

*Full Length Research*

# **An Assessment of Access to Financial Management Services by Small, Medium and Micro-Enterprises (SMMEs) in Thohoyandou Business Centre, Limpopo, South Africa**

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**SMMEs, as vehicles of growth, innovation and social transformation, are important businesses which must be nurtured and harnessed by the South African authorities to enable them to quickly and effectively adapt to the challenges of globalization thereby benefiting the economy. The importance of SMMEs to the South African economy has already been acknowledged by government. One of the major hurdles that face entrepreneurship endeavours is the shortage of financial management skills. South Africa has a grim picture of the skills gap. SMMEs become the hardest hit as the entire commerce sector forages for the scarcest skills. Small enterprises have been victims of the instance of developing their employees only to lose them to bigger firms offering more lucrative incentives. As a point in case, SMMEs in South Africa's expanding construction sector are losing the fight in the battle for scarce skills. Therefore, this study made an assessment on access to financial management services by SMMEs in Thohoyandou Business Centre, as this has a bearing on the economic development and sustainability of SMMEs. The research wanted to establish if the SMMEs in Thohoyandou Business Centre had access to financial management services support and, if they have, are the SMMEs ready to receive these financial management services?**

**Key words:** Small, Medium and Micro-Enterprises; Small business owners; financial management skills and entrepreneurial skills.

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## **INTRODUCTION**

The development of SMMEs contributes significantly to job creation, social stability and economic welfare across the globe (Ladzani and Van Vuuren, 2002:2). In the United States of America (USA), for example, SMMEs

have introduced innovative products and services, created new jobs, opened foreign markets, and in the process ignited the USA's economy into regaining its competitive edge in the global economy (Scarborough

and Zimmerer, 1996:10).

Japan's SMMEs sector accounts for the bulk of the country's business establishment, providing vital support for employment, for regional economies and, by extension, for the day-to-day life of the Japanese people (Ministry of International Trade and Industry, 2010:11). In Taiwan, the SMMEs sector generates approximately 98 percent of the economy's GDP. Although these businesses are relatively small in scale, limited funds, and weak in structure, they make significant contributions to national economic prosperity, create innumerable jobs and promote social stability (Scarborough and Zimmerer, 1996:12).

In South Africa, SMMEs development was identified by government as a priority in creating jobs to solve the high unemployment condition. There is evidence that the national unemployment level currently estimated at 28.4 percent (Statistics South Africa 2004:1), is increasing at an alarming rate. According to the Ntsika Annual Review (2001:111), SMMEs constitutes 97.5 percent of all businesses in South Africa. This sector generates 34.8 percent of the Gross Domestic Product (GDP), contributes 42.7 percent of the total value of salaries and wages paid in South Africa, and employs 54.5 percent of all formal private sector employees (Diederichs, 2001:64). The gap between high and low income groups is increasing fundamentally over time. Small businesses and entrepreneurship development serve as a facilitator in filling economic gaps.

Chandra et al. (2001) observed that SMMEs are financially more constrained than large firms and less likely to have access to formal finance. The study addressed two main issues relating to the growth and development of SMMEs in South Africa: lack of financial management skills and lack of access to finance. The lack of financial management skills is one of the obstacles affecting the growth of SMMEs in South Africa.

This study made an assessment on access to financial management services by SMMEs in Thohoyandou Business Centre, as this has a bearing on the economic development and sustainability of SMMEs. The research wanted to establish if the SMMEs in Thohoyandou had access to financial management services support and, if they have, are the SMMEs ready to receive these financial management services?

## PROBLEM STATEMENT

The problem investigated in this study had to do with the inability of SMMEs in Thohoyandou Business Centre to access financial management support services. This study acknowledged that the SMMEs in the Thohoyandou Business Centre do not have access to the necessary financial management services that would enable them to effectively and efficiently run their

businesses.

Arising from the above, the article aims at:

- Describing factors limiting access to financial management support services
- Investigating the challenges impeding the access to financial management support services by SMMEs in the Thohoyandou Business Centre.

## LITERATURE REVIEW

In South Africa, ground-breaking work on BDS has been performed by the German Development Corporation. In 2004, they completed a pilot study on the BDS market in Nelspruit. The underlying assumption for the study echoes common perceptions regarding BDS provision; "Like many other agencies, The German Development Corporation, believes that addressing market failures to efficient and effective provision of small enterprises than traditional, public sector driven highly subsidised service offers." This is a logical approach. It has been noted that while governments may be able to play important roles in developing BDS markets through policy interventions and subsidy provision, the services themselves are best left to the private sector.

One of the major hurdles that thwarts entrepreneurship endeavours involves the shortage of financial management skills. South Africa has a grim picture of the skills gap. SMMEs become the hardest hit as the entire commerce sector forages for the scarcest skills. Small enterprises have been victims of the instance of developing their employees only to lose them to bigger firms offering more lucrative incentives. As a point in case, SMMEs in South Africa's expanding construction sector are losing the fight in the battle for scarce skills (Loveman and Sengenberger, 1990:8).

A 2003 study concluded by the GEM explored this idea further. In effort to better understand the effect that financial administration skills have on access to finance, GEM put forth a study of the financial management practices of 224 black owned SMMEs in South Africa. The study sought to answer the following questions regarding SMME: What aspects of financial administration, if any, are deficient? How widespread are these deficiencies? What impact do these deficiencies have on the financial health of a business? Do these deficiencies influence an entrepreneur's ability to secure external finance?

The report suggests a worrying trend amongst the previously disadvantaged SMME community. "Overall, the financial state of a significant majority of businesses in this sample shows signs of being precarious. 45% of those businesses that have an overdraft facility had exhausted this facility in the last six months." In effort to

understand the effect of good financial management practices, the study surveyed entrepreneurs' financial procedures across a range of business activities. It determined that by implanting four procedures into their financial operating models, entrepreneurs could significantly enhance their financial health. The procedures included: keeping a cash book; keeping receivable record; keeping a record of inventory; and performing proactive debtor management (GEM, 2003).

The report concludes, there, that "a few relatively simple changes to the administration practices of owner-managed firms have the potential to improve significantly their cash position and reduce the probability of their overdraft being exhausted. Over 60% of these entrepreneurs could potentially benefit from training in these practices." Most importantly, "The results demonstrate that nearly three quarters of entrepreneurs who proactively manage cash flows are successful in applications for bank loan finance. This implies that banks channel finance to the majority of firms that adopt good management practices". This infers that increased understanding of an emphasis on financial support for previously disadvantaged entrepreneurs is of critical importance (GEM, 2003:43).

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Sound financial management is an incontrovertible trait in business as it caters to the administering of the cash-flow, the balancing of costs and turnover versus business growth. This dynamic filter down to how much money should be spent on what, how much money should be spent on development on the South African Reserve Bank Repo Rate currently pegged 5.75.

Various programmes have been set up to empower business owners to combat the ills of poor financial management. Programmes like the Micro-MBA business training programme come to light. The programme equips business people with skills of business management with emphasis on financial management based in the perspective that all successful business owners should have good cash-flow management disciplines. The programme does not necessarily teach business owners on traditional bookkeeping and accounting methods, instead it teaches an easy-to-use cash flow management system that allows micro entrepreneurs to work out the correct allocations for all expenses and income and more importantly, how much they have to spend at each month

end. SMMEs often operate without any visionary financial policies modelled to foster enterprise sustainability, growth and diversification. This has often resulted in the proliferation of stagnant businesses with no indices of remarkable growth (GEM, 2004:16).

Despite the general consensus on the importance of the private sector in delivering financial administration services, little research has been done on the effects of external service provision. Given the critical importance of SMMEs to national growth, the need for further and better financial management support amongst the previously disadvantaged entrepreneurial community, and significant effect which sound financial management practices have on the operating effectiveness of SMMEs and their ability to procure finance, further research is needed (GEM, 2004:20). Hence, financial management plays a major role in the growth of SMMEs, because without this pervasive effective and efficient functionality of SMMEs won't be possible.

SMMEs support encompasses a wide range of support including business advice and information, training, financial assistance; and business networks and mentoring schemes. Business advice and information incorporates generic business start-up advice and support, business planning advice, development support, and consultancy and advice on business plans and business promotion (Smallbone, Baldock & Burgess, 2000).

Training ranges from generic training to business planning courses and financial management training, whereas financial assistance can consist of advice on raising finance, provision of grants and funding, financial planning and management (Smallbone et al., 2000). Proper bookkeeping is vital in SMMEs enabling them to have access to finance. Lending institutions are interested in looking at records that show proper management of finance displayed in the financial statements.

Training provides the opportunity for owner-managers to develop their management skills. Harrison-Mayfield and Bennett (1994) state that with training facilities predominantly located in urban areas, many rural businesses are significantly disadvantaged in term of access, and many have little opportunity or funds to utilize formal training.

Levitsky, 1996 :19) indicated that the reservoir of knowledge and experience in technology, management and marketing skills that could be of help to SMMEs is to be found in various elements of the business community and beyond. Most private consultants, however, target larger enterprises or public bodies as their potential clients and provide less help to small businesses because of the high consultancy costs that SMMEs cannot afford. The lack of financial assistance to small business is the largest constraint to the growth of those small businesses. Numerous studies have shown that

small and medium enterprises (SMMEs) are financially more constrained than large firms and are likely to have access to formal finance. It is imperative that the government and financial institutions should make provisions for the availability of financial management training services to SMMEs as this seems to be vital in their operations.

## RESEARCH METHODOLOGY

The research design refers to the general plan and structure of investigation conceived as to obtain the answers to the research questions (Kerlinger, 1986:279). The plan is the overall scheme or program of the research.

In starting to plan the research a distinction is made between two basic types of designs: Experimental and non-experimental research. Experimental designs, refers to the exposures of research subjects to something to which they otherwise would not have been subjected (Wellman and Kruger, 2001:169).

It is noted that the variable under study in the current research does in fact not lend itself to manipulation and the aim of the research is to describe the phenomenon: financial management skills difficulties experienced by small businesses. Therefore the current research is classified as non-experimental research. More specifically, the current research is known as descriptive research.

The study adopted a qualitative approach as its aim is to describe the factors limiting access to financial management support services by SMMEs in Thohoyandou Business Centre.

The current study used the qualitative approach as it will be describing the state of access to financial management services by SMMEs in Thohoyandou Business Centre.

### Sampling.

The basic idea of sampling is that by selecting some of the elements in a population, conclusions may be drawn about the whole population (Cooper & Schindler 2001:163).

Due to the fact that no complete list exists of all SMMEs in South Africa, SEDA's (Vhembe District) Database (2013) was used to draw a sample. The SEDA's Database consisted of approximately 993 SMMEs which were registered with them for purposes of the services which they rendered to them. It must be acknowledged though, that SEDA's Database, as also other lists of businesses, would include more of the formalized businesses, i.e. licensed businesses registered for tax purposes. This shortcoming was

addressed by distributing questionnaires to also informal businesses which are operating in the Thohoyandou Business Area.

The study made use of one instrument, designed specifically for the population targeted: the entrepreneurs. This measurement instrument took the format of a questionnaire.

## RESULTS

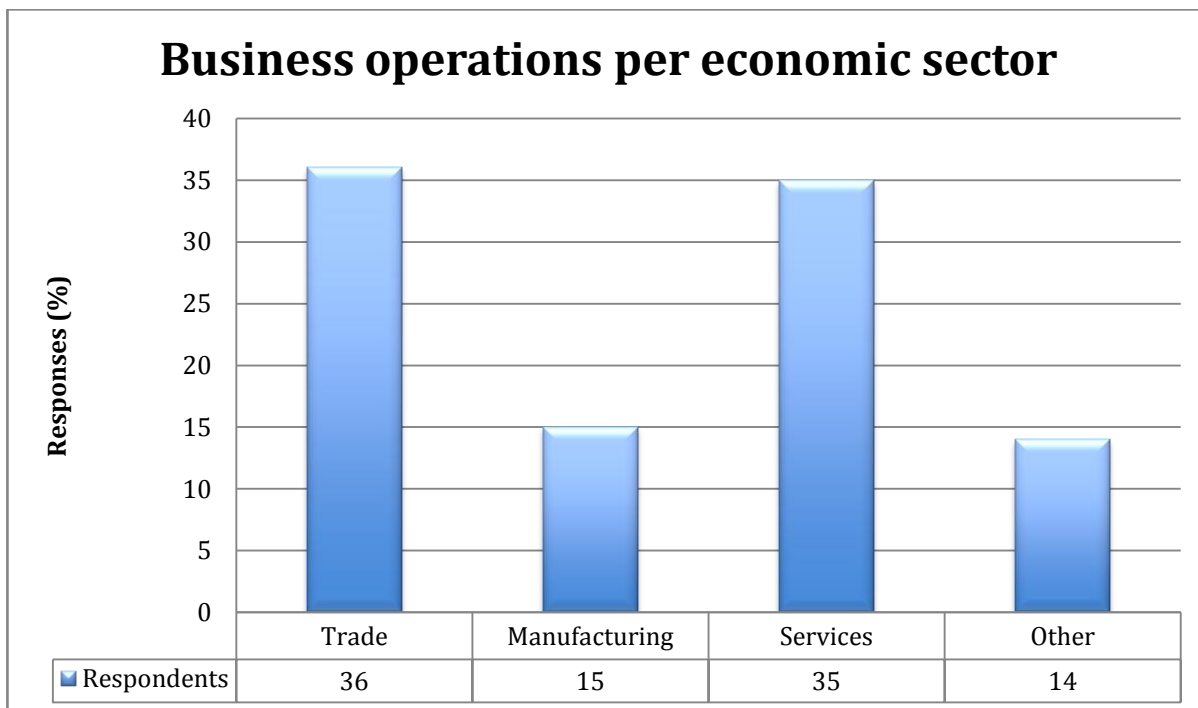
The highest number (36%) of SMMEs is in trade, followed by services at 35%. Only 15% of the sample is in manufacturing and the other 14% are in an un-identified small business. The implication is that most of the SMMEs trade in finished goods. The question is who stands to benefit from this type of business operations; is it the SMMEs themselves or bid business? In other words if government was to give support to the SMMEs, given the situation, who would be the direct beneficiary. This also brings into the picture the question of sustainability of the businesses operations of the SMMEs. Their sustainability of their businesses is dependent on the existence of the primary supplies. The SMMEs are evidently operation in the tertiary of the economy, since only 15% are in manufacturing. Figure 1

The graph below depicts the roles or positions of individuals in the businesses. The roles are divided into owner, manager or both. Respondents were also given an opportunity to specify their roles in case they played any other role different from those given.

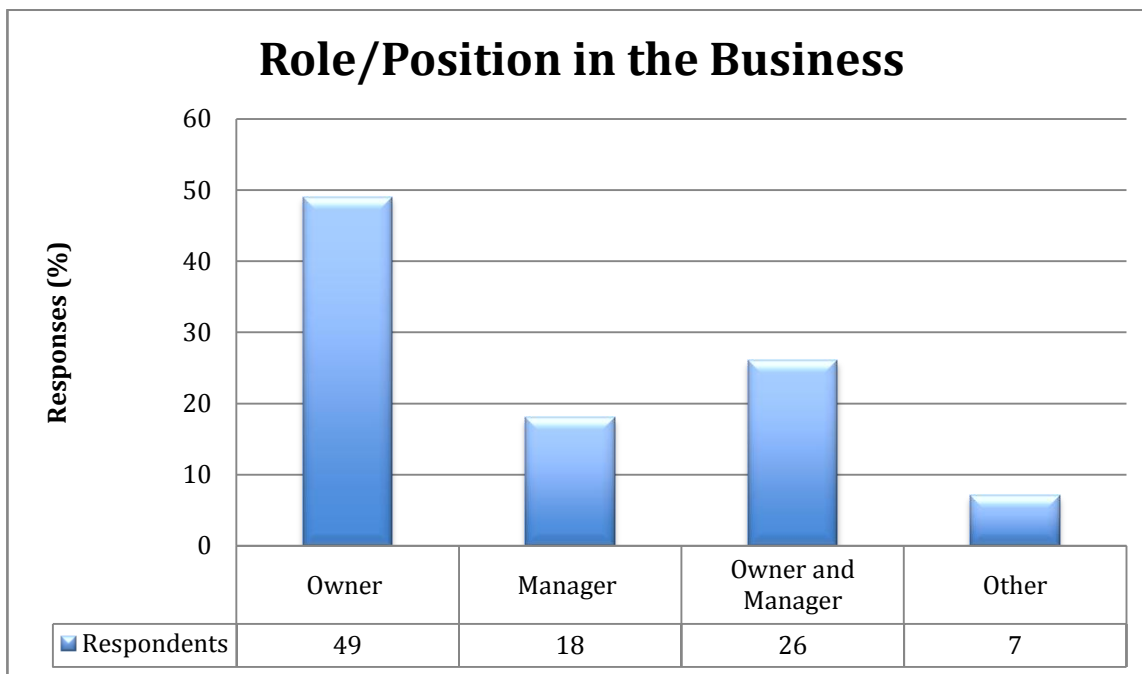
Most of the respondents in the sample are the owners of their businesses 49%, 18 % are managers and 26 % are owner and manager respectively, while the other 7% are in un-identified business role. The interpretation is that the majority of small businesses in Thohoyandou Business centre are the owners and they also act as managers of their own businesses. This was also depicted by the type of business ownership in which sole traders were 49%. This can raise the need of the owners to have the necessary skills for the proper running of their businesses i.e. financial management skills. Figure 2

71% made use of their own personal savings, 13% obtained the loan from Banks, 3% received loans from family members, 6% received credit from suppliers in order to start their businesses, and 1% reinvested their profits. Only 7% received their start-up capital from un-identified sources. The 1% that reinvested their profit may be an indication that may be the trading undertakings may not be that much profitable because of high competition in their trading undertakings. The interpretation might be that owners had to use their own capital to get the business viable and then thereafter the bank would be willing to assist them with a loan. Figure 3

Most of the respondents think that there is need for support in the area of financial management skills 76%.



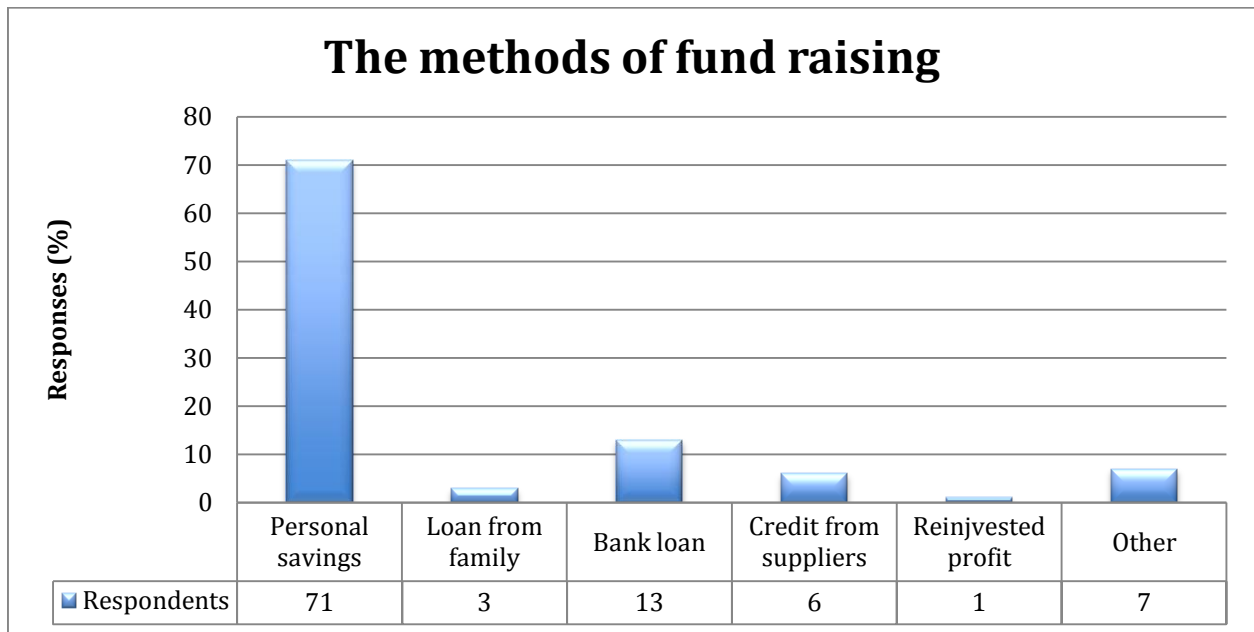
**Figure 1.** The different business operations divided according to economic sectors



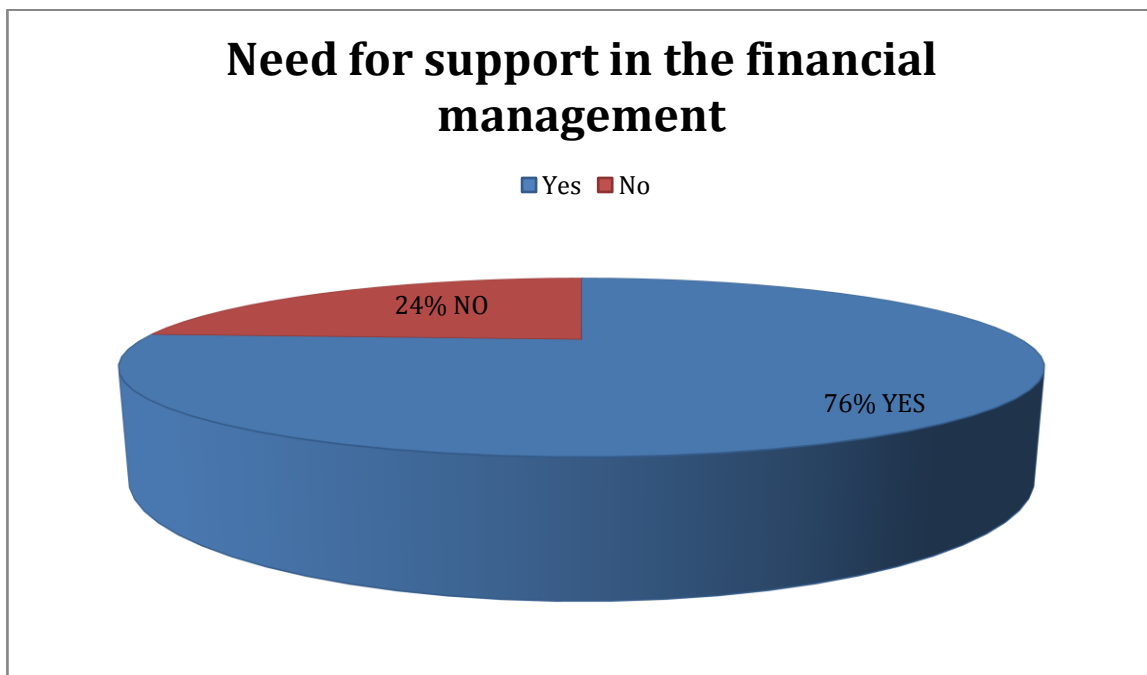
**Figure 2.** The role/position in the business

Only 24% think that there no need for support in financial management services. The interpretation is that many small businesses have failed due lack of financial

management services. Financial management is vital when it comes to securing loans from financial institutions. Figure 4



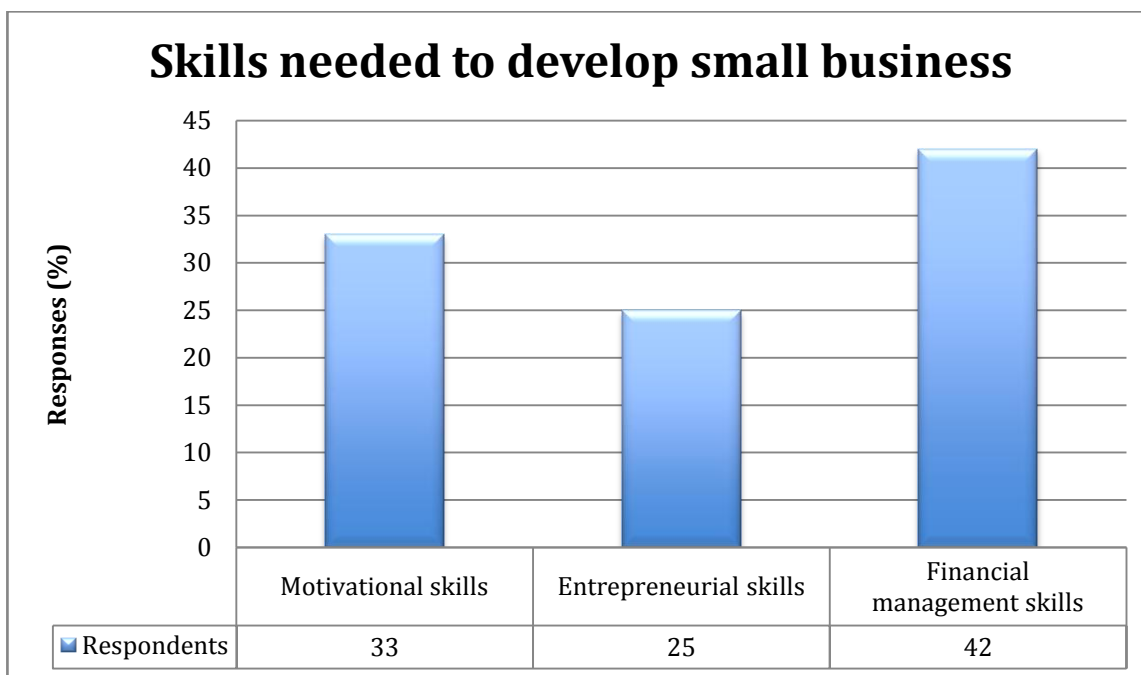
**Figure 3.** The methods of fund raising



**Figure 4.** Need for support in the financial management

High number of entrepreneurs in the sample that financial management skills are needed in order for small businesses to develop (42%). 33% and 25% of the entrepreneurs think that motivational skills and

entrepreneurial skills are needed for the development of small businesses, respectively. The remains as to whether the small businesses are ready to receive this type of services. As many of them are owners and



**Figure 5.** Skills needed to develop small business

managers their businesses, the question for their readiness to access financial management services is still questionable. Figure 5

## DISCUSSIONS

The growth of SMMEs in South Africa is still in the process as the country rebuilds its economy. The SMME sector is making important contributions to the South African economy. Financial institutions and other institutions that provide support to the SMMEs are starting to consider all types of SMMEs and they are also realizing the importance of training entrepreneurs on how to manage their finance.

The importance of SMMEs to the economy expresses itself in their contribution to the GDP and employment which is likely to be as high as the large enterprises' contribution. With the current context of negative growth in employment creation by both large and the government sector, SMMEs have a major socio-economic role to play as already shown in the study. However, this objective fails to materialise due to the high failure rate of small pertains to the lack of financial management skills and lack of access to finance.

The government is also aware that indeed SMMEs are the backbone of the country's economy. This encourages them to start funding institutions to train the emerging entrepreneurs in financial management skills in anticipation that this will ease the burdens faced by

SMMEs and hence their growth.

Educational background of entrepreneurs also has a direct influence in how they respond to training. From the results of the study, it was noted that most of the entrepreneurs viewed financial management skills (42%) as vital for the development of their businesses. Financial institutions should make financial contributions to non-financial support services such as provision of financial management skills and mentoring.

Despite the initiatives made by the government, the current study shows that lack of financial management skills and access to finance are among the most challenging factors that affect SMMEs' growth and development in South Africa.

For the purposes of this study, the findings confirmed the general perception that many owners of SMMEs in South Africa have among others, lack of management skills and access to finance as the main factors that impact negatively on the growth and development of SMMEs in South Africa. Consequently, entrepreneurs find it difficult to manage their SMMEs to grow and they eventually end up failing.

## RECOMMENDATIONS

For SMMEs to move up the value chain in order to remain competitive, government should take a more comprehensive approach towards SMME development to improve their operations and productive capabilities

through:

- Increasing their access to finance through loan guarantee schemes,
- Create an enabling business infrastructure
- Enhance human capital development
- Expose more SMMEs and encourage them to be adaptable to ICT
- SMMEs financing through grants, which are not repayable must be reviewed because it underestimates their ability to achieve self sufficiency
- SMMEs should be encouraged to form cooperative societies, SACCOS, investments clubs and merry go round schemes for them to develop the critical mass to leverage group capacity building opportunities and financial resources from members, MFI, banks and DFI.

Supportive legislation through the actual financing at subsidized rates  
Measures should be taken to support and counsel prospective entrepreneurs when they decide to start a business. These measures include increasing information available to people thinking of starting a business to ensure that they are well informed to make rational decisions

There is a need for greater government/private sector partnership to find more innovative strategies for SMMEs greater access to finance, training in financial management and marketing skills.

### LIMITATIONS OF THE STUDY

- The sample was relatively small, due to the difficulty experienced in getting the entrepreneurs to co-operate.
- From the 150 questionnaires that were distributed only 75 were returned. Out of the 75 returned three were not completed, which made the sample to 72.
- There has not been much documented research on the problems of accessing financial management services by SMMEs in South Africa, within an entrepreneurship research context.
- Time as well as financial constraints prevented a wider study. It would have ideal if SMMEs in South Africa's eight other provinces have been included.

### FURTHER RESEARCH

Further research that could be conducted includes the following:

- Certain skills are a pre-requisite for a successful application for finance such as bookkeeping, cash flow

management and drafting of comprehensive business plan.

Further research could be conducted into how financial institutions and government could impart financial management skills to the existing and potential entrepreneurs.

- Further research can also be conducted on obstacles to access to financial management services by SMMEs.
- Furthermore, a research can also be conducted on the provision of Financial Management services to SMMEs by Financial Institutions.
- An exploration into financial institutions and their policy towards assisting SMMEs in accessing finance.

### CONCLUSION

SMMEs, as engine of growth and the primary catalyst of innovation and social transformation, are important assets which must be nurtured and harnessed by The South African economy to enable it to quickly and effectively adapt to the challenges of globalization and reap its benefits. However, government's efforts to support the SMMEs sector have so far been dismal.

Although government has tried to put in place policies and institutions with the aim of improving the accessing of finance by small business owners, their success has been minimal. It is there imperative that management capability and financial management acumen be regarded as key to easy access for funding by the entrepreneurs themselves, and the parties involved in supporting and promoting them.

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