Analysing the need for financial literacy in small- and micro-enterprises

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Dissertation submitted in fulfilment of the requirements for the degree *Magister Commercii* in *Management Accountancy* at the Potchefstroom Campus of the North-West University

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November 2016
SUMMARY

Title: Analysing the need for financial literacy in small- and micro-enterprises

Key terms: SMMEs, small- and micro-enterprises, small- and micro-enterprise owners, enterprise start-up, needs, financial literacy

Small- and micro-enterprises form an integral part of any economy. This is no different in South Africa, where small- and micro-enterprises provide employment, assist in alleviating poverty and contribute to overall growth of the economy. Nonetheless, the significance of small- and micro-enterprises demonstrates a very low survival rate, especially within the first five years of trade. A lack of financial literacy has been identified as a prevalent reason behind failure, in addition to being a factor that hinders the development and growth of small- and micro-enterprises. A lack of financial literacy is believed to be accompanied by the display of a lack of enterprise management skills and is often associated with other challenges that hinder the development and growth of small- and micro-enterprises, such as a lack of access to finance. Several studies have highlighted the importance of financial literacy; however, the limited research available on the topic within a small- and micro-enterprise context limits our understanding thereof. This hinders the development of meaningful interventions on the side of financial literacy to enhance the sustainability and growth of small- and micro-enterprises. This study aims to analyse the financial literacy of small- and micro-enterprise owners in addition to determining the financial literacy needs through the identification of areas of weakness. It further aims to determine the financial literacy needs as per the small- and micro-enterprise owners. The analysis of the financial literacy needs provides meaningful information in order to provide recommendations based on the results obtained.

A detailed literature review as well as empirical research was conducted in order to analyse the need for financial literacy in small- and micro-enterprises. The review of literature revealed that defining small- and micro-enterprises remains a convoluted matter around the globe, with South Africa being no exception. Determining a uniform definition of financial literacy is also a difficult matter; however, common attributes are found in several definitions presented by various researchers, which include that financial literacy is a form of knowledge and understanding of financial concepts, products and services; the ability to apply such knowledge; being able to make informed or effective decisions regarding the management and use of money; and that it pertains
to an individual’s ability to work with numbers. The investigation of financial literacy, enterprise management skills, along with factors that affect financial literacy provided a framework on which the development of a questionnaire was based. The review of literature also enriched the interpretation of the results obtained through the empirical research.

The questionnaire developed was completed by small- and micro-enterprise owners from a suburb in Potchefstroom, namely Promosa, South Africa. Follow-up interviews were conducted after completion of the questionnaire and served the purpose of enriching the findings.

It was found in that the knowledge of finance, financial concepts and the understanding thereof of small- and micro-enterprise owners is low and that the owners particularly fell short in planning for their enterprises. The major areas of weakness identified were related to the knowledge and understanding of interest and inflation and decision-making. It was also found that the use of the services of accountants, financial advisors, lawyers and other professionals for the purpose of the enterprise among the small- and micro-enterprises is not very common and the numeracy abilities of the owners came into question after poor results were scored in the questions that required basic calculations. Recommendations, among others, of ways to improve the financial literacy of small- and micro-enterprise owners include the establishment of government support programmes specifically aimed at improving financial literacy and basic accounting capabilities; SARS could assist in developing financial education strategies that are targeted at improving the knowledge and application of taxation; corporate entities should consider investing in corporate social responsibility initiatives in the form of financial education programmes; and small- and micro-enterprise owners should be more proactive in educating themselves on financial literacy and enterprise management matters.

Results also showed that the majority of the small- and micro-enterprises were started out of necessity and the majority initial funding came from personal capital. It was further established that small- and micro-enterprises are in great need of financial literacy, as the owners placed very high importance on obtaining knowledge and learning more about financial literacy concepts, especially on learning how to save and invest money. Funds to grow the small- and micro-enterprises were identified as the greatest current need that the owners have with regard to their enterprises. The analysis of financial literacy and current greatest needs of the small- and micro-enterprise owners enabled the researcher to identify and suggest interventions to enable the growth and development of these enterprises as well as enhancing their contribution to the South
African economy. Some of the interventions include the implementation of a small- and micro-enterprise financial literacy mentorship tier programme where incentive is provided by the government (by way of BEE points, grants, subsidies, and other.) to enterprises that provide mentorship to a smaller entity to their own; establishing a government advisory programme for all prospective enterprise owners seeking funding from the government to start an enterprise, which places an emphasis on improving the causes of reasons why funding applications are rejected; as a way to secure their investments in small- and micro-enterprises, financial institutions should provide free or affordable financial education and enterprise management programmes to enterprise owners who have received financial support from the institutions; and the Unemployment Insurance Fund (UIF) can invest in the implementation of an entrepreneurship training programme designed to improve or advance entrepreneurial skills and related knowledge to equip unemployed individuals with the skills necessary to start their own enterprises.

This study contributes to limited existing research or data available on the financial literacy of small- and micro-enterprises in South Africa. It also provides valuable insight into the areas of weakness in terms of the financial literacy of small- and micro-enterprises as well as their financial literacy and other support needs.
AKNOWLEDGEMENTS

Without the wonderful grace and favour that God has demonstrated towards me, this writing piece would not have been possible. I would therefore like to give Him utmost thanks for giving me strength, discipline, guidance and wisdom. I also want to sincerely thank the following individuals who have made this study possible:

- Professor Jaco Fouché for his commitment, for sharing his brilliant mind with me, leading me, and for all the hours he invested in me through this study.
- To my gran, Magdalene Say, for always believing in me no matter what.
- To my mom, Maria Say and my sisters Adeline and Emma, for all the encouragement and essential support.
- To my life mentor, Vesta (Rachel) Derbyshire, no words can describe my gratitude towards your support throughout my life.
- To all the enterprise owners who took time out of their busy schedules to take part in this project.
- To Dr Suria Ellis for the assistance, advice and all the inputs relating to the statistical analysis performed.
- To Cecile van Zyl for her professional language editing assistance.
- Lastly, to the best husband in the whole world, Zane Derbyshire, for your love, patience, never-ending support and non-stop motivation right through this project. You are my champion.
REMARKS

The reader is reminded of the following:

This dissertation is presented in article format in accordance with the policies of the WorkWell Research Unit of the Faculty of Economic and Management Sciences at the North-West University and consists of two research articles (faculty rule E.8.3). In terms of these policies, two unpublished manuscripts in article format may be presented for the purposes of a dissertation that make up more than 50% of the master’s degree.

Each of the individual articles complies with the writing style requirements (i.e. the abstract, spelling, grammar and referencing requirements) of the journal to which the article was submitted.

The author requirements and related documentation specific to each journal are included as part of the annexure at the end of the dissertation.
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<tr>
<td>ABSA</td>
<td>Amalgamated Banks of South Africa</td>
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<td>ANZ</td>
<td>Australia and New Zealand Banking Group</td>
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<tr>
<td>BEE</td>
<td>Black Economic Empowerment</td>
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<td>BSA</td>
<td>Basic Skills Agency</td>
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<tr>
<td>CDE</td>
<td>Centre for Development and Enterprise</td>
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<tr>
<td>CIPRO</td>
<td>Companies and Intellectual Property Registration Office (South Africa)</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<tr>
<td>DTI</td>
<td>Department of Trade and Industry South Africa</td>
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<td>EU</td>
<td>European Union</td>
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<td>FSA</td>
<td>Financial Services Authority</td>
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<td>FSB</td>
<td>Financial Services Board</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GEM</td>
<td>Global Entrepreneurs Monitor</td>
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<td>IEG</td>
<td>Independent Evaluation Group</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>NCEE</td>
<td>National Council on Economic Education</td>
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<td>NCR</td>
<td>National Credit Regulator</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>RSA</td>
<td>Republic of South Africa</td>
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<td>SARB</td>
<td>South African Reserve Bank</td>
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<td>SARS</td>
<td>South African Revenue Service</td>
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<td>SBP</td>
<td>SBP Business Environment Specialist</td>
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<td>SME</td>
<td>Small and medium-sized enterprises</td>
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<td>SMME</td>
<td>Small, Medium and Micro-sized Enterprises</td>
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<td>StatsSA</td>
<td>Statistics South Africa</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational Scientific and Cultural Organization</td>
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<td>VAT</td>
<td>Value-Added Tax</td>
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CHAPTER 1 - INTRODUCTION, LITERATURE REVIEW, OBJECTIVES, SCOPE AND COURSE OF STUDY

1.1 Introduction

1.1.1 What are small- and micro-enterprises?

Defining small- and micro-enterprises remains a convoluted matter all around the world, as no universal definition for SMEs exists. The classification of small enterprises is based on certain objective standards for some countries, of which the total number of employees and total amount of fixed investments are included, while others use turnover of an enterprise as a criterion to determine the size (Lokhande, 2011:39). Gibson and Van der Vaart (2008:1) are of the view that faults and inadequacy in defining SMEs exist, especially with reference to developing countries. This matter is no different for South Africa, as different classification criteria and benchmarks are present in the definitions provided in legislation, publications from government and individuals from the private sector.

The Department of Trade and Industry of South Africa (DTI, 2006) asserts that no single definition for small firms exists and that the reason for that would mainly be the wide diversity that these enterprises trade in. The White Paper (1995:8) agrees with this reason, as it states that the small enterprise sector is highly diverse due to differing factors between segments, such as structures, problems, growth potential and access to support. It also states that these differences relate to the economic sector in which the enterprise trades.

Gibson and Van der Vaart (2008:6) assert that official definitions of SMEs, with specific reference to their rank of maximum employment, used by national governments, differ. They also state that, on a logical scale, the rankings should at least tend to be similar for countries with similarities, keeping in mind geographical and economic diversity; however, this has been proven not to be the case.

Different parameters are used to categorise small-, micro- and medium enterprises. In some instances, consideration is given to the number of employees participating in the trade of the enterprise, and in others, turnover and investment levels or the value of the assets are used (Ayyagari et al., 2003:4). It has been found that often combinations of these parameters are used;
however, there always seem to be discrepancies in the conclusions that are reached in terms of the classification of SMMEs.

The World Bank uses employment as its main indicator to determine the size of an enterprise and has concluded the figure of 250 employees as the cut-off to define an SME (Ayyagari et al., 2003:4).

The South African National Small Business Act (1996:2) classifies a ‘small business’ into four categories, namely micro-, very small-, small- or medium enterprises. A small enterprise, in terms of the Act, would be categorised based on the sector or sub-sector, total number of full-time equivalent paid employees, total annual turnover and total gross asset value (fixed property excluded). According to the Act’s classifications, the cut-off number of employees for small enterprises never exceed 50.

The South African National Small Business Act (1996:15-16), in concurrence with the amendments to the Act, as recorded in the South African National Small Business Amendment Act (2003:7-8), stipulates that a micro-enterprise has up to five employees, a maximum total turnover that ranges between R100 000 and R200 000, and total gross assets with an upper limit of R100 000. A very small enterprise has more than five employees up to a maximum of 20, a total turnover maximised between R500 000 and R6 000 000, and total gross assets have a maximum range between R500 000 and R2 000 000. A small enterprise has up to a maximum of 50 employees, between R3 000 000 and R32 000 000 in total turnover and total gross assets range between R1 000 000 to R5 000 000, all of which depends on the sector or subsector within which the enterprise trades.

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995:9) identifies four categories of small enterprises; however, these are survivalist-, micro-, small- and medium enterprises. The White Paper also points out certain issues related to these enterprises, for example the lack or presence of ‘formality’ in terms of licenses, value-added tax (VAT) registration, formal enterprise premises and accounting procedures. On a conclusive basis, the White Paper affirms the employment cut-off as established by the National Small Business Act.
The Department of Trade and Industry in South Africa (2008a) categorises an enterprise based on the relative asset size or, alternatively, the number of employees within the enterprise. This is a reference to the definition of SMMEs under the Small and Medium Enterprise Development Council Resolution of 2003. The guidelines presented state that a micro-enterprise has up to R3 000 000 worth of assets; a small enterprise has between R3 000 001 and R15 000 000 worth of assets; whereas a medium enterprise has between R15 000 001 and R100 000 000 worth of assets. The alternative classification indicates that a micro-enterprise has between one and nine employees, a small enterprise between 10 and 99, and a medium enterprise between 100 and 199.

Small enterprises have been operating since the beginning of enterprise creation, yet no united definition for SMMEs exists. As the years have progressed, recognition of the role that small-, micro- and medium enterprises play has progressed. However, according to the World Bank, little systematic research in support of the latter statement is available, primarily due to the lack of data (Ayyagari et al., 2003:2). This is an indication of the restricted research that is available around the globe on SMMEs. Blackburn and Kovalainen (2009:127) give credit to the fact that research on small firms and enterprises has progressed in the past three decades; however, despite significant conceptual and theoretical developments in the field, the quality of this information still raises some concerns.

1.1.2 The importance of small- and micro-enterprises

Discordant opinions exist on the ability of small- and micro-enterprises to influence an economy, as many people argue that only large entities are able to exert influence on an economy. A study done on behalf of the Southern Africa Labour and Development Research Unit (University of Cape Town) by Kerr et al. (2013:1-10), concluded that small firms have little impact on job creation in South Africa and that larger firms are better job creators. This study merely included registered VAT vendors, indicating that most of these enterprises examined produced taxable income of more than R1 million, as this is the threshold for registration. They also specified that the median enterprise has seven employees, indicating that a different definition of a small enterprise had been interpreted relative to the above-mentioned definitions.

Nonetheless, in economies across the world, the role and contribution of small- and micro-enterprises cannot be denied. The World Bank reports that SMEs, relative to larger firms, enhance
competition, entrepreneurship, job growth and spur economy-wide efficiency, innovation, growth, and poverty alleviation (SBP, 2013:1-2). This is especially true in countries such as South Africa, where successful small- and micro-enterprises play an important role in economic development, satisfying the demand of small markets, relieving unemployment, creating economic growth opportunities within communities, and therefore also aiding the great challenge of poverty that South Africa struggles to obliterate as a developing country.

In the absolute poverty trend examination report published by Statistics South Africa in 2014 for the period between 2006 and 2011, it was established that 45.5% of South Africans lived in poverty in 2011. The latter percentage was based on an inflation-adjusted poverty line (per capita per month in Rands) of R620. Out of the 45.5%, it was concluded that 20.2% of the population lived in extreme poverty (StatsSA, 2014a:8-12).

In recent statistics, it has been reported that South Africa’s unemployed rate is estimated at 25% of the workforce, which surpasses the global rate of six percent (SBP: 2013:2). The current unemployment rate in South Africa seems to have worsened over the past years. It reached a high in 2013/2014 compared to what it was when the world was in the midst of the most recent recession that the world is currently recovering from. Statistics from Statistics South Africa (StatsSA, 2014b:16) for the first quarter of 2014 indicate that unemployment rates are not showing improvement. When comparing the last six years, the total increase in the unemployment rate has grown with an average rate of 2.24%. In the first quarters of 2008 and 2009, the unemployment rate stood at 23%, while the 2014 rate is 25.2%.

In contrast to the findings of Kerr et al. (2013), Ligthelm (2005:199) asserts that it is estimated that the informal sector, which mainly consists of micro- and survivalist enterprises, accounts for approximately two-thirds of urban employment in Africa and the annual growth thereof is estimated at seven percent. The South African National Planning Commission’s National Development Plan has indicated that they expect that small- and medium-sized firms will play an important role in job creation in South Africa over the next 20 years (National Planning Commission, 2012: 140). The South African government acknowledges the significance of small- and micro-enterprises on the nation’s growth through the implementation of a number of government support programmes aimed at assisting these entities through financial and technical support, as well as innovation to find ways to strengthen market opportunities for them. These programmes are enforced by the National Small Business Act of 1996. Ligthelm (2008:368)
comments that SMME development is one of the priority programmes of the South African
government. This is substantiated by the fact that the 1995 White Paper outlines a policy
framework in providing an enabling environment for small enterprise development in South Africa,
and the instating of a Minister of Small Business Development, Ms Lindiwe Zulu, in 2014 to
oversee the development and growth of small enterprises (Anon, 2014).

Determining the actual size and contribution of SMMEs to the economy remains a challenge due
to inherent limitations, such as dispersion of these enterprises, lack of formal registration and
ageographical issues, etc., resulting in challenges in gathering information. The White Paper
(1995:8) states that there are more than 800 000 SMMEs in the country, which absorb more than
a quarter of the labour force in South Africa. According to Ligthelm (2006:33), in 1999, the South
African Reserve Bank suggested that the informal sector alone contributes approximately seven
percent to the GDP of the country. Based on surveys, samples and discrepancy methods – such
as global indicators – undertaken by the Bureau of Market Research of the University of South
Africa in 2004, they estimated a total contribution of 4.6% to the country’s GDP by enterprises in
the informal sector (Ligthelm, 2006:49). Booyens (2011:4) asserts that the combined SMME
sector contributes approximately 50% to the South African GDP and employs 60% of its labour
force – these statistics are derived from the SME survey and SMME confidence index data.

Although the above findings are not in agreement, it is evident that SMMEs do make a significant
contribution to GDP and job creation and should be supported. However, why do enterprise
owners start these enterprises?

1.1.3 Why do people start their own enterprises?

Shaver et al. (2001:6) affirm that no enterprise is created by accident, but a new venture is rather
created as an intentional act that engages repeated attempts to exercise control over the process,
in order to achieve the desired outcome of the entrepreneur. Predominantly, the decision to start
an enterprise is driven by previous work experience, family environment, motivation, personality,
societal ‘norms’, status, etc., as suggested by Storey (1994:60).

The dream to start your own enterprise is “fuelled by the sense of freedom that comes from being
in control of your own destiny, where success or failure lies solely in your own ability to make it
happen” (Bustamante, 2013:10).
In South Africa, the motivations mentioned above are part of the reasons behind starting an enterprise; however, other significant factors are driving forces for SMMEs, such as to supplement the income of the owner; however, more commonly, these enterprises are started out of necessity. Ligthelm (2005:204-205) maintains that in a local survey conducted in the informal trade sector of micro- and survivalist enterprises, approximately 6.2% of owners choose to start their own enterprise when they perceive a lucrative enterprise opportunity, while 17.6% join a family enterprise that already exists. A further 17.9% wish to supplement their income and 5.6% have the desire to work from home. Predominantly, 52.1% of the owners entered into an enterprise out of necessity, as these owners indicated that they were unemployed at the time they started their own enterprises.

The shortage of employment opportunities and high costs of living enabling personal survival compel individuals to enter into some form of self-employment to keep their heads above water. Woodward *et al.* (2011:66) cite that many South Africans turn to informal enterprises, as they are unable to find work in the formal economy. As a result, several individuals enter into a business without entrepreneurial skills, basic financial literacy, proper enterprise planning, strategy formulation, risk analysis, little to no enterprise experience and no initial objective of organic growth, yet with the communal goal of wealth creation or even just survival. With this lack of knowledge and skills, what are the chances of survival?

### 1.1.4 The viability of SMMEs

Ligthelm (2008:379) asserts that only 25% of all new enterprises survive beyond 3.5 years. The Minister of Trade and Industry, Rob Davies, released a statement revealing that five out of seven small enterprises started in South Africa will be out of enterprise during the first year of trade (Kgosana, 2013:1).

The Minister of Small Business Development, Lindiwe Zulu, stated that, according to research, businesses with fewer than 20 employees only have a 37% chance of survival during the first four years of trade and only a nine percent chance of surviving for 10 years (Zwane, 2014:1). The Minister also noted that a lack of financial knowledge and red tape are the lead influential factors behind the high failure rate of small businesses. This indicates that starting and maintaining an
enterprise in South Africa, to a certain degree, requires dedication and specific skills in order to be sustained.

In contrast to the high failure rates of small- and micro-enterprises in South Africa, franchises prove to be more successful in sustainment and growth. Timm (2013) reported that surveys found that 75% of franchisors have been in trade for more than six years; in addition, nearly half of all franchisors have been in operation for more than 12 years and franchisors are optimistic about future growth. Entering into a franchise is not necessarily an affordable alternative, in terms of financing, for small- and micro-enterprise owners. Cooper (2013:1) reported that unless you have enough money to pay for a franchise in cash, you will need to find a financing alternative.

1.1.5 Reasons for the failure of SMMEs

The White Paper 1995 (1995:12) asserts that “there can be no doubt that, compared to big enterprise in South Africa and in other countries, small enterprises face a wider range of constraints and problems and are less able to address the problems on their own, even in effectively functioning market economies. The constraints relate, among others, to the legal and regulatory environment confronting SMMEs, the access to markets, finance and enterprise premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, the quality of the enterprise infrastructure in poverty areas and, in some cases, the tax burden.”

The current state of the economy, slow growth, consistent increases in operational costs, such as electricity prices and the limitations of supply thereto in South Africa, the weakening of the South African rand against international currencies, and the persistence of high rates in long-term unemployment (OECD: 2013:11) suggest that larger enterprises are confronted with survival threats. If this is the case for medium and large enterprises, SMMEs face more substantial threats to survival and growth, as opposed to the already disadvantaged position that owners of these enterprises find themselves in, in terms of efficient entrepreneurship, access to finance, basic financial literacy, social problems to be dealt with, etc.

As previously stated with regard to the findings of the Minister of Small Business Development, a lack of financial literacy and formalities threaten the viability of small- and micro-enterprises. Failure to execute sound business management, record-keeping in conjunction with keeping them
up to date, forecasting and monitoring of progress, among others, could impose the beginning of the end for a small enterprise (Lussier, 1996:11). This ultimately proposes the end of any initial growth prospects. ABSA (Anon, 2010:1) bank stated in 2010 that the small enterprise failure rate is as high as 63% in the first two years of trading; it also stated that the reasons therefore included poor management and a lack of structure and infrastructure. However, the lack of financial literacy seemed to be the biggest reason (Anon, 2010:1).

Financial literacy is the knowledge of financial matters needed to make informed judgements and decisions on the management of money (Nauta, 2013:13). Basic financial literacy is essential to enable a person to distinguish between credit and debt, to know how to read or compile a budget, income statements, etc., to keep record of income, expenditure and cash flow, being able to identify problems that could be fatal to the enterprise or being able to make important financial decisions that could decide the fate of the enterprise. The latter-mentioned skills and knowledge are needed for any enterprise to survive.

With so many people depending on SMMEs, the threat of failure of SMMEs enhances the social challenges the nation faces, as well as the personal financial well-being of the enterprise owners, because the capital used to enter into these enterprises often comes from the life savings of the individuals, inheritance funds, severance and retirement benefits and from debt finance.

These threats of failure and limitations to growth, on the side of financial literacy, need to be understood in order to suggest an intervention that may help support the viability of SMMEs in the country.

1.2 Problem statement

The inconsistencies in defining small- and micro-enterprises outlined above give motive for a study to be performed in order to determine a more candid definition for these small- and micro-enterprises within the South African context.

The contribution of the small enterprise sector to economic development, growth and employment cannot be denied. However, limited research has been conducted on small- and micro-enterprises. Worldwide, attention is paid attentively to the operations, development and progression of medium and large enterprises by investors, economists, the Central Bank, the
media, etc., while little consideration and effort into research of the success, performance, growth and survival of small- and micro-enterprises is given due to a lack of interest in them from various stakeholders.

The start of small- and micro-enterprises is often driven by a necessity to maintain a certain standard of living. Owners of these enterprises invest nearly all of their financial resources, time and effort in an attempt to generate income to keep afloat and increase wealth. The sustainability and growth of these enterprises tend to be more sensitive to significant factors from the greater economy, inherent risks of dealing in the small- and micro-enterprise sector, social issues, restricted access to financial resources, etc. These are some of the profound matters that pose threats to the survival and growth of these enterprises.

Many entrepreneurs starting up a small- or micro-enterprise have insufficient enterprise experience or little financial literacy, and therefore many small- or micro-enterprises face many concealed and prevalent threats to their survival and growth. The limited amount of research, however, limits our understanding of these enterprises and the sort of interventions that would enable them to reduce the risk of failure. Further research is needed to understand small- or micro-enterprises and their needs in order to identify and suggest interventions to enable them to develop communities, as well as to enhance their contribution to the economy and job creation.

1.3 Objectives

1.3.1 Main objective.

The main objective of this study is to analyse the need for financial literacy in small- and micro-enterprises in order to provide recommendations regarding obtaining financial literacy and managerial skills, to assist the development and sustainability of small- and micro-enterprises.

The main objective will be achieved by means of the following secondary objectives.

1.3.2 Secondary objectives.

1. Establishing an understanding of small- and micro-enterprises;
2. Establishing the reasons for starting the enterprises and the source of where initial funding was obtained by the owners of the enterprises at that time;
3. Exploring the definition of financial literacy and establish the definition for financial literacy within the context of small- and micro-enterprises;
4. Examining the consequences of a lack of enterprise financial literacy and management skills on the viability and growth of small- and micro-enterprises;
5. Investigating the presence of managerial skills of enterprise owners with regard to enterprise administration and financial practices;
6. Investigating the financial literacy of enterprise owners and determining areas of financial literacy weakness;
7. Investigating the financial literacy needs of the enterprise owners as well as their greatest perceived needs with regard to their enterprises; and
8. Recommend a framework to be considered in supporting small- and micro-enterprises on the side of financial literacy.

1.4 Research design/method

Scope

The study will only focus on small- and micro-enterprises, which will be defined for a South African context in this study, in a suburb of Potchefstroom, South Africa (namely Promosa), due to observing a high rate of demise among small- and micro-enterprises within the suburb. The small- and micro-enterprises within the suburb consist of tuck shops, taverns, crèches, gyms, butcheries, rental services and personal service providers. The purpose of focusing on small- and micro-enterprises is borne from the fact that it has become increasingly difficult to sustain a small- and micro-enterprise in South Africa due to several factors, among which poor management, a lack of financial literacy and red tape appearing to be the most prominent. For the purpose of this research study, only small- and micro-enterprises that trade from a prominent address will be used.

To achieve the objectives stipulated in section 1.3, a thorough literature review with an empirical study will be conducted.

1.4.1 Literature review
The method proposed is to review the literature of theorists currently available with regard to research on SMMEs in South Africa. Specific attention will be paid to the perceived definitions of SMMEs in South Africa. It is, however, evident that discrepancies and inadequacies exist in defining SMEs in developing countries (Gibson & Van der Vaart, 2008). This will aid the process of defining small- and micro-enterprises, within a South African context, for this study. A further review of business management skills and financial literacy pertaining to SMMEs and what is seen to be the purpose thereof, will take place. One of the leading financial institutions, ABSA, as well as the Minister of Small Business Development in South Africa outlined that poor management, a lack of financial literacy and red tape are by far the most prominent reasons for the significant failure rate of small businesses in South Africa (refer to sections 1.4 and 1.5). A review of literature regarding financial literacy will take place, which is essential to be able to determine financial literacy within the context of SMMEs. The aim with the literature review is to address secondary objectives 1 to 4. In addition, the review of literature will also establish a theoretical base for the empirical research to be conducted.

1.4.2 Empirical research

Empirical research will be conducted specifically to address secondary objectives 2 and 5 to 7. An empirical study will be performed on selected businesses in Promosa, as there is an indication, derived from observation, that small- and micro-enterprises within the suburb struggle to survive and show growth. Small- and micro-enterprises will be purposefully selected out of the existing pool of small- and micro-enterprises within the suburb. The anticipated enterprises to be investigated in this study will consist of tuck shops, taverns, crèches, gyms and other service providers, such as individuals who supply prepaid electricity on behalf of the municipality.

The empirical study will be done in the form of a comprehensive questionnaire to the small- and micro-enterprise owners. The questionnaire will include a list of questions to obtain the business start-up reasons of entrepreneurs, financial literacy awareness and it will also test the financial literacy needs of the mentioned businesses. The responses will be documented and analysed to attain a reasonable conclusion.

In addition, in-depth, semi-structured follow-up interviews with the purposefully selected enterprise owners are to be conducted and analysed to reach a conclusion aimed at the same
objectives as listed above, namely 2 and 5 to 7. The interviews serve the purpose of certifying that the results obtained from the questionnaire had been interpreted correctly. Due to limited available literature on SMMEs, the aim is to achieve a better understanding of SMMEs through a bigger scale of qualitative research for this exploratory study.

1.5 Overview

This study is conducted in six chapters as follows:

Chapter 1: Introduction

This chapter contains the introduction to the research study. The background of SMMEs, the definition of SMMEs, the reason why people enter into their own enterprise and the viability of SMMEs will be discussed. The problem statement will outline the matter under consideration in this study. The research objectives will be provided as well as the proposed methods that will be followed in this research study.

Chapter 2: Understanding SMMEs, financial literacy and enterprise management skills within small- and micro-enterprises

Determining a definition for small- and micro-enterprises within a South African context;
Determining a definition of financial literacy within the context of small- and micro-enterprises;
Investigating the reasons for starting the enterprises and initial objectives of the owners at that time; and
Investigating the consequences of a lack of business management skills and financial literacy on the viability and growth of the small- and micro-enterprises.

Chapter 3: Research methodology

Chapter 4: Article 1

Analysing financial literacy among small- and micro-enterprise owners in South Africa: A case study
This chapter will firstly analyse the enterprise administration, financial practices and exposure to financial education in the past of the enterprise owners who took part in the study. Furthermore, it will analyse the financial literacy of the small- and micro-enterprises in addition to identifying specific areas of weakness in terms of financial literacy. Recommendations in relation to the findings of the research conducted for the purpose of the article will also be made.

Chapter 5: Article 2

Analysing the needs of small- and micro-enterprise owners: A South African suburb case study

This article will research the start-up motivations of the small- and micro-enterprise owners as well as the financial literacy and other needs of small- and micro-enterprises.

Chapter 6: Summary, recommendations and conclusions
2.1 Introduction

In Chapter 1, inconsistencies in defining small- and micro-enterprises were outlined as well as a background given on the contribution of SMMEs to the economy and job creation in South Africa. A background for the need for financial literacy in small- and micro-enterprises was established and several problems associated with the lack of financial literacy in small- and micro-enterprises were identified. In addition, specific objectives for this study were ascertained.

Small- and micro-enterprises are regarded as essential driving forces in terms of economic growth, employment creation and poverty alleviation in developing countries (Okpara & Wynn, 2007:24). In South Africa, a developing country, the important contribution of small- and micro-enterprises has been conceded for decades. Government support structures and policies originated from and have been implemented since the 1990s. The White Paper on National Strategy for the Development of Small Enterprises in South Africa came into existence in 1995 and The National Small Business Act soon followed in 1996 to endorse the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency, as well as to outline guidelines in order to promote the development of small enterprises within the country (National Small Business Act, 1996:1), which are just a few to mention.

In recent research conducted on small enterprises, discordance has arisen concerning the ability of small- and micro-enterprises to create job opportunities as it is perceived that larger entities are better net job creators within South Africa (Kerr et al., 2014:1-10). However, additional research sources substantiate the significance of small- and micro-enterprises within the country as a driving force for economic growth, job creation and poverty alleviation (National Planning Commission, 2012:140; National Credit Regulator (NCR), 2011:13-14; SBP, 2013:1-2; Ligthelm, 2005:199). A portfolio in the cabinet for the Minister of Small Business Development has been established in 2014 to oversee the development and growth of small enterprises in the country.

Despite the significant support programmes implemented by the South African government to promote the development and growth of small- and micro-enterprise sector (Mbekeni, 2009:11-16), the demise rates of small- and micro-enterprises seem to be on the rise. In 2013, Rob Davies,
the Minister of Trade and Industry, revealed in a statement that one out of seven small enterprises started in the country will be out of trade in the first seven years of trade (Kgosana, 2013). In the subsequent year, Lindiwe Zulu, Minister of Small Business Development, remarked that enterprises with fewer than 20 employees have only a nine present chance of surviving 10 years from the initial time of trade (Zwane, 2014). The ministers were in mutual agreement that they believed that failure is attributable to both a lack of financial knowledge and business management skills.

This chapter addresses specific or secondary objectives numbers 1, 2 (first half thereof), 3 and 4. Definitions deliberated for small- and micro-enterprises will be studied and subsequently remarked upon. An investigation will be undertaken to examine the start-up reasons and initial objectives of individuals entering into trade for the first time.

Financial literacy conceptual definitions and factors that play a significant part in financial literacy will be researched and the purpose thereof will be to examine and obtain detail on financial literacy in order to establish its relevance to small- and micro-enterprises and the subsequent perceived consequences of a lack thereof. In addition, the relevance of business management skills in small- and micro-enterprises will be established, followed by the apparent consequences of a lack thereof.

Research within this chapter will establish a good basis for the qualitative research to be conducted as part of the greater analysis of the need for financial literacy in small- and micro-enterprises.

2.2 Small- and micro-enterprise definitions

A small- or micro- enterprise is, according to Byrd and Megginson (2009:9), any enterprise that is owned and operated independently and this class of enterprises does not dominate in their field. Byrd and Megginson (2009:9) also indicate that these types of enterprises are often run from the homes of the owners. However, other factors have to be considered before settling on the classification of an enterprise as small or micro.

Agencies within numerous economies (statistical institutes, financial institutions, government, etc.) often have their own definition of small- and micro-enterprises (Kushnir et al., 2010:1). This
is no different in South Africa. It is moreover evident that the same definitions provided by legislation are not adopted by government departments, and researchers performing studies on small- and micro-enterprises within the country conclude their own definitions of such enterprises for the purpose of their research.

This section of the chapter focuses on determining the conceptual definitions provided by South African legislation, government institutions and the National Credit Regulator of the country, the World Bank, definitions as per an advanced economy as well as two definitions of similar developing countries to South Africa. The motivation for a more uniform definition of small- and micro-enterprises will also be substantiated.

2.2.1 Conceptual definitions of small- and micro-enterprises

Defining a small enterprise remains a contentious and difficult undertaking, since various definitions are found in different literature on small enterprises. Nonetheless, the issue still remains an important one to address if we are to write about small- and micro-enterprises, in order to discern them from big firms (Wong & Aspinwall, 2004:44). The discrepancies can be attributed to different levels of capitalisation, turnover and employment between enterprises (National Credit Regulator, 2011:22). In South Africa, these statements prove to be truthful. In South Africa, no comparable definition from government, legislation, regulation or the private sector exists, irrespective of the fact that they use similar objectives to measure the size of an enterprise. This is peculiar, since established definitions of small- and micro-enterprises by the parties considered would be expected to be inclined similarly because the same variables and circumstances are taken into account in determining a definition. International definitions on small- and micro-enterprises also display discrepancies to those provided by South Africa. The following are a number of definitions of small- and micro-enterprises:

i. The South African National Small Business Amendment Act No. 26 of 2003

The Act ranges the definition of a small business into four categories, of which a medium enterprise is seen as part of the greater definition.
### Table 2.1: Classification of small businesses according to the National Small Business Amendment Act No. 26 of 2003

<table>
<thead>
<tr>
<th>Sector or subsector in accordance with the Standard Industrial Classification</th>
<th>Size of class</th>
<th>The total full-time equivalent of paid employees</th>
<th>Total turnover</th>
<th>Total gross asset value (fixed property excluded)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td>Medium</td>
<td>100</td>
<td>R5m</td>
<td>R5</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R3m</td>
<td>R3m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>10</td>
<td>R0.50m</td>
<td>R0.50m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
<td>R0.10m</td>
</tr>
<tr>
<td><strong>Mining and Quarrying</strong></td>
<td>Medium</td>
<td>200</td>
<td>R39m</td>
<td>R23m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R10m</td>
<td>R6m</td>
</tr>
<tr>
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<td>Very small</td>
<td>20</td>
<td>R4m</td>
<td>R2m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
<td>R0.10m</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>Medium</td>
<td>200</td>
<td>R51m</td>
<td>R19m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R13m</td>
<td>R5m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R5m</td>
<td>R2m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
<td>R0.10m</td>
</tr>
<tr>
<td><strong>Electricity, gas and water</strong></td>
<td>Medium</td>
<td>200</td>
<td>R51m</td>
<td>R19m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R13m</td>
<td>R5m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R5.10m</td>
<td>R1.90m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
<td>R0.10m</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>Medium</td>
<td>200</td>
<td>R26m</td>
<td>R5m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R6m</td>
<td>R1m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R3m</td>
<td>R0.50m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
<td>R0.10m</td>
</tr>
<tr>
<td><strong>Retail and motor trade and repair services</strong></td>
<td>Medium</td>
<td>200</td>
<td>R39m</td>
<td>R6m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R19m</td>
<td>R3m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R4m</td>
<td>R0.60m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
<td>R0.10m</td>
</tr>
</tbody>
</table>
Table 2.1: Classification of small businesses according to the National Small Business Amendment Act No. 26 of 2003 (continued)

<table>
<thead>
<tr>
<th>Sector or subsector in accordance with the Standard Industrial Classification</th>
<th>Size of class</th>
<th>The total full-time equivalent of paid employees</th>
<th>Total turnover</th>
<th>Total gross asset value (fixed property excluded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale trade, commercial agents and allied services</td>
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<td>200</td>
<td>R64m</td>
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<td></td>
<td>Small</td>
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<td>R32m</td>
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<td>Very small</td>
<td>20</td>
<td>R6m</td>
<td>R0.60m</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.2m</td>
<td>R0.10m</td>
</tr>
<tr>
<td>Catering, accommodation and other trade</td>
<td>Medium</td>
<td>200</td>
<td>R13m</td>
<td>R3m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R6m</td>
<td>R1m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R5.10m</td>
<td>R1.90m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
<td>R0.10m</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>Medium</td>
<td>200</td>
<td>R26m</td>
<td>R6m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
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<td>R13m</td>
<td>R3m</td>
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<tr>
<td></td>
<td>Very small</td>
<td>20</td>
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<td>R0.60m</td>
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<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
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</tr>
<tr>
<td>Finance and business services</td>
<td>Medium</td>
<td>200</td>
<td>R26m</td>
<td>R5m</td>
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<tr>
<td></td>
<td>Small</td>
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<td>R3m</td>
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<tr>
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<td>Very small</td>
<td>20</td>
<td>R3m</td>
<td>R0.50m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
<td>R0.10m</td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>Medium</td>
<td>200</td>
<td>R13m</td>
<td>R6m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
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<td>R1m</td>
<td>R0.60m</td>
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<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.20m</td>
<td>R0.10m</td>
</tr>
</tbody>
</table>


The Act, as illustrated above, classifies a ‘small business’ into four categories, namely micro-, very small-, small- or medium enterprises. A small enterprise, in terms of the Act, would be categorised based on the sector or sub-sector, total number of full-time equivalent paid
employees, total annual turnover and total gross asset value (fixed property excluded). According to this classification, the cut-off number of employees for a small enterprise amounts to 50. The South African National Small Business Act (1996:15-16), in concurrence with the amendments to the Act, as recorded in the South African National Small Business Amendment Act (2003:7-8), stipulates that micro-enterprises have up to five employees, a maximum total turnover that ranges between R100 000 and R200 000, and total gross assets with an upper limit of R100 000. A very small enterprise has more than five employees up to a maximum of 20, a total turnover between R500 000 and R6 000 000, and total gross assets have a maximum range between R500 000 and R2 000 000. A small enterprise has up to a maximum of 50 employees, between R3 000 000 to R32 000 000 in total turnover and total gross assets range between a maximum of R1 000 000 to R5 000 000. All of these depend on the sector or subsector within which the enterprise trades.

ii. Small and Medium Enterprise Development Council Resolution No. 1 series of 2003

The following categories are applied, regardless of which industry the enterprise trades in, in determination of the size of an SMME:

Categorisation by asset size:
- Micro: Up to R3 000 000
- Small: R3 000 001-R15 000 000
- Medium: R15 000 001-R100 000 000

An alternative categorisation is based on the number of employees:
- Micro: 1-9 employees
- Small: 10-99 employees
- Medium: 100-199 employees

Source: Department of Trade and Industry (RSA, 2008a)

iii. National Credit Regulator (NCR) (2011)

The NCR employs two broad categories to define an SME, namely “economic” and “statistical”, both with unique conditions. The three criteria to be met for the “economic” definition in order for a firm to be regarded as small comprise the following:
- The firm has a relatively small market share;
The firm is steered by the owners, or part owners, in a personalised capacity and not through the medium of a formalised management structure; and

The firm trades independently and is not a division of a larger enterprise.

The "statistical" definition of an SME is used in three main areas:

- Quantifying the size of the small firm sector and its contribution to the country's GDP, employment and exports;
- Comparing the extent to which the contribution of the small firm sector has changed over time; and
- Cross-country comparison of the small enterprise's contribution to the economy.

The above is the basis on which the National Credit Regulator (NCR) in South Africa distinguishes a small enterprise from larger enterprises, since the NCR recognises the fact that some qualitative factors play a role in determining the size of an enterprise. However, the NCR adopts and uses the definition established in the National Small Business Act, 1996, to determine whether a business qualifies for developmental credit, which is only granted to small enterprises (National Credit Regulator, 2011:22-25).


This act defines a “small business corporation” in section 12E of the act as “any close corporation or co-operative or any private company… all shareholders of which are at all times during the year of assessment natural persons, where—”

(i) The gross income does not exceed R20 000 000 during a year of assessment;

(ii) None of the members hold any other interest in the equity of another listed company and hold less than five percent of the interest in a social or consumer co-operative;

(iii) The total receipts and accruals, of an income nature, do not consist of 20% or more income from investments and from the rendering of a personal service; and

(iv) Is not a personal service provider.

This section provides for additional allowances to be offset against the taxable income of such a corporation, and in addition, levies tax on a lower taxation scale or margin. This definition diverges vastly from the other definitions provided by other legislation, government departments and the
NCR. It is also clear that the definition provided in the Income Tax Act refers to legal entities only. The aim of all the other definitions is to discern small- and micro-enterprises from the rest, in order to provide assistance in various forms to aid their development and growth. It subsequently makes it furthermore unclear whether the extenuation in tax margins for qualifying small business corporations in terms of the act applies to other forms all small enterprises, for instance a sole proprietor.

In addition to the above, SARS (2011) imposed turnover tax, which intention is to provide red tape relief for ‘micro-businesses’, since it proposes a single tax payment, calculated by applying a taxation rate to the turnover of the enterprise, which substitutes mutually income tax, VAT, provisional tax, capital gains tax and dividend tax. A ‘micro-business’, according to the Tax Guide for Micro Businesses (2011), is a sole proprietor, partnership, close corporation, company or co-operative with an annual turnover of less than R1 000 000.

The wide variety of definitions may present a weakness in identifying the correct enterprises that should be receiving the support.

v. World Bank

The World Bank (Ayyagari et al., 2007) makes use of employment as their core indicator of the size of an enterprise and established that the cut-off for small- and medium enterprises ranges between 0 and 250, based on a number of sources. In an overview of data from 132 countries on micro-, small- and medium enterprises, the World Bank reported that approximately one third of the reviewed countries defined micro-, small- and medium enterprises as an enterprise with fewer than 250 employees (Kushnir et al., 2010:1).

In addition, it has been established that the cut-off for African countries ranges between 0 and 200 (Ayyagari et al., 2007:4). The World Bank, however, refined the definition further for small- and micro- enterprises and concluded that a small enterprise refers to an enterprise employing between 11 and 50 employees and a micro-enterprise between 1 and 10 (Aterido et al., 2009:11). This is not in complete agreement with any of the definitions provided in the first four definitions as established within South Africa.
Nonetheless, the IEG (which consists of the World Bank, IFC and MIGA) (2013:14) reports that the World Bank has a variety of definitions for SMEs, which range from five to 99 employees, in some instances between 0 and 99, whereas in another instance between 0 and 250 employees. This causes a number of constraints and challenges in terms of support granted to SMEs, since the support offered depends on a combination of definitions of SMEs, which makes it difficult to monitor the benefit work performed by the organisation offers to these enterprises (IEG, 2013:15).

vi. The Organisation for Economic Co-operation and Development (OECD)

The OECD (2000:2) defines an SME “as non-subsidiary independent firms which employ less than a given number of employees”. The number frequently amounts to 250 employees, which varies from country to country. The OECD (2000:2) also specifically reports that small enterprises have an upper limit of 50 employees, whereas micro-enterprises employ at most 10 individuals, but in some cases five. This definition is in agreement with the definition provided by the World Bank (Aterido et al., 2009:11); as well as the South African National Small Business Amendment Act, 2003’s cut-off number of employees for small- and micro-enterprises; however, it differs from the rest of the definitions provided before the definition from the OECD.

vii. Advanced economy: United Kingdom (UK)

Enterprises in the UK are also categorised based on total number of employees. SMEs are enterprises with fewer than 249 employees. A micro-enterprise has between 0 and nine employees, whereas a small enterprise has between 10 and 49 (Ward & Rhodes, 2014:3). The definition contains a slight deviation to all the preceding definitions provided.

viii. Emerging and developing economies: Brazil and India

Brazil and India share quite a few characteristics with South Africa of which, among others, the fact that they are respectively emerging and developing economies, struggling with similar development issues such as insufficient infrastructure, delivering quality education and the struggle to obtain a proper share in international trade (Timm, 2011:10).

Brazil defines a micro-enterprise as those enterprises with between 0 and nine employees and a small enterprise as an enterprise with between 10 and 49 employees (Kushnir et al., 2010:27).
This definition is in concord with the definition adapted by the UK and it is almost similar to the definition provided by the South African National Small Business Amendment Act, 2003.

The definition of small- and micro-enterprises as provided by India differs vastly from all the preceding definitions provided. India adopts the definition for SMMEs as defined by the Micro, Small and Medium Enterprise Development Act, 2006 (Kushnir et al., 2010:51-55). The Act does not classify enterprises based on the number of employees, but is rather based on investment in plant, machinery and equipment. In addition, the definition distinguishes between the manufacturing and services sectors as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Manufacturing enterprises</th>
<th>Service enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Rs. 2.5 million/Rs. 25 lakh (R522 200)*</td>
<td>Rs. 1 million/Rs. 10 lakh (R208 880)*</td>
</tr>
<tr>
<td>Small</td>
<td>Rs. 50 million/Rs 5 crore (R10 444 000)*</td>
<td>Rs 20 million/Rs. 2 crore (R4 177 600)*</td>
</tr>
</tbody>
</table>

Source: Kushnir et al. (2010:55)

*Converted at an exchange rate of ZAR/INR = 0.20888, as on 22 Oct 2016 per www.oanda.com

2.2.2 Motivation for a more uniform definition for small- and micro-enterprises

Small- and micro-enterprises formed 82% of the total amount of CIPRO-registered enterprises within South Africa during 2007, and the Department of Trade and Industry of South Africa believes that if they were to include non-registered entities, the proportion of small- and micro-enterprises would be significantly higher (DTI, 2008b:61-62). The definition of a ‘small business’ as defined by The National Small Business Act of 1996 was adopted for purposes of the research performed to conclude the latter findings. Table 2.3 indicates the distribution of enterprises in the Integrated Business Register in 2007.
Table 2.3: Distribution of enterprises in the Integrated Business Register, by size category and whether or not economically active (as of March 2007)

<table>
<thead>
<tr>
<th>Size category</th>
<th>Economically active</th>
<th>Number of enterprises</th>
<th>% Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>All enterprises (both active and non-active)</td>
</tr>
<tr>
<td>Micro</td>
<td>Yes</td>
<td>200 377</td>
<td>10.7%</td>
</tr>
<tr>
<td>Very small</td>
<td>Yes</td>
<td>251 920</td>
<td>13.5%</td>
</tr>
<tr>
<td>Small</td>
<td>Yes</td>
<td>63 193</td>
<td>3.4%</td>
</tr>
<tr>
<td>Medium</td>
<td>Yes</td>
<td>20 750</td>
<td>1.1%</td>
</tr>
<tr>
<td>Large</td>
<td>Yes</td>
<td>17 251</td>
<td>0.9%</td>
</tr>
<tr>
<td>Unknown size</td>
<td>Yes</td>
<td>2 551</td>
<td>0.1%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>1 310 842</td>
<td>70.2%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1 866 884</td>
<td>100% (1 866 884)</td>
</tr>
</tbody>
</table>

Source: Department of Trade and Industry, 2008

It is apparent from the above findings that micro-enterprises on their own represent 36.2% of all active enterprises, whereas enterprises classified as micro- to small represent 93.1% of all active enterprises in the country. A refinement of the definition for small- and micro-enterprises therefore seems necessary.

The South African government acknowledges the importance of small- and micro-enterprises by means of the implementation of a substantial amount of government support programmes and organisations aimed to assist small- and micro-enterprises. However, with the wide variety of definitions available for small- and micro-enterprises, it is unclear which enterprises the support is aimed at.

It is apparent in the latter definitions specified in section 2.2.1 that defining SMMEs in South Africa is an obstruction that the country is yet to overcome. By considering the given definitions as they are, it is unclear whether sufficient qualitative information such as how the funds to start up the enterprises is obtained, educational background of the entrepreneurs, size of the location in which
small- and micro-enterprises trade in, etc. was taken into account in determining the classification of the enterprises.

Legislation and governmental organisations both use employment as determinant of the size of an enterprise in South Africa. Small- and micro-enterprises, according to the National Small Business Amendment Act, 2003, employ between one and 50 employees, with an upper limit revenue (total maximum) of R32 000 000. Conversely, the definition established by the Small and Medium Enterprise Development Council Resolution, which is also adopted by the Department of Trade and Industry, indicates that small- and micro-enterprises employ between one and 99 employees. In addition, the relative upper limit of the asset sizes differs significantly. Micro- and very small enterprises’, according to the Act, gross assets do not exceed R500 000 and a small enterprise R4 500 000, whereas a micro-enterprise’s asset size, according the Development Council’s Resolution, indicates an upper limit of R3 000 000 and for a small enterprise R15 000 000. This raises concerns around how the organisations came to conclude the figures and the variables used in the process. What are the reasons behind the inconsistencies?

Furthermore, the NCR (2011:22) outlined that one of the criteria to be met in order to be classified as a small enterprise in terms of the “economic” definition is that a small enterprise is steered by the owners, or part owners, in a personalised capacity and not through the medium of a formalised management structure. This raises questions around whether it seems realistic that an enterprise owner or part owner steering an enterprise that earns revenue of R3 000 000, R14 000 000, R15 000 000, or even R30 000 000 in a period of one year would be able to solely oversee all the management activities in such an entity.

This poses a hindrance to the support offered by government to support small- and micro-enterprises. Small- and micro-enterprise viability statistics in South Africa indicate that these enterprises struggle to obliterate the high rate of demise among the class of enterprises. This might also cause them to overlook the real gravity of the situation that truly small- and micro-enterprises are facing.

In recent reports (Anon, 2010:1; Kgosana, 2013:1; Zwane, 2014:1; Bornstein & Scarborough, 2007:38-39), it has been reported that small- and micro-enterprises are faced with various survival threats, since the failure rates display great concern. Von Broembsen et al. (2005:20) assert in the Global Entrepreneurs Monitor (GEM) report that the overall establishment of viable small
enterprises in South Africa is a challenge by reason of the low survival rates. However, one concern remains that it is more often than not reported what the interpreted size of such enterprises is. Nonetheless, it is evident that the entities they refer to do not generate revenue of a substantial nature and it is often reported that the owner lacks certain skills, leading the trail back to one person in control.

It is therefore of importance that a more apparent definition for small- and micro-enterprises is established to ensure that the number of support structures implemented by the South African government is increased.

For the purpose of this study, the definition of small- and micro-enterprises adopted is that as defined in the National Small Business Amendments Act of South Africa (2003), substantiated by the definition provided by the OECD (2000:2), namely that micro-enterprises employ up to five employees and small enterprises between six and 50 employees.

2.3 Starting a small- or micro-enterprise

No enterprise is ever created by accident, but out of purpose. The intention ranges from different influential factors and motives, which often depend on the circumstances around the individuals intending to trade in an enterprise before their decision to start an enterprise. Wealth creation is inclined to be the number one reason for starting any entrepreneurial activity (Kolvereid & Isaksen, 2006:883). Self-employment, pursuing one’s dream, independence from the control of another, the ability to maintain a living, a sense of financial security and to attain the material things that entrepreneurs sought out for are a few of the drivers behind an individual’s decision to start their own enterprise. This is elaborated upon below.

Van Gelderen and Jansen (2006:3) are of the view that autonomy is, among others, a business start-up motive. In addition, they believe that autonomy is highly relevant to small enterprise starters. Autonomy as a start-up motive can be correlated to freedom and independence from another party’s control and includes factors such as being in control of your own time; having your own approach to how you perform you work; choosing the individuals you engage with; and being your own boss (Van Gelderen & Jansen, 2006:5). Walker and Brown (2004:588) contend independence as a start-up motivation and in addition highlight personal satisfaction and flexibility.
Kolvereid and Isaksen (2006:867) assert that entering into trade is inspired by the intention of self-employment. Self-employment is defined by the dictionary as “working for oneself, as a freelancer or owner of a business, etc., not employed by an employer” (The Concise Oxford Dictionary, 1995). Kolvereid and Isaksen (2006:833) furthermore assert that in order for an individual to become self-employed, the individual needs to possess the ability to work independently; in addition, the individual should have competencies to manage other individuals, deal with investors and should be able to administer risk and uncertainties. These capabilities can be related to financial knowledge and business management skills, which are conferred in sections 2.4 and 2.5.

Edelman et al. (2010:176) emphasise the expectancy theory for explaining the motivation to start an enterprise. The expectancy theory presumes that an individual will take action if the individual has the belief that his or her efforts will result in successful performance. If an entrepreneur believes in his or her skills and abilities, he/she will be motivated to exert action into starting his/her own venture (Edelman et al., 2010:176). Among the expectancies that the individual has are growth intentions, financial success, self-realisation and recognition, which are all positively associated with the desired outcome that the entrepreneur aspires towards (Edelman et al., 2010:176-179).

The State of the Business Owner Report in 2013 presented by EMyth and PixelSpoke (2013:10) affirms the previous enterprise start-up motivations, since they described in their report that the top three reasons entrepreneurs enter into trade are: “freedom to pursue new opportunities, following their personal passion, and to gain independence from others’ control”.

Byrd and Megginson (2009:16) assert that the personal objectives, in starting a business, of small enterprise owners differ from those of management in larger firms who seek “security, place, power, prestige, high income and benefits”. The primary objectives of small business owners are to achieve independence to exercise their initiative and ambition; to supplement their income; assist their families by taking over the position of a family member in order to assist them financially; and to provide products not available elsewhere.

Referring back to the affirmation of Shaver et al. (2001:6) that no enterprise is created by accident, the statement is confirmed by the fact that it has been established that South Africans, in
particular, have clearly defined motives when starting a small- or micro-enterprise. Byrd and Megginson (2009:6) state that the growth rate of self-employment is higher than that of the general workforce. It is no covert that South Africa as a country struggles to obliterate unemployment rates and nor is it a surprise that many South Africans turn to informal trade, since they are unable to locate employment in the formal economy (Woodward et al., 2011:66). In the Global Entrepreneurship Monitor project performed in 2005 (Von Broembsen et al., 2005), it was established that two-thirds of entrepreneurs indicated that they voluntarily enter into trade to pursue attractive business opportunities, while one-third indicated that they engaged into trade out of necessity (Ligthelm, 2008:376). SBP (2013:3) reported that one out of five entrepreneurs who own a small enterprise in South Africa indicate that they were “pushed” into starting the enterprise by factors such as retrenchment and the lack of alternative employment opportunities.

Headd (2003:52) states that the establishment of the reasons for starting an enterprise affords great opportunity to draw a link between the owner’s start-up intentions and the enterprise’s outcome or success. Irrespective of an individual’s motivation behind starting an enterprise, in particular a small enterprise, it is, however, crucial that the entrepreneur assesses his or her ability to succeed and whether he or she is equipped with the basic skills to ensure the sustainment of the enterprise. Barrow (2004:42) states that one has to be certain that you have the expertise, understanding and temperament required to run your own enterprise, since you could be heading for a total disaster. Among the basic skills, abilities and expertise required are financial literacy and business management skills.

2.4 Financial literacy

Financial literacy has become a foremost topic among researchers over the past few years. The subject has attracted the attention of financial institutions, government agencies, community interest entities, and other organisations and researchers (Braunstein & Welch, 2002:445). It has been conceptualised by various researchers; however, the concluded definitions differ significantly in terms of the complexity of such definitions and emphasis placed (Robb, 2012:4).

Schmeiser et al. (2013:243) affirm that no consistent definition or empirically authenticated measures of financial literacy exist, despite the increase in academic research examining financial literacy and financial outcomes. Knoll and Houts (2012:381) are of view that the lack of a broadly dispersed measure of financial literacy is a major obstacle that the financial literacy field struggles
to overcome. Nonetheless, researchers who aim to establish a definition of financial literacy within their studies have common grounds in relation to each other. Current definitions on this matter all place specific emphasis on elements that the theorist perceives it to be.

Although no mutual definition for financial literacy exists, correspondences between the different descriptions are evident, since financial literacy is being measured in a similar manner by researchers and available studies on the subject (Knoll & Houts, 2012:383-384). This section studies some of the conceptual definitions of financial literacy, its relevance in an enterprise as well as the perceived consequences of a lack thereof.

2.4.1 Conceptual definitions of financial literacy

Despite several interpretations and emphases of financial literacy among researchers, common grounds do exist. Knowledge, the ability to work with numbers, the use and management of money and effective financial decision-making, etc. are some of the communal grounds elaborated on below.

Hung et al. (2009:5) summarised that financial literacy has been defined in a range of literature as a particular form of knowledge, the proficiency of an individual to apply this knowledge, how the knowledge is perceived, which is designated through good financial behaviour and influenced by the financial experiences of individuals. Emphasis in this definition seems to be placed on knowledge. This form of knowledge specifically pertains to aspects of a financial nature. This is sanctioned by the findings of, among others, Clark (2014:2), who defines financial literacy as "knowledge and understanding of financial products and services that are relevant to the issues that people have to deal with in their everyday lives". Oanea and Dornean (2012:116) explain specifically that they are of view that an individual should possess knowledge of at least financial terms such as money, inflation, interest rate, credit, etc. as a starting point of financial literacy. These terms are not uncommon terms in our everyday lives. According to Hung et al. (2009:11-12), financial knowledge signifies the basis for financial literacy and financial skills, whatsoever depends on that knowledge.

Hromadka (2007:42) articulates that financial literacy implies that a person comprehends and has the ability to apply essential financial knowledge in everyday life and that it leads back to how an individual deals with money. This highlights the importance of the presence of financial literacy to
deal with money. The emphasis here is placed on the ideal that the knowledge should be understood and that financial literacy is not reached through just knowledge, but rather through the application of that knowledge. The knowledge required is also indicated as a basic form, due to the indication that the financial knowledge required is the everyday life type that is essential with regard to decision-making that involves the individual and his/her dependents.

In a summary of the aforementioned definitions of financial literacy, the OECD and the World Bank (Miller et al., 2009:2) explicate the term as “the combination of consumers’/investors’ understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”. To a certain extent, if one is to exploit financial opportunities and embrace financial risks, an individual should possess sufficient knowledge and confidence to respond suitably in a given circumstance. In addition, the latter definition from the OECD and the World Bank refers to the execution of informed decision-making; however, no specific reference is made to which decisions should be made.

Mihalčová et al. (2014:319) elaborate on for what aspect informed decision-making should take place and defines financial literacy “as the ability to use knowledge, skills and experience of an individual to make effective decisions regarding the use and management of their own finances to provide life-long financial security for themselves and their family”. This delineation incorporates the ability to use knowledge, skills and experiences in order to be empowered; to effectively make financial decisions that influence the outcome of the financial security of an individual and their dependents. Vieira (2012:24) confirms the definition provided by Mihalčová et al. (2014:319), as Vieira (2012:24) asserts that financial literacy is an individual’s ability to comprehend financial matters; in addition, it relates to a set of skills and knowledge that empowers an individual to effectively make informed decisions through the utilisation of their understanding of finances and aspects revolving around finances. Among the decisions to be taken, the spending and saving of money, budget control and choosing appropriate financial products appear to be important.

The ANZ Banking Group (2003:1-2) conceptualised financial literacy, in their survey on financial literacy of adults in Australia, as “the ability to make informed judgments and to take effective decisions regarding the use and management of money”. This is with specific reference to budgeting, spending money, saving, banking and the use of financial services and products offered by financial institutions. The Banking Group also indicates in their study that no individual
is financially literate prior to the obtaining of financial literacy, since they are of the view that financial literacy is about enabling individuals to make these decisions in an informed and confident manner. Lusardi and Mitchell (2014:6) elaborate more broadly on which judgements are to be made in informed circumstances. Lusardi and Mitchell (2014:6) assert that financial literacy entails the ability of an individual to process information contracted from the economy and to act upon such information through the execution of decision-making, on informed grounds, pertaining to financial planning, wealth accumulation, financial commitments and retirement pensions.

In addition to the latter conceptualisations, financial literacy is often referred to as a skill. Nauta (2013:13) states that financial literacy is an important skill that assists an individual in making decisions in the current economy. Hung et al. (2009:7) are of view that the skills of financial literacy go beyond just the knowledge of finance; the skills are prone to depend on an individual's ability to work with numbers. Among the skills referred to are performing numerical calculations, keeping record of the movement of cash flow, determining your financial position, etc. This outlines a more specific description of the skills required, where the previous theorists do not explicate specifically which abilities are referred to. By suggesting that financial literacy is a skill (Nauta, 2013:13; Hung et al., 2009:7), it may be concluded that it is something that can be obtained should an individual have a deficiency thereof.

Mason and Wilson (2000:34) suggest financial literacy be conceptualised in a complex observable fact, whereby individuals, first of all, make sense of financial information in order to measure the consequences of the decisions they make with the aim of achieving the outcomes they desire. In order to estimate the possible outcome, the possible consequences of a decision should be evaluated prior to the making thereof. According to them, financial literacy is “an individual’s ability to obtain, understand and evaluate the relevant information necessary to make decisions with an awareness of the likely financial consequences” (Mason & Wilson, 2000:31). Mason and Wilson (2000:31) further state that an apparent similarity exists between information literacy and financial literacy since information that results in financial implications remain data and the discrepancies between the two literacy components arise only from their outcomes, namely financial consequences of actions taken.

Remund (2010:276-295) explicated the concept of financial literacy through an analysis of the ways financial literacy has been measured and interpreted since 2000, in an attempt to satisfy the need for a clearer definition and recommended the concept “is a measure of the degree to
which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions” (Remund, 2010:284).

It may be concluded that, in view of the mentioned research and their delineations, financial literacy signifies the knowledge of financial matters, the comprehension of such matters and an individual’s ability to apply the essential financial knowledge through effective decision-making regarding the use and management of money. In addition, financial literacy embodies specific skills pertaining to an individual’s ability to work with numbers and it is an essential tool for an individual to be mindful of financial risks and consequences relating to decisions made around finances.

2.4.2 Factors that contribute to financial literacy

It is clear from the conceptual definitions that knowledge on its own of financial matters does not indicate that an individual is financially literate. The further step of employing the knowledge in the use and management of finances and understanding the consequences of financial decisions and its outcomes better reflects the means by which one should determine the financial literacy of another individual.

Financial literacy is the capability to have financial knowledge and understanding in order to be enabled to deal with everyday financial matters; it is financial skills and competence to allow individuals to plan and monitor financial decisions (FSA & BSA, 2003:2). This capability is affected by a number of circumstances and factors, which include physiological factors, of which the following that were identified from the literature were the major ones:

a) Literacy

The term has a variety of forms and has been researched in several studies by educators, psychologists, government ministers, the media, etc. (Mason & Wilson, 2000: 16). However, in the most basic explication, literacy can be defined as the ability of an individual to read, write and speak (Remund, 2010:283).
Literacy, according to Mason and Wilson (2000:18), is imperative as it enables an individual to function more effectively in the sense that illiterate individuals are unable to function in complex societies as functional as literate individuals do. Nonetheless, Mason and Wilson (2000:19-20) are of the view that literacy stretches beyond one’s ability to read and write, it also connotes the abilities to “learn, achieve status and human rights, knowing, making choices, improving occupational status and wealth, improving leisure pursuits, making comparisons, creating and confirming conclusions”. However, the question is: How exactly does the term fit into the concept of financial literacy?

Literacy is an essential factor of financial literacy since any individual, especially an entrepreneur, should have proper communication skills – which are inseparable from reading and writing capabilities and verbal interaction. The United Nations Educational Scientific and Cultural Organization (UNESCO, 2005:149) asserts that literacy refers to tangible skills, specifically the intellectual ability to read and write. The organisation expressed that literacy has a fundamental impact on the existence of an individual, since it permits an individual to characterise words through renowned signs, it gives structure to an individual’s thought processes and it promotes a framework that is crucial for enabling an individual to think critically. This set of skills makes it possible for an individual to be educated, since it provides a gateway that enables an individual to access knowledge and information (UNESCO, 2005:150), ultimately enabling an individual to independently make sense of data acquired through the teaching of another individual in the form of learning. In order to stay in touch with the latest economic trends, one would have to refer to some form of communication media (television, radio, cell phone, newspapers, etc.). Knowledge has been identified as a key element of financial literacy and it is unreasonable to expect an individual to gain this without literacy. Apart from literacy, another important component of financial literacy is perceived to be numeracy or numerical skills.

b) Numeracy or mathematical skills

UNESCO (2005:149) states that numeracy is categorised and understood as either an integral fragment of literacy or as a complementary set of skills thereto. Numeracy represents a basic skill, which is closely aligned to the general cognitive abilities of an individual (Hung et al., 2009:7; Hasting et al., 2012:10). Lusardi and Mitchell (2011:4) describe the concept as the capacity to perform simple calculations. Hasting et al. (2012:4) articulate numeracy to be the ability to do essential mathematics such as additions, subtractions and multiplications. Hasting et al. (2012:10)
also claim that individuals with higher general cognitive abilities or numeracy tend to display greater levels of financial literacy (Hasting et al., 2012:10).

Financial literacy is an individual's ability to reason with numbers, compute interest and understand inflation (Knoll & Houts, 2012:392; Lusardi & Mitchell, 2014:10). The definition is taken further by adding concepts such as that an individual should understand it in order to calculate it.

Sometimes, it is required of individuals to perform more complex calculations, e.g. to calculate the future value of investments made, and it is undeniable that should an individual be unable to perform basic calculations such as calculating how much they expect to have left at the end of a given month after subtracting expenditures from income received, that individual is unlikely to be able to perform more complex calculations.

Financial literacy's core is the use and management of money, which value is considered in numbers. The two concepts financial literacy and numeracy are therefore inseparable. Financial illiteracy can indirectly be alleviated through the emphasis of a higher level of numeracy. In addition, it was established by Sages and Grable (2010:59) that individuals who exhibit financial numeracy characteristics display greater financial risk tolerance abilities.

c) Financial education

The focus, according to researchers, of this type of education varies, but it is clear that the core of this type of education revolves around finances and financial matters. The intention of financial education is to teach individuals concepts relating to money and the prudent management thereof; in addition, to enable them to learn the basic skills related to the earning, spending, saving and investing of money, as well as the fundamentals of borrowing (Cohen & Sebstad, 2003:8). Robb (2012:10) states that financial education stimulates the development of skills and confidence within an individual with the aim of familiarising the individual with financial risks and opportunities in order to make informed decisions effectively. It was stated earlier that financial literacy is referred to by researchers as a skill (Nauta, 2013:13; Hung et al., 2009:7; Mihalčová et al., 2014:319; Vieira, 2012:24), of which numeracy and literacy are the most superior ones that were highlighted. It is evident from the above findings that the financial literacy skill may be obtained through financial education. However, financial education is not limited to the projection of the latter mentioned skills.
Caskey (2006:5) is of view that financial education should focus on the essential and major life choices of an individual as well as the imperativeness of saving and budgeting. These major life choices can involve a variety of things; however, from a financial perspective, it is reasonable to assume that it involves decisions such as buying or selling a house, starting an enterprise, investment, saving for a future event, etc. Hung et al. (2009:5) describe financial education as a process by which individuals improve their comprehension of financial products, services and notions, which empowers these individuals to make informed decisions and to take other actions relating to their finances that will ultimately improve their long-term financial welfare. Kotzè and Smit (2008:170) recommend financial education, since it is perceived as a tool to award essential knowledge to individuals, which could assist them in effectively planning and managing their financial affairs. It is once again clear that financial literacy, which was formerly described as a combination of a form of knowledge and understanding thereof, as well as a set of skills that enables an individual to execute effective decision-making around the use of money, is particularly obtained through financial education. In addition to the latter statement, Mandell and Klein (2007:106) proclaim that financial education programmes only have value if they are successful in improving financial literacy.

Robb (2012:10) described it as a process by which financial customers or investors progress their comprehension of financial products and concepts through a combination of information that is gained through instruction and objective advice from different sources. This instruction and advice are often conveyed through basic education provided in schools, universities and colleges, training from employers, money advisors, and other programmes provided by either government or other organisations (FSA & FSB, 2003:1; Hasting et al., 2012:20; Atkinson, 2008:6-9; Gabbin & Thomas, 2014:8). The effectiveness and the recommended method of transfer used in these programmes are not deliberated upon for the purpose of this study.

The following represent some focus areas on which financial education places emphasis with the aim to equip individuals to respond effectively to their financial affairs (Cohen & Sebstad, 2003:8; West, 2012:523; Drexler et al., 2012:8-9; Louw, et al., 2013:442-443):

- Cash flow management;
- Investments and investing for retirement;
- Financial risk management;
- Financial forecasting or budgeting;
Managing personal debt – short-term and long-term;
Insurance – against loss of income, life insurance, etc.;
Saving;
Daily record-keeping of income and expenditures;
Aggregation of the daily record-keeping into weekly- or monthly reports;
Calculating profits – accounting and cash profits; and
Financial planning and decision-making.

Banking and financial products

The South African government could play an important role in subsidising financial education programmes for small- and micro-enterprises to promote financial literacy among the individuals steering the enterprises. The national government agencies and institutions that offer support to SMMEs (DTI, 2008b:29-31; DTI, 2010:5-79) are the following:

- Khula Enterprise Finance Limited;
- National Youth Development Agency (NYDA);
- Small Enterprise Development Agency (SEDA);
- Ntsika Enterprise Development Agency;
- South African Micro-Finance Apex Fund (SAMAF)
- Tshumisano Trust;
- Small Enterprise Finance Agency (SEFA);
- National Empowerment Fund (NEF);
- Land Bank; and
- Mafisa.

The aims of most of the agencies and institutions mentioned above are to facilitate access to finance and to offer financial support to SMMEs faced with financial constraints; some offer information to policy-makers within the country on the development of SMMEs, and others are youth development interventions to facilitate entrepreneurship, others offer support to aid existing small and medium agricultural enterprises, SEDA promotes the establishment and growth of small enterprises, while it appears that these support programmes lack the provision of financial education among the owners or even the employees of SMMEs. One assumption for the lack of provision of such programmes might be due to an understatement of the usefulness or benefits
that such a programme could bring forward to the development and growth of small- and micro-enterprises.

The efficacy of financial education is that in increasing an individual’s knowledge on financial matters, the stimulation of essential financial literacy skills and financial advice will result in an increase in their propensity to manage their financial affairs. Making a uniformed decision can result in negative financial consequences for the deciding individual. An issue that could arise is that the individual might not expect or foresee the outcome of a decision. If this happens, it would be expected that no proper defence mechanisms will be in place due to a lack of planning, which could cause the individual to undergo detrimental financial consequences. Being informed improves an individual’s confidence in executing decisions more spontaneously; it initiates planning of financial affairs; and ignites the willingness to take risks (Hadar et al., 2013:305).

Financial education may be summarised as a process of teaching and conveying advice on the comprehension and management of money and financial aspects. It is also a process by which the stimulation of the development of financial literacy skills takes place. The overall process is aimed to equip individuals to respond effectively to their financial affairs and to facilitate confidence in individuals with regard to making informed decisions effectively.

d) Other factors

As previously stated, an individual may be in possession of the knowledge on how to manage finances, but it is not to say that such an individual will respond accordingly on that knowledge by means of applying it in their financial decision-making. Being in possession of financial knowledge is not in itself an assurance that individuals will make rationally effective decisions (Estelami, 2009:274). It very much depends on the individual in possession thereof and drivers within the individual.
The following represents factors that, in addition to the above mentioned, have an impact on an individual’s financial literacy:

i. Anxiety or stress

Anxiety has been determined to have a reasonable effect on an individual’s financial behaviour, namely management of money (Sages et al., 2013:7). Sages et al. (2013:7) found that the outcome of irresponsible financial behaviour, which refers to spending more than you earn, cash flow deficit attributed to a high number of demands for payment and reaching the credit limit on credit offered to an individual, results in anxiety. Furthermore, when an individual is confronted with such anxiety, they may perhaps display more irresponsible financial behaviour. Estelami (2009:276) states that, in pursuit of reducing anxiety caused by financial circumstances, an individual often fails to consider rationally all relevant facts and aspects surrounding the given financial situation, leading them to make financial decisions ineffectively. They basically make decisions to get it over and done with, as quickly as possible.

ii. Motivation

Motivation has always been known to have a fundamental influence on the behaviour of an individual (Mandell & Klein, 2007:106). An individual will only be driven to act financially conscientiously if he/she believes that the financial decisions he/she makes will add considerable value to his/her existence (Mandell & Klein, 2007:113). If this is not the case, it is possible that they may ignore the financial knowledge they have gained from whichever source, since individuals who perceive their financial goals to be out of reach will have no incentive to progress their financial knowledge (Murphy, 2013:74). The latter behaviour, however, does carry financial consequences. A lack of motivation to apply financial literacy gained is believed to diminish an individual’s financial status, his/her attitude towards financial planning and retirement security (Murphy 2013:74).

It is undeniable that if individuals have no motivation to be financially knowledgeable, or if they place little importance to it, little effort should be expected from such individuals to improve or just even demonstrate financially literate behaviour.
iii. Financial satisfaction

Financial satisfaction has been suggested to be an outcome of financial literacy (Vosloo et al., 2014:1459). Vosloo et al. (2014:1455) assert that a low level of financial satisfaction is associated with an overall dissatisfaction with one’s life. As and when an individual experiences anxiety and trauma caused by financial dissatisfaction, eventually, the individual is encouraged to become more financially literate to address his/her financial and psychological situations (Murphy 2013:74). This is substantiated by the findings of Robb et al. (2012:301) who implied that if individuals seek financial satisfaction, they will go to the length of seeking professional advice around saving and investing, as well as debt counselling and advice on how to manage it.

Based on the above events, one may conclude that even if an individual does possess financial literacy and skills correlated to it, the individual may still not make use thereof in the event of certain circumstances. Individuals tend to make ineffective financial decisions in situations of anxiety, regardless of the financial literacy they possess. The same may be said if an individual lacks proper motivation and financial satisfaction.

2.4.3 Conclusion: Financial literacy within a small- and micro-enterprise context

Using the definitions and other factors discussed in the previous two subsections, financial literacy within a small- and micro-enterprise context can be descended to be:

a) A form of knowledge of finance and financial concepts

Knowledge is affected by the level of information that an individual is familiar with and being able to discern between respective financial terms and concepts. An illustration of concepts and terms that small- and micro-enterprise owners should be familiar with is, among others: financial planning, business and financial risks, record-keeping, budgeting or forecasting, revenue, expenditures, profits, losses, debits, credits, credit, saving, borrowing, lending, interest rates and inflation. Knowledge on finance simply refers back to how to deal with money.

Knowledge initiates confidence to react in an informed manner and enables an individual to execute tasks in a manner that is relevant in a given situation; however, knowledge on its own is meaningless unless it is understood and applied.
b) The ability of understanding and applying financial knowledge

This requires individuals to comprehend what they have gained from the insight that was given in the form of knowledge. If that is understood, more spontaneous execution will follow. In order for the latter to be possible, financial education is required, meaning, the individual should have somewhere gotten the instruction, elaboration, demonstration or advice pertaining to a certain concept or financially-related task, such as performing a calculation or compiling a budget, to be performed. This would ultimately trigger the desired response expected from individuals when they are confronted with the concepts and tasks of an exact or similar nature. For example: if it is demonstrated to the owner of an enterprise how to compile a statement of income and expenditures and items are revealed that are anticipated to appear on one, the owner would find it easier to compile such statement applicable to his/her own enterprise or circumstance. Surely, in reasonable circumstances, an individual would, if not understanding what such statement is and received instruction or demonstration on how to compile one as well as advice, be able to compile one.

Having the required knowledge and understanding thereof is futile if the small- or micro-enterprise owner does not possess essential, often basic, skills enabling him/her to apply his/her financial knowledge.

c) A combination of literacy and numerical skills

Literacy is communication skills; the basic ability to read, write and speak. Drafting a business plan, filling in application forms at the bank or other credit providers, filling in an order form, making out an invoice or receipt, etc. require writing skills. Whereas customers will have inquiries, suppliers of products will address questions about specific needs of an enterprise and for this verbal response is required. However, one should be able to understand the response that is required and the response should be made to complement the inquiry. Furthermore, the reading of contracts, invoices, communication letters, etc. are part of everyday life and it is crucial in order to fit into modern society.

Numeracy is defined as the ability to calculate (add, subtract, multiply, divide) and reason with numbers. Calculating the selling price of a product, gross profit, net profit, interest payable or
receivable, require the individual performing such calculations to be numerically competent. One should be able to relevantly respond in a given situation with the financial knowledge and skills acquired as the base.

d) The ability to make informed financial decisions based on financial knowledge and understanding

Financial literacy is recognised by several as the ability to make informed financial decisions effectively. This indicates that decisions should not be made impulsively, but rather when one is adequately informed on the matter to be decided on. This includes the entrepreneur’s behaviour and reaction to information in possession of such entrepreneur.

Planning what the aimed outcome of a decision is and what plan of action is deemed necessary to be in place in order to reach the outcome is a characteristic associated with making informed decisions.

Small- and micro-enterprise owners are faced with extensive decision-making requirements revolving around choosing products to trade, suppliers, where and when to apply for credit, how to utilise access cash, saving, investing, etc. Keeping in mind information acquired on a matter, being mindful of life events and changing economic conditions can be perceived as requirements enabling an individual to make informed decisions. Making effective informed decisions is often achieved when the decision-maker is well aware of the consequences and possible outcomes of his/her decision-making.

e) The ability to apprehend the financial consequences or outcomes of financial decision-making

All financial decisions have a financial consequence in the form of an outcome. It has been determined in the above research (Mason & Wilson, 2000:31; Oanea & Dornean, 2012:116) that in order for individuals to assess the financial consequences of the decisions they undertake in the hope to achieve their desired outcome, they have to make sense of the applicable financial information beforehand.
Individuals can be aware of financial concepts and terms; however, if they do not understand or if the information makes no sense, it is unlikely that they will possess the apprehension of the financial consequences that await them. An example would be where an enterprise owner has to decide whether to invest access cash in an equity fund account or rather in a money market account. The knowledge of the difference between the two accounts is that the one yields dividends since it involves investment in the equity securities, whereas the other is interest based on a specific interest rate. Depending on which of the two concepts the owner is familiar with or has encountered previously, that is the financial product he or she will choose, which indicates that he would make a semi-informed decision. If he or she is familiar with none of the accounts, the decision would be made under total uninformed circumstances, making the individual unaware of the financial consequences that the chosen account could possibly have. Had the individual chosen the equity fund account and the stock exchange in which the money was invested collapses, it is expected that they would be unable to respond effectively because the consequences were not examined beforehand to anticipate possible counter measures should a sudden crash of the stock exchange occur.

All small- and micro-enterprise owners should be equipped with financial literacy, which, for them, implies the knowledge and understanding of financial concepts and aspects that affect their enterprises. The owners should also possess the ability to apply such knowledge, together with the use of skills obtained through literacy and numeracy in order to make effective decisions regarding the management of the finances of the small- or micro-enterprise in order to achieve their desired outcome of wealth creation and growth or even just survival.

Along with the skills required is the ability to practise basic accounting, which involves, among others: record-keeping of income, expenditures and cash flow, calculating a profit, etc. This is explicated in the subsequent section.

2.4.4 Basic accounting for small- and micro-enterprise owners or managers

Myburgh et al. (2012:2) describe accounting as a process that is achieved through the execution of certain activities and it entails “the practice of and knowledge of systematically identifying, measuring, recording and reporting of quantitative information, which is primarily financial in nature, concerning economic activities of entities”, whereby “measuring” refers to the monetary value that a transaction takes. Atrill and McLaney (2001:1) along with Cloete and Marimuthu
(2007:1) refer to accounting as an information system and contend that it entails the process of gathering or collecting financial information and the analysis of such information; only if the information is relevant to the specific entity. Cloete and Mariimuthu (2007:1-2) further state that the process also includes the recording of the information gathered and analysed in a structured manner; thereafter, reporting on the information for a specific period by summarising the information; followed by the interpretation of the reported information by those charged with governing the enterprise, in order to make informed decisions thereon. Atrill and McLaney (2001:1) summarise the last two steps in the process explained by Cloete and Mariimuthu (2007:1-2) as the communication of economic information gathered and analysed.

Maritz (2008:1) is of the view that accounting simplifies the process of managing the finances of an enterprise. Maritz (2008:1) also states that if the accounting process runs as intended, the benefits for the owner of the enterprise would be the ability to trace historical transactions; the owner would keep abreast with the financial position of the enterprise at any given time; the owner would be able to identify in which area of the enterprise money is ineffectively spent; the financial results from different periods reported on could be compared for interpretation; and the process aids the selection of the selling prices of goods or services provided by the enterprise.

From the above mentioned, it is evident that the core of accounting is keeping record as well as reporting financial information relevant to a specific enterprise. The usefulness of the accounting information and desired outcome of this process will only be achieved, namely satisfying the need that the owner of an enterprise seeks to fill with the information provided by the accounting process, if the financial information possesses the following five characteristics (Kolitz, 2005:11-13; Atrill & McLaney, 2001:5; Cloete and Mariimuthu, 2008:32; IFRS Conceptual Framework, 2012:A25-A29):

- **Relevance**: Information is relevant if it has the ability to influence the decisions of the individuals using the information by way of confirming a past event of which the individual was already aware of prior to obtaining the information or in aiding the prediction of future events; e.g., if the owner of an enterprise does not disclose that he/she does not intend to operate the enterprise in the near future, the creditors of such enterprise would, if they are not aware of the owner’s intention, grant further credit to such enterprise based on the summary of financial records provided to such creditor by the owner;

- **Reliability**: The information is perceived to be reliable if it is free from material errors and bias from those who compiled the information. Information should be valid and no
omissions of an occurrence should take place. Bias refers to intended emphasis or manipulation of financial information in order to increase the likelihood of an individual interpreting certain information in a certain manner; e.g., if the owner of an enterprise decides to omit a sales transaction, the profit of the enterprise would be affected and ultimately the tax payable on taxable income, which in this case will be understated;

- **Comparability:** This refers to the consistent treatment of items in the financial records of the enterprise, relevant to the previous reporting periods; e.g. accounting for the movement of inventory in the financial records based on the basis of whichever inventory was acquired first shall be sold first, and the related costs incurred to obtain the inventory would be used for the purpose of calculating the gross profit for a certain period;

- **Understandability:** Financial information reported is only of use if the individual examining the information understands it. However, it is assumed that the individual examining the information at least has reasonable knowledge on the matter to be understood; e.g., the individual examining a set of financial information should have the knowledge of how profit for a period is calculated before such individual gives his/her opinion on whether the profit seems satisfactory or not.

- **Timeliness:** This refers to having financial information available in time for decision-making purposes; e.g., before the owner of an enterprise decides to apply for additional credit from the bank, he or she should be in possession of information that explicates the financial position of the enterprise almost immediately prior to the application. If the owner wants to apply for credit on 30 September 2014, but the latest set of information reports for 31 December 2013, the information is not timely. It would also be inappropriate to determine a new selling price based on old information.

Basic accounting includes the following activities of the record-keeping of historical financial data or transactions, reporting cash flow and forecasting or budgeting.

1. **Record keeping of historical financial data or transactions**

   Firstly, a source document should be present as proof of the occurrence of a transaction. Examples of source documents include a receipt or till slip issued to a client for cash received, a cheque issued as payment for goods or services received or a receipt received from a supplier for cash payments made, invoice received for purchases made on credit, invoice issued for sales made on credit, etc. (Cloete & Marimuthu, 2008:35; Myburgh *et al.*, 2012:75). Thereafter, the
transaction is recorded by way of the double entry principle, in order to determine the effect the transaction has on the relevant accounts, in a specific journal containing similar transactions (Kolitz, 2005:105; Cloete & Marimuthu, 2008:35; Myburgh et al., 2012:87).

Examples of the journals include:

- The cash receipts journal for recording cash sales made (Maritz, 2008:21; Cloete & Marimuthu, 2008:35; Myburgh et al., 2012:90);
- Cash payments journal for the recording of cash payments made for purchasing goods and services rendered (Maritz, 2008:45; Cloete & Marimuthu, 2008:35; Myburgh et al., 2012:93);
- Debtors and creditors journal for the recording of goods delivered and services rendered on credit or received from an external party on credit (Maritz, 2008:80; Cloete & Marimuthu, 2008:35; Myburgh et al., 2012:97-100); and
- The general journal for the recording of transactions that do not qualify for recording in a specific journal, adjustments relating to errors or omissions and for the closing off of the specific journals to the general ledger accounts that contain the balances for each account of similar items (Maritz, 2008:36; Cloete & Marimuthu, 2008:35-36; Kolitz, 2005:117; Myburgh et al., 2012:89-90).

Once all the transactions and adjustments are recorded, and all the accounts of similar accounts are closed off from the general journal to the general ledger accounts, the balances are recorded to the trial balance. The trial balance is a summary of all debit and credit balances obtained from the general ledger accounts (Cloete & Marimuthu, 2008:37; Myburgh et al., 2012:137-141). The trial balance is then closed off to the relevant financial statements. The financial statements have five elements: assets, liabilities, income, expenses and equity (IFRS Conceptual Framework, 2012:A32-A38). The element that the items represent will determine to which statement the item is closed off to.

The relevant financial statements preferred, for a small- or micro-enterprise, include:

- The income statement, also known as the statement of profit or loss and other comprehensive income, demonstrates the financial performance of the enterprise for a period and reports all income accrued to the enterprise less all expenditure incurred by the enterprise (Myburgh et al., 2012:434-436; Maritz, 2008:93).
• The balance sheet, also known as the statement of financial position, demonstrates the financial position of the enterprise on a specific date, in which assets and liabilities are recorded. The difference between the assets and liabilities represent owners’ equity belonging to the owner of the enterprise and the profit obtained from the income statement is closed off to owners’ equity within this statement (Cloete & Marimuthu, 2008:11-12; Myburgh et al., 2012:432-434; Maritz, 2008:93).

• Statement of cash flows, which is explicated in the subsequent accounting activity.

Income and expenditure pertain to a specific period; therefore, the accounts of the respective elements start with no balance in their respective general ledger accounts and are completely closed off to the income statement at the end of the period. Assets, liabilities and owners’ equity, however, do have a balance in their respective general ledger accounts at the beginning of a reporting period and are reported in the balance sheet at the balance it took at the end of the reporting period. This balance represents the subsequent year’s opening balance (Maritz, 2008:93-94; Cloete & Marimuthu, 2008:37).

2. Reporting cash flows

An enterprise may report profits for a certain period; however, that is no indicator of the cash flow position of the enterprise (Myburgh et al., 2012:584), unless such enterprise trades on a cash flow basis only, namely selling and purchasing with cash only. Neither the income statement nor the balance sheet amply concentrates on liquidity sufficient (Atrill & McLaney, 2001:116). Cloete and Marimuthu (2008:94) refer to cash as the “lifeblood” of any enterprise and insufficient control over it may have fatal consequences for the survival of such enterprise. Cash is an important resource, since all obligations have to be settled, if not immediately, some or other time, in cash. It is therefore imperative for any enterprise, regardless of its size, to measure and report its cash flow position.

The first step in controlling cash flows would be to keep record of its movement in the cash receipts- and cash payments journal (Cloete & Marimuthu, 2008:94). Subsequently, the individual keeping record of the cash flows should keep track of the physical bank balance as obtained per bank statement. Discrepancies identified should be identified and reasons behind it should be examined. It might be that an error occurred during the recording of a transaction in the journals or deposits and payments were directly increased or decreased against the bank balance or it
could represent an error or omission from the side of the bank (Maritz, 2008:62-63; Cloete & Marimuthu, 2008:94-95). It would therefore be necessary to prepare a bank reconciliation statement, usually once per month, which aims to reconcile the balance as per bank statement with the balance in the financial records of the enterprise. In the subsequent month, the bank statement is scrutinised for the identification for the inclusion or correction of reconciling items as shown on the bank reconciliation of the preceding month (Cloete & Marimuthu, 2008:95-105; Maritz, 2008:62-78).

3. Forecasting or budgeting

It is crucial for enterprises to plan for their future, since they should have an idea of where the enterprise will be heading in the near future and long run or where they would like to see the enterprise heading (Atrill & McLaney, 2001:6). The specification and situating of objectives that the enterprise sought to achieve in the future, the creation of a long-term plan of action in pursuit of achieving those objectives, the preparation of an annual budget, the process of monitoring the actual outcomes in comparison with the planned outcomes is called strategic planning (Drury, 2012:359). The reporting of historical financial information, which represents the actual outcome, has been said to be important for financial decision-making purposes (Cloete & Marimuthu, 2007:1-2). Budgets are compiled through the incorporation of an enterprise’s long-term objectives and the utilisation of decisions taken based on the actual outcomes of the previous period (Drury, 2012:360) and past experience of the enterprise as well as preceding forecasts (Cloete & Marimuthu, 2008:145), which Maritz (2008:129) believes seeks to aim to counter the propensity that humans have, which is to overspend. The budget represents a short-term financial plan that identifies how an enterprise plans to achieve its long-term objectives (Avril & McLaney, 2001:230-231; Drury, 2012:360).

There are a number of budgets that an enterprise can compile; however, for a small- or micro-enterprise the imperative ones comprise the budgeted income statement and the cash budget. The budgeted income statement is a prospect of the total income that is expected to accrue to an enterprise less prospective expenditures for the budget period (Drury, 2012:374; Horngren et al., 2009:220). The cash budget, on the other hand, assists an enterprise in predicting its future cash requirements in order to ensure that sufficient cash resources are available (Cloete & Marimuthu, 2008:156; Drury, 2012:376). The cash budget shows all anticipated cash inflows, as well as outflows and highlights whether a surplus or deficit should be expected (Cloete & Marimuthu,
2008:156). Should the enterprise anticipate a deficit, the owner should identify possible actions to be taken in order to aid the anticipated situation on a monthly to an annual basis (Drury, 2012:376; Horngren, 2009:231).

The following represents the main advantages of budgeting or forecasting:

- **Planning**: The anticipation of problems before they arise will trigger appropriate responses to mitigate the actual occurrence thereof. The owners or managers can therefore plan for the future by situating responses to anticipated problems (Drury, 2012:361; Atrill & McLaney, 2001:235).

- **Coordination and communication**: This is applicable when there are various sectors within an enterprise. It simply indicates that the budgets provide guidance to the various sectors with regard to them pursuing to strive towards the best interest of the enterprise as a whole and not only that of their respective sectors (Drury, 2012:361; Horngren, 2009:209). The budgets also serve as communication to all individuals within the enterprise of the plans of the enterprise as a whole (Drury, 2012:361; Horngren, 2009:209).

- **Motivation for better performance**: A budget provides certain standards that are hoped to be achieved (Drury, 2012:362). It may indicate to the owner or the managers of an enterprise that it is required of them to strive towards the predetermined standards (Atrill & McLaney, 2001:235). In addition, Horngren et al. (2009:210) are of view that failing to meet predetermined standards, as given in the budgets, is regarded by individuals in control of an enterprise as a disappointment, and that they would rather work harder in order to avoid failure.

- **Basis for control**: Control pertains to measuring the intended outcomes with the actual outcomes. A budget sets the intended outcomes and actual results, namely profits, cash surplus or deficit, etc., which may be compared in order to measure performance (Atrill & McLaney, 2001:236). The reason for inefficiency should subsequently be investigated in order to avoid it in the future (Drury, 2012:362), as well as exceptional performance in order to strive towards a similar outcome in the future.

Basic accounting for small- and micro-enterprises specifically relates to record-keeping of financial transaction, reporting and measuring the cash flow position of an enterprise and budgeting. All the latter mentioned are aimed at aiding the owners and managers of small- and micro-enterprises to keep abreast of the performance, financial position and cash flow position of the enterprise. If no basic accounting is practised within a small- or micro-enterprise, it is unlikely
that the owners or managers of the enterprises would be aware of the true financial performance, the financial position or even the cash flow position of the enterprise. If this is the case, in the event of insolvency or bankruptcy, by the time that it is discovered that the enterprise is in financial difficulty it might be too late to effectively respond in order to ensure the sustainment of the enterprise, due to decisions not made on a timely basis.

2.5 Enterprise management skills

Management is conceptualised by Strydom et al. (2011:56) as “the process of co-ordinating work-related activities” with the purpose of enabling the individuals performing the activities to complete them successfully and proficiently. It represents a combination of managerial tasks.

Enterprise management is a process of selecting the best alternative to optimise the utilisation of an enterprise’s resources in order to deliver a product or service (Rue & Byars, 2005: 3). These resources include inventory, property, land, capital, information, labour, etc. The aim of enterprise management, according to Van Rensburg et al. (1997:57), is the optimal cultivation of the profit potential of an enterprise. Good management, according to Griffin (2014:451), will result in effective enterprise delivery. Effective enterprise management is achieved through a number of enterprise management skills, and these skills form part of the greater function or task of enterprise management.

The basic tasks of management have been identified by several authors as: planning, organising, leading, motivating and controlling (Rue & Byars, 2005:5; Van Rensburg et al., 2008:51). Individuals managing an enterprise should apply these tasks. The tasks are explicated as follows:

- **Planning**: This indicates the situating of an enterprise’s objectives and deciding on a strategy that will best lead to the achievement thereof (Griffin, 2014:7; Rue & Byars, 2005:5; Strydom et al., 2011:25). It also involves decision-making, which refers to the selection between different options (Griffin, 2014:7).

- **Organising**: Personal organising pertains to how individuals utilise their available time (Horn, 2009:454). Organising further entails the establishment of how activities and resources are to be grouped, as well as granting rights and resources to individuals within the enterprise that are necessary to carry out assigned activities (Rue & Byars, 2005:5; Strydom et al., 2011:25).
• **Leading**: This refers to the provision of guidance to the necessary individuals in an attempt to provoke the achievement of the enterprise’s objectives (Rue & Byars, 2005:5). It is a process that involves directing individuals to engage with one another in order to in pursue the greater goals of an enterprise (Van Rensburg, 2008:54). It is also referred to as a process that advances the interest of an enterprise by motivating individuals and creating an environment that allows individuals to best achieve their goals and ultimately that of the enterprise (Botha et al., 2007:168; Van Rensburg et al., 2008:54).

• **Control**: This refers to the monitoring of an enterprise’s progression in the process of striving towards its goals, namely a process of making sure that the enterprise’s activities go ahead as planned. Control is achieved through the comparison between predetermined objectives and standards with the actual outcome, while subsequently putting measures in place to address any variances (Strydom et al., 2011:175; Rue & Byars, 2005:5).

The latter mentioned management functions are essential for any individual steering an enterprise. However, not everyone is capable, possessing the ability to perform these enterprise management tasks, since proper skills can only be obtained through training, education and practise (Horn, 2009:453).

Enterprise management tasks are executed with the help of enterprise management skills. The following are some prominent fundamental management skills that those individuals responsible for management of an enterprise should possess:

• **Conceptual skills**: These refer to the ability to see the bigger picture of the enterprise as a whole, especially where one part of the enterprise is affected, to realise the effect thereof on the enterprise as a whole (Rue & Byars, 2005:6). It also refers to one’s ability to comprehend notions to be able to decide on the best resolution in a given situation (Strydom et al., 2011:71).

• **Technical skills**: These refer to the ability of an individual to execute specific tasks (Rue & Byars, 2005:6). These types of skills are essential for an individual to understand how an activity or process works and to operate procedures that require specific knowledge thereof (Griffin, 2014:8).

• **Communication skills**: This is the ability to transfer knowledge, ideas and information in a profound manner, as well as the ability to comprehend and respond to the ideas, knowledge and information received from other individuals (Griffin, 2014:9). According to
Rue and Byars (2005:46), it may also be seen as an “act of exchanging information”, and that this skill is as important in business as it is in all aspects of our lives.

- **Decision-making skills:** This is the ability to correctly identify and evaluate problems and opportunities, as well as to consider possible alternatives in order to decide on the most suitable response (Griffin, 2014:9). It also involves the awareness and consideration of the consequences of possible outcomes of a decision made (Van Rensberg, 1997:73).

Enterprise management is a process that incorporates four management tasks with the aim to utilise the resources that an enterprise possesses at an optimal level in order to produce a product or to deliver a promise to the public. This process also intends to stimulate the attainment of potential profit. The management tasks, as referred to, are only executable if the individual performing these tasks is in possession of the relevant enterprise management skills. The consequences of a lack of the said enterprise management skills are explained in the following section.

### 2.6 Relevance of financial literacy and enterprise management skills in small- and micro-enterprise and the consequences of a lack thereof

The relevance of the presence of financial literacy and enterprise management skills lies in the reality that the absence thereof results in fatal consequences for the survival of an enterprise and the financial well-being of the enterprise owners.

#### 2.6.1 Relevance of financial literacy

Individuals, in their personal capacity or stewardship of an enterprise, are confronted with the making of complex financial decisions in various facets of their lives; however, research indicates that a large number of individuals are unprepared when confronted with decision-making requirements (Drexler *et al.*, 2012:1). One of the major reasons for not being prepared seems to revolve around a lack of knowledge enabling informed decision-making. It was established in section 2.4 that informed financial decision-making is made possible through the possession of the relevant financial knowledge and the comprehension thereof. Financial knowledge appears to be an essential survival mechanism for SMEs, since it is a key resource that contributes to the enhanced performance of an enterprise, improved competency, decision-making, and innovation (Wong & Aspinwall, 2004:47). In our ever-changing economy, small- and micro-enterprises are
forced to keep their financial knowledge up to date if they expect to sustain, since the outcome of a lack in financial literacy, of which financial knowledge and the understanding thereof form an integral part, often takes the form of financial difficulties (Hromkadka, 2007:42). If the whole economy is facing difficulties, financially illiterate individuals would be expected to be the ones who suffer most.

Initially, when small- or micro- enterprise owners undertake to enter into trade, they are confronted with important strategic financial decisions about what it is that they have to offer to the public and how they are going to put their initial objective to enter into trade into motion, namely where are the funds going to come from, where to obtain those products, the selling price they should request, etc. On a daily basis, these small- and micro- enterprise owners somehow have to keep record of how much they earn from the enterprise as well as how much they spend, which is also referred to as basic accounting. The skills required that enable the execution of latter-mentioned activities are facilitated through financial education (Cohen & Sebstad, 2003:8; West, 2012:523; Drexler et al., 2012:8-9), which is a fundamental factor in the achievement of financial literacy (Mihalčová et al., 2014:319).

2.6.2 Consequences of a lack of financial literacy

Financial literacy is essential, given that a lack thereof may detriment an individual’s day-to-day money management ability, saving behaviour, and it ultimately makes such individuals vulnerable to severe financial crises (Braunstein & Welch, 2002:1), meaning financially illiterate individuals are struck the hardest in times of financial distress. The vulnerability arises from the big element of surprise or shock that is experienced by individuals who are unprepared for the consequences thereof due to not knowing and Klapper et al. (2013:3922) are of view that financial literacy is the only tool that equips individuals to be better prepared for financial shock. The preceding consequences mentioned are as relevant to small- and micro-enterprises owners or managers as they are to individuals in their personal capacity. If the owner or those in charge of a small- or micro-enterprise lack financial literacy, their ability to effectively manage finances would be restricted and this may ultimately lead to detrimental vulnerability to consequences of financial hardship, such as cash flow problems, insolvency and bankruptcy and discontinuation of trade. Poor decision-making, which is often the product of a
lack of financial literacy, around cash flows would be as a result of not knowing the enterprise’s cash flow position at all relevant times, as would insolvency and bankruptcy be the result of not being aware of the financial position of an enterprise before deciding to take on additional debt as well as strategies on how to settle existing debt. Being aware of cash flow and financial position is made possible by financial literacy, namely keeping record of the relevant information, and being able to interpret and understand the results obtained from trailing the enterprise’s cash flow and financial position. This is verifiable through the research of a number of researchers who all affirm that a deficiency in financial literacy is associated with poor financial decision-making, investment selections, negative income related to spending decisions, borrowing and saving choices, financial planning (Drexler, 2012:6; Klapper et al., 2013:3916-3918; Lusardi & Mitchell, 2014:21-24), exceptionally high debt levels, poor attitude towards saving, vulnerability to investment fraud and schemes as a result of lacking knowledge, bankruptcy and blacklisting (Kotzé & Smit, 2008:157).

In a struggling economy, no individual can afford to be a victim of the consequences of bad decisions and a lack in financial knowledge and relevant financial literacy skills. Irwin (2013:22) researched the reason for the resistance during the latest financial crisis by small enterprises and found that effective and wisely orchestrated decision-making, related to financial literacy, around the spending and saving of money was a primary reason for toughness shown in times where failure threatens. The finding of Irwin (2013:22), that financial literacy is an essential weapon during financial distress, highlights the sheer importance thereof. In the findings of a number of other research studies concerning statistics around the survival of small- and micro-enterprises, a lack of financial literacy seems to be the primary responsibility therefore (Bornstein & Scarborough, 2007:38-39; Ligthelm, 2008:379; Kgosana, 2013:1; Zwane, 2014:1).

Wise (2013:30) asserts that a deficit in financial literacy positions a great threat to the success of enterprises, especially that of new enterprises. Bornstein and Scarborough (2007:38-39) reported that the failure rate for new businesses stands at approximately 70 to 80% in the first year of trade, and only half of those who persist beyond the year would still be in trade after five years and various studies suggested the primary causes for the failure to be attributed to poor and lackadaisical financial management, “a lack of management expertise”, and a lack of financial knowledge from the owners and managers on accounting. The failure rates reported displayed a similar picture of the demise rates to that which were recently reported by Ligthelm (2008:379), who reported that only 25% of all new enterprises survive beyond 3.5 years; the Minister of Trade
and Industry of South Africa (Kgosana, 2013:1), who reported that five out of seven small enterprises established in South Africa will be out of business in their first year of trade; the Minister of Small Business Development of South Africa (Zwane, 2014:1), who reported that enterprises with fewer than 20 employees only have a 37% chance of surviving for four years and only nine percent of them are expected to survive beyond 10 years; and ABSA (Anon, 2010:1), who reported that 63% of small enterprises fail within the first two years of their trade. In the 2011 NCR report on SMEs’ access to credit in South Africa, it was reported that South Africa has one of the lowest survival rates compared to the rest of the world and they suggested the reason for this to be a lack of financial literacy, management skills and education (NCR, 2011:7). Bornstein and Scarborough (2007:38-39) believe that the solution to the problem faced by small enterprises lies in financial literacy. Beyond just the survival of small- and micro- enterprises that are threatened by a lack of financial literacy, other constraints exist.

It has been established by Chimucheka and Rungani (2011:5513-5515) that SMMEs are of the view that financial literacy has an impact on an enterprise’s ability to obtain finance from a financial institution in South Africa. This poses a problem to these enterprises, since the inaccessibility to finance is associated with slow or no growth of these enterprises (Chimucheka & Rungani, 2011:5513-5515). The OECD and World Bank (Miller et al., 2009:4) confirm the theory of Chimucheka and Rungani (2011:5513) that a lack of financial literacy is often tied to a lack of access to finance. They also add that even if illiterate individuals have access to financial products, they fail to use them, as a result of a lack of appropriate knowledge of the financial products.

Chimucheka and Rungani (2011:5513-5515) further assert that a lack of financial literacy has a detrimental effect on the survival, alignment towards the future (namely entrepreneur focuses on the future and have prospects), and innovation that aspires growth in SMMEs. In addition, Chimucheka and Rungani (2011:5513-5515) assert that a lack of financial literacy is also accompanied by a display of a lack of enterprise management skills. It is appears that enterprises whose owners or managers lack enterprise management skills suffer a similar fate to those who illustrate a lack in financial literacy.
2.6.3 Relevance of enterprise management skills and the consequences of a lack thereof

Headd (2003:52) established that the survival of an enterprise depends a great deal on the characteristics of the enterprise as well as that displayed by its owners. By this statement, it is implied that the owner should possess the characteristics expected from an individual who makes a reasonable effort to be knowledgeable in finance and strives towards obtaining the necessary enterprise management skills. Poor enterprise management is often associated with a poor distribution of resources, such as financial and other assets, which may result in financial distress or even failure (Gaskill, 1993:20; Okpara & Wynn, 2007:32). Enterprise failure in this sense refers to the inability to realise profits and the want or need to discontinue trade in order to sell or liquidate the enterprise in an effort to save whatever is left to distribute to the creditors and the owners. The efficient allocation of resources was also identified in section 2.5 as one of a product of good enterprise management skills (Rue & Byars, 2005:3; Griffin, 2014:451; Van Rensburg et al., 1997:57). A lack in enterprise managerial skills is tailed by a constraint to the growth ability of SMEs and it poses a threat to their survival and success prospects (Morrison et al., 2003:419; European Commission, 2006:11), which are also the constraints faced by small- and micro-enterprises whose owners or managers lack financial literacy.

2.6.4 Conclusion

The consequences of a lack of financial literacy from the research can be correlated with poor decision-making around the utilisation of money, appalling attitude towards saving, high financial risk through ineffective management of debt, poor financial well-being, insolvency and bankruptcy, cash flow problems, difficulty in accessing financial products, which all lead to growth constraints and even the demise of small- and micro-enterprises. The lack of enterprise management skills is followed by the inability to effectively distribute and utilise resources throughout the enterprise in order to deliver the promised output to consumers.

2.7 Summary

Defining small- and micro-enterprises remains a global challenge. This may be attributed to a number of constraints such as the diversity of sectors within the market, the structure of enterprises, location, etc. However, in one country, definitions of small- and micro-enterprises should at least tend to be the same, but this is not the case for South Africa, as even legislation
and government publications differ. This is a concern, since more than 90% of all active enterprises within the country are small- and micro-enterprises and a number of government support programmes and agencies exist whose aim it is to assist the development and growth of SMMEs. With the high demise rate of small- and micro-enterprises within the country, one could somehow believe that the support is granted to the wrong target. This could be attributable to the fact that a uniform definition of small- and micro-enterprises is yet to be established.

Entrepreneurs have a number of reasons for starting an enterprise. Some of the reasons to mention comprise the voluntary establishment of an enterprise with the aim of gaining independence, self-employment, exploiting a market opportunity, as well as establishment out of necessity – unemployment. Whatever the reason, the initial objectives of the individual starting an enterprise range from making a profit, creating wealth for oneself and in some instances, pure survival. However, before individuals enter into trade, they should examine their ability to succeed through analysis of whether they are equipped to manage the enterprise with the necessary knowledge and skills required. A question remains as to whether this is actually the case in real life.

Financial literacy has been defined by several researchers and it is rare that only one definition is adapted throughout research performed on this topic. However, the basis for the different definitions remains similar, since it revolves around finances and the management thereof. Financial literacy has been concluded within this chapter to be knowledge and the understanding of financial matters; it also pertains to the ability to apply such knowledge in the relevant circumstances through effective decision-making regarding the use of money. It has also been established that it embodies specific skills pertaining to an individual’s ability to work with numbers and at the same time it refers to being aware of risks associated with finances as well as the consequences or outcomes of financial decisions.

Factors that contribute to the financial literacy of an individual are basic literacy, numeracy and mathematical skills, financial education that is obtained from a variety of sources of which schools are one. There are also other factors that contribute to financial literacy and they are anxiety or stress experienced by an individual, motivation to make use of financial literacy by being financially responsible, as well as financial satisfaction that is hoped to be gained by individuals through the practising of financial literacy. The ability to perform basic accounting is a product of financial literacy, since it may be obtained through financial education. Basic accounting refers to
a process by which financial data is gathered and possessed, analysed and reported with the aim to analyse and interpret the results in order to make subsequent decisions thereon. Some basic accounting activities include record-keeping of historical financial data, reporting cash flow and budgeting.

Enterprise management is the process by which resources within an enterprise are effectively distributed and utilised with the aim of cultivating profits. Enterprise management is performed through the performance of four management tasks, which are planning, organising, leading and control. These tasks, however, can only be executed with the help of enterprise management skills. The most common enterprise management skills are conceptual-, technical-, communication-, and decision-making skills.

A lack of financial literacy from the side of enterprise owners or managers of small- and micro-enterprises is associated with detrimental consequences. These consequences range from ineffective financial decision-making with regard to the utilisation and management of money; poor attitude towards saving and investing; ineffective management of debt; cash flow problems; bankruptcy; insolvency; constraint to accessing finance; low or even no growth; and discontinuation of trade. A lack of financial literacy is also believed to be accompanied by the presence of a lack of enterprise management skills. A lack of proper enterprise management skills has similar financial consequences as those from a lack of financial management; in addition, it is associated with the inability to effectively distribute and utilise resources within an enterprise, which distorts the aim of advancing the profit potential of the enterprise.

It is crucial that the true nature of the need within small- and micro-enterprises for financial literacy be investigated. In knowing this, one would be enabled to suggest relevant interventions to assist the survival of these enterprises.
CHAPTER 3 – RESEARCH METHODOLOGY

3.1 Introduction

The aim of this chapter is to outline the purpose of this study and to provide a description of different research designs and data collection techniques. In addition, the specific research design method to be performed for this study will be explicated in detail. The overall aim of the research design is to investigate the research problem, as stated in section 1.2. The grounds for selection of specific research design methods for this study are also explained within this chapter.

The study was initiated by conducting a literature review, which involved a review of related literature performed on the topic elected for research in this study (Welman et al., 2005:38) in order to explore and become familiarised with what researchers have already examined (Kumar, 2005: 30), which enabled the process of understanding the background and important facts around the chosen topic (Welman et al., 2005:39). In the preceding Chapters 1 and 2, knowledge was obtained pertaining to:

- SMMEs (Chapters 1 and 2);
- The importance of small- and micro-enterprises (Chapter 1);
- Conceptual definitions of small- and micro-enterprises (Chapters 1 and 2);
- Reasons for entering into a small- or micro-enterprise (Chapters 1 and 2);
- Viability of small- and micro-enterprises (Chapter 1);
- Financial literacy, namely: definitions, factors that contribute thereto and basic accounting for small- and micro-enterprises (Chapter 2);
- Enterprise management skills (Chapter 2); and
- The relevance of financial literacy and enterprise management skills within a small- or micro-enterprise, as well as the consequences of a lack thereof (Chapter 2).

Reasons behind obtaining knowledge of the points mentioned above were to establish a theoretical framework on the broader topic, namely financial literacy, in order to establish a conceptual framework of information around the basis of this study’s research problem (Kumar, 2005:35-37), which is outlined in section 1.2, in addition, to establishing a basis for qualitative research to be performed. The aim of the literature review in totality was ultimately to address the main objective outlined in section 1.3.1 to a certain extent, which focused on theoretical solutions to the research problem.
Furthermore, the literature review was utilised in the process of selecting the appropriate research design methods for this study, and in designing the questionnaire as well as the construction of the follow-up interviews. The literature review also accommodates the analysis and interpretation of the outcomes of the qualitative research conducted.

The outlay of this chapter comprises the detailed discussion of research design methods; particularly qualitative research design methods, data collection techniques, designing the questionnaire, constructing the follow-up interviews and the selection of the study population and ethical considerations.

### 3.2 Objective of this study

The main objective of this study, outlined in section 1.3.1, is to analyse the need for financial literacy in small- and micro-enterprises, in order to facilitate recommendations regarding the obtaining of financial- and enterprise management skills to assist the development and sustainability of small- and micro-enterprises.

Qualitative research, in the form of a questionnaire and follow-up interviews with small- and micro-enterprise owners within a suburb of Potchefstroom, South Africa (namely Promosa), was utilised to ultimately address the main objective by addressing secondary objectives 1 to 2 and 5 to 8.

### 3.3 Research approach and research design

Rugg and Petre (2007:33) describe research as an investigation in pursuit of knowledge and understanding. This knowledge and understanding may be obtained by way of a differentiation of objective methods and procedures (Welman *et al.*, 2005:2). Kumar (2005:6) narrows the description of research and states that it is a way of attaining answers to one’s questions. When an individual is of the view that he/she is undertaking a research study, he/she implies that the process (Kumar, 2005:6; Brar *et al.*, 2014:63):

i. is carried out within a framework of a set of philosophies;

ii. uses procedures, methods and techniques that have been tested for their validity and reliability;

iii. is designed to be unbiased and objective.
3.3.1 Quantitative and qualitative research designs

There are three major forms of research methodologies or approaches. The first method is quantitative research (also referred to as the positivistic approach); the second method is qualitative research methodologies (Kumar, 2005:17; Welman et al., 2005:6); and the third method is referred to as mixed methods, which represent a mixture of qualitative and quantitative research (Maree et al., 2007:255; Richards & Morse, 2007:93).

Maree et al. (2007:255) state that a researcher performing quantitative research relies on numerical data, which he or she uses to assess the correlation between the variables tested. Maree et al. (2007:255) further state that the researcher examines theories that are based on the reality and that the researcher makes use of quantitative measures to assemble data. Brar et al. (2014: 64) substantiate the latter statements of Maree et al. (2007:255), as they affirm that quantitative research aims to “identify, measure and evaluate phenomena” in order to provide an explanation of a rational nature and it is often used in natural sciences studies, since it is difficult to measure human behaviour.

Quantitative research, according to Welman et al. (2005:6), necessitates that research ought to be restricted to that which one can observe and measure objectively, which leads back to the concept of reality that Maree et al. (2007:255) refer to. As mentioned earlier, quantitative research is often referred to as a positivist approach. This type of research subsists independently from factors that influence human subjectivity, such as the feelings and views of individuals (Welman et al., 2005:6); it also suggests that the data that is collected is independent and often unaffected by the researcher (Ritchie & Lewis, 2003:16).

In contrast, qualitative research, according to Maree et al. (2007:257), is an enquiry process where the researcher aims to develop a holistic picture that takes into account detailed views of participants; however, it is complex in nature and often performs the research within natural surroundings. Qualitative research is interpretive in nature and makes use of a holistic approach that takes into account all aspects of a human being (Welman et al., 2005:9) and understanding the meaning that individuals attach to their existence (Ritchie & Lewis, 2003:3).

Ritchie and Lewis (2003:3) agree with both Maree et al. (2007:257) and Welman et al. (2005:9) by stating that qualitative research involves a set of interpretive and material customs that make
the world visible, which indicates that the researcher performs the research within natural surroundings. Denzin and Lincoln (cited by Flick et al., 2008:2) and Ritchie and Lewis (2003:2-3) assert that this type of research embodies a positioned activity that situates the observing individual within the world. Denzin and Lincoln (cited by Flick et al., 2008:2) are further of view that this qualitative research takes the form of a series of representations, which comprise, among others, field notes, interviews and conversations. The aim is to understand the data that is analysed as the research process carries on, rather than understanding what is being tested prior to the study being conducted (Richards & Morse, 2007:73).

As mentioned earlier, a mixed-methods approach to research includes a mixture of qualitative and quantitative research (Maree et al., 2007:255; Richards & Morse, 2007:93). This can further be described as the collection of data as well as the analysis thereof in a single study, using a combination of qualitative and quantitative research techniques and approaches (Johnson & Onwuegbuzie, 2004:17; Bak, 2011:77). Furthermore, according to Bak (2011:77), Johnson and Onwuegbuzie (2004:17) take out the restriction and constraints in using a single research method and the integration of the two methods within the same study allows for a research problem to be addressed from different angles and the research problem can be verified within the same context through the use of two different methods.

To this point, research methodologies were discussed and no specific reference was made to research design. According to Mouton (2013:55), the two are separate concepts and should not be confused with one another. A research design is a plan or strategy that indicates how an individual intends to conduct his/her research (Mouton, 2013:55; Maree et al., 2007:70). According to Welman et al. (2005:52), it specifically describes what will be conducted with individuals participating in the study, with the aim of solving the research problem. The research design depends on the research methodology; however, it is more detailed and describes the course of action to obtain results and focuses on the data collection technique; the type of data to be used: primary (new) or secondary (existing), text data or numerical data; the population and how a sample will be extracted; as well as how the data analysis will be performed for the type of research, i.e. quantitative or qualitative (Maree et al., 2007:70; Mouton, 2013:57; Welman et al., 2005:52).

As stated in the previous paragraph, the research design pertains to the plan or strategy that includes the particulars of how the researcher will conduct his or her research (Mouton, 2013:55;
Maree et al., 2007:70). There are four research design methods that are classified based on the nature of the investigation. These are experimental research design, non-experimental research design, quasi- or semi-experimental research design, and qualitative research design. The first three research design methods, according to Welman et al. (2005:78), constitute quantitative research.

The four research design methods are explained as follows:

(i) Experimental research design

This type of research attempts to answer a question involving whether an intervention (independent variable) resulted in the expected outcome or to observe whether a specific intervention has an effect on the participants, namely the dependent variable (Welman et al., 2005:78; Mouton, 2013:160; Maree et al., 2007:149). Participants are randomly assigned to the different groups (e.g. the intervention is exercised over one group, whose results are measured against the group that did not receive the intervention) on which the experiment is done (Welman et al., 2005:80; Maree et al., 2007:149). In this research design, there is full control over the independent variable, as well as a degree of control over all groups within the study (group that receives intervention, as well as the one that does not) (Welman et al., 2005:80-82; Maree et al., 2007:149).

(ii) Non-experimental research design

These designs are used in research where the independent variable is measured against all relevant dependent variables and no planned intervention or manipulation takes place in this research type (Welman et al., 2005:92; Maree et al., 2007:152). According to Kumar (2005:100), it is typically where an effect (outcome or impact or change) is traced to the cause thereof.

(iii) Quasi- or semi-experimental research design

This research design includes characteristics of both experimental and non-experimental studies. It is very similar to an experimental research design, except that the researcher cannot randomly assign the participants into the groups of concern, ultimately limiting the control the researcher has on the participants (Welman et al., 2005:88; Maree et al., 2007:149).
(iv) Qualitative research design:

The qualitative research methodology has been discussed in section 3.3.1. Qualitative research design refers to specifications of the plan or strategy that sets out techniques of selecting participants, data collection and the analysis thereof when conducting qualitative research (Welman et al., 2005:188).

The following sub-section elaborates on data categories and collection techniques for both quantitative and qualitative research.

3.3.2 Data collection techniques

Data may be categorised as primary- and secondary data, which respectively refers to new data and existing data (Kumar et al., 2005:118; Mouton, 2013:99-100). Welman et al. (2005:149) elaborate on the two concepts and affirm that primary data represents original data gathered by a researcher with the intent of using it for the purpose of their own study, whereas secondary data has already been collected by other individuals, which include, among others, agencies and institutions.

The data may be obtained through a series of data collection techniques that vary depending on whether one is conducting quantitative or qualitative research (refer to 3.3.1). Maree et al. (2007:153) are of the view that before one can perform quantitative research, numerical data should be collected and analysed in a logical and objective manner (one should be able to do a statistical analysis on the data). Two widespread examples of quantitative research data collection techniques are surveys and questionnaires (Maree et al., 2007:152; Mouton, 2013:148-180).

Where the researcher is more concerned with objectivity in performing qualitative research, the researcher’s involvement is required for qualitative research, since qualitative research deals with subjective data (Maree et al., 2007:79; Welman et al., 2005:8). According to Mouton (2013:107), qualitative research is often performed in “natural field settings”, and keeping “field notes” is integral to the process for recording data obtained. Interviews, observations and focus group interviews are the most general forms of qualitative research data-collection techniques (Richards
& Morse, 2007:111; Maree et al., 2007:81-90), which all, according to Maree et al. (2007:79), are interpretive in nature.

As part of the literature study performed in Chapter 1 and 2, secondary data was mainly used, which was obtained from publications from government, published articles, books, legislation, newspaper articles and others. For further purposes of this study, primary data will be obtained and analysed; however, the comprehensive knowledge gained on the subject at hand from the literature review will be utilised in the process of preparing the questionnaire for the qualitative research in addition to analysing results obtained.

A mixed-methods research approach was chosen in pursuit of achieving the objectives stated in sub-section 1.3.2, which consist of quantitative research in the form of a questionnaire – which is an example of a non-experimental research design data collection technique (Welman et al., 2005:93; Maree et al., 2007:152) – completed by the owners of the small- and micro-enterprises, and qualitative research in the form of in-depth follow-up interviews conducted with the participants of the questionnaire, in order to certify that the results obtained from the questionnaire had been interpreted correctly and to enable the researcher to go into more depth. Ritchie and Lewis (2003:124) are of the view that follow-up questions are essential to ensure full exploration of the matter that is under investigation. The motivation behind the approach chosen is that, in order to address the research problem of this study, quantitative research should be conducted in order for the results to be generalised to the population of small- and micro-enterprises; however, in order to attain reasonable assurance that the results obtained from the quantitative research was interpreted correctly, qualitative research ought to be performed. Should there arise misunderstandings of any nature, this would ideally be followed up through the in-depth, semi-structured interviews.

The reasons for choosing a questionnaire are the following:

- Participants retain their anonymity;
- Several participants can complete the questionnaire in a short space of time;
- The questionnaire can be checked for accuracy of results by administrators prior to circulating the questionnaire among the participants;
- Generalised conclusions may be made on the results obtained from data, through an analysis of charts, graphs, etc. derived from the data; and
- It is inexpensive.
The reasons for in-depth follow-up interviews are the following:

- Provides more flexibility in obtaining data (e.g. if something that the interviewer had not previously considered comes to mind, the interviewer may raise the question in the moment);
- It often serves as supplementary to information;
- Questions can be explained to participants, should they not comprehend a question; and
- It provides clearance and should assist in obtaining an understanding of whether the results obtained from the questionnaire represent the true nature of events.

3.4 The questionnaire

Kumar et al. (2005:126) refer to a questionnaire as “a written list of questions”, and the answers to these questions are recorded by the respondent taking part in the questionnaire. The respondents are required to read and interpret the questions, and thereafter writing down responses (Kumar et al., 2005:126). The list of questions are prepared beforehand and the respondents may in some instances answer the questions in their own words, while in another instances, the respondents are only required to choose from the predetermined set of responses (Rugg & Petre, 2007:142; Gillham, 2008:2). When a researcher decides to use this data collection technique, attention should be given to one’s motivation for choosing this technique, as well as the characteristics and considerations in the design and circulation of the questionnaire (Rugg & Petre, 2007:143).

3.4.1 Questionnaire considerations

When designing a questionnaire, consideration should be given to the following:

(i) Appearance or layout

The layout of the questionnaire should be of a pleasant nature to the eye and easy to read (Kumar et al., 2005:126). It should furthermore be printed and laid out in a manner that enables the respondent to follow the instructions with ease, encouraging the individual to take time to complete the questionnaire (Welman et al., 2005:180; Maree et al., 2007:159), since a “poor and confusing layout” may lead to errors or even no reaction from respondents (Mouton, 2013:104).
(ii) Respondents’ literacy level

This consideration is one that should never be overlooked when designing a questionnaire. Welman et al. (2005:176) assert that words and concepts, with which the respondent is familiar, should be used. Welman et al. (2005:176) further state that regard should be granted to the language command of the respondents, since this is one of the factors that leads to better accuracy of the information gathered from the respondents. Kumar (2005:127) goes further and states that if the type of population the study is conducted on is illiterate, very young, elderly or incapacitated in a manner that could affect their comprehension of the questionnaire substantially, one should in this instance give consideration to other techniques of data collection.

(iii) Question sequence

Previous studies have indicated that the sequence of questions may adversely affect the response accuracy, as well as the response rate of the respondents to the questionnaire (Mouton, 2013:103). The questions should be structured in a non-confusing manner and the sequence should start with a few easy to answer and non-threatening items, followed by more in-depth questions that are grouped per topic (Maree et al., 2007:160; Welman et al., 2005:178).

(iv) Choice of questions

This involves the choice between two main types of questions, namely open-ended or close-ended questions (Welman et al., 2005:174; Maree et al., 2007:160-161; Kumar, 2005:132). With open-ended questions, the respondent is allowed to formulate his/her own responses to such questions – write his or her answer on a line or space provided on the questionnaire (Welman et al., 2005:174; Kumar, 2005:132). This type of question grants the respondents the opportunity to express themselves freely and it provides in-depth information, on condition that the respondents feel comfortable to express their feelings fluently (Kumar, 2005:134-135). However, when the researcher selects this category of question, it should be taken into account that the detail of responses, as well as response time, will differ among individuals, complicating the analysis process (Maree et al. 2007:161; Kumar, 2005:135).
In contrast, closed-ended questions have a predetermined set of responses from which the respondent is required to choose (Welman et al., 2005:175; Kumar, 2005:132). This category of questions are easy and quick to answer and easy to analyse; however, responses are restricted to the ones provided and it may lead to inaccurate results, should the given responses not reflect the opinion of the respondent (Maree et al., 2007:164; Welman et al., 2005:175). To overcome the latter mentioned complication, a mixture of open-ended and close-ended questions is often used when the predetermined set of questions are not the only responses that could be given to a certain question, and therefore a final category named “other/please explain” is provided (Welman et al., 2005:175; Kumar, 2005:132).

(v) Completion time of the questionnaire

According to Mouton (2013:104), questionnaires that are too lengthy are accompanied by a negative impact on the quality of the feedback obtained from the respondents. Welman et al. (2005:177) state that elongated questions are conveyed by longer response times, which could ultimately create resistance in the respondents to complete the questionnaire.

3.4.2 Purpose of the questionnaire

The questionnaire was constructed to take into account all the financial literacy and enterprise management skills aspects as contained in Chapter 2. The main objective of this study is to analyse the need for financial literacy in small- and micro-enterprises, in order to suggest recommendations for improvement on their financial literacy, if necessary. The purpose of the questionnaire was derived from the secondary objectives set, as outlined in Chapter 1 and mentioned earlier in the chapter. These are:

i. Establishing an understanding of small- and micro-enterprises;

ii. Establishing the reasons for starting the enterprises and the source from where initial funding was obtained by the owners of the enterprises at that time;

iii. Investigating the presence of managerial skills of enterprise owners with regard to enterprise administration and financial practices;

iv. Investigating the financial literacy of enterprise owners and determining areas of financial literacy weakness;

v. Investigating the financial literacy needs of the enterprise owners as well as their greatest perceived needs with regard to their enterprises; and
vi. Recommending a framework to be considered in supporting small- and micro-enterprises on the side of financial literacy.

3.4.3 Question types and response formats

3.4.3.1 Background

Section 3.4.1 makes mention that one of the questionnaire considerations is the choice of questions, namely open- and closed-questions. Schaeffer and Dykema (2011:925) affirm that the reason behind distinguishing which type of questions are used is that the question type is allied with the response process from the respondent; the different response dimensions (e.g. scales, ranking, options, etc.); response errors due to misinterpretation; structure of questions, which refers to the relationship of questions or ultimately the layout (Rugg & Petre, 2007:147); and lastly, the forms questions take, which refers to how the respondent is to answer the question depending on the type of question. It is evident that one needs to consider how questions are phrased, and how the respondent is to respond to questions, namely the manner of response, which is dependent on the respondent interpretation of the questions provided to them for participation.

Schaeffer and Dykema (2011:917) affirm that question length, question complexity, presence of instructions, introductory phrases and ambiguous terms are determinants of how a respondent interprets a question. Rugg and Petre (2007:147) assert that proper phrasing enhances clarity and unambiguousness. Maree et al. (2007:160) state that should a question not be worded in a manner that it has the same meaning for all respondents, it may result in meaningless data, and even worse, the discard of questionnaires (Rugg & Petre, 2007:146).

The following are examples, among others, of question features that contribute to clear and unambiguous questions, which promotes meaningful responses (Maree et al., 2007:160; Rugg & Petre, 2007:146-150; Schaeffer & Dykema, 2011:927-929):

- The use of language that the respondent is familiar with, as it affects comprehension;
- The avoidance of double-barrelled questions that contain more than one implied answer;
- Refrain from questions that lead or influence the respondent to answer in a certain manner, namely when a response is implied by the question;
- Make use of the formulation of questions in the first person;
The amplified use of statements instead of questions increases the response validity;  
The avoidance of using questions to which the respondents might take offence.

The format of the desired response comes in the form of a number of dimensions, depending on the type of question, namely open- or closed-ended questions (Schaeffer & Dykema, 2011:927; Maree et al., 2007:161).

Open-ended questions do not allow a limit upon a response as the respondents are allowed to formulate their own responses (Welman et al., 2005:174; Kumar, 2005:132; Rugg & Petre, 2007:139); therefore, these question types do not adopt a specific dimension in contrast to closed-ended questions.

Closed-ended questions provide for set responses, as they only allow a limited set of responses (Rugg & Petre, 2007:139; Maree et al., 2008:161), which are predetermined or set (Welman et al., 2005:175; Kumar, 2005:132). Closed-ended questions can take the form of more than one dimension, according to Maree et al. (2007:161-163), Schaeffer and Dykema (2011:927-928) and Rugg and Petre (2007:139;147-150), which include, among others, dichotomous questions, multiple choice, ranking questions, category questions and Likert-style scales. The following are descriptive demonstrations of dimensions used in the questionnaire:

- Dichotomous questions are questions for which there can only be two possible responses, e.g. "yes" or "no"; male or female; etc.
- Multiple choice, where there are three or more response categories, which are mutually exclusive, from which the respondent may select. A sequential character is allocated to each possible response; and
- Likert-style scales represent relative frequency categories and are normally used where participants are required to point out whether they agree or disagree with a statement or question, e.g. strongly disagree, disagree, agree, and strongly agree.

3.4.3.2 Questionnaire construction

The questionnaire has 85 questions that were grouped into of four sections, i.e. sections A to D. Section A (question 1-23) encompassed closed-ended questions relating to formalities, administration, book-keeping of the enterprises, the use of professionals and their advice in
relation to the small- and micro-enterprises, the interest of the enterprise owner in the economy and overall satisfaction with financial status/position. The responses were dichotomous, as there were only two possible answers, i.e. “yes” or “no”.

Section B (questions 24-56) also encompassed closed-ended questions aimed at investigating the financial literacy and enterprise management skills of the respondents. From the response options available, only one was correct, i.e. “yes” or “no”. The respondents were also awarded the opportunity of selecting an option that they do not know the correct answer to the question. Referring back to Chapter 2, these questions were aimed at establishing the knowledge of finance and financial concepts of the respondents; their understanding and application of said knowledge; numeracy skills; the ability of the respondents to make informed financial decisions based on the above; the ability of the respondents to understand the consequences of financial decision-making; their basic accounting abilities; and finally, the respondents’ enterprise management skills. Referring back to Chapter 2, the researcher took note of questions used in previous studies conducted on the topic; however, is of the opinion that the questions were not in itself comprehensive enough in analysing the respondents’ financial literacy within the context of small- and micro-enterprises. Nine questions in this section were taken from an existing questionnaire designed by Louw (2010) for a study relating to the financial literacy of third-year university students. These questions were amended in order to make them more relevant to small- and micro-enterprise owners and the remainder of questions were new. The questions referred to are numbers 24, 25, 26, 30, 31, 33, 36, 42, 44. A new questionnaire was therefore developed to analyse the financial literacy of the small- and micro-enterprise owners.

Section C (questions 57-71) comprised a Likert-style scale, which served the purpose of establishing from the respondents their need for and views towards gaining financial literacy. Eleven of the questions (no. 58, 60 to 65, 67, 69 to 71) were taken from the questionnaire designed by Louw (2010). The respondents were queried as to how strongly they agreed or disagreed with the importance of learning more about financial literacy education, including certain basic accounting skills.

Section D, questions 72-79, are biographical and demographic questions about the respondents and their enterprises. These were a combination of closed- and open-ended questions. Questions 80-85, on the other hand, were open-ended questions aimed at establishing from the respondents the nature of their enterprises; the reasons behind the starting of their enterprises and, to their
opinion, the greatest need with regard to their enterprises. The aforementioned questions were strategically placed towards the end of the questionnaire in order to group all questions that require written responses other than the selection between multiple pre-determined responses.

3.4.4 Study population

The study population identified for participation in the questionnaire were small- and micro-enterprise owners of enterprises within the suburb in Potchefstroom, South Africa, namely Promosa. The participants were not divided, but rather categorised as one group.

3.4.4.1 Defining the sample

Ritchie and Lewis (2003:77) assert that since a researcher cannot observe and record every event that occurs, it is necessary that a sample be defined. It is essential to explain who (respondents or participants) will be sampled, where data will be assembled, as well as how and when this would take place (Maree et al., 2007:34). Sampling takes numerous forms, of which only the two forms, namely probability and non-probability sampling, will be explored due to these two being of most relevance to this study.

Probability sampling, where components within a population are selected at random and where the elements have a known probability of selection, namely each item within the population has a chance of being selected, is the most conventional sample method in statistical research (Ritchie & Lewis, 2003:78; Clark & Creswell, 2008:201; Cooper & Schindler, 1998:218-219); on the other hand, for qualitative research purposes, non-probability or purposive sampling, where components within a population are knowingly selected to reflect specific characteristics of groups within the selected population, which will promote the investigation and comprehension of the themes that the researcher intends to study (Ritchie & Lewis, 2003:78; Clark & Creswell, 2008:203), is the method often used. Ritchie and Lewis (2003:78) are of view that purposive sampling is well appropriate for in-depth and small-scale studies.

Clark and Creswell (2008: 201-202) and Cooper and Schindler (1998:219, 237-240) name the following basic types of probability sampling:
Random sampling transpires where each unit within a study population that has been clearly defined has an equal opportunity for being selected to be part of the sample; Stratified sampling is used where the researcher aims for the sample to be representative, and is possible where the study population has been divided into subgroups (strata) or categories, after which the sample is selected from these subgroups; and Cluster sampling occurs where the sample unit is a group (cluster), which formed naturally within the population, instead of an individual, such as neighbourhoods, schools, etc.

In the event where the researcher aims to achieve representativeness or comparability with a sample, namely where a sample is selected to represent the greater population as closely possible or to compare among different cases, with purposive sampling, the following approaches are available (Ritchie & Lewis, 2003:78-79; Clark & Creswell, 2008:203):

- Homogeneous samples are elected in the event where the researcher wants to obtain a detailed picture of an occurrence, for example individuals in a subgroup with matching characteristics;
- Heterogeneous samples are where the plan of action is to deliberately select individuals who broadly differ from each other, with the aim to identify central themes or traits that are present across the selection of individuals;
- Extreme case or deviant sampling depicts where the individuals are selected merely due to being unusual or special. This is where the aim is to identify extreme case occurrences;
- Intensity sampling is chosen where the focus is on a specific occurrence instead of unusual occurrences, namely cases or individuals who strongly depict a certain occurrence area selected;
- Typical case sampling is chosen in the selection of cases or individuals who are “average” or “non-average” in order to obtain a comprehensive profile of these cases or individuals.

For this study, purposive sampling was selected, given the fact that the population size is not readily known, and, since it is not known, all the enterprises within the area will not have an equal chance of getting selected. The small- and micro-enterprises will rather be knowingly selected. However, the suburb is small enough to allow for full inclusion of the enterprises within the population. Purposive sampling in the form of heterogeneous sampling was selected, since the enterprises investigated have different characteristics, namely nature of products and services,
sizes, owners from different age groups, etc., in order to analyse common themes, namely the need for financial literacy.

3.4.5 Administration and circulation of the questionnaire

The questionnaires, accompanied with letters of consent to partake in the study, were offered to Promosa enterprise owners to complete within the supervision of the researcher. The data collection took place over a period of 10 weeks, which took place over weekends. The number of participants that took part in the study is 50.

3.4.6 Reliability and validity of the questionnaire

3.4.6.1 Reliability of the questionnaire

Reliability is established when the data collection technique can be repeated and the outcome of the data collection technique provides consistent findings (Maree et al., 2007:215; Remler & Van Ryzin, 2011:118). There are a variety of ways in which reliability can be achieved, among others, test-retest; split-half, internal reliability and equivalent reliability (Maree et al., 2007:215-216; Remler & Van Ryzin, 2011:121-124). These methods can be explicated as the following:

i) **Test-retest:** The same instrument is given to the same respondents on different occasions in order to determine whether the two sets of responses correlate;

ii) **Split-half:** The questions are randomly divided into two halves, therefore two instruments. The results are subsequently compared in order to determine the correlation between the two instruments;

iii) **Internal reliability** also measures how two halves, separate sets of instruments as explained in the previous bullet, correlate with each other; however, with the exception that in the event where the variances even each other out due to significant correlation between the two sets of information, since their internal consistency is high; and

iv) **Equivalent validity** is achieved where two separate data collection instruments, which are aimed at obtaining the same information, are given to the same respondents on different occasions. The responses are then compared in order to establish the degree to which the two sets of results correlate.
A tailored version of the test-retest reliability method in addition to internal reliability was used for purposes of this study. Reliability was warranted through following up the questionnaire by way of an interview. This was done to ascertain whether information reflected in the questionnaire corresponded with information from the interview, ultimately promoting improved interpretation of the questionnaire.

3.4.6.2 Validity of the questionnaire

A data collection technique exhibits validity when it measures whatever was intended for it to measure (Maree et al., 2007:216; Remler & Van Ryzin, 2011:106). Several measures to insure validity are in place. These are, among others, face validity, content validity, construct validity and criterion validity (Maree et al., 2008:216-217; Remler & Van Ryzin, 2011:106-113). These can be explicated as the following:

i) **Face validity** is based on whether the instrument appears to be measuring what it was intended to measure. An example would be where an expert in the specific field in which the research is conducted scrutinises the instrument for validity;

ii) **Content validity** refers to where the instrument takes into account and tests all dimensions of particular construct that the instrument is set to measure. An example would be psychometric tests, of which the validity is established by way of presenting such instrument to several experts in the field to provide remarks prior to the distribution of such instrument;

iii) **Construct validity** is essential in the instance where standardisation of the instrument is the aim, for example when the aim is to measure personality traits, which proves difficult to measure; with a set of question there should be multiple questions that collectively provide a measure for a specific trait tested; and

iv) **Criterion validity:** To test the validity of an instrument, the correlation between such instruments is tested against the results of an existing instrument, known as the criterion, which measures the same construct. In the event that the results reflect a high correlation, the validity of the instrument is enhanced.

When the questionnaire was developed, the face validity of was warranted through consultation of the literature review of work and studies performed by researchers and experts in the field of
study, as well as an existing questionnaire (criterion validity), which tests similar constructs to the constructs tested in this study.

In addition to the above, the data collected from will be sent to the Statistical Consultation Services of the North-West University (Potchefstroom Campus), where reliability tests will be performed on the data. The results will be discussed in Articles 1 and 2.

3.5 The follow-up interview

The following section explores an interview as a data collection technique; the purpose of the interview within this study; specifications about the interview used for this study; it elaborates on the study population; and describes the administration process of the interview.

3.5.1 Description of an interview

Maree et al. (2007:87) as well as Gubrium and Holstein (2001:103) describe an interview as a mutual conversation where data on the views, beliefs, etc. is collected by the interviewer by means of asking the respondent questions. The aim is to obtain information for a specific purpose from the respondents, who are allowed to give their own answers (Gillham, 2005:3; Cooper & Schindler, 1998:291; Gubrium & Holstein, 2001:104). An interview can take several forms, of which the most common forms are unstructured, structured and semi-structured interviewing (Maree et al., 2007:87, Maree et al., 2008:87, Remler & Van Ryzin, 2011:63). These methods are described as follows:

(i) Unstructured interviews

There is the type of interview for which there are no set of questions that have been predetermined and is driven by open-ended questions (Maree et al., 2008:87, Remler & Van Ryzin, 2011:63). Unstructured interviews afford the respondent the opportunity to lead and govern the structure of the conversation (Gillham, 2005:45; Remler & Van Ryzin, 2011:63). The respondent is allowed to respond through the offering of their own views, opinions, solutions, etc. on a specific issue or issues raised (Maree et al., 2007:87, Remler & Van Ryzin, 2011:63).
(ii) Structured interviews

These types of interviews comprise merely a set of predetermined comprehensive questions. The individual conducting the interview takes the lead (Maree et al., 2007:87, Remler & Van Ryzin, 2011:63; Gillham, 2005:83). Respondents may respond in their own words and are encouraged to give detailed responses (Remler & Van Ryzin, 2011:63).

(iii) Semi-structured interviews

These types of interviews have an element of flexibility in the sense that it even though there are several questions that are set in advance, it also allows for the researcher to change the structure by asking additional questions not predetermined, in the event where the researcher observes that more detail is necessary at a particular point during the interview (Maree et al., 2007:87, Remler & Van Ryzin, 2011:63-64; Gilham, 2005:70). Remler and Van Ryzin (2011:64) assert that in-depth interviews follow a semi-structured interview route.

In-depth interviewing, according to Gubrium and Holstein (2001:57), is used where the researcher seeks to explore information in a deeper manner than is done in other forms of data-gathering methods. Gubrium and Holstein (2001:57) also assert that in-depth interviews are rarely the only data source when conducting research and are used with other data gathering techniques and that researchers conduct such interviews to investigate their understanding of theories and themes established through information obtained through other data gathering sources.

In conjunction with the questionnaire issued for participants, follow-up interviews were conducted with the participants of the questionnaire in order to certify that the results obtained from the questionnaire had been interpreted correctly.

3.5.2 Purpose of the interview

As a measure to warrant the reliability of the results obtained through the questionnaire issued to participants, in-depth semi-structured follow-up interviews were conducted with all participants who took part in the study. This was to ensure that the responses provided by the participants are properly understood and that such results are accurately reflected within the results of the study. The interview also served the purpose of obtaining clarification on selected questions in Section
A to Section C of the questionnaire as well as elaborative detail on Section D of the questionnaires.

3.5.3 Structure of the interview

The interviews conducted with the participants were semi-structured conversations. These were conducted with the participants upon completion of the questionnaires after the researcher scrutinised the responses.

The interview was specifically planned such that, in terms of Section D of the questionnaire, all respondents were asked to clarify the responses provided for questions 72 to 80. In addition; the respondents were also requested to provide elaboration on responses given for questions 81 to 85. In terms of the rest of the questionnaire, pertaining to Sections A to C, depending on the assessment of the responses of the participants by the researcher, discussions were held with the participants with regard to the responses that were provided. The results were captured on the questionnaires returned by the participants.

Even though some questions asked to the participants were closed-ended questions in which options were given to the participants, the participants were predominantly granted the opportunity to structure their own responses.

The following are requirements for the success of interviews, as prescribed by researchers (Cooper & Schindler, 1998:292-297; Maree et al., 2007:88):

- The interviewer should communicate the aim of the interview to the respondent in order to provide reasonable assurance that the respondent has clarity as to what is expected from him/her from the interview;
- The interviewer is to give the respondents sufficient motivation to participate in the discussion, e.g. tone used when asking a question or ensuring that the interviewer comes across as approachable in order to make the respondent feel that his/her opinion is welcomed;
- Avoid leading questions and pay attention to how a question isworded in order to ensure that the participant is not steered to respond to a question in a manner that could be seen as bias and may interfere with the reliability of data;
• Questions asked should be kept to a minimum and at the same time be as clear as possible in order for the respondent to understand;
• The interviewer should establish a friendly relationship with the respondent;
• The interviewer should avoid the domination of the interview and should practise good listening skills.

These were all taken into consideration during the conduct of the semi-structured interviews.

3.5.4 Study population and administration of the interview

The study population of the interview comprised all the respondents who participated in the questionnaire. The interviews were conducted with the respondents upon completion of the questionnaires that were presented to them. The interviews took the form of face-to-face interviews with the respondents.

3.5.5 Reliability and validity of the interview

As designated above in sub-section 3.4.6.2, there are several manners in which one can ensure the reliability of a data collection instrument. It was explained above that the study made use of a tailored version of the test-retest reliability method, of which the interview also forms part of. The interview, as an in-depth semi-structured follow-up interview, complements the questionnaire conducted and vice versa.

As a measure to enhance the validity of the responses captured for the interviews conducted, the documented responses were read back to the respondents in order to for them to validate that the responses reflected their views.

3.6 Ethical considerations

Before the distribution of the questionnaire, ethical clearance was obtained by the North-West University. The questionnaire was accompanied by a letter of consent that served the purpose of explaining the purpose of the study; the procedure to be executed in the completion of the questionnaire; explained the risk or discomfort that may come from participation in the questionnaire; and ultimately to gain consent from the participants that they agree to voluntarily
take part in the questionnaire and that they understand that the information will be treated confidentially. The confidentiality of the participants was further enhanced by the fact that the questionnaire did not contain any personal information of the participant or their enterprise apart from the basic demographic information that was asked. The participants were ensured that at no point their name or the name of their enterprise would be linked to any of the findings contained within the research report.

In terms of the interviews conducted, no respondents were forced to answer any questions that caused them to feel any discomfort. The respondents were also not requested to provide any personal information to document, to which they can be related to in the findings contained within the research report.

3.7 Summary

This chapter outlined the objectives (section 1.3) of this study, where applicable to the research methodology discussed within this chapter. The different research approaches and research designs were explored. It was decided that this study will make use of a mixed-methods research approach, which consists of quantitative research in the form of questionnaires and qualitative research in the form of in-depth follow-up interviews conducted with the participants of the questionnaire, in order to certify that the results obtained from the questionnaire had been interpreted correctly.

The questionnaire and follow-up interviews were discussed and included the purpose of these two data collection techniques, the type of questions, the sample population, the design and structure thereof, the administration, reliability and validity.

Relevant to note is that as a measure to ensure the validity of data collected within this study, a reliability test of the questionnaire was performed by the Statistical Consultation Services of the North-West University (Potchefstroom Campus). The results from the reliability test are documented in Articles 1 and 2.
CHAPTER 4 – ARTICLE 1

Analysing financial literacy among small- and micro-enterprise owners in South Africa: A case study

Title: Analysing financial literacy among small- and micro-enterprise owners in South Africa: A case study

The reader is requested to take note of the following:

- This article has been submitted for publication to the following IBSS-indexed and peer-reviewed journal as follows:
  

- The article was researched and written by the first author as the candidate. The second author, as the study leader, fulfilled a ‘reviewer’ function. Estimated weightings of contribution are as follows:
  
  o Say, L.E. (90%)
  o Fouché, J.P. (10%)

- Confirmation of receipt of the article from the *International business & economics research journal* has been received and is presented as part of Annexure C.1 on page 203. The article was written and formatted in line with the journal’s submission guidelines, which are included as part of Annexure D.1 on page 205.
ABSTRACT

A lack of financial literacy is believed to be a foremost cause of small- and micro-enterprise failure in South Africa. The economy stands to lose much if failure trends continue due to the significant economic contribution of these enterprises. Limited literature available on small- and micro-enterprise financial literacy limits our understanding of the financial literacy needs of small- and micro-enterprise owners in order for meaningful interventions to be proposed. The purpose of this study is to analyse the financial literacy of small- and micro-enterprise owners, in addition to the identification of specific financial literacy areas of weakness. The research was conducted by way of a questionnaire, followed by interviews, which certified the data obtained through the questionnaire. The study found that the knowledge of finance, financial concepts and the understanding thereof of small- and micro-enterprise owners is low. The enterprise owners fell short in planning for their enterprises through keeping business plans and setting objectives. Owners who were employed prior to starting their enterprises practise better book-keeping, have had exposure to basic accounting, make use of the service of professionals for assistance with regard to their enterprises and show greater interest in current affairs than those who were unemployed before starting their businesses. This study contributes to the limited research available on the financial literacy of small- and micro-enterprise owners in South Africa, in addition to the identification of financial literacy weakness areas on which financial education programmes aimed at improving financial literacy should focus.

Keywords: Financial literacy; SMMEs; small and micro-enterprises; enterprise owners

1. INTRODUCTION

Small- and micro-enterprises are regarded to be of significant importance in economies across the globe, especially in developing countries; however, research and statistics show that small- and micro-enterprises are at a high risk of failure and face restraints to growth and development due to a lack of financial literacy (Bornstein, 2007; Okpara & Wynn 2007; Ligthelm, 2008; Chimucheka & Rungani, 2011; Woodward et al., 2011; Irwin, 2013; SBP, 2013; Wise 2013;). Ligthelm (2008) asserts that only 25% of all new enterprises survive beyond three and a half years. Okpara and Wynn (2007) further remark that small enterprises have a very slim chance of surviving beyond five years. Financial institutions, government institutions, regulators and policymakers are of the concern that a lack of financial literacy is associated with ineffective financial
and enterprise management decision-making, irresponsible use of finance, poor attitude towards savings and investing, ineffective management of debt, constraints to accessing finance, slow or no growth, bankruptcy, insolvency, severe financial crises and discontinuance of trade (Braunstein & Welch, 2002; Morrison et al., 2003; EU Commission, 2006; Okpara & Wynn, 2007; Kotzè & Smith, 2008; Drexler, 2012; Irwin, 2013; Klapper et al., 2013; Lusardi & Mitchell, 2014).

According to Klapper et al. (2013), financial literacy is the tool that equips individuals with vigilance in times of financial shock. The importance of the concept within the context of global financial crises has been emphasised (OECD, 2009; Vieira, 2012). Irwin (2013) states that the resistance demonstrated by small enterprises during the last financial crisis can be attributed to having a business plan and implementing a system to operate it, effective and wisely orchestrated financial and business decision-making around the spending and saving of money, debt management, anticipating the market and then adjusting accordingly, and making use of professionals and experts.

Financial literacy is becoming an increasingly popular research topic (OECD, 2009; Wise, 2013; Mihalčová et al., 2014), and researchers aim to highlight the significant role of financial literacy socially as well as economically (OECD, 2009; Oanea & Dornean, 2012). Louw et al. (2013) emphasise that acquiring and managing economic expertise have gained significance over the past few years, and the need for more financially capable individuals has consequently transpired. Despite the interest shown in the concept, Louw et al. (2013) assert that financial literacy levels remain low and improvement absent. Several efforts have been made with the aim of suggesting ways of improving financial literacy among individuals, due to the concern of a lack thereof (OECD, 2009; Oanea & Dornean, 2012; Klapper et al., 2013; Roberts et al., 2014). Current research focuses on conceptualising ways of measuring financial literacy, since it is a relatively new concept that has been interpreted and emphasised differently by researchers (Hung et al., 2009; Remund, 2010; Robb, 2012; Bay et al., 2014). The FSB (Roberts et al., 2014) asserts that this multifaceted evaluation of financial literacy is necessary in order to identify groups that are financially exposed, in addition to the identification of their needs.

Small- and micro-enterprises have been recognised globally as driving forces behind economic growth and job creation (Morrison et al., 2003; Chimucheka & Rungani, 2011; SBP, 2013). Nonetheless, there are concerns that small- and micro-enterprises are faced with restraints to growth, business success and threats to survival, and that a lack of financial literacy is believed to be the impelling cause of this (Okpara & Wynn 2007; Bornstein, 2007; Ligthelm, 2008;
Chimucheka & Rungani, 2011; Woodward et al., 2011; Irwin, 2013; SBP, 2013; Wise, 2013). Above and beyond the aforementioned matters, what does the financial literacy of small- and micro-enterprise owners in South Africa really look like, especially since the financial literacy of the owners affect these enterprises?

After performing research on studies done on the financial literacy of small- and micro-enterprise owners, only two studies were found that explore the financial literacy of SMME owners and managers in South Africa. Chimucheka and Rungani (2011) performed a study on 109 SMMEs relating to the impact of a lack of financial management knowledge on access to finance within South Africa. It revealed that all the SMME owners and managers who took part in the study considered themselves to be financially illiterate. In contrast, Eresia-Eke and Raath (2013) conducted a study on 70 SMMEs within South Africa on the impact of financial literacy on SMME growth and found that only 5.71% of enterprise owners perceived themselves as illiterate with regard to financial literacy. These studies explored the financial literacy perceptions of SMME owners and managers in South Africa and found conflicting results. In this study, the actual financial literacy, rather than perception, of the enterprise owners is investigated through the analysis of the actual knowledge and understanding of financial concepts, financial knowledge, financial products, financial decision-making and other enterprise-related concepts of small- and micro-enterprise owners.

This study aims at specifically analysing the financial literacy traits demonstrated by the small- and micro-enterprise owners, financial literacy needs and specific financial literacy areas where a lack has been demonstrated. A mixed-method research approach was used, which consisted of a questionnaire and in-depth follow-up interviews with the participants after they had completed the questionnaire in order to triangulate the results obtained from the questionnaires.

This study contributes to the limited research regarding financial literacy of small- and micro-enterprise owners. Current literature provides detail regarding the perceptions of SMME owners regarding their financial literacy. Looking into the actual financial knowledge through an analysis thereof can provide useful data for small- and micro-enterprise stakeholders. A new questionnaire suitable to analyse the financial literacy and financial literacy needs of small- and micro-enterprise owners within a South African context was developed, using existing literature as the theoretical framework.
This study found that small- and micro-enterprise owners who partook scored below average on financial literacy questions. Better enterprise administration and financial practices were found in individuals who have had some form of financial education or have obtained advice from financial service providers in the past. In addition, a significant portion of individuals who were formally employed prior to starting their enterprises responded positively in relation to enterprise administration, exposure to financial practices and financial education. The study further identified areas of weakness in terms of financial literacy.

From this point forward, the paper provides a background of the study, followed by an outlay of the theory utilised to establish a framework for the questionnaire developed and then the research methodology is explained. This is followed by the findings, a summary of the study, discussion, recommendations and a conclusion.

2. BACKGROUND

2.1 Conceptual scope and definition

The World Bank (Aterido et al., 2009) as well as the OECD (2000) define small enterprises as those that employ between 11 and 50 employees and micro-enterprises as enterprises that employ up to a maximum of 10 employees. In some instances, according to the OECD (2000), micro-enterprises are defined as enterprises that employ up to five employees. The National Small Business Amendments Act of 2003, South Africa, also defines micro-enterprises as enterprises that employ up to five employees and small-enterprises up to 50 employees. Micro-enterprises, for the purpose of this study, are characterised as enterprises that employ up to five employees and small enterprises between six and 50 employees.

Financial literacy has been defined in various literature studies and these definitions differ in terms of complexity and emphasis (Robb, 2012). Limited attention as to how financial literacy is measured is, however, offered (Huston, 2010; Schmeiser & Seligman, 2013). The FSB (Roberts et al., 2014) has raised the argument that defining financial literacy can prove to be difficult, since it is unclear whether the definition should include knowledge as well as behaviour and attitudes. Several researchers have endeavoured to define financial literacy (Robb, 2012; Schmeiser & Seligman, 2013). The end results indicate that definitions differ in terms of complexity and emphasis (Robb, 2012; Hung, 2009). Irrespective of the differences, it is evident that mutual
grounds within the provided definitions do exist (Knoll & Houts, 2012). As a result, defining financial literacy within the context of small- and micro-enterprises is a difficult task. After an analysis of existing definitions and other literature available on the subject of financial literacy (ANZ Banking Group, 2003; FSA & BSA, 2003; Hromadka, 2007; OECD, 2009; Hung, 2009; Clark, 2014; Lusardi & Mitchell, 2014; Mihalčová et al., 2014), it has been established that financial literacy is the concept that signifies the knowledge of financial matters, the comprehension of such matters and an individual's ability to apply the essential financial knowledge through effective decision-making regarding the use and management of money. It also embodies specific skills pertaining to an individual's ability to work with numbers and it is an essential tool for an individual to be mindful of financial risks and consequences related to decisions made related to finances.

Within the context of small- and micro-enterprises, financial literacy is therefore delineated for this study as follows (Say, 2016): A form of knowledge that is affected by the level of information in respect of finance and financial concepts that the enterprise owner is familiar with; the ability of such enterprise owner to comprehend and gain insight from the knowledge; it also requires a combination of literacy and numeracy skills; the ability of the enterprise owner to make informed financial decisions based on the knowledge of finance along with financial concepts and the understanding thereof; and the ability to comprehend the financial consequences or outcomes of the financial decisions that the enterprise owner makes. It is also inseparable from the ability to practice basic accounting, which includes record keeping of financial transactions, reporting and measuring the cash flow position of an enterprise and preparing budgets.

2.2 Literature review

According to Okpara and Wynn (2007), research conducted on small enterprise development discovered that the survival rate of these enterprises in developing countries is much lower than in developed countries. Von Broembsen et al. (2005), in the 2005 Global Economic Monitor report, state that the survival chance of enterprises beyond three and a half years is lower in developing countries. As mentioned earlier, small- and micro-enterprises are particularly financially vulnerable, since a lack of financial literacy impedes their growth and development and may even result in the failure of enterprise. Financial literacy is a prevalent subject in developed and developing countries (OECD, 2009); however, even though the need for more financially literate individuals has been established and financial literacy has gained attention from several
stakeholders and interested parties, limited research on Sub-Saharan African countries is available (Roberts et al., 2014). Studies on financial literacy in small- and micro-enterprises are even scarcer.

Studies (ANZ Banking Group, 2003; Atkinson et al., 2006; Lusardi & Mitchell, 2011) on the financial literacy of individuals have indicated low financial literacy levels and areas of weakness regarding this subject. The FSA (Atkinson et al., 2006) conducted a study on the levels of financial capability in order to identify areas where individuals are particularly capable as well as areas where a lack of skills or experience is demonstrated. They found that individuals are not particularly good at planning for the future, choosing financial products and keeping up to date with financial matters and the economy. The ANZ Banking Group (2003) conducted a similar study to measure the level of financial literacy in individuals in order to identify focus areas for stakeholders and interested parties and found that the overall results were positive. However, the study did identify that lower levels of financial literacy were associated with individuals who came from a background of poor education, unemployment and people between the ages of 18 and 24 years and those aged 70 years and older, among others. A study performed by the OECD (2009) suggests that evidence has shown the value of financial literacy programmes, but little effort has gone into evaluating financial literacy, especially in developing countries, and according to the OECD (2009), the evaluation of financial literacy will point out whether the objectives of such programmes have been met.

Before the analysis and measurement of financial literacy can take place, above and beyond definitions established of financial literacy, factors that contribute to financial literacy should be understood (Say, 2016). It was found by Say (2015), through an assessment of various literature studies, that the capability of financial literacy is affected by a number of circumstances and factors, which include physiological factors. These factors were used in conjunction with the definition of financial literacy during the process of the selection of questions to be included in the questionnaire. These factors are listed as:

i. Literacy

Literacy enables individuals to function effectively in everyday society (Mason & Wilson, 2000; UNESCO, 2005) and can be defined as the ability of an individual to read, write and speak (Remund, 2010). The United Nations Educational Scientific and Cultural Organization (UNESCO,
2005) asserts that this fundamental factor in the existence of an individual offers structure to thought process and promotes a crucial framework enabling an individual to think critically. Literacy is inseparable from financial literacy, since it equips enterprise owners and managers to perform necessary daily tasks, for example communication with suppliers, customers, and so forth.

ii. Numeracy or mathematical skills

Financial literacy is an individual’s ability to reason with numbers and compute calculations (Knoll & Houts, 2012; Lusardi & Mitchell, 2014). This is enabled through numeracy, which is defined as a basic skill that is aligned with the cognitive abilities of an individual (UNESCO, 2005), which enable an individual to perform essential mathematics, such as additions, subtraction and multiplication (Hasting et al., 2012). Hasting et al. (2012) claim that individuals with higher general numeracy abilities tend to display greater levels of financial literacy. Sages and Grable (2010) assert that individuals who exhibit financial numeracy characteristics display greater financial risk tolerance abilities.

iii. Financial education

This type of education revolves around finance and financial matters. With this type of education, the aim is to teach concepts related to money and the prudent management thereof, which enable individuals to learn basic skills related to the earning, spending, saving and investing of money, as well as the fundamentals of borrowing (Cohen & Sebstad, 2003). Through financial education, individuals improve their comprehension of financial products, services and notions, which empower them to make informed decisions and to take other actions related to their finances that will ultimately improve their long-term financial welfare (Hung et al., 2009). Mandell and Klein (2007) proclaim that financial education programmes only have value if they are successful in the development and improvement of financial knowledge. According to Cohen and Sebstad (2003), financial education programmes vary based on the circumstances of every group. In order for success to be achieved, the objectives that such programmes are trying to achieve should be clearly defined, and that can only happen if the financial literacy needs, along with areas of weaknesses of groups in financial education, are identified (Fox et al., 2005; FSB, 2014).
iv. Motivation to practice financial literacy

Estelami (2009) asserts that being in possession of financial knowledge is not in itself assurance that individuals will demonstrate such in their decision-making and behaviour. It depends on the attitude and driving forces within an individual to act financially literate. Motivation has always been known to have a fundamental influence on the behaviour of an individual (Mandell & Klein, 2007). Individuals will only be driven to act financially conscientiously if they believe that the financial decisions they make will add considerable value to their existence (Mandell & Klein, 2007), and if that is not the case, it is possible that they may ignore the financial knowledge they have, since individuals who perceive their financial goals to be out of reach will have no incentive to progress their financial knowledge (Murphy, 2013).

v. Anxiety and financial satisfaction as incentive

Anxiety has been determined by Sages et al. (2013) to have a reasonable effect on an individual’s financial behaviour, namely the management of money and the outcome of irresponsible financial behaviour results in anxiety. In pursuit of addressing the anxiety caused by financial circumstances that arise from the aforementioned, individuals often fail to consider rationally all relevant facts and aspect surrounding the given financial situation. This leads to the execution of ineffective financial decisions. These types of decisions are made in a rush to get it over and done with, as quick as possible. On the contrary, financial satisfaction has been suggested by Vosloo et al. (2014) to be an outcome of financial literacy. Vosloo et al. (2014) also assert that that a low level of financial satisfaction is associated with an overall dissatisfaction with one’s life. According to Murphy (2013), as and when an individual experiences anxiety and trauma caused by financial dissatisfaction, that individual will eventually become encouraged to be more financially literate to address his/her financial and psychological situations. The individual will subsequently, according to Robb (2012), go to the length of seeking professional advice on how to execute good decisions relating to the management of finance.

2.3 Research problem

Small- and micro-enterprises are financially exposed and there are concerns that the high failure rate in South Africa results from a lack of financial literacy. Previous studies have illustrated concerns regarding restraints to access to finance and threats to the survival of small- and micro-
enterprises due to a lack of financial literacy. Studies have also established financial illiteracy in small- and micro-enterprises to be a concern, regardless of the findings by some researchers that SMME owners and managers perceive themselves to be financially literate. Furthermore, for financial education programmes to achieve success, their objectives should be clearly defined. This is only achievable if the financial literacy weaknesses and needs are identified, and this study aims to investigate the enterprise administration, financial practices and the exposure of small- and micro-enterprise owners to financial education. This study further aims to analyse the financial literacy of small- and micro-enterprise owners through an assessment of their knowledge of finance and financial concepts and understanding thereof, in addition to the identification of areas of weakness demonstrated by the small- and micro-enterprise owners in financial literacy.

3. RESEARCH METHODOLOGY

This research study was conducted within the positivism paradigm. According to Krauss (2005), in the positivism paradigm, the researcher is independent from the object of the study, and knowledge is uncovered through the direct measurement or observation of a phenomenon. A mixed-method approach was adopted for the purpose of this study. A mixed-method approach allows for a more holistic portrait of our social world (Mackenzie & Knipe, 2006) and addresses research problems from different angles, allowing them to be verified within the same context (Johnson & Onwuegbuzie, 2004). The research was conducted in the form of a questionnaire (quantitative) comprising three sections, which served the following four purposes: to obtain detail/descriptions regarding the socio-economic profile; enterprise administration; exposure to financial practices; and level of financial literacy. The data collected through the questionnaire was analysed. One question (no.4) included in the first part of the questionnaire was taken from the questionnaire used by Louw (2010), designed for a study relating to the financial literacy competencies of third-year university students. In addition, nine (numbers 1, 2, 3, 7, 8, 10, 13, 19, 21) out of the 33 questions in the second part of the questionnaire were also taken from that of Louw (2009). Furthermore, in order to ascertain that the data obtained was to the best knowledge of the owners, follow-up interviews (qualitative) were conducted after completion of the questionnaires to enrich the findings. These interviews were used to confirm the business owners’ understanding of the questionnaire and to enhance the responses to open-ended questions.
3.1 Sampling

The study was performed on small- and micro-enterprises in a suburb, Promosa, of Potchefstroom, South Africa. The suburb had been chosen by the researcher due to an observation of a high rate of demise among the small- and micro-enterprises within that suburb. The suburb was also small enough to allow for a full inclusion of all enterprises in the population. The suburb could furthermore also be classified as a previously disadvantaged suburb. For this study, purposive sampling was selected, given the fact that the population size is not readily known. Ethical clearance was obtained from the Ethics Committee of the Faculty of Economic and Management Sciences of the Potchefstroom Campus of the North-West University (South Africa) and participants provided written consent to voluntarily take part in the study. In total, 50 persons voluntarily participated in the study and the follow-up interviews.

3.2 Survey validity

A data collection technique exhibits validity when the outcomes are aligned with the intended objectives of the technique (Maree et al., 2007; Welman et al., 2005). The questionnaire was carefully planned and constructed, using existing literature as the framework. Use was made of the Statistical Consultation Services at the North-West University for expert input into the questionnaire. Participants were briefed as to the relevance of the study prior to them providing consent to take part. As a measure to warrant the validity of and to obtain clarification on responses by participants, follow-up interviews were conducted with each participant. After capturing the data, Cronbach’s alpha coefficient was used to measure the internal consistency. Cronbach’s alpha coefficient shows the extent to which items within the questionnaire measure the same attribute (Welman et al., 2005). The Cronbach’s alpha coefficient of .752 was calculated on the 33 questions on financial literacy as explained in the section for analysis of results. According to Falissard (2012), a Cronbach’s alpha as high as 0.7 is adequate.

3.3 Statistical analysis

The Statistical Consultation Services at the North-West University assisted in the statistical analysis of the questionnaire. SPSS software was used for the statistical analysis of the data (International Business Machines [IBM], 2016). The analyses included descriptive statistics (clustering), reliability tests, internal consistency tests and correlation tests.
4. ANALYSIS OF RESULTS

4.1 Profile of participants

In total, 50 small- and micro-enterprise owners (68% male and 32% female) completed the questionnaire and took part in the follow-up interviews. Furthermore, 44% of the owners were unemployed prior to them starting their own enterprise and 32% of the owners hold another employment position outside of their enterprises. Table 1 provides other profile statistics of the owners.

<table>
<thead>
<tr>
<th>Item</th>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years in trade</td>
<td>1-3 years</td>
<td>11</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>4-5 years</td>
<td>14</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>6-10 years</td>
<td>13</td>
<td>26%</td>
</tr>
<tr>
<td></td>
<td>11-15 years</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>16-20 years</td>
<td>4</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>20-25 years</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>26-30 years</td>
<td>2</td>
<td>4%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>0-3</td>
<td>37</td>
<td>74%</td>
</tr>
<tr>
<td></td>
<td>4-5</td>
<td>6</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>6-9</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>10-15</td>
<td>2</td>
<td>4%</td>
</tr>
</tbody>
</table>

As per the Table 1 above, 50% of all the enterprises have existed for five years or less. These enterprises are still in the period range (5 years) in which some researchers (Bornstein & Scarborough, 2007; Okpara & Wynn, 2007) asserted that small- and micro-enterprises have a very slim chance of surviving. Beyond a period of five years, 26% of the enterprises have been in trade for a period between six years but no longer than 10 years, and the remaining 24% have been in trade for longer than 10 years, but shorter than 15 years. In addition, 74% of all the enterprises employ between none and three people, 12% employ between four and five employees, 10% employ between six and nine employees, and the remaining 4% employ
between one and 15 employees. It is evident that the small- and micro-enterprises do create employment (Morrison et al., 2003; Chimucheka & Rungani, 2011; SBP, 2013).

Through the use of hierarchical clustering (squared Euclidian distances and Ward’s method), the owners were clustered into two groups – group 1, 31 owners and group 2, 19 owners (please see Figure 1). Grouping was done based on consistencies found in the manner in which owners responded to the enterprise administration and exposure to financial practices questions in the survey. The first nine questions within that section probed questions relating to the enterprise profile of the participants. The remaining 14 questions pertained to enterprise planning, record keeping, past receipt of advice and life-long learning. The first group demonstrated a lesser presence of enterprise administration and exposure to financial practices and -education than the second group did. These groups demonstrated consistency in the category of questions and a correlation between these groupings and employment prior to starting the enterprises had been established.
Figure 1: Cluster of groups
Descriptive statistics for the two groups are as follows:

<table>
<thead>
<tr>
<th>Item*</th>
<th>Cluster</th>
<th>N**</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>PR</td>
<td>Group 1: Practise less enterprise administration and financial practices</td>
<td>31</td>
<td>12.9032</td>
<td>5.19201</td>
</tr>
<tr>
<td></td>
<td>Group 2: Practise better enterprise administration and financial practices</td>
<td>19</td>
<td>13.3158</td>
<td>4.57108</td>
</tr>
</tbody>
</table>

*PR = Response positively in relation to enterprise administration and exposure to financial practices and education

**N = number of owners

The distinct results follow.

4.2 Enterprise administration and exposure to financial practices

It was found that 76% of the owners are the sole owners of their enterprises. Exactly 74% of the enterprises are registered for income tax purposes and 44% for value added tax. In addition, 42% of the owners’ enterprises are registered with the Companies Intellectual Property Registration Office (CIPRO). 56% of the owners indicated that they have a separate building for their enterprise to their residential property and 44% of enterprises have separate addresses to their residential addresses. Only 16% of owners indicated that they make use of debt financing and 52% invest mainly personal funds (namely external income, savings and other) into their enterprises. 64% of owners noted that they have investments, deposits or savings accounts, which mark as investment outside of their enterprises.

Fourteen questions were probes about the business administration of the small- and micro-enterprises; account and financial practices; details of exposure to financial education; and the use of professional advice in the past.
Table 3: Enterprise administration financial practices and -education

<table>
<thead>
<tr>
<th>No</th>
<th>Question</th>
<th>Total 50 owners</th>
<th>Cluster 1: 31 owners</th>
<th>Cluster 2: 19 owners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>1</td>
<td>My enterprise has a business plan</td>
<td>44%</td>
<td>56%</td>
<td>55%</td>
</tr>
<tr>
<td>2</td>
<td>My enterprise has a separate bank account to my personal bank account</td>
<td>22%</td>
<td>78%</td>
<td>32%</td>
</tr>
<tr>
<td>3</td>
<td>It is a practice of my enterprise to issue and file receipts/till slips</td>
<td>24%</td>
<td>76%</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>to clients for products sold/services rendered</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>I keep record or track of the spending (expenses) of my enterprise</td>
<td>10%</td>
<td>90%</td>
<td>16%</td>
</tr>
<tr>
<td>5</td>
<td>I know how to draw up basic financial statements (statement of income</td>
<td>26%</td>
<td>74%</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>and expenses/-cash flow/balance sheet)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>I have received training/advice in basic accounting in the past</td>
<td>58%</td>
<td>42%</td>
<td>71%</td>
</tr>
<tr>
<td>7</td>
<td>I have received training in/advice on how to manage finances in the past</td>
<td>52%</td>
<td>48%</td>
<td>68%</td>
</tr>
<tr>
<td>8</td>
<td>I have received advice on enterprise management and business practices</td>
<td>50%</td>
<td>50%</td>
<td>74%</td>
</tr>
<tr>
<td></td>
<td>in the past</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>I make use or have, in the past, made use of the services of an account</td>
<td>54%</td>
<td>46%</td>
<td>77%</td>
</tr>
<tr>
<td></td>
<td>ant for purposes of my enterprise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>I make use or have, in the past, made use of the services of a financial</td>
<td>62%</td>
<td>38%</td>
<td>94%</td>
</tr>
<tr>
<td></td>
<td>advisor for purposes of my enterprise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>I make use or have, in the past, made use of the services of a lawyer</td>
<td>72%</td>
<td>28%</td>
<td>74%</td>
</tr>
<tr>
<td></td>
<td>attorney for purposes of my enterprise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>I make use or have, in the past, made use of the services of other</td>
<td>50%</td>
<td>50%</td>
<td>77%</td>
</tr>
<tr>
<td></td>
<td>professionals for purposes of my enterprise (tax consultant, brokers, etc.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Question</td>
<td>Total 50 owners</td>
<td>Cluster 1: 31 owners</td>
<td>Cluster 2: 19 owners</td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------------</td>
<td>----------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>13</td>
<td>I occasionally/often read up on political/financial/economic/governmental matters and developments</td>
<td>58%</td>
<td>42%</td>
<td>71%</td>
</tr>
<tr>
<td>14</td>
<td>I am satisfied with my current financial status/position</td>
<td>48%</td>
<td>52%</td>
<td>65%</td>
</tr>
</tbody>
</table>

As noted per the Table 2 above, cluster group 2 scored more positively with regard to enterprise administration, financial practices and exposure to financial education than group 1 did.

The results obtained as per Table 2 were grouped into four categories, namely planning, record keeping, advice and life-long learning.

**Planning (statement 1)**

With regard to enterprise planning, only 56% of the enterprise owners have business plans. According to Chen et al. (2009), a business plan serves as a vital indicator of the potential for success of an enterprise and it can also be used as an aid to reduce risk (Van Rensburg et al., 2008). Guță (2014) states that a business plan guides an entrepreneur from the start of an enterprise into the planned direction and it is also a very important element especially for enterprises that seek funding from financiers and investors. There is therefore a clear lack of formal planning at these businesses.

**Record keeping (statements 2-6 and 9)**

A good percentage of 78% of enterprise owners have a separate bank account for their enterprises. It is also noted that 76% of the enterprise owners issue and file receipts and till slips. A concerning result is that 10% of the enterprise owners do not keep track of their spending. Even though 90% of the enterprise owners keep track of their spending, 26% do not know how to draw up basic financial statements, which are ultimately used for the interpretation of financial information (Myburgh et al., 2012). Only 42% of the enterprise owners have received training/advice in basic accounting and another 46% make use or have, in the past, made use of
the services of an accountant. Overall, a good percentage of the enterprise owners practice record keeping.

**Advice (statements 7,8,10, 11 and 12)**

Fifty percent of enterprise owners have received advice on enterprise management and business practices in the past. In addition, 38% of the enterprise owners have made use of the services of financial advisors for the purposes of their enterprises, 28% have made use of the service of a lawyer or attorney, and 50% have made use of the services of other professionals for the purpose of their enterprises. Some of the enterprise owners who have not made use of advice on how to manage their enterprises and on finance and financial concepts may be missing out on the opportunity of becoming more informed on finance and financial concepts that affect their enterprises. Obtaining objective information through instruction and advice from differential sources, according to Robb (2012), progresses the comprehension of financial products and concepts. Receiving advice or training on finance and financial matters can ultimately be seen as financial education (Cohen & Sebstad, 2003; Robb, 2012).

**Life-long learning (statement 13 and 14)**

Only 48% of enterprise owners have received advice or training on how to manage their personal finances. Only 42% of owners read up on economic and financial matters. Although training is lacking, they are also not equipping themselves.

At the same time, 48% of enterprise owners are not satisfied with their current financial position or status. This leaves one to wonder whether the outcome of their dissatisfaction is due to a lack in financial literacy (Vosloo et al., 2014).

**Overall findings**

It is evident from the overall results that the second group of owners, in comparison to the first, practice better book-keeping; has had greater exposure to basic accounting and management of finance; and has made greater use of the services of professionals than the second group in the past. The second group also shows greater interest in political, financial, economic and governmental affairs. The second group also appears to be more satisfied with their current
financial status or position. Most of the owners in group 2 were employed before venturing into business.

Correlation tests were performed and significance was established in the results obtained from the question that probed whether the small- and micro-enterprises were in employment immediately before starting their enterprises. Phi and Cramer’s V value equated .279 and approximate significance .049. When asked whether the small- and micro-enterprise owners were employed prior to starting their enterprises, 73.7% of the 19 owners who fall into the second group indicated that they were, whereas only 45.2% of the 31 owners within the first group were.

4.3 Financial literacy

This section comprised 33 factual questions. These questions required a “Yes” or “No” answer, and an option for “do not know” was also granted. An internal consistency test was performed on the questions within this section and a Cronbach’s alpha of .752 was established for the 33 questions. A Cronbach’s alpha as high as 0.7 is acceptable (Falissard, 2012). An overall average score of 44% was obtained by the small- and micro-enterprise for the 33 questions combined. In order to advance the discussion of the results, the 33 questions were grouped into four categories, namely:

i. Financial concepts, -knowledge and -products
ii. Financial decision-making;
iii. Enterprise management, strategy and planning;
iv. Business administration, financial education and other.

The results from the groupings follow.
Table 4 below comprise 20 questions probing the small- and micro-enterprise owners.

Table 4: Financial concepts, -knowledge and -products

<table>
<thead>
<tr>
<th>No</th>
<th>Question</th>
<th>Incorrect answer/ do not know</th>
<th>Correct answer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Costing, profits and net worth</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Cash is the only way one can settle bills</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>6</td>
<td>Monthly insurance premiums paid are an example of an expense that is variable</td>
<td>76%</td>
<td>24%</td>
</tr>
<tr>
<td>8</td>
<td>Fixed expenses remain fixed for many years</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>16</td>
<td>If an enterprise has a net worth of R900 000 and the enterprise owes R800 000 in debt, the enterprise has total assets of R170 000</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>18</td>
<td>If you sell a loaf of bread for R14.00 to a customer and purchased the loaf of bread for R11.09 from a supplier, the profit that you make on the loaf of bread would be R3.09</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>24</td>
<td>It is possible for an enterprise to make a profit of R100 000 and yet to have a bank balance/cash on hand of R0 or less</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td><strong>Average</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td></td>
<td><strong>Taxation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>The current maximum (marginal) tax rate for individuals is 40%</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>25</td>
<td>Any enterprise within the country should file a tax return with SARS once every month</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>27</td>
<td>As soon as you start a business, you have to register with SARS and obtain an income tax reference number</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td></td>
<td><strong>Average</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td><strong>Interest and inflation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>The current prime overdraft rate is 8.5%</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>3</td>
<td>The current inflation rate is between 9 and 11%</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>7</td>
<td>Financial planning should not be affected by inflation</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>No</td>
<td>Question</td>
<td>Incorrect answer/ do not know</td>
<td>Correct answer</td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------------------------------</td>
<td>-------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>10</td>
<td>The use of credit can help during periods of high inflation</td>
<td>66%</td>
<td>34%</td>
</tr>
<tr>
<td>11</td>
<td>Assume the interest rate on your savings account was 1% and the inflation rate is 2%. After one year, you would be able to buy more with the money in your account</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>12</td>
<td>Suppose you had R100 in a savings account and the interest rate was 2% per year. After five years, you would have exactly R102.00 in the account if you left the money to grow</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>65%</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>Banking, banking products and financial institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>If you have a debit balance on your bank statement, you have a positive balance on your account</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>14</td>
<td>If you feel that you have been mistreated during a loan application you can take the matter to the National Credit Regulator</td>
<td>32%</td>
<td>68%</td>
</tr>
<tr>
<td>19</td>
<td>All banks should, by law, charge the same service fees on bank accounts</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>22</td>
<td>The government controls all the financial institutions (banks, insurance brokers, investment companies, etc.) within the country</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>29</td>
<td>Maintaining financial records and financial statements should enhance the application for credit (loan) with a financial institute</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td></td>
<td>Overall average</td>
<td>54%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Based on the results displayed above (Table 4), it is derived that, with regard to costing, profits and net worth, 48% of enterprise owners answered correctly in the settlement of bills question. A low percentage of enterprise owners, 24%, answered correctly when they were asked whether monthly insurance is a variable expense. One can speculate that the reason for the remaining
76% not knowing the correct answer is that they do not make use of insurance products. Furthermore, 56% of enterprise owners answered correctly when they were asked about fixed expenses. In terms of the calculation of net worth, 62% of enterprise owners correctly answered the question, in contrast to a low 54% of owners who failed to determine the correct profit on a simple profit calculation. These basic addition and subtraction calculations challenged the numeracy and mathematical skills of the enterprise owners (Hasting et al., 2012). Lastly, 78% of all the enterprise owners appear to believe that cash and profits are the same concept, as they answered the question related thereto incorrectly. According to Tracy and Tracy (2007), some enterprise managers are cash flow thinkers, meaning that they think they are reading cash flow information when they consider profit and loss reports. From the above results, it is evident that, overall, 43% of the enterprise owners have knowledge of and understand costing, profit and net worth concepts.

In the taxation category, a concerning 84% of enterprise owners did not know the correct answer to the maximum marginal tax rate question. Only 48% of enterprise owners gave the correct answer with regard to filing a tax return with SARS. Finally, a very good percentage of 88% of enterprise owners answered the question correctly related to registering with SARS. Overall, the enterprise owners scored 51% in the taxation category. This is much greater than the average score (44%) that the enterprise owners scored for the entire 33 questions.

In the interest and inflation category, 18% of enterprise owners answered the prime overdraft question correctly. With regard to the current inflation rate question, only 18% of the enterprises gave the correct answer, and in addition, 50% of enterprise owners know that financial planning should be affected by inflation. Another low average of 34% answered the question on the use of credit during high periods of inflation correctly and 48% of the enterprise owners knew what the effect of inflation is on interest. Lastly, 36% of enterprise owners were able to answer the question relating to time value of money correctly. Overall, the small- and micro-enterprise owners scored a low average of 35% for this category. The enterprise owners appear to have the least knowledge and understanding of interest and inflation out of all other sub-categories.

In the banking, banking products and financial institutions category, 60% of the enterprise owners did not know what a debit balance per bank statement indicates and 68% of the enterprise owners are familiar with the NCR, since they answered the question related to NCR correctly. A large percentage of 70% of the enterprise owners do not know that all banks do not charge the same
services fees. Only 42% of enterprise owners know that the government does not control all financial institutions in the country. Lastly, a good percentage of 78% enterprise owners knew that maintaining financial records and statements enhances the credit application process. Out of a group in which only 16% make use of debt finance, the score achieved regarding questions on loan applications is positive. Overall, the enterprise owners scored an above average score of 52%, making this category the one in which the enterprise owners scored the highest on average.

The overall average score per Table 3 indicates that the enterprise owners have a below average (46%) knowledge and understanding of financial concepts and financial products. Out of a series of 20 questions, the enterprise owners scored low averages in 14, thereby scoring low averages in 70% of all the questions asked in this category. Based on average correct scores, the strongest sub-categories in which the enterprise owners appear to have better knowledge and understanding of the financial concepts and products are the banking, banking products and financial institutions category (52%), followed by the taxation sub-category (51%). The biggest lack was demonstrated in the knowledge and understanding of the interest and inflation sub-category, since the average correct score for the category is 35%. Furthermore, there were four questions that were directly based on basic calculations (questions 12, 14, 16 and 18), out of which the majority of the enterprise owners failed three (66.6%). This raises concern as to the numeracy skills and understanding of how to conduct basic calculations that are necessary in the ordinary course of the small- and micro-enterprise enterprises, since, based on the results in the questions, a lack has been established. This may have also affected the overall financial literacy score, since Hasting et al. (2012) are of the view that greater levels of financial literacy are found in individuals who have high numeracy abilities.

Table 5: Decision-making

<table>
<thead>
<tr>
<th>No</th>
<th>Question</th>
<th>Incorrect answer/ do not know</th>
<th>Correct answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>It is safer to invest your money in an equity fund with a bank on which you could earn 7.5% interest p.a. than it would be to invest it in government bonds that would give you a 6.15% return p.a.</td>
<td>88%</td>
<td>12%</td>
</tr>
</tbody>
</table>
When it comes to decision-making, as per Table 5, it is evident that a gap in knowledge of factors that affect these decision-making exists. Only 12% of enterprises know that it is safer to invest in government bonds than it is to invest in equity funds, whereas 88% did not know. One can speculate that the reason why 88% of owners did not know the correct answer is that they fall short of the comprehension of what these concepts are. Only 46% of the owners knew that if two investments have the same level of risk attached to them, it would be sensible to choose the investment that will earn a higher return, while 56% did not know the correct answer. Out of a group in which 64% of owners indicated they have investments outside of their enterprises, it is concerning that a weakness in decision-making relating to investments has been identified. The overall low percentage score within this category based on correct responses (39%) may be an indication that the enterprise owners do not particularly have a good knowledge and understanding of decision-making, especially towards investments.

Table 6: Enterprise management, strategy and planning

<table>
<thead>
<tr>
<th>No</th>
<th>Question</th>
<th>Incorrect answer/ do not know</th>
<th>Correct answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Financial risk is characterised by the type of enterprise you run (e.g. the products, how it is managed, etc.)</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>15</td>
<td>The only objective of an enterprise is to make a profit</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>No</td>
<td>Question</td>
<td>Incorrect answer/ do not know</td>
<td>Correct answer</td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------------------------------</td>
<td>-------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>17</td>
<td>A business strategy does not include budgeting</td>
<td>28%</td>
<td>72%</td>
</tr>
<tr>
<td>23</td>
<td>Leadership is a necessary task of an enterprise manager</td>
<td>4%</td>
<td>96%</td>
</tr>
<tr>
<td>28</td>
<td>Setting short-term goals would assist your enterprise in controlling expenses over a long period of time</td>
<td>96%</td>
<td>4%</td>
</tr>
<tr>
<td>32</td>
<td>It is safer to do everything yourself, since you are the only individual who would best understand how to get a task done</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>33</td>
<td>No-one can teach another individual how to run an enterprise; it is something that simply comes naturally</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td><strong>Average</strong></td>
<td>49%</td>
<td>51%</td>
</tr>
</tbody>
</table>

As per Table 6, only 10% of the enterprise owners understand the concept of financial risk, while 90% do not. This raises questions as to whether the enterprise owners were familiar with the concept or not. In addition, 68% of all the enterprise owners believe profit to be the only objective of an enterprise. A percentage of 72% of enterprise owners know that business strategy includes budgeting. It further appears that 96% of the enterprise owners do not understand the process of setting goals, since only 4% knew that setting short-term goals do not assist in controlling expenses over a long period of time. 48% of the enterprise owners are of the view that it is safer to do everything by themselves, as they know best how to get the task done. 90% of the enterprise owners understand that they can be taught how to run an enterprise.

Overall, the owners displayed a strong knowledge of what leadership is and recognise that they can learn more on how to run their enterprises from other individuals. What raises a concern, however, is that owners displayed a weakness in the identification of the objective of an enterprise and goal setting, which go hand and hand therewith. Thompson and McEwen (1958) indicated that it is not probable that an organisation would continue indefinitely if the goals they have set are arbitrarily formulated goals. If that is the belief of an organisation that has a goal that is rather unsupported or rather uniformed, the impact on the organisation without objectives could be much severe.
5. DISCUSSION

This case study investigated the enterprise administration, financial practices and the exposure of small- and micro-enterprise owners to financial education. An analysis of the financial literacy of small- and micro-enterprise owners through an assessment of their knowledge of finance, financial concepts and understanding thereof was conducted, in addition to the identification of areas of weakness demonstrated by the small- and micro-enterprise owners in financial literacy. A key finding on the first investigation area indicates that many of the enterprise owners who took part in the study practice good enterprise administration. For example, 76% of the enterprise owners issue and file receipts and slips, 90% keep track of expenditure and 78% have a separate bank account for their enterprise from their personal bank account. Results also demonstrate that a significant amount (74%) of the owners know how to draw up basic financial statements, and
keeping record of documents (76%) and track of expenditure is part of the practices of the majority (90%) of the owners.

A concerning discovery made is that the small- and micro-enterprise owners are not particularly strong in planning for their enterprises. Of the owners, 44% have indicated that they do not have business plans for their enterprises; in addition, the enterprise owners demonstrated a weakness in the enterprise objective and goal-setting category of questions of the second area of investigation of this study. This is a concern for their enterprises. A business plan and setting goals and objectives give direction to enterprises and serve as tools against which the performance of the enterprises can be measured. Not knowing where the enterprise is heading and not knowing what goals the owners want to achieve with regard to their enterprises may be to the detriment of the development and growth of small- and micro-enterprises. Setting goals and objectives provides an enterprise direction and it could assist in minimising enterprise risks (Banhegyi et al., 2007). Having goals, particularly financial goals, also has an impact on an individual’s motivation to better his/her financial knowledge (Murphy, 2013).

An area of concern identified is that the majority of the small- and micro-enterprise owners have not received any training or advice in basic accounting (58%) and how to manage finance (52%). In addition, very few have made use of the services of accountants (only 46%), financial advisors (only 38%), lawyers (28%) and other service professionals (50%) for purposes of their enterprises. Gaining knowledge and comprehension on finance and financial concepts through instruction and advice, otherwise known as financial education, not only teaches you about money and how to manage it prudently (Cohen & Sebstad, 2003), in addition, it is, however, believed that financial education can also improve the long-term financial welfare of these individuals (Hung et al., 2009).

It was also discovered that individuals who practice better book-keeping; have had greater exposure to basic accounting, management of finance; and have made greater use of the services of professionals demonstrate greater interest in political, financial, economic and governmental affairs, and are more satisfied with their current financial status or position.

With regard to the second area of investigation, results indicate that, on average, the owners scored low pertaining to knowledge of finance, financial concepts and the understanding thereof. For all 33 questions, the owners scored a low average of 44%. This indicates that the knowledge of finance, financial concepts and the understanding thereof is low among the small- and micro-
enterprise owners. This also supports the assertion of Louw et al. (2013) that financial literacy levels are low and coincides with the findings of Chimucheka and Rungani (2011), where enterprise owners and managers rated themselves financially illiterate.

The low financial literacy levels can also be connected to discoveries made in the first area of investigation. A very low percentage usage of the services of accountants, financial advisors, lawyers and other related service providers has been noted among the small- and micro-enterprises. The small- and micro-enterprise owners are missing out on the advice from service advisors who can transfer their knowledge through financial education that is aimed at equipping individuals to effectively respond to their financial affairs (Cohen & Sebstad, 2003; Drexler et al. 2012; West, 2012; Louw et al., 2013). On a self-informative basis, only 42% of the enterprise owners indicated that they read up on political/financial/economic/governmental matters and related developments.

With regard to specific areas of strengths identified. The owners scored the highest average, namely 52%, in the banking, banking products and financial institutions part of the questionnaire. The owners also achieved an above average score for the taxation and enterprise management, strategy and planning sections. Fair percentages (50%, respectively) of enterprise owners have received training in or advice on how to manage their enterprises and have made use of the service of other professionals, which include, among others, tax consultants, for purposes of their enterprises. Nonetheless, it is still concerning that 60% of the owners do not understand bank statement balances and 96% do not understand the impact of setting short-term goals. In addition, 68% of the owners believe that making profit is the sole objective of an enterprise. This is once again an indication that the small- and micro-enterprise owners are not particularly good at planning for their enterprises, as discussed earlier.

The enterprise owners scored particularly low results in the financial concepts, -knowledge and -products category, where only four out of 20 questions were correctly answered by the majority of the enterprise owners. The biggest area of weakness was identified to be the knowledge and understanding of interest and inflation along with the effect it has on the value of money, as the owners scored 35% on an average. The second biggest area of concern was the decision-making section of the questionnaire, with a score of 35%. Results for the financial decision-making category indicate that, on average, enterprise owners have a 39% knowledge and understanding of financial decision-making concepts. Owners particularly failed with average correct scores of
12% and 46%, respectively, in the decision-making questions regarding investments and risk. The ANZ Banking Group (2011) asserts that the only way of making better investment decisions is by way of obtaining advice from financial planners or advisors. As previously noted, this study found that a low percentage (38%) of enterprise owners who took part in this study have made use of the services of financial advisors. Weakness was further demonstrated in the knowledge and understanding of costing, profits and the calculation of net worth, where the enterprise owners scored on average 43% correct scores. The weakness demonstrated here may or may not have been affected by the numeracy capabilities of the owners, since 54% failed a simple profit calculation. An individual’s ability to reason with numbers and compute calculation forms an integral part of that individual’s financial literacy (Knoll & Houts (2012).

Additional discoveries that were made are that 46% of the small- and micro-enterprise owners do not know of government support programmes aimed at assisting their enterprises. In addition, 32% believe that school and university are the only places where financial and enterprise management skills can be learnt. The former misconception among the 32% of enterprise owners could be one of the reasons for the low current and past usage of the services provided by accountants and financial advisors.

6. RECOMMENDATIONS

Following the findings of this research, the following recommendation of ways to improve the financial literacy of small- and micro-enterprise owners are provided:

Financial literacy support programmes, according to the FSB, can assist in the enhancement of the well-being of communities (Roberts et al., 2014). As per the results from the study on financial literacy in South Africa conducted by the HSRC on behalf of the FSB in 2013, the South African government has committed itself to improving financial literacy. This study found that 46% of owners are not aware of government support programmes aimed at assisting the development and growth of small- and micro-enterprises. One is led to believe that the support programmes are perhaps not properly promoted among small- and micro-enterprise owners. This coincides with the findings of Chimucheka and Rungani (2011), who indicated that majority of SMMEs in South Africa are not aware of support programmes that are meant to improve the SMME sector. Government should aim to promote its programmes on platforms that are easily accessible to close to all citizens within the country. The majority of small- and micro-enterprise owners have
not received any training or advice in basic accounting or on how to manage finances. Apart from granting financial support, improving access to finance and assistance in enterprise administration, government should consider venturing into providing support programmes specifically aimed at improving the financial literacy and basic accounting capabilities of small- and micro-enterprise owners. However, before venturing into this direction, more research, similar to that in this study, should be conducted on the financial literacy needs of small- and micro-enterprises within the country with the purpose of structuring the programmes in such a manner that the needs are met. These programmes should be directly aimed at addressing financial literacy weakness areas, which include improving the knowledge and understanding of the enterprise owners in financial concepts, financial knowledge, financial products, financial decision-making skills, and enterprise management. The South African Revenue Services can also play a role in the development and implementation of financial literacy education strategies aimed at improving the taxation knowledge and application of small- and micro-enterprise owners or reducing the cost of compliance.

The numeracy capabilities of the small- and micro-enterprise owners are questioned given the results obtained in the questions, which directly required basic calculations from the enterprise owners who took part in this study. One way of improving of the numeracy capabilities would be to improve mathematics education in the country. According to the Centre for Development and Enterprise (CDE, 2013), South Africa is underperforming significantly in numeracy and mathematics teaching and learning. The South African Government (2015) acknowledges the fact that extensive work needs to be done to improve mathematics in the country. One of the strategies the government has implemented to address the matter was to make it compulsory for all high school pupils to choose mathematics as a subject, be it pure mathematics or mathematics literacy. They have also introduced the Annual National Assessments prescribed in curriculums, which provide high quality assessments to aid educators in identifying areas that need remedial attention. Nonetheless, the Vice-Principal of Research and Innovation of the University of South Africa (UNISA, 2015), Prof Mamokgethi Phakeng, asserts that even though South Africa has very advanced and progressive school mathematics curricula, there are challenges related to the implementation thereof. Prof Phakeng also commented that the causes of poor performance in mathematics need to be truly understood in order to find interventions. Mathematics teaching in public schools especially should be improved by way of providing efficient training to the teachers as well as to motivate them to improve the quality of the manner in which they teach, since the
CDE (2013) is of view that complacent and poorly trained teachers stand in the way of enhancing numeracy and mathematics in schools.

Corporate entities and banks can, as part of their corporate social responsibilities, consider the development of programmes that will educate small- and micro-enterprise owners to become more financially literate. These initiatives can play a vital role in educating small- and micro-enterprise owners on financial concepts, in particular interest and inflation. South African banks should take the opportunity of granting financial literacy education programmes to small- and micro-enterprises, especially those to which the banks grant financial support. This could be executed as a measure to improve the security of the investment they make in small- and micro-enterprises. Some major banks in South Africa have implemented some strategies aimed at aiding small- and micro-enterprises. First National Bank offers a free online accounting solution that generates financial statements and reports (namely income statements, balance sheets, cash flow statements and other) based on electronic bank statements. ABSA has made available consultants to help enterprise owners with business plans, cash flow projections, company registrations as well as enterprise development guidance. ABSA also offers networking opportunities and seminars to entrepreneurs to boost their enterprises. Nedbank offers several online enterprise management solutions ranging from web-based payroll solutions to access to automated statement integration generated from bank accounts. Most of these services provided are online. According to the NCR (2011), SMMEs are often faced with difficulties in gaining access to appropriate technologies and the information on available technological techniques. There is an opportunity to provide free or affordable face-to-face consultations, seminars, workshops and others to small- and micro-enterprises in order to assist them in improving their keeping of financial records and financial reporting.

Regulators and policy-makers can assist in improving the financial literacy of the small- and micro-enterprise owners in the development of strategies and frameworks for financial literacy programmes in order to achieve the outcome of educating small- and micro-enterprise owners to be financially literate. The majority of small- and micro enterprise owners have never received training or advice in basic accounting and how to manage finances; and 32% believe that school and university are the only places where financial and enterprise management skills can be learnt. This should be an opportunity for regulators and policy-makers interested in the development and growth of small- and micro-enterprises to develop a manual for these enterprises that contains basics relevant to small- and micro-enterprises, aimed at providing guidance on how to
administrate business affairs, basic financial concepts and how they affect the enterprises, basic accounting and financial reporting, tips on how to manage their finances, and guidance on how to prepare business plans and strategies.

Enterprise owners should take the initiative to be more proactive in educating themselves on financial literacy matters to the extent that it is in their capacity to do so. A high percentage (58%) of enterprise owners in this study do not read up on political, financial, economic or governmental affairs and developments. This can be improved through reading newspapers, listening to the news on radio and television, browsing the news on the internet specifically relating to current affairs that affect them and their enterprises. Other examples of proactivity include seeking the advice of service providers (accountants, brokers, tax practitioners, and so forth), especially in relation to drawing up business plans, choosing financial products, financial decision-making and enterprise administration matters. Seeking financial education through the use of services offered by accountants, financial advisors, lawyers and other professionals (which is some ways of obtaining financial education) can improve financial literacy (Mandell & Klein, 2007), since the focus of financial education, according to researchers (Cohen & Sebstad, 2003; Drexler et al. 2012; West, 2012; Louw et al., 2013) on cash flow management; investments and investing for retirement; financial risk management; financial forecasting or budgeting; managing debt; insurance; saving money; daily record keeping of income and expenditures; aggregation of the daily record keeping into weekly- or monthly reports; calculating profits (accounting and cash profits); and financial planning and decision-making and banking and financial products. They could also make time to practice issuing and filing receipts/slips, keeping track of expenses and funds as well as maintaining separate bank accounts to that of their enterprises.

7. CONCLUSION

This case study within a South African context analysed the financial literacy of small- and micro-enterprise owners in a suburb of Potchefstroom, i.e. Promosa. It was conducted by way of a questionnaire, which comprised 13 questions on the profile of the enterprise owners, another 13 questions that analysed the enterprise administration, financial practices and financial education, and 33 questions evaluated the financial literacy of small- and micro-enterprise owners. The preceding 46 questions were also used to establish the financial literacy needs of the small- and micro-enterprise owners. In total, 50 small- and micro-enterprise owners completed the questionnaire.
The findings indicated that the financial literacy levels of small- and micro-enterprise owners are low. This finding is in line with the findings of Miller et al. (2009) and Louw et al. (2013), who are of the view that the financial literacy levels of individuals are low, as well as Chimucheka and Rungani (2011), who found that small- and micro-enterprise owners considered themselves to be financially illiterate. Major areas of weaknesses identified were related to the knowledge and understanding of interest and inflation (NCEE, 2005; Louw et al., 2013), as well as decision-making (Oanea & Dornean, 2012). The use of the services of accountants, financial advisors, lawyers and other professionals for the purpose of the enterprise among the small- and micro-enterprises is not very common. The numeracy skills and abilities of the small- and micro-enterprise owners came into question after poor results were scored in the questions that required basic calculations relating to cost, profits and net worth. The ANZ Banking Group (2003) also found in their adult capability framework that adults have difficulties with numeracy. It was also found that small- and micro-enterprise owners are not specifically good at planning for their enterprises, since a significant portion of enterprise owners does not keep business plans (Chimucheka & Rungani, 2011) and the majority scored poorly in questions related to objective- and goal-setting for their enterprises (Fatoki, 2014). The need to improve financial literacy through the improvement of knowledge of finance, financial concepts and the understanding thereof among small- and micro-enterprises is very high. This study further found that a significant percentage of the group of small- and micro-enterprises, who practise better book-keeping, has had fair exposure to basic accounting and the management of finances, and those who have made use of the services of professionals have been employed immediately before starting their enterprises. The FSB (Robert et al., 2014) found that unemployed South Africans demonstrate below average financial literacy levels.

The study contributes to the limited research available on the financial literacy of small- and micro-enterprise owners. A further contribution lies in that it analysed the actual financial literacy of small- and micro-enterprise owners, where existing research contributed to data on financial literacy of small- and micro-enterprises in South Africa, which provides detail on the perceptions of small- and micro-enterprise owners in terms of their own financial literacy. In addition, this study also outlined specific areas of strengths and areas of weaknesses in terms of financial literacy, which can be used by small- and micro-enterprise stakeholders in the design of financial education programmes aimed at improving financial literacy. A new questionnaire that can be
used for the analysis of financial literacy and the financial literacy needs of small- and micro-enterprise owners within a South African context has been developed.

This study took place in the form of a case study and was limited to small- and micro-enterprises in the suburb Promosa in Potchefstroom, South Africa. Due to the limitation pointed out, care should be exercised in the generalisation of the findings.

A future study similar to this study can be conducted on a more extensive level, namely to research the financial literacy levels of small- and micro-enterprise owners in South Africa as a country as well as similar extensive research on the financial literacy needs of small- and micro-enterprises. Further research opportunities exist in researching how financial literacy affects the performance of small- and micro-enterprises in South Africa. It should also be investigated why these owners do not make use of accountants, advisors and so forth.
8. REFERENCES


CHAPTER 5 – ARTICLE 2

Analysing the needs of small- and micro-enterprise owners: A South African suburb case study

Title: Analysing the needs of small- and micro-enterprise owners: A South African suburb case study

The reader is requested to take note of the following:

- This article has been submitted for publication to the following IBSS-indexed and peer-reviewed journal as follows:


- The article was researched and written by the first author as the candidate. The second author, as the study leader, fulfilled a ‘reviewer’ function. Estimated weightings of contribution are as follows:
  - Say, L.E. (90%)
  - Fouché, J.P. (10%)

- Confirmation of receipt of the article from the *Journal of entrepreneurship in emerging economies* has been received and is presented as part of Annexure C.2 on page 204. The article was written and formatted in line with the journal’s submission guidelines, which are included as part of Annexure D.2 on page 208.
ABSTRACT

Purpose - Small- and micro-enterprises in South Africa are faced with prevalent threats to their survival and growth. A lack of access to finance, basic skills and knowledge necessary to steer and manage the enterprises and finance thereof are affected by challenges faced and financial capability. The purpose of this study is to analyse the motivations behind start-up and the most prevalent financial literacy and other needs of small- and micro-enterprise owners.

Design/methodology/approach - The study took the form of a case study conducted through a questionnaire and follow-up interviews. The questionnaire was developed to identify the start-up motivations, start-up funds, need for financial literacy and to determine the prevalent current needs of 50 small- and micro-enterprise owners who took part in this study.

Findings - The study established a significant number of enterprises were started out of necessity and the majority of initial funding came from personal capital. There is a very high need for financial literacy among the owners, and funds to grow the enterprises is the greatest need.

Practical implications/Originality/Value - In addition to contributing towards scarce existing data on small- and micro-enterprises in South Africa, this study provides valuable insight into the start-up motivations, financial literacy needs and support needs of small- and micro-enterprises, which should be useful in establishing interventions necessary to spur on enterprise start-up and addressing the need for financial literacy. Recommendations to address the needs of small- and micro-enterprises were provided.

Keywords Small- and micro-enterprises; enterprise start-up; needs; financial literacy

Paper type Case Study
1) INTRODUCTION

Small- and micro-enterprises are significant contributors to the economy of a country in terms of growth, employment and poverty alleviation (Fielden et al., 2000; Ayyagari et al., 2007; Okpara & Wynn, 2007; Singh et al., 2015), especially in developing countries (Okpara & Wynn, 2007; Singh et al., 2015). They are, however, faced with a wide range of challenges that impede on their development and long-term viability (Okpara & Wynn, 2007; Bowen et al., 2009). Given their vital role to the economy of a country (Fielden et al., 2000; Ayyagari et al., 2007; SBP, 2013), it is essential to understand and address constraints to their development and growth (Morrison et al., 2003; Mthimkhulu & Aziakpono, 2015). Benzing and Chu (2004) are of the view that obtaining an understanding of motivations that encourage individuals to start enterprises should aid policymakers in designing policies in encouraging and promoting enterprises creation. Statistics indicate that small- and micro-enterprises have a very high failure rate within the first five years from commencing trade (Bornstein & Scarborough, 2007; Okpara & Wynn, 2007; Ligthelm, 2008). Barrow (2004) asserts that the tragic consequences faced by small- and micro-enterprises may be the result of a lack of basic skills and knowledge to run an enterprise. According to Kolvereid and Isaksen (2005), it is crucial that prospective enterprise owners assess whether they are equipped with the basic skills necessary to ensure the sustainability of their enterprises before starting an enterprise. Financial literacy is among the skills referred to and Barte (2012) asserts that an enterprise cannot be properly steered without it. Wise (2013:30) states that a deficit in financial literacy is a great threat to the success of enterprises, especially that of new enterprises. It is believed that the solution to addressing the development and viability problems faced by small- and micro-enterprises lies in improving the financial literacy of small- and micro-enterprise owners (Bornstein & Scarborough, 2007; Seikei et al., 2013), as well as understanding other challenges that these enterprises deal with in order to establish ways of providing meaningful assistance and guidelines for strategies to improve the performance of small- and micro-enterprises (Okpara & Wynn, 2007; Bowen et al., 2009). It is also of significance to determine the motivations behind starting enterprises, as this may play a role in the determinants of success or failure of the small- and micro-enterprises (Watson et al., 1998).

All enterprises are started with a purpose that depends on the circumstances of the prospective owner at the time of start-up (Watson et al., 1998; Shaver et al., 2001). Motivations could be driven by positive or negative circumstances (Watson et al., 1998; Benzing & Chu, 2009; Kvedaraite, 2014). Positive circumstances may include pursuing one's dream and gaining
independence, whereas negative circumstances include unemployment (Watson et al., 1998; Benzing & Chu, 2009; Kvedaraite, 2014). The 2014 Global Entrepreneurship Monitor (GEM) report (Singer et al., 2015) shows that 28.2% of South African enterprises established are motivated by necessity, whereas 71.3% are driven by opportunity. A study conducted in South Africa by the SBP (2013) found that one in five SMEs (20%) in the country is forced into establishing an enterprise due to retrenchment and the inability of finding other work, with the remaining SMEs being started due to positive, opportunity-driven motivations. One of the most prevalent constraints faced by prospective enterprise owners is access to finance, specifically third party financing, to start up the enterprises (Fielden et al., 2000; Mthimkhulu & Aziakpono, 2015). Restricted access to finance is also a major reason behind subsequent failure (Okpara & Wynn, 2007). A lack of financial literacy in small- and micro-enterprises is often associated with challenges such as a lack of access to finance (Miller et al., 2009; Chimucheka & Rungani, 2011). Small- and micro-enterprises are prevented from accessing finance due to, among others, having improper business plans, insufficient financial management knowledge and inadequate book-keeping (Hyder & Lussier, 2016; Xu & Zia, 2012; Chimucheka & Rungani, 2011). Other challenges faced identified from research (Fielden et al., 2000; Bowen et al., 2009; Franco & Haas, 2010; Kvedaraite, 2014) include the inability to find suitable employees, dealing with competition and a lack of institutional support. This study investigates motivations of starting small- and micro-enterprises within a South African context, in addition to distinguishing to what extent these are due to positive as well as negative circumstances and how unemployment features. The FSB (Roberts et al., 2014) reported that unemployed South Africans are more likely to be vulnerable to financial illiteracy. It is therefore expected that their need to obtain knowledge and skills relating to financial literacy would be higher. In any developing country where the economy is dependent on the contribution of small- and micro-enterprises (Fielden et al., 2000; Ayyagari et al., 2007; Okpara & Wynn, 2007; Singh et al., 2015), the identification of start-up reasons should assist stakeholders interested in the development and growth of small- and micro-enterprises in South Africa with the identification of strategies to promote and encourage the of creation of enterprises within the country (Benzing & Chu, 2004).

What appears to be more important than encouraging enterprise start-up, is sustaining these enterprises, given the low survival rates of small- and micro-enterprises (Bornstein & Scarborough, 2007; Okpara & Wynn, 2007; Ligthelm, 2008). Analysing the needs of small- and micro-enterprises should assist in the development of strategies and delivering of support services that will aid them (OECD, 2004). Besides the intention of enterprise start-up, the
identification and assessment of capabilities or skills surrounding financial capabilities, managerial skills, training and education and experience is crucial for subsequent survival (Fielden et al., 2000; Bowen et al., 2009). The FSB (Robert et al., 2014) reports that the ability of an individual to establish an enterprise is predominantly influenced by their financial knowledge and understanding. They also argue that an increase in financial literacy would assist in spurring on entrepreneurship in South Africa.

Over the past few years, financial literacy, a relatively new concept (Louw et al., 2013), has gained increasing attention (Nunoo & Andoh; 2012). It has attracted the attention of financial institutions, government agencies, community-interest entities, other organisations and researchers (Braunstein & Welch, 2002; Miller et al., 2009), following rising concerns that individuals demonstrate a lack thereof (Miller et al., 2009; Mihalčová et al., 2014). Research performed on the failure of small- and micro-enterprises has outlined a lack of financial literacy as the main determinant of failure (Okpara & Wynn, 2007; Bornstein, 2007; Chimucheka & Rungani, 2011; Irwin, 2013). The South African Minister of Small Business Development raised the concern that the high failure rate among small- and micro-enterprises within the country is mainly due to a lack of financial literacy (Zwane, 2014). In an effort to identify the financial literacy needs of small- and micro-enterprise owners, this study aims to investigate the grade of importance placed by respective owners on obtaining and improving their financial literacy. This should assist in the identification of specific areas of need relating to financial literacy. This study also undertakes to determine other obstacles that small- and micro-enterprise owners face through the identification of their greatest needs with regard to their enterprises.

Results from this study indicate unemployment, compared to other motivations, is the supreme motivation behind the start of small- and micro-enterprises. The need for freedom and independence and other opportunistic-driven motivations follow. Initial funding of majority enterprises came from savings, retirement funds and money obtained as retrenchment packages. This study also found that importance attached by the small- and micro-enterprise owners to learn and obtain financial literacy is extremely high. The top five predominant needs of small- and micro-enterprise owners discovered in terms of financial literacy are learning how to save money, how to invest money, how to budget for their finances, planning for the long-term financial future of their enterprises and learning how to manage their enterprises. Even though the need to learn more about the concept is high, the owners showed the least interest in learning more about
insurance and choosing insurance products. It was further discovered that the need for funds to grow and expand the enterprises is the greatest need of the small- and micro-enterprise owners.

Determining the motivations behind starting small- and micro-enterprises within a South African context, this study contributes by way of providing valuable insight into the enterprise start-up reasons and support needs of new enterprises, which could aid in determining interventions to spur on the start of enterprises in the country to further stimulate the economy. Furthermore, through an analysis of the importance attached to the need to obtain financial literacy by small- and micro-enterprise, most anticipated areas of need regarding financial literacy are identified. No previous research on the financial literacy needs within a South African small- and micro-enterprise context could be found in literature. Therefore, this exploratory study should provide meaningful information that could be used by stakeholders interested in the development and growth of small- and micro-enterprises, in their efforts of establishing frameworks and support programmes aimed at addressing the financial literacy needs of these enterprise owners. This study further contributes to the identification of other great enterprise needs of small- and micro-enterprises and is aimed at providing suggestions for meaningful interventions (Okpara & Wynn, 2007) to advance the sustainability of small- and micro-enterprises within the country. Finally, the data obtained within this study contributes to the scarce existing data (Ayyagari et al., 2007) that exists on small- and micro-enterprises.

A mixed methods research approach was used to collect the data that was required for this study. This comprised a questionnaire and in-depth follow-up interviews with the participants after they had completed the questionnaire. The interviews served the purpose of certifying that the results obtained from the questionnaire had been interpreted correctly.

The background of this study, followed by an outlay of the theory utilised to establish a framework for the questionnaire that was developed, as well as the research methodology used for this study follow from this point forward. That is trailed by the summary of the findings, discussion, recommendations and conclusions.
2) BACKGROUND

4.1. Conceptual scope and definition

Shaver et al. (2001) affirm that a new enterprise is created as an intentional act that engages repeated attempts to exercise control over the process, in order to achieve the desired outcome of the entrepreneur. The number one desired outcome is inclined to be wealth creation (Kolvereid & Isaksen, 2005). For the purpose of this study, it is therefore adopted that the small- and micro-enterprises established their enterprises based on their personal circumstances with the ultimate goal of creating wealth for themselves.

Micro-enterprises, for the purpose of this study are defined as enterprises that employee up to a maximum of five employees and small enterprises between six and 50 employees. This is consistent with the definition of small- and micro-enterprises as defined the OECD (2000), as well as by the National Small Business Amendments Act of 2003, South Africa.

Financial literacy has been defined by various research studies (Hung et al., 2009; Clark, 2014; Hromkada, 2007; Miller et al., 2009; Mihalčová et al., 2014; ANZ Banking Group, 2003; Lusardi & Mitchell, 2014) as the concept that signifies the knowledge of financial matters, the comprehension of such matters and an individual’s ability to apply the essential financial knowledge through effective decision-making regarding the use and management of money. It also embodies specific skills pertaining to an individual's ability to work with numbers and it is an essential tool for an individual to be mindful of financial risks and consequences relating to decisions made related to finances. This study adopted the definition of Say (2016), which defines financial literacy within the context of small- and micro-enterprises as a form of knowledge that is affected by the level of information in respect of finance and financial concepts that the individual is familiar with; the ability of such an individual to comprehend and gain insight from the knowledge; a combination of literacy and numeracy skills; the ability of the individual to make informed financial decisions based on the knowledge of finance along with financial concepts and understanding thereof; and the ability to apprehend the financial consequences or outcomes of the financial decisions that the individual makes. Financial literacy is also inseparable from the ability to practice basic accounting, i.e. record keeping of financial transactions, reporting and measuring the cash flow position of an enterprise and preparing budgets.
4.2. Literature review

According to South Africa’s Department of Trade and Industry (2008), in 2007, small- and micro-enterprises represented 93.1% of all active enterprises within South Africa. Statistics South Africa (2014) released a report that reported that 45.5% of South Africans lived in poverty in 2011 and unfortunately unemployment is a major contributor to the poverty trend within the country. Unemployment is a persistent problem faced by South Africans (Mthimkhulu & Aziakpono, 2015; SPB, 2013). The official unemployment rate in the country stood at 26.7% as at March 2016 (StatsSA, 2016). The South African government acknowledges the contribution that small- and micro-enterprises make toward providing relief to the aforementioned challenging statistics and has made provision to assist these enterprises in their National Development Plan 2030 (National Planning Commission, 2012). Despite government’s efforts to assist them, small- and micro-enterprises have a low survival rate (Von Broembsen et al., 2005; Ligthelm, 2008). Challenges faced by small- and micro-enterprises, which contribute to the failure of these enterprises, are discussed further on in this paper.

Headd (2003:52) asserts that the manifestation of the reasons for establishing an enterprise affords the opportunity to draw a link between the owner’s start-up intentions and the enterprise’s outcome or success. Through the review of various literature studies (Watson, 1999; Kolvereid & Isaksen, 2005; Benzing & Chu, 2009; Gelderen & Jansen, 2006; Ligthelm, 2008; SBP, 2013; Kvedaraitė et al., 2014), the most prevalent start-up motivations are: autonomy and independence; self-fulfilment and growth; following personal passion; to pursue new opportunities; to increase and supplement income; to take financially care of family; and, in some instances, motivations are fuelled by necessity that is met due to unemployment and retrenchment. Gelderen and Jansen (2006) indicate that out of the aforementioned motivations, autonomy is the biggest. This is consistent with the findings of Watson (1999). In contrast, Benzing and Chu (2009) found the desire to increase income to be the foremost motivation. Benzing and Chu (2009) assert that their finding is no surprise, since developing countries face challenges of low income and weak job markets. Fielden et al. (2000) are of the view that individuals who start up enterprises often experience obstacles relating to financial management and, as a result, do not, among others, understand taxation, insurance and book-keeping. Starting an enterprise with a lack in financial literacy, according to Wise (2013), could result in tragic consequences.
The World Bank, OECD and DFID assert that prevalent arguments exist that financial literacy levels across the globe are unacceptably low and that they are even lower in developing countries (Miller et al., 2009). Low financial literacy levels are observed even in countries where financial markets are well developed (Lusardi & Mitchell, 2011). The FSA (Atkinson et al., 2006) conducted a study on the levels of financial capability and found that individuals are not particularly good at planning for the future, choosing financial products and keeping up to date with financial matters and the economy. The ANZ Banking Group (2003) conducted a similar study to measure the level of financial literacy of individuals and found that the overall results were positive; however, they identified that lower levels of financial literacy were associated with individuals who came from a background of poor education, unemployment and people of a certain age, namely 18 to 24 years and 80 years and older. The FSB (Robert et al., 2014) established that financial literacy levels are low and reported in their financial literacy social attributes survey that South Africans, on average, had an overall financial literacy score of 52%. This demonstrated a deterioration in comparison to the years 2011 and 2012 in which the overall average score was 54%, respectively. In the same study, unemployed individuals and females scored lower than the national average. From former studies conducted, it is noticeable that the need to obtain financial literacy appears to be high and therefore the need for more financially literate individuals (Louw et al., 2013) is evident.

According to other research (Klapper et al., 2013; Lusardi & Mitchell, 2014, Kotze & Smit, 2008), a deficiency in financial literacy is associated with poor financial decision-making, investment selections, negative income related to spending decisions, borrowing and saving choices, financial planning, exceptionally high debt levels, poor attitude towards saving, vulnerability to investment fraud and schemes as a result of lacking knowledge, bankruptcy and blacklisting. It is also believed to impede on the development and growth of small- and micro-enterprises (Chimucheka & Rungani, 2011; SPB, 2013; Okpara & Wynn 2007; Ligthelm, 2008; Irwin, 2013).

Seikei et al. (2013) presented evidence that the performance of small- and micro-enterprises that acquired financial literacy skills through a financial educational programme was enhanced after taking part in the financial education programme. Lusardi and Mitchell (2011) found that financial literacy needs differed between various population subgroups and recommended that financial education programmes be structured in a way that would be effective to address the specific needs of the subgroups. Kotze and Smit (2008) assert that financial education programmes can only overcome financial illiteracy if they are implemented respectively for different demographic groups. According to the FSB (Roberts et al., 2014), financial literacy is not properly understood
in developing countries and this affects the effectiveness of financial literacy programmes. Consequently, in order to facilitate ways of improving financial literacy in small- and micro-enterprises, the specific needs of the enterprise owners should be investigated.

4.3. Research problem

Small- and micro-enterprises are driving forces of the South African economy. They are, however, faced with a range of challenges that impede their development and viability. This study aims to investigate the motivations behind starting small- and micro-enterprises within a South African context with the intention of understanding these in order to contribute in providing insight, which may assist the identification of the support needs of small- and micro-enterprises as well as assisting South African small- and micro-enterprise stakeholders in producing interventions to spur on the start of more enterprises. This study further aimed to identify the current greatest needs of small- and micro-enterprise owners. These may or may not be as a result of a deficit in financial literacy. In addition, linked to the motivation for starting the enterprise, this study intends to explore the financial literacy needs of small- and micro-enterprise owners through an analysis of the importance attached to the need of obtaining financial literacy by small- and micro-enterprise owners in consort with the identification of the most predominantly needed areas of financial literacy. The overall aim is to provide meaningful information that could be used by policymakers and other stakeholders interested in the development and growth of small- and micro-enterprises with the information obtained, along with providing suggestions to assist with determining meaningful interventions to assist small- and micro-enterprises within South Africa.

3) Research Methodology

The positivism paradigm was used as base in this study. A mixed methods approach was followed. The positivism paradigm, according to Krause (2005), is a research method independent from the researchers and information is discovered through direct the observation or measurement of a phenomenon. A mixed methods approach allows for a more holistic portrait of our social world (Mackenzie & Knipe, 2006) and addresses research problems from different angles allowing it to be verified within the same context (Johnson & Onwuegbuzie, 2004). The research was conducted by way of a questionnaire (quantitative) comprising four sections, which served the following purposes, namely to obtain detail/description regarding the socio-economic profile; determining enterprise start-up motivation and initial funding methods; establishing the
current greatest needs of enterprise owners; and analysing the need for financial literacy. Consideration was given to existing literature in order to establish a framework to base the questionnaire on. Eleven of the questions in the third section of the questionnaire were obtained from the questionnaire developed by Louw (2010) and were modified to make it more relevant to enterprises. In addition, in order to ascertain that the data obtained was to the best knowledge of the owners, and to enrich the findings obtained through the questionnaire, follow-up interviews (qualitative) were conducted with the owners after completion thereof. The interviews enhanced the responses obtained through open-ended questions probed in the questionnaire and it were utilised to ascertaining the enterprise owners’ understanding of the questions probed in the questionnaire. The data collected through the questionnaire was statistically analysed.

1.1. Sampling

The study was conducted on small- and micro-enterprises in a suburb, Promosa, of Potchefstroom, South Africa. The suburb can be categorised as a previously disadvantaged suburb and the researcher chose the suburb due to observing the high failure rate of the small- and micro-enterprises. The method of sampling used in this study was purposive in nature, given the fact that the population size of small- and micro-enterprises within the suburb is not readily known. Nonetheless, the suburb is small enough to allow for a full inclusion of the enterprises within the population. Ethical clearance was obtained for this study from the ethics committee of the Faculty of Economic and Management Sciences of the North-West University (South Africa) and written consent to voluntarily participate in this study was obtained from the enterprise owners who took part in this study. In total, 50 enterprise owners voluntarily participated in the study and the follow-up interviews.

1.2. Survey validity

Validity is achieved by a data collection technique that aligned the results obtained with the envisioned objectives of the technique used (Maree et al., 2007; Welman et al., 2005). The questionnaire was carefully planned and based on existing literature. A portion of the questionnaire was based on a tried and tested questionnaire on financial literacy of university students developed by Louw (2010). The enterprise owners who participated in the questionnaire were informed as to the relevance of the study before they provided consent to part take in the study and the questions were explained to them. The enterprise owners were interviewed
following the completion of the questionnaire, where they were probed as to whether they understood the questions. In the fourth section, where the enterprise owners were asked to provide the greatest needs with regard to their enterprises, the enterprise owners were asked to elaborate in order to for clarification to be obtained on the responses provided. The data was subsequently captured, and a Cronbach’s alpha coefficient test was performed on the data in order to measure the internal consistency, namely to show the extent to which the questions within the questionnaire measured the same attribute (Welman et al., 2005). The results are discussed below in the analysis of results and discussion sections of this paper.

1.3. Statistical analysis

A statistical analysis of the questionnaire was performed by the Statistical Consultation Services of the North-West University. The analysis included descriptive statistics, as well as reliability and internal consistency tests, which were performed using SPSS software for statistical analysis of data (International Business Machines [IBM], 2016).

4) ANALYSIS OF RESULTS

2.1 Profile of participants

In total, 50 small- and micro-enterprise owners (68% male and 32% female) completed the questionnaire and took part in the follow-up interviews. Of the enterprise owners, 76% are sole proprietors. Furthermore, 56% of the enterprises trade from the residential addresses of the owners. Results obtained also showed that 32% of the owners hold employment positions outside of their enterprises and 44% were unemployed before they started their enterprises. Years in trade and number of employees are broken down as follows:
Table 1: Other profile statistics

<table>
<thead>
<tr>
<th>Item</th>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years in trade</td>
<td>1-3 years</td>
<td>11</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>4-5 years</td>
<td>14</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>6-10 years</td>
<td>13</td>
<td>26%</td>
</tr>
<tr>
<td></td>
<td>11-15 years</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>16-20 years</td>
<td>4</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>20-25 years</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>26-30 years</td>
<td>2</td>
<td>4%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>0-3</td>
<td>37</td>
<td>74%</td>
</tr>
<tr>
<td></td>
<td>4-5</td>
<td>6</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>6-9</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>10-15</td>
<td>2</td>
<td>4%</td>
</tr>
</tbody>
</table>

As per the results in Table 1, 50% of the enterprises have been in trade for five years or less, whereas the remaining 50% have already survived longer than five years. As per the literature, small- and micro-enterprises have a high failure rate within the first five years of trade (Bornstein & Scarborough, 2007; Okpara & Wynn, 2007; Ligthelm, 2008). It was further established that the small- and micro-enterprises are indeed job creators, as 74% employ between zero and three employees, and the remaining 26% employ between four and 15 employees.

2.2 Enterprise start-up

This section comprises two open-ended questions and one closed-ended question where respondents were simply required to answer “Yes” or “No”. The question probed the start-up motivations of the enterprise owners, where they obtained initial funding to start their enterprises and whether they have investments or savings outside of their enterprises.

Table 2: Motivation behind starting enterprise

<table>
<thead>
<tr>
<th>Start-up motivation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment and struggling to find work</td>
<td>36%</td>
</tr>
<tr>
<td>Freedom and independence</td>
<td>24%</td>
</tr>
</tbody>
</table>
As per the Table 2, 46% of the enterprises had been started out of necessity due to unemployment and/or retrenchment. This coincides more or less with the 44% of the enterprise owners who indicated that they were unemployed prior to starting their enterprises as per the profile of the participants. As for enterprise start-ups driven by opportunity, 24% wanted to obtain freedom and independence, 10% wanted to pursue their dream through doing something that they love, and 6% of the enterprise owners wanted to take advantage of a gap identified in the market within the community. The results further revealed that 10% of the enterprise owners wanted to supplement the income they earn from other formal employment and the remaining 2% started their enterprise to keep busy.

Table 3 demonstrates how the enterprise owners funded their enterprises when they were started.

<table>
<thead>
<tr>
<th>Start-up motivation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retrenched and unable to find other work/not wanting to search for other work</td>
<td>10%</td>
</tr>
<tr>
<td>Pursuing a dream to do what the individual loves</td>
<td>10%</td>
</tr>
<tr>
<td>To supplement income earned from other formal employment</td>
<td>10%</td>
</tr>
<tr>
<td>Taking on new opportunity to fill a gap in the market within the community</td>
<td>6%</td>
</tr>
<tr>
<td>Retired from previous employment and started enterprise as a pursuance of a dream</td>
<td>2%</td>
</tr>
<tr>
<td>To keep busy</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Funding source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solely from savings</td>
<td>34%</td>
</tr>
<tr>
<td>Retrenchment package money</td>
<td>14%</td>
</tr>
<tr>
<td>From family and friends</td>
<td>12%</td>
</tr>
<tr>
<td>Loan from a bank</td>
<td>12%</td>
</tr>
</tbody>
</table>
As per Table 3, 34% of the owners obtained initial funding solely from their life savings, in addition to 14% who solely used their retirement money to start their enterprises. Another 12% obtained the funding from friends and family and an equivalent of 12% obtained funding solely from a loan from the bank. A further 10% obtained initial funding from savings and a loan from family and friends, while 6% obtained their start-up funds from a loan from the bank and savings. Furthermore, 6% of the enterprise owners used their savings and salary to fund their enterprises, 4% used a combination of funds from their retrenchment packages and savings, 2% obtained funding through a combination of a loan from the bank and loans from family and friends, and the remaining 2% funded their enterprises through their retirement funds and savings. Overall, it was established that 58% of the enterprises in aggregate were initially funded solely through personal funds, which include savings, funds obtained from retrenchment packages and salaries from other employment. The remaining 42% obtained funding from an external source other than from their own funds. Approximately 20% obtained initial funding from a bank and the remaining 22% of enterprise owners obtained initial funding through a combination of loans from family and friends.

<table>
<thead>
<tr>
<th>Funding source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings and loan/money from family and friends</td>
<td>10%</td>
</tr>
<tr>
<td>Loan from a bank and savings</td>
<td>6%</td>
</tr>
<tr>
<td>Savings and salary</td>
<td>4%</td>
</tr>
<tr>
<td>Retrenchment package money and savings</td>
<td>4%</td>
</tr>
<tr>
<td>Loan from a bank and friends and family</td>
<td>2%</td>
</tr>
<tr>
<td>Retirement funds and savings</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

As per Table 3, 34% of the owners obtained initial funding solely from their life savings, in addition to 14% who solely used their retirement money to start their enterprises. Another 12% obtained the funding from friends and family and an equivalent of 12% obtained funding solely from a loan from the bank. A further 10% obtained initial funding from savings and a loan from family and friends, while 6% obtained their start-up funds from a loan from the bank and savings. Furthermore, 6% of the enterprise owners used their savings and salary to fund their enterprises, 4% used a combination of funds from their retrenchment packages and savings, 2% obtained funding through a combination of a loan from the bank and loans from family and friends, and the remaining 2% funded their enterprises through their retirement funds and savings. Overall, it was established that 58% of the enterprises in aggregate were initially funded solely through personal funds, which include savings, funds obtained from retrenchment packages and salaries from other employment. The remaining 42% obtained funding from an external source other than from their own funds. Approximately 20% obtained initial funding from a bank and the remaining 22% of enterprise owners obtained initial funding through a combination of loans from family and friends.

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have investments/deposit-/savings account, other than my enterprise</td>
<td>64%</td>
<td>36%</td>
</tr>
</tbody>
</table>

The results, as per Table 4, indicate that 64% of all the small- and micro-enterprise owners do have investments or savings other than their enterprises. These results are contrary to the South African Economic Update by the World Bank (2011) in which it was reported that South Africans
have a modest investment rate and a low savings rate regardless of the attractive returns offered and favourable demographics. This result may, however, be explained through the fact that enterprise owners displayed a high interest in learning how to save and invest money as per the results in Table 6. It could also be that, due to the past volatile economic times, business owners have learned that they need to have some savings to assist them in difficult times.

2.3 Current greatest needs with regard to enterprises

The final question in the questionnaire was an open-ended question that probed for the present greatest need of the owners with regard to their enterprises.

<table>
<thead>
<tr>
<th>Need</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds to expand and grow enterprise</td>
<td>64%</td>
</tr>
<tr>
<td>More customers or contracts</td>
<td>12%</td>
</tr>
<tr>
<td>Reliable and trained employees</td>
<td>8%</td>
</tr>
<tr>
<td>None; satisfied with the current state of the enterprise</td>
<td>6%</td>
</tr>
<tr>
<td>New ideas, reinvention and diversification of products and services</td>
<td>4%</td>
</tr>
<tr>
<td>To learn how to manage it more effectively</td>
<td>2%</td>
</tr>
<tr>
<td>Financial support from the government</td>
<td>2%</td>
</tr>
<tr>
<td>Not sure, have not given it much thought</td>
<td>2%</td>
</tr>
</tbody>
</table>

It is evident from Table 5 that 64% of small- and micro-enterprises are in need of funds to expand and grow their enterprises. This links well with the findings that they mainly make use of own funds to start the business. It was also found that 12% are in need of more customers and contracts for their enterprises. Of the owners, 8% indicated that they needed reliable and trained employees. Another 4% indicated that that they are in need of new ideas to reinvent and diversify their products and services. Two percent indicated that their greatest need is learning how to manage their enterprise more effectively, while another 2% indicated that they need financial support from the government. The remaining 2% are not sure what the greatest needs of their enterprise are, since they have not given it much thought.
2.4 Need for financial literacy

This section comprised 15 questions in which respondents were asked to choose the option that best reflects their opinion of the importance of learning more about the items listed within this section. The scale from which respondents could choose ranged from “Strongly disagree” (score of 1), “Disagree” (score of 2), “Neutral” (score of 3), “Agree” (score of 4), to “strongly agree” (score of 5). An internal consistency test was performed on the questions within this section and the Cronbach’s alpha of .976 was established for the 15 questions. A Cronbach’s alpha of 0.7 or higher is acceptable (Falissard, 2012). Table 6 demonstrates the descriptive statistics and a summary of statistics by concept is demonstrated in Table 7.

### Table 6: Obtaining knowledge and learning more about financial literacy statistics

<table>
<thead>
<tr>
<th>Interest in obtaining financial literacy</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>50</td>
<td>1.00</td>
<td>5.00</td>
<td>4.2387</td>
<td>.82491</td>
</tr>
</tbody>
</table>

As per the descriptive statistics above in Table 6, there is an overall high interest or need to obtain knowledge and learning more about financial literacy concepts. The results can be interpreted that a 5 represents the highest level of need and a 1 the lowest.

### Table 7: Importance of obtaining knowledge and learning more about financial literacy by concept

<table>
<thead>
<tr>
<th>No</th>
<th>Question</th>
<th>Average score out of 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>How to save money</td>
<td>4.40</td>
</tr>
<tr>
<td>7</td>
<td>How to invest money</td>
<td>4.40</td>
</tr>
<tr>
<td>9</td>
<td>How to budget for daily/weekly/monthly/annual finances of your enterprise</td>
<td>4.36</td>
</tr>
<tr>
<td>8</td>
<td>How to plan for the long-term financial future of your enterprise</td>
<td>4.32</td>
</tr>
</tbody>
</table>
As per the results, the overall average score of 4.24 out of a score of 5, it is clear that there is a great need for becoming more financially knowledgeable, gaining exposure to financial education and financial advice. This is meaningful bearing in mind that financial literacy levels are said to be low (Atkinson et al., 2006; Miller et al., 2009; Lusardi & Mitchell, 2011) and the high importance placed on obtaining and learning more about financial literacy is an indication that small- and micro-enterprise owners are not satisfied with their current level of financial literacy.

As per Table 7, the highest category of financial literacy needs has been identified to equally be to obtain and learn more about how to save and invest money (each scored 4.4). This is followed by learning how to budget, with a score of 4.36. The enterprise owners are equally interested (4.32) in respectively learning how to plan for the long-term future of their enterprises, how to manage their enterprises and ways to reduce the spending of their enterprises. Obtaining knowledge and learning more about the basic economy, managing debt, managing enterprise cash flow, basic book-keeping, knowing which financial records to keep and how to keep them, how to deal with banks and other financial services providers, how to broaden knowledge on
personal and corporate finance, and how taxation works all scored above 4. Even though a high average score is noted, the respondents are least interested in learning more about insurance and choosing insurance for their enterprises and how taxation works. The question is whether the small- and micro-enterprise owners feel that they have sufficient knowledge relating to insurance for their enterprise or whether they are disinterested in enhancing their knowledge on insurance. Small- and micro-enterprises are also exposed to business risk and this is subject to risk management (Gesika & Boubala, 2010). Taking out insurance is a way of transferring the risk of financial losses to an insurance company (Duong, 2009; Smit, 2012). According to Smit (2012), SMEs should at least consider insurance against the risk of theft and fire. On the other hand, Duong (2009) is of the view that insurance should be the last method considered to solve a problem, unless if it is legally compulsory. Consequently, if the enterprise owners are taking other precautions to mitigate risk, which could be covered through insurance, it would make sense that they are less interested in wanting to learn more about insurance and choosing insurance products.

The table below indicates the results based on group statistics.

<table>
<thead>
<tr>
<th>Category/Question</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>**Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MALE</td>
<td>34</td>
<td>4.1961</td>
<td>.94180</td>
<td>.600</td>
</tr>
<tr>
<td>FEMALE</td>
<td>16</td>
<td>4.3292</td>
<td>.50857</td>
<td>.520</td>
</tr>
<tr>
<td><strong>Are you in an employment position outside of your enterprise?</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YES</td>
<td>16</td>
<td>4.6208</td>
<td>.42144</td>
<td>.023</td>
</tr>
<tr>
<td>NO</td>
<td>34</td>
<td>4.0588</td>
<td>.90858</td>
<td>.004</td>
</tr>
<tr>
<td><strong>Were you in an employment position immediately before you started your enterprise?</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YES</td>
<td>28</td>
<td>4.2690</td>
<td>.80400</td>
<td>.772</td>
</tr>
<tr>
<td>NO</td>
<td>22</td>
<td>4.2000</td>
<td>.86825</td>
<td>.774</td>
</tr>
</tbody>
</table>

**Significance based on t-test**

Further analysis of group statistics as per Table 8 indicates that, based on averages, females have a greater need to obtain knowledge and learning more about financial literacy concepts and practices than males do. The ANZ Banking Group (2003) found that a greater percentage of
females scored the lowest on financial literacy levels. It is possible that females in the study are in need of improvement of their financial literacy due to being less comfortable with their financial literacy levels. Furthermore, individuals who hold employment outside of their enterprises have a greater need to obtain knowledge and learning more about financial literacy concepts and practices than those who only hold employment within their enterprises. Lastly, it is noted that individuals who have been employed prior to starting an enterprise showed a greater need to learn and obtain knowledge about financial concepts and practices. The preceding result raises question as to whether people who were unemployed before starting their enterprises actually know what they do not know. It was earlier noted in this paper that the FSB (Roberts et al., 2014) found that unemployed South Africans are more likely to be vulnerable to financial illiteracy.

5) DISCUSSION

In total, 50 small- and micro-enterprise owners took part in the study through the completion of the questionnaire. The results obtained from data gathered were analysed in the preceding section. A discussion of the results follows.

3.1 Starting small- and micro-enterprises

The South African employment and poverty rates do not reflect a good picture (StatsSA, 2014; StatsSA, 2016). It is therefore no surprise that 46% of the enterprise owners who took part in this study were driven by necessity as they were either unemployed or retrenched from their employment and subsequently unemployed. This is much higher than the statistics reported by the SBP (2013) that one in every five SMEs in South Africa is driven by necessity. Furthermore, 58% of the enterprise owners invested their personal funds from savings, retirement funds and retrenchment packages. The latter result makes it even more relevant to design strategies to sustain the development and growth of these enterprises in the country, since enterprise owners invest nearly all their financial resources, time and effort in an attempt to generate an income in order to keep afloat. It is pleasing to note that 42% of the owners who took part in this study were driven by the opportunities of being independent, pursuing their dreams, taking advantage of a gap identified in the market and the supplement of the income they earn from formal employment. Results further indicated that funding from external sources to start-up the enterprises were on the lower side, since only 12% of the enterprises are purely funded by a bank, whereas the remaining 30% were funded through a combination of loans from banks, family, friends and
savings. Access to finance has been identified to be a challenge in the start-up of small- and micro-enterprises (Fielden et al., 2000; Mthimkhulu & Aziakpono, 2015).

3.2 Small- and micro-enterprise greatest needs

The greatest need of the owners (64%) is the need for funds to expand and grow their enterprises. This is consistent with the lack of access to finance reported by many researchers (Fielden et al., 2000; Miller et al., 2009; Mthimkhulu & Aziakpono, 2015) to be one of the most prevalent challenges small- and micro-enterprises face. The second greatest need (12%), more customers and contracts, appears to be consistent with the economic downturn. South Africa’s economic growth has demonstrated poor trends over the past few years (SARB, 2015). According to Pikturnienė and Urbonavičius (2014), the most common response of consumers towards the financial crisis is to cut back on spending. It was also established that 8% of the owners have the need for reliable and trained employees (Fielden et al., 2000; Franco & Haas, 2010; Kvedaraite, 2014). Sadly, if left unaddressed, the former challenges faced by the small- and micro-enterprises could prohibit development and the long-term sustainability of these enterprises (Okpara & Wynn, 2007; Bowen, 2009).

The Department of Trade and Industry of South Africa has an existing range of incentive schemes, loans and grants available for small- and micro-enterprises. Some to mention include the Black Business Supplier Development Programme (BBSDP), which is a cost-sharing grant offered to black-owned enterprises in order to improve competitiveness and sustainability; the Khula government agency for small business financing through the provision of loans; and the Sector Specific Assistance Scheme (SSAS) cost-sharing grant (Entrepreneur Magazine, 2016).

The National Credit Regulator of South Africa (NCR, 2011) reported that there is a poor uptake of these programmes offered by government and that this is due to a lack of a single source to obtain information from the government. Nonetheless, research conducted by Mbekeni (2009) found that even if SMMEs try to take up the support from these programmes, the implementation of government support programmes is not supporting the SMMEs as it is intended.

According to the NCR (2011), banks are not able to cope with small loans and this makes it hard for entrepreneurs who try to access finance. There are, however, micro-finance institutions (MFI)
that have structures in place for smaller loans; however, the loans are granted at high interest rates, which are not affordable to most small enterprises (NCR, 2011).

Even though the availability of the funds is there, no institution (including government) will grant financial support to just anyone. The NCR (2011) is of the view that a lack of managerial skills, financial literacy, poor business plans and insufficient information available on products are contributing factors to the inability of small- and micro-enterprises to access finance. Furthermore, can the growth and expansion be achieved solely through an increase of available funds without knowing and understanding how to manage these funds effectively? Being better equipped with financial literacy should be of great significance when the challenges faced by the owners are overcome. The ANZ Banking Group (2003) defines financial literacy as “the ability to make informed judgments and to take effective decisions regarding the use and management of money”. Having more funds, more business and products should better create the desired outcome of growth and development where the presence of financial literacy is strong. According to Sabana (2014), a financially literate enterprise owner identifies the most suitable financing and financial management options for his/her enterprises and manages resources more wisely. Findings in this study show that the small- and micro-enterprise owners acknowledge their need to better their knowledge and learn more about financial literacy concepts.

3.3 Small- and micro-enterprise owner need for financial literacy

The importance placed on the need to obtain knowledge and learning more about financial literacy of small- and micro-enterprise owners has been investigated and the results have indicated that the need is extremely high, i.e. 4.24 out of 5. Even though the enterprise owners were not directly probed to comment on whether they perceive themselves to be financially literate or not, the results designate that the small- and micro-enterprise owners who took part in this study are mindful that they need significant improvement in their financial literacy knowledge and skills and they are open to obtaining the necessary knowledge and capabilities related thereto. The results also support the findings of the FSB (Roberts et al., 2014) and of the ANZ Banking Group (2003), as it was found that the need for knowledge and learning more about financial literacy concepts is higher among females (4.33) than males (4.20). A surprising result is that enterprise owners who are in employment outside of their business as well those who were unemployed immediately before they started their enterprises have a greater need (4.62 and 4.27, respectively) than those who do not hold other employment and who were unemployed before starting their enterprises.
(4.06 and 4.20, respectively). The contrary result could have been anticipated in accordance with the findings of the FSB (Roberts et al., 2014) that financial literacy levels have been found to be lower in South Africans who are unemployed.

6) RECOMMENDATIONS

Addressing the needs of small- and micro-enterprises can also be used as a tool of encouragement for the start-up of small and micro-enterprises in South Africa. Based on the findings, the South African government, specifically departments that are responsible for improving the current financial status of the country, should consider the following:

- With regard to **financing** that is offered for the start-up, development and growth of small- and micro-enterprise, they should consider building in an advisory programme for prospective enterprise owners before funding is granted, instead of purely the rejection of applications based on criteria not having been met. This advisory programme should focus on the reasons why applications are not accepted, namely due to a lack of managerial skills, financial literacy, poor business plans, and so on. They could subsequently provide coaching to the prospective enterprise owners by focusing on their areas of needs. Based on this case study, that should include teaching them how to save and invest money, how to budget, to prepare a long-term plan for their enterprises, tips on how to manage their enterprises, how to manage debt and cash flow, how to reduce spending, basic book-keeping, teaching them how and which financial records to maintain, how taxation works, basics about the economy, providing them insight into personal and corporate finance, how to deal with financial institutions and how to choose the best insurance options for their enterprises (especially if that is a prerequisite for the provision of finance). If after providing the advisory service the application for finance is still unsuccessful, the individuals should still be motivated to seek assistance elsewhere, being better equipped with the necessary skills.

- They should consider the implementation of a small- and micro-enterprise **financial literacy** mentorship tier programme. That would include providing incentives in the form of BEE points, grants, subsidies, or other, for medium to big enterprises to take on a mentorship role to provide financial literacy mentoring to prospective small enterprise owners. This would include the establishment of a team to present needs-focused financial literacy training to small enterprises and by monitoring the progress of the owners in terms of managing their enterprises and their enterprise finance. Upon successful completion of
the mentoring programme, the small enterprises should then be incentivised to provide similar mentorship to micro-enterprises within their reach. A formal policy could be developed in this regard and the process can be supervised and monitored by the team of the Minister of Small Business Development of South Africa along with the Department of Trade and Industry.

- Opportunity exists for the Unemployment Insurance Fund (UIF) to make a contribution through the design and implementation of an entrepreneurship training programme. This programme could be made available to unemployed individuals wishing to improve upon or gain new entrepreneurial skills and related knowledge aimed at empowering such individuals with skills that equip them to start their own enterprises. The content of this programme could cover the design of business plans, how to register enterprises, budgeting, basic book-keeping, keeping record of cash flow, how to plan for the future of an enterprise, filing documents and how to keep record of them, how taxation (including value-added tax) works and affects small- and micro-enterprises as well as how to register for taxation purposes, how the application for funds from government and financial institutions work and where to seek for assistance in the start-up and management of small- and micro-enterprises.

7) CONCLUSION

Most of the participants in the study started their enterprise out of a need, mostly unemployment. They also mostly used their own funds. Having lost a job or being unemployed, the amount of funds may well be limited. The need for funds to grow and expand enterprises is the greatest identified among the small- and micro-enterprise owners. From the review of literature (Fielden et al., 2000; Chimucheka & Rungani, 2011; Mthimkhulu & Aziakpono, 2015), it was identified that the lack of access to finance is one of the greatest constraints faced by small- and micro-enterprises. It has been reported that by the NCR (2011) that a shortage in skills related to financial literacy is one of the major reasons for the barriers encountered in the prospect of obtaining finance. The small- and micro-enterprises are in great need for financial literacy as they placed a very high importance on obtaining knowledge and learning more about financial literacy concepts.

Should the needs, especially the need for financial literacy, not be addressed, some researchers (Morrison et al., 2003; European Commission, 2006) are concerned that the development and
growth of small- and micro-enterprises could suffer more adverse consequences and this could end up affecting the growth of the South African economy.

The contribution of this study lies in that it provides insight into the start-up motivations of small- and micro-enterprises, which would be meaningful in the design and development of interventions to spur on the start of small- and micro-enterprises in South Africa. The identification of the financial literacy needs of small- and micro-enterprise owners should be valuable to policy-makers and other stakeholders interested in the development and growth of small- and micro-enterprises in their efforts to improve financial literacy. Through the identification of the current greatest needs of small- and micro-enterprise owners, a better understanding is obtained in order to identify and suggest interventions to enable the growth and development of these enterprises as well as enhancing their contribution to the South African economy. Lastly, this study contributes to the scarce existing data on small- and micro-enterprises.

This case study was limited to small- and micro-enterprises within Promosa, a suburb of Potchefstroom, South Africa. Therefore, precaution should be exercised in the generalisation of the findings in this study.

Further research, similar to this study, on the support needs as well as financial literacy needs of small- and micro-enterprises to gain deeper insight into these needs in order to assist the development of financial education programmes to improve the financial literacy of the owners is necessary. Furthermore, research on how being previously employed before starting an enterprise versus not having been employed affects financial literacy. Furthermore, research on how financial literacy affects the performance, growth and development of small- and micro-enterprises could be valuable.
8) REFERENCES


CHAPTER 6 – SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

6.1 Introduction

Small- and micro-enterprises develop communities and play a critical role in the South African economy (SARB, 2015:5) and they are widely recognised for their contribution by providing employment, relief of poverty and overall contribution to economic growth (SBP, 2013:1-2; Ayyagari et al., 2007: 415; Okpara & Wynn, 2007:24). Failure rates of these enterprises are very high and they are continuingly faced with challenges that threaten their development, growth and viability (Bornstein & Scarborough, 2007:38-39; Okpara & Wynn, 2007:24; Litthelm, 2008:379). In order to sustain and advance their survival, assist them to develop communities and enhance their contribution to the economy, it is essential to obtain a proper understanding of their needs with regard to their enterprises (Bowen et al., 2009:17; Okpara & Wynn, 2007:24). A lack of financial literacy is believed to be one of the greatest reasons behind the failure of small- and micro-enterprises (Bornstein & Scarborough, 2007:38-39; Litthelm, 2008:379; Kgosana, 2013:1; Zwane, 2014:1; Okpara & Wynn, 2007:27). The limited research available on not only financial literacy, but also small- and micro-enterprises in South Africa limits our understanding of small- and micro-enterprises as well as the interventions necessary to enhance their sustainability and growth.

This purpose of this study was to analyse the need for financial literacy in small- and micro-enterprises with the objective in sight to provide recommendations on obtaining financial literacy and enterprise management skills. A literature review was conducted to gain an understanding on SMMEs, financial literacy, enterprise management skills and the consequences of a lack financial literacy and enterprise management skills. Two articles were written and took into consideration information gathered per the literature review, as well as empirical research conducted. Empirical research in the form of a questionnaire and follow-up interviews, aimed at enriching the responses obtained through the questionnaire, was conducted on small- and micro-enterprise owners in a suburb of Potchefstroom, Promosa, South Africa. Data was obtained that enabled the analysis of the financial literacy of as well as the need therefore among the small- and micro-enterprise owners. In addition to this, information was gathered pertaining to the small- and micro-enterprise start-up, enterprise administration, financial practices, previous exposure to financial education, and the greatest needs with regard to the enterprises.
6.2 Overview of research method

The study was initiated through the conduct of a literature review, which served the aim of addressing some of the secondary objectives within this study, in addition to advancing the process of designing the questionnaire and aiding the process of analysis and interpretation of results obtained.

Qualitative research was subsequently conducted by means of a questionnaire and follow-up interviews for the purpose of the articles written. The basis of the questionnaire lied in the literature review, as well as an existing questionnaire on financial literacy (Louw, 2010). The questionnaire encompassed a combination of closed- and open-ended questions. The data obtained were analysed using SPSS software for the statistical analysis of data (International Business Machines [IBM], 2016). Results were presented by way of the documentation of statistical results, categorisations, as well as summaries of data obtained.

6.3 Research objectives

The research objectives that were defined in Chapter 1 have been addressed through the literature review as well as the qualitative research that was conducted.

The main objective of this study was to analyse the need for financial literacy in small- and micro-enterprises in order to provide recommendations regarding obtaining financial literacy- and enterprise managerial skills to assist the development of and sustainability of small- and micro-enterprises.

The above was addressed through the achievement of the secondary objectives as well as the recommendations that were made per section 6.5. The following research objectives were reached in the study;

4 Establishing an understanding of small- and micro-enterprises (addressed in Chapter 2);
5 Establishing the reasons for starting the enterprises (addressed in Chapter 2 and article 2) and the source of initial funding was obtained by the owners of the enterprises at that time (addressed in article 2);
Explore the definition of financial literacy and establish the definition for financial literacy within the context of small- and micro-enterprises (addressed in Chapter 2);

Examining the consequences of a lack of enterprise financial literacy and management skills on the viability and growth of small- and micro-enterprises (addressed in Chapter 2);

Investigating the presence of managerial skills of enterprise owners with regard to enterprise administration and financial practices (addressed in article 1);

Investigating the financial literacy of enterprise owners and determining areas of financial literacy weakness (addressed in article 1);

Investigating the financial literacy needs (addressed in article 1 and 2) of the enterprise owners as well as their greatest perceived needs with regard to their enterprises (addressed in article 1); and

Recommend a framework to be considered in supporting small- and micro-enterprises on the side of financial literacy (addressed in article 1 to 2 and Chapter 6).

6.4 Summary of research results

The results of the study are discussed next. This is done with reference to the secondary research objectives.

6.4.1 Understanding of small- and micro-enterprises

The literature review performed in Chapter 2 outlined that defining small- and micro-enterprises is a challenge in South Africa and that no consistent definition has been adopted by legislation, government (namely the Department of Trade and Industry), and regulators. Small- and micro-enterprises constitute approximately 82% of the total number of enterprises registered with CIPRO in South Africa (DTI, 2008b:61-62). The total number of individuals employed by the small- and micro-enterprises that took part in the study were between one and 15 employees. This is between the ranges specified for small- and micro-enterprises by the National Small Business Amendments Act (2003:7-8) of South Africa that defines micro-enterprises as enterprises that employ up to five employees and small-enterprises up to 50 employees also defines micro-enterprises as enterprises that employ up to five employees. The Department of Trade and Industry (2008a:1) defines micro-enterprises as those that employ between one to nine, and small enterprises 10 to 99 employees. The OECD (2000:2) and the World Bank (Aterido et al., 2009:11)
both respectively indicate micro- between one and 10 (sometimes 5) and small enterprises with 11 to 50 employees.

6.4.2 Start-up of small- and micro-enterprises

The National Planning Commission of South Africa (2012:120) stamped small- and micro-enterprise as the driving force of the economy in terms of employment, relief of poverty and economic growth. The start-up and development of these types of enterprises are consequently essential.

The start-up of small- and micro-enterprises is fuelled by several motives of which a significant portion is due to negative circumstances that force the enterprise owners to enter into trade in order to make ends meet. Results from the qualitative research as per article 2 found that 46% of the enterprise owners who took part in the study started their enterprises due to being unemployed or retrenched from previous employment and therefore wanted to make ends meet. This is much higher than the statistics reported per the 2014 GEM report (Singer et al., 2015:12), namely that 28.2% of small enterprises in South Africa are started due to necessity, as well as the one in five (20%) SMEs reported by the SBP (2013:3). Unemployment is unfortunately a persistent challenge that South Africa has to deal with (Mthimkhulu & Aziakpono, 2015:16; SBP, 2013:2). Approximately 40% of the enterprises made use of opportunity driven by urge for independence, pursuing a dream or taking advantage of a gap identified in the market. Gelderen and Jansen (2006:10) found autonomy or independence to be the number-one motive behind starting an enterprise. A further review of literature (Benzing & Chu, 2009:73; Edelman et al., 2010:177; Kvedaraite et al., 2014:9-10; EMyth and PixelSpoke, 2013:10) identified self-fulfilment and growth; following personal passion; pursuing new opportunities; and the want to increase and supplement income as other motivations behind the start of enterprises.

It was also found that 58% of the small- and micro-enterprises that took part in the study invested personal funds attained through savings, retirement and retrenchment funds to start up their enterprises. There is therefore much at stake for the owners if these small- and micro-enterprises do not sustain. A small portion, 12%, of the enterprises were initially funded purely through funding from a financial institution. What came into question was whether this was due to constraints faced in accessing finance at the start of the enterprises as frequently indicated by research (Chimucheka & Rungani, 2011:5509, Mthimkhulu & Aziakpono 2015:24). According to Fielden et
access to start-up capital is the main constraint at the stage of establishing an enterprise and, in some instances, prospective enterprise owners are forced to take up personal loans to finance their enterprises. Funds to grow and expand enterprises were identified as one of greatest current needs of the small- and micro-enterprise owners and are discussed further in this chapter.

6.4.3 Financial literacy

Similar to the definition of small- and micro-enterprises, financial literacy also does not have a consistent definition (Schmeiser et al., 2013:243; Knoll & Houts, 2012:381). It was, however, established that even though no uniform definition exists, mutuality in the attributes in several definitions by various researchers is present (Knoll & Houts, 2012:383-384). Through the literature review (ANZ Banking Group, 2003:1-2; FSA & BSA, 2003:2; Hromadka, 2007:42; OECD, 2009:2; Hung, 2009:7,11-12; Clark, 2014:2; Lusardi & Mitchell, 2014:6; Mihalčová et al., 2014:319), it was identified that financial literacy is the knowledge and understanding of financial matters and the ability of an individual to apply the financial knowledge through effective decision-making in the use and management of money. It also entails the ability to work with numbers and equips individuals with the ability to be mindful of financial risks and consequences of financial decision-making. It was also found that financial literacy is affected by literacy, numeracy or mathematical skills, financial education, motivation to obtain and apply financial literacy, search for financial education and anxiety caused by financial circumstances. Among the skills required for financial literacy is the ability to practise basic accounting. The former skills are facilitated through financial education (Cohen & Sebstad, 2003:8; West, 2012:523; Drexler et al., 2012:8-9) and, according to Mihalčová et al., (2014:319), financial education is a fundamental element in the achievement of financial literacy.

A definition within the context of small- and micro-enterprises was established in Chapter 2 and adopted in articles 1 and 2. That is: financial literacy is a form of knowledge that is affected by the level of information in respect of finance and financial concepts that the enterprise owner is familiar with; the ability of such enterprise owner to comprehend and gain insight from the knowledge; it also requires a combination of literacy and numeracy skills; the ability of the enterprise owner to make informed financial decisions based on the knowledge of finance along with financial concepts and understanding thereof; and the ability to comprehend the financial consequences or outcomes of the financial decisions that the enterprise owner makes. It is also
inseparable from the ability to practise basic accounting, which includes record-keeping of financial transactions, reporting and measuring the cash flow position of an enterprise and preparing budgets.

6.4.4 Consequences of a lack of financial literacy and enterprise management skills

The literature review per Chapter 2 revealed a lack of financial literacy associated with poor financial decision-making, investment selections, borrowing and savings choices, financial planning, poor attitude towards saving, negative income, bankruptcy and blacklisting (Drexler, 2012:6; Klapper et al., 2013:3916-3918; Lusardi & Mitchell, 2014:21-24). A lack of financial literacy also poses a threat to the viability and growth of small- and micro-enterprises and is one of the utmost reasons for the low survival rate of small- and micro-enterprises in South Africa (Ligthelm, 2008:379; Kgosana, 2013:1; Zwane, 2014:1). Financial knowledge is an essential survival tool as it is a key resource that contributes to the improved performance of enterprises (Wong & Aspinwall, 2004:47). A lack of financial literacy, according to Chimucheka and Rungani (2011:5513-5515), is accompanied by the presence of a lack of enterprise management skills. A poor demonstration of enterprise management skills results in inefficient distribution of enterprise resources (Gaskill, 1993:20; Okpara & Wynn, 2007:32) and may result in enterprise financial distress or failure (Morrison et al., 2003:419; European Commission, 2006:11).

6.4.5 Enterprise administration, financial practices and exposure to financial education

Per the qualitative research in article 1, it is evident that the small- and micro-enterprises show weakness with regard to planning for their enterprises. An interesting discovery made per article 1 was that 44% of the small- and micro-enterprises do not have business plans for their enterprises, giving rise to the question whether the enterprise owners have clearly defined goals with regard to their enterprises. In addition, the enterprise owners demonstrated further weaknesses in the enterprise objectives and goals category of the financial literacy questionnaire as revealed later on in this chapter. This is concerning as it raises questions as to whether the enterprise owners have a clear direction of where there enterprises are heading and what they would like to achieve. If there is no clear direction or strategy set from the start, as a measure of control (Rue & Byars, 2005:5; Strydom et al., 2011:175) against which the predetermined objectives of the performance of the enterprises can be measured, monitored and acted upon, the enterprise will fail.
The research further discovered that the small- and micro-enterprises that took part in the questionnaire on average practise good record-keeping. It was, however, established that 26% of the enterprise owners do not know how to draw up basic financial statements. Only 10% of the owners do not keep record of spending in respect of their enterprises.

A low number of the small- and micro-enterprise owners have received training in or advice on how to practise basic accounting (42%), managing finances (48%), and managing their enterprises and business practices (50%). Overall, the enterprise owners do not make considerable use of the services of accountants, financial advisors or other professionals for the purpose of their enterprises. It was further discovered that the owners who practise better book-keeping have had greater exposure to basic accounting, management of their finances or made use of services from of financial advisors and other professionals in the past.

6.4.6 Financial literacy of and financial literacy needs of small- and micro-enterprises

Results obtained through the qualitative research in article 1 found that the financial literacy level demonstrated by small- and micro-enterprise owners is very low as an overall average score of 44% was attained in the financial literacy questionnaire. The is supported by Miller et al. (2009:4) and Louw et al. (2013:440) who assert that financial literacy levels are low and not showing improvement. The overall financial literacy score of individuals in South Africa per the FSB (Roberts et al., 2014:82) indicates low financial literacy levels and that it has deteriorated over the past couple of years. The South African government, according to the FSB (Roberts et al., 2014:1), has committed itself to improve the financial literacy of the public, hence the financial literacy study was conducted by the FSB in collaboration with the Human Science Research Council (HSRC) in an effort to assist the government in achieving their objective to improve financial literacy (Roberts et al., 2014:1).

The small- and micro-enterprise owners’ strongest area in terms of financial literacy identified was related to the knowledge and understanding of banking, banking products and financial institutions, where an average of 52% was attained. In terms of knowledge and understanding of taxation, the average score was 51%. The weakest areas in terms of financial literacy were identified as the knowledge and understanding pertaining to interest and inflation, as well as decision-making for which average correct responses of 35% were respectively attained.
Decision-making skills are one of the most prevalent skills necessary for effective enterprise management (Van Rensberg, 1999:73; Griffin, 2014:9).

The small- and micro-enterprise owners did not perform well in the questions in the questionnaire that were specifically aimed at analysing basic calculations. This raised concerns as to the numeracy capability necessary to conduct basic calculations in the ordinary course of business.

Despite the poor financial literacy trait demonstrated by the small- and micro-enterprise owners, the owners acknowledge that they have an eminent need for improved financial literacy. The results obtained in article 2 show that the small- and micro-enterprise owners place a very high importance on obtaining knowledge and learning more about financial literacy concepts. An average score of 4.24 out of 5 was attained through the analysis of the data. In terms of ranking, the greatest need is to become more knowledgeable on how to save and invest money (4.4 out of 5). On the other hand, the enterprise owners are the least interested (3.96 out of 5) in becoming more knowledgeable on insurance and choosing insurance for their enterprises. It was also established through the qualitative research in article 2 that enterprise owners who were employed prior to starting their enterprises and those who hold other employments outside of their enterprises have a greater need (in terms of average scores) to become more financially literate than the owners who were unemployed prior to starting their enterprises.

6.4.7 Small- and micro-enterprise owner greatest needs

The small- and micro-enterprises owners have outlined the need for funds in order to expand and grow their enterprises as their greatest need (64%) for their enterprises. It was earlier reported that 46% of the owners do not have business plans for their enterprises, 26% do know how to draw up basic financial statements, 10% do not keep track of enterprise expenditure and that an overall low average in terms of financial literacy trait was demonstrated. Since the former is the case, the reason for funds being the greatest need may be due to constraints to accessing finance as a result of improper business plans, improper planning and inadequate book-keeping (Hyder & Lussier, 2016:92-93; Xu & Zia, 2012:20, Chimucheka & Rungani, 2011:5511-5512). The second biggest need (12%) is to obtain more customers or contracts. Only 2% indicated their greatest need is to learn how to manage their enterprises more effectively. Other needs included reliable and trained employees (Hyder & Lussier, 2016:93), innovation in respect of services and products
(Chimucheka & Rungani, 2011:5513) and financial support from the government (Fielden et al., 2000:300).

The qualitative research per article 1 revealed that 46% of the enterprise owners are not aware of government support programmes aimed at assisting the development and growth of small- and micro-enterprises. The latter confirms the findings of Chimucheka and Rungani (2011:5515) who found that the majority of the SMMEs that took part in their study are not aware of government support initiatives.

In terms of the primary objective of this study, it was established that the need for financial literacy among small- and micro-enterprises is very high. Specific areas of weakness to mention for learning more about and becoming more knowledgeable on have been identified as:

- Planning for the enterprises, drawing up business plans, long-term and short-term planning;
- Better record-keeping and drawing up basic financial statements;
- Learning how interest and inflation works;
- Taxation;
- Learning more about costing, calculating profits and net worth; and
- Financial decision-making.

6.5 Recommendations

It was established through the research conducted that the need for financial literacy among small- and micro-enterprise owners is very high. The small- and micro-enterprise owners demonstrated a very low trait in financial literacy questions that were posed via the questionnaire. In addition, through the small- and micro-enterprise owners placing a very high importance on becoming more financially knowledgeable, and to gain exposure to financial education and financial advice, it is evident that the need for financial literacy is substantial. A lack of financial literacy is a major reason behind the high failure rate of small- and micro-enterprises in South Africa and is accompanied with a lack of enterprise management skills (Bornstein & Scarborough, 2007:38-39; Ligthelm, 2008:379; Kgosa, 2013:1; Zwane, 2014:1; Okpara & Wynn, 2007:27).
Recommendations in respect of the primary objective to analyse the need for financial literacy and provide recommendations regarding obtaining financial literacy and enterprise management skills (which are affected by a lack of financial literacy) follow.

Comprehensive recommendations with regard to obtaining financial literacy and enterprise management skills have been made in articles 1 and 2. This also represents a framework to be considered in developing ways of supporting small- and micro-enterprises in terms of financial literacy. A summary of the recommendations are:

On the side of government, recommendations are as follows:

- Many government support programmes, encouraged by the National Small Business Act (1996:1), are in place. Regardless, the recommendation is made that government should venture into providing a support programme that is specifically aimed to improve the financial literacy and basic accounting capabilities of small- and micro-enterprise owners. These programmes should be aimed at addressing the specific needs and areas of weakness in terms of financial literacy.

- The South African Revenue Services (SARS) can grasp the opportunity of developing and implementing financial education strategies that are specifically aimed at improving taxation knowledge and the application thereof for small- and micro-enterprise owners.

- The concern for numeracy capabilities is a problem faced by South Africa as a nation since the country is underperforming in terms of numeracy and mathematics teaching and learning (CDE, 2013:1). This can be improved through the provision of effective training of educators in addition to providing incentives aimed at motivating educators to improve the quality of mathematics teaching.

- The South African government should consider the implementation of a small- and micro-enterprise financial literacy mentorship tier programme where incentives are provided (by way of BEE points, grants, subsidies, etc.) to enterprises that provide mentorship to a smaller company then theirs. A medium-sized enterprise provides financial literacy mentorship to small enterprises, who, in turn, provide mentorship to micro-enterprises.

- On the side of providing financing for the start-up, development and growth of small- and micro-enterprises it is recommended that government should consider an advisory programme for all prospective enterprise owners seeking funding to start an enterprise. This should be regardless of whether funding is granted or not after successful application.
The emphasis of such a programme should be placed on improving the cause(s) of reasons why applications are rejected, which is mainly due to a lack of managerial skills, financial literacy, improper business plans, and so on (please refer to article 2). The programme should be a built on the requirement to be able to qualify for funding. Teaching the prospective enterprise owners should include, but not be limited to, how to save and invest money, how to budget, tips on preparing a long-term strategy for their enterprises, basic-book keeping, how taxation works and how to manage an enterprise. Consequently, even if no funding is granted in the end, the individuals will not walk away empty handed.

Other stakeholders interested in the development and growth of small- and micro-enterprises recommendations are:

- As part of corporate social responsibility initiatives, corporate entities should consider investing in financial education programmes that are aimed at educating small- and micro-enterprise owners to become more financially literate. A focus can also be placed on small- and micro-enterprises in previously disadvantaged communities.

- As a means to secure investments made in small- and micro-enterprises are secure and that they will not lose their capital invested in small- and micro-enterprises due to failure of the enterprises, financial institutions should venture into the provision of financial education and enterprise management programmes to enterprise owners who have received financial support from the institutions. The focus of these programmes can include, but should not be limited to, record-keeping, book-keeping, business plans, cash flow management, how to save and invest, choosing insurance products, etc. The major South African banks have some initiatives in place in terms of assisting banking clients in drawing up financial statements and reports based on cash flow movement, payroll solutions, enterprise development guidance, etc. Most of these services are provided online. Consideration should be given to the possibility of providing free or affordable seminars, workshops and face-to-face consultations in order to provide financial education and enterprise management programmes to small- and micro-enterprise owners.

- Small- and micro-enterprise regulators and policy-makers should consider the development of a framework for financial literacy programmes. This type of manual should contain the specific needs and areas of weakness that should be addressed in terms of financial literacy as well as guidance as to how these should be addressed.
through the financial literacy programmes. Emphasis can be placed on how to administrate business affairs, basic financial concepts and how they affect small- and micro-enterprises, basic accounting, financial reporting tips, how to manage finances and guidance as to how to prepare business plans and develop business strategies.

- The Unemployment Insurance Fund (UIF) can invest in the implementation of an entrepreneurship training programme designed to improve or advance entrepreneurial skills and related knowledge. This could equip unemployed individuals with the necessary skills to start their own enterprises. Content coverage could include designing business plans, basic book-keeping, keeping record of cash flow, taxation, and other administrative tips.

On the side of small- and micro-enterprise owners:

- Small- and micro-enterprise owners should be more proactive in educating themselves on financial literacy and enterprise management matters. They should be on the look-out for opportunities that are presented to them and taking them up, including government support programmes offered. In addition, reading more newspapers, listening to and watching news, browsing news per the internet in order to identify current matters that could potentially affect their enterprises and in order for them to maintain current and up to date.

- Small- and micro-enterprise owners should seek the assistance and advice of accountants, financial advisors and other professionals to address specific needs they have in terms of book-keeping, taxation of their enterprises, wanting to learn how to save and invest better, choosing insurance products, and so on.

Other recommendations:

- More extensive studies need to be conducted in order to establish a uniform definition for small- and micro-enterprises based on the most relevant benchmarks. This definition should be adopted across South African government, legislation, regulatory bodies (including SARS and the NRC) and policy-makers in the country. In determining a uniform definition for small and micro-enterprises, the process of the allocation of resources and support programmes aimed at supporting small- and micro-enterprises would be enhanced, since it would effectively be allocated to the correct enterprises. Continuing
tracking of the number of small- and micro-enterprises should also be done in order to assist in providing relevant information in terms of the growth or deterioration of the number of small- and micro-enterprises within South Africa.

6.6 Concluding remarks

It is important for ordinary individuals to be equipped with financial literacy. It is of even greater significance for small- and micro-enterprise owners to possess financial literacy to sustain operations. Financial literacy should equip small- and micro-enterprise owners with the crucial skills and resilience required to sustain. It also prepares the owners for times in which effective financial decision-making regarding their enterprise finances and the management thereof is crucial. A lack of financial literacy every so often results in ineffective enterprise management and the two combined in due course give rise to other constraints faced by small- and micro-enterprise owners, which include, among others, the constraint to access finance that the owners may require to grow and expand their enterprise.

South Africa has several challenges that need to be confronted and small- and micro-enterprises are contributors of relief for some of these challenges. The South African economy and society are dependent on the contribution of small- and micro-enterprises towards employment, poverty alleviation and economic growth. There is a significant chance of failure for small- and micro-enterprises. Several efforts are necessary to secure the development, growth and survival of small- and micro-enterprises. Additional efforts should come from government to stimulate entrepreneurship in the country. An emphasis should be placed on making entry into the small- and micro-enterprise industry easier through addressing constraints faced at the point of establishing as well as throughout the life of small- and micro-enterprises. This includes addressing the need for financial literacy and others faced by the small- and micro-enterprise owners. Understanding the start-up motives, source of funding, financial literacy and other needs of small- and micro-enterprises should provide a starting point from which strategies could be developed to address constraints in order to ultimately spur on growth in numbers of small- and micro-enterprises in the country.

Despite any support granted by government to SMMEs, small- and micro-enterprises are still faced with numerous challenges and several of their needs remain unaddressed. The results obtained from this study show that there is lack of financial literacy and that the need thereof
among small- and micro-enterprise owners is extremely high. To be more specific, there is a significant need to learn how to do long-term and short-term planning for the enterprises, to become more knowledgeable and understand financial concepts and financial products, to better financial decision-making, improve enterprise administration, learning how to save and invest money, reducing expenditure, budgeting, managing debt, managing cash flow, basic book-keeping, and learning how taxation works and apply to small- and micro-enterprises. Through the establishment of the high need of the small- and micro-enterprise owners to become more knowledgeable and to understand financial concepts, it is derived that the enterprise owners have the willingness to become more financially literate.

6.7 Limitations of the study

With regard to the empirical study conducted, the study took the form in a form of a case study based on one suburb, namely Promosa of Potchefstroom, South Africa. Care should be exercised in the interpretation and generalisation of the results obtained within this study.

6.8 Future research opportunities

Several research opportunities exist in the field of financial literacy of which the following are proposed:

1. There is the opportunity to perform a mass-scale research, similar to this one in nature, into the financial literacy of small- and micro-enterprise owners in South Africa as a country.
2. An investigation of the relationship between the greatest needs of small- and micro-enterprises and financial literacy is another prospective area of investigation.
3. Research can also be conducted on how financial literacy levels affect the performance of small- and micro-enterprises.
4. An investigation of whether existing financial education programmes achieve the objective of improving financial literacy through measuring it against the objective of the financial education programmes.
BIBLIOGRAPHY


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### ANNEXURES

Annexure A – Questionnaire

### SECTION A

Please answer the following on the multi-choice card:

Please answer ‘yes’ or ‘no’ to the following questions:

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>My enterprise is registered for tax purposes</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>My enterprise is registered for VAT purposes</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>My enterprise has a separate building to my residential property</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>My enterprise has a separate address to that of my residential address</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>My enterprise has a business plan</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>My enterprise makes use of debt financing (loan, owe a supplier/institution/municipality)</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>I invest personal funds (external income, savings, retirement funds, etc.) in my enterprise</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>I am the sole owner of my enterprise</td>
<td>1</td>
</tr>
<tr>
<td>9</td>
<td>My enterprise is registered with the Companies and Intellectual Property Registration Office (CIPRO)</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>My enterprise has a separate bank account to my personal bank account</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>It is a practice of my enterprise to issue and file receipts/till slips to clients for products sold/services rendered</td>
<td>1</td>
</tr>
<tr>
<td>12</td>
<td>I keep record or track of the spending (expenses) of my enterprise</td>
<td>1</td>
</tr>
<tr>
<td>13</td>
<td>I know how to draw up basic financial statements (statement of income and expenses/-cash flow/balance sheet)</td>
<td>1</td>
</tr>
<tr>
<td>14</td>
<td>I have received training/advice in basic accounting in the past</td>
<td>1</td>
</tr>
<tr>
<td>15</td>
<td>I have received training/advice on how to manage finances in the past</td>
<td>1</td>
</tr>
</tbody>
</table>
16. I have received advice on enterprise management and business practices in the past

17. I make use or have, in the past, made use of the services of an accountant for purposes of my enterprise

18. I make use or have, in the past, made use of the services of a financial advisor for purposes of my enterprise

19. I make use or have, in the past, made use of the services of a lawyer/attorney for purposes of my enterprise

20. I make use or have, in the past, made use of the services of other professionals for purposes of my enterprise (tax consultant, brokers, etc.)

21. I have investments/deposit-/savings account, other than my enterprise

22. I occasionally/often read up on political/financial/economic/governmental matters and developments

23. I am satisfied with my current financial status/position

### SECTION B

<p>| | | | | |</p>
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>The current prime overdraft rate is 8.5%</td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
</tr>
<tr>
<td>25</td>
<td>The current maximum (marginal) tax rate for individuals is 40%</td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
</tr>
<tr>
<td>26</td>
<td>The current inflation rate is between 9 and 11%</td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
</tr>
<tr>
<td>27</td>
<td>Financial risk is characterised by the type of enterprise you run (e.g. the products, how it is managed, etc.)</td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
</tr>
<tr>
<td>28</td>
<td>Cash is the only way one can settle bills</td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
</tr>
<tr>
<td>29</td>
<td>Monthly insurance premiums paid is an example of an expense that is variable</td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
</tr>
<tr>
<td>30</td>
<td>Financial planning should not be affected by inflation</td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
</tr>
<tr>
<td></td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
<td></td>
</tr>
<tr>
<td>---</td>
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<td>----</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Fixed expenses remain fixed for many years</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>32</td>
<td>The government has in place various support programmes aimed at assisting small enterprises</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>33</td>
<td>The use of credit can help during periods of high inflation</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>34</td>
<td>If the interest rate on your savings account was 1% and the inflation rate is 2%. After one year, you would be able to buy more with the money in your account</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>35</td>
<td>Suppose you had R100 in a savings account and the interest rate was 2% per year. After five years, you would have exactly R102.00 in the account if you left the money to grow</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>36</td>
<td>If you have a debit balance on your bank statement you have a positive balance on your account</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>37</td>
<td>If you feel that you have been mistreated during a loan application you can take the matter to the National Credit Regulator</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>38</td>
<td>The only objective of an enterprise is to make a profit</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>39</td>
<td>If an enterprise has a net worth of R900 000 and the enterprise owes R800 000 in debt, the enterprise has total assets of R170 000</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>40</td>
<td>A business strategy does not include budgeting</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>41</td>
<td>If you sell a loaf of bread for R14.00 to a customer and purchased the loaf of bread for R11.09 from a supplier, the profit that you make on the loaf of bread would be R3.09</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>42</td>
<td>All banks should by law charge the same service fees on bank accounts</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>43</td>
<td>It is safer to invest your money in an equity fund with a bank on which you could earn 7.5% interest p.a. than it would be to invest it in government bonds that would give you a 6.15% return p.a.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Statement</td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
</tr>
<tr>
<td>---</td>
<td>----------------------------------------------------------------------------------------------------</td>
<td>-----</td>
<td>----</td>
<td>-------------</td>
</tr>
<tr>
<td>44</td>
<td>Two investments namely A and B have the same level of risk associated with them. A has a higher level of return than B. Therefore, B is the preferred investment choice</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>45</td>
<td>The government controls all the financial institutions (banks, insurance brokers, investment companies, etc.) within the country</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>46</td>
<td>Leadership is a necessary task of an enterprise manager</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>47</td>
<td>It is possible for an enterprise to make a profit of R100 000 and yet to have a bank balance/cash on hand of R0 or less</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>48</td>
<td>Any enterprise within the country should file a tax return with SARS once every month</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>49</td>
<td>CIPRO is the Companies and Intellectual Property Registration Office where all businesses are registered</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>50</td>
<td>As soon as you start a business, you have to register with SARS and obtain an income tax reference number</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>51</td>
<td>Setting short-term goals would assist your enterprise in controlling expenses over a long period of time</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>52</td>
<td>Maintaining financial records and financial statements should enhance the application for credit (loan) with a financial institute</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>53</td>
<td>School and university are the only places where one can learn financial and enterprise management skills</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>54</td>
<td>If a customer causes a scene at your enterprise after making a purchase, by way of profanity (cursing and swearing at another customer), the correct response in the situation would be to wait for it to blow over, since the customer is always right</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>55</td>
<td>It is safer to do everything yourself, since you are the only individual who would best understand how to get a task done</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>#</td>
<td>Description</td>
<td>YES</td>
<td>NO</td>
<td>Do not know</td>
</tr>
<tr>
<td>-----</td>
<td>------------------------------------------------------------------------------</td>
<td>-----</td>
<td>----</td>
<td>-------------</td>
</tr>
<tr>
<td>56</td>
<td>No one can teach another individual how to run an enterprise; it is something that simply comes naturally</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

**SECTION C**

Choose the option that best reflects your opinion about the importance of learning more about the following:

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>57</td>
<td>Insurance and choosing insurance for your enterprise</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>58</td>
<td>How taxation works</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>59</td>
<td>Basic book-keeping (accounting)</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>60</td>
<td>How to deal with banks or other financial services providers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>61</td>
<td>How to broaden your knowledge on personal finance (even corporate finance)</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>62</td>
<td>How to save money</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>63</td>
<td>How to invest money</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>64</td>
<td>How to plan for the long-term financial future of your enterprise</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>65</td>
<td>How to budget for daily/weekly/monthly/annual finances of your enterprise</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>66</td>
<td>Managing your enterprise</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>67</td>
<td>Ways to reduce the spending within your enterprise</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>68</td>
<td>Managing enterprise cash flow</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>69</td>
<td>Which financial records (invoices, receipts, bank statements, etc.) to keep and how to keep it</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Q</td>
<td>Description</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
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<td>----</td>
<td>----------------------------------------------------------------------------</td>
<td>---</td>
<td>---</td>
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<td>---</td>
</tr>
<tr>
<td>70</td>
<td>Managing debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>71</td>
<td>The basics of the economy (inflation, interest, growth, etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SECTION D**

Please supply your own response to the following questions:

72 My gender is (male/female):

73 My mother tongue is:

74 My age is:

75 Are you in an employment position outside of your enterprise (Yes/No)?

76 Were you in an employment position immediately before you started your enterprise (Yes/No)?

77 How many individuals do you employ (full- and/or part time)?

78 What is the estimated annual revenue of your enterprise?

79 How long (in years) have you been trading your enterprise?

80 Provide a rough estimate of the total asset value of your enterprise

81 What was the reason behind starting your own enterprise?

82 How often do you budget for the receipts (income) and spending (expenses) of your enterprise?

E.g. daily/weekly/monthly/annual basis/not at all
<table>
<thead>
<tr>
<th>Question</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>83</td>
<td>Describe the nature (type) of products sold or services rendered by your enterprise:</td>
</tr>
<tr>
<td>84</td>
<td>Where did you get the initial funds to start the enterprise?</td>
</tr>
<tr>
<td>85</td>
<td>What is your current greatest need with regard to your enterprise?</td>
</tr>
</tbody>
</table>
Annexure B – Consent form

CONSENT TO BE A RESEARCH PARTICIPANT

My name is Erica Say, and I am an MCom student at the North-West University conducting research on the need for financial literacy in small- and micro-enterprises in South Africa. I would like to request your consent and participation in this research study, because the participation of owners from small- and micro-enterprises is essential in conducting the research for this study. Your informed consent is an ethical requirement and it ties back to your protection as a human participant in research. The following information is provided about the study, in order for you to make an informed decision about participation.

1. Purpose of the study

The purpose of this study involves the following:

- Analysing the need for financial literacy in small- and micro-enterprises in South Africa;
- which will ultimately assist in establishing recommendations with regard to obtaining financial literacy, as an owner of a small- or micro-enterprise;
- which is aimed at contributing towards establishing proposals aimed to assist the sustainability/survival of small- and micro-enterprises within the country.

Procedure

The questionnaire has been presented to you in person for completion and return within a reasonable timeframe, for your comfort, from the time of receipt of the questionnaire. Should you agree to participate in this study, it will be expected of you to complete the questionnaire as sincerely and honestly as is allowed by your ability; in addition, it will also be expected of you to return the completed questionnaire to Erica Say.

Completing the questionnaire may take approximately 20 to 30 minutes of your time. In order to ensure your anonymity, please do not write your name on the questionnaire or attached documents. In order to enhance the aforementioned, a sequential number will be allocated to each participant in order to keep track of the number of individuals who participate in this study.
Research team

Erica Say
Professor Jaco Fouché

2. Risks/discomfort

The risk almost always exists that individuals might experience some discomfort in research that requires individuals to disclose information pertaining to personal matters (in this case information about your enterprise and the manner that you steer it, which will be used to analyse financial literacy needs). Even though the responses from your participation will be documented, analysed, interpreted and presented, you may take assurance that your name will never be revealed and the data obtained from you will be handled with utmost confidentiality. No individual identification triggers will be used in any publications that will be issued for purposes of this study and only the team of researchers will work with the information that you disclose.

3. Remuneration

You will receive no payment for your participation, as your participation will be considered a voluntary act that will be embraced with gratitude.

4. Questions and uncertainty

Erica Say will remain present while you complete the questionnaire; therefore, you are welcome to any questions regarding any uncertainty or clarification needed to complete the document.

5. Feedback of findings

Should you require feedback from the study, please submit your postal/email address here.
CONSENT FORM

PARTICIPATION IN THIS RESEARCH IS VOLUNTARY.

You are free to decline to take part in this study, or to withdraw at any point even if you had already signed the form to give consent to participate, without any consequences.

Should you willingly decide to participate, you are requested to sign below:
I ___________________________________________________________________________ hereby voluntarily grant my consent to participate in the above-mentioned study. I am not pressured in any way to participate and I understand that I may withdraw at any time, should I feel uncomfortable during the study. I also understand that my name will not be disclosed to any party who is not part of the research team and that the information obtained will be kept confidential and not linked to my name at any point. I also understand the content in the summary provided of the research study and should I feel the urge to discuss matters relating to the study, someone will be available to assist.

_______________________                           ____________________________
Date        Signature of the participant

_________________________________
Signature of individual obtaining consent
Dear Ms. Say,

Thank you for your submission. Before I can process your manuscript, please complete the submission process by paying the submission fee. I have attached an invoice for your convenience. Kindly use the reference number **IBER-8464** in all future correspondence. Please let me know if you have any questions.

Kind regards,

*Stephanie*

~~~~~~~~~~~~~~~~~~~~~~~~
Stephanie Clute-Hoffman
The Clute Institute
Director of Operations & Publishing Manager
T: **303-904-4750**
Facebook
Twitter
Dear Mrs. Say,

Your manuscript entitled "Analysing the needs of small- and micro-enterprise owners: A South African suburb case study" has been successfully submitted online and is presently being given full consideration for publication in the Journal of Entrepreneurship in Emerging Economies.

Your manuscript ID is JEEE-11-2016-0047.

Please mention the above manuscript ID in all future correspondence or when calling the office for questions. If there are any changes in your street address or e-mail address, please log in to ScholarOne Manuscripts at https://mc.manuscriptcentral.com/jeee and edit your user information as appropriate.

You can also view the status of your manuscript at any time by checking your Author Centre after logging in to https://mc.manuscriptcentral.com/jeee.

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Thank you for submitting your manuscript to the Journal of Entrepreneurship in Emerging Economies.

Yours sincerely,
Journal of Entrepreneurship in Emerging Economies Editorial Office
Annexure D.1 – Author guidelines: International business & economics research journal (IBER)

Please submit your manuscript in Microsoft Word/Apple Pages or a compatible format. Text should be formatted for letter size paper (8.5 x 11 inches) single-spaced at 10 points, Times New Roman, with one inch margins, left justified, and single-column. We follow American Psychological Association (APA) guidelines.

Structure of the manuscript
Title page (containing the title of the manuscript, author contact information, and a short auto-biography for each author)
Title
Abstract
Keywords
Introduction
Body of manuscript
Tables, figures, etc. placed where they belong
Conclusion
Acknowledgments (if applicable)
References (American Psychological Association style)
Appendices (if applicable)

Title
The title page should contain the manuscript title and each author name, affiliation, mailing address, and email address with the contact author indicated. The title page should also contain a short auto-biography of no more than 100 words for each author.

Title
The title should be concise, descriptive, and contain the keywords or key phrases. Search engines assume that the title contains all of the important words that describe the topic of the manuscript.

Acronyms
The use of acronyms should be avoided in the title and keywords unless widely recognized and understood.
Abstract
Abstracts should not exceed 250 words. The abstract should contain all the keywords and key phrases at least once and more than once if necessary. Search engines rank manuscripts higher if the keyword or key phrase being searched appears more often in the abstract. However, pointless repetition may result in the page being rejected by a search engine. Since most researchers read an abstract before reading the manuscript, abstracts must be written very well.

Keywords
Select 3 or 4 keywords or key phrases that you would give a search engine if you were searching for your manuscript. Avoid the use of general and plural terms, abbreviations, and non-descript words such as and, of, or, the, and so on.
When selecting keywords, please keep in mind how search engines operate. A search on the key phrase “women’s health” does not yield the same result as separate searches on the words “women’s” and “health”. The ordering of keywords within a key phase is also important if quotation marks are used because you are searching for words in a particular order. For example, a search for “women’s health” is not the same as “health women’s”.
Clute Institute journal manuscripts are downloaded an average of 120,000 times a month. Approximately 70% of these downloads come from Google searches, so the proper use of keywords and key phrases is important. Many universities use journal article citation analysis to evaluate the importance of faculty research. Hence, being quoted by other authors is important.

Headings
Four levels of headings are allowed. The first level should be BOLD ALL CAPS, second level Bold, third level Italics, and fourth Underlined.

Tables & Figures
Use the Microsoft Word table function to create tables, not spreadsheets. Tables and figures should be located in the text and numbered sequentially using Arabic numerals, i.e., Table 1 and Figure 1. We print our journals in black and white; please take this into consideration when using colour.

Abbreviations
Abbreviations should be defined at first mention and used consistently thereafter.
Footnotes
Bottom of the page footnotes are preferred to end of the manuscript endnotes.

References
References should be arranged alphabetically and follow American Psychological Association (APA) style. References should not be inserted as footnotes. References in the text should include name and year. For example: “According to Bangs (2012)…”

In print journal article citation:

Online journal article citation:

Book citation:
Annexure D.2 – Author guidelines: Journal of Entrepreneurship in Emerging Economies

Please prepare your manuscript before submission, using the following guidelines:

**Format**
Article files should be provided in Microsoft Word format. LaTeX files can be used if an accompanying PDF document is provided. PDF as a sole file type is not accepted, a PDF must be accompanied by the source file. Acceptable figure file types are listed further below.

**Article Length**
Articles should be between 9000 and 10000 words in length. This includes all text including references and appendices. Please allow 280 words for each figure or table.

**Article Title**
A title of not more than eight words should be provided.

**Author details**
All contributing authors’ names should be added to the ScholarOne submission, and their names arranged in the correct order for publication.
- Correct email addresses should be supplied for each author in their separate author accounts
- The full name of each author must be present in their author account in the exact format they should appear for publication, including or excluding any middle names or initials as required
- The affiliation of each contributing author should be correct in their individual author account. The affiliation listed should be where they were based at the time that the research for the paper was conducted

**Structured Abstract**
Authors must supply a structured abstract in their submission, set out under 4-7 sub-headings (see our "How to... write an abstract" guide for practical help and guidance):
- Purpose (mandatory)
- Design/methodology/approach (mandatory)
- Findings (mandatory)
• Research limitations/implications (if applicable)
• Practical implications (if applicable)
• Social implications (if applicable)
• Originality/value (mandatory)

Maximum is 250 words in total (including keywords and article classification, see below).

Authors should avoid the use of personal pronouns within the structured abstract and body of the paper (e.g. "this paper investigates..." is correct, "I investigate..." is incorrect).

Keywords
Authors should provide appropriate and short keywords in the ScholarOne submission that encapsulate the principal topics of the paper (see the How to... ensure your article is highly downloaded guide for practical help and guidance on choosing search-engine friendly keywords). The maximum number of keywords is 12.

Whilst Emerald will endeavour to use submitted keywords in the published version, all keywords are subject to approval by Emerald’s in house editorial team and may be replaced by a matching term to ensure consistency.

Article Classification
Authors must categorize their paper as part of the ScholarOne submission process. The category which most closely describes their paper should be selected from the list below.

Research paper. This category covers papers which report on any type of research undertaken by the author(s). The research may involve the construction or testing of a model or framework, action research, testing of data, market research or surveys, empirical, scientific or clinical research.

Viewpoint. Any paper, where content is dependent on the author’s opinion and interpretation, should be included in this category; this also includes journalistic pieces.

Technical paper. Describes and evaluates technical products, processes or services.

Conceptual paper. These papers will not be based on research but will develop hypotheses.
The papers are likely to be discursive and will cover philosophical discussions and comparative studies of others' work and thinking.

**Case study.** Case studies describe actual interventions or experiences within organizations. They may well be subjective and will not generally report on research. A description of a legal case or a hypothetical case study used as a teaching exercise would also fit into this category.

**Literature review.** It is expected that all types of paper cite any relevant literature so this category should only be used if the main purpose of the paper is to annotate and/or critique the literature in a particular subject area. It may be a selective bibliography providing advice on information sources or it may be comprehensive in that the paper's aim is to cover the main contributors to the development of a topic and explore their different views.

**General review.** This category covers those papers which provide an overview or historical examination of some concept, technique or phenomenon. The papers are likely to be more descriptive or instructional ("how to" papers) than discursive.

**Headings**

Headings must be concise, with a clear indication of the distinction between the hierarchy of headings.

The preferred format is for first level headings to be presented in bold format and subsequent sub-headings to be presented in medium italics.

**Notes/Endnotes**

Notes or Endnotes should be used only if absolutely necessary and must be identified in the text by consecutive numbers, enclosed in square brackets and listed at the end of the article.

**Figures**

All Figures (charts, diagrams, line drawings, web pages/screenshots, and photographic images) should be submitted in electronic form.

All Figures should be of high quality, legible and numbered consecutively with arabic numerals. Graphics may be supplied in colour to facilitate their appearance on the online database.
Figures created in MS Word, MS PowerPoint, MS Excel, Illustrator should be supplied in their native formats. Electronic figures created in other applications should be copied from the origination software and pasted into a blank MS Word document or saved and imported into an MS Word document or alternatively create a .pdf file from the origination software.

Figures which cannot be supplied as above are acceptable in the standard image formats which are: .pdf, .ai, and .eps. If you are unable to supply graphics in these formats then please ensure they are .tif, .jpeg, or .bmp at a resolution of at least 300dpi and at least 10cm wide.

To prepare web pages/screenshots simultaneously press the "Alt" and "Print screen" keys on the keyboard, open a blank Microsoft Word document and simultaneously press "Ctrl" and "V" to paste the image. (Capture all the contents/windows on the computer screen to paste into MS Word, by simultaneously pressing "Ctrl" and "Print screen".) Photographic images should be submitted electronically and of high quality. They should be saved as .tif or .jpeg files at a resolution of at least 300dpi and at least 10cm wide. Digital camera settings should be set at the highest resolution/quality possible.

Tables
Tables should be typed and included in a separate file to the main body of the article. The position of each table should be clearly labelled in the body text of article with corresponding labels being clearly shown in the separate file.

Ensure that any superscripts or asterisks are shown next to the relevant items and have corresponding explanations displayed as footnotes to the table, figure or plate.

References
References to other publications must be in Harvard style and carefully checked for completeness, accuracy and consistency. This is very important in an electronic environment because it enables your readers to exploit the Reference Linking facility on the database and link back to the works you have cited through CrossRef.

You should cite publications in the text: (Adams, 2006) using the first named author's name or (Adams and Brown, 2006) citing either names of two, or (Adams et al., 2006), when there are
three or more authors. At the end of the paper a reference list in alphabetical order should be supplied:

For books
Surname, Initials (year), *Title of Book*, Publisher, Place of publication.

For journals
Surname, Initials (year), "Title of article", *Journal Name*, volume issue, pages.

For working papers
Surname, Initials (year), "Title of article", working paper [number if available], Institution or organization, Place of organization, date.

For newspaper articles (authored)
Surname, Initials (year), "Article title", *Newspaper*, date, pages.

For newspaper articles (non-authored)
*Newspaper* (year), "Article title", date, pages.

For electronic sources
If available online, the full URL should be supplied at the end of the reference, as well as a date that the resource was accessed.

Standalone URLs, i.e. without an author or date, should be included either within parentheses
within the main text, or preferably set as a note (Roman numeral within square brackets within text followed by the full URL address at the end of the paper).