



**THE MANAGEMENT OF ACCOUNTS RECEIVABLES AND THE SURVIVAL OF  
SMALL MEDIUM AND MICRO ENTERPRISES IN THE CAPE METROPOLE**

**by**

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## **ABSTRACT**

This study emanated from observations that small business failure rate has remained high over the years, yet they are a key to economic development and to addressing the high rate of unemployment in South Africa. The aim of the study was to: (1) determine the accounts receivables practices employed by the SMMEs, (2) determine factors that inhibit SMMEs from using effective accounts management practices, (3) ascertain if SMMEs have credit management system in place to enable them to establish the creditworthiness of their customers and (4) determine whether there are systems in place to track payments or fulfilment of credit agreements. A pragmatic approach was adopted as a suitable methodology to address the set research objectives. Specifically, a mixed research design, based on the use of a questionnaire with both open-ended and close-ended questions, was adopted for the study. SMMEs in malls within the Cape Metropole area constituted the population for the study and were selected based on the definition of a small business provided in the Small Business Act of 1996. The respondents were production managers and/or financial managers and/or supply chain managers and/or general managers of SMMEs. They were chosen because they were directly involved in making decisions pertaining to inventory and trade receivables in their respective SMME(s). Five shopping malls in the Cape Metropole area were identified as the sampling frame for the study. This study found that SMMEs use poor methods of managing their accounts receivables characterised by traditional approaches. The SMMEs mainly relied significantly on sending reminder statements when debtors delay payment. Credit records were also found to be poorly managed. However, more needs to be done as very few SMMEs have adopted computer-assisted accounts receivables management techniques. The findings suggest a need for training and support for SMMEs to understand the management of accounts receivables and, most significantly, check the credit records of their customers before selling to them. Most (76%) of the businesses did not conduct credit checks on customers, neither did they check their previous payment pattern, and 67% did not use computers to manage accounts payable among other creditworthiness assessments that were not practised by the businesses. It was also found that more than 30% of the businesses lacked adequate cash skills, had inadequate cash resources and inadequate accounts receivables management knowledge, which inhibited proper management of accounts receivables. As a result, financial training among SMMEs and computerisation of management practices of SMMEs is recommended.

**Keywords: Accounting, credit, SMMEs, financial management, accounts receivable**

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## DEDICATION

This research is dedicated to my late father, Vumisa Manciya (Faku lamapondo) “AhhGcinibadla” and my dear mother, Thandeka Nomakholwa Manciya, intombiyo Gatyeni, oNdonela, oNkomozibomvu azibalwa.

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## **ABBREVIATIONS AND ACRONYMS**

Small, Medium and Micro Enterprises (SMMEs)

Gross Domestic Product (GDP)

Local Economic Development (LED)

Statistical Package for Social Sciences (SPSS)

Value Added Tax (VAT)

International Finance Corporation (IFC)

Global Economic Monitor (GEM)

Association of Certified Chartered Accountants (ACCA)

## GLOSSARY

**SMME** - SMMEs are identified by the Small Business Act No. 102 of 1996 as "...small separate and distinct entities that are owned and/or by one or more owner(s)

**Survivalist small SMMEs** - Survivalist small businesses are those small businesses that are driven by the need to support their owners to endure and withstand economic downturns (IFC, 2018:36)

**Accounts receivable** - An account receivable is an entry in the statement of financial position describing a debtor or a person who owes the business money (Wood & Sangster, 2012:13)

**Credit Sales** - credit sales are buying and selling arrangements where late payments are made (Bailey, 2018:23)

## CHAPTER ONE

### INTRODUCTION AND BACKGROUND

#### 1.1 Introduction and background

The purpose of this study was to investigate the effectiveness of accounts receivables practices and their effects on the survival of small, medium and micro enterprises (SMMEs) operating in the Cape Metropole. This was essential given the general findings in the literature that poor accounts receivable management negatively affected the profitability and growth of SMMEs (Panda, Nanda & Panda, 2020:145). With increased observations that small businesses have a higher failure rate and often fail in their first year of establishment (Bruwer & Van Den Berg, 2017:2), it was important to explore the financial cause of this failure. Working capital management and accounts receivable management have been considered as important elements for the success of SMMEs over the years (Panda, et al., 2020:145). Additionally, the study of the accounts receivable management as a key factor for SMME viability was essential given the high unemployment rate and that SMEs generally have a significant contribution to the economies of developing countries (Ali & Suaidah, 2020:51). The research was limited to the retail industry due to the impact this industry has on unemployment and also for sample quality purposes.

Since 1994 South Africa has been faced with many challenges such as reintegration into the global economy and strong expectation from its people concerning a well-orchestrated transition towards a democratic order. To advance the aspiration of economic transformation through competitiveness on the one hand, and working generation and income redistribution, on the other, South Africa's SMME economy has been vigorously pursued since 1995 (Otto, 2018).

SMMEs are identified by the Small Business Act No. 102 of 1996 as "...small separate and distinct entities that are owned and/or by one or more owner(s), that conduct relevant business in any sector and/or subsector of the national economy of South Africa" (Ngary, Smit, Bruwer & Ukupere, 2014). These enterprises are vital for any country's economy

regardless of the stage of development. The establishment of SMMEs by the South African government was to assist in reviving the economy, address unemployment and reduce poverty (Ngary et al., 2014; Ali & Suaidah, 2020:51). SMMEs are well respected and recognised as drivers of economic growth and employment creation in both developed and developing countries (Brink, Cant & Ligthelm, 2003; Bruwer & van Berg, 2017; Otto, 2018). They are estimated to contribute about 52% to 57% to Gross Domestic Product (GDP) and 60% to employment (Groepe, 2015), while 91% of formal enterprises are occupied by these SMEs (Abor & Quartey, 2010).

The boost for development of SMMEs by the government has led to expansion and new investments in SMMEs, creating the fast-growing edge of entrepreneurship. Local Economic Development (LED) has introduced programmes to support SMMEs across the country in the past decades as it has been its foundation programming (Rogerson, 2006). Despite the vital roles SMMEs play in different countries, their development has been faced with a number of challenges. According to Abanis, Arthur, Burani and Eliabu (2013), one of the fundamental reasons small businesses fail is the lack of effective management, while Ebben and Johnson(2011) attribute their failure to financial constraints, competition from large enterprises and inexperienced management.

Effective practice of accounts receivable is a vital point of any business, especially SMMEs, as receivables are their main source of income. According to Kubickova and Soucek (2013),in their study conducted in the Czech Republic, only a few small businesses check their clients position during the receivables lifetime and secure the receivable by limiting the number of suppliers or provide commercial credit. SMMEs' ability to pay their own payables depends on their ability to properly manage their accounts receivables with regard to cash flow and reduction of the need for outside finance for their operations.

The rationale of a credit management system and for it to be deemed effective is that it must be able to competently manage the customer's credit position. In order to reduce insolvencies and bad debts, the business must have a better understanding of the customer's financial strength, credit score and changing payment patterns. The ability to

speedily make sound informed business decisions and establish appropriate lines of credit is also essential. Credit management commences with the sale and only stops when the full and final payment is received (Kitui, 2015). Ebben and Johnson (2011), in their study, found that speeding up collection and delaying payment to suppliers were identified by small firm owners as important methods for reducing the need for outside debt and equity financing (Conversion Cycle).

## **1.2 Statement of research problem**

In spite of their importance, SMMEs in South Africa face viability challenges and fail to survive resulting in most of them collapsing. As a result unemployment remain high and the benefits of small businesses to the economy are not realized and the quality of live take long to improve to desired levels. Bruwer and van den Berg (2017) state that about 91% of formal enterprises in South Africa are SMMEs and their contribution to the Gross Domestic Product (GDP) is estimated to be between 52% and 57%. Additionally, these SMMEs reportedly contribute 61% to the national employment rate (Groepe, 2015). Despite their significance, prior studies conducted indicated that SMMEs suffer from a high failure rate due to a number of factors, including ineffective accounts receivables practices (Sunday, 2011). It is thought that they are failing partly due to their ineffective management of accounts, lack of skills required to run a business, cash flow management, lack of funding, lack of credit management systems, competition and non-usage of computers in business. This made it imperative for this study to look into the accounts receivable management practices of SMMEs in the retail sector.

## **1.3 Research aim and objectives**

The main aim of the study was to explore current accounts receivables management practices of SMMEs in the retail sector operating in the Cape Metropole. Linked to this aim were the following objectives :

- (I) To investigate the accounts receivables practices employed by the SMMEs.
- (II) To analyse factors that inhibit SMMEs from using effective accounts management practices.
- (III) To ascertain SMMEs' credit management systems installed to establish and account for their customers' creditworthiness.

- (IV) To examine SMMEs' credit management systems to track payments or fulfilment of credit agreements with customers.

#### **1.4 Research questions**

Based on the research problem stated in 1.2, the research questions for the study were as follows:

##### **1.4.1 Main research question**

What are the current accounts receivables management practices of SMMEs in the retail sector operating in the Cape Metropole?

##### **1.4.2 Sub-questions**

- I. Which practices are employed by SMMEs to manage their accounts receivables?
- II. What factors inhibit SMMEs from using effective accounts management practices?
- III. What are the credit management systems (CMS) put in place by SMMEs to enable them establish the creditworthiness of their customers?
- IV. What credit management systems are used by SMMEs to ensure timely repayments or fulfilment of credit agreement with customers?

#### **1.5 Hypotheses**

#### **1.6 Preliminary literature review**

It has been argued that a high number of newly formed SMMEs do not survive more than five years of existence and the failure rate is between 70% and 80% (Brink, et al., 2003). Previous studies conducted endorse the view that a high failure rate of SMMEs is because of ineffective accounts receivables practices (Sunday, 2011). According to Dahmen and Rodríguez (2014), in their study of 14 small businesses conducted at United States of America, for every 7 out of 14 firms that took part in the study, the owners did not regularly review financial statements of customers and 6 out of those 14 firms were experiencing financial difficulties. From the study, a clear connection between inadequate management

of working capital (account receivables) and financial difficulties experienced by entrepreneurs was established.

The owners of SMMEs tend to manage their businesses themselves in an attempt to escape operational costs (Wang & Xie, 2010). This is particularly the case in family businesses with complex networks, where the owners cannot separate the business from the family. Credit sales are granted through advice of friends or family members without proper investigation of the position of the customer. Abanis, et al. (2013) give an example of an owner who locks the shop whenever he has to do his personal business. One visible effect is the loss of customer loyalty as one result, which directly impacts negatively on the financial aspects of the business because trade receivables of the business will be significantly reduced.

As indicated earlier, previous studies conducted endorsed the view that a high failure rate of SMMEs is because of ineffective accounts receivables practices (Sunday, 2011). Research has further indicated that majority of SMMEs employ ineffective cash-flow management practices, which hinder their ability to fund strategic investments, or escape unnecessary interest payments. Most of these businesses do not perform cash budgets or predictions, do not perform bank reconciliations and cannot monitor their cash flows on an actual basis (Nyabenge, 2014). Some businesses lack bank accounts and appear to be uninformed about their liquidity. Ultimately, these businesses face liquidity difficulties that result in a close-down.

Some studies have also uncovered that most SMMEs lack a sound credit policy (Sunday, 2011). This, together with a lack of computerised processes of invoicing and managing receivables, results in a high percentage of bad debts (Enow, 2015). Some SMMEs do not impose interest charges for late payments, neither do they encourage early payments by giving cash discounts and sending timely statement of accounts to debtors (Agyei-Mensah, 2010).

In financial matters of firm, accounts receivables management is a crucial factor, which has a direct influence on profitability and survival of small businesses (Agha, 2014). Proper receivables management ensures the firm's sustained increase in its gains. Effective accounts receivables management is incredibly necessary because of its important impact on profitability of the business and, therefore, existence of the business within the market.

It has been well documented that small businesses face formidable restrictions in raising external debt and equity capital. Investors are unwilling to give funding to small businesses because of the risks involved, making funding troublesome and difficult for small businesses to get (Ebben & Johnson, 2011). Wang and Xie (2010) assert that with the difficulty of accessing funding and the ever-increasing competition for market share for their products, SMMEs blindly provide clients with credit sales without investigating or having more understanding of customers' credit position. This often leads to an oversized proportion of accounts receivables and debt magnitude in relation to available working capital. Enow and Kamala (2016) argues that for SMMEs survival and success, the owners/managers of small firms must have the ability to continuously meet new challenges and amplify their managerial skills as they grow the business. The imperfect consumer credit management system limits the ability of SMMEs to manage their customers, leading to blind selling of goods to consumers who are mostly in the lower class of society. This makes it difficult to collect debts from customers.

Ramukumba (2014) notes that the more capital the owner puts in the business, the more probabilities of survival and vice versa. The author further mentions that the banks are reluctant when small firm owners require a loan for business. This then makes small firms rely on their suppliers to provide them with credit for a period of up to sixty days. The arrangement ensures the survival of small businesses and lack of financial injection into small businesses, especially those that expand quickly find themselves in financial difficulties. Wang and Xie (2010) state that small businesses are in difficulties because most SMMEs owners take word of mouth promises from their friends as enough grounds to base their decisions to grant credits to customers in the hope of ensuring sales as a result of ensuring financial injections to their businesses

Bowen, Morara and Mureithi (2009) argue that small businesses tend to offer discounts (which vary according to client) and also use price as a competitive tool by selling cheaper than their rivals, besides offering free after sales services as part of sales strategies. While this strategy may be seen as bringing high volumes of sales, it may equally mean lower profits. Mitchell, Mitchell and Smith (2008), in their study, report on some of the reasons new SMMEs fail and group them into adverse and positive results. The adverse results can be depicted through monetary and emotional cost, whereas positive results are not so noticeable, being related to learning, experience and other reasoning ideas.

Many investors consider a previous failure as a stepping stone to having a successful business and are willing to invest in those entrepreneurs who have failed before. Failure gives birth to experience and a new start to success. This is consistent with Shepherd, Wiklund and Haynie (2009), who report that personal determination is connected to a person's ability to have a spirit of not giving up even under difficult times. Such persons systematically stand up and make it through, as they persist and become experts and get vested knowledge as to how to face challenges. Psychological reasoning suggests that since different people have a tendency to endure different stages of hardship, personal success becomes an achievement of going forward despite what seems to be an impossible obstacle and other forms of difficulties. Peacock (2004) reports that the total proportion of companies in the economy that are small tends to be steady and that the great magnitude of failure rate relates to competition. Entrepreneurs who are unsuccessful in one venture may learn from their challenges for future businesses. This suggests that business failure is a helpful learning twist for businesspersons and, by the same token, brings innovative ways to businesspersons to interrogate the causes of business failure and come up with means/methods to avoid them. However, Bowen et al. (2009) argue that opening and running a firm has a probability of it being successful or being a failure. Given that SMMEs are small, a little mistake by management may lead to their death with no possible chance to learn from their past errors. In a study carried out in Kenya, a total of 198 interviews were conducted, of which 90% of the interviewed businesses have since closed down due to numerous challenges. However, 72% of the businesses that were owned by entrepreneurs who had previously owned business said that their existing

businesses were at the verge of failing. This analysis indicates that owning a similar business before does not guarantee future business success based on the fact that one owned a similar business before.

The main objective of any business is to make profit. Therefore, before considering any other factors, its primary function of selling/providing services and being paid must be enhanced at all times. As much as there are other systems that build a business, accounts receivables management must be at its optimum. The setting up of an effective system will ensure cash flow and sustainability (survival) of the business.

For one to understand the potential of SMMEs, the entire spectrum needs to be looked into with a new alternative with regard to obstacles that SMMEs experience in their operations. It is of importance that a shift from the existing ways of doing business be re-examined in order to focus on sustainability of businesses and skills of business-persons. For any business to function smoothly, there ought to be liquid cash flow that should enable the operations of the business to run smoothly. The entrepreneur must acquire the necessary skills and experience required to assist the success of the business and know the market in which he operates (Ramukumba, 2014).

## **1.7 Research methodology**

### **1.7.1 Research design**

A pragmatic approach was used for the empirical research to address the research questions. This approach allows for flexibility and responds to the specific needs of the study objectives and research questions. In following this approach, both qualitative and quantitative data were collected within a mixed methods design.

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, the latter commonly referred to as the 'quantitative' research paradigm (Leedy & Ormrod, 2015). Empirical research can also follow a qualitative dimension, which is based on the study of historical, cultural and

interactional experiences of people within a certain context. Consequently, as the positivist approach is quantifiable in nature, it was suitable in responding to some of the research objectives, while other objectives were considered within the interpretivist/qualitative paradigms. Some of the research questions and objectives were based on a positivist approach, which was adopted because it needs a well-defined structure that is in line with a closed-ended questionnaire, which is suitable for statistical analysis. However, other questions were open-ended in line with the qualitative paradigm. Over and above, the combination of qualitative and quantitative data within a mixed study design is in line with the principle of triangulation, which increases the validity and reliability of data. The positivist paradigm was adopted for some research questions because of its quantifiable nature and the fact that a large sample from the population can be drawn; which will increase the strength of research findings (Stack, 2011). The interpretivist paradigm was considered suitable for some questions that needed in-depth descriptions of accounts receivable issues. In the constraint of time and resources, this paradigm is very appropriate as in the case in this study, considering that it is a fast and economical paradigm.

### **1.7.2 Target population**

The target population, also known as the 'universe', can be defined as all the individuals, items or units relevant to the study; it comprises individuals, groups, organisations, documents, campaigns, and so on (Kivunja & Kuyini, 2017). In this study, the target population consisted of managers and owners of SMMEs in the retail sector operating in the Cape Metropole. Research into the number of SMMEs found that, on average, each of the identified five malls had 15 owners or managers of SMMEs who could participate in the study.

### **1.7.3 Sampling frame**

A sampling frame is a representation of the components of the target population. It is also defined as a list that entails directions of classifying the target population (Stack, 2011). The sample of participants consisted of 100 SMMEs in the retail sector operating in the Cape Metropole. Five key shopping malls in the Cape Metropole were identified. These five shopping malls became the sampling frame for the study. A study of all the malls

demonstrated that each mall had approximately twenty-five (25) registered business operators. Using the fact that SMMEs contribute about eighty per cent (80%) of GDP in the economy, eighty per cent (80%) of SMMEs in each mall were selected. This technique led to 20 SMMEs per mall being selected to provide data for the study. Therefore, one hundred and one (101) self-response questionnaires were administered.

#### **1.7.4 Sampling method**

Convenient sampling was used to identify and distribute the questionnaire by approaching various retail SMMEs serving as units of analysis in the Cape Metropole. The selection in terms of choice of convenient sampling was justified on the grounds that the units of analysis are located in areas accessible and readily available to the researcher (Mabesele, 2009).

#### **1.7.5 Sample size**

The target sample comprised 100 SMMEs in the retail sector operating in the Cape Metropole. Considering that only a few similar studies have used a very small sample size (Enow, 2015) and the fact that there is no comprehensive list of SMMEs operating in the Cape Metropole, a target sample of 100 SMMEs was set. Consequently, 100 participants in SMMEs were chosen as the sample.

#### **1.7.6 Data collection**

Taking into account that the researcher sought to collect unbiased data relating to the extent to which accounts receivables are managed by SMMEs operating in the Cape Metropole, primary data were collected from SMME owners, managers or accountants of the selected SMMEs by means of a self-administered questionnaire. This tool was selected because it is practical when a large volume of data are to be collected from a many respondents in a short period of time and at a fairly low cost (Brynard, 2006). In addition, a questionnaire is suitable for data collection from a sample as it allows statistical analyses and generalisation of results to a population. Descriptive and inferential statistics were used to analyse and interpret the data collected (Mabesele, 2009).

### **1.7.7 Questionnaire design**

The questionnaire was divided into five sections to ensure clarity. Section 1 focused on business profiles, while Section 2 focused on accounts receivables management practices used by SMMEs. Section 3 dealt with accounts payable management practices used by SMMEs; while Section 4 addressed cash management practices currently employed by these entities. Section 5 concentrated on factors that hinder SMMEs from using effective accounts receivables management practices.

### **1.7.8 Data analysis**

Descriptive statistics were used to explain the composition of the sample. The Statistical Package for Social Sciences (SPSS) Version 25.0 was used in aggregating and analysing the data.

### **1.7.9 Reliability and validity tests**

Reliability is the assurance that the items posted to measure the constructs are sufficiently reliable and will produce stable and consistent results. Validity refers to the degree to which a tested construct measures what it is meant to measure. A questionnaire design was adopted from Mabesele (2009). The use of a standardised questionnaire was meant to increase reliability and validity.

### **1.7.10 Ethical considerations**

Due to the fact that human beings were participants in the research, ethics approval to conduct the research was obtained from Cape Peninsula University of Technology's Faculty of Business and Management Sciences Ethics Committee before the commencement of data collection. The Committee requires that participants in research be assured of protection from any potential negative consequences that may arise as a result of participation in the research.

#### **1.7.10.1 Informed consent**

To comply with this requirements of the Ethics Committee, the researcher explained to the respondents what the research entailed and emphasised that the respondents may withdraw from participating in the survey at any time without obligation. A consent letter

was given to participants who were requested to read and encouraged to ask questions to gain clarity. Once a participant's consent was obtained, the questionnaire was administered.

#### **1.7.10.2 Confidentiality and anonymity**

The participants were given the choice to remain anonymous and assured that the privacy of their individual details will not be compromised or revealed to a third party. In addition, participants' information and responses were kept confidential and data of the survey were captured in an anonymous manner so as to protect the identities of participants.

### **1.8 Delineation of the research**

The boundaries of this research were limited to managers, owners or accountants of SMMEs in the Cape Metropole as these are considered to be decision-makers of SMMEs who should be familiar with the management of accounts receivables. According to Collis and Hussey (2013), the reason for delineating a study is to make sure that the research is focused in one area as opposed to a broader scope.

### **1.9 Significance of the research**

This study sought to inform SMMEs owners, managers or accountants about the importance of effective accounts receivables management that can enhance the sustainability of their businesses. It examined the extent to which credit management systems (CMS) are used by SMMEs in order to increase their viability and sustainability. The study exposed the SMMEs to the importance of accounts receivables, which could enable them succeed in their respective businesses and be competitive in the sectors they operate in. Furthermore, the research identified CMS usage gaps among SMMEs which, if filled, could help SMMEs owners, managers or accountants to ensure their businesses survive and even flourish.

### **1.10 Limitations and constraints**

The study was informed by limited previous studies reported in the literature. In addition, the study focused on SMMEs located in the Cape Metropole. Accordingly, the findings are not applicable to all SMMEs in South Africa. Furthermore, only accounts receivables

practices and survival of SMMEs were investigated. Consequently, the results do not represent the extent to which these SMMEs measure performance in general.

Owners are also managers of their businesses so a tight schedule of the respondents was anticipated. It was expected to be difficult to get most of the targeted participants to respond to the questionnaire and some could have been subjective or unwilling to answer questions. However, such respondents were paid several visits in an attempt to encourage them to participate in the survey.

One of the well-documented weaknesses of a questionnaire survey method is a low response rate, which leads to a non-response bias (Vos, 2002). This undermines the generalisability of the results to the entire population. The risk of a low response rate was reduced by drawing up a relatively short questionnaire comprising of both closed-ended and open-ended questions.

The delicate nature of the required data, as well as the risk involved in disclosing it, justify the unwillingness of some respondents to participate in the study (Vos, 2002). To overcome this limitation, sensitive questions were avoided and respondents were reassured of the confidentiality of the data provided..

A low response rate could also result from the researcher being unable to meet or engage with the respondents in order to explain or clarify ambiguous terms and concepts (Vos, 2002). To avoid this, researcher , prioritised a face-to-face survey approach as much as often as possible.

### **1.11 Contribution to knowledge**

To fill a gap in research on accounts receivables management practices by SMMEs in South Africa. Although many studies have been conducted on the use of financial tools, little research has been conducted on accounts receivables practices in South Africa. The few studies that have investigated the use of financial tools in South Africa do not focus on the management of accounts receivables. Hence, the findings of this research contribute to the debate on accounts receivables practices and their survival on the sustainability of businesses operating in the SMME sector.

## 1.12 Outline of the research study

**Chapter 1:** Introduction and problem identification: This chapter provides an overview of SMMEs and the identification of the research problem. .

**Chapter 2:** Literature review: This chapter deals with the theoretical basis as well as empirical findings of earlier studies which are related to the study.

**Chapter 3:** The design and methodology of the study is explored as well as sampling techniques, and methods of data collection.

**Chapter 4:** This section focuses on analysis and interpretation of the research findings. The results obtained are evaluated, compared and analysed based on the current study and findings from previous studies.

**Chapter 5:** This section includes the conclusions and recommendations of the study. Recommendations emanating from this study will be provided are based on the findings.

## 1.13 Conclusion

This chapter has provided a foundation for a study of the specific accounts receivable practices of SMMEs located within the Cape Metropole. It spells out the research problem that inspired the study. A description of the main problem and the associated sub-problems was provided as well as the extent and manifestation of the problem among SMMEs in South Africa. From the research problem, research questions and objectives were set and described before the study was delineated and its significance articulated. This chapter has also provided a glimpse at the various chapters ahead by giving a preliminary literature review and summarising the research methodology and ethical considerations of the study. In the next chapter (Chapter Two), a scientific analysis of existing literature on the management of accounts receivable among SMMEs is provided.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

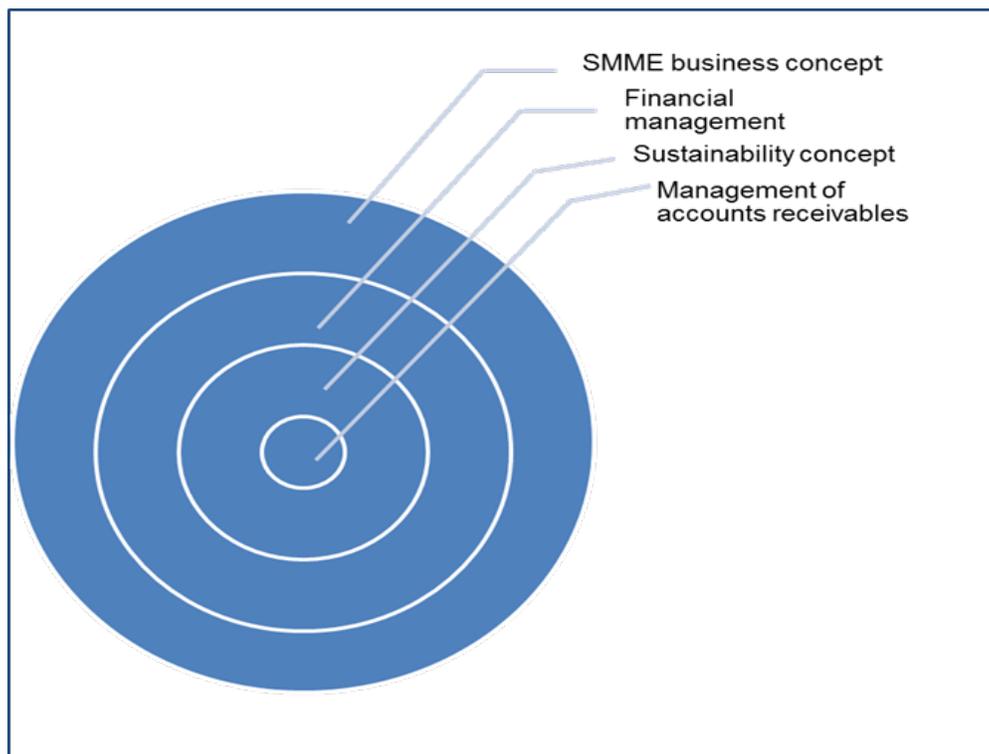
The previous chapter laid the foundation for this study by presenting the research problem and its background. From the problem statement, research questions and objectives were derived thereby creating a basis for literature review in this chapter. The relevance of the literature reviewed relates to the research questions and objectives. The first objective was to determine the accounts receivables practices employed by SMMEs; the second to establish factors that inhibit SMMEs from using effective accounts management practices. The third objective sought to ascertain if SMMEs have credit management systems in place to enable them to establish the creditworthiness of their customers, while the last objective was to determine whether there are systems in place to track payments or fulfillment of credit agreements. The literature review in this chapter is organised in a manner that addresses these objectives. When considered in this way, sources of relevant literature fell within four broad categories, namely:

- a) Business sustainability, effectiveness and survival.
- b) SMME business concepts and operational issues.
- c) Financial management and accounting practices in SMMEs; and
- d) Accounts receivables and related elements of financial reports including bad debts, doubtful debts and their provisions in books of accounting.

#### **2.2 Conceptual review**

In order to fully dissect the literature, expose scholarly gaps and immerse the present study in the existing body of previous studies, this chapter brings out several conceptual themes for analysis. The strategy employed is based on a movement of literature concepts from general to specific. This implies deductive logical reasoning. Consequently, in analysing relevant literature for this study, the starting point is a study of the SMME business concept, which is very general. The rationale is that one cannot fully comprehend phenomenon involving SMMEs accounts receivables without understanding the meaning and operations of SMMEs. As such, issues peculiar to SMMEs ought to be explored before the study of specific issues related to them.

The research problem set in Chapter One revolves around the survival of SMMEs, which is a sustainability problem. Consequently, the concept of SMME sustainability is a key element of the present study. After analysing sustainability notions of SMMEs, financial elements of SMMEs are discussed. This is in respect of the first, second and third objectives, which recognise the general principle that financial effectiveness represents an important component of sustainability and survival of SMMEs. This laid a firm foundation for the discussion of more precise issues of accounts receivables, thereby linking the literature review to both the research problem, research questions and objectives, as pointed out in the first chapter. This order of literature review is summarised in Figure 2.1.



**Figure 2.1: Literature review strategy diagram**  
**Source: Author's construction**

### **2.3 The SMME business concept**

In order to appreciate the objectives of this study, it is important to clearly explore the business concept of an SMME. Small Medium and Micro Enterprises (often referred to as SMMEs) are defined by the National Small Business Act No.102 of 1996 of South Africa as separate and distinct business entities, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, are predominantly carried on in any sector or subsector of the economy (South Africa, 1996). The characteristics of an SMME are most commonly used to determine if a business falls into this category. These characteristics include the number of employees that the business employs, the annual turnover, capital assets and the SMME's contribution towards the GDP (Abor & Quartey, 2010). In South Africa, an SMME is recognised by the National Small Business Amendment Act (2003) as an organisation that employs no more than 250 employees with a turnover of less than R4 million and a total gross asset value of less than R2 million. The National Small Business Act No. 102 of 1996 was passed to recognise and encourage SMMEs. It is clear that the development of SMME legislation is a recent phenomenon witnessed after the attainment of democracy in South Africa. This is associated with operational challenges when compared to mature operations in developed countries.

Table 2.1 indicates how businesses are classified in South Africa and the thresholds they meet to be categorised as micro, small, medium or big businesses in their various sectors, which include Agriculture, Mining and Quarrying, Manufacturing, Electricity, Gas and Water, Retail, Motor Trade and Repair services, Wholesale, Accommodation, Catering and other trade, Transport, Storage and Communication, Finance and Business Services and Community, Social and Personal services. As such, the definition of an SMMEs is also dependent on its sector of operation.

Table 2.1: Definition of SMMEs across sectors and industries in South Africa

| Column 1   | Column 2                    | Column 3                                     | Column 4              |
|--|-----------------------------|--|-----------------------|
| Sectors or sub-sectors in accordance with the Standard Industrial Classification | Size or class of enterprise | Total full-time equivalent of paid employees | Total annual turnover |
| Agriculture  | Medium                      | 51 - 250                                     | ≤ 35,0 million        |
|  | Small                       | 11- 50                                       | ≤ 17,0 million        |
|  | Micro                       | 0 – 10                                       | ≤ 7,0 million         |
| Mining and Quarrying   | Medium                      | 51 - 250                                     | ≤ 210,0 million       |
|  | Small                       | 11- 50                                       | ≤ 50,0 million        |
|  | Micro                       | 0 – 10                                       | ≤ 15,0 million        |
| Manufacturing  | Medium                      | 51 - 250                                     | ≤ 170,0 million       |
|  | Small                       | 11- 50                                       | ≤ 50,0 million        |
|  | Micro                       | 0 – 10                                       | ≤ 10,0 million        |
| Electricity, Gas and Water   | Medium                      | 51 - 250                                     | ≤ 180,0 million       |
|  | Small                       | 11- 50                                       | ≤ 60,0 million        |
|  | Micro                       | 0- 10  | ≤ 10,0 million        |
| Construction   | Medium                      | 51 - 250                                     | ≤ 170,0 million       |
|  | Small                       | 11- 50                                       | ≤ 75,0 million        |
|  | Micro                       | 0- 10  | ≤ 10,0 million        |
| Retail, motor trade and repair services.   | Medium                      | 51 - 250                                     | ≤ 80,0 million        |
|  | Small                       | 11- 50                                       | ≤ 25,0 million        |
|  | Micro                       | 0 – 10                                       | ≤ 7,5 million         |
| Wholesale  | Medium                      | 51 - 250                                     | ≤ 220,0 million       |
|  | Small                       | 11- 50                                       | ≤ 80,0 million        |
|  | Micro                       | 0 – 10                                       | ≤ 20,0 million        |
| Catering, Accommodation and other Trade  | Medium                      | 51 - 250                                     | ≤ 40,0 million        |
|  | Small                       | 11- 50                                       | ≤ 15,0 million        |
|  | Micro                       | 0 – 10                                       | ≤ 5,0 million         |
| Transport, Storage and Communications  | Medium                      | 51 - 250                                     | ≤ 140,0 million       |
|  | Small                       | 11- 50                                       | ≤ 45,0 million        |
|  | Micro                       | 0 – 10                                       | ≤ 7,5 million         |
| Finance and Business Services  | Medium                      | 51 - 250                                     | ≤ 85,0 million        |
|  | Small                       | 11- 50                                       | ≤ 35,0 million        |
|  | Micro                       | 0- 10  | ≤ 7,5 million         |
| Community, Social and Personal Services  | Medium                      | 51 - 250                                     | ≤ 70,0 million        |
|  | Small                       | 11- 50                                       | ≤ 22,0 million        |
|  | Micro                       | 0 – 10                                       | ≤ 5,0 million         |

Source: South Africa (2019:2)

In their study of the conduciveness of the South African business environment to SMMEs, Bruwer and Van Den Berg (2017:2) observe that SMMEs have roots in the idea of entrepreneurship and the United States of America was the first country to formalise the operations of small businesses. Seminal work on the promotion of entrepreneurship is credited to Joseph Schumpeter's 1937 work on creative responses to unemployment

(Bruwer & Van Den Berg, 2017). Scholars on the development of SMMEs and entrepreneurship argue that from the early 1980s onwards, governments around the world started to place more emphasis on entrepreneurship as a strategy to deal with unemployment. It appears that entrepreneurship and SMMEs developed out of the need to deal with unemployment. Unemployment can be traced from the changes that took place after the industrial revolution, the First World War and Great Depression (1930) that followed it. Levels of unemployment were slightly reduced during the Second World War before the widespread job losses after 1945, leading to new approaches to create employment. Classical theorists like Schumpeter (1967) offer theories that have become the foundation for the SMME business concept. Many governments started enacting legislation for SMMEs by the 1980s.

## **2.4 Types of small businesses in South Africa**

In addition to the use of size to classify SMMEs as micro, small and medium sized enterprises, the nature of SMMEs' operations usually lead to their classification as survivalist, formal and non-formal enterprises. Taking note of this classification is essential since the financial management effectiveness of businesses sometimes vary based on these categories. The sections that follow discuss some of the criteria used to classify small businesses.

### **2.4.1 Formal and informal SMMEs**

The formal and informal classification of SMMEs is popularly recognised and, in most developing countries, including South Africa and other African economies, informal small businesses are prevalent.

The IFC (2018:22) provides the consideration that led to the classification of SMMEs into formal and informal enterprises. As can be seen in Table 2.3, informal SMMEs tend to be unregularised and operate without fulfilling certain criteria. As SMMEs fail to acquire necessary resources externally and are usually financed internally, they normally operate at micro level and are unregistered. In terms of contributing to the national unemployment rate, their contribution is based on casual employment. Further, such SMMEs dominate

the labour-intensive sectors of the economy. In addition, these SMMEs do not normally pay Value Added Tax (VAT) or income tax. In contrast, in the formal sector, SMMEs usually go through all the formalities for entering a certain sector. As a result, they are often able to apply and acquire funding, thereby making it possible to operate on a larger scale compared to their informal counterparts. Formal SMMEs usually contribute to VAT and income tax since they are often registered.

Table 2.2: criteria for the classification of SMMEs as formal or informal

| Informal sector considerations         | Formal sector considerations                      |
|--|---|
| No entry requirements                  | Entry to industry limited through requirements    |
| Resources are acquired internally      | Resources are acquired through external financing |
| Small-scale operation                  | Large-scale operation                             |
| Labor-intensive and adapted technology | Capital-intensive and imported technology         |
| Casual employment                      | Contracted employment                             |
| Unregistered business                  | Registered business                               |
| Does not pay VAT or income tax         | Pays VAT and income tax                           |

Source: ILDP in International Finance Corporation (IFC, 2018:22)

It is essential to be familiar with the formal and informal classification of small businesses because they face critical challenges in obtaining external funding. As a result, they rely on internal sources of finance. This makes the management of trade receivables an important part of their management.

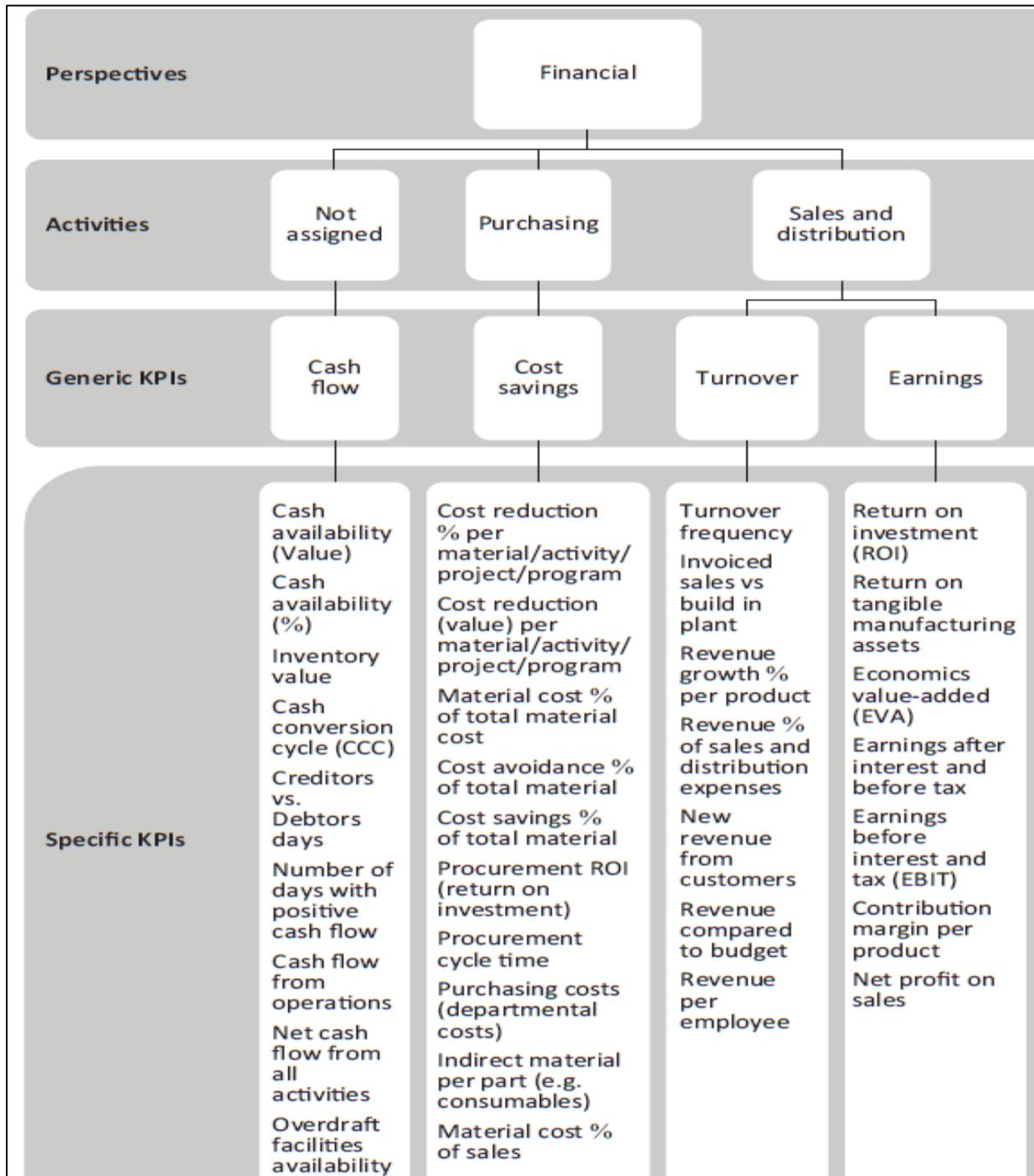
#### 2.4.2 Survivalist small businesses

Survivalist small businesses tend to be driven by the need to support their owners to endure and withstand economic downturns (IFC, 2018:36). Such small businesses normally sprout and easily fold up because the entrepreneur is not driven by any business opportunity, but by a simple desire to seek small benefits to sustain difficult circumstances. The management of accounts receivables for such businesses deserve more consideration as it is likely to be highly informalised and unstructured. Research might be necessary to establish the criteria used by such entrepreneurs to assess creditworthiness of clients and how they follow up to prevent the likelihood of bad debts.

## **2.5 Sustainability concept for SMMEs**

The sustainability of SMMEs can be considered within Kaplan and Norton's (1992) articulation of the balanced scorecard. The balanced scorecard is a tool that can be used to analyse the performance of an organisation from four broad areas, namely: financial perspective, internal perspective, customer perspective, and learning and development perspective. The inclusion of the financial perspective in the sustainability of small businesses is also reviewed in the work of Reynolds, Fourie and Erasmus (2019) in which a balanced score for manufacturing SMMEs is considered. This observation arguably links the literature to the present study since accounts receivables are an important element of the financial perspective. Table 2.3 shows the financial perspective part of Reynolds, et al.'s (2019:203) balanced scorecard for manufacturing firms. Cash flow, cost savings and turnover are key performance indicators, which require effective management. Accounts receivables are an essential element of cash flow and, if not properly managed one can predict the failure of the small business involved.

Table 2.3: Elements of the financial perspective to the balanced scorecard for small businesses



Source: Reynolds et al. (2019:203)

Research indicates that South African SMMEs have one of the highest mortality rates in the world (Masutha & Rogerson, 2014:49). This finding implies that a significant number of SMMEs in South Africa find it difficult to survive. Several reasons have been proposed to explain the poor sustainability of SMMEs. Literature on the SMME sustainability problem has largely attributed lack of resources and skills as key factors contributing to SMME failure. Research on the effective management of resources to ensure sustainability is limited. Instead, scholars appear to have focused more on the types of resources that SMMEs lack and these have been found to include both financial and non-financial resources. The management of accounts receivables is arguably a factor involving the proper management of finances to ensure sustainability. While previous studies have focused on describing the general relationship between certain elements of financial management and sustainability, the present study observes a literature gap involving the study of specific accounts receivables malpractices contributing to SMME failure. In their study of determinants of sustainability and organisational effectiveness, Iwu, Kapondoro, Twum-Darko and Tengeh (2015) posit that organisations have to be effective in meeting their various goals. As such, the present study has been set to establish the accounts receivables management practices that prevent SMMEs from meeting their goals and being sustainable.

In the Global Economic Monitor (GEM) Report 2019/2020, Bowmaker-Falconer and Herrington (2020:27) discuss the entrepreneurial framework in South Africa. They observe measurements for various business growth indicators, which include financial support, government policies related to entrepreneurship, entrepreneurship education, research and development transfer, access to professional and commercial infrastructure, internal market dynamics, burdens of internal markets, access to physical infrastructure and services and cultural and social norms. These are measures on a weighted average of which the maximum score that can be attained is ten (10). The elements are shown in Table 2.4. The score for most of these elements from 2015 to 2019 is roughly average or below average. This demonstrates that South Africa has a lot to do in strengthening key elements that foster the sustainability of businesses. The management of financial elements, which include accounts receivables, remains a critical criterion for ensuring the sustainability of small businesses.

Table 2.4: Measures for elements for a framework for the sustainability of business enterprises in South Africa

| Entrepreneurial framework conditions                                     | South Africa 2015 | South Africa 2016 | South Africa 2017 | South Africa 2019 | GEM average 2019 |
|--|-------------------|-------------------|-------------------|-------------------|------------------|
| Financial environment and support  | 4.4               | 4.8               | 4.6               | 4.0               | 4.5              |
| Concrete government policies related to entrepreneurship                 | 4.6               | 5.3               | 4.5               | 3.5               | 4.3              |
| Government policies: taxes and bureaucracy                               | 3.4               | 3.0               | 3.6               | 2.7               | 4.0              |
| Government entrepreneurship programmes                                   | 3.3               | 3.3               | 3.5               | 3.1               | 4.4              |
| Entrepreneurship education (primary and secondary school level)          | 3.4               | 3.2               | 3.1               | 2.2               | 3.2              |
| Entrepreneurship education (vocational, professional and tertiary level) | 4.7               | 4.2               | 4.6               | 3.5               | 4.7              |
| Research and development transfer  | 3.8               | 3.7               | 3.1               | 3.2               | 4.0              |
| Access to professional and commercial infrastructure                     | 5.4               | 5.7               | 5.0               | 4.4               | 5.0              |
| Internal market dynamics   | 5.0               | 5.8               | 5.9               | 4.7               | 5.2              |
| Burdens of internal markets  | 4.3               | 3.7               | 3.5               | 3.4               | 4.4              |
| Access to physical infrastructure and services                           | 6.6               | 6.4               | 5.8               | 5.1               | 6.7              |
| Cultural and social norms  | 3.8               | 4.4               | 4.9               | 3.8               | 5.1              |

Source: Bowmaker-Falconer and Herrington (2020:27)

### 2.5.1 Financial management elements of SMME sustainability

Even though the SMME business phenomenon in South Africa faces several sustainability challenges characterised by a mortality rate of about 80% (Reynolds, et al., 2019:193), SMMEs contribute up to 22% of gross domestic product in the economy (Bureau for Economic Research, 2016:31). It appears that as some SMMEs die, more are started. This shows that very few SMMEs become big businesses. Some of the factors contributing to the high failure rate are beyond the control of the SMMEs. These include crime, corruption and government policy (Reynolds, et al., 2019:2). Scholars have repeatedly mentioned limited business acumen and skills as a reason for failure (Kirsten, Vermaak & Wolmarans, 2015:32). The research objective of this study was to establish the nature of the accounts receivables management practices of SMMEs with a view to explore and fit into the

literature the magnitude of the impact that accounts receivables management practices of SMMEs have on the survival and success of SMMEs.

In Iwu, et al.'s (2015) study of sustainability and organisational effectiveness, financial criteria such as working capital management, liquidity, budgeting and methods of financing are seen as important financial elements of sustainability. Even though management of account receivables is a factor entangled in essential financial notions such as cash flow management, liquidity and budgeting, there is lack of depth on the actual manner in which it impacts the survival of SMMEs. Kaplan and Norton (1992:71) put forward the notion of a balanced scorecard involving both financial and non-financial elements of sustainability. In their research on the balanced scorecard for SMME, Reynolds et al. (2019:2) note that the primary critical financial success factors for SMMEs are: operating cost and access to financial resources. One may argue that the management of accounts receivables is linked to the critical success factors because improper management of accounts receivables could reduce the financial resources available for use to cover costs. Enow and Isaacs (2016:1) in their study of inventory management practices amongst manufacturing SMMEs in the Cape Metropole comment that business needs to ensure that they have adequate short-term and long-term objectives to meet their obligations. This leads us to how accounts receivables management practices affect availability of financial resources. This study can be viewed as a follow-up investigation that seeks to add more understanding to accounts receivables management practices and the ability of SMMEs to manage their credit accounts to meet financial obligations that ensure survival of firms. In this way, accounts receivables appear to be critical short-term resources that affect the liquidity of SMMEs.

Research on the actual impact of management of accounts receivables on operating cost and access to financial resources appear missing. This study seeks to set the basis for this observable literature gap.

## **2.6 SMME survival and failure**

Both financial and non-financial elements have been noted to account for the high failure rate of SMMEs in South Africa. A study of the conduciveness of the South African business environment by Bruwer and Van Den Berg (2017:7) provides a list of factors within the South African economic environment that impact on the success of SMMEs as shown in Table 2.5. It is clear that financial elements such as inventory management (Enow & Isaacs, 2016) and budgeting (Maduekwe & Kamala, 2016) are part of the micro factors that affect small businesses. In these studies, accounts receivables management is mentioned as a critical component that is essential for SMME survival, but little depth has been provided to expose how essential this factor is. Accounts receivables have great implications on cash flow, liquidity and working capital.

Table 2.5: A list of economic factors affecting businesses

| <b>Macro-economic factors</b>                           | <b>Micro-economic factors</b>                |
|---|--|
| Economic uncertainty                                    | Bad business infrastructure                  |
| Extensive red tape                                      | Bad pricing strategies                       |
| Frequent electricity outages                            | High levels of internal/external competition |
| High costs of credit                                    | High overhead costs                          |
| High disruption rates in public transportation services | Inability to deal with red tape              |
| High electricity costs                                  | Incompetent human resources                  |
| High inflation rates                                    | Lack of business infrastructure              |
| High interest rates                                     | Lack of business knowledge                   |
| High levels of crime                                    | Lack of business planning                    |
| High levels of external competition                     | Lack of business skills                      |
| High taxation rates                                     | Lack of customer relations                   |
| High water costs  | Lack of external funding                     |
| Rapid changes to government legislation                 | Lack of financial knowledge                  |
| Rapid technological advancements                        | Lack of internal financial resources         |
| Strict government legislation                           | Lack of mentoring                            |
| Volatile demands for products/services                  | Lack of proper marketing strategies          |
| Volatile exchange rates                                 | Limited knowledge of markets                 |
| Volatile market conditions                              | Non-payment of debtors/customers             |
| Volatile supplies of products/services                  | Poor cash flow management                    |
| Weak service delivery by government                     | Substitute products/services                 |

|  |                           |
|--|---------------------------|
|  | Weak business location(s) |
|--|---------------------------|

Source: Bruwer and Van Den Berg (2017:7)

### 2.6.1 Accounts receivables and financial elements

An account receivable is an entry in the statement of financial position describing a debtor or a person who owes the business money (Wood& Sangster, 2012:13). Pandey in Waweru (2013:1) explains that accounts receivables is the money that is owed to a firm after selling on credit. Even though accounts receivables tend to pose a risk, organisations engage in such sales in an attempt to push up volume of sales and profitability.

Accounts receivables arise from the need to ensure the business flows and revenue is obtained. When turnover is good, businesses are able to meet their operational expenses and ensure profitability. When sales turnover is low, businesses tend to get worried and resort to the use of credit selling as a strategy to increase sales. Small businesses should also be considered in a special way since they serve niches and small communities, which are often out of bounds for big businesses. In addition, small businesses operate closer to their customers and enjoy a greater relationship with their clients and business partners. Further, the relationship between small businesses and their clients may be very informal. As a result, business transactions between the owner of a small business and clients are a social event. This creates a higher possibility for the conclusion of credit sale agreements. Trade sales can be seen as a way of maintaining social ties, remaining competitive and a social responsibility to those clients who have limited purchasing power. Since the purpose of this study is to investigate the accounts receivables management practices of small businesses and how this affects profitability and sustainability, considerations between small businesses and their clients are important.

Table 2.6 Shows how accounts receivables appear in the financial position of a firm as part of current assets. It is shown that the assets of a business are grouped into non-current and current assets. In a count of the total assets of a firm, accounts receivables tend to increase the assets of an organisation before their actual realisation.

Table 2.6: The appearance of accounts receivable in the financial position of a firm

| <b>NON-CURRENT ASSETS</b>        |              | <b>COST</b> | <b>DEPRECIATION</b> | <b>NETBOOK VALUE</b> |
|----------------------------------|--------------|-------------|---------------------|----------------------|
| Land and buildings               |              | Xxxxx       | Xxxxx               | Xxxxx                |
| Vehicles                         |              | Xxxxx       | Xxxx                | Xxxx                 |
| Equipment                        |              | Xxxx        | Xxxx                | Xxxx                 |
|                                  |              | <b>Xxxx</b> | <b>Xxxx</b>         | <b>Xxxx</b>          |
|                                  |              |             |                     |                      |
| <b>CURRENT ASSETS</b>            |              |             |                     |                      |
| Inventory                        | Xxxx         |             |                     |                      |
| Accounts receivable              | Xxxx         |             |                     |                      |
| Owing rent                       | Xxxx         |             |                     |                      |
| Bank                             | Xxxx         |             |                     |                      |
| <b>TOTAL CURRENT ASSETS</b>      | <b>Xxxx</b>  |             |                     |                      |
| Less current liabilities         |              |             |                     |                      |
| Trade payables                   | Xxxxx        |             |                     |                      |
| Insurance owing                  | Xxxxx        |             |                     |                      |
| <b>TOTAL CURRENT LIABILITIES</b> | <b>Xxxxx</b> |             |                     |                      |
|                                  |              |             |                     | Xxxx                 |
|                                  |              |             |                     | <b>Xxxxx</b>         |
| Capital                          |              |             |                     | Xxxx                 |
| Add Net Profit                   |              |             |                     | Xxxx                 |
|                                  |              |             |                     | Xxxx                 |

|               |  |  |  |               |
|---------------|--|--|--|---------------|
| Less Drawings |  |  |  | Xxxx          |
|               |  |  |  | <b>Xxxxxx</b> |

Source: Author's construction

Accounts receivables tie up resources elsewhere unnecessarily and such money can be described as unproductive (Wood and Sangster, 2012:650). The accounts receivable to sales ratio is an efficiency ratio calculated as:  $(\text{accounts receivables} \div \text{sales})$ . This ratio measures the amount of money tied in accounts receivables compared to the total sales for a company. The length of time a debtor takes to pay is then calculated as:  $[(\text{accounts receivables} \div \text{sales}) \times 365 \text{ days}]$ . Even though the accounts receivables to sales can be classified as an efficiency ratio, it can also be viewed as a liquidity ratio since it reflects the amounts that have not been realised that affect the day-to-day running of a going concern.

Kasozi (2017:336) posits that the financial management of a business lies in the management of its short-term operations, which impact on the long term financial goals of the firm. Accounts receivables are, arguably, a key element that affects the short-term finance and liquidity of an organisation.

### **2.6.2 The significance of accounts receivables to SMMEs' sustainability**

In a study of inventory management practices of SMMEs, Kasozi (2017) found that the coefficient of the accounts receivables days is negative and significant at the 5% level (random effects model) and concluded that firms that efficiently manage their credit policies become more profitable (other factors remaining constant).

Knowledge of the significance of accounts receivables to the sustainability of SMMEs is important to promote both efficiency and sustainability of SMMEs. According to Wood and Sangster (2012:647), accounting is used not just to calculate profitability, but to also provide information on whether the business will be able to pay its creditors, expenses, due loans and other requirements at the correct times. Failure to meet these obligations

timeously could lead to the closure of the business. Unlike big businesses, SMMEs have limited access to cash given their lack of collateral required by banks as well as a success track record (Biljon, 2015). They are, therefore, easily affected by late payments. Having too much money tied in accounts receivables can impact on the ability of SMMEs to honour accounts payables. Following from this, it can be said that businesses ought to be aware if a customer or borrower is at risk of not repaying amounts due. SMMEs ought to consider these issues seriously. Practices such as vetting new customers prior to being allowed to trade on credit are essential. It is not clear whether SMMEs value the services of credit rating agencies or the purchase of information concerning the solvency of companies. The existence of credit control systems among SMMEs is critical and empirical research on these credit control systems of SMMEs remains important.

Major issues associated with accounts receivables include late payments and bad debts and these issues are of great concern when considering the effects of accounts receivable management on the effectiveness and survival of SMMEs. A study by Bailey (2018:21) on the challenge of late payment among SMEs in South Africa noted “late payments are a by-product of one of the most important financial instruments in the world – trade credit. The Association of Chartered Certified Accountants [ACCA] (2015) cited in Bailey (2018:21) reveal that, at least, thirty per cent (30%) of all trade credit-based sales are paid outside agreed terms. SMMEs generally suffer significantly when accounts receivables become late payments or bad debts. Some of the effects include liquidity challenges, reduction of financial benefits such as bonuses, retrenchments and reduction in investment initiatives and closure of business. Table 2.7 shows some of the problems associated with debts and poor management of accounts receivables in general.

Table 2.7: Problems associated with late payments and debts

- It raises costs associated with the financing of working capital;
- It depletes cash reserves in businesses, while often losing the interest which could have been accrued in the meantime;
- It escalates administrative costs associated with collections and recoveries;
- It drains labour productivity, and causes businesses to require passing up further profitable work;
- It creates distractions from everyday work for both owner-managers as well as the business staff;
- It creates losses for businesses which would otherwise seem profitable on paper;
- It often places the burden of financing the entire supply chain on the smallest sellers and suppliers which are usually placed quite low in the chain;
- It creates unemployment and bankruptcy;
- By killing otherwise profitable business ideas, late payment stifles competition and hampers business progress in markets with unsustainable late payment problems;
- Since companies seem to increasingly accept the presence of late payment as a given, the fall backs required for small businesses to survive late paying clients increases the barriers to entry for businesses in industries

Source: Bailey (2018:23)

## 2.7 Accounts receivable best practices

Accounting literature recognises and values certain accounting concepts or basic assumptions, which inform the way financial and accounting information should be viewed, interpreted, compiled, practised and used. Big businesses are required by law to be effective in their adherence to these accounting concepts. In contrast, the operations of SMMEs and their adherence to basic standards and concepts have not been fully researched. It is possible that SMMEs make adjustments to the standards so as to suit their business environment and peculiar situations. The degree to which SMMEs deviate from standards is an important element in the study of SMMEs' financial management. This study sought to investigate how the accounts receivable management practices of SMMEs affect their performance. In other words, the study sought to inform deviations and variations in accounts receivables management practices of SMME and attempt to infer the magnitude of the impact of the variation to the SMMEs' survival. The next section outlines some of the accounting concepts that inform the accounts receivables best practices expected in firms.

### **2.7.1 The going concern concept**

This concept views the business as a perpetuating operation that will be ongoing or in existence for the foreseeable future or indefinitely (Makore, 2004:270); Wood and Sangster, 2012:118). It can, therefore, be deduced that best practices in the management of accounts receivables should view the SMME as a going concern. One can expect to find that any deviations in standard management of accounts receivables for SMMEs to be in line with the going concern principle. Empirical research on the actual accounts receivables of SMMEs and an analysis of whether they compare well with known practices remains limited and difficult to be the basis for any meaningful conclusion to be made.

### **2.7.2 The prudence concept**

This concept is particularly valuable in the proper management of accounts receivables. It requires an accountant to be cautious in two ways: firstly, avoiding overstating or anticipating revenue and profits and, secondly, understating debts (Chamisa, 2012:156). The prudence concept clearly speaks significantly to best practices in the management of accounts receivables. It is this concept that forms the basis for the inclusion of a provision for bad and doubtful debts in accounting practice. Existing research in the South African context concerning the specific practices for the provision of bad and doubtful debts in SMME financial records remains little. In fact, it is not fully clear whether SMMEs compile and maintain proper financial records. This study sought to shed more light on this situation. The significance of this analysis is clear when one considers that credit sales normally represent a high percentage of total sales for a business (Siddiqui, 2013:184). Accounting best practices on the management of accounts receivables stipulate that before credit terms are arranged for a customer, it is important that the firm assesses the customer's ability to pay. For this reason, some firms consult private agencies that rate the creditworthiness of clients or seek the customer's insolvency situation. Accounting standards also recommend proper record keeping of credit sales as accounts receivables and provisions for bad and doubtful debts.

### **2.7.3 The business entity concept**

The business entity concept implies that the affairs of a business are to be treated as being quite separate from the non-business activities of the owner(s) (Wood and Sangster, 2012:117). Such a stipulation has greater implications to SMMES because most of them are managed informally and greater personal relationships may exist between the owner of the business and the customers. This creates a situation where creditworthiness is not as important as the maintenance of personal relationships. In Africa, this is a critical issue from a cultural perspective. Africans missing word to follow the Ubuntu culture even in their business operations and this may influence credit trade decisions thereby foregoing basic accounting concepts. Even though more empirical studies could be required to establish the extent to which SMMEs violate the business entity concept, the general impression associated with South African SMME operations tends to be less consistent with this principle in favor of culturally rooted modes of operations, which tend to value societal links and personal relationships.

## **2.8 Theoretical framework and underpinning theory**

As a lens for the present study, financing theories provide a way for dissecting the literature, the rationale being that the management of accounts receivables ultimately has an impact on the finances of the organisation. The Internal Theory of Industrial Development, the External Fund Theory of Investment and the Information Asymmetry Theory (Kapunda, 2015) are vital underpinning theories relevant to this study. These theories offer the perspectives from which the research objectives can be viewed.

### **2.8.1 The Internal Fund Theory of Industrial Development**

This theory postulates that firms are financed internally through retained profits (Kapunda, 2015). Neither gross profits nor net profits are used for investment, but rather retained profits and depreciation expense (funds set aside as plant, machinery, motor vehicles, equipment and other assets that lose value over time) (Stevens, 1993). Internal financing is cheap (Almeida & Campello, 2007) and easily available compared to external financing, which is usual costly in terms of interest charged, not easily accessible and, in the event

of failure to pay back, can result in loss of security. In considering this theory, it can be said that management of accounts receivables could affect the retained profits of an organisation through deductions for bad and doubtful debts. This lowers the financial reserves available and, ultimately, the profitability of and available reserves for SMMEs. In this way, the Internal Fund Theory of Industrial Development provides a way of assessing accounts receivables in SMMEs.

### **2.8.2 External Funds Theory of Investment**

Due to insufficiency of internal funds, the External Funds Theory of Investment suggests that external sources of finance are essential for investment (Kapunda, 2015). These include grants, loans, shares, debentures, sales of bonds, strategic partnerships/joint-venturing, factoring, Angel funding and other forms of borrowing (Almeida & Campello, 2007). However, during tough times firms struggle to repay loans, sometimes resulting in bankruptcy (Kapunda, 2015; Almeida & Campello, 2007).

The challenges to SMMEs in acquiring external finance, as expounded by the external funds theory, may cause firms to feel more secure using internal financing, rather than external financing. Most SMMEs struggle to get external financing, so internal financing may be a better option. Writing in the *Global Economic Monitor 2019/2020 Report*, Bowmaker-Falconer and Herrington (2020:29) note that access to finance and funding are problematic issues amongst SMMEs in South Africa.

Nevertheless, some SMMEs apply both the external funds theory and the internal funds theory. For instance, financing institutions had to reduce funding during the recession in 2009 as many SMMEs were defaulting on repayments. By so doing, it means that firms that had obtained external funds from financing institutions to start and run business had to learn to implement internal funds theory henceforth – saving and ploughing back profits into the firm or face business collapse. The situation is worsened by spiraling debts and poor management of accounts receivables, which result in institutions further getting more cautious with lending (Rogerson & Masutha, 2014; Kapunda, 2015).

When the internal and external fund theories are considered, one notices that the management of accounts receivables represents an important component of the finances of SMMEs. Therefore, these theories provide a way of considering the research objectives of this study.

### **2.8.3 Information Asymmetry Theory**

The Information Asymmetry Theory has been used as a lens to study accounts receivables management practices of SMMEs. Richard and Kabala (2019) found it useful to understand the accounts receivables practices of SMMEs in Tanzania, Akerlof cited in Richard and Kabala (2019:52), argues that the basic principle of the theory is the realisation that buyers and sellers do not have the same information at the same time. When taken to the management of accounts receivables, the Asymmetry Theory tends to create the impression that the seller has limited information about the potential buyer and the buyer also has limited information about the seller. This lack of information may result in striking credit agreements with a buyer who is not creditworthy and end up in default, resulting in bad debts, which pose the risk of losses to an organisation. For this reason, asymmetric information informs the need to assess the creditworthiness of a potential debtor by seeking information that is relevant in making relevant decisions.

## **2.9 Accounts receivables management practices of SMMEs in South Africa**

This section addresses the first research question, which sought to determine the accounts receivables practices used by SMMEs. In introducing a study of accounts receivables management practices amongst small businesses in Kenya, Waweru (2013:1) observes that accounts receivables arise out of credit sales and these credit sales are important in boosting sales. However, businesses have to realise that the ultimate goal of sales is to ensure profitability. It is also acknowledged that credit sales are associated with risks of late payments and total failure to pay among debtors. As such, most businesses spend time on due diligence and analysis of the creditworthiness of a customer before engaging in the credit transaction. A recent study by Otto (2018:178) acknowledges that

credit sales represent a significant part of the sales of small businesses. Selling on credit is a strategy used by the small business owners to expand sales and even to create relations among clients so as to gain their loyalty and ensure that they keep trading with the small business owners. It appears that the assumption here is that providing credit sales to some customers may be viewed as good customer care, which can result in the customer being loyal to that particular supplier. However, Otto (2018:178) and Waweru (2013:1) seem to agree with other sections of the literature that suggest that despite notable advantages, there is a greater risk associated with credit sales and most small businesses end up closing operations and failing to sustain because of these trade sales. Trade sales affect liquidity and carry the extra burden of bad debts.

#### **2.10 Empirical literature on accounts receivable management in South Africa.**

The second research objective was set to determine factors that inhibit SMMEs from using effective accounts management practices. Waweru (2013:35) provides certain variables that are critical to the effective management of accounts receivables, which form the conceptual framework for the study. These variables appear relevant for the present study as well. Figure 2.2 shows the conceptual framework that demonstrates interaction between the variables and their final contribution to effective management of accounts receivables. The framework is based on the influence of credit extension policy, credit collection policy, credit control and monitoring, price administration, order processing and invoicing and how they affect bad debts and cash flow. The framework also depicts inflation and information asymmetry as intervening variables that mediate the relationship between the other factors. This is demonstrated in Figure 2.2.

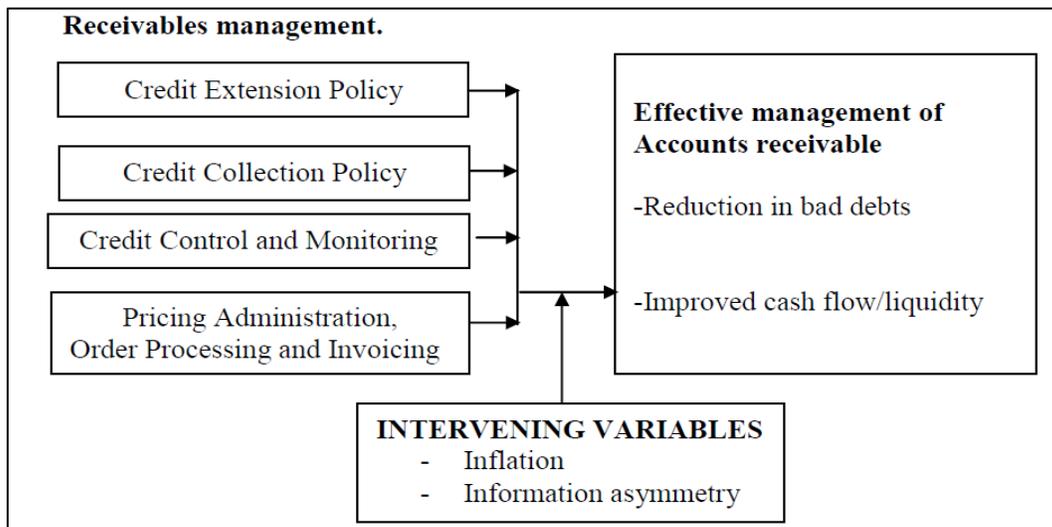


Figure 2.2: Principles of accounts receivable management  
Source: Waweru (2013:35)

When considering Waweru's (2013) framework, as depicted in Figure 2.2 and Otto's (2013) ideas, a credit policy itself is not indicated in Figure 2.2 yet this ought to be the starting point for credit trade. Otto (2013) found that of the 152 participants in a survey, 50.7% of their total sales were on credit yet about 59% did not use a credit policy to guide their credit sales. The conclusion for such an analysis is that even though more than half of the sales of small businesses are credit sales, more than half of the small businesses do not craft credit policies to guide their operations. These observations resonate with the problem statement formulated in Chapter One and seems to strengthen the initial assumption that ineffective accounts receivable management could be a significant figure contributing the high failure rate among South African SMMEs.

A more simplified version of the variables pertinent to effective management of accounts receivables is provided in Richard and Kabala (2019:57). This is shown in Figure 2.3 and is based on screening practices, monitoring practices and controlling practices.

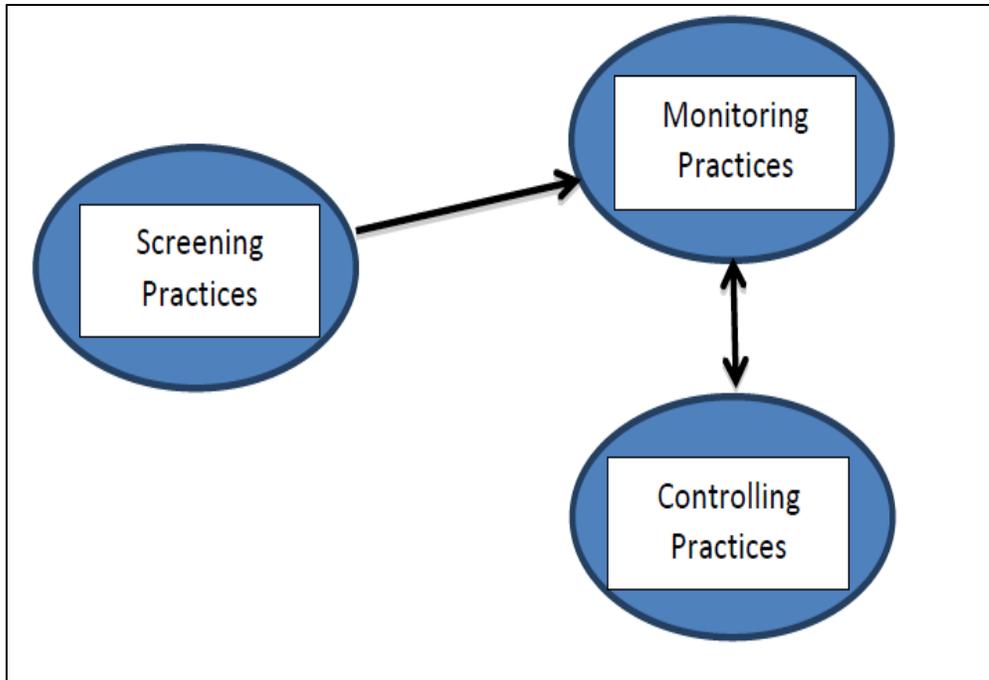


Figure 2.3: Factors for effective management of accounts receivables  
 Source: Richard and Kabala (2019:57)

### 2.10.1 Credit policy

The existence of a credit policy is implied in Richard and Kabala (2019:57) whereas in Waweru (2013:35) it is captured as a credit extension policy. The preparation and adherence to a set of guidelines for accounts receivables management can be set within a credit policy, which ought to provide a systematic procedure through which credit sales and accounts receivables are extended and managed. One problem that is likely to result in the absence of credit policies as noted in Otto's (2013) study is the extent of informalisation within small businesses. In 2017, 72% of South African SMMEs were in the informal sector, while only 28% were in the formal sector (International Finance Corporation (IFC, 2018:33). This suggests that most small businesses operate informal businesses and they may not follow expected standards in their operations. Otto's (2018) study of the implementation of trade credit among small businesses found that about 59% of the respondents did not have a trade policy, while only 37.5% had credit policies. The absence of a credit policy tends to be problematic given the complex nature of credit selling and the fact that credit selling is associated with a risk of late payment and non-payment. Therefore, one can argue that there is a need to formalise and follow principled approaches in the management of accounts receivables. It may not be adequate for

organisations to follow rule-of-thumb procedures that are fragmented and lack the credibility that can be associated with formalised credit procedures. Waweru (2013:350) argues that a well-crafted credit policy has the potential to boost profitability and reduce bad debts as it provides essential guidelines on how trade is to be provided and pre-determines the circumstances that permit credit sales. The absence of a credit policy promotes the use of subjective criterion on the extension of credit among clients.

Richard and Kabala (2019) found that some SMMEs follow some screening process in an attempt to ascertain the credit-worthiness of clients. The study also noted that some of the criteria that are used by small businesses to screen clients before agreeing on credit terms with them include: salary or wage level, familiarity (whether the client is known or not, residence status (permanent or temporary) and whether the client buys in cash on a regular basis.

### **2.10.2 Credit screening for credit risk management**

Various criteria and factors can be used to assess the creditworthiness of potential debtors. Small businesses can use various strategies for the screening of potential debtors. Table 2.8 shows some studies conducted to establish debtor screening strategies of small businesses.

Table 2.8: Findings on the screening of potential debtors

| Study   | Findings on the criterion for screening of potential debtors  |
|---|---|
| Principles and practice of effective accounts receivable management (Waweru, 2013)      | Character (customer's record of meeting past obligations, capacity (customer's ability to pay), capital (financial strength of the applicant), condition (general economic conditions) and collateral (security asset provided) are the factors used by small business to screen potential debtors. Character, capital and capacity were found to be the most important factors in screening applicants |
| Accounts receivable practices of SMMEs in Tanzania (Richard & Kabala, 2019 (see 2.2.3). | Customers' salary or wage level, familiarity with the customer, permanent residence and the condition that the customer had paid in cash before. It was also noted that small businesses use informal networks to verify the credit-worthiness of clients   |

Source: Author's construction

### 2.10.3 Variation of credit terms

The provision of credit sales may vary from product to product, customer to customer or from a trade season to another season. Richard & Kabala (2019:15) found that the provision of credit sales among applicants could vary from product to product. Slow product lines were often considered for credit more often than fast moving product lines. At times, organisations consider the price of products, differentiating between big products of higher value and small, less costly items. Furthermore, customer-to-customer credit variations consider whether the customer is known and there are previous transactions that have been concluded effectively between the credit applicant and the supplier. The demand for certain products has often been observed to vary with seasons. As such, sales may tend to fluctuate from season to season. Small businesses have been noted to consider this factor in issuing credits. Most businesses are likely to offer credit during the offseason periods when sales are moving slowly and there is a need for selling strategies that attempt to boost sales.

#### 2.10.4 Strategies for dealing with overdue accounts

It is known that credit sales often suffer from the problem of late payments (Bailey, 2018:23). These overdue payments, if not properly handled and managed, often lead to bad debts, which affect profitability. Overdue payments impact on cash flow and lead to liquidity strains before finally contributing to losses. As a result of these risks associated with late payments, businesses often put in place strategies for the management of overdue accounts.

Table 2.9: Strategies for the management of overdue accounts

|  |
|--|
| Sending reminder notes                                 |
| Making telephone calls                                 |
| Use of debtor collection agencies                      |
| Institute legal proceedings                            |
| Leave customers to decide on what to do alone          |
| Put the accounts on hold and suspend any further sales |
| Factor the account                                     |
| Write off the accounts as bad debts                    |
| Charge interest on overdue accounts                    |

Source: Richard & Kabala (2019)

As shown in Table 2.9, a number of strategies exist for the management of overdue debts. It should be noted that businesses often use a combination of them at the same time. At times, the follow up processes involved to recover overdue debts maybe costly and businesses may find that the cost of follow up is greater than the actual value of the debt. Waweru (2013:43) found that most small businesses often send reminder notes and make telephone calls to follow up on debtors.

#### 1.1.1 Incentives for prompt payment

As part of credit-debtor management tasks, some businesses put in place mechanisms to promote prompt payment among debtors or to discourage credit butting. These include: cash discounts, volume discounts and promotional gifts. Scolari (2015) provides some

debtor management tips which can be said to be instrumental in promoting early payment. These tips are shown in Table 2.10.

Table 2.10: strategies to encourage early payment

|  |
|--|
| • Reducing credit term days                  |
| • Request for deposit                        |
| • Hiring a debt collector                    |
| • Offering better upfront payment incentives |
| • Charging interest for outstanding debts    |
| • Offer discounts for upfront payment        |
| • Implement a 'know your customer policy     |

Source: Scolari (2015)

### 2.10.5 Credit collection

The essence of credit collection guidelines is to ensure effective management of debtor collection periods ensuring that the debtor collection period is kept as minimum as possible to manage cashflow, liquidity and working capital Waweru (2013:35). Having long debtor collection periods reduces liquidity and reduces the working capital available for an organisation.

### 2.10.6 Credit control and monitoring

Some sections of the literature advocate for the creation of a credit control department in an organisation. In small businesses, rather than having a full department for credit control, a section can be created, or a person can be appointed specifically to create, oversee and manage the credit policy of an organisation. Noting that credit control is a complex yet critical task, which involves accounting, marketing and sales skills. Consequently, personnel involved in credit management should possess the right skills and knowledge. The main aim of credit control is to ensure high accounts receivable turnover and low debtor collection periods (Waweru, 2013:36). Credit limits should be considered and an analysis of adherence and non-adherence to set credit terms has to be considered to ensure that information on defaulting clients and the future creditworthiness of debtors be considered.

### **2.10.7 Price administration, order processing and invoicing**

This factor calls for transparency, fairness and smooth administration of credit matters, including proper methods for the preparation and processing of orders and invoicing. Effective administration of the credit sale reduces delays associated with correcting errors and omissions. The avoidance of disputes and conflicts within the whole credit sale agreement is vital to ensure quick processing of payments and provision of cash much quickly. This promotes liquidity and ensures good cash flow.

## **2.11 Intervening variables**

These are factors that mediate the relationship between the factors listed in section 2.9.4, including reduction of bad debts and improvement of cashflow. Scolari (2015:20) identified inflation and information asymmetry as important intervening variables

### **2.11.1 Inflation**

Inflation washes away the value of accounts receivables. In other words, when a credit sale is concluded, the accounts receivables could be pegged at something and inflation means that the value changes over time. Where the rate of inflation is high, accounts receivables will be significantly affected compared to situations where the rate of inflation is low. Credit management should consider the likely effects of inflation on the value of payments and use appropriate models to ensure that at the time of receiving the payment, businesses do not incur losses.

### **2.11.2 Information asymmetry**

Information asymmetry considers the impact of lack of information among suppliers and debtors when they conclude the credit sale agreement. Suppliers require information on the creditworthiness of clients. This means that there is a need for suppliers to attempt to close the information imbalance and seek to find more information about their potential debtors before concluding credit sale agreements.

## **2.12 Summary**

This chapter provided the theoretical dimension of the study objectives as provided in Chapter One. The chapter established from previous research that SMMEs do not follow established accounts receivables expected in effective financial management. It also indicates that factors such as personal relationships with clients and the need to increase sales tend to be important and inhibit effective accounts receivables management among SMMEs. In the next chapter, the study considers the empirical bases of the research objectives and focuses on how the scientific study was conducted.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Scientific enquiry requires that any argument or factual position be backed by evidence for it to be acceptable (Christensen, Johnson & Turner, 2015:24). This evidence ought to be collected following generally acceptable methods of enquiry. It is from this position that this chapter emanates. The purpose of this chapter is to explain the methodology adopted to advance this study with a goal to fulfilling the objectives set in Chapter One and to cover gaps in the literature that were exposed in the previous chapter. The chapter considers key methodological aspects of scientific enquiry, namely: research philosophy, design, description of study population and sampling, data collection methods, data collection instruments, methods of data analysis, validity and reliability as well as ethical considerations. The relevance of the methods discussed is rooted in the nature of the study, its objectives and the directions noted from the previous chapter. The chapter begins with a discussion of the research design. Kothari (2004:32) sees a research design as an overall plan or strategy for conducting the study and just like the plan of a house, a research design, lays out how the study has to be carried out when considering its nature and purpose. The section on research design is followed by one that details the data collection methods employed in relation to the design.

#### **3.2 Research approach**

In order to achieve the research objectives, the study was based on a recognised research approach as explained in this section. The concept of a research approach is described in Creswell and Creswell (2018:40) as a plan of conducting research, which emanates from broad assumptions and philosophy of the nature of the phenomenon under investigation. Such a description points to the progression of research plans from broad ideas, which are encapsulated as research approaches to much narrow and specific research designs, data collection methodologies and analysis. According to Creswell and Creswell (2018:41), there are three types of research approaches, namely: qualitative, quantitative and mixed methods. The rationale for selecting a certain research approach is based on the philosophical worldview held by the researcher of which there are

pragmatic, positivist, post-positivist, constructivist and transformative worldviews (Creswell, 2018: 28, Christensen, *et al*: 2018:34)

Given these worldviews or paradigms, this study was oriented to a pragmatic paradigm, which, according to Krauss (2005:6) does not follow fixed principles, but relies on the research problem, objectives and questions to dictate and shape the methodology to be followed. The pragmatic philosophy is essential for effective exploration of the study objectives. In explaining pragmatism, Creswell (2003) posits that the pragmatic approach opens routes to the use of several methods, different worldviews and positions as well as multiple forms of data collection and analysis. Pragmatism as a philosophy is thought to have emerged in North America and was advanced by the work of Charles Sanders Peirce, William James and John Dewey (Elder-Vass, 2022:63). Creswell and Creswell (2018:48) provide some key features of the pragmatic research philosophy that are shown in Figure 3.1.

|  |
|--|
| <ul style="list-style-type: none"> <li>Pragmatism is not committed to any one system of philosophy and reality as in mixed methods research. Researchers have the freedom to follow both quantitative and qualitative assumptions.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Researchers have the freedom to choose methods, research techniques and procedures of research that best meet their needs and purposes.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Pragmatists do not see the world as an absolute unity. In a similar way, mixed methods researchers look to many approaches for collecting and analyzing data rather than subscribing to only one way (e.g., quantitative or qualitative).</li> </ul>  |
| <ul style="list-style-type: none"> <li>Truth is what works at the time. It is not based in a duality between reality independent of the mind or within the mind. Thus, in mixed methods research, investigators use both quantitative and qualitative data because they work to provide the best understanding of a research problem.</li> </ul>                                   |
| <ul style="list-style-type: none"> <li>The pragmatist researchers look to the <i>what</i> and <i>how</i> to research based on the intended consequences - where they want to go with it. Mixed methods researchers need to establish a purpose for their mixing, a rationale for the reasons why quantitative and qualitative data need to be mixed in the first place.</li> </ul> |
| <ul style="list-style-type: none"> <li>Pragmatists agree that research always occurs in social, historical, political, and other contexts. In this way, mixed methods studies may include a postmodern turn, a theoretical lens that is reflective of social justice and political aims.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Pragmatists have believed in an external world independent of the mind as well as that lodged in the mind. But they believe that we need to stop asking questions about reality and the laws of nature</li> </ul>   |

Figure 3.1: Features of pragmatism  
 .Source: Creswell and Creswell (2018:48)

Additionally, and in consideration of Figure 3.1, pragmatists see no possible division between theory and practice. They believe, what individuals theorise is what they practice and what people practice as they theorise. After the literature review, it was observed that a number of studies related to the present study have already been conducted especially in Kenya, Tanzania and Uganda. As a result, there are notable observations about accounts receivables management practices of small businesses, which are recorded in the literature. Some of these observations could be relevant to the present study. However, it was also assumed that there could be some peculiar aspects, which are unique to the particular SMMEs investigated. This position led to the belief that aspects observed in the literature review could be confirmed in this study through an analysis of their prevalence. Higher frequencies can confirm the literature findings. This, therefore, implied quantitative analysis. In contrast, there was a need to provide room for new

findings, which are localised to the sample units involved in the study. It was believed that knowledge of the new elements could be obtained by referring to people's experiences and social perspectives. Such a position was taken to imply the construction of knowledge, which could be understood through the interpretivist paradigm associated with qualitative data that explains phenomena. This discussion amounts to the use of a post-positivist approach and a constructivist approach to knowledge. According to the constructivist approach, people involved in a situation can subjectively describe their experiences and make interpretations that develop understanding of reality. The basic tenets of constructivist worldview are:

- a) People construct meanings from an interpretation of the world in which they live. As a result, a qualitative approach that relies on open-ended questions is considered appropriate to allow the expression of views.
- b) Meaning is interpreted from a historical and social perspective. The role of culture, social interactions and the setting or context is considered vital.
- c) The experiences and background of people also shape and influence how meaning is constructed. As such, constructivists can study phenomena in its original settings or can get involved in the context of a phenomenon in order to better understand it.
- d) Inductive reasoning is the basic line of reasoning and argument followed by constructivists.

The paradigms to the present study, which have been discussed in this section, led to the research design and methodologies discussed in the section that follows.

### **3.3 Research design**

In Creswell and Creswell (2018) it is explained that research designs are types of inquiry associated with both the quantitative and qualitative study approaches that guide data collection and analysis to be followed in a certain study. Whereas qualitative data tends to be associated with open-ended questions that are not guided in any way, quantitative research is often associated with the collection of data using close-ended questions, which are exclusively guided. The present study adopted a mixed methods research design that was based on a questionnaire composed of open-ended and closed-ended questions to

collect both qualitative and quantitative data. This was important to allow for triangulation of data and increase the validity and reliability of findings.

The purpose of the study was to describe practices of SMMEs in the management of accounts receivables. It sought to also cast light on the management of credits and explore how creditworthiness is assessed by SMMEs. As such, a descriptive research design was found to be suitable for the study. Both quantitative and qualitative descriptions were deemed necessary in order to foster a holistic appreciation of the methods that small businesses use in managing their accounts receivable and how this is likely to influence their survival.

Walliman (2011:6) argues that descriptive studies attempt to examine situations to identify the norm. In order to have a comprehensive description, a large amount of data was required to ensure that emerging patterns can be noted. Large amounts of data are often obtained through surveys. Babbie (1993:30) explains that surveys are the most common research method and they are used for descriptive, exploratory and explanatory studies. Traditionally, approaches to research have been categorised into quantitative and qualitative methodologies (Venkatesh, Brown & Bala, 2013:21). In this study, it was assumed that the accounts receivables management practices of SMMEs are likely to follow some form of pattern, which can be identified through multiple cases studies. Therefore, it was believed that information saturation is likely to be attained after conducting a certain number of case studies.

Whereas quantitative studies tend to be positivistic and deductive, qualitative designs are more constructive and interpretative (Venkatesh et al., 2013:24). Furthermore, quantitative studies quantify variables as opposed to qualitative research which is more oriented to unquantifiable variables or where the variables are best analysed in their original or natural contexts. As a result, qualitative researchers have dominated both management and social studies that consider behaviors, perceptions, opinions, attitudes and other related variables. Qualitative data is often appropriate for providing in-depth descriptions. A major advantage of qualitative data is that it is flexible and can be made as contextually specific

as possible in the setting under investigation. When considered in reference to the present study, qualitative data can be seen as appropriate. Considering that the study is descriptive in nature, qualitative data allows for the provision of detailed descriptions.

### **3.4 Data collection**

Researchers concur that when the study design has been set, the next step is to choose a method for collecting data (Creswell, 2018:61; Christensen, 2015:25). A fundamental principle is that the research question set for the study dictates the appropriate method for data collection that is to be followed. There are various levels of analysis and the data collection method is also determined by the level of analysis, which can be biological, individual or social (Elder-Vass, 2022:65). In this study, data collection was at the individual level and the aim was to note differences and patterns of responses given by individuals on how they manage accounts receivables for their distinct SMMEs.

The research questions for this study can be answered if participants are given an opportunity to recall, describe and explain their accounts receivables management practices. Even though various research methods such as observation and experiments exist, it is clear that the method for data collection appropriate for this study is one that involves soliciting for responses. The underpinning justification for this method is based on its ability to allow the analysis of common themes and relationship patterns to emerge and to be described, thereby allowing the research to generalise accounts receivables practices of the SMMEs investigated. Methods of asking questions include surveys, interviews, questionnaires and other self-report techniques.

The data collection method selected for the study was question based. As stated by Creswell (2018), the framing of questions is critical in ensuring that research questions are adequately addressed. Open-ended questions allow respondents to provide data in an unrestricted way; they provide as much data as they feel. In contrast, close-ended questions require respondents to select among a fixed number of options. The study relied on both open-ended and close-ended questions in a questionnaire to collect data. A key advantage of the questionnaire is that it allows the collection of large amounts of data

since many respondents can be reached. A major challenge associated with self-response is bias since people have been observed to provide desirable answers and appear good.

### **3.4.1 Questionnaire design**

Colton and Covert (2007:1) describe a research instrument as any format for collecting data and includes documents as questionnaires, interview guides, observation sheets, checklist and recording sheets. In other words, instruments are used to measure phenomena. Researchers generally take the position that research instruments should be constructed in such a way that they collect relevant, appropriate, valid and reliable data that suit the purpose for which a study was formulated. Consequently, there are techniques and strategies available in research literature meant to promote the construction of reliable and valid instruments. The questionnaire that was used in this study was taken from the research questions and objectives of the study. These research questions formed the research instruments used in this study.

As mentioned earlier, the instrument used to collect data for this study was a questionnaire which was composed of both close-ended and open-ended questionnaire. In designing the questionnaire, the researcher took note of ideas from Colton and Covert (2007:14), who indicate that a questionnaire typically has important sections such as: title, introduction, directions and instructions for completion, demographic section, items and a closing section. According to Brace (2004:5), there are several stakeholders who are to be considered in the design of a questionnaire. These stakeholders include the respondents, the researcher and the people who commissioned the study. For purposes of this study, the respondents and the University that commissioned the study were important stakeholders. As a result, two important measures were undertaken before using the questionnaire. After the questionnaire was designed, it was presented to a panel of senior researchers and scholars at the University. This panel assessed the relevance and suitability of components of the questionnaire, considered the problem under investigation, the research questions and objectives against the items in the questionnaire. As a result of this process, certain items were removed, while new ones were added to the initial draft questionnaire. After making the amendments, the panel suggested that the instrument be tested at a micro level to assess its suitability to respondents. Following this

suggestion, fifteen (15) SMMEs outside the Cape Metropole were randomly identified and the questionnaire was sent for completion. The purpose of this was to identify vexing items and check if respondents were comfortable with the instrument. The piloted questionnaire was then collected and taken for analysis with the panel of researchers which resulted in further modification of items. New items were added, while others were removed. A follow-up exercise was conducted, which involved verbal interaction with the fifteen respondents during which they commented on the structure of the items, readability, clarity and relevance to matters under investigation. The sequential and iterative process that was followed in the design of the study instrument is shown in Fig 3.2.

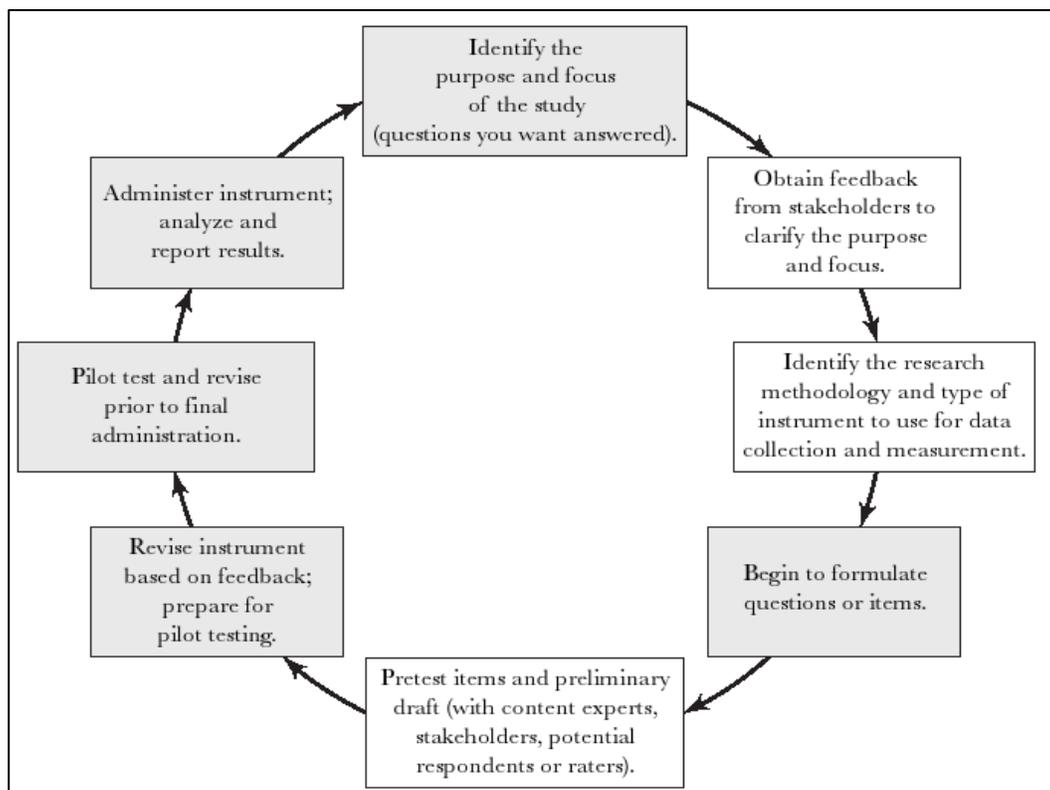


Figure 3.1: Steps in questionnaire design and construction  
Source: Colton and Covert (2007:18)

As shown on Fig 3.2, the design of the questionnaire used for this study followed a process that started with identifying the purpose and focus of the study. This was a crucial step that directed the research on the nature and structure of items to be used in order to obtain valid and reliable data. To this end, the researcher referred to the problem statement, the research questions and the research objectives set out in Chapter One. The study sought

to provide a description of the accounts receivables management practices of SMMEs in the Cape Metropole. This objective emanated from a problem centered on the high failure rate of SMMEs. An inherent assumption of the study was that the accounts receivables practices of the SMMEs were a key factor in the observed failure rate. The researcher sought to compare the practices of the SMMEs against established or generally accepted standards. Thus, the study set out to investigate whether significant deviations from standards existed among the selected SMMEs.

The second step in designing the questionnaire was to interact with stakeholders of the study for more clarification on the purpose of the study and ensure that the study was adequately delineated and emanated from a clear objective. The research proposal was submitted to the University Board for Postgraduate Studies to seek approval from the University, as a key stakeholder, for the study.

Following the approval of the research proposal, the methodology for the study was considered. The nature of the study was that it sought qualitative data. Therefore, a qualitative research instrument was required. Considering that the researcher wanted a large volume of data, a questionnaire was deemed as a necessary tool for the collection of such data since many people can be reached through a questionnaire. The next step was to establish the items and nature of questions that will ensure the collection of relevant data that answer the research questions and ensure that the research objectives were realised.

### **3.4.2 Population**

The term 'population' is used by researchers to mean the totality of all elements that can be included in a study (McNeill & Chapman, 2005:46). SMMEs formed the population for the present study. SMMEs can be classified in relation to size based on three criteria: (1) the number of employees they employ, (2) the total annual turnover made, and (3) their estimated gross asset value (excluding fixed property). The number of people employed by an SMME was considered a very important criterion for purposes of this study. The study employed a methodology similar to that of Ngubane, Mayekiso, Fitshane, Matsoso

and Bruwer (2015), who identified the population as respondents who were production managers and/or financial managers and/or supply chain managers and/or general managers of SMMEs. These were chosen because they were directly involved in making decisions pertaining to inventory and trade receivables in their respective SMMEs.

### **3.4.3 Sampling**

A sample is a set of elements selected in some way from a population. Several sampling methods exist for researchers. The sampling technique adopted for this study was non-probability and purposive. McNeill and Chapman (2005:50) explain that this sampling technique describes the case when a researcher chooses a group of people or place to study because it is known to be of the type wanted. This study was formulated to investigate SMMEs in the Cape Metropole area. The Cape Metropole area is mainly dominated by big businesses with a few SMMEs located mainly in shopping malls. Five shopping malls found in the Cape Metropole area were identified. These shopping malls became the sampling frame for the study. A study of all the malls indicated that each mall had approximately twenty-five (25) registered business operators. Using the fact that SMMEs contribute about eighty per cent (80%) of GDP to the economy, the study included eighty per cent (80%) SMMEs in each mall. This technique led to 20 SMMEs per mall being sampled to provide data for the study. One hundred and one (101) self-response questionnaires were administered. The sample of participants was chosen using the purposive non-probability sampling technique which was based on choosing respondents who met the objectives and aim of the study.

As in the study of Ngubane et al. (2015), in order for respondents' responses to be regarded as valid, they had to adhere to the following delineation criteria:

- Respondents should have been production managers and/or financial managers and/or supply chain managers and/or general managers in a SMME.
- Their SMMEs should have been operating in any of the formal sectors recognised in South Africa.
- Their SMMEs should have been operating in the Cape Town Metropole area.
- Their SMMEs should have satisfied the definition of a small business as per the South African Small Business Act No. 102 of 1996.
- Their SMMEs should have been in operation for at least 1 year.

- Their SMMEs should have employed between 5 and 100 employees.

In addition to these, relevant ethical considerations were considered for this study:

- Respondents were informed of the purpose of the research.
- Respondents were informed that their participation in the study was voluntary in nature.
- All respondents were informed that data provided by them would be used for purely research purposes and their responses would be kept anonymous.
- All respondents were guaranteed that data they provided would be treated with the highest level of confidentiality.

### **3.5 Data analysis**

Given that qualitative data were collected, the method for data analysis employed was also qualitative. Qualitative data typically involves three procedures, namely: data reduction, data display and conclusion (drawing/verifying) (Marvasti, 2004:88). Data reduction emanates from the fact that a qualitative study, by its nature, generates a lot of data and not all of it attends to the research questions and objectives. Data displayed involves making textual representations of the data so as to cluster the data along key themes, codes, criteria and categories. The last step involves making meaningful statements of the data to make out the final implications of the data to the research problem and objectives.

Content analysis techniques were employed to analyse the data collected for this study. Qualitative data has to be analysed by condensing it in order to make it systematically comparable. Content analysis is a process involving a coding system that makes patterns observable from data (Berg, 2001:240). Content analysis makes a study of textual elements such as words, phrases, sentences, and paragraphs. In this study, words and phrases describing the management of accounts receivables were considered. It involves analysis of messages or text. Researchers assert that content analysis can be qualitative, quantitative or both. According to Berg (2001:240), content analysis entails a procedure illustrated in Table 3.1. Content analysis was performed on the data to identify explicit

themes, actions and numerous other dimensions related to the management of accounts receivables by SMMEs.

Table 3.3: procedure in content analysis

- Data are collected and made into text (in full, field notes, transcripts, etc.).
- Codes are analytically developed or inductively identified in the data and affixed to sets of notes or transcript pages.
- Codes are transformed into categorical labels or themes.
- Materials are sorted by these categories, identifying similar phrases, patterns, relationships, and commonalties or disparities.
- Sorted materials are examined to isolate meaningful patterns and processes.
- Identified patterns are considered in light of previous research and theories, and a small set of generalisations are established.

Source: Berg (2001:240)

### 3.1 Validity and reliability of data

An important principle of data is that it should address the question for which the study was set. Valid data are relevant and address the research question, objectives and hypothesis of a study. Valid data depend on the research question and every research should carefully consider making sure that the data collected are valid. Another aspect of data is reliability. This refers to stability and consistency over time. This means that if a similar research is repeated, the same results should be obtained. In other words, reliable data should have little variance over time.

### 3.6 Ethical considerations

Scholars emphasise the need to consider whether a study has any harm (emotional or physical) to participants or if the research requires participants to do anything unreasonable. In this study, ethical standards as guided by the University Ethics Committee, which requires all researchers at the University to seek ethical clearance first before data collection were adhered to. In line with this position, after formulating the study, the proposal was submitted for ethical clearance and the following ethical concepts were complied with.

### **3.6.1 Privacy and anonymity**

Throughout the research, it was assumed that participants regard their practices of managing accounts receivables as a private matter, which cannot be put in the public domain without careful consideration. To ensure this, a questionnaire was designed in such a way that no names or positive identification of participants was permitted. Data were collected anonymously, and no specific names were mentioned throughout the study. The concept of anonymity also implied that no personal information was collected. The data required for the study were basically those of SMMEs, which the participants lead.

Throughout the research, issues of confidentiality, integrity of data and the collection of data with permission were satisfied. Ethical clearance from prospective organisations and from the University's Ethics Committee was sought to ensure informed consent before data collection. The participants were informed of their right to cancel a session without explanation at any time, should they feel the need to do so. The leaders were also informed of their right to request discontinuation of the data collection process should they feel the need to do so. All the participants were treated equally. The principles of fairness, faithfulness and professionalism were followed. Promises and agreements were all met. During data collection, the researcher acted appropriately, making sure that participants were sufficiently comfortable to complete the questionnaire. All data collected were treated with confidentiality. The data were protected and made unavailable to anyone other than the researcher. Data were securely kept and treated with confidentiality. All organisations and individuals were cited as anonymous, and no data collected was and will not be tampered with. The data were coded in a manner that protected the sources. Findings of the research will be made available to the organisations before publication, and the organisations will be made aware of the final output of the research. The researcher maintained a professional relationship with members of the organisations even after the required data had been collected.

### **3.5 Conclusion**

This chapter has explained the research design for the study as well as the research philosophy to which the study was aligned. It has also provided details regarding the data collection process and how validity and reliability of the study were enhanced. A

questionnaire-based data collection method anchored the study and yielded data that allowed for responding to the research questions. The next chapter presents and analyses the data collected for the study and demonstrates how the data were linked to the study objectives.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS OF RESULTS**

#### **4.1 Introduction**

This chapter focuses on presenting the data collected from the fieldwork. The study aimed to measure the management of accounts receivables and the survival of SMMEs in Cape Town Metropole. The study sought to provide answers to the question of the current accounts receivables management practices of SMMEs in the retail sector operating in the Cape Metropole. Specifically, this chapter provides empirical answers to four specific questions intertwined with the main research question identified above. The research questions include: firstly, which practices are employed by SMMEs to manage their accounts receivables?; secondly, what factors inhibit SMMEs from using effective accounts management practices?; thirdly, what credit management systems are put in place by SMMEs to enable them establish the creditworthiness of their customers? and, lastly, what credit management systems are used by SMMEs to ensure timely repayments or fulfilment of credit agreements with customers?

The first part of this Chapter highlights the demographic distribution of the respondents; explanation of the control variables derived from the positions of respondents in the organisations; periods of service in the positions; the educational qualification of respondents; and a pie-chart showing the graphic illustration of the tabulated data. Moreover, the first part contains a cross-tabulation showing respondents' responses to all current accounts receivables management practices of SMMEs in the retail sector operating in Cape Town, after which a bar chart was generated from the cross-tabulation table.

#### **4.2 Demographic analysis**

The demographic analysis presents background information about the respondents. This is crucial in any research that uses a questionnaire as a data collection instrument as it provides a context for the interpretation of some findings. Scholars generally agree that demographic details often form important independent variables in research and should

be part of empirical studies. This study sought to understand accounts receivables management by retail SMMEs in the Cape Metropolis and demographic data of respondents was deemed important. The research minimised bias in the responses by only including owners, accountants and managers as respondents in the study. The respondents were assumed to understand the businesses better and deemed as capable of providing relevant data on the management of accounts receivables in SMMEs. Also, this research considered respondents' experiences regarding how long they had stayed in the position of either manager, accountant or owner as an important demographic variable affecting responses. Experience was expected to have strong positive effects on the quality of the data received from respondents about the business and give a better understanding of accounts receivables management. The last demographic data included was educational qualifications of respondents, which formed the four-dimensional effects of respondents' background data as related to different retail SMMEs business in the Cape Metropolis. Table 4.1 provides the findings of the study in respect of the demographics of the respondents.

Table 4.1: Demographical analysis

| Variable                                    | NoB | NoM | Mode       | Mf | Cat         | Freq | (%)   |
|---|-----|-----|------------|----|-------------|------|-------|
| <b>What is your position?</b>               | 101 | 0   | Owner      | 50 | Accountant  | 15   | 14.85 |
|   |     |     |            |    | Manager     | 36   | 35.64 |
|   |     |     |            |    | Owner       | 50   | 49.51 |
| <b>Gender?</b>                              | 101 | 2   | Male       | 54 | Female      | 45   | 45.46 |
|   |     |     |            |    | Male        | 54   | 54.55 |
| <b>Years in Operation?</b>                  | 101 | 22  | 1-5years   | 45 | 1-5 years   | 45   | 56.96 |
|   |     |     |            |    | 6-10 years  | 33   | 41.77 |
|   |     |     |            |    | 11-15 years | 1    | 1.27  |
| <b>Highest qualification in accounting?</b> | 101 | 4   | Bachelor's | 33 | Bachelor's  | 33   | 34.02 |
|   |     |     |            |    | Diploma     | 29   | 29.90 |

|   |     |   |               |    |  |                |    |       |
|---|-----|---|---------------|----|--|----------------|----|-------|
|   |     |   |               |    |  | Masters        | 6  | 6.19  |
|   |     |   |               |    |  | Other          | 5  | 5.16  |
|   |     |   |               |    |  | Seminar        | 6  | 6.19  |
|   |     |   |               |    |  | Short course   | 18 | 18.56 |
| <b>Number of employees</b>                | 101 | 3 | 1-5 employees | 35 |  | 1-5 employed   | 35 | 35.71 |
|   |     |   |               |    |  | 6-11 employed  | 35 | 35.71 |
|   |     |   |               |    |  | 11-15 employed | 14 | 14.29 |
|   |     |   |               |    |  | 16-20 employed | 11 | 11.22 |
|   |     |   |               |    |  | 21-25 employed | 2  | 2.04  |
|   |     |   |               |    |  | 26-30 employed | 1  | 1.02  |
| <b>Does your business sell on credit?</b> | 101 | 0 | Yes           | 76 |  | No             | 25 | 24.75 |
|   |     |   |               |    |  | Yes            | 76 | 75.25 |

#### 4.2.1 Position within the business

Item 1 in Table 4.1 indicates the different placements of respondents within the retail SMME businesses, according to the data derived from the questionnaire. The results are displayed in Figure 4.1. Table 4.1 shows that 49.5% were owners, 14.9% were accountants, and 35.6% were managers. The analysis confirms the respondents' ability to provide reliable and quality data on the retail businesses in the Cape Metropolis. Most of the respondents were owners, as they constituted almost 50%. Figure 4.1 shows the positions of the respondents in their businesses.

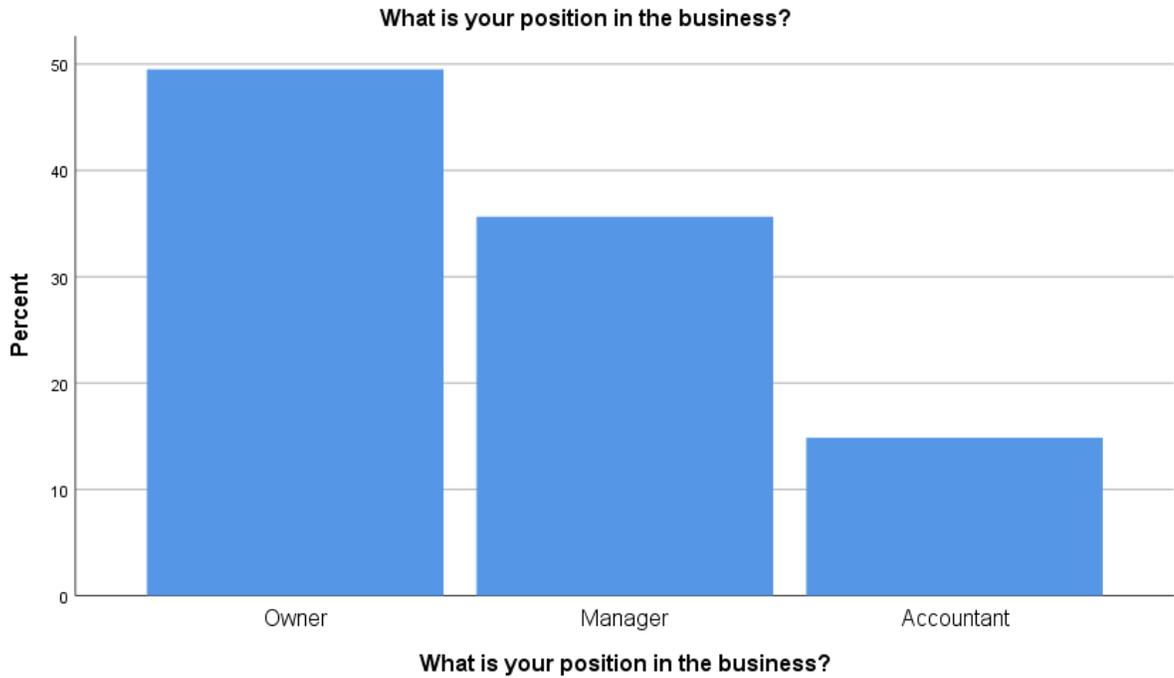


Figure 4.1: Job positions of respondents send this below the bar chart

#### 4.2.2 Gender

Item 2 in Table 4.1 indicates the gender of surveyed respondents within the retail businesses. The results are displayed in Figure 4.2. The Table shows that 45.5% were female and 54.5% were male.

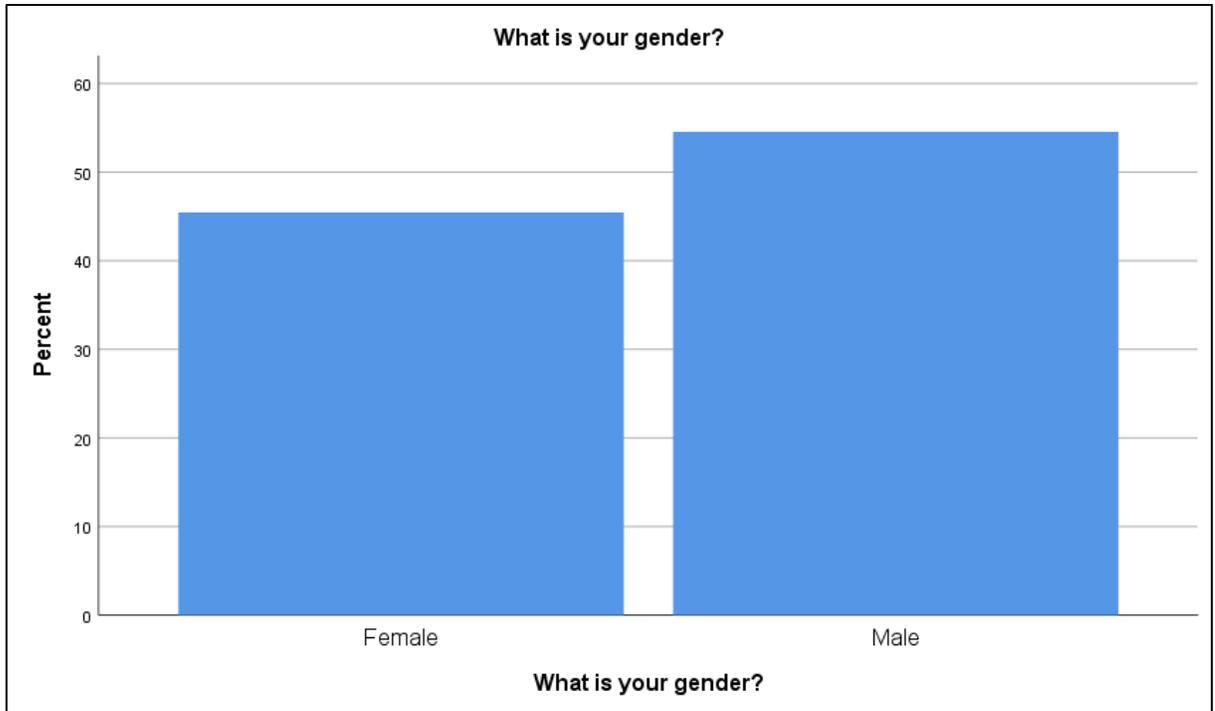


Figure 4.2: Gender distribution of respondents

#### 4.2.3 Number of years in which the business has been in operation

Item 3 in Table 4.1 shows the number of years the retail businesses have been in operation, based on data from the questionnaire. The results are displayed in Figure 4.3. Table 4.1 shows that 42.6% were in business for 1-5 years; 41.7% were operating for 6-10 years; and 1.3% were in existence for 11-15 years.

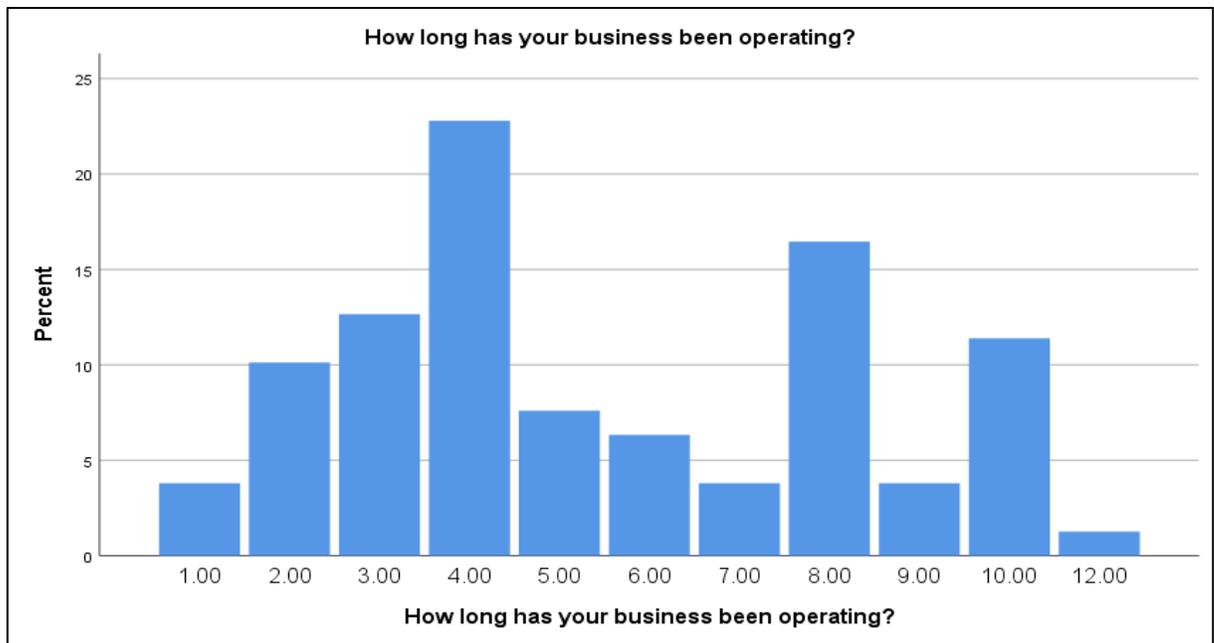


Figure 4.3: Years of existence of the organisation

#### 4.2.4 Highest qualification of respondents

Item 4 in Table 4.1 shows the highest educational qualifications in Accounting obtained within the retail businesses/industry, based on the data from the questionnaire. The results are presented in Figure 4.4. The table shows that 34.02% were holders of a bachelor's degree; 29.9% had a diploma; 6.2% had a master's degree; 5.2% had another certificate; 6.2% had a seminar, and 18.6% had short course qualifications. The establishment of retail SMMEs in South Africa is primarily determined by unemployment. The unemployment rate reduces as the individuals climb the ladder of educational qualifications and increase their chances of getting jobs, as shown in the distribution of the respondents.



Figure 4.4: Highest qualification of respondents

#### 4.2.5 Size of workforce

Item 5 in Table 4.1 shows the number of employees in the retail businesses industry, according to the data derived from the questionnaire. The data from this survey are depicted in Figure 4.5. Table 4.1 shows that 35.7% of the businesses had 1-5 employees; 35.7% employed 6-11 employees; 14.3% had 11-15 employees; 11.2% employed 16-20 employees; 2.04% had 21-25 employees; and 1.02% employed 26-30 employees. The number of employees recorded by the respondents confirms that the majority of the retail SMMEs employees were operating small businesses in the Cape Metropolis.

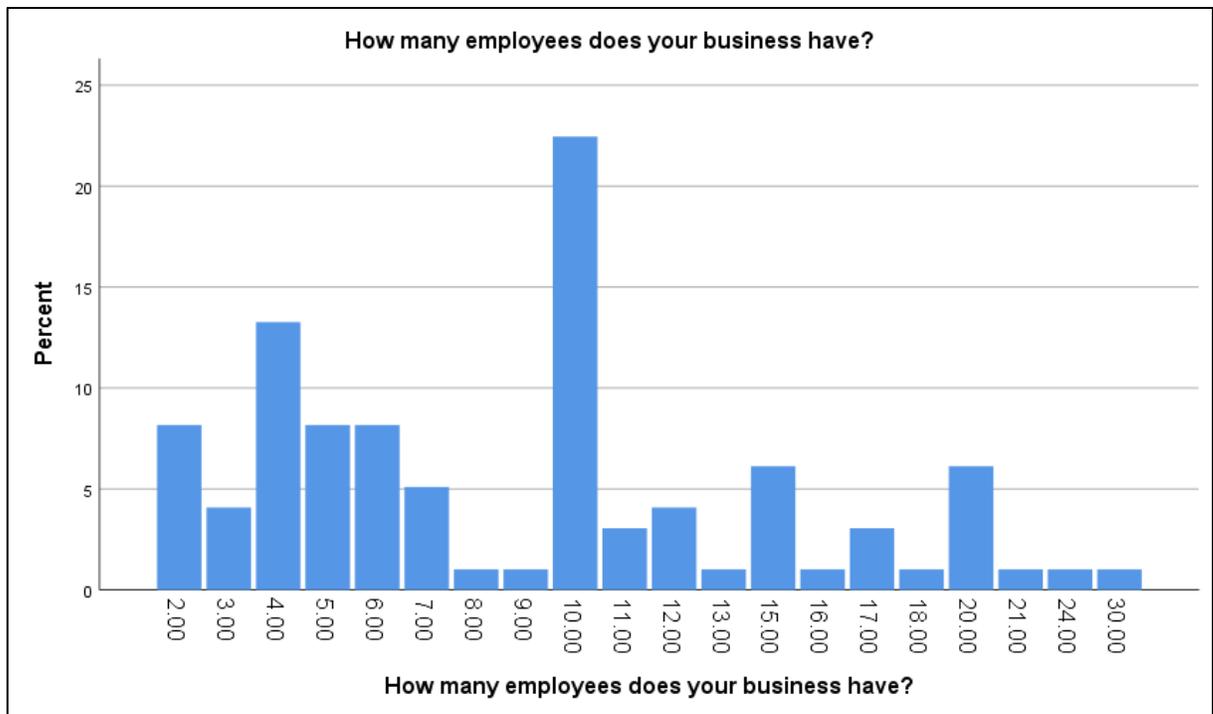


Figure 4.5: Size of workforce

#### 4.2.6 Reliance on credit sales

Item 6 in Table 4.1 provides information on whether the retail businesses sell on credit. It shows that 24.8% of retail SMMEs do not sell on credit, while 75.25% of retail SMMEs sell on credit. The analysis confirms the respondents' ability to provide reliable and quality information about the retail businesses in the Cape Metropolis. It is on top most important for this study that the respondents sell on credit before discussing their management of account receivable. The distribution of the respondents revealed 75% sells on credits while the remaining 25% who do not sells on credit are part of the study as baseline of comparison and to create information on practices of SMMEs on account receivable.

#### 4.3 Findings in relation to research objectives

The sub-sections that follow present an analysis of the data collected in relation to the research objectives. It is now imperative to further provide empirical consideration of the research objectives. The presentation of data collected through the questionnaire follows a sequential order. Table 4.2 presents the distribution of responses to each item in the

questionnaire. This is preceded by a detailed explanation of the items that directly provide answers to the research question raised in the study and address each objective of the study.

#### 4.3.1 Research objective1: practices employed by SMMEs to manage their accounts receivables

Table 4.2 starts with the presentation of the businesses' modes of sales, which can either be on credit or cash sales. The table shows that more than 75% of the respondents sell on credit to their customers. This shows that the businesses selected are appropriate for the study since more than 50% of them are involved in credit sales. The findings from this study are relevant to retail SMMEs since most respondents practice accounts receivables management. The second item in Table 4.2 relates to whether the businesses charge interest on late payments. The results indicate that 67% of the respondents charge interest on late payments, while the remaining 33% do not. The third item inquired whether invoices are issued immediately after the customers have made a credit sale transaction. Fifty-nine percent (59%) of respondents issue invoices immediately after a transaction is made, while 41% do not. The fourth item asks whether statements are sent to debtors monthly, at least. The responses indicate more than 78% of SMMEs give statements to their customers, while 21% do not. Item 5 shows that reminders are sent to customers to pay overdue payments: 90% of SMMEs send reminders to their customers, but 10% do not. Item 6 asks about the use of computers in managing accounts receivables. Sixty-eight (68%) of SMMEs make use of computers to manage accounts receivables, while 32% do not.

Table 4.2: Practices employed by SMMEs to manage their accounts receivables

| Variable   | NoB | NoM | Mode | Cat | Freq | (%)    |
|--|-----|-----|------|-----|------|--------|
| 1. Does your business sell on credit?  | 101 | 0   | Yes  | No  | 25   | 24.752 |
|  |     |     |      | Yes | 76   | 75.248 |
| 2. Does your business charge interest for late payments?                               | 101 | 13  | Yes  | No  | 29   | 32.955 |
|  |     |     |      | Yes | 59   | 67.045 |
| 3. Debtors are sent invoices immediately after a credit sale transaction is concluded. | 101 | 6   | Yes  | No  | 39   | 41.053 |

|   |            |           |            |           |            |               |
|---|------------|-----------|------------|-----------|------------|---------------|
|   |            |           |            | Yes       | 56         | 58.947        |
| <b>4. Statement is sent to debtors at least once a month.</b> | 101        | 12        | Yes        | No        | 19         | 21.348        |
|   |            |           |            | Yes       | 70         | 78.652        |
| <b>5. Reminders are sent to debtors who delay paying.</b>     | 101        | 7         | Yes        | No        | 9          | 9.574         |
|   |            |           |            | Yes       | 85         | 90.426        |
| <b>6. A computer is used to manage accounts receivables</b>   | 101        | 9         | Yes        | No        | 29         | 31.522        |
|   |            |           |            | Yes       | 63         | 68.478        |
| <b>Total</b>  | <b>707</b> | <b>47</b> | <b>Yes</b> | <b>No</b> | <b>251</b> | <b>38.030</b> |
|   |            |           |            | Yes       | 409        | 61.970        |

It is evident most SMMEs in the Cape Metrople sell on credit as 75% of the respondents said 'Yes' to whether they sell on credit or not. Therefore, managing their accounts receivables is imperative. This is so because selling on credit is very popular among the businesses and the follow-up question on management of accounts receivables requires them to charge interest. The findings also show that out of the 75% of businesses that sell on credit, only 67% charge interest, while the remaining 8% of those who sell on credit do not. Almost 59% do send their debtors reminders after the conclusion of the transaction. Also, 78% percent of the businesses send periodic monthly statements to their debtors, while 90% send reminders to debtors who delay paying every month. However, only 68% percent use computer-assisted account receivable management software or automated computer usage in their business.

In sum, there is a need to encourage SMMEs to adopt a system of accounts receivables management to manage their financial risk and reduce SMMEs' failure in the province, specifically, and in the country, generally.

#### **4.3.2 Research objective2: factors that inhibit SMMEs from using effective accounts management practices**

With reference to the data in Table 4.3, detailed interpretation of results relating to factors that inhibit businesses from managing accounts receivables effectively are presented in the sub-sections that follow.

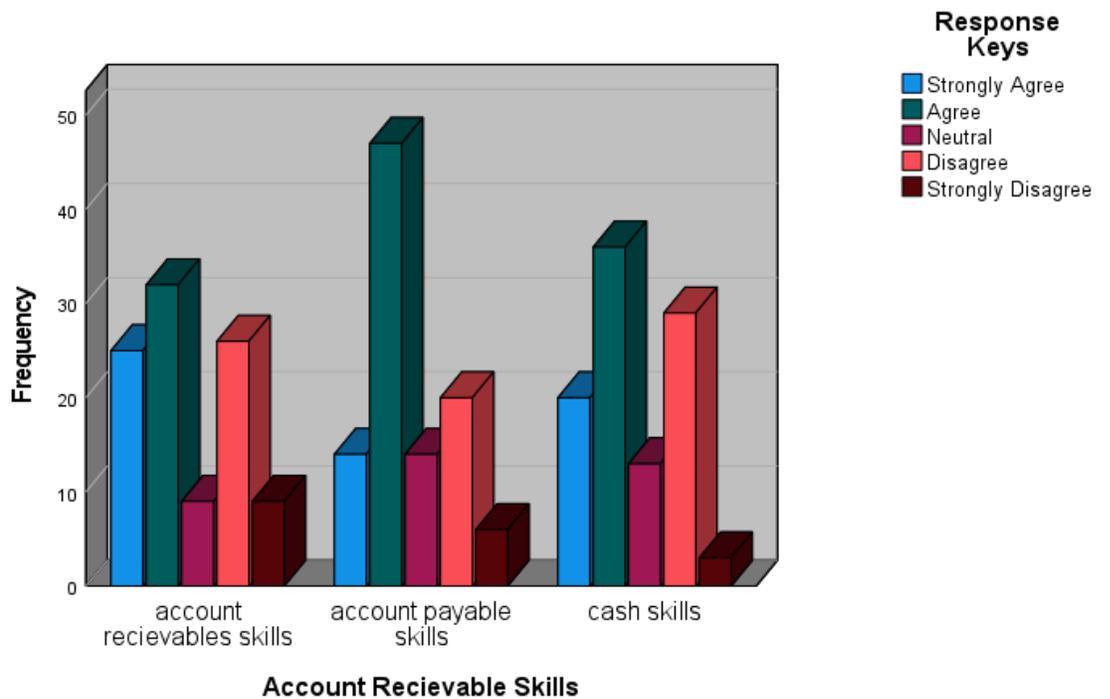
##### **4.3.2.1 Skills**

*Accounts receivables skills:* of all the respondents, about twenty-five percent (24.8%) of strongly agreed that accounts receivables skills hinder their businesses from managing accounts proactively, 31.7% agreed, 8.9% participants were neutral, 25.7% disagreed, while 8.9% strongly disagreed that accounts receivables skills is a vital instrument in managing accounts effectively. The average response revealed that majority of SMMEs are suffering skills shortage on management of account receivable. These results suggest that accounts receivables skills do represent a strong reason SMMEs fail to manage their accounts receivables. This finding confirms that of Enow and Isaacs (2016), who found that most SMMEs lack skills inventory management skills when modern technologies and computers are used. The lack of computer skills tends to affect effectiveness of the accounts receivables management process.

*Accounts payable skills:* 13.9% of the participants strongly agreed that accounts payable skills were a challenging factor for the management of accounts in their businesses, 46.5% also agreed, 13.9% were neutral, 19.8% disagreed that absence of this skill has created inconvenience in their businesses, and 5.9% strongly disagreed that accounts payable skills is necessary for organising their accounts well in their trading environments. More than 70% of the respondents either agree or strongly agree that account payable skills are impediment to management of account receivable. The findings revealed that account payable skills shortage will increase the financial risk of the SMMEs since more than 75% of them sells on credit. These results vindicate Waweru's (2013) argument that SMMEs face skills deficiencies, which impact on their financial management practices As such, this appears to be a key factor influencing effective management of accounts receivables among the SMMEs.

*Cash skills:* In respect of cash skills, 19.8% of respondents strongly agreed that cash skills are causing problems in managing business accounts, 35.6% also agreed, 12.9% were neutral, 28.7% disagreed, and 3.0% strongly disagreed. The result revealed that more than 54% of the SMMEs interviewee are of the opinion that cash skills shortage inhibit there businesses from managing their account receivable effectively.

**Account Recievable Skill Factors that inhibit businesses from managing accounts effectively**



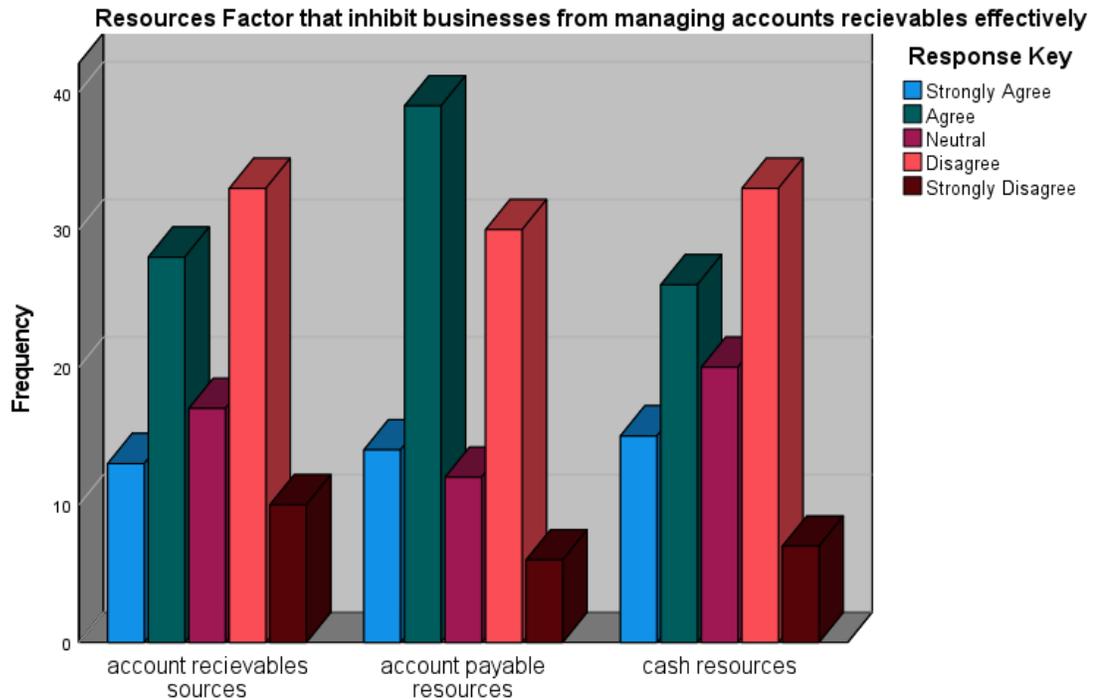
**Figure 4.3a: Skills factors that inhibit businesses from managing accounting receivable effectively**

#### **4.3.2.2 Resources**

*Account receivable resources:* In terms of account receivables, 12.9% of SMMEs in the Cape Town CBD strongly agreed that lack of accounts receivables resources is paralysing business operations, 27.7% agreed, 16.8% of businesses were neutral, 32.7% disagreed, and 9.9% strongly disagreed with accounts receivables resources being a problem. Given the wholesome of 25% of the respondents who do not transact on credit will have little knowledge about account receivable and then they choose to be neutral or disagree on the statement that are not practicing. Over 40% of the SMMEs agreed that inadequate of account receivable resources inhibit their practical running of their account receivables effectively.

*Account payable resources:* For accounts payables, 13.9% strongly agreed, 38.6% agreed that account payable resources are the part of their problems, 11.9% of the respondents were neutral, 29.7% disagreed it is a problem, and 5.9% strongly disagreed.

*Cash resources:* 14.9% of businesses strongly agreed that cash resources are not a severe problem for business, 25.7% also agreed, 19.8% were neutral, and 32.7% disagreed they were experiencing an imbalance in managing accounts, while a small percentage of them (6.9%) strongly disagreed with the statement that cash resources are a disturbing element in running daily business operations. As established in Enow and Isaacs (2016), the lack of technological skills related to the use of computers and relevant technological skills means that there is a failure to use appropriate resources for the effective management of accounts receivables



**Figure 4.3b: Resources related factors that Inhibit businesses from managing accounting receivable effectively**

#### 4.3.2.3 Time

*Accounts receivable time:* 15.8% strongly disagreed that time is not an issue for their businesses, 29.7% agreed, 25.7% were neutral, 21.8% disagreed, and 6.9% strongly disagreed.

*Accounts payable time:* 13.9% of the SMMEs strongly agreed that time is a factor in the management of accounts, 25.7% agreed, 29.7% were neutral, 24.8% disagreed that time does affect account payable time, and 4.0% strongly disagreed.

*Cash time:* 13.9% strongly agreed, 32.7% of SMMEs within the CBD agreed that cash time has no influence in the administration process of business transactions, 28.7% of the participants reflected a neutral response, 21.1% disagreed cash time does have a significant impact on the management of account receivables, and 5.0% strongly disagreed.

The results indicate that time is very important factor in inhibiting effective management of trade receivables among the SMMEs. These results support Enow (2016) who found that SMMEs tend to be flexible, and in many cases, the owners needed to provide adequate time to manage their enterprises.

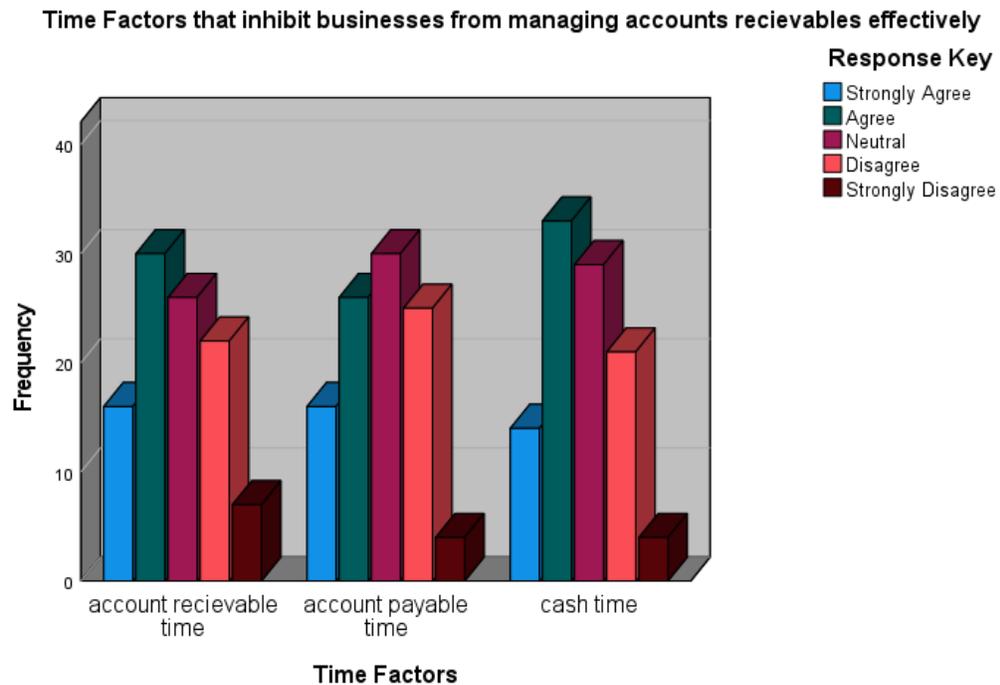


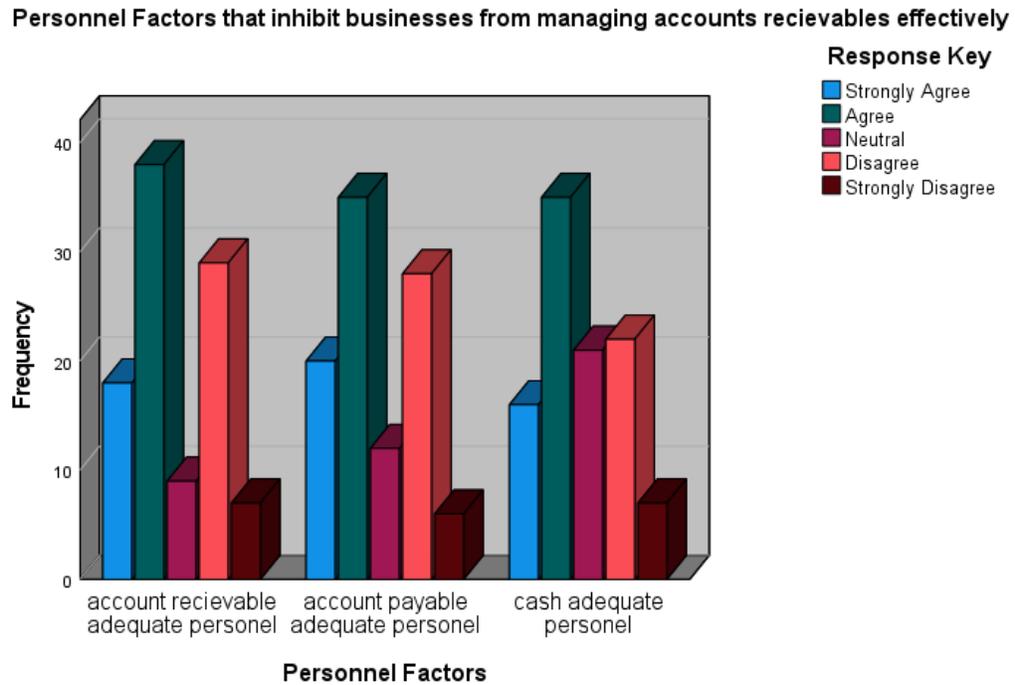
Figure 4.3c: Time factors that inhibit businesses from managing accounting receivable effectively

#### **4.3.2.4 Adequate personnel**

*Account receivables adequate personnel:* 17.8% strongly agreed, 37.6% agreed that adequate personnel affects business operations, 8.9% were neutral, 28.7% disagreed that adequate personnel do have negative impact on the business management of accounts, and 6.9% strongly disagreed.

*Account payable adequate personnel:* 19.8% strongly agreed, 34.7% agreed that adequate personnel have no significance, 11.9% were neutral, 27.7% of business owners, managers and accountants disagreed that adequate personnel are necessary for the management of accounts receivable, and 5.9% strongly disagreed.

*Cash adequate personnel*: 15.8% strongly agreed, 34.7% agreed that adequate personnel had any pressure in business transactions, 20.8% were neutral, 21.8% disagreed, and 6.9% strongly disagreed. Enow (2016) found that SMMEs do not normally have personnel employed for the management of accounts receivables. Rather, they found that the owners had the responsibility of management of trade receivables.



**Figure 4.3d: Personnel factors that inhibit businesses from managing accounting receivable effectively**

#### 4.3.3 Factors inhibiting effective accounts receivable management among SMMEs

Figure 4.3a to 4.3d revealed the level of agreement on certain factors that inhibit effective accounts receivable management among SMMEs. These factors were extracted from the literature review that was conducted as part of this study in Chapter Two before presenting it as questionnaires items used to answer the research questions.

**Table 4.3: Cross-tabulation of Factors that Inhibit Businesses from Effectively Managing Accounts Receivables**

| Factors that inhibit businesses from managing accounts receivables effectively |                                       | Response       |              |             |             |                   | Total         |
|--|---------------------------------------|----------------|--------------|-------------|-------------|-------------------|---------------|
|  |                                       | Strongly Agree | Agree        | Neutral     | Disagree    | Strongly Disagree |               |
| <b>Skills</b>  | account receivables skills            | 25<br>24.8%    | 32<br>31.7%  | 9<br>8.9%   | 26<br>25.7% | 9<br>8.9%         | 101<br>100.0% |
|  | account payable skills                | 14<br>13.9%    | 47<br>46.5%  | 14<br>13.9% | 20<br>19.8% | 6<br>5.9%         | 101<br>100.0% |
|  | cash skills                           | 20<br>19.8%    | 36<br>35.6%  | 13<br>12.9% | 29<br>28.7% | 3<br>3.0%         | 101<br>100.0% |
|  | Total                                 | 59<br>19.5%    | 115<br>38.0% | 36<br>11.9% | 75<br>24.8% | 18<br>5.9%        | 303<br>100.0% |
| <b>Resources</b>   | account receivables sources           | 13<br>12.9%    | 28<br>27.7%  | 17<br>16.8% | 33<br>32.7% | 10<br>9.9%        | 101<br>100.0% |
|  | account payable resources             | 14<br>13.9%    | 39<br>38.6%  | 12<br>11.9% | 30<br>29.7% | 6<br>5.9%         | 101<br>100.0% |
|  | cash resources                        | 15<br>14.9%    | 26<br>25.7%  | 20<br>19.8% | 33<br>32.7% | 7<br>6.9%         | 101<br>100.0% |
|  | Total                                 | 42<br>13.9%    | 93<br>30.7%  | 49<br>16.2% | 96<br>31.7% | 23<br>7.6%        | 303<br>100.0% |
| <b>Time</b>  | account receivable time               | 16<br>15.8%    | 30<br>29.7%  | 26<br>25.7% | 22<br>21.8% | 7<br>6.9%         | 101<br>100.0% |
|  | account payable time                  | 16<br>15.8%    | 26<br>25.7%  | 30<br>29.7% | 25<br>24.8% | 4<br>4.0%         | 101<br>100.0% |
|  | cash time                             | 14<br>13.9%    | 33<br>32.7%  | 29<br>28.7% | 21<br>20.8% | 4<br>4.0%         | 101<br>100.0% |
|  | Total                                 | 46<br>15.2%    | 89<br>29.4%  | 85<br>28.1% | 68<br>22.4% | 15<br>5.0%        | 303<br>100.0% |
| <b>adequate personnel</b>  | account receivable adequate personnel | 18<br>17.8%    | 38<br>37.6%  | 9<br>8.9%   | 29<br>28.7% | 7<br>6.9%         | 101<br>100.0% |
|  | account payable adequate personnel    | 20<br>19.8%    | 35<br>34.7%  | 12<br>11.9% | 28<br>27.7% | 6<br>5.9%         | 101<br>100.0% |
|  | cash adequate personnel               | 16<br>15.8%    | 35<br>34.7%  | 21<br>20.8% | 22<br>21.8% | 7<br>6.9%         | 101<br>100.0% |
|  | Total                                 | 54<br>17.8%    | 108<br>35.6% | 42<br>13.9% | 79<br>26.1% | 20<br>6.6%        | 303<br>100.0% |

#### **4.3.4 Research objective 3: credit management system put in place by SMMEs to enable them to establish creditworthiness of their customers**

Table 4.4 shows credit management systems put in place by retail SMMEs in the Cape Town Metropole to ascertain creditworthiness of their customers. Item 1 in the Table purposefully asked respondents if they conduct credit checks on their customers before selling to them. The finding on Item 1 indicated that only 24 out of 101 retail SMMEs surveyed conducted credit checks before selling to their customers. Otto (2018) found the same result and argued that SMMEs tend to be closer to their customers and have a relationship with them, which promotes trust with clients. The second item highlights the issue of checking the previous payment pattern of customers to establish their creditworthiness before selling to them. Only 32 out of 101 SMMEs responded 'Yes' to the statement regarding checking customers' previous payment patterns. While this is a known good practice, SMMEs seem not to follow it, as argued in Ngubane et al. (2015) that SMMEs tend to rely on informal methods of management.

The third item considered if SMMEs purchase on credit. It emerged that only 26 out of 90 do business purchases on credit, while 64 do not. The fourth item inquired if SMMEs take advantage of discount facilities by paying creditors promptly. Fifty (50) do take advantage, while 43 do not consider taking this advantage. The fifth item disclosed the settlement of accounts payables on the last date that payment is due. The results on this item show that only 34 out of 97 SMMEs respond 'Yes'. Item six sought to ascertain if the businesses use computers to manage accounts payable. The responses indicated that only 34 out of 101 SMMEs use computers to manage accounts payable. This was not surprising as it supports claims in the literature that most SMMEs lack adequate computer skills for the management of account receivables (Enow, 2016). Responses to item seven showed that SMMEs that have bank accounts were 65 out of 100, while 35 did not have bank accounts. Regarding the issue of SMMEs conducting bank reconciliation, the import of item eight, Table 4.5 indicates that 69 out of 101 SMMEs do not conduct bank reconciliation, but 32 do. Item nine in the table asked if SMMEs have a cash budget, to which only 32 responded in the affirmative, while 69 responded in the negative. Item ten whether the businesses have a way of pre-determining a cash shortage or surplus in SMMEs. Thirty-two (32)

SMMEs responded that they have a way, while 69 do not have any way of pre-determining whether the business will have cash shortage or surplus. In response to item eleven regarding whether the SMMEs would invest in case there is cash surplus, 32 out of 101 said 'Yes', while 69 said 'No'. Item twelve asked if SMMEs hold cash to take investment opportunities. Thirty-two (32) out of 101 do, while the remaining 69 do not hold cash to invest. Regarding item thirteen, whether SMMEs monitor cash outflow regularly, 69 of 101 do not monitor, but the remaining 32 do monitor cash outflow. On item fourteen, the use of computers to manage cash, 53 out of 100 use computers to manage cash, while 47 do not. Item fifteen asked whether cash is spent as planned within the business. Thirty-seven (37) out of 101 do spend cash as planned within the business, while 64 do not.

Table 4.4: Credit management to check the creditworthiness of customers

|  | CMCR1     |           | Total |
|--|-----------|-----------|-------|
|  | No        | Yes       |       |
| Do you conduct credit checks before selling on credit to customers                           | 77(76.24) | 24(24)    | 101   |
| Does your business have a way to check the previous payment pattern of customers?            | 69(68.32) | 32(32.0)  | 101   |
| Are your business purchase only on credit?   | 64(71.0)  | 26(29.0)  | 90    |
| Do you take advantage of discount facilities by paying creditors promptly?                   | 43(46.24) | 50(53.8)  | 93    |
| Are accounts payables settled on the last date that the payment is due?                      | 63(64.95) | 34(35.1)  | 97    |
| Do you use computers to manage accounts payable?   | 67(66.34) | 34(33.6)  | 101   |
| Does your business have a bank account?  | 35(35.0)  | 65(65.0)  | 100   |
| Does your business conduct a bank reconciliation?  | 69(68.32) | 32(31.7)  | 101   |
| Do you have a cash budget?   | 69(68.32) | 32(31.7)  | 101   |
| Do you have a way of pre-determining whether the business will have a cash shortage/surplus? | 69(68.32) | 32(31.7)  | 101   |
| In case of a cash surplus, does your business invest in surplus?                             | 69(68.32) | 32(31.7)  | 101   |
| Does your business hold cash to take of investment opportunities?                            | 69(68.32) | 32(31.7)  | 101   |
| Is cash outflow something your business monitors on a regular basis?                         | 69(68.32) | 32(31.7)  | 101   |
| Are computers used to manage cash?   | 47(47.0)  | 53(53.0)  | 100   |
| Is cash spent as planned within the business?  | 64(63.4)  | 37(36.4)  | 101   |
| Total  | 943(63.3) | 547(36.7) | 1490  |

#### 4.3.5 Research objective4: Credit management systems used by SMMEs to ensure timely repayments or fulfilment of credit agreements with the customer

Credit management systems used by SMMEs to ensure timely repayment or fulfilment of credit agreements with customers are classified into five categories as revealed in the

literature. The first classification includes invoices received by debtors as an acknowledgement of credit purchase or credit transaction, including the payment detail. The second classification is statement reminders sent to debtors, at least once a month. The third involves notices sent to debtors to remind them when they delay in paying. The fourth category involves resending of statements to remind debtors of progress in payment of their debts and acknowledgement of the balance. The final credit management system is the adoption, by some SMMEs, of the use of computers to manage accounts receivables, which makes drafting of messages easier and error-free since computers generate personalised reports of debt for the debtors. However, Agha (2014) argue that SMME owners lack the skill to use computers for accounts receivable management effectively.

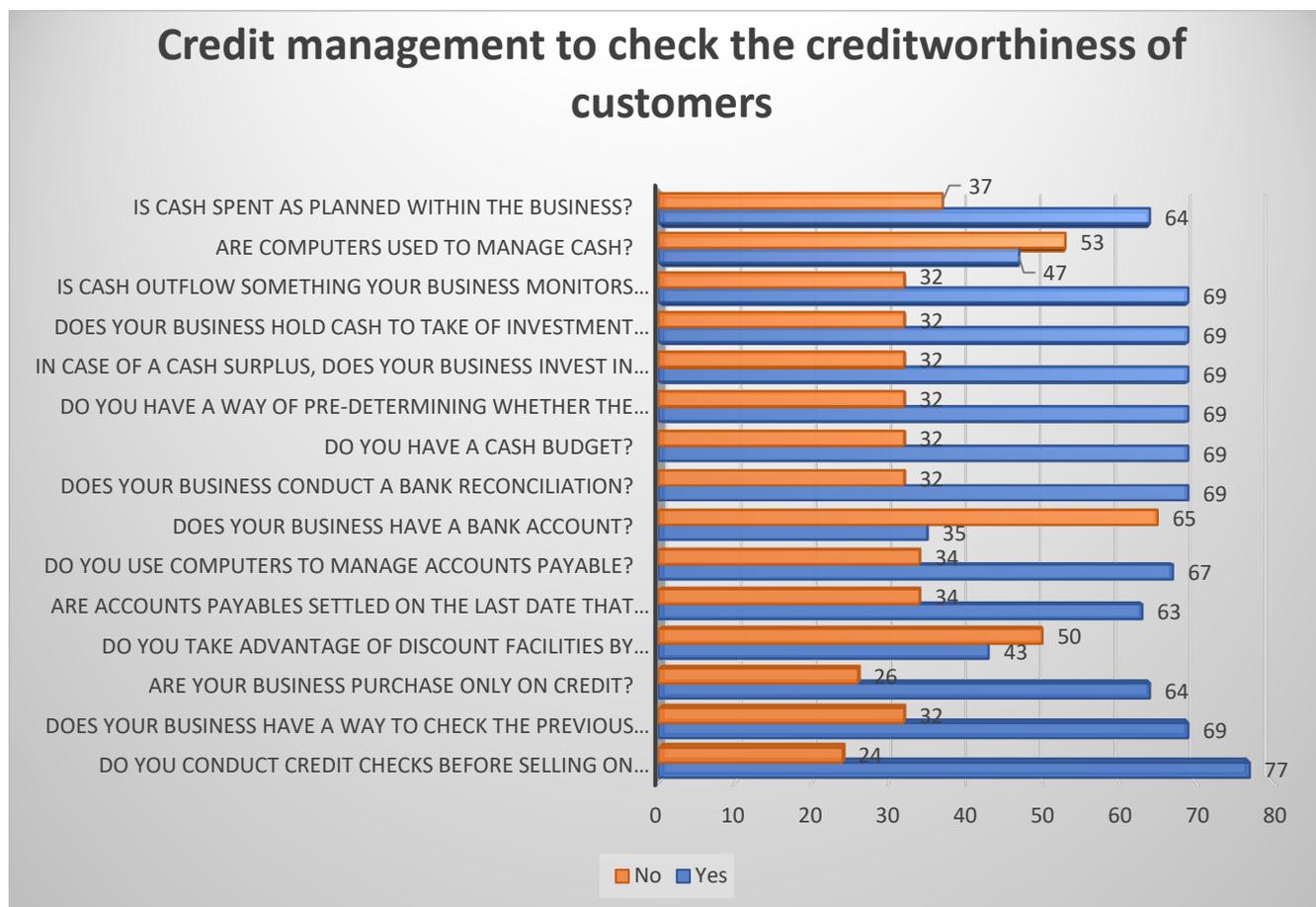


Figure 4.4: Credit management - check for creditworthiness of customers

Table 4.5 depicts details of the use of each credit management system by SMMEs. For the first classification, invoices only, 58.9%(56) of the respondents indicated that they make use of immediate invoice generation and indicate the mode of sale of the transaction. In that way, the debt profile of customers are known. About 79% of the respondents indicated periodic distribution of statements to debtors is another working system in their organisations. For the third item,90% send periodic reminders to customers who delay payment against their agreement. Also, reminder statements are sent to debtors to see their debt profiles with the company. These results seem to support those of Ngubane, et al. (2015) who found that SMMEs use informal accounts receivables methods, which are not as formally accepted. In the same way, Richard and Kabala (2019) found that SMMEs rely on informal networks, visits and reminders in dealing with their debtors, a practice undertaken by 78% of SMMEs. Finally, 68.5% of respondents use computer-assisted accounts receivable systems to manage account receivables, which is more than 50% of the total number of interviewed respondents. To sum up, almost 74.8% of SMMEs that participated in this study identified one or more systems of accounts receivables, which is very impressive.If the sample is representative of the population, then several SMMEs will operate beyondthe five years window of failure identified in the literature.

Table4.5: Systems in place to track payments from fulfilment of credit agreements

|  | Response     |              | Total         |
|--|--------------|--------------|---------------|
|  | No           | Yes          |               |
| debtors are sent invoices immediately after a credit sale transaction is concluded | 39<br>41.1%  | 56<br>58.9%  | 95<br>100.0%  |
| statement is sent to debtors at least once a month                                 | 19<br>21.3%  | 70<br>78.7%  | 89<br>100.0%  |
| Reminders are sent to debtors who delay paying                                     | 9<br>9.6%    | 85<br>90.4%  | 94<br>100.0%  |
| Statements are sent to debtors at least once a month                               | 19<br>21.8%  | 68<br>78.2%  | 87<br>100.0%  |
| a computer is used to manage accounts receivables                                  | 29<br>31.5%  | 63<br>68.5%  | 92<br>100.0%  |
| Total  | 115<br>25.2% | 342<br>74.8% | 457<br>100.0% |

In sum, the businesses in Cape Town adopted several credit management systems, but most of the popularly adopted systems are old traditional ways of receivables management. Only 58.9% of businesses send an invoice to their debtors immediately after

credit sale transactions, which is expected to near 100% given the advent of the 4th industrial revolution that will automate different account receivables management. Also, only 68% are using computer-assisted receivables management, which also justified the need to improve accounts receivables practices among the business in the cape town metropolis. Therefore, one of the sources of overwhelming failure of SMEs is a financial risk directly linked to the poor or traditional way of managing account receivables that need drastic improvement through the adoption of modern technology.

#### **4.4 Discussion of findings**

The first objective of this study was to determine the accounts receivable practices employed by SMMEs. In order to address the first objective, the question asked business representatives was whether they sold on credit. This resulted in the finding that 75% of them do sell on credit. Consequently, management of their accounts receivables was deemed essential. As part of the management of accounts receivables, respondents were asked if their businesses were charging interest. It was found that 67% did charge interest. It was also established that almost 62% of the businesses had one or more account receivables management strategies in place. These findings concur with those of Richard and Kabala (2019) who established that most SMMEs have some form of trade receivables management practices, but these practices are informal and different from established practices. In Otto's (2018) study, it was found that credit sales were an important component of the sales of SMMEs, but the main problem was effective management of trade credit. These findings closely mirror those of Agha (2014) as well as Maduekwe and Kamala (2016), who found that ineffective budgeting and poor cash flow management were major factors contributing to the failure of SMMEs. Among the dominant financial management practices of SMMEs is a monthly periodic reminder to debtors who delay payment. This is followed by 78% percent of SMMEs sending statements monthly to their debtors. As reviewed in preceding sections, 38% of the businesses that participated in the study do not have accounts receivables practices of which more than 75% of them sell on credit. Finally, these findings suggest a need to train SMMEs that have not adopted adequate accounts receivables management practices to reduce their financial risk and failure rate of SMMEs in the Western Cape.

The second objective was to determine factors that inhibit SMMEs from using effective accounts management practices. The findings indicate that among the factors, more than 30% of businesses agreed inadequate cash skills, cash resources and inadequate accounts receivables management knowledge inhibit proper management of accounts receivables. These findings concur with those of Kirsten (2018), who found that there is a critical need for financial skills among SMMEs. This supports the view that the most popular accounts receivables management tools are still the wrong way of doing things. Therefore, there is a need for both financial support and training to enhance the sustainability of SMMEs for better management of accounts receivables.

The third objective was to ascertain if SMMEs' credit management systems in place are sufficient for them to effectively establish their customers' credit-worthiness. The results showed that 76% of the businesses do not conduct credit checks on customers, neither do they check their previous payment pattern, and 67% do not use computers to manage account payables among other creditworthiness assessments that were not practiced by the businesses. The literature suggests that a broad range of creditworthiness checks are essential before selling on credit by the business. The reported 75% of them that are selling on credit may be recommended to improve their practices since it led many of businesses to failure. This implies there is a likelihood of them facing severe financial crises and explains why many SMMEs fail in their early years of establishment. As reported in the literature (Waweru, 2013), it may be because of inadequate credit checks before selling on credit. Therefore, a need for radical behavioral change is required by SMMEs to reduce their financial risk and increase their economic sustainability.

Finally, the fourth objective was to ascertain whether there are systems in place to track payments or fulfilment of credit agreements. The findings reveal that the system in place is inappropriate and relies on the traditional tracking method, which is by sending reminder statements when debtors delay payment. More needs to be done as 32% of the SMMEs have not adopted computer-assisted accounts receivables management techniques. The findings suggest a need for training and support of SMMEs to understand the management of accounts receivables and, most significantly, check the credit records of their customers before selling to them.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **6.1 Introduction**

In Chapter Four, the data were analysed in order to arrive at relevant findings that answer the research questions to achieve the study objectives. The analysis was done in a way that increases understanding of the research problem and provides insights into the management of accounts receivables among small businesses in the retail sector. The present chapter sums up the study by providing key summaries and conclusions on the major concepts and ideas reviewed in the study. The chapter is founded on the research questions and objectives set out in Chapter One. As such, the conclusions provide insights that foster an in-depth understanding of the phenomenon under investigation. The chapter also provides recommendations on what should be done by small businesses in the retail sector to improve management of accounts receivables and promote their survival. It should also be pointed out that the chapter makes constant reference to the literature. The key conclusions and summaries provided are based on a need to immerse the whole study in the literature. This allows for the strength of providing areas for future research. In providing the conclusions and summaries, it is appreciated that no study can be wholly free from criticism.

#### **6.2 Summary**

The study was based on the observation that the failure rate of small businesses in South Africa is very high. A number of scholars have observed that the failure rate of small businesses in the retail sector could be attributed to poor management of accounts receivables among owners of small businesses. It was, however, not clear how small businesses actually managed their accounts receivables, so it was necessary to undertake a study to investigate the accounts receivables practices of small businesses in the retail sector. The purpose of the study was to investigate the effectiveness of accounts receivables practices and its effects on the survival of SMME or small businesses operating in the Cape Metropole. The questions and objectives formulated for the study are presented in Table 5.1.

Table 5.1: Summary of research questions and objectives

| <b>Main research question: what are the current accounts receivables management practices of SMMEs in the retail sector operating in the Cape Metropole?"</b> |  |
|---|--|
| <b>Sub-questions</b>  | <b>Study objectives</b>  |
| 1. Which practices are employed by SMMEs to manage their accounts receivables?  | To determine the accounts receivable practices employed by the SMMEs.  |
| 2. What factors inhibit SMMEs from using effective accounts management practices?   | To determine the factors that inhibit SMMEs from using effective accounts management practices                                     |
| 3. What are the credit management systems put in place by SMMEs to enable them to establish the creditworthiness of their customers?                          | To ascertain if SMMEs have credit management system in place to enable them to establish the credit worthiness of their customers. |
| 4. What are credit management systems used by SMMEs to ensure timely repayments or fulfilment of credit agreement with customer?                              | To determine whether there are systems in place to track payments or fulfilment of credit agreements.                              |

A review of relevant literature on accounts receivables practices of small businesses was conducted. The analysis followed a thematic study of related concepts before a review of previous studies on accounts receivables practices of small businesses. It was found that accounts receivables practices of small businesses are a complex phenomenon owing to the nature of small businesses. It was established that small businesses operate in an environment that is close to owners' families and friends. As a result of these close ties, there is a propensity to sell on credit. Credit sales are often used by small businesses as a way of increasing sales. The literature review provided essential information that facilitated creation of the research instruments used in the study. The research was based on the philosophy of pragmatism. It was believed that full understanding of the phenomenon can be achieved through consideration of the research questions from different research positions. The study adopted a mixed methods research design based and used a questionnaire composed of both open-ended and close-ended questions to collect qualitative and quantitative data. The empirical analysis conducted provided answers to the research questions. The conclusions reached after analysis of empirical data are provided in the section below.

## **6.3 Conclusions**

The data collected and analysed in this study led to certain findings, based on which conclusions are reached and recommendations made. The study was conducted in view of the essential role of SMMEs, in general, and those in the retail sector, in particular. Small businesses were found to be essential for economic development as they are a key source of employment for many people and provide a key link in most industry value chains. Despite their importance, it has been observed that small businesses have a high failure rate. Research has established a number of factors that contribute to this high failure rate. These factors range from industry characteristics, resources and infrastructure to managerial capabilities of small business entrepreneurs.

Over the years, research has also been undertaken on various ways in which the survival and sustainability of SMMEs can be improved. Research in education and training, small business incubation as well as government policies have been conducted. The present study was undertaken to explore the accounts receivables practices of SMMEs as an essential operational and managerial component in SMMEs. Essentially, Chapter One highlighted the study questions and objectives, which were based on the need to consider the credit management practices of SMMEs. In Chapter Two, key literature on the management practices of SMMEs were considered, while the research methodology, findings and discussion of the findings was done in the subsequent Chapter. This Chapter concludes and summarises the study by highlighting major discussion points established from each chapter as well as illustrating the emerging key points arising from the study. The chapter also provides directions for future research and offer recommendations for improving the survival and sustainability of SMMEs.

### **6.3.1 Strategies for the management of risks**

- Among the owners of small businesses that responded to the questionnaire, most of them relied on risk avoidance to manage risks involved in the management of accounts receivables.
- Risk avoidance was the most dominant risk management practice among the respondents.
- Small business owners have a narrow interpretation of business risks and rely on avoiding risks related to the management of accounts receivables.

- Small business owners lack the ability to convert risks to opportunities or to effectively manage risks associated with credit businesses. As a result, they rely on risk avoidance.

### **6.3.2 Factors inhibiting effective accounts receivables practices**

- Evidence from this study suggests that lack cash skills and accounts receivables skills strongly inhibit effective management of accounts receivables among the respondents.
- Resources for use to manage accounts receivables as well as cash resources seem to inhibit the proper management of accounts receivables among the respondents.
- A lack of qualified and experienced personnel for effective management of accounts receivables is a major factor affecting the survival of small businesses.

### **6.3.3 Credit management practices of the SMMEs**

- Sixty two percent (62%) of the respondents do conduct credit checks before selling on credit to customers.
- Checking of previous payment pattern of customers was generally poor among the respondents.
- Despite the poor management of accounts receivables, the respondents also indicated poor management of accounts payables.
- A significant number of respondents do not use computers to manage accounts payable.
- Many small businesses do not conduct bank reconciliation.
- A notable number of respondents did not have a cash budget.
- Cash surplus or deficit forecasting was poor among the respondents.
- More than thirty percent (30%) of the respondents indicated poor cash management practices.

## **6.4 Recommendations**

Based on the results of this research recorded in the findings section, the following recommendations are made:

- i. Given the findings that there is poor cash and general financial management among the SMES, it is recommended that business incubators, policy makers, the government, economists and other relevant stakeholders should establish structures meant to capacitate small businesses in the retail sector to improve the management of accounts receivables.
- ii. The financial management system among small businesses should be seen in a holistic way. Small businesses should ensure that proper management of accounts receivables is effectively done with proper management of accounts payables.
- iii. Small business owners in the retail sector should prioritise the acquisition of a broad range of financial skills that can enhance proper management of accounts receivables.
- iv. To ensure their survival, small businesses in the retail sector should seek to expand their knowledge of credit sales and how they impact on business success.
- v. Small businesses in the retail sector should adopt standard procedures in the management of accounts receivables in order to improve their chances of survival.

## **6.5 Limitations of the study**

This study faced methodological, spatial and sectoral limitations which future research should address. Firstly, the data collection methods adopted could be changed in favour of more rigorous methods, including phenomenological or ethnographic interviews. The study could also have been limited considering that people may not be willing to disclose financial information which is sensitive. Hence there could be bias in studies of this nature. A much stronger quantitative design based on structural modelling could also be adopted to increase the power of the study. In addition, this study focused on small enterprises in the retail sector located in Cape Town. Future studies could consider a much wider geographical space and increase the size of the sample for data collection. Multi-sectoral analysis could have provided a stronger basis for acquiring evidence to conclude the study.

## **6.6 Further research**

More research should be conducted on the underlying economic, cultural, environmental and psycho-social factors that influence the management of accounts receivables among small businesses in the South African retail sector.

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## APPENDICES

**Research Questionnaires**

| <b>DETAILS OF THE RESEARCHER</b> |  |
|----------------------------------|--|
| Name:                            | Siyasanga Mihla  |
| Surname:                         | Manciya  |
| Student Number:                  | 209224258  |
| E-mail:                          | <a href="mailto:209224258@mycput.ac.za">209224258@mycput.ac.za</a> |
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| <b>DETAILS OF THE SUPERVISOR</b> |  |
| Name:                            | <b>Prof Lawarence</b>  |
| Surname:                         | <b>Obokoh</b>  |
| E-mail:                          | <b>obokohl@cput.ac.za</b>  |

**RESEARCH TITLE**

The management of accounts receivables and the survival of Small Medium and Micro Enterprise (SMME) in the Cape Metropole.

**CONFIDENTIALITY AND ANONYMITY**

Please be advised that any information given by our respondents will be confidential and any respondent will be kept anonymous.

**HOW TO COMPLETE THIS SURVEY**

This survey mostly comprises of close ended questions which often only requires the respondent to fill in an 'x' in the most appropriate box. Clear instructions for each question are given under each section.

**PRIMARY OBJECTIVE OF THE SURVEY**

The purpose of the study is to investigate the effectiveness of accounts receivables practices and its effects on the survival of small micro medium enterprises (SMMEs) operating in the Cape Metropole. According to prior research, 80% of small businesses that start-up, fail within the first 5 years of existence. Based on this fact, it is perceived that small businesses do not implement the 'entrepreneurial mindset'. Hence, the objective of this survey is to:

- To determine the accounts receivables practices employed by the SMMEs.
- To determine the factors that inhibit the SMMEs from using effective accounts management practices.
- To ascertain if SMMEs have credit management in place to enable them to establish the credit worthiness of their customers.
- To determine whether there are systems in place to track payments or fulfilment of credit agreements.

Approval of the Supervisor to distribute: \_\_\_\_\_

| <b>SECTION A - RESPONDENT AND BUSINESS PROFILE. (Please mark with an “X” in the appropriate space)</b> |  |
|--|--|
| 1. What is your position in the business?  |  |
| a. Owner   |  |
| b. Manager   |  |
| c. Accountant  |  |
| d. If other, please specify.....   |  |
| 2. What is your gender?  |  |
| a. Female  |  |

|   |  |
|---|--|
| b. Male   |  |
| 3. How long has your business been operating? .....   |  |
| 4. What is your highest qualification in the field of Accounting? (Please mark with an "X" in the appropriate space): seminar [ ] short course [ ] diploma [ ]<br>Bachelor's degree [ ] Master's degree [ ]<br>other specify..... |  |
| 5. How many employees does your business have? .....  |  |

| 6. SECTION B:THE ACCOUNTS RECEIVABLES PRACTICES EMPLOYED BY THE SMMEs.   |       |      |
|--|-------|------|
| 6  | "YES" | "NO" |
| a. Does your business sell on credit? (if "NO" why)<br>.....<br>.....<br>.....                                       |       |      |
| b. What is the percentage of credit sales per month?   |       |      |
| c. Of the credit sale percentage ,what is the percentage that is actually received?.....                             |       |      |
| d. Of your business' debtors, do you know the monthly percentage ofthose that default on their payment?.....         |       |      |
| e. What is the reason for defaulting?.....   |       |      |
| f. Does your business charge interest for late payments?   |       |      |
| g. How do you monitor to know when the account is due?.....<br>.....   |       |      |
| <b>SYSYEMS IN PLACE TO TRACK PAYEMENTS OR FULFILMENT OF CREDIT AGREEMENTS.</b> (Please tick the system that is used) |       |      |
| h. Debtors are sent invoices immediately after a credit sale transaction is concluded.                               |       |      |
| i. Statement is sent to debtors at least once a month.   |       |      |
| j. Reminders are sent to debtors who delay to pay.   |       |      |
| k. Statements are sent to debtors at least once a month.   |       |      |
| l. A computer is used to manage accounts receivables.  |       |      |
| <b>CREDIT MANAGEMENT TO CHECK THE CREDIT WORTHINESS OF CUSTOMERS.</b>  |       |      |
| m. Do you conduct credit checks before selling on credit to customers? .....   |       |      |
| n. Does your business have a way to check the previous payment pattern of customers?.....                            |       |      |

.....

o. How often do you review the criteria for extending credit? **(Please tick the most appropriate box)**

Annually

Every 2yrs

Less Often

**7. SECTION C: ACCOUNTS PAYABLE MANAGEMENT**

7.a. How does your business make purchases? **(Please tick the most appropriate box)**

CASH

CREDIT

BOTH

“YES”

“NO”

**If only cash, please proceed to the next Section E**

a. Are your business purchases only on credit?

b. Do you take advantage of discount facilities by paying creditors promptly?

c. Are accounts payable settled on the last day that the payment is due?

d. Do you use computers to manage accounts payable?

**8. SECTION D: CASH MANAGEMENT PRACTICES**

8.

“YES”

“YES”

a. Does your business have a bank account?

**If yes, please respond to question b, if no please proceed to question c.**

b. Does your business conduct a bank reconciliation?

c. Do you have a cash budget?

d. Do you have a way of pre-determining whether the business will have a cash shortage/surplus?

e. In case of a cash surplus, does your business invest the surplus?

f. Does your business hold cash to take advantage of investment opportunities?

g. Is cash outflow something your business monitors on a regular basis?

|  |  |  |
|--|--|--|
| h. Are computers used to manage cash?            |  |  |
| i. Is cash spent as planned within the business? |  |  |

| <b>9. SECTION E – FACTORS THAT INHIBIT BUSINESSES FROM MANAGING ACCOUNTS RECEIVABLES EFFECTIVELY.</b><br><br><b>9. To what extent do you agree with the following statements on the reasons why your business does not use the accounts receivables management practices mentioned in Sections B, C and D? (Please mark with an “X” in the appropriate space). SD= Strongly Disagree, D= Disagree, N= Neutral, A= Agree, SD=Strongly Agree.</b> | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|---|----------------|-------|---------|----------|-------------------|
| a. We lack skills required to effectively manage  |                |       |         |          |                   |
| Accounts receivables  |                |       |         |          |                   |
| Accounts payable  |                |       |         |          |                   |
| Cash  |                |       |         |          |                   |
| b. We lack resources required to effectively manage   |                |       |         |          |                   |
| Accounts receivables  |                |       |         |          |                   |
| Accounts payables   |                |       |         |          |                   |
| Cash  |                |       |         |          |                   |
| c. We lack time required to effectively manage  |                |       |         |          |                   |
| Accounts receivables  |                |       |         |          |                   |
| Accounts payables   |                |       |         |          |                   |
| Cash  |                |       |         |          |                   |
| d. We lack adequate personnel required to effectively manage  |                |       |         |          |                   |
| Accounts receivables  |                |       |         |          |                   |
| Accounts payables   |                |       |         |          |                   |

| <p><b>9. SECTION E – FACTORS THAT INHIBIT BUSINESSES FROM MANAGING ACCOUNTS RECIEVABLES EFFECTIVELY.</b></p> <p><b>9. To what extent do you agree with the following statements on the reasons why your business does not use the accounts receivables management practices mentioned in Sections B, C and D? (Please mark with an “X” in the appropriate space). SD= Strongly Disagree, D= Disagree, N= Neutral, A= Agree, SD=Strongly Agree.</b></p> | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|--|----------------|-------|---------|----------|-------------------|
| Cash   |                |       |         |          |                   |
| <p>e. Is crime inhibiting your business from using effective accounts receivables practices? <b>(If yes please specify)</b></p> <p>.....</p>   |                |       |         |          |                   |
| <p>f. Is transportation inhibiting your business from achieving your business goals in anyway? <b>(If yes please specify)</b></p> <p>.....</p>   |                |       |         |          |                   |
| <p>g. What else inhibit your business from using effective accounts receivables practices?</p> <p>.....</p>  |                |       |         |          |                   |

**If you would like a feedback of this study, you may E-mail and request feedback from the researcher’s supervisor: [obokohl@cput.ac.za](mailto:obokohl@cput.ac.za)**



**Cape Peninsula University of Technology**

**Faculty of Business and Management Sciences**

**Consent to partake in an academic study**

---

Research conducted by:

Siyasanga MihlaManciya

Student number: 209224258

Dear Sir/Madam,

**Invitation to participate in an academic research study**

You are kindly invited to participate in a research study titled "The Management of Accounts Receivables and the Survival of Small Medium and Micro Enterprise (SMME) in the Cape Metropole". This study is being conducted by Mr Siyasanga MihlaManciya, 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 SMME 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 SMMEs 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 082 720 5801 or via email

[209224258@mycput.ac.za](mailto:209224258@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: \_\_\_\_\_

SD Dombo University of Business and Integrated Development Studies  
Faculty of Public Policy and Governance  
Post Office Box WA64  
Wa, Upper West Region

Ghana

June 20 2021

TO WHOM IT MAY CONCERN

**Confirmation of language and technical editing of Siyasanga MihlaManciya's master's dissertation**

This is to confirm that I, Professor Maurice Oscar Dassah, have edited the above candidate's masters dissertation entitled 'The management of accounts receivables and the survival of small, medium and micro enterprises in the Cape Metropole'.

I read the dissertation thoroughly at three stages (when it was basically a draft, semi-finalised and finalised). On all these occasions, my feedback included recommendations on language and technical changes aimed at improving its quality. To the best of my ability, I have pointed out problematic aspects of language and style for the student to rectify that would make the dissertation conform to the basic conventions of scholarly writing.

Regarding technical requirements, specifically in-text citations and referencing, on all three occasions, I pointed out sources cited that had not been acknowledged as well as those appearing in the list of references that had not been cited in the dissertation. The student's attention was drawn to the Harvard method of referencing, CPUT's official stylesheet, contained in Dr Elizabeth Aswegen's 'Quick guide to Harvard bibliographic citation'. Further, clear guidance was given on how identified problematic issues could be addressed.

Regarding content, I have not changed the substance of the dissertation as this is beyond my mandate, except recommending changes to language to enhance clarity. Should there be a need to verify the authenticity of this letter, please contact me directly by email ([dassabie@yahoo.co.uk](mailto:dassabie@yahoo.co.uk)).

Yours sincerely



Prof Maurice Oscar Dassah

