



Cape Peninsula University of Technology

**THE USE AND EFFECTIVENESS OF FINANCIAL PERFORMANCE MEASURES IN SMALL
AND MEDIUM ENTERPRISES (SMES) RETAIL BUSINESSES IN CAPE TOWN**

By

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Thesis submitted in fulfilment of the requirements for the degree

Masters of Management Accounting

In the Faculty of Business & Management Sciences

At the Cape Peninsula University of Technology, Cape Town

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Signed

Date

Abstract

Small and Medium Enterprises (SMEs) that are operating in the retail industry in South Africa are perceived not to measure their financial performance, which may be detrimental to business performance, competitiveness and sustainable growth. The aim of this study is to determine the extent to which owner-managers of SMEs in the retail industry are using financial performance measures such as financial statements and ratios in their business operations. Basically, the study is aimed at determining types of performance measures used by SMEs, the effectiveness of those Financial Performance Measures (FPMs) and also to determine whether the use of these ratios result in sustainable growth and competitive advantage.

A questionnaire was distributed to about 200 SMEs operating in Cape Town, South Africa. The findings were therefore based on the analysed data from the questionnaire and that helped to provide useful information about the use of financial performance measures by SMEs in South Africa to the Small Business Department and also in terms of reducing the failure of SMES. The findings will also help SMEs regarding the use of financial performance measures which can help them to sustain their business performance growth and competitive advantage.

Acknowledgements

I wish to thank:

- God for his blessings and the strength that he has given to me through the process of my studies.
- Ms Mamorena Lucia Matsoso for believing in me, for being so patient and also for guiding me through the process of my research. She will always be my best supervisor ever.
- Prof Lawrance Oboko as my supervisor when Ms Matsoso left the University, he made me to progress still by putting a lot of pressure to me and worked with me up until I finished my research.
- Makomborero Bure, Andile Mjongwana, Prof Jobo Dubihlela, Bruce Masala, Dr Juan Bruwer and Dr Benedict for playing a very important role in terms of guidance, mentorship and input in my research journey.
- Dr Courie Uys and Mr Babatunde Abiola for their statistical expertise.
- My mother Nontsikelelo Solani for her support and prayers through my studies.
- Zuqaqambe Gwele, Siyasanga Mihla Manciya, Chumani Pride Mashwanyela, Tendency Beretu and Olwetu Ntshonga for their advice and encouragement throughout.

Dedication

This research is dedicated to my family and everyone who worked with me through my research journey.

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ACRONYMS USED IN THIS THESIS

Acronyms	Explanation
SMEs	Small and Medium Enterprises
FPM	Financial Performance Measures
BSC	Balanced Scorecard
PBGI	Perceived Business Growth Index
FUFR	Familiarity and Usage of Financial Ratio
EFR	Evaluation of Financial Performance (EFR)
FPEPM	Frequency of Preparation and Evaluation Profitability Measurement
BPM	Business Profitability Measurement
FBP	Familiarity with Business Profitability
UFFA	Usage or Frequency of Financial Activities
PFA	Preparation of Financial Activities
FFS	Familiarity with Financial Statement

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The demand for both local and international brands by South African customers has created business growth and investment opportunities in the retail sector (Ndweni, 2015), which attracts not only local investors, but also international to the South African retail industry. Hence, the new developments, expansion and construction of new shopping malls and centres in some regions of South Africa (Nandonde & Kuada, 2016). Such investments opportunities do not only create job opportunities, contribute to GDP growth in SA but also intensify competition in the retail sector, particularly to small-scale retail entities known as Small and Medium Enterprises (SMEs) (Mutyeniyoka & Madzivhandila, 2014).

South Africa has delivered, thus far, an economy that has been characterised by an undermining primary sector and also a backward manufacturing sector. However, the modest growth level since 1994 has been noticed by a rise in financial services as well as retail trade (Reddy, Borhat, Powell, Visser, & Arends, 2016). According to Reddy et al. (2016:142), the wholesale and retail sector is the second biggest industry in South Africa in terms of providing employment opportunities. Even in Tanzania, the past two decades have seen a serious increase in the number of supermarkets from South Africa such as Shoprite, Game, Woolworths and Pick n Pay.

There is no doubt, according to Ates, Garengo, Cocca and Bititci (2013), that retail SMEs are important in terms of maintaining strong economic growth, but the challenge is how they can keep their performance. Neneh and van Zyl (2012) stated that businesses are mostly looking for better and new ways of attaining competitive advantage, accomplishing their aims and to improving the performance of the organisations. To remain sustainable and survive this intensive competition, large-scale businesses in the retail sector have employed financial matrix to aid them in keeping track record of their past financial performance, the position of their business and the worth of investors. They use these matrices to project the future performance and overall state of the organisation (Tustin et al., 2014). These metrics are also useful to keep investors' confidence while attracting potential investors. Among others, large-scale retailers make use of financial metrics such as total/gross sale, gross margin and net margin (D'Arcy, Norman & Shan, 2012).

Total sales are regarded as the most significant metrics for retailers as they help the business know what it is doing in terms of sales (Ogston, 2017). This metric is also a useful tool to guide management when doing planning future sales. Moreover, it helps small retailers to secure investment from investors because investors check sales of the business before deciding on

an investment. Capturing investors' interest and confidence in the business will assist SME retail business owners and managers to secure funding needed for business expansion/growth. Unlike gross sales that show revenues received on the sale of the product the retailer sells, gross margin is a useful metric to measure the profitability of the product. This metric is significant because it shows how well the inventory performing. In summary, financial performance measures (FPMs) are the best in analysing and gathering information because they are strong and balanced in terms of making decisions (Ogston, 2017). With the use of these metrics, management can foresee and predict the future and make decisions before crisis come occur (Barnes, 1987). The ability to project the future based on information provided by financial metrics minimises the probability of retail businesses failing (Gepp & Kuma, 2015). They later use these metrics not only to evaluate their performance and make decisions of their business, but also in compliance with government legislation and company policy (Schaltegger & Burritt, 2010).

Although, the above-mentioned studies highlighted the importance of FPMs, not all SMEs embrace these tools (Gunasekaran, Putnik, Sousa, Aspinwall & Rodrigues, 2006). Kirsten et al. (2015) further explains that the owners of small businesses should be more skilful and be knowledgeable when it comes to analysing their financial data as this shows difference in terms of success and failure for their businesses. It has been found that unlike established companies, there is a serious problem of inequality in terms of information for SMEs as they do not produce audited financial statements to banks and that makes a huge credit risk mitigation when it comes to banks' lending money to SMEs (Cusmano & Koreen, 2015). Smulders (2006) further explains that SMEs are also struggling to comply with the South African Revenue services (SARS) because they do not have proper financial reporting for their business and /or individual tax return, if trading as sole proprietors, to be captured and submitted to SARS. As a result, they are unable to get their tax clearance certificates because they are non-compliant due to lack of proper financial statements. According to Allee and Yohn (2009), some SMEs are using bank statements to check their financial status and apply for finance. Kumawat (2017) provides a case of a small businessman, called Manish Soni, who was doing very well for about three years, but ended up failing due to not keeping proper accounting records. He used the register where he registered all transactions recovered from customers and the amounts due to suppliers since he wanted to open a bank facility. However, the bank did not approve his request due to the lack of proper financial record keeping.

To balance performance measurement and increase competitive edge, large-scale retail entities have not limited their use of metrics to FPMs but also adopted non-financial performance measures (NFMP) (Zuriekat et al., 2011). According to Van Gijssel (2012), both non- financial and financial performance measures have disadvantages and advantages and are mostly the best option due to the fact that if you combine them, that will result in meaningful

and the best level of return on assets and market return. However, there is a criticism about traditional performance models because they focus on the financial dimension of an organisational performance (Garengo, Biazzo & Bititci, 2005). NFPMs were introduced by (Kaplan and Norton, 1996) to supplement FPMs. Since then, several studies have been conducted and confirmed the importance of using NFPMs and their positive contribution towards the performance and sustainability of the business when they are correctly adopted. However, these measures are not meant to do away with FPMs, but to balance the performance evaluation of the business (Birch-Jensen et al., 2015).

Nonetheless, SMEs in the retail sector are neither using FPMs nor NFPMs (Birch-Jensen et al., 2015). Hence, this study focuses on the use of FPMs utilised by SMEs in the retail sector for effective management in their daily operations. This study will establish the types of financial performance measures that are available for use by owner- managers of SMEs in the retail sector. Secondly, the study will provide insight into whether owner-managers of SMEs are using all financial performance measures or using only few of that are in line with their understanding. Lastly, the study will determine whether SMEs use financial performance measures effectively in relation to their enterprises.

1.2 Statement of research problem

It is perceived that SMEs do not measure their financial performance, which may be detrimental to business performance, competitiveness and sustainable growth. If these SMEs continue operating without using FPMs, they will gradually fail (Bowen et al., 2009). Most SMEs are struggling because they are not being financed by banks and also not getting being sponsored because they do not have audited Financial Statements and or Management accounts. According to Matsoso, (2014), there is an existing difficulty in establishing the state of identifying the fundamentals or basics of accounting to maintain the existence and growth of SMEs. Low academic background of owners and the employment of unskilled accounting employees has affected the production of untrustworthy accounting or financial statement (Olatunji, Kehinde & Nwachukwu, 2017)

1.3 Research question, sub-questions and objectives

1.3.1 Research question

To what extent do SMEs use financial performance measures to attain their business performance, competitiveness and sustainable growth?

For ease of reference, research sub-questions, research methods and associated objectives are contained in Table 1.1

Table 1.1: Research sub-questions, methods and objectives

Sub-questions	Research method	Objectives
What are the available financial performance measures used by SMEs in the retail sector?	Questionnaire	To establish the types of financial performance measures that used by owner managers of SMEs in the retail sector.
To what extent do the owners of SMEs' understand financial performance measures?	Questionnaire	To establish the level to which SMEs understand financial performance measures.
How effective are financial performance measures used by SMEs?	Questionnaire	To determine the effectiveness of financial performance measures used by SMEs
Does measuring financial performance bring about sustainable growth in SMEs?	Questionnaire	To establish whether the use of financial performance measures results in sustainable growth.
What are the perceptions of SMEs regarding financial performance measures and competitive advantage in their business environment?	Questionnaire	To determine the perception of SMEs regarding financial performance measures and competitive advantage in their businesses.

1.4 Research hypothesis

This study formulates two sections of research hypothesis. The first section of the hypothesis testing is statistical differences in the familiarity, preparation, usage and usage frequency. The second section of the hypothesis testing is effectiveness of financial performance measures on sustainable growth of SMEs.

1. H_0 : There is no statistically significant difference in the extent of familiarity of the SMEs business owner-manager to the financial statement.
2. H_0 : There is no statistically significant difference in preparation of financial activities by the SMEs business owner-manager.

3. H_0 : There is no statistically significant difference in the usage frequency of financial activities by the SMEs business owner-manager.
4. H_0 : There is no statistically significant difference in the extent of familiarity of SMEs business owner-manager to the business profitability measures.
5. H_0 : There is no statistically significant difference in the usage frequency of SMEs business owner-manager to the business profitability measures.
6. H_0 : There is no statistically significant difference in the financial ratio that SMEs business owner-manager are familiar with and the one they actually use.
7. H_0 : There is no statistically significant difference in the level of familiarity experience by SMEs in Cape Town metropolis.
8. H_0 : There is no statistically significant effect of: Familiarity and Usage of Financial Ratio (FUFR), Evaluation of Financial Performance (EFR) Frequency of Preparation and Evaluation Profitability Measurement (FPEPM), Business Profitability Measurement (BPM), Familiarity with Business Profitability (FBP), Usage or Frequency of Financial Activities (UFFA), Preparation of Financial Activities (PFA), Familiarity with Financial Statement (FFS) on sustainable Growth of SMEs in the Cape Metropolis.

1.5 Research design and methodology

This is the section in which the plan and procedure for the research project are described. The section consists of topics as discussed under relevant headings.

1.5.1 Research paradigm

There are a few dimensions from which to view the nature of the research in question. The process of research relates to a certain paradigm of thinking which was adopted by researchers in order to conduct the actual research (Martín-Fernández, Medina-Palomino, Ariza-Cardiel, Polentinos-Castro & Rutkowski, 2018). A positivist approach will be used for the empirical research into the proposed study's research questions. Empirical research is based on or guided by the result of observation or experiment of what is happening, from which conclusions can be drawn, and which are frequently associated with the positivistic research paradigm (Bernard, 2017). The positivist research paradigm is commonly referred to as the quantitative research paradigm and it is a more objective approach to research than the interpretive paradigm (Bryman, 2017). Positivism is more reliable and verifiable than the interpretive paradigm, which relies on qualitative data (Maduekwe, 2015). In addition, the main purpose of the proposed study is to determine the extent to which the performance of SMEs within the retail sector in the Cape Metropole is influenced by the use of FPMs. Consequently, as the positivist approach is quantifiable in nature, it is suitable for use to respond to the

research objectives. A positivist approach was further adopted because it needs a well-defined structure that is in line with close –ended questionnaire which are suitable for statistical analysis. Over and above, a positivist approach was adopted because of its quantifiable nature and the fact that a large sample can be drawn from the population, which increases generalisation of research findings (Du Plooy-Cilliers et al., 2014). With the constraint of time and resources, this paradigm is appropriate for the study.

1.5.2 Research design

According to Gog (2015), research design entails the plan of how one intends to conduct a research study and constitutes the structure of data collection and data analysis. The choice of the research design is influenced by the researcher's paradigm (Johnson & Onwuegbuzie, 2004). Considering that the researcher is a positivist, survey research design was used in this study. Furthermore, the study was descriptive in nature. According to Gog (2015), a descriptive study intends to uncover behaviours, characteristics and patterns and focuses on locating regularities by giving complete description of social phenomena.

1.5.3 Population and Sampling

In selecting the 200 retail SMEs sampled, a purposeful sampling method was employed. This method was deemed appropriate for the following reasons: firstly, it has been widely used in quantitative studies; it allowed the researcher to draw the sample based on information related to the phenomenon of the researcher's interest which will best enable answering the research questions (Mjongwana, 2018). Furthermore, this technique was used because it is a fast and less expensive method of collecting data if the units of analysis are located in areas reachable to the researcher, as was the case in this study. Moreover, this technique is comparatively easy to execute given that there are few rules to be followed on how a sample should be selected. In addition, there is no comprehensive list of SMEs in the retail industry that are operating in the Cape Metropole, thus the usage of alternative sampling techniques such as the random sampling was not suitable. Lastly, previous researchers have widely used this method (Esekow, 2001).

1.5.4 Data collection instrument

A questionnaire consisting of open and closed-ended questions will be used for the survey. Furthermore, this technique will be used because it is a fast and less expensive method of collecting data if the units of analysis are located in areas reachable to the researcher as was the case in this study. To ensure usability of the questionnaire, the researcher conducted a pilot test of the questionnaire.

1.5.5 Data collection

The data consisting of 'quantitative' variables such as identification information regarding respondents, information to manage independent (factors that will be used to identify the growth of the business such as performance and competitive advantage) and dependent (the business growth) variables such as business cycle activities and performance measures will be obtained (Harwood & Garry, 2003). The data was collected from the owners and or managers of SMEs.

1.5.6 Data coding and analysis.

The researcher used a questionnaire as a research instrument for the study. The SPSS programme was used for data analysis. Based on the feedback from the selected research participants, necessary adjustments were made to the questionnaire before final data collection. Only questionnaire deemed to be completed significantly were used for final data analysis and any other questionnaire deemed inappropriate discarded. Thereafter, the data was analysed using descriptive statistics.

1.6 Ethical considerations

Due to the fact that human beings participated in the research, approval to conduct the research was obtained from the Cape Peninsula University of Technology's Ethics Committee before the commencement of data collection. The committee requires that the participants in research such as this one to be assured of protection from any potential negative consequences that may arise as a result of their participation.

Hennink, Hutter and Bailey (2020) point out that the researcher should take into consideration the following aspects of:

Informed consent: Respondents should be provided with information that is adequate about the study, in a style that is understandable to them, to make open decisions to participate in the study. The respondents were given sufficient information in the form of a letter, which they signed after reading and understanding what the study entailed.

Self-determination: Individuals have the right to determine their participation in research, including the right to refuse participation without negative consequences. The respondents who did not agree with the terms and conditions of the study were not forced to sign the letter and, therefore, excluded from the study.

Minimisation of harm: The study should not do any harm to respondents or put them at risk. The study did not cause any harm to the participants.

Anonymity: Identity of respondents should be protected at all times. The questionnaire did require the respondents to include their identification or the business name. However, there

were a few respondents who insisted and requested that their details be included on the questionnaire as they were interested in the results of the study after completion.

Confidentiality: Researchers must ensure that all data records are kept confidential at all times. All the data was kept confidential at all times.

1.7 Delineation of research

For responses to be regarded as valid for the research project they needed to satisfy the following delineation criteria:

SMEs should operate in the Cape Metropole

SMEs should have between 2 and 200 employees.

SMEs should be regarded as 'going concern' entities for a period of, at least, one year.

SMEs should meet the definition of a small business entity according to the National Small Business Act No. 102 of 1996.

1.8 Contribution of research

After completion of the research, a conference paper was developed. The contribution of the research is as follows:

- To advance awareness amongst SME stakeholders of the available financial performance measures and their possible uses.
- To share knowledge of how owner-managers adjust theoretically available financial performance measures to suit their needs.

1.9 Chapter outline

Chapter 1: Introduction, background and problem identification

In the introduction and background, is a discussion of the background to the study and the gap that exists in the literature to justify the need to investigate the research problem in this study.

Chapter 2: Literature review

In this chapter, a broad discussion on SMEs and also the use of Financial Performance Measures is undertaken. This chapter have different sub-headings discussing SMEs, the importance of SMEs and their contribution to the economy. There is also a discussion about the importance of FPM, and discussion of all financial performance measures such as financial statements and ratios.

Chapter 3: Design and methodology

This chapter, explains which research design and methodology was used and how. There is also an explanation of how data was collected, the research approach and the sampling method.

Chapter 4: Results and Discussion

This is where the results of the data collected were presented and discussed. The discussion of the results was based on the data analysis.

Chapter 5: Conclusions, recommendations and suggestion for further research in this chapter.

This was where the researcher gave a short summary of the research that has been done and gave recommendations and suggestions based on the research that has been done explaining the changes that needs to be applied and also suggest what can be done in order to solve the problems found.

1.9 Summary and conclusions

In chapter one, there was an introduction of a topic titled, “the use and effectiveness of financial performance measures in small and medium enterprises (SMEs) retail businesses in cape town”. The study aimed at determining types of FPMs, the purpose for which these measures are used by SMEs, the perceptions regarding the effectiveness of FPMs and the factors that inhibit SMEs from utilising FPMs. Pre-literature review and the design applied in order to collect data was introduced. The next chapter, which is chapter two reviews the prior studies related to the topic of this study. Based on the review, the gaps in the prior literature are identified to give a justification of this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The previous chapter provided an overview of the research and the specific research problem under investigation. However, to investigate the domain of research as it relates to this particular question, it is necessary to take a deeper look at the research question. The aim of this chapter is to review prior studies on the use and effectiveness of FPMs by owner – managers of SMEs. Throughout the review, this chapter identifies gaps in the current literature on the types of FPMs used by SMEs.

Furthermore, it identifies the aim to which these FPMs are used by these businesses. The chapter further discusses the perceived effectiveness of the FPMs used and elements that discourage SMEs from using these measures. Section 2.2 of this chapter begins with the definition of SMEs and a brief discussion of their importance to the South African economy. This is followed by a brief overview and importance of the retail sector in South Africa. Section 2.3 then discusses factors affecting growth and sustainability of SMEs, while section 2.4 to 2.5 reviews prior studies on the types of non-financial measures and financial performance measures used by SMEs. Section 2.6 provides the summary and conclusion of the chapter

2.2 Definition of SMEs and discussion of their importance

2.2.1 Definition of SMEs.

The definition and classification of SME across the globe is contextual due to the fact that different countries have their own definition, as a result of which there is no global standard definition (Spence, Frynas, Muthuri, & Navare, 2018). Nyathi, Nyoni, Nyoni & Bonga (2018) further add that the definition of SMEs differs from nation to nation and also industry to industry because there is no accepted universal definition of SMEs. The reason is that it is not possible to note all features or elements of SMEs. Most definitions are based on the sales turnover, capital of the firm, number of employees and the infrastructure of the firm.

Ayandibu and Houghton (2017:134), state that even the South African Revenue Services (SARS) does not have a single specification for SMEs. Instead, it uses different definitions for different justifications such as the following: Amnesty purposes, SMEs are defined as enterprises with a turnover of up to R10 million, but for Income Tax purposes, SMEs are defined as enterprises with a turnover of less than R14million, and for the Capital Gains purposes, SMEs are defined as enterprises with total net assets of less than R5 million. In South Africa, a small business is officially defined in Section 1 of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) as: “a separate and distinct business entity, including co-operative enterprises and

nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column I of the Schedule. Classification of SMEs in South Africa (Retail, Motor trade and repair services) is contained in the Annual Review of Small Businesses.

Table 2.1: Classification of small and medium enterprises in South Africa.

Classification	Small enterprises	<u>Medium enterprises</u>
<i>Number of- Employees</i>	Less than 50	Less than 200
<i>Total Annual Turnover (R million)</i>	Less than 19.00	Less than 39.00

Source: Department of Trade and Industry (DTI), 2008.

Statistics shows that the SME sector increased by 27% between 2004 and 2007 and according to the number of formal businesses in total as per the Statistic South Africa Integrated Business Register (Department: Trade and Industry, 2008). Mbonyane (2009) defines SMEs as a separate and clear enterprise and that includes non-government companies and cooperative companies managed by one or more owner(s) and are classified as follows:

2.2.2.1 Small enterprises

These types of businesses are deemed as the official mass of enterprises with ranking employment of 5 to 50 employees and the owners of these enterprises are managers and controlled by the community. Mbonyane (2009), states that these types of businesses are perhaps and most likely function from industrial and business properties, they are registered for tax and meet most of the formal requirements in terms of other registration.

2.2.2.2 Medium enterprises

These enterprises are still considered as basically owner/manager controlled even though the control of the community can be made more complicated. Mbonyane (2009) avers that these enterprises can employ a maximum number of 200 employees and have an estimate of R5 million value of assets, but that excludes property and they face limitations that are not easy to be solved by private sector and normal market forces. The National Treasury estimates that about 62% of employment and between 52 and 57% of GDP is contributed by SMEs. GOVS, (2005) as cited by Daniel (2011) further explains that there is an estimate of about 1.8 and 2.6 million SMEs in South Africa, 46% are functioning in Gauteng and 18% in the Western Cape region. This means these two provinces represent 64% in total within the country.

2.2.2 Overview of SMEs in the retail sector

The definition of SMEs differ in the literature and from country to country, but most of the definitions are based on the size of the organisation (Ward, 2017). MacGregor and Vrazalic (2007) declares that retail SMEs are categorised in accordance with the number of internal and external features. Moreover, Rosenbusch, Brinckmann and Bausch (2011) point out that SMEs are characterised in accordance with their ability to move quickly and to use ad hoc solutions in order to adjust in terms of business environment changes. According to Department: Trade and Industry (2008), smaller businesses are defined as SMEs, following the complex set of Threshold per industry. Policy founders, good business people and economists had an agreement that SMEs are the operators of the economic growth (Osano & Languitone, 2016). Since 1994, South Africa has been facing challenges of being part of the global market as an emerging economy, while valuing the expectations of its general population concerning a notable change towards the parliamentary order (Berry, von Blottnitz, Cassim, Kesper, Rajaratnam & van Seventer, 2002). Osano and Languitone (2016) adds that regardless of extensive analysis there is still a little clarity concerning the extent to which South Africa's SME retail sector contributes to indigence treatment, economic processes and/or international competitiveness. According to Berry et al. (2002), the retail sector is playing a very important part in the economy by creating employment, introducing innovation and also increasing entrepreneurial skills and exports. In that point, Osano & Languitone (2016) argues that regardless of the importance of SMEs throughout the world, including South Africa, they are still facing a number of problems that discourage the growth of entrepreneurship.

2.3 Importance of SMEs in the retail industry and their growth in the economy

2.3.1 Importance of the Retail SMEs and their Growth in the Economy.

In the case of Organisation for Economic Co-operation and Development (OECD) member countries, SMEs represent more than 95% of the businesses in most nations and they employ more than half of the population in the private sector (Savlovschi & Robu, 2011:279). Ayandibu and Houghton (2017:135) state that SMEs are playing an extremely important role in developing countries, they are playing a vital role when it comes to reducing poverty, they are the engine of economic growth and they are essential for efficiency and competitive advantage. Between 2004 and 2007, SMEs created about 53% of new jobs in a short period of time and encouraged businesses that creates 53% of jobs within such period of time to be supported. According to Neneh and Van Zyl, (2018:166), the key indicator for a booming and best economy is the existence of a well-established SME sector as it has been globally recognised as a vital driver of economic growth, employment, social integration and innovation in both developing and developed countries.

Transformation is the key to success for SMEs in different sectors. However, it has been accepted that retailing is less transforming than other sectors within nations, although statistics

show that the dominance of retail SMEs over others when it comes to their contribution towards the nation's GDP, hence you will find that the performance of retail SMEs in the developed nations is still behind compared to the retail SMEs in the developing countries (Tehseen, Sajilan, Adaha & Abadi, 2017:1). South Africa has delivered thus far an economy that has been characterised by an undermining primary sector and a backward manufacturing sector. However, the modest growth level since 1994 has been noticed by a rise in financial services as well as retail trade (Reddy, Borat, Powell, Visser & Arends, 2016). Adding to that, the retail industry has an undoubted contribution to the economic growth of many countries worldwide and has been recognised as the fastest improving and powerful industry in the entire world (Bhatt & Bhanawat, 2016).

Retail SMEs are found in a small scale of business activities varying from the single operative production of agricultural implementation for village markets, the coffee shops, the village grocery stores, the small town's internet café together with the automotive medium-sized producers retailing to international automakers in the foreign and domestic markets (Akbar, Omar, Wadood & Al-Subari, 2017:1). According to Reddy, Borat, Powell, Visser and Arends (2016:142), the wholesale and retail sector is the second biggest industry in South Africa in terms of providing employment opportunities. between 2014 and 2015, the retail sector created about 30.1% jobs, that is, from 378300 to 276100 employees. Even in Tanzania, the past two decades has witnessed a serious increase in the number of supermarkets from South Africa (Shoprite, Game, Woolworths and Pick n Pay) as a result of which the Tanzanian retail sector has improved at an annual rate of 75% (Nandonde & Kuada, 2018:340). Retail information is crucial for the supply chain because retailers are advanced in terms of business to convince customers to buy goods from suppliers on the latest information basis. As a result, it is very important for small companies to keep a very close relationship with supply chain partners such as retailers, suppliers and logistics (Mahara & Verhaart, 2017). Even though retail SMEs play a very important role in the economy, it has been argued that they are lacking when it comes to sustainability and commitment (Jansson, Nilsson, Modig & Hed Vall, 2017).

2.3.2 Factors that affects growth and sustainability of SMEs.

Although SMEs contribute to the global economy and society positively in different ways such as providing employment, contributing to GDP, maintaing the stability of the economy for many countries, they have a negative effect on managing or running a business (Johnson, & Schaltegger, 2016:483). Compared to large corporations, SMEs have admirable and less formalised enterprise structure (Jansson et al., 2017). Singh, Olugu, Musa and Mahat (2018) explain that SMEs have a lack of effort in terms of sustainability, which is attributed to their characteristics. Above that, there is also a lack of finance, awareness, human resource and skills to build organisational changes that are required for sustainability. The Owner-managers of SMEs are not familiar with the social and environmental impacts of their businesses, as a

result of which they are not applying any tools and/or strategies to revise or amend underlying problems (Johnson, & Schaltegger, 2016:483). Small business owner-managers need to be more creative in terms of thinking as to how they can sustain or maintain competitive advantage by embracing a long-term orientation and take into account the analysis of information, strategic planning to better their decision making (Altinay, Madanoglu, De Vita, Arasli & Ekinci, 2016).

2.4 Types of performance measures in the retail industry

2.4.1 Financial Performance Measures

Financial performance measures (FPMs) are mostly considered as traditional measures that are commonly used to measure efficiency and productivity in companies and lead to the sustainability of an organisation (Matsoso & Benedict, 2016). According to Zuriekat, Salameh and Alrawashdeh (2011:159), FPMs are considered as an information system that is used to evaluate both the organisation and individual performance. FPMs are the tools used to measure the internal operations of the business using financial information of the business (Bruwer, 2010). FPMs play a crucial role when it comes to the development of strategic planning, compensation of managers and evaluating the achievement of organisational objectives (Venanzi, 2010:7). FPMs play a very important role in the organisation as a source of information about the internal operations and the financial outcomes that are shown in the financial statements of a firm (Zuriekat, Salameh & Alrawashdeh, 2011).

According to INVESTOPEDIA (2013), financial performance measures are defined as separate measures that are used to evaluate how well an enterprise uses its assets from their primary mode of an enterprise and how it generates its revenue. This definition is also used as an overall measure of an enterprise's financial health at a specific period of time and evaluates how the firm uses its resources to generate profit. Deloitte (2004:Online) states that traditional financial performance measures were introduced to measure the performance of the business but, they are not suitable to capture the principle of the enterprise's relationships with such important communities as customers, employees and suppliers. Maseko & Manyani (2011) says that, the media articles reported that there are Small and Medium enterprises owner-managers who are using elements that are close to the Balanced Score Card (BSC).

BSC is a system that allows a company to interpret its strategy and its vision to movement (Isoraite, 2008). It contains two types of performance measures, which are non-financial performance measures (NFPM) and financial performance measures (FPM) (Kaplan & Norton, 1996). NFPM measures the non-financial side of the organisation, which is customer satisfaction, productivity, innovation measures, workforce development, on-time delivery, efficiency, product quality, market share, leadership, attainment of strategic objectives and employee satisfaction (Gijssels, 2012).

FPM which are sometimes classified as accounting related performance measures are internal measures of how well an organisation can utilise its assets from their primary manner of business and generate revenue (Maditinos et al., 2006) . Those measures are shareholder's return, earnings per share and the profit of the organisation. Mohamed and Hussain (2010) says, out of many features of performance measurement, more specifically when reviewing the short term performance of the organisation, the application of widely based set of PM is more useful for reviewing the success of long term strategies. Managers consider FPM as useful tools for the purpose of efficiency, but they prefer NFPM for long term goals and individual tasks to assess the effectiveness and they consider them useful for such cases.

Based on the above definitions about NFPM and FPM, Milost,(2013) feels like it is much better to use NFPM as they can be better measures for future performance of the organisation as they meet the needs of users who are totally not satisfied with the accounting information. Therefore, he is of the view that, it is better to use them than using FPM as they may result to additional manipulation.

Tustin et al., (2014) agree with the fact that NFPM are better measure for future performance of the organisation but on the other hand he expresses that the encouragement result of FPM and its effectiveness for information that is useful for economic decision making by external users has not yet been given a special attention by accounting standard setters. According to Eierle and Schultze (2013), FPM do not furnish their users with the suitable or proper source as a starting point for their business decisions.

Despite the above mentioned, the use of FPM encourages the recognition of areas that are critical for the operations and the ultimate survival of the organisation (Osabiya, 2015). Unlike FPM, NFPM cannot disclose the present value of the future economic benefits for the organisation which resulting from the ultimate value of relation (Milost, 2013) . FPM forms an important part of the business management field and they are playing a critical part for the survival of the business which makes SMEs to have a positive alliance with the ability to manage financial matters efficiently (Ismaila, 2011) . FPM may be considered as measures of a huge cost reductions, their performance changes in a short period of time and have an increased return on investment (Chitu & Opris, 2014). It has been noted that Innovation is more critical and it is even more critical to measure innovation but seemingly there is a positive relationship between NFPM and innovation and again they are able to catch the broader aspect of performance unlike FPM, hence it is not suitable to use FPM (Yuliansyah & Razimi, 2015).

It is comparatively easy to measure the financial performance of an organisation due to because their counting is visibly determined and can be easy in the financial statements, but it is very hard to keep track record of NFPM even though there are norms that can be used for the basis of their formulation (Nastasia & Mironeasa, 2014). NFPM can be a useful

complement to FPM, above all when they specify the present value of the future economic benefits of the organisation (Bushman & Smith, 2003). FPM gives a useful tool to the different stakeholders of an organisation. These measures can be used by the internal management and the shareholders to evaluate the current financial position and the past financial performance of the organisation which makes things easier even for the external auditors (Erasmus, 2008). The applicability of NFPM is limited as they cannot be verified by the external auditors even their trustworthiness cannot be easily verified as they are using external financial reporting.

It is important to use FPM as they give a disclosure of how the business has been performing in the past and how it is performing today, NFPM can only measure the quantity of organisation's performance not expressing monetary values and can only disclose how the business is performing currently (Institute, 2016) . It is very important to use FPM as they help the organisation to analyse its standpoint of financial activities and also provide the useful information that helps the management to make a good decision (Crane, 2015) .

2.4.2 Performance Measures

The balanced and multidimensional models are defined as models that embrace different views of study and manage them in an amalgamated way. Kennerley and Neely (2003) further added that most of the businesses are using a BSC model and most of the organisations have spent remarkable time and resources applying Balance Performance Measurement system. The most popular performance measurement models are elaborated upon here:

- **Performance Measurement Matrix:** Anderson and McAdam (2004) defines this type of performance measure as a system which tends to combine different features of performance using internal, external, cost and non-cost terms to simplify and increase its flexibility. However according to Neely et al. (2003), this type of system is mostly because that it does not contemplate some aspects and relationships underlined by the Balanced Scorecard.
- **Performance Pyramid:** This type of model constitutes a pyramid built on four levels, presenting the links between strategic business units, organisational strategy and operations. The strategic goals are expressed from the enterprise vision using the top-down approach. Furthermore, according to Marr and Schiuma (2003) cited by Bititci et al (2005), this type of model is balanced in that it measures the satisfaction and operational activities of stakeholders.
- **Balanced Scorecard:** This model was first mentioned as a result of study that was conducted in 1990 based on the assumption that much dependence on financial performance measures was becoming outdated. The model focuses on providing management with balanced measurement according to the following four prospects:

Financial prospect (This is the company's potential to generate profits for example, cash flow, profitability and return on capital), the second one is the customer prospect (This is to assess the opinions of the customers concerning the image of the company, products and services customer satisfaction, customer retention and analysing of the market share), the third one is the Internal process prospect (This is about to measure the processes of the organisation which helps the organisation to best meet its competitive advantage), The fourth one is the innovation and learning prospect (This one helps the company's potential to develop further improvements and also add value in terms of further learning. Moreover, each of these prospects are connected to the different types of organisational goals, measurements and activities to support improvement (Maseko & Manyani 2011). Northcott and Taulapapa (2012) established that 64 percent of the organisations questionnaires were measuring performance from a number of aspects in a similar way as the BSC.

- **Integrated Performance Measurement System:** This is the type of information system which allows the performance management process to operate efficiently and effectively. The idea highlights two main aspects of the performance measurement system, which are 'integrity' (to measure whether the information system does promote the integration of various areas of business), and 'deployment' (refers to deployment of business objectives and policies thorough-out four levels namely: corporate, business units, business process and activities (Bititci, Carrie & McDevitt, 1997).
- **Six Sigma:** This is a statistical analysis tool and management system that has been designed to make sure that the business processes are running smooth by removing faults. The application of the methodology aims to upgrade and maintain quality, remove loss and increase profit. It locates more significance on understanding and managing customer needs, adapting the business to meet those needs, using data analysis to minimise inequality in those processes to quickly improve existing processes using sustainable practices (Bylinsky, 1998:Online).
- **Integrated Performance Measurement for Small Firms:** This tool was designed specifically to be used by SMEs. It is based on seven main elements of measures, classified as two external elements (financial performance and competitiveness) and five internal elements (costs, production factors, activities, products and revenues) connected by a causal chain. The internal elements are used to observe the whole production process, and the external elements to observe the company's position in its competitive environment (Laitinen, 2002).
- **Performance Prism:** This tool represents a three-element model, developed at the UK based Cranfield University, which focuses on measuring the performance of the entire organisation. It represents the architecture of the tool in a graphical way with each face of the prism that corresponds to a specific sector and analysis, namely:

stakeholders satisfaction, strategies, process, capabilities and stakeholders' contribution (Saleem & Rehman, 2011). Adding to what has been explained about financial performance measures, there are financial performance measures that are currently used by organisations are effective and efficient for businesses. Bruwer (2010) mentions that financial performance measures are measure what is happening inside the organisation by making use of financial information and further states that this financial information can be sourced by means of:

- Financial Statements such as balance sheet statement, income statement, statement of changes in equity and cash flow management.
- Ratio Analysis such as liquidity, profitability, solvency and efficiency.

2.4.3 Financial statements

Financial statements are the kind of information which abstract the entire activities of the organisation and also outline the financial condition of the company together with the results of how the company operates at that particular time. According to Ichsani and Suhardi (2015), financial statements are prepared to deliver information of the company's financials to its stakeholders, such as owners, investors management, governments, creditors and other parties.

2.4.3.1 Statement of Income and Expenditure

The aim of the statement of income and expenditure is to calculate the revenue for the period covered and then match the corresponding expenses to the revenue. Lan (2012) believes that an income statement is the statement that specifies the financial results of the revenue made within a specific period of time. Within the sections and classifications of statement of Comprehensive Income, an organisation will show or disclose its revenue, expenses, gains and losses based on its primary activities (McClain & McLell, 2008). Bajkowski (1999) believes that income statement, mostly classified as the "Statement of earnings or statement of operations," shows a picture of a company's profitability over the entire period that has been covered. Income Statements are one of the important financial reports at a corporate level as they disclose the movements of the company and also to disclose the inflow and outflow of the financials as the position of the firm (Lin, 1992). According to Bruwer (2010), an Income Statement is drafted as shown in table 2.2.

Table 2.2: Statement of income and expenditure.

Statement of Income and Expenditure for the year ended [xxx]	
	Rands
Sales	Xxxx
Less: Cost of Sales	(xx)
Equals: Gross Profit	XXXX
Add: Other Income	Xx
Equals: Total Income	xxxx
Less: Expenses	(xx)
Equals: Net Income before Interest Expense	Xxx
Less: Interest Expense	(x)
Equals: Net Income	XX

2.4.3.2 Statement of financial position.

This type of statement represents the financial history of the organisation at one point in time, mostly and normally at the end of a company's fiscal quarter or a year. The cash flows and income that occurs within the period into and out of the accounts represented on the balance sheet are not reported, but the end-of-period account balances reflect a summary of all movements (Bajkowski, 1999). The balance sheet statement is the starting place where an organisation can analyse its financial strength and position (Lan, 2012). According to Bruwer (2010) , a Balance Sheet Statement is drafted as shown in table 2.3.

Table 2.3: Statement of financial position

Statement of Financial Position for the year ended [xxx]	
ASSETS	Rands
Non- Current Assets:	X
Property, Plant and Equipment	X
Current Assets:	XXX
Inventory	X
Trade and other receivables	X
Cash and Cash Equivalents	X
TOTAL ASSETS	XXXX
EQUITY AND LIABILITILE	Rands
Equity	X
Non- Current Liabilities:	X
Mortgage Bond	X
Current Liabilities:	XX
Trade and other payables	X
Bank Overdraft	X
TOTAL EQUITY AND LIABILITIES	XXX

2.4.3.3 Statement of Changes in Equity

A statement of changes in equity shows all changes happening in equity of the business (Biondi, 2012). This type of statement discloses an entity's profits or losses for a specific year end or a reporting period, income and expenses items recognised from the Statement of comprehensive income and expenditure (Income Statement) for the period, Items that affected the changes in accounting policies and corrections of all errors recognised within the period or year end, the amounts of investments, dividends and other distributions to equity investors during the reporting period (Aboagye-Otchere & Agbeibor, 2012). Biondi (2012) further explains that the Statement of Changes in Equity includes the following items: items of equity at the beginning and at the end of the current and previous reporting periods; the changes in accounting policies; correcting errors; non-current tangible assets and revaluation; financial assets revaluation; other profits or (losses) that are not recognised in the income statement; net profit or (loss) of the reporting period; declared dividends and other payments related to

the distribution of profit; an increase or decrease in the authorised capital and its carrying amount at the beginning and at the end of the reporting period; changes in reserves and their carrying amount at the beginning and at the end of the reporting period. According to Bruwer (2010) , the statement of changes in equity is drafted as shown in table 2.4.

Table 2.4: Statement of changes in equity

Statement of Changes in Equity for the year ended [xxx]	
Balance at the beginning of the Financial year	XX
Add: Capital Contribution	X
Add: Net Income	X
Less: Drawings	(X)
Equals: Balance at the end of the Financial Year	XXX

2.4.3.4 Cash flow statement

The Cash flow statement shows how the business raised and used cash within the reporting period, including its borrowings and repayments of borrowing and its purchasing and sale of, for example, property, plant, and equipment (Madawaki, 2012). Cash flow ratios determine the amount of cash generated over a period of time and compare that to short-term obligations. This gives a clearer picture if the company has a liquidity problem in connection with its short-term debt paying ability. Operating cash flow is computed by dividing cash flow from operations by current liabilities. This shows the company's potential in terms of generating the resources needed to meet current liabilities (Saleem & Rehman, 2011). Cash flow statement identifies the flow of cash or working capital in to and out of the business during the year end or accounting period. Small businesses should probably prepare this statement as regularly as possible (Lev, Li, & Sougiannis, 2010). According to Bruwer (2010), the cash flow statement is drafted as shown in table 2.5.

Table 2.5: Cash flow statement

Cash Flow Statement for the year ended [xxx]	
Operating Activities:	
Cash received from customers	xxxxxx
Cash paid for rent	(x)
Cash paid to employees	(x)
Cash paid for utilities	(x)
Cash Flow from operating activities	XXX
Investing Activities:	
Purchase of equipment	(xx)
Purchase of securities	(xx)
Sale of equipment	X
Cash Flow from Operating Activities	(XXX)
Financing Activities:	
Insurance of stock	Xx
Increase in accounts payables	Xx
Purchase of treasury stock	(x)
Cash Flow from Financing Activities	XXX
Total Cash Flow	X
Beginning Cash	0
Ending Cash	X

2.5 Discussion and analysis of ratios

2.5.1 Financial ratios

Financial ratios are widely used by academic researchers, financial analysts, lenders and small business managers (Osteryoung et al., 1992). According to Khaldun and Muda (2014), financial ratios are the amounts that are obtained from the posts financial statements of different years have been compared and link remarkable and relevant. As a result, these ratios can predict the profit growth and measure the company's performance to fulfil its short term obligations. The financial ratios are discussed as follows:

2.5.2 Liquidity ratio

Liquidity ratios are classified as the point to which debt commitments due can be paid from cash or assets that are soon to be turned into cash. According to Khaldun and Muda (2014), liquidity ratio is the company's ability to accomplish the short-term obligations. Durrah, Rahman, Jamil and Ghafeer (2016) further add that liquidity refers to the transfer of assets in to cash and it focuses on the cash flows of the organisation and measures the ability of the organisation to meet its obligations, and that is through the usefulness of the company's assets.

This classification of liquidity ratio consists of current ratio and the value of working capital. The perfect analysis of liquidity ratio can be made with a cash flow budget (Edwards, 2014). Saleem and Rehman (2011) define Liquidity ratios as a measure of the firm's ability to meet the payment commitments by comparing the cash and near-cash with the payment commitments. It can be calculated using information about working capital, which consists of current assets and current liabilities (Khaldun & Muda, 2014). If the description of the latter by the former is inadequate, it shows that the organisation might face implications in meeting its immediate financial commitments.

Morris and Shin (2008) define the liquidity ratio as "realizable cash on the balance sheet to short term liabilities." In turn, "realizable cash" is defined as liquid assets plus other assets to which a haircut has been applied. To analyse the liquidity ratio, you will need to focus on current ratio and cash ratio (Ehiedu, 2014). Current ratio is used to measure the ability of the company in terms of settling the short-term obligations for the current assets that are controlled by the organisation (Khaldun & Muda, 2014) while the quick ratio shows the potential of liquid current assets to cover the current liabilities. According to Öztürk & Karabulut (2018), Current ratios and quick ratios are calculated using the following formulas:

- $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$

Current ratio measures the organisation's ability to meet its short-term obligations such as accounts payables (creditors) and short-term loans that will indicate the current liabilities and also current assets. Therefore, the measure of this ratio indicates high liquidity of the organisation as a greater potential to meet its short-term obligations.

- $\text{Quick Ratio} = \text{Current Assets} - \text{Inventory} / \text{Current Liabilities}$

Quick ratio only shows the most distinct current liabilities and current assets, as a result the growth in the value of quick ratio shows the high liquidity of the organisation. Inventory and

prepaid expenses in this type of ratio are excluded because they cause difficulty when it comes to the conversion of current assets in to cash.

2.5.3 Profitability ratio

Profitability ratios are simply defined as the difference between income and expenses. According to Khaldun and Muda (2014), for a company to sustain its existence, it should earn profit. Profitability ratios outline the potential of the company to earn profit through all existing resources such as cash flow, number of employees and sales activities. The only important measure of profitability is the Net firm income. The annual rate of return on equity and total assets can also be calculated and compared to the interest rates of loans or rates of return from different investments (Edwards, 2014). Lesáková (2007) add that profitability ratios disclose the organisation's potential to earn a reasonable and satisfactory profit and return on investment. The ratios are measures of good financial health and how effectively the organisation is controlling its assets. The profitability ratio is calculated as follows:

- *Return on total assets (ROA) = Net profit after taxes / Total assets*

Return on Asset is the ratio that measures the profits earned to the total assets through management responsibilities (Ichsani & Suhardi, 2015). Hence, ROA shows the net effect of the decision made by the management and actions together with the environment of the company during a specific period of time. Due to the fact that it shows the effectiveness of all the assets that are controlled by the management, ROA is an instinctive understanding performance measurement. Therefore, ROA is the most common impression of the return on investment idea applied as a performance.

- *Return on common equity (ROE) = Net profit after taxes / Common equity*

Return on Common Equity. The ratio of net income after taxes to common equity measures the return earned on the common stockholder's investment. ROE is measured as the ratio of profit earned from the total capital investment contributed by the owners of the organisation.

2.5.4 Solvency ratio

Solvency ratio is the type of ratio that refers to the degree in which all obligations are secured and the comparative mix of equity and debt capital that are being used by the organisation. Total debt-to-asset ratio is one of several ratios used to calculate or measure solvency, all of which are found on the same relationship of assets, liabilities, and net value (Edwards, 2014). This ratio measures how likely the company can maintain paying its liabilities (Ucal & Oksay, 2011). The measure is usually calculated as follows:

Solvency ratio = Net Profit After Tax + Depreciation / Long Term Liabilities + Short Term Liabilities

2.5.5 Efficiency ratio

Efficiency ratio is the type of ratio that shows how much (percentage) of gross revenue went to pay interest, operating expenses, including depreciation, and how much (percentage) is left for net income of the organisation. This type of ratio measures how much gross income was generated for each amount of money invested in land, livestock, equipment, and other assets (Edwards, 2014).

2.6 Summary and conclusions

In Chapter Two, there was a review of prior studies on the use and effectiveness of FPMs by owner- managers of SMEs. The chapter also identified gaps in the current literature on the types of FPMs used by SMEs. Within the literature reviewed, the researcher defined and discussed the importance and growth of SMEs in the retail industry. The next chapter focuses on research methodology and different types of research designs and justifies the type of design used in this study.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter describes the design and methodology that has been used to collect, analyse and present the research data in order to meet the main objective of this study: “To determine the use and effectiveness of financial performance measures used by SMEs that are operating in the retail industry”. In order to achieve the objective, a survey questionnaire was employed as a method of data collection. This chapter begins with the discussion of various research designs and justification of the research design used in the study. Following a discussion of research design used, the study population, sampling techniques, research instruments, data collection methods, data processing, analysis and procedures of presentation are discussed.

3.2 Research design and methodology

This is the section in which the plan and procedure for the research project are described. The section consists of topics as discussed below:

3.2.1 Research paradigm

There are a few dimensions from which to view the nature of the research in question. The process of the research relates to a certain paradigm of thinking adopted by researchers in order to conduct the actual research (Martín-Fernández, Medina-Palomino, Ariza-Cardiel, Polentinos-Castro & Rutkowski, 2018). A positivist approach was used for the empirical research. Empirical research is based on or guided by the result of observation or experiment of what is happening, from which conclusions can be drawn, and which are frequently associated with the positivistic research paradigm (Bernard, 2017). The positivist research paradigm, which is commonly referred to as the quantitative research paradigm is a more objective approach than the interpretivist paradigm (Bryman, 2017). Positivism is more reliable and verifiable than interpretivism, which relies on qualitative data (Maduekwe, 2015). In addition, the main purpose of the proposed study was to determine the extent to which the performance of SMEs within the retail sector in the Cape Metropole is influenced by the use of FPMs. Consequently, a positivist approach is quantifiable in nature, and, suitable in responding to the research objectives. Further, a positivist approach was further adopted because it needs a well-defined structure that is in line with a close –ended questionnaire which is suitable for statistical analysis. Over and above, a positivist approach was adopted because of its quantifiable nature and the fact that a large sample can be drawn from the population, which increases the generalisation of research findings (Du Plooy-Cilliers, Davis & Bezuidenhout, 2014). With the constraint of time and resources, this paradigm is appropriate for this study.

3.2.2 Research design

According to Gog (2015), research design entails the plan of how one intends to conduct a research study and constitutes the structure of data collection and data analysis. It is a conclusive plan to an investigative study that is aimed to provide answers to the research question (Matsoso, 2014). It is the principal plan that indicates the procedures and techniques to collect and analyse data that is relevant to the research study and it is based on the research question (Chiwara, 2015). Gog (2015) further add that research design puts together the research question with the empirical data, among other research strategy and the research strategy incorporates all the proceedings of the study to fulfil the goal of answering the research question.

The choice of the research design is influenced by the researcher's paradigm (Johnson & Onwuegbuzie, 2004). Research design is there as the framework for inquiry that intercepts the collection of irrelevant data.

3.2.3 Population and Sampling

A purposeful sampling method was employed in this study. This method was deemed appropriate for the following reasons: firstly, it is widely used in quantitative studies; it allowed the researcher to draw up the sample based on the information related to the phenomenon of researche's interest which best enabled to answer the research questions (Mjongwana, 2018). Furthermore, this technique was used because it is a fast and less expensive method of collecting data if the units of analysis are located in areas reachable to the researcher as was the case in this study. Moreover, this technique is comparatively easy to execute given that there are few rules to be followed on how a sample should be selected. In addition, there is no comprehensive list of retail SMEs that are operating in the Cape Metropole, thus the use of alternative sampling techniques such as the random sampling was not suitable. Lastly, previous researchers have widely used this method (Esekow, 2001)

3.2.4 Data collection instrument

A questionnaire consisting of open and close-ended questions was used for the survey. This tool was used because it is a fast and less expensive method of collecting data if the units of analysis are located in areas reachable to the researcher, as was the case in this study. To ensure usability of the questionnaire, the researcher conducted a pilot test of the questionnaire.

The questionnaire was designed around the use and effectiveness of FPM and SME overview. The questionnaire comprised about five pages and included the consent letter as a cover page. The consent letter was there for the purpose of making sure that the respondents were aware that any information revealed by them was kept only for the purpose of this study, and such information was kept confidential and anonymous.

The content of the questionnaire was structured according to three sections or categories, namely: Section A, B and C. Section A sought to answer sub-investigative questions 1 and 2, which focus on the use of available financial performance measures and the extent to which owner-managers of SMEs understand FPM. Section A was made up of six questions about financial performance measures. In question one, participants had to answer about six questions where they had to select whether they are “*familiar*” or “*not familiar*” with the given financial performance measures. Question two of Section A had two options where participants had to select whether they “*prepare*” or “*not prepare*” the given financial performance measures. Question three of Section A comprised about seven options where participants had to select the financial activities that are used in their businesses and also indicate how often they use those financial activities with the following given options *daily, weekly, monthly, quarterly, half yearly, yearly* but also to select on “*not used*” for the ones they are not using. Question four of Section A comprised the following three options: “*most familiar*” or “*least familiar*” or “*not familiar at all*” where the participants had to show their familiarity about profits in businesses. Question five of section A had two options “*most often used*” or “*least often used*” where participants had to indicate what do they use to measure their profits in their businesses. Participants had to select from the list of ratios the ones that they are familiar with and also indicate whether they use them or not. They were given the following options with the list of ratios to select: “*not familiar with*” or “*familiar but not used*” or *familiar with and used*” or “*found it to be useful*”.

Section B sought to answer sub-investigative question number 3, which focus on the effectiveness of financial performance measures. Section B comprise three questions. In question one of section B, participants were given three options where they had to show the *effectiveness, efficiency, learning and improvement* when they evaluate the financial performance of their businesses, but also to add anything else that they are using to evaluate the financial performance of their businesses that is not listed. For questions two to four of section B, participants had to indicate how often they evaluate the financial performance of their businesses and also to indicate how often they prepare performance measures of their businesses by selecting one of the given options: *daily, weekly, monthly, quarterly, half yearly* or *yearly*. Section C is an SME overview that sought to answer sub-investigative questions four and five, which focus on whether the use of financial performance measures by SMEs result in sustainable growth? It also focused on the perception of SMEs regarding financial performance measures and competitive advantage. The participants were given about six questions in Section C where they had to select whether they are a small or medium enterprise, and how long their businesses have been existing by giving the number of years, and also indicating whether their businesses are growing or not. If growing, is it growing faster or slow? They had to also state whether their businesses are doing well or not well compared to other

businesses? They had to also state the number of employees they had in their businesses and participants had to indicate whether they are the owners or managers or owner-managers.

3.2.5 Data collection

The data consisting of 'quantitative' variables such as identification information regarding respondents, information to manage independent (factors that were used to identify the growth of the business such as performance and competitive advantage) and dependent (the business growth) variables such as business cycle activities and performance measures were obtained (Harwood & Garry, 2003). The data was collected from the owners and/or managers of SMEs.

During the data collection process, the researcher distributed the questionnaire by hand to respondents, who completed them at their suitable time. Most of the respondents completed the questionnaire on delivery; hence the questionnaire was returned immediately. For those that were not completed on delivery, the researcher went back at an appointed time to collect the completed questionnaire. The researcher administered the questionnaire face-to-face, giving him an opportunity to introduce and explain the research topic to respondents, which increased the enthusiasm of potential respondents to participate in the study.

This approach was suitable for the study because it saved time and increased the response rate. Although respondents were granted an opportunity to complete the questionnaire at their convenience, in most instances, the researcher waited while respondents completed the questionnaire. In a few instances, the researcher made numerous follow-up visits, where a respondent had promised to complete the questionnaire, but had failed to do so within the agreed time. While one group was completely reluctant to participate in the study, on the basis that they thought it was a private investigation from the government even though the researcher explained that it was not another group was uninterested, since it believed that research adds no value to their business. The remainder was simply tired of completing questionnaire from students almost every day.

3.2.6 Data coding and analysis.

The researcher used a questionnaire as a research instrument for the study. The SPSS programme was used to analyse the data. Based on the feedback from the selected research participants, necessary adjustments were made to the questionnaire before final data collection. Only questionnaire deemed to be completed significantly were used for final data analysis and any other questionnaires deemed inappropriate were discarded. Thereafter, the data was analysed using descriptive statistics.

The researcher captured and analysed the data by using Statistical Package for Social Sciences (SPSS) software version 25. This software was used for the following reasons: It helped the researcher to locate errors that appear during data capturing. It was easily accessible to data analysis functions such as frequency, descriptive and inferential statistical functions, which are given in the drop-down menu list. There were also extra functions which were useful for interpretation of statistical results. The researcher could easily create a wide range of graphs and charts using the given drop-down menu available in the SPSS software, and interpretation of data that was collected.

3.3 Ethical considerations

Due to the fact that human beings participated in the research, an approval to conduct the research was obtained from the Cape Peninsula University of Technology's Ethics Committee before the commencement of collection of data. The committee requires that participants in research such as the one conducted to be assured of protection from any potential negative consequence that may arise as a result of partaking in the research. Hennink, Hutter and Bailey (2020) point out that the researcher should take into consideration the following consents:

Informed consent: Respondents were provided with adequate information about the study in a style that is understandable to them and made open decisions to participate in the study. The respondents were given sufficient information in the form of a letter, which they signed after reading and understanding what the study entailed.

Self-determination: Individuals have the right to determine their participation in research, including the right to refuse participation without negative consequences. The respondents who did not agree with the terms and conditions of the study were not forced to sign the letter and, therefore, excluded from the study.

Minimisation of harm: The study should not do any harm to respondents or put them at risk. The study did not cause any harm to the respondents.

Anonymity: Identity of respondents should be protected at all times. The questionnaire required the respondents to include neither their identification nor business name. However, there were a few respondents who insisted and requested that their details be written on the questionnaire as they were interested in the results of the study after completion.

Confidentiality: Researchers must ensure that all data records are kept confidential at all times. The data was kept confidential at all times.

3.4 Data validity and reliability.

3.4.1 Reliability of the research instrument

Reliability refers to the stability of the same outcome if the questionnaire were to be administered to the same population using the same methodology. It is of importance for one to ascertain if a measure used is essential to assess reliability, which is the extent to which a measuring instrument is consistent and stable to allow replication of the findings (Matsoso, 2014).

Reliability test was done through the questionnaire during the piloting stage. The questionnaire was administered to three different academics with vast experience in questionnaire design and found to be simple, clear, understandable and, thus, able to yield the same results if administered to the same respondents at different times (Mjongwana, 2018).

3.4.2 Reliability test

In accessing the data from the 200 SMEs in the Cape Metropole to generate the variables of concern summed to measure the use and effectiveness of financial performance measures in small and medium enterprises (SMEs) retail businesses in Cape Town, index scores formed a reliable scale. Thus, the reliability test using the Cronbach Alpha values was conducted prior to further analysis. The alpha values for the variables indicate that the items formed a scale of reasonable internal consistencies in its reliability. The correlation for each item with, at least, one item in the constructs was between the value of 0.710 and 0.85. Therefore, all the items correlate adequately in the constructs. However, theoretical and empirical evidence of these factors motivate their inclusion in the model.

Table 3.1. Reliability analysis**Cronback Alpha reliability test of the questionnaire items on Analysis of Individual Entrepreneurial Mindset**

Variables	Alpha Reliabilities
Familiarity and Usage of Financial Ratio (FUFR)	0.747
Evaluation of Financial Performance (EFR)	0.848
Frequency of Preparation and Evaluation Profitability Measurement (FPEPM)	0.742
Business Profitability Measurement (BPM)	0.769
Familiarity with Business Profitability (FBP)	0.738
Usage or Frequency of Financial Activities (UFFA)	0.743
Preparation of Financial Activities (PFA)	0.845
Familiarity with Financial Statement (FFS)	0.755

3.5 Summary and conclusion

The main objective of this chapter was to outline the research methodology and tools used to collect and analyse the data in order to meet the required objectives of this research study. At the beginning of the chapter, the research paradigm that was adopted was discussed followed by a discussion of the population and sampling method used in the study and the design of the questionnaire. Further, there was a discussion on pilot testing of the questionnaire and data collection process. The researcher also discussed in this chapter the descriptive statistics conducted to analyse the data followed by the measurements of reliability and validity undertaken for the research instrument. Ethical considerations and restrictions of questionnaire were also discussed. The next chapter provides a discussion on data analysis, results and discussion associated with the objectives of the study.

CHAPTER FOUR

PRESENTATION, ANALYSIS OF RESULTS AND FINDINGS

4.1 Introduction

This chapter focuses on presentation of the results gathered from the field work. The aim of the study was to measure the use and effectiveness of financial performance measures in small and medium enterprises (SMEs) retail businesses in Cape Town. The study specifically sought to establish the types of financial performance measures available for use by owner managers of SMEs in the retail sector, examine the extent of usage of all financial performance measures by the owner managers of SMEs and, finally, the usage effectiveness of financial performance measures. The first part contains the cross-tabulation table (table 4.1) shows the response of the respondents to all the used measures of financial performance, followed by the bar chart generated from the cross-tabulation table. The next table was chi-square table estimated to test the hypothesis of differences in response of respondents to usage and frequency of different financial performance measures. The study proceeds to normality test in order to examine suitability of the data for Ordinary Least Square (OLS) estimation such as consistency and reliability of the data collection instrument (questionnaire). The next table was the correlation analysis that shows the magnitude and direction of the relationship among the variables under consideration. The final table present the OLS results which measures the impact of familiarity, preparation and frequency of usage of financial statement on business growth model.

The quantitative data collected through a structured questionnaire was analysed using descriptive statistics in the form of proportions, frequencies, means and standard deviations, independent t- tests and paired t-tests to compare differences between two groups, correlation, Analysis of Variance (ANOVA) and Ordinary Least Square (OLS) analysis. The results obtained in this study are presented and discussed below. The sequence of the presentation and discussion of results is in accordance with the research questions raised in the study.

4.2 Findings and discussion

FFS = Familiarity with Financial Statement

PFA = Preparation of Financial Activities

UFFA = Usage or Frequency of Financial Activities

FBP = Familiarity with Business Profitability

BPM = Business Profitability Measurement

FPEPM = Frequency of Preparation and Evaluation Profitability Measurement

EFR = Evaluation of Financial Performance (EFR)

FUFR= Familiarity and Usage of Financial Ratio

PBGI = Perceived Business Growth Index

4.2.1 SMMEs Familiarity with Financial Statement (FFS)

In Table 4.1 below, items were raised on various bank statements to provide answer the to research question on the level of familiarity with financial statement. Out of 74 respondents, 7(9.5%) were not familiar while 67(90.5%) were familiar with bank statement. The second item was about income statement, 17(23.0%) indicated they were not familiar, while 57(77.0%) said they were familiar with income statement. The next item asked about balance sheet statement, 25(33.8%) respondents indicated non-familiarity with the statement and 49(66.2%) indicated familiarity with the financial statement. The fourth item was on statement of changes in equity, 38(51.4%) respondents confirmed not being familiar with the statement. However, 36(48.65%) respondents confirmed their familiarity. The fifth item asked about cash flow statement, 36(48.6%) gave a response of not being familiar, while 38(51.4%) were familiar with the statement. The last item, cash flow received 39(52.7%) responses of not being familiar and 35(47.3%) of familiarity.

Table 4.1: Familiarity with financial statements

Crosstab

Items	RESPONSE1			Mean	Remark
	Not Familiar	Familiar	Total		
Bank Statement	7 9.5%	67 90.5%	74 100.0%		
Income Statement	17 23.0%	57 77.0%	74 100.0%		
Balance Sheet Statement	25 33.8%	49 66.2%	74 100.0%		
Statement of Changes in Equity	38 51.4%	36 48.6%	74 100.0%		
Cash Flow Statement	36 48.6%	38 51.4%	74 100.0%		
Cash Budget	39 52.7%	35 47.3%	74 100.0%		
Total	162 36.5%	282 63.5%	444 100.0%		

Chi-Square Tests

	Value	Df	Asymptotic Significance (2- sided)
Pearson Chi-Square	49.567 ^a	5	.000
Likelihood Ratio	54.488	5	.000
Linear-by-Linear Association	43.969	1	.000
N of Valid Cases	444		

H₀: There is no statistical significant difference in the extent of familiarity of the SMEs business owner manager to the financial statement.

The chi-square analysis tested the statistically significant difference in the level of familiarity experience by SMEs in Cape Town metropolis to different financial statement such as: bank statement, income statement, balance sheet statement, statement of changes in equity, cash flow statement and cash budget. The chi-square asymptotic significant level is less than 0.05 ($0.000 < \alpha < 0.05$) Therefore, we confirm the rejection of null hypothesis of and support the conclusion of statistically significant difference in the level of SMEs familiarity to different financial statements. The result became visually evident by closer observation of the below bar chart (figure 4.1). As the financial statement progress from the automated generated by the business financial institution (Commercial Banks), the SMEs business owner became less familiar. This implies a greater implication on usage and evaluation of financial measures.

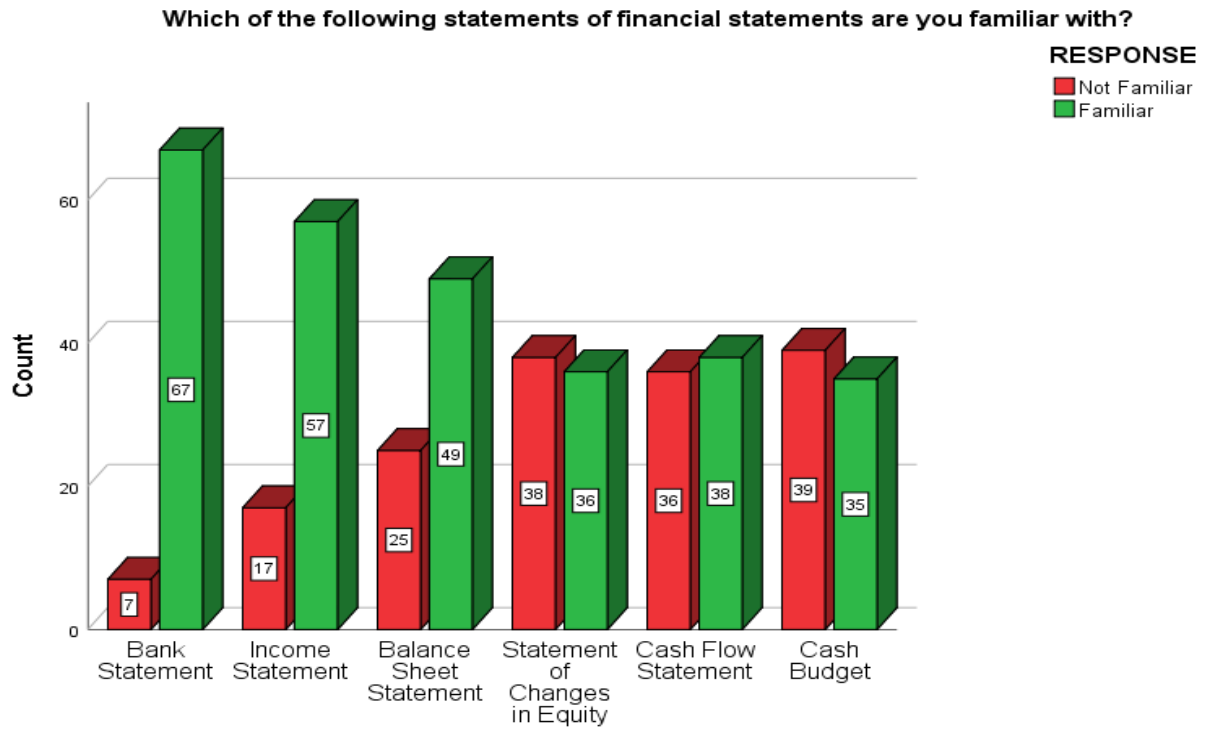


Figure 4.1: Which of the following statements of financial statements are you familiar with?

Figure 4.1 represents the level of familiarity and non-familiarity with various financial statement. It illustrates the various responses received on how familiar respondents are with the financial statement.

4.2.2 Preparation of Financial Activities (PFA)

Table 4.2, shows the financial activities prepared by the participant businesses. Items were raised to provide answers to the question. Out of 74 respondents, for item one 35.1% do not prepare income statement, while 64.9% prepared income statement. The second item was about balance sheet statements, which were not prepared by 62.2% of the respondents while 37.8% of participants prepared balance sheet statements for their businesses. The third item asked about cash budget, 75.7% did not prepare it, while 24.3% prepared cash budget. The fourth item which was on bank statement is not been prepared by 27.0% of the respondents, while 73.0% prepared the statement. The next item about statement of changes in equity gave a response of 73.0% of not prepared and 27.0% of being prepared. The last item, cash flow statement is not prepared by 79.7% of the respondents, while 20.3% of the respondents prepared cash flow statements for their businesses.

Table 4.2: The financial activity prepared by the businesses

	RESPONSE			Mean	Remark
	Not prepared	Prepared	Total		
Income Statement	26	48	74		
	35.1%	64.9%	100.0%		
Balance Statement	46	28	74		
	62.2%	37.8%	100.0%		
Cash Budget	56	18	74		
	75.7%	24.3%	100.0%		
Bank Statement	20	54	74		
	27.0%	73.0%	100.0%		
Statement of changes in Equity	54	20	74		
	73.0%	27.0%	100.0%		
Cash Flow Statement	59	15	74		
	79.7%	20.3%	100.0%		
Total	261	183	444		
	58.8%	41.2%	100.0%		

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	76.496 ^a	5	.000
Likelihood Ratio	78.188	5	.000
Linear-by-Linear Association	18.610	1	.000
of Valid Cases	444		

H₀: There is no statistical significant difference in preparation of financial activities by the SMEs business owner manager.

The chi-square analysis tests the statistical significance of the difference in the level of preparation experience by SMEs in Cape Town metropolis to different financial activities such as: bank statement, income statement, balance sheet statement, statement of changes in equity, cash flow statement and cash budget. The chi-square asymptotic significant level is less than 0.05 (0.000 < α < 0.05) Therefore, it confirmed rejection of null hypothesis and supported the conclusion of a statistically significant difference in the level of SMEs preparation to difference financial activities. The result became visually evident upon close observation of

the bar chart (figure 4.2). The financial activities prepared is indicated with red colour, while the blue colour shows the proportion of SMEs business owners that fail to prepare financial activities. This has a great implication on business growth. If the business owner fails to prepare financial activities to measure the financial performance of the business tracking growth and getting access to financial services become relatively impossible.

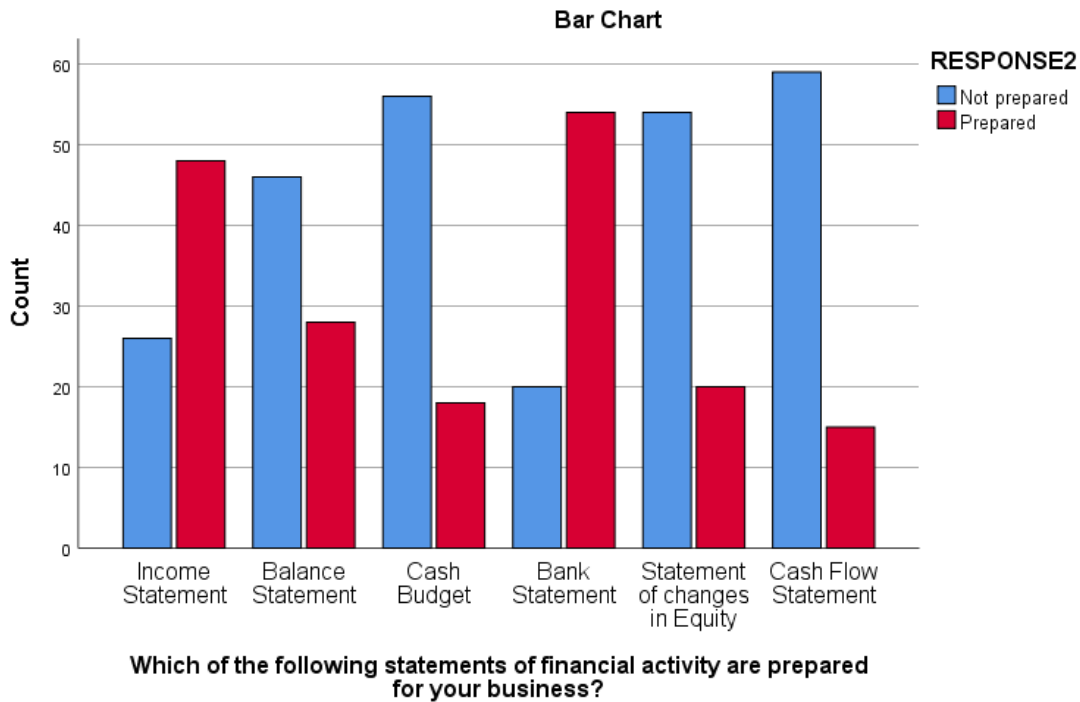


Figure 4.2: Which of the following statements of financial activity are prepared for your business?

4.2.3 Usage or Frequency of Financial Activities (UFFA)

In Table 4.3, items were raised on various uses and frequency of financial activities to provide answers to the question on the level of usage and frequency of financial activities. Out of 74 respondents for item one, which was on bank statement, responses were received on the frequency of usage of financial activity on the following basis; 4.1% daily, 20.3% weekly, 56.8% monthly, 2.7% quarterly, 0.0% half-yearly, and 0.0% yearly. However, 16.2% do not use bank statement. The second item on income statement, respondents prepared the statement on the following frequency; daily 4.1%, weekly 6.8%, monthly 43.2%, quarterly 1.4%, half-yearly 1.4% and yearly 6.8% while 36.8% of the respondents are not familiar with income statement. The third item, balance sheet statement, received a familiarity response on the following basis: daily 1.4%, weekly 2.7%, monthly 17.6%, quarterly 5.4%, half-yearly 0.0% and yearly 9.5%, while 63.5% of the respondents gave a response of not used the statement. The fourth item, which was on statement of changes in equity, received a familiarity response on the following basis: daily 2.7%, weekly 5.4%, monthly 10.8%, quarterly 0.0%, half-yearly 1.4% and yearly 1.4%, while 78.4% of the respondents gave a response of not used. The next item about cash flow statement gave frequency of usage response on the following basis: daily 0.0%, weekly 2.7%, monthly 10.8%, quarterly 2.7%, half-yearly 0.0% and yearly 8.1%, while 75.7% of the

respondent gave a response of not used. The last item, cash budget received a familiarity response on the following basis: daily 0.0%, weekly 4.1%, monthly 9.5%, quarterly 4.1%, half-yearly 0.0% and yearly 4.1%, while 78.4% of the respondent gave a response of not used.

Table 4.3: Respondents level of familiarity with the statements

Items	RESPONSE3							Mean	Remark	
	Daily	Weekl y	Monthl y	Quarterl y	Half-		Not used			Total
					yearl y	Yearl y				
Bank	3	15	42	2	0	0	12	74		
Statemen t	4.1 %	20.3%	56.8%	2.7%	0.0%	0.0%	16.2 %	100.0 %		
Income	3	5	32	1	1	5	27	74		
Statemen t	4.1 %	6.8%	43.2%	1.4%	1.4%	6.8%	36.5 %	100.0 %		
Balance	1	2	13	4	0	7	47	74		
Sheet	1.4	2.7%	17.6%	5.4%	0.0%	9.5%	63.5	100.0		
Statemen t	%						%	%		
Statemen t of	2	4	8	0	1	1	58	74		
Changes in Equity	2.7 %	5.4%	10.8%	0.0%	1.4%	1.4%	78.4 %	100.0 %		
Cash	0	2	8	2	0	6	56	74		
Flow	0.0	2.7%	10.8%	2.7%	0.0%	8.1%	75.7	100.0		
Statemen t	%						%	%		
Cash	0	3	7	3	0	3	58	74		
Budget	0.0	4.1%	9.5%	4.1%	0.0%	4.1%	78.4	100.0		
	%						%	%		
Total	9	31	110	12	2	22	258	444		
	2.0 %	7.0%	24.8%	2.7%	0.5%	5.0%	58.1 %	100.0 %		

Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	153.850 ^a	30	.000
Likelihood Ratio	160.586	30	.000
Linear-by-Linear Association	98.226	1	.000
N of Valid Cases	444		

a. 24 cells (57,1%) have expected count less than 5. The minimum expected count is ,33.

H₀: There is no statistical significant difference in the usage frequency of financial activities by the SMEs business owner manager.

The chi-square analysis tested the statistical significant difference in the level of usage frequency experience by SMEs in Cape Town metropolis to different financial activities such as: bank statement, income statement, balance sheet statement, statement of changes in equity, cash flow statement and cash budget. The chi-square asymptotic significant level is less than 0.05 ($0.000 < \alpha < 0.05$) Therefore, it confirmed rejection of the null hypothesis and supported the conclusion of statistically significant difference in the level of SMEs usage frequency of financial activities. The result is clear from a close observation of the figure below

4.2.4 Familiarity with Business Profitability (FBP)

Table 4.4 provides answers to the question raised on how familiar owner-managers are about profit in their business. Out of 74 respondents, on sales (turnover), 91.9% of the respondents were most familiar, 5.4% least familiar and 5.4% not familiar at all. The second item was on cash received; 94.6% of the respondents were most familiar, 1.4% least familiar and 4.1% not familiar at all. The next item asked about cash received less cash paid; 78.1% of the respondents were most familiar, 13.7% least familiar, while 8.2% were not familiar at all with cash received less cash paid. The fourth item is on profit per income statement; 64.9% of the respondents were most familiar, 13.5% least familiar and 21.6% not familiar with profit per income statement.

Table 4.4: Familiarity of business profits

	RESPONSE4				Mean	Remark
	Most Familiar	Least Familiar	Not Familiar at all	Total		
Sales(turnover)	68 91.9%	4 5.4%	2 2.7%	74 100.0%		
Cash Received	70 94.6%	1 1.4%	3 4.1%	74 100.0%		
Cash Received less cash paid	57 78.1%	10 13.7%	6 8.2%	73 100.0%		
Profit per income statement	48 64.9%	10 13.5%	16 21.6%	74 100.0%		
Total	243 82.4%	25 8.5%	27 9.2%	295 100.0%		

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	32.999 ^a	6	.000
Likelihood Ratio	33.324	6	.000
Linear-by-Linear Association	24.441	1	.000
N of Valid Cases	295		

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 6.19.

H₀: There is no statistically significant difference in the extent of familiarity of SMEs business owner manager to the business profitability measures.

The chi-square analysis tests the statistically significant difference in the level of familiarity experience by SMEs in Cape Town metropolis to different business profitability measures such as: Sales (turnover), Cash Received, Cash Received less cash paid, and profit per income

statement. The chi-square asymptotic significant level is less than 0.05 ($0.000 < \alpha < 0.05$) Therefore we confirmed the rejection of null hypothesis of and support the conclusion of statistically significant differences in the level of SMEs familiarity to difference business profitability measures. The result is visually evident by close observing figure 4.3.

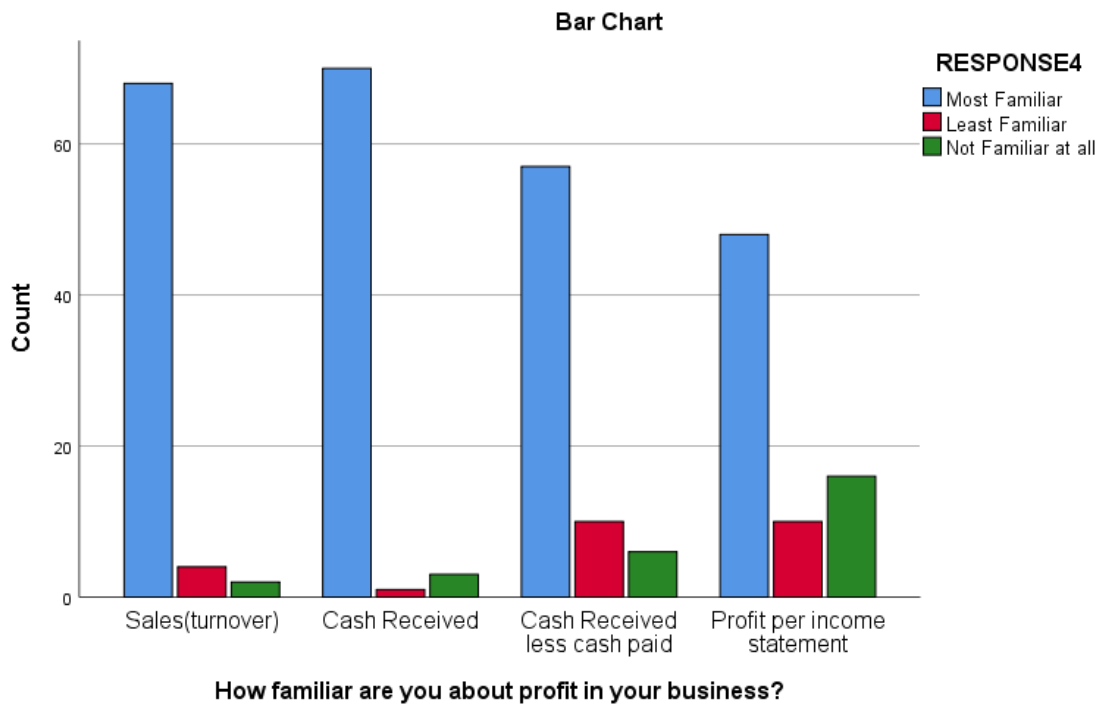


Figure 4.3: How familiar are you about profit in your business?

4.2.5 Business Profitability Measurement (BPM)

Table 4.5 used to provide answers to the question raised on what is been used to measure profitability in their business. Out of 74 respondents, on sales (turnover), 5.4% of the respondents did not use sales, 93.2% used sales most often and 1.4% least often used sales (turnover) to measure profitability. The second item was on cash received: 10.8% of the respondents did not use cash received, 86.5% used cash received most often and 2.7% least often used cash received to measure profitability. The next item asked about cash received less cash paid, 35.1% of the respondents did not use cash received less cash paid, 64.9% used cash received less cash paid most often and 0.0% least often used cash received less cash paid to measure profitability. The fourth item was on profit per income statement, 39.2% of the respondents did not use profit per income statement, 58.1% used profit per income statement most often and 2.7% least often used profit per income statement to measure profitability.

Table 4.5: SMEs measures of profitability in Cape Metropole

	RESPONSE5				Mean	Remark
	Not used	Most used	often used	Least often used		
Sales(turnover)	4	69	1	74		
	5.4%	93.2%	1.4%	100.0%		
Cash Received	8	64	2	74		
	10.8%	86.5%	2.7%	100.0%		
Cash Received less cash paid	26	48	0	74		
	35.1%	64.9%	0.0%	100.0%		
Profit per income statement	29	43	2	74		
	39.2%	58.1%	2.7%	100.0%		
Total	67	224	5	296		
	22.6%	75.7%	1.7%	100.0%		

Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	38.865 ^a	6	.000
Likelihood Ratio	43.119	6	.000
Linear-by-Linear Association	28.588	1	.000
N of Valid Cases	296		

a. 4 cells (33.3%) have expected count less than 5. The minimum expected count is 1.25.

H₀: There is no statistically significant difference in the usage frequency of SMEs business owner manager to business profitability measures.

The chi-square analysis tested the statistically significant difference in the level of usage frequency experience by SMMEs in Cape Town metropolis to different business profitability measures such as: Sales (turnover), Cash Received, Cash Received less cash paid, and profit per income statement. The chi-square asymptotic significant level is less than 0.05 ($0.000 < \alpha <$

0.05). Therefore, it confirms rejection of the null hypothesis and supports the conclusion of statistically significant differences in the level of SMEs usage frequency of business profitability measures. This is clearly evident by observing figure 4.4.

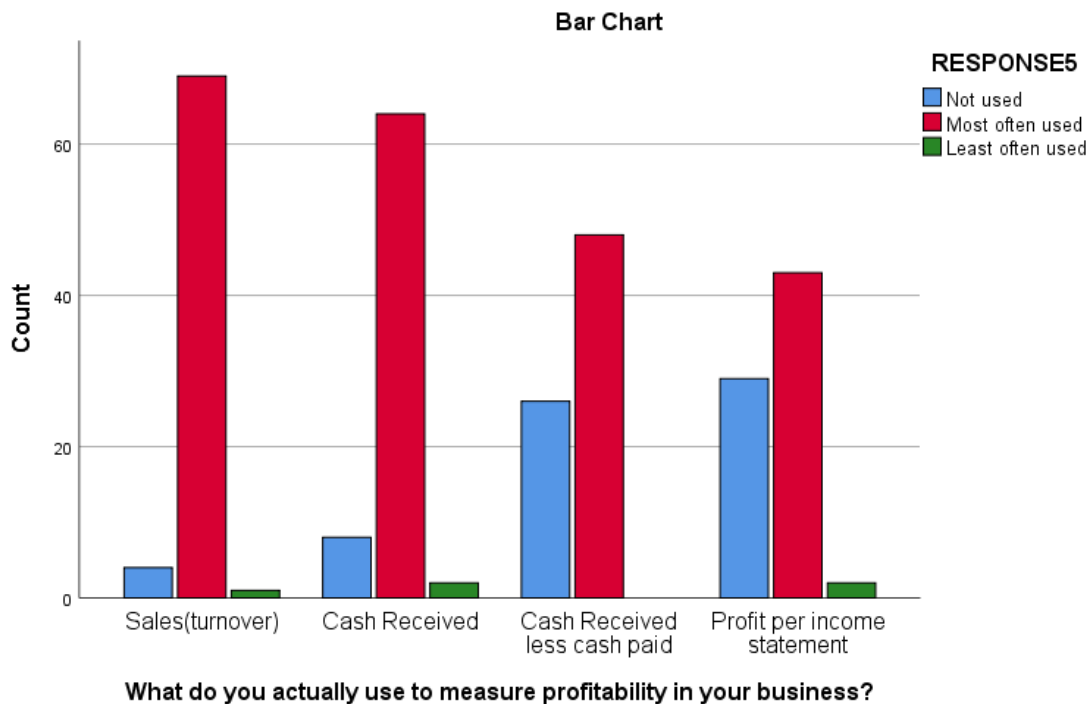


Figure 4.4: What do you actually use to measure profitability in your business?

4.2.6 Frequency of Preparation and Evaluation Profitability Measurement (FPEPM)

In Table 4.6, items were raised to provide answer to the question: which of the following financial ratios owner-managers are familiar with and which ones do they actually use. Out of 74 respondents, on gross profit %, 52.7% of the respondents were not familiar, 21.6% were familiar, but do not use it, 17.6% were familiar and also use it and 8.1% of the respondent only found it to be useful. The second item was on net profit %: 50.0% of the respondents were not familiar, 28.4% are familiar but does not use it, 13.5% are familiar and also use it and 8.1% found it to be useful. The next financial ratio asked about asset turnover: 71.6% of the respondents were not familiar, 8.1% were familiar, but do not use it, 12.2% were familiar and use it and 8.1% found it to be useful. The fourth financial ratio was on debtor collection period: 59.5% of the respondents were not familiar, 21.6% were familiar, but do not use it, 8.1% were familiar and also use it and 10.8% found it to be useful. The fifth financial ratio related to days' inventory on hand: 77.0% of the respondents were not familiar, 10.8% were familiar, but do not use it, 8.1% were familiar and also use it and 4.1% only found it to be useful. For the sixth financial ratio on creditors payment period, 70.3% of the respondents were not familiar, 13.5% were familiar, but do not use it, 13.5% were familiar and also use it and 2.7% found it to be useful. The last financial ratio was on current ratio: 63.5% of the respondents were not familiar, 24.3% are familiar but does not use it, 8.1% were familiar and also use it and 4.1% found it to be useful.

Table 4.6 Familiarity and use of financial ratios by SMEs

	RESPONSE6.1					Mean	Remark
	Not Familiar with	Familiar but not used	Familiar with and used	Found it to be useful	Total		
Gross profit %	39 52.7%	16 21.6%	13 17.6%	6 8.1%	74 100.0%		
Net profit %	37 50.0%	21 28.4%	10 13.5%	6 8.1%	74 100.0%		
Asset turnover	53 71.6%	6 8.1%	9 12.2%	6 8.1%	74 100.0%		
Debtors Collection period	44 59.5%	16 21.6%	6 8.1%	8 10.8%	74 100.0%		
Days inventory on hand	57 77.0%	8 10.8%	6 8.1%	3 4.1%	74 100.0%		
Creditors Payment Period	52 70.3%	10 13.5%	10 13.5%	2 2.7%	74 100.0%		
Current Ration	47 63.5%	18 24.3%	6 8.1%	3 4.1%	74 100.0%		
Total	329 63.5%	95 18.3%	60 11.6%	34 6.6%	518 100.0%		

Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	31.979 ^a	18	.022
Likelihood Ratio	33.152	18	.016
Linear-by-Linear Association	8.308	1	.004
N of Valid Cases	518		

- a. 7 cells (25.0%) have expected count less than 5. The minimum expected count is 4.86.

H₀: There is no statistical significant difference in the financial ratio that SMEs business owner manager are familiar to and the one they actually use.

The chi-square analysis tested the statistical significant difference in the level of familiarity and usage of financial activities by SMEs in Cape Town metropolis such as: gross profit %, Net profit %, Asset turn over, Debtor collection period, Days inventory on hand, Creditors Payment period and Current ration. The chi-square asymptotic significant level is less than 0.05 ($0.022 < \alpha < 0.05$). Therefore, it confirms rejection of null hypothesis and supports the conclusion of a statistically significant difference in the level of SMEs familiarity and usage of financial ratio. The result is visually evident by closely observing figure 4.5.

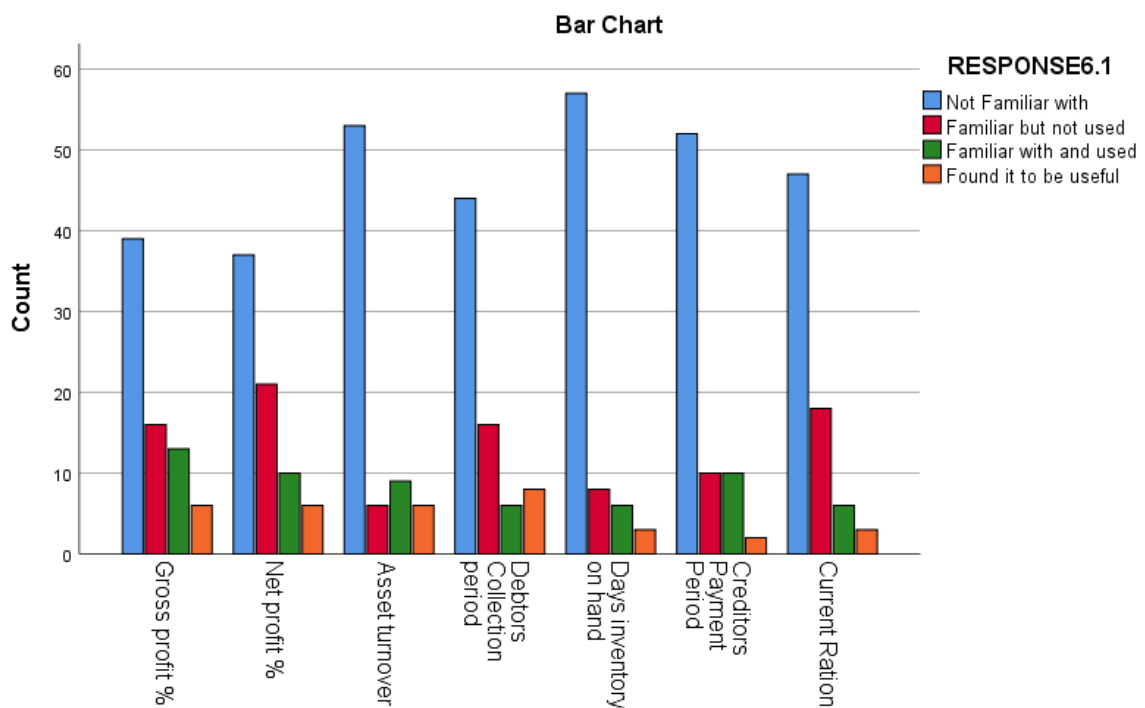


Figure 4.5: How familiar are you with the usage of financial ratios?

In Table 4.7, items on different financial ratios were raised to provide on which of the following financial ratios were familiar with and which ones they actually used. Out of 74 (100%) respondents, on growth in sales, expenses or assets, 78.4% of the respondents were not familiar, 8.1% were familiar, but do not use it, 10.8% were familiar and also use it and 2.7% found it to be useful. The second ratio was on interest cover, 73.0% of the respondents were not familiar with interest cover: 16.2% were familiar, but do not use it, 9.5% were familiar and also use it and 1.4% found it to be useful. The next ratio asked about debt ratio: 64.9% of the respondents were not familiar, 20.3% were familiar, but do not use it, 9.5% were familiar and

also use it and 5.4% found it to be useful. The fourth financial ratio was on return on sales: 67.6% of the respondents were not familiar, 17.6% were familiar, but do not use it, 5.4% were familiar and also use it and 9.5% found it to be useful. To the fifth financial ratio on return on stock holder's equity: 79.7% of the respondents were not familiar, 8.1% were familiar, but do not use it, 6.8% were familiar and also use it and 5.4% found it to be useful. The sixth financial ratio was on acid test ratio: 68.9% of the respondents were not familiar, 21.6% were familiar, but do not use it, 5.4% were familiar and also use it and 4.1% found it to be useful.

Table 4.7 Familiarity and use of financial ratios by SMEs

	RESPONSE6.2					Mean	Remark
	Not Familiar with	Familiar but used	Familiar not used	Familiar with and Found it to be useful	Total		
Growth in sales, expenses or assets	58 78.4%	6 8.1%	8 10.8%	2 2.7%	74 100.0%		
Interest cover	54 73.0%	12 16.2%	7 9.5%	1 1.4%	74 100.0%		
Debt ratio	48 64.9%	15 20.3%	7 9.5%	4 5.4%	74 100.0%		
Return on sales	50 67.6%	10 13.5%	7 9.5%	7 9.5%	74 100.0%		
Return on assets	50 67.6%	13 17.6%	4 5.4%	7 9.5%	74 100.0%		
Return on stockholder's equity	59 79.7%	6 8.1%	5 6.8%	4 5.4%	74 100.0%		
Acid test ratio	51 68.9%	16 21.6%	4 5.4%	3 4.1%	74 100.0%		
Total	370 71.4%	78 15.1%	42 8.1%	28 5.4%	518 100.0%		

Chi-Square Tests

	Value	df	Asymptotic Significance (2- sided)
Pearson Chi-Square	21.418 ^a	18	.259
Likelihood Ratio	22.463	18	.212
Linear-by-Linear Association	.128	1	.720
N of Valid Cases	518		

a. 7 cells (25.0%) have expected count less than 5. The minimum expected count is 4.00.

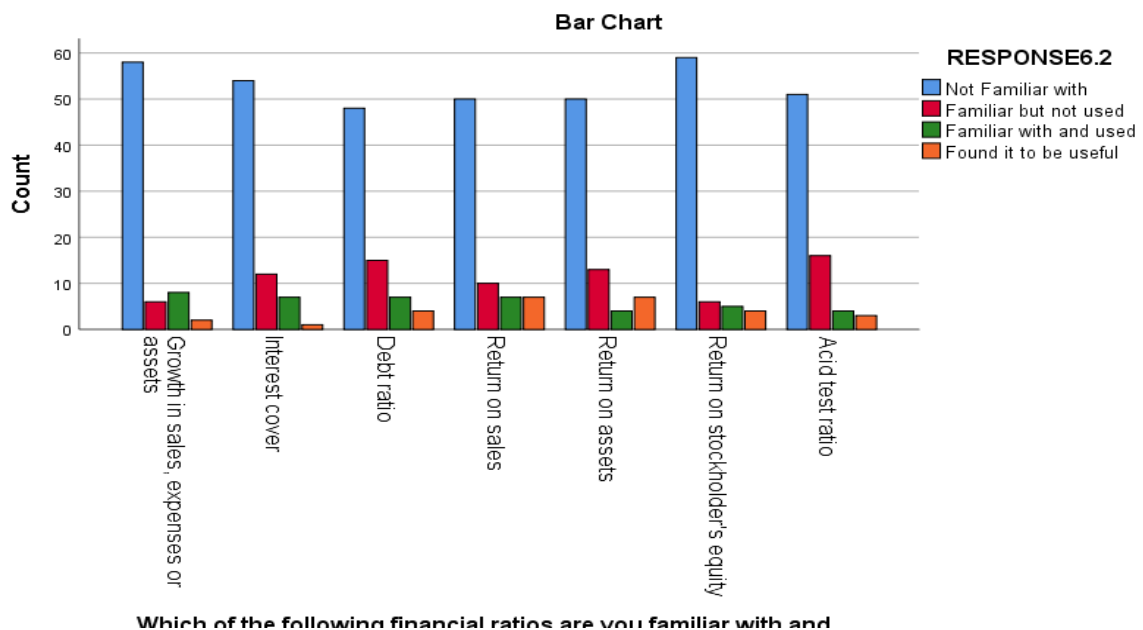


Figure 4.6: Which of the following ratios are you familiar with?

In Table 4.8, items on different financial ratios were raised to provide answer to the question regarding financial ratios owner-managers were familiar with and which ones they actually used. Out of 74 (100%) respondents, on cash ratio, 64.9% of them were not familiar, 24.3% were familiar, but do not use it, 8.1% were familiar and also use it and 2.7% found it to be useful. The second ratio was on net working capital: 67.6% were not familiar, 16.2% were familiar, but do not use it, 10.8% were familiar and also use it and 5.4% found it to be useful. The next ratio asked about day sales outstanding: 75.5% of the respondent were not familiar, 9.5% were familiar, but do not use it, 9.5% were familiar and also use it and 5.4% found it to be useful. The fourth financial ratio was inventory turnover: 79.7% of the respondent were not familiar, 9.5% were familiar, but do not use it, 8.1% were familiar and also use it and 2.7% found it to be useful. For the fifth financial ratio on accounts payable turnover, 82.4% not familiar, 5.4% were familiar, but do not use it, 9.5% were familiar and also use it and 2.7%

found it to be useful. On the sixth financial ratio on operating cycle, 82.4% not familiar, 9.5% were familiar, but do not use it, 4.1% were familiar and also use it and 4.1% found it to be useful. For the last financial ratio, which was on cash conversion cycle, 82.4% were not familiar, 5.4% were familiar, but do not use it, 9.5% were familiar and use it and 2.7% found it to be useful.

Table 4.8: Familiarity and use of financial ratios by SMEs

*** RESPONSE 6.3 Cross tabulation**

	RESPONSE6.3					Mean	Remark
	Not familiar with	Familiar but not used	Familiar with and used	Found it to be useful	Total		
Cash ratio	48 64.9%	18 24.3%	6 8.1%	2 2.7%	74 100.0%		
Net working capital	50 67.6%	12 16.2%	8 10.8%	4 5.4%	74 100.0%		
Days sales outstanding	56 75.7%	7 9.5%	7 9.5s%	4 5.4%	74 100.0%		
Inventory turnover	59 79.7%	7 9.5%	6 8.1%	2 2.7%	74 100.0%		
Accounts payable turnover	61 82.4%	4 5.4%	7 9.5%	2 2.7%	74 100.0%		
Operating cycle	61 82.4%	7 9.5%	3 4.1%	3 4.1%	74 100.0%		
Cash conversion cycle	61 82.4%	4 5.4%	7 9.5%	2 2.7%	74 100.0%		
Total	396 76.4%	59 11.4%	44 8.5%	19 3.7%	518 100.0%		

Chi-Square Tests

Value	df	Asymptotic Significance (2-sided)
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Pearson Chi-Square	25.429 ^a	18	.114
Likelihood Ratio	24.098	18	.152
Linear-by-Linear	5.027	1	.025
Association			
N of Valid Cases	518		

a. 7 cells (25.0%) have expected count less than 5. The minimum expected count is 2.71.

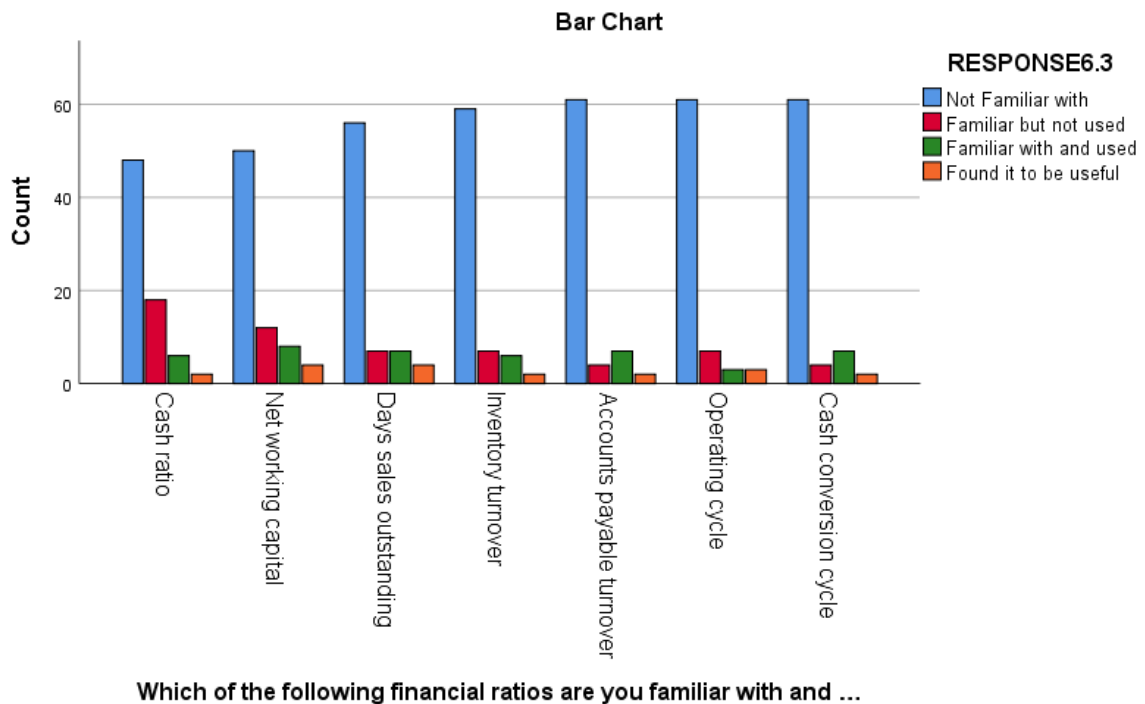


Figure 4.7: Which of the following financial ratios are you familiar with?

In Table 4.9, items on different financial ratios were raised to provide answers regarding which financial ratios owner-managers were familiar with and which ones they actually use. Out of 74 (100%) respondents, on equity ratio, 67.6% of them were not familiar, 17.6% were familiar, but do not use it, 10.8% were familiar and also use it and 4.1% found it to be useful. The second ratio was on debt equity ratio: 73.0% of the respondents were not familiar, 18.9% were familiar, but do not use it, 5.4% were familiar and also use it and 2.7% found it to be useful. The next ratio asked about times interest earned: 78.4% of the respondents were not familiar, 9.5% were familiar, but do not use it, 5.4% were familiar and also use it and 6.8% found it to be useful. The fourth financial ratio was on earning per share: 75.7% were not familiar, 13.5% were familiar, but do not use it, 5.4% were familiar and also use it and 5.4% found it to be useful. Regarding the fifth financial ratio on price earnings ratio, 77.0% were not familiar, 12.2% were familiar, but do not use it, 5.4% were familiar and also use it and 5.4% found it to be useful. The sixth financial ratio was on dividend price ratio: 77.0% were not familiar, 12.2% were familiar, but do not use it, 5.4% are familiar and also use it and 5.4% found it to be useful. On the next financial ratio, which was on dividend yield ratio: 77.0% were not familiar, 13.5%

were familiar, but do not use it, 5.4% were familiar and also use it and 4.1% found it to be useful. The last financial ratio, which was on book value per share: 86.5% of the respondent were not familiar, 4.1% were familiar, but does not use it, 5.4% were familiar and also use it and 4.1 found it to be useful.

Table 4.9: Familiarity and use of financial ratios by SMEs

RESPONSE6.4						Mean	Remark
	Not Familiar with	Familiar but not used	Familiar and used	Familiar with Found it to be useful	Total		
Equity ratio	50 67.6%	13 17.6%	8 10.8%	3 4.1%	74 100.0%		
Debt equity ratio	54 73.0%	14 18.9%	4 5.4%	2 2.7%	74 100.0%		
Times interest earned	58 78.4%	7 9.5%	4 5.4%	5 6.8%	74 100.0%		
Earnings per share	56 75.7%	10 13.5%	4 5.4%	4 5.4%	74 100.0%		
Price earnings ratio	57 77.0%	9 12.2%	4 5.4%	4 5.4%	74 100.0%		
Dividend price ratio	57 77.0%	9 12.2%	4 5.4%	4 5.4%	74 100.0%		
Dividend yield ratio	57 77.0%	10 13.5%	4 5.4%	3 4.1%	74 100.0%		
Book value per share	64 86.5%	3 4.1%	4 5.4%	3 4.1%	74 100.0%		
Total	453 76.5%	75 12.7%	36 6.1%	28 4.7%	592 100.0%		

Chi-Square Tests

	Value	df	Asymptotic Significance (2- sided)
Pearson Chi-Square	15.464 ^a	21	.799
Likelihood Ratio	16.181	21	.759
Linear-by-Linear Association	2.275	1	.131
N of Valid Cases	592		

a. 16 cells (50.0%) have expected count less than 5. The minimum expected count is 3.50.

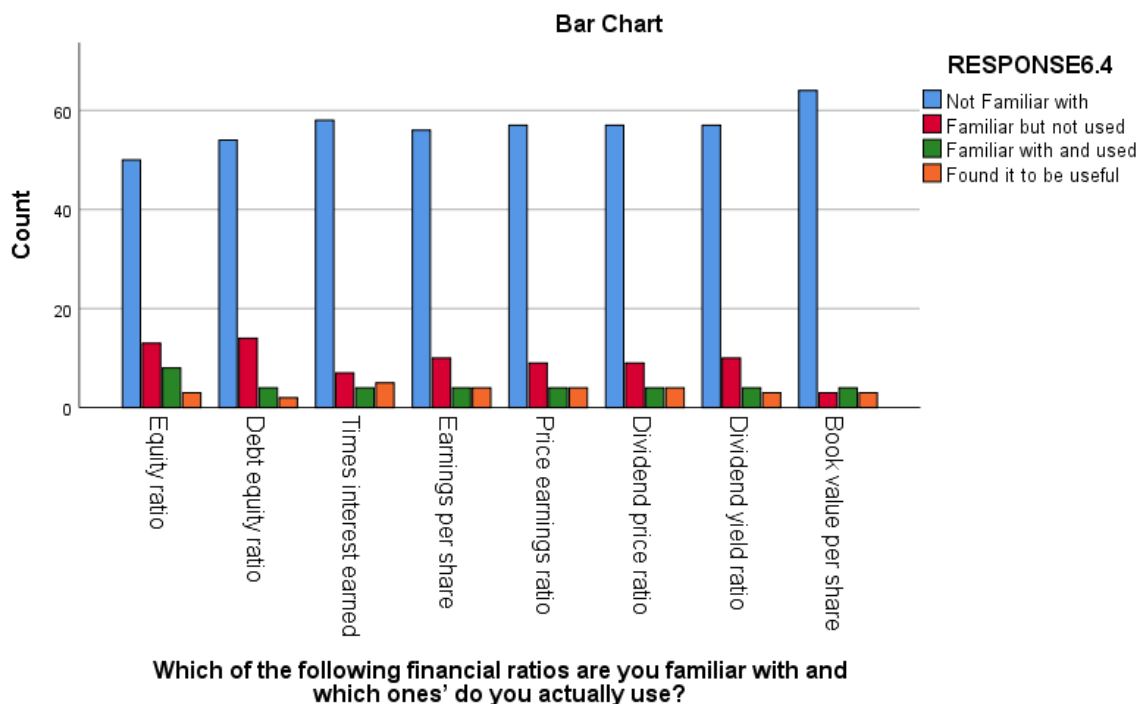


Figure 4.8: Which of the following financial ratios are you familiar with and which ones' do you actually use?

4.2.7 Evaluation of Financial Performance (EFR)

In Table 4.10, items were raised on various bank statements to provide answer to the question on the measure used to evaluate Financial Performance. Out of 74 respondents, 20.3% ticked 'familiar' with financial performance measure, while 79.7% ticked 'familiar' with bank statement. The second item was about income statement; 25.4% ticked 'not familiar', while 57(77.0%) responses ticked 'familiar' with income statement. The next item asked about balance sheet

statement: 21.4% respondents ticked 'not familiar' with the statement and 78.4% ticked 'familiar' with the balance sheet statement.

Table 4.10: Familiarity with financial statements

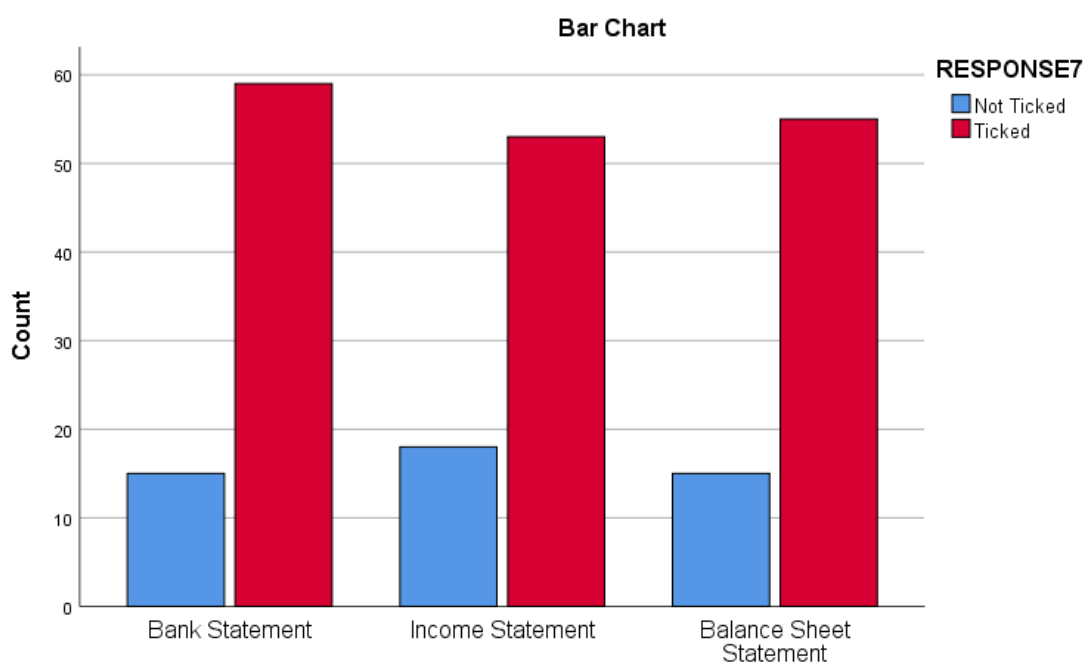
Crosstab					
Items	RESPONSE7			Mean	Remark
	Not Ticked	Ticked	Total		
Bank Statement	15	59	74		
	20.3%	79.7%	100.0%		
Income Statement	18	53	71		
	25.4%	74.6%	100.0%		
Balance Sheet Statement	15	55	70		
	21.4%	78.6%	100.0%		
Total	48	167	215		
	22.3%	77.7%	100.0%		

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	.588 ^a	2	.745
Likelihood Ratio	.581	2	.748
Linear-by-Linear Association	.032	1	.858
N of Valid Cases	215		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 15,63.

The chi-square analysis tested if there was a statistically significant difference in the level of familiarity experience by SMEs in Cape Town metropolis to different financial statement such as: bank statement, income statement, balance sheet statement, statement of changes in equity, cash flow statement and cash budget. The ch-square asymptotic significant level of 0.000, which is less than 0.05, confirmed the rejection of null hypothesis and supported the conclusion of statistically significant differences in the level of SMEs familiarity to different financial statements.



Which of the following statements of financial statements are you ...

Figure 4.9: Which of the following statements of financial statements are you familiar with?

4.2.8 Familiarity and Usage of Financial Ratio (FUFRR)

In Table 4.11, items were raised on various financial ratio to provide answer to question on the level of familiarity with financial statement on different basis. Out of 74 (100%) respondents, for item one, which was on gross profit%, responses were received of the level of familiarity on the following basis: 4.1% daily, 14.9% weekly, 68.9% monthly, 1.4% quarterly, 2.7% half-yearly and 8.1% yearly. On the second item on net profit%, respondents were familiar with the statement on the following basis: daily 4.1%, weekly 12.2%, monthly 70.3%, quarterly 1.4%, half-yearly 5.4% and yearly 6.8%.

Table 4.11: Familiarity and use of financial ratios by SMEs

RESPONSE8								Mean	Remark
Daily	Weekly	Monthly	Yearly	Quarterly	Half-Yearly	Total			
Gross profit %	3 4.1%	11 14.9%	51 68.9%	6 8.1%	1 1.4%	2 2.7%	74 100.0%		
Net profit %	3 4.1%	9 12.2%	52 70.3%	5 6.8%	1 1.4%	4 5.4%	74 100.0%		
Total	6	20	103	11	2	6	148		
	4.1%	13.5%	69.6%	7.4%	1.4%	4.1%	100.0%		

Chi-Square Tests

	Value	df	Asymptotic Significance (2- sided)
Pearson Chi-Square	.967 ^a	5	.965
Likelihood Ratio	.981	5	.964
Linear-by-Linear Association	.416	1	.519
N of Valid Cases	148		

a. 6 cells (50.0%) have expected count less than 5. The minimum expected count is 1.00.

H₀: There is no statistically significant difference in the financial ratio that SMEs business owner manager are familiar to and the one they actually use.

The chi-square analysis testing the statistically significant difference in the level of familiarity and usage of financial ratio by SMEs in Cape Town metropolis such as: gross profit % and Net profit %. The chi-square asymptotic significant level is greater than 0.05 ($0.022 < \alpha < 0.05$) Therefore, we do not reject the null hypothesis of no statistically significant differences in the level of SMEs familiarity and usage of financial ratio. The result is clearly evident through observation of figure 4.10.

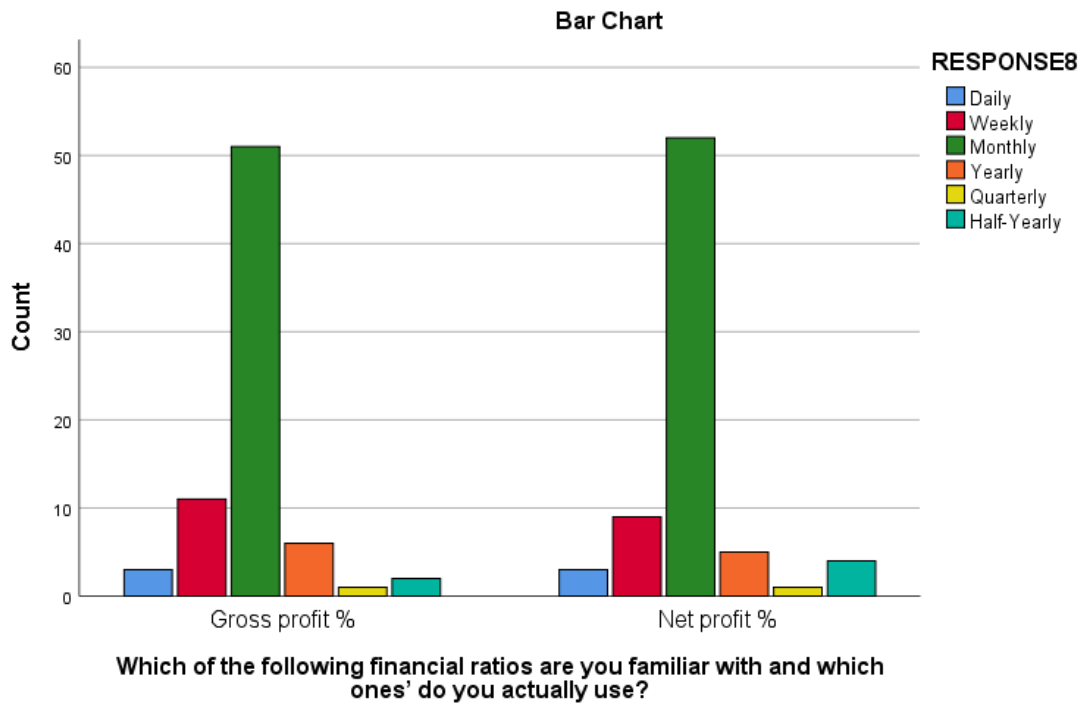


Figure 4.10: Which of the following financial ratios are you familiar with and which ones' do you actually use?

Descriptive Analysis of Business Growth and Familiarity and Usage of Financial Performance Measurement

		N	Mean	Std. Deviation
FFS	Not growing	7	.2381	.34503
	Slowly	44	.6061	.36672
	Faster	23	.8188	.26070
	Total	74	.6374	.36842
PFA	Not growing	7	.0952	.08909
	Slowly	44	.4205	.41060
	Faster	23	.5725	.26980
	Total	74	.4369	.37288
UFFA	Not growing	7	6.6190	.36911
	Slowly	44	5.3788	1.49174
	Faster	23	4.8261	1.13427
	Total	74	5.3243	1.39659
FBP	Not growing	7	1.8571	.55635
	Slowly	44	1.3068	.46650
	Faster	23	1.0000	.00000

	Total	74	1.2635	.45873
BPM	Not growing	7	.5357	.33630
	Slowly	44	.7386	.26934
	Faster	23	.9674	.13702
	Total	74	.7905	.27457
FUFR	Not growing	7	1.0345	.09123
	Slowly	44	1.4122	.70367
	Faster	23	1.6297	.74982
	Total	74	1.4441	.69953
EFR	Not growing	7	.4762	.46576
	Slowly	44	.6061	.43296
	Faster	23	.9275	.22375
	Total	74	.6937	.41198
FPEPM	Not growing	7	.4167	.14434
	Slowly	44	.4830	.18554
	Faster	23	.5290	.13672
	Total	74	.4910	.16925

Multiple Comparisons

Dependent Variable	(I) Is your business growing	(J) Is your business growing	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval		
						Lower Bound	Upper Bound	
FFS	Not growing	Slowly	-.36797*	.13653	.031	-.7093	-.0266	
		Faster	-.58075*	.14483	.001	-.9429	-.2186	
	Slowly	Not growing	.36797*	.13653	.031	.0266	.7093	
		Faster	-.21278	.08633	.054	-.4286	.0031	
	Faster	Not growing	.58075*	.14483	.001	.2186	.9429	
		Slowly	.21278	.08633	.054	-.0031	.4286	
	PFA	Not growing	Slowly	-.32522	.14406	.085	-.6854	.0350
			Faster	-.47723*	.15282	.010	-.8593	-.0951
Slowly		Not growing	.32522	.14406	.085	-.0350	.6854	
		Faster	-.15201	.09109	.255	-.3798	.0757	
Faster		Not growing	.47723*	.15282	.010	.0951	.8593	

		Slowly	.15201	.09109	.255	-.0757	.3798
UFFA	Not growing	Slowly	1.24026	.53951	.078	-.1087	2.5892
		Faster	1.79296*	.57232	.010	.3620	3.2239
	Slowly	Not growing	-1.24026	.53951	.078	-2.5892	.1087
		Faster	.55270	.34115	.276	-.3003	1.4057
	Faster	Not growing	-1.79296*	.57232	.010	-3.2239	-.3620
		Slowly	-.55270	.34115	.276	-1.4057	.3003
FBP	Not growing	Slowly	.55032*	.16173	.005	.1460	.9547
		Faster	.85714*	.17156	.000	.4282	1.2861
	Slowly	Not growing	-.55032*	.16173	.005	-.9547	-.1460
		Faster	.30682*	.10226	.014	.0511	.5625
	Faster	Not growing	-.85714*	.17156	.000	-1.2861	-.4282
		Slowly	-.30682*	.10226	.014	-.5625	-.0511
BPM	Not growing	Slowly	-.20292	.09910	.130	-.4507	.0449
		Faster	-.43168*	.10513	.001	-.6945	-.1688
	Slowly	Not growing	.20292	.09910	.130	-.0449	.4507
		Faster	-.22875*	.06266	.002	-.3854	-.0721
	Faster	Not growing	.43168*	.10513	.001	.1688	.6945
		Slowly	.22875*	.06266	.002	.0721	.3854
FUFR	Not growing	Slowly	-.37774	.28039	.408	-1.0788	.3233
		Faster	-.59520	.29744	.143	-1.3389	.1485
	Slowly	Not growing	.37774	.28039	.408	-.3233	1.0788
		Faster	-.21746	.17730	.475	-.6608	.2258
	Faster	Not growing	.59520	.29744	.143	-.1485	1.3389
		Slowly	.21746	.17730	.475	-.2258	.6608
EFR	Not growing	Slowly	-.12987	.15621	.709	-.5205	.2607
		Faster	-.45135*	.16571	.029	-.8657	-.0370
	Slowly	Not growing	.12987	.15621	.709	-.2607	.5205
		Faster	-.32148*	.09878	.007	-.5685	-.0745
	Faster	Not growing	.45135*	.16571	.029	.0370	.8657
		Slowly	.32148*	.09878	.007	.0745	.5685
FPEPM	Not growing	Slowly	-.06629	.06858	.629	-.2378	.1052
		Faster	-.11232	.07275	.310	-.2942	.0696
	Slowly	Not growing	.06629	.06858	.629	-.1052	.2378
		Faster	-.04603	.04336	.572	-.1545	.0624

Faster	Not growing	.11232	.07275	.310	-.0696	.2942
	Slowly	.04603	.04336	.572	-.0624	.1545

*. The mean difference is significant at the 0.05 level.

ANOVA

		Sum	of	Mean		
		Squares	df	Square	F	Sig.
FFS	Between	1.917	2	.958	8.513	.000
	Groups					
	Within Groups	7.992	71	.113		
	Total	9.909	73			
PFA	Between	1.252	2	.626	4.994	.009
	Groups					
	Within Groups	8.898	71	.125		
	Total	10.150	73			
UFFA	Between	17.574	2	8.787	4.999	.009
	Groups					
	Within Groups	124.809	71	1.758		
	Total	142.383	73			
FBP	Between	4.146	2	2.073	13.125	.000
	Groups					
	Within Groups	11.215	71	.158		
	Total	15.361	73			
BPM	Between	1.292	2	.646	10.896	.000
	Groups					
	Within Groups	4.211	71	.059		
	Total	5.503	73			
FUFR	Between	2.011	2	1.006	2.118	.128
	Groups					
	Within Groups	33.710	71	.475		
	Total	35.722	73			
EFR	Between	1.927	2	.963	6.537	.002
	Groups					
	Within Groups	10.464	71	.147		

	Total	12.390	73			
FPEPM	Between	.075	2	.037	1.315	.275
	Groups					
	Within Groups	2.017	71	.028		
	Total	2.091	73			

Does measuring financial performance bring about sustainable growth in SMEs?

Table: 4.12 Regression Analysis

Descriptive Statistics

	Mean	Std. Deviation	N
Business Growth Index (BGI)	.6081	.30148	74
Familiarity and Usage of Financial Ratio (FUFR)	.3614	.17468	74
Evaluation of Financial Performance (EFR)	.6937	.41198	74
Frequency of Preparation and Evaluation Profitability Measurement (FPEPM)	.4910	.16925	74
Business Profitability Measurement (BPM)	.7905	.27457	74
Familiarity with Business Profitability (FBP)	1.2635	.45873	74
Usage or Frequency of Financial Activities (UFFA)	5.3243	1.39659	74
Preparation of Financial Activities (PFA)	.4369	.37288	74
Familiarity with Financial Statement (FFS)	.6374	.36842	74

Figure 4.11: Financial statement familiarity and business growth.

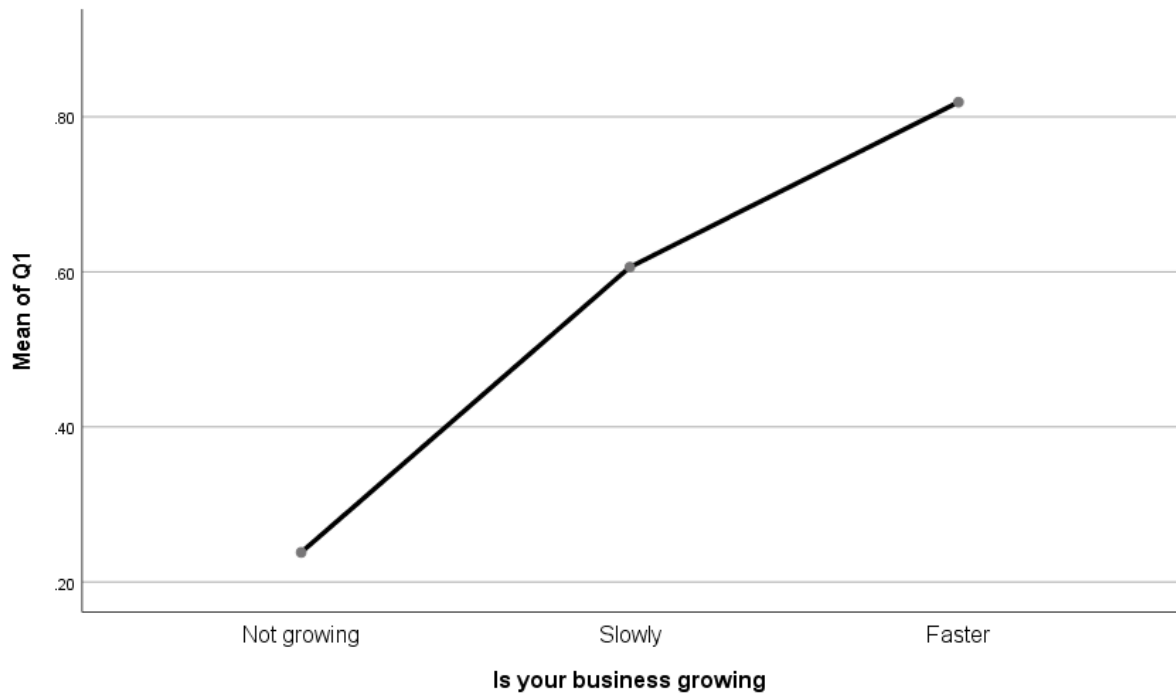


Figure 4.11 shows the relationship between the extent of familiarity to financial statement and business growth. The graph depicts that a high SMEs business owner-managers' perceived business growth is directly proportional to the depth of familiarity with financial statement measures. This indicates that the likelihood of failure of SMEs could be minimised by increased knowledge and familiarity of financial statement measurement. SMEs that experienced business retardation have the lowest familiarity with financial statement, followed by those that experienced slow business growth and the SMEs that experience faster growth have familiarity with financial statement.

Figure 4.12: Financial Activities Prepared and Business Growth.

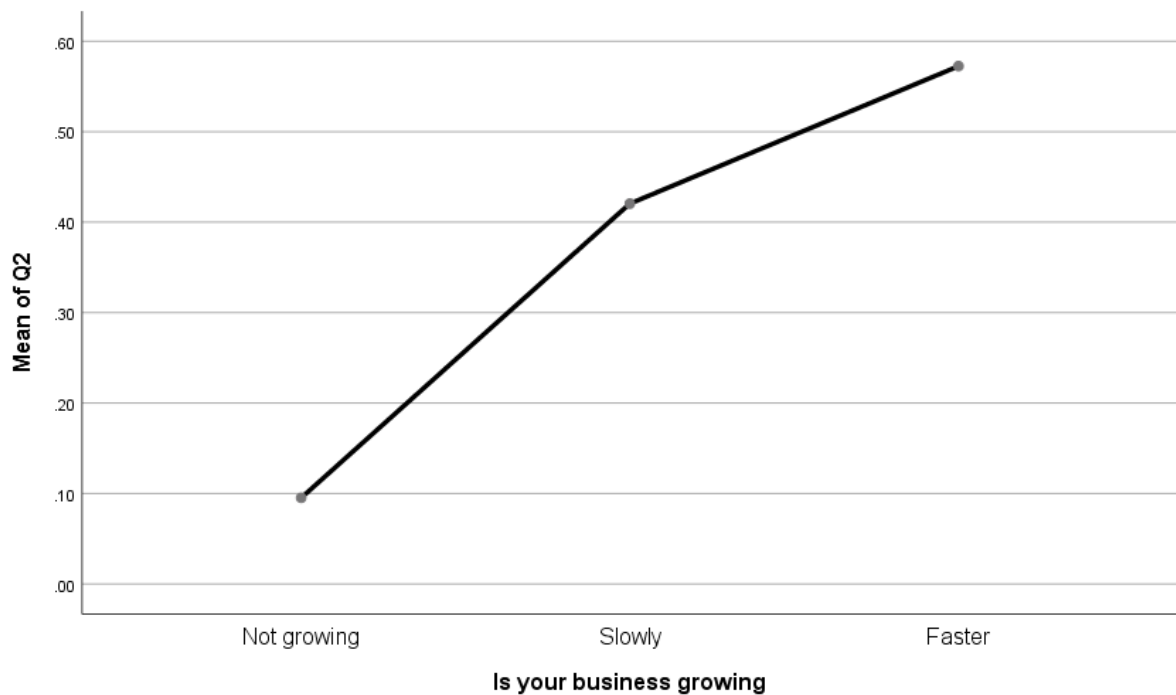


Figure 4.12 shows the relationship between the extent of prepared financial activities and business growth. The graph depicts that a high SMEs business owner-managers' perceived business growth is directly relative to the gravity of prepared financial activities. This indicates that the likelihood of failure of SMEs could be minimised by adequate knowledge and preparation of financial activities. SMEs that experienced business retardation were least prepared with financial activities, followed by those that experienced slow business growth, while SMEs that experience faster growth are highly prepared with financial activities.

Figure 4.13: Financial Statement and Frequency Usage on Business Growth.

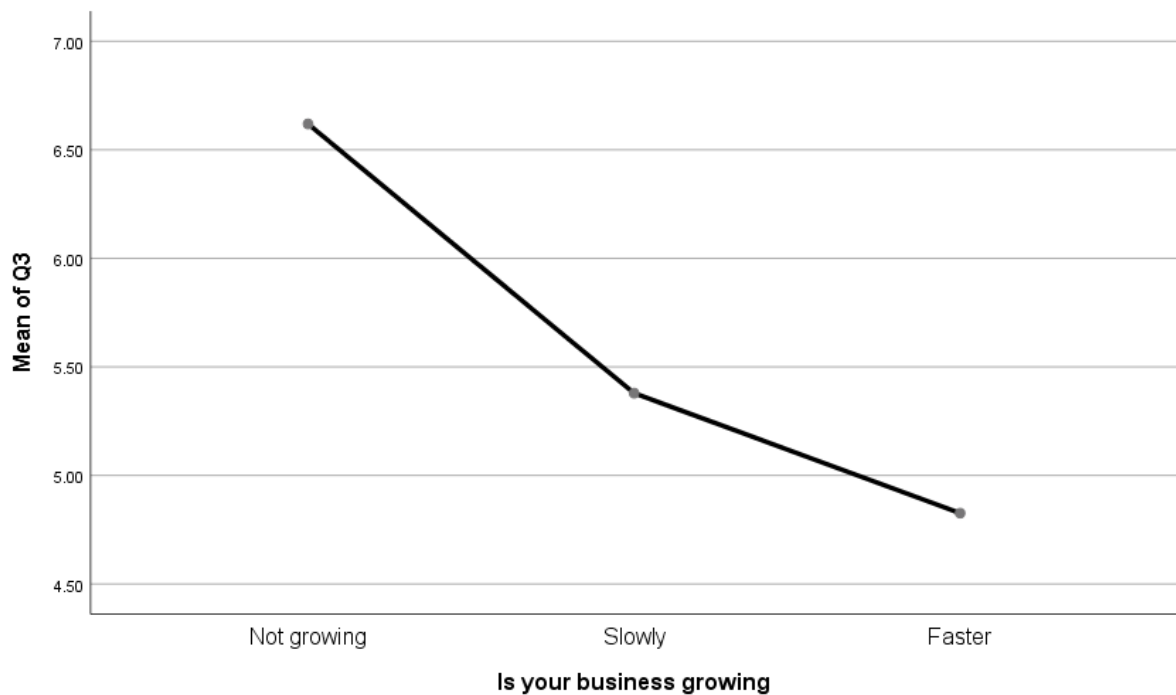


Figure 4.13 shows the relationship between the level of frequency usage of financial statement on business growth. The graph depicts that a high SMEs business owner-managers' perceived business growth is indirectly proportional to less usage frequency of financial statement measures. This indicates that the likelihood of success of SMEs could be maximised by increased the usage frequency of financial statement measurement. SMEs that experienced business retardation have lowest usage frequency of financial statement, followed by those that experienced slow business growth, while SMEs that experience faster growth have higher frequency usage of financial statetment.

Figure 4.14: Extent of familiarity to business profit and business growth.

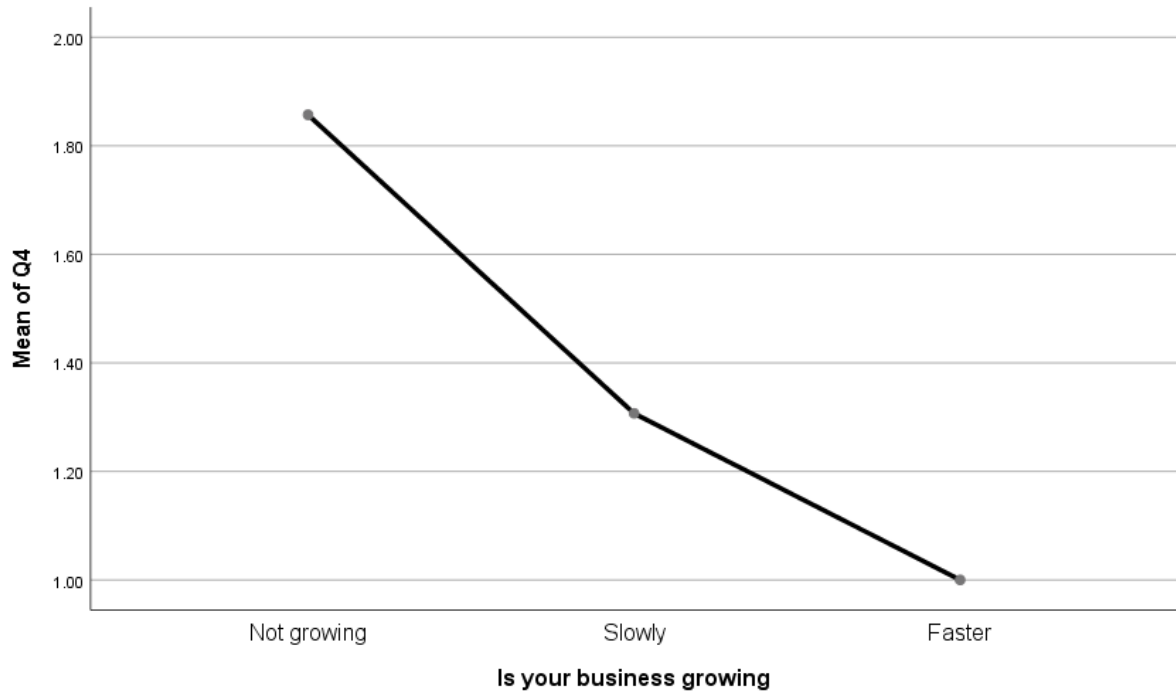


Figure 4.14 shows the relationship between the extent of familiarity to business profit and business growth. The graph depicts that a low SMEs business owner-managers' perceived business growth relates to a low familiarity with business profit measures. This indicates that the likelihood of success of SMEs could be maximised by increased familiarity with business profit measurement. SMEs that experienced business growth have the highest familiarity with business profit measures, followed by those that experienced slow business growth, while SMEs that experienced faster growth have low familiarity to business growth.

Figure 4.15: Profitability measurement and business growth.

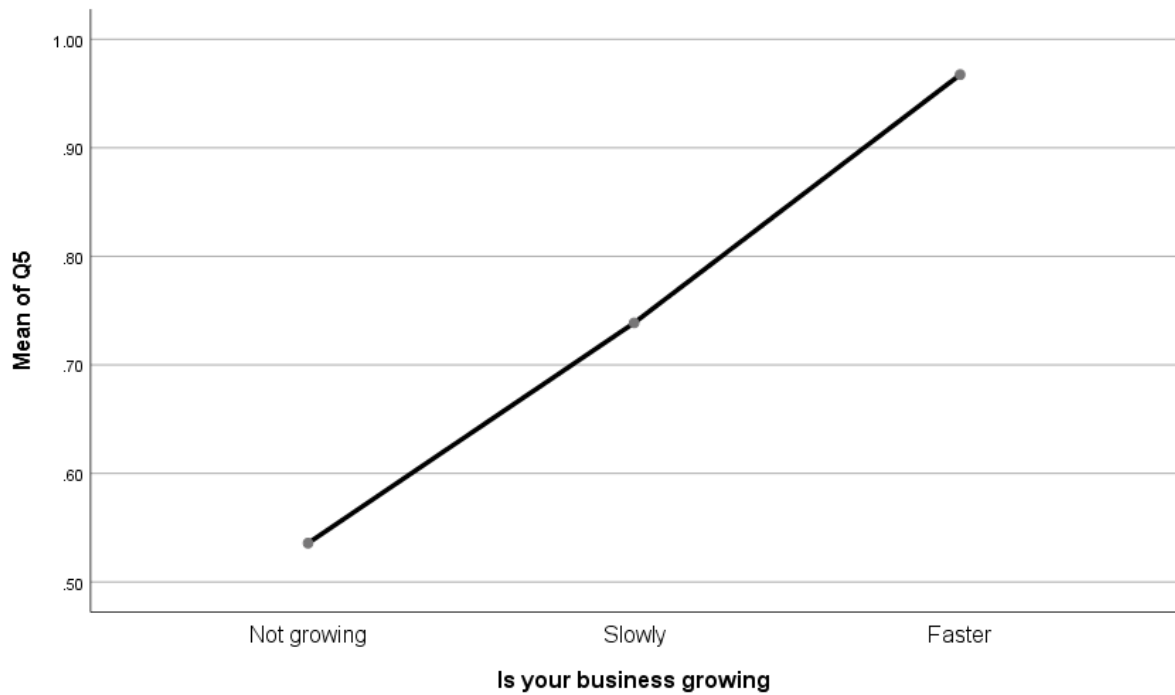


Figure 4.15 shows the relationship between the level of profitability measurement and business growth. The graph depicts that a high SMEs business owner-managers' perceived business growth is directly proportional to the depth of profitability measurement. This indicates that the likelihood of failure of SMEs could be minimised by increased profitability measurement by business owner. SMEs that experienced business retardation have the lowest profitability measurement, followed by those that experienced slow business growth, while SMEs that experience faster growth have high probability measurement.

Figure 4.16: Familiarity and usage of financial ratios and business growth of the SMEs business owners.

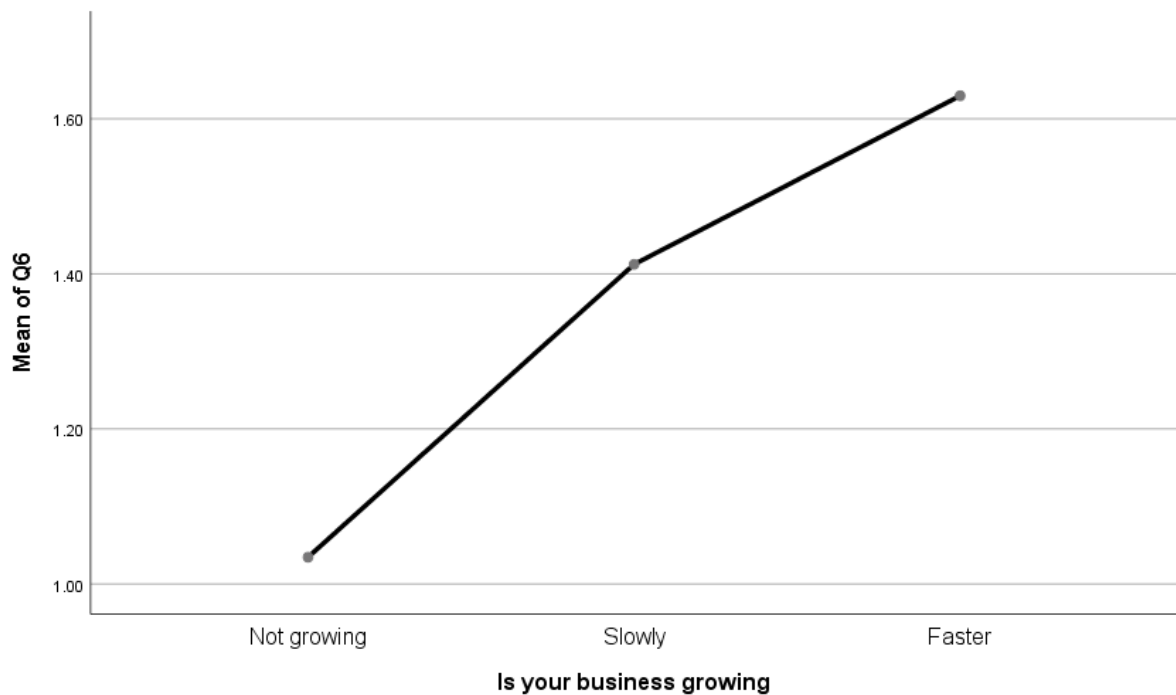


Figure 4.16 shows the relationship between the extent of familiarity and usage of financial ratios and business growth of the SMEs business owners. The graph depicts that a high the SMEs business owner-managers' perceived business growth is directly proportional to the depth of familiarity and usage of financial ratios measures. This indicates that the likelihood of failure of SMEs could be minimised by increased familiarity and usage of financial ratios measurement. SMEs that experienced business retardation have the lowest familiarity with usage of financial ratios, followed by those that experienced slow business growth, while SMEs that experience faster growth have high familiarity and usage of financial ratios.

Figure 4.17: Business performance evaluation measures and business growth.

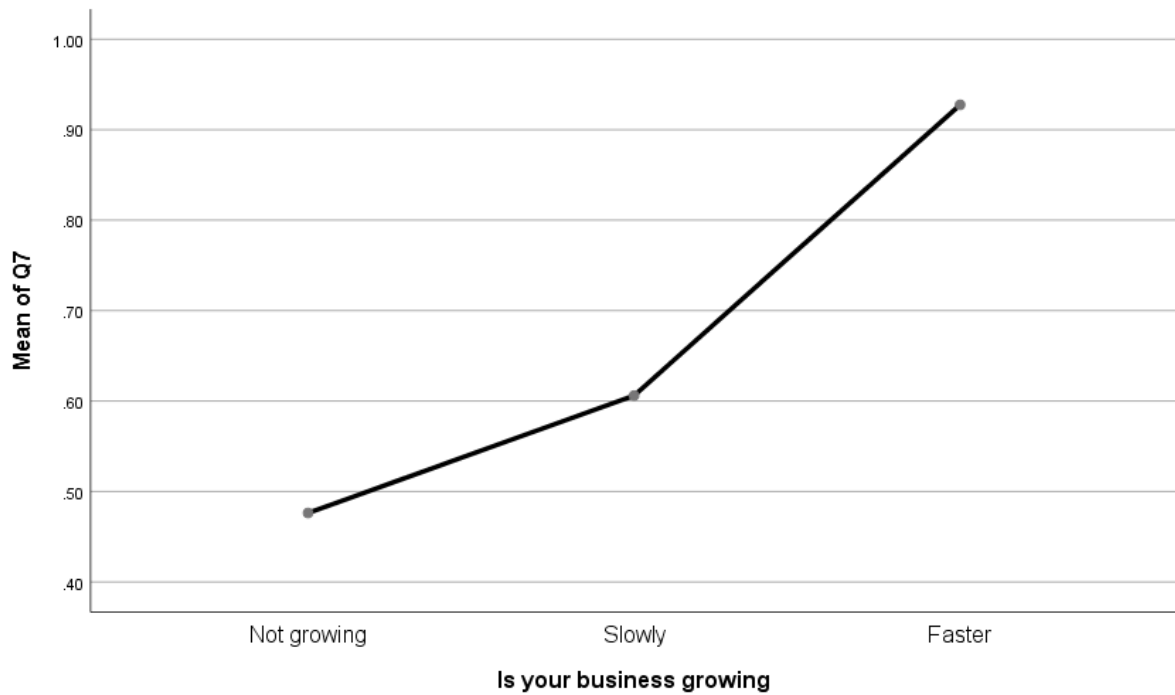


Figure 4.17 shows the degree of relationship between business performance evaluation measures and business growth. The graph depicts that a high SMEs business owner-managers' perceived business growth is directly proportional to the depth of business performance evaluation measures. This indicates that the likelihood of failure of SMEs could be minimised by increased of business performance evaluation measurement. SMEs that experienced business retardation have the lowest business performance evaluation, followed by those that experienced slow business growth, while SMEs that experience faster growth have high business performance evaluation.

Figure 4.18: Mean frequency of evaluation and preparation of business performance measures and business growth.

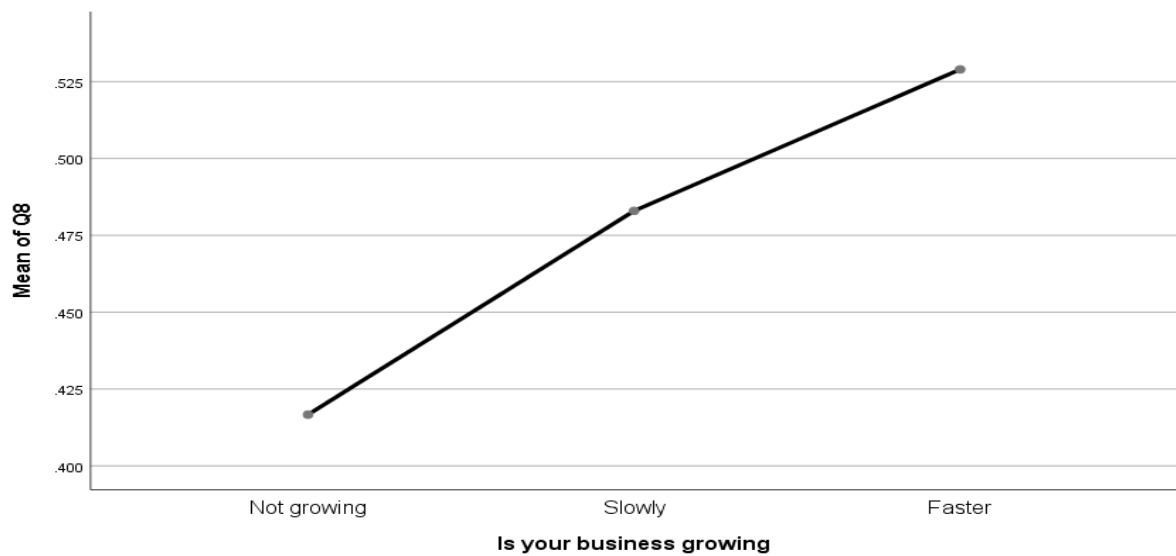


Figure 4.18 shows the relationship between the frequency of evaluation and preparation of business performance measure and business growth. The graph depicts that a high SMEs business owner-managers' perceived business growth is directly proportional to the depth of frequency of evaluation and preparation of business performance measures. This indicates that the likelihood of failure of SMEs could be minimised by increased frequency of evaluation and preparation of business performance. SMEs that experienced business retardation have the lowest frequency of evaluation and preparation of business performance, followed by those that experienced slow business growth, while SMEs that experienced faster growth have high frequency of evaluation and preparation of business performance.

Figure 4. 19: Designation

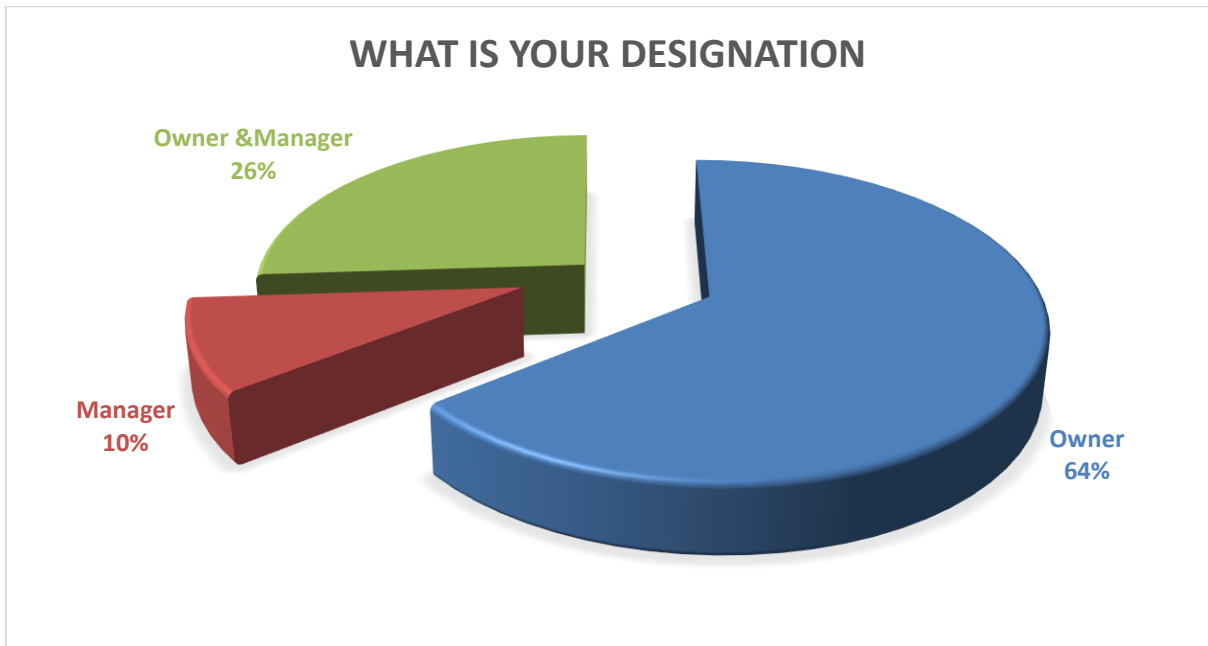


Figure 4.19 shows the distribution of the position of SMEs business owner managers covers by the research includes: 64 percent of owners, 10 percent of managers and 20 percent of the respondents are owner & manager.

Figure 4.20: Competitive advantage



Figure 4.20 illustrates that, 62 % of the respondent of SMEs business owners have a successful business compared to other business, while 38 % have a negative response about their business performance compared to other business.

Figure 4.21: Business growth

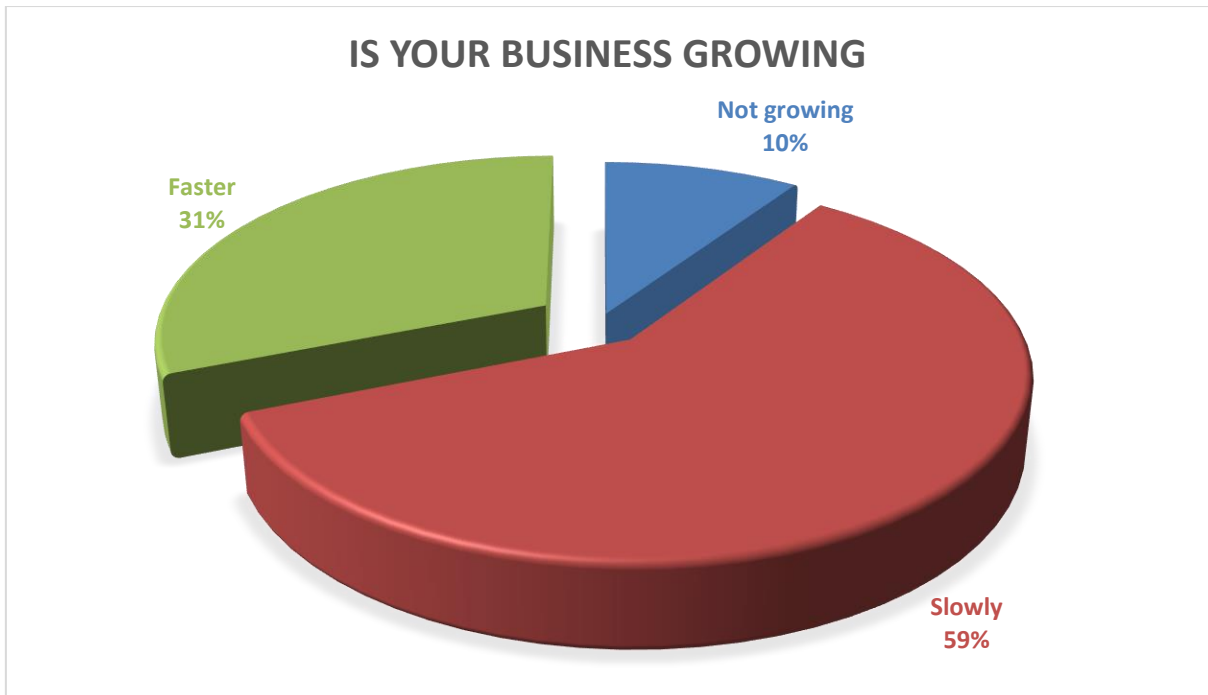


figure 4.21 shows the rate of growth of business by SMEs business owner. The research reveals that 10 % of the business do not experience growth, 59 % have a slow growth, while 31 % of the SMEs business owner have a fast growth rate.

4.3 Model Specification

$$BGI = F (FUFR, EFR, FPEPM, BPM, FBP, UFFA, PFA, FFS) \dots\dots\dots 1$$

When the equation (1) above is linearized we have the model specified as follow:

$$BGI_i = \beta_0 + \beta_{i1}(FUFR) + \beta_{i2}(EFR) + \beta_{i3}(FPEPM) + \beta_{i4}(BPM) + \beta_{i5}(FBP) + \beta_{i6}(UFFA) + \beta_{i7}(PFA) + \beta_{i8}(FFS) + \epsilon_i \dots\dots\dots 2$$

Where:

PBGI = Perceived Business Growth Index

FUFR= Familiarity and Usage of Financial Ratio

EFR = Evaluation of Financial Performance (EFR)

FPEPM = Frequency of Preparation and Evaluation Profitability Measurement

BPM = Business Profitability Measurement

FBP = Familiarity with Business Profitability

UFFA = Usage or Frequency of Financial Activities

PFA = Preparation of Financial Activities

FFS = Familiarity with Financial Statement

ϵ_i is the stochastic error term.

Descriptive Statistics

	Mean	Std. Deviation	N
Business Growth Index (BGI)	.6081	.30148	74
Familiarity and Usage of Financial Ratio (FUFRR)	.3614	.17468	74
Evaluation of Financial Performance (EFR)	.6937	.41198	74
Frequency of Preparation and Evaluation Profitability Measurement (FPEPM)	.4910	.16925	74
Business Profitability Measurement (BPM)	.7905	.27457	74
Familiarity with Business Profitability (FBP)	1.2635	.45873	74
Usage or Frequency of Financial Activities (UFFA)	5.3243	1.39659	74
Preparation of Financial Activities (PFA)	.4369	.37288	74
Familiarity with Financial Statement (FFS)	.6374	.36842	74

4.4 Findings and Discussion

4.4.1 Normality Test

A normality test was also included in the assumption of the correlational analysis. From the descriptive statistics, the skewness and kurtosis values were attained and which indicates whether the data is normally distributed or not. According to Hair et. al. (2006), normal distribution is acceptable when the skewness and kurtosis values is in the range of +/-3. Therefore, based on the test and, as shown in table 4.13, the data was determined as normally distributed since the values of skewness and kurtosis were in the range of +/-3 for each variable. Table 4.13 illustrated the normality results of skewness and normality values.

Table 4.13. This table shows Normality Analysis

Variables	Normality Analysis		
	Obs	Pr(kewness)	Pr(Kurtosis)
Business Growth Index (BGI)	74	0.0066	0.0056
Familiarity and Usage of Financial Ratio (FUFRR)	74	0.0072	0.0021
Evaluation of Financial Performance (EFR)	74	0.0142	0.0000
Frequency of Preparation and Evaluation Profitability Measurement (FPEPM)	74	0.0015	0.0340
Business Profitability Measurement (BPM)	74	0.0002	0.0001
Familiarity with Business Profitability (FBP)	74	0.0100	0.0059
Usage or Frequency of Financial Activities (UFFA)	74	0.0033	0.0000
Preparation of Financial Activities (PFA)	74	0.0433	0.0322
Familiarity with Financial Statement (FFS)	74	0.0211	0.0122

4.4.2 Correlation Results

Table 4.14 contains the correlation coefficients among variables. As seen in the table, business growth is highly related with familiarity, frequency of preparation and usage of financial ratio, and financial performance measurement. The relationship is very strong and statistically significant. From the results, it is plausible that SMEs with less familiarity, failure to periodically use financial performance measure and other statements of account/financial ratio will negatively influence business growth. The table also shows mostly significant and strong relationship among explanatory variables. This suggests that all these factors are highly interrelated and may not be effectively implemented in isolation.

Table 4.14 : Correlation Analysis

	GROWTHINDEX	Q6	Q7	Q8	Q5	Q4	Q3	Q2	Q1
Business Growth Index (BGI)	1.000								
Familiarity and Usage of Financial Ratio	.231**	1.000							
Evaluation of Financial Performance	.381*	.023	1.000						
Frequency of Preparation and Evaluation PM	.187***	.371*	.326*	1.000					
Business Profitability Measurement	.484*	-.132	.313*	.125	1.000				
Familiarity with Business Profitability	-.506*	-.062	-	-.241**	-.630*	1.000			
Usage or Frequency of Financial Activities	-.334*	-	.011	-	-	.401*	1.000		
Preparation of Financial Activities	.336*	.400*	.184***	.184***				1.000	
Familiarity with Financial Statement	.430*	.414*	.274*	.434*	.321*	-	-	.435* .534*	1.000
		.444*	.301*	.356*	.288*	-	-	.416* .375*	.646* 1.000

4.2.3 Regression Results

From the results as seen in table 6, based on the F-statistic, we accept the alternative hypothesis of joint significance of the variables at 5 % level of significance. This implies that variation in, Familiarity and Usage of Financial Ratio (FUFR), Evaluation of Financial Performance (EFR) Frequency of Preparation and Evaluation Profitability Measurement (FPEPM), Business Profitability Measurement (BPM), Familiarity with Business Profitability (FBP), Usage or Frequency of Financial Activities (UFFA), Preparation of Financial Activities (PFA) Familiarity with Financial Statement (FFS) significantly influence Perceived Business Growth (PBG) in SMEs in the Cape Metropole. From the R^2 , it is also seen that the explanatory variables explain about 44 percent of the variation in the dependent variable. The Durbin Watson value of 1.830 explains the absence of serial correlation as the figure was very close to 2.0, which is the rule of thumb. The robustness of the regression analysis coupled with consistency and intuitiveness of the model as shown in the compliance of the coefficients with a priori expectation, shows that the model is reliable for policy making process. The results show that the use and effectiveness of financial performance measures in small and medium enterprises (SMEs) retail businesses in Cape Town explains 44% of business growth by business owner or manager.

Table 4.15: Regression Results

Model	Unstandardized		Standardized			95,0% Confidence	
	Coefficients		Coefficients			Interval for B	
	B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound
(Constant)	.521	.256		2.035	.046	.010	1.032
FUFR	.372	.207	.215	1.797	.077*	-.041	.785
EFR	.199	.077	.272	2.574	.012**	.045	.354
FPEPM	-.151	.197	-.085	-.767	.446	-.544	.242
BPM	.295	.140	.269	2.111	.039**	.016	.574
FBP	-.155	.087	-.236	-1.780	.080*	-.329	.019
UFFA	-.032	.026	-.149	-1.252	.215	-.084	.019
PFA	-.128	.114	-.159	-1.124	.265	-.356	.100
FFS	.125	.107	.153	1.164	.248	-.089	.339

Model	R	Adjusted R Square		Std. Error of the Estimate	Change Statistics				Sig. Change	F Durbin-Watson
		R Square	Adjusted R Square		Square Change	F Change	df1	df2		
1	.670 ^a	.449	.382	.23708	.449	6.632	8	65	.000	1.830

b. Dependent Variable: GROWTHINDEX

*** significant at 1%; ** significant at 5%; * significant at 10%

For the individual variables, all variables excluding Frequency of Preparation and Evaluation Profitability Measurement (FPEPM), Familiarity with Business Profitability (FBP), Usage or Frequency of Financial Activities (UFFA), Preparation of Financial Activities (PFA) have a positive relationship with the dependent variable.

This implies that variation in Familiarity and Usage of Financial Ratio (FUFRR), Evaluation of Financial Performance (EFR) Frequency of Preparation and Evaluation Profitability Measurement (FPEPM), Business Profitability Measurement (BPM), Familiarity with Business Profitability (FBP), Usage or Frequency of Financial Activities (UFFA), Preparation of Financial Activities (PFA) and Familiarity with Financial Statement (FFS) significantly influence Perceived Business Growth (PBG) in SMMEs in the Cape Metropolis.

Specifically, a unit increase in the level of Familiarity and Usage of Financial Ratio (FUFRR) corresponds with a 0.215-unit increase in business growth as perceived by SMMEs all other factors held constant. A unit increase in level of existing Evaluation of Financial Performance (EFR) leads to a 0.272 decrease in the dependent variable, *ceteris paribus*. A unit increase in the level of Business Profitability Measurement (BPM) corresponds to a 0.269 increase in the dependent variable, *ceteris paribus*. A unit increase in Familiarity with Business Profitability (FBP) corresponds with 0.236 decreases in the dependent variable, *ceteris paribus*. Similarly, unit increases in Frequency of Preparation and Evaluation Profitability Measurement (FPEPM), Usage or Frequency of Financial Activities (UFFA), Preparation of Financial Activities (PFA) and Familiarity with Financial Statement (FFS) lead to -0.085, -0.149, -0.159, and 0.153. respective increases in Perceived Business Growth (PBG) in SMMEs in the Cape Metropolis *ceteris paribus*.

On significance, only Familiarity and Usage of Financial Ratio (FUFRR), Evaluation of Financial Performance (EFR), Business Profitability Measurement (BPM), and Familiarity with Business Profitability (FBP) have a statistically significant impact on dependent variable business growth.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.1 Summary

This study investigated the use and effectiveness of financial performance measures in small and medium enterprises (SMEs) retail businesses in Cape Town. The main aim of the study was to establish the extent to which SMEs in the retail sector use FPM. The focus for the research was the usage of FPMs by SMEs operating in the Cape Metropole retail sector. A questionnaire survey was conducted to achieve the main objective of the study. This chapter summarises the major findings, draws conclusions on the types of FPMs used by owner/managers of SMEs, the purpose for which the SMEs use the FPMs, perceptions of decision-makers of SMEs regarding the effectiveness of FPMs currently used by these businesses, as well as factors that discourage SMEs from using these measures.

Most businesses operate under the control of managers and only a few are owner-managed. Their success and sustainability could be maintained as a result of accountability. Managers are accountable for the day-to-day activities in an operation and, therefore, entitled to a proper reporting procedure. This could perhaps be an indication that those businesses exposed to high failure rate are owner-managed, and due to lack of accountability they use money inappropriately, which results in them closing down in the first few years. From the findings, it was evident that majority of the respondents' companies had been in existence for over a decade, 140 contradicting claims in the literature that there is a high failure rate that culminates in a large number of SMEs closing after only a few years of operation. However, this contradiction may be as a result of the population used in the study and may not be generalised.

The problem investigated by this research was that it is perceived that SMEs do not measure their financial performance, which may be detrimental to business performance, competitiveness and sustainable growth. The main purpose of the study was to establish the extent to which owner-managers of SMEs in the retail industry use FPM. To fill the gap in the literature on the usage of FPMs, the main research question was:

To what extent do SMEs use financial performance measures to attain their business performance, competitiveness and sustainable growth?

Research sub-questions:

To address the main research question at in depth, the sub-questions were:

- ❖ What are the available financial performance measures used by SMEs in the retail sector?
- ❖ To what extent do the owners of SMEs' understand financial performance measures?

- ❖ How effective are financial performance measures used by SMEs?
- ❖ Does measuring financial performance bring about sustainable growth in SMEs?
- ❖ What are the perceptions of SMEs regarding financial performance measures and competitive advantage in their business environment?

Research objectives:

To fill the gap evidenced by the scant research on the usage of NFPMs, the objectives of the study were:

- ❖ To establish the types of financial performance measures that used by owner managers of SMEs in the retail sector.
- ❖ To establish the level to which SMEs understand financial performance measures.
- ❖ To determine the effectiveness of financial performance measures used by SMEs
- ❖ To establish whether the use of financial performance measures results in sustainable growth.
- ❖ To determine the perception of SMEs regarding financial performance measures and competitive advantage in their businesses.

Research hypothesis.

To test the statistical differences, the following hypothesis were used:

1. H₀: There is no statistically significant difference in the extent of familiarity of the SMEs business owner-manager to the financial statement.
2. H₀: There is no statistically significant difference in preparation of financial activities by the SMEs business owner-manager.
3. H₀: There is no statistically significant difference in the usage frequency of financial activities by the SMEs business owner-manager.
4. H₀: There is no statistically significant difference in the extent of familiarity of SMEs business owner-manager to the business profitability measures.
5. H₀: There is no statistically significant difference in the usage frequency of SMEs business owner-manager to the business profitability measures.
6. H₀: There is no statistically significant difference in the financial ratio that SMEs business owner-manager are familiar with and the one they actually use.
7. H₀: There is no statistically significant difference in the level of familiarity experience by SMEs in Cape Town metropolis.

8. H_0 : There is no statistically significant effect of: Familiarity and Usage of Financial Ratio (FUFR), Evaluation of Financial Performance (EFR) Frequency of Preparation and Evaluation Profitability Measurement (FPEPM), Business Profitability Measurement (BPM), Familiarity with Business Profitability (FBP), Usage or Frequency of Financial Activities (UFFA), Preparation of Financial Activities (PFA), Familiarity with Financial Statement (FFS) on sustainable Growth of SMEs in the Cape Metropolis.

With regard to the types of performance measures used by SMEs, review of the literature revealed that SMEs in the retail industry preferred financial performance measures over NFPMs. NFPMs were more extensively and frequently used than other types of NFPMs, namely those related to internal business processes as well as learning and innovation. The review also revealed that the micro enterprises were unlikely to use NFPMs. Concerning the purpose for which SMEs in the retail industry use NFPMs, the review of studies revealed that SMEs used NFPMs for a variety of purposes. Previous studies indicate that SMEs use NFPMs to evaluate performance, for control purpose, for budgeting, to motivate employees and managers, and to learn and improve performance.

Other studies suggest that SMEs used these measures for monitoring their business, further planning, improving decision-making, business process improvement, problem identification, optimising use of resources, developing tactical strategies, and improving communication. Yet other studies revealed that SMEs used NFPMs for managing emergency crisis, problem solving and to align their actions and decisions already taken to a specific NFPMs. As far as the perceived effectiveness of the NFPMs used by SMEs, the review of the studies revealed that these measures are perceived by the decision-makers of SMEs to be very effective for the purpose used. By contrast, other studies revealed that NFPMs were perceived by decision-makers of SMEs to be ineffective for the purpose used or intended to be used. With respect to the factors that inhibit SMEs from utilising NFPMs, the review revealed that there are number of factors that inhibit SMEs from utilising and adopting NFPMs. Key among these factors were a lack top of management support, a lack of qualified personnel, a lack of resources such as computers, and a lack of awareness. In addition, these measures were perceived to be complex and entity specific, an aspect that hampered comparison of performance among peer SMEs. Furthermore, implementing these measures was perceived to be a lengthy process that required extensive use of resources and that consumed time. Besides, some SMEs suffered from employees' resistance or lack of support, failed to establish causal linkages between scorecard components, and mistook raw data for useable information. Moreover, NFPMs were perceived to lack a common base and measurement using these measures is disintegrated. Chapter Two concluded that there were gaps in the literature. Therefore, there was a need to conduct this study on the use of NFPMs in the Cape Metropole, South Africa, mainly because little research has been conducted to investigate the types of NFPMs employed by SMEs, the

purpose for which they are used, their perceived effectiveness, as well as any factors that may inhibit SMEs from using these measures.

In order to achieve this aim, a survey questionnaire was employed as a method of data collection. The process of the research relates to a certain paradigm of thinking which is adopted by researchers in order to conduct the actual research. A positivist approach was used for the empirical research into the proposed study's research questions. Consequently, as a positivist approach is quantifiable in nature, it was suitable in responding to the research objectives. Further, a positivist approach was adopted because it needs a well-defined structure that is in line with a close –ended questionnaire which is suitable for statistical analysis. It was conclusive to plan to investigate the study that is aimed to provide answers to the research question.

A questionnaire consisting of open-and close-ended questions was used for the survey. This tool was used because it is a fast and less expensive method of collecting data if the units of analysis are located in areas reachable to the researcher, as was the case in this study. To ensure usability of the questionnaire, a pilot test was conducted. Data consisting of 'quantitative' variables such as identification information regarding respondents, information to manage independent (factors that were used to identify the growth of the business such as performance and competitive advantage) and dependent (the business growth) variables such as business cycle activities and performance measures were obtained.

During the data collection process the questionnaire was distributed by hand to respondents, who completed them in their own time. Most of the respondents completed the questionnaire on delivery and returned it immediately. This approach was suitable for the study because it saved time and increased the response rate. Although the respondents were granted an opportunity to complete the questionnaire at their convenience, in most instances, the researcher waited while respondents completed the questionnaires.

The SPSS programme was used to analyse the data. Based on the feedback from the selected research participants, necessary adjustments were made to the questionnaire before final data collection. Due to the fact that human beings participating, approval to conduct the research was obtained from the Cape Peninsula University of Technology's Ethics Committee before the commencement of data collection. Respondents were provided with adequate information about the study, in a style that was understandable to them, and made open decisions to participate. In accessing the data from the 200 SMEs in the Cape Metropole to generate the variables of concern summed to measure the use and effectiveness of financial performance measures in small and medium enterprises (SMEs) retail businesses in Cape Town, index scores formed a reliable scale. Thus a reliability test using the Cronbach Alpha values was conducted prior to further analysis. The alpha values for the variables indicate that the items

formed a scale of reasonable internal consistencies in reliability. The correlation for each item with, at least, one item in the constructs was between the value of 0.710 and 0.85. Therefore, all of the items correlate adequately in the constructs. However, theoretical and empirical evidence of these factors motivate their inclusion in the model.

The results were tested using different hypothesis. On the first hypothesis, there is no statistical significant difference in the extent of familiarity of the SMEs business owner manager to the financial statement. The chi-square asymptotic significant level was less than 0.05 ($0.000 < \alpha < 0.05$) Therefore, it confirms the rejection of null hypothesis of and support the conclusion of statistically significant difference in the level of SMEs familiarity to different financial statements. On the second hypothesis, there is no statistical significant difference in preparation of financial activities by the SMEs business owner manager. That was based on the chi-square asymptotic significant level that was less than 0.05 ($0.000 < \alpha < 0.05$). Therefore, it confirmed rejection of null hypothesis and supported the conclusion of a statistically significant difference in the level of SMEs preparation to difference financial activities.

On the third hypothesis, there was no statistical significant difference in the usage frequency of financial activities by the SMEs business owner manager. The chi-square asymptotic significant level was less than 0.05 ($0.000 < \alpha < 0.05$). Therefore, it confirmed rejection of the null hypothesis and supported the conclusion of statistically significant difference in the level of SMEs usage frequency of financial activities. On the fourth hypothesis, the chi-square analysis tested the statistically significant difference in the level of familiarity experience by SMEs in Cape Town metropolis to different business profitability measures such as: Sales (turnover), Cash Received, Cash Received less cash paid, and profit per income statement. The chi-square asymptotic significant level was less than 0.05 ($0.000 < \alpha < 0.05$). Therefore, it confirmed the rejection of null hypothesis of and support the conclusion of statistically significant differences in the level of SMEs familiarity to difference business profitability measures.

On the fifth hypothesis, there was no statistically significant difference in the usage frequency of SMEs business owner manager to business profitability measures. The chi-square asymptotic significant level is less than 0.05 ($0.000 < \alpha < 0.05$). Therefore, it confirms rejection of the null hypothesis and supports the conclusion of statistically significant differences in the level of SMEs usage frequency of business profitability measures. On the sixth hypothesis, there was no statistical significant difference in the financial ratio that SMEs business owner manager are familiar to and the one they actually use. The chi-square asymptotic significant level was less than 0.05 ($0.022 < \alpha < 0.05$). Therefore, it confirms rejection of null hypothesis

and supports the conclusion of a statistically significant difference in the level of SMEs familiarity and usage of financial ratio.

On the seventh hypothesis, the chi-square analysis tested if there was a statistically significant difference in the level of familiarity experience by SMEs in Cape Town metropolis to different financial statement such as: bank statement, income statement, balance sheet statement, statement of changes in equity, cash flow statement and cash budget. The ch-square asymptotic significant level of 0.000, which is less than 0.05, confirmed the rejection of null hypothesis and supported the conclusion of statistically significant differences in the level of SMEs familiarity to different financial statements.

On the eighth hypothesis, there was no statistically significant difference in the financial ratio that SMEs business owner manager are familiar to and the one they actually use. In this case, the chi-square asymptotic significant level is greater than 0.05 ($0.022 < \alpha < 0.05$) Therefore, we do not reject the null hypothesis of no statistically significant differences in the level of SMEs familiarity and usage of financial ratio.

5.2 Recommendations

- SMEs should be given proper training and guidance on how they can run and manage their businesses in order for them to achieve competitive advantage. The reason for that is because based on the findings of this study, it is clear that most of the owner-managers of SMEs are not clear as to how they can manage their finances.
- Looking at the analysed data, most of the owner managers are totally not familiar with the use of FPMs at all. My suggestion is that, government should provide them with free trainings each and every month to ensure that they know how what are FPMs and how they can use them in order for their businesses to grow.
- Government can also offer short courses to owner-managers of SMEs for them to learn about FPMs and also to learn about the use of accounting systems so that they can be able to have proper financial records (financial reports) so that they can be able to apply for funding, loans, sponsors, government grants and that will also help them to comply with the South African Revenue Services (SARS).
- Despite the fact that SMEs are highly contributing to the economic growth, employment and GDP, they need formally implement financial performance measures and their progress in using these measures need to be properly evaluated either daily, monthly, quarterly or yearly.

5.3 Conclusion

Despite the fact that SMEs in the retail sector has been regarded as the second biggest industry in South Africa in terms of providing employment opportunities, contributing to GDP, majority of them are not familiar with financial performance measures and those that are familiar are unable to use these measures. Financial Performance measures together with the non-financial performance measures are considered as key in terms of managing a business to be successful. The main purpose of this research study was “to establish the extent to which owner-managers of SMEs in the retail industry use FPMs”. A positivist paradigm was followed using questionnaires as research instruments to gather data purposively from SMEs that are operating in Cape Town, South Africa.

The data was used to yield descriptive results through Statistical Package for Social Sciences (SPSS). The results showed that SMEs have lack of knowledge and understanding of how they can properly manage bookkeeping. They do recognise the significance of financial performance measures. Majority of respondents do recognise financial performance measures but not all of them. They do recognise income statement, balance sheet and statement of income and expenditure but almost about 92% of them do not know ratios. Most of those who recognises the income statement, balance sheet and statement of income and expenditure are unable to use them and that affects their businesses negatively as a result their businesses are not growing.

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APPENDICES

Appendix A: PERMISSION LETTER



Cape Peninsula University of Technology

Faculty of Business and Management Sciences

Consent to partake in an academic study

Research conducted by:

Masixole Solani

Student number: 205047297

Dear Sir/Madam,

Invitation to participate in an academic research study

You are kindly invited to participate in a research study titled “The use and effectiveness of financial performance measures in small and medium enterprises (SMEs) retail businesses in Cape Town”. This study is being conducted by Mr Masixole Solani, a Masters student in Cost and Management Accounting at the Cape Peninsula University of Technology (CPUT). The main purpose of this study is to find out whether owner-managers of small businesses make enough use of the available tools with which financial performance can be measured

As a decision maker of the SME in the retail industry operating in Cape Town, your opinion is highly valuable to this study. Also note that your contribution in this study is optional and you are free to withdraw from it at any time with no obligations, and there are no risks related when contributing to this study. Please be advised that any information given by our respondents will be confidential and any respondent will be kept anonymous. The information that will be collected in this study will positively contribute to the sustainability of the SMEs in the retail industry, in South Africa.

Your consent to contribute in this study will be highly appreciated.

For further inquiries, you may contact me on 076 046 4699 or via email 205047297@mycput.ac.za.

If you consent to contribute in this study, please sign this form to indicate that:

- You have read and understood the information provided above;
- You hereby consent to participate in this study voluntarily.

Name of the Enterprise: _____

Respondent's signature: _____ Date: _____

Appendix B: QUESTIONNAIRE

SECTION A – FINANCIAL PERFORMANCE MEASURES

1. Which of the following statements of financial statements are you familiar with?

Statement	Not Familiar	Familiar	Statement	Not Familiar	Familiar
1.1 Bank statement			1.4 Statement of changes in Equity		
1.2 Income statement			1.5 Cash Flow Statement		
1.3 Balance sheet statement			1.6 Cash budget		

2. Which of the following statements of financial activity are prepared for your business?

Statement	Not prepared	Prepared	Statement	Not prepared	Prepared
2.1 Income statement			2.4. Bank Statement		
2.2 Balance sheet			2.5 Statement of changes in Equity		
2.3 Cash budget			2.6 Cash Flow Statement		
Other statements (please list here):					

3. Which of the following statements of financial activity are being used in your business and how often are they being used:

Statement	Daily	Weekly	Monthly	Quarterly	Half yearly	Yearly	Not used
3.1 Bank statement							
3.2 Income statement							
3.3 Balance sheet							
3.4 Cash budget							
3.5 Statement of changes in Equity							
3.6 Cash Flow Statement							
Other statements (please list here)							

4. How familiar are you about profit in your business?

Rank in the order “best familiar”, “least familiar” or not familiar

	Most familiar	Least familiar	Not familiar at all
4.1 Sales (turnover)			
4.2 Cash received			
4.3 Cash received less cash paid			
4.4 Profit per income statement			
Your familiarity of profit (not listed above). Please describe below:			

5. What do you actually use to measure profitability in your business?

Rank in the order “most often used” to “least often used”

	most often used	least often used
5.1 Sales (turnover)		
5.2 Cash received		
5.3 Cash received less cash paid		
5.4 Profit per income statement		

6. Which of the following financial ratios are you familiar with and which ones' do you actually use?

Ratio	Not familiar with	Familiar but not used	Familiar with and used	Found it to be useful
6.1 Gross profit %				
6.2 Net profit %				
6.3 Asset turnover				
6.4 Debtors collection period				
6.5 Days inventory on hand				
6.6 Creditors payment period				
6.7 Current ratio				

Ratio	Not familiar with	Familiar but not used	Familiar with and used	Found it to be useful
6.8 Growth in sales, expenses or assets				
6.9 Interest cover				
6.10 Debt ratio				
6.11 Return on sales				
6.12 Return on assets				
6.13 Return on stockholder's equity				
6.14 Acid test ratio				
6.15 Cash ratio				
6.16 Net working capital				
6.17 Days sales outstanding				
6.18 Inventory turnover				
6.19 Accounts payable turnover				
6.20 Operating cycle				
6.21 Cash conversion cycle				
6.22 Equity ratio				
6.23 Debt equity ratio				
6.24 Times interest earned				
6.25 Earnings per share				
6.26 Price earnings ratio				

Ratio	Not familiar with	Familiar but not used	Familiar with and used	Found it to be useful
6.27 Dividend price ratio				
6.28 Dividend yield ratio				
6.29 Book value per share				

SECTION B- EVALUATION OF PERFORMANCE MEASURES:

1. How do you evaluate the financial performance of your business?

1.1 By looking at its productivity (Effectiveness)	
1.2 By looking at whether the resource is being well used (efficient)	
1.3 By looking at whether there is learning and improvement in terms of use (Learning and Improvement)	
Please list below if there are any other ways to review the financial performance measures:	

2. How often do you evaluate the financial performance for your business? Please select appropriate option(s)

2.1 Daily 2.2 Weekly 2.3 Monthly 2.4 Yearly Quarterly Half Yearly

3. How often do you prepare the performance measures? Please select appropriate option(s)

3.1 Daily 3.2 Weekly 3.3 Monthly 3.4 Yearly Quarterly Half Yearly

4. What do you do with the outcome after the preparation and evaluation of financial performance measure?

SECTION C – SME OVERVIEW

1. What size is your business? (Tick the best answer)

1.1 Small enterprises (formal sector with less than 50 employees)	
1.2 Medium enterprises (formal sector under with up to 200 employees)	

2. How many employees have you employed within your business? (Number only) _____
Employees

3. Indicate whether you are: Please tick the appropriate answer below

Owner	
Manager	
Owner and manager	
Other (please specify):	

If other, please specify (formal sector with more than 200 employees)

4. How long has your business been in existence? (Number of Years) _____ Years

5.1 Slowly 5.2 Faster 5.3 Not Growing

6. Is your business doing well comparing to other businesses?

6.1 Yes 6.2 No

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February 3 2020

TO WHOM IT MAY CONCERN

Language and technical editing: Mr Masixole Solani's master's dissertation

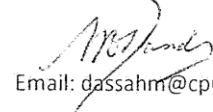
This is to conform that I, Professor Maurice Oscar Dassah, have edited the master's dissertation of thesis of Mr Masixole Solani, entitled 'The use and effectiveness of financial performance measures in small and medium enterprises (SMEs) retail businesses in Cape Town'. To the best of my ability, I have ensured the dissertation conforms with the basic conventions of academic writing in terms of language in general and technical requirements, specifically the Harvard system of citation and referencing, which is the official style sheet of the Cape Peninsula University of Technology. In this regard, I read the dissertation thoroughly and recommended language and technical changes that will greatly improve its quality. However, I have not, in any way, changed the substance of the dissertation.

I hold an Honours degree in English (University of Ghana, Legon-Accra) and Master of Linguistics (University of Stellenbosch) with wide experience in teaching English Language and Communication, including holding the position of Language Coordinator in the Faculty of Informatics and Design (CPUT) and teaching academic writing to students in two South African universities from 1992 to 2011. Over the past nine years, I have been supervising postgraduate students, examining dissertations/theses for various universities and reviewing articles submitted to journals for publication and conferences.

Being a language and writing specialist and supervisor of postgraduate students, I have been editing dissertations and theses officially and unofficially for the past twelve years.

Should there be a need to verify the authenticity of this letter, please contact me directly.

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