a result, most of them fail because of poor financial management, especially working capital management.

2.7.7 Cash flow management

Effective cash flow management is vital for the success of the business. Cash moves continually through the business. The uneven nature of cash inflows and outflows makes it imperative that cash flows be properly understood and managed (Moore, Petty, Palich & Longenecker, 2008:578). The primary tool for cash flow management is the preparation of a cash budget and management of the cash conversion cycle.

A cash budget is a statement of planned inflows and outflows. It is used to estimate the business' short-term cash requirements with particular attention to a plan for surplus or cash shortage (Attril, 2006:392).

Moore et al. (2008:579) state that many small businesses that fail are profitable but experience cash flow problems. This is consistent with the study conducted by the University of Cape Town's Graduate School of Business (GSB) (GEM, 2004:94) on small businesses. The GSB found that 50% of small businesses have cash flow problems and almost 60% of them have exhausted their bank overdraft and failed to pay wages. To address the cash flow problems, government embarked on a strategy to help small business owners to access finance. However Nieman et al. (2006:94) argue that access to finance is not the solution to the problem as priority should be given to financial management training and particularly to cash flow management.

2.7.8 Analysis of financial statements

Analysis of financial statements includes the evaluation and interpretation of financial statements (Beaumont-Smith, 2007). Financial statements referred to are income statement, balance sheet and cash flow statement. The analysis of financial statements provides a quick means of assessing the financial health of a business and helps managers to make informed financial decisions. For instance, the analysis of financial statements may help to improve revenue, cut costs and improve cash flows (Peterson & Fabozzi, 2002:4–5).

Gitman (2010:45–54) states that the analysis of financial statements is of interest to shareholders, creditors and the business' own management who are interested in the firm's current and future level of risk and returns which affects the business' value. With the analysis, the interested parties are able to determine whether the business is profitable and the efficiency with which management is using the firm's assets to generate sales. Analysis of the financial statements can also assist to determine the ability of the business to satisfy both its short-term and long-term obligations. The following section addresses the tools that are used to analyse financial statements.

Financial statements are analysed by ratios such as liquidity ratios, activity ratios, debt ratios and profitability ratios (Beaumont-Smith, 2007:29). Ratio relates one figure appearing in the financial statement to some other figure appearing there. A good example is the net profit in relation to capital employed. As a relative figure, this ratio is easily used for comparison (Attril, 2006:168). Although the calculation of a ratio is a prerequisite for decision-making, Gitman (2010:54) emphasised that of the utmost importance is the interpretation of the ratio value. Interpretation can be done by comparing different business' financial ratios at the same point in time, benchmarking the business ratios to the industry average or comparing the current ratios with those from the past.

2.7.9 Short-term financial planning

Every business, large or small, must have a financial plan before each term's work. Although planning can be approached differently by small business as compared to huge ones, the fact is that, planning must be exercised. A fair summary of relevant research indicates that, in a dynamic small business, the planning function is given very little consideration while it may be the most important function that the managers have to perform (Walker & Petty, 2001:38).

The financial planning process can be approached in different ways; however, the basic ingredients include forecasting, developing a course of action and generating projected financial statements associated with a given set of forecast and actions (Walker & Petty, 2001:58). Since long-term planning has been discussed under capital budgeting and financing decision-making, in this section, the focus will be on short-term financial planning.

Gitman (2010:108) argues that the key aspects of short-term financial planning are profit planning and cash planning. Profit planning is done by compiling pro forma financial statements such as income statements and balance sheets. Cash planning is done by generating a cash budget.

2.8 SUMMARY

In this chapter, the definition and classification of small businesses were discussed. The definition of the small businesses adopted in the study, describes a small business as one that possess at least the following characteristics:

- management of the business should be independent;
- the manager is usually the owner;
- capital and ownership are provided by an individual;
- the equity is not publicly traded;
- personal security of the owner is required to secure the business debt;
- the relative size of the business within the industry should be small; and
- the area of operation is mainly local.

Small businesses, in turn, are classified into survivalists, micro-enterprises and medium enterprises. The classification and definition helped to demarcate the study and to target the correct population.

The roles of small businesses in the economic development have been identified. Small businesses generate new employment, enhance income redistribution and alleviate poverty. Small businesses have been identified by the South African government as a priority in creating employment. As a result, appropriate policies have been adopted to support them to succeed. However, studies such as those by Goosain (2004:23) and Landzani & Van Vuuren (2004:157) revealed that most of them fail as a result of a lack of managerial skills, especially financial management skills. This justifies the focus of the study on financial management skills.

The literature on financial management skills was reviewed. The financial management skills have been discussed on the basis of the financial management functions. The literature lists three financial management tasks, namely financing, investment and profit distribution. The differences between corporate finance and small business finance were considered throughout the discussion of the financial management. The discussed issues helped to ensure that the study focused on small business finance and also served as a basis for the questionnaire design. In Chapter 3, the methodology of the study is discussed.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The previous chapter focused on small business literature with special attention to the small business environment and financial management skills. This chapter focuses on scientific research.

Scientific research involves the application of various methods and techniques in collecting, analysing and interpreting data in order to increase the understanding of a particular phenomenon (Sekaran, 2003:117). The purpose of this chapter is to describe the research methodology used to research the financial management skills of small retail business managers in Dr JS Moroka Municipality. Research design, measuring instruments, population and sampling and methods used to collect data are addressed below. The issues of reliability and validity are also addressed.

3.2 METHODOLOGICAL PARADIGM

There are two methods that are mainly used in research, namely quantitative and qualitative methods. Both methods involve similar processes in terms of the formation of the hypothesis, review of the related literature, collection and analysis of the data but have certain distinctions, which will be outlined below (Segoale, 2001:19).

In quantitative methodology, data is collected from a large sample by means of standardised procedures placing attention on validity and reliability of measuring instruments. The data is in numeric form or in a form that can easily be converted to numerical indices. Statistical procedures are used to analyse data with the aim of obtaining objective results. In contrast, qualitative researchers use non-standardised instruments to collect an extensive amount of verbal data from a small number of participants, organise it and use verbal description to portray the situation they have studied. Data analysis is subjective and there is potentiality for bias in qualitative data analysis as opposed to quantitative data analysis (Leedy & Ormrod, 2005:96).

The distinction between quantitative and qualitative methods indicates that, if the data is verbal, the method is qualitative; if it is numeric, the methodology should be quantitative (Mouton, 2011:49). The type of data dictates the methodology to be used. In this study, quantitative research methodology was used based on the objective of this study, which was to assess the financial management skills of owner managers by collecting numeric data using interviewer-administrated questionnaire and to analyse the results statistically. There are four research designs in quantitative research. The research design used in the study is discussed below.

3.3 RESEARCH DESIGN

Research design is a general plan of how the central research question will be addressed. It specifies the sources from which data is collected and ways in which the data will be collected and analysed. In research design, it is stated what is going to be done with the respondents with a view to reaching conclusions about the research problem. The different designs in quantitative method are observational studies, correctional research, developmental designs and survey research. All these approaches yield quantitative information that can be analysed through a statistics approach (Leedy & Ormrod, 2005:179, 184).

For the purpose of this study, survey research was used. Donald and Schindler (2003:218) point out that the strength of survey as a primary data collecting approach is its versatility. It does not require that there be a visual or other objective perception of the information sought by the researcher.

It has been stated earlier on that survey research acquires information from the unit of analysis by asking questions, tabulating the answers and summarising the responses with percentages, frequency count or more sophisticated statistical indices, and then drawing inferences about a particular population from the responses of the sample. Marx et al. (2010:5) state that research design should address the following topics:

- the source of data;
- the type of data;
- techniques used to collect data; and
- analysis and interpretation of data.

The first three topics will be fully discussed in a subsequent section. The analysis of the primary data and its interpretation will follow in Chapter 4.

3.4 POPULATION AND SAMPLE FRAME

The data needed to answer the research question were drawn from the elements of the population. According to Maphutse (2003:58), “population” refers to the study objects, or a full set of cases where data may be sourced. These study objects may be individuals, a group or organisation or human products. The population in this study consisted of small retail businesses selling many product lines with varying prices and mark-ups at Dr JS Moroka Municipality. These businesses are classified under the following categories:

- liquor stores;
- butcheries;
- general dealers;
- tuck shops; and
- restaurants.

Having defined the population, it is possible to construct a sampling frame. Tustin et al. (2005:343) define a sample frame as a master list of all samples in the population from which the representative sample can be drawn. For the purpose of this study, the sample frame was drawn from the Dr JS Moroka Municipality’s database. All businesses are required to register with the municipality. A sample frame may fail to account for the entire population leading to what is called sample frame error. The sample frame error on this study was kept to its minimum by ensuring that the sample frame was free from duplication, accurate and that it represented at least 90% of the population. Not all the members of the sample frame were included for survey; a representative sample was drawn.

3.5 SAMPLE DESIGN

It is costly, time-consuming and practically not feasible to conduct research on the whole population or census. A census is defined as an accounting of the entire population (Tustin et al, 2005:338). Testing the census may lead to the destruction of the whole population, which can be limited if the study is done on the sample only. For the research to be feasible, a sample must be drawn from the population (Maphutse, 2003:58).

Lawrence (2006:219–242) defines a sample as a smaller set of cases a researcher selects from larger pool and generalises to the population. A researcher samples with the objective to draw inference from the sample to the population. For this reason, the sample should be representative of the population. Put differently, a sample must be like the population. Selecting a sample provides the opportunity to reduce the amount of data to be collected into subgroups rather than including all possible cases. Donald and Schindler (2003:183) list the two types of sampling designs as probability and non-probability sampling. These sampling methods are discussed below.

3.5.1 Non-probability sampling

In non-probability sampling, the researcher uses his/her discretion to choose the members of the sample from the sample frame. Non-probability sampling designs do not attach any probability to elements being chosen. For this reason, the findings from this form of sampling cannot be generalised to the population. There is no way in which the researcher may forecast, estimate or generalise that each element in the population will be represented in the sample (Leedy & Ormrod, 2005:200–201).

3.5.2 Probability sampling

With probability sampling, the members of the sample are selected randomly on the sample frame. In this regard, all elements of the population have some known chance/probability of being part of the sample. In probability sampling, the researcher can specify in advance that each segment of the population will be represented in the sample. For this research, probability sampling has been used. In this regard, there is evidence that the sample represented the population. There are four probability sampling techniques or methods that can be used to draw sample members from the sample frame, namely simple random sampling, systematic sampling, cluster sampling, and stratified sampling (Lawrence, 2006:227–235).

Sampling techniques specify the manner in which the sample members should be drawn from the sample frame. Sampling design should not be chosen blindly. The nature of the population should determine which sampling technique to use. Given the population type in this study, stratified random sampling was appropriate. Stratified sampling is a random sampling method in which a researcher identifies a set of mutually exclusive and exhaustive categories, divides the sample frame into different subgroups (strata) and then selects a sample randomly from each subgroup (Lawrence, 2006:231). Table 3.1 indicates how stratified sampling was applied to draw a sample from a sample frame. The total population of 401 small businesses was divided into the following strata: liquor stores, butcheries, tuck shops, general dealers and restaurants.

Table 3.1: Proportionate stratified sampling

Population group/strata	Population size	Proportion %	Sample
Liquor stores	90	22,44	22
Butcheries	50	12,47	13
Tuck shops	101	25,19	25
General dealers	72	18,00	18
Restaurants	88	21,94	22
Total	401	100,00	100

Since the strata were not of equal size, a proportionate percentage was computed in column three of table 3.1. A total of 100 small businesses were selected from 401 businesses as indicated in column four using a proportionate percentages.

3.5.3 Sample size

The basic rule of thumb with the sample size is that the larger the sample the better. However, variables such as homogeneity, the precision with which the researcher wants to make inferences to the population, and the level of confidence desired play a critical role in determining the sample size. For instance, if the population is markedly heterogeneous, a larger sample will be necessary than if the population is fairly homogeneous (Leedy & Ormrod, 2005:207). Taking the above guidelines into consideration, a sample of 100 small retail businesses was drawn from a sample frame.

3.6 DATA COLLECTION METHOD

Research involves the collection and analysis of data and interpretation of the results. Put differently, data is necessary to conduct research, draw conclusions from the research findings and put forward recommendations (Coldwell & Herbst, 2004:2). When the research design has been decided upon and a sample has been selected from the targeted population, it is the appropriate time to discuss the data type and the methods used to collect data for the study. Secondary and primary data were collected for this study.

3.6.1 Secondary data sources

Secondary data – also known as historical data – are defined as existing data that can be used in solving the research problem in question (Saunders, Lewis & Thornhill, 1997:158–159). Secondary data were sourced from the following: journal articles, conference proceedings, books, completed dissertations, research reports and government publications. The analysis of secondary data provided a conceptual framework about the financial management skills required to manage the business successfully and effectively. Secondary data also provided the framework upon which the questions to be asked to the participants were structured.

3.6.2 Primary data sources

Primary data may be collected from primary sources such as individuals or organisations by means of individual face-to-face interviews, telephone interviews, mail surveys, observations or experimentation and a variety of other motivational techniques such as projective tests (Sekaran, 2003:223). In this study, interviewer-administered questionnaires were used to collect primary data. This method of data collection involves the interviewer visiting a selected address with a questionnaire or interview schedule, asking questions to the respondent(s) and recording the answers (Tustin et al., 2005:145). The selection of this method is based on its ability to collect good quality data and to provide a high response rate.

According to Sekaran (2003:232), the quality of data can be enhanced when data is collected by the interviewer-administrated method because the interviewer may adopt the question as necessary, clarify instructions and explain the questions by repeating and rephrasing it to ensure that the respondent understands what responses is required of him/her. This method may also help solve linguistic barriers, which may lead to misunderstanding of the questionnaire and the provision of unreliable data.

Prior to conducting the interview, a letter of request was sent to the respondents notifying them about the research and explaining the purpose and expected outcome of the study. Appointment with the interviewee was set telephonically as the sample frame contained the respondents' telephone numbers. The interview was set to last 30 minutes. A questionnaire (Annexure 2) was prepared and incorporated in the interview schedule. In the next sections, the structure of the questionnaires is discussed in detail, followed by the detail on the field workers, pilot test and the response rate.

3.7 STRUCTURE OF THE QUESTIONNAIRE

3.7.1 Section A: Criteria for small business

Questions in this section were intended to determine whether the business surveyed could be regarded as small, based on the definition and description of the small business discussed in the literature review section.

3.7.2 Section B: Experience, training and education

This section focused on the means of acquiring skills. Kunene (2008:119) states that education, previous work experience and training lead to the attainment of entrepreneurial skills and, thus, to ultimate financial management skills. It is along this thinking that respondents were asked in Section B of the questionnaire to provide their primary, secondary and tertiary education, the type of job they previously had and various training attended. It was anticipated that the results would help the researcher to deduce the level of financial management skill.

3.7.3 Section C: Financial management skill sets

These questions dealt with the proficiency of the respondents with regard to financial management skills. Respondents were required to rate the level of skills on the three-point Likert scale of No understanding or Little understanding to Full understanding.

3.7.4 Section D: Training needs

This section consisted of two questions only. The first question determined whether the respondents required training on financial management to enhance their skills, and the second required an open-ended response regarding the type of financial management training should focus on.

3.7.5 Section E: Demographic profile

In Section E, closed-ended questions and responses were used to collect information such as gender, age and ethnicity in order to be able to describe the group of people who had completed the questionnaires.

3.8 PILOT STUDY

Ten questionnaires were pilot tested for clarity. Pilot testing refers to the process of checking that the respondents will not misinterpret the questions, and whether the collected data will be accurate and valid so that it can be analysed and interpreted smoothly. In order to achieve this, 10 questionnaires were printed and the researcher interviewed 10 respondents with them. The answers were captured on the SPSS and analysed. It followed from the pilot study that respondents understood the questions and that most of the questions could be used as measurement instruments for the study. However, certain questions were modified and others were deleted.

3.9 RESPONSE RATE

After the accurate pre-testing, 100 questionnaires were printed and used for the research. Only 45 respondents participated in the research, which translates into a response rate of 45% (45/100).

Saunders et al (1997:246–247) state that the interviewer-administered method of data collection has a high response rate ranging between 40% and 70%. This argument is consistent with the response rate in this study.

3.10 INTERVIEWER

Three interviewers were recruited to collect data from the respondents. They were selected on the basis that they had matric and were familiar with the language and culture of the participants.

After recruitment, interviewers were trained and familiarised with the scope and objectives of the research and the methodology used in the study. Training focused on the interview techniques, the way to interpret the questions and the way to record the responses.

The researcher conducted a trial interview with each interviewer to ensure that the interview process would be conducted as accurately as possible. The work of the interviewers was continuously monitored and the researcher made follow-up visits to verify the collected data to ensure that the interview did take place.

3.11 RELIABILITY AND VALIDITY

The measuring instrument should be an accurate counter or indicator of what it is intended to measure (Du Plessis, 2004:92). To do this, the measuring instrument must be valid and reliable. All social researchers want their measures to be reliable and valid. As such, reliability and validity of the measuring instruments have been considered in this research as they influence the learning of the phenomenon in the study and the extent to which meaningful conclusions can be drawn from the data (Donald & Schindler, 2003:231).

Reliability has to do with the accuracy and precision of measurement procedures. If the measuring instruments yield consistent results when the characteristics being measured have not changed, then the instruments used are reliable (Segoale, 2001:24). Lawrence (2006:189) points out that, if the numerical results produced by an indicator do not vary because of the characteristics of the measurement process or measuring instruments itself, the measuring instruments are reliable. Should the measuring instruments yield erratic, unstable or inconsistent results in that context, they are said to be unreliable.

In contrast, validity refers to the extent to which the research findings accurately represent what is really in a situation. Validity of instrument answers questions like "Does the instrument really measure what its designer claims it does?" Research errors such as faulty research procedures, poor samples and inaccurate measuring instruments may lead to invalid results.

The researcher in this study ensured that the measuring instruments were valid and reliable by conforming to the four stages of reliability and validity as identified by Saunders et al. (2005:32). The information required to answer the research question was analysed clearly, so the questionnaires were designed to yield information relevant to the research objectives. The field workers were trained in such a way that they ensured that the respondents decoded questions the way the researcher intended. The field workers ensured that the respondents answered the questions, and the field workers also recorded the answers in the way the respondent intended. Finally, the researcher ensured that the information gathered would not yield markedly different results by conducting a pilot test with a selected sample of small businesses. Saunders et al. (1997:210) argue that the interviewer-administered method of data collection as it has been used in this study, helps to gather valid and reliable data.

3.12 SUMMARY

In this chapter, methodology and research design used in the study were discussed.

Quantitative research methodology was used as it was appropriate to the objectives of the study and the type of data to be collected and analysed. There are four research designs in quantitative research. Survey research as part of these designs was used in this study. The research design addressed the following topics: population and sample frame, the type of data and the techniques used to collect the data and the manner in which data were going to be analysed and interpreted. The measures applicable to test the reliability and validity of the data were discussed.

The next chapter will address the analysis and interpretation of the data collected from the unit of analysis.

CHAPTER 4

ANALYSES AND INTERPRETATION OF THE RESULTS

4.1 INTRODUCTION

The previous chapter described the research method used in the study, the source of data and the techniques used to collect the data. In this chapter, the results of the questionnaires that were received from the retail business owners/managers are analysed and interpreted. The results were captured and then analysed by means of the Statistical Package for the Social Sciences (SPSS). The presentation is divided into frequency distribution tables, pie and bar charts followed by the interpretation of the results. The analyses of the questions in the questionnaires are divided into the following sections:

- Section A: Criteria for small business
- Section B: Experience, training and education
- Section C: Financial management skills sets
- Section D: Training needs
- Section E: Demographic profile.

4.2 CRITERIA FOR SMALL BUSINESS

Questions 1 to 5 (Section B) investigated whether the businesses surveyed could be regarded as small business on the basis of the number of employees employed, the turnover generated monthly and the total assets at market value.

Respondents were asked to indicate the number of employees that were employed by their businesses on a temporary and permanent basis. The results are presented on Table 4.1:

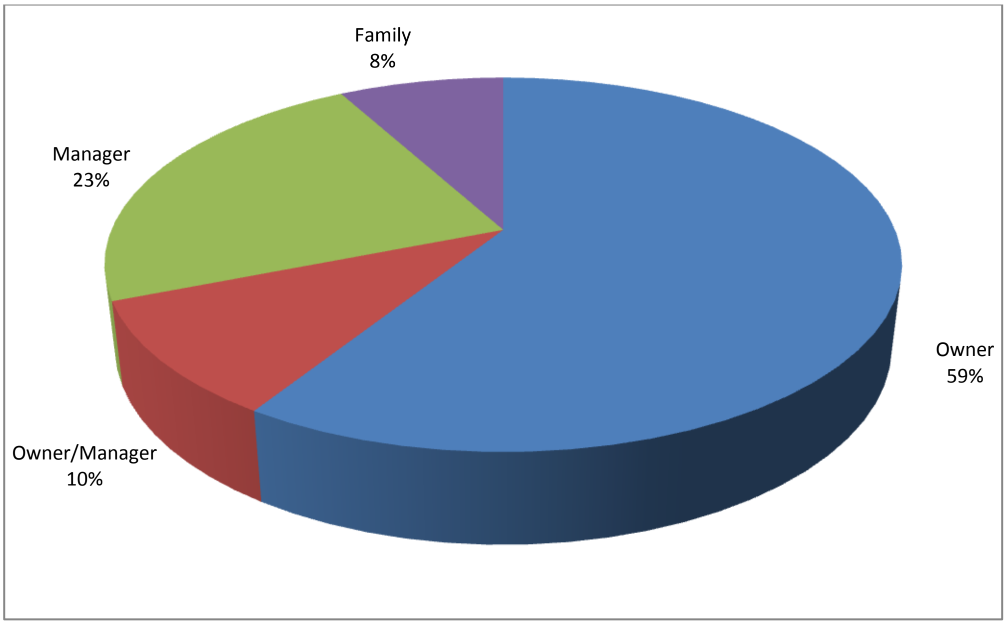
Table 4.1: Permanent and temporary staff (n=45)

	N	Range	Minimum	Maximum	Mean	Std. deviation	Variance
Permanent staff	45	9	1	10	3.91	2.632	6.926
Temporary staff	45	5	0	5	1.07	1.200	1.440

Businesses surveyed employ a maximum of 10 employees permanently, and 5 employees temporarily. The minimum number of permanent employees employed by each business is 1, and in this case, there was no temporary employee. On average, each business employed 5 employees (4 permanent and 1 temporary). A business that deviated from the average of 5 employees, did so by employing 4 employees less (2.632+1.200), which agrees with the minimum of 1, or it employed 4 employees more, which is practical for the small business. The results are consistent with the finding by Perks and Smith (2006:13) conducted in Nelson Mandela metropolitan district. Their study found that most of the small businesses employ less than 5 employees and have little assets.

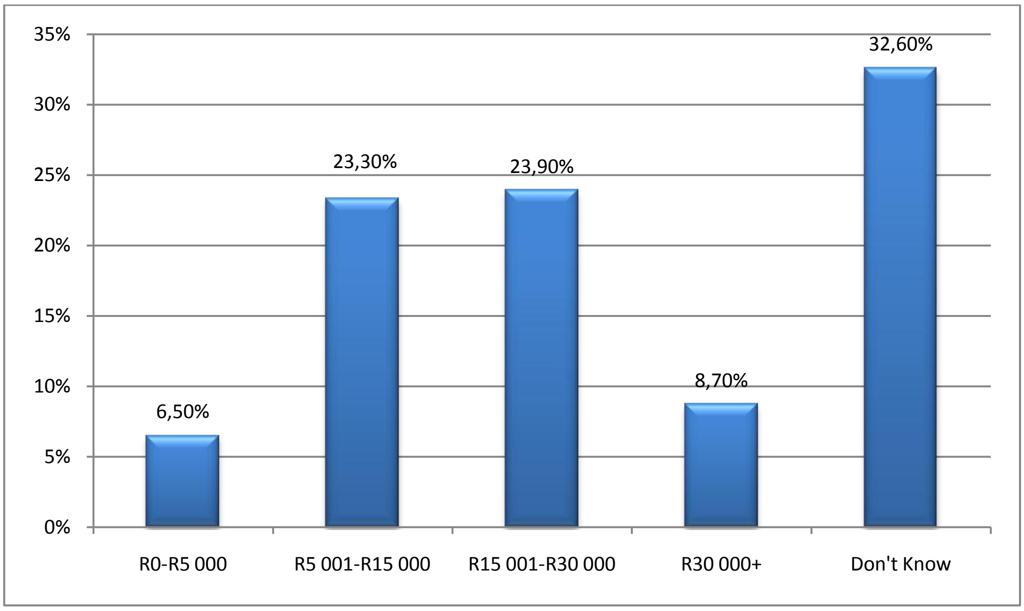
In the introduction to this dissertation, it was stated that management of a small business is independent and usually the owner is also the manager. Based on this description, the sample was asked to indicate whether the business was managed by the owner, the manager or a member of the family. The responses are analysed below.

Figure 4.1: Manager of the business (n=45)



According to Figure 4.1 above, more than half of the businesses (59%) were managed by the owners, followed by 23% that employed managers. Ten per cent were managed by the owners who also employ managers to assist them, while 8% were managed by a family member. Given the nature of the result with regard to Figure 4.1, it can be concluded that businesses surveyed were small because they met criteria that define and describe small businesses in Section 1.4.1, 2.2 to 2.3 of this report. It is apparent that these businesses cannot afford to employ or pay a manager to manage the business on their behalf given their monthly gross sales represented in Figure 4.2.

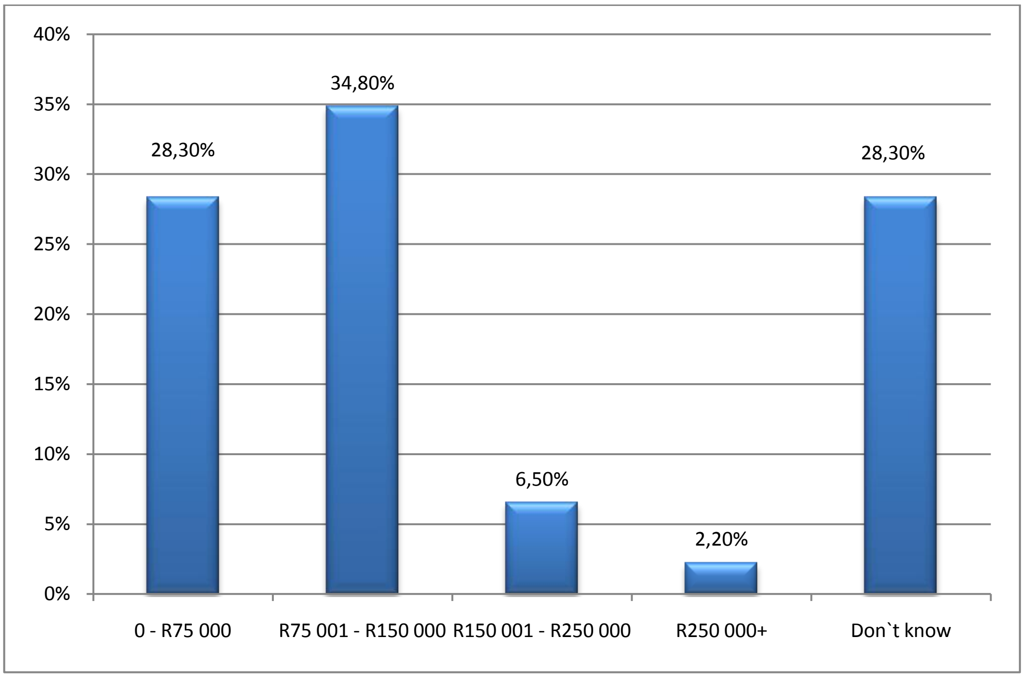
Figure 4.2: Gross monthly sales (n=45)



An immediate observation of Figure 4.2 reveals that some respondents (32,6%) did not want to disclose their gross monthly sales or did not know how much they were generating each month. Reluctance to answer this question might have been due to the sensitive nature of the information.

The gross monthly sales of the majority of the respondents (47%) were between R5 000 and R30 000, with exceptional cases (6,50%) and (8,70%) generating gross monthly sales of R0–R5 000 and R30 000 plus respectively.

Figure 4.3: Total assets at market value (n=45)



Sixty-three per cent of the respondents' total assets at market value ranged between R0 and R150 000. Eighty per cent of the participants indicated a value between R150 001 and R250 000 plus. Twenty per cent of the respondents did not want to divulge the assets at market value information; instead, they opted for a do-not-know option due to the sensitivity of the information.

4.3 EXPERIENCE, TRAINING AND EDUCATION

Respondents were asked to give their level of education, experience attained and training attended to enhance their business management skills. The results are presented in Tables 4.2 and 4.3 as well as in Figures 4.4 to 4.7.

Table 4.2: Years in existence (n=45)

Years	%
0-3	31,80
4-7	43,18
8-11	22,73
20	2,27

According to Table 4.2, 31,80% of the businesses had been in operation between 0 and 3 years, 67% between 4 and 11 years and only 2,27% had been in operation for at least 20 years. There is a positive correlation between the number of years in business, turnover, number of employees and asset at market value. Businesses that have been long in operation tend to employ more employees, generate more sales than those with few years and their assets at market value are likely to be more than those of their counterparts.

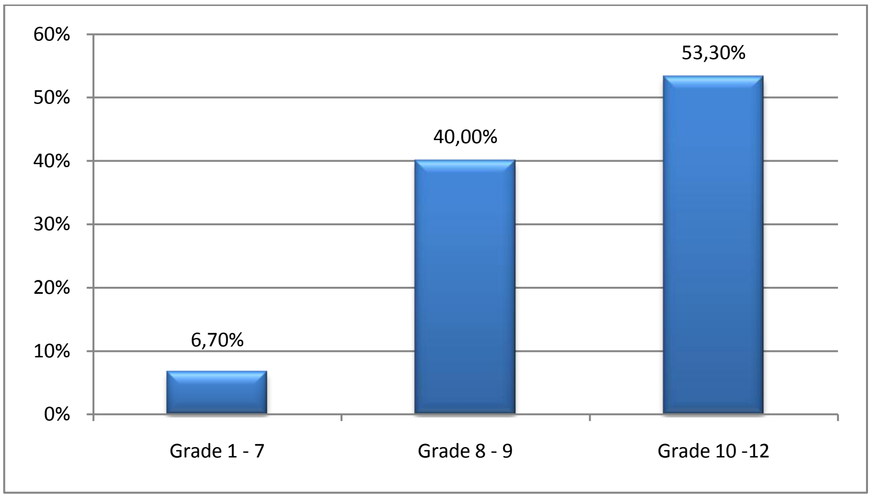
Table 4.3 below reflects the responses to the following question: what type of work have you done before opening/joining the business? The majority of the respondents (44%) indicated that they did not work before. The table also indicates that 24% of the respondents did unskilled work, 16% were involved in the construction industry while 0,07% had performed technical work before starting their own businesses. Only 0,09% had worked as professionals. It can be concluded from the results obtained in Table 4.3 that respondents who had grown up in the business environment had developed some basic financial skills. It was also apparent that 40% of the respondents who had joined business from the construction industry and those who had performed technical and unskilled work constitute the bulk of the respondents who indicated a lack the financial management skills and a need for training intervention.

Table 4.3: Previous work (n=45)

	Frequency	%
Not worked before	20	44
Unskilled	11	24
Construction	7	16
Technical	3	7
Professional	4	9
Total	45	100

Based on Figure 4.4, nearly 6,70% of the respondents had completed Grades 1–7, 40% had completed Grades 8–9 and 53.30% had passed Grades 10–12. Most of the respondents did not have business management or accounting subjects in their syllabuses, which would have created a background of financial management skills and which could have served as an advantage in managing their businesses.

Figure 4.4: Basic education (n=45)



Almost 56% of the respondents had tertiary education. They had either completed a certificate (22.20 %) or a diploma (22.20%). Nine per cent had bachelor's degrees and 2.2% had honours degrees. None of the respondents had master's degrees or doctorate degrees. Forty-five per cent of the respondents did not have any tertiary qualification as indicated in Figure 4.5.

Figure 4.5: High education (n=45)

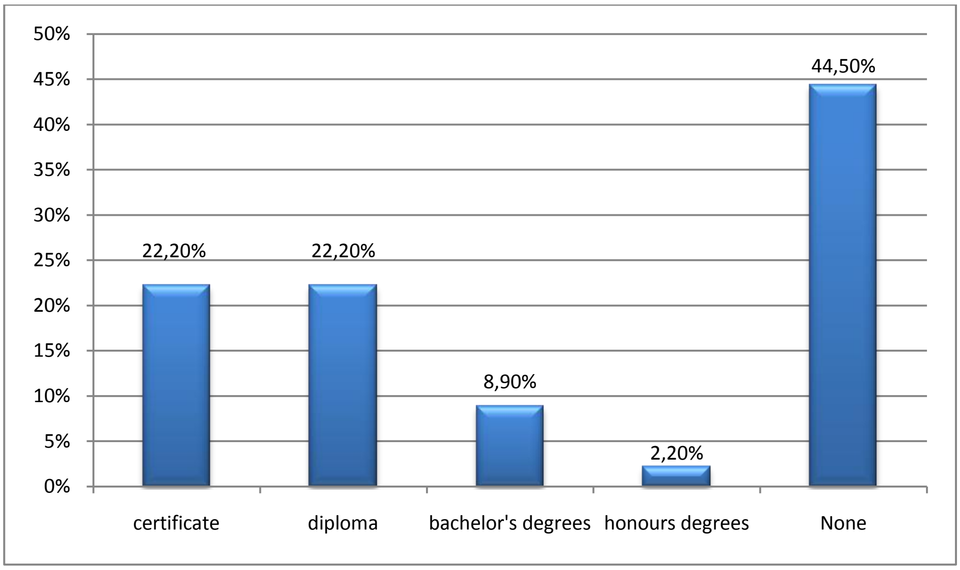


Figure 4.6: Technical qualification (n=45)

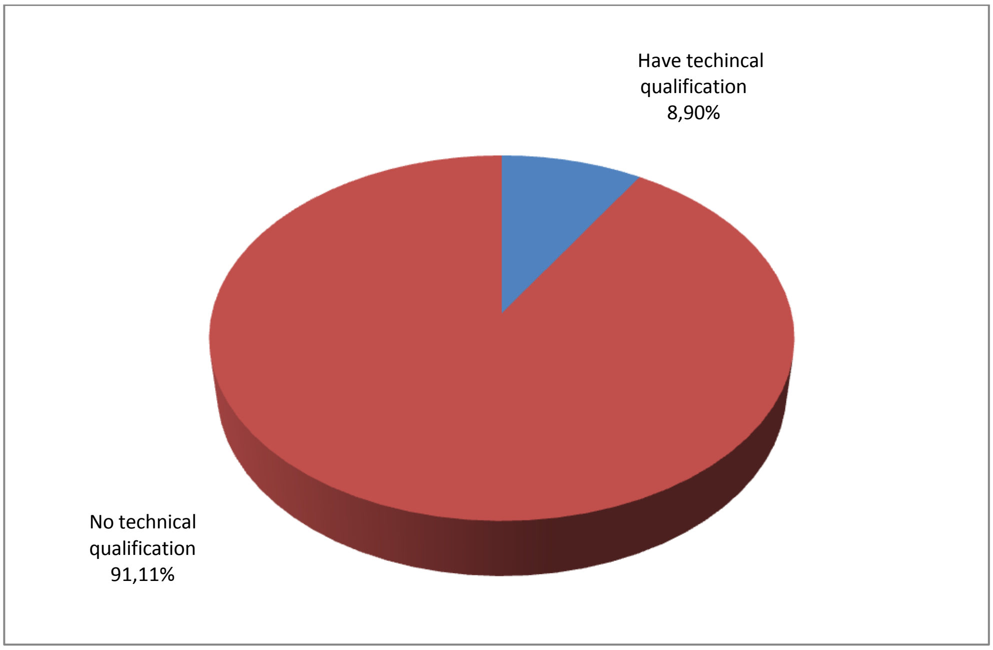
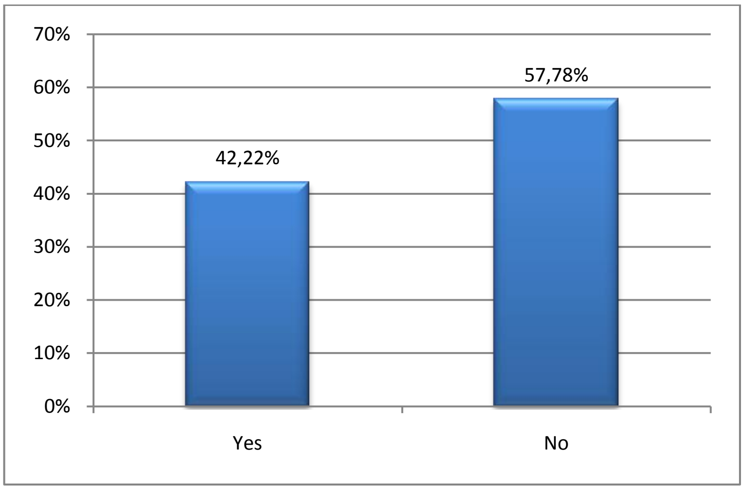


Figure 4.6 indicates that 91,11% of the respondents did not have technical qualifications. The reason could be that graduates who possess technical qualifications find better job opportunities and are not willing to be involved in the small businesses. However, 8,9% of the respondents indicated that they had certificates/ diplomas either in dress-making, security training, catering or welding. It is critical to mention this state of affairs, as factors such as lack of education and working experience emphasise the need for training in management.

Figure 4.7: Business management training (n=45)

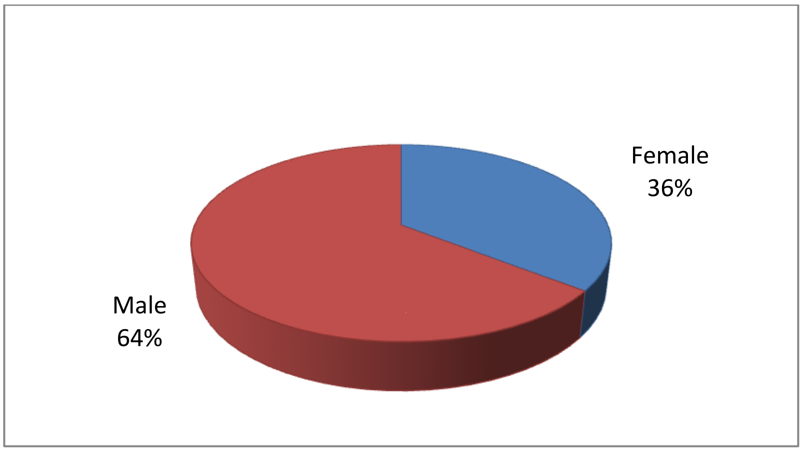


At least two in every five respondents had attended training courses previously. This indicates the willingness of the managers/owners to attend training. Most aspects of training focused on the basics in business management. Fifty-eight per cent of the respondents stated that they did not know of any training provided around their area intended to promote small business management skills.

4.4 DEMOGRAPHIC PROFILE

The majority of the respondents (64%) who participated in the research were male and 36% were female as indicated in Figure 4.8 below. This indicates that the small business sector in Dr JS Moroka Municipality may be dominated by males.

Figure 4.8: Gender composition (n=45)



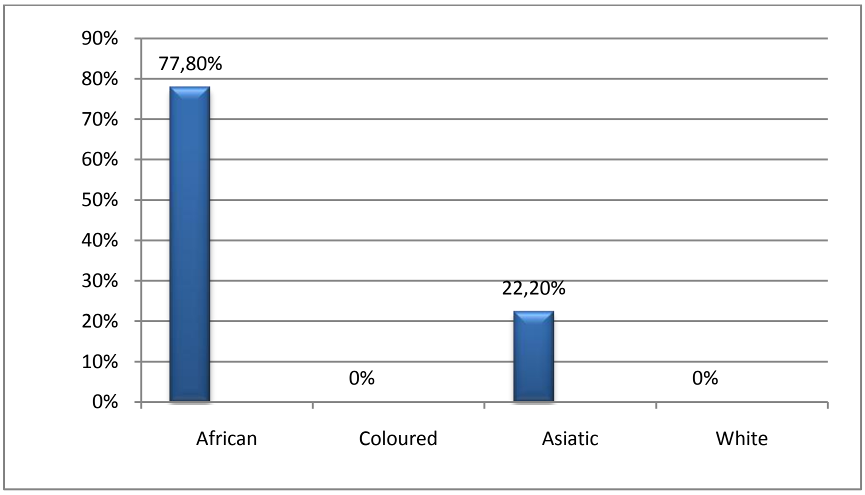
The average age of the respondents was 34 years. The oldest respondent was 53 year old, and the youngest is 23 years. A relatively small standard deviation of 8.218 indicates that 66% of the sample was between the ages of 34,6 and 49,8 years. One respondent did not provide his/her age.

Table 4.4: Descriptive statistics for age (n =44)

	N	Minimum	Maximum	Mean	Std deviation
Age	44	23	53	33,78	8,218

Three out of every four respondents were African, and one out of every four was Asiatic. Figure 4.9 indicates that none of the respondents were coloured or whites.

Figure 4.9: Race distribution (n=45)



4.5 Financial management skill sets

The next responses answered the questions regarding the core of the problem statement, which was to determine the financial management skills of small retail business owners/managers. The results are shown in Tables 4.5 to 4.7.

Respondents were asked to rate their financial management skills on a scale of No understanding, Little understanding to Full understanding. Table 4.5 below lists the results of the specific financial management skills which the respondents were asked to rate their knowledge on.

Table 4.5: Level of financial management skills (n=45)

Financial management skills	No understanding	Little understanding	Full understanding
Draft business plan	42,2%	51,1%	6,7%
Prepare a projected income statement	42,2%	51,1%	6,7%
Compile a cash budget	31,1%	60,0%	8,9%
Compile a financial statement	42,2%	48,9%	8,9%
Analyse a financial statement	66,7%	28,9%	4,4%
Break-even analysis	20,0%	57,8%	22,2%
Manage stock	6,7%	62,2%	31,1%
Manage cash	4,4%	64,4%	31,1%
Manage accounts receivable	6,7%	71,1%	22,2%
Usage of spreadsheet for decision-making	86,0%	11,6%	2,3%

According to Table 4.5 above, 7% of the businesses surveyed have a full understanding of the business plan. Some respondents stated that they had applied for funding previously, which compelled them to submit a business plan. That afforded them an opportunity to learn more about the business plan. Most of the respondents (51,1%) had little understanding of drafting a business plan while 42,2% had no understanding of a business plan. Interestingly, none of the respondents kept copies of the business plan for themselves because they viewed it useless to state formally objectives, which

are self-evident to them. The other factor that could lead to failure to keep a business plan is that the nature of the small business requires the owner/manager to function in several different capacities on different levels of the business, which leaves them with no real time for planning or drafting a business plan
(John, 2008:11).

A lack of planning is also reflected in the preparation of the projected income statements and compilation of the cash budget. Only 8% of the respondents could plan for profit and cash. The majority (57%) and (81%) respectively had little or no understanding of profit and cash planning.

Most of the businesses that were surveyed did not have formal transaction registers, making it difficult for them to keep records. Of those without records, 91% indicated that they do not know how to compile financial statements. This correlates with 91% of the respondents who stated that they do not know how to use ratios to analyse financial statements. This confirms the findings of a study by John (2008:10) that found that small business owners/managers were good in selling their products and services but disliked numbers. They did not compile the financial statements because they could not read it and were too busy to do it. Further John (2008:10) observed that few small business owners compile financial statements because government compels them to do so in order to report their earnings each year.

These businesses were retailers selling many product lines with varying prices and mark-ups. They argued that it is impractical to keep record of each and every unit sold or remaining on the shelf. This indicates that it would be difficult for them to compile the sales account or cost of sales. The same problem was experienced with the cost allocation as well as breakeven analysis. Only 22,2% of the respondents could use the breakeven analysis to determine whether they were only breaking even, making a loss or making a profit.

If one should revisit the statement made by Amin (2004:301) that small businesses fail because of the lack of planning, it can be concluded that the results above support this findings. Most of the businesses surveyed did not have a plan to guide their operation, or a financial plan that indicates where their businesses should be in future and how to get there.

These businesses buy their inventory in bulk for cash and sell it for cash with only a small section selling on credit. Working with inventory, cash and debtors on a daily basis afforded them the opportunity to learn about the management of working capital (inventory, cash and debtors). Table 4.5 above indicates that 67% of them had little understanding of the management of working capital. Most of them recommended training intervention to improve their skills on managing working capital.

Management of accounts receivable involves activities such as credit selection and setting standard, credit limit, credit terms, collection policy, monitoring accounts receivable and collection of outstanding debts. Respondents who indicated that they had some understanding of the management of accounts receivable and who sold some of their good on credit were further asked to rate their knowledge on a Likert scale of Very poor, Poor, Average, Very good and Excellent. The results are listed in Table 4.6 below.

Table 4.6: Management of accounts receivable (n=45)

	Very poor	**Poor**	**Average**	**Very good**	**Excellent**
Credit selection	9,5%	14,3%	66,7%	9,5%	0%
Credit standard	20,0%	25,0%	50,0%	5,0%	0%
Credit limit	10,0%	20,0%	55,0%	15,0%	0%
Credit terms	25,0%	20,0%	40,0%	15,0%	0%
Collection policy	25,0%	45,0%	25,0%	5,0%	0%
Monitoring accounts receivable	30,0%	20,0%	35,0%	10,0%	5,0%
Collection of outstanding debts	45,0%	35,0%	15,0%	0%	5,0%

Credit selection and standard are intended to determine the respondents' skills in the process of evaluation and selection of the creditworthiness of the customers. Fifty-eight per cent rated their knowledge as average, less than 10% as very poor and none of them regarded their skills as excellent in managing the process. Respondents' knowledge of setting credit limits in order to limit a loss should their customers default and on specifying the repayment terms after the credit had been extended, is also rated on a scale of Very poor to Excellent. Fifteen per cent rated their knowledge as Average, 10% as Very poor and 15% as Very good. It is clear from Table 4.6 that most respondents' skills were very poor (12%) in monitoring and collecting bad debts. Only 5% could be regarded as having excellent skills in these functions.

Respondents were asked to rate their understanding and knowledge of how the financial institutions work with regard to financing facilities, and other services available to small business on the Likert scale of Very poor, Poor, Average, Good and Excellent. Their responses are analysed in Table 4.7.

Table 4.7: Knowledge regarding the functioning of the financial institutions (n=45)

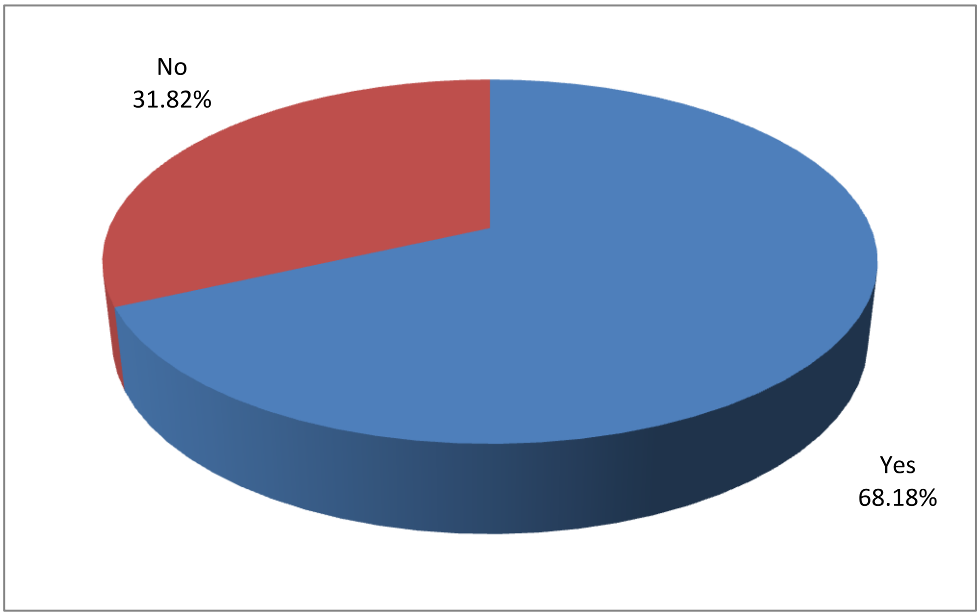
	Very poor	Poor	Average	Very good	Excellent
ABSA Bank	17,8%	20,0%	55,6%	4,4%	2,2%
Standard Bank	6,7%	20,0%	66,7%	6,7%	0%
First National Bank	26,7%	28,9%	40,0%	4,4%	0%
Nedcor Bank	60,0%	31,1%	6,7%	2,2%	0%
Khula Finance	73,3%	22,2%	4,5%	0%	0%
Business Partners	84,1%	15,9%	0%	0%	0%

Most of the respondents (54%) had a good knowledge of how ABSA Bank, Standard Bank and First National Bank function. This is because most of these banks have branches in the areas where the businesses are, and most respondents have accounts at those banks and have been financed by them. Forty per cent of the respondent have poor to very poor knowledge of how the three banks work. The area that needs attention is Nedcor Khula and Business Partners because less than 10% of the respondents know how these institutions work. The majority (20%) of the respondents indicated a poor knowledge on how these institutions work.

4.6 TRAINING NEEDED

In order to be able to make recommendations on the study, training consultants and institutions responsible for small business training in Dr JS Moroka Municipality, respondents were asked whether they needed financial management training and to indicate which aspects of financial skills training should focus on. Their responses are listed in the following figure:

Figure 4.10: Need for financial management training (n=45)



Most respondents (68,18%) indicated that they would like to acquire new and better financial skills through training as indicated in Figure 4.10. The most critical aspects of financial management skills that the respondents recommended that the training should focus on in order to improve management of their businesses are listed below:

- Management of cash
- Management of inventory
- Management of debtors
- Keeping records
- Drafting a business plan
- Preparing and analysing income statement
- Compiling a cash budget
- Cost benefit analysis
- Financing

It is therefore evident according to the above listed financial skills that the participants prefer that most of the training programme should focus on the management of working capital. Training should also teach them to use record keeping techniques to record data, to plan for profit and cash, as well as to procure funding.

4.7 CONCLUSION

Without the ability to compile and analyse the financial statements, cash budgets, and using breakeven analysis, the respondents cannot develop a business plan and ultimately a financial plan. Most of them rely on the short-term informal measuring of cash flow to determine the performance of their businesses with regard to profitability, liquidity and sustainability. They mentioned that, as long as cash receipts exceed cash payments, the business is profitable. Positive cash flow is necessary to meet short-term obligations but it is not a measure of long-term profitability. In fact, it can lead to an inaccurate conclusion that the business is growing, shrinking or stagnating. It is here where training interventions are required to teach them the measures necessary to determine the profitability of their businesses. This will help them to highlight in advance areas for improvement, to obtain financing and to sell their businesses should they desire to do so.

CHAPTER 5

SMALL BUSINESS TRAINING SERVICE PROVIDERS

5.1 INTRODUCTION

The respondents indicated that they need to improve their financial management skills through training interventions as described in the previous chapter. In order to make any recommendations regarding suitable training service providers, a group of small business training service providers have been identified, and the programmes they offer are discussed in this chapter. The small business training service providers are classified according to the public and private sector.

5.2 PUBLIC SECTOR TRAINING PROVIDERS

The promotion of small businesses remains an important priority for the South African government. Government has committed itself to ensure that small businesses progressively contribute to job creation, equity and access to markets (Mpahlwa, 2009:2). As part of its commitment regarding the development of an enabling environment, government established the Small Enterprise Development Agency (SEDA), the Gauteng Enterprise Propeller (GEP) and the Sector Education and Training Authorities (SETAs) to develop and improve the skills of the small businesses. Other public sector institutions that have been in existence for skills development are the Further Education and Training (FET) colleges and universities. These agencies are discussed below.

5.2.1 Small Enterprise Development Agency (SEDA)

SEDA was established in 2004 through the National Small Business Amendment Act (Act 29 of 2004) in order to implement the national government's small business development strategy. SEDA has branches in all provinces, and offers assistance to small businesses in various phases of their life cycle as indicated below:

- SEDA Business Talk – assists clients who want information on starting a business. Assistance is provided regarding business advice and information, small enterprise training and business registration.
- SEDA Business Start – provides tools and techniques for clients who are ready to start a business and who want to be assisted in business planning and counselling, facilitation of access to finance and business support.
- SEDA Business Build – focuses on clients who want skills to sustain and strengthen their businesses. Assistance is provided in respect to capacity building systems, mentorship, tender advice, export readiness and franchising.
- SEDA Business Growth – assists clients who want to grow their businesses and expand nationally and internationally. They are assisted regarding business system development, cooperative support and growth strategies.

In the case where a small business owner/manager needs customised training, the representatives of SEDA will assess the skills required by the client and appoint a mentor or training provider to carry out a mentorship task or provide a training service. SEDA will pay part of the training costs and the participants are expected to pay the balance of the costs (Small Enterprise Development Agency offerings, 2010:3). Alternatively, small business managers/owners may use the Gauteng Entrepreneur

Propeller agency for an additional range of business-development services.

5.2.2 Gauteng Enterprise Propeller (GEP)

GEP is a provincial government agency established under the auspices of the Department of Finance and Economic Affairs to provide non-financial support and financial support, and to co-ordinate stakeholders for the benefit of SMMEs (Gauteng Enterprise Propeller (GEP), 2010:1–6). As a part of their non-financial support, the GEP provides free workshops on the courses listed below, intended to empower small business managers/owners to manage their businesses successfully:

- business plan writing;
- developing a business proposal;
- practical negotiation skills;
- financial management;
- project management;
- accounting and bookkeeping;
- tendering;
- costing and pricing;
- marketing and sales; and
- computer literacy.

The GEP also assists small businesses to acquire and install business software such as the Pastel program for accounting. The GEP pays 80% of the costs and small business owners/managers pay the rest. In the case of training, small business managers/owners pay R50 and the balance of the costs is settled by the GEP. To qualify for these kinds of subsidies, businesses have to be registered with the registrar of companies. Small business managers/owners may also acquire financial management skills through the relevant Sector Education and Training Authority (SETA).

5.2.3 Sector Education and Training Authority (SETA)

SETAs have been established to ensure that the skills needs for every sector of the South African economy are identified and that training is provided. In order to fulfil its mandate, SETA collects a compulsory skills development levy payable by employers registered with the relevant SETA. The SETA pays back the funds to the employer in the form of training grants. More than 90% of the SETA's members fall under the category of small business. As a result of small businesses dominating the membership of SETA, it has established a small business department tasked to:

- determine fundamental training needs of small businesses;
- develop marketing strategies for small businesses; and
- disburse the skills development facilitator on behalf of the small business in the form of a skills development grant.

Some of the SETAs are also implementing the New Venture Creation Learnership with the aim of enabling participating learners to learn skills and receive the support necessary to start and successfully manage small businesses. To qualify for this service the small business must be registered with a relevant SETA and pay a skills development levy (SETA, 2010:12, 15 and 17).

Small business managers/owners may also study financial skills at higher education institutions such as the University of South Africa (Unisa), University of the Witwatersrand, University of Pretoria, Tshwane

University of Technology, University of Johannesburg and Nelson Mandela Metropolitan University. Only Unisa will be discussed below because of its accessibility, affordability and relevancy to this study.

5.2.4. University of South Africa (Unisa)

Unisa is an open distance learning institution that teaches a variety of qualifications, including bachelor's degrees, diplomas and short learning programmes (SLP). These include financial management and accounting studies. The short learning programmes are offered by the Centre for Business Management (CBM) (Centre for Business Management (CBM), 2011:1) and the Centre for Accounting Studies (CAS) (Centre for Accounting Studies (CAS), 2011:3). These centres and the relevant SLPs for this study are listed below.

Centre for Business Management

- short course in basic financial skills
- course in basic finance
- course in financial management
- course in financial performance measurement and control
- short course in finance for non-financial managers
- programme in financial management
- short course in SMME management
- short course in writing a business plan
- programme in entrepreneurships and small business management.

Centre for Accounting Studies

- course in basic principles of financial statement analysis and interpretation
- course in computerised bookkeeping
- course in fundamental accounting
- course in practical bookkeeping

Private sector entities have also heeded a call for private sector participation in small business skills development and responded by developing and implementing a variety of small business initiatives that will be discussed below.

5.3 PRIVATE SECTOR INITIATIVES

Private sector entities which will be discussed in this study that participate in small business skills development initiatives are South African banks, the South African Breweries, independent trainers, Damelin (FET) and online delivery (learning via the learning management system with online facilitation).

5.3.1 South African banks

Most South African banks have introduced initiatives that are intended to support small business skills development. These banks are ABSA, First National Bank, Standard Bank and Nedbank. The banks provide free services such as consultation, advisory services, workshops and seminars to small business. To ensure that the services are accessed, they are advertised through mass media (ABSA; First National Bank; Standard Bank ; Nedbank, 2011). South African Breweries has also responded to an invitation to support small businesses by introducing number of initiatives, which will be outlined below.

5.3.2 South African Breweries

The South African Breweries (SAB), the producer and distributor of alcoholic and non-alcoholic beverages, introduced an enterprise development programme in 1995 known as the SAB KickStart programme. The SAB aims to inculcate a culture of entrepreneurship and empowering small businesses economically through its KickStart programme as a community engagement project. Through this initiative, small businesses are provided with monetary grants to start up businesses and to expand existing businesses. SAB also has a skills development programme that is aimed at all small business skills development irrespective of whether they trade in alcohol or non-alcoholic products. Their services involve skills in the management of a business (Swanepoel, 2008:61). The above is done by conducting a series of workshops across the country.

5.3.3 Providers of accounting software packages: Softline

Some providers of accounting software in South Africa also offer accounting and financial training. One such provider is Softline. Softline is a partner of the Sage Group plc who develops accounting, enterprise resource planning (ERP) and payroll software for small, medium and large enterprises. Softline’s leading brands include Softline AccPacc and Softline Pastel. The company offers a range of product training solutions in order to ensure proficiency in the use of accounting, ERP, payroll and business software (Softline AccPacc, 2010). Their core training in terms of small businesses involves the following activities:

- opening and setting up a new company
- creating a chart of accounts
- setting up accounts receivable and customer records
- entering invoices and receipts
- setting up accounts payable and entering transactions
- creating inventory
- creating cash books
- processing journals
- processing bank reconciliations
- tax processing
- creating reports
- using the system manager.

Small businesses who want specialised training that is short, participative and practical may attend workshop training conducted by individual training providers.

5.3.4 Independent training providers

There are a number of independent small business training service providers like Masemola Business Consulting and Mpumalanga Training Trust, which focus on small business skills development for businesses in the Dr JS Moroka Municipality (Masemola Business Consulting, 2010). Some of the programmes they offer are listed below:

- programme in entrepreneurship
- programme in small business financial management
- computer skills for small businesses
- sales management course
- cash flow management course.

The Departments of Labour and Social Welfare in Mpumalanga normally pay 50% of the training costs on behalf of the small business owners/managers. The small business owners/managers may group themselves into groups of ten or more and request one of the above departments to appoint a training provider and fund the workshop. The departments appoint the training service provider for the group and bear part of the costs. Dr JS Moroka Municipality also participates in ensuring that such training is affordable to small businesses.

Many municipalities also offer small business support under their local economic development (LED) agencies, or dedicated small and co-operative programmes within their LED divisions and public-private partnership-based incubation centre. Along the same line, Dr JS Moroka Municipality included in their budget funds to subsidise training that is provided by the independent service providers. Small business managers/owners who want formal vocational or academic qualifications may also study with the Further Education and Training colleges.

5.3.5 Further Education and Training (FET) Colleges

FET colleges provide both vocational and academic education and training to help learners obtain the necessary qualifications and skills to start out on a chosen career path. Learners can gain access to valuable financial skills to meet the challenges of the business world. The education and training offered by FET colleges to learners is tailored and receptive to the needs of learners and industry. Damelin College is one of the FET colleges offering such education and training (Akoojee and McGrath, 2008:140).

5.3.6 Damelin College

Damelin is a correspondence college that offers a variety of programmes, including financial management. Students can register at any time, learn at home according to their conveniently scheduled time and be able to manage their activities, including their business, at the same time (Damelin, 2010). Damelin offers the following short courses:

- skills programme in bookkeeping to trial balance
- technical financial accounting
- programmes in computerised bookkeeping
- programme in financial management
- diploma in financial accounting
- programme in basic storekeeping and stock control
- programme in cost and management accounting.

5.3.7 Online delivery

Respondents and anyone who has access to the internet can visit sites that offer free visual lectures on basic finance skills via the learning management system with online facilitation. A few examples of such websites are listed below:

- Wikipedia.co.za
- www.vttv.co.za
- www.youtube.com
- www.brighterstar.co.za
- www.marcsevnspt.com

5.4 SUMMARY

Following the empirical findings that the small business owners/managers at Dr JS Moroka Municipality lack financial management skills, this chapter focused on identifying the small business training service providers and discussed the programmes that they offer.

With the increase in small business failure, government has come up with an improved public-private sector-integrated small business development strategy to enhance the skills of small business owners/managers. The strategy led to the establishment of new public and private sector small business training services providers and improvement of support systems to the existing ones. In this chapter, the small business service providers are grouped into those that are fully and those that are partially funded by the public sector and those that offer training in their own private capacity.

The public sector institutions that have been discussed and which provide financial management skills are the Small Enterprise Development Agency (SEDA), Gauteng Enterprise Propeller (GEP) and those which are classified under the Sector Education and Training Authority (SETA) agencies, Further Education and Training (FET) colleges and the universities. These all offer qualifications that include degrees, diplomas and short learning programmes. They also conduct workshops, seminars and software training.

Banks such as ABSA, Standard Bank, Nedbank, First National Bank, and companies like the South African Breweries, participate in small business skills development by offering free workshop and seminars. The nature of the workshops and seminars provided by these banks was discussed. The availability of independent trainers and online delivery (learning via the learning management system with online facilitation) for skills development was highlighted. The following chapter deals with the conclusion and recommendations on the study.

CHAPTER 6

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The primary objective of the study was to assess the financial management skills of small retail business owners/managers in Dr JS Moroka Municipality in order to highlight areas in financial management that need development and suggest appropriate training interventions. In order to meet the primary objective of the study, the following secondary objectives were formulated:

- investigating the current experience, training and education received by small business owners with respect to financial management skills;
- determining their financial management skills;
- exploring the training needs they have in respect of financial management skills; and
- recommending suitable training providers for financial skills development.

The objectives of this chapter are to provide a brief summary of the chapters, to draw conclusions about the state of financial management of small business managers at Dr JS Moroka Municipality and to make recommendations on the suitable training intervention based on the findings, as well as to highlight the area for future research.

6.2 SUMMARY

Chapter 1 outlined the plan used in order to complete the research. The background of the research was introduced in chapter 1, followed by a definition of the research problem and the objectives of the study. A definition of small business was provided, and the role of small businesses in poverty eradication, job creation, improved income distribution and overall economic development was described. The methodology used to conduct the empirical research was also introduced. The chapter concluded by listing the outlay of the subsequent chapters.

Chapter 2 provided the literature review. Small business was defined on the basis of quantitative and qualitative characteristics. Small businesses are important sources of employment and their job-creation rate is higher than that of big businesses. The cost of creating job opportunities by means of small businesses is considerably lower than that of big businesses. This contribution was discussed in detail in the chapter. Around the world, the important contribution of business management skills to small business success is recognised. It is against this background that the last section of the chapter discussed the importance of business management skills and their impact on small business success. The discussion on skills was narrowed down to financial management skills. The literature review enabled the researcher to identify the following key financial management skills:

- investment decision-making;
- financing decision-making;
- cash flow management;

- financial statement analysis; and
- planning, control and reporting

The development of the questionnaire was based on the above-mentioned financial skills. The literature review guided the researcher on possible outcomes of the research.

Chapter 3 addressed the methodology and the research design adopted in order to answer the research question. Survey research as a part of quantitative research methodology was used in designing questions, collecting and analysing primary data. Prestructured and pretested questionnaires were designed and used to collect data. The questions in the questionnaires asked information on the following information: business profile, owner/manager experience, education and/or training attended while in the business, financial management skills sets, training needs and demographic profile of the owner/manager. A sample frame was obtained from the database of Dr JS Moroka Municipality where a sample was drawn using a random stratified sampling technique. Potential respondents were identified by means of the sampling technique and were visited by the trained field workers.

Chapter 4 dealt with the analysis and interpretation of the data obtained by means of the questionnaires. The results were analysed by means of SPSS, and presented by means of frequency tables, bar and pie charts. The results were also interpreted.

Chapter 5 evaluated the small business training service providers and the programmes that they offer, in order to make recommendations about the suitable training providers for financial skills development in the subsequent chapter. The small business training providers were grouped into those funded by government and those that offer training privately. The chapter also listed the several training programmes offered by these service providers and examined their accessibility in terms of cost and convenience.

Chapter 6 concludes by discussing the findings of the empirical research and recommendations are proposed based on the results. A suggestion is made for future research.

It has been found from the results outlined in this chapter that most of the participants did not acquire their business management skills from their previous working experience or training, neither from secondary or tertiary education. The majority of the participants' level of financial management skills is lacking. Recommendations are made that small business owners/managers should attend workshops or seminars or they should register for short learning programmes about financial management.

6.3 CONCLUSIONS

In order to ensure that the study is limited to those businesses regarded as small, literature was reviewed on the definition of the small business and its role in the development of economy. In defining small business, Shafeek (2006:28), Gibson and Holmes (2001:01) and Nieman et al. (2006:05) found that a business is regarded as small if it is closely controlled by the owner, has less than 20 full-time employees and has a relatively small share of the market. Of the businesses taking part in the research, 59% satisfied the definition.

Regarding employment, 90% of the businesses surveyed employ an average of 5 people, 53,70% generate a monthly turnover of about R5 000 to R30 000, and 72% of them have total assets at market value of R0 to R250 000. This finding is consistent with the definition of small businesses cited by the Small Business Act 102 of 1996. Based on this finding, it can be concluded that businesses surveyed in the study could be classified as small.

The study found that previous work experience did not equip the participants with adequate financial management skills. Most of the previous work done by the participants was technical, unskilled and construction-related. Respondents who had grown up within an entrepreneurial environment acquired basic financial skills through their involvement in the business activities.

Tertiary qualifications appeared not to play a role in the skills development of the participants because some of them did not have tertiary qualifications. Forty per cent of the participants had passed Grades 8–9 and 53% had passed Grades 10–12; however, they did not have business subjects such as accounting, economics and business management, which could have enhanced their financial management skills.

It has been found that the small business owners/managers surveyed did not have a proper accounting system in place. They also lacked the knowledge to compile financial statements and cash budgets and they could not analyse these statements. A further analysis indicated that the respondents could not compile a business plan neither could they plan for profit or cash. Although it was found that some of them had a good knowledge of managing working capital, 60% expressed a need for training intervention in this area to improve their skills. Other areas of financial management training required were profit planning, cash budgeting, financing and the use of breakeven analysis.

It can be concluded from the survey that small business owners/managers at Dr JS Moroka Municipality have limited basic financial management skills which need to be broadened. Based on these findings, recommendations are made in the next section regarding appropriate training interventions in order to support the small business owners/managers.

6.4 RECOMMENDATIONS

The findings of this research confirmed that small business owners/managers at Dr JS Moroka Municipality need financial skills. Efforts should be made to develop the skills of both existing and new business owners/managers to ensure that their businesses are managed successfully and continue to generate profit. In light of the above findings, the following recommendations are put forward:

- Small business managers/owners are advised to attend free workshops on business management training offered by SEDA. They can choose from programmes such as SEDA Business Talk, SEDA Business Start, SEDA Business Build or SEDA Business Grow depending on the life cycle of their business.
- Those who have registered their businesses may attend workshops on financial management conducted by the GEP provided they have time to travel to Gauteng Province and can make provision for their businesses to be attended to during their absence.
- Participants who have passed Grade 7 and who want more formal qualification on financial management may study with the FET colleges such as Damelin.
- Those who have matric and have admission to study at higher education institutions may study financial management at various universities such as the Unisa Centre for Business Management.
- To improve their accounting skills, participants may register for an accounting degree at Unisa, or SLP at its Centre for Accounting Studies. Alternatively, they can approach Softline Pastel for more practical accounting skills.
- Small business managers/owners who have access to the internet may study basic finance skills via the learning management system which is facilitated online.

It was established that most small business owners/managers do not attend workshops and seminars provided by training providers because of the costs and long presentations. In order to encourage them to attend these workshops and training, the following recommendations are made:

- Information should be readily available, reach the small business owners/managers on time and the benefits of the training should be clearly communicated in advance.
- It is advisable that the contents of the workshop training focus mostly on basic financial skills development, be tailor-made for small business development and be presented in the language in which the participants are fluent. Training interventions should be short, practical and mostly approached from the adult education perspective.

6.5 SUGGESTIONS FOR FUTURE RESEARCH

The main functional areas of business involve finance, marketing, human resource supply chain, operations and research and development (sources). These functions are interrelated and interact with one another during operation. In large companies, they are grouped into departments, and people with specialised skills are placed in each department. In small businesses, all the functional tasks are normally performed by the owner or the manager. This study focused on the financial management function only. The fact that respondents have limited financial management skills could mean that their skills in the other functional areas are also lacking.

Given the fact that the functional areas work together and interact with each other, it is suggested that similar studies be conducted in order to include other functional areas of small businesses such as marketing, human resource, supply chain and operations management.

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ANNEXURE 1: COVERING LETTER

Dear Respondent

MCom research project: Survey questionnaire

AN ASSESSMENT OF THE FINANCIAL MANAGEMENT SKILLS OF SMALL RETAIL BUSINESS OWNERS IN DR JS MOROKA MUNICIPALITY: IMPLICATIONS FOR SMEs TRAINING AND DEVELOPMENT

I am a student of the University of South (Unisa) registered for an MCom degree with my studies focusing on the above approved topic.

Research indicates that small business is capable of job creation, poverty eradication and more income redistribution. However, it has been found that most of small business fails in South Africa as a result of the lack of financial management skills. This study is intended to determine your financial management skill and which skills you need, in order to suggest appropriate training that will enhance your financial management skills.

I am in the process of collecting data through an interviewer-administered questionnaire. I envisage starting the interviews on 10 January 2010. It is anticipated that each interview will take between 30 and 50 minutes.

One of the outputs of this study will be a report summarising the findings. If you are interested in a copy, it will be sent to you. Be assured that all information provided will be treated as strictly confidential.

Your participation in this regard is needed and greatly appreciated.

AM Phenya

University of South Africa

ANNEXURE 2: RESPONDENT AND INTERVIEWER DETAILS AND QUESTIONNAIRE

Respondent details

Type of business: ---

Physical address: ---

Telephone: Home: -------------------------------------

Work: --------------------------------------

Cell phone: ---------------------------------

E-mail address: ------------------------------

Interviewer details

Name of interviewer: -------------------------------------

Date of interview: --

3.7.1. Section A: Criteria for small business

The aim of following questions is to determine whether the business is a small Business:

1 Indicate the number of permanent staff in your business

permanent employees

2 Indicate the number of temporary staff in your business

temporary employees

3 Who is responsible for managing the business?

	Circle one only
Owner	1
Manager	2
Both	3
Member of the family	4

4 Please indicate your gross monthly sales:

Gross sales	**Circle one only**
0–R5 000	1
R5 001–R15 000	2
R15 001– 30 000	3
R30 000+	4
Don’t know	5

5 Please indicate the total market value of the assets of the business:

Gross asset value	**Circle one only**
0–R75 000	1
R75 001–R150 000	2
R150 001–R250 000	3
R250 000+	4
Don’t know	5

3.7.2. Section B: Experience, training, education

The aim of the following questions is to determine the experience of the respondent with regard to financial management skills and the type of training attended, which is assumed to impact on the existing skills and level of education.

6 For how long has your business been in operation?

| | | years

7 What type of work have you done before opening/managing this business?

----

8 Indicate the highest grade you passed at school.

Grade	Circle one only
Grades 1–7	1
Grades 8–9	2
Grades 10–12	3

9 Indicate your highest academic tertiary education qualification.

	Circle one only
Certificate	1
Diploma	2
Bachelor's degree	3
Honours degree	4
Master's degree	5
Doctorate	6
Other	7

10 If you marked other in No. 9, please specify:

----

11 Do you have any technical qualification?

	Circle one only	
Yes	1	[Go to question 12]
No	2	[Go to question 13]

12 If you marked yes in No. 11, please specify:

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13 Have you attended any business management training?

	Circle one only	
Yes	1	[Go to question 14]
No	2	[Go to question 15]

14 If you marked yes in No. 13, please specify the type of training or workshop you attended within the past three years.

3.7.3. Section C: Financial management skills sets

The aim of the following questions is to determine your financial management skills:

15 **Indicate your proficiency** in the under-mentioned skills sets by using the following three-point scale:

1: No understanding

2: Little understanding

3: Full understanding

Skills	**No understanding**	**Little understanding**	**Full understanding**
15.1 Draft a business plan	1☐	2☐	3☐
15.2 Prepare a projected income statement/budget	1☐	2☐	3☐
15.3 Compile a cash budget	1☐	2☐	3☐
15.4 Compile financial statements	1☐	2☐	3☐
15.5 Analyse financial statements by means of ratios	1☐	2☐	3☐
15.6 Conduct a break-even analysis	1☐	2☐	3☐
15.7 Manage stock	1☐	2☐	3☐
15.8 Manage cash	1☐	2☐	3☐
15.9 Manage accounts receivable	1☐	2☐	3☐
15.10 Use spreadsheets on computer for financial decision-making	1☐	2☐	3☐

16 Indicate the way in which you sell your goods/services

Type of sales	**Circle one only**	
For cash	1	
On credit	2	[Go to question 17]
Both cash and credit	3	[Go to question 17]

17 If you chose 2 or 3 in No. 16, rate your knowledge below on accounts receivable decision making.

Characteristics	**Very poor**	**Poor**	**Average**	**Very good**	**Excellent**
17.1 Credit selection	1☐	2☐	3☐	4☐	5☐
17.2 Credit standard	1☐	2☐	3☐	4☐	5☐
17.3 Credit limits	1☐	2☐	3☐	4☐	5☐
17.4 Credit terms	1☐	2☐	3☐	4☐	5☐
17.5 Collection policy	1☐	2☐	3☐	4☐	5☐
17.6 Monitoring account receivable	1☐	2☐	3☐	4☐	5☐
17.7 Collecting outstanding debt	1☐	2☐	3☐	4☐	5☐

18 Indicate the sources of funds used to finance the business.

Source	**Circle one or more**	
18.1 Family and friends	1	
18.2 Own funds	2	
18.3 Absa Bank	3	
18.4 First National bank	4	
18.5 Khula Finance Limited	5	
18.6 Micro Lenders	6	
18.7 Nedcor Bank	7	
18.8 Standard Bank	8	
18.9 Stokvel	9	
18.10 Other	10	[Go to question 19]

19 If you marked other in No. 18, please specify.

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20 Rate your knowledge of the functioning of the following financial institutions in financing small businesses.

Financial institutions	Very poor	Poor	Average	Very good	Excellent
20.1 Absa Bank	1☐	2☐	3☐	4☐	5☐
20.2 Standard Bank	1☐	2☐	3☐	4☐	5☐
20.3 First National Bank	1☐	2☐	3☐	4☐	5☐
20.4 Nedcor Bank	1☐	2☐	3☐	4☐	5☐
20.5 Khula Finance Ltd	1☐	2☐	3☐	4☐	5☐
20.6 Business Partners	1☐	2☐	3☐	4☐	5☐

3.7.4. Section D: Training needed

The aim of this section is to determine whether the respondent views training in financial management skills important and needed.

21 Do you need financial management training?

	Circle one only
Yes	1
No	2

22 If you marked yes in No. 21, indicate one most important aspect of financial management that the training should focus on.

3.7.5. Section E: Demographic profile

This section contains items regarding your demographic characteristics with regard to gender, age and ethnicity. This information will be used to describe the group of people that completed the questionnaire. The information will be used for statistical purposes and will be treated confidentially.

23 Please state your gender.

	Circle one only
Male	1
Female	2

24 Please state your age.

years

25 Please indicate your ethnicity.

Ethnicity	**Circle one only**
African	1
Coloured	2
Asian	3
White	4

Information provided in this questionnaire will be treated as confidential.

THANK YOU FOR YOUR COOPERATION

Any enquiries can be directed to:

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