

**INTERNAL BARRIERS FACING SMALL BUSINESS OWNERS ADOPTING
FINANCIAL MANAGEMENT PRACTICES IN MAKANA MUNICIPALITY, EASTERN
CAPE**

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ABSTRACT

Although small businesses are important in South Africa, they have a high failure rate. About 63 percent of small businesses in South Africa fail in the first 18 months of their inception (Van Staden, 2022; Zhou, 2021; Bruwer, 2020: 148). One of the reasons for the failure of small businesses is the improper and ineffective adoption of proper financial management practices (Zada, Yukun and Zada, 2021: 1074). However, the success of small businesses is highly dependent on the adoption of proper financial management practices (Kapitsinis, 2019; Jindrichovska, 2013; Abuzayed, 2012; Kaya and Alpan, 2012; Banos-Caballero, Garcia-Teruel and Martinez-Solano, 2010). In the Eastern Cape, most small businesses do not adopt proper financial management practices (Raj, 2012; Van Eeden, Viviers and Venter, 2003:1). Therefore, the study aimed to analyse internal barriers facing small business owners adopting proper financial management practices in Makana Municipality in the Eastern Cape. Eastern Cape. Proper financial management practices are evident where there is transparency, efficiency and accuracy in the achievement of the financial objectives of a business (Cheluguet and Morogo, 2017: 215). Financial management practices include cash management practices, accounts receivables management practices, accounts payables management practices, inventory management practices, working capital management practices, investment management or capital budgeting practices, financing or capital structure practices, accounting information systems, financial reporting and analysis practices.

The study adopted a qualitative research design and a case study methodology. A non-probability judgment sampling method was used to select a sample of twelve small business owners in Makanda, Makana Municipality. Makanda was a relevant study area because it has a high unemployment rate and poverty, and small businesses may be used as one of the driving forces in the reduction of poverty and unemployment in Makana Municipality (Eastern Cape Socio Economic Consultative Council, 2017: 1; Zemenu and Mohammed, 2014: 2; Alebiosu, 2005: 5). Primary data was collected through semi-structured interviews. Content analysis was used to describe and interpret qualitative data using coding and themes. The findings of the study showed that most small business owners or managers in Makana Municipality adopted cash management practices, working capital management practices, inventory management practices, capital

structure (equity capital) practices and financial reporting and analysis. However, it was also found that small business owners or managers in Makana Municipality did not adopt accounts receivables management practices, accounts payables management practices, capital structure (debt capital) practices, accounting information systems and capital budgeting (investment) management practices. These barriers included difficulty in debt collection, cost of debt collection, nature of product or industry, challenges with suppliers or creditors, Covid-19, debt avoidance, improvement of cash flow, negative attitude towards computer systems, waste of resources and difficulty use of computer systems. It is recommended that small businesses may overcome these barriers by implementing proper debt collection procedures, honouring credit payments terms with suppliers or creditors, consulting external accountants on how to balance the use of both debt and equity capital, hiring qualified personnel to acquire training and bring awareness to the use of computer systems. In addition, the government should provide financial education programmes that specifically deal with long-term investments, and small businesses are encouraged to apply for Covid-19 rescue packages or grants through role plates such as Debt Relief Finance Scheme and the Small Enterprise Finance Agency (SEFA).

It was concluded that each small business adopts financial management practices differently due to the nature of the business or industry. Also, the adoption of financial management practices is dependent on the exposure of the different barriers within each business. Hence, this study confirms that the contingency theory may be used to explain that the adoption of financial management practices is dependent upon the nature of the business or industry and the different barriers that small businesses face. Theoretically, this study contributed to the existing literature by analysing the barriers faced by small business owners adopting financial management practices in the Eastern Cape. Practically, this study highlighted the internal barriers that small business owners need to overcome to the adoption of financial management practices.

Keywords: Small businesses; financial management practices; internal barriers; contingency theory; Makana Municipality.

DECLARATION

I declare that the thesis entitled “*Internal barriers facing small business owners adopting financial management practices in Makana Municipality, Eastern Cape*”, which I hereby submit for the degree of Master of Commerce at Rhodes University, is my own work. I also declare that this dissertation has not previously been submitted by me for a degree at this or any other tertiary institution and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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CHAPTER 1: INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 INTRODUCTION AND BACKGROUND OF THE STUDY

Small businesses are the key drivers of job creation in South Africa (Van Staden, 2022: 458; Business Unity South Africa, 2019:1; Daily Maverick, 2019: 1) and employ, on average, 50 to 60 percent of the workforce in South Africa (Independent Online, 2022: 1; Engineering News, 2022: 1). Small businesses also promote the creation of wealth and alleviate poverty in South Africa (Van Staden, 2022: 458; Real Economy Bulletin, 2017: 1; Cant, Erdis and Sephapo, 2014: 578; Chimucheka, 2013: 709). ‘Small business’ refers to a business with fewer than 50 employees with an annual turnover of less than R2 million to R25 million, and direct managerial involvement by its owners (Erasmus, Rudansky-Kloppers and Strydom, 2019:73; Falkena et al., 2001: 26). Even though small businesses are important in South Africa, they have a high failure rate (Van Staden, 2022: 458; Zhou, 2021: 1). According to Van Staden (2022: 458) and Bruwer (2020: 148) more than 63 percent of small businesses in South Africa fail in the first 18 months of their inception.

The main reasons why small businesses fail include legal barriers and inadequate access to infrastructure and capital (Rasheed et al., 2017: 680; Lewis and Gasealahwe, 2017: 102; Olawale and Garwe, 2010: 732). Access to capital is a major challenge to small businesses because it has major implications for their financial management practices (Muneer, Ahmad and Ali, 2017: 24; Amoako, 2013: 82; Abor and Quartey, 2010: 218). For example, small businesses must have appropriate financial reporting and analysis, as banks and other financial institutions use these to assess if they are capable of being granted capital (Lewis and Gasealahwe, 2017: 105; Musara and Gwaindepi, 2014: 110). In addition, the success of small businesses is highly dependent on the adoption of proper financial management practices (Kapitsinis, 2019: 333; Jindrichovska, 2013: 94; Abuzayed, 2012: 166; Kaya and Alphan, 2012: 43; Banos-Caballero, Garcia-Teruel and Martinez-Solano, 2010: 515). In the Eastern Cape, most small businesses do not adopt proper financial management practices (Raj, 2012: 186; Van Eeden, Viviers and Venter, 2003:13). Financial management practices refer to processes that a business uses to manage its financial resources in a way that is effective and efficient to enhance profits of the business (Benard, 2019: 1; Addo, 2017: 26). Financial management practices used by small businesses include (1) cash management practices; (2) accounts receivables management practices; (3) accounts payables

management practices; (4) inventory management practices; (5) working capital management practices; (6) investment management or capital budgeting practices; (7) financing or capital structure practices; (8) accounting information systems; (9) financial reporting and analysis practices (Benard, 2019: 2; Addo, 2017: 2; Abanis et al., 2013: 34; Turyahebwa, Sunday and Ssekajugo, 2013: 3876).

In South Africa, previous studies have been done on the level of use of financial management practices by SMMEs in KwaZulu-Natal (Rajaram and O'Neill, 2009: 99), Gauteng and the Eastern Cape (Marengo, 2013: 77; Van Eeden et al., 2003: 13) and the Western Cape (Bruwer, 2010: 69). In addition, previous studies have also been done on the effect of financial management practices on the profitability of small and medium-sized enterprises (Musah, Gakpetor and Pomaa, 2018; Muneer et al., 2017; Nguyen, 2001). Limited studies have investigated the factors influencing small business owners' adoption of financial management practices in South Africa. Most of the studies in South Africa that have investigated the factors that influence the adoption of financial management practices by small business owners, using contingency theory as a theoretical framework, have been in the field of management accounting (O'Regan and Sims, 2008; Szychta, 2002; Hoque and James, 2000; Anderson and Larnen, 1999). This is apart from one study conducted in Nigeria (Obazee, 2019: 2) that uses the contingency theory to investigate the factors which influence the adoption of financial management practices among small businesses. This study will seek to replicate the study of Obazee (2019: 2) by using the contingency theory to understand the internal barriers facing small business owners adopting financial management practices in Makana Municipality, Eastern Cape.

The contingency theory is mostly used as a theoretical framework by studies in the field of management accounting (O'Regan and Sims, 2008; Szychta, 2002; Hoque and James, 2000; Anderson and Larnen, 1999). It is also a management theory which holds that there is no managerial action or decision which is appropriate for all situations, but it is contingent on the situation or circumstances (Tijani and Samira, 2017: 47; Ranal, Ali and Saha, 2016: 15). Contingency theory is used to explain that design and use of management accounting systems or other business practices are not universal across businesses, they are unique depending on contingent factors influencing the business or environment (Omoluabi, 2016: 3; Dropulic, 2013:

369; Otley, 1980: 422). These contingent factors may be grouped into external factors such as market competition and market uncertainty and internal factors such as education level and size of business (Amara and Benefila, 2017: 48; Dropulic, 2013: 369). In addition, the contingency theory requires managers or small business owners to embrace different management techniques or practices, such as financial management practices under different businesses (Ranal et al., 2016: 18). According to Ranal et al. (2016: 18), the contingency theory directs managers towards the management techniques or practices which are most suitable for the specific situations in their respective businesses. For example, in this study, the contingency theory recommends the proper financial management practices which are specific to sectors in which small businesses operate (Ranal et al., 2016: 18) based on variables or factors such as financial management skills, financial management knowledge and financial resources of the small business owners.

This study will use internal factors to explain the adoption of financial management practices by small business owners because they can be controlled from within the business (Sitharam and Hoque, 2016: 276). Small business owners can control these internal factors, which will enable them to overcome the internal barriers to adoption of financial management practices (Kolstad and Wiig, 2015: 784; Fatoki and Garwe, 2010: 730). These internal barriers may vary from business to business. Hence, the adoption of financial management practices varies from one business to another (Benard, 2019: 9). This study will use internal barriers to discuss the factors which inhibit the adoption of financial management practices among small business owners. This is because internal factors can function as internal barriers when business owners want to adopt proper financial management practices. The internal barriers to the adoption of financial management practices include: (1) lack of financial knowledge; (2) lack of financial management skills; (3) lack of financial resources; and (4) fear of losing control in decision-making by small business owners; (5) challenges with suppliers or creditors; (6) difficulties in debt collection; (7) negative attitude of small business owners; (8) debt avoidance; (9) difficulties with the use of computer systems (Ibrahim, Ali and Besar, 2020: 59; Nkwabi and Fallon, 2020: 27; Satoto and Nurrohim, 2020: 117; Richard and Kabala, 2019: 62; Omoshagba and Zubairu, 2018: 35; Agyei-Mensah, 2012: 574; Rahman et al., 2015: 6; Gungor and Ondes, 2013: 63; Peel, Wilson and Howorth, 2012: 18; Olawale and Garwe, 2010: 1790).

In terms of financial management knowledge, small business owners lack knowledge of bookkeeping (Coetzee and Buys, 2017: 136) and do not know how to analyse their financial statements (Zimmerer and Scarborough, 2005: 201). Small business owners also lack the financial skills to implement financial management practices (Zimmerer and Scarborough, 2005: 201). The absence of interpretation of financial management information might justify the lack of adoption of the financial management practices by small business owners (Vohra and Dhillon, 2014: 5).

Additionally, the lack of collateral and costs of accessing funds inhibit small business owners from accessing capital and are a major barrier to adoption of financial management practices (Muneer et al., 2017: 28; Agwu and Emeti, 2014: 110). Lack of financial resources prevents small business owners from acquiring the necessary skills to adopt proper financial management practices (Brijlal et al., 2014: 345). It also inhibits small business owners from hiring skilled personnel like accountants to either do their book-keeping or manage their funds, as they cannot afford them (Kilonzo and Ouma, 2015: 69; Agyei-Mensah, 2011: 3790). Furthermore, the fear of losing control in decision-making may also affect small businesses' adoption of financial management practices. Brijlal et al. (2014: 348) show that small business owners find it difficult to rely on external expertise for financial interpretation and analysis because they fear losing flexibility in their overall decision-making. Hence, the fear of losing control makes small business owners unwilling to adopt financial reporting and analysis (Brijlal et al., 2014: 348). Lastly, adoption of financial management practices may depend on other internal factors such as the small business characteristics of age, size and ownership structure (Obazee, 2019: 2).

It was argued that one of the key contributions to the failure rate of small businesses is the ineffective adoption of accounts payables management practices (Tabot and Kamala, 2016: 78). In this study, accounts payables will also include suppliers or creditors that sell products or provide services on credit to small businesses. It was observed that small businesses find it challenging to maintain good relationships with their suppliers or creditors (Nkwabi and Fallon, 2020: 27). This is because small businesses face challenges with their suppliers or creditors such as lack of coordination, trust and misinformation (Nkwabi and Fallon, 2020: 30). Furthermore, studies have shown that small businesses do not adopt accounts receivables management practices because of the difficulties they encounter during debt collections (Richard and Kabala, 2019: 62; Agyei-

Mensah, 2012: 574; Peel et al., 2012: 18). It was suggested that small business owners or managers neglect the adoption of accounts receivables management practices because they find it challenging and difficult to manage (Agyei-Mensah, 2012: 574).

In terms of debt avoidance, researchers have shown that small businesses do not adopt debt capital because they choose to avoid the use of debt and prefer to use equity capital (Omoshagba and Zubairu, 2018: 35; Lyani Sindani, Namusonge and Sakwa., 2016: 33). It was observed that one of the challenges that cause small businesses to avoid the use of debt capital is the inability or failure to meet the debt obligation payments on time, the high interest rates to the banks and financial institutions, and the negative attitude toward the use of debt capital (Satoto and Nurrohim, 2020: 117; Dowling et al., 2019: 2; Rasheed and Siddiqui, 2018: 160; Omoshagba and Zubairu, 2018:35; Lyani Sindani et al., 2016: 33). Furthermore, researchers have shown that small businesses do not adopt accounting information systems because they have difficulties with the use of computer systems (Ibrahim et al., 2020; Rahman et al., 2015; Chen and Hamdan, 2014). For example, small business owners encounter difficulties such as accessing and retrieving financial information and, thus, they develop a negative attitude towards using computer systems (Ibrahim et al., 2020: 59; Rahman et al., 2015: 6).

This study will focus on Makana Municipality because Makana Municipality has a high unemployment rate and poverty (Eastern Cape Socio Economic Consultative Council, 2017: 1; Alebiosu, 2005: 5), and small businesses may be used as one of the driving forces in the reduction of poverty and unemployment in Makana Municipality (Zemenu and Mohammed, 2014: 2). Additionally, it was found that the competency of small business owners to interpret and analyse financial statements is important for small businesses in Makana Municipality, Eastern Cape (Ncube and Chimucheka 2019: 11; Tarwirei, 2015: 144). Therefore, this study will analyse the adoption of financial management practices in the Makana Municipality and the barriers faced by small business owners in adopting proper financial management practices. Proper financial management practices have been linked to the survival and success of small businesses (Vohra and Dhillon, 2014: 6); hence, small business owners in Makana Municipality need to use proper financial management practices.

1.2 PROBLEM STATEMENT

According to Zemenu and Mohammed (2014: 2), small businesses are one of the driving forces which may be used to reduce poverty and unemployment in Makana Municipality. It was depicted that most small businesses do not adopt proper financial management practices in Eastern Cape (Raj, 2012: 186; Van Eeden et al., 2003:13). Moreover, studies show that the success or failure rate of small businesses is highly dependent on the adoption of proper financial management practices (Kapitsinis, 2019: 333; Jindrichovska, 2013: 94; Abuzayed, 2012: 166; Kaya and Alphan, 2012: 43; Banos-Caballero et al., 2010: 515). In addition, limited studies have investigated the reasons why small business owners do not adopt proper financial management practices, especially in the Eastern Cape. Most of the studies that have used the contingency theory to understand the internal barriers which inhibit the adoption of management accounting practices have been in the management accounting field. Therefore, this study will determine the financial management practices adopted by small businesses and, will use contingency theory to analyse the internal barriers facing small business owners in Makana Municipality adopting proper financial management practices. This will be done to fill in the gap in the literature by using the contingency theory to analyse the internal barriers that inhibit the adoption of financial management practices in the Eastern Cape. Also, to provide recommendations to small business owners in Makana Municipality on overcoming the internal barriers to adoption of financial management practices.

1.3 RESEARCH OBJECTIVES

The research objectives of this study consist of the primary objective and secondary objectives.

1.3.1 Primary Objective

The primary objective is to analyse internal barriers facing small business owners adopting proper financial management practices in Makana Municipality in the Eastern Cape. Eastern Cape.

1.3.2 Secondary Objectives

Based on the primary objective, the research objectives are defined:

- To determine the financial management practices adopted by small businesses.
- To determine the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality.

- To analyse the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality.
- To provide recommendations to small business owners in Makana Municipality on overcoming the internal barriers to adoption of financial management practices.

1.4 RESEARCH DESIGN AND METHODOLOGY

This study will adopt the interpretivism paradigm, which seeks to understand a particular context and allows the researcher to discover reality through the views and experiences of research participants (Tomaszewski, Zarestky and Gonzalez, 2020: 1; Dean, 2018: 3; Collins and Hussey, 2009: 59). As a result, this study will adopt a qualitative research design, because it is flexible in accomplishing the set aim and objectives of the research through an inductive method of reasoning and it also explores the explanations, reasons, meanings and processes of the phenomena (Almalki, 2016: 291; Collins and Hussey, 2009: 32; Bryman and Bell, 2007: 24). This study will use a case study methodology to describe and better understand the point of view of the research participants (Schoch, 2020: 245; Rashid et al., 2019: 1) and will propel the researcher to deeply understand the internal barriers facing small business owners in adopting financial management practices. In this study, the population is the small business owners in Makana Municipality, and the sample is registered small business owners in Makhanda, Eastern Cape. Makhanda is one of the major towns in the Makana Municipality (Alebiosu, 2005: 9), with a high unemployment rate (Vallabh and Kutsi, 2018: 3). This study will focus on small businesses in Makhanda to encourage small businesses' survival and growth (Davidsson, Achtenhagen and Naldi, 2007: 105; Dobbs and Hamilton, 2007: 298). The researcher will use non-probability judgment sampling to interview a minimum of ten small business owners because ten participants are deemed to be appropriate for a typical qualitative study (Bolderston, 2012: 68), who are registered in Makhanda for at least three years in which the owners have direct managerial involvement. The researcher will approach the Grahamstown Business Forum to obtain permission for a list of registered small business owners in Makhanda.

This study will collect secondary and primary data, whereby the secondary data will be used to construct the literature review and obtained through publicly available data, and primary data will be collected through semi-structured interviews. Semi-structured interviews are flexible and

consist of closed and open-ended questions (Adhabi and Anozie, 2017: 93; Jamshed, 2014: 87). The pre-developed and open-ended questions will be based on the internal factors from the contingency theory, namely; lack of financial knowledge, lack of financial management skills, lack of financial resources, fear of losing control, and age, size and ownership, challenges with suppliers or creditors, difficulties in debt collection, negative attitude of small business owners, debt avoidance and difficulties with the use of computer systems to assess the internal barriers facing small business owners adopting financial management practices in Makana Municipality. According to Majid et al. (2017: 1072) and Kim (2010: 191), a pilot study is a research instrument that uses interview questions to pre-test and evaluates a sample group to ensure that research participants can consistently answer questions. Therefore, the interview guide will be pre-tested on two small business owners who will be included in the actual sample.

A critical part of primary data collection is to assess the trustworthiness of the research findings by assessing credibility, transferability, dependability and conformability (Nowell et al., 2017: 3; Leedy and Ormrod, 2015: 59). The researcher will conduct the interviews using the interview guide and recording devices to ensure credibility and accuracy of the research data. Moreover, the researcher will provide a detailed description of the research process and methodology, for example, by employing strategies such as judgmental sampling and thick description to enhance transferability in this study (Stenfors, Kajamaa and Bennett, 2020: 598; Nowell et al., 2017: 4). To establish dependability, the researcher will keep a reflective journal to account for and keep a record of the research methodologies, findings and results. Lastly, to ensure conformability, the researcher will consult the supervisor to confirm the research data, coding and interpretation.

Qualitative data analysis uses instruments such as content analysis to analyse text, and it will allow the researcher to intentionally collect data from the selected research participants and observe patterns in the data (Paradis et al., 2016: 264; Cho and Lee, 2014: 4). Kleinheksel et al. (2020: 127) and Paradis et al. (2016: 264) conclude that thematic analysis is the most suitable method that can be used in a qualitative research design. The researcher will use it to search through data to identify, analyse and report recurring patterns or themes.

Before the data collection, written permissions will be requested and obtained from the small-business owners, where the interviews will be carried out in a safe and anonymous environment. The research proposal will be submitted to the Higher Degrees Committee, and the researcher will submit an ethics application form via the Management Department/Business School Ethics Representative to obtain an ethics approval letter for the research study. More information will be provided on the research design and methodology of the study in Chapter 4.

1.5 SCOPE OF THE STUDY

This study is focused on financial management practices and in particular: (1) cash management practices; (2) accounts receivables management practices; (3) accounts payables management practices; (4) inventory management practices (5) working capital management practices; (6) investment management or capital budgeting practices; (7) financing or capital structure practices; (8) accounting information systems; (9) financial reporting and analysis practices. Also, this study will use contingency theory to analyse the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality. The internal barriers will be limited to: (1) lack of financial knowledge; (2) lack of financial management skills; (3) lack of financial resources; and (4) fear of losing control in decision-making by small business owners; (5) challenges with suppliers or creditors; (6) difficulties in debt collection; (7) negative attitude of small business owners; (8) debt avoidance; (9) difficulties with the use of computer systems. This study will only focus on businesses that have fewer than 50 employees with an annual turnover of less than R2 million to R25 million and direct managerial involvement by its owners (Erasmus et al., 2019: 73; Falkena et al., 2001: 26). Small businesses will further be limited to small business owners who meet the following criteria to identify small businesses: (1) number of employees; (2) small businesses that are registered in the Municipal database and; (3) have operated in Makanda for at least three years. Lastly, small businesses that operate in Makana Municipality, especially in Makanda, will be included in the final sample of the study.

1.6 STRUCTURE OF THE CHAPTERS

The chapters of this study are provided in Table 1.1.

Table 1.1: Structure of the chapters

Chapter	Content
Chapter 1	<p>The chapter will provide an introduction and a background of the study. Afterwards, the problem statement and research objectives of the study will be provided. After that, the research design and methodology of the study will briefly be discussed. Lastly, the chapter will provide the scope of the study, the structure of the chapters and the summary of the chapter.</p>
Chapter 2	<p>This chapter will give an overview of small businesses in South Africa. The chapter will provide the definitions of small businesses and discuss the importance of small businesses in South Africa. This chapter will also focus on the role players that support small business development in South Africa. Sustainable growth and the factors contributing to the failure rate of small businesses in South Africa will also be discussed. Lastly, a discussion on the previous studies of small businesses in the Eastern Cape and Makana Municipality will also be provided, along with a summary of the chapter.</p>
Chapter 3	<p>The chapter will focus on the study's secondary objective to determine the financial management practices adopted by small businesses. A discussion on the description and importance of financial management practices will also be provided. This chapter will give an overview of previous studies on financial management practices in South Africa. The chapter will also focus on the contingency theory elaborating on external and internal factors. Also, this chapter will discuss how this theoretical framework can be used to explain the internal barriers to adoption of financial management practices. Lastly, previous studies on the financial management practices in the Eastern Cape and the summary of the chapter will be discussed.</p>

Chapter 4	This chapter will focus on the research paradigm, research design and the research methodology which will be utilised in this study. The chapter will also discuss the sample design and the data collection process. Research instruments such as in-depth semi-structured interviews, interview guide, pilot study and research ethics will be presented. Lastly, the chapter will focus on content analysis which will be used to analyse data in this study and the summary of the chapter.
Chapter 5	This chapter will report and discuss the findings of this study. The chapter will provide a graphical presentation and analysis of the participants' demographic information. This will be followed by a discussion of the results in terms of the experiences and opinions of small business owners adopting financial management practices. Lastly, a summary of the chapter will be discussed.
Chapter 6	The last chapter will provide a summary and conclusions of the study. It will also highlight the limitations of the study. The chapter will provide recommendations to small business owners in Makana Municipality. Lastly, the chapter will make contributions to literature and future research.

Source: Researcher's own construct

1.7 SUMMARY

This chapter provided an introduction and a background of the study. Afterwards, the problem statement and research objectives of this study were discussed. The research objectives of the study which are divided into the primary and secondary objectives, were also given. The primary objective is to analyse internal barriers facing small business owners adopting proper financial management practices in Makana Municipality in the Eastern Cape. The secondary objectives are to determine the financial management practices adopted by small businesses, to determine the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality and to analyse the internal barriers facing small business owners adopting

proper financial management practices in Makana Municipality. The last secondary objective is to provide recommendations to small business owners in Makana Municipality on overcoming the internal barriers to adoption of financial management practices. This was followed by the research design and methodology of the study. Lastly, the chapter focused on the scope of the study and the structure of the chapters. The next chapter will discuss an overview of small businesses.

CHAPTER 2: AN OVERVIEW OF SMALL BUSINESSES

2.1 INTRODUCTION

The first chapter provided a brief background on the internal barriers to adoption of financial management practices by small business owners in South Africa. Chapter one also provided the research problem and the objective of the study. The primary objective is to analyse internal barriers facing small business owners adopting proper financial management practices in Makana Municipality in the Eastern Cape. In order to achieve the primary objective, this chapter will provide an overview of small businesses.

Therefore, this chapter will commence by providing a description of small businesses. This will be followed by a discussion on the role and contributions of the small businesses in South Africa. Afterwards, the chapter will discuss the sustainable growth, failure rate and challenges of small businesses in South Africa. Subsequently, a discussion of previous studies of small businesses in the Eastern Cape and Makana will be provided. Lastly, the chapter will provide a summary of the chapter.

2.2 DESCRIPTION OF SMALL BUSINESSES

There is no universal and uniform definition of small businesses in the world (Mouhallab and Jianguo, 2016: 3; Scarborough, 2012: 3; Ardic, Mylenko and Saltane, 2011: 1; Mahembe, 2011: 22). Since there is no universal and uniform definition of small businesses, most of the definitions either depend on using either the qualitative or quantitative method or can be a combination of both methods (Mouhallab and Jianguo, 2016: 3). Qualitative method is whereby small businesses are defined using qualitative measures such as the legal status, managerial experience and the organisational structure (Kaczmarek, Byczkowska and Czyrka, 2020: 20; Wach, 2015: 78; Dababneh and Tukan, 2007: 14; Organisation for Economic Co-operation and Development, 2004: 2). For example, when using the organisational structure to define a small business, a small business is one where the owner is both the entrepreneur and the manager (Wach, 2015: 78). In contrast, quantitative method refers to quantifiable measures such as number of employees, total net assets, sales and turnover to define small businesses (Kaczmarek et al., 2020: 16; Haselip, Desgain and Mackenzie, 2014: 369; Ogechukwu, 2011: 23). For example, when using the number

of employees and annual turnover, a small business is one that has a maximum of fifty (50) employees and an annual turnover that ranges from two million rands (R2 000 000) up to twenty-five million rands (R25 000 000) (Fatoki, 2018: 29).

In most parts of the world, small businesses are mostly defined using a quantitative method such as the number of employees (Kaczmarek et al., 2020: 17; Berisha and Pula, 2015: 20; Kushnir, 2010: 1). The number of employees is frequently used because it is a simple and, easy way to collect data and analyse it statistically (Kaczmarek et al., 2020: 17; Ardic et al., 2011: 6; Ayyagari, Beck and Demirguc-Kunt, 2007: 420). In South Africa, the most used definition of small businesses is based on the quantitative method, which is provided by the National Small Business Act 102 of 1996 as amended in 2003 and 2004, where small businesses are mostly defined using quantitative measures such as the number of employees, annual turnover and gross asset value (see table 2.1) (Fatoki, 2018: 29; Abor and Quartey, 2010: 216; Fatoki and Garwe, 2010: 730).

In addition, and Fatoki (2018: 29) and National Small Business Act (1996: 2) highlight that a small business can be classified into small, micro, or medium enterprises (SMME) or small, medium enterprises (SME). For example, a micro-enterprise is a business that has a maximum of five employees, a maximum of one hundred and fifty thousand rands (R150 000) annual turnover and a maximum of one hundred thousand rands (R100 000) of gross assets value (see table 2.1 for the rest of the classifications). The terms ‘SMME’ and ‘SME’ are used interchangeably in South Africa (Mahembe, 2011: 24). Table 2.1 provides more information on the classification of different small businesses.

Table 2.1: Quantitative definitions of small businesses in South Africa

Enterprise Size	Number of Employees	Annual Turnover (in South African Rand)	Gross Assets (Excluding Fixed Property)
Micro	Fewer than 5 employees	Less than R150 000	Less than R100 000

Very Small	Fewer than 10 to 20 employees	Less than R200 000 to R500 000	Less than R150 000 to R500 000
Small	Fewer than 50 employees	Less than R2 million to R25 million	Less than R2 million to R4.5 million
Medium	Fewer than 100 to 200 employees	Less than R4 million to R50 million	Less than R2 million to R18 million

Source: Fatoki, 2018; The National Small Business Act 102 of 1996

Based on the discussion above and Table 2.1, this study will adopt an employee and annual turnover quantitative method of defining a small business as stipulated in the National Small Business Act 102 of 1996. According to Fatoki (2018: 29) and National Small Business Act 102 (1996: 2), a small business refers to businesses with a maximum of fifty (50) employees and an annual turnover of less than R2 million and up to R25 million. The next section will discuss the importance of small businesses in South Africa.

2.3 THE IMPORTANCE OF SMALL BUSINESSES

Small businesses are considered to be one of the main solutions to development issues in South Africa, such as poverty, income inequality, unemployment and economic growth (Tsatsenko, 2020: 21; Mafundu and Mafini, 2019: 3). This section will discuss the importance of small businesses in terms of poverty, income inequality, unemployment and economic growth in South Africa.

Poverty refers to a situation when a person’s minimum resources are insufficient or inadequate to meet the necessary basic standards of living (Deonandan, 2019: 18). It is characterised by deprivation or lack of basic human needs such as food, clean drinking water, sanitation facilities, health, shelter, education and information (Amofah and Agyare, 2022: 4; News24, 2011: 1). Some of the evidence of poverty in South Africa includes the absence of adequate wages to get access to health facilities, inadequate access to training and education, poor well-being and unfavourable standards of living and increased mortality due to diseases, risky conditions and social segregation

(Ijaiya et al., 2011: 150). Poverty is measured in terms of national poverty lines, which are statistical tools which are used to measure poverty levels and patterns in monetary terms (Statistics South Africa, 2020: 6). There are three national poverty lines, namely: food poverty line, lower-bound poverty line and upper-bound poverty line and the higher the poverty line, the higher the poverty levels in South Africa (Statistics South Africa, 2020: 5) see Table 2.2.

Table 2.2: Inflation-adjusted national poverty lines for 2020

Poverty line	2020 Line values (per person per month)
Food poverty line	R585
Lower-bound poverty line	R840
Upper-bound poverty line	R1 268

Source: Statistics South Africa, 2020.

Table 2.2 shows the poverty lines and small businesses can be used to reduce poverty (Manzoor et al., 2019: 2; Kowo, Adenuga and Sabitu, 2019: 215). Small businesses assist with poverty reduction in South Africa by creating jobs and enhancing small businesses for poor people (Maziriri and Chivandi, 2020: 7; Houghton and Ayandibu, 2017: 135). Small businesses create employment for poor people in the local communities, especially jobs for the youths (Maziriri and Chivandi, 2020: 9). As a result, by employing the youths, small businesses give employment opportunities to youths which helps them to stay away from drugs and crime and improve their standards of living (Maziriri and Chivandi, 2020: 8).

Small businesses create employment opportunities and increase household income, which further reduces the number of poor people and, in turn, alleviates poverty (Nursini, 2020: 2; Geremewe, 2018: 3). Therefore, it can be observed that the performance of small businesses significantly influences poverty reduction (Manzoor et al., 2019: 9). A study by Yasa et al. (2015: 10) reported that the greater the performance of small businesses, the more poverty is reduced. The relationship between the performance of small businesses and poverty reduction can be observed through job creation (Nursini, 2020: 155). For example, the performance of small businesses has a positive

impact on household income and job creation (Nursini, 2020: 5). This means that the greater the performance of the small business sector, the more job opportunities there are available for people, and the larger the household income which contributes to the reduction of poor people (Nursini, 2020: 155; Adebayo and Nassar, 2014: 1610). Consequently, the indirect relationship between small business performance and job creation contributes to the reduction of poverty (Nursini, 2020: 155). Therefore, small businesses should be promoted in South Africa as they alleviate poverty at the household level and the surrounding community level (Sokoto and Abdullahi, 2013: 190).

According to Manzoor et al. (2019: 5), creating opportunities for people to earn a higher income is important to poverty reduction. Small businesses are essential poverty reduction drivers because they provide employment opportunities to poor people (Manzoor et al., 2019: 5). Moreover, South Africa is a developing country, and most poor people in South Africa acquire their income through self-employment or selling their labour to others (Manzoor et al., 2019: 5). Therefore, the performance of small businesses means that more people will be employed, more people will earn higher wages, and the overall household income of poor people will increase, and their living standards will improve (Manzoor et al., 2019: 5; John-Akamelu and Muogbo, 2018, 36). As a result, small businesses provide substantial employment and help alleviate poverty. This is evident in a study by Karnani (2011: 73), where it was highlighted that one way to alleviate poverty is through the reduction of unemployment in South Africa, and this can be done by increasing the income for poor people by providing them with employment.

Unemployment refers to individuals between 16 and 59 years old who are without work or actively looking for work (Youcef, 2014: 2). South Africa is one of the countries with the highest unemployment rate, where most of the population are the young and unskilled people (Tsatsenko, 2020: 21). Small businesses may reduce the unemployment rate in South Africa (Jili, Masuke and Selepe, 2016: 6; Cant, Erdis and Sephapo, 2014: 576). This is evident in research by Ayyagari, Demirguc-Kunt and Maksimovic (2014: 75), who highlighted that small businesses contribute to more job creation than large businesses in South Africa. According to the Real Economy Bulletin (2017: 3), small business owners employ on average 4,3 million people (55% of formal employment), whereas large businesses employ on average 3,6 million people (45% of formal employment) in South Africa. This statistic proves that small businesses play a major role in

creating jobs for the unskilled, poor and low-income workers, and these make up the majority of the labour force in South Africa (Matchaba-Hove and Vambe, 2014: 38; Monks, 2010: 15; Phillips and Bhatia-Panthaki, 2007: 794). Hence, small businesses play a significant role in a developing country like South Africa because they can reduce unemployment while improving inequality in the economy (Financial Times, 2019: 1).

Inequality in a population is measured using the Gini coefficient on a scale of zero to one (Corporate Finance Institution, 2021: 1). The closer the Gini coefficient is to one, the more unequal the income, and the further away the Gini coefficient is to one, the more equal the income (Corporate Finance Institution, 2021: 1). South Africa has one of the most unequal income distributions in the world, with a Gini coefficient of 0.65 (World Bank, 2020: 1; Chitiga, Sekyere and Tsoanamatsie, 2016: 1). In South Africa, Africans are poorer as compared to other races, and the highest interracial inequality was reported to be within the Black African (Hagen-Zanker, Morgan and Methand 2011: 4; Leibbrandt et al., 2010: 112). The lack of employment significantly influences income inequality in South Africa. As a result, small businesses may reduce income inequality by creating jobs in South Africa (Leibbrandt et al., 2010: 113).

South Africa is a country with one of the highest inequality indices in the world (Makwara, 2019: 8). Small businesses are expected to contribute significantly to social-economic development and, in particular, inequality (Makwara, 2019: 8). As a result, the South African government supports and promotes small businesses development because they can be used as drivers to reduce inequality (Makwara, 2019: 8; South African Human Rights Commission, 2018: 4). For instance, the Black Economic Empowerment (BEE) program was created in order to support vulnerable groups such as women, disabled people, youths and the black population who are recognized and supported in the small business sector (Makwara, 2019: 8). In addition, Aspen Network of Development Entrepreneurs (2012: 17) highlighted that small businesses employ vulnerable groups such as the women, youth and the poor and thus, reduce unemployment and inequality. Moreover, the South African government views small businesses as drivers capable of dealing with inequality and attaining the nation's economic growth (Fatoki and Garwe, 2010: 730; Smith and Watkins, 2012: 6324).

Economic growth refers to the process that is used to increase the size of an economy, and it is measured by the Gross Domestic Product (GDP) of a country (Ntiamoah et al., 2014: 7; Haller, 2012: 66). Small businesses are especially important in the development of the economy because they create jobs, contribute to the growth in output Gross Domestic Product (GDP), enhance innovation, contribute to public investment by paying taxes and aid in the equitable distribution of wealth (Hyder and Lussier, 2016: 82; Katua, 2014: 464; Onwuegbuchunam and Akujuobi, 2013: 150).

In addition, small businesses are key drivers of economic growth because the economies of successful countries depend on the success of the small business sector (Van Scheers, 2016: 350). For example, most small businesses are located in rural areas which employ poor people and in particular women, and in turn, provide earnings for poor people, improve their living standards and thus, indirectly stimulate the growth of an economy (Khalid, Begam and Norman, 2019: 54). In a developing country like South Africa, small businesses are essential for economic development because they create jobs and provide income for low skilled and unskilled people, and consequently it increases economic growth (Malepe, 2014: 5). The small business sector was identified as a means to achieve economic growth by the South African government (Houghton and Ayandibu, 2017: 136). Correspondingly, ministries that support and promote small businesses, such as the Small Enterprise Development Agency (SEDA), were created to enhance and drive the small business sector into one of the most significant contributors to economic growth in South Africa (Makwara, 2019: 7). In addition, small businesses in South Africa are important because they drive the competition and efficiency of the markets (Houghton and Ayandibu, 2017: 134). For example, in the telecommunications industry, the innovation of the products is driven by the small business sector (Houghton and Ayandibu, 2017: 135). Small businesses can take advantage of this industry because they are compelled to grow due to competition from larger businesses (Houghton and Ayandibu, 2017: 135). As a result, the market competition increases and consequently, the economy becomes more efficient (Houghton and Ayandibu, 2017: 135).

2.4 ROLE PLAYERS IN SMALL BUSINESS DEVELOPMENT

This section will discuss the role players that support and promote small business development in South Africa. The South African government created the Department of Trade and Industry. It

plays a significant role in the development, growth and promotion of small businesses in South Africa (Evbuomwan and Mrwebi, 2017: 33). The department coordinates all the small business policies and business support agencies in South Africa (Houghton and Ayandibu, 2017: 54). Some of the policies, plans, institutions and agencies that support small business in South Africa (Evbuomwan and Mrwebi, 2017: 33) are provided in Table 2.3.

Table 2.3: Agencies, policies, plans and institutions in South Africa

AGENCIES, POLICIES, PLANS AND INSTITUTIONS	ROLE OF AGENCIES	REFERENCES
The National Small Business Act	It provides guidelines for organs of state in order to promote small businesses in South Africa.	National Small Business Act, 1996.
Department of Trade and Industry (DTI)	It implements SMME-related policies and ensures that adequate financial and non-financial assistance is provided to the sector.	Department of Trade and Industry, 2009.
The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises	It aims to unlock the potential of South African entrepreneurs.	Department of Trade and Industry, 2009.
National Development Plan	It focuses on incubation systems and early-stage entrepreneurship development.	The Presidency Department, 2011.
Small Enterprise Finance Agency (SEFA)	It fosters innovation and the establishment of sustainable SMMEs to contribute toward poverty	Department of Trade and Industry, 2012.

	alleviation and job creation in the country.	
Small Business Development Ministry	It facilitates and promotes a favourable environment for SMEs to thrive and support the goals of the National Development Plan (NDP).	Department of Trade and Industry, 2012.
Small Enterprise Development Agency (SEDA)	It implements the government's small business strategy, designs and implements a standard and common national delivery network for small enterprise development and integrates government-funded small enterprise support agencies across all tiers of government.	News24, 2014.

Source: Researcher’s own creation

Table 2.3 shows that small businesses are just as important as large businesses, which is why the above mentioned role players were established. For example, the Small Business Development ministry was officially announced on the 25th of May in 2014 (News24, 2014: 1). It is responsible for the performance of small businesses in South Africa, and it does this by reviewing rules and regulations of small businesses so as to allow for direct interaction with the South African government (Parliamentary Monitoring Group, 2014: 1). In addition, it deals with the financial solutions of small businesses by putting in place financial institutions (Desta, 2015: 32; Wealthwisemag, 2014: 1). For example, Khula Enterprise Finance Limited is a financial institution which promotes the development and sustainability of small business in South Africa (Desta, 2015: 33). It provides small businesses with funds through retail financial institutions, commercial banks, specialist funds and joint ventures (Desta, 2015: 30; Atkinson, 2012; Ismaila, 2011: 18). In addition, the Small Enterprise Development Agency (SEDA) was established in 2004 (Desta, 2015: 33). Its main aim is to promote, develop and promote small businesses in South Africa by offering services to small business owners such as guidance to networking and business links,

access markets and technical support on how to improve the productivity of their businesses (Desta, 2015: 33; Atkinson, 2012: 1).

As seen above, the South African government put in place support programmes and policies and created institutions that provide financial and non-financial assistance for small businesses to ensure sustainable growth of small businesses (Desta, 2015: 29; Abor and Quartey, 2010: 217). The next section will discuss the sustainable growth of small businesses.

2.5 SUSTAINABLE GROWTH OF SMALL BUSINESSES

Sustainable growth of small businesses is when the owner or manager constantly maintains the daily operations of the business while at the same time consistently increasing its profitability, sales turnover and assets (Musanga and Ombui, 2015: 2251; Chittithaworn et al., 2011: 181). It was proven that sustainable growth of small businesses in South Africa prevents the economy from being stagnant (Fatoki and Garwe, 2010: 4). Sustainability of small businesses is important because it ensures the ability of the small business to finance its long-term development, high productivity through retention of skilled employees and controlled overall business growth through efficient use of resources (Yusoff and Wahab, 2018: 47; Gomez-Bezares, Przychodzen and Przychodzen, 2014: 1). Sustainability and growth of small businesses are important because it prevents them from failing in the future (Yusoff and Wahab, 2018: 9).

Small businesses have to ensure that they sustain their growth because there are benefits of the sustainable growth of small businesses (Wakkee, Van Der Veen, and Eurlings, 2015: 172; Gomez-Bezares et al., 2014: 1). Some of the benefits of sustainable growth for small businesses are high returns and high productivity, and these enable the small businesses to finance its long-term future development and growth (Perrott, 2015: 45; Epstein and Buhovac, 2014: 1; Chang, 2012: 2). The government should support the sustainable growth of small businesses because the success and sustainability of small businesses indicate that an economy is prevailing, and without the sustainable growth of small businesses in South Africa, the economy will diminish or become stagnant (Yusoff and Wahab, 2018: 9; Fatoki and Garwe, 2010: 7).

The government and small business institutions should encourage the creation and promotion of small businesses' growth and sustainability. The South African government has set up various institutions and measures to foster and promote sustainable growth within the small business sector (Desta, 2015: 29). However, small businesses in South Africa struggle to grow and some do not even grow but assume a survivalist position (Fatoki, 2013: 212; Smith and Watkins, 2012: 6326).

The South African government should provide a conducive environment in which small businesses can operate and provide appropriate assistance required by newly established and existing small businesses (Saah, 2019: 39; Rankhumise and Masilo, 2017: 167). For instance, the South African government should empower the young population by providing training and education workshops to existing and potential small businesses owners (Mahambehlala, 2019: 64; Saah, 2019: 39). The workshops should be in areas that are easily accessible to small business owners and assist them with training and development skills which focus on the needs of small businesses such as how to grow their businesses and become competitive in the business environment (Mahambehlala, 2019: 64; Saah, 2019: 39; Gopaul and Manley, 2015: 313). Moreover, in order to prevent the closure of small businesses, the South African government should put in place initiatives such as policies and entities that can provide financial support to small businesses (Saah, 2019: 32). It could do this through the use of financial strategies such as the provision of subsidised interest rates for newly established businesses and creation of low rental enterprise hubs (Saah, 2019: 32; Gopaul and Manley, 2015: 313). In addition, the South African government can also provide non-financial support to small businesses by providing them with assistance which enables them to showcase their products and services through trade shows (Mahambehlala, 2019: 65). Another non-financial support that the government can provide for small business owners is a platform which can allow them to voice their suggestions, concerns and contributions towards the passing of trade laws which affect the sustainability of small businesses in South Africa (Gopaul and Manley, 2015: 313)

Furthermore, it has been observed that the South African government aims to provide a conducive environment in which small businesses can operate by creating role players or organisations that provide small businesses with financial and non-financial assistance (Saah, 2019: 32; Desta, 2015: 151). However, the majority of small businesses are not aware of them, therefore, the government

is encouraged to raise awareness about those organisations' presence and the services they provide to small businesses (Desta, 2015: 151). For example, the government could launch programmes that will enable small business owners to be aware of the existence of those organisations, which will allow them to acquire knowledge about the assistance they provide (Desta, 2015: 151). In addition, the programmes could also assist existing and potential small business owners to interact and get connections through seminars and trade fairs (Desta, 2015: 151).

It can be observed that the South African government has put in place measures to assist the small business sector. However, most of them still succumb to failure and fail to develop into sustainable small businesses (Saah, 2019: 5). The section below will discuss the failure rate in South African small businesses.

2.6 FAILURE OF SMALL BUSINESSES

Small businesses in South Africa have a high failure rate whereby about 70 to 80 percent of them are bound to fail after they have been newly established (Cant and Wiid, 2013: 2). The failure rate is because, for most small businesses, survival is the main goal without sustainable growth in size (Yusoff, 2018: 46; Fatoki, 2013: 213; Fatoki and Garwe, 2010: 733). Small businesses in South Africa do not advance from the initial or existence stage of growth to the other stages in the business life cycle like survival, success, take-off and maturity (Fatoki, 2013: 213; Fatoki and Garwe, 2010: 733). As a result, only one percent of newly established small businesses can grow and survive for more than twelve months in South Africa (Herrington, Kew and Mwanga, 2014: 48). Evidence also shows that most small businesses rarely survive after three years of their establishment (Maleka and Fatoki, 2016: 308).

Two main factors influence the failure rate of small businesses, and these are individual and non-individual factors (Nikolic et al., 2015: 179). Individual factors refer to the characteristics of small business owners, such as skills, motivations and capabilities (Nikolic et al., 2015: 179; Arasti, Zandi and Talebi, 2012: 5). According to a study by Arasti et al. (2012: 5), the main individual factors which affect newly established small business owners are lack of skills in crisis management, marketing, financial and human resources management. In addition, it was highlighted that small business owners' motivations, capabilities, level of education, and

experiences are also individual factors contributing to the failure of newly established small businesses (Nikolic et al., 2015: 179; Arasti et al., 2012: 6).

The non-individual factors refer to factors which are influenced by the characteristics of small businesses (Nikolic et al., 2015: 179; Arasti et al., 2012: 6). The non-individual factors are divided into internal and external factors. Internal factors are influenced by the characteristics of small businesses and the decisions made within the small business, while the external factors are influenced by the environment in which small businesses exist or operate (Nikolic et al., 2015: 179). The contingency theory uses the non-individual factors to explain factors that influence small business failure (Amara and Benefila, 2017: 48; Dropulic, 2013: 369) (see more details about the contingency theory in chapter 3). Examples of internal non-individual factors include, but are not limited to, lack of related experience, unclear determination of business sector, lack of interest and dissatisfaction in the work at the workplace, lack of ability to compete with other similar businesses, poor cash flow management, inadequate staff and employees, obsolete technology, lack of innovation and poor management strategy and vision (Nikolic et al., 2015: 181; Arasti, 2012: 5; Arasti, 2011: 7490). Examples of external non-individual factors include but are not limited to lack of financial support from banks and financial institutions, lack of government policies which support small businesses, the heavy burden of taxation and regulation and pressure from competitors or new entrants (Nikolic et al., 2015: 181; Scherger, Vigierb and Barbera-Marinec, 2014: 51; Arasti, 2011: 7490; Oparanma, Hamilton and Zep-Opibi, 2010: 35).

Obsolete technology also contributes to failure in developing countries such as South Africa (Sitharam and Hoque, 2016: 278). Small businesses either have obsolete technology or lack knowledge on implementation of the technology (Sitharam and Hoque, 2016: 278). Therefore, they find it challenging to compete in technologically driven business industries (Sitharam and Hoque, 2016: 278). They also find it difficult to upgrade their technology because they cannot afford to purchase the latest technology and provide training for their employees to acquire knowledge towards implementing the technology (Sitharam and Hoque, 2016: 278). Thus, small businesses end up being limited to particular industries which do not require the use of technology, thereby limiting their growth and eventually resulting in the failure of their businesses (Sitharam and Hoque, 2016: 278).

Another contribution to the failure of small businesses is the lack of poor management strategy and vision of businesses, as the newly established business transitions from the start-up stage to the growth or survival stages (Fatoki, 2014: 925). This means that small businesses cannot rely on the same strategies or managerial capabilities that they implemented at the start-up stage because as a business evolves, they will be compelled to augment them so they can have a clear determination and stay competitive in the business sector (Fatoki, 2014: 925). Furthermore, small businesses are often created for the wrong reasons, such as pressure from family and friends. Consequently, most small businesses underestimate and lack the market research, financial responsibility and clear focus needed to operate a business (Fatoki, 2014: 925). As a result, most small businesses end up with inadequate and dissatisfied employees, eventually resulting in business failure (Fatoki, 2014: 925).

Research shows that lack of financial support from banks and financial institutions is one of the major challenges which inhibit the start-up, growth and survival of small businesses (Sitharam and Hoque, 2016: 278). Most small businesses cannot get financial support because they do not understand the procedures required to get financial support from banks or financial institutions (Sitharam and Hoque, 2016: 278). As a result, small businesses end up relying on financial support from family or friends, but it is inadequate for their businesses to sustainably grow and survive and thus, resulting in failure (Sitharam and Hoque, 2016: 278).

Furthermore, it has been observed that South African government regulations are one of the worst in the world in terms of labour law (Sitharam and Hoque, 2016: 278). The labour regulations in South Africa are also ranked as one of the most restrictive, making it difficult for small businesses to survive and grow because of the restrictive labour policies and constantly ever-changing labour regulations (Sitharam and Hoque, 2016: 278). Hence, small businesses find it difficult to comply with the regulations because they are always changing, time-consuming and expensive for businesses to stay up to date with regulations (Sitharam and Hoque, 2016: 278). As a result, the poor allocation and excessive regulations influence the failure of small businesses (Sitharam and Hoque, 2016: 278). Furthermore, not only does the business environment change due to regulations, but it is always changing due to technological dynamics (Sitharam and Hoque, 2016:

278). However, some small businesses are resistant to change, making it hard for them to adapt to market trends and consumers' constantly changing needs and expectations (Sitharam and Hoque, 2016: 278). Therefore, small businesses become prone to failure because not only do they find it challenging to survive and keep up with the changes in the business environment, but they also struggle to stay competitive or gain a competitive advantage over existing and newly established businesses (Sitharam and Hoque, 2016: 278).

As mentioned above, two main factors influence the failure of small businesses. These are individual and non-individual factors. There are two types of non-individual factors, namely internal and external factors. These individual and non-individual factors influence the failure of small businesses. However, small businesses are also faced with other challenges which affect the failure rate of small businesses, and the section below will discuss some of the major factors in detail.

2.7 MAJOR FACTORS FACING SMALL BUSINESSES

Small businesses face many challenges, such as poor infrastructure, access to finance, lack of managerial competencies, legal barriers and access to markets (Bvuma and Marnewick, 2020: 5; SME Times, 2017: 1; Al-Maskari et al., 2019: 5). These external non-individual factors such as lack of access to markets, infrastructure and access to finance, and legal barriers or labour laws (Houghton and Ayandibu, 2017: 55). Internal factors include lack of managerial competencies such as skills (Al-Maskari et al., 2019: 5). The section below will discuss the external or internal factors facing small businesses in South Africa.

Inadequate access to infrastructure is one of the major challenges for small businesses as it hinders small businesses from growing and increases the costs of operating their businesses (Mugo, Kahuthia and Kinyua, 2019: 139). For example, access to infrastructure such as water, electricity, telephones, electronic media and serviceable roads are vital for the operations of small businesses as they can either restrict or enable access to markets and raw materials needed for the start-up and development of small businesses (Leboea, 2017: 74). In addition, interruptions of electricity and difficulties in finding adequate physical space are other examples of inadequate infrastructure that have been seen as challenges to small businesses (Small Enterprise Development Agency, 2016:

8). Hence, it is evident that the quality of infrastructure determines the growth and survival of small businesses because it can either hinder or give access to small business owners to operate their businesses effectively and efficiently. However, most small businesses cannot afford some of the infrastructure due to inadequate access to finance (Emezie, 2017: 15).

Access to finance refers to the ability of businesses to be able to acquire or obtain financial services (Giang et al., 2019: 1). It is one of the major challenges that hinder the growth and survival of small businesses in South Africa (Mazanai and Fatoki, 2012: 60; Abor and Quartey, 2010: 224). Herrington et al. (2014: 25) support that the primary cause for the low survival rate of small businesses in South Africa is the inability to access finance. It is difficult for small businesses to access finance because they do not have the adequate financial resources to acquire the inflows needed to survive and grow in the economy (Oyelana and Fiseha, 2014: 676). This is because most small business owners in South Africa solely rely on equity finance which is capital or funds from personal financial resources or money from families and friends for the start-up, survival and growth phases of their businesses (Oyelana and Fiseha, 2014: 676; Abdulsaleh and Worthington, 2013: 37).

Another source of finance for small businesses is debt finance which is when a business borrows money from banks or financial institutions to fund their businesses (Dlova, 2017: 50). Small businesses prefer to use debt finance because the small business owners can retain control over the firm and the interest on debt is tax deductible (Fatoki, 2014: 1011; Abdulsaleh and Worthington, 2013: 38). However, small business owners find it difficult to access finance from the bank because they do not have adequate collateral security that the bank requires for them to get access to debt finance (Oyelana and Fiseha, 2014: 677; Chimucheka, 2013: 787). In addition, small businesses lack business plans, have poor financial records and a weak capital base, and these are some of the reasons why banks cannot lend funds to small businesses (Vasilescu, 2014: 38; Adebisi and Olayinka, 2013: 94; Chimucheka, 2013: 787). Thus, banks are bound to place high risks on small businesses and are reluctant to give them capital because they consider small businesses as high-risk borrowers due to their inadequate collateral (International Trade Centre, 2015: 59). Moreover, lack of managerial competencies determines if banks will give access to finance to small business

owners because managerial competencies influence the ability of small business owners to access finance (Zarook, Rahman and Khanam, 2013: 107).

Managerial competencies are one of the determinants which determine the success or failure rate of small businesses (Dlova, 2017: 50). Managerial competencies are managerial experience, education, skills, knowledge and start-up experience (Dlova, 2017: 50; Hellriegel et al., 2008: 15). Martin and Staines (2008: 25) investigated the importance of managerial competencies towards the success of small businesses, and they found out that lack of managerial competencies like experience and skills were the main reason which caused small businesses to fail in South Africa. Studies by Zarook et al. (2013: 108) and Okpara and Wynn (2007: 30) highlighted that for small business owners to be successful, they must have the necessary skills and abilities to operate their businesses. In support of that, Zinga, Coelho and Carvalho (2013: 498) argued that the lack of education and training of small business owners contributes to the high failure rates of small businesses. This is supported by Neneh and Van Zyl (2014: 175), who showed that there is a lack of skilled managers in South Africa, and their lack of knowledge of financial management contributes significantly to the high failure rate of small businesses in South Africa (Kotze and Smith, 2008: 50).

Moreover, poor record-keeping and lack of basic management skills are major contributors to the failure of small businesses in South Africa (Dumbu and Chidamoyo, 2012: 201; Tushabomwe-Kazooba, 2006: 33). For example, most small business owners lose track of their daily transactions because they lack basic management skills such as book-keeping and inventory management (Dumbu and Chidamoyo, 2012: 201). In addition, it was reported that small business owners also fail because they do not possess accounting skills (Akande, 2011: 373). This is evident in a study which was done by Oyelana and Fiseha (2014: 675) on the effect of SMMEs on the socio-economic development of Alice in the Eastern Cape, and it was observed that managerial skills such as financial, marketing and human resource management were lacking in many small businesses. Furthermore, research has shown that small businesses find it challenging to adapt and keep up with the constantly changing laws and regulations (Nieuwenhuizen, 2019: 675; Tarwirei, 2015: 36). It was also reported that small business owners have inadequate managerial

competencies, in particular lack of knowledge in legal laws and regulations that affect small business growth (Nieuwenhuizen, 2019: 675; Tarwirei, 2015: 36).

Legal barriers seem to be one of the major constraints on the small business sector in South Africa. For instance, South African labour laws were found to be one of the major regulatory obstacles when it comes to small business growth and, in particular, the dismissal of employees (Small Enterprise Development Agency, 2016: 8; Organisation for Economic Co-operation and Development, 2004: 1). For example, small business owners find it difficult to retrench employees if the business can no longer afford to retain them or if they are found to be unproductive (Small Enterprise Development Agency, 2016: 8). As a result, small business owners find it costly to employ potential workers, especially at their start-up stage of the business and this hinders the growth and sustainability of small businesses (Small Enterprise Development Agency, 2016: 8). In addition, small businesses face high regulatory constraints in South Africa such as tax (Herrington, Kew and Mwangi, 2016: 1; Nyamwanza et al., 2016: 308). For example, a study by Smulders and Naidoo (2013: 35) showed that the costs of tax compliance are too high for small businesses in South Africa. In addition, the tax payments and regulations on small business owners are time-consuming and costly because it requires them to keep accurate and updated accounting records (Nieuwenhuizen, 2019: 675). Moreover, small businesses find it difficult to access markets because of legal barriers. Some regulations and laws to access markets are not transparent, or the regulatory information is difficult to access (Organisation for Economic Co-operation and Development, 2021: 1).

Access to markets refers to the ability of small businesses to sell goods and services and their freedom to enter any market (United Nations ESCAP, 2021: 1). One of the major challenges which hinder the growth and longevity of small businesses is their inability to *access markets* (Small Enterprise Development Agency, 2016: 10; Rogerson, 2013: 134). It determines the ability of how small businesses can either survive or compete in an industry (Mutoko, 2014: 29). For example, lack of access to finance inhibits small businesses from accessing markets, and this is evident when small businesses cannot afford to produce and improve the quality of their products to stay competitive in the market (Dlova, 2017: 25). In addition, small businesses end up manufacturing

products and providing services which either do not meet the required market industry or miss the demand of the products and services in that market (Dlova, 2017: 25).

As discussed above, it can be noted that factors such as access to infrastructure, access to finance, managerial competencies such as lack of skills, legal barriers and access to markets cause small businesses to fail. Therefore, it is important to look at previous studies that focus on some factors affecting small businesses in the Eastern Cape.

2.8 PREVIOUS STUDIES ON SMALL BUSINESSES IN THE EASTERN CAPE

Previous studies by Oyelana and Fiseha (2014) and Akinwale and Ogundiran (2016) analysed the impact of small businesses on socio-economic factors such as unemployment and poverty in the Eastern Cape. In particular, Oyelana and Fiseha (2014) explored the effect of SMEs on the socio-economic development of Alice in Eastern Cape Province. Their results revealed that SMEs do not play a significant role in addressing the challenges related to high unemployment, crime, and poverty reduction. The study showed that SMEs are not enhancing living standards and not stimulating economic growth and development in Alice because of challenges such as lack of finance, lack of managerial skills, inadequate advice and information, and lack of training and education. Moreover, Akinwale and Ogundiran (2016) investigated the impacts of small businesses on poverty reduction in the Eastern Cape. Their findings showed that small businesses positively impact poverty and are used as a poverty reduction strategy in South Africa.

Nonetheless, previous studies by Vallabh and Mxnyulwa (2017) explored the managerial competencies such as skills, knowledge and level of education of small businesses. Notably, Vallabh and Mxnyulwa (2017) conducted a study that analysed the skills as impediments to small and medium tourism enterprises in Eastern Cape. Their results indicated a lack of suitable managers with tourism management qualifications, and they failed to prepare adequately before venturing into the small and medium enterprises in tourism.

Furthermore, previous studies by Dlova (2017), Rungani and Potgieter (2018) and Mbedzi and Simatele (2020) focused on the financing of small businesses in the Eastern Cape. Research by Dlova (2017) analysed SMEs' access to credit in the Eastern Cape, and the findings depicted that

the lending criteria favour large and well-established firms with the required capacities over SMEs. In addition, Rungani and Potgieter (2018) researched the impact of financial support on the success of SMEs in the Eastern Cape province. Their findings highlighted that SMME success is positively correlated with the financial support for both private and public sectors, and it determines the success of SMMEs. Moreover, Mbedzi and Simatele (2020) investigated SMEs' financing, costs and benefits of lending technologies in the Eastern Cape province of South Africa. The study focused on small businesses on the registers of the Nelson Mandela Bay Business Chamber and the Border-Kei Chamber of Business in the Eastern Cape province of South Africa. Their findings showed that microfinance and privately-owned development financial institutions have high rationing levels, similar to commercial banks and SMEs, and that small businesses are mostly credit rationed.

The studies above showed that the focus of research in the Eastern Cape has mainly been managerial competencies such as skills, financing and socio-economic factors. The next section will discuss research conducted in Makana. It is important to review studies conducted in Makana as this study seeks to fill the literature gap in the area of Makana.

2.9 PREVIOUS STUDIES ON SMALL BUSINESSES IN MAKANA

Only one study has been conducted on small businesses in Makana Municipality. Ncube (2019) did a study on the effects of managerial competencies on the performance of small and medium enterprises in Makana Municipality. The findings of the study showed that competencies such as communication, planning, self-management, and global awareness affect the SMEs' performance in Makana Municipality (Ncube, 2019: 102). Fewer studies have been done on small businesses in the Eastern Cape, but only one study has been done in Makana Municipality. It was found that it is important for small business owners and managers to acquire management skills such as financial management because it significantly impacts their businesses' overall performance and survival (Ncube, 2019: 2). The aim of this study is to analyse the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality. No study has been done on the adoption of financial management practices by small business owners in Makana Municipality. It is important to conduct this study in Makana Municipality because it has a high unemployment rate, poverty and small business may be used as one of the driving forces

in the reduction of poverty and unemployment in Makana Municipality (Eastern Cape Socio-Economic Consultative Council, 2017: 1; Zemenu and Mohammed, 2014: 150). Moreover, there is a gap in the literature on financial management, especially in investigating the internal barriers facing small business owners adopting financial management practices. Therefore, the next chapter will discuss the financial management practices adopted by small business owners and the barriers to the adoption of financial management practices.

2.10 SUMMARY

The objective of this chapter was to provide an overview of small businesses in South Africa. In achieving the objective of this chapter, it provided the definitions of small businesses and discussed the importance of small businesses in South Africa. It was discussed that small businesses are important for reducing poverty, income inequality, unemployment, and economic growth in South Africa. This chapter also focused on the role players that support small business development in South Africa. It was stated that the National Small Business Act, Department of Trade and Industry, Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, National Development Plan, Small Enterprise Finance Agency, Small Business Development Ministry and Small Enterprise Development Agency are some of the role players that were created to support small businesses development in South Africa. Afterwards, this chapter discussed the sustainable growth of small businesses, highlighting that the sustainable growth of small businesses is important because it prevents their businesses from failing in the future and indicates that the South African economy is prevailing. After that, the failure rate of small businesses was discussed. External non-individual factors such as access to infrastructure, access to finance, access to markets and legal barriers and internal factors such as managerial competencies were found to be the major factors contributing to the failure rate of small businesses in South Africa. Lastly, a discussion was also provided on the previous studies of small businesses in the Eastern Cape and Makana Municipality. The next chapter will discuss the proper financial management practices and the barriers facing small business owners adopting financial management practices.

CHAPTER 3: FINANCIAL MANAGEMENT PRACTICES

3.1 INTRODUCTION

The previous chapter provided an overview of small businesses in South Africa. The previous chapter also highlighted the importance of small businesses in South Africa and discussed small businesses in Makana Municipality and Eastern Cape. The primary objective of the study is to analyse internal barriers facing small business owners adopting proper financial management practices in Makana Municipality in the Eastern Cape. In order to achieve the primary objective of this study, this chapter will address the secondary objective, namely, to determine the financial management practices adopted by small business owners and discuss the contingency theory. Firstly, the chapter will describe financial management practices, after that, it will discuss the different financial management practices adopted by small businesses. This chapter will also define and emphasise financial management practices in small businesses. Afterwards, the chapter will discuss the contingency theory. Subsequently, the chapter will use contingency theory to discuss the external factors, internal factors and internal barriers to the adoption of financial management practices. The chapter will also examine the financial management practices adopted in South Africa and the Eastern Cape.

3.2 DESCRIPTION OF FINANCIAL MANAGEMENT PRACTICES

Financial management practices refer to processes that a business uses to manage its financial resources in a way that is effective and efficient to enhance the profits of the business (Benard, 2019: 1; Addo, 2017: 26). Financial management practices used by small businesses include (1) cash management practices; (2) accounts receivables management practices; (3) accounts payables management practices; (4) inventory management practices (5) working capital management practices (6) investment management or capital budgeting practices; (7) financing or capital structure practices; (8) accounting information systems; (9) financial reporting and analysis practices (Benard, 2019: 2; Addo, 2017: 2; Abanis et al., 2013: 34; Turyahebwa et al., 2013: 3876). A small business may use proper or poor financial management practices. Proper financial management practices are evident where there is transparency, efficiency and accuracy in the achievement of the financial objectives of a business (Cheluget and Morogo, 2017: 215). At the same time, poor financial management practices are evident when there is an absence and

ineffective understanding of the interpretation of financial management information and the use of financial statements (Bismark et al., 2018: 179). It is important for small business owners to adopt proper financial management practices because these assist businesses survive from the start-up position throughout the entire life cycle of small businesses (Kahando, Maina and Maina, 2017: 66). The next section will discuss the importance of financial management practices.

3.3. IMPORTANCE OF FINANCIAL MANAGEMENT PRACTICES

Financial management practices are important to small businesses because they enable small business owners to understand the current financial position of their business and allow them to attain their financial objectives (Addo, 2017: 3). Proper financial management practices enable small business owners to plan in advance to enable them to properly manage their financial resources by maintaining their financial records and continuous tracking of accounts payables and accounts receivables (Benard, 2019: 2; Addo, 2017: 3). Financial management practices are important for small businesses because they enable the owners to control, maintain and forecast their debt payments (Benard, 2019: 2). Hence, the adoption of financial management practices is vital for small businesses because it enables them to become aware of their potential and ability to either take on or pay off their debt capital (Benard, 2019: 2).

Furthermore, financial management practices are important because they deal with the central activities of the business, such as sales and profit maximisation (Vohra and Dhillion, 2014: 6). For example, through the adoption of financial management practices such as capital budgeting, financial reporting and financial analysis, small businesses can find ways to reduce their expenses while at the same time maximising the sales and profits of the business (Vohra and Dhillion, 2014: 6). In addition, by maximising sales and profits, small businesses can establish sustainable growth and survival in the business sector (Okafor, 2016: 160; Vohra and Dhillion, 2014: 6). Therefore, it is important for small businesses to adopt proper financial management practices. Thus, a discussion on the different financial management practices adopted by small businesses will be provided below. As previously indicated above, small businesses may use different financial management practices. These financial management practices will be discussed below.

3.4. DIFFERENT FINANCIAL MANAGEMENT PRACTICES

The section below will discuss the different financial management practices that are adopted by small businesses.

3.4.1 Cash Management Practices

Cash is an important current asset that is used for the daily operations of a business (Yousef and Smirat, 2016: 99; Atseye, Ugwu and Takon, 2015: 3). Cash is also used to pay business obligations to keep a business running continuously (Yousef and Smirat, 2016: 99). Cash management practices are important in a business because they ensure that cash is allocated and managed efficiently in a manner that meets the objectives of a business (Jama, Samantar and Muturi, 2017: 18; Yousef and Smirat, 2016: 99). Cash management practices refer to processes that are used to manage cash sustainably to ensure that there is sufficient cash for the daily operations of a business (Ahmad, 2016: 331; Hamza, Mutala and Antwi, 2015: 457; Aren and Sibindi, 2014: 89). Cash management practices also plan and control all the cash that flows into and out of businesses (Ahmad, 2016: 331; Hamza et al., 2015: 457). Cash management practices are important because they enhance the financial position of a business by maintaining a balance between cash inflows through increases in cash collections and cash outflows through reductions in cash expenses (Yousef and Smirat, 2016: 100). In addition, cash management practices are critical to small businesses because they give small business owners adequate control over their cash positions, that is, they can keep their businesses with sufficient cash at hand, while at the same time use the excess cash in ways that profit their businesses such as providing services to consumers using cash (Yousef and Smirat, 2016: 99; Oluoch, 2016: 2; Ahmad, 2016: 332). Moreover, evidence of cash management practices can be seen through the use of cash flow forecasts which allows small businesses to predict their cash inflows and outflows over a certain period of time and shows cash surpluses or cash deficits (Yousef and Smirat, 2016: 99; Hamza et al., 2015: 462; Aren and Sibindi, 2014: 89).

Cash management practices play an important role in small businesses because they indicate if a business is profitable or not (Ahmad, 2016: 332). This is because by adopting cash management practices, small businesses can focus on the business's daily operations, such as reducing or eliminating unnecessary expenses (Ahmad, 2016: 332; Atseye et al., 2015: 3). As a result, this

gives potential investors and banks a depiction of what the business truly focuses on, and this is one of the requirements that banks or investors seek from small businesses to enable them to get access to finance (Ahmad, 2016: 332; Enow and Kamala, 2016: 230). Hence, cash management practices are critical because they sustain and enhance cash management in small businesses (Ahmad, 2016: 332; Aren and Sibindi, 2014: 90). Accounts receivables management practices are also important for small businesses. The next section will discuss accounts receivables management practices.

3.4.2 Accounts Receivables Management Practices

Accounts receivables refer to credit that is granted by a business to its customers during the sale of goods or services and it is usually in the form of trade credit (Muthoni, Kiprotich and Kipyego, 2020: 513; Ayo, 2019: 8; Tweneboah and Ndebugri, 2017: 3). Accounts receivables management practices refers to the appropriate ways that a business uses its credit policies to value the credit worthiness of its customers so they can be granted trade credit (Muthoni et al., 2020: 514; Ayo, 2019: 8). Credit worthiness involves the analysis of how much customers owe a business and how long it will take for customers to pay the business back (Ayo, 2019: 8; Venkeviciute, 2015: 130). A credit policy is one of the ways that is used to manage accounts receivables (Ayo, 2019: 8; Tweneboah and Ndebugri, 2017: 3). It outlines the information such as credit terms, credit standards and collection standards that are used by a business to grant credit to customers (Ayo, 2019: 8; Tweneboah and Ndebugri, 2017: 14). The information in the credit policy assists small businesses to determine the customers that can be granted credit and that have the ability to pay the credit back on time (Ayo, 2019: 8; Tweneboah and Ndebugri, 2017: 3; Ayodele and Alabi, 2014: 14). Therefore, a credit policy enables small businesses to prevent or minimise the business from incurring losses through bad debts or late outstanding payments (Ayo, 2019: 8; Tweneboah and Ndebugri, 2017: 3).

Proper financial management in accounts receivables can be seen through the adoption of credit policies and collection procedures of a business (Ayo, 2019: 8; Yator, 2018: 13; Tweneboah and Ndebugri, 2017: 14). A credit policy outlines the requirements that are used by a business to value the creditworthiness of customers (Ayo, 2019: 8; Tweneboah and Ndebugri, 2017: 14). A collection procedure specifies the guidelines that a business uses to collect unpaid invoices to

minimise delays in accounts receivables that are outstanding (Ayo, 2019: 8; Yator, 2018: 13). For example, the use of credit policies and collection procedures helps small businesses to select and grant credit to customers with minimal risks of non-payments or delayed payments (Ayo, 2019: 8; Tweneboah and Ndebugri, 2017: 14). Therefore, it is important for small businesses to adopt proper accounts receivables management practices as it allows small businesses to collect debt payments within specified credit terms (Muthoni et al., 2020: 514; Ayo, 2019: 8). The next section will discuss accounts payables management practices.

3.4.3 Accounts Payables Management Practices

Accounts payables management practices are processes, policies or procedures which are utilised by businesses to ensure that its credit purchases from suppliers are managed effectively (Mutai and Kimani, 2019: 176; Ayo, 2019: 11). It is also concerned with how a business deals with an obligation which arises from trade credit or short-term borrowing that has to be settled or paid within twelve months (Alawode and Adegbe, 2020: 328; Ayo, 2019: 11). Trade credit is a short-term source of finance that is obtained in the form of credit, whereby an agreement is made between a supplier and customer to delay payment for products and services that have been received (Rahman, Rozsa and Cepel, 2018: 132; Fitzpatrick and Lien, 2013: 39). Accounts payables management practices are important for small businesses because it considers factors such as time and amount that is required to monitor the business's financial debts that arise from trade credit (Likalama, Ouma and Kirwa, 2017: 2; Ayo, 2019: 11). Thus, it helps small business owners maintain proper relationships with their suppliers by paying their credit on time (Ayo, 2019: 11).

Moreover, accounts payables management practices are vital because they indicate the impact that accounts payables have on the operations of a business (Enow and Kamala, 2016: 78). For example, if the accounts payables are too high, it is an indication that the businesses will have problems settling their credit account with the supplier (Enow and Kamala, 2016: 78; Ikechukwu and Nwakaego, 2015: 15). In contrast, if the accounts payables are too low, it is an indication that small businesses are settling their trade credit early (Enow and Kamala, 2016: 78). Payment of credit accounts early might suggest that the business is not using the long payment periods to their advantage such as investing cash into their business (Likalama et al., 2017: 3; Enow and Kamala,

2016: 78). Moreover, accounts payables management practices are important because they allow small businesses to keep accurate records of accounts payables which enables them to account for their trade credit payment in a timely manner (Herieli and Rimisho, 2019: 42; Enow and Kamala, 2016: 78). Thus, preventing small businesses from incurring late trade credit payment costs such as penalties (Likalama et al., 2017: 3; Enow and Kamala, 2016: 78). Therefore, by adopting proper accounts payables management practices, small businesses are able to be approved for credit by suppliers (Enow and Kamala, 2016: 78). This is because the accuracy of the records of accounts payables may suggest that small businesses are creditworthy and thus, will be granted access to finance by banks and financial institutions (Enow and Kamala, 2016: 78).

Furthermore, it is important for small businesses to adopt proper accounts payables management practices as it prevents errors such as duplicate or late payments (Ayo, 2019: 12; Cowton and San Jose, 2017: 674; Enow and Kamala, 2016: 77). Proper accounts payables management practices assist businesses in detecting inaccurate and unaccounted invoices (Ayo, 2019: 12; Enow and Kamala, 2016: 77). Moreover, these errors can be avoided through practices such as maintenance of proper records for all credit purchases and monitoring of payments to creditors (Tingbani et al., 2022: 4; Ayo, 2019: 12; Enow and Kamala, 2016: 77). Proper accounts payables management practices ensure that the creditors and suppliers of small businesses are managed effectively (Ayo, 2019: 12; Kipronoh and Mweta, 2018: 84; Enow and Kamala, 2016: 77). The next section will discuss inventory management practices.

3.4.4 Inventory Management Practices

Inventory management practices refer to the activities that are involved in the development and management of inventory from raw materials to finished products (Sola, 2018: 3; Olowolaju and Mogaji, 2020: 1). Furthermore, inventory management practices also refer to processes that are utilised to organise, store and replace inventory in order to allow a business to keep an adequate amount of inventory while at the same minimising inventory costs (Olowolaju and Mogaji, 2020: 1; Atnafu and Balda, 2018: 32). It is also concerned with the effective management of units of goods which flow into and out of existing inventory (Sola, 2018: 3; Oluwaseyi, Morakinyo and Odeyinka, 2017: 3). Moreover, inventory management practices are important because they allow small businesses to be able to control the transfer of units of goods in a way that prevents the

inventory from being too high or idle in the businesses (Sola, 2018: 3). Inventory management practices control the costs which are associated with inventory such as the costs of holding too much inventory and costs incurred when there is too little inventory in the business (Sola, 2018: 3; Johna, Etimb and Imec, 2015: 393). Small businesses maintain an adequate amount of inventory so that they can prevent the production of inventory from ceasing and loss of revenue due to lack of inventory and loss of customers (Atnafu and Balda, 2018: 32; Kasim, Zubieru and Antwi, 2015: 31). Therefore, it is important for small businesses to adopt inventory management practices because it enables businesses to keep an adequate amount of inventory and ensure a continuous production cycle without incurring unnecessary inventory costs (Atnafu and Balda, 2018: 32; Kasim et al., 2015: 31). The next section will discuss working capital management practices.

3.4.5 Working Capital Management Practices

Working capital refers to capital that businesses need to operate their daily activities, and it includes cash management, account receivables, accounts payables and inventory management (Kabir, Muhammad and Sunday, 2021: 13; Addo, 2017: 32). Working capital is the difference between the current assets and current liabilities of a business (Maad et al., 2022: 71; Nyakundi et al., 2016: 287). The current assets are mainly made up of cash, receivables, payables and inventory (Nyakundi et al., 2016: 287). It also refers to all the short-term assets that are utilised in the daily operations of a business (Kabir et al., 2021: 13; Nyakundi et al., 2016: 287). Current liabilities include trade payables (accounts payables), short-term debt and accrued liabilities (Nyakundi et al., 2016: 287; Kosgey and Njira, 2016: 43). Working capital management practices are important because they assist small businesses in maintaining an optimal balance between cash, accounts receivables, inventory and accounts payables (Kosgey and Njira, 2016: 43; Kamau and Ayuo, 2014: 72). Working capital management practices are also critical to small businesses because they determine the success and survival of small businesses (Sensini, 2020: 1750; Somathilake and Pathirawasam, 2020: 1791). For example, working capital management practices assist small businesses in managing their current assets and current liabilities to prevent their businesses from going bankrupt (Somathilake and Pathirawasam, 2020: 1791). Moreover, working capital management practices are more important to small businesses because most small businesses lack investment in fixed assets compared to current assets (Somathilake and Pathirawasam, 2020: 1791; Abiodun Eniola and Entebang, 2015: 52). Therefore, small businesses have challenges concerning

their long-term sources of finance due to their lack of investment in fixed assets (Somathilake and Pathirawasam, 2020: 1791; Abiodun Eniola and Entebang, 2015: 52). In addition, small businesses are heavily dependent on sources of finance such as the owner's personal savings, trade credit and short-term bank loans to finance their current assets (Somathilake and Pathirawasam, 2020: 1791; Abbasi, Wang and Abbasi, 2017: 41). However, small businesses cannot afford these sources of finance because they are more expensive and riskier (Somathilake and Pathirawasam, 2020: 1791). Hence, working capital management practices should be adopted by small businesses because they enable them to have control over their cash management which will allow the business to stay liquid and profitable (Kosgey and Njira, 2016: 44). The next section will discuss accounting information systems practices.

3.4.6 Accounting Information Systems

An accounting information system is a framework that enables businesses to store financial information accurately (Benard, 2019: 2). It also refers to a blend of principles, practices and theories of financial information and systems (Benard, 2019: 2). It is also a software system that records accounting transactions of a business in a manner that correlates with its business practices (Al-Dalaien and Khan, 2018: 41). Accounting information systems are vital to small businesses because they can record, summarise and report all financial transactions using rules, methods and procedures of a business through computer systems such as Sage, Zero, Quickbooks and Excel (Ibrahim et al., 2020: 53; Al-Dalaien and Khan, 2018: 41). Accounting information systems include accounting terms, records, instruction manuals, flow charts programs, and reports (Al-Dalaien and Khan, 2018: 41).

Accounting information systems are important to small businesses because they enhance the accounting performance and financial cooperation of businesses (Harash, 2017: 21). They do this by providing small businesses with opportunities to update their systems, policies and procedures so that they are in alignment with the best practices of the business (Harash, 2017: 22; Budiarto and Prabowo, 2015: 64). Accounting information systems also provide small businesses with important information that can be used by decision makers of the business or by external stakeholders such as investors, creditors and tax authorities (Ibrahim et al., 2020: 52; Harash, 2017: 22). They provide important information such as financial statements, trends analysis, reported

data and other accounting information that can affect the financial performance of the business (Ganyam and Ayoor, 2019: 39; Harash, 2017: 22). In addition, accounting information systems provide adequate accounting information in a timely manner, and this is critical to the decision-making process within small businesses (Ganyam and Ayoor, 2019: 39; Harash, 2017: 22). Therefore, small businesses should adopt this financial management practice because it will enable them to improve their business efficiency and competitiveness in the business environment (Harash, 2017: 22; Bruwer and Smit, 2015: 2022). The next section will discuss capital budgeting practices.

3.4.7 Capital Budgeting (Investment) Practices

Capital budgeting, also known as investment management or appraisal, deals with investment decisions which are used to increase the value of shareholders of a business (Justice, Yeboah and Pious, 2020: 33; Mushaho, Mbabazize and Shukla, 2015: 106). It is also concerned with investing and allocating resources to long-term assets such as property, plant or equipment, new technology, patents and trademarks (Alles et al., 2021: 994; Mushaho et al., 2015: 106). Capital budgeting practices refer to a process that identifies, analyzes, selects and monitors potential investments that create, add value and allocate resources to the shareholders and projects they undertake within a business (Gupta and Jain, 2016: 75; Mushaho et al., 2015: 106). Examples of capital budgeting techniques include the payback period (PB), accounting rate of return (ARR), net present value (NPV) and the internal rate of return (IRR) (Paseda, 2020: 35; Kengatharan, 2016: 21). The payback period measures the length of time that is required to recover any invested cash expenditure (Kengatharan, 2016: 21; Imegi and Nwokoye, 2015: 171). An advantage of the payback period is that it is easy to use, and it provides information about the initial investment (Kengatharan, 2016: 21). The accounting rate of return calculates the average investment ratio after tax income in its average book value (Kengatharan, 2016: 21; Imegi and Nwokoye, 2015: 170). Net present value measures the difference between the present value of the money that flows into the business and the money that flows out of the business (Kengatharan, 2016: 21; Imegi and Nwokoye, 2015: 172). Internal rate of return calculates the rate at which capital investment can be accepted into the business and the cost associated with the capital investment to its present value (Kengatharan, 2016: 21; Imegi and Nwokoye, 2015: 173).

Capital budgeting practices are important because they are concerned with the long-term investments of a business and this determines the success or failure of a business (Hajj and Farran, 2021: 27; Ejoh, Okpa and Ibanga, 2016: 45). The main goal of investment or capital budgeting is to maximise on the profits of a business while at the same time, optimising the return on investments (Justice et al, 2020: 34; Ejoh et al., 2016: 45). This can be obtained through investment decision making such as increasing revenues and reducing costs in a business (Ejoh et al., 2016: 45). In addition, capital budgeting practices are important because small business owners use them to determine a criterion that can be used in investment opportunities that will maximise the value of a business (Alles et al., 2021: 994; Gupta and Jain, 2016: 75). For example, this can be done through the allocation of financial resources among long-term investment opportunities so that small businesses are profitable and can sustain their growth in the long run (Alles et al., 2021: 994; Gupta and Jain, 2016: 75). The next section will discuss capital structure practices.

3.4.8 Capital Structure (Financing) Practices

Capital structure refers to the combination of debt and equity that is used to finance a business (Adesina, Nwidobie and Adesina, 2015: 23; Badar and Saeed, 2013: 79). Debt and equity are the two main sources of finances for small businesses (Adda, 2020: 43). Capital structure practices are also referred to as financial structure or financing practices (Foyeke, Olusola and Aderemi, 2016: 58). Capital structure is classified into equity capital and debt capital, where debt capital is made up of external sources of finance and equity capital is made up of internal sources of finance (Foyeke et al., 2016: 58; Adesina et al., 2015: 23). External and internal sources of finance are the main sources of finance that are utilised by small businesses (Adesina et al., 2015: 23). Internal sources of finance include retained profits and personal savings (Palacios, Carrillo and Guzman, 2016: 3). External sources of finance include financial assistance from family and friends, trade credit and formal suppliers of finance or financial intermediaries such as banks, financial institutions and stock markets (Palacios et al., 2016: 4). It was observed that the main financing practices for small businesses are internal sources of finance (Martinez, Lawless and O'Toole, 2019: 2; Palacios et al., 2016: 3). This is because small businesses have limited access to external sources of finance and thus, they rely more on self-generated funds or short-term debt (Palacios et al., 2016: 4; Adoyele, 2016: 10).

Small businesses need appropriate sources of finance across all the stages of their life cycle, such as their creation, survival and growth rate (Adda, 2020: 43; Martinez et al., 2019: 2). Capital structure practices are important for small businesses because they provide for working capital, hiring of employees and re-finances existing loans (Adda, 2020: 43). Examples of financial services include credit, savings, insurance, leases, equity investments, payment services and remittances (Adda, 2020: 43). Commercial banks, non-governmental organisations (NGOs), and credit unions are some of the major providers or suppliers of finance for small businesses (Adda, 2020: 43). The next section will discuss financial reporting and analysis practices.

3.4.9 Financial Reporting and Analysis Practices

Financial statements refer to a process that a business uses to record their financial information such as the business's financial position, financial performance, and cash flows (Akhta and Liu, 2018: 381; Kofi et al., 2014: 84). Financial statements are also referred to as written financial records which provide information about assets, liabilities, equity, income and expenses, other changes in equity, and cash flows of the business (Somathilake and Ranathunga, 2021: 259; Kofi et al., 2014: 84). Evidence of proper and adequate financial record keeping practices is seen when a business keeps and records accurate financial information through the use of financial statements such as Statement of Financial Position (Balance Sheet), Income Statement (Profit and Loss Statement), Statement of Cash Flows, Statement of Changes in Owner's Equity and notes to the Financial Statements (Agbemava et al., 2016: 23; Kofi et al., 2014: 84). These various financial statements make up a financial report (Kofi et al., 2014: 84). Financial reporting practices are important to businesses because they are a critical management tool which provides a reflection of the financial performance and position of business (Gandolph, 2022: 27; Kofi et al., 2014: 83). In addition, financial reporting is important because it helps small business owners to analyse, evaluate and monitor their financial performance through the use of financial analysis (Jayawardane and Gamlath, 2020: 1; Kofi et al., 2014: 83).

Financial analysis is a process that a business uses to assess its financial position by monitoring and evaluating its financial performance in the business environment through indicators such as profitability (Somathilake and Pathirawasam, 2020: 1793; Sultan, 2014: 49). Financial analysis is important for small businesses because it enables them to recognize changes in financial trends

and assist them in measuring their overall business progress through analysis of their financial reports (Somathilake and Pathirawasam, 2020: 1793; Sultan, 2014: 49). Therefore, it is important for small businesses to adopt financial reporting analysis practices because it helps them to compare their performance with that of their competitors, and consequently, helps them to stay competitive and grow in the business sector (Jayawardane and Gamlath, 2020: 1; Sultan, 2014: 49).

As can be seen above, it is important for small businesses to adopt the different types of financial management practices, which are cash management practices, accounts receivables management practices, accounts payables management practices, inventory management practices, working capital management practices, accounting information systems practices, capital budgeting practices, capital structure practices and financial reporting and analysis practices. Therefore, the section below will look at the previous research on the financial management practices adopted by small businesses in South Africa.

3.5 PREVIOUS RESEARCH ON FINANCIAL MANAGEMENT PRACTICES IN SOUTH AFRICA

This section will discuss the previous research studies conducted in South Africa. Table 3.1 will discuss different financial management practices that small business owners adopt in South Africa.

Table 3.1: Financial management practices in South Africa

Author	Location	Methodology and findings
Allah et al., 2013.	Cape Metropolitan	The study used a quantitative research method and selected 30 small business owners and managers using a purposive sampling technique. The results highlighted that small businesses are reluctant to adapt to new technology and do not adopt accounting information systems because they prefer to do it manually.

Brijlal, Enow and Isaacs, 2014.	Cape Town	The study used a quantitative research method and a purposive sampling technique to select 59 SMME owners and managers. The findings revealed that most of the small business owners had a post Grade 12 qualification and some knowledge of financial management, but they did not have the expertise or willingness to apply and adopt financial management practices to their businesses.
Aren and Sibindi, 2014.	Pretoria	The study used a qualitative research method and purposive technique to select a sample of 31 SMME owners and managers that operate in the retail sector. The results revealed that 25 owners adopted formal cash flow management practices. The results also showed that cash flow management practices are vital to the survival of small businesses, and if not properly managed or adopted, they can lead to small business failure.
Wolmarans and Meintjes, 2015.	Western Cape	The study used a qualitative research method and non-probability sampling to select 30 SME owners. The findings showed that most SME owners or managers mostly adopted working capital management and cash flow management practices.
Enow, and Kamala, 2016.	Cape Metropolis	The study utilised a quantitative research method and an accidental sampling method to select 200 SMMEs that operate in the Fast Moving Consumer Goods (FMCG) sector. The

		results depicted that lack of personnel and time are the main factors which inhibit the adoption of accounts payables management practices of SMME owners.
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Source: Researcher's own construct

Table 3.1 shows that three of these studies used a quantitative research method and two used qualitative research methods. The discussion is continued below.

Table 3.1: Financial management practices in South Africa (Cont.)

Masocha and Dzomonda (2016)	Polokwane Municipality	A quantitative research method and a random sampling technique were used to select 50 SME owners and managers. The results showed that most small businesses lack financial management skills and neglect the adoption of working capital management practices, which contributed to the failure of their businesses.
Kanguru (2016)	Cape Metropolis	A quantitative research method and a computer-aided simple random sampling technique were employed in selecting 127 SMMEs in the FMCG sector. The findings revealed that most small businesses adopt inventory management practices but face challenges such as shortage of inventory, income spent by staff and the inability to keep up with customer demand.
Sibanda (2016)	Johannesburg	A mixed method approach made of quantitative and qualitative research methods

		was used. Sampling criteria were used to issue questionnaires electronically to 32 small and medium enterprises on the Alt X division of the Johannesburg Stock Exchange (JSE). Their results showed that small businesses adopt capital budgeting practices, mainly the internal rate of return (IRR) and the net present value (NPV).
Sibanda and Manda, 2016.	Limpopo province	The study employed a quantitative research method and random sampling technique in selecting 40 SME owners. Their results confirmed that small businesses fail. They do not adopt accounting practices such as records keeping because they assume there is no need to keep them since it could expose their financial position.
Nyathi and Benedict (2017)	Cape Town	The study employed a qualitative research method and a purposive sampling method to select 62 micro-entrepreneurs within the clothing industry. The findings showed that most micro-entrepreneurs adopt book-keeping practices. However, they do not complete the book-keeping records, contributing to their poor decision-making over their businesses.
Zunckel (2018)	Durban	A quantitative research method and a convenience sampling method were used to select a sample of 136 SMMEs in the retail and wholesale sectors. The findings revealed

		that managerial and firm-level factors influence the capital structure of SMMEs. It was also shown that SMME owners or managers adopt capital structure practices and use more internal sources of finance such as personal savings, trade credit and funds from friends and family.
Ngwanatau (2018)	Statistics South Africa	A quantitative research method was used, and the study selected a sample of 776 firms of South African MSMEs within all industrial sectors that are in accordance with the “Standard Industrial Classification of all Economic Activities” (SIC). The results highlighted that small businesses adopt financing structure practices and use short-term debt to finance their businesses.

Source: Researcher’s own construct

Table 3.1 shows that the majority of the studies in South Africa were conducted in Cape Town on the different financial management practices adopted by small businesses. It can also be noted that most small business owners are aware of financial management practices. However, they do not have the willingness, expertise, or knowledge to adopt proper financial management practices. Table 3.1 depicts that most small businesses do not adopt financial management practices such as accounting information systems and accounting practices, particularly book-keeping or record-keeping practices. From the table above, it can be seen that most small business owners adopt financial management practices such as cash management practices, accounts payables management practices, working capital management practices, inventory management practices, capital budgeting practices, capital structure practices or financing practices. The next section will provide a discussion on the barriers to the adoption of financial management practices.

3.6 BARRIERS TO ADOPTION OF FINANCIAL MANAGEMENT PRACTICES

This section will discuss barriers to the adoption of financial management practices. It will focus on the contingency theory, which will provide an insight into the internal and external factors which inhibit the adoption of financial management practices. A discussion on the internal barriers will also be provided below.

3.6.1 Contingency Theory

The contingency theory is mostly used as a theoretical framework by studies in the field of management accounting (O'Regan and Sims, 2008; Szychta, 2002; Hoque and James, 2000; Anderson and Larnen, 1999). It is also a management theory which holds that there is no managerial action or decision which is appropriate for all situations, but it is contingent on the situation or circumstances (Tijani and Samira, 2017: 47; Ranal et al., 2016: 15). Contingency theory is used to explain that design and use of management accounting systems or other business practices are not universal across businesses, they are unique depending on contingent factors influencing the business or environment (Omoluabi, 2016: 3; Dropulic, 2013: 369; Otley, 1980: 422). These contingent factors may be grouped into external factors such as market competition and market uncertainty and internal factors such as education level and size of business (Amara and Benefila, 2017: 48; Dropulic, 2013: 369). In addition, the contingency theory requires managers or small business owners to embrace different management techniques or practices, such as financial management practices under different businesses (Ranal et al., 2016: 18). According to Ranal et al. (2016: 18), the contingency theory directs managers towards the management techniques or practices which are most suitable for the specific situations in their respective businesses. For example, in this study, the contingency theory recommends the proper financial management practices which are specific to various small businesses. A discussion on external and internal factors of the contingency theory will be provided below in order to understand the adoption of financial management practices among small business owners. Section 3.6.2 will discuss the external factors.

3.6.2 External Factors

External factors refer to factors that exist and affect a business from the outside or the external business environment (Sani, Thaheer and Zain, 2018: 3; Ayandibu and Houghton, 2017: 57;

Govori, 2013: 5). These are the factors that a business has no control over (Sani et al., 2018: 3; Ayandibu and Houghton, 2017: 57; Govori, 2013: 5). The business environment is an example of an external factor, and it determines the differences in financial management practices of small businesses (Benard, 2019: 9; Sani et al., 2018: 3; Ayandibu and Houghton, 2017: 57). The business environment includes financial markets, and these determine the adoption of financial management practices such as capital structure practices (Boamah, 2022: 52; Ayodele, 2016: 12). For example, the financial market has inadequate financial services and lacks appropriate financial mechanisms (Giron, Kazemikhasragh, and Cicchiello, 2022: 1202; Ayodele, 2016: 12). This means that the suppliers of finance such as banks and financial institutions are selective when it comes to offering financial services and products to small businesses, thus most of the small businesses are left without any access to finance (Song, Yang and Tao, 2020: 2; Ayodele, 2016: 12). For example, some financial institutions are reluctant to fund or offer financial services to newly established small businesses because they lack collateral (Osano and Languitone, 2016: 2; Ayodele, 2016: 12). In addition, small businesses are perceived as high-risk borrowers because they lack proper financial records and these are some of the important requirements for collateral by banks and financial institutions (Meressa, 2022: 5; Ayodele, 2016: 12). Therefore, when banks and financial institutions lend to small businesses, they are compelled to charge them high interest rates and apply strict requirements on them (Meressa, 2022: 6; Ayodele, 2016: 12). Hence, the business environment may be seen as external factors which inhibit the adoption of financial management practices by small business owners.

Market competition refers to a business's ability to compete with other businesses in terms of products and services in the external business environment (Nair and Nian, 2017: 179; Medlin and Ellegaard, 2015: 131). Market competition is an external factor that influences how owners or managers of businesses adopt financial management practices (Cheraghalizadeh, Olya and Tumer, 2021: 2; Nair and Nian, 2017: 179). For example, the more intense the market competition, the more small business owners should also gain knowledge and experience regarding financial management practices in order to stay competitive in the business sector (Farida and Setiawan, 2022: 1; Nair and Nian, 2017: 179). However, financial management practices, such as accounting practices, are constantly changing, and small business owners find it difficult to stay up to date with them (Nair and Nian, 2017: 179). Therefore, small businesses adopt poor accounting

practices, which inhibit them from staying competitive in the small business sector and, as a result, fail to survive in the long term (Adam and Alarifi, 2021: 17; Nair and Nian, 2017: 179). Hence, market competition may be seen as an external factor that inhibits small business owners from adopting proper financial management practices (Cheraghalizadeh et al., 2021: 2; Nair and Nian, 2017: 179).

3.6.3 Internal Factors

Internal factors refer to factors that exist within and can be controlled by businesses (Sitharam and Hoque, 2016: 278). Examples of internal factors include lack of training and technological capabilities within small businesses (Sitharam and Hoque, 2016: 278). This is evident through the adoption of financial management practices such as accounting information systems practices (Harash, 2017: 21). According to Harash (2017: 21), a lot of small businesses fail due to a weak or poor design of accounting information systems (Harash, 2017: 21). Research shows that small businesses do not adopt proper accounting information system practices because they have inadequate access to regulatory and technological resources (Harash, 2017: 22). The adoption of account information system practices is inhibited by factors such as costs, technology and training, and these factors are interrelated to each other (Ibrahim et al., 2020: 54). For example, financial resources have an impact on the use of accounting information system practices, that is, financial resources are needed to purchase the accounting information system and to train employees so that they acquire knowledge on how to use the system (Ibrahim et al., 2020: 54). Subsequently, the training of the employees is dependent on the financial resources available to purchase the technology needed to use the system and the employees available to use the system (Ibrahim et al., 2020: 55). As a result, it can be seen that the adoption of the accounting information system practices is costly for small businesses because it requires time and financial resources during all the stages of the system's life cycle (Ibrahim et al., 2020: 55). Therefore, the above-mentioned factors can be seen as barriers to adoption of the accounting information system practices.

Furthermore, other examples of internal factors include a lack of managerial competencies such as skills and financial knowledge (Sitharam and Hoque, 2016: 278). The ineffective adoption of capital budgeting practices is evident where there is lack of skills and financial knowledge. For example, small business owners lack the knowledge and skills required to adopt capital budgeting

practices, thus, they end up either adopting inefficient capital budgeting practices or not adopting them at all (Gupta and Jain, 2016: 76). Due to a lack of financial resources, small businesses also cannot afford to hire experts that can adopt capital budgeting practices on their behalf (Gupta and Jain, 2016: 76). Lack of financial resources may be seen as internal factors that inhibit the adoption of the capital budgeting practices by small business owners. Moreover, small business owners lack financial knowledge concerning proper debt collection procedures, such as sending out regular financial statements and invoices to their debtors (Nyakundi et al., 2016: 287; Kosgey and Njiru, 2016: 41). As it can be seen, lack of financial knowledge and high costs to afford qualified accountants with skills and knowledge to adopt financial management practices may be seen as internal factors that inhibit the adoption of financial reporting practices (Gupta and Jain, 2016: 76).

In addition, most small business owners do not possess the skills and knowledge which are needed to keep adequate financial records and to adopt proper financial reporting practices (Kofi et al., 2014: 86). It was reported that most small business owners lack training on the importance of financial reporting practices and basic financial reporting (Kofi et al., 2014: 86). Accurate financial record keeping is the foundation for the adoption of financial reporting practices, therefore, without financial record keeping, it becomes difficult for small businesses to know their financial position and accurately report financial information (Kofi et al., 2014: 86). Consequently, without the adoption of financial reporting practices, small businesses will be unable to get external sources of finance from suppliers of finance such as creditors because they use financial records of small businesses to determine if they are viable to get access to finance (Amoako, 2013: 73). The quality of financial reporting practices of small businesses attracts potential investors to invest, financial institutions and creditors to provide access to finance for their businesses (Amoako, 2013: 73). Therefore, if small businesses are not adopting financial reporting practices, they will not be able to get access to finance and eventually will fail in the long-term (Kofi et al., 2014: 86).

Research shows that ineffective adoption of accounts payables management practices contributes to the high failure rate of small businesses (Tabot and Kamala, 2016: 79). One of the reasons that cause ineffective adoption of accounts payables management practices are the challenges that small businesses encounter with suppliers or creditors (Tabot and Kamala, 2016: 79). For example, small businesses fail to meet the credit terms and delay their credit payment which causes creditors

or suppliers to charge them late payment costs such as penalty costs (Mazzarol, 2014: 5). Also, the delay in payment results in lack of trust between the suppliers or creditors relationship with small businesses (Tabot and Kamala, 2016: 80). As a result, suppliers or creditors become reluctant to work with or negotiate credit terms with small businesses that have a bad reputation of late payments because it is an indication that small businesses struggle to prioritise the adoption of accounts payables management practices (Tabot and Kamala, 2016: 79).

According to Agyei-Mensah (2012: 574), small business owners do not prioritise adoption of accounts receivables management practices because of difficulties they encounter during their debt collection, such as a lack of expertise in debt collection. Small businesses struggle to track and keep a record of the customers with outstanding debt payments (Richard and Kamala, 2019: 56). As a result, they fail to remind customers about their debt payments (Richard and Kamala, 2019: 56). Also, this results in late debt payments or debts being written off, and consequently, small businesses incur costs through written off bad debts (Aminu and Zainudin, 2015: 12). Therefore, difficulties with debt collection may be seen as internal factors that inhibit the proper adoption of accounts receivables management practices.

Furthermore, the majority of small businesses have a negative attitude to the adoption of debt capital structure practices because debt financing is costly due to its high interest rates (Lyani Sindani et al., 2016: 33). In addition, small businesses have a negative attitude towards debt financing because they fear that they will not be able to honour the debt payment on time and thus, instead of incurring increased interest rates, they would rather avoid the use of debt capital (Omoshagba and Zubairu, 2018: 35). Hence, negative attitude and debt avoidance by small business owners act as internal factors that inhibit the proper adoption of debt capital structure practices.

Due to the size of small businesses, they encounter difficulties using accounting information systems (Chen and Hamdan, 2014: 190). They encounter difficulties such as lack of computer infrastructure with information that is appropriate to their businesses, cost of implementation of the computer systems and training of employees (Rahman, 2015: 6). As a result, these difficulties with the use of computer systems are some of the internal factors that inhibit the proper adoption

of accounting information systems. The next section will discuss the internal barriers to the adoption of financial management practices.

3.6.4 Internal Barriers

This study will use internal factors to explain the adoption of financial management practices by small business owners because they can be controlled from within the business (Sitharam and Hoque, 2016: 276). Small business owners can control these internal factors, which will enable them to overcome the internal barriers to the adoption of financial management practices (Kolstad and Wiig, 2015: 784; Fatoki and Garwe, 2010: 730). This study will use internal barriers to discuss the factors which inhibit the adoption of financial management practices among small business owners. This is because internal factors can function as internal barriers when business owners want to adopt proper financial management practices. The internal barriers to the adoption of financial management practices include the lack of financial knowledge, lack of financial management skills, lack of financial resources and fear of losing control in decision-making by small business owners, challenges with suppliers or creditors, difficulties in debt collection, negative attitude of small business owners, debt avoidance and difficulties with the use of computer systems (Ibrahim et al., 2020: 59; Nkwabi and Fallon, 2020: 27; Satoto and Nurrohim, 2020: 117; Richard and Kabala, 2019: 62; Omoshagba and Zubairu, 2018: 35; Agyei-Mensah, 2012: 574; Rahman et al., 2015: 6; Gungor and Ondes, 2013: 63; Peel et al., 2012: 18; Olawale and Garwe, 2010: 1790). These internal barriers may vary from business to business, and hence the adoption of financial management practices varies from one business to another (Benard, 2019: 9). The section below will discuss the internal barriers that will be investigated in this study.

Lack of financial knowledge is one of the internal barriers to owners of small businesses adopting financial management practices. Financial knowledge refers to the ability which enables small business owners to utilise financial information in a manner that ensures the efficient utilisation of financial resources (Asres and Teka, 2020: 5). It was proven that lack of financial knowledge inhibits the adoption of best and proper financial management practices of small businesses (Asres and Teka, 2020: 5). Small business owners do not know how to adopt the proper financial management practices (Brijlal et al. 2014: 342). Thus, a lack of financial knowledge on using and applying financial management practices may be a barrier to the adoption of financial management

by small business owners. Small businesses struggle to survive and adopt proper financial management practices because of a lack of financial knowledge, such as knowing how to keep proper records and accounts preparation (Bismark et al., 2018: 177). Evidence shows that small business owners lack knowledge and application of financial management practices (Brijlal et al. 2014: 12). For example, small business owners do not have financial knowledge of accounting practices. This means they lack financial knowledge in book-keeping practices, which is evident in the incomplete financial reports (Bismark et al., 2018: 177). Moreover, it was observed that most small business owners or managers keep incomplete accounting records because they lack the skills needed to keep proper financial records for adequate financial reporting (Bismark et al., 2018: 177).

Lack of financial management skills is a second internal barrier to owners of small businesses adopting financial management practices. It was observed that most small business owners lack managerial competencies such as experience and management skills (Bismark et al., 2018: 179). Lack of financial management skills was also seen as a major challenge inhibiting small business growth rate (Bismark et al., 2018: 179). For example, a financial management skill such as use of accounting information systems was seen as a barrier to the adoption of financial management practices in small businesses (Agyei-Mensah, 2011: 3791). The majority of small business owners do not possess the necessary skills which are needed to manage their businesses such as lack of financial skills to adopt book-keeping practices or accounting information systems (Marembo, 2013: 34). To add to that, because small businesses lack financial management skills, they are also resistant to change when it comes to learning new skills (Marembo, 2013: 34). Most small business owners are not comfortable with learning new financial management skills and thus, end up not adopting the necessary financial management practices (Marembo, 2013: 34). Moreover, lack of financial management skills compels small businesses to look for qualified accountants to help them with financial reporting practices (Marembo, 2013: 34). However, most of the qualified accountants are highly demanded and more attracted to larger businesses because they have better offers as compared to small businesses (Marembo, 2013: 34). Therefore, it becomes challenging for small businesses to attract qualified accountants because they have inadequate financial resources to hire and retain them (Marembo, 2013: 34).

One of the contributions to adoption of poor and improper financial management practices is the lack of financial management skills of the small business owners (Asres and Teka, 2020: 4). Evidence of lack of financial management skills is seen where there is a failure in the selection of employees who have appropriate management skills, the insufficient commitment of small business owners, lack of access to financial information and failure in processing the financial information (Asres and Teka, 2020: 4). Furthermore, the lack of financial management skills among small business owners inhibits small businesses from adopting proper financial management practices because they lack the awareness of adopting the best and proper financial management practices which are appropriate to their businesses (Asres and Teka, 2020: 4). In addition, the majority of small business owners do not possess the financial management skills which enable them to understand financial management practices and thus, end up adopting poor financial management practices which will eventually result in the failure of their businesses (Asres and Teka, 2020: 4). Moreover, small businesses lack financial resources to equip them with financial management skills training (Gupta and Jain, 2016: 76).

Lack of financial resources, such as access to finance, contributes to the failure of small businesses (Adda, 2020: 43; Bismark et al., 2018: 177; Brijlal et al., 2014: 11). A lot of problems that small businesses face stem from lack of access to financial resources (Bismark et al., 2018: 177). For example, small businesses lack collateral, credit information and costs associated with access to financial resources (Bismark et al., 2018: 179). It was observed that because small businesses lack collateral, it inhibits them from accessing financial resources from banks and financial institutions (Bismark et al., 2018: 179). Furthermore, potential investors and providers of financial resources view small businesses as high-risk borrowers (Adda, 2020: 44). This is because small businesses lack financial resources to invest in fixed assets and thus, they become vulnerable to market fluctuations and consequently, contributes to failure of small businesses (Adda, 2020: 44). In addition, due to lack of financial resources, small businesses cannot afford to hire experts that can adopt capital budgeting practices on their behalf (Gupta and Jain, 2016: 76). For example, expertise on capital budgeting practices enables businesses to determine the value of potential investments and collateral needed to secure the investments (Adda, 2020: 44). However, the majority of small businesses lack collateral, have inadequate business track records and poor or unreliable financial statements and these are the requirements that banks use to assess their creditworthiness (Adda,

2020: 44). Therefore, it becomes expensive for small businesses to access financial resources (Adda, 2020: 44). Hence, lack of financial resources may be seen as an internal barrier to the adoption of financial management practices.

Furthermore, lack of financial resources is one of the contributions that inhibit small businesses from adopting proper financial management practices (Marembo, 2013: 31). For example, small businesses have inadequate financial resources to hire qualified accountants that can help them to adopt proper financial management practices (Marembo, 2013: 31). Small businesses also cannot afford financial management training which normally assists them in gaining knowledge about financial management practices and transfer of that knowledge to their employees (Marembo, 2013: 31). Subsequently, small businesses have inadequate financial resources to equip their employees with financial management skills and training (Marembo, 2013: 31). As a result, small businesses end up neglecting the adoption of financial management practices because they fear that they will lose control in the overall decision-making process of the business (Agyei-Mensah, 2011: 3790).

Fear of losing control in decision making may be seen as a barrier to owners of small businesses adopting financial management practices. Small business owners do not want to rely on or hire qualified accountants to interpret and analyse their financial information because they fear that they will lose control and will not be flexible in the overall decision making of the business (Agyei-Mensah, 2011: 3790). Small business owners find it challenging to understand accounting records (Agyei-Mensah, 2011: 3790) and may have to rely on external assistance in the form of qualified accountants. Small business owners are unwilling to hire external expertise and expose them to their internal business information (Agyei-Mensah, 2011: 3790). Hence, small business owners might fear losing control of the business by giving external parties too much access to their financial information.

Moreover, fear of losing control in the decision-making process of a business causes small business owners to resist the adoption of financial management practices (Yap et al., 2014: 32). For example, most managers or owners of businesses like to feel valued by their employees (Yap et al., 2014: 32). However, the fear of losing control in decision making makes them resist the

adoption of financial management practices such as accounting practices (Yap et al., 2014: 32). This is because most small business owners fear that their expertise in the adoption of new accounting practices may lose value and as a result, will be unable to contribute in the decision making process of the business (Yap et al., 2014: 32). Hence, the fear of losing control in the decision making will cause small business owners to resist the adoption of financial management practices and, eventually neglect and not adopt them at all in the long-term (Yap et al., 2014: 32; Agyei-Mensah, 2011: 3790).

Difficulty in maintaining good relationships with their suppliers or creditors may be seen as an internal barrier (Nkwabi and Fallon, 2020: 27). This is because small businesses face *challenges with their suppliers or creditors* such as lack of coordination, trust and misinformation (Nkwabi and Fallon, 2020: 30). There is lack of coordination between small businesses and suppliers or creditors because small businesses untimely share information to their suppliers or creditors about the inability to pay off credit on time (Nkwabi and Fallon, 2020: 30). As a result, small businesses either do not pay on time or have late payments to suppliers which constrains the relationship between the small business owners or managers and suppliers and results in a lack of trust between small businesses and their suppliers or creditors (Nkwabi and Fallon, 2020: 30). As a result, small businesses delay their payments to creditors which constrains the relationship with their suppliers or creditors (Nkwabi and Fallon, 2020: 30; Tabot and Kamala, 2016: 77; Mazzarol, 2014: 5). In addition, when small businesses delay payments to creditors or suppliers, they incur penalty costs on the late payment which causes some creditors or suppliers to cancel or block accounts with the small businesses. Consequently, some suppliers or creditors end up not granting credit because of the reputation of small businesses not having the ability to meet the credit payments on time (Tabot and Kamala, 2016: 77). Furthermore, studies have argued that the majority of small businesses have difficulties or challenges in maintaining their relationship with their suppliers which results in losses such as a bad reputation with the suppliers and late payment costs to the suppliers (Nkwabi and Fallon, 2020; Annamalah and Pertheban, 2016; Fatoki, 2014). Therefore, it seems that challenges with suppliers or creditors inhibit the effective adoption and may be seen as a barrier to the adoption of accounts payables management practices.

The *difficulties they encounter during debt collections* may also be an internal barrier for small business owners (Richard and Kabala, 2019:62; Agyei-Mensha, 2012: 574; Peel et al., 2012: 18). It was suggested that small business owners or managers neglect the adoption of accounts receivables management practices because they find it challenging and difficult to manage (Agyei-Mensah, 2012: 574). As a result, most small businesses have inadequate debt collection procedures, such as a lack of reminders about debt payments to their customers (Orobia et al., 2013: 129; Agyei-Mensah, 2012: 574). Consequently, this increases the risk of customers either not paying off the outstanding debt on time or not paying at all (Agyei-Mensah, 2012: 574; Peel et al., 2012: 18). Furthermore, small businesses lack the expertise and resources to manage accounts receivables such as the lack of proper debt collection procedures, and as a result, this increases the late payments of debtors and small businesses suffer losses and incur costs from customers or debtors who fail to pay their outstanding debt amounts (Lyani Sindani et al., 2016: 35; Aminu and Zainudin, 2015: 12; Agyei-Mensah, 2012: 575). Therefore, difficulties in debt collections may be seen as a barrier that inhibits small businesses from adopting accounts receivables management practices.

Researchers have shown that small businesses do not adopt debt capital structures because they choose to avoid the use of debt and prefer to use equity capital (Omoshagba and Zubairu, 2018: 35; Lyani Sindani et al., 2016: 33). *Negative attitude* and *debt avoidance* by small business owners may be seen to be barriers to the adoption of debt capital. It was observed that one of the challenges that cause small businesses to avoid the use of debt capital is the inability or failure to meet the debt obligation payments on time and the high interest rates to the banks and financial institutions (Omoshagba and Zubairu, 2018:35; Lyani Sindani et al., 2016: 33). As a result, small businesses would rather avoid the use of debt capital in order to reduce the chances of the inability to meet debt obligations due to high interest rates. This failure to meet debt obligations leads to a negative attitude toward debt capital (Satoto and Nurrohim, 2020; 117; Dowling et al., 2019: 2; Rasheed and Siddiqui, 2018: 160). For example, small business owners avoid using debt capital because of previous bad experiences to adoption of debt capital (Dowling et al., 2019: 2; Rasheed and Siddiqui, 2018: 160). Therefore, it may be suggested that the previous bad experiences with using debt capital instigate a negative attitude among small business owners, namely debt avoidance towards the adoption of debt capital in small businesses.

The *difficulties with the use of computer systems* by small business owners may be another internal barrier (Ibrahim et al., 2020; Rahman et al., 2015; Chen and Hamdan, 2014). Small business owners encounter difficulties such as accessing and retrieving financial information from computer systems (Ibrahim et al., 2020: 59; Rahman et al., 2015: 6). Other difficulties that small business owners may encounter with computer systems is financial information may be lost due to viruses and power outages (Assante et al., 2016: 1209). Small businesses do not adopt computer systems because they cannot afford to implement them within their businesses because of the expensive training and setting up costs (Serhan, 2020: 94; Arcega et al., 2015: 53). Most small businesses seem to have a negative attitude towards the use of accounting information systems and thus, may be seen as a barrier to the adoption of accounting information systems. Hence Small business owners do not realise the benefits or see the need to use accounting information systems (Chen and Hamdan, 2014: 194).

It can be seen from above that the internal barriers to adoption of financial management practices include the lack of financial knowledge, lack of financial management skills, lack of financial resources and fear of losing control in decision making by small business owners. Therefore, the section below will discuss previous studies conducted in the Eastern Cape on the adoption of financial management practices by small business owners.

3.7 FINANCIAL MANAGEMENT PRACTICES IN EASTERN CAPE

This section will discuss previous research on financial management practices in the Eastern Cape. Table 3.2 will discuss the adoption of financial management practices by small businesses in the Eastern Cape.

Table 3.2: Financial management practices in Eastern Cape

Author	Location	Methodology and findings
Fatoki, 2012.	Alice, Fort Beaufort and King Williams' Town	The study made use of a qualitative research method and convenience and snowball sampling techniques to select 57 micro-enterprises. The results depicted that SMMEs

		do not adopt financial reporting and analysis practices and keep incomplete accounting records. The findings also revealed that SMMEs lack accounting knowledge and find it challenging to adopt financial analysis and investment practices.
Marengo, 2013.	East London and King Williams Town	A simple random sampling method was used to select 145 SMEs, and the study used a quantitative research method. The findings showed that SMEs are aware of financial management practices but do not have adequate resources and personnel such as qualified accountants to adopt the financial management practices. The results also showed that SMEs do not adopt sound financial management practices and, in specific, proper financial reporting and analysis practices.
Fosu, 2020.	Transkei Homelands	The study used a quantitative research method and a purposive sampling technique to select 68 SMME owners or managers. The study showed that most SMMEs are owned and managed by a single person, and 95.59% have no financial management or accounting skills. The findings also showed that more than half of the SMMEs do not adopt financial reporting and analysis practices and do not keep any financial records. It was also proven that about 58.52% of the SMMEs' financial

		records are not audited because most SMME owners or managers either lack financial management practices or financial management competence.
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Source: Researcher’s own construct.

Table 3.2 shows that most small businesses in the Eastern Cape do not adopt financial management practices and, specifically, financial reporting and analysis practices. Most small business owners either lack accounting knowledge or skills and find it difficult to keep accounting or financial records. The table also depicts that the majority of small businesses do not adopt proper financial management practices. Moreover, it can be seen from the table above that previous studies have only focused on the extent to which financial management practices are used and the level of use of financial management practices in small businesses. However, no study has investigated the internal barriers to the adoption of financial management practices by small business owners in the Eastern Cape. Hence, my study seeks to fill that gap in the literature by focusing on the internal barriers facing small business owners adopting financial management practices in Makana Municipality, Eastern Cape.

3.8 SUMMARY

The secondary objective of the study was to determine the financial management practices adopted by small business owners. It started by discussing the description of financial management practices. Then the chapter discussed the importance of financial management and financial management practices. Financial management practices that are adopted by small businesses were outlined: cash management practices, accounts receivables management practices, accounts payables management practices, inventory management practice, working capital management practices, investment management or capital budgeting practices, financing or capital structure practices, accounting information systems and financial reporting and analysis practices. A discussion on the previous studies on the financial management practices in South Africa was provided. The chapter also focused on the contingency theory by looking at external and internal factors and how the theory can be used to explain the internal barriers to the adoption of financial

management practices. These internal barriers included lack of financial knowledge, lack of financial management skills, lack of financial resources and fear of losing control in decision making by small business owners, challenges with suppliers or creditors, difficulties in debt collection, negative attitude of small business owners, debt avoidance and difficulties with the use of computer systems. Lastly, it discussed the previous studies on the financial management practices in the Eastern Cape. It was found that previous studies have only focused on the extent to which financial management practices are used and the level of use of financial management practices in small businesses, and no study has investigated the internal barriers to the adoption of financial management practices by small business owners in Eastern Cape. The next chapter will discuss the research design and methodology.

CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

The previous chapter provided the definition, importance, and description of financial management practices. The previous chapter also examined the contingency theory and how the theory was used to explain the internal barriers to the adoption of financial management practices. To achieve the main objective of the study, this study will use an interview guide to help collect primary data from small business owners in Makana Municipality by using semi-structured interviews. Therefore, this chapter will discuss the design and methodology that will be adopted in this study.

This chapter will start by discussing the research paradigm and the research design that will be used in the study. After that, the chapter will discuss the research methodology that will be adopted. The research methodology section of the chapter will describe the sample and sampling method. Afterwards, the data collection methods, which are the research instruments, pilot study or pre-interviews and interview guide, will be used. Subsequently, the chapter will provide a discussion on the data analysis, including trustworthiness, content analysis and ethical considerations. Lastly, the chapter will provide information on the summary of the whole chapter.

4.2 RESEARCH PARADIGM

A research paradigm can also be referred to as the philosophical framework, which guides how scientific research should be carried out (Bonache and Festing, 2020: 103; Collins and Hussey, 2009: 59). It is also concerned with the philosophies and assumptions that researchers make about the world and the nature of knowledge (Brown and Duenas, 2020: 555; Holden and Lynch, 2004: 10). Therefore, a research paradigm is important because it provides the fundamental beliefs about the world and how it can be reflected in the methods implemented during the research design, collection of data, analysis of data and the way a thesis will be written (Kivunja and Kuyini, 2017: 27; Holden and Lynch, 2004: 10). Thus, it is important to understand the research paradigm which will be used in this research because it is going to determine the direction of how this study will be conducted.

There are two main research paradigms used in business research and these are positivism and interpretivism (Bonache and Festing, 2020: 104; Collins and Hussey, 2009: 59). A positivism paradigm refers to a research philosophy which is based on natural sciences with three basic principles: (1) the social world is external and can be viewed objectively; (2) research is free of any values; (3) the research can be independent or objective (Park, Konge and Artino, 2020: 691; Collins and Hussey, 2009: 59; Blumberg, Cooper, and Schindler, 2008: 19). According to positivism, it holds the assumption that it is singular and cannot be affected by investigations, which means that theory is universal, and generalisations are applicable across contexts under investigation (Kivunja, and Kuyini, 2017: 31; Collins and Hussey, 2009: 59). A positivism paradigm is concerned with the deductive process which provides an explanatory theory with a view that understands the social phenomena and should be carried out in a scientific manner (Park et al., 2020: 690; Collins and Hussey, 2009: 59). Moreover, a positivism paradigm is quantitative, objective, scientific and traditional whereas, an interpretivism paradigm is qualitative, subjective, humanist and phenomenological (Kamal, 2019: 1390; Collins and Hussey, 2009: 59).

In contrast, an interpretivism paradigm holds the assumption that social reality is subjective and multiples and can be affected by investigations (Dean, 2018: 3; Collins and Hussey, 2009: 59). An interpretivism paradigm is concerned with the inductive process which provides an interpretive understanding of the social phenomena within a specific context (Tomaszewski et al., 2020: 1; Collins and Hussey, 2009: 59). An interpretivist paradigm is also concerned with understanding the world from the experiences of individuals to put the research information and analysis into a particular context (Collins and Hussey, 2009: 59). An interpretivist paradigm aims to give explanations towards the subjective reasons and meanings that lie behind the social actions of the subjects being analysed (Collins and Hussey, 2009: 59). Therefore, this study will make use of the interpretivism paradigm as this study will accept that the phenomenon being investigated, namely financial management practices, is understood from the perspectives of small business owners. Thus, the experiences of small business owners will be used to fully understand the phenomenon of the study. Therefore, this study will value small business owners' subjective experiences and understanding of the internal barriers to the adoption of financial management practices in Makana Municipality. Once the research paradigm has been adopted, it is necessary to consider the research design.

4.3 RESEARCH DESIGN

Research design refers to the logic or a plan of research which shows how the research study will be conducted (Almalki, 2016: 290; Creswell, 2014: 12). Research design refers to a plan or structure that a researcher uses to obtain answers concerning research questions (Creswell, 2014: 12; Kumar, 2008: 94; Babbie and Mouton, 2001: 33). A research design is also referred to as a framework which is made of the measures, collections and analysis of data that a researcher can employ to conduct research (Hofstee, 2013: 3; Babbie and Mouton, 2001: 34). For example, a research design shows major parts of the research study such as research samples, measures and techniques that the researcher can use to address the research questions (Almalki, 2016: 290; Creswell, 2014: 12). There are two main types of research design: quantitative and qualitative research designs.

Quantitative research design refers to a study which focuses on obtaining numerical data that can be analysed through statistical techniques (Almalki, 2016: 290; Bryman and Bell, 2007: 22). It can also be referred to as a method which requires quantifiable data such as numerical and statistical explanations (Almalki, 2016: 290; Bryman and Bell, 2007: 22). Quantitative research design is concerned with the deductive process which enables the researcher to have a clear idea about the research topic and uses quantitative data at hand to make data collection more focused to the research study (Almalki, 2016: 290; Rovai, Baker and Ponton, 2014: 4; Westerman, 2006: 265). Quantitative research design relies on surveys and experiments because they efficiently collect data and test different hypotheses (Almalki, 2016: 290; Bryman and Bell, 2007: 23).

In contrast, qualitative research design refers to a study which is focused on collecting detailed information, such as non-numerical data, in order to understand the social phenomena and the underlying reasons for behaviours in context (Almalki, 2016: 291; Collins and Hussey, 2009: 32; Bryman and Bell, 2007: 24). Qualitative research design is aimed at drawing detailed opinions from the participants to give the researcher a deeper view of behaviours in a natural setting (Almalki, 2016: 291; Leedy and Ormrod 2010: 136; Bryman and Bell, 2007: 24). Qualitative research design is important because it enables the interaction between the researcher and the subjects, and consequently, allows a better understanding of the context (Almalki, 2016: 291; Goffin, Lemke and Szwejcowski, 2006: 190). Qualitative research design relies on holistic and

rich data, which enables the researcher to capture and analyse themes that emerge from the research results (Barrett and Twycross, 2018: 63; Sutton and Austin, 2015: 436). In addition, qualitative research design is important because it allows the researcher to acquire rich descriptions of data, which eventually leads to how the behaviour or experiences of people can be explained within a particular context (Maher et al., 2018: 3; Barrett and Twycross, 2018: 63; Sutton and Austin, 2015: 436). For example, in this study, the researcher will be able to analyse the data derived from the experiences of small business owners to the adoption of financial management practices. Moreover, a qualitative research design is important for this study because it uses a small sample size in order to acquire rich textured data that is significant and relevant to the case being studied (Moser and Korstjens, 2018: 11; Vasileiou et al., 2018: 2; Hammarberg, Kirkman and De Lacey, 2016: 500). Specifically, this study will make use of a small sample size of about ten to fifteen research participants to allow the researcher to obtain rich data on the case of small business owners in Makana Municipality. Hence, this study will use the qualitative research design because the study will collect non-numerical data, which will be used to understand and analyse the internal barriers to small business owners adopting financial management practices in Makana Municipality.

A quantitative research design is not suitable for this study because it uses numerical data to analyse the context of the study and does not leave room for research participants to contribute or voice their opinions or experiences of the study (Ahmad et al., 2019: 2829; Eyisi, 2016: 94). However, a qualitative research design makes use of interviews, observations and focus groups which enables research participants to contribute to the study through the detailed descriptions of their own opinion and experiences (Ahmad et al., 2019: 2829; Hammarberg et al., 2016: 499; Eyisi, 2016: 92). In addition, a qualitative research design employs non-numerical data such as experiences and opinions of research participants which adds value to the study by providing factual and detailed descriptions of data (Ahmad et al., 2019: 2829; Hammarberg et al., 2019: 499; Eyisi, 2016: 92). Therefore, a qualitative research design is suitable for this study because it will allow the researcher to obtain data, through semi-structured interviews, about the experiences and opinions of small business owners adopting financial management practices. Research designs are associated with methodologies. As a result, the following section will discuss the qualitative research methodologies used in this study.

4.4 RESEARCH METHODOLOGY

Research methodology is concerned with the research procedures that a researcher uses to describe, explain and predict how the research should be conducted (Patel and Patel, 2019: 48; Rajasekar, Philominaathan and Chinnathambi, 2013: 5). There are many research methodologies in qualitative research, and these include ethnographic research, grounded theory, phenomenological research and case studies (Mohajan, 2018: 7). ***Ethnographic research*** refers to a methodology which studies a group of people through observations (Tomaszewski et al., 2020: 3; Mohajan, 2018: 13; Grossoehme, 2014: 3). In ethnographic research, the researcher intensively observes a group of people with common values, behaviours or interactions in order to understand the pattern and way of life of the people being studied (Mohajan, 2018: 13; Grossoehme, 2014: 3). Another example of a qualitative research methodology is ***grounded theory*** which refers to theory that is rooted in the data being studied (Mohajan, 2018: 9; Grossoehme, 2014: 5). This means that grounded theory enables the researcher to collect and analyse data, and subsequently develop a theory from that data (Mohajan, 2018: 9; Grossoehme, 2014: 5). Grounded theory derives or generates a theory based on the views of research participants under investigation (Mohajan, 2018: 9; Grossoehme, 2014: 5). ***Phenomenological research*** is an example of a qualitative research methodology that is used to explore the life experiences of people (Mohajan, 2018: 8; Grossoehme, 2014: 7). Phenomenological research is used by a researcher to investigate areas of research where there is little knowledge (Mohajan, 2018: 8; Grossoehme, 2014: 7). Thus, a researcher uses phenomenological research methodology to explore the life experiences of people through the descriptions given by the research participants to gain more knowledge about a study (Mohajan, 2018: 8; Grossoehme, 2014: 7).

A ***case study*** is a qualitative research methodology which aims to understand human beings in a social or particular context through interpretations of their actions as a single group, community or single event (Schoch, 2020: 245; Rashid et al., 2019: 1). A case study refers to an investigation that is carried out by a researcher in order to answer the research questions or topics at hand through seeking different evidence from the case settings (Schoch, 2021: 245; Rashid et al., 2019: 1; Ebneyamini and Sadeghi Moghadam, 2018: 1). A case study is concerned with the investigation of a contemporary phenomenon within the real-life context (Schoch, 2021: 245; Rashid et al., 2019: 1). A case study gives the qualitative researcher the ability to examine a case over a specified

time frame in more detail through the use of different sources of data which are available in the setting being studied (Rashid et al., 2019: 1; Hyett, Kenny, and Dickson-Swift, 2014: 2). A case study methodology is important because it enables the researcher to observe, analyse and describe critical contexts being studied (Schoch, 2021: 245; Takahashi and Araujo, 2020; 102; Rashid et al., 2019: 1). More specifically, a case study will be used in this research to analyse and understand the internal barriers facing small business owners adopting financial management practices in Makana Municipality. The case study will be based on small business owners in Makhanda.

This study will make use of case study methodology because it will allow the researcher to collect data through the conduction of semi-structured interviews in order to acquire responses that are aligned with the research questions (Schoch, 2021: 245; Rashid et al., 2019: 5; Malmqvist et al., 2019: 1). Hence, a case study methodology is important to this study as it will provide an in-depth understanding of internal barriers that inhibit the adoption of financial management practices. The following section will discuss the sampling process and the sample design used in this research.

4.5 SAMPLE DESIGN

Sampling is a process that involves the selection of individuals, objects, subjects, cases or events with common characteristics to be used in a study (Turner, 2020: 8; Singh and Masuku, 2014: 2). The sampling process of the study will start by looking for suitable small businesses that are within the context of the research and are also available for the study. A sample refers to a part of the population from which research data is collected (Moore et al., 2012: 18). In this study, the population is registered small business owners in Makhanda, Makana Municipality. Before a sample can be drawn, a decision needs to be made about sampling techniques and methods.

There are two types of sampling techniques: probability and non-probability sampling (Efil and Negida, 2017: 1; Sekaran and Bougie, 2013: 245). Probability sampling refers to a method whereby members of the research population have a chance of being selected to be part of the sample (Efil and Negida, 2017: 1; Sekaran and Bougie, 2013: 245). Probability sampling methods include systematic sampling, stratified sampling, cluster sampling and multistage sampling (Etikan and Bala, 2017: 216). Non-probability sampling refers to a method whereby members of the research population have an unknown chance of being selected as part of the sample (Efil and

Negida, 2017: 1; Sekaran and Bougie, 2013: 245). Non-probability sampling methods include quota sampling, accidental sampling, judgemental sampling or purposive sampling and snowball sampling (Etikan and Bala, 2017: 215).

This study will use non-probability sampling because it will allow the researcher to intentionally select a sample based on personal judgment and also suitable for the context of the study (Sharma, 2017: 750). Therefore, the non-probability sampling method that will be employed in this study is purposive sampling. The researcher will use a purposive sampling method because it will enable the researcher to select a sample from the relevant target population that meets the criterion (Moser and Korstjens, 2018: 10; Sharma, 2017: 751). According to Vasileiou et al. (2018: 2), a purposive sampling method is relevant and suitable in a qualitative research design. Therefore, this study will use a purposive sampling method. A purposive sampling method refers to a selection method whereby the researcher intentionally selects settings, people or events to acquire in-depth information about the research questions (Moser and Korstjens, 2018: 10; Etikan and Bala, 2017: 215). Specifically, the researcher will select registered small business owners in Makana Municipality that meet the following criteria: (1) a maximum of fifty (50) employees; (2) with an annual turnover of less than R2 million and up to R25 million. However, because the financial information of small businesses is not publicly available, the researcher will use the following criteria to identify small businesses: (1) number of employees; (2) small businesses that are registered in the Municipal database and have operated in Makanda for at least three years; (3) small businesses in which owners have direct managerial involvement; (4) small businesses in various industries. This approach was also used by Saah (2019: 135), Al-Matani (2018: 98), and Negonga (2017: 32), who relied on the number of employees, small businesses that are either owners or managers and are in various industries to identify small businesses. A sample of registered small business owners in Makhanda will be used. Makhanda is an interest of this study because it is one of the major towns in the Makana Municipality (Alebiosu, 2005: 9). Makana Municipality has a high unemployment rate (Vallabh and Kutsi, 2018:3). This study will focus on small businesses in Makhanda to encourage small businesses' survival and growth, while also reducing the unemployment rate (Davidsson et al., 2007: 105; Dobbs and Hamilton, 2007: 298).

Sample size refers to the number of research participants within the research data that a researcher requires to collect data from for the study (Singh and Masuku, 2014: 2). The sample size will be ten to fifteen small business owners. The data collection method will be provided in the following section.

4.6 DATA COLLECTION METHODS

Data collection is a process that is used to collect information from the facts, values, observations and descriptions of the phenomena being studied (Sutton and Austin, 2015: 227; Osang, 2012: 59). Data is classified into primary and secondary (Sadan, 2017: 58). Secondary data is a source of data which refers to readily available or existing data which was originally collected in the past by other people (Sadan, 2017: 58; Osang, 2012: 59). Examples include academic books, research papers, journal articles and public reports (Osang, 2012: 59). This study will collect secondary and primary data. This study used secondary data to construct and provide information in the literature review on small businesses, internal barriers and financial management practices. Secondary data was collected from academic books, research papers, journal articles and public reports on the internet. Secondary data sources were used because it is cost-effective and easy to obtain (Osang, 2012: 59).

Once secondary data is collected, primary data will be collected. Primary data is a source of data which refers to data that is obtained through observations, experiences, recordings or primary source of a case or event (Sadan, 2017: 58; Osang, 2012: 59). Examples of primary sources of data include interviews, questionnaires, surveys and focus groups (Busetto, Wick and Gumbinger, 2020: 2; Osang, 2012: 59). A case study methodology makes use of primary data collection methods such as interviews, document reviews, archival records, direct observations and participant observations (Schoch, 2021: 246; Sadan, 2017: 58). This study will use interviews to collect primary data. The different types of interviews will be discussed in the next section.

4.6.1 Types of Interviews

Interviews refer to data collection methods which gather firsthand information through the use of pre-planned questions (DeJonckheere and Vaughn, 2019: 1; Adhabi and Anozie, 2017: 87). Interviews are important because they allow the researcher or interviewer to pursue specific issues

of concern that are within the research questions (DeJonckheere and Vaughn, 2019: 2; Adhabi and Anozie, 2017: 87). Some of the advantages of interviews include direct contact with the research participants in order to obtain detailed information, and a few participants can be used to gather detailed data with the research questions (DeJonckheere and Vaughn, 2019: 2; Adhabi and Anozie, 2017: 91). Interviews may use open and closed-ended questions. A closed question is a question whereby the possible answers can be suggested in order to assist the respondents in answering the questions (Connor Desai and Reimers, 2019: 1426; Popping, 2015: 24). Whereas an open-ended question is a question whereby the respondent answers the questions in their own way or words and in which possible answers cannot be suggested (Popping, 2015: 24; Stuckey, 2013: 56).

Interviews may be unstructured, structured, and semi-structured with individuals, or with focus-group interviews (Adhabi and Anozie, 2017: 88; Edwards, and Holland, 2013: 2). ***Unstructured interviews*** refer to a data collection method which enables the researcher or interviewer to pose open-ended questions so as to allow the interviewees or research participants to freely express their own opinions and personal experiences (Bihu, 2020: 713; Adhabi and Anozie, 2017: 90). An advantage of unstructured interviews is that it allows the interviewer and the interviewee to be at ease because the questions are open-ended, thus the interview becomes more of a discussion or a brainstorm over the research questions (Adhabi and Anozie, 2017: 90). Unstructured interviews are important because they allow the interviewer to pose questions to the interviewee on contextual issues as they arise (Adhabi and Anozie, 2017: 90; Jamshed, 2014: 87). Thus, unstructured interviews generate more detailed data, information and ideas that can be used to suit the particular contexts within the research questions (Adhabi and Anozie, 2017: 90).

In contrast, structured interviews refer to a data collection method whereby the interviewer or researcher makes use of closed-ended questions to acquire short precise answers (Adhabi and Anozie, 2017: 92; Stuckey, 2016: 57). An advantage of structured interviews is that the interviews are easy to conduct because they are standardised and are the same to all research participants (Adhabi and Anozie, 2017: 92; Stuckey, 2016: 57). Structured interviews are inflexible because the interviewer is in full control of the interview and is obliged to strictly abide by the research guidelines (Adhabi and Anozie, 2017: 92; Stuckey, 2016: 57). However, semi-structured interviews are more flexible because it enables the interview to follow up and further discuss the

responses of the research participants (Adhabi and Anozie, 2017: 93; Alshenqeeti, 2014: 40; De Vos et al., 2011: 34).

Semi-structured interviews refer to a data collection method that makes use of both structured and unstructured interviews (Adhabi and Anozie, 2017: 93). Semi-structured interviews allow the researcher to use both closed and open-ended questions (Adhabi and Anozie, 2017: 93; Jamshed, 2014: 87). This study will employ both closed and open-ended questions to allow the research participants to express themselves and provide adequate information within the context of the research and subsequently, allowing the researcher to make use of follow up questions from the interview guide (Tulshi et al., 2020: 3; Stuckey, 2016: 57). Closed questions will be used to collect demographic information while open questions will be used to collect and analyse information on the internal barriers towards the adoption of financial management practices among small business owners. An advantage of semi-structured interviews is that it is flexible, that is, it allows the researcher to prepare questions in a way that is dictated by each specific or particular context (Al-Matani, 2018: 91; Adhabi and Anozie, 2017: 93). Semi-structured interviews also allow the researcher to engage and follow up with the research participants to gain more information concerning the research questions (Adhabi and Anozie, 2017: 93; De Vos et al., 2011: 34). Therefore, this study will make use of semi-structured interviews in order to enable the researcher to discuss with the small business owners with the use of an interview guide to ensure that the responses are consistent with the research objectives (Tulshi et al., 2020: 3; Jamshed, 2014: 87). The next section will discuss the research instruments, pilot study and ethics of the study.

4.7 RESEARCH INSTRUMENT, PILOT STUDY AND ETHICS

This section will discuss the research instruments which are semi-structured interviews and the interview guide. The pilot study and the ethical considerations will also be discussed. Semi-structured interviews will be used in this study, along with an interview guide for gathering primary data.

4.7.1 Semi-Structured Interviews

Semi-structured interviews will be used in this study to gather primary data. To conduct semi-structured interviews, the researcher must develop an interview guide.

4.7.2 Interview Guide

An interview guide comprises a list of questions guided by research questions that a researcher intends to cover when conducting an interview (Tulshi et al., 2020: 5; McGrath, Palmgren and Liljedah, 2019: 1003). An interview guide is important because it allows the researcher to acquire research data about the same subject from each research participant in the sample size (Tulshi et al., 2020: 5; Jamshed, 2014: 87). An interview guide also enables the researcher to compare responses from all the research participants (Tulshi et al., 2020: 5; Young et al., 2018: 12). Therefore, this study will use semi-structured interviews, a recording device and an interview guide to conduct qualitative research in this study.

There are three sections which are Section A (demographic information), Section B (business characteristics) and Section C (financial management practices). Section A comprises closed-ended questions, and the responses will be used to collect information such as gender, age, ethnicity, education or qualification level, ownership structure and the type of industry the small businesses operate in. An interview between the interviewer (researcher) and the research participants will be carried out in sections B, and C. Section B is made up of open-ended questions that deal with the business characteristics of the small business, such as the number of employees. Here is one example of a question from section B: *“For how many years has the business been in operation in Makana Municipality?”*. Section C comprises both closed (see below on financial management practices using closed-ended questions) and open-ended questions that deal with the adoption of financial management practices by small business owners. In this section, questions were included in determining the internal barriers that small business owners face when adopting financial management practices. For example: *“What are some of the internal challenges that your business encounters when dealing with inventory management?”* The internal challenges, which are knowledge, skill and resources, will be used to discuss the internal barriers, which include lack of financial knowledge, lack of financial skills, lack of financial resources and fear of losing control in decision making, challenges with suppliers or creditors, difficulties in debt collection, negative attitude of small business owners, debt avoidance and difficulties with the use of computer systems. A preview of the interview guide is shown below, and the full one is attached in Appendix C and D.

Extract of the Interview Guide

Instructions: There are three sections which are section A (demographic information), section B (business characteristics) and section C (financial management practices). The research participants will be required to complete section A. A discussion between the interviewer (researcher) and the research participants will be carried out in sections B and C.

SECTION A: DEMOGRAPHIC INFORMATION

Please complete the following:

Gender	
Age (approximately)	
Ethnicity	
Education or qualification level	
Owner or Manager	
Ownership Structure (e.g. partnership, sole trader)	
Industry of the business	

SECTION B: BUSINESS CHARACTERISTICS

1.1 For how many years has the business been in operation in Makana Municipality?

1.2 How many employees does the business have approximately?

SECTION C: FINANCIAL MANAGEMENT PRACTICES

2.1 From the financial practices that I will read to you, which ones do you use in your business?

Financial management practices	Yes	No
Cash management practices		

Accounts receivables management practices		
Accounts payables management practices		
Inventory management practices		
Working capital management practices		
Capital budgeting (investment management) practices		
Capital structure (financing) practices		
Accounting information systems		
Financial reporting and analysis practices		

Source: Interview guide

To understand the phenomenon under investigation better and to be able to analyse it, follow-up questions will be used. Follow-up questions refer to specific questions that allow the researcher to ask for more details about the aspects in question to the literature (DeJonckheere and Vaughn, 2019: 5). According to DeJonckheere and Vaughn (2019: 5), follow-up questions are used to acquire more detailed responses from the research participants. See below for examples of follow-up questions used in this study.

THE FOLLOWING QUESTIONS ARE BASED ON QUESTION 2.1.

Cash management practices

1. Do you have a way of recording your cash receipts from customers?
2. How do you manage excess cash, cash deficits or idle cash from the daily operations of your business?
3. How do you use any excess cash in your business?
4. What key internal challenges do you encounter in cash management?
 - Knowledge
 - Skills

- Resources

5. Would you consider these challenges as barriers to the implementation of cash management?

4.7.3 Pilot Study

A pilot study refers to a research instrument that a researcher uses to evaluate the feasibility, time, events and effect of the size of the sample (Majid et al., 2017: 1072; Kim, 2010: 191). A researcher conducts a pilot study to make predictions about the sample size and ensures that research participants can consistently answer interview questions (Majid et al., 2017: 1072; Kim, 2010: 191). In this study, a pilot study will be conducted using two small business owners who will be included in the sample. The pilot study interviews will be recorded, and the researcher will take notes to ensure that questions for the interview guide are clear and understandable to the research participants. Thus, the outcome of the pilot study will enable the researcher to make necessary changes to the interview guide and ensure that the questions in the interview guide are fit for purpose. However, before data may be collected, research ethics need to be considered.

4.7.4 Research Ethics

Ethics refer to the moral principles that lead the conduct or behaviour of an individual (Dooly, Moore and Vallejo, 2017: 353; Akaranga and Makau, 2016: 1). Research ethics can be referred to when a researcher is morally and legally conducting research in an ethical manner (Dooly et al., 2017: 353; Akaranga and Makau, 2016: 2). Ethical considerations are the appropriate steps that are taken to ensure that a researcher takes ethical guidelines before, during and after the research process in order to oblige by the privacy, confidentiality, dignity, rights, and anonymity of the research participants (Dooly et al., 2017: 353; Gajjar, 2013: 9). Before the data collection, written permissions will be requested and obtained from the small-business owners. The research participants will be informed about the research objectives, and their information will be used for research purposes only. The research participants will sign consent forms sent by the researcher to confirm if the small business owners would be willing to participate in the in-depth semi-structured interviews. In order to adhere to the ethical considerations, the researcher will submit an ethics application form to the Department of Management. The researcher will obtain a list of registered small business owners in Makhanda from the internet. Afterwards, the researcher will obtain the University's ethics approval letter and subsequently will begin to formally contact and request

permission to collect primary data in the form of interviews from the small business owners that meet the criteria for the research. Once the research participants have indicated their consent and returned the consent forms to the researcher, a sample will be selected from research participants that are available and willing to participate in the study.

Once the researcher has obtained the ethics approval letter, primary data will be collected from small business owners in Makhanda. Immediately after primary data has been collected from the interviews, the researcher has to begin conducting the qualitative data analysis (Moser and Korstjens, 2018: 15). The next section will discuss the qualitative data analysis for this study.

4.8 DATA ANALYSIS

Qualitative data analysis is a process which involves working with qualitative data by breaking into manageable units and searching for patterns and themes through the collected data in order to bring meaning to the data (Lester, Cho and Lochmiller, 2020: 96; De Vos et al., 2011: 22). In a qualitative case study, data analysis is important because it allows the researcher to search for meanings by interpreting observations, experiences and reports of the research participants (Mezmir, 2020: 15; De Vos et al., 2011: 22). In this study, the data analysis will include the use of both hardware instruments such as a cellphone and software instruments such as applications like Microsoft Excel and Word. The researcher will use a cellphone which has a voice recording feature. The voice recording feature will be tested before conducting the interviews to ensure that it functions effectively. The researcher will also use the Otter.ai application to record the interviews. The Otter.ai application is a voice recognition software application that can be used to both record and transcribe audio files. This application software will enable the researcher to convert the interview recordings to text to ensure that the data can be easily analysed. In addition, the researcher will also take note of other important points and words by writing them down in a notepad during the conversion of recordings to text.

Moreover, qualitative data analysis uses instruments such as content analysis to analyse text, enabling the researcher to intentionally collect data from the selected research participants and observe patterns in the data (Busetto et al., 2020: 2; Paradis et al., 2016: 264). Content analysis refers to a method used to classify written or oral data into categories or themes with similar

meanings (Kleinheksel et al., 2020: 127; Cho and Lee, 2014: 4; Hsieh and Shannon, 2005: 1278). Content analysis can be used to examine data from open-end survey questions, interviews, focus groups, and observations (Kleinheksel et al., 2020: 128; Cho and Lee, 2014: 4). Qualitative content analysis refers to a research method that a researcher can use to describe and interpret qualitative data through the use of coding and identification of themes or patterns (Kleinheksel et al., 2020: 127; Cho and Lee, 2014: 4; Schreier, 2012: 1; Hsieh and Shannon, 2005: 1278). Thus, the researcher will use content analysis to analyse primary data from the interview recordings. After data has been collected from the interviews, the researcher will transcribe the interview recordings into text so that it will be easy to analyse the data. Subsequently, the interview transcripts will be coded to identify the preliminary themes in accordance with the internal barriers to the adoption of financial management practices. The internal barriers to the adoption of financial management practices are lack of financial knowledge, lack of financial management skills, lack of financial resources and fear of losing control in decision making, challenges with suppliers or creditors, difficulties in debt collection, negative attitude of small business owners, debt avoidance and difficulties with the use of computer systems. Relevant data will be categorised under these themes and analysed to identify consistencies, differences or similarities to better understand the data.

According to Maguire and Delahunt (2017) and Braun and Clarke (2006), there are six thematic content analysis stages, which will be discussed below.

Step 1 of the data analysis is data familiarisation

Data familiarisation refers to a process that allows the researcher to read and re-read the collected data in order to become familiar with the data being analysed (Kiger and Varpio, 2020: 4; Maguire and Delahunt, 2017: 3355; Nowell et al., 2017: 4). In order for the researcher to achieve familiarity with the data, the interview recordings will be transcribed into text using the Otter.ai software application and typed using Microsoft Word. The researcher will also print out the word documents and read them until the data becomes familiar. In addition, the researcher will make notes by highlighting the important points from the interview recordings and the transcribed text.

Step 2 of the data analysis is codes generation

Code generation refers to a process whereby words or short phrases are categorised into a code in order to represent a theme that is meaningful to literature (Kiger and Varpio, 2020: 5; Maguire and Delahunt, 2017: 3356; Nowell et al., 2017: 5). After the transcription of data, the interviews must be coded so that they can be easily analysed and organised into categories which are aligned with the context of the study. The researcher will ensure that coding is done in a manner which guarantees that the research participants are kept anonymous. As soon as the researcher finds data to code, the researcher will write down and highlight the text associated with that code. Once the researcher has captured enough codes from the collected data, the researcher will be able to identify themes or patterns from the entire data set. Examples of how the codes will be generated in this study are shown in Table 4.1 below.

Table 4.1: Code generation

Elements to code	Codes
Financial management practices	<ul style="list-style-type: none"> (i) Cash management practices (ii) Accounts receivables management practices (iii) Accounts payables management practices (iv) Inventory management practices (v) Working capital management practices (vi) Capital budgeting (investment management) practices (vii) Capital structure (financing) practices (viii) Accounting information systems (ix) Financial reporting and analysis practices
Internal barriers	<ul style="list-style-type: none"> (i) lack of financial management knowledge (ii) lack of financial management skills (iii) lack of financial resources (iv) fear of losing control in decision making (v) challenges with suppliers or creditors (vi) difficulties in debt collection (vii) negative attitude of small business owners

	(viii) debt avoidance (ix) difficulties with the use of computer systems
--	---

Source: Researcher’s own construct

Table 4.1 shows that deductive coding will be used in this study. Deductive coding is a process whereby codes are already known or developed before the methodology begins (Linneberg and Korsgaard, 2019: 264; Elo et al., 2014: 2). For example, in this study, the codes are known and are based on the literature review and the interview guide (see Table 4.1). According to Mezmir (2020: 23) and Linneberg and Korsgaard (2019: 264), deductive coding will help the researcher focus on the important aspects of existing literature. The researcher will focus on financial management practices and internal barriers in this study, as shown in Table 4.1.

The researcher will make use of in vivo codes by placing inverted commas to words or phrases that stand out from the transcribed text (Mezmir, 2020: 19). In vivo coding is a process whereby the exact word or phrase used by research participants serves as a code (Castleberry and Nolen, 2018: 809; Saldana, 2017: 169; Theron, 2015: 5). In addition, the researcher will take the exact words or phrases used by the research participants to describe their experiences and opinions on the internal barriers towards the adoption of financial management practices. After the researcher has identified the relevant codes, as shown above, it is important to search for themes.

Step 3 of data analysis is themes search

Themes search refers to a process whereby the researcher uses responses from the research participants that are related to the generated codes in order to identify the main themes (Kiger and Varpio, 2020: 6; Maguire and Delahunt, 2017: 3357; Nowell et al., 2017: 6). For example, the researcher will scan and search for repeated words and phrases that the research participants commonly used. In this study, the main themes the researcher will search for are the internal barriers such as: (1) lack of financial knowledge; (2) lack of skills; (3) lack of financial resources; (4) fear of losing control in decision making by small business owners; (5) challenges with suppliers or creditors; (6) difficulties in debt collection; (7) negative attitude of small business

owners; (8) debt avoidance; (9) difficulties with the use of computer systems will be identified and financial management practices.

Step 4 of data analysis is themes review

Themes review refers to a process whereby the researcher investigates whether the identified themes are aligned with the research objectives of the study (Kiger and Varpio, 2020: 7; Maguire and Delahunt, 2017: 3357; Nowell et al., 2017: 7). The researcher will review the themes to ensure that they work together in relation to the entire data set. This means that the researcher will re-read all the extracted data within one theme to ensure that the collected data accurately fits and is coherent with each specified theme. In addition, the researcher will also consult and check with the supervisor and the research participants to ensure that the themes make sense. Afterwards, the researcher will define all the main themes.

Step 5 of data analysis is themes definition

Themes definition refers to a process where the researcher defines and names themes that are in context with the research (Kiger and Varpio, 2020: 8; Maguire and Delahunt, 2017: 3358; Nowell et al., 2017: 9). In this stage, the researcher will further refine the specifics that belong to each theme to ensure that clear definitions and names of each theme are generated according to the theory and objectives of the study. For example, the defined themes of the study should assist the researcher in determining and analysing the internal barriers facing small business owners adopting financial management practices. In addition, the themes should align with the contingency theory to allow the researcher to understand why and how internal barriers inhibit the adoption of financial management practices among small business owners in Makana Municipality. Afterwards, the researcher will use the themes to give significant meaning to the research context to present them in the final report.

Step 6 of data analysis report production

Report production is a process whereby the researcher presents all the analysed data and also describes the findings of the research (Kiger and Varpio, 2020: 9; Maguire and Delahunt, 2017: 33510; Nowell et al., 2017: 9). This is the last stage which involves the overall and final analysis of data which the researcher will use to write a report which will include what transpired from data

familiarisation, code generation, and the searching, reviewing and defining of the themes. For example, in chapter 5, the researcher will find links between the research findings and the research objectives by providing a detailed description of the contingency theory, methodology and data analytical choices made during the study.

The trustworthiness of the interview guide and primary data will be considered as part of the data analysis. The next section will discuss the trustworthiness of the research findings.

4.8.1 Trustworthiness

A critical part of primary data collection is to assess the trustworthiness of the research findings, and this can be done by implementing four strategies; credibility, transferability, dependability and conformability (Nowell et al., 2017: 3; Leedy and Ormrod, 2015: 59). The section below will discuss strategies of trustworthiness: creditability, transferability, dependability and conformability.

In qualitative research design, *credibility* is defined as the extent to which the research findings and data analysis are believable and trustworthy (Kennedy-Clark, 2021: 5; Nowell et al., 2017: 3; Anney, 2014: 275). The researcher will conduct the interviews through an interview guide and recording devices to ensure the credibility and accuracy of the research data. In addition, the researcher will also do a peer debrief with some experts in the field of management such as lecturers and other supervisors, to ensure that the research findings and interpretations are checked against the collected primary raw data, which are the recordings. The researcher will also check the research findings and interpretations with the research participants to ensure that the research findings are accurate and coherent with the collected data.

Moreover, *transferability* is the extent to which the research findings can be useful or be transferred to similar studies by other researchers (Kennedy-Clark, 2021: 5; Anney, 2014: 275). The researcher will provide a detailed description of the research process and methodology, for example, by employing strategies such as purposive sampling, and detailed information to enhance transferability in this study (Stenfors, Kajamaa and Bennett, 2020: 598; Nowell et al., 2017: 4). The researcher will ensure that the research design and methodology of this study are easily

accessible to those who need it. In addition, the researcher will also ensure the data collection procedures, notes from the interviews, recordings and research journal are available for further analysis and requests. Lastly, the interview guide will be made available to all future researchers and interested parties in the study.

Dependability refers to the stability or the consistency of the research findings over time (Anney, 2014: 275; Kennedy-Clark, 2021: 5). To establish dependability, the researcher will keep a reflective journal to account for and keep a record of the research methodologies and findings. As part of the interviews, the researcher will ensure that the questions are clearly documented in the interview review guide, and the interview recordings are transcribed into text that is logical and easy to understand for the readers. In addition, the researcher's thesis will be kept for five years after completion of the study, and the information will be made available to any research participants or researchers who want access to the data.

The fourth element is **confirmability**, which refers to the degree to which there is an agreement between two or more about the accuracy, relevance and meaning of the research data (Kennedy-Clark, 2021: 5; Stenfors et al., 2020: 598). To ensure conformability, the researcher will consult the small business owners interviewed to confirm the collected data and interpretation. In addition, the researcher will consult the supervisor to demonstrate and explain how research findings were concluded and interpreted throughout the whole research methodology process. The researcher will also provide a detailed description of how credibility, transferability and dependability were achieved during the study in order for readers to understand the research methodology.

4.9 SUMMARY

This chapter provided a discussion on the research paradigm, which was an interpretivist paradigm. A research design of the study was also discussed, and in particular, the qualitative research design. Afterwards, the chapter presented information on research methodologies such as ethnographic, grounded theory and phenomenological. This study focused on a case study as a type of research methodology. Afterwards, the chapter discussed the sample design by presenting information on probability and non-probability sampling techniques. The study focused on a non-probability sampling technique, purposive sampling, to select a target sample size for the research. After that,

the data collection process was discussed by presenting secondary and primary data sources, where this study focused on semi-structured interviews as a primary source of data. This was followed by a discussion on research instruments such as in-depth semi-structured interviews, interview guide, pilot study and research ethics. Moreover, the chapter discussed strategies of trustworthiness which are credibility, transferability, dependability and conformability. Lastly, the chapter focused on data analysis and, in specific, content analysis data. A discussion was provided on content data analysis involving six steps: data familiarisation, codes generation, themes search, themes review, themes definition and report production. The next chapter will provide information about the research findings and interpretation of the findings.

CHAPTER 5: FINDINGS AND DISCUSSIONS OF THE STUDY

5.1 INTRODUCTION

The aim of this study is to analyse internal barriers facing small business owners adopting proper financial management practices in Makana Municipality in the Eastern Cape. As part of achieving the aim of the study, the previous chapter provided an overview of the research design and methodology of the study. The research methodology consists of sample design, data collection methods and the research instrument and data analysis. This chapter will achieve the secondary objective of the study, which is to determine the financial management practices adopted by small business owners in Makana Municipality. This chapter will also report on the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality.

This chapter will start by discussing the findings of the pilot study, followed by a discussion on the data collection procedure of the study. After that, the chapter will report and discuss the findings of the demographic information and the business characteristics of the participants. Afterwards, the findings of the financial management practices adopted by small businesses in Makana Municipality will be reported and discussed. This chapter will be followed by a report and a discussion on the barriers facing small business owners adopting financial management practices in Makana Municipality. It will end with a summary of the chapter.

5.2 PILOT STUDY

As previously mentioned, a pilot study was conducted on the first draft of the interview guide. The researcher had a discussion with someone with an accounting background who assisted with the structure and simplification of the questions in the interview guide. Afterwards, the researcher restructured the questionnaires and the interview guide so that they could be simplified in a manner that allowed participants to better understand what was required by the researcher to meet the objectives of the study. The second draft of the questionnaire and the interview guide on two participants that the researcher had recruited. The researcher administered the interviews with one male and one female participants. The completion of the questionnaires and trial interviews took less than 30 minutes. The researcher discovered that the owner or manager who was more aware

of the financial management practices of the business took a long time to complete the interviews, whereas the owner or manager who had less knowledge about financial management practices took less time to complete the interviews. Therefore, the time limit on the interview was sometimes adapted for those participants who were more knowledgeable. The next section will discuss the data collection procedure of the study.

5.3 DATA COLLECTION PROCEDURE

The researcher purposively selected 12 participants to gather primary data through semi-structured interviews. Afterwards, interview recordings were transcribed to allow the researcher to easily interpret and generate codes and themes aligned with the study. The researcher read and re-read the interview transcripts to find similarities or differences, which were later developed into codes and themes. The researcher used content analysis to analyse the data by listening to the interview recordings multiple times to familiarise herself with the data. The researcher generated codes and themes by marking text or highlighting text on the interview transcripts. After that, the transcribed data, highlighted themes, and codes were put into a Microsoft Word format. The identified codes and themes were presented in the highest order of occurrence or frequency, allowing the researcher to identify the barriers facing small business owners adopting financial management practices. Table 5.1 shows the abbreviation that will represent the 12 participants of the study. These abbreviations are used to ensure the confidentiality and anonymity of the participants.

Table 5.1: Abbreviations of the participants

Number	Participants
1	PT
2	PHI
3	PFF
4	PX
5	PG

6	PTFN
7	PRC
8	PF
9	PVS
10	PTHBS
11	PTMS
12	PBB

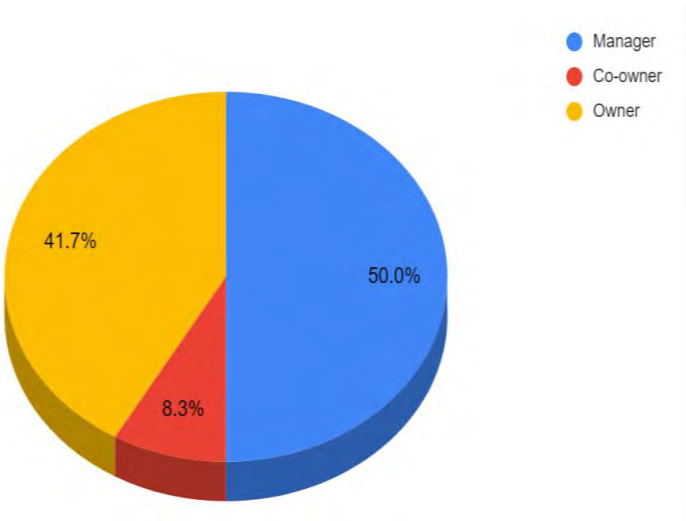
Source: Researcher's own construct

Table 5.1 shows that 12 participants completed the interviews and the abbreviations used to refer to the participants when reporting the primary data. The next section will provide the demographic information of the research participants.

5.4 DEMOGRAPHIC INFORMATION

Section A of the interview guide used closed questions requiring participants to provide their demographic information. The section below will provide the demographic information of the participants. Figure 5.1 shows the distribution between the owners or co-owners and managers of small businesses.

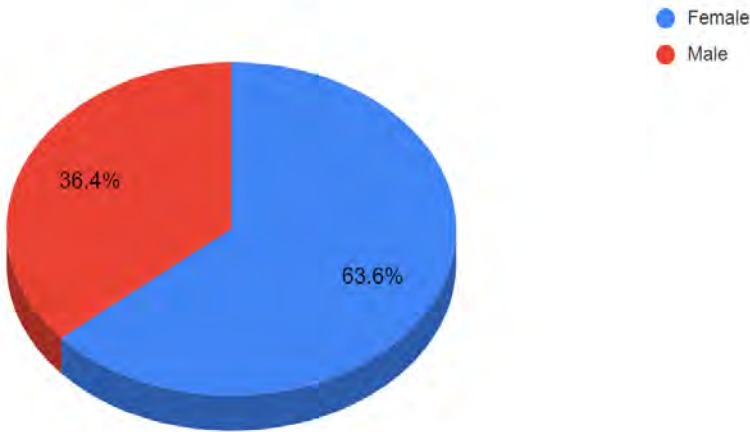
Figure 5.1: Owner or Manager



Source: Interview guide

Figure 5.1 shows that half of the participants were managers (50%), followed by owners who made 41.7%. Also, 8.3% were co-owners who made up the sample of the study. Figure 5.2 shows the gender distribution between the male and female participants.

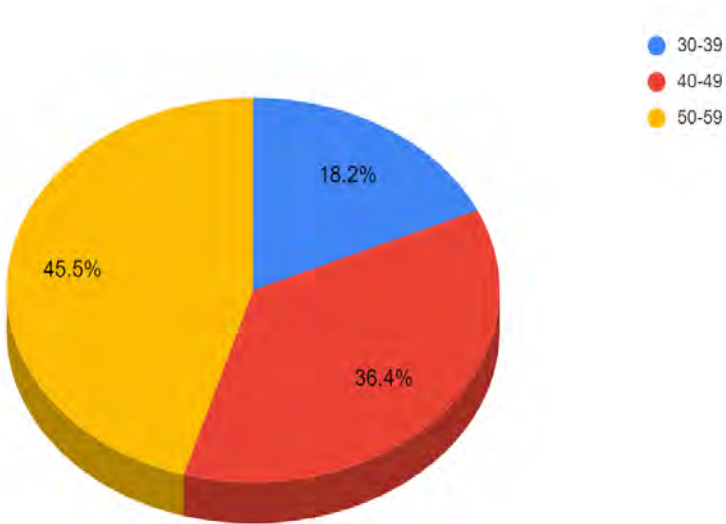
Figure 5.2: Gender



Source: Interview guide

Figure 5.2 shows that most participants were female compared to male participants. The female participants comprised 63.6%, and male participants comprised 36.4% of the sample. Figure 5.3 shows the age distribution of the participants.

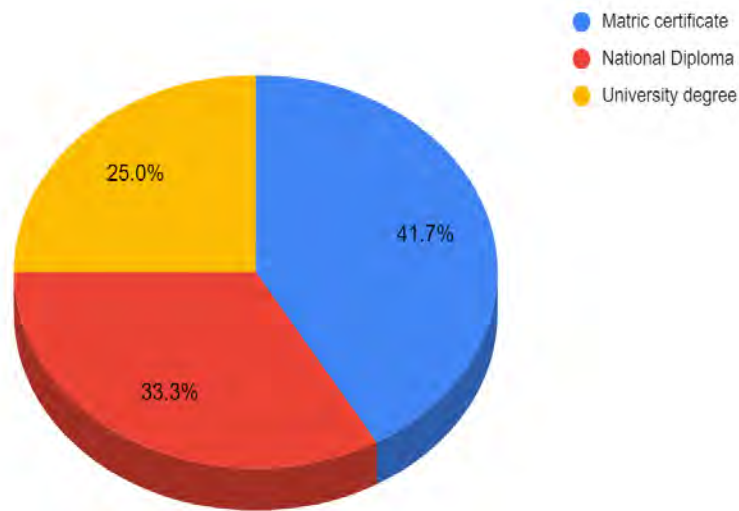
Figure 5.3: Age



Source: Interview guide

Figure 5.3 shows that 45.5% make up the 50-59 years, 36.4% make up the 40-49 years, and 18.2% make up the 30-39 years. It can be observed that all the research participants were above 30 years of age. Figure 5.4 shows the level of education of the participants.

Figure 5.4: Level of education



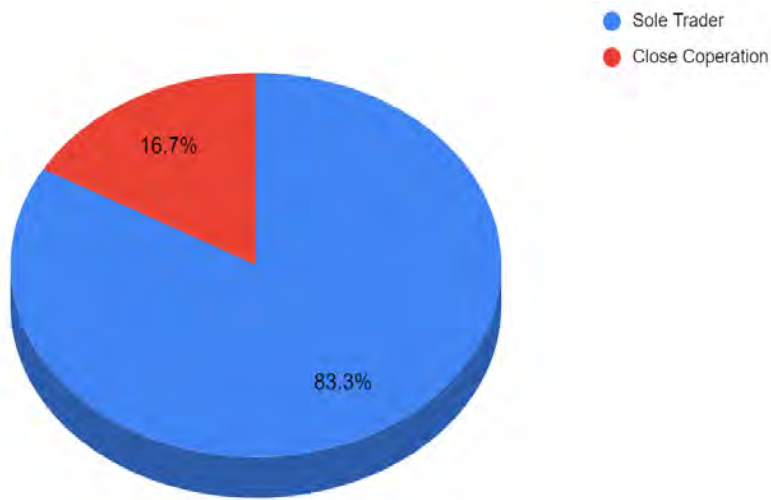
Source: Interview guide

Figure 5.4 shows that: (1) 41.7% had a matric certificate; (2) 33.3% had a national diploma; and (3) 25% obtained a university degree. The next section will discuss the business characteristics of small business owners or managers.

5.5 BUSINESS CHARACTERISTICS

Section B of the interview guide used closed questions and required the participants to provide the characteristics of their businesses. The section below will provide information on the business characteristics. Figure 5.5 shows the ownership structure of the research participants.

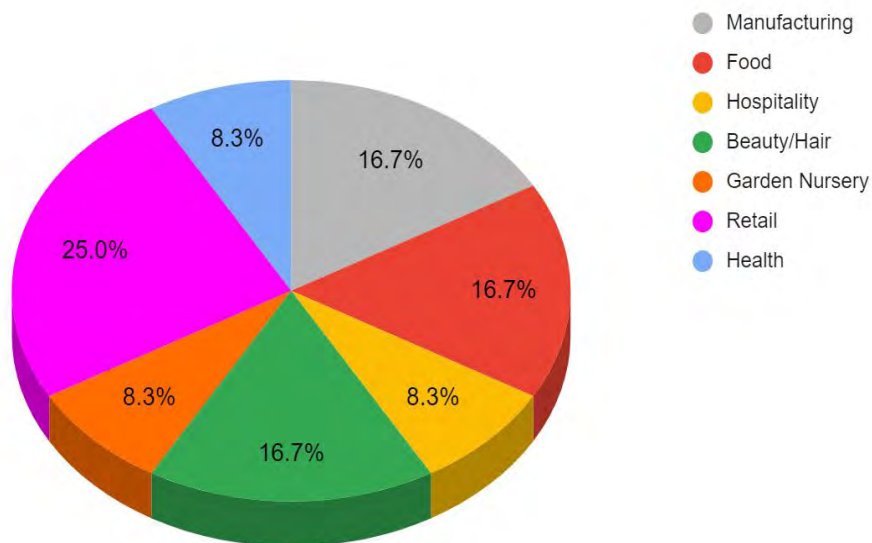
Figure 5.5: Ownership Structure



Source: Interview guide

Figure 5.5 shows that most research participants were sole traders compared to close corporations. The sole traders comprised 83.3%, and the closed corporation comprised 16.7% of the sample. Figure 5.6 shows the industries of the small businesses.

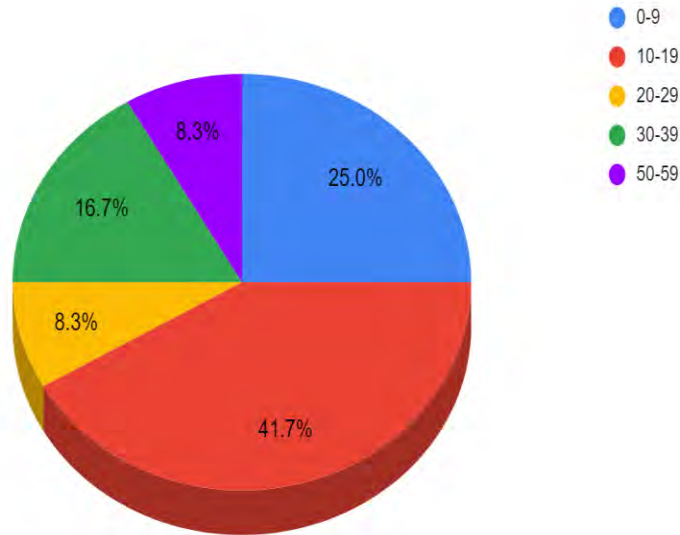
Figure 5.6: Industry



Source: Interview guide

It can be observed that small business owners or managers in various industries participated in this study. The figure shows that 25% were in retail, 16.7% in food, 16.7% were in manufacturing, 16.7% were in beauty/hair, 8.3% were in hospitality, 8.3% were in health, and 8.3% were also in garden nursery.

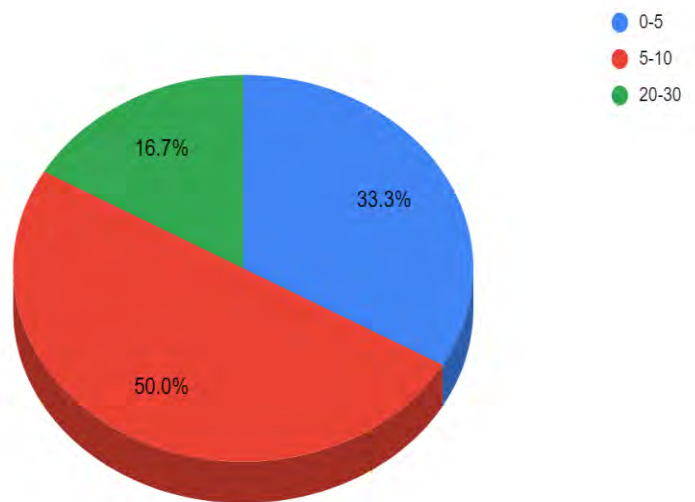
Figure 5.7: Number of years in operation



Source: Interview guide

Figure 5.7 shows that almost half of small businesses have operated in Makana between 10 and 19 years (41.7%), while about 25% range between one and nine years in operation. Figure 5.7 also illustrates the following: 16.7% have operated between 30 and 39 years, 8.3% have operated between 20 and 29 years, and 8.3% have operated between 50 and 59 years. Figure 5.8 shows the distribution of the number of employees within each small business.

Figure 5.8: Number of employees



Source: Interview guide

Figure 5.8 shows that half (50%) of the small businesses have five to ten employees, 33% have between one and five employees, and 16.7% have between 20 and 30 employees. The next section will discuss the financial management practices adopted by small businesses.

5.6 FINANCIAL MANAGEMENT PRACTICES ADOPTED BY SMALL BUSINESSES

The interview guide used open-ended questions to request the participants to provide information on the financial management practices adopted by small business owners or managers. Table 5.2 will present the frequency of the adopted and not adopted financial management practices.

Table 5.2: Adopted and not adopted financial management practices

Financial management practices	Adopted financial management practices (frequency)	Not adopted financial management practices (frequency)
Cash management practices	12	0
Accounts receivables	2	10

Accounts payables	9	3
Working capital management	12	0
Inventory management	12	0
Capital budgeting (Investment)	4	8
Capital structure (Equity-financing)	12	0
Accounting information systems	10	2
Financial reporting and analysis	12	0

Source: Interview guide

Table 5.2 shows that all the small businesses indicated that they adopted cash management, inventory management, capital structure and financial reporting analysis. It can also be seen that most small businesses did not adopt accounts receivables and capital budgeting practices. Moreover, some small businesses do not adopt accounting information systems and account payables management practices. The next section will discuss the barriers facing the adoption of financial management practices such as accounts receivables management practices, accounts payables management practices, capital structure (equity-financing) management practices, accounting information systems and capital budgeting (investment) management practices. This section below provides a discussion on the barriers facing the adoption of financial management practices.

5.7 BARRIERS FACING THE ADOPTION OF FINANCIAL MANAGEMENT PRACTICES

Financial management practices refer to processes that a business uses to manage its financial resources in a way that is effective and efficient to enhance the profits of the business (Benard, 2019: 1; Addo, 2017: 26). Proper financial management practices are evident where there is transparency, efficiency and accuracy in the achievement of the financial objectives of a business (Cheluguet and Morogo, 2017: 215). Therefore, the section below will present the barriers indicated

by the participants when adopting proper financial management practices. It will start by focusing on the accounts receivables management practices, accounts payables management practices, capital structure (debt capital) practices, accounting information systems and capital budgeting (investment) management practices.

5.7.1 Accounts Receivables Management Practices

Accounts receivables management practices refer to the appropriate ways that a business uses its credit policies to value the credit worthiness of its customers so they can be granted trade credit (Muthoni et al., 2020: 514; Ayo, 2019: 8). Table 5.2 shows most of the participants do not adopt accounts receivable management. This section will show the barriers that small businesses face when adopting accounts receivables management practices. Table 5.3 shows the barriers facing small business owners to the adoption of accounts receivables management practices.

Table 5.3: Accounts receivables management practices

Codes	Frequency
Difficulty in debt collection	12
Cost of debt collection	6
Nature of product or industry	4

Source: Interview guide

Table 5.3 shows that *difficulty in debt collection* was identified twelve times as the barrier to the adoption of accounts receivables by the participants. In contrast, the *cost of debt collection* was only identified six times by the participants, while the *nature of the product or industry* was only identified four times as the barrier to adoption of accounts receivables management practices.

In terms of *difficulty in debt collection*, one of the participants (PG) responded, "I don't want to complicate my life" by granting credit to customers in the business. This sentiment was supported by another participant (PF), who stated that the business does not grant credit to customers because "it's hard work", which involves the "management of people" such as debtors or customers

[Emphasis added]. One of the participants (PBB) indicated that it is difficult to collect debt payments from customers and claimed that *“I don't have to worry about chasing up debt payments, it's time in its effort to contact people and then maybe not get paid”* [Emphasis added]. Another participant (PFF) further explained that when one grants credit to customers, they are more likely to delay their debts payments when it is due and the participant claimed that *“they might delay with five days, they might delay with four days”* and other customers do not pay the debt at all. Some of the customers also make excuses when it is time to pay their credit accounts, *“you find them and they make excuses. If it's a small amount, like 100 or 200 or 300 rand then it's not always worth it to keep fighting for that”* as it was mentioned by another participant (PT).

From the perspectives, ***difficulty in debt collection*** seems to refer to the difficulty involved when owners or managers of small businesses collect debt payments from their customers. It seems that in small businesses, it is difficult to collect debt from their customers because some of them make excuses when it is the due date, and others keep delaying the payments until they eventually do not pay the debt to the small businesses. Therefore, the debt collection process in small businesses means that the owners or managers have to contact the customers regularly and constantly remind them to pay off their debt accounts. In addition, the difficulty in debt collection means that the debt amounts involved are too small for small businesses to threaten customers with legal action. Thus, taking legal action with small debt amounts might not be justified, as one participant (PRC) stated, *“I did threaten to take them to court and promised to pay the rest before the end of the month, but didn't”*. Hence, to avoid the difficulty in debt collection, most small businesses do not offer credit to their customers.

In terms of the ***cost of debt collection***, one of the participants (PVS) indicated that customers that are unable to pay off the debt or credit granted to them and said, *“Yes, we do have bad debts [Emphasis added] There's a lot that we write off”*. Moreover, for small business owners or managers to mitigate the costs of collecting debt, they contact the customers to remind them of the debt payment. One participant (PVS) indicated that before they write off debt from customers, they make an effort to contact the customers. However, the customers eventually *“just don't respond at all”*. Furthermore, another participant (PRC) stated that *“they threatened legal action against two people”* who took too long to pay off their debt to the business. However, another

participant (PT) indicated that they are not willing to incur costs because it means that the businesses will have to “*spend so much money taking them to the lawyers and the amount that they owe you, it's actually not worth it*”.

From the perspectives of the participants, the ***cost of debt collection*** involves the cost of writing off unpaid debt payments and the cost of legal action against customers who do not pay their debt to the businesses. It was highlighted that owners or managers try to remind customers about debt payments. However, customers eventually end up not responding to reminders from the small business owners or managers. As a result, owners or managers of the businesses are compelled to write off the debt, consequently, the business incurs the cost of the bad debts written off. Moreover, the participants also highlighted the high costs involved when the business decides to take legal action against debtors/customers who fail to pay off the debt. However, most of the time, the costs of legal action are much more expensive than the actual outstanding debt amount. Hence, owners/managers would rather incur the cost of cancelling or writing off a bad debt than incur the cost of legal actions. As a result, to avoid the cost involved in debt collections, the majority of small businesses do not grant credit to their customers or adopt accounts receivables management practices.

In terms of the ***nature of the product or industry*** as a barrier, one participant (PG) said, “*we don't sell any of our products on credit, with and in our industry*”. To support this sentiment, another participant (PTHB) that operates in the same industry explained that due to the nature of their business, they do not grant credit to customers and said they “*are not the type of business*” which can offer credit to their customers. These types of business would include businesses in industries such as garden nurseries and hair or beauty. Furthermore, another participant (PTFN) highlighted that due to the nature of the product, which is “*perishable, needs constant care and attention, therefore, it is not returnable*”, the business does not grant credit to customers.

From the perspectives of the participants, the ***nature of the product or industry*** that the business operates inhibits the businesses from adopting accounts receivables. In this case, the adoption of accounts receivables involves granting credit to customers. For example, two of the participants had businesses in the hair and beauty industry, and they both highlighted that due to the nature of

their industry and business, they do not offer credit to customers. Moreover, one of the participants indicated that the nature of the product also has an impact on whether the customer will be willing to pay off the debt or not. For example, one of the participants had a business in the garden nursery and indicated that customers are not inclined to pay the outstanding debt amount because the products are perishable and are not returnable. Therefore, if a product cannot be returned to the owner or manager because it is perishable, the business would rather sell it for cash and forgo the use of credit to customers. The next section will discuss accounts payables management practices.

5.7.2 Accounts Payables Management Practices

Accounts payables management practices are processes, policies or procedures which are utilised by businesses to ensure that their credit purchases from suppliers are managed effectively (Ayo, 2019: 11). Table 5.2 shows most participants do not adopt accounts payables management practices. This section will show the barriers that small businesses face when adopting accounts payables management practices. Table 5.4 shows the barriers facing small business owners to the adoption of accounts payables management practices.

Table 5.4: Accounts payables management practices

Codes	Frequency
Challenges with suppliers or creditors	3
Covid-19	2

Source: Interview guide

Table 5.4 shows that *challenges with suppliers or creditors* were identified three times, while *Covid-19* was identified two times as a barrier to adoption of accounts payables management practices.

In terms of *challenges with suppliers or creditors*, one of the participants (PTHB) indicated that one of the challenges they have with their suppliers is that they have difficulties “*remembering to pay off suppliers on time*” [Emphasis added]. Another reason why small businesses have

challenges with their suppliers is that they do not pay the suppliers on time. As a result, one participant (PRC) indicated that they are “*always in trouble with their suppliers*”, and the suppliers “*block the credit accounts of the small business accounts on a weekly basis*” [Emphasis added]. Moreover, another reason why small businesses have challenges with suppliers is that suppliers refuse to do a sale or return on products that do not sell, as was indicated by one of the participants (PVS), who stated that “*the supplier does not want the products back*” [Emphasis added] which do not sell within the business. Thus, it seems that small businesses encounter challenges with suppliers, such as difficulty remembering to pay off suppliers on time and difficult time negotiating with their suppliers, which either causes them to incur losses or change their suppliers and outsource from elsewhere. Hence, the relationship with suppliers or creditors may be seen as a barrier to the adoption of accounts payables management practices by small businesses.

From the perspective of all participants, ***challenges with suppliers or creditors*** inhibit the adoption of accounts payables management practices. One of the challenges small business owners or managers encounter with suppliers or creditors is the failure to remember to pay off the credit payment. As a result, the suppliers or creditors block their accounts with small businesses because it seems that they would not want to work with small businesses that have struggles remembering to pay suppliers or creditors on time. Another challenge small businesses encounter with suppliers or creditors is the inability to negotiate terms. For example, it was observed that small businesses incur losses on products that are not selling because they fail to re-negotiate terms with suppliers. Consequently, small businesses are either compelled to sell the products at huge discounts or outsource from other suppliers with more favourable credit terms. Thus, the challenges with suppliers or creditors may be seen as a barrier to the adoption of accounts payables management practices by small businesses.

In terms of ***Covid-19***, it seems that small businesses were affected by the *reduced days of payments to creditors or suppliers*. One participant (PG) highlighted that “*since Covid, accounts payables were also negatively affected*” [Emphasis added]. For example, the payment days to accounts payables were reduced from 30 or 60 days, and this had a negative impact on small businesses because they are now required to “*either pay upfront for their products or are given seven days*”. Moreover, one of the participants (PG) further explained that before Covid, they would “*buy more*

stock in one order” because they had more time, such as 30 or 60 days, to be able to pay back accounts payables. However, it seems that small businesses are now compelled to order “*smaller*” inventory quantities to allow them to be “*able to pay for accounts payables back within seven days*” [Emphasis added]. Therefore, it can be noted that as a result of Covid, small businesses' credit terms with accounts payables were changed, whereby the days of accounts payables were reduced. As a result, it may be seen as a financial constraint on inventory and available funds of small businesses because they are compelled to spend less and buy smaller inventory quantities within a short period of time. Correspondingly, due to the reduced number of days to pay off accounts payables, one participant (PRC) highlighted that they could not pay the credit within a month because their accounts payables days of payments were reduced from “*2 months to a month*”. Therefore, the small business owner or manager is “*always in trouble with suppliers*” because the accounts payables end up blocking their accounts which may suggest that the accounts payables become unwilling to work with small businesses that struggle to pay off their credit on time.

From the perspective of all participants, ***Covid-19*** is a barrier to the adoption of accounts payables because it resulted in *reduced days of payments to creditors or suppliers*. The small business owners indicated that their creditors or suppliers were negatively affected by Covid, and as a result, that also had an impact on small businesses. In particular, the days of payments to creditors or suppliers were reduced significantly, which had a negative impact on the purchase of inventory and their ability to pay back creditors or suppliers. In terms of inventory, small businesses were now compelled to purchase smaller inventory quantities in order to give them the ability to pay back the credit amount to creditors or suppliers. However, the days of payments seemed too short for other small businesses to acquire the required outstanding amounts from creditors or suppliers. This is because other small businesses could not acquire the credit amount within the reduced days of credit payments. As a result, they seemed to have late payments to suppliers, which further constrained the relationship with suppliers. Therefore, it seems that some creditors or suppliers would become unwilling to work with small businesses with a reputation for late payments to creditors. Hence, the effect of Covid-19, particularly reduced days of payments, may be seen as a barrier to the adoption of accounts payables management practices. The next section will discuss capital structure (financing) practices.

5.7.3 Capital Structure (Financing) Practices

Capital structure practices refer to the two main sources of finance, which include equity capital and debt capital that are used to finance small businesses (Adda, 2020: 43; Foyeke, Olusola and Aderemi, 2016: 58; Adesina et al., 2015: 13; Badar and Saeed, 2013: 79). Table 5.2 shows most of the participants do adopt equity-financing but not debt-financing in the capital structure of small businesses. This section will report on the barriers that small businesses face when adopting debt-financing in capital structure practices. Table 5.5 shows the barriers facing small business owners to the adoption of debt financing practices in the capital structure.

Table 5.5: Capital structure (debt-financing) practices

Codes	Frequency
Debt avoidance	6
Improvement of cash flow	1

Source: Interview guide

Table 5.5 shows that *debt avoidance* was identified six times, and *improvement of cash flow* was identified only one time as the barrier to the adoption of capital structure practices [debt capital] by the participants.

In terms of *debt avoidance*, one of the participants (PG) explained that they do not use debt as part of the capital structure because “*it is expensive*” and because it requires the business to “*pay so much interest to the banks*”. Another participant (PTFN) further highlighted that they do not use debt as part of the capital structure because they “*do not want to get to owe someone else money*” [Emphasis added]. Moreover, another participant (PHI) indicated that they do not use debt as part of the capital structure because their accountant “*doesn't like debt*” and “*outstanding accounts*”.

From the perspective of the participants, *debt avoidance* appears to be one of the reasons why small businesses may not use debt in their capital structure. Most small business owners or managers seem to have a negative attitude towards using debt to fund their businesses. This is

because using debt in the capital structure may be expensive or too costly for small businesses due to the high interest charged by banks or financial institutions. Moreover, some small business owners or managers do not use debt in their capital structure because their accountants may be debt-averse, and thus, they avoid using debt. This can be observed whereby one of the participants indicated that their accountant “*doesn't like debt*” and “*outstanding accounts*”.

Furthermore, another participant (PTFN) further highlighted that they do not use debt as capital structure because they “*do not want to get to owe someone money*”. This statement reveals that the participant seems to have a negative attitude regarding them owing anyone money. Thus, it can be noted that small business owners or managers prefer to avoid the use of debt in the capital structure, as it was highlighted by one of the participants (PTFN) that it is their “*personal preference*” not to use debt capital or credit to fund their business. Another reason why small business owners or managers avoid using debt to finance their businesses is that “*it motivates*” them to “*have a good cash flow*” [Emphasis added]. It seems that ***improvement of cash flow*** drives small businesses to use equity because by avoiding debt financing, small businesses can acquire a cash flow. Therefore, small businesses would rather avoid using debt as capital structure to preserve the funds of the business without incurring debt costs such as high interests. Hence, debt avoidance and improvement of cash flow may be seen as barriers to the adoption of capital structure by small businesses. The next section will discuss accounting information systems.

5.7.4 Accounting Information Systems

An accounting information system refers to a blend of systems and principles that record accounting transactions of a business in a manner that correlates with its business practices and a framework that enables businesses to store financial information accurately (Benard, 2019: 2; Al-Dalaien and Khan, 2018: 41). Accounting information systems included computer systems such as Excel, Quickbooks, Sage and Zero. Table 5.2 shows most of the participants do not adopt accounting information systems. Table 5.6 shows the barriers facing small business owners to the adoption of accounting information systems.

Table 5.6: Accounting information systems

Codes	Frequency
Negative attitude towards computer systems	5
Waste of resources	2
Difficulty use of computer systems	2

Source: Interview guide

Table 5.5 shows that the *negative attitude towards computer systems* was identified five times. In comparison, the *waste of resources* was identified two times, and *difficulty use of computer systems* was identified two times as the barriers to the adoption of accounting information systems.

In terms of the *negative attitude toward the use of computer systems*, one of the participants (PG) was opposed to the use of computer systems and preferred the use of a manual book system and stated that “*the manual book system worked before computers and it still works*” [Emphasis added]. The participant (PG) further explained and motivated the use of the manual book system by stating that it has “*worked for so long*” and “*why would the small business change it now*” [Emphasis added]. Moreover, some of the participants highlighted that they are aware of the fact that the manual book system “*takes more time*” and “*is not as accurate*” [Emphasis added] as a computer system. However, some small business owners or managers seem to have a negative attitude toward using a computer system even though it is time-efficient and more accurate.

From the perspectives of the participants, it can be noted that the small business owners or managers seem to express a *negative attitude towards the use of computer systems* and prefer to use the old manual book system. Small business owners or managers have used the old manual book system for so long that they do not see the need to adapt or change to using computer systems. One of the participants even highlighted that they are aware of the “*new computer systems*”. However, “*it’s got a lot of hiccups*” [Emphasis added]. This statement portrays that there is a negative attitude towards the use of computers within small businesses due to the hiccups or challenges of using computer systems.

In terms of the *difficulty use of computer systems*, one of the participants (PTFN) supported the use of a manual system by stating that they “*might actually go back to keeping an old school manual system*” because their computer system goes offline, which causes them to lag behind with their financial records. So, the participant (PTFN) shows the benefits of using a manual system instead of a computer system such as Zero.

From the perspectives of the participants, it can be seen that the *difficulty use of computer systems* is a barrier to adoption of accounting information systems. One of the participants highlighted that they would rather “*go back to keeping an old school manual system*”. One of the difficulties of using a computer system is that it relies on Wi-Fi. However, it goes offline, which causes the owner/manager to fall behind with their records. As a result, it seems that the owner or manager would be willing to use an old school manual book system and forgo the use of computer systems in their business, thus expressing difficulty with the use of computer systems.

Moreover, one of the participants also indicated that computer systems are complicated when they stated they “*would not want to complicate their life*” by using a computer system. Therefore, small business owners or managers seem to view and perceive the use of computer systems as something complicated and difficult to grasp and employ in their businesses. Thus, small business owners or managers depicted the difficulty of using computer systems.

In terms of the *waste of resources*, one of the participants (PRC) was opposed to the use of computer systems and preferred the use of a manual book system and stated that “*the use of a computer system is a waste of money*” [Emphasis added] and the participant (PRC) further expressed that their business is “*totally fine with the fact that they can do it manually*” [Emphasis added]. Therefore, it seems that small businesses seem to express the use of computer systems as a *waste of resources*, as was highlighted by one of the participants (PRC) when they indicated that they view the use of computer systems as a “*waste of money*” and a “*waste of time*”.

From the perspectives of the participants, it can be seen that the *waste of resources* such as time and money are barriers to the adoption of accounting information systems. It may be suggested

that small businesses seem to express the use of computer systems as a waste of resources because they may not see the need or the benefits of using computer systems. Small businesses seem to also perceive the use of manual systems as beneficial compared to the costs that have to be incurred when installing or implementing computer systems within the business. Therefore, it seems that small businesses would rather preserve their resources and continue using manual systems because they have been exposed to manual systems for a long time and view them as appropriate for their businesses. The next section will discuss capital budgeting (investment) management practices.

5.7.5 Capital Budgeting (Investment) Management Practices

Capital budgeting (long-term investment management) practices refer to a process which identifies, analyzes, selects and monitors potential investments that create or add value to the shareholders and long-term assets of a small business (Gupta and Jain, 2016: 75; Mushaho et al., 2015: 106). Table 5.2 shows that most participants do not adopt capital budgeting (investment) management practices. Table 5.7 shows the barriers facing small business owners to the adoption of capital budgeting (also known as long-term investment management) practices.

Table 5.7: Capital budgeting (investment) management practices

Codes	Frequency
Nature of the business or industry	2
Covid-19	2

Source: Interview guide

Table 5.7 shows that the *nature of the business or industry* was identified two times, and *Covid-19* was also identified two times as the barrier to the adoption of capital budgeting (long-term investment) management practices.

In terms of the *nature of business or industry*, one of the participants (PFF) explained that due to the business and the industry in which the business operates within, “*maintenance is done every day*”. As a result, it seems that the consistent maintenance of the business eventually “*minimises the long-term investments*”. This was supported by another participant (PX), who indicated that

they are currently not undertaking any “*long-term investments*” because they “*frequently buy big industrial machinery and big printers*”.

From the perspective of the participants, the *nature of business or industry* is a barrier to the adoption of capital budgeting (investment) management practices. Therefore, this may suggest that due to the nature of the business or industry that some small businesses operate within, it may have an impact when determining whether they should engage in long-term investments or not. For example, it can be observed that a small business that frequently purchases long-term assets such as big machinery and big printers will not engage in any long-term investments in the long run. As a result, small business owners or managers revealed that the nature of their business or industry results in lower investments in long-term projects. Therefore, the nature of the business or industry may be seen as a barrier to the adoption of investment management practices.

In terms of *Covid-19*, small business owners or managers revealed that Covid-19 had a negative impact on their investment management practices. One participant (PG) stated that “*covid was bad*” because they were “*closed for three months, with no income*”. Consequently, it seems that most small businesses were negatively affected by covid and did not financially recover. As a result, most small businesses indicated that they do not invest in any long-term investments. This is because some of the participants direct their funds towards “*investing back into the business*” through purchases of “*stock*” to ensure the efficiency of daily business operations.

Furthermore, another participant (PTHB) explained that they do not undertake any long-term investment projects because ever since covid started, their financial well-being “*is just not good*”. As a result, it may suggest that Covid negatively impacted how small businesses spend their funds. One participant supported this sentiment when they stated that “*people don’t have the money to spend*”. Therefore, it seems that most small businesses were affected by covid because they stopped operating and could not acquire funds during the closure of their businesses. Hence, the effects of covid may be seen as a barrier to the adoption of capital budgeting (investment) management practices.

From the perspective of the participants, *Covid-19* may be a barrier to the adoption of investment management practices. It seems that Covid-19 had a negative impact on the investment management practices of small businesses. Small business owners or managers indicated that because of Covid, their businesses were closed, and they had no means of acquiring any income. As a result, the funds of small businesses were financially constrained to the extent that they did not financially recover, and thus, their income is currently limited to the daily operations of the business and cannot be stretched to long-term investments. Therefore, it seems that because small businesses are small, they may take longer to adjust to factors that affect their financial well-being. In order to recoup some of their funds, small businesses are forgoing investing in long-term projects and directing their funds towards short-term investments such as the purchase of stock or inventory. The next section will provide a discussion on the findings of the study.

5.8 DISCUSSION OF FINDINGS

The findings of the study shows that most small business owners or managers in Makana Municipality adopt cash management practices, working capital management practices, inventory management practices, capital structure (equity capital) practices and financial reporting and analysis. The findings by Kanguru (2018) and Wolmarans and Meintjes (2015) investigated the use of financial management practices by small businesses in South Africa, and their findings concur with the findings of this study which revealed that small business owners in Makana Municipality adopted cash management practices, inventory management practices and working capital management practices. However, this study also showed that small business owners or managers in Makana Municipality do not adopt accounts receivables management practices, accounts payables management practices, capital structure (debt financing) practices, accounting information systems and capital budgeting (long-term investment) management practices. The findings of the study show that most small business owners or managers in Makana Municipality adopt cash management practices, working capital management practices, inventory management practices, capital structure (equity capital) practices and financial reporting and analysis. Previous research by Zunckel (2018), Ngwanatau (2018), Kanguru (2016) and Wolmarans and Meintjes (2015) support the findings of this study, where the use of financial management practices in South Africa was investigated. Zunckel (2018) analysed the factors influencing the capital structure of SMMEs in Durban. The findings proved that SMME owners or managers adopt capital structure

practices and use more internal sources of finance (equity capital) such as personal savings, trade credit and funds from friends and family. These findings are similar to the findings by Ngwanatau (2018), who researched the influence of financing structure on the performance of MSMEs in South Africa. The findings highlighted that small businesses adopt financing structure practices (Ngwanatau, 2018). Studies by Ngwanatau (2018) and Zunckel (2018) support the findings of this study which revealed that small business owners adopted capital structure practices and, in particular, equity capital and did not adopt debt capital. The section below will provide a discussion on the findings of this study.

5.8.1 Accounts Receivables Management Practices

From the findings of this study, it was revealed that *difficulty in debt collection*, *cost of debt collection* and *nature of the product or industry* are the barriers that small businesses face when adopting *accounts receivables management practices*. Agyei-Mensah (2012) agrees that the cost of debt collection involves the cost of writing off unpaid debt payments. Agyei-Mensah (2012) concurs that the owners or managers of small businesses do not adopt account receivables management practices appropriately because of the difficulty in debt collection. These findings were also supported by Richard and Kabala (2019), who argued that small businesses have a difficult time collecting debt payments from debtors or customers. Moreover, the findings also showed that the majority of the small businesses lack the resources to manage accounts receivables, such as the lack of proper debt collection procedures, and as a result, this increases the late payments of debtors and costs incurred over written-off bad debts (Agyei-Mensah, 2012). These findings were also similar to the findings of Aminu and Zainudin (2015), whereby it was proven that it is expensive for small businesses to manage their accounts receivables, and as a result, they incur costs and suffer losses from customers or debtors who fail to pay their outstanding debt amounts.

Furthermore, Lyani Sindani et al. (2016) showed that although SMEs adopt accounts receivables management practices, they do not keep track of the debtors that have either paid off, those who have outstanding payments or those who are at risk of defaulting their debt payments. As a result, small businesses experience debt collection costs by incurring costs of bad debts from defaulting debt payments. This finding is consistent with the findings of this study which revealed that small

business owners or managers make an effort to contact debtors or customers to remind them of the outstanding debt payments. However, debtors either still delay payments or even default outstanding debt payments to small businesses and incur costs of written-off debts (Orobia et al., 2013). These findings are similar to Peel et al. (2012), who researched late payment and credit management in the small firms sector. Their findings showed that about 43% of small businesses encounter challenges because of bad debts. In addition, about 59.5% of the small businesses indicated that they encounter difficulties with debt collections, such as late payments by debtors, which was also proven to be one of the significant problems for their businesses.

5.8.2 Accounts Payables Management Practices

From the findings of this study, it was revealed that *challenges with suppliers or creditors* and *Covid-19* are barriers that small businesses face when adopting accounts payables management practices. These findings concur with the study of Tabot and Kamala (2016), who investigated the accounts payable management practices of small, medium and micro-enterprises. It was argued that one of the key drivers contributing to the failure rate of small businesses is the ineffective adoption of accounts payables management practices. Their findings concluded that ineffective adoption of accounts payables management practices included a lack of skills and resources, which may be considered as barriers to effective adoption of accounts payables management practices. As a result, small businesses either do not pay on time or have late payments to suppliers, which constrains the relationship between the small business owners or managers and suppliers.

Moreover, these findings are similar to Mazzarol's (2014) study, where it was argued that small businesses delay their payments to creditors, constraining the relationship between suppliers and the small business owners or managers. The findings also proved that when small businesses delay payments to creditors or suppliers, they incur late payment costs, which causes some creditors or suppliers to cancel or block accounts with the small businesses. Furthermore, other studies have argued that the majority of small businesses have difficulties or challenges in maintaining their relationship with their suppliers, which results in losses such as bad reputation with the suppliers and late payment costs to suppliers (Nkwabi and Fallon, 2020; Annamalah and Pertheban, 2016; Fatoki, 2014).

5.8.3 Capital Structure (debt-financing) Practices

From the findings of this study, it was revealed that *debt avoidance* and *improvement of cash flow* are the barriers that small businesses face when adopting capital structure (debt financing) practices. To be specific, the findings of this study revealed that one reason small businesses avoid using debt capital is the high interest rates. This was supported by Lyani Sindani et al. (2016), who proved that small businesses avoid using debt capital because of the increases in interest rates which they incur on debt capital. This concurs with the study of Omoshagba and Zubairu (2018), who argued that one of the challenges that small businesses avoid using debt capital is a failure to meet the debt obligation payments on time and the high interest rates to the banks and financial institutions. As a result, small businesses would rather avoid the use of debt capital in order to reduce the chances of the inability to meet debt obligations due to high interest rates. Therefore small business owners are more likely to develop an avoidance attitude toward debt to prevent the inability to meet their debt obligations on time.

Furthermore, Satoto and Nurrohim (2020) studied the factors that affect the attitude toward debt financing. Their findings suggested that small business owners or managers avoid using debt capital because of previous bad experiences to the adoption of debt capital which influences the negative attitude towards the use of debt capital. Other studies also argued that the attitude of small business owners or managers influences their use of debt (Rasheed and Siddiqui, 2018; Dowling et al., 2019). These studies are supported by Paaso et al. (2021), who conducted a study on entrepreneur debt aversion and financing decisions. Their findings showed that an entrepreneur's attitude towards debt capital impacts the use of debt within their business. In this case, an entrepreneur would be a small business owner or manager. It was concluded that they are uncomfortable and have a low willingness to use debt, thus portraying a negative attitude towards debt and, hence, debt aversion. These findings are similar to Nguyen et al. (2021), who conducted a study on debt aversion, education, and credit self-rationing in SMEs, and the findings proved that 11.6% of the sample do not apply for debt because they are debt-averse. The findings of the study further revealed that most small businesses stated that they "don't want to incur," which suggested a negative attitude towards using debt and indicated debt avoidance. Moreover, these findings were consistent with the findings of this study, where small business owners indicated that they did not want to incur debt and preferred to avoid the use thereof to improve the cash flow.

5.8.4 Accounting Information Systems

From the findings of this study, it was revealed that the *negative attitude towards computer systems, waste of resources, and difficulty use of computer systems* are the barriers facing the adoption of accounting information systems. These findings are consistent with the study of Ibrahim et al. (2020), who explored the use of accounting information systems and highlighted the challenges that small businesses encounter when using accounting information systems. Their findings suggested that small businesses do not adopt accounting information systems because they have difficulties using computer systems. For example, it was revealed that small business owners or managers have difficulties accessing and retrieving data, which was suggested to be one of the reasons small businesses may portray a negative attitude towards computer systems.

Moreover, Chen and Hamdan (2014) conducted a study on the adoption of information technology by small businesses, and their findings revealed that 16% of small businesses did not adopt accounting information systems. Their findings also showed that due to the nature of small businesses, in particular too small, small business owners or managers do not recognise the benefits or see the need to use accounting information systems. These findings are consistent with the findings of this study which also revealed that small businesses do not see the need to adopt computer systems because they view them as a waste of resources such as time and money. Furthermore, Chen and Hamdan's (2014) findings argued that small businesses prefer to use manual systems to record their accounting information. These findings are consistent with the findings of this study which also indicated that most small business owners or managers preferred to use manual systems to record their accounting information.

In addition, Rahman et al. (2015) studied the obstacles and implementation of accounting software systems in small businesses and revealed some barriers that inhibit the adoption of accounting software systems. Their findings indicated that small businesses encountered difficulties using accounting software systems, leading to bad experiences. These findings seem to be similar to the findings of this study because the small business owners or managers indicated that they face difficulties with the use of computer systems. As a result, the bad experiences instigate a negative attitude towards using computer systems and consequently prompt some small business owners or

managers to go back to using manual systems. The next section will discuss the summary of the chapter.

5.9 SUMMARY

This chapter provided a report on the findings of the study, which were collected through the conduction of semi-structured interviews. This chapter presented a discussion of the findings of the pilot study, which were followed by a discussion of the data collection procedure of the study. After that, the chapter reported and discussed the findings of the demographic information and the business characteristics of the participants. Afterwards, the findings of the financial management practices adopted by small businesses in Makana Municipality were reported and discussed. It was found that most small business owners or managers in Makana Municipality adopt cash management practices, working capital management practices, inventory management practices, capital structure (equity capital) practices and financial reporting and analysis. However, it was also found that small business owners or managers in Makana Municipality do not adopt accounts receivables management practices, accounts payables management practices, capital structure (debt capital) practices, accounting information systems and capital budgeting (investment) management practices. This was followed by a report and a discussion on the barriers facing small business owners to the adoption of financial management practices in Makana Municipality. The next section will discuss the summary, conclusions and recommendations of the study.

CHAPTER 6: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The previous chapter provided a report and a discussion on the findings of this study. The findings of the study revealed the adopted and not adopted financial management practices by small business owners and the barriers that small business owners face to the adoption of financial management practices in Makana Municipality. This chapter will provide the summary, conclusion and recommendations of the study. To achieve the primary objective of this study, this study will provide recommendations to small business owners in Makana Municipality on how to overcome the internal barriers to adopting financial management practices. The chapter will start with a summary of the previous chapters, followed by the conclusion of the study. Lastly the recommendations, shortcomings, contribution of the study will be provided.

6.2 RESEARCH OBJECTIVES AND ACHIEVEMENTS

This section will provide the research objectives and achievements of the study. The table below shows how each objective was achieved based on chapters 2, 3, 4, 5 and 6.

Table 6.1: Research objectives and achievements

PRIMARY OBJECTIVE: The aim of the research was to analyse internal barriers facing small business owners adopting proper financial management practices in Makana Municipality, Eastern Cape.	
SECONDARY OBJECTIVES	ACHIEVED
To determine the financial management practices adopted by small businesses	Chapter 2 & 3
To determine the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality	Chapter 4 & 5

To analyse the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality	Chapter 4 & 5
To provide recommendations to small business owners in Makana Municipality on overcoming the internal barriers to adoption of financial management practices.	Chapter 6

Source: Researcher's own construct

Table 6.1 shows the primary and secondary objectives of the study and how they were achieved in the different chapters. The first secondary objective was achieved in chapters 2 and 3, which was to determine the financial management practices adopted by small businesses and discuss the contingency theory. The second secondary objective was achieved in chapters 4 and 5, which was to determine the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality. The third secondary objective was also achieved in chapters 4 and 5, which was to analyse the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality. The last secondary objective was achieved in chapter 6, which was to provide recommendations to small business owners in Makana Municipality on overcoming the internal barriers to adoption of financial management practices. The next section will provide a summary of the study.

6.3 SUMMARY

Chapter one provided an introduction and background of the study. Afterwards, the problem statement and research objectives of the study were discussed. After that, the research objectives of the study which are divided into the primary and secondary objectives, were also given. The primary objective is to analyse internal barriers facing small business owners adopting proper financial management practices in Makana Municipality in the Eastern Cape. The secondary objectives are based on the primary objective. They include: to determine the financial management practices adopted by small businesses, to determine the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality, to analyse the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality and providing recommendations to small business owners in

Makana Municipality on overcoming the internal barriers to adoption financial management practices. This was followed by the research design and methodology of the study. Lastly, the chapter focused on the scope of the study and the structure of the chapters.

In order to achieve the first secondary objective, which was to determine the financial management practices adopted by small businesses and discuss the contingency theory, Chapter 2 provided an overview of small businesses in South Africa. The chapter provided the definitions of small businesses, and the small business definition adopted was a business with a maximum of fifty (50) employees and with an annual turnover of less than R2 million and up to R25 million. The importance of small businesses in South Africa was also discussed. It was discussed that small businesses are important for reducing poverty, income inequality, unemployment, and economic growth in South Africa. This chapter also focused on the role players that support small business development in South Africa. It was stated that the National Small Business Act, Department of Trade and Industry, Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, Small Enterprise Finance Agency, Small Business Development Ministry and Small Enterprise Development Agency are some of the role players that were created to support small businesses development in South Africa. Afterwards, this chapter discussed the importance of the sustainable growth of small businesses. It was highlighted that the sustainable growth of small businesses is important because it prevents the failure of small businesses and indicates that the South African economy is prevailing. After that, the failure rate of small businesses was discussed. External factors such as access to infrastructure, access to finance, access to markets and legal barriers were discussed. Also, internal factors such as managerial competencies were found to be the major factors contributing to the failure rate of small businesses in South Africa. Lastly, a discussion was also provided on the previous studies of small businesses in the Eastern Cape and Makana Municipality. It was found that the main focus of research in the Eastern Cape was mainly on managerial competencies such as skills, financing and socio-economic factors of small businesses.

Chapter 3 also achieved the first secondary objective of the study, which was to determine the financial management practices adopted by small business owners. It started by discussing the description of financial management practices. Then the chapter discussed the importance of

financial management and financial management practices. Financial management practices that are adopted by small businesses were identified and discussed. These financial management practices included the following: cash management practices, accounts receivables management practices, accounts payables management practices, inventory management practices, working capital management practices, investment management or capital budgeting practices, financing or capital structure practices, accounting information systems and financial reporting and analysis practices. A discussion on the previous studies on the financial management practices in South Africa was provided. It showed that most of the small business owners in South Africa adopt financial management practices such as cash management practices, accounts payables management practices, working capital management practices, inventory management practices, capital budgeting practices, capital structure practices or financing practices. The chapter also focused on the contingency theory by discussing the internal and external factors and how the theory can be used to explain the internal barriers to the adoption of financial management practices. These internal barriers included lack of financial knowledge, lack of financial management skills, lack of financial resources and fear of losing control in decision making by small business owners, challenges with suppliers or creditors, difficulty in debt collection, negative attitude of small business owners, debt avoidance and difficulties with the use of computer systems. Lastly, it discussed the previous studies on the financial management practices in the Eastern Cape. It was found that previous studies have only focused on the extent to which financial management practices are used and the level of use of financial management practices in small businesses, and no study has investigated the internal barriers to the adoption of financial management practices by small business owners in Eastern Cape.

Chapter 4 achieved the second secondary objective: to determine the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality. The chapter provided a discussion on the research paradigm, which was an interpretivist paradigm. The research design of the study was a qualitative research design. The research methodologies such as ethnographic, grounded theory and phenomenological were discussed. This study adopted a case study methodology because it allowed the researcher to describe and deeply understand the internal barriers from the point of view and experiences of small business owners adopting financial management practices. Afterwards, the chapter discussed the sample design by

presenting information on probability and non-probability sampling techniques. The study used a non-probability sampling technique, purposive sampling, to select a target sample size for the research. The sample of the study was twelve small business owners, who have a maximum of fifty employees, with small businesses registered in the Municipal database, who have operated in Makhanda for at least three years and in which the owners have direct managerial involvement. This study used secondary and primary data sources. Semi-structured interviews were used to collect primary data in this study. This was followed by a discussion on research instruments such as in-depth semi-structured interviews, interview guide, pilot study and research ethics. Moreover, the chapter provided a discussion on strategies of trustworthiness which are credibility, transferability, dependability and conformability. Lastly, the chapter focused on content analysis data. Content data analysis involves six steps: data familiarisation, codes generation, themes search, themes review, themes definition and report production.

Chapter 5 also achieved the second secondary objective: to analyse the internal barriers facing small business owners adopting proper financial management practices in Makana Municipality. This chapter presented a discussion of the findings of the pilot study which were followed by a discussion of the data collection procedure of the study. Two people were interviewed in the pilot study. It was found in the pilot study that the small business owner or manager who was more aware of the financial management practices of the business took a long time to complete the interviews, whereas the owner or manager who had less knowledge about financial management practices took less time to complete the interviews. After that, the chapter reported and discussed the findings of the demographic information and the business characteristics of the participants. It was reported that twelve small businesses were male and female participants who were either owners, managers or co-owners of small businesses. Afterwards, the findings of the financial management practices adopted by small businesses in Makana Municipality were reported and discussed. It was found that most small business owners or managers in Makana Municipality adopt cash management practices, working capital management practices, inventory management practices, capital structure (equity capital) practices and financial reporting and analysis. However, it was also found that small business owners or managers in Makana Municipality do not adopt accounts receivables management practices, accounts payables management practices, capital structure (debt capital) practices, accounting information systems and capital budgeting

(investment) management practices. This was followed by a report and a discussion on the barriers facing small business owners to the adoption of financial management practices in Makana Municipality. These barriers included difficulty in debt collection, cost of debt collection, nature of product or industry, challenges with suppliers or creditors, Covid-19, debt avoidance, improvement of cash flow, negative attitude towards computer systems, waste of resources and difficulty use of computer systems. The next section will discuss the conclusions and recommendations of the study.

6.4 CONCLUSION

This study showed small businesses face different barriers when adopting each of the financial management practices. Therefore, it may be suggested that the adoption of small businesses depends on the barriers, which are the contingent factors that determine if small businesses should adopt or not adopt financial management practices in a manner that is appropriate to their businesses. Therefore, the differences in barriers to the adoption of financial management practices may be used to explain why the adoption of financial management practices varies from one small business to another (Benard, 2019: 9).

This study used contingency theory to determine and understand why small business owners adopt and do not adopt financial management practices. Also, this theory was used to determine and analyse the internal barriers small business owners face to the adoption of financial management practices. The contingency theory states that no single financial management practice is appropriate or suits all small businesses. The theory is also based on the fact that financial management practices vary from one small business to another based on the different factors, such as internal factors and external factors, in which each small business operates. In this study, these factors acted as barriers and, thus, were referred to as barriers to the adoption of financial management practices.

From the findings of this study, it was found that most small business owners or managers in Makana Municipality adopted cash management practices, working capital management practices, inventory management practices, capital structure (equity capital) practices and financial reporting and analysis. However, it was also found that small business owners or managers in Makana

Municipality did not adopt accounts receivables management practices, accounts payables management practices, capital structure (debt capital) practices, accounting information systems and capital budgeting (investment) management practices. This study revealed that small business owners or managers did not adopt financial management practices because of barriers such as difficulty in debt collection, cost of debt collection, nature of product or industry, challenges with suppliers or creditors, Covid-19, debt avoidance, improvement of cash flow, negative attitude towards computer systems, waste of resources and difficulty use of computer systems.

Therefore, it can be observed that due to the different barriers to the adoption of financial management practices, small businesses also adopted financial management practices where there were few to no barriers. Hence, the findings of this study supported the contingency theory, in particular, that financial management practices vary within small businesses because of the differences in the barriers that each small business faces to the adoption of each financial management practice. For example, the findings of this study showed that internal and external factors acted as barriers to the adoption of certain financial management practices. For example, the findings of this study revealed that different small businesses in different industries adopted different financial management practices. Therefore, factors such as the nature of the business and industry acted as barriers to the adoption of financial management practices such as accounts receivables management practices and capital budgeting (long-term investment) management practices. Thus, this study confirms that the contingency theory may be used to explain that the adoption of financial management practices is dependent upon the barriers that small businesses face within their businesses. The next section will provide a discussion on the recommendations of the study.

6.5 RECOMMENDATIONS

The study found that difficulty in debt collection, cost of debt collection, nature of product or industry, challenges with suppliers or creditors, Covid-19, debt avoidance, improvement of cash flow, negative attitude towards computer systems, waste of resources and difficulty use of computer systems are the internal barriers to adoption of financial management practices. It is advised that small businesses should implement more financial management practices in a manner that is appropriate to their businesses as this can increase the success of small businesses

(Kapitsinis, 2019: 333; Jindrichovska, 2013: 94; Abuzayed, 2012: 166; Kaya and Alpkan, 2012: 43; Banos-Caballero et al., 2010: 515).

Accounts receivables management practices

It is recommended that small businesses should adopt accounts receivables management practices in their small businesses. Accounts receivables management practices have the following benefits: help small businesses to select and grant credit to customers with minimal risks of non-payments or delayed payments (Ayo, 2019: 8; Tweneboah and Ndebugri, 2017: 14). Also, it allows small businesses to collect debt payments within specified credit terms (Muthoni et al., 2020: 514; Ayo, 2019: 8). However, small businesses are faced by internal barriers such as ***difficulty in debt collection, cost of debt collection*** and ***nature of the product or industry*** to the adoption of accounts receivables management practices.

1. To overcome these barriers, such as ***difficulty in debt collection***, it is recommended that small business owners should implement proper debt collection procedures whereby before credit is granted to customers, the creditworthiness of the customers should be assessed first. Also, credit should only be offered to customers who have a good credit history and not granted to customers who have a bad credit history.
2. To overcome these barriers, such as the ***cost of debt collection***, it is recommended that small business owners should have a low number, or set an optimal number, of debtors or customers who can be granted credit in order to avoid incurring high costs of bad debts.
3. To overcome these barriers, such as the ***nature of the product or industry***, it is recommended that small business owners should only grant credit towards products that are returnable to suppliers. This should be implemented within their businesses to avoid incurring costs on products that cannot be returned to suppliers.

Accounts payables management practices

It is recommended that small businesses should adopt accounts payables management practices in their small businesses. Accounts payables management practices have the following benefits: keep accurate records of accounts payables which enables them to account for their trade credit payment in a timely manner (Enow and Kamala, 2016: 78). Also, it prevents small businesses from incurring late trade credit payment costs such as penalties (Likalama et al., 2017: 3; Enow and Kamala,

2016: 78). However, small businesses are faced by internal barriers such as *challenges with suppliers or creditors* and *Covid-19* to the adoption of accounts payables management practices.

1. To overcome these barriers, such as *challenges with suppliers or creditors*, it is recommended that small business owners should honour the agreed credit terms with suppliers or creditors by paying them on time, as this will help small businesses to establish trust and firm relationships with suppliers or creditors. Also, small business owners are encouraged to consistently communicate with their suppliers or creditors to ensure that they are aware of the credit terms and communicate if they are unable to meet credit payments on time.
2. To overcome barriers such as *Covid-19*, it is recommended that small business owners should renegotiate the credit terms by considering the impact of Covid-19 and come up with new terms that are feasible for both their suppliers or credits and their small businesses.

Capital Structure (debt-financing) Practices

It is recommended that small businesses should adopt capital structure (debt-financing) practices in their small businesses. Capital structure (debt-financing) practices have the following benefits: they help small businesses to determine the appropriate sources of finance, and they provide the capital that small businesses can use to finance the operations of their businesses (Adda, 2020: 43; Marinez et al., 2019: 2). However, small businesses are faced by internal barriers such as *debt avoidance* and *improvement of cash flow* to the adoption of capital structure (debt financing) practices.

1. To overcome these barriers, such as *debt avoidance*, it is recommended that small business owners should consult with their external accountants on how to strike a balance between the use of equity and debt capital because they handle their financial statements regularly and are familiar with the financial well-being of their businesses.
2. To overcome these barriers, such as the *improvement of cash flow*, it is recommended that small business owners should account for the interest on debt capital and ensure that interest payments are made regularly in order to maintain a good cash flow within their businesses.

Accounting Information Systems

It is recommended that small businesses should adopt accounting information systems in their small businesses. Accounting information systems have the following benefits: enhances the accounting performance by providing small businesses with adequate accounting information in a timely manner, and this is critical to the decision-making process within small businesses (Harash, 2017: 22). However, small businesses are faced by internal barriers such as the ***negative attitude towards computer systems***, ***waste of resources*** and ***difficulty use of computer systems*** to the adoption of accounting information systems.

1. To overcome these barriers, such as the ***negative attitude towards computer systems***, it is recommended that small business owners should hire qualified personnel that will help them to develop computer systems that are customised and specific to their business. This will ensure that small business owners will have computer systems that are specifically created to capture information that is only aligned with the respective business practices.
2. To overcome these barriers, such as ***waste of resources***, it is recommended that small business owners should be made aware and be exposed to the benefits of the use of computer systems through role players such as the Small Enterprise Development Agency and the Small Business Development Ministry. This will help small businesses to be able to embrace the benefits of the use of computer systems more than they do about viewing them as a waste of resources.
3. To overcome barriers such as ***difficulty use of computer systems***, it is recommended that small business owners should hire qualified personnel that will help to provide and develop training for both the managers and employees so as to ensure ease of use of updated and new technology and, find ways to incorporate the use of computer systems in the adoption of financial management practices.

Capital Budgeting (investment) Management Practices

It is recommended that small businesses should adopt capital budgeting (long-term investment) management practices in their small businesses. Capital budgeting (long-term investment) management practices have the following benefits: small business owners use them to determine a criterion that can be used in investment opportunities that will maximise the value of a business (Gupta and Jain, 2016: 75). Also, capital budgeting (long-term) investment practices help to

allocate financial resources towards long-term investment opportunities that are profitable and can sustain the growth of small businesses in the long run (Gupta and Jain, 2016: 75). However, small businesses are faced by internal barriers such as the *nature of the business or industry* and *Covid-19* to the adoption of capital budgeting (long-term investment) management practices.

1. To overcome barriers such as the *nature of the business or industry*, it is recommended that the government should develop financial education programmes with a representative from each industry that will educate small businesses on how to approach long-term investments in a manner that is suitable to the characteristics of each business and industry. This is recommended to small business owners because it will help them acquire skills and develop knowledge on how to undertake long-term investments in a way aligned to the nature and industry of small businesses.
2. To overcome barriers such as *Covid-19*, it is recommended that small business owners should seek to apply for Covid-19 rescue packages or grants that the government established during the course of Covid-19 in order to financially assist and promote long-term investments within their businesses. Also, small businesses are encouraged to seek and apply for additional funds through role players such as the Debt Relief Finance Scheme and Department of Trade, Industry and Competition, Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA).

6.6 SHORTCOMINGS

This study was only limited to small businesses in Makana Municipality, Eastern Cape. Therefore, it would be suggested that the study be explored in all the provinces in South Africa to allow a better understanding of the adoption of financial management practices by small business owners in South Africa.

6.7 CONTRIBUTION AND FUTURE RESEARCH

No study has been done on internal barriers to the adoption of financial management practices by small business owners in Makana Municipality. Therefore, this study contributes significantly to the literature because it focused on internal barriers that small businesses face when adopting financial management practices. The findings of this study introduced important areas such as the internal barriers that small businesses face when adopting financial management practices.

Theoretically, this study contributes to the existing literature by analysing the barriers faced by small business owners adopting financial management practices in the Eastern Cape. This study determined the financial management practices that are adopted by small businesses. Therefore, this study can be replicated or referred to by other researchers who will further pursue literature on adoption financial management practices. Also, other researchers may use this study to explore other areas of financial management practices that were not explored by this study.

Practically, this study highlighted the internal barriers that small business owners face to the adoption of financial management practices. Therefore, this study can assist small business owners in becoming aware of the most adopted financial management practices. Also, this study can assist small business owners to also become aware of the internal barriers towards the least or not adopted financial management practices. Hence, considering these contributions, this study recommended how small business owners can overcome the internal barriers to the adoption of financial management practices.

Future studies may investigate and analyse if the same findings and conclusions regarding the adoption of financial management practices will hold for small businesses in other provinces in South Africa. Future research should also explore the internal and external barriers facing small business owners towards the adoption of financial management practices in order to fully understand the factors which drive and inhibit the adoption of financial management practices. The study also recommends that future research focus on the extent to which external barriers may influence the adoption of financial management practices. Future researchers can also conduct a study in relation to why particular financial management practices are more adopted than others.

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APPENDIX A: ETHICS APPROVAL LETTER



Rhodes University Human Research Ethics Committee

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NHREC Registration number: RC-241114-045

<https://www.ru.ac.za/researchgateway/ethics/>

25 March 2022

Elizabeth TENDAYI

Email: g15t5634@campus.ru.ac.za

Review Reference: 2022-5236-6638

Dear Elizabeth TENDAYI

Title: Internal barriers facing small business owners adopting financial management practices in Makana Municipality, Eastern Cape.

Researcher: Miss Elizabeth Tendayi

Supervisors: Dr Xolile Antoni,

This letter confirms that the above research proposal has been reviewed and **APPROVED** by the Rhodes University Human Research Ethics Committee (RU-HREC).
Your

Approval number is: 2022-5236-6638

Approval has been granted for 1 year. An annual progress report will be required in order to renew approval for an additional period. You will receive an email notifying you when the annual report is due.

Please ensure that the ethical standards committee is notified should any substantive change(s) be made, for whatever reason, during the research process. This includes changes in investigators. Please also ensure that a brief report is submitted to the ethics committee on the completion of the research. The purpose of this report is to indicate whether the research was conducted successfully, if any aspects could not be completed, or if any problems arose that the ethical standards committee should be aware of. If a thesis or dissertation arising from this research is submitted to the library's electronic theses and dissertations (ETD) repository, please notify the committee of the date of submission and/or any reference or cataloguing number allocated.

Sincerely,



Prof Arthur Webb

Chair: Rhodes University Human Research Ethics Committee, RU-HREC

cc: Ms Danielle de Vos - Ethics Coordinator

APPENDIX B: CONSENT LETTER



PARTICIPANT INFORMED CONSENT DECLARATION

(To be signed by research participants)

Research Project Title: Internal barriers towards the adoption of proper financial management practices among small business owners in Makana Municipality, Eastern Cape.

Elizabeth Tendayi from the Department of Management, Rhodes University, has requested my permission to participate in the above-mentioned research project.

The nature and the purpose of the research project and of this informed consent declaration have been explained to me in a language that I understand.

I am aware that:

1. The purpose of the research project is to ***understand and analyse the internal barriers towards the adoption of proper financial management practices among small business owners in Makana Municipality, Eastern Cape.***
2. Rhodes University has given ethical clearance to this research project (***Ethics Approval Number: 5236***) and I have seen/may request to see the clearance certificate by contacting the Ethics Coordinator (ethics-committee@ru.ac.za).
3. By participating in this research project, I will be contributing towards ***information on the internal barriers towards the adoption of financial management practices among small business owners in Makana Municipality.***
4. I will participate in the project by ***expressing my opinions and experiences in the interviews that will be carried out by the researcher to obtain information on the internal barriers towards adoption of proper financial management practices among small business owners in Makana Municipality, Eastern Cape. The researcher will use an interview guide as guidance to carry out the interviews.***
5. My participation is entirely voluntary and should I at any stage wish to withdraw from participating further, I may do so without any negative consequences.
6. I will not be compensated for participating in the research, but my out-of-pocket expenses will be reimbursed.
7. The following risks are associated with my participation: ***The interviews will not pose any risk or threat to the participants. To mitigate any risks, the***

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participants will be reassured that they will not encounter any risks before the conduction of the interviews.

8. The Researcher intends to publish the research results in the form of **a written thesis**. However, confidentiality and anonymity of records will be maintained, and my name and identity will not be revealed to anyone who has not been involved in conducting the research, *unless I indicate to the contrary/recognise that as a public figure, my identity will inevitably be/become known in which case I agree to and accept the loss of confidentiality.*
9. In terms of the Protection of Personal Information Act, it remains my right to request the Researcher to provide me with a detailed explanation of exactly how confidentiality and anonymity will be achieved. I may request to know how my personal information will be stored securely, for how long it will be stored, and whether it is likely to be used again in further research.
10. In terms of the Protection of Personal Information Act, I possess the right to receive feedback about this research. This will take the form of **an email after the completion of the study. The feedback will include the recommendations and methods that the participants can employ to overcome some of the internal barriers towards the adoption of financial management practices in their small businesses.**
11. Any further questions that I might have regarding the research or my participation will be answered by the:
Researcher: Miss Elizabeth Tendayi at liz16tendayi@gmail.com
Supervisor: Dr Xolile Antoni at x.antoni@ru.ac.za
Ethics coordinator: Ms Danielle de Vos at d.devos@ru.ac.za
12. By signing this informed consent declaration, I am not waiving any legal claims, rights or remedies.
13. A copy of this informed consent declaration will be given to me, and the original will be returned to the researcher.

I,, have read the above information / confirm that the above information has been explained to me in a language that I understand and I am aware of this document's contents. I have asked all the questions that I wished to ask and these have been answered to my satisfaction. I fully understand what is expected of me during the research.

I have not been pressurised in any way and I voluntarily agree to participate in the above-mentioned project.

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I **agree/disagree** to the Researcher's request to voice record my comments and opinions during interviews, the purpose of which is to ensure the accurate recording of my views. Furthermore, I have the right to request a copy of interview transcriptions to confirm that my opinions are accurately recorded.

.....
Participants signature

.....
Date

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APPENDIX C: INTERVIEW GUIDE (CLOSE-ENDED QUESTIONS)



QUESTIONNAIRE

Instructions: There are two sections which are section A (demographic information) and section B (business characteristics). The research participants will be required to complete section A and B.

SECTION A: DEMOGRAPHIC INFORMATION

Please complete the following:

Gender	
Age (approximately)	
Ethnicity	
Education or qualification level	
Owner or Manager	
Ownership Structure (e.g. partnership, sole trader)	
Industry of the business	

SECTION B: BUSINESS CHARACTERISTICS

Please complete the following:

Number of years in operation in Makana Municipality	
Number of employees (approximately)	

SECTION C: FINANCIAL MANAGEMENT PRACTICES

Below are the different types of financial management practices that are adopted by small businesses. Please indicate by either a Yes or No on the financial management practices which are applicable to your business.

Cash management practices (e.g. how do you control the use of and account for cash)	Yes	No
Do you adopt cash management practices?		

Do you have a process/system of recording your cash receipts from customers?		
--	--	--

Accounts receivables management practices (e.g. how do you monitor and follow up on your debtors)	Yes	No
Do you adopt accounts receivables management practices?		
Do you sell your products on credit?		
Do you have a credit policy in the business?		

Accounts payables management practices (e.g. how do you monitor your creditors to ensure that you maintain a good credit record)	Yes	No
Do you adopt accounts payables management practices?		
Does your supplier offer credit?		
Do you use credit offered by your supplier?		
Do you find it beneficial to use credit from your suppliers?		

Inventory management practices (e.g. how do you monitor your inventory movement, bought, sold. How do you determine fast or slow moving inventory and make decisions to sell more or less)	Yes	No
Do you adopt inventory management practices?		
Do you have someone within your business that is responsible for managing your inventory?		
Is the manager responsible for managing inventory?		
Do you have a process/system that determines the amount of inventory to hold in your business?		
Do you have a process/system that monitors the incoming and outgoing inventory in your business?		

Working capital management practices (e.g. how you manage your debtors, creditors and inventory)	Yes	No
Do you adopt working capital management practices?		
Do you have a process/system that monitors the way you deal with your debtors, creditors and inventory?		

Capital budgeting (investment management) practices (e.g. how you determine which investment projects to undertake)	Yes	No
Do you adopt capital budgeting/investment management practices to determine which projects will be most profitable?		
Does your business engage in any long-term investments (e.g. 2 years and more)?		
Is your business currently undertaking big projects? (Examples: renovations, purchase of solar systems, generator, air conditioners, big printers, cars)		
Does your business employ capital budgeting techniques when engaging in long-term investments? [Examples of budgeting techniques are listed below]		
• Payback period		
• Net Present Value (NPV)		
• Internal Rate of Return (IRR)		
• Profitability Index		
• Modified Internal Rate of Return (MIRR)		

Capital structure (financing) practices (ways that you use to finance your business or fund your business operations)	Yes	No
Do you have a way (process/system) that you employ to finance your business?		

Do you use debt to fund your business? (e.g. financial assistance from family and friends, trade credit and formal suppliers of finance such as banks, financial institutions and stock markets)		
Do you use equity to fund your business? (e.g. retained profits and personal savings)		

Accounting information systems (e.g. computer-based system/method to collect, store and process financial and accounting data)	Yes	No
Do you have a computer-based system/method to collect, store and process financial and accounting data such as;		
• Sage		
• Pastel		
• Zero		
• Quickbooks		
• Excel		

Financial reporting and analysis practices (e.g. a record of your financial information such as balance sheet, profit and loss account)	Yes	No
Do you employ book-keeping practices in your business?		
Do you hire an external accountant or business expertise to do financial reporting analysis for your business?		
Do you keep a record of your financial reports?		
Do you do your own financial reporting and analysis within your business or have an in-house bookkeeper?		
Do you report financial information to your stakeholders or other users of the financial information?		
What kind of financial reports do you use; • Statement of Financial Position (Balance Sheet)		

• Income Statement (Profit and Loss Statement)		
• Statement of Cash Flows		
• Statement of Changes in Owner's Equity		
• notes to the Financial Statements		

Conclusion

This marks the end of the questionnaire. I look forward to our interview session. Thank you for participating in this study.

APPENDIX D: INTERVIEW GUIDE (OPEN ENDED QUESTIONS)



INTERVIEW GUIDE

Instructions: Section C is based on the questions on the questionnaire. A discussion between the interviewer (researcher) and the research participants will be carried out in this section as a follow up after the completion of sections A and B in the questionnaire.

SECTION C

Cash management practices

1. What key internal challenges do you encounter in cash management?
 - Knowledge
 - Skills
 - Resources
 - Fear of losing control
2. Would you consider these challenges as barriers to the implementation of cash management?
3. Other than the internal challenges mentioned above, are there any other challenges that you encounter when controlling the use of cash?

Inventory management practices

1. How do you determine the amount of inventory to hold in your business?
2. Please explain how you monitor incoming and outgoing inventory in your business?
3. What key internal challenges does your business encounter when dealing with inventory management?
 - Knowledge
 - Skill
 - Resources
 - Fear of losing control
4. Would you consider these challenges as barriers to the implementation of inventory management?

Accounts payables management practices

1. What are some of the internal challenges you encounter when dealing with accounts payables (credit offered by your suppliers) in your business?
 - Knowledge
 - Skill
 - Resources
 - Fear of losing control
2. Would you consider these challenges as barriers to the implementation of accounts payables management?

Accounts receivables management practices

1. How do you determine whom to grant credit to customers?
2. What internal challenges do you encounter when selling products on credit (accounts receivables)?
 - Knowledge
 - Skill
 - Resources
 - Fear of losing control
3. Would you consider these challenges as barriers to the implementation of accounts receivables management?

Financing/Capital structure

1. What do you consider before borrowing or using equity (own or investors' money)?
2. What are some of the internal challenges you encounter when using equity to finance your business?
3. What are some of the internal challenges you encounter when using debt to finance your business?
 - Knowledge
 - Skill
 - Resources
 - Fear of losing control
4. Would you consider these challenges as barriers to the implementation of capital structure?

Capital budgeting/Investment

1. What kinds of long-term investment projects does your business undertake?
2. What internal challenges do you encounter when using capital budgeting techniques to determine long-term investments?
 - Knowledge
 - Skill
 - Resources
 - Fear of losing control
3. Would you consider these challenges as barriers to the implementation of capital budgeting?

Accounting information systems

1. Please describe the computer-based system that your business uses to collect, store and process financial and accounting data.
2. What internal challenges do you encounter when using accounting information systems?
 - Knowledge
 - Skill
 - Resources

- Fear of losing control
3. Would you consider these challenges as barriers to the implementation of accounting information systems?

Financial reporting and analysis/Accounting practices

1. Do you use external financial consultants or business expertise to report the financial performance of the business? If not, why not?
2. What are some of the internal challenges that you encounter when reporting the financial performance of your business?
 - Knowledge
 - Skill
 - Resources
 - Fear of losing control
3. Would you consider these challenges as barriers to the implementation of capital budgeting?

Conclusion

This marks the end of the interview session. Thank you for participating in this study.

