THE WORKING-CAPITAL MANAGEMENT PRACTICES OF SMALL MEDIUM AND MICRO ENTERPRISES IN THE CAPE METROPOLE

by

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Thesis submitted in fulfilment of the requirements for the degree

Master of Technology: Cost and Management Accounting

in the Faculty of Business and Management Sciences

at the Cape Peninsula University of Technology

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Cape Town
Date submitted (July 2015)

DECLARATION

I, **Enow Samuel Tabot**, declare that the contents of this dissertation/thesis represent my own unaided work, and that the dissertation/thesis has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

Signed **Date**

ABSTRACT

The broad aim of this research was to investigate the working-capital management practices of Small Medium and Micro Enterprises (SMMEs) in the Cape Metropole. The study was motivated by a lack of research on the working-capital management practices of SMMEs. Data was collected by means of a questionnaire that comprised closed-ended questions.

The findings of the study indicate that most SMMEs manage their cash effectively; however only a minority hold cash for speculative purpose, invest their surplus cash profitably and use computers to manage cash. By contrast, only a minority of the SMMEs sell on credit. Of those that do, only a minority review their credit criteria annually, send reminders to debtors, charge interest for delayed payment, send prompt statements and use computers to manage their receivables. Likewise, only a minority of the SMMEs purchase on credit. Of those that do, a majority pay promptly to take advantage of discounts and thus only a minority settle their accounts on the last date allowed. Interestingly, most of the SMMEs that purchase on credit use computers to manage their payables. Only a minority of the SMMEs perceive a lack of skills, resources, personnel and time as factors that inhibit them from managing their working-capital effectively.

The findings of this study provide invaluable insights on the weaknesses in the working-capital management practices of SMMEs, which could be used to inform future endeavours of the Government when establishing interventions meant to improve the survival rates of these entities. The findings may also assist SMMEs to gauge and review their working management practices, particularly their receivables and payables, with a view to optimising the benefits derived from these components of working-capital.

Acknowledgements

Foremost, I would like to thank God, father of Jesus, for giving me the strength, wisdom and financial means to complete this study. I would l like to express my sincere gratitude to my supervisor Dr Peter Kamala and Dr Michael Twum-Darko for their continuous support, cooperation and encouragement during this study. I would also like to thank my wife and my best friend Enow Yvette, and my children Enow Joel and Enow Jeremy for their encouragement, support and understanding during the course of completing this study.

DEDICATION

I dedicate this study to my parents Enow John Mbi and Enow Sophie Tabe for their love, care and support throughout all these years. May God Almighty continue to guide and protect them. May they live long enough to see all the plans of God in their lives.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION

Since the readmission of South Africa into to the global economy in 1994, the country has faced a plethora of challenges (Berry, Blottnitz, Cassim, Kesper, Rajaratnam & Seventer, 2002: 1). Key among the challenges faced is the high rate of unemployment, especially among the previously disadvantaged communities which has worsened to date (Enow & Brijlal, 2014:7). In an attempt to reduce the unemployment rate, the South African Government has actively promoted Small, Micro and Medium Enterprises (hereafter referred to as SMMEs), given their capacity to absorb both skilled and unskilled labour (Ndabeni, 2002:4). With regard to the latter, SMMEs have been promoted because they can act as a source of experience to those with limited skills as they can be up-skilled through practical application of knowledge (South Africa, 2003). More importantly, SMMEs have been promoted because they can inculcate the culture of entrepreneurship and innovation perceived to be lacking in South Africa (Ndabeni, 2002:4).

Given the above-mentioned importance of SMMEs, the Government, through the Department of Trade and Industry's (DTI) White Paper and the National Small Business Act No. 102 of 1996, introduced a wide range of support institutions and initiatives to create an enabling environment in which SMMEs should flourish and prosper (Richards, 2006:25). Among the support institutions is included Ntsika, established to provide non-financial advice to SMME on issues such as business development. Another support institution is Khula which was established to provide loan guarantees to SMMEs. More importantly, the Government introduced an Incubation Support Program (ISP) to encourage skills transfer by partnering large corporations with SMMEs.

Notwithstanding the efforts of Government, the failure rate of SMMEs in South Africa is reported to be one of the highest in the world. In fact between 70% and 80% of these entities fail during their first three years of existence. (Ngary, Smith & Bruwer, 2014: 911). Moreover, 440 000 SMMEs have had to close shop between 2006 and 2011 (Dlamini, 2012).

Prior research conducted in other countries has partly attributed a high failure rate of SMMEs to ineffective working-capital-management practices (Koury, Smith & Mackay, 1998; Sunday, 2010; Yiadom & Agyei, 2006). More specifically, the research has indicated that most SMMEs employ ineffective cash-flow management practices, which hamper their ability to fund strategic investments, or burden them with excessive interest payments. Many of these entities do not prepare cash budgets or forecasts, do not conduct bank reconciliations and cannot monitor their cash flows on a real-time basis (Nyamao, Patrick, Odondo & Simeyo, 2012). Worse still, some lack bank accounts and appear to be ignorant about their liquidity. Many SMMEs also take a passive approach to their cash management, rely on manual processes or simple accounting software to manage their cash even as their businesses grow. Eventually these businesses face liquidity problems that result in a close-down.

Some studies have also revealed that most SMMEs lack a sound credit policy (Sunday, 2010). This, together with a lack of automated processes of invoicing and managing receivables, results to a high percentage of bad debts (Ibarra, 2012). Worse still, many SMMEs do not impose interest charges for late payments, neither do they encourage early payments by giving cash discounts and sending timely statement of accounts to debtors (Mensah, 2012). As a result, receivables accumulate and tie up cash, thus undermining the liquidity of these entities. Studies in other countries have also indicated that SMMEs fail to take advantage of discounts availed by creditors; thus they end up paying higher costs for their supplies (Yiadom & Agyei, 2006). By contrast, other studies have indicated that SMMEs pay creditors earlier than they collect receivables from debtors (Mbroh & Attom, 2012). In addition, most SMMEs lack an actionable supplier database, rely on a manual validation of creditors, have unfavourable terms of trade with their suppliers and maintain payables records poorly, all which ultimately undermine their liquidity.

Yet other studies have focused on the factors that inhibit SMMEs from managing their working-capital effectively (Phenya, 2011; Mensah, 2012). Key among the factors identified includes a lack of financial management skills which undermines these entities' ability to manage their current assets and current liabilities. In addition, most SMMEs lack adequate resources such as time and personnel. Because of a lack of adequate resources, many owner-managers of SMMEs perform numerous roles, which limit the time available for working-capital management. Besides, the lack of resources also undermines the training opportunities available for staff development.

Sound working-capital management is vital for the long-term success of any business as no business can survive if it fails to meet its day to day obligations (Sharma & Kumar, 2011: 160). Shortage or ineffective management of cash can result in loss of cash discounts or non-payment of obligations when they fall due (Sunday, 2010). Ineffective management of receivables can result in an increase in bad debts, whereas avoidance of receivables by selling strictly on a cash basis can reduce sales volumes or compel an entity to sell at a loss (Ibarra, 2012: 170).

Ineffective management of payables on the other hand undermines an entity's bargaining position when seeking credit, damages its reputation when it fails to meet its obligations, stagnates its growth as lenders refrain from advancing credit and ultimately raises the cost of borrowing.

Although effective working-capital management is important to all business entities, it is the SMMEs which should take working-capital management more seriously. This is because these entities are more vulnerable to working-capital fluctuations, more susceptible to cash shortages due to limited ability to raise finance and have most of their assets in the form of current assets and their liabilities in form of current liabilities (Karadagli, 2012: 36).

Because both excessive working-capital and inadequate working-capital equally impair the financial sustainability of an entity, SMMEs need optimal working-capital to operate efficiently (Vijayakumar, 2001: 1).

Considering that prior research suggests that SMMEs make inefficient use of their accounting resources (Bruwer, 2010), and given the importance of Fast Moving Consumer Goods (hereafter referred to as FMCG) SMMEs to the economy of South Africa, it is vital that their working-capital management practices be investigated. Notwithstanding the importance of working-capital management to SMMEs, only a few studies have been conducted in South Africa to investigate the management of working-capital by these entities. Therefore there is a gap in literature that needs to be filled.

1.2 STATEMENT OF THE RESEARCH PROBLEM

1.2.1 Problem statement

The problem to be investigated by this research is that SMMEs in South Africa are perceived to be failing partly due to their ineffective working-capital management practices. Considering that SMMEs have a limited access to working-capital and are the largest employer in South Africa, accounting for up to 63% of employment in the country (Bruwer, 2010:10), it is imperative that their working-capital management practices be investigated.

Although some studies have attributed the high failure rate of SMMEs in South Africa to a lack of financial management skills (Phenya, 2011: 94), little research has been conducted on the financial management practices of these entities in general, and on their working-capital management practices in particular. Therefore there is a paucity of research on the working-capital management practices of SMMEs in South Africa.

1.2.2. Purpose statement

The main purpose of this study is to unveil the working-capital management practices of SMMEs in the Cape Metropole. For the purpose of this research, working-capital management refers to the management of cash and accounts receivables as well as account payables.

1.2.3 Main research question sub-questions, methods and objectives:

1.2.3.1 Main research question

The main research question reads as follows: “what are the current working-capital management practices of SMMEs in the Cape Metropole?”

1.2.2.2 Sub questions, methods and objectives

Sub-question	Research Methods	Objectives
Which practices are employed by SMMEs to manage their cash and bank balances?	Questionnaire underpinned by descriptive, inferential statistical analysis and literature review.	To determine the cash management practices employed by SMMEs.
Which practices are employed by SMMEs to manage their accounts receivables?	Questionnaire underpinned by descriptive, inferential statistical analysis and literature review.	To determine the accounts receivable practices employed by SMMEs.
Which practices are employed by SMMEs to manage their accounts payable?	Questionnaire underpinned by descriptive, inferential statistical analysis and literature review.	To determine the accounts payable practices employed by SMMEs.
What factors inhibit SMMEs from using effective working-capital management practices?	Questionnaire underpinned by descriptive, inferential statistical analysis and literature review.	To determine the factors that inhibit SMMEs from using effective working-capital management practices.

1.3 IMPORTANCE OF THE STUDY

Despite a high failure rate of SMMEs in South Africa and the overwhelming research evidence from other countries that partly attributes the high failure rate of SMMEs to ineffective working-capital management practices (Sunday, 2010; Yiadom & Agyei, 2006), little research has been conducted on the working-capital management practices of SMMEs in South Africa. Accordingly little is known about how effectively the SMMEs in the country manage their working-capital. It is therefore imperative that this gap be filled if the high failure rate of SMMEs in the country is to be averted.

Given that SMMEs' working capital constitutes a significant proportion of their resources, and bearing in mind that SMMEs have a limited access to funds owing to their lack of collateral and a bankable track record, it is particularly important for them to manage their working-capital effectively (Enow & Brijlal, 2014:7). However, without research such as this one, it would be impossible for institutions such as the Government to gauge how well SMMEs are managing their working-capital and to develop appropriate interventions meant to curb the high failure rate of these entities. A study such as this one is therefore important to inform the Government's interventions meant to arrest the high failure of SMMEs in the country.

This study will also expose the decision-makers of SMMEs to the best working-capital management practices adopted by their peers. In so doing they should be able to gauge their own practices against the best practices and make informed decisions whether to continue with their practices, adopt the best practices, or improve on their current practice. However, without a research such as this one, the decision-makers may become ignorant of the best practices and end up losing their competitive advantage to their competitors, a scenario that could culminate in their business failing.

1.4 RESEARCH DESIGN

1.4.1 Empirical study

Bearing in mind that the main objective of the proposed study is to determine the working-capital management practices of SMMEs in the FMCG sector, the study will adopt a positivist paradigm. According to Myers (2009: 37) a positivist paradigm distinguishes the objective reality and the subjective bias of the researcher. Simply put, knowledge resulting from positivist research is deemed objective and quantifiable which renders the research to be of a quantitative in nature.

1.4.2 Research population and sample

The targeted population comprised the FMCG SMMEs located within the Cape Metropole, specifically in the Cape Town Central Business District (CBD). Accidental sampling technique was employed to distribute 200 questionnaires by approaching the FMCG SMMEs located in the CBD.

1.4.3 Data collection, analysis and interpretation.

A questionnaire comprising closed-ended questions was used to collect data from respondents. This survey instrument was selected because it is useful when a large volume of information is to be collected from many people in a short period of time and at a low cost. The first section of the questionnaire was used to generate profile information of the selected respondents. The second section (Section B) addressed the cash management practices of SMMEs. The third section (Section C) addressed the accounts receivable practices whereas the fourth section (Section D) addressed accounts payable practices of these entities. The last section (Section E) dealt with the factors that inhibit SMMEs from using effective working-capital management practices (See Appendix A).

1.4.4 Ethical considerations

An approval from the Cape Peninsula University of Technology Research committee was required since this study involved human subjects. An application for ethical approval was sent before data collection. Once ethical clearance was obtained, information sheets and consent forms were hand-delivered to all potential respondents accessed. The cover letter provided the purpose of research as well as a description of the research process. Participants were informed in advance that any information provided would be kept confidential. Participants were those who accepted to take part in the research and were allowed to withdraw from the study at any stage if they so wished. Lastly, participants were thanked for participating in the study and offered an option of being sent a summary of the findings.

1.4.5 Validity and Reliability

Validity refers to the extents to which the data-collection instrument measures that which it is intended to measure (Leedy & Ormrod, 2005: 31). To ensure construct validity, a pilot test of the questionnaire, which is the research instrument, was conducted using a sample of 20 students and reviewed by five academics with sound research backgrounds in questionnaire design. During this process the students and academics were required to elaborate on their understanding of each question and highlight possible weaknesses. Based on their responses, the questionnaire was amended accordingly to reflect the suggested corrections to achieve validity.

Reliability: According to Wollack and Wells (2003: 2), reliability refers to the extent to which the questionnaire is able to produce the same results on different occasions. The reliability of the research instrument was also established during the pilot test. This was done by testing and retesting the questionnaire on 20 students who acted as surrogates for SMMEs decision-makers. The testing and retesting the questionnaire was done after a two-week interval to determine whether it yields consistent results. In particular, the researcher was keen on problems such as failure to answer questions, respondents giving contradicting answers to similar questions and written comments in the margin, which are deemed to be indications that the research instrument is unreliable (De Vaus 1993: 54).

1.5 DELINEATION OF RESEARCH

This research study focused on the decision-makers of SMMEs operating in the FMCG sector located within the Cape Metropole. This was because it is neither feasible nor practical for the study to sample all decision-makers of SMMEs located in the Western Province. The study only targeted the owners, managers and accountants of SMMEs who for the purpose of this study were deemed to be the only decision-makers of SMMEs. According to Bruwer (2010: 1), FMCG sector SMMEs constitute a large percentage of all the SMMEs operating in South Africa. In fact, 1 080 000 FMCG SMMEs were documented to be operating in South Africa in 2003, a figure likely to have grown with the passage of time. For this reason, this study only focused on SMMEs from the FMCG sector.

1.6 SIGNIFICANCE OF RESEARCH

The findings of the proposed study are of significance to the decision-makers of SMMEs who will be made aware of the effective working-capital management practices that are available, as well as the various ways to overcome the factors that inhibit the uptake of these practices by SMMEs. In addition, the SMMEs in the FMCG sector that already employ sound working-capital management practices may be able to evaluate their own practices using these findings and thus decide whether to improve, change or continue with their current practice.

The South African Government, whose efforts to promote SMMEs are perceived to have failed, may also draw on the findings of the study to revise its intervention strategies that are currently in place. In particular, the Small Enterprise

Development Agency (SEDA), which undertakes most training programmes for SMMEs, may draw on the results of this study to build more appropriate programmes relating to cash management, accounts receivable, accounts payable practices, and factors that could inhibit SMMEs from using appropriate working-capital practices (Mahembe, 2011: 70). In so doing, the finding of the study will enhance the survival rates of SMMEs in general.

1.7. Limitation and constraints

Given the accidental sampling technique employed in this study, the results of the survey may not be representative of the population being studied (Welman et al., 2005: 68). An attempt was made to overcome this limitation by randomly inviting SMMEs in the Cape Metropole to participate in the survey.

One of the well-documented weaknesses of a questionnaire survey is low response rate which can lead to biased results that do not represent the population (Saunders & Lewis, 2000: 98). The risk of a low response rate was mitigated by using a short questionnaire that consists of closed-ended questions to encourage the potential respondents to participate in the survey.

Due to the busy work schedules of the decision-makers of SMMEs and the confidential nature of the information required by this study, it was anticipated that many of the ideal respondents may be reluctant to participate in the study. To avoid this pitfall, the researcher and seven other well-trained researchers administered the questionnaire and used a face-to-face approach to encourage the respondents to participate. In addition, the respondents were reassured that the information divulged would be kept in strict confidence and used for the purpose of this research only.

Furthermore, only the owners, managers and accountants of SMMEs in the FMCG sector operating in the Cape Metropole were invited to participate in the survey.

These may not be the only decision-makers of SMMEs in the sector. However it is neither feasible nor practical for a study such as this one to survey all possible decision-makers of SMMEs; thus a decision was taken to only survey those likely to be familiar with the working-capital management practices of their entities. Besides, the findings on the working-capital management practices of SMMEs in the FMCG sector may not reflect the general working-capital management practices of all the SMMEs in the Cape Metropole, particularly those in other sectors.

Lastly, even though inventory management is an important aspect of working capital management, this study intentionally excluded inventory management because it is a broad aspect of working capital and requires subsequent studies. Also, it is not possible to address all the aspects of working capital and the objective of this study is not to investigate inventory management.

1.8 CONTRIBUTION OF THE RESEARCH

The proposed study fills the gap in research on the working-capital management practices employed by SMMEs in the South Africa. Although various studies have been published on the working-capital management practices on SMMEs in other countries (Koury, Smith & Mackay, 1998; Sunday, 2010; Yiadom & Agyei, 2006), few studies were found with regard to working-capital management practices of SMMEs in the FMCG sector in South Africa. This study therefore contributes to the debate on the working-capital management practices of SMMEs in a unique context of FMCG sector in South Africa and inspires other researchers to investigate the same in other SMME sectors.

CHAPTER 2
LITERATURE REVIEW

2.1 INTRODUCTION

The purpose of this chapter is to review the prior literature on the working management practices of SMMEs. In so doing, the chapter identifies significant gaps in the current literature on cash management, receivables management and payables management practices of SMMEs.

This chapter begins with definitions of SMEs and SMMEs in developed countries and in South Africa in Section 2.2. This is followed by a discussion of importance of SMMEs in South Africa in Section 2.3. Section 2.4 defines and discusses the importance of cash management and reviews the contemporary studies on cash management practices of SMMEs. Subsequently, Section 2.5 defines and discusses the importance of accounts receivables management and reviews prior literature on account receivables practices of SMMEs.

This is followed by a definition and discussion of importance of accounts payable management and a review of prior studies on accounts payables practices of SMMEs in Section 2.6. Section 2.7 discusses challenges faced by SMMEs and reviews prior studies on factors that inhibit these entities from using effective working-capital management practices. This is followed by an outline of gaps identified in prior literature and research questions that have remained unanswered in Section 2.8. Lastly, Section 2.9 provides the summary and conclusion of the chapter.

2.2 DEFINATIONS

2.2.1 Definition of SMEs

In an international context, the definition of Small and Medium Enterprises (SMEs) varies from country to country according to the number of employees, turnover and the net assets held by an entity (Monks, 2010: 9). In Australia, SMEs have less than twenty employees in the service sector and one hundred in the manufacturing sector (OECD, 1997). In the UK, a small enterprise has less than 50 employees and a turnover of less than £6.5 million, whereas a medium enterprise has less than 250 employees, but more than 50 employees and a turnover of less than £25.9 million but more than £6.5million.

In the USA, different criteria are used for different SME industries based on the number of employees (Size Standards Office 2002: 01). In the manufacturing and mining sector, the maximum number of employees of an SME is 500, whereas for the retail sector the maximum number of employees is 100. In other countries, SMEs are referred to as small scale enterprises (SSE). In short, the criteria for defining SMEs vary from country to country as depicted in Table 2.1.

Table 2.1: Classification of SMEs in developed countries

Country	Type of SME	Criteria
Australia	Small enterprises: Medium enterprises:	Less than 20 employees. Less than 100 employees but greater than 20 employees.
Canada	Small enterprises: Medium enterprises:	Less than 50 employees. Less than 500 employees but greater than 50.
Spain	Small enterprises: Medium enterprises:	Less than 200 employees. Less than 500 employees but greater than 200 employees.
United states		Less than 500 employees.
Portugal	Small enterprises: Medium enterprises:	Less than 100 employees. Less than 500 employees but greater than 100 employees.
United Kingdom	Small enterprises: Medium enterprises:	Less than 50 employees. Less than 500 employees but greater than 50.
Switzerland	Small enterprises; Medium enterprises;	Less than 50 employees. Less than 500 employees but greater than 50 employees.
Denmark		Less than 500 employees.

Source: Organisation for Economic cooperation and Development (1997:12)

2.2.2 Definition of an SMME in South Africa

In South Africa the most widely used definition of an SMME is provided by the National Small Business Act No. 102 of 1996 as amended by the National Small Business Amendment Act of 2003 and 2004 which defines a small business as "a separate and distinct business entity, including its branches or subsidiaries, managed by one or more owners, predominantly carried on in any sector or subsector of the economy". The generic classification of SMME according to the National Small Business Act is given in Table 2.2.

Table 2.2: Classification of SMMEs in South Africa

Size of enterprise	**Number of employees**	**Annual turnover (Rand value)**	**Gross assets, excluding fixed property**
Medium enterprise	Less than 100 or 200 depending on industry.	Less than R4 million or R50 million depending on the sector.	Less than R2 million or R18 million depending on sector.
Small enterprise	Less than 50.	Less than R2million or R25million depending on sector.	Less than R2 million or R4.5 million depending on sector.
Very small enterprises	Less than 10 or 20 employees depending on industry.	Less than R200 000 or R500 000 depending on sector.	Less than R150 000 or R500 000 depending on sector.
Micro enterprises	Less than 5 employees.	Less than R150 000.	Less than R100 000.

Source: National Small business Act Amendment No.26 of 2003.

For the purpose of this study, SMMEs will be classified as shown in Table 2.3.

Table 2.3. Classification of SMMEs in this study

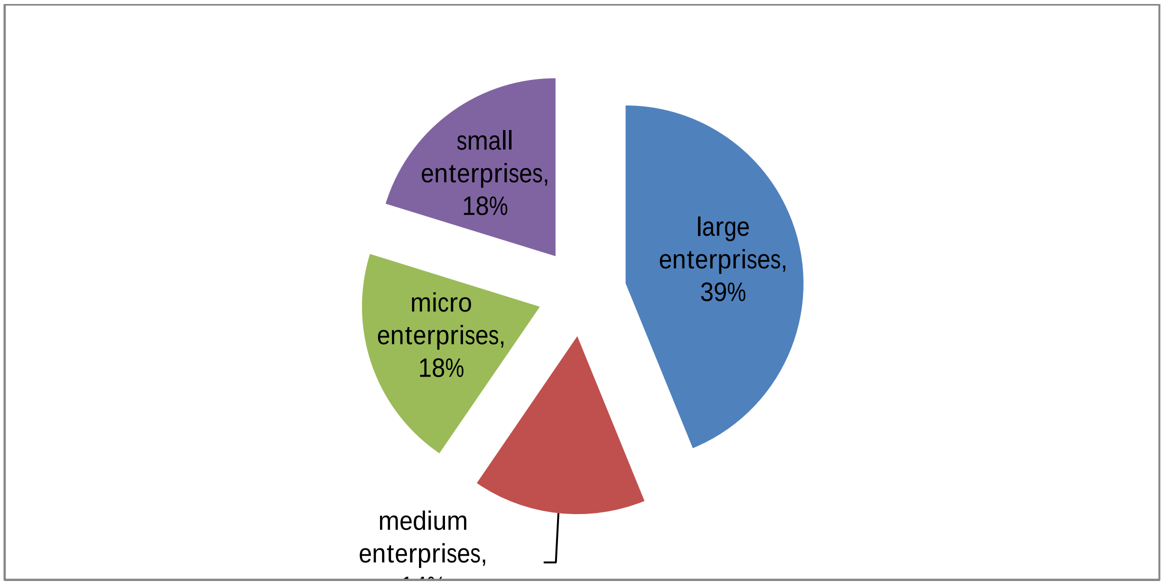
Category	Description
Micro enterprise	1-5 employees.
Small enterprise	6 - 50 employees.
Medium enterprise	51-200 employees

Source: Small Business Act of 1996 and Department of Trade and Industry (2008).

2.3 ECONOMIC IMPORTANCE OF SMMEs TO THE SOUTH AFRICAN ECONOMY

According to Monks (2010: 2), SMMEs contribute significantly to the South African Gross Domestic Product (GDP) by rendering services and providing goods to consumers and other businesses. SMMEs also render services and sell goods to foreign clients, thereby reducing the country's trade deficit. According to Abor and Quartey (2010: 219), SMMEs contribute about 57% of the country's GDP annually as shown in Figure 2.1 below. Given the economic importance of SMMEs in South Africa in terms GDP, SMMEs are expected to manage their working-capital management effectively because failure to do so will lead to closure of the businesses which will negatively impact on the growth of the economy.

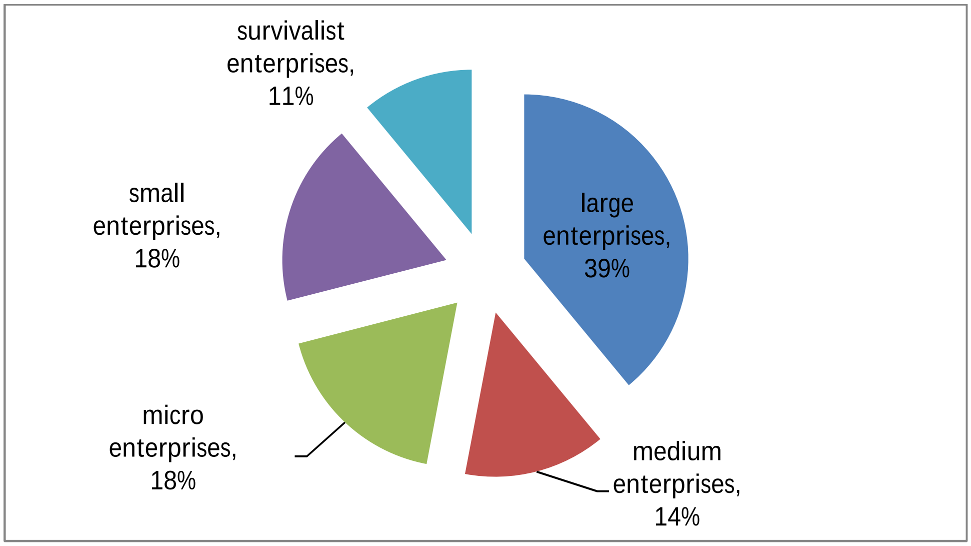
Figure 2.1: Contribution of different sizes of enterprises to the GDP of South Africa



Source: Abor and Quartey (2010: 219)

SMMEs are also consumers of other entities' products, particularly the industrial products. Their demand for products supports other suppliers' business activities, which further contribute to the economic growth of South Africa (Petrus, 2009: 8). Given their labour-intensive nature, SMMEs are able to impart skills to an unskilled labour force by exposing employees to practical aspects of business (Bartel & Martin, 1990: 775). As a result of the rapidly shrinking employment opportunities in large enterprises, SMMEs have become the leading job creator in South Africa (Monks, 2010: 9). By 2012 SMMEs accounted for about 61% of employment in South Africa, which is an increase from 57.3% in 2002 (Nkonde, 2012). As a result of their role in the reduction of unemployment, SMMEs also indirectly reduce the social problems associated with unemployment such as high crime rate, suicide and prostitution (Berry et al., 2001: 4). Considering that SMMEs are the leading job creators in South Africa, should these entities continue failing, the Government will not achieve its objective to employ five million South Africans by 2020. Therefore it is imperative for SMMEs to manage their working capital effectively as this may increase their chances of survival in the increasingly competitive business environment.

Figure 2.2: Contribution of different sizes of enterprises to employment in South Africa



Source: Abor and Quartey (2010: 219)

Despite the importance of SMMEs to South Africa's economy, they have a high failure rate (Gaomab, 2004: 3). According to Fatoki (2011: 193), 75% of SMMEs in the country fail within 10 years of existence. Yiadom and Agyei (2006) contend that SMMEs are failing partly due to ineffective working-capital management.

According to Tuffour, Appiagyei, Gyasi, Anakye and Asante (2012: 17) working capital can be defined as capital needed to meet the day-to-day operation of a business, which consists of current assets and current liabilities. The difference between current assets and current liabilities is referred to as net working capital. Working-capital management on the other hand is defined as the administration of current assets and current liabilities to maximise short-term liquidity (Gitman, 2010: 568). According to Tuffour et al. (2012: 17) effective working-capital management optimises the benefits derived from working capital, which is of particular importance to SMMEs given their limited access to capital. In addition, effective working-capital management ensures that an SMME has adequate cash to meet short-term liabilities as they fall due (Ansah, 2011: 10). In so doing, it reduces an SMME's reliance on external funding. For the purpose of this study, working-capital management comprises cash management, accounts receivable management and accounts payable management.

2.4 CASH MANAGEMENT

According to Abioro (2013: 177) cash is the lifeblood of every business. For a business to maintain its short-term stability and long-term survival, it must manage its cash effectively. In most cases cash is often misunderstood to be profit, but the truth of the matter is that cash refers to a type of a current asset in form of ready money at hand, petty cash, and bank account balances. Profit, on the other hand, refers to the excess of income over expenditure in the statement of comprehensive income (Gitman, 2010: 568). Samson, Mary, Yemisi and Erekpitan (2012) point out that there is no other financial management activity that is more important than cash management because this asset's management ensures liquidity of an entity and thus reduces insolvency risk.

According to Dropkin and Hayden (2001: 31), effective cash management can enable a business to avoid the cost of additional funding and may avail it of favourable terms when settling liabilities as they fall due. In addition, proper cash management ensures optimal cash balances to support a business's operation, which increases financial flexibility (Angelovska, 2010: 5). Sound cash-management practices entail making cash projections to avoid unexpected cash shortages, monitoring cash inflow on a regular basis, investing cash surplus in a gainful manner, minimising the risk associated with holding excess cash and effectively controlling cash outflow to avoid exceeding the budgeted limits (Petrus, 2009: 17).

2.4.1. A Review of prior studies on cash management practices of SMMEs

Notwithstanding the abovementioned importance of effective cash-management practices, prior studies have indicated that SMMEs do not manage their cash effectively (Grablowsky & Rowell,1980; Anvari & Gopal,1983; Yiadom & Agyei ,2006; Pietersen, 2012; Nyamao, Patrick, Odondo & Simeyo, 2012). One such study was conducted by Grablowsky and Rowell (1980) to unveil the cash-management practices of 66 small enterprises in Virginia, USA. Using a questionnaire survey, Grablowsky and Rowell (1980) found that 67% of the enterprises did not prepare cashflow forecasts and that 71% had never experienced a short-term cash surplus. Of the 29% that had a cash surplus, only 30% of these enterprises invested their surplus in interest-generating accounts. Given that the study was conducted in 1980, its findings are outdated and may not be relevant at present. Besides, the study was conducted in the USA, a developed country; therefore the findings may not be generalisable to South African SMMEs.

In a similar questionnaire survey, Anvari and Gopal (1983) investigated the cash-management practices of 123 small enterprises in Quebec and Ontario in Canada. Unlike Grablowsky & Rowell (1980), Anvari and Gopal (1983) found that 53% of the enterprises prepared cash forecasts while 47% did not. In addition, only 26% of the enterprises used formal techniques in estimating their cash balances. Furthermore, only 51% of the enterprises had experienced a short-term cash surplus. Though informative, Anvari and Gopal's (1983) study was conducted in 1983 and its findings are therefore outdated. Also, Anvari and Gopal's (1983) study was conducted in Canada; thus its findings may not be generalisable to South African SMMEs.

A later questionnaire survey by Nguyen (2001), which examined the cash management practices of 150 SMEs in Vietnam, also found that 80% of the SMEs prepared cash budgets and reviewed them on a monthly basis. As a result, only 2.7% of the enterprises experienced cash shortages. However, 75% of the enterprises with a cash surplus did not know how to invest it gainfully. In fact only 19% of the SMEs with a cash surplus deposited it in a bank account. Nguyen (2001) concluded that the main problem faced by SMEs in Vietnam was how to invest their temporary cash surplus in a gainful manner. Nguyen's (2001) study, however, did not highlight the factors that inhibit SMEs from managing their cash effectively and was conducted in 2001. Thus its findings may not be relevant at present. The study was also conducted in Vietnam; therefore its findings may not be generalisable to African SMEs.

Elsewhere, Akinwande (2009) evaluated the working-capital management practice of VGC Telecom in Sweden by scoring the company's working-capital management practices against a 15-point judgement scale. Consistent with the findings of Anvari and Gopal (1983) and Nguyen (2001), Akinwande (2009) awarded VCG Telecom 10 points out of 15 for cash forecasting, 10 points out of 15 for cash budgeting and 10 points out of 15 for cash-surplus management. In addition, Akinwande (2009) awarded the company 12.5 points out of 15 for cash-control systems, thus rating its overall cash management practices at 65% out of 100%. The researcher concluded that VCG Telecom managed its cash properly. However, VGC Telecom is a large corporation; therefore Akinwande's (2009) findings may not be generalisable to SMMEs. Moreover, Akinwande's (2009) study was in the form of a case study of one company based in Sweden; therefore its findings may not be generalisable to African SMMEs.

A common observation that can be made about all the studies reviewed thus far is that they were conducted in other continents and not in Africa. Therefore their findings may not be generalisable to African SMMEs. In sharp contrast to the above studies, Yiadom and Agyei (2006) investigated the cash-management practices of 601 small scale enterprises (SSE) in Ghana. Using a descriptive crosssectional questionnaire survey, the researchers found that only 57% of the SSEs had a business bank account primarily to increase their chances of accessing a bank loan. Unlike Anvari and Gopal (1983) and Nguyen's (2001) findings, Yiadom and Agyei (2006) found that only 15% of the SSEs prepared cash budgets on a monthly basis, while 33% of the enterprises prepared them on an annual basis. In addition, 32% of the enterprises indicated that they did not need cash budgets, while 16% indicated that they had no time to prepare cash budgets. Furthermore most SSEs (90%) responded that they had never experienced a cash surplus, a finding that concurred with that of Anvari and Gopal (1983) and Nguyen's (2001) studies. Yiadom and Agyei (2006) concluded that SSEs faced a serious challenge when managing cash.

In another Ghanaian questionnaire survey, Pietersen (2012) investigated the cash-management practices of 199 SMEs in the western region of the country. Consistent with the findings of Grablowsky (1980) and Yiadom and Agyei (2006), Pietersen (2012) found that 51.3% of enterprises neither forecasted nor had a cash target for their businesses. In addition, only 32.7% of the enterprises prepared monthly cash budgets, although 65.3% of the enterprises deposited their sales proceeds on a daily basis. Furthermore, only 13.6% of enterprises re-invested their cash surpluses but 56.3% of the enterprises often spent within their budgeted limits. Pietersen (2012) concluded that, although most SMEs deposited their proceeds in bank accounts, most lacked the financial expertise to prepare cash budgets and invest surplus cash gainfully.

In yet another Ghanaian questionnaire survey, Mensah (2012) evaluated the working-capital management practices of 800 SMEs in the Ashanti region. In concurrence with the findings of Anvari and Gopal (1983), but in contrast with the findings of Yiadom and Agyei (2006), Mensah's (2012) study found that only 57% of SMEs prepared cash budgets on a monthly basis, while 87% of these entities determined their cash balances based on the owner's/manager's intuition.

Consisting with Nguyen's (2001) findings, only 3% of SMEs in the Ashanti region had cash shortages, but 63% of these entities did not know how or where to invest their surplus cash gainfully. Mensah (2012) concluded that cash-flow management was an internal problem of SMEs in the Ashanti region that needed to be addressed.

Although insightful, the above studies were conducted in Ghana (West Africa) and therefore their findings may not be generalisable to South African SMMEs. Besides, the above studies did not address the factors that inhibit SMEs from managing their cash effectively.

Elsewhere in Africa, Nyamao, Patrick, Odondo and Simeyo (2012) conducted a similar questionnaire survey study in Kenya to assess the cash-management practices of 159 SSEs. In agreement with the findings of Grablowsky and Rowell (1980) and Yiadom and Agyei (2006), but in contrast with Nguyen (2001), Akinwade (2009) and Nyamao et al.'s (2012) study revealed that 60.9% of the SSEs seldom prepared cash budgets. In fact only 23.6% of the SSEs prepared the budgets often. Unsurprisingly, most SSEs (67.3%) hardly determined their cash balances. Of the sampled SSEs, 56.4% regularly experienced cash surpluses but they did not invest these gainfully. The foregoing findings led Nyamao et al. (2012) to conclude that most SSEs in Kenya had cash-management problems. Again, the study did not address the factors that inhibit SSEs from managing their cash flows effectively. In addition, Nyamao et al.'s (2012) study was conducted in Kenya; therefore its findings may not be generalisable to South African SMMEs.

Still in East Africa, a unique Tanzanian questionnaire survey by Masoud and Mbega (2012) investigated the working-capital management practices of 16 small businesses in Dar es Salaam. In concurrence with the findings of Yiadom and Agyei (2006) and Nyamao et al. (2012) as well as Pietersen (2012), but in contrast with Nguyen (2001) and Akinwade (2009), Masoud and Mbega (2012) found that 68.8% of enterprises did not prepare cash budgets. Only 6.3% of small businesses pre-determine a target cash balance in advance. Like in Nguyen (2001) and Nyamao et al.'s (2012) studies, 50% of the small businesses always experienced cash shortages and 56.2% did not invest their cash surpluses gainfully. Furthermore, only 31.3% of the businesses deposited their cash surpluses in bank accounts. Masoud and Mbega (2012) concluded that a lack of financial knowledge was a major cause of ineffective cash management in small businesses in Tanzania. Given that Masoud and Mbega's (2012) study used a small sample size, its findings may not be generalisable to all Tanzanian small businesses let alone the South African SMMEs.

In yet another East African, but more recent, questionnaire survey Sunday, Burani and Eliabu (2013) assessed the cash management practices of 386 SMEs in western Uganda. Sunday et al. (2013) found that the cash-management practices of Ugandan SMEs were weak. Like in Yiadom and Agyei's (2006) study, Sunday et al. (2013) found that most SMEs (mean of 3.26 on 4) had business bank accounts. In contrast with the findings of Anvari and Gopal (1983), and Nguyen (2001), many of the Ugandan SMEs experienced frequent cash shortages due to a failure to prepare cash budgets on a monthly basis. In addition, only a few SMEs had a cash surplus (mean of 1.79 on 4), and when they did, they did not invest it in interest-bearing accounts. Sunday et al. (2013) concluded that most SMEs experienced cash shortages because they failed to prepare cash budgets and invest their cash surplus gainfully.

Still in Uganda, Uwonda, Okello and Okello (2013) assessed the cash-flow management of 120 SMEs using a questionnaire survey. In concurrence with Anvari and Gopal (1983) and Pieterson's (2012) findings, Uwonda et al. (2013) found that 41.8% of SMEs did not prepare cash budgets and that another 20.33% did not even monitor their cash flow. Only 59% adhered to their cash budgets but 33% disregarded budgetary controls. In addition, 53.3% of SMEs did not prepare a bank reconciliation statement. Okello et al. (2013) recommended that SMEs should employ competent people to design, implement, prepare and project their cash flows. However, the above two studies were conducted in Uganda and their findings may not be generalisable to South African SMMEs.

2.5. ACCOUNTS RECEIVABLE MANAGEMENT

Lovemore and Brummer (2003: 59) define accounts receivable as legally enforceable short-term claims for payment arising from the sale of goods or services rendered on credit in the course of running a business. Accounts receivable are converted into cash when payments are received from customers. Accounts receivables are important because they make it possible for clients to purchase goods that they otherwise may not be able to afford (Yiadom and Agyei, 2006:33). In so doing, they do not only enable a business to expand its sales and market s:hare, but they also aid in protecting the market share from being eroded by competitors (Gill, Biger, Mathur, 2010: 175).

Trade receivables can also be used strategically to build long-term relationships with customers which enhance their loyalty to a business. In addition, they may also be used to increase bargaining power over customers by granting them credit at the initial stage and then using it to increase switching costs to retain them for the long term (Dana & Jiri, 2013: 99)

Effective accounts-receivable management enables a business to minimise costs associated with credit while at the same time maximising the benefits derived from it. It is aimed at having optimal investment in credit. Effective accounts-receivables management ensures that the collection of receivables is maximised and at a low cost. In short, it reduces or eliminates bad debts (Tuffour et al. 2012:60). Effective receivable management entails offering prompt-payment discounts, sending invoices and statements promptly to debtors, sending reminders to debtors, conducting formal credit checks on clients before granting credit, maintaining a proper record system to monitor credit sales, and developing and regularly reviewing the credit policy (Pietersen, 2012: 63).

2.5.1 A Review of prior studies on accounts receivable management

Evidence from prior studies suggests that most SMMEs do not manage their receivables effectively (Grablowsky & Rowell, 1980; Anvari & Gopal, 1983; Masoud & Mbega, 2012; Mensah, 2012; Nyamao, Patrick, Odondo & Simeyo, 2012). Grablowsky and Rowell's (1980) study cited earlier found that 95% of SMEs in Virginia, USA, did not have a credit policy and tended to sell on credit to all buyers without investigating their credit backgrounds. In addition, 30% of enterprises reviewed their credit policy regularly but only 52% enforced late-payment charges. As a result, the bad debt of these entities averaged 10% of sales. Grablowsky and Rowell (1980) concluded that small businesses in Virginia had a low level of awareness of effective working-capital management practices, a situation that undermined the effectiveness with which they managed their accounts receivable. Given that the study was conducted in 1980, its findings are outdated and may not be relevant at present. Besides, the study was conducted in the USA, a developed country; therefore its findings may not be generalised to South African SMMEs.

Nguyen's (2001) study cited earlier also found that 80% of SMEs in Vietnam often sold their products or provided their services on credit. But unlike Grablowsky and Rowell's (1980) study, 63% of Vietnamese SMEs conducted formal credit checks on their customers before granting credit. Nguyen's (2001) study further revealed that 86% of SMEs reviewed their level of bad debts and receivables on a monthly basis. Nguyen's (2001) study, however, did not highlight the factors that inhibited some SMEs from managing their accounts receivables effectively, and is dated as having been conducted in 2001. Thus its findings may not be relevant at present. Nguyen's (2001) study was also conducted in Asia; therefore its findings may not be generalisable to African SMMEs.

In a related study, Howorth and Westhead (2003) conducted a questionnaire survey on accounts-receivable practices of 343 SMEs in the UK. Howorth and Westhead (2003) found that 68% of the enterprises used credit policies to review doubtful debts, while 70% used the same to review the credit period term extended to customers. Of the sampled SMEs, 61% used credit policies to review bad debts, but only 30% used the same to review the discount rate offered to customers. Howorth and Westhead (2003) concluded that SMEs in the UK had focused their attention on improving their receivables management to increase their collection rate. However, Howorth and Westhead's (2003) study only focused on one aspect of receivables management, namely the use of credit policies. In addition, the study was conducted in the UK, and as such its findings may not be generalisable to South African SMMEs.

In a Ghanaian study cited earlier, Yiadom and Agyei (2006) also found that 60% of 601 SSEs sampled had credit sales that ranged from 10% to 30% of total sales. However 40% of the entities could not determine their exact percentage of credit sales due to inadequate record keeping. In addition, 80% of the enterprises used customers' past-payment pattern as a basis for granting credit and 70% of the enterprises had a credit period of less than 14 days. Furthermore, the SSEs typically used personal visits, telephone calls on mobile phones and liason with family members of credit customers to follow up and remind their customers of due payment. However, these follow ups were typically in the form of threats rather than mere reminders. Yiadom and Agyei (2006) concluded that the two main problems faced by SSEs when dealing with credit customers were late payments and bad debts, given that most enterprises lacked the appropriate systems for managing the two.

Like Yiadom and Agyei's (2006) study, Pietersen (2012) found that 76.4% of Ghanaian SMEs sold their goods on credit and that 46.1% of the entities collected their receivables within 14 days. In contrast to Grablowsky and Rowell's (1980) study, but consistent with Nguyen's (2001) study, Pietersen (2012) found that 71.1% of the enterprises conducted a formal credit check which entailed a thorough examination of customers' past credit record before granting credit. Unlike Yiadom and Agyei's (2006) study, Pietersen (2012) found that the enterprises did not always send timely reminders to their debtors or take legal action against those who defaulted on payment, except in a few instances where defaulting customers' properties were confiscated. Pietersen (2012) concluded that SMEs in Ghana lacked a proper receivables-collection mechanism and recommended that a sound collection policy be designed, implemented, executed and monitored by the enterprises.

Likewise, Asiamahyeboah (2012) evaluated the receivable management practices of 50 SMEs in Ghana using both questionnaires and interviews. Unlike Grablowsky and Rowell's (1980) study, but consistent with Nguyen (2001) and Pietersen's (2012) studies, Asiamahyeboah (2012) found that SMEs managed their receivables effectively because they offered credit only to customers with a good credit history and who provided a post-dated cheque or had a bank guarantee as a collateral. The enterprises also gave their customers a shorter period to settle their debt to limit the negative impact of prolonged credit periods on their cash flows. In addition, the enterprises monitored the trade credit that they offered to customers closely.

In yet another Ghanaian study also cited earlier, Mensah (2012) found that 80% of 800 SMEs sampled always sold on credit, but only 47% applied their credit policies when granting credit. Consistent with the findings of Nguyen (2001), Pietersen (2012) and Asiamahyeboah (2012), 10% of the enterprises sold their products without investigating a customer's credit record. Unsurprisingly, 67% of the entities often wrote off bad debts, which typically amounted to 20% of sales. In addition, most SMEs reviewed their receivables policies and bad debt levels on a quarterly basis but only 20% had a dedicated credit control officer. Mensah (2012) concluded that SMEs in Ghana did not manage their accounts receivables effectively because of a lack of expertise and information required to make sound judgment, as well as a lack of procedures such as prompt invoicing and dispatching of statements in a timely manner to clients.

Although informative, the four studies (immediately preceding above) were all conducted in Ghana; hence their findings may not be generalisable to South African SMMEs. Moreover, some of the studies did not address the factors that inhibit SMEs from managing their receivable management effectively.

Consistent with Grablowsky and Rowell's (1980) findings, Nyamao et al. (2012), found that only 29.1% of Kenyan SSEs had a credit policy for their customers, although 38.2% of these enterprises sold their products on credit. In addition, 71.8% of the SSEs reviewed their levels of receivables and bad debts on a monthly basis. Nyamao et al. (2012) concluded that Kenyan SSEs lacked efficient routines for managing their receivables.

Consistent with the findings of Yiadom and Agyei (2006) and Nyamao et al. (2012), Masoud and Mbega (2012) also found that on average 56.3% of the 16 Tanzanian small businesses sampled often sold on credit, but only 37.5% of these entities had implemented a credit policy. Contrary to Mensah (2012), 56.3% of these entities reviewed their bad debts and levels of receivables on a monthly basis. The researchers recommended that appropriate training be provided to small businesses to aid them in controlling their receivables. However, Masoud and Mbega's (2012) study used a small sample size; thus its findings may not be generalisable to all small businesses in Tanzania, let alone the SMMEs in South Africa.

One common observation that can be made from the above two preceding studies is that they were conducted in East Africa. Therefore their findings may not be generalisable to South African SMMEs.

2.6. ACCOUNTS PAYABLE MANAGEMENT

According to Gitman (2003: 638), accounts payable can be defined as an entity's obligation to settle its short-term liabilities to its creditors arising from the purchase of products or services rendered on credit. Accounts-payable management on the other hand refers to a set of policies, procedures and practices of an entity in managing its trade-credit purchases. Mbroh and Attom (2012 :37) contend that accounts payable are a major source of short-term financing for businesses provided that they delay payment as long as possible without damaging their credit rating or pay on the last day when payment is due to take advantage of cash discounts. Simply put, settling payables on the last day of payment enables businesses to re-invest the funds that would have been paid to suppliers (in the case of cash purchases) into the business, thereby securing an interest-free short-term loan, provided cash discounts are not forfeited. Some of the best practices in managing accounts payable include: collecting from debtors before paying creditors, negotiating for favourable credit terms, delaying payment to the last day of the credit period, and taking advantage of discount facilities by paying creditors promptly (Petrus, 2009: 37).

2.6.1 A Review of prior studies on accounts payable management

Very few studies have been conducted on the accounts-payable practices of SMMEs. One of such studies conducted by Pietersen (2012) (cited earlier) found that 34.2% of Ghanaian SMEs rarely negotiated with their creditors to extend their credit period. In addition, 37.7% of the entities used short-term funds to finance long-term investments. Pietersen (2012) concluded that SMEs in Ghana did not manage their payables effectively.

In another Ghanaian study, Tuffour et al. (2012) assessed the accounts-payable practices of 100 SMEs using a questionnaire survey. Tuffour et al. (2012) found that 48% of the enterprises bought their raw materials for cash, 16% on credit and 36% both for cash and on credit. In addition, despite having a credit period of 30 days, 20% of the enterprises paid their creditors within 15 days of purchase and only 18% took advantage of the full credit period. Of the SMEs sampled, 62% paid their creditors when it was convenient for them. Tuffour et al. (2012) concluded that most SMEs had cash-flow problems that arose mostly from upfront payments for their raw materials and failure to take full advantage of the credit period allowed. However, the above studies on payables management were conducted in Ghana; hence their findings may not be generalisable to South African SMMEs.

2.7. Factors that inhibit SMMEs from managing their working capital effectively

SMMEs encounter unique challenges when managing their working capital which intensify when a country's economy declines (Monks, 2010: 32). Some of the challenges include: inadequate financing, poor cash-flow planning, lack of efficient routines in managing their receivables, and a lack of appropriate technology (Asiamahyeboah, 2012:2). The challenges arise mainly because SMMEs depend mostly on short-term funding and lack the skills to manage working capital effectively (Poutziouris, Chittenden & Michaelas: 1998). Prior research by Afrifa (2013) has shown that education and experience play a major role in the management of working capital by SMMEs. In addition, McChlery, Meechan and Godfrey (2004) contend that managing working capital effectively requires appropriate computerised accounting systems, adequate personnel and adequate skills.

2.7.1 A Review of prior studies on factors that inhibit SMMEs from managing their working capital effectively

Prior studies have shown that SMMEs decision-makers lack the required skills, training and resources to effectively manage their cash, accounts receivable and accounts payable (Yiadom & Agyei, 2006; Pietersen, 2012; Mensah, 2012). One such study was conducted by Afrifa (2013) who investigated the role of education and experience on working-capital management of 72 SMEs in the UK. Afrifa (2013) found that managers with higher levels of education and vast experience managed their working capital more efficiently than those with little or no education and a few years of work experience. Afrifa (2013) concluded that education and working experience directly impact on the effectiveness with which working capital is managed. However, the study was conducted in the UK; hence its findings might not be generalisable to African SMMEs.

In a Ghanaian study cited earlier, Yiadom and Agyei (2006) found that only 11.7% of SMEs had basic training on working-capital management. 74% of the enterprises indicated that they needed training in all areas of working-capital management, while 51% indicated that they need training in cash management only. Yiadom and Agyei (2006) concluded that a lack of working-capital management training was the main problem faced by Ghanaian SMEs.

Similarly, Pietersen (2012) found that 79.9% of Ghanaian SMEs used manual record-keeping methods because they lacked computers to manage their working capital. Of the sampled SMEs, 66% lacked qualified accountants to manage their working capital. Pietersen (2012) concluded that the majority of SMEs in Ghana lacked the resources required to manage their working capital effectively.

Likewise, Mensah (2012) found that 83% of SMEs in Ghana did not use computers in their operations. In addition, 60% of decision-makers in SMEs had little or no accounting knowledge. Furthermore, Mensah's (2012) study also revealed that most SMEs (80%) employed cheap labour or unqualified personnel to carry out their accounting functions. Mensah (2012) concluded that the abovementioned factors inhibited SMEs from managing their working capital effectively.

Although informative, the preceding three studies were conducted in Ghana. Thus they may not be generalisable to South African SMMEs.

In a unique South African study, Phenya (2011) assessed the financial-management skills of 100 small retail businesses in the Moroka Municipality of Mpumalanga province using structured questionnaires. Phenya (2011) found that most of these enterprises had inadequate skills for monitoring and collecting bad debt (88%) and that only 5% of the enterprises had excellent skills. Phenya (2011) also found that the businesses did not have proper accounting systems in place due to a lack of knowledge on how to establish such systems, especially in compiling financial statements. Owners/managers of 60% of the enterprises expressed a need for training on effective financial-management practices particularly with regard to cash budgeting. Although informative, Phenya's (2011) study only focused on retail businesses in the Moroka Municipality, a small municipality in Mpumalanga province. Therefore its findings may not be generalisable to all South African SMMEs.

2.8 GAPS IDENTIFIED IN THE PRIOR LITERATURE

From the above review of the prior literature on working-capital management, the following gaps have been identified:

- some studies were conducted in developed countries; therefore their findings may not be generalisable to South African SMMEs;
- most of the African studies were conducted in East and West Africa and thus their findings may not be generalisable to South African SMMEs;

- some of the studies are outdated; thus their findings may not be relevant at present;
- some of the studies used a limited sample size; therefore their findings may not be generalisable to all SMMEs;
- one of the studies was in the form of a case study; hence its findings may not be generalisable to all South African SMMEs;
- only two studies examined the accounts-payable management practices of SMMEs globally;
- the South African study was conducted in a small municipality and did not focus entirely on the working-capital management practices of SMMEs. Therefore its findings may not be generalisable to all South African SMMEs.

The abovementioned gaps suggest a need for a more recent study such as this one which focuses on South African SMMEs.

2.8.1 Research Questions

Considering the gaps identified in prior studies, the following research questions have remained unanswered in the South African context:

1. Which practices are employed by SMMEs to manage their cash and bank balances?
2. Which practices are employed by SMMEs to manage their accounts receivables?
3. Which practices are employed by SMMEs to manage their accounts payable?
4. What factors inhibit SMMEs from using effective working-capital management practices?

2.9. CHAPTER SUMMARY AND CONCLUSION

This chapter sought to describe and summarise prior literature on working-capital management practices. The definitions of SMEs and SMMEs in developed countries and in South Africa were discussed, followed by a discussion of the importance of SMMEs in South Africa. The chapter then highlighted the importance of working-capital management then reviewed contemporary studies on cash-management practices, accounts-receivable practices, accounts-payable practices and factors that inhibit SMMEs from managing their working capital effectively.

The cash-management practices studies revealed that some SMMEs had a business bank account primarily to increase their chances of accessing a bank loan. In addition, most SMMEs did not prepare cash budgets on a monthly basis. Furthermore, most SMMEs had never experienced a cash surplus, a finding that suggests that most SMMEs faced a serious challenge when managing cash.

The review of studies on accounts receivable revealed that some SMMEs could not determine their exact percentage of credit sales due to inadequate record keeping. Other studies indicated that SMMEs used customers' past-payment patterns as a basis for granting credit, but had no formal credit policy in place. The review also revealed that SMMEs used personal visits, telephone calls on mobile phones and liaison with family members as a means of following up and reminding their customers of due payment. With regard to accounts-payable practices, prior studies found that SMMEs did not take advantage of the full credit period and rarely negotiated with their creditors to extend their credit period.

As far as the factors that inhibit SMMEs from using effective working-capital management practices are concerned, prior studies indicated that most SMMEs used manual record-keeping methods because they lacked computers to manage their working capital. Yet other studies revealed that SMMEs lacked accounting knowledge and qualified personnel to carry out their accounting functions.

This chapter also identified gaps in prior literature ranging from limited research on working-capital management practices in South Africa to outdated studies that employed ad hoc samples which do not allow for generalisability of research findings. Given the abovementioned gaps in prior studies, there are many unresolved questions on working-capital management practices of SMMEs. Based on the review of prior studies, the understanding of working-capital management practices of SMMEs still seems evasive in the South African context.

The following chapter (Chapter 3) will discuss the research methods employed to achieve the objectives of this dissertation. The chapter will discuss the research approach, the methodology used to collect relevant primary data and the statistical tools that will be used to analyse the data.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

The purpose of this chapter is to outline the research method employed in this study to address the following research objectives:

1. To determine the cash-management practices employed by SMMEs.
2. To determine the accounts-receivable practices employed by SMMEs.
3. To determine the accounts-payable practices employed by SMMEs.
4. To determine the factors that inhibit SMMEs from using effective working-capital management practices.

A questionnaire-survey methodology, which is in the realm of positivism paradigm, was adopted to address the above objectives. Accordingly, this chapter discusses and justifies the questionnaire-survey method employed in this study to collect data. It also discusses the sample-selection technique adopted as well as the design of the questionnaire. It further discusses the descriptive and inferential statistics employed to analyse and interpret the data collected.

This chapter proceeds with a discussion of the research paradigm adopted in this study in Section 3.2. This is followed by a justification of the questionnaire-survey methodology adopted in this study in Section 3.3. Section 3.4 discusses the research population and sampling technique adopted in this study, followed by questionnaire design in Section 3.5. Section 3.6 presents the pilot test conducted on the questionnaires, followed by the data-collection process in Section 3.7. Section 3.8 provides a brief description of the data-analysis methods used in this study, followed by a discussion of the measures undertaken to ensure the reliability and validity of the research instrument in Section 3.9. Section 3.10 outlines the limitations of the questionnaire-survey methodology, followed by Section 3.11 which describes the ethical considerations of this research. Section 3.12 provides the summary and conclusion of the chapter.

3.2. RESEARCH PARADIGM

A positivist paradigm, which assumes that reality is objectively measured using metrics which are independent of the researcher and the research instrument used, was adopted in this study for various reasons. Firstly, it is a more objective approach that relies on quantitative data which is more reliable than qualitative data (Leedy & Ormrod, 2001: 101). Secondly, the main objective of this study was to determine the working-capital management practices of SMMEs in the FMCG sector of Cape Metropole. This objective required quantitative data to indicate the percentage of SMMEs in the FMCG sector that adopts various working-capital management practices. Accordingly, the positivist paradigm, which is quantitative in nature, was more appropriate in addressing the main objective. Thirdly, the positivist approach was adopted because it follows a well-defined structure that allows the use of closed-ended questionnaires that can be analysed statistically. Fourthly, given its quantitative nature, the positivist paradigm allows for a large sample to be drawn from the population, an aspect which increases the generalisability of the findings (Collis & Hussey, 2009: 3). Fifthly, the paradigm is suitable when time and resources are limited, as was the case in this study.

3.3 JUSTIFICATION FOR THE QUESTIONNAIRE SURVEY METHODOLOGY

As opposed to a self-administered questionnaire where the respondent completes a questionnaire on his/her own, the current study adopted a researcher-administered questionnaire whereby the researchers read the questions to the respondents then recorded their responses. The justification for selecting this method is that it avoids the low response rate that is expected of a self-administered questionnaire (Burns & Grove, 1993: 777). In addition, it allows the researcher to clarify ambiguous questions, and to probe and seek clarifications where ambiguous answers are provided. Furthermore, it ensures that the respondents answer all the questions of the questionnaire unlike the self-administered questionnaire, where respondents can skip questions. Besides, it enables the researcher to ensure that only the intended respondents complete the questionnaire.

A researcher-administered questionnaire was also selected because it is quicker to conduct as the researcher does not have to wait for weeks for responses. In addition, it allows the researchers an opportunity to assess respondents' understanding and interpretation of questions, and overcomes the respondents' challenges such as illiteracy (Blance, Durrheim & Painter, 2006: 34). Furthermore, a researcher-administered questionnaire is useful where sensitive information is sought, as the researchers may be able to establish a trust relationship (Myers, 2009: 37).

3.4 RESEARCH POPULATION AND SAMPLE

This study's targeted population comprised the FMCG SMMEs operating in the Cape Metropole. These SMMEs included tuck shops, restaurants, liquor stores, retailers and cafeterias. Given that there is no comprehensive list of SMMEs in the Cape Metropole, a target sample of 200 FMCG SMMEs was set. Accordingly, 200 representatives of SMMEs were included in the sample. These comprised owners, managers and accountants, all of whom were deemed to be the decision-makers of SMMEs. These respondents were selected because they were expected to be familiar with the working-capital management practices of their businesses.

In selecting the 200 SMMEs included in the sample, an accidental-sampling technique was employed. Accidental sampling involves drawing a sample that is easily accessable from a population (Leedy & Ormrod, 2001:40).This method was deemed appropriate as it advocates the drawing of a sample from the part of the population that is conveniently accessible to the researcher (Collis & Hussey, 2009: 3). In addition, it is a relatively fast and inexpensive way of collecting data if the units of analysis are located in areas accessible to the researcher, as was the case in this study. Furthermore, the method is easy to carry out as it has relatively few rules governing how the sample should be selected (Blance, Durrheim & Painter, 2006: 34). Besides, the lack of a comprehensive list of all SMMEs operating in the Cape Metropole meant that a random-sampling technique, which is ideal for a quantitative study, could not have been used.

3.5 QUESTIONNAIRE DESIGN

3.5.1 General description of the questionnaire design

The questionnaire consisted of five pages, including the cover page which was used to state the purpose of the study and to assure the respondents that the information provided would be used for the purpose of this study only, be kept confidential and anonymous, and that there were no risks associated with participating in this survey.

A funnelling technique was used to arrange the questions in the questionnaire, as it began with general questions and then progressed to more specific questions (Donald & Schindler, 2003: 218). This method provided a natural focus for the participants' thoughts and guided the researcher through the questionnaire; an aspect which increases the quality of data. The questionnaire began with profiles of participant and educational backgrounds and then funnelled down to cash-management practices, accounts payable, accounts receivable and factors that inhibit SMMEs from using effective working-capital management practices.

To encourage SMME decision-makers to participate in the study, certain questions, which the respondents could have been reluctant to answer, were deemed inappropriate and were thus avoided. Such questions included those related to their client's data base, income and expenditure. In addition, no question was asked that could be directly linked to any participant or SMME.

In order to encourage the potential respondents to participate in the survey, the questionnaire was designed to be easy to answer as it comprised 9 main mostly closed-ended questions, requiring a "yes" or "no" answer. This also minimised the time duration required to complete the questionnaire, which was estimated to be 20 minutes.

3.5.2 Description of the specific sections of the questionnaire

The questionnaire used in this study comprised five sections: A, B, C, D and E (see Appendix A). Section A dealt with a respondent's personal profile as well the respondent's business profile. Section B dealt with the cash-management practices of a respondent's business while Section C dealt with the accounts-receivable management practices of a respondent's business. Section D dealt with accounts-payable practices of a respondent's business while Section E focused on factors that inhibit a respondent's business from managing its working capital effectively.

3.5.2.1 Section A: Profile of respondents

The first section was aimed at obtaining information on the respondents' personal profiles as well as their businesses' profiles. The section included five questions on their position in the business, gender, accounting educational background and number of employees in their businesses (see Appendix A).

3.5.2.2 Section B: Cash management practices

This section was meant to address the research sub-question: "Which practices are employed by SMMEs to manage their cash and bank balances?"

Section B comprised 9 questions that required a "yes" or "No" response. Respondents were required to indicate if their businesses had a bank account, conducted a bank reconciliation, prepared cash budgets, invested cash surpluses, monitored cash flows, spent cash as planned and used computers to manage cash in their day-to-day operations (see Appendix A).

3.5.2.3 Section C: Accounts receivable management practices

This section was meant to address the research question "Which practices are employed by SMMEs to manage their accounts receivables?"

Section C comprised 10 questions that required a "Yes" or "No" response. The questions focused on whether the respondent's business made credit sales, had criteria for advancing credit and review of the same, had a way to determine the percentage of bad debts, and whether interest was charged for late payment. The questions also focused on whether the respondent's business sent invoices and statements promptly to debtors, sent monthly statements and reminders to debtors, and used computers to manage accounts receivable (see Appendix A).

3.5.2.4 Section D: Accounts payable management practices

This section was meant to address the research question “Which practices are employed by SMMEs to manage their accounts payable?”

Section D comprised 5 questions that required a “Yes” or “No” response. The respondents were asked to indicate whether their businesses made purchases on a cash or credit basis, took advantage of cash-discount facilities by paying creditors promptly, settled payables on the last date due and used computers to manage accounts payable (see Appendix A).

3.5.2.5 Section E: factors that inhibit SMMEs from using effective working-capital management practices

This section was meant to address the research question “What factors inhibit SMMEs from using effective working-capital management practices?”

Section E required respondents to indicate their degree of agreement or disagreement with 12 statements on four factors that typically inhibit SMMEs from using effective working capital: namely, a lack of skills, a lack of resources, a lack of adequate personnel and a lack of time. Section E, which was in form of a Likert scale, required responses on a scale of one to five [1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree].

3.6 PILOT TESTING

As indicated in Chapter 1, Section 1.4.5, a pilot study was undertaken using five researchers with experience in questionnaire design. Among the shortfalls found by the researchers were included: unclear instructions, duplication of questions, long sentences in the questionnaire and inconsistent questions. From the feedback obtained, duplications in the questionnaire were deleted, long sentences shortened and the instructions in the questionnaire clarified to reflect the suggested corrections. After the amendments, the questionnaire was re-submitted to the five researchers, all of whom expressed their satisfaction with the clarity and conciseness of the questionnaire.

3.7 DATA COLLECTION PROCESS

On completion of the pilot test, the data collection process commenced with the identification of potential respondents. The researcher and the seven other trained researchers visited the premises of the potential respondents, explained the purpose of the study, the research methodology employed, and ethical considerations such as anonymity of respondents, confidentiality of information divulged as well as the limited risk in participating in the research. The potential respondents were then requested to indicate their willingness to participate in the study.

Where the potential respondents agreed to participate, they were required to sign a consent form and an appointment date and time was then set up. On the material date of the completion of the questionnaire, the researcher once again reminded the respondents of the purpose of the study. The researcher then read the questions to the respondents and recorded their responses by marking them with an “X” in the appropriate box of the questionnaire. On average, the completion of the questionnaire took about 15 minutes, upon completion of which the respondents were thanked for participating in the study and an option of being sent a summary of the findings was suggested.

3.8 DATA ANALYSIS

Data obtained from the questionnaire was analysed using the Statistical Package for Social Sciences (SPSS) software Version 22. The SPSS was selected for various reasons: firstly, it aids the researcher to spot data-entry errors and unusual data points. Secondly, it provides a faster and easier access to frequency, descriptive and inferential statistics functions given that it has these functions in pull-down menus. In addition, the SPSS has added functions that aid a researcher with the interpretation of statistical results. Furthermore, SPSS provides a wide variety of graphs and charts, and facilitates the creation of complex graphs in an easy manner using pull-down menus. In this study, both descriptive statistics as well as inferential statistics were used to analyse the data collected and are thus expounded below.

3.8.1 Descriptive statistics

Descriptive statistics provide simple summaries about the sample and about the observations that have been made. Some measures that are commonly used to describe the sample include measures of central tendencies such as arithmetic mean, mode, median and measures of dispersion such as standard deviation and variance. In this study, percentages and graphs were used to summarise the responses of the respondents. In addition, an arithmetic mean was used to summarise and rank the responses of respondents to Question 9 given that it was in the form of a five-point Likert scale.

3.8.2 Inferential statistics

Inferential statistics enable a researcher to infer about a population from the observations and analyses of a sample. They enable a researcher to determine how variables relate to each other, and whether there are any significant differences between two groups of samples drawn from different populations, among other uses (Al-Mubarack, 1997: 205). In short, inferential statistics enable a researcher to make valid conclusions on a population based on the observations made from the sample (Collis & Hussey, 2009: 3). In this study, a Binomial Test was used to test for significant differences between the proportion of respondents that said ”Yes” and the proportion that said “No” in the cash-management practices, accounts-receivable practices and accounts-payable practices.

3.9 RELIABILITY AND VALIDITY OF THE RESEARCH INSTRUMENT

3.9.1 Reliability of the research instrument

According to Wollack and Wells (2003: 2), reliability refers to the consistency with which a survey instrument measures an attribute. Reliability further refers to the extent to which a survey instrument is able to yield the same results on different occasions (Polit & Hungler, 1999: 255). In this study, reliability of the research instrument was established during the pilot-test stage, when the questionnaire was re-evaluated and re-evaluated by researchers, with vast experience in questionnaire design, to check that the questions were clear, unambiguous and understandable, attributes which should ensure consistency in the results obtained.

To further test for reliability, Cronbach's Alpha, a coefficient that is commonly used to measure the internal consistency of a questionnaire was computed to test the internal reliability of the questionnaire (Trochim & Donnelly, 2008: 130). Cronbach's Alpha coefficient for all items in the questionnaire was 0.83 for raw variables and 0.85 for standardised variables. Accordingly, the questionnaires were reliable and consistent as a Cronbach's Alpha coefficient of above 0.70 is considered a good estimate of consistency and repeatability (Bruwer 2010: 40). (See Appendix B.)

3.9.2 Validity of the research instrument

Validity is the extent to which a data-collection instrument measures what it is supposed to measure and whether it leads to a valid conclusion (Leedy & Ormrod, 2005: 31). The former is referred to as internal validity, whereas the latter is referred to as external validity.

3.9.2.1 Internal validity

There are various types of internal validity. For the purpose of this study, only construct and content validity were deemed relevant and are thus discussed below.

3.9.2.2 Construct validity

Construct validity refers to the extent to which a research instrument actually measures the construct being investigated (Maphutse 2003: 3). In essence construct validity answers the following questions: is the research instrument measuring what it should be measuring? Are the questions included in the questionnaire relevant for the purpose of the questionnaire? (Lawrence 2006: 242). One way to ensure construct validity is by pilot testing (Rowley, 2002). In the context of this study, the questionnaires were completed and reviewed by five selected academics with vast experience in questionnaire design. During this process, the academics were required to elaborate on their understanding of each question and highlight possible weaknesses that undermined the construct validity of the questionnaires. The questionnaire was amended as per the suggested corrections to enhance construct validity

Another way to enhance construct validity is by reducing the subjectivity of the questions in a questionnaire through linking the questions posed to the original research questions or research objectives (Rowley, 2002). In accordance with Rowley's (2002) recommendation, the questionnaires used in this study were directly derived and linked to the first, second, third and fourth research objectives, which should have enhanced construct validity.

3.9.2.3 Content validity

Content validity refers to the extent to which all facets of a given construct are covered by a research instrument (Leedy & Ormrod, 2005: 31). In other words, construct validity ensures that the questionnaire includes an adequate and representative set of items that covers a concept. To enhance content validity, the input of five academics with vast experience in questionnaire design was elicited on the coverage and adequacy of the questions included in the questionnaire. The questionnaire was then amended by including questions that were perceived to increase coverage and deleting those that were deemed not to contribute to the enhancement of the content validity of the questionnaire. In so doing, content validity was enhanced.

3.9.2.4 External validity

External validity refers to the extent to which research findings based on a sample can be generalised to the population from which the sample is drawn or to other similar populations in terms of contexts, individuals, times, and settings (De Vaus, 1993: 54; Leedy & Ormrod, 2005: 105). Achieving external validity requires the use of a random and representative sample. Although a random-sampling methodology was not employed in this study owing to a lack of a comprehensive list of all SMMEs operating in the Cape Metropole, the fact that 200 SMMEs were included in the sample to some extent mitigated a lack of randomness in the sample and enhanced its representativeness. Besides, the sampled SMMEs were of different sizes and from varied industries that ranged from tuck shops, restaurants, liquor stores, retailers and cafeterias, a diverse selection that further enhanced the representativeness of the sample. Given the above measures, external validity was deemed to have been achieved, even if only to some extent.

3.10 LIMITATIONS OF THE QUESTIONNAIRE SURVEY

The limitations of a questionnaire-survey method are well documented in literature. Key among these is the non-response bias, a bias that occurs when some potential respondents decline to participate in a study, or fail to respond to some particular questions due to their differences in some way from those who agree to participate or to respond to all questions (Vogt, 2005: 210). In other words, those who do not agree to participate or do not respond to all questions in the questionnaire have certain characteristics that diminish the randomness of the sample (for example if all the non-respondents are female) (Deegan & Rankin, 1997: 571). If the sample is biased and no longer random, then it lacks the potential to be representative of the larger population from which the sample was drawn, thereby limiting the study's external validity (Vogt, 2005: 210).

To minimise the effect of a non-response bias, different respondents that ranged from owners, managers and accountants, male and female, from different industries were approached and encouraged to participate in the survey. In addition, the profile of the respondents as well as that of their businesses was analysed and found to indicate that respondents of different persuasions had answered the questionnaire (De Villiers & Van Staden, 2010: 13). Furthermore, respondents were persuaded to participate in the survey even if they had little interest in the working-capital management practices (De Villiers & Van Staden, 2010: 13).

As already alluded to, the accidental-sampling technique was employed in this study to select the sample. This approach meant that the sample may not be representative of the population being studied (Welman & Wollack, 2005: 68). This limitation was mitigated by sampling 200 SMMEs of different sizes and from varied industries, as discussed in Section 3.4. Another well-documented limitation of a questionnaire survey is a low response rate which can lead to biased results that do not represent the population (Saunders & Lewis, 2000: 98). The risk of a low response rate was mitigated by setting a target of 200 SMMEs for inclusion in the sample. In addition, a face-to-face, researcher-administered questionnaire survey approach was deployed to provide the researcher with an opportunity to persuade potential respondents that would otherwise not have participated had a self-administered questionnaire survey approach been employed. The face-to-face approach further increased the willingness of potential respondents to participate in the survey. Furthermore, the questionnaire was made deliberately short and consisted of only closed-ended questions to encourage respondents' participation.

Yet another limitation of a questionnaire survey, particularly when administered to decision-makers of SMMEs, is their reluctance to participate given their busy work schedules and unwillingness to divulge information perceived to be of a confidential nature. To avoid this pitfall, the researcher and the seven other trained researchers used a face-to-face approach to persuade potential respondents to participate. In addition, the researcher re-assured respondents of the confidentiality with which of the information divulged would be kept.

Finally, only the owners, managers and accountants of SMMEs in the FMCG sector operating in the Cape Metropole were invited to participate in the survey. Although these may not be the only decision-makers of SMMEs, they are generally expected to be familiar with the working-capital management practices of their businesses. The study's focus on SMMEs from the FMCG sector operating in the Cape Metropole only is also a limitation as it means that the findings of this study may not be generalisable to all SMMEs operating in South Africa, particularly those from other sectors. Nonetheless, the focus on SMMEs from the FMCG sector of the Cape Metropole is justified because only a few studies have been conducted on SMMEs in the FMCG sector of the Cape Metropole (Bruwer, 2010; Flowers, Parker, Arenz, Gaffley, Greighton, Fredricks, Rasdien, Matthews, Pietersen & Smit, 2013; Mabesele, 2009). Besides, the FMCG sector makes up the majority of SMMES in South Africa (Bruwer, 2010).

3.11 ETHICAL CONSIDERATIONS

Before the commencement of the actual questionnaire survey, an application for approval of the research project by the Cape Peninsula University of Technology Faculty of Business and Management Sciences Research Ethics Committee was made. Once the approval of the research project was granted, respondents were invited to participate in the questionnaire survey via a personal visit made by the researcher. The purpose of the study and the participation required from the respondents were explained in a cover letter of the questionnaire survey that doubled as a consent form. The respondents were also informed in the letter that they had the right to decide voluntarily whether to participate in the study, the right to ask questions, the right to refuse to divulge information or to withdraw from the study at any time they so wished.

In the same letter, anonymity and confidentiality were assured to the respondents by stating that their identity would not be linked to their individual responses, and therefore the information divulged would not be traceable to them. The respondents were further assured that the information provided would be used for the purpose of the research only, and that the findings of the research would be made available to them if they so requested. In addition, the respondents were informed that they would not receive any remuneration for participation in the study. However, the findings of the study would assist in improving the working-capital management practices of South African SMMEs.

3.12 CHAPTER SUMMARY

The aim of this chapter was to describe the research methodology used to collect data required to meet the objectives of this study. The chapter commenced with a discussion of the research paradigm adopted, and a justification of the questionnaire-survey method used. The chapter then discussed the research population and sampling technique adopted in the study, followed by the questionnaire design used. The pilot testing conducted on the questionnaires to ensure their clarity, conciseness and understandability was then discussed, as well as the data-collection process in the form of a researcher-administered questionnaire. The descriptive and inferential statistics used to analyse the data were then discussed, followed by the measures undertaken to ensure reliability and validity of the research instrument. The limitations of the questionnaire-survey methodology adopted were then discussed alongside the ethical considerations of this research.

From the foregoing, it can be concluded that the methodology outlined in this chapter is deemed to be appropriate to address the research objectives of this study. The next chapter (Chapter 4) provides the data analysis, results and discussion relating to the research objectives stated in the introduction of this chapter.

CHAPTER 4

ANALYSIS AND DISCUSSION OF RESULTS

4.1 INTRODUCTION

The main purpose of this chapter is to analyse and discuss the results of the questionnaire survey conducted to investigate the working-capital management practices of SMMEs in the Cape Metropole. The chapter proceeds with a restatement of research questions in Section 4.2. This is followed by a discussion of the response rate and non-response bias in Section 4.3. The respondents' personal profile as well as their business' profile is provided in Section 4.4. Section 4.5 analyses and discusses the results on the cash-management practices employed by SMMEs, while Section 4.6 analyses and discusses the results on the accounts-receivable practices employed by SMMEs. This is followed by Section 4.7 which analyses and discusses the results on the accounts-payable practices employed by SMMEs. Section 4.8 analyses and discusses the results on the factors that inhibit SMMEs from using effective working-capital management practices. Lastly, Section 4.9 provides the summary and conclusion of the chapter.

4.2 RESTATEMENT OF RESEARCH QUESTIONS

The main research question that this study attempts to answer is: "what are the current working-capital management practices of SMMEs in the Cape Metropole?"

To answer this question requires that the following research sub-questions, as outlined in Chapter 1, be addressed:

1. Which practices are employed by SMMEs to manage their cash and bank balances?
2. Which practices are employed by SMMEs to manage their accounts receivable?
3. Which practices are employed by SMMEs to manage their accounts payable?
4. What factors inhibit SMMEs from using effective working-capital management practices?

4.3 SURVEY RESPONSE RATE

As mentioned in Chapter 3, the targeted population of the current study comprised SMMEs from the FMCG operating in the Cape Metropole. Given that there is no comprehensive list of SMMEs in the Cape Metropole, a target sample of 200 FMCG SMMEs was set. To this end, 270 SMMEs were approached to participate in the survey, as a result of which 220 questionnaires were completed. After a thorough review of the completed questionnaires, 20 were found to be unusable due to their incompleteness and were thus withdrawn from the sample. Therefore, out of the 270 potential respondents that were initially approached, only 200 completed usable questionnaires, resulting in a response rate of 74.07% as summarised in Table 4.1.

Table 4.1: Response rate

	Number	Percentage
Businesses approached	270	100%
Declined to participate	50	18.52%
Participated	220	81.48%
Discarded	20	7.41%
Response rate	200	74.07%

4.4 RESPONDENTS' PERSONAL PROFILE AND SAMPLED SMMES PROFILE

4.4.1 Respondents' personal profile

The respondents were asked in Section A of the questionnaire to provide information on their personal profiles relating to their position in the business, gender and accounting-education background. The purpose of this information was to ensure that the appropriate respondents had been selected to participate in the survey and also to ensure that respondents of different characteristics and persuasions participate in the survey in order to minimise non-response bias.

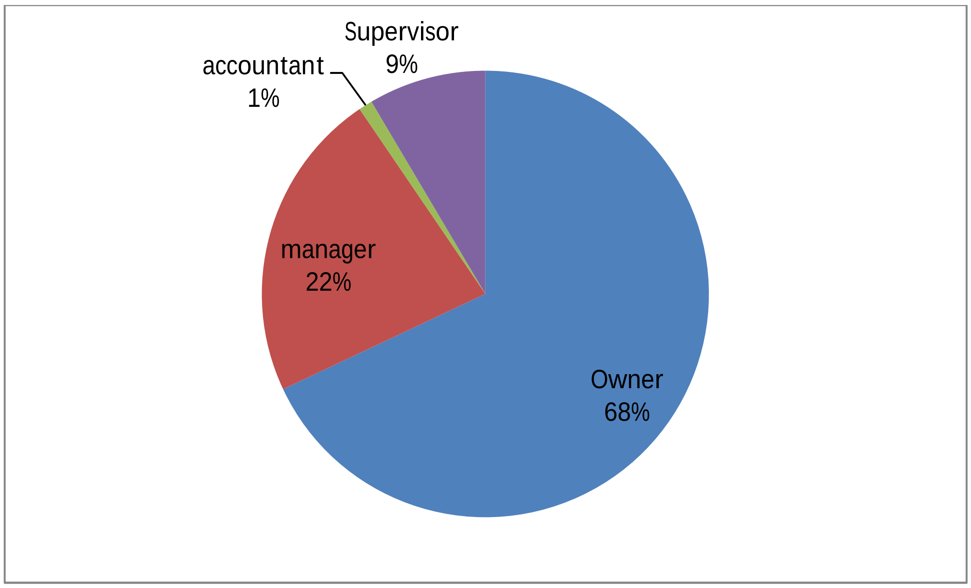
4.4.1.1 Position in the business

As far as the respondents' position in the business is concerned, 68% were owners, 22% were managers, 1% was accountants and 9% were supervisors, as summarised in Table 4.2 and Figure 4.1 below. Given that 90.5% of the respondents were either owners or managers, it can be concluded that the appropriate respondents were selected to participate in the survey.

Table 4.2: Position in the business

	Number of respondents	Percentage
Position in the business:		
o Owner	136	68%
o Manager	45	22%
o Accountant	2	1%
o Supervisor	17	9%
	Total 200	100%

Figure 4.1: Position in the business



4.4.1.2 Gender and accounting education background

Concerning the gender of the respondents, 68.5% were male while 31.5% where female, as indicated in Table 4.4 below. This finding suggests that the majority of SMMEs in the Cape Metropole are dominated by males.

Table 4.3: Gender

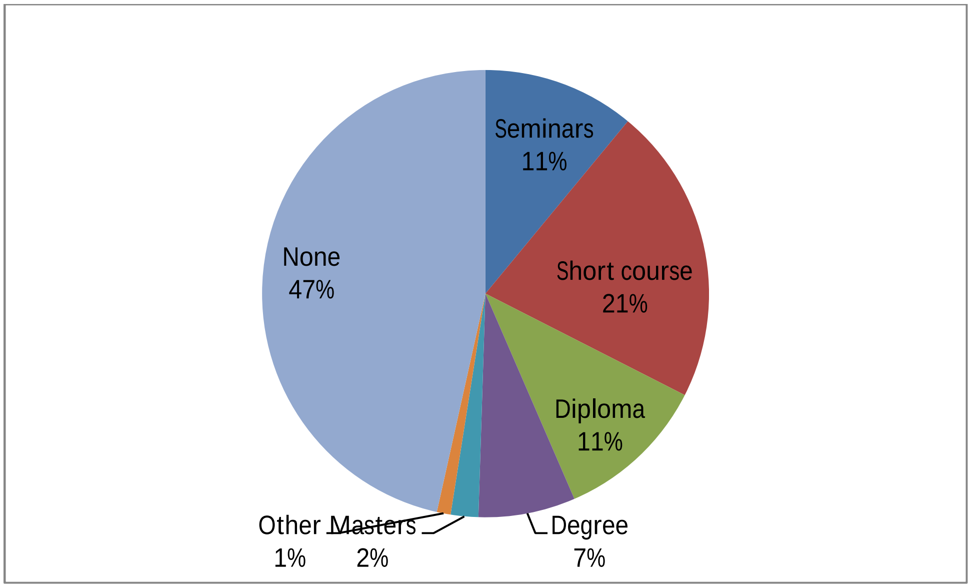
	Number of respondents	Percentage
Gender:		
o Male	137	68.5%
o Female	63	31.5%
	Total 200	100%

With regard to the accounting-education background of the respondents, 48% did not have any accounting-education background whatsoever (See Table 4.5 and Figure 4.2). Of the respondents, 21% had attended a short course in accounting, while 11% had attended accounting seminars. A similar percentage (11%) had a diploma in accounting, whereas 7% had a bachelor's degree. Only 2% had a master's degree in accounting. In short, the management of working capital was basically undertaken by decision-makers with limited-to-no formal accounting knowledge.

Table 4.4: Accounting education background

	No. of businesses	Percentage
Accounting background		
o Seminars	22	11%
o Short course	42	21%
o Diploma	22	11%
o Degree	14	7%
o Masters	4	2%
o None	95	48%
	Total 200	100%

Figure 4.2: Accounting education background



4.4.2 Sampled SMMEs' profiles

Section A of the questionnaire also required the respondents to provide the profile of their business pertaining to how long the business has been operating as well as its number of employees. The former was asked to determine whether respondents' businesses were mature enough to warrant sound working-capital management practices. The latter was asked to determine whether the sampled entities were small, medium or micro enterprises, as the size of a business may affect its working-capital management practices.

As far as how long the respondents' businesses have been operating is concerned, 52.5% of the sampled SMMEs were two to five years old, while 26% were six to 10 years old; 14.5% were more than 10 years old, while only 7% were less than two years old (See Table 4.5). Given that SMMEs that are two years old or more are expected to have developed sound working-capital management practices, one would expect that the sampled SMMEs should have developed these practices as 93% of them were at least two years' old.

Table 4.5: Sampled SMMEs' profiles

	Number of SMMEs	Percentage
Age of the business:		
o Less than 2 years	14	7%
o 2 – 5 years	105	52.5%
o 6 – 10 years	52	26%
o More than 10 years	29	14.5%
	Total 200	100%
Number of employees		
o 1 to 5 employees	153	76.5%
o 6 to 50 employees	47	23.5%
	Total 200	100%

Regarding the number of employees, the findings indicate that 76.5% of the businesses had one to five employees, while 23.5% had six to 50 employees. According to Table 2.3, the former can be classified as micro enterprises while the latter were classified as small enterprises.

Therefore this study focused only on the working-capital management practices of micro and small enterprises.

4.4.3 Non-response bias

Given that a heterogeneous group of respondents that comprised different decision-makers of SMMEs, holding different positions in their businesses, of different sexes and education background, and from entities that varied from small to micro enterprises, it is evident that respondents of different persuasions had answered the questionnaire. This, together with the high response rate of 74.07% achieved in this survey, minimised the possibility of non-response bias that is typically associated with questionnaire surveys.

4.5 CASH MANAGEMENT PRACTICES OF SMMES

Section B of the questionnaire aimed to unveil the cash-management practices of the sampled SMMEs using questions that required a “Yes” or “No” response. The responses to the questions asked in this section are summarised in Table 4.6 below.

Table 4.6: Cash management practices of SMMEs

	Yes	No	N	P-Value
1.Have a bank account	62%	38%	200	0.001*
2.Conduct bank reconciliation	53%	47%	124	0.00*
3.Prepare a cash budget	60.5%	39.5%	200	0.004*
4.Have a way to pre-determine cash shortage/surplus	68.5%	31.5%	200	0.00*
5.Invest cash surplus	40.5%	59.5%	200	0.009*
6.Hold cash to take advantage of investment opportunities	41%	59%	200	0.013*
7.Monitor cash outflow on regular basis	73.5%	26.5%	200	0.00*
8.Use computers to manage cash	35%	65%	200	0.00*
9.Spend cash as planned	62.5%	37.5%	200	0.00*

*statistically significant differences ($p<0.05$) at 95% confidence level

4.5.1 Whether businesses have a business bank account

In the first question of Section B, respondents were asked to indicate using a yes/no question whether their businesses had a bank account. This question was important as a business bank account enables SMMEs to keep track of business transactions, protect its cash and facilitate bank loans (Matadeen & Aukhorjee 2014: 228). As shown in Table 4.6, 62% of the respondents indicated that their businesses had a bank account, while 38% indicated that their businesses did not have the same. A Binomial Test (2-tailed) was conducted to determine whether there was a significant difference between the percentage of respondents who indicated that their business had a bank account and those that indicated that their businesses did not have the same. A significant difference was found between the proportion of the respondents whose businesses had a bank account (62%), and the proportion of those whose businesses did not have a bank account (38%) ($p<0.05$).

The above results are consistent with the findings of Sunday, Uwonda, Okello and Okello (2013), Burani and Eliabu (2013), and Yiadom and Agyei (2006) who also found that most of the small-scale enterprises in Uganda and Ghana had a business bank account, but in contrast to the findings of Nguyen (2001) which found that only 19% of SMEs in Vietnam had a cash surplus deposited in a bank account. A possible explanation for the difference is that Nguyen's (2001) study was conducted in 2001 when SMEs were still ignorant of the benefits of business bank accounts.

4.5.2 Whether businesses conducted bank reconciliation

In the second question of Section B, respondents who had indicated that their businesses had a business bank account were asked to indicate by way of a yes/no question whether their businesses conduct bank reconciliations. As shown in Table 4.6, 53% of the respondents whose business had a business bank account indicated that their businesses conduct bank reconciliations, while 47% indicated that their businesses did not do the same. Based on the Binomial Test (2-tailed) conducted, a significant difference was also found between the proportion of the respondents whose businesses conduct bank reconciliations (53%) and those whose businesses did not (47%) ($p<0.05$). It is rather disappointing that almost half of the respondents' businesses did not conduct bank reconciliations, which is critical for uncovering irregularities such as unauthorised withdrawals and ensuring that a business' transactions have been recorded correctly. The preceding results of this study are consistent with the findings of

Sunday et al. (2013) who found that most SMEs in western Uganda did not conduct bank reconciliations.

4.5.3 Whether businesses prepared cash budgets

In the third question of Section B, respondents were asked to indicate by way of a yes/no question whether their businesses prepared cash budgets. As summarised in Table 4.6, 60.5% of the respondents indicated that their businesses prepared cash budgets, while 39.5% indicated that their businesses did not do the same. Considering the importance of cash budgets in enabling business entities to determine their future cash needs and in decisions such as the credit terms to extend to debtors without facing liquidity problems, it is rather disappointing that quite a significant percentage (39.5%) of SMMEs did not prepare these budgets. The Binomial Test (2-tailed) conducted revealed a significant difference between the proportion of the respondents whose businesses prepared cash budgets (60.5%) and those whose businesses did not (39.5%) ($p<0.05$).

The preceding results of this study are consistent with the findings of Nguyen (2001) and Mensah (2012) who found that most SMEs prepared cash budgets on a monthly basis. However, the results of the current study contrast those of Yiadom and Agyei (2006); Pietersen (2012); and Masoud and Mbega (2012) who found that most SMEs did not prepare cash budgets. A possible explanation for the difference is that South African SMMEs may have had the financial knowledge required to prepare cash budgets, perhaps due to Government intervention, that may have been lacking in the other African countries.

4.5.4 Whether businesses have a way to pre-determine cash shortages/ surplus

In the fourth question of Section B, respondents were asked to indicate by way of a yes/no question whether their businesses had a way to pre-determine cash shortages/surpluses. As illustrated in Table 4.6, 68.5% of the respondents indicated that they had a way to pre-determine cash shortages/surpluses but

31.5% indicated that they did not. A Binomial Test (2-tailed) was conducted and a significant difference was also found between the proportion of the respondents' businesses that had a way to pre-determine cash shortages/surpluses (68.5%) and those whose businesses did not (31.5%) ($p<0.05$). By comparing the results of this question to those of the previous question, an interesting observation can be made that 8% of the businesses had an alternative way of pre-determining their cash shortage or surplus other than by using cash budgets. The preceding results of the current study contrast with those of Pietersen (2012) and Nyamao et al. (2012) who found that most small enterprises neither forecasted nor had a cash target for their business. A possible explanation for the difference between this study and those of Pietersen (2012) and Nyamao et al. (2012) is that most of the South African SMMEs in the current study had prepared cash budgets and used them to determine cash shortages/surpluses, unlike the SMEs in the two preceding studies.

4.5.5 Whether businesses invest their cash surplus

In the fifth question of Section B, respondents were asked to indicate by way of a yes/no question whether businesses invest cash surpluses. Investing a cash surplus ensures that a business optimises on the utilisation of its resources to maximise its returns. As disclosed in Table 4.6, 40.5% of the respondents indicated that their businesses invested their cash surpluses, while 59.5% did not. A Binomial Test was used to investigate if there is a significant difference between the proportion of the respondents who invest their cash surpluses and those who did not. The result shows a significant difference ($p<0.05$) between the proportion that invest its cash surpluses (40.5%) and the proportion that did not (59.5). The above results suggest that a majority of the sampled SMMEs did not optimise on the utilisation of their resources, and are consistent with the findings of Nguyen (2001); Pietersen (2012); Mensah (2012); and Nyamao et al. (2012) who found that most SMEs did not invest their cash surpluses.

4.5.6 Whether businesses hold cash to take advantage of investment opportunities

In the sixth question of Section B, respondents were asked to indicate by way of a yes/no question whether their businesses held cash to take advantage of investment opportunities. As shown in Table 4.6, only 41% of the respondents indicated that their businesses held cash to take advantage of investment opportunities, while 59% indicated that their businesses did not do the same. A Binomial Test was used to investigate if there is a significant difference between the proportion of the respondents who held cash to take advantage of investment opportunities and those who did not. The result shows a significant difference ($p<0.05$) between the proportion that held cash to take advantage of investment opportunities (41%) and the proportion that did not (59%). Considering the relative difficulty faced by SMMEs when raising cash, the preceding results suggest that SMMEs were foregoing business opportunities that they should have taken advantage of.

4.5.7 Whether businesses monitor their cash flow on regular basis

In the seventh question of Section B, respondents were asked to indicate by way of a yes/no question whether they monitor their cash on regular basis. As shown in Table 4.6, 73.5% of respondents indicated that they monitored their business cash flows on a regular basis, while 26.5% indicated that their businesses did not do the same. The Binomial Test (2-tailed) conducted revealed a significant difference was found ($p<0.05$) between the proportions of the respondents whose business monitor their cash flow on a regular basis (73.5%) and those whose businesses do not (26.5%). The preceding results are not surprising given the advancements in information technology that has enabled banks to provide businesses with an update of their bank account balances after each transaction.

The immediate above results of this study are consistent with the findings of Okello et al. (2013) who found that most SMEs ensure the safeguarding of cash and have efficient internal control systems in place to monitor their cash. However, the results of the current study contrast with those of Sunday et al. (2013) who found that most SMEs do not have internal control systems in place to monitor their cash. A possible explanation for the difference between the current study and that of Sunday et al. is that the latter study was conducted in a remote part of Uganda with limited access to advanced information technology.

4.5.8 Whether businesses use computers to manage their cash

In the eighth question of Section B, respondents were asked to indicate by way of a yes/no question whether their businesses used computers to manage cash. As shown in Table 4.6, only 35% of the respondents indicated that their businesses made use of computers to manage cash, while 65% of the respondents indicated that their businesses did not. The Binomial Test (2-tailed) conducted revealed a significant difference between the proportion of the respondents whose businesses used computers to manage cash (35%) and those whose businesses did not (65%) ($p<0.05$) as shown in Table 4.6

These results are disappointing considering the proliferation of computers at low cost that can enable businesses to manage their cash more effectively. The preceding results of this study are consistent with the findings of Pietersen (2012) and Sunday et al. (2013) who found that most SMEs do not use computers to manage cash.

4.5.9 Whether businesses spend cash as planned

The ninth question of Section B asked respondents, by way of a yes/no question, whether their businesses spent cash as planned. As summarised in Table 4.6, 62.5% of the respondents indicated that their businesses spent cash as planned whereas 37.5% of the respondents indicated that their businesses did not spend cash as planned. Given that only 60.5% had prepared cash budgets, the above results suggest that 2% of the sampled businesses may have used some type of cash budgets, though they did not refer to them (the budgets) as cash budgets.

The above results also suggest that most of the sampled businesses controlled their expenditure, an attribute vital for the survival of SMMEs given their limited access to cash. The Binomial Test (2-tailed) conducted revealed a significant difference was found ($p<0.05$) between the proportion of the respondents who indicated that their businesses spend cash as planned (62.5%) and those whose businesses did not (37.5%).

The above results of this study are consistent with the findings of Uwonda et al. (2013) who found that most SMEs adhere to budgets by ensuring that expenditure is explained and justified.

All in all, apart from investing cash surpluses, holding cash to take advantage of investment opportunities and usage of computers to manage cash, most businesses appear to have managed their cash in a sound manner by setting up a business bank account and conducting bank reconciliations. In addition, most businesses appear to have prepared cash budgets and pre-determined their cash shortage or surplus.

4.6 ACCOUNTS RECEIVABLE MANAGEMENT PRACTICES OF SMMEs

Section C of the questionnaire aimed to unveil the accounts-receivable management practices of the sampled SMMEs using questions that required a “Yes” or “No” response. The responses to the questions asked in this section are summarised in Table 4.7 and are elaborated on below.

Table 4.7: Accounts receivable management practices of SMMEs

	Yes	No	N	P-value
1.Sell on credit	27.5%	72.5%	200	0.00*
2.Know the percentage of monthly credit sales	69%	31%	55	0.00*
3.Screen customers before extending credit to them	67%	33%	55	0.00*
4.Review criteria for extending credit at least once annually	44%	56%	55	0.00*
5.Know the monthly percentage of debtors that default on payments	58%	42%	55	0.00*
6.Charge interest for late payment	36%	64%	55	0.00*
7.Send invoices to debtors immediately after the credit sale transaction is concluded	56%	44%	55	0.00*
8.Send reminders to debtors who delay to pay	41%	59%	55	0.00*
9.Send statements to debtors at least once a month	33%	67%	55	0.00*
10.Use computers for managing accounts receivable	44%	56%	55	0.00*

*statistically significant differences ($p<0.05$) at 95% confidence level

4.6.1 Whether businesses sell on credit

The first question in Section C required respondents to indicate by way of a yes/no question whether their businesses sell goods on credit. As shown in Table 4.7, only 27.5% of the respondents indicated that their businesses sell goods on credit, while the majority (72.5%) indicated that their businesses did not do the same. This result is not surprising as SMMEs typically have limited cash available to finance accounts receivable. A Binomial Test was conducted to investigate if there is a significant difference between the proportion of the respondents who sold on credit and those who did not. The results shows a significant difference ($p<0.05$) between the two proportions.

The preceding results of the current study are consistent with the findings of Sunday et al. (2013); Nguyen (2001); Yiadom and Agyei (2006); and Nyamao et al. (2012) who found that most SMEs do not sell their products on credit. However, the results of the current study contrast with those of Pietersen (2012); Mensah (2012); and Masoud and Mbega (2012) who found that most SMMEs sold their goods on credit. A possible explanation for the difference between the current study and the two prior studies could be due to the difference in the regions in which the studies were conducted. It is plausible that the regions in which the immediately preceding studies were conducted have a well-established credit culture and hence SMEs have to adhere to this culture.

4.6.2 Whether respondents know the percentage of their business' monthly credit sales

The second question of Section C of the questionnaire asked respondents whose businesses sell on credit to indicate by way of a yes/no question whether they knew the percentage of their business' monthly credit sales. As illustrated in Table 4.7, 69% of the respondents said they knew the percentage of their business' monthly credit sales, while 31% indicated that they did not. A Binomial Test was conducted to investigate if there is a significant difference between the proportion of the respondents who knew the percentage of their business' monthly credit sales and those who did not. The results shows a significant difference ($p<0.05$) between the two proportions. The results of the current study contrast with those of Yiadom and Agyei (2006) who found that most SMMEs in Ghana are unable to determine the exact percentage of credit sales due to inadequate record keeping, which perhaps suggests that South African SMMEs maintained adequate records on credit sales, hence the difference.

4.6.3 Whether businesses screen their customers before extending credit to them

The third question of Section C of the questionnaire asked respondents whose businesses sell on credit, to indicate by way of a yes/no question whether their business screened customers before extending credit to them. As summarised in Table 4.7, 67% of the respondents said that their businesses screened customers before extending credit to them, whereas 33% indicated that their businesses did not do the same. The latter businesses risked a problem of bad debts that adversely impacts on cash flows. A Binomial Test was conducted to investigate if there is a significant difference between the proportion of the respondents who screened customers before extending credit to them and those who did not. The results shows a significant difference ($p<0.05$) between the two proportions. The preceding results of this study are consistent with the findings of Nguyen (2001); Pietersen (2012); Asiamahyeboah (2012); and Mensah (2012) who found that most SMMEs conducted a formal credit check which entailed a thorough examination of their customers' past credit record before granting credit. However, the results of the current study contrast with those of Grablowsky and Rowell's (1980) study which found that the majority of SMMEs sell on credit to all buyers without investigating their credit backgrounds. A possible explanation for the difference is that Grablowsky and Rowell's (1980) study was conducted in 1980 and may thus be outdated.

4.6.4 Whether businesses review their criteria for extending credit at least once annually

The fourth question of Section C of the questionnaire asked respondents whose businesses sell on credit, to indicate using a yes/no question whether their businesses reviewed their criteria for extending credit at least once annually. As shown in Table 4.7, only 44% of the respondents indicated that their businesses reviewed their criteria for extending credit at least once annually, whereas 56% did not do the same or did so less frequently. A Binomial Test was conducted to investigate if there is significant difference between the proportion of the respondents whose businesses reviewed their criteria for extending credit at least once annually and those who did not. The results shows a significant difference ($p<0.05$) between the two proportions as shown in table 4.7. The results of the current study contrast those of Mensah (2012) who found that most SMEs in

Ghana reviewed their receivables policies and bad debt level on a quarterly basis. A possible explanation for the difference is that 80% of SMEs in Mensah's (2012) study sold on credit thus required a review their credit criteria regularly, as opposed to the SMMEs in the current study, a majority of which sell on cash (72.5%) thus may not see the need to regularly review their credit criteria.

4.6.5 Whether respondents' know the monthly percentage of their business' debtors that default on payments

The fifth question of Section C of the questionnaire asked respondents, whose businesses sell on credit, to indicate by way of a yes/no question whether they knew the monthly percentage of debtors that defaulted on payments. As can be seen from Table 4.7, 58% of the respondents said that they know the monthly percentage of debtors that defaulted on payment, while 42% indicated that they did not know. A Binomial Test was conducted and a significant difference was found ($p<0.05$) between the proportion of the respondents who know the percentage of monthly sales that are on credit and those who did not. The results of the current study concur with those of Nyamao et al. (2012) who found that most SMMEs reviewed their level of receivables and bad debts on a monthly basis.

4.6.6 Whether businesses charged interest for late payment

The sixth question of Section C of the questionnaire asked respondents whose businesses sell on credit, by way of a yes/no question, whether their businesses charged interest for late payment. As summarised in Table 4.7, 36% of the respondents indicated that their businesses charged interest for late payment, whereas 64% indicated that their businesses did not do the same. A Binomial Test was conducted and a significant difference was found ($p<0.05$) between the proportion of the respondents who charged interest for late payment and those who did not, as shown in Table 4.7. The results of the current study contrast with that of Grablowsky and Rowell (1980) who found that most SMMEs enforced late-payment charges. A possible explanation for the difference between this study and that of Grablowsky and Rowell (1980) is that their study was conducted in the 1980s thus may not reflect the present practice.

4.6.7 Whether businesses send invoices to debtors immediately after a credit transaction

The seventh question of Section C of the questionnaire asked respondents whose businesses sell on credit, by way of a yes/no question, whether their businesses sent invoices to debtors immediately after the credit sale transaction was concluded. As summarised in Table 4.7, 56% of the respondents indicated that their businesses sent invoices to debtors immediately after the credit sale transaction was concluded, while 44% indicated that they did not do the same. A Binomial Test was conducted to investigate if there is significant difference between the proportion of the respondents who sent invoices to debtors immediately after the credit sale transaction and those who did not. The results shows a significant difference ($p<0.05$) between the two proportions.

4.6.8 Whether businesses send reminders to debtors who delay to pay

The eighth question of Section C of the questionnaire asked respondents, whose businesses sell on credit, to indicate by way of a yes/no question whether their businesses send reminders to debtors who delay to pay. As summarised in Table 4.7, 41% of the respondents said that their businesses send reminders to debtors who delay to pay, whereas 59% indicated that their businesses did not do the same. A Binomial Test was conducted to investigate if there is significant difference between the proportion of the respondents who send reminders to debtors who delay to pay and those who did not. The results shows a significant difference ($p<0.05$) between the two proportions. The immediately-above results of the current study are in concurrence with the findings of Yiadom and Agyei (2006) and Pietersen (2012) who found that most SMMEs did not send reminders and if they do, it was in the form of threats.

4.6.9 Whether businesses send statements to debtors at least once a month

The ninth question of Section C of the questionnaire asked respondents, whose businesses sell on credit, whether or not their businesses send statements to debtors on a monthly basis. As can be seen in Table 4.7, only 33% of the respondents indicated that their businesses send invoices to debtors at least once a month, while 67% indicated that their businesses did not do the same. A Binomial Test was conducted to investigate if there is a significant difference between the proportion of the respondents who send statements to debtors on a monthly basis and those who did not. The results shows a significant difference ($p<0.05$) between the two proportions.

The preceding results of the current study are in tandem with the findings of Yiadom and Agyei (2006); Pietersen (2012); and Mensah (2012), who found that most SMMEs did not always send timely reminders to their debtors or take legal action against those who defaulted on payment.

4.6.10 Whether businesses use computers to manage their accounts receivable

The last question of Section C enquired whether or not respondents' businesses that sell goods on credit used computers to manage their accounts receivable. As presented in Table 4.7, 44% of the respondents indicated that their businesses used computers to manage their accounts receivable, while 56% indicated that their businesses did not do the same. A Binomial Test was also conducted to investigate if there is a significant difference between the proportion of the respondents who used computers to manage their accounts receivables and those who did not. The results shows a significant difference ($p<0.05$) between the two proportions.

The immediately-above results of the current study mirror those of Yiadom and Agyei (2006) and Sunday et al. (2013) who found that most SMMEs do not use computers to manage their receivables.

From the above findings it is evident that SMMEs do not appear to be managing their receivables effectively as most of these entities do not sell on credit, review their criteria for extending credit at least once annually, charge interest for late payment, send reminders to debtors who delay to pay and use computers to manage their accounts receivable. In addition, less than 60% of those selling on credit know the monthly percentage of their debtors that default on payments and send invoices to debtors immediately after a credit transaction.

4.7 ACCOUNTS PAYABLE MANAGEMENT PRACTICES OF SMMEs

Section D of the questionnaire aimed to reveal the accounts-payable management practices of the sampled SMMEs using questions that required a “Yes” or “No” response. The responses to the questions asked in this section are summarised in Table 4.8 and are elaborated on below.

Table 4.8: Accounts payable management practices of SMMEs

	Yes	NO	N	p-value
1.Purchase only on cash	70%	30%	200	0.00*
2.Purchase only on credit	8%	92%	200	0.00*
3.Take advantage of discount facilities by paying creditors promptly	72%	28%	60	0.00*
4.Settle accounts payable on the last day that the payment is due	43%	57%	60	0.00*
5.Use computers to manage accounts payable	52%	48%	60	0.00*

*statistically significant differences ($p<0.05$) at 95% confidence level

4.7.1 Whether businesses purchase only on cash

The first question of Section D required respondents to indicate whether or not their businesses only purchase on cash. As indicated in Table 4.8, 70% of the respondents said that their businesses only purchased on cash while 30% said that their businesses did not do the same. A Binomial Test was also conducted to investigate if there is significant difference between the proportion of the respondents who only purchase on cash and those who did not. The results show a significant difference ($p<0.05$) between the two proportions. Most of the sampled SMMEs therefore failed to take advantage of the low-cost source of finance in the form of accounts payable. However, the results of the current study contrasts with those of Tuffour, Appiagyei, Gyasi, Anakye and Asante (2012) who found that 48% of the enterprises in Ghana bought their raw materials for cash. A possible reason for this difference may be based on the difference in credit culture.

4.7.2 Whether businesses purchase on credit

The second question of Section D required respondents to indicate whether or not their businesses only purchased on credit. As presented on Table 4.8, only 8% of the respondents indicated that their businesses only purchased on credit, while 92% indicated that they did not do so. A Binomial Test was also conducted to investigate if there is a significant difference between the proportion of the respondents who only purchase on credit and those who did not. The results show a significant difference ($p<0.05$) between the two proportions. Combining these responses to those of the preceding question one can infer that about 22% of the respondents' businesses purchased both for cash and on credit. The low percentage of SMMEs that purchased on credit could be attributed to a lack of track records that make suppliers reluctant to offer credit terms to these entities. The immediately-above results of the current study contrast with those of Tuffour et al. (2012) who found that only 16% of small enterprises in Ghana bought on credit. As already mentioned, these differences may be due to the credit cultures in Ghana and South Africa.

4.7.3 Whether businesses take advantage of discount facilities by paying creditors promptly

Those respondents who indicated that their businesses only purchase on credit were required to indicate whether or not their businesses took advantage of discount facilities by paying their creditors promptly. As reported in Table 4.8, 72% of the respondents indicated that their businesses paid their creditors promptly to take advantage of discount facilities, but 28% of the respondents indicated that their businesses did not do so. A Binomial Test was also conducted to investigate if there is significant difference between the proportion of the respondents who took advantage of discount facilities by paying their creditors promptly and those who did not. The results shows a significant difference ($p<0.05$) between the two proportions

4.7.4 Whether businesses settle accounts payable on the last day that the payment is due

The respondents who indicated that their businesses only purchase on credit were required to indicate whether or not their businesses settled accounts payable on the last day that the payment is due. As summarised in Table 4.8, 43% of the respondents indicated that their businesses settled accounts payable on the last day that the payment is due, but 57% indicated that their businesses did not do the same. A probable reason as to why most businesses did not pay on the last day that the payment is due is because they sought to take advantage of cash discounts availed for prompt payment. This finding shows a significant difference ($p<0.05$) between the proportion that settle accounts payable on the last day that the payment and those that did not.

4.7.5 Whether businesses use computers to manage their payables

The fifth question of Section D required respondents to indicate whether or not their businesses used computers to manage payables. As shown in table 4.7, 52% of the respondents indicated that their businesses used computers to manage their payables, while 48% of the respondents indicated that their businesses did not do so. Considering the proliferation of computers at a low cost, and given the advantages that they avail to a modern business when managing creditors, the above results are both surprising and disappointing. As reported in Table 4.8, the Binomial Test (2-tailed) revealed a significant difference ($p<0.05$) between the proportion that indicated that their businesses used computers to manage their payables (52%) and those that did not (48%).

4.8 FACTORS THAT INHIBIT SMMES FROM MANAGING THEIR WORKING-CAPITAL EFFECTIVELY

Section E of the questionnaire aimed to investigate the factors that inhibit SMMEs from managing their working capital effectively. To this end respondents were required to indicate their degree of agreement or disagreement with twelve statements on four factors that could hinder an SMME from managing its working capital effectively. To gauge respondents' perceptions of the factors that inhibit SMMEs from managing their working capital effectively, they were asked to indicate the extent to which they agreed with twelve statements on skills, time, personnel and resources. A five-point Likert scale was used with weightings of one for strongly disagree, two for disagree, three for neutral, four for agree and five for strongly agree. As a result, the closer the mean was to 5, the more respondents agreed with the statement. For the sake of clarity, those who indicated that they either strongly agreed or agreed with the statements were grouped together and reported as “percentage that agree with the statement” as shown in Table 4.9. In addition, those who indicated neutral (neither agree nor disagree) are reported as disagreeing with the statement because the word “neutral” suggests a lack of a clear stand. This approach is justified because it ensures that only those who indicated “strongly agree” or “agree” with the statements are reported as such. This method was also used in prior studies by De Villiers and Van Staden (2010: 15).

Table 4.9. Factors that inhibit SMMEs from managing their working capital.

No	Statement	Percentage that agree with the statement	Users n=200	Standard Deviation
			Mean	
1	My business lacks skills to manage a. Cash	25%	2.48	1.165
	b. Accounts receivables	34%	2.92	1.118
	c. Accounts payables	34%	2.84	1.164
2	My business lacks resources to manage a. Cash	28%	2.5	1.25
	b. Accounts receivable	32%	2.89	1.178
	c. Accounts payables	30.5%	2.81	1.184
3.	My business lacks personnel to manage a. Cash	30.5%	2.66	1.188
	b. Account receivables	40%	2.94	1.172
	c. Accounts payables	36%	2.92	1.185
4.	My business lacks time to manage a. Cash	28.5%	2.64	1.224
	b. Account receivables	37.5%	2.95	1.153
	c. Accounts payables	36%	2.92	1.172

As summarised in Table 4.9, only 25% indicated that they lack skills to manage cash while 34% indicated that they lack skills to manage accounts receivables and payables respectively. Likewise, 28% of the respondents indicated that they lack resources to manage their cash while 32% indicated that they lack the resources to manage their accounts receivables. In addition, 30.5% indicated that they lack resources to manage their payables. Equally, only 30.5% of the respondents indicated that they lack the personnel to manage their cash while a slightly higher proportion (40%) indicated that they lack the personnel to manage their receivables. Of the respondents, 36% felt that they lack the personnel to manage their payables. As far as having time to manage their working capital is concerned, 28.5% of the respondents indicated that they lack the time to manage their cash while 37.5% indicated that they lack the same to manage their receivables. Consistently, only 36% indicated that they lack the time to manage their payables.

The standard deviations of more than one for all the twelve statements indicate disagreement among the respondents on the abovementioned factors that inhibit them from managing their working capital effectively. The results in the previous paragraph are in contrast to the earlier results of Yiadom and Agyei (2006) and Pietersen (2012) which revealed that SMMEs indicated that they needed training in all areas of working-capital management (cash, accounts receivable and accounts payable).

Although most SMMEs do not appear to manage their receivables and payables effectively, they indicate that the reason for not doing so is not the lack of skills, resources, time and personnel for managing their working capital. A possible explanation may be that there are other factors apart from the four included in this study that inhibit SMMEs from managing their working capital effectively.

4.9 SUMMARY AND CONCLUSION

The objective of this chapter was to analyse and discuss the results of the questionnaire survey conducted to investigate the working-capital management practices of SMMEs in the Cape Metropole. The chapter presented the cash-management practices, receivables-management practices, and the payables-management practices of the SMMEs as well as factors that inhibit them from managing their working capital effectively.

With regard to cash management, most of the sampled SMMEs have a business bank account (62%); 60.5% of these entities prepare cash budgets, while 68.5% have a way to determine cash shortages/surpluses. In addition, 73.5% of the SMMEs monitor cash flows regularly while 62.5% of SMMEs spend cash as planned. By contrast, only 53% of the SMMEs with business bank accounts conduct bank reconciliations while 40.5% invest cash surpluses. Only 41% hold cash to take advantage of investment opportunities, but worst of all only 35% use computers to manage cash.

With regard to accounts receivable, results show that only 27.5% of the SMMEs sell on credit. Although 69% and 67% know the percentage of monthly sales that are on credit and screen their customers before advancing credit to them respectively, only 44% review their credit policies annually. Furthermore, 58% of SMMEs know the percentage of their debtors that default on monthly payments but only 36% charge interest on late payment. In addition, 56% of SMMEs send invoices promptly to debtors while only 33% of SMMEs send statements on a monthly basis. From Table 4.7, only 41% send reminders to debtors who delay to pay and 44% use computers to manage their receivables.

Despite the benefits of purchasing on credit, only 8% of the sampled SMMEs purchase on credit while 22% purchase both for cash and on credit. In addition, 43% of those that purchase on credit settle their payables on the last day due. Although 72% of respondents indicated that their SMMEs take advantage of discount facilities by paying their creditors promptly, only 52% use computers to manage their payables.

Regarding the factors that inhibit SMMEs from managing their working capital effectively 25% of SMMEs agree that they lack the skills to manage cash while 34% agree that they lack the skills to manage accounts receivable and accounts payable respectively. In addition 28% of the SMMEs agree that they lack the resources to manage cash while 32% and 30.5% agree that they lack the resources to manage receivables and payables respectively. Of the respondents, 30.5% agree that their businesses lack the personnel to manage cash while 40% agree that they lack the personnel to manage accounts receivable. Furthermore 36% agreed that their businesses lack the personnel to manage their payables. Lastly, 28.5% of SMMEs agreed that they lack the time to manage their cash while 37.5% of agree that they lack the time to manage their payables. Consistently, 36% agreed that they lack the time to manage their payables.

From the results presented above, it can be concluded that the sampled SMMEs in the FMCG sector in the Cape Metropole appear to be managing their cash relatively better than their payables and receivables. In addition, there seem to be other factors that inhibit SMMEs from managing their working capital other than a lack of skills, resources, personnel and time.

CHAPTER 5

SUMMARY AND CONCLUSIONS

5.1 INTRODUCTION

The main aim of this study was to assess working-capital management practices of SMMEs in the Cape Metropole. The study was motivated by a lack of research on the financial management practices of South Africa SMMEs in general, and the working-capital management practices in particular. To achieve the above aim a questionnaire survey was conducted.

The purpose of this chapter is to summarise the key findings and draw conclusions on the cash-management practices, accounts-receivable practices, accounts-payable practices and factors that inhibit SMMEs from using effective working-capital management practices. In addition, this chapter provides the contributions of this study, discusses its limitations and provides suggestions for further research.

The chapter proceeds with a re-statement of the research problem, the main research question and sub-questions as outlined in Chapter 1, in Section 5.2. This is followed by a summary and conclusion of the literature review on working-capital management practices presented in Chapter 2, in Section 5.3. Section 5.4 presents a summary and conclusion of the research design and methodology used in this study, presented in Chapter 3. This is followed by a summary and conclusion of the analysis and discussion of results of the study, presented in Chapter 4, in Section 5.5. Section 5.6 provides contribution, significance and recommendation of this study, followed by the limitations of the study and suggestions for further research in Section 5.7.

5.2 CHAPTER 1 - RESEARCH PROBLEM, QUESTION AND SUB-QUESTIONS

5.2.1 Problem statement

The research problem addressed by this thesis is that SMMEs in South Africa are perceived to be failing partly due to their ineffective working-capital management practices.

5.2.2. Purpose statement

The main purpose of this study was to unveil the working-capital management practices of SMMEs in the Cape Metropole. For the purpose of proposed research, working-capital management refers to the management of cash and accounts receivables as well as accounts payable.

5.2.3 Main research question

The main research question addressed in this study is: "what are the current working-capital management practices of SMMEs in the Cape Metropole?"

5.2.3 Research sub-questions

- Which practices are employed by SMMEs to manage their cash and bank balances?
- Which practices are employed by SMMEs to manage their accounts receivable?
- Which practices are employed by SMMEs to manage their accounts payable?
- What factors inhibit SMMEs from using effective working-capital management practices?

5.3 CHAPTER2 – SUMMARY AND CONCLUSION OF PRIOR LITERATURE ON WORKING CAPITAL

Chapter 2 began with a definition and classification of SMEs in the international context and SMMEs in South Africa. The chapter then proceeded by highlighting the importance of sound working-capital management practices in businesses. It then reviewed prior studies on cash-management practices, accounts-receivables practices, accounts-payable practices and factors that inhibit SMMEs from using effective working-capital management practices. With regard to cash management, prior studies suggest that SMMEs do not manage their cash properly. Likewise, prior studies suggest that most SMMEs do not manage their receivables and payables effectively. The review of the prior studies also indicated that SMMEs' decision-makers lack the required skills, training and resources to effectively manage their cash, accounts receivable and accounts payable. By reviewing the prior literature, Chapter 2 highlighted gaps in the prior literature and the questions that had remained unanswered, which were then investigated in this study.

5.4 CHAPTER 3 – SUMMARY AND CONCLUSION OF RESEARCH DESIGN AND METHODOLOGY

Chapter 3 described the research methodology used to collect data required to answer the abovementioned research questions of this study. The chapter commenced with a discussion of the research paradigm adopted in the study and a justification of the questionnaire survey method used to collect data. The chapter then described the research population which comprised FMCG SMMEs operating in the Cape Metropole. The chapter then highlighted the sampling technique adopted in this study to select respondents, followed by a discussion of the questionnaire design as well as the pilot test of the questionnaire. The descriptive and inferential statistics employed to analyse and interpret the data collected were then discussed as well as the measures undertaken to ensure the reliability and validity of the questionnaire. The limitations of the questionnaire survey methodology adopted were then discussed alongside the ethical considerations of this research. Chapter 3 then concluded by affirming that the research methodology adopted in the current study was appropriate in addressing the research questions of the study.

5.5 CHAPTER 4–SUMMARY OF ANALYSIS AND DISCUSSION OF RESULTS

Chapter 4 presented and discussed the results of the questionnaire survey which addressed the research question and sub-questions of this study. The chapter began with a restatement of the research question and sub-questions, followed by a discussion of the response rate, the respondents' background information and non-response bias.

The chapter then proceeded with the results and analysis on cash-management practices employed by SMMEs, particularly on whether these businesses have a business bank account, conduct bank reconciliation, prepare cash budgets, and have a way to pre-determine cash shortages/surpluses. In addition, the chapter presented results on whether the sampled SMMEs invest their cash surplus, hold cash to take advantage of investment opportunities, monitor their cash flow on a regular basis, use computers to manage their cash and spend cash as planned.

Chapter 4 then presented the results and analysis on accounts-receivable management practices employed by the sampled SMMEs. These focused on whether these businesses sell on credit, know the percentage of their business' monthly sales that is on credit, screen their customers before extending credit to them and whether these businesses review their criteria for extending credit at least once annually. In addition, the chapter presented the results and analysis on whether the SMMEs know the monthly percentage of their debtors that default on payments, charge interest for late payment, send invoices to debtors immediately after a credit transaction and send reminders to debtors who delay to pay. Furthermore, the analysis and results on whether businesses send statements to debtors at least once a month and use computers to manage their accounts receivable were also provided in the chapter.

Chapter 4 further analysed and discussed the results on accounts payable practices of the sampled SMMEs that focused on whether these businesses purchase only on a cash basis, purchase on credit and take advantage of discount facilities by paying creditors promptly. In addition, the chapter analysed and discussed the results on whether the businesses settle accounts payable on the last day that the payment is due and use computers to manage payables.

Chapter 4 also analysed and discussed the factors that inhibit the sampled SMMEs from using effective working-capital management practices that focused on the availability of skills, resources, personnel and time.

5.5.1 Which practices are employed by SMMEs to manage their cash?

The results of the practices employed by SMMEs to manage their cash and bank balances show that, 62% of the sampled SMMEs have a bank account. Of these, only 53% conduct bank reconciliation. The results also show that 60.5% of the sampled SMMEs prepare cash budgets but 68.5% have a way to pre-determine a cash shortage or surplus. This together with the fact that 62.5% spend cash as planned suggests that some SMMEs are able to pre-determine their cash shortages or surpluses, and even spend money as planned without having to prepare a cash budget. The results further indicate that 73.5% of the sampled SMMEs monitor cash outflows on a regular basis. By contrast, only 41% of the SMMEs hold cash to take advantage of investment opportunities. Indeed only 40.5% of the entities invest their cash surplus. Worse still, only 35% of the sampled SMMEs use computers to manage cash.

Although the above results suggest that most SMMEs manage their cash effectively, the fact that only a minority of SMMEs hold cash for speculative purposes or even invests surplus cash suggests that they are not optimising their utilisation of this scarce resource. This could imply that either the decision-makers of SMMEs are ignorant of the available short-term investment opportunities or they simply are not generating a cash surplus that can be invested. Given the proliferation of computers at a low cost, it is rather surprising that only a minority use them for managing their cash. This could be attributed to the prevalence of computer illiteracy among most decision-makers of SMMEs particularly the micro enterprises.

5.5.2. Which practices are employed by SMMEs to manage their accounts receivables?

With regard to which practices are employed by SMMEs to manage their accounts receivable, the results of this study indicate that only 27.5% of these entities sell on credit. Majority of those that sell on credit (69%) know the percentage of their monthly sales that are on credit while 67% screen their customers before advancing credit to them. The results of the current study also show that 58% of the SMMEs know the percentage of the debtors that default on their monthly payments, and that 56% of these entities send invoices to debtors immediately after the credit sale transaction is concluded. However, only a minority of the SMMEs review their criteria for extending credit at least once annually (44%), send reminders to debtors who delay to pay (41%), charge interest for late payment (36%), send statements to debtors at least once a month (33%) and 44% use computers to manage accounts receivable.

The above results suggest reluctance by SMMEs to sell on credit which could be attributed to either a lack of resources to fund the accounts receivable, or simply to the low usage of computers for managing accounts receivables perhaps due to computer illiteracy. Without computerising their accounts receivable, managing of receivables becomes an insurmountable task that these entities would rather avoid. Indeed this could be the reason why only a minority of the sampled SMMEs send reminders to debtors who delay to pay (41%), charge interest for late payment (36%), send statements to debtors at least once a month (33%). By refraining from credit sales, the sampled SMMEs could be losing a competitive edge to their larger competitors.

5.5.3. Which practices are employed by SMMEs to manage their accounts payable?

As far as the practices employed by the sampled SMMEs to manage their accounts payable are concerned, the results of the current study show that 70% of these entities purchase only on a cash basis, while only 8% purchase only on a credit basis. The foregoing implies that 22% of the SMMEs purchased both for cash and on a credit basis. The results of the current study also show that 72% of the sampled SMMEs take advantage of discount facilities by paying creditors promptly. In contrast to the cash management and receivables-management practices of these entities, a majority (52%) of the SMMEs use computers to manage accounts payable, an aspect that could be attributed to the fact that these entities buy from larger and more formal suppliers who expect their clients to have modern information systems to facilitate transactions. Only 43% of these entities settle accounts payable on the last day that the payment is due.

The low percentage of SMMEs making credit purchases (8%), and those delaying the payment due to the last date (43%), can be explained by their apparent pursuit of cash discounts (72%) which made them to prefer purchasing on cash basis (70%). Alternatively, the SMMEs may have been put on a cash basis by larger suppliers given their small size and a lack of track record which could have undermined their bargaining position. From the foregoing, it is also apparent that the sampled SMMEs were extending more credit to debtors than they were receiving the same from the suppliers, an indication of a weakness in the management of working capital.

5.5.4 What factors inhibit SMMEs from using effective working capital management practices?

Concerning the factors that inhibit SMMEs from using effective working-capital management practices, the results of the current study indicate that only a minority of the sampled SMMEs perceive a lack of skills, resources, personnel and time as inhibiting factors to using effective working-capital management.

Specifically, the results show that 25% of the SMMEs lack skills to manage cash, 34% lack skills to manage receivables as well as payables. The results also show that 28% of the SMMEs lack resources to manage cash, 32% lack resources to manage accounts receivable while 30.5% lack resources to manage accounts payable. The results further show that 30.5% of the SMMEs lack personnel to manage cash, 40% of the SMMEs lack personnel to manage accounts receivable while 36% lack the personnel to manage accounts payable. Concerning time as an inhibiting factor, the results show that 28.5% of SMMEs lack time to manage cash, 37.5% lack the time to manage accounts receivable, while 36% lack the time to manage accounts payable.

The preceding results are rather surprising and inconsistent with the results in the other sections, particularly on the management of accounts receivable, as the sampled SMMEs appear not to be managing the receivables effectively yet they do not consider some of the widely cited inhibiting factors as an impediment. This perhaps suggests that there could be other factors not included in the current study that inhibit the sampled SMMEs from managing their working-capital effectively. Although only a minority of the SMMEs perceive a lack of skills, resources, personnel and time as inhibiting factors to using effective working-capital management, the lack of personnel is cited by a higher percentage of SMMEs as an inhibiting factor than the other three factors. This is rather expected as SMMEs typically employ only a few personnel that tend to be preoccupied with operational issues.

5.6 CONTRIBUTIONS, SIGNIFICANCE AND RECOMMENDATIONS OF THE STUDY

5.6.1 Contributions of the study

This study makes several contributions to working-capital management literature. It is the first study to investigate the working-capital management practices of SMMEs in the FMCG sector in the Cape Metropole. The study thus contributes to the literature by uniquely investigating the working-capital management practices of SMMEs, entities whose management of working capital had up till now had been neglected in the prior research. Secondly, this study provides a unique insight into SMMEs management of their liquidity by focusing on their liquid assets (cash and accounts receivables) and most immediate obligations (accounts payable), which are critical for these entities' survival given their limited access to finance.

Thirdly, unlike the prior South African studies, the current study uses a researcher administered questionnaire survey methodology to increase the response rate that increases the validity of the findings of this study and reduces non-response bias. Thus the findings of this study provide a better insight into working-capital management practices of SMMEs in the FMCG sector in the Cape Metropole.

5.6.2 Significance of the findings of the study

The findings of this study are significant to the Government given that the Government has undertaken the task of promoting SMMEs by establishing support institutions and initiatives to create an enabling environment in which these entities should survive and thrive. The findings provide invaluable insights on how SMMEs manage their cash, accounts receivable, accounts payable and on factors that inhibit SMMEs from managing their working capital effectively. These insights could be used to inform future endeavours of the Government when establishing interventions meant to improve the working-capital management practices of SMMEs. This can in turn ensure that SMMEs in the country manage their working capital effectively.

The findings of this study are particularly important to SMMEs' decision-makers. The decision-makers will be made aware of the need to manage all the components of working capital effectively, instead of just focusing on cash management while neglecting the other components of working capital which are equally important. SMMEs are advised to seek innovative ways to overcome the factors that inhibit them from managing their working capital effectively. These could include, employing qualified staffs and using adequate accounting software programs.

5.6.3 Significance of the findings of the study to academics

The findings of this study are also significant to academics who may replicate this survey in other sectors, areas and even among larger companies in order to confirm the validity of the findings of this study. The academics could also adopt the research methodology and questionnaire employed in this research to explore the management practices of SMMEs with regard to inventory, which was left out in the current study. The current study also provides impetus for other South African and even African academics to undertake a similar study in other locations, which can contribute to a better understanding of the working-capital management practices adopted by SMMEs and possibly lead to better interventions to improve these practices.

Universities and similar training institutions may embed the findings of this study in their curriculum to start short courses in working-capital for SMMEs' decision-makers in order to improve their working-capital management knowledge and subsequent practice.

5.6.4 Recommendations of the study

Based on the findings of this study, various recommendations are suggested.

- Firstly, SMMEs should be made aware through regular training and workshops of the benefits of managing their working capital effectively. Such training could focus on how to use computers to manage working capital in general, need to hold cash to take advantage of investment opportunities, and where to invest cash surplus. Moreover, such training could also highlight the importance of sending monthly statements to debtors as well as the benefit of charging interest for late payments.

- The South African Government should provide incentives to encourage SMMEs decision-makers to attend financial management workshops which will enhance their financial management skills. These workshops are currently organised by SEDA. These workshops could focus on the importance of reviewing credit policies frequently and selling on credit.

- The Government should also provide incentives to the decision-makers of SMMEs to encourage them to attend Incubation Support Programs (ISP) to acquire necessary skills of managing working-capital particularly the accounts receivables and accounts payable. The programs could focus on the importance of settling payables on the last day of payment and the use of computers to manage payable.

- SMME decision-makers with no formal qualification in accounting should take up at least a short course to become more knowledgeable in working-capital management particularly accounts receivables and accounts payables or employ qualified accounting staff this regard.

- SMME decision-makers should invest in computerised accounting systems to facilitate smooth and accurate information recording and invoicing.

- Lastly, SMME decision-makers should formulate adequate credit policies for their businesses. These policies should be reviewed at least twice a year so as to have flexible policies that will allow for expansion.

5.7 LIMITATIONS OF THE STUDY

Although the findings of this study provide valuable insights, the study has some limitations which are highlighted below.

- The findings of this study reflect the views of SMMEs' decision-makers in Cape Metropole only, which may not be generalisable to other regions in South Africa.
- This study investigated the working-capital management practices using cash management, accounts receivable management and accounts payable management but excluding inventory management. Inventory typically constitutes about 50% of current assets in some SMMEs, therefore the conclusions of this study may be biased.
- As indicated in Chapter 3, the study made use of a researcher administered questionnaire as the method of data collection. One of the short comings of this approach is that respondents may only say what the researchers will like to hear. Finally, only the owners, managers and accountants of SMMEs in the FMCG sector operating in Cape Metropole were invited to participate in the survey. These may not be the only decision-makers of SMMEs in the sector.

Despite the above-mentioned limitations, the results of the current study contribute significantly to the understanding of working-capital management practices. Therefore, the above limitations have a lesser weighting when compared to the contribution made by the study, particularly in the area of working-capital management where little research has been done.

5.8 SUGGESTIONS FOR FURTHER RESEARCH

The limitations of this study present potential areas for future research. From the research findings and conclusion, the following are some of the gaps that further research could fill.

- Firstly, this study assumes that owners, managers and accountant are the only decision-makers in SMMEs which in reality is not so. Future research should include other individuals who occupy decision-making positions in SMMEs.
- Secondly, the study used cash management, accounts receivable management and accounts payable as indicators of working-capital management. Further research should also include inventory management to determine the working-capital management practices of SMMEs. Also a comparison could be made between the working-capital management practices of micro enterprises, small enterprises and medium enterprises to determine whether there is a difference in their cash management, accounts receivable management and accounts payable management.
- Thirdly, most of the questions used in this study to determine working-capital management were based on “yes” or “no” questions. Further research could use five-point Likert scale questions or open-ended interviews to obtain an in-depth understanding of the working-capital management practices of SMMEs. Finally, although the sample size of this study was deemed appropriate, future research should use a bigger sample sizes in other to have more generalisable results or conduct a thorough case study to fully understand the working-capital management practices of an SMME.

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APPENDIX A: Cover letter and questionnaire

Cape Peninsula University of Technology

Working-capital management practices in SMMEs

Dear participant

You are invited to participate in a research study titled “the working-capital management practices of Small Medium and Micro Enterprises (SMME) in the Cape Metropole”. This study is being conducted by Mr Enow Samuel, a Masters student at the Cape Peninsula University of Technology (CPUT). The purpose of this study is to to unveil the working-capital management practices of SMMEs in the Cape Metropole.

Because you are a decision maker of a South African SMME, your opinions are very valuable for this study. Your participation in this study is voluntary and you are free to withdraw your participation at any time without obligation. The survey should take only 15 minutes to complete. This survey has been approved by the Research Ethics Committee in Cape Peninsula University of Technology. There are no risks associated with participating in this study. The survey collects no identifying information of any respondent as all responses will be recorded anonymously. While you will not receive any compensation for participating, the information collected in this study may benefit the accounting profession by providing a better understanding of the working-capital management practices useful for decision-making.

I hope you will take a few minutes to complete this questionnaire. Without the help of someone like you, research on how to improve the working-capital management practices cannot be conducted. By completing this questionnaire, you are indicating your consent to participate in the study. Your participation is appreciated. Thank you for taking time to assist me in my educational endeavours.

SECTION A - RESPONDENT AND BUSINESS PROFILE. (Please mark with an “X” in the appropriate space)	
1. What is your position in the business?	
a. Owner	
b. Manager	
c. Accountant	
d. If other, please specify……………………………………………………………………………….	
2. What is your gender?	
a. Male	
b. Female	
3. For how long has your business been operating?…………………………………………………………………	
4. What is your highest level of accounting educational background? (Please mark with an “X” in the appropriate space): seminar [ ] short course [ ] diploma [ ] Bachelor’s degree [ ] Master’s degree [ ] other specify……..	
5. How many employees does your business have? ………………………..	

SECTION B: CASH MANAGEMENT PRACTICES (Please Mark with an “X” in the appropriate space)		
6.	“Yes”	“No”
a. Does your business have a bank account?		
If yes, please respond to question b, if no please proceed to question c.		
b. Does your business conduct a bank reconciliation?		
c. Does your business prepare a cash budget?		

d. Does your business have a way of pre-determining whether it will have a cash shortage/surplus?		
e. In case of a cash surplus, does your business invest the surplus?		
f. Does your business hold cash to take advantage of investment opportunities?		
g. Does your business monitor cash outflow on regular basis?		
h. Does your business use computers to manage cash?		
i. Does your business spend cash as planned?		
7. SECTION C :RECIEVABLES MANAGEMENT PRACTICES: (Please Mark with an “X” in the appropriate space)	“Yes”	“No”
a. Does your business sell on credit?		
If yes, please respond to questions b, c, d, e, f, g, h, I and j. If no please proceed to Section D.		
b. Do you know the percentage of your business’ monthly sales that is on credit?		
c. Does your business screen customers before extending credit to them?		
d. Does your business review its criteria for extending credit at least once annually?		
e. Of your business’ debtors, do you know the monthly percentage of these that default on payment?		
f. Does your business charge interest for late payment?		
g. Does your business send invoices to debtors immediately after the credit sale transaction is concluded?		
h. Does your business send reminders to debtors who delay to pay?		
i. Does your business send statements to debtors at least once a month?		
j. Does your business use computers in managing accounts receivable?		
8. SECTION D. ACCOUNTS PAYABLE MANAGEMENT: (Please Mark with an “X” in the appropriate space)	“Yes”	“No”
a. Does your business only purchase on cash?		

If yes, please proceed to Section E		
b. Does your business only purchase on credit?		
c. Does your business take advantage of discount facilities by paying creditors promptly?		
d. Does your business settle accounts payable on the last day that the payment is due?		
e. Does your business use computers to manage accounts payable?		

SECTION E – FACTORS THAT INHIBIT BUSINESSES FROM MANAGING WORKING-CAPITAL EFFECTIVELY. 9. To what extent do you agree with the following statements on the reasons why your business does not use the working-capital management practices mentioned in Sections B,C and D? (Please mark with an “X” in the appropriate space). SD= Strongly Disagree, D= Disagree, N= Neither agree nor disagree, A= Agree, SD=Strongly Agree.	SD	D	N	A	SA
a. My business lacks skills required to effectively manage					
Cash					
Accounts receivable					
Accounts payable					
b. My business lacks resources required to effectively manage					
Cash					
Accounts receivable					
Accounts payable					
c. My business lacks adequate personnel required to effectively manage					
Cash					
Accounts receivable					
Accounts payable					
d. My business lacks time required to effectively manage					
Cash					

Accounts receivable					
Accounts payable					

If you would you like a feedback of this study, you may E-mail and request feedback from the researcher's supervisor: kamalap@cput.ac.za

APPENDIX B: Reliability test

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.830	.850	41

Item Statistics

	Mean	Std. Deviation	N
Position in your business	1.50	.885	200
Gender	1.32	.466	200
Establishment	2.48	.826	200
Your accounting background	4.57	2.432	200
The number of employees in your business	1.24	.425	200
Do you have a bank account?	1.38	.487	200
Do you conduct bank reconciliation?	1.68	.470	200
Do you prepare cash budgets?	1.40	.490	200
Do you determine cash shortage/surplus?	1.32	.466	200
Do you invest cash surplus?	1.60	.492	200
Do you take advantage of investments opportunities?	1.59	.493	200
Do you monitor your cash outflow regularly?	1.27	.442	200
Do you use computers to manage cash?	1.65	.478	200
Do you spend cash as planned?	1.38	.485	200
Do you sell on credit?	1.73	.448	200
Do you know the percentage of monthly credit sales:?	1.81	.393	200
Do you screen your customers before advancing credit to them?	1.82	.389	200
Do you review your criteria for advancing credit annually?	1.88	.326	200
Do you know the percentage of your debtors that default on payments monthly?	1.84	.368	200
Do you charge interest on late payment?	1.90	.301	200

Do you send invoices promptly to debtors?	1.85	.363	200
Do you send reminders for late payments?	1.80	.405	200
Do you send statements on monthly basis to your debtors	1.91	.287	200
Do you use computers in managing your receivables?	1.88	.326	200
Do you always purchase on cash?	1.30	.459	200
Do you always purchase on credit?	1.92	.272	200
Do you take advantage of discount facilities by paying your creditors promptly?	1.77	.425	200
Do you settle your payables on last day?	1.86	.348	200
Do you use computers to manage your payables?	1.83	.377	200
I lack skills required to use cash management practices	2.48	1.165	200
I lack skills required to use accounts receivable practices	2.92	1.118	200
I lack skills required to use accounts payable practices	2.84	1.164	200
I lack resources required to use cash management practices	2.57	1.250	200
I lack resources required to use accounts receivable practices	2.89	1.178	200
I lack resources required to use accounts payable practices	2.81	1.184	200
I lack personnel required to use cash management practices	2.66	1.188	200

I lack personnel required to use accounts receivable practices	2.94	1.172		200
I lack personnel required to use accounts payable practices	2.92	1.185		200
I lack time required to use cash management practices	2.64	1.224		200
I lack time required to use accounts receivable practices	2.95	1.153		200
I lack time required to use accounts payable practices	2.91	1.176		200

Binomial Test

		Category	N	Observed Prop.	Test Prop.	Exact Sig. (2-tailed)
Do you have a bank account?	Group 1	yes	124	.62	.50	.001
	Group 2	no	76	.38		
	Total		200	1.00		
Do you conduct bank reconciliation?	Group 1	yes	65	.33	.50	.000
	Group 2	no	135	.68		
	Total		200	1.00		
Do you prepare cash budgets?	Group 1	no	79	.40	.50	.004
	Group 2	yes	121	.61		
	Total		200	1.00		
Do you determine cash shortage/surplus?	Group 1	yes	137	.69	.50	.000
	Group 2	no	63	.31		
	Total		200	1.00		
Do you invest cash surplus?	Group 1	no	119	.60	.50	.009
	Group 2	yes	81	.41		
	Total		200	1.00		
Do you take advantage of investments opportunities?	Group 1	no	118	.59	.50	.013
	Group 2	yes	82	.41		
	Total		200	1.00		
Do you monitor your cash outflow regularly?	Group 1	yes	147	.74	.50	.000
	Group 2	no	53	.27		
	Total		200	1.00		

Do you use computers to manage cash?	Group 1	no	130	.65	.50	.000
	Group 2	yes	70	.35		
	Total		200	1.00		
Do you spend cash as planned?	Group 1	never	125	.63	.50	.000
	Group 2	rarely	75	.38		
	Total		200	1.00		
Do you sell on credit?	Group 1	yes	55	.28	.50	.000
	Group 2	no	145	.73		
	Total		200	1.00		
Do you know the percentage of monthly credit sales?	Group 1	yes	38	.19	.50	.000
	Group 2	no	162	.81		
	Total		200	1.00		
Do you screen your customers before advancing credit to them?	Group 1	no	163	.82	.50	.000
	Group 2	yes	37	.19		
	Total		200	1.00		
Do you review your criteria for advancing credit annually?	Group 1	no	176	.88	.50	.000
	Group 2	yes	24	.12		
	Total		200	1.00		
Do you know the percentage of your debtors that default on payments monthly?	Group 1	no	168	.84	.50	.000
	Group 2	yes	32	.16		
	Total		200	1.00		
Do you charge interest on late payment?	Group 1	no	180	.90	.50	.000
	Group 2	yes	20	.10		
	Total		200	1.00		
Do you send invoices promptly to debtors?	Group 1	no	169	.85	.50	.000
	Group 2	yes	31	.16		
	Total		200	1.00		
Do you send reminders for late payments?	Group 1	yes	41	.21	.50	.000
	Group 2	no	159	.80		
	Total		200	1.00		
Do you send statements on monthly basis to your debtors	Group 1	no	182	.91	.50	.000
	Group 2	yes	18	.09		
	Total		200	1.00		
Do you use computers in managing your receivables?	Group 1	no	176	.88	.50	.000
	Group 2	yes	24	.12		
	Total		200	1.00		
Do you always purchase on cash?	Group 1	no	60	.30	.50	.000
	Group 2	yes	140	.70		

Do you always purchase on credit?	Group 1	no	184	.92	.50	.000
	Group 2	yes	16	.08		
	Total		200	1.00		
Do you take advantage of discount facilities by paying your creditors promptly?	Group 1	yes	47	.24	.50	.000
	Group 2	no	153	.77		
	Total		200	1.00		
Do you settle your payables on last day?	Group 1	no	172	.86	.50	.000
	Group 2	yes	28	.14		
	Total		200	1.00		
Do you use computers to manage your payables?	Group 1	no	166	.83	.50	.000
	Group 2	yes	34	.17		
	Total		200	1.00		