
**THE FINANCIAL MANAGEMENT OF SMALL, MEDIUM AND MICRO
ENTERPRISES IN THE RURAL COMMUNITIES**

A mini - dissertation

By

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STATEMENT BY CANDIDATE

I declare that the mini - dissertation hereby submitted to the University of Limpopo for the degree Masters of Business Administration (MBA) has not been previously submitted by me for a degree at any other university; that it is my own work in design and execution, and that all material contained therein has been duly acknowledged.

SIGNATURE:-----

DATE :

(i) DECLARATION

I declare that the minj-dissertation hereby submitted to the University of Limpopo for the degree of Masters of Business Admirustration (MBA) degree in the Financial Management Department has not previously been submitted by me for a degree at this or any other university, it is my work in design and in execution and that all material contained herein has been duly acknowledged.

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(iii) **ABSTRACT**

Financial Management is one of the critical principles in the business environment. This study was conducted to assess the impact of the use of financial statement by SMMEs on to the success of their businesses.

In Chapter one of the study, the researcher gives the background to the research problem. The objectives of the study are also discussed. The research questions are highlighted and the key concepts that are used in the study and defined. The researcher gave the format of the study and concluded the chapter with summary chapter.

Chapter two focused on the review of related literature where different sources who explained about the financial management in SMMEs were consulted. The research objectives were restated and intensely discussed. The researcher outlined the challenges he encountered during the research process. The chapter was concluded with a summary chapter.

Chapter three discussed the research design and methodology. The rationale for the study was explained in this chapter. The research design, types of research, target population, sampling and the research instruments were all explained in this chapter. The questionnaire construction and questionnaire items were also outlined. The research process was explained in full and the chapter was concluded with a summary.

Chapter four discussed the data analysis, where the differences between qualitative and quantitative data analysis were discussed. Findings from other documents were also discussed. The chapter was concluded with a summary.

Chapter five summarized all the chapters by the giving conclusion and recommendations.

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(iv) **ACRONYMS**

DTI	Department of Trade and Industry
GEM	Global Entrepreneurship Model
GDP	Gross Domestic product
LIBSA	Limpopo Business Support Agency
LIM DEV	Limpopo Development Agency
SARS	South African Revenue Services
SEDA	Small Development Agency
SMME	Small, Medium and Micro Enterprises

CHAPTER 1

INTRODUCTION AND GENERAL ORIENTATION

1.1. INTRODUCTION

This chapter gives a background explanation of the research problem. The significance of the study is also outlined. The aims and objectives of the study are being explained. The researcher will also explain the problem statement, assumptions, and the research questions. The format of the study together with the chapter conclusion will be highlighted in this chapter.

Small, medium and micro-enterprises (SMMEs) are considered as "growth engines" in both diversifying the economy and improving productivity for progress in national development. SMMEs also create jobs, generate wealth and stimulate entrepreneurship. To realise their vast potential, SMMEs need an enabling favourable and supportive environment (free of "hassles") so that they prosper and expand (Mohapi; 2005:2).

On creating the job opportunities to the majority of the previously disadvantaged communities, SMMEs need to have a thorough knowledge of the financial management function. Financial management is about planning income and expenditure, and making decisions that will enable the SMME owner to survive financially. Financial Management includes the following: financial planning and budgeting, financial accountability, financial analysis, financial decision-making and action.

Financial planning is about making sure that the business organization can survive; the money is being spent in the most efficient way; the money is being spent to fulfill the objectives of the organization and the business is being able to plan for the future of the organization in a realistic way. Financial accountability can also include financial responsibility. It means that the business

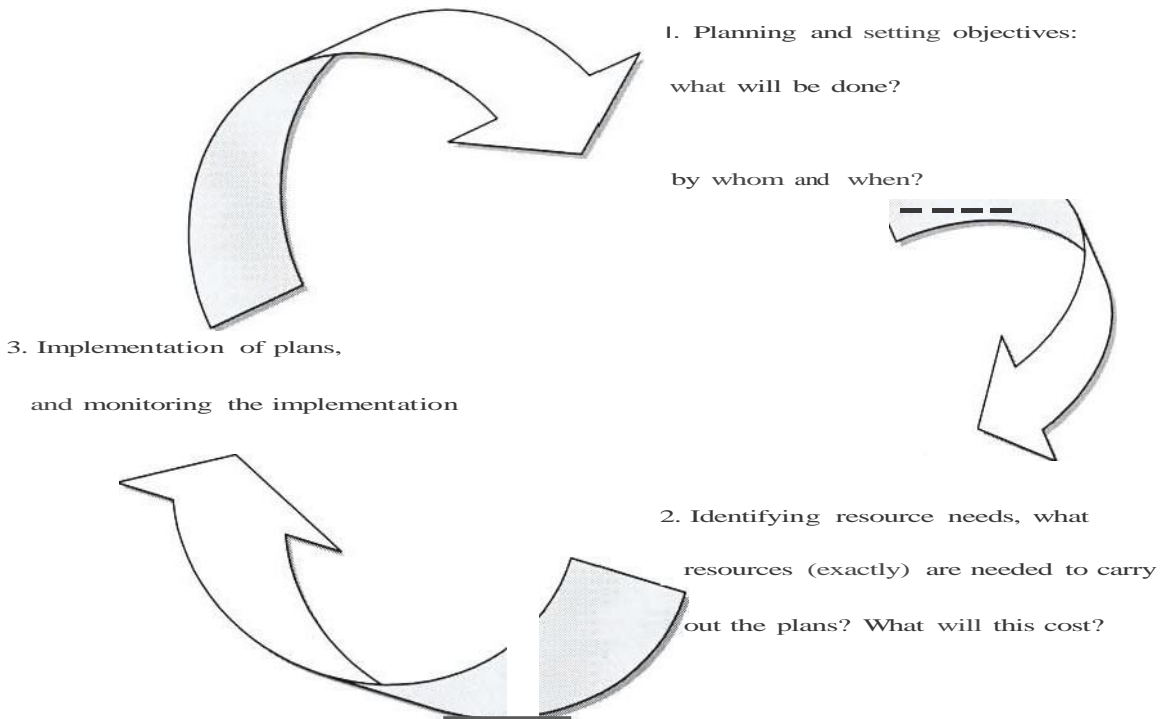
should be able to account for the way the money is spent and not taking on obligations the organisation cannot meet.

Proper financial management plays an important role in ensuring that the business enterprises become sustainable. Are small businesses having the adequate skills and knowledge to carry out this important management function? It seems that many Small, Medium and Micro enterprises (SMMEs) are not conversant with the financial management aspect in their respective businesses. As a result of lack of financial management knowledge, the SMMEs could experience financial stress.

Budgeting also plays an important role in the financial planning process. A budget is a financial plan drawn up for the purpose of managing financial resources properly. An organization must have set policies about the budget process. The planning and budget cycle is outlined in figure 1: figure 1 below.

Figure 1: THE PLANNING AND BUDGET CYCLE

www.osf.org.za



Unemployment is one of the major economic problems that have compelled many school leavers to start small businesses in order to be able to survive. On leaving school and entering the business world, these people do not possess any business skills. They just start businesses without sufficient knowledge of what exists in the business world (Mohapi; 2005:2).

It is estimated that small businesses produce about 42% of the country's Gross Domestic Product (GDP), and employ half the people working in the private sector. The question that is imperative is this: Are the government and other vested parties actually doing enough to support entrepreneurship in South Africa? (Haydam: 2004:11) It is apparent that the economy's growth and development depends mainly on the availability of enough resources to satisfy people's needs. Entrepreneurship therefore plays a significant role in creating jobs to the majority of the economically active population.

1.2. BACKGROUND TO THE RESEARCH PROBLEM

The study was undertaken to determine the significance of the financial statements towards the success of SMMEs. It has come to the attention of the researcher that many SMMEs in the rural areas are unable to be sustainable in managing their businesses. The research will investigate the ability of the business to keep proper financial records and to make informed financial decisions.

1.3. SIGNIFICANCE OF THE STUDY

The study could assist emerging and existing SMMEs about the effective management of finances with the aim of having sustainable businesses that reduce unemployment and alleviate poverty in South Africa. The study could also help the existing SMMEs to approach the relevant financial institutions with their problems in order to receive assistance. The gap that has been created by lack of skills and knowledge could also be filled by offering SMME owners financial materials that will equip them to manage their businesses effectively.

1.4. AIMS OF THE STUDY

The aim of this research is to evaluate the effectiveness of the SMMEs in the Capricorn District of Limpopo Province on creating job opportunities and becoming sustainable through the use of financial statements. The study aims to identify the major successes of SMMEs who use financial statements in comparison to their competitors who do not use them. The gap created by lack of financial knowledge amongst the SMMEs will also be investigated.

1.5. OBJECTIVES OF THE STUDY

The objectives of the study are:

- 1.5.1. To investigate if the owners of SMMEs frequently use financial statements in their businesses.
- 1.5.2. To test if the use of financial statements contribute towards the success of the business.
- 1.5.3. To explore how successful are SMMEs that use financial statements relative to their competitors who do not use financial statements.
- 1.5.4. To investigate challenges that SMME owners encounter in managing their businesses.

1.6. PROBLEM STATEMENT

The major research problem that has resulted in this study is: To find out how SMMEs that use financial statements become sustainable and successful more than the ones that do not use financial statements. What are the benefits of using financial statements for the success of the business?

Based on the research problem above, the following sub-questions can be formulated:

- 1.6.1. Do owners of SMMEs frequently use financial statements on evaluating their business success or failure?
- 1.6.2. How does this contribute to the success of the business?
- 1.6.3. How successful is the business relative to its competitors?
- 1.6.4. What challenges do SMME owners face in their business management task?

1.7. RESEARCH QUESTIONS

The research question to this study is: Are the government and other parties actually doing enough to support SMMEs to manage their businesses financially? The following subquestions could then be formulated:

- 1.7.1. How often do SMME owners use the financial statements?
- 1.7.2. Does the use of financial statements have any effect towards the business' success or failure?
- 1.7.3. What are the external stakeholders' response regarding the success of the business relative to its competitors?
- 1.7.4. Are there any problems encountered in the business management process?

1.8. DEFINITION OF TERMS

1.8.1. Entrepreneur

An entrepreneur is a person who starts a new business, taking the risk and hoping to make a profit.

1.8.2. Sole proprietorship

Is a form of business ownership that is owned and managed by one person who bears all the risks of the business. This business entity can be set up and ended without many legal requirements and is flexible.

1.8.3. Small, Medium and Micro Enterprises(SMME)

Small business as defined in chapter 1 of National Small Business Act No.102 of 1996 means a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more which, including branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and which can be classified as a micro, a very small, a small or a medium enterprise by satisfying the criteria followed.

1.8.4 . Gross Domestic product (GDP)

Value of all final goods and services produced within the boundaries of a country by both the permanent and non permanent residents of a country in a given period of time.

1.9. D I M E N S I O N O F C H A P T E R S

The chapters to follow are divided as follows:

1.9.1. Chapter 2: Literature review.

1.9.2. Chapter 3: Research design and research methodology

1.9.3. Chapter 4 : Analysis of data and statement of findings

1.9.4. Chapter 5 : Discussion of findings and linking to the literature review and

1.9.5. Chapter 6: Conclusions and recommendations

1.10. C H A P T E R C O N C L U S I O N

This chapter has explained the background to the study, the research problem has also been defined, and the significance of the study has also been given. The research aims and objectives have also been highlighted. In the chapter to follow, the literature from different sources will be reviewed.

CHAPTER 2

LITERATURE REVIEW

2.1. INTRODUCTION

This chapter will provide a theoretical framework within which this study will be based. Different researchers give different definitions of the SMMEs. In this study, SMMEs will refer to the definition as outlined in Chapter 1 of the National Small Business Act No.102 of 1996 . Small business as defined in chapter 1 of National Small Business Act No.1 02 of 1996 means a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more which, including branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and which can be classified as a micro, a very small, a small or a medium enterprise by satisfying the criteria followed.

The words SMME owners and entrepreneurs will be used interchangeably in this research work. Definitions of SMMEs differ from one country, sector and department to another. In his research Nieman (2006) indicates that there is no single, uniformly acceptable definition of a small firm. Storey (1995: 9) gives two definitions of small businesses, the economic definition and the statistical definition. The economic definition regarded firms as being small if they satisfied three criteria: they had a relatively small share of their market place; they were managed by owners or part - owners in a personalized way, and not through the medium of a formalized management structure; they were independent, in the sense of not forming part of a large enterprise. According to Storey, this definition was formulated by the Bolton Committee.

In his statistical definition, Storey (1995: 9) designed the definition to address three main issues being:

- a) To quantify the current size of the small firm sector and its contribution to economic aggregates such as Gross Domestic product (GDP), employment, exports, etc.

- b) To compare the extent to which the small firm sector has changed its contribution overtime
- c) To enable a comparison to be made between the contribution of small firms in one country with that of other nations.

As stated in the introduction, SMMEs make a huge contribution to the growth of the economy as well as to the employment figures (Schwarze, 2008:139). Although the government has emphasized the importance of SMMEs in job creation and poverty alleviation, it is still not easy for these enterprises to function successfully. According to Mahadea and Pillay (2008) despite all the commendable efforts undertaken by the government, the Total Early Stage Entrepreneurial Activity (TEA), as also reflected by recent Global Entrepreneurship Model (GEM) reports, is rather low in South Africa in relation to that of other countries at a similar level of development.

2.2. THEORETICAL OBJECTIVES

2.2.1. HOW OFTEN DO SMME OWNERS USE THE FINANCIAL STATEMENTS?

Some researchers say that one of the major causes of failure in the SMMEs is the lack of financial management skills by the owners. According to (Van der Walt and Van der Walt, 2008:21) the SMMEs in South Africa have a failure rate of between 70 and 80 percent. The Global Entrepreneurship Model (GEM) (2003:13) reports lack of financial support as one of the main problems entrepreneurs are faced with in South Africa.

The transition from being an entrepreneur to becoming an entrepreneurial manager of a venture can be exceedingly risky if there is little or no confidence in managing finances, as financial management is listed as one of the critical managerial competencies in new venture creation and development (Timmons and Spinnelli, 2007:269 in Kotze and Smit, 2008:36). In Bekker, Lesley and Derber (2003: 477), emphasizes the fact that if the owner wants to develop a sound small business, he should realise his limitations and always plough back money into the business.

When the owner takes too much out for himself or starts off without enough capital, his business is likely to fail. In his study Hall (1995: 18) indicates that businesses fail for different reasons at different stages of development. Burstiner (1994: 3) stresses that as many as: half of the enterprises started each year are nowhere to be found five or six years later. Bekker (2003: 477 & 478) indicates that to have a chance of success, there must be a genuine business opportunity. It is important for the entrepreneur to do a proper and detailed investigation of the market before starting the business and implementing administrative systems to supply him with management information.

Some business owners enter the market without thoroughly researching if their idea will be viable. Different researchers outlined different factors which may lead to the failure of SMMEs. Burstiner (1994: 7) outlines the following factors as the main causes of failure, selecting the wrong business location, offering the wrong product or product line, deciding to proceed with insufficient capital, ignoring the need to do one's homework choosing, the wrong type of business to go into. The location of an enterprise may also help to explain the life span of a business enterprise (Abouzeedan and Busler, 2004:157)

Access to finance and the cost of financing are the major obstacles to business start-ups and successful development of SMMEs in South Africa, as well as in developed and developing countries (Mahadea and Pillay, 2008:433). In a study conducted by Kotze and Smit (2008:36), entrepreneurs participating in the GEM study indicated that start-up finance depended on personal savings or loans from friends or family.

Mahadea and Pillay (2008:433) also emphasized the fact that majority of small ventures raise finance through friends and family, or through informal lenders. Few lenders are willing to advance funds to a small business without a personal liability commitment as most of the SMMEs are sole proprietorships (Block and Hirt, 1994:13). The small business managers find it difficult to make use of the business opportunities available because of lack of financial sources.

It is therefore important for the government as a major stakeholder in the economy to help the small business community.

In its White Paper on the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, the Department of Trade and Industry (DTI), has tasked a number of institutions to help small businesses with finance. Khula Enterprise Finance Limited as one of the financial institutions, has developed a number of financing products including the credit agreement schemes to unlock lending to small enterprises (DTI, 1995:8)

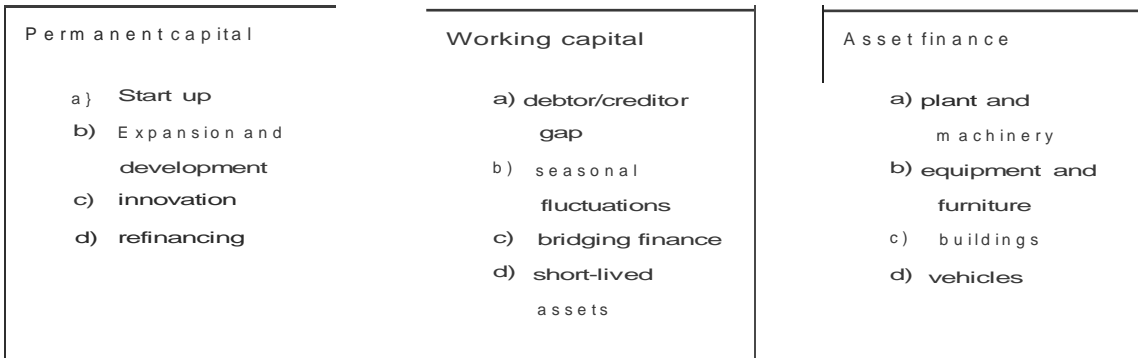
While increased financial support is necessary, what is more important is the ability to manage finances and keep proper record (Orford et al, 2003:34 in Mahadeva and Pillay, 2008:433). Financial management plays an important role in sustaining the enterprise. It is therefore important for the business owners to have some form of financial management skills. Financial management is responsible for acquiring the necessary financial resources to ensure the most beneficial results to the small business over both the short and the long term (Nieman, 2006:95).

By possession of good financial management skills, the business owners may be able to maximize the enterprise's wealth. Financial management involves two basic questions for the owner of the enterprise (a) What real assets should an enterprise invest in? This question revolves around the firm's investment and capital budgeting decisions (b) How should the cash for the investments be raised? This question involves the financing decision by the owner (Brealey and Myers, 1996:4).

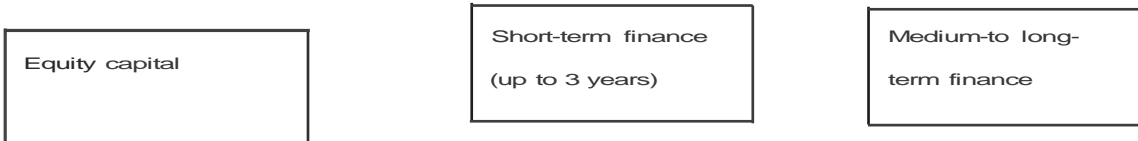
In managing the finances, Brigham, Gapenski and Eluhardt (1999) emphasises that the business owner have the responsibility for deciding the credit terms which customers may buy, how much inventory the firm should carry, how much cash to keep on hand and how much of the firm's earnings to plough back into the business enterprise. Stokes (2002) indicates that small firms also need money to finance a host of different requirements. Figure 2 below shows the uses and sources of funds for a small business according to (Stokes, 2002:320).

Figure 2: THE USES AND SOURCES OF FUNDS

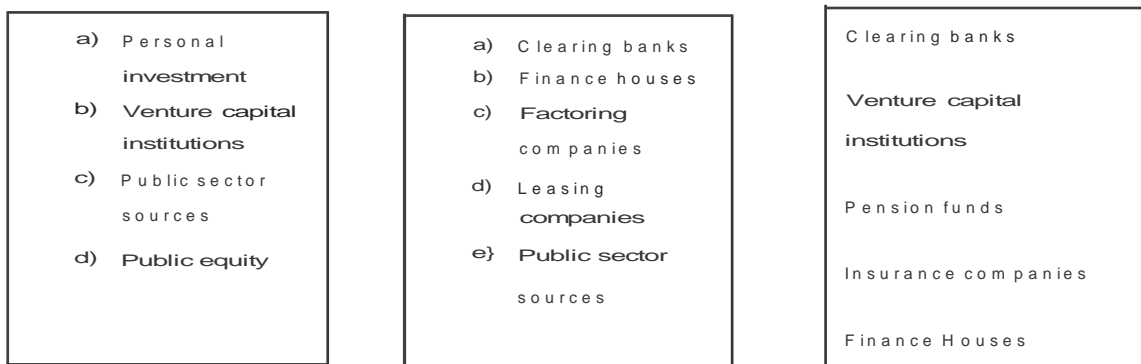
A small firm needs



So it requires



For which the main sources are



Understanding of the uses and application of funds by the small business managers, need some formal education and training. Hall (1995: 9) outlines the importance of good education with some business courses as one of the tools that will help the SMMEs managers to be able to cope with the changes in the business environment. According to the Global Entrepreneur Model (GEM) report, 2008:31, a report released in February 1990 by an accounting firm Grant Thornton notes that this is the third consecutive year that a shortage of skilled workers has been cited by privately-owned businesses as the major impediment to growth in South Africa

2.1.2. SUCCESS OR FAILURE

The business's success or failure depends on many factors. The following have been highlighted in Burger and Sapire (2010) as the most important factors to be considered for an SMME to be successful and sustainable .

(a) Impact of legal format on the business success

One of the first issues to consider when starting a business is choosing the legal form of the business. There are only a few ways of organizing a business . Each one has different legal and tax implications for owners and managers. The decision as to which is appropriate will depend on numerous factors. These include the cost of establishing the business, the need for limited liability, management and tax issues. There are choices of business ownership from which owners can choose from. The owners can choose from the following

- (i) Sole proprietorship - where the individual owns and manages a business in his or own capacity, receiving all profits and bearing all the losses . The business does not need to be registered - no start-up costs in terms of registration of a legal format.
- (ii) Partnership - is a business where more than one person (minimum of two and a maximum of twenty individuals) together own a business, sharing the profits and bearing the losses. Partnership does not require the business to be registered and is cheap to start up.

- (iii) Company (public or private) - where the business is regarded as a legal person separate from the owners. It is expensive and more difficult to form, and there are many government regulations to obey.
- (iv) Close Corporation - is a simple, inexpensive and more flexible entity for the small business. The business has to be registered at the Registrar of Close corporations, but it is not expensive to register it. Ability to obtain funding for expansion will determine whether the business can increase its output when required (Burger and Sapire, 1992:10). Although the formation of the business was not one of the major focuses for the researcher, it was of the utmost importance to establish the form of business ownership that dominates in the rural areas. Most of the SMMEs were mainly the sole proprietorship. The reason for this type of a business formation was that it is easy to enter into the market without any formalities or rules to follow.

(b) Entrepreneurial qualities

Human, Bean, Llewellyn, Tshabalala and Eksteen emphasise the following entrepreneurial qualities as the most important ones for the business's success or failure:

- (i) Product expertise
- (ii) A strong motivation or desire to achieve.
- (iii) Marketing and sales skills
- (iv) Integrity and follow-through
- (v) Good communication skills and professionalism
- (vi) A healthy relationship with money
- (vii) Planning skills, problem-solving skills and continual goal setting
- (viii) A constructive response to failure

For small businesses to survive, Nieman (2006:18) recommends top-line profitability (turnover/sales), bottom line profitability and cash as the three primary focus points for small business management (Schwarze, 2004:144). Profitability ratios indicate how efficiently a small business is being managed (Nieman, 2006:127). To manage profitability, a break-even analysis is recommended, while to determine short-term cash requirements and to manage them effectively, a cash budget must be prepared (Schwarze, 2008:144).

For a small business to grow and survive, it should consider keeping a daily accounts ledger as it is the most essential skill. In a study by Orford et al quoted in Schwarze, (2008:144), the following four essential financial practices were identified in investigating the financial administration of formal black-owned businesses in South Africa:

- a) Keeping a cash book
- b) Keeping an accounts receivable
- c) Keeping a record of inventory
- d) Performing proactive debtor management

It is apparent that record-keeping is an integral part of successfully performing the financial management function.

There are several critical skills identified as important for short-term financial management of SMMEs, but the following are regarded as the most important.

- a) At the very least prepare a daily accounts ledger (i.e. cash book)
- b) Prepare an accounts receivable record and perform proactive debtor management, if applicable.
- c) Prepare records of inventories, if applicable.
- a) Perform a break-even analysis
- b) Prepare and manage a cash budget

The enterprise's survival depends on certain factors. Abouzedan and Busler, (2004:157) are of the opinion that the location of an enterprise and the sector in which an enterprise is involved, has an influence on its survival chances.

The management of the business enterprise should always consider the organizational culture in which the business operates to be able to achieve its objectives effectively and efficiently. In each and every established SMME, the management principles should be followed at all times.

The following are common amongst the managers:

- (a) The managers have to plan the goals and objectives of the organization and determine when and how these should be achieved.
- (b) They have to organize business activities to achieve the set goals.
- (c) They have to lead employees to achieve goals.
- (d) They have to monitor and control all activities in order to make sure that everything is done according to plan.

The success of the business will be affected by the simplicity of the management system and the simplicity of the decision making structure (Burger and Sapire, 1982:2010).

In the Capricorn District of Limpopo, the researcher observed that most of the SMMEs operate under the informal sector. It has been observed that the execution of the management task is done at a very limited rate. There is no proper planning of goals to be achieved, and many tasks are performed mainly by the owner. There is little or no delegation in certain activities. The other major factor is that many businesses operate under informal sector, i.e. they are not formally registered with South African Revenue Services (SARS).

David (1998: 143) outlines the importance of organizational culture in developing a clear management strategy for a business. Organizational culture is a pattern of behaviour developed by an organisation as it learns to cope with its problem of external adaptation and internal

integration that has worked well enough to be considered valid and to be taught to new members as the correct way to perceive, think and feel.

2.1.3. SUCCESS RELATIVE TO COMPETITORS

According to Human et al, (2010) the business operates in a volatile environment where change is inevitable. It is therefore extremely important for management to know and understand the nature of the environment within which the business operates. The market environment contains variables that affect competition. These variables are consumers, suppliers, intermediaries, competitors and consumerism.

(a) Consumers

In order to develop and implement strategies to influence consumers, management needs to be fully informed about all aspects of purchasing power, number of consumers and buying behavior. Variables in the macro environment like age structure, family size, literacy and culture have a direct influence on the buying behavior of consumers. One manager who manages a gas filling business and a hardware indicated that they are faced with a very stiff competition in their gas department. He indicated that there were two new gas filling outlets in the neighbouring village which took on their customers from those two villages. On keeping up with the competition, the owner offered incentives to his existing customers to encourage them from buying from his business.

Suppliers should supply the business with inputs of the right quality, quantity and price, at the right time, for the business to succeed in a competitive market. Of the twenty five (25) SMMEs that participated in this project, 12(48%) were operating in the trading business and they operated as retailers. The product that was mainly supplied timeously and in the required quantity was mainly bread.

(b) Intermediaries

They played an important role in bridging the gap between manufacturers and consumers.

(c) Competitors

These are the businesses that offer the same product that the SMMEs offer, making them to compete for the available customers in the market.

(d) Consumerism

SMMEs need to have proper business strategies in place in order to be able to plan how they will achieve the objectives they want to achieve. Strategy as defined by Stokes, 2002:237 is a plan or pattern that brings together an enterprise's major objectives, policies and activities into a cohesive whole. The government has to put into place some strategies to help with the development of the SMMEs. In the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, the government articulated a number of measures.

Those measures include amongst others the following, creating an enabling legal framework, facilitating access to finance, and providing training in entrepreneurship, skills and management, facilitating access to appropriate technology (Department of Trade and Industry: Integrated Strategy on the promotion of Entrepreneurship and Small Enterprises, 1995:3 The Small Development Agency (SEDA) as one of the strategic institutions was formed as a merger between Ntsika Enterprise Development Agency and the National Manufacturing Advisory Centre. The main aim of SEDA is to provide non financial support to small businesses. Provincial Government Agencies provide a range of business development services to small enterprises to strengthen partnerships with SEDA, in Limpopo; the Limpopo Business Support Agency (LIBSA) has been established for that purpose (OTT, 1995:9).

Interventions that can be used to develop financial management skills for the SMMEs are education and training, accounting clinics and experienced mentoring (Schwarze, 2008:146). The author defines accounting clinics as a method of setting up by making use of commercial and professional infrastructures that will provide affordable services to small business owners, and entrepreneurs should be referred to service centres where they can be assisted in developing and

implementing financial and accounting systems that will improve their business performance management.

It is important for tertiary institutions to encourage students to take entrepreneurship as a subject. Students should be made aware of career options in entrepreneurship and self-employment (Van der Walt and Yan der Walt, 2008:22). The Faculty of Management Sciences and Law of the University of Limpopo is offering entrepreneurship as one of the prerequisite modules for the Masters of Business Administration (MBA) programme. The main aim of the entrepreneurship module is to equip students with the knowledge of how to start and manage their own businesses after completion of their degrees. Financial management is also offered as part of the MBA programme to enable students to manage their own finances as well as their business's finances. Although the researcher will not investigate the two modules further, the two modules are worth mentioning for the researcher's project.

2.1.4. CHALLENGES IN THE FINANCIAL MANAGEMENT PROCESS

It is not all SMMEs that fail, but there are certain types that are more likely to fail than others. With the rapid changes in technology within the business world, many SMMEs are finding it difficult to cope. All businesses, regardless of their size, need to innovate and adopt new ideas and practices to satisfy the changing needs of the market in a global environment (Mahadea and Pillay, 2008). "Although it is not essential to keep right up to date with technology, it is important to be aware of changes in case something arises that might be useful for your business", Erwin and Blewett (1998:5).

"The best SMMEs have an entrepreneurial management style, characterized by informal approaches to planning, and heavy reliance on networks rather than bureaucratic planning procedures associated with larger organization", (McCauley, 2005 :119). According to McCauley (2005: 108), in countries like Australia and South Korea, SMEs are responsible for a significant and growing share of export activity. Conradie and Fourie (2000: 86) outlines the

importance of management planning as a prerequisite for the success and future well-being of the small business and its stakeholders. It is important for business managers to have plans that clearly outline the business' goals and objectives. The plans should be drawn in line with the business' vision and mission. David (1998: 83) defines a vision statement as an answer to the question "what do we want to become" while a mission statement answers the question "what do we want to become".

LimDev's key strategic objectives include a focus on the creation of sustainable jobs across the Limpopo Province, the facilitation of access to meaningful commercial and social opportunities for the people of the province. The mobilization of LimDev's investments to ensure an ability to operate effectively on a sustainable basis, the general facilitation of community development over the long term and the overall improvement of the lives of the people of the province are some of the strategic objectives that LimDev wants to achieve (LimDev annual report 2006).

Small, Medium and Micro Enterprises should be able to acquire and combine resources in the most productive way to achieve their objectives. These SMMEs have to make investments as well as financing decisions. As stated by Conradie and Fourie (2000: 86), investment decisions implies the decision on what is needed for the business to achieve its goals and objectives and financing decisions means deciding on the best way to finance the required assets and resources. The success of SMMEs depends again on the ability of the management to make financial and investment decisions.

In making sound financial and investment decisions, management should identify the strengths and weaknesses as well as opportunities and threats that surround the business. The management of SMMEs should develop a clear strategic plan that will enable their organizations to cope with the challenges from the external environment. The SMMEs owners should also understand clearly how the finance world operates. Managers should have accurate, meaningful and timely information to make good business decisions (Nieman, 2006:96).

Financial ratios can be used to determine the business enterprise's growth. According to Abouzeedan and Bulser (2004), the main purpose of the financial ratio is to detect the business enterprise's operating and financial difficulties. The SMMEs has to determine their profitability, liquidity and solvency to ensure growth as well as sustainability in their businesses. In order for the business managers to be able to do these ratios, they should have an educational background and a clear understanding of the financial management. (Stokes, 2002:330) maintains that adequate forecasting and the appropriate planning and control can minimize the financial stress of small business enterprises.

2.2. FINDINGS FROM OTHER DOCUMENTS

The following are the findings from other documents about financial management by the SMMEs.

- 2.2.1. In Nyamunda's Journal on assessment of SADC: DFIs. Access to affordable finance is a major constraint for private sector growth, particularly SMMEs in developing countries and it has been particularly acute for some countries in Africa including the SADC region.
- 2.2.2. The investment climate survey (2004:12) indicated that finance was ranked among the top five constraints to business development in sub-Saharan Africa. This was partly because financial institutions view many small firms as high - risk ventures with poor collateral. Although increased financial support is necessary, what is important is the ability of the owners to manage finances and keep proper records (Orford et al, 2003:34).
- 2.2.3. Financial managers have the responsibility for deciding the credit terms under which customers may buy, how much inventory the firm should carry, how much of the firm's earnings to plough back into the business versus pay out as dividends(Brigha, Gapenski and Ehrhardt, 1999:5)

2.3. CHAPTER CONCLUSION

This chapter has discussed the use of financial statements in the business as described by different researchers. The contribution towards the success of the business, and the impact of the use of the SMMEs use of financial statements relative to its competitors who do not use them was also discussed. The challenges that the SMME owners face in the management of their business was also highlighted. The next chapter, will discuss the research design and research methodology

CHAPTER 3

RESEARCH METHODOLOGY AND RESEARCH DESIGN

3.1. INTRODUCTION

The previous chapter provided a clear explanation of financial management from different perspectives. The population that was used as a base for the research process will be discussed and the methods of sampling used will also be presented.

The chapter will also look into various methods followed for the collection of data as well as the data collection techniques employed. Since the collection of data involves interaction with elements of study, the possibility of challenges emanating from such interactions cannot be ruled out. This chapter will therefore mention the challenges that were encountered during the data gathering process and how those challenges were overcome. The last part of the chapter focuses on the methods that were used in the analysis of data gathered from respondents.

3.2. RATIONALE FOR THE STUDY

Rationale for the study means that the research objectives and the research questions are restated and are related to the gaps in the secondary sources. The objectives of the study as already mentioned are:

- 3.2.1. To investigate if the owners of SMMEs frequently use financial statements in their businesses.
- 3.2.2. To test if the use of financial statements contribute towards the success of the business.
- 3.2.3. To explore how successful are SMMEs that use financial statements relative to their competitors who do not use financial statements.
- 3.2.4. To investigate challenges that SMME owners encounter on managing their businesses.

The research questions as outlined in chapter one (I) are:

- 3.2.5. How often do SMME owners use the financial statements?
- 3.2.6. Does the use of financial statements have any effect towards the business' success or failure?
- 3.2.7. What are the external stakeholders' response regarding the success of the business relative to its competitors?
- 3.2.8. Are there any problems encountered in the business management process?

The major gaps that the secondary sources created in investigating the SMMEs was focusing on the job creation and alleviating poverty by this sector in the South African economy. Emphasis on job creation overlooked the issue of the ability of the small business owners as entrepreneurs to maximize wealth and make their business sustainable. Because of this gap, SMMEs are now faced with businesses that aim only at survival and not sustainability. Most of them end up being closed down and thus, making it difficult for the owners to make a breakthrough again in the business world because of being afraid of failure (Anonymous).

3.3. RESEARCH DESIGN

The quantitative and the qualitative research design were employed for the evaluation of the financial management of SMMEs in the Capricorn District of Limpopo Province. The difference between qualitative and quantitative research will be explained. The dominant strategy was the qualitative design with the quantitative design used on a limited scale. Qualitative research design was adopted by the researcher because of the validity of the data obtained from the respondents.

3.4. TYPES OF RESEARCH

The two major types of research are the qualitative research design and the quantitative research design. The two research designs will be explained further.

3.4.1.

TABLE 3.1. Alberts: 2008

DIFFERENCE BETWEEN QUALITATIVE AND QUANTITATIVE RESEARCH

Qualitative research	Quantitative research
Uses an inductive form of reasoning: develops concepts, insights and understanding patterns in the data.	Uses a deductive form of reasoning: collects data to assess preconceived models, hypotheses and theories.
Uses an emic perspective of inquiry: derives meaning from the subject's perspective.	Uses an etic perspective: meaning is determined by the researcher.
Is ideographic: thus aims to understand the meaning that people attach to everyday life	Is nomothetic: aims to objectively measure the social world, to test hypotheses, and to predict and control human behavior.
Regards reality as subjective	Sees reality as objective
Captures and discovers meaning as the researcher becomes immersed in the data	Tests hypotheses that the researcher starts off with.
Concepts are in the form of themes, motifs and categories.	Concepts are in the form of distinct variables.
Aim to understand phenomena	Aims to control phenomena
Observations are determined by information richness of settings, and types of observations used are modified to enrich understanding.	Observations are systematically undertaken in a standardized manner.
Data are represented in the form of words, quotes from documents and transcripts.	Data is represented by means of exact figures gained from precise measurement.
The research design is flexible and unique and evolves throughout the research process.	The research design is standardized according to

There are no fixed steps that should be followed and research cannot be exactly replicated.	a fixed procedure and can be replicated.
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The researcher will follow the qualitative research. The qualitative research design has five characteristics which are the following:

Case study, ethnography, phenomenological study, grounded theory study and content analysis study. These characteristics of different qualitative designs will be discussed in a tabular form to highlight their purpose, focus, methods of data collection and the methods of data analysis.

TABLE 3.2 Leedy, 2005:

CHARACTERISTICS OF DIFFERENT QUALITATIVE DESIGNS

Design	Purpose	Focus	Methods of data collection	Methods of data analysis
Case Study	To understand one person or situation (or perhaps a very slim number) in great depth.	One case or a few cases within its/their natural setting	<ul style="list-style-type: none"> • Observations • Interviews • Appropriate written documents and/or audiovisual material 	<ul style="list-style-type: none"> • Categorization and interpretation of data in terms of common themes • Synthesis into an overall portrait of the case(s)
Ethnography	To understand how behaviours reflect the culture of a group	A specific field site in which a group of people share a common culture	<ul style="list-style-type: none"> • Participant observation • Structures or unstructured interviews with "informants" • Artifact/document 	<ul style="list-style-type: none"> • Identification of significant phenomena and underlying structures and beliefs. • Organisation of data into a logical whole (e.g. chronology, typical

			collection	day)
Phenomenological study	To understand an experience from the participants' point of view	A particular phenomenon as it is typically lived and perceived by human beings	<ul style="list-style-type: none"> In-depth, unstructured interviews Purposeful sampling of 5 - 25 individuals 	<ul style="list-style-type: none"> Search for "meaning units" that reflect various aspects of the experience Integration of the meaning units into "typical" experience
Grounded theory study	To derive a theory from data collected in a natural setting	A process, including human actions and interactions and how they result from and influence one another	<ul style="list-style-type: none"> Interviews Any other relevant data sources 	<ul style="list-style-type: none"> Prescribed and systematic method of coding the data into categories and identifying interrelationships. Continual interweaving of data collection and data analysis. Construction of a theory from the categories and interrelationships
Content analysis	To identify the specific characteristics of a body of material	Any verbal, visual, or behavioural form of communication	<ul style="list-style-type: none"> Identification and possible sampling of the specific material to be analyzed. Coding of the material in terms of predetermined 	<ul style="list-style-type: none"> Tabulation of the frequency of each characteristic Descriptive or inferential statistical analyses as needed to answer the research

			and precisely defined characteristics	question
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The researcher will follow the phenomenological study of the qualitative research design.

3.5. TARGET POPULATION

The population in this study consisted of SMMEs in the manufacturing, retail and service businesses in Mankweng area of Capricorn District. The district has more than three hundred (300) SMMEs, and the researcher selected only twenty five (25) of them. The reason for reducing the sample to only twenty five (25) was that the researcher focused on only the SMMEs that will serve a purpose to the research project.

3.6. SAMPLING

Sampling is the process of selecting observations (Babbie & Mouton, 2001). A sample is a special subset of a population observed in order to make inferences about the nature of the total population (Babbie & Mouton cited in Mailin, 2007). According to Mouton (1996), it is important to distinguish between the target population and the sampling frame. The target population refers to the population to which one wishes to generalize, while the sampling frame (unit of analysis) refers to the set of cases from which the sample will actually be selected (Martin, 2007).

A good sampling procedure fulfils two criterias: The sample should be representative, in that the total population, the observations and the significant relationships between them are carefully defined, and the sample should be adequate, allowing for sufficient confidence to exist in the stability of its characteristics (Martin, 2007:71).

According to Leedy, (2005) qualitative researchers are intentionally non-random in their selection of data sources instead, their sampling is purposive. Purposive sampling was followed when data was drawn from SMMEs. Purposive sampling according to Bailey (1982:94) is applicable when the researcher chooses only those who meet the purpose of the study. The advantage of purposive sampling is that only participants who are willing to be part of the

research are involved. Its disadvantage is that the results are not representative of a large population. The generalization of the results is therefore minimized. The maximum number targeted to serve as a sample for the 300 SMMEs in the entire district was set at 90. The number was reduced to 25 SMMEs after the researcher experienced difficulties in reaching out to the 90. The 25 SMMEs selected were mainly the micro businesses and small businesses. The medium sized enterprises were not available in the majority.

3.7. THE RESEARCH INSTRUMENT

Three data collection methods were used, namely, structured interviews, questionnaires and documentary studies were used for gathering of data. The interviews were formally structured and easy for the participants to understand. The questionnaire was structured to address the research questions posed. Documents were also used to gather data from previous researcher with the same topic.

3.8. QUESTIONNAIRE CONSTRUCTION

The researcher used the internet and previous researcher's questionnaires to construct his own questionnaire. The questionnaire has been constructed in such a way that it will address the research objectives of the project. The questionnaire comprises four major sections which are equally important for the research to be valid and reliable. Those sections are: Section A which focused on the demographic details of the participant, Section B required the business establishment details, and Section C requested the record keeping details of the participants and section D was the financial management details of the participants. There was also a business skills assessment questionnaire after section D to evaluate the skills that entrepreneurs possess. The questionnaire is attached at the end of this report as annexure B.

3.9. QUESTIONNAIRE ITEMS

The questionnaire items were divided into four sections. Section A required the demographic details of the respondents, Section B required the business establishment information of the respondents, Section C required the record keeping information of the participants and Section D required the financial management details of the respondent. The researcher also provided a

business skill assessment to help in investigating the participants's level of acquired skills in managing their businesses.

3.10. THE RESEARCH PROCESS

3.10.1. OBTAINING PERMISSION

The researcher wrote a letter to all the participants who will be taking part in the research process to request permission to conduct the research. An appointment was secured with all the SMME owners who participated in the research process. The letter for the interview is attached at the end of this document as appendix A. The survey was conducted in the Capricorn District of the Limpopo Province. The Mankweng cluster of the Capricorn District has been chosen because it is the researcher's residential area. The area was also selected because of its growing number of SMMEs along the R71 road in the Mankweng area, Turfloop. In order to maximize the validity of the research results of the financial management of SMMEs, responses were solicited from representatives of all the participants in the businesses as indicated below: Micro enterprises selected were 10, small businesses were 10 and medium enterprises used were 5, thus making a total of 25 SMMEs. The reason for having only 5 medium enterprises was because most of the businesses in the area were small and micro.

3.10.2. DATA COLLECTION PROCEDURE

The data was collected from May 2010 to August 2010. It took four consecutive months for the researcher to collect data from the SMMEs. The researcher used face to face interviews, a questionnaire and documents from previous researchers. The interview consisted of semi structured questions that were explained to the participants for a proper understanding. A questionnaire was also given to the participants to complete on their own. The participants (SMMEs) were requested to make an appointment with the researcher when the letter was delivered to them. Only six SMME owners completed the questionnaire but did not return them. The documentary studies were conducted by using financial information related to the topic from Journals and business magazines.

3.10.3. CHALLENGES ENCOUNTERED DURING THE DATA GATHERING PROCESS

The challenge that the researcher encountered during the process was non-cooperation by some owners of the SMMEs. Six(6) SMME owners completed the questionnaire and never returned them. The challenges mentioned did not have an impact towards the researcher's data because the researcher substituted them with six other SMMEs.

3.11. DATA ANALYSIS METHODS

The researcher has used the phenomenological study for the purpose of this study. The purpose of this study is to understand an experience from the participating entrepreneurs' point of view (Leedy, 2008:144). The focus is on the ability of the business owners to use the financial statements to manage their businesses.

The researcher used the business strategy questionnaire which was downloaded from the internet and adapted it to address the research objectives of her project. The questionnaire focused mainly on business strategy and the researcher expanded it with financial management information in order to be able to address her research objectives. The demographic section of the questionnaire was derived from Martins' research report. On evaluating the validity and reliability of the questionnaire, the research will start by defining the two terms. The definitions of validity and reliability as given by different researchers are as follows:

(a) Validity

Different researchers give different definitions of validity. Validity as defined by Welman, Kruger and Mitchell (2005), is the extent to which the research findings accurately represent what is really happening in the situation. According to (Leedy, 2005:97), validity can be either internal or external. Internal validity of a research study is the extent to which its design and the data it yields allow the researcher to draw accurate conclusions about cause-and-effect and other relationships within the data.

External validity of a research study is the extent to which its results apply to situations beyond the study itself, in other words, the extent to which the conclusions drawn can be generalised in other contexts.

a) Reliability

Reliability is concerned with the findings of the research and relates to the credibility of the findings. In determining whether our findings are reliable, we need to ask the following question, will the evidence and conclusion stand up to the closest scrutiny? (Welman et al, 2005:142).

Reliability as explained by Leedy (2005) is the extent to which it yields consistent results when the characteristic being measured hasn't changed. It is divided into the following forms:

- (i) Interrater reliability is the extent to which two or more individuals evaluating the same product or performance give identical judgements.
- (ii) Internal consistence reliability is the extent to which all the items within a single instrument yield similar results.
- (iii) Equivalent forms reliability is the extent to which two different versions of the same instrument yield similar results.
- (iv) Test - retest reliability is the extent to which the same instrument yields the same result on two different occasions (Leedy, 2005:95).

The validity and reliability of this questionnaire was never tested by the previous researchers. According to Golafshani (2003:604) reliability and validity are conceptualised as trustworthiness, rigor and quality in qualitative paradigm. Lincoln and Guba (1985) argue that sustaining the trustworthiness of a research report depends on the issues, quantitatively discussed as validity and reliability. Reliability and validity of this study therefore depends on the quality, rigor and trustworthiness.

3.12. CHAPTER CONCLUSION

This chapter explained the rationale for the study, the research design that was followed and the target population. The sampling process and the research instruments used were explained. The researcher also emphasized the questionnaire construction and the questionnaire items. The

research process was explained in detail from how the permission to conduct the study was granted up to the challenges that the researcher experienced while collecting data. The data analysis methods were the last topic to be discussed in this chapter. The chapter to follow will discuss how the data collected was analysed.

CHAPTER 4

D A T A A N A L Y S I S

4.1. I N T R O D U C T I O N

The previous chapter focused on the research design and the research methodology. The sampling process was explained and the research design followed by the researcher was also explained. This current chapter will focus on analyzing the data that was acquired using the qualitative data analysis. Although only the qualitative data analysis was used, the researcher will also explain the quantitative data analysis.

4.2. Q U A N T I T A T I V E D A T A A N A L Y S I S

In analyzing data using the quantitative research design, the researcher has to establish if the data is continuous or discrete. The data has to reflect whether it is nominal, ordinal, interval or a ratio. The researcher has to explain what he wants to measure with the data, whether he measure central tendency and explain which one, whether he measures variability and which one, whether he measures correlation and which one and whether he wants to estimate the population parameters and which ones. A null hypothesis has to be tested at a certain confidence level.

4.3. Q U A L I T A T I V E D A T A A N A L Y S I S

According to Leedy (2005), qualitative data analysis should indicate the unit of analysis, methods of analysis and the level of confidence in the report. In this research the unit of analysis was the people who were managing their respective businesses. The method that was used to analyse the data were the interviews, questionnaire and documents from journals and business magazines. The level of confidence that the people take information on this study as

valid and reliable because the researcher has intensely consulted the relevant source to validate this study.

From the qualitative analysis perspective, the respondent explained to the researcher how they run their day to day activities in a semi - structured interview. Participants indicated lack of financial management workshops as a great challenge to the survival of their businesses. Although all the participants indicated that they keep daily financial records of all the transactions that take place in the business, the prepared financial statements are never taken to the auditors to present an opinion about the fairness of the business's financial transactions.

Even though the SMMEs are not required by law to present their financial statements for external auditing, it is important for the owners to do so. This will help them identify areas where the business has some gaps and will help in filling in those gaps. Of all the twenty five (25) SMMEs that took part in this project, only (2) 8% of the participant's financial records were slightly audited. The researcher selected the following questions for the analysing of data:

- (A) What is your highest academic qualification?
- (B) What type of business are you involved in?
- (C) When starting your business, where did you find capital to establish your business enterprise?
- (D) Which of the following management principles do you think is of the utmost importance? You can select more than one option.
- (E) Which of the following financial statement does your business prepare? You can select more than one.
- (F) How often are financial statements created?
- (G) How successful do you regard your business in comparison with similar businesses around your area of operation?

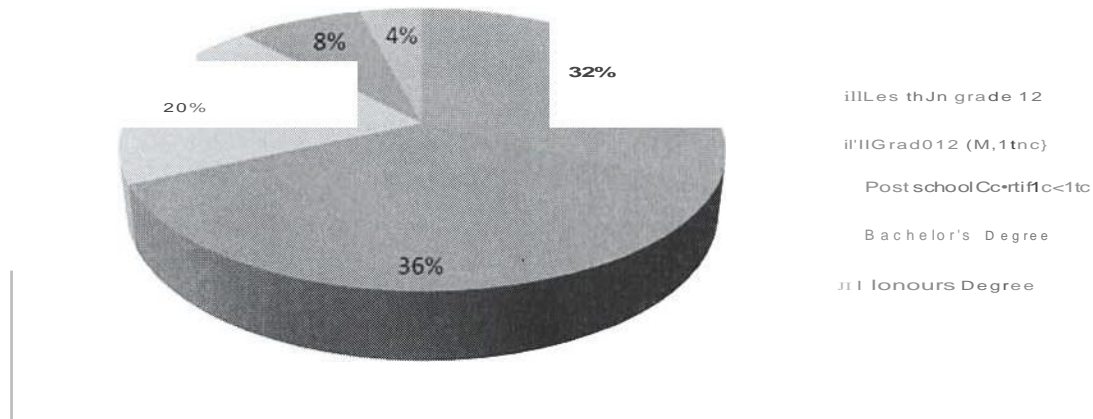
The questions that were selected will now be individually analysed.

Highest academic qualification

TABLE 3: QUALIFICATIONS

RESPONDENT	INFORMATION	PERCENTAGE
QUALIFICATIONS		
Less than grade 12	8	32%
Grade 12 (Matric)	9	36%
Post school Certificate	5	20%
Bachelor's Degree	2	8%
Honours Degree	1	4%
Total	25	100%

QUALIFICATIONS



GRAPH 1: QUALIFICATIONS

From table 3 and graph 1, the results of the entrepreneur's qualifications shows that 36% of them had qualifications up to grade 12 (matric) certificate. These entrepreneurs did not undergo any formal training of managing the business. They ended operating informal businesses with the aim of getting income for survival. One of the respondent indicated that he started a business because he did not have money to further his studies and continued searching the market for a job without success. He started his business after he borrowed funds from one of his relatives.

His business has not been growing to generate wealth, *it* only manages to bring food on the table for his family.

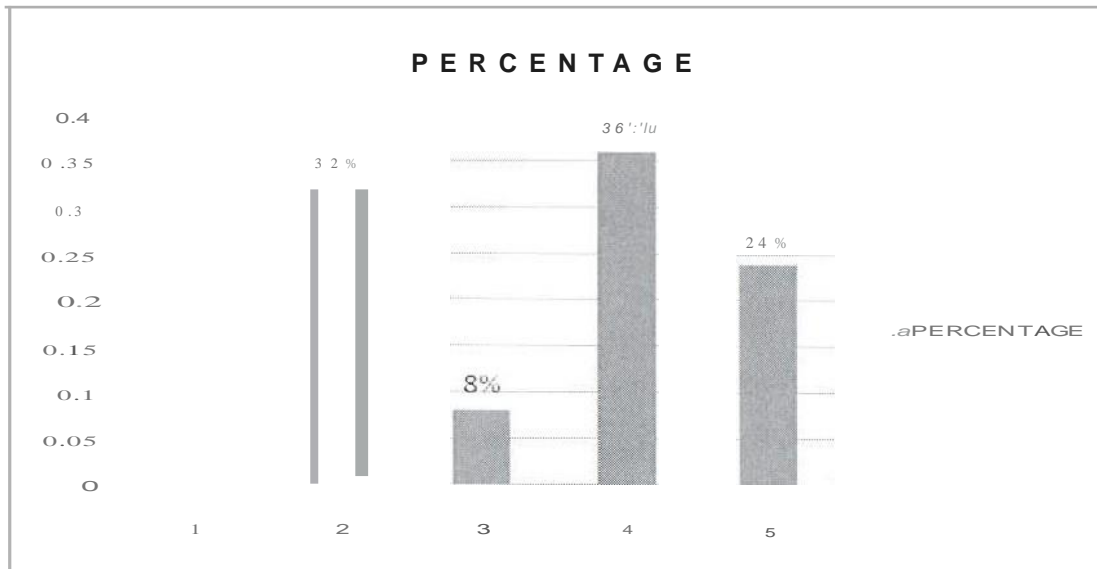
The researcher asked them if there could be any solution to help their businesses to grow. Another respondent suggested that the government should offer more financial management education to the rural communities to enable them to expand their business and alleviate the high rate of unemployment. From Graph 1 it can be depicted that 32% of the respondents did not complete their grade 12 and as a result, there is a direct link between the ability of the business to become successful and sustainable and the high level of education.

The recommendation is that as 36% of the responded have education level up to Grade 12 (matric) that they should acquire a minimum of a business management certificate that is inclusive of financial management.

(A) Type of business

TABLE 4: DIFFERENT TYPES OF BUSINESS

RESPONDENT	INFORMATION	PERCENTAGE
TYPE OF BUSINESS		
Manufacturing	8	32%
Retail	2	8%
Service	9	36%
Other (Specify)	6	24%
Total	25	100%



GRAPH 2: TYPES OF BUSINESS

Table 4 and graph 2 depict the results for the type of business these SMMEs were operating. It can be established that 36% of the SMMEs were in the service industry. The type of service that was mainly offered was events management services, medical service (surgery), hair dressing salons and transpo11 services. Although the researcher did not categorise the services offered by different SMMEs, it was observed many emerging businesses were mainly events management services and hairdressing salons because it was easy and less costly to enter their market. The hairdressing salon market was growing rapidly in the rural communities because people were becoming beauty conscious and wanted to look similar to people living in towns. Although the retail type of business showed a lesser percentage of 8%, the respondent cited that the possibility of this industry closing down was minimal because people needed shops to buy their daily needs. Manufacturing enterprise showed a satisfactory percentage of 32% as opposed to 8% of the trading industry. One brick manufacturer who was in his early sixties (60) indicated that he has been in the business for the past thirty (30) years.

His business was operated in two branches along the R71 road, opposite Mankweng township in a village called Ga-Makanye. The owner indicated that he had professional bookkeepers who were preparing the business's records. When asked about how his business survived all these years without a proper financial management background, he indicated that planning was the

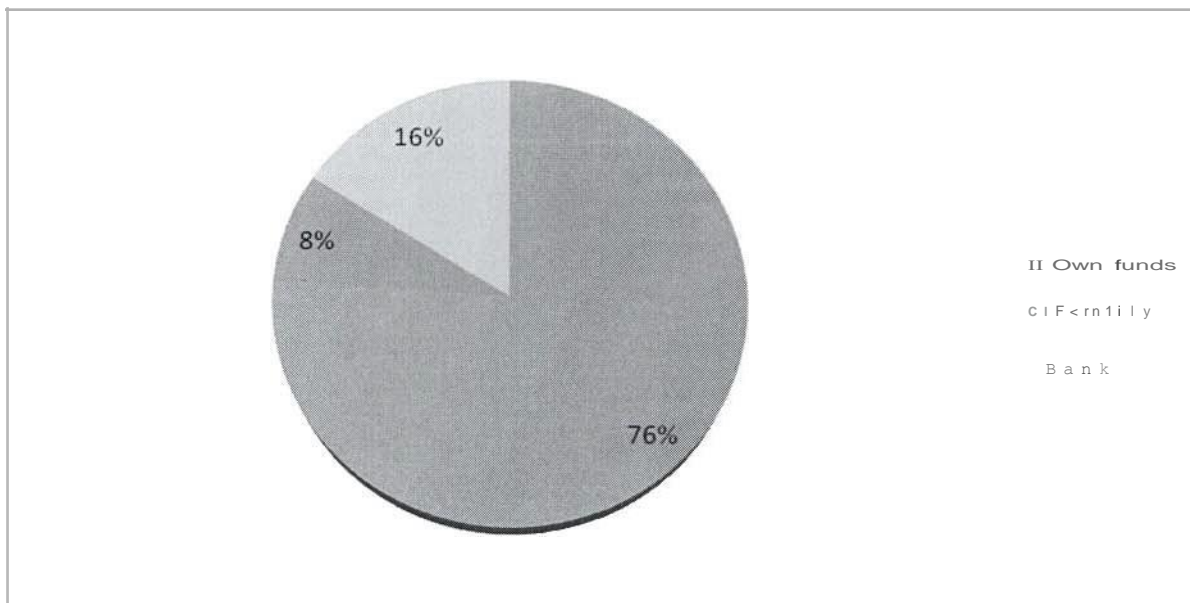
core to his business success. He also indicated that strict and effective internal control measures played a major role towards the success of his business. The remaining 24% of the participants' business were either a combination of service and retail or manufacturing and service. Lack of knowledge about the type of market they wanted to target when starting their businesses was cited as a major challenge to the SMMEs.

The recommendations about the type of business to be established in the rural communities were that, where possible, the University of Limpopo as a community based institution should offer its business management lectures and professors an opportunity to organize seminars for the business people around the area. Attention should be given to the target market that the SMME owners would like to attract to their respective businesses. Offering free educational services will motivate the emerging businesses who have just entered the market.

(C) CAPITAL FOR ESTABLISHING THE BUSINESS

TABLE 5: CAPITAL ESTABLISHMENT

<u>RESPONDENT</u>	<u>INFORMATION</u>	<u>PERCENTAGE</u>
CAPITAL ESTABLISHMENT		
Own funds	19	76%
Family	2	8%
Bank	4	16%
Total	25	100%



GRAPH 3: CAPITAL ESTABLISHMENT

Table 5 and graph 3 indicate how the SMME owners raised capital to establish their businesses. It is difficult for new businesses to get fund from the bank. This table 5 and graph 3 depicts that 76% of the SMMEs got their funds from their own savings. The SMME owners indicated that it was difficult for them to access loans from banks because they did not have any form of security to offer to the banks. Only a smaller percentage of 16% got financial assistance from the banks and the remaining 8% got their funding from their family members.

The problem of interest charged on the loans was another disadvantage for the emerging businesses. The risk of obtaining a loan and being unable to pay if the business does not generate income was high, because these businesses were operated in rural communities where profit making was not guaranteed. The businesses that showed survival despite all the odds were the transport service, hardware and liquor restaurants businesses.

One SMME owner, who owned a fleet of minibus taxis, indicated that his business was doing well because of urbanisation among the community members. Urbanisation in this context referred to a change in people's lifestyle from a rural to an urban's way of living. The majority of parents were taking their children to the former model C schools in the city, and therefore

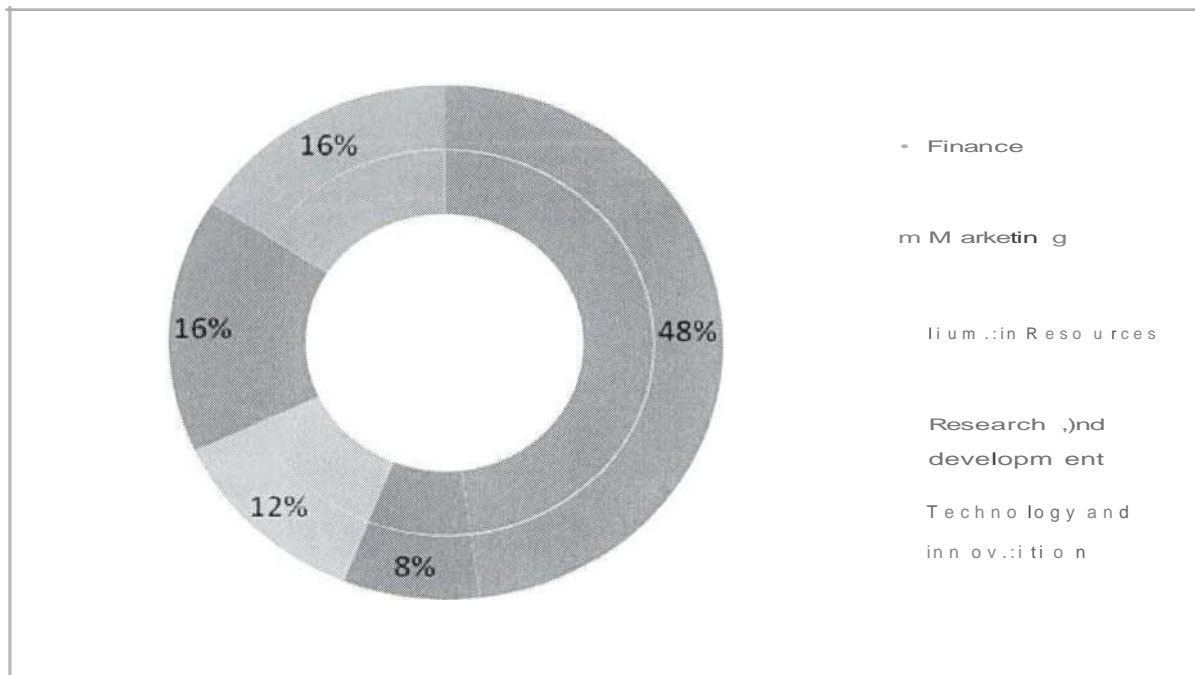
required transport services which he conveniently offered at a discount. He indicated that his customers were looking for comfort, reliability and convenience which he said his provided.

The recommendation on how the SMMEs could be funded was that the government should establish business management centre which will not offer only advice on how to manage your business, it should also offer funding. The availability of SEDA, LIMDEV and other governmental parastatals were not useful to the SMMEs as they were still stmggling to obtain funding. It is recommended that LimDev designs new strategy on financing the SMMEs in the rural areas.

(D) MANAGEMENT PRINCIPLES

TABLE 6: MANAGEMENT PRINCIPLES

RESPONDENT	INFORMATION	PERCENTAGE
MANAGEMENT PRINCIPLES		
Finance	12	48 %
Marketing	2	8 %
Human Resources	3	12%
Research and development	4	16 %
Technology and innovation	4	16%
Other (Specify)	0	0
Total	25	100



GRAPH 4: MANAGEMENT PRINCIPLES

Although all the management principles are important for the business to run effectively and efficiently, 48% of the participants indicated that finance was the most important principle that should be adequately managed. It was followed by research and development and technology and innovation, both at 16%. Human resources were third at 12% with marketing being the last one at 8%.

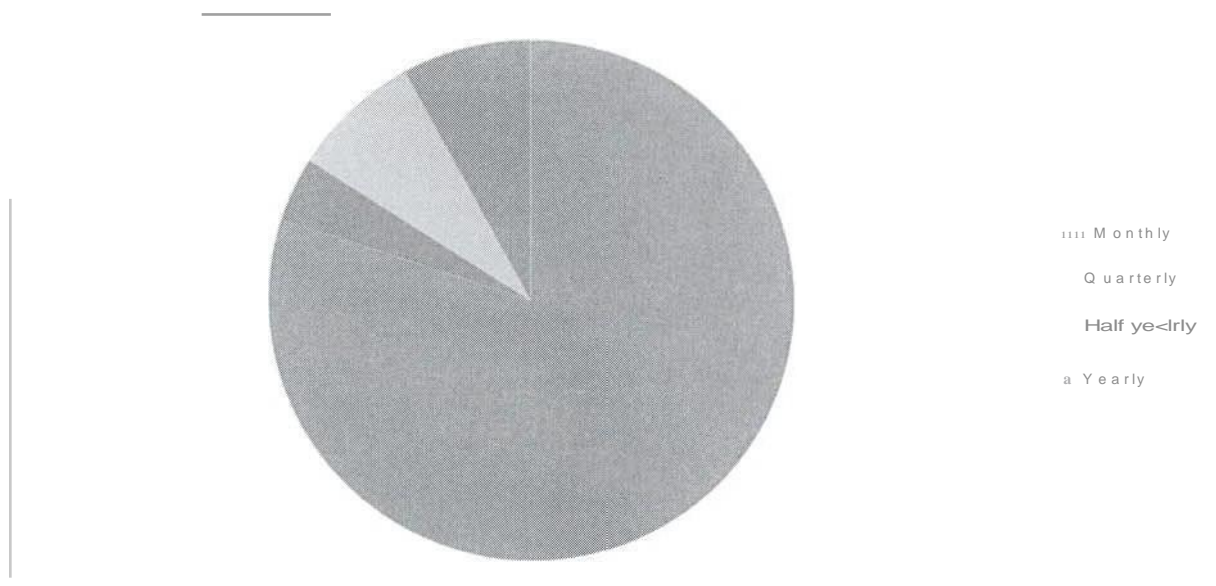
In one of the hardware that the researcher visited, it was evident that the owner had an idea of how the finances were managed. Although the manager did not have a formal business management qualification, he indicated that the owner of the business took him to the workshop on how to manage the funds in the business.

The recommendation was that quarterly or half - yearly workshops should be organised by the local business owners in a central place to educate one another about the management of business. Experts in the financial management department from the University of Limpopo or from government departments could be invited to conduct the workshop.

(E) FREQUENCY IN CREATING FINANCIAL STATEMENT

TABLE 7: FINANCIAL STATEMENTS PREPARATION

RESPONDENT	INFORMATION	PERCENTAGE
Monthly	20	80%
Quarterly		4%
Half yearly	2	8%
Yearly	2	8%
Total	25	100%



GRAPH 5: FINANCIAL STATEMENTS PREPARATION

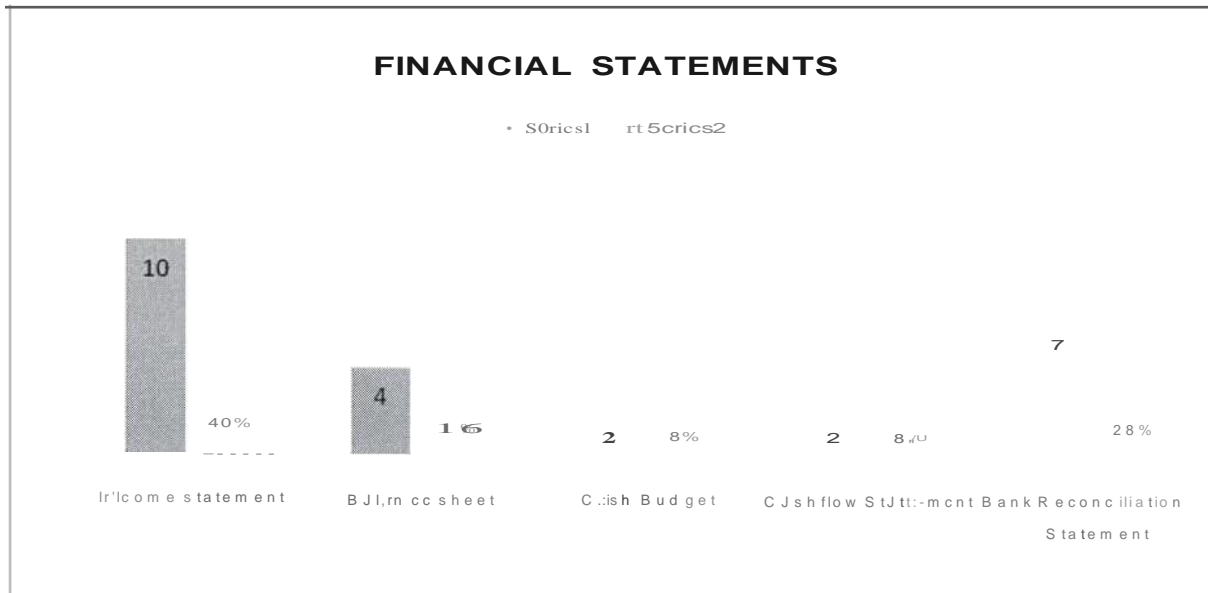
SMME owners indicated that they kept a daily financial record that helped them to prepare monthly financial records. 80% of the participants were keeping their monthly financial statements. Only 4% of them kept their records quarterly. About 8% prepared their records half -yearly and another 8% prepared its records annually. Although records were kept, the owners were interested mainly in the determination of profit that the business made. The researcher asked them if they knew anything about auditing of their financial records. About 15% of them knew about auditing, but their books were not audited.

The recommendation was that as most of the businesses were sole proprietorship type, it is important for the owners to invite professionals like auditors or bookkeepers in their businesses to evaluate how their finances are being managed. A data base of auditors could be visited by those who have access to the internet to establish contacts.

(F) FINANCIAL STATEMENTS IN THE BUSINESS

TABLES : FINANCIAL STATEMENTS

<u>RESPONDENT</u>	<u>INFORMATION</u>	<u>PERCENTAGE</u>
FINANCIAL STATEMENTS		
Income statement	10	40%
Balance sheet	4	16%
Cash Budget	2	8%
Cash flow Statement	2	8%
Bank Reconciliation Statement	7	28 %
Total	25	100%



GRAPH 6: FINANCIAL STATEMENTS

The income statement is a financial statement that was prepared by most SMME owners at 40%. These results indicate that 40% of the owners are interested in ensuring that the businesses make

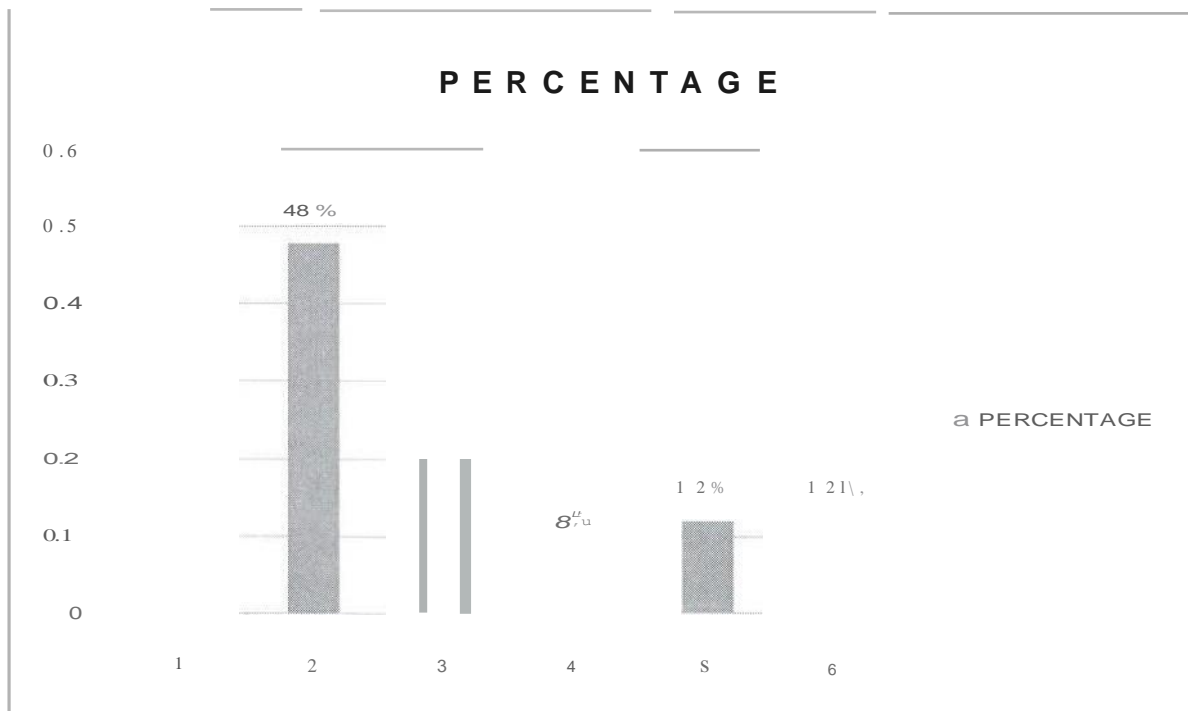
a profit. This is because the SMME owners see profit making as their main aim of doing business. Although all business owners indicated that they wanted to expand their businesses' wealth at some point in their business, they were not clear about what they should do to maximize their wealth. The researcher established that 8% of the owners were able to prepare both cash budget and the cash flow statements. They indicated that it helped them to be able to check if their spending is within the budget and encouraged them to minimize the costs.

The recommendation was that owners be encouraged to enroll for business management certificates so that they can be able to make informed financial decisions.

(G) BUSINESS SUCCESS IN COMPARISON WITH COMPETITORS

TABLE 9: BUSINESS SUCCESS

RESPONDENT	INFOm1ATION	PERCENTAGE
BUSINESS SUCCESS		
Much more successful	12	48%
Slightly successful	5	20%
Uncertain	2	8%
Much less successful	3	12%
Never successful	3	12%
Total	25	100%



GRAPH 7: BUSINESS SUCCESS

SMME owners confessed that competition was tough and innovation was important for their business to become successful. Asked what made his business to succeed in a hardware market that was very competitive around the area, one Indian owner said treating customers like kings was his main reason for success. From table 9 and graph 7, it could be depicted that 8% of the owners were uncertain about their level of success in comparison to their competitors, 12% thought that they were less successful and another 12% believed that they were never successful.

The recommendation was that the SMME owners should learn more about the market in which they operate. They should sometimes offer discounts to customers to expand their customer base. They could also expand their market by offering new product range that would generate more profit.

4.4. CHAPTER CONCLUSION

This chapter focused on the interpretation of the results by selecting the questions which were related to the research objectives. The succeeding chapter will focus on conclusion and recommendations about all the chapters.

CHAPTERS

CONCLUSION AND RECOMMENDATIONS

5.1. INTRODUCTION

The previous chapter focused on the data analysis using both the tables and the graphs. This chapter will focus on summarizing all the chapters and drawing a conclusion and making recommendations about the whole research document.

5.2. CONCLUSION

Financial management plays a crucial role in ensuring that the business becomes sustainable and successful. This study was undertaken to establish the impact that SMMEs who have acquired financial knowledge and apply it in their business become successful in operating their businesses in comparison with their competitors who do not use them.

From what the researcher has investigated, it could be concluded that the majority of the SMMEs in the rural areas enter the business market because of lack of job opportunities. On establishing their businesses, the SMME owners do not research or investigate on the type of business they want to establish. As a result, SMMEs established under lack of market research end up being not sustainable or successful.

Another major problem is lack of educational background about the management of business. SMMEs have been established solely for survival without the vision for wealth maximization. The preparation of the financial statements in the business is only done to a minimal and is never given maximum attention. Although there is competition amongst the SMMEs, it is only based on profit making without developing the owner's business management skills.

SMMEs still struggle to get financial assistance from the registered financial institutions such as banks. As a result, the majority of SMME owners access funds from their own savings or by

bon-owing from relatives and friends. There is also lack of information about the success of SMMEs in the district.

5.3. RECOMMENDATIONS

- 5.3.1. As 36% of the respondents have education levels up to Grade 12 (matric), it is recommended that SMME owners acquire a minimum of a business management certificate that is inclusive of financial management.
- 5.3.2. The type of business to be established in the rural communities should occur through engagement of the University of Limpopo as a community based institution offering business management lectures and seminars for the business people around the area. The respondents indicated that they would not have a problem if the seminars were offered at a reasonable price.
- 5.3.3. The recommendation on how the SMMEs could be funded was that the government should establish business management centres which would not offer only advice on how to manage your business, it should also offer funding. The availability of SEDA, LIMDEV and other governmental parastatals were not useful to the SMMEs as they were still struggling to obtain funding.
- 5.3.4. Quarterly or half - yearly workshops should be organised by the local business owners in a central place to educate one other about the management of business. Experts in the Financial Management department from the University of Limpopo or from government departments could be invited to conduct the workshop.
- 5.3.5. As most of the businesses were sole proprietorship type, it is important for the owners to invite professionals like auditors or bookkeepers to their businesses to evaluate how their finances are being managed. A data base of auditors could be visited by those who have access to the internet to establish contacts.
- 5.3.6. Owners be encouraged to enroll for business management certificates so that they could be able to make informed financial decisions. SMME owners could also benefit from computer

programmes which would enable them to save data about their business transactions and to access more information about the financial management from the internet.

5.3.7. The SMME owners should learn more about the market in which they operate. They should sometimes offer discounts to customers to expand their customer base. They could also expand their market by offering new product range that will bring more profit.

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APPENDIX A

Enq : Motimele M.E

P.O.Box 350

Cell No : 073 228 1157

Mamatsha

0789

Sir/ Madam

Re: Request for an interview

I am a student in the Master of Business Administration (MBA) programme at the University of Limpopo's Turfloop Graduates School of Leadership (TGSL). I am currently involved in a research project in the area of business finances. My topic: Financial Management of SMMEs in the Capricorn District of Limpopo Province, South Africa.

I would sincerely appreciate it if you could sacrifice a few minutes of your time to respond to the questionnaire and a short interview about the financial management in your business. Anonymity is well assured and should you be interested, I am willing to share the results of my research with you after completion of my research. The exercise is purely for academic purposes and all information provided will remain confidential.

Sincerely

Motimele ME (Ms)

APPENDIX B

QUESTIONNAIRE

INSTRUCTIONS

QUESTIONNAIRE FOR A RESEARCH ON SMALL, MEDIUM AND MICRO ENTERPRISES (SMMEs) IN LIMPOPO PROVINCE: CAPRICORN DISTRICT

Guidance:

This questionnaire consists of a number of questions about the business which you manage. In this scenario the focus is on the Financial Management of Small, Medium and Micro Enterprises (SMMEs) in the rural areas of the Capricorn District in Limpopo Province. Please read each question carefully and tick the number corresponding to the response that most accurately represents your view. There are no right or wrong answers to any opinion-related item (questions). You are only requested to provide your honest opinion.

The questionnaire consists of four sections:

SECTION A : DEMOGRAPHIC DETAILS

SECTION B : SATISFACTION WITH YOUR BUSINESS

SECTION C : RECORD KEEPING DETAILS

SECTION D : FINANCIAL MANAGEMENT DETAILS

Your contribution in completing this questionnaire is immensely appreciated.

SECTION A: DEMOGRAPHIC DETAILS

1. Please indicate your age group.
[in complete years]

Younger than 25	1
25 - 29	2
30 - 34	3
35 - 39	4
40 - 44	5
45-49	6
50-54	7
55 - 59	8
60 or older	9

2. What is your gender? _____

Male _____ | Female _____ 12 |

3. What is your race? _____
- African 1 White 2 Coloured 3 Indian 4 Asian 5
-

4. What is your highest academic qualification?

Less than Grade 12	1
Grade 12/ Matric	2
Post-school certificate or diploma	3
Bachelors degree	4
Honours degree	5
Masters degree	6
Doctorate	7

5. What is your home language?

Afrikaans	1
English	2
IsiZulu	3
IsiXhosa	4
IsiNdebele	5
Sepedi	6
Sesotho	7
Setswana	8
Swazi	9
Tshive nda	10
Xitsonga	11
Other African	12
Other European	13
Other Asian	14

6. What is your marital status?

Single	1
Married	2
Divorced or separated	3
Widowed	4

 7. What type of business are you involved in?

Manufacturing

11

Retail	2
Service	3
Other(Specify)	4

8. How many complete years have you been managing/working on this business?

Less than one year	1
1 - 5 years	2
6 - 10 years	3
11 - 15 years	4
16- 20 years	5
21 - 25 years	6
26- 30 years	7
More than 30 years	8

Permanent	1
Contract	2
Temporary	3
Other (please specify) _____	4

10. What position are you holding in this business?

Manager	1
Administrative staff	2
Support staff	3
Other (please specify) _____	4

SECTION B: BUSINESS ESTABLISHMENT QUESTIONNAIRE

This section relates to your business establishment and support received .

Please read each question and indicate your response using the scale provided in each case:

1. When starting your business, where did you find capital to establish your business enterprise?

Own Funds	1
Family	2
Bank	3
Other (Please specify)	4

2. Did you conduct any market research before starting your business?

Yes

3. Do you have any immediate competitors around your area of operation?

Yes	No
-----	----

4. Did you have any business background before you start your business?

Yes

5. Is your business formally registered with the South African Revenue services?

Yes	No
-----	----

6. How often does the government provide assistance in managing your business?

Always	1
Sometimes	2
Never	3

7. Do you know any institution in Limpopo that can help you with your business problems or challenges?

Yes	No
-----	----

8. Have you ever visited any of the following institutions regarding your business?

LimDev	1
LIBSA	2
DTI	3
Umsombovu Youth Fund	4
Department of Economic Development	5
None	6
Other (Specify)	7

9. Do you have a business plan?

	No
--	----

10. Which of the following management principles do you think are of the utmost important? Select any two.

Finance	1
Marketing	2
Human resources	3
Research and Development	4
Technology and Innovation	5
Other (Specify)	

11. How often do businesses in the rural areas receive education and information regarding financial management?

Always

Sometimes	2
Never	3

12. Which security system does your business have?

Alarm system	1
Cameras	2
Security guard	3
None	4
Other (Specify)	5

SECTION C : RECORD KEEPING DETAILS

I. How often does your business keep record of the transactions that take place in the business?

Daily	1
Weekly	2
Monthly	3
Annually (yearly)	4
Never	5

2. Which method of trading does your business use?

Cash only	1
Credit only	2
Both cash and credit	3

3. If your business is selling on credit, how often do you experience bad debts?

Most often	
Slightly often	2

Uncertain	3
Less often	4
Very often	5

4. Does your business keep record of any of the following?

Alarm system	1
Cameras	2
Security guard	3
None	4
Other (Specify)	5

5. Does your business have any of the following non-current assets?

Building	1
Car	2
Computer	3
None	4
Other (Specify)	5

6. Which of the following financial statements does your business prepare?

Income Statement	1
Balance Sheet	2
Cash Budget	3
Cash Flow Statement	4
Bank Reconciliation Statement	5
None	6

Other(Specify) 7

7. How often are your business records audited?

Most Often	1
Slightly Often	2
Uncertain	3
Less Often	4
Never	5

SECTION D: FINANCIAL MANAGEMENT QUESTIONNAIRE

This section aims to determine the extent to which you are satisfied with the level of Financial Management you possess. Please read each question and answer according to the way financial management is done in your business.

1. How often are financial statements created?

Monthly	1
Quarterly	2
Half - yearly	3
Yearly	4
Never	5

2. How soon after the end of the month are financial statements created?

--

3. What is the level of understanding of financial statements by the owner?

Excellent Understands	1
Slightly Understands	2
Uncertain	3
Less Understands	4
Never Understands	5

4. Is a projectionary cashflow chart utilized and updated monthly?

YES	NO
-----	----

5. If utilized, are the projections accurate?

YES	NO
-----	----

6. Are financial ratios calculated and evaluated?

YES	NO
-----	----

7. How often are bills paid on time?

Most Often	1
Slightly Often	2
Uncertain	3
Less Often	4
Never	5

8. How much confidence do you have that the inventory is correctly recorded in your books?

Most confident	1
Slightly confident	2
Uncertain	3
Less confident	4
Never	5

9. Who has the primary responsibility for finances?

Owner	1
Supervisor	2
Bookkeeper	3
Accountant	4
Cashier	5

BUSINESS SKILLS ASSESSMENT

BUSINESS SKILLS AREA	Place X below to indicate what your status is for each skill				
	OK	Need Some Help	Really Need Help	Situation Critical	Comments
The Business Plan:					
Organisation					
Inventory					
Cash Flow Management					
Market Analysis					
C o m p e t i t i o n A n a l y s i s					
M a r k e t i n g P l a n					
Price					
Customer Service					
Sales					
Management Organisation					
Public Relations					
Compliance:					
Taxes					
Regulations					
Licensing					
Other: of the Knowledge e Industry					

Business Location Analysis
Managing Customer Credit & Collections
Obtaining Technical Assistance
Legal Issues

Thank you very much for your participation!