

**DUT DURBAN**  
**UNIVERSITY OF**  
**TECHNOLOGY**

**THE PERCEPTION OF SMALL AND MICRO ENTERPRISES  
IN DURBAN CENTRAL BUSINESS DISTRICT TOWARDS  
FINANCIAL PLANNING**

By

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A dissertation submitted in fulfilment of the requirement for the degree of  
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In the

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## **ABSTRACT**

Poverty reduction and employment creation are some of the top United Nations Millennium Development goals as per the UN Summit of 2000. In both the developed and developing world this can best be achieved through an increase in employers. In the developing world, especially in Africa, small, medium and micro enterprises have been found to be the engine driving employment creation, economic development and poverty reduction. Having mentioned the crucial role, small and micro enterprises play in the economy and wellbeing of the people, their sustenance, success and continuity are of vital importance. Many small and micro businesses are started every year but most of them fail in their infancy due to a number of problems they face, especially lack of financial planning knowledge which is the main reason for embarking on this study.

The main purpose of this study is to investigate the reality of financial planning knowledge among small and micro enterprises, especially from the perspective of owner-managers. An exploration is undertaken to see and understand their perception and attitude towards financial planning processes. The study proposes to find out what financial planning knowledge the owner-manager has tools they are currently employing in their businesses and whether or not, and to what extent do, they implement the advice from financial experts. The research wants to further explore what financial information is collected, recorded, how it is used (or not) to make business decisions and evaluate the enterprise's success or failure in relation to what they know, use and implement as far as financial planning is concerned.

The study used a quantitative technique to collect data and a questionnaire was personally administered to 100 respondents in the Durban CBD including Warwick Triangle and the response rate was 100%. Descriptive and inferential statistics were used to analyse the data.

The overall findings of the study were that most of the small and micro enterprises do not understand what financial planning is or what is involved in financial planning hence their inability to properly plan their finances and manage their businesses accordingly. Some of them were found to be able to calculate a mark-up on their selling price but no records were kept. For those who have a chance to get some advice from a financial expert, do implement the advice given, but in their own way they see suitable for their particular businesses. However, they do not implement the exact advice as given only in the form they see fit for their enterprises.

## **DECLARATION**

This work has not been previously accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

Signed.....

Date.....

### **STATEMENT 1**

This dissertation is being submitted in partial fulfillment of the requirements for the degree of Masters in Business Administration.

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### **STATEMENT 2**

This study represents my original work and has not been submitted in any form to another university. Where use of other people's work is used, duly acknowledgements are made both in the text and in the list of works cited.

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## **DEDICATION**

To my husband, for your unwavering support, enthusiasm and excitement, from idea to inception and for the nights when we burnt the midnight oil together: you have my undying love and gratitude.

And

To my mom and my late dad, for my upbringing and encouragement, I love you and thank you for all you have done. Dad, for instilling the importance of education in me and always wanting me to be the best I can. Wish you were here to witness this. Thank you.

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## DEFINITIONS AND CLARIFICATION OF CONCEPTS

- **Accrual basis** – A “method of recording income and expenses in which each item is reported as earned or incurred without regard to when actual payments are received or made” (Princeton University 2006:1).
- **Assets** – This refers to everything the business owns, both tangibles (equipment, buildings, and cash in the bank) and intangibles (patent rights, brands) (Parker 2008:271).
- **Balance sheet**- This is a financial statement that lists all assets and liabilities of the business at a specific point in time, and shows the business net worth, and provides a snapshot of the business’s financial position at a given point in time (Parker 2008:271).
- **Business** – This refers to “the activity of buying and selling goods and services, or a particular company that does this, or work you do to earn money” (Cambridge University 2011:1).
- **Budget** – Is a financial plan or focus...it consists of a projected income statement and a balance sheet for a forthcoming year. In SME context, a short term budget usually covers the forthcoming year, while long-term budgets extend 3-5 years into the future’ (Parker 2008:271).
- **Business Plan** – Is a documented expression of the facts concerning a business with a forecast of a desired future direction. It is like a roadmap or guidebook concerning where the business wants to go. It is a carefully prepared plan that sets out the direction the business is expected to take, and the tactics that will be used to achieve its goals (Trautmann, 1994:32 and Parker 2008:271).

- **Cash flow statement** – This refers to “a document showing the movement of money into and out of the business...” (Parker 2008:271).
- **Entrepreneur** – Refers to a person who “organises, manages, and assumes the risk of business enterprise” or can be referred to as an “economic agent who perceives market opportunities and assembles the factors of production to exploit them in a firm” (Van Aardt et al 2008:4).
- **Equity** – According to Humphrey (2007:260), equity is the residual interest in the assets of the company after deducting liabilities. It usually represents the capital contributed by the owners or shareholders plus any earnings or reserves that have been retained in the business.
- **Financial Planning** - Is the process of developing a strategy or program to assist in the achievement of at least one financial goal or need (Journal of financial planning 2010:18). It can also be defined as a document that describes a business owner’s expectations about money income and outflow for a period in the future and the expected future financial results (Trautmann, 1994:104).
- **Gross profit** – This is the amount that will be left over after the cost of sales has been deducted from the net sales revenue (Parker 2008:274).
- **Income statement** – This refers to the summary of income and operating expenses for a given period, usually monthly or annually (Parker, 2008:274).
- **Inventory** – Is defined as an asset that is held for sale in the ordinary course of the business, or an asset in form of materials or supplies to be consumed in the production process or in the rendering of services (Service, 2011:212).
- **Micro enterprises** – As defined by Nieman (2006:8) are the “smallest in the small business sector. This class covers the self employed with no

employees up to an enterprise with ten workers” They are found in both formal and informal economies.

- **Net profit** – This is the amount the business has left after all the costs and expenses incurred in doing business have been deducted. It is calculated as follows: turnover less cost of sales less expenses equals net profit (Parker 2008:274).
- **Owner-managers** - Are workers who alone or with other family members hold controlling ownership of the enterprise and have authority to act on the enterprise’s behalf in contract with other organisation and can hire and dismiss employees (OECD Glossary of Statistical Terms, 2003:1).
- **Small Business** – According to the Income tax Act South Africa (2012:1-345), a small business refers to “any close corporation, co-operative or private company (in terms of the Companies Act).” It also refers to a business with an annual gross income not exceeding R14 million (Huxhum and Haupt, 2011:313), whilst the South African National Small Enterprises Act, defines it as “a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy....”(South Africa 2010:2-432).



## **LIST OF ABBREVIATIONS**

ANOVA	-	Analysis of variance
CBD	-	Central Business District
DGP	-	Gross Domestic Product
GSB	-	Graduate School of Business
OECD	-	Organisation of Economic Co-operation and Development
SARS	-	South African Revenue Service
SMEs	-	Small and Medium Enterprises
SPSS	-	Statistical package for Social Sciences
UCT	-	University of Cape Town

## APPENDICES

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## **CHAPTER 1**

### **NATURE, SCOPE AND ORGANISATION OF THE STUDY**

#### **1.1 INTRODUCTION**

The small business sector in any country, under which small and micro enterprises fall, is a very vital part for economical growth. Small businesses account for half of the private Gross Domestic Product (GDP), employ half of the private workforce and are the source of most job creation opportunities in many countries. Their importance to production and job creation makes their sustenance, success and growth fundamental to economic development of any country (Chow and Dunkelberg 2011:214). Consequently, every government should make sure that the small business sector does not fail, but continues to grow. Unfortunately, most of these enterprises cease operation after a few years due to lack of planning in their businesses, especially financial planning (Scarborough 2011:346).

Gitman (2006:114-125) indicates that the main reason for people going into business is financial in nature. For this reason, the owners and management must be well versed in all aspects involving finances, especially financial planning. Gitman (2006:114-125) states that financial planning is a very crucial 'aspect of any business operation as it provides road maps, which guide, coordinate, and control the enterprise's activities to achieve its goals and objectives.' Having highlighted the important role played by small and micro enterprises towards the economic growth of a country, it is even more important that small and micro business owners know, understand and use all financial information available in their businesses for the successful running of their enterprises.

Financial planning is defined as “the process of developing a strategy or programme to assist in the achievement of at least one financial goal or need” (Journal of financial planning, 2011:18). It is concerned with the repositioning of funds to achieve specific goals. Unfortunately, most of the small and micro businesses do not plan their finances; they just trade aimlessly and this is mainly due to their lack of financial planning knowledge (Terblanche, Moeng and Macleod 2011: 99-100).

There are two main aspects of the processes of financial planning. These are cash and profit planning. Cash planning encompasses the preparation of a business’s statement of the planned inflows and outflows of cash (cash budget). Profit planning involves the projected future statements of comprehensive income (income statements) and statement of financial position (balance sheet) (Gitman 2006:114-125).

## **1.2 PROBLEM STATEMENT, TITLE AND HYPOTHESES**

There is a lack of knowledge and understanding of financial planning processes among entrepreneurs. Small and micro enterprises, being the engine driving job creation (Lotz and Marais 2007:693), and main contributors towards the fiscus, need to run their businesses to facilitate continuous operation, success and growth. This research will examine the small and micro enterprises’ perception of financial planning, the knowledge they have and the implementation of financial planning processes. It is envisaged that substantial information about the small and micro businesses’ knowledge of financial planning, practices and implementation will be gathered from this study with a potential of the study being run at a national level in the future. This study will make recommendations to all stakeholders in terms of improving small and micro enterprises, financial practices so that they continue trading; succeed and grow.

To this effect, the following title was deemed appropriate for this research:

**“The Perception of Small and Micro Enterprises in the Durban Central Business District towards Financial Planning”**

To determine the perceptions of small and micro businesses in the Durban Central Business District (CBD) the knowledge, practices and implementation of financial planning will be examined.

The basis of the problem is to establish the small and micro enterprises’ knowledge and practices of financial planning, and to evaluate the implementation of financial planning advice from financial experts.

Based on the title and the problem statement, the variables to be examined will be:

- The existing knowledge of financial planning of small and micro business owner-managers;
- The financial planning practices employed by small and micro businesses owner-managers; and
- The implementation of financial planning advice from financial experts by small and micro business owner-managers.

Based on these variables, the hypotheses for this problem statement and pilot study are:-

Ho: There is no relationship between the knowledge and practices the small and micro business owner-managers have about financial planning and the implementation of financial planning processes in Durban Central Business District, and

Ha: There is a relationship between the knowledge and practices the small and micro business owner-managers have about financial planning and the implementation of financial planning processes in Durban Central Business District.

### **1.3 THE REASON FOR THE STUDY**

Substantial research work has been undertaken on several aspects affecting small, medium and micro enterprises but very little on financial planning, hence, the reason for embarking on this study. The main reason for carrying out this study is to investigate the knowledge that small and micro enterprises' owner-managers in the Durban CBD have about financial planning. This aspect forms the core of any business plan and it is imperative that business owners know and understand it. Failure to do so risks cessation of business operations at the end (Macleod 2004:107).

Small and micro business owners consider financial planning as unimportant, as they can always hire an accountant to do it for them. It is important that the owner-manager learns and understands the financial statements as they serve to bridge the business owner's business idea and what that idea really means in terms of Rands and cents (Bygrave and Zacharakis 2008:309). This research will provide an insight to small and micro entrepreneurs about the importance of financial planning knowledge, financial planning practices and the implementation enabling them to analyse financials on their own.

On the same theme, Anonymous (2007:A15), mentions that Kaye from Ernst & Young's agrees with the notion that most entrepreneurs who achieve some success in the early days of their operation, get there through "street smarts and gut feel... so, they really haven't had to worry about formal business-planning processes, but what made them successful may not guarantee future success. One cannot rely on gut feeling" to run a business successfully. One has to plan the business and its financials to know where the business is going and how it's going to achieve its goals. Otherwise, the business is at a risk for failure.

This study intends to provide a more detailed analysis of patterns and practices followed by small and micro enterprises in planning their financials. Specifically, the study attempts to investigate which financial planning strategies small and micro enterprises practice, which tasks they outsource and why, as well as the costs of outsourcing compared to in-house financial statements preparation.

Bygrave and Zacharakis (2008:310) identified that small and micro business owners underestimate costs they incur and portray their businesses as if they are making a profit while, in actual fact, they are running at a loss and this leads to a cash deficit resulting in failure.

From this research, possible solutions may be found to assist small and micro enterprises owners-managers in improving the ways they handle their financials to enable them to continue their business, grow and succeed.

#### **1.4 AIMS AND OBJECTIVES OF THIS STUDY**

The overall aim of the study is to investigate the perceptions of small and micro enterprises towards financial planning and its implementation. The following aims and objectives will be examined:

- To assess the level of knowledge and financial literacy among small and micro enterprise' owners;
- To establish and evaluate small and micro enterprises' financial planning practices and literacy;
- To identify the nature and financial planning tools used by small and micro enterprises, and
- To evaluate the implementation of financial planning advice by small and micro enterprises gained from financial experts.

Having covered the situation of small and micro enterprises concerning their financial planning knowledge, practice and implementation, as well as the outline of the study purpose and objectives, the following sections discuss the literature study, research methodology and chapter summaries.

## **1.5 LITERATURE STUDY**

The primary source of information to complete the conceptual framework on areas of this study for chapter three was driven from the relevant literature review covered in chapter two. Critical considerations were made before the researcher could make decisions on the suitability of the research bearing in mind the aim and objectives of the study. Various articles on financial planning related issues, as expanded in the literature review, were used to collect data.

## **1.6 RESEARCH METHODOLOGY**

This part of the dissertation covers the sampling and data collection methods, as well as data analysis techniques in chapter three. The empirical research and the population sample are highlighted as follows:

### **1.6.1 Empirical research and study population**

This study is quantitative in nature and questionnaires were administered amongst small and micro enterprises in the Durban CBD. Empirical data was based on several small and micro enterprises and their willingness to participate in the process dictated the sampling plan. One hundred small and micro enterprises were identified within the CBD of Durban so that the results can be applied to a wider population.

The research method used is structured as follows:



- **Research instrument:** A questionnaire was devised to draw data from small and micro enterprises about their knowledge, practices and implementation of financial planning.
- **Pilot – testing:** Preliminary questionnaires were administered to 10 small and micro enterprises owner-managers, as well as the statistician. This was done to ensure the validity and reliability of the instrument to ensure that the questionnaire elicited the required data to be collected.
- **Sampling technique:** Considering the size of the sampling frame for this study, which was (2000), systematic sampling was used to select the sample that completed the questionnaires. One hundred and forty questionnaires were completed and collected.
- **Questionnaire administration:** A letter of informed consent, intended to ensure that respondents are well informed of the nature and purpose of the research, accompanied the questionnaires. The questionnaires were administered by the researcher all 100 questionnaires were collected.
- **Statistical testing:** The necessary statistical analyses were conducted and relevant tests and interpretation of results were performed on the data.

## 1.7 STRUCTURE OF THE DISSERTATION

The rest of this study is outlined as follows:

### Chapter 2: Literature review

This chapter contains the assessment of the literature and its relevance to the study. It illuminates financial planning knowledge possessed by small and

micro enterprises, what financial techniques they are currently employing in their businesses and the implementation of financial planning knowledge acquired from financial experts, as well as ways of improving small and micro enterprises situation in the financial planning section.

### **Chapter 3: Research methodology**

The methodology employed in this study was determined through:

- Finding an appropriate research design;
- Constructing a research instrument;
- Choosing a data collection procedure;
- Examining limitations in order to take steps to avoid bias;
- Determining the research location;
- Carrying out a pilot test;
- Administering the questionnaire and;
- Subjecting the data to statistical testing.

### **Chapter 4: Data analysis and interpretation of results**

Analysis and interpretation of results are outlined in this chapter.

### **Chapter 5: Summary, recommendations and conclusions**

This chapter presents the summary, conclusions and recommendations based on the results drawn from the study and data interpretation in chapter four as well as achievements of the research objectives.

## **1.8 CONCLUSION**

This chapter covered the introduction of the study. It examined the need for small and micro enterprises owner-managers to acquire knowledge and

expertise about financial planning to enable able to read and understand their financial statements. The need for business owner-managers to be able to deduce information from financial planning for their use and to build and maintain successful businesses was also outlined. The definition and clarification of concepts, the awareness of the problem, contribution, purpose and objectives of the study, as well as an outline of research methodology and the overview of the chapters were introduced in this chapter.

The following chapter deals with relevant and applicable literature to this study and its application. The literature will be examined by looking at the variables of the existing knowledge of financial planning that small and micro enterprises have; financial planning practices they employ and their implementation of Financial Planning advice from financial experts.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

The previous chapter discussed the important role played by the small business sector in any economy, such as employment creation, poverty alleviation and contribution to the GDP. It espoused the need for small and micro enterprises owner-managers to acquire Financial Planning knowledge and expertise, to enable them to read and understand financial statements, extract information from these and make decisions which are beneficial to the success of their businesses.

This chapter begins with a broad outline of the existing knowledge among small and micro enterprises owner-managers. This entails what they currently know about financial planning. The entities in question have their own current practices when it comes to managing their finances, the way they handle their financials and the financial planning tools they are currently employing. These will be explored in this chapter. The implementation of financial planning (that is, putting to use the knowledge) or advice gained from financial experts will conclude this chapter. The following three aspects are incorporated in the study:

- Existing financial planning knowledge among small and micro enterprises owner-managers;
- Financial Planning practices employed by small and micro businesses owner-managers; and
- The implementation of financial planning advice from the financial experts by small and micro enterprises owner-managers.

The independent and dependent variables will be examined in detail in this chapter, and the foundation of the existing knowledge or framework of these variables upon which this study is based is explored.

### **2.1.1 Primary functions of businesses**

Majority of business entities in South Africa consist of the following primary functions, viz; Production, Human Resources, Marketing, Sales, Supply Chain, Governance, Technology and Finance (Bottger 2008: 1). In this study, the Finance function will be examined.

### **2.1.2 Definition of small and micro businesses**

Before working on the main aspects of the study, there is need to clarify the definitions of the sampling framework used, that is, small business and micro business. The definition of small and micro business is situational, depending on countries, region or economic sector. According to Dlodlo and Dhurup (2010:165), a small enterprise comprises of 5 to 100 employees. Nieman, Hough and Nieuwenhuizen (2008:28) define a micro enterprise as the smallest in the small business sector. It employs zero to nine workers and can be found in both formal and informal economies. Dlodlo and Dhurup (2010:165) indicate that these enterprises are mostly independently owned, operated, and owner managed.

Ladzani and Netswera (2009:227), define a small enterprise as one which employs less than fifty people and a micro enterprise as one which employs less than five people. This definition will be adopted throughout this study as it relates to a South African classification of businesses. Table 2.1 shows the definitions applicable to this study. The size and class of business can be classified by using three characteristics (Ladzani and Netswera 2009:227).

These are total full-time equivalent of paid employees; total annual turnover and total gross asset value. These defining criteria are presented in Table 2.1.

**Table2. 1: Breakdown of businesses according to size**

<b>SIZE OR CLASS</b>	<b>TOTAL FULL-TIME EQUIVALENT OF PAID EMPLOYEES</b>	<b>TOTAL ANNUAL TURNOVER</b>	<b>TOTAL GROSS ASSET VALUE</b>
<b>MEDIUM</b>	< 200	< R25 million	<R 8 million
<b>SMALL</b>	< 50	< R10 million	< R3 million
<b>VERY SMALL</b>	< 10	< R2,5 million	< R0,70 million
<b>MICRO</b>	< 5	< R0,50 million	< R0,10 million

Source: Ladzani and Netswera (2009:227)

On the same note, the South African government (South Africa 2010) classifies the medium, small, very small and micro businesses according to different sectors. Table 2.2 shows the classification as per the National Small Business Act, 1996.

**Table 2.2: South African government classification of small, medium and micro enterprises**

Column 1	Column 2	Column 3	Column 4	Column 5
Sector or sub-sector in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees Less than	Total annual turnover Less than	Total gross asset value (fixed property excluded) Less than
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Community, Social and Personal Services	Medium	100	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

Source: (South Africa 1996:13-14)

## 2.2 FINANCIAL PLANNING KNOWLEDGE

Financial planning, which is the independent variable in this study, is a road map for guiding, coordinating, and controlling the entity's activities to achieve its goals, and is a very important aspect of any business's operations. There are two main aspects of financial planning which are inherent in successful entities. These are projections of cash and profit in future periods (Gitman 2006: 114-125).

### **2.2.1 Cash and profit planning**

Cash planning involves preparation of the enterprise's cash budget. This is a statement of the business's proposed inflows and outflows of cash. This statement is used for the estimation of cash requirements, especially cash surplus and shortages (Gitman 2006:114-125).

Profit planning involves preparation of pro forma statements which are projected statements of comprehensive income and statements of financial position, previously known as income statements and balance sheets, respectively. It (profit planning) relies on the accrual concept for projection of the enterprise's "profit and overall financial position." Profit planning is of great importance to shareholders; owners; creditors and management of the entity (Gitman 2006:114-125).

Both cash and financial planning are crucial for internal financial planning and are also needed by current and prospective money lenders when they take decisions (Gitman 2009:117,120,128). These two tools are necessary to business owner-managers as they assist them in planning and monitoring the health of their enterprises (Terblanche, Moeng and Macleod 2011:96).

### **2.2.2 Significance of small businesses**

Having expressed the importance of financial planning in the success of any business, small and micro enterprises, being the engine driving world economy, need to have a strong financial plan in order to survive and succeed (Mariotti 2006:6).

Small and micro enterprise economies are widely viewed as a crucial contributor to employment creation, poverty alleviation and general development in any country (Lotz and Marais 2007:693). It is, therefore,



imperative that the entrepreneur is knowledgeable about all functional areas of business in order to survive and succeed in the long-run. Failure to acquire knowledge may lead to business failure (Naidoo and Urban 2010:237).

Researchers from various disciplines agree about the importance of small and micro businesses' contribution to economic growth and personal wealth (Unger, Keith, Hilling, Gielnik and Frese 2009:21). The small business sector, as a major source of employment and income, is argued to be even more important to the economies in developing countries such as South Africa than to the developed world. It is believed that about 25% of employment outside agriculture depends on this sector for their livelihood (Unger et al. 2009:21). These facts are further corroborated by Yahya and Susela (2011b:83) who claim that more than 63% of total Iranian manpower are employed by the small enterprises sector. They further affirmed that small businesses in Iran represent 99.9% of all businesses in the country.

Given the importance of this sector to any country's economy, it is imperative that the owner-managers and employees have a basic level of financial awareness to help the business succeed (Warner 2010:9). In order to monitor business performance, they need to record and keep records of the enterprise.

### **2.2.3 Record keeping**

To reach or achieve profit 'objectives' or goals, the business owner-manager must be well aware of the enterprise's financial position and the changes that take place over time in the business's financial position (Scarborough 2011:346). Macleod and Terblanche (2004:213) support this statement as they emphasised the need for a strong financial base for any business to

succeed. They further state that it is of vital importance that before one can formulate the financial plan, an understanding and use of records must be taken into consideration. Normally all enterprises, of different nature and sizes, ought to have an accounting system (a bookkeeper's chronological list of related debits and credits of a business) (Online financial dictionary 2011:1).

Alattar et al. (2009:82,104) stress that most of the owner-managers of micro enterprises are reluctant to keep written records of their businesses' daily activities mainly because they lack the resources to do so and also because they fear tax consequences if their records are formally written. Alattar et al (2009:82,104) reiterated that the owner-manager of small and micro enterprises should make use of informal financial planning procedures and oral management accounting system where no written records are kept. Some of the small enterprise owner-managers perceive financial planning as opening an opportunity for government to take away their money, so they opt for oral planning rather than keeping records. Alattar et al. (2009:86) claim that this procedure is more common in developing countries than in developed countries.

Some of the owner-managers disregard business written records to the extent that what they know and use for their day-to day running of their enterprises is more important to them than the written records. Most of them were found to be aware of their business activities but no recording or planning was adhered to (Alattar et al., 2009:85).

On the same note, Alattar et al. (2009:85-86) claim that a few small and micro enterprises see the necessity to keep detailed records of their business activities. The researchers go on to say that these small enterprises even keep additional records as the business becomes more complex. They also

state that those enterprises doing well in their business activities are more likely to keep more records and have full knowledge about their businesses.

#### **2.2.4 Value of a financial plan**

A financial plan which assists business owner-managers to run, or to manage their businesses more effectively, as well as help them in “steering their way around the pitfalls that cause failures” is a vital tool in any entity (Gitman 2010:103). It is, therefore, imperative that the owner-manager draws up a logical financial plan as a workable strategy for earning a profit from the beginning. Failure to have this crucial tool will eventually result in a business suffering the ultimate business penalty, that is, ‘failure’ (Scarborough 2011:346).

Bekele and Worku (2008:548) empirically found that about 49% of small businesses cease operation due to lack of financial planning expertise. Financial planning is the heart of a business entity and there is need for it to be understood and implemented accordingly, otherwise business risk failure or cessation.

#### **2.2.5 The level of Financial Planning and outsourcing of financial service**

On the notion of owner-managers financial planning knowledge, many of them have been found to have inadequate management skills, especially in planning. They have been found to be unable to even seek information needed for their businesses’ success (Scase and Goffee 1985 and Rothwell and Beesle 1989, cited in Tim, Sophie and Geoffrey 2009:324).

Abdel (2010:163) found that small business owner-managers have very basic understanding of financial and accounting information. He goes on to say that they have serious problems with financial planning literacy. Most of the small firm owner-managers have been found to have problems in reading financial language and understanding common terms and conventions used in financial reports. One owner was in agreement with this statement when he said "See this, you get lost in all this chartered numbering thing and opening stock, all that, that's very confusing. I don't even look down here when they get into this kind of perforated profit and loss and little brackety things, it's too hard" (Abdel 2010:170).

Yahya and Susela (2011:81-82) state that small businesses lack necessary resources and skills required to carry out accounting functions within the organisation. They went on to claim that small and micro business owner-managers lack the expertise and specialised knowledge that professional accountants have as the main reasons they outsource accounting functions and do not plan their financials. They added that empirical studies found that outsourcing of accounting services is mainly prevalent in developed economies where outsourcing of accounting services is examined by government authorities.

A study undertaken by Tushabonwe-Kazooba (cited in Akande 2011:374), revealed that small businesses fail mainly due to lack of basic business management experience as well as poor business record keeping. A number of researchers also revealed that small business owner-managers' inexperience in the field of business, inadequate business skills and lack of planning skills are the major contributors to their failure in their enterprises (Akande 2011:374). Akwani (2007:374) also observed a high rate of small enterprises' failure in their infancy when he stated that most of the small businesses rarely survived their first birthday in business.

In as much as the small and micro business owner-managers know and understand the importance of financial planning, many of them tend to rely heavily on experts like accountants for all their financial planning processes. They never want to learn to do it themselves. In actual fact, they do not know how to do their financial planning and cannot even read the financial statements (Terblanche, Moeng and Macleod 2011:99). On the same theme, Yahya and Susela (2011:183) also support the notion that most of small businesses they examined rely on their external accountants as a business advisor.

In line with the above conception of small and micro enterprises, a recent study carried out by the University of Cape Town (UCT) Graduate School of Business (GSB) revealed that simple and basic financial management habits like regular follow up on debtors has a great impact on the survival and prosperity of an enterprise. Unfortunately, many small and micro business owner-managers do not bother empowering themselves with financial planning knowledge skills. This is mainly due to the fact that many people, who become entrepreneurs, are only technically trained but not financially (Scheepers 2006:94-95).

#### **2.2.6 Understanding of Financial Statements and financial language**

Many small business owner-managers are able to go through their business plan successfully and they understand the concept and have a good sense of the business model but, when it comes to numbers, they are intimidated. They do not understand the financial statements at all. Bygrave and Zacharakis (2008:309) found that most of them have panic attacks when asked to put together simple pro-forma financials or read an income statement. Some think that it is not important for them to know or understand their financials since an accountant will do it for them, but the rewards of

gaining the financials' insight are often the difference between success and failure of the businesses (Bygrave and Zacharakis 2008:309).

Many small and micro businesses invest considerable time in budgeting but very few do it successfully. They really need some training and advice in the financial planning process (Warner 2010:9). The fact that most of the small and micro enterprises start-ups are financed primarily by personal savings, with family and friends coming in the second place of start-up, financial source might be a contributory factor to the small and micro businesses' reluctance to learn more about financial planning and keeping business records. They do not see the need or use of the documents because most of them do not believe in debts or borrowing (Longenecker 2006:223).

Following from the theme above, it has been recognised that owner-managers of small businesses choose not to grow or 'cap' their growth, a decision usually taken by the owner-managers mainly to restrict expansion because they feel that it is risky and may become difficult to manage (Hanks and McMahon 1993, 1998, as quoted in Tim et al. 2009:322). They went on to say that, although some small enterprises do grow strongly in their infant stages' only a few of them sustain the growth to reach and experience the full business lifecycle and become big organisations.

Some of the small and micro business owner-managers have been found to be so unknowledgeable about financial planning to the extent that even if an accountant or a financial expert was to approach them to offer them advice or assistance, it would not be of any help as they would not even know what to ask. Some were said to be unaware of the financial reports that should be produced. This finding is support by Abdel's (2010:173-4) study where he commented on a few owner-managers who benefited from their accountants' advice and, for some, this was not possible as they had "no idea what the

accountant was talking about”. They were either “too embarrassed” to ask for assistance or did not “know the questions to ask”.

Contrary to most of the owner-managers interviewed in Abdel’s (2010:171-2) research, thirty percent of those who took part in the same research do practice financial planning, though it is to a lesser extent. They indicated that they analysed their financial reports and were able to take decisions based on them. About ten percent revealed that their financial skills have improved over the years and that they are even able to generate different types of budgets such as turnover wages or telephone (Abdel 2010:171-2).

Furthermore John Orford, a University of Cape Town Graduate School of Business (GSB) researcher (as cited in Scheepers 2006:94-95), claimed that small business failure is mainly due to lack of administrative and financial management and not finance itself. He went on to say that “unless priority is given to addressing underlying....” financial management weaknesses, the government policies which are focused on assisting small and micro businesses to secure extra finance may not work. He reiterated that small and micro business owner-managers need training in business administration and financial management.

#### **2.2.7 Business expansion**

Despite numerous problems faced by small and micro enterprises, a number of them have expressed a willingness to expand their businesses. The National Federation of Independent Business Research Foundation of the United States of America found that about 72% of small business owner-managers would like to expand their businesses within five years (Amanda, 2011:1).

Amanda (2011:1) further states that, as much as small businesses want to expand their enterprises, they are impeded by poor sales, lack of orderly and predictable business regulations, as well as the absence of skilled labour and trouble in securing finance.

### **2.3 FINANCIAL PLANNING TOOLS EMPLOYED/ PRACTISED**

The independent variable of this study is the existing knowledge of financial planning among small and micro enterprises. The dependent variable is the implementation of financial planning knowledge.

Like any other organisation, these enterprises have their own way of doing things. They have their own practices in managing their finances. Whether the methods they follow are correct or working is debatable. These enterprises' practices are elaborated at length in the following sections:

#### **2.3.1 Financial Planning procedures**

Alattar et al. (2009:102-103), stated that there is lack of formal procedures within small and micro enterprises when it comes to financial planning and profit planning. Very little is written down. These enterprises rely on oral methods for financial and profit planning as well as running and tracing the activities of their businesses. Perren et al. (1999), as cited in Alattar et al. (2009:103), share the same sentiments when they concluded that most of the small enterprises owner-managers employ informal procedures of information acquisition, control and running of their business activities. Greenbank (1998), as cited in Alattar et al. (2009:103), confirmed the same findings that micro enterprises owner-managers make decisions in an informal way and that their decision making is influenced by a complex



combination of different factors related to personal-abilities; perception and beliefs; social- experience and economic – financial situation contexts.

This finding is in line with that of O'Dwyer and Ryan (1999, 2000) as well as Nayak and Greenfield's (1995) findings (cited in Alattar et al. 2009:85). They claimed that micro enterprise owner-managers see planning as a waste of their time. They prefer to monitor their enterprises activities mentally on a daily basis.

Tim et al. (2009:324) revealed that most of the small firms do not even have written business plans and they lack business planning skills. Gibscus and Kemp (2003 cited in Tim et al. 2009:324), added to the same notion when they discovered that small Dutch firms do not keep formal written business plans or strategies. They further stated that although these small businesses do not keep formal business plans, they do engage in some form of planning for their businesses in some informal ways which suit their enterprises.

Small and micro enterprises have been found to have a less formal business culture as well as structures (Fassin and Jenkins 2008, 2004 cited in Stubblefield, Martin and Charles 2010:183). Earl, Meers and Robertson (2006, 2007 cited in Stubblefield et al. 2010:183) went on to say that many researchers revealed that small enterprises do not use formal strategy tools and, even those that do plan, do not put their documented plans into action.

### **2.3.2 Analysis and usage of financial information**

It has been asserted that the most startling distinction between successful and discontinued small and micro enterprise lies in their approach to and the usage of the financial information available. Abdel (2010:167) found that small enterprises in the United States of America have very limited use of financial information. He claims that 81% of the small enterprises studied

produced summary reports of their financials, but only 11% made use of the information for decision making in their businesses, despite 61% of them perceiving financial planning as important and that it can be used for planning and decision making.

On the same theme, Abdel (2010:167-70) asserts that cash flows, ratio and profitability analyses are effective measures of business success in small and micro firms but research by DeThomas and Fredenberger (1985 cited in Abdel 2010:167) found that only 2% of small and micro firms performed or carried out these analyses. Abdel (2010:167) adds that owner-managers of small firms studied in Victoria area in Australia, do not produce or use financial or accounting reports. This is attributed primarily to the fact that they do not understand financial information which is supported by one owner who said “the information is only useful if you can understand it. I find the financial reports have too much detail generally”.

Parker (2008:102) noted that many small and micro business owner-managers shy away from analysing or even tracking their business performances under the notion that ‘it’s too difficult’. He went on to claim that they only check and analyse their businesses’ performance once or twice a year through their accountants. Unfortunately, this practice is detrimental to their business successes as there is no use having to be told that your business ran at a loss three to six months after your financial year end. Moreover, the information supplied by the accountant is historical, it might be too late to change anything and ultimately their businesses end up suffering the business penalty: failure (Scarborough 2011:28).

### **2.3.3 Business performance reporting systems**

Parker (2008:102-107) noted that small and micro enterprises need to have a simple yet very effective reporting system that allows them to monitor their daily, weekly or monthly business performance. They need to draw up simple spreadsheets which will assist them in knowing the following main questions in running a business successfully viz:

- How much was paid for the product or service?
- How much cost was incurred for handling, storage, processing and delivery?
- How many units were sold during any given period, a day, week or month?
- What was the total sales revenue?
- What were the overheads?
- What was the net profit percentage?

He goes on to suggest that they need to do simple spreadsheets which will look more or less like the following Tables 2.3; 2.4; 2.5 and 2.6 depending on the needs of a given business:

### Sales forecast

Table 2.3: Forecast of sales

MILLION ENTERPRISE : SALES FORECAST							
January 2012:							
Day	Product category 1			Product category 2			Total sales in Rands
	Units	Price	Total	Units	Price	Total	
1							
2							
3							
4							
<b>Totals</b>							<b>A</b>

Source: Adapted from Parker (2008:105)

### Expense forecast

Table 2.4: Expense forecast

MILLION ENTERPRISE : EXPENSE FORECAST			
January:			
Accounting fees		Salaries	
Insurances		Owner's drawings	
Bank-interest payments		Rental – premises	
		<b>Total Expenses</b>	<b>B</b>

Source: Adapted from Parker (2008:105)

Eventually, the projected profit and loss account will appear as follows:

**Table 2.5: Projected profit and loss account**

<b>MILLION ENTERPRISE : PROJECTED PROFIT AND LOSS</b>			
<b>DETAILS</b>	<b>JANUARY 2012</b>		
Total sales	R (total A from figure 1)		
Less cost of sales	R( Price of buying or making an item that is sold) (Dictionary of Finance and Investment Terms, 2007: 1)		
Gross profit	R(sales less cost of sales)		
Less expenses	R (total B from figure 2)		
Net profit before tax	R (gross profit less expenses)		

Source: Adapted from Parker (2008:106)

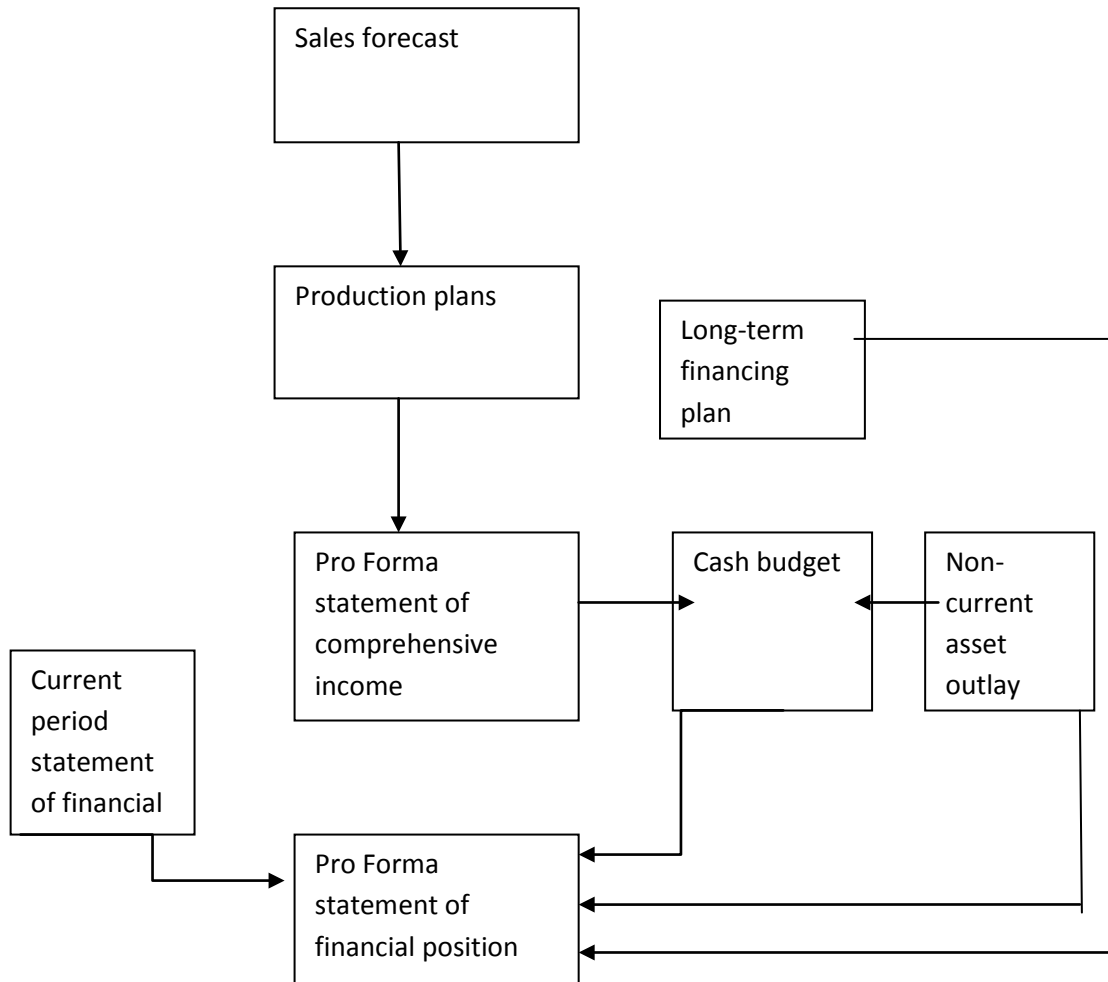
Lastly the statement of cash flow projection which will be more or less like Table 2.6.

**Table 2.6: Statement of cash flow projection**

<b>MILLION ENTERPRISE :CASH FLOW PROJECTION</b>			
January – March 2012			
<b>Transaction Details</b>	January	February	March
<b>1.Cash in bank</b>			
<b>2.Cash inflow</b>			
Income from sales – cash			
Income from sales – 30 days			
Income from sales – 60 days			
Subtotal			
<b>3.cash outflow</b>			
Operating expenses			
Payment to creditors – COD			
Payment to creditors – 30 days			
Payment to creditors – 60 days			
Loan payments – general			
Loan payments – property			
Subtotal			
<b>Closing balance( Jan+ Feb-Mar)</b>			
Add: cash infusion			
Add: overdraft limit			
<b>Projected surplus/(shortfall) R</b>			

Source: Adapted from Parker (2008:107)

The examples of statements given in the four tables will assist these enterprises in drawing up a complete short- or long-term financial plan which will look more or less like Figure 2.1:



**Figure 2.1: Short-term (operating) financial planning process**

Source: Adopted from Gitman (2010: 105)

As demonstrated in Figure 2.1, the financial plan starts with the sales forecast from which the business develops production plans which will include the estimated raw materials and time needed. Through the use of the

production plan, the enterprise is enabled to estimate its expenses such as labour, factory overheads and operating costs. After these estimates have been established, the enterprise is now in a position to prepare a pro forma statement of comprehensive income and a cash budget. A pro forma statement of financial position is finally prepared once the above mentioned inputs are in place.

#### **2.3.4 Strategies employed**

Research and anecdotal evidence suggest that a significant number of small and micro entrepreneurs do not plan their financials; they just run their businesses haphazardly. They fail to collect and analyse simple financial data. On the same theme, Kojo (2010:177) revealed that almost half of the entrepreneurs in Vhembe District in South Africa are not knowledgeable about their financial matters. He went on to say that about half of them do not plan their financials; they randomly use their income.

The reason for the above situation, especially in the South African context, is due to the repressive policy measures such as apartheid and gutter (Bantu) education which the country went through. During the so-called "apartheid era", legislative measures used by the White government denied Black majority fundamental rights and freedoms. Under the apartheid regime, Black people were excluded from participating meaningfully in the country's economy. This resulted in Black people having limited access to proper education, skills development, employment opportunities, and property and asset ownership (Esser and Dekker 2008:157-158).

A study carried out by Scarborough (2011:346) in the United States of America found that only eleven percent of small businesses are able to



analyse their financial statements for managerial planning or decision making purposes, leaving an enormous portion of eighty – nine percent of small businesses trading on aimlessly.

The above views are also supported by Millarcom Inc. Communication Management (2007: 1-2) which reiterated that planning is the key to business growth and success but found that many business owners do not plan their financials at all and those who try to do it do not do it right.

Millarcom Inc. Communication Management (2007: 1-3) states that less than 38% of the businesses in Canada have a formal business plan containing a strategic plan and financial projections. This leaves 62% in the non-planning group. Millarcom Inc. went on to add the findings by Roger Pierce, co-founder of Toronto-based Biz Launch, which states that only one in five entrepreneurs has a business plan. "Entrepreneurs get so excited about their idea that they charge ahead without a plan" Millarcom Inc. communication management (2007: 1).

Akande ( 2011:376) held that most of the small business owner-managers did attempt to prepare cash flow statements as their financial planning strategy for financial decision making in their organisations, especially the business financial performance. He went on to reveal that, besides this attempt, they were not interested in preparing and drawing up any other financial statements. They did not see the need for them to prepare such financial statements like the statement of comprehensive income (Income Statement) or statement of financial position (Balance Sheet). He goes on to say that they viewed preparation of other financial statements as a waste of time since they are not required to do so for any other use except for their

own use. They saw no use since they believe that they are the only stakeholders. This might be incorrect as there are other interested parties in the stake, as highlighted in the corporate report of the International Financial Accounting Standards Board (IFASB) in 1995.

On the same theme, Alattar, Kouhy and Innes (2009:85) asserted that small and micro enterprises owner-managers studied in Gaza Strip in Palestine have little knowledge about financial matters. They found that those with little or limited financial planning skills, neither value the information extracted from financial statements, nor place value on the information provided by their external accountants. This is due to the fact that if managers do not understand or have no knowledge of something, talking to them about it will be a waste of time since they will not believe in things they do not know or practise. Since they lack Financial Planning skills, they end up making mistakes which are detrimental to business success and growth.

Macleod and Terblanche (2004:49) found that small business owner-managers in South Africa do not use financial statements to reach a decision. They do not budget properly and they even forget that a business plan is a working document which needs to be updated now and again.

On the same thought, (Abdel et al. (2010:163) revealed that most of the small and micro business owner-managers use accountants for tax and general business activities and advice, although some owner-managers sought general business advice as well.

### **2.3.5 Mistakes small and micro enterprises make**

Having mentioned how small and micro business owners are challenged by financial planning, the following mistakes have been identified as some of the practices they employ in their businesses.

Abdel, Rowena and Robyn's (2010:163) study revealed that small business owner-managers in Australia do not attempt to draw up their financial reports; they measure their business performance informally through checking the cash balance in their bank accounts. In agreement with this statement, one of the small firm owners who participated in the research carried out in Australia said : "At the moment, for me, whether I'm going good, bad or indifferent is totally unquantifiable –I don't know. I've got no idea. Am I going worse than last year? I don't know. I've got money in my pocket. My bank account's bigger than it was last year. There's stuff in the pipeline. But to be able to put actual figures on it, I don't know [. . .] I don't need to keep records of it" (Abdel, Rowena and Robyn 2010:172).

According to Bygrave and Zacharakis (2008:310), about 99% of small and micro enterprises owner-managers are too optimistic in their revenue projections. They do not understand the revenue drivers, for instance, how many customers who will see a product and buy it. They think that everyone who sees their products will buy them.

In addition, most business owner-managers underestimate costs. They always assume that they are getting more revenue than costs but when one plots a graph of their costs and revenue, one will find out that costs will be progressing upwards and revenue will be going down, then with time it will start to progress upwards "in a hockey stick fashion" (Bygrave and Zacharakis 2008:310).

Underestimation of time to generate revenue is another weakness revealed by Bygrave and Zacharakis (2008:310). More often, the business' pro-forma financials show sales taking place immediately while, in reality, a business incur costs for some time before revenue is realised (Accrual system). For instance, if you are involved in a restaurant business, you will suffer inventory, labour and rental expenses first before you can earn revenue.

Bygrave and Zacharakis (2008:310) also noted that these business owner-managers lack comparables, they project accounting ratios which far exceed industry standards and when asked about this above- average performances they cannot explain it.

## **2.4 IMPLEMENTATION OF THE FINANCIAL PLANNING KNOWLEDGE**

As mentioned above, business owner-managers are challenged by financial planning matters, and they end up not implementing what they have been told, or have acquired from their financial advisors.

### **2.4.1 Financial Planning advice adoption**

Macleod and Terblanche (2004:252) state that South African small business advisors found that, most of the time, small business owner-managers do not want to take advice from business advisors. They have a "do it all yourself" mentality.

Nieman,Hough and Nieuwenhuizen (2008:20-21) stated that about 50 to 60% of small enterprises fail within the first three years of inception due to mismanagement and incompetence. Some of the SMEs have difficulty in

managing and growing the business they created. Nieman, Hough and Nieuwenhuizen (2009:20) suggested that there is need to help them in the implementation of the advice given.

Abdel et al. (2010:172) stated that some of the owner-managers do take the accountants' or financial experts' advice but implement it in their own way as they see fit, and relevant to their businesses and business performance. Tim et al. (2009:333) found that there is a positive relationship between the few owner-managers who kept formal plans of their businesses and the use of outside financial experts or accountants. They stated that those enterprises which formally plan were also willing to make use of outside assistance, especially accountants or bankers to help them with planning.

Perren et al. (1999 cited in Alattar et al. 2009:85-86) indicated that owner-managers of micro enterprises employed informal procedures of controlling their businesses in the early years of operation. The researchers, however, found that although the micro enterprises use informal tools in their businesses, the planning and control system is not poor but rather suitable and working well for businesses of that size and type. They also revealed that, as the small and micro businesses grew, the involvement of the owner-manager in the day - to - day running of the business diminished.

#### **2.4.2 Financial Planning Knowledge acquisition**

It is of interest to note the findings by Kojo (2010:177), in which he claims that about 72% of the entrepreneurs in Vhembe District in South Africa are yearning to read and learn about financial planning in order to increase their financial planning knowledge. These findings are in agreement with the findings Perren et al. (1999) and Nayak and Greenfield, as quoted by Alattar et al. (2009: 85-86) that cash flow planning and management is very crucial

to most of the micro businesses owner-managers. About 97% of micro businesses they studied make use of their banks for information about their enterprises. It was also found that about 33% of owner-managers make use of their profit information on a regular basis.

## **2.5 CONCLUSION**

The aim of this chapter was to acquire an understanding of the existing knowledge about financial planning, tools or practices available to small and micro enterprises and its implementation. The bulk of the information was found in secondary sources such as book editions on small business, entrepreneurship and financial management, journals and articles.

The views and reviews of the above authors form the basis of the concluding remarks of this chapter. The study into small and micro enterprises' perception towards financial planning shows that most of the small and micro enterprises have been operating for a long time but their growth is stunted due to lack of financial planning knowledge and proper business management skills. Although small and micro business owner-managers agree that financial planning is crucial for business success, they do not practise it in their businesses mainly because they cannot do it properly themselves. They do not implement the original advice given by the financial experts or accountants; instead, they prefer to handle their finances in a way they see fit in relation to the level and activities of the businesses. Most of the owner-managers would want to be assisted financially with a small percentage of them opting for assistance in skills development.

The next chapter expounds and validates the choice of the research design and its appropriateness and the sample to explore the broader issues of this

study. The description of the research process, especially the procedure followed in the collection of data and questionnaire administration, will be described as well. Data analysis method will be outlined as a concluding remark of the chapter.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

In the preceding chapter, the literature review, which is the primary source of information to complete a conceptual framework on areas of research, has been presented. The literature dealt with the independent variable – the existing knowledge of financial planning small and micro enterprises (owner-manager) have. The literature on dependent variable – the implementation of the financial planning knowledge was also presented. Each one has examined the broad background, the specific details required in this study and the research that has been done to date. It is now appropriate to focus on the main aspect that guided the research methodology, design and techniques which were used in this study.

In this chapter, the research location will be examined, as it influenced the method and sampling techniques which were used to conduct this research. The following sections will also be covered in this chapter, viz; data collection methods, research design, sampling techniques, validity and reliability as well as values and principles used by the researcher in conducting the study.

An outline of data collection techniques covering areas of the draft questionnaire, pilot study and administration of questionnaires are included. The research limitations and steps employed by the researcher to avoid bias as well as the data analysis method conclude this chapter.



## **3.2 RESEARCH LOCATION**

The research was carried out in the Durban CBD. There are in excess of 2000 small and micro enterprises in the Durban Central Business District operating in different streets. This is according to Mandengu (EThekweni Business Support Unit) in an interview carried out on 1 November 2011. Their main focus is buying and selling, provision of services such as hair and beauty salons, IT services and repairs. Financial planning systems of these enterprises is of concern as most of them lack knowledge of, or are unaware of the importance of this function for the success of their businesses (Abdel 2010:173-4; Kojo 2010:177 and Bygrave and Zacharakis 2008:310-311).

## **3.3 RESEARCH DESIGN**

Research design is defined as the strategy for a study and the plan by which the strategy is to be carried out. It specifies the methods and procedures for the collection, measurement and analysis of data (Blumberg 2008: 256). According to LeCompte and Schensul (2010:87), it is a roadmap which provides guidelines on how to proceed in one's research. The identification of the purpose for the study; decision on the data collection process and validation of data were done during the conceptualisation phase of the study.

### **3.3.1 Method of data collection**

There are three types of research methods, and these are quantitative and qualitative and mixed methods (Creswell 2009:3; McMillan and Schuhmacher 2006:22). They provide the researcher with a wide choice for maximising data collection in the study in question. Before choosing a research method, the researcher has to consider and deliberate on a number of issues in conjunction with the study. After taking into account such factors, which are fully explained in the following paragraphs, a quantitative research method

was chosen, mainly for its flexibility (Muijs 2011:2). According to Creswell (2009:4), quantitative research is a means for testing objective theories through examining the relationship among variables. These variables can, in turn, be measured on instruments so that numbered data can be analyzed using statistical procedures.

A structured questionnaire was deemed most appropriate to use with this method and was chosen for this study. A decision was taken to administer a structured questionnaire among small and micro enterprises in the Durban CBD. This method was considered advantageous because it allowed for the measurement of small and micro enterprises owner-managers' perception towards financial planning through the use of a limited number of questions, thereby allowing comparisons and statistical data to be used.

The sampling method was refined by the participants' willingness to take part in the study, but it was clear that they did not want to reveal personal information. The reason for this was that they were afraid of the way the information was going to be used. Most thought that the information was going to be taken to the South African Revenue Services (SARS) or that they would be reported to SARS, since most of these enterprises' books are not up to date. The respondents were assured that the information would remain confidential and used strictly for the purpose of this study. This was done through the use of a letter of informed consent (Appendix A).

### **3.3.2 Sampling**

There are two main types of sampling design: probability and no-probability (purposive) sampling (Sekaran and Bougie 2009:267; Jackson 2011:117-118 and Cohen, Manion and Morrison (2007:110). Jackson (2011:117) and Cohen, Manion and Morrison, 2007:110) explain that when probability

sampling is used, every member of the population has an equal chance of being included in the sample. However, in non-probability sampling, members of the wider population are definitely excluded from the sample.

The total number of small and micro enterprises in Durban CBD amounts to 2 000 (EThekweni Municipality Business support Unit, 2011). This formed the population of the survey. This enabled the researcher to understand the sampling frame of the population representation.

A total of 140 small and micro enterprises were randomly selected and they all completed the questionnaires in order to make inferential observations from survey data. According to Sekaran and Bougie's (2010:295-296) sample size determination, to create a sample size of 100, 140 subjects should respond to the questionnaire as this is taken as representative enough (See Appendix G). The questionnaires were personally administered to all participants with the assistance of a translator. All 140 participants completed the questionnaires and this represents 100% response rate. This is shown in Table 3.1.

Table 3.1 shows the breakdown in business sizes of the respondents who participated in the study in percentages, in respect of their sizes.

**Table 3.1: Types and sizes of businesses which participated in the study**

		Size of business			Total	
		Medium business (51 – 100)	Small business (10 – 50)	Micro business (1 – 9)		
Type of business	Retail trading	Count	1	31	44	76
		% of Total	1.0%	31.0%	44.0%	76.0%
	Manufacturing	Count	0	2	0	2
		% of Total	.0%	2.0%	.0%	2.0%
	Technical	Count	0	15	6	21
		% of Total	.0%	15.0%	6.0%	21.0%
	Other	Count	0	0	1	1
		% of Total	.0%	.0%	1.0%	1.0%
	Total	Count	1	48	51	100
		% of Total	1.0%	48.0%	51.0%	100.0%

Source: Administered questionnaire of this study

This study was designed for small and micro businesses. This categorisation by size assisted the researcher to compare responses.

### 3.3.3 Reliability and Validity

A pilot study was conducted in order to ensure the reliability and validity of the research instrument. Drost (2011:105) states that reliability test results are the same for a test done under different occasions, conditions and by different people. The research instrument design (questionnaire) ensures that if a different person had to use the same design, the same findings would be obtained. Drost (2011:108) also describes validity as being concerned with the idea of measuring what the research design was intended to measure.

Laljit (2006:33) describes validity as concerned with the idea that the research design addresses all research objectives. To ensure that the objectives were addressed, the questions were short, easy to understand and were driven from the objectives measured, as reported in chapter 1, section 1.4. The pilot study generated good reliability and validity scores. Reliability and validity is also covered in detail in chapter 4 under sections 4.2.1 and 4.2.1.

### **3.3.4 Researcher: values and ethical principles**

Most of research projects deal with human beings and it is imperative that ethical and legal responsibilities are understood beforehand. Concerns about this issue have grown substantially over the past decade. Ethics deal with what is right or wrong, proper or improper, good or bad in research. They are there to guide a researcher's conduct in relation to the participants' rights during the study. (McMillan and Schuhmacher 2006:142; Saunders, Lewis and Thornhill 2012:226-227).

In addition to ethics responsibility, professionalism is also important in research and has to be maintained throughout the process as it helps improve the quality of the research. (Monash University 2011: 3, 4-10 and 28-30). In order to conform and fulfil a researcher's ethical and professional responsibility, ethical issues, as mentioned by Saunders *et al.* (2012:231), were taken into consideration and the following values and principles were adapted throughout the whole process:

- The researcher conformed to all moral principles governing human and organisational ethics as laid out by the University;
- The researcher fully informed the respondents of the purpose of the study before engaging them in the process;

- Confidentiality of the information was maintained throughout the study; and
- Honesty, trust and justice are crucial characteristics of a researcher and the researcher demonstrated these throughout data collection as the researcher was always in contact with the participants.

### **3.4 DATA COLLECTION**

The sections below deal with the research instrument, draft questionnaire, the pilot study and the questionnaire administration.

#### **3.4.1 Research instrument**

Questionnaires with simple open and closed ended questions drawn from the literature reviewed were designed in order to gain a picture of small and micro enterprises perception towards financial planning. The questions asked covered the following areas:

- biographical information;
- financial planning knowledge;
- financial planning perception;
- financial planning implementation; and
- assistance or support from business support organisation.

The organisation of the questionnaire helped the researcher to observe respondents' behaviours and expressions and to understand their emotional responses.

The questionnaire which was in MS word format was printed and personally administered by the researcher. The research instrument was adapted from Muijs (2011:37).

### **3.4.2 Draft questionnaire**

In order to gain a background of this research, an insight and understanding of the study area was explored. To do this, the researcher formulated a problem statement and drew up a research proposal. The proposal and questionnaire were drafted in October 2011. The questionnaire and the proposal were drawn up based on the literature from various articles and books on financial management, planning and small businesses. The study focused on the perception of small and micro enterprises in the Durban CBD towards financial planning.

### **3.4.3 Pilot study**

In order to detect any problems associated with the research design, there is need for a pilot study as well as a statistical test (Muijs 2011:44). Its purpose is to find out whether there is need to change, delete or add some questions. In addition, a pilot study helps determine the validity and reliability of the questionnaire (Catane, 2002:69). Ten copies of the questionnaire were administered to ten small and micro enterprises as well as to the statistician to ensure validity and reliability. The pilot study was done in order to check whether the questionnaire would be able to draw out the data / information required. Cronbach's Alpha was used to test for validity and reliability of the questionnaire and a few problems were highlighted and resulted in the need for the following changes to be made to the questionnaire:

- Question 1.2 needed an increase on the range of number of employees given as some of the participating enterprises have more than 100 employees and the range was up to 100 employees;
- Questions 4.5 and 4.6 needed an additional question each to cater for those whose accounts are done by their accountants and those who have never received any advice from financial experts, respectively; and
- There was need to add another option of source of finance for business expansion “government” on question number 2.6 as the pilot study indicated that some businesses were going to receive finance from the government.

After making the above changes, Cronbach's Alpha was applied again by the statistician who analysed the questionnaire and confirmed that reliability and validity measured high and, therefore, was acceptable and that the questionnaire could be administered to the entire sample.

#### **3.4.4 Questionnaire administration**

All questionnaires were personally administered by the researcher to small and micro enterprises. Each questionnaire was accompanied by a letter of informed consent to ensure that the respondents were well informed of the nature and the intention of the study (see Annexure B for questionnaire).

### **3.5 LIMITATIONS OF THE STUDY**

The study focused on small and micro enterprises in Durban CBD only. There was substantial amount of data available as the study issue in question pertains to the whole globe and not only to Durban or South Africa. The literature reviewed focused on small and micro enterprises in different parts of the world.



### **3.6 BIAS AVOIDANCE**

In carrying out of research, bias is likely to occur especially during sampling and interviewing. Nevertheless, the researcher took the following steps to avoid bias:

#### **3.6.1 Questionnaire bias**

The questionnaire was developed to its final form through testing. The researcher paid special attention in the sequencing of the questions, question wording for misunderstandings and recording errors caused by questionnaire layout, as identified by the pilot study and the statistician.

#### **3.6.2 Subjectivity**

The researcher made sure that interpretation of data was only done after recording of the events and remained neutral towards all aspects of the study.

### **3.7 DATA ANALYSIS METHOD**

Data analysis forms the core of the whole research. It serves to elicit validity, eligibility, reliability, generalisability and meaning of all information gathered (Laveglia and Richardson 2011:1). The method chosen for data analysis depends on the research design used by the researcher (Dawson 2009:114). Chapter four will be dedicated to analysis of data.

The questionnaire was designed in a way that made coding of responses easy. Data was firstly captured on a spreadsheet, and measurements were analysed using statistical techniques. This was done in order to test the

hypotheses through the measurement of differences between the variables. Data was analysed using SPSS version 18.0 (Statistical Package for Social Scientist). Analyses were carried out by:

- Looking at central tendency and variability of appropriate demographic information and likert items;
- Looking at frequency distribution tables and demographic items;
- Cross-tabulation of survey items and average factor scores;
- Conducting appropriate statistical tests of study hypotheses.

Descriptive and inferential statistics were used to analyse the data gathered. From the information gathered, the mean, mode and median were calculated. These were then presented in tabular and graphical form in the text.

### **3.8 CONCLUSION**

In this chapter, the population was defined, the sample and sampling method explained, and the research method selected. The data spread sheet and the method of analysis were explained.

The following chapter presents the empirical research results. They will firstly be presented in a tabular form, then in the form of graphs followed by their respective explanation. The secondary analyses used include comparative descriptive statistics, correlations, chi-square tests, and central tendency descriptive statistics. This chapter will also present the inferential statistics together with the interpretation of all research results.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND INTERPRETATION**

#### **4.1 INTRODUCTION**

In the preceding chapter, the research methodology and the techniques used to formulate the questionnaire for this study were presented and explained. This chapter presents and discusses the findings obtained from the questionnaire in this study. The data collected from the responses will be analysed using SPSS (version 18.0), as indicated in chapter 3, section 3.7. The results will be presented in the form of graphs, cross tabulations, charts and other figures.

The presentation of findings of this study is narrative, and is supported by tables and figures (graphs) to enable easy expression of complex information. Factual data was depicted in the form of categorical tables to enable different variables to be cross-tabulated and viewed quickly and easily.

#### **4.2 ANALYSIS AND DISCUSSION OF FINDINGS**

The two most important aspects of precision mentioned in chapter 3 (section 3.1) are reliability and validity. Before the analysis is done, the introductions of these results will be explained. These are reliability, validity and the Cronbach's Alpha.

##### **4.2.1 Reliability**

Reliability indicates the extent of error free on a measure, i.e., "it indicates the stability and consistency with which the instrument measures the concept

and helps to assess the goodness of a measure” (Sekaran and Bougie 2010:158-161). In order to compute reliability, several measurements are taken on the same subjects. A reliability coefficient of 0.70 or higher is considered as acceptable and the closer the reliability coefficient is to 1.0, the better (UCLA Academic Technology Services, 2007:1).

#### **4.2.2 Validity**

Validity refers to the correctness of a measure (Churchill, Brown and Suter 2010:257). Research results may appear accurate whilst they contain errors, so precautions have to be taken to minimise such errors. Therefore the determination of Cronbach’s Alpha was necessary and the results are presented in section 4.2.3 (a, b and c).

#### **4.2.3 Cronbach’s Alpha**

Cronbach’s Alpha measures the inter-item consistency and reliability as well as the coefficient that reflects how closely or how well aspects in a set are positively correlated to each other (Andrew, Damon, Paul and McEvoy 2011:202). Cronbach’s Alpha for the independent variable as well as for the dependent variable which is, on average, 0.70 and above is acceptable in most research scenarios (UCLA: Academic Technology Services 2007: 1).

The results revealed by the Cronbach’s Alpha coefficient analysis are presented in the Table 4.1 (Financial planning knowledge), Table 4.2 (Financial planning practices) and table 4.3 (Financial planning implementation).

**Table 4.1: Financial Planning Knowledge - Reliability Statistics**

Cronbach's Alpha	N of Items
.874	8

**Table 4.2: Financial Planning Practices - Reliability Statistics**

Cronbach's Alpha	N of Items
.676	6

**Table 4.3: Financial Planning Implementation - Reliability Statistics**

Cronbach's Alpha	N of Items
.735	7

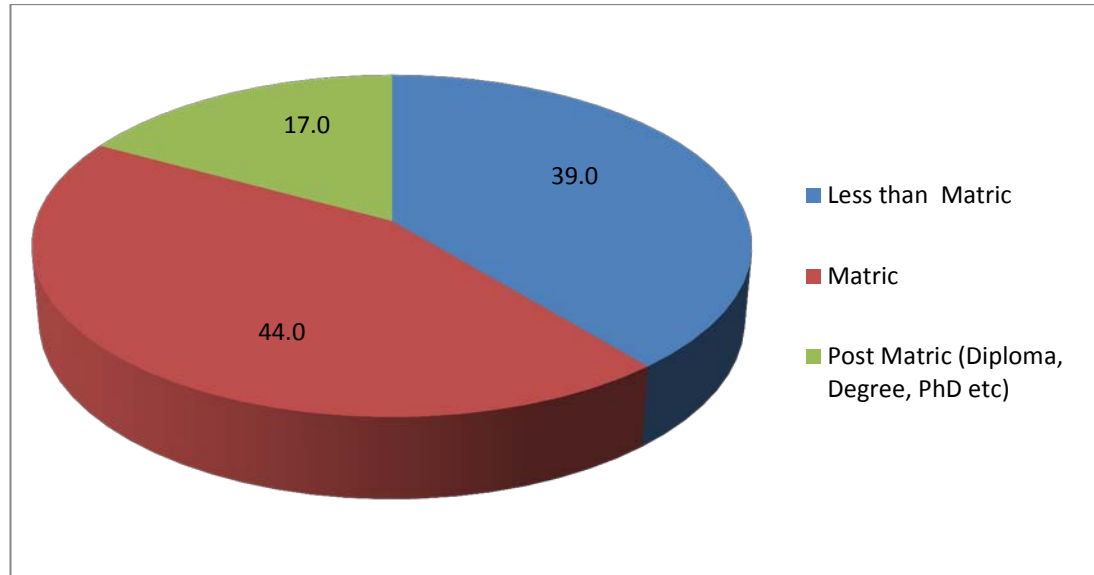
The results from the reliability analysis of the questionnaire for this study reveal a Cronbach's alpha coefficient of 0.874, 0.676 and 0.735 for the three sections of the questionnaire. The reliability scores for the different categories for this research indicate a high degree of acceptable, consistent and stable scoring confirming the reliability of the questionnaire. All of the categories have high reliability values since the average is above 0.70.

#### **4.3 GRAPHICAL PRESENTATION OF FINDINGS**

The findings are presented graphically and in tabular form. The results will be presented in single, double and cross tabulations simultaneously. Discussion and explanation of the results will be done for every graph, table or figure. *The findings of this study will be in italics.* The following figures and tables present and explain the findings as follows:

#### 4.3.1 Educational level of owner-manager

Question 1.4 was formulated to establish the level of education of the owner-manager of an enterprise, and the findings are presented in Figure 4.1



**Figure 4.1: Educational qualification of owner-manager in the study**

*Less than a fifth of the respondents (17%) in the Durban (CBD) indicated that they have a post matric qualification.*

The above finding is contrary to the study carried out in South Africa, Vhembe district by Kojo (2010:177), in which he claims that about 69 percent of the youth entrepreneurs investigated have at least an undergraduate degree. Amidu, Effah and Abor (2011:150) revealed the same result in their study among small, micro and medium enterprises in Ghana, where they claim that about 76 percent of the owner-managers of small and micro enterprises had a degree of higher education. A little less than half of the respondents (44%) in the Durban (CBD) had school leaving certificates as their highest qualification, while in Ghana, only 5 percent of the respondents hold school leaving certificate as their highest qualification.

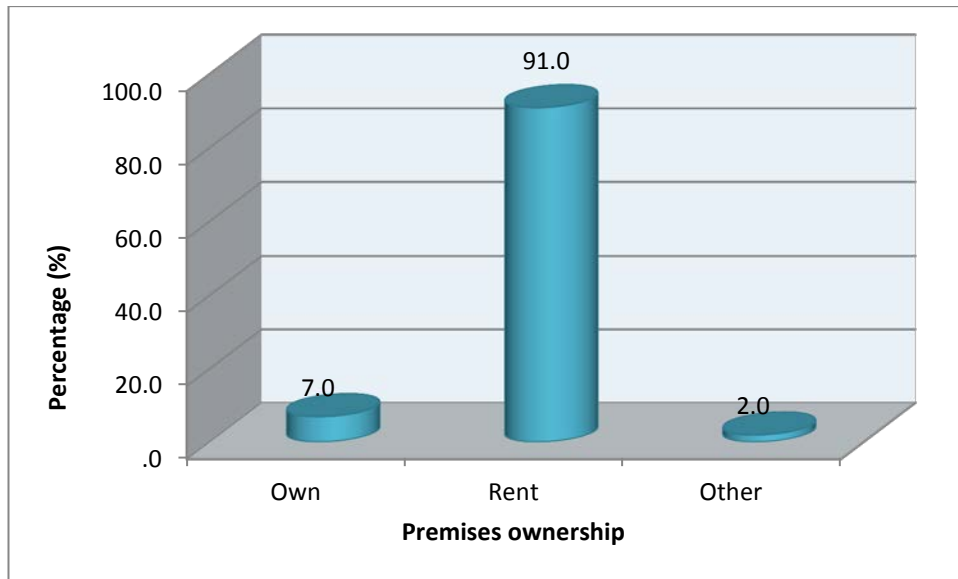
*This study revealed that 39 percent of respondents had below school leaving certificate qualification, and this ranges from those who never went to school to those who went as far as standard 9 (grade 11).*

This is in contrast to the findings of Amidu et al. (2011:150) where only 2 percent of the respondents in Ghana had below school leaving certificate qualification.

In addition, some studies pose varying viewpoints when it comes to the educational qualifications of small and micro business owner-managers. The study carried out by Chuthamas, Md Aminul, Thiyada and Dayang Hasliza Muhd (2011:183) showed that a small number of small business owner-managers are less educated, only 4,2 percent were found to have less than matric, 9.8 percent had matric and 58.8 percent and 27,2 percent had post matric and post graduate qualifications respectively. Figure 4.2 illustrates the ratios of qualification levels according to Chuthamas et al.'s study (2011: 183).

#### **4.3.2 Ownership of Business Premises**

The ownership of the business premises in the study was determined by Q1.5 (Appendix B) which asked whether they owned or rented the operating business premises. The findings are presented in Figure 4.3:



**Figure 4.2: Business premises ownership**

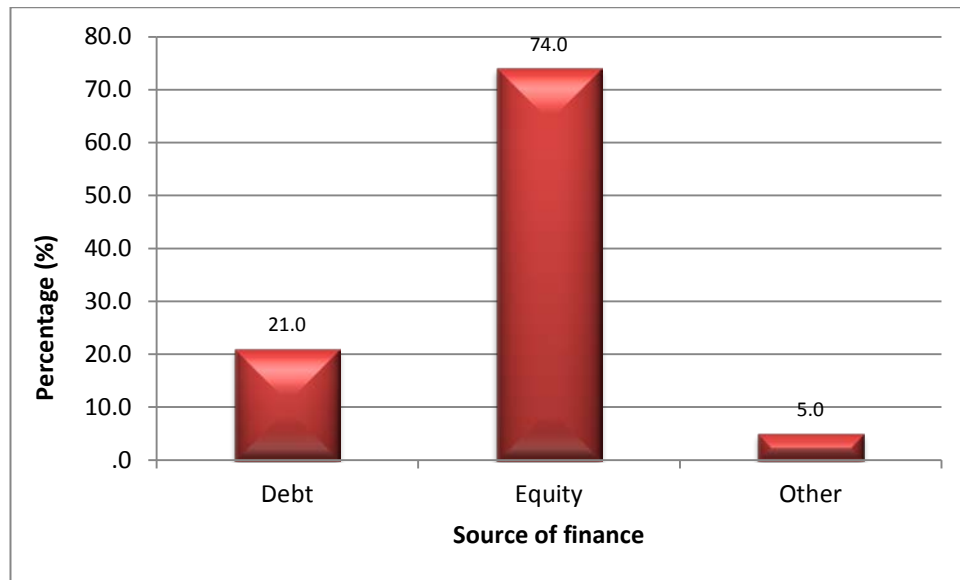
*The majority of the businesses in the study (91%) indicated that they rented the premises. The minority (7%) owned the operating premises. The remaining 2 percent of the sample neither pay any rent nor own the premises; these are mainly, the micro enterprises operating in the open or on the pavement (Figure 4.3).*

This study's findings pose a varying viewpoint on small and micro business premises' ownership when compared to what Abdel et al. (2010:164) found. Their research revealed that two thirds of the small and micro businesses operated from the owners' homes. The differences could be due to the different settings of these studies. This study is done in a developing country (South Africa) while the research of Abdel et al. was done in a developed country (Australia).



### 4.3.3 Financing of Stock

Question 1.8 aimed to establish how respondents finance their working capital. The findings are presented in Figure 4.4, showing the sources of finance for stock reimbursement.



**Figure 4.3: Source of stock finance**

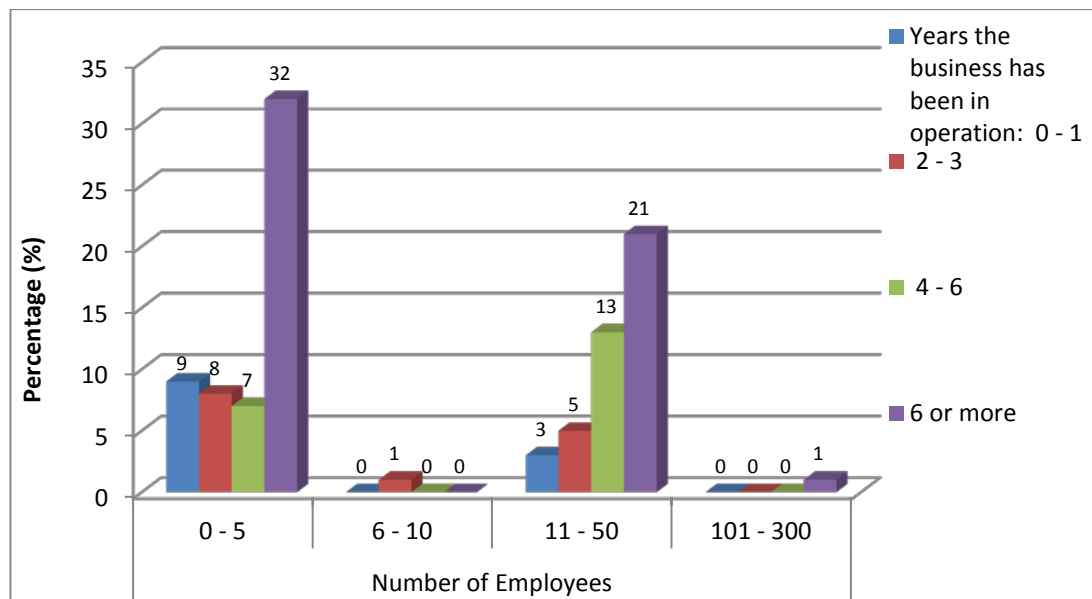
*Almost three-quarters (74%) of the respondents indicated that equity, which is the owner's capital contribution to the business plus any earnings or reserves that have been retained in the business was used to finance working capital (Humphrey, 2007:260). A little more than a fifth (21%) incurred some level of debt while 5% relied on other means to get money to finance their stock, for example, from family and friends (Figure 4.4).*

This finding is in line with earlier studies carried out by Byrd and Megginson (2009:185) in which they claim that most of the small and micro enterprises make use of their own equity to finance their stock refurbishment, as opposed to relying on debt.

Longenecker (2008:215-16) indicated that some recent surveys found that there is a positive relationship between the use of debt and the entity size. It was discovered that larger and older businesses used debt to finance their enterprises' operations while smaller firms relied more on their own personal savings to finance their operations.

#### 4.3.4 Number of employees in relation to the business lifetime

Questions 1.1 and 1.2 established the relationship between the number of employees and the time business has been in existence. Figure 4.5 indicates the number of employees with respect to the number of years the business has been in operation.



**Figure 4.4: Number of employees in relation to the business lifetime**

*The results showed that there are two distinct groups of small and micro businesses in relation to the number of employees they engage. The two groups are made up of the group that employs 0-5 people and the other employing 11-50 people.*

*The majority (32%) of the distributions indicate that micro businesses are inclined to employ less than 5 employees followed by 21% that employ between 11 and 50 employees. In both cases, the highest response rates are for businesses that were in existence for a minimum of 6 years, followed by those which have been in operation for a minimum of 4 years.*

This finding is consistent with preceding studies of Chuthamas et al. (2011:183) who showed that the majority of small businesses are in the category of 6-50 employees (37.1%) and these businesses have been in operation for a long time and, in this case, longer than 20 years. The similarities may be due to the same level of economic development in which both these studies were carried out (developing countries).

Table 4.4 shows the results on the number of years the enterprise has been operating and annual turnover.

#### **4.3.5 Annual turnover and time in business**

Questions 1.1 and 1.3 served to establish the relationship between the lifetime of business and its annual turnover. Table 4.4 indicates the turnover of business in relation to the time period the business has been in operation.

**Table 4. 4: Annual turnover and time in business**

		Length of business operation				Total	
		0 - 1	2 - 3	4 - 6	6 or more		
Turnover per year	< R100 000	Count	7	5	5	22	39
		% of Total	7.0%	5.0%	5.0%	<b>22.0%</b>	<b>39.0%</b>
	R101 000 – R500000	Count	2	5	5	13	25
		% of Total	2.0%	5.0%	5.0%	<b>13.0%</b>	<b>25.0%</b>
	R500 000 – R1 million	Count	2	2	3	7	14
		% of Total	2.0%	2.0%	3.0%	<b>7.0%</b>	<b>14.0%</b>
	R1 million – R1,5 million	Count	<b>1</b>	<b>1</b>	3	9	14
		% of Total	1.0%	1.0%	3.0%	<b>9.0%</b>	<b>14.0%</b>
	R1,5 million - R5 million	Count	0	1	<b>3</b>	1	5
		% of Total	.0%	1.0%	3.0%	1.0%	<b>5.0%</b>
	R5 million – R10 million	Count	0	0	1	2	3
		% of Total	.0%	.0%	1.0%	<b>2.0%</b>	<b>3.0%</b>
	Total	Count	12	14	20	54	100
		% of Total	12.0%	14.0%	20.0%	<b>54.0%</b>	100.0%

*More than half (54%) of the enterprises were in existence for at least 6 years. Out of the 54 percent, about a fifth (22%) have a turnover of less than R100 000 per year. Only 1% of these respondents have a turnover of between R1.5 and R5 million. This indicates lack of growth among small and micro enterprises.*

*Table 4.4 indicates that there is an inverse pattern in the turnover values. The smaller the turnover, the greater the number of years the business has been operating, further highlighting little or no growth of this group of businesses. Most (98%) of the enterprises investigated get turnover below R5 million except a mere 2 percent of them which draws a turnover of between R5 and R10 million.*

On the same note, University of Cape Town Graduate School of Business (GSB), as quoted by Nieman (2006:94), found that most of the businesses surveyed in South Africa had an annual turnover of more than R100 000 but less than R5 million, and have been operating for at least a year. This finding is consistent with the findings of this study, and the similarities could be due to the same settings (South Africa).

#### 4.3.6 The nature and size of the business

Question 1.6 and 1.7 aimed to investigate activities of the enterprise in relation to the size of the business. The extent to which business activities and size of the business correlate to each other is shown in Table 4.5:

Table 4.5 show the results on the relationship between the size of the enterprise and the type of the enterprise (business activities).

**Table 4.5 Type of business activities versus size of business**

		Size of business			Total	
		Medium business (51 – 100)	Small business (10 – 50)	Micro business (1 – 9)		
Type of business	Retail trading	Count	1	31	44	76
		% of Total	1.0%	31.0%	44.0%	76.0%
	Manufacturing	Count	0	2	0	2
		% of Total	.0%	2.0%	.0%	2.0%
	Technical	Count	0	15	6	21
		% of Total	.0%	15.0%	6.0%	21.0%
	Other	Count	0	0	1	1
		% of Total	.0%	.0%	1.0%	1.0%
Total		Count	1	48	51	100
		% of Total	1.0%	48.0%	51.0%	100.0%

*The majority of the businesses (76%) are in the buying and selling business (retail trading). This may be explained by the fact that it is easier and less laborious to buy ready made goods and resell them than manufacturing the goods. A little more than one-fifth (21%) are in technical businesses. This result may be explained by the fact that these respondents have an aptitude for technical skills.*

This fact is also stated by Scheepers (2006:94-95) who explained that most of the people, who turn to entrepreneurship, are more technically skilled than financial management orientated.

*This group (technical businesses) is made up of beauty and hair salons, repairs as well as Information Technology services like internet cafes. Only 2 percent accounted for true manufacturing activities. The main explanation for such a low percentage under manufacturing could be lack of skills, capital and knowledge of business management.*

The above findings on the main activities in which small and micro businesses are involved, pose a varying viewpoint from the findings of Amidu et al's (2011:149) study which was done in Ghana. They claimed that most (40%) of the small, micro and medium enterprises are involved in the manufacturing industry, those in the retail business make up 16 percent, and technical and other account for 5 percent and 3 percent respectively.

*In this study, those in the retail business (44%) classified themselves as micro-businesses, whilst 31 percent classified themselves as small business and a mere 1 percent as medium sized.*

*The number of small-sized enterprises which are involved in the technical business accounted for 15 percent and only 6 percent of micro sized businesses are involved in the technical activities.*

The differences in Amidu et al's (2011:149) findings and the findings of this study are due to different settings and experiences of the two countries since each country has its own set of unique constraints.

*The majority of the businesses investigated fall under micro sized enterprises which are businesses employing five or less people.*

This notion compares well with Abdel et al. (2010:164), who revealed that most of the small business sector in Australia is made up of very small businesses employing less than five people. Alattar et al. (2009:82) also share the same thought where they claim that, in Palestine, in year 2000, of the 82 305 enterprises operating, 97 percent were micro enterprises.

#### **4.3.7 Nature of business, source of stock finance and size of business**

In order to find the interconnectedness among business activities, source of finance for stock refurbishment and size of entity, (Q 1.6; 1.7 and 1.8) were combined in a cross tabulation as shown in Table 4.6:

**Table 4. 6: Type of business, size and stock finance source**  
**Cross-tabulation**

Which of the following do you fall under?				How do you finance your stock?			Total
				Debt	Equity	Other	
Medium business (51)	What type of business do you do?	Retail trading	Count		1		1
			% of Total		100.0%		100.0%
	Total		Count		1		1
			% of Total		100.0%		100.0%
Small business (10 – 50)	What type of business do you do?	Retail trading	Count	9	18	4	31
			% of Total	18.8%	37.5%	8.3%	64.5%
		Manufacturing	Count	1	1	0	2
			% of Total	2.1%	2.1%	.0%	4.2%
		Technical	Count	4	10	1	15
			% of Total	8.3%	20.8%	2.1%	31.3%
	Total		Count	14	29	5	48
			% of Total	29.2%	60.4%	10.4%	100.0%
Micro business (1 – 9)	What type of business do you do?	Retail trading	Count	7	37		44
			% of Total	13.7%	72.5%		86.3%
		Technical	Count	0	6		6
			% of Total	.0%	11.8%		11.8%
		Other	Count	0	1		1
			% of Total	.0%	2.0%		2.0%
	Total		Count	7	44		51
			% of Total	13.7%	86.3%		100.0%

*As shown in Table 4.6, the medium sized enterprises are into retail trading and they use their equity to finance stock. Among the small enterprises investigated, it was found out that the majority (64.5%) of them are involved in buying and selling and of the 64.5 percent in retail trading, 37.5 percent use equity for their stock purchases, 18.8 percent borrow money to finance their stock while 8.3 percent use other means to get money for stock purchases.*



*Of the small sized business group, 13.3 percent are involved in technical activities with the majority of them using their equity to fund stock purchases. Only 4.2 percent are into manufacturing businesses and half of them use debt to refurbish their stock and the rest use their equity for stock purchases.*

*Most of the micro enterprises (86.3 percent) were found to be in the retail trading and 11.8 percent are into technical business while a mere 2 percent are into other various activities like consultancy.*

Research done by Amidu et al. (2011:149) found that most (40%) of the small, micro and medium enterprises in Ghana are involved in the manufacturing industry followed by the retail business (16%); technical (5%) and other activities account for 3 percent. Alattar et al. (2009:82) share the same sentiment with this study where they claim that of the 82 305 enterprises operating in Palestine in the year 2000, 97 percent of them were micro enterprises. The majority of the micro enterprises have been found to make use of their equity to finance their stock purchases, and this is also in line with earlier studies by Byrd and Megginis (2009:185) who claim that most of the small and micro enterprises make use of their own equity to finance their stock refurbishment, as opposed to relying on debt.

#### **4.4 PRIMARY ANALYSIS**

In this section, the findings from the analysis are presented graphically. The graphs below indicate the respondents' perception on different aspects and the extent of their perceptions on these aspects are indicated by percentages for each question.

#### **4.4.1 FINANCIAL PLANNING KNOWLEDGE**

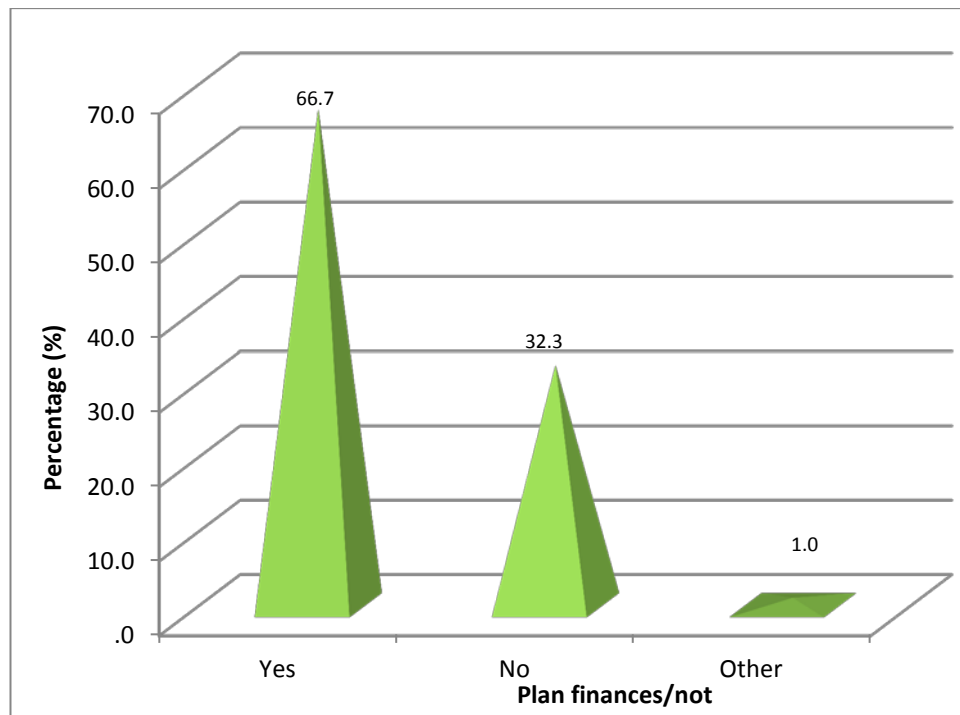
This section deals with the financial planning knowledge that small and micro enterprises have. The target population's understanding of financial planning and drawing up of financial planning documents will be expounded. The analyses of the financial statements' capabilities are also tested and these are expounded in the following sub-sections.

##### **4.4.1.1 Financial planning**

Question 2.1 sought to establish whether small and micro business owners plan their finances and draw up a financial plan. Figure 4.5 presents how respondents dealt with their finances.

*Over two-thirds (66.7%) (Figure 4.5) of the respondents indicated that they do plan their finances.*

The finding is consistent with those of Abdel et al. (2010:167). They found that 81 percent of small businesses in United States of America produced plans for their businesses and were aware of the importance of financial planning although they never made use of the plans for decision making.

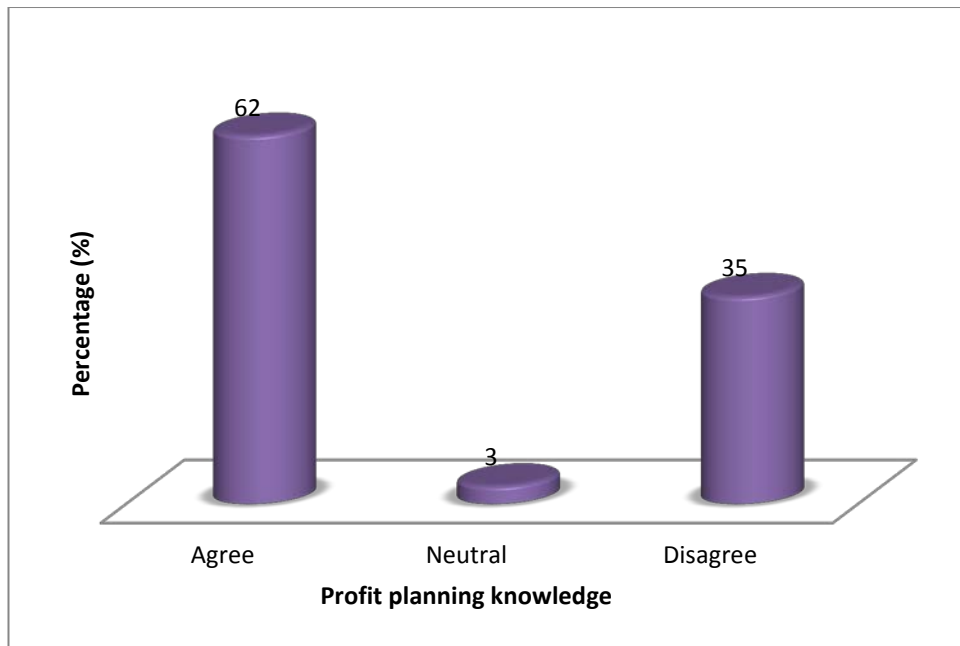


**Figure 4.5: Financial planning/not**

*About a third (32.3%) (Figure 4.5) indicated that they do not plan their finances. Only 1 percent of the respondents chose the option ‘other’. This group is made up of those who are either illiterate and do not understand the financial language or those who practise “a hand to mouth” system which means that the revenue they get from sales is immediately used. At this stage, they were asked to indicate whether they planned or not. It did not matter who did the planning.*

#### **4.4.1.2 Financial planning and profit planning knowledge**

Question 2.7.4 sought to establish the relationship between financial planning and knowledge of profit planning. *Figures 4.5 and figure 4.6 show a positive relationship as the percentage of those who plan their finances (66.7%) correlates with the number of respondents who know about profit planning (62%).*



**Figure 4. 6: Knowledge of profit planning**

*Based on the results shown in figures 4.5 and 4.6, there is an indication that respondents who planned their finances also know about profit planning as the percentages are almost the same. Figure 4.5 indicated that 66.7 percent plan their finances and 62 percent agreed that they know about profit planning (Figure 4. 6).*

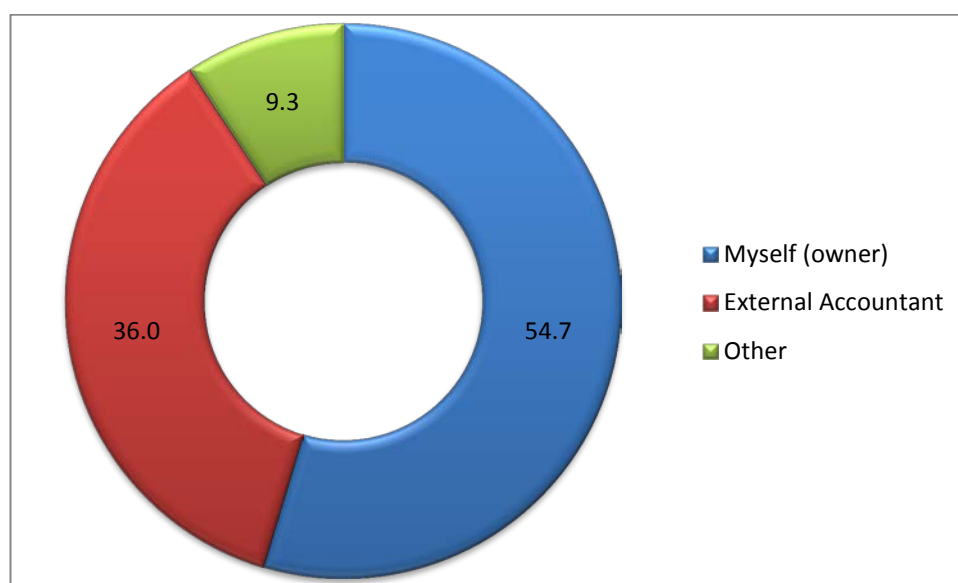
*About a third of the respondents (32.3%) (Figure 4.8) indicated that they do not practise financial planning and a third (35%) disagreed on their profit planning knowledge. Therefore those who do not plan their finances also do not know about profit planning.*

Kojo (2010:176) revealed that the majority (85.3%) of the small businesses in Vhembe District in South Africa practised financial planning and 66.7 percent

of the respondents indicated that they budget and are able to trace their spending as well as reading the financial statements and deducing some information.

#### 4.4.1.3 Drafting of financial plan

Question 2.2 sought to establish the person in charge of drawing up a financial plan in the entity. Figure 4.7 illustrates responses given by the participants:



**Figure 4.7: Business financial planner**

*More than half of the respondents (54.7%) indicated that the owner is responsible for drawing up the financial plan. The main reason for the majority of owner-managers doing the planning themselves is that they cannot afford to hire the services of an accountant or financial expert. Therefore, they struggle on their own to produce something to work with, though it will not be to standard (as per the International Financial Accounting Standards). A significant number of the respondents (36%) indicated that*

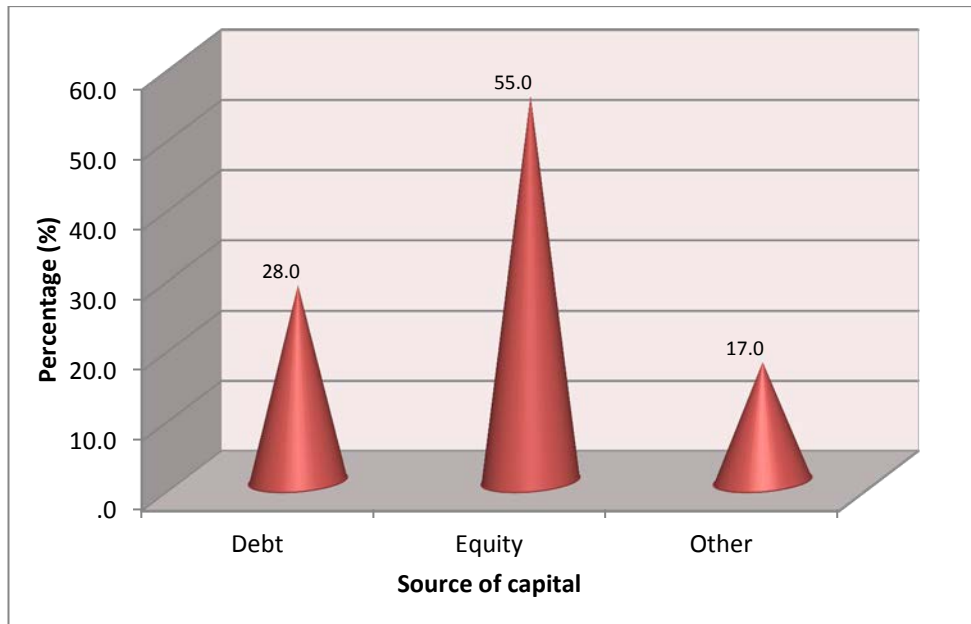
*they make use of accountants for their financial planning as well as all financial matters.*

*The participants' responses to this question (Q 2.2) about who is responsible for financial planning in their enterprises, corroborates well with their responses to question 3.3 which sought to establish whether financial plans are drawn within the organisation. Over half of the respondents (56%) indicated that the plan is drawn within the entity.*

Macleod (2004:37), however, claims that small and micro businesses believe that a business and financial plan is best drawn up by an expert like an accountant whom they pay to do so. This finding is in agreement with Terblanche (2011:99) who maintains that business owner-managers rely too heavily on their accountants and never bother to learn anything about their business financials.

#### **4.4.1.4 Start-up capital**

Question 2.3 established how the business owner-managers financed the "start- up" of their enterprises. Different sources of capital were indicated by respondents, as shown in figure 4.8.



**Figure 4.8: Source of Capital**

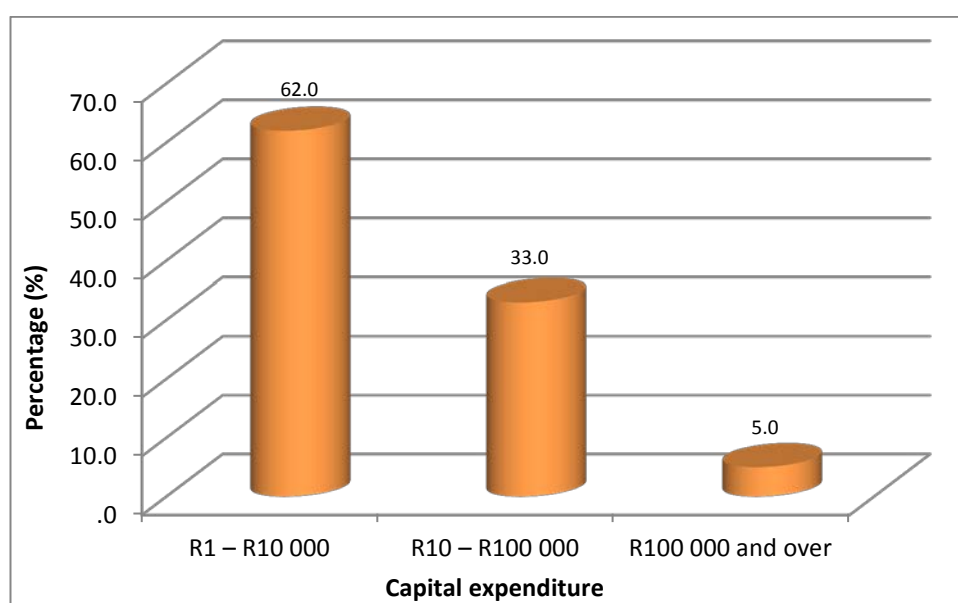
*The majority (55%) of the respondents financed their business “start- up” by using equity. Over a fifth of them (28%) rely on borrowing for capital. A little less than a fifth (17%) of the respondents who indicated “other” as their answer, either obtained money from relatives or inherited the business from former generations. Most of the respondents (55%) do not want to borrow money. They would rather start small than borrow from banks and pay back huge amounts of interest. During the interaction with the respondents, most of them were against debt. They indicated that if they borrow and their business fails, they will not be able to pay back the debt and they will be in trouble, and may end up losing everything. The majority (55%) of the small and micro enterprises have a negative attitude towards borrowing.*

On the same note, Longenecker (2006:216) points out that small and micro businesses depend more on their equity for “start-up” capital, especially in their infancy, and as they become well established they turn to banks and other financial institutions for funding. The results in this study are in line with

those of Longenecker (2006: 216) with regard to “start up” capital, but most of the respondents of this study tend to stay away from debt even in their mature stages.

#### 4.4.1.5 Capital expenditure

Question 2.4 sought to find out how much was spent on capital assets by the entity. Findings to this question are shown in Figure 4.9.



**Figure 4.9: Capital expenditure**

*Nearly three-quarters of the respondents (62%) spent less than R10 000 on capital assets. A third (33%) spent between R10 000 and R100 000 and only 5 percent of the respondents own capital assets worth more than R100 000.*

The main reason for this finding is that most of the business activities do not need heavy machinery or many capital assets since the majority of them (76%) are into retailing. The income generating assets they need are current



assets and are mostly in the form of stock. Another reason for such results is that many businesses tend to start small so they do not have a lot of money to afford many and expensive capital assets (Longenecker 2006: 216).

This finding is in line with earlier studies by Terblanche (2011:17, 28) who claims that most businesses start-ups in South Africa follow the incremental approach, where they believe in starting small and scaling up.

#### 4.4.1.6 Business expansion and finance source

The owner-managers' intentions for their business growth and the source of money to expand the entity were established by Q 2.5 and 2.6. Table 4.7 shows their intention and different methods used to fund expansion.

**Table 4.7: Business expansion intention and finance source**

		Do you intend to expand your business?
		Yes
How are you going to finance your expansion?	Debt	27.5
	Equity	43.75
	Cash	3.75
	Government subsidy	25

*All respondents indicated that they intend to expand their business. Of the respondents who indicated that they would be expanding their businesses, almost half of them (43.75%) indicated that they would use equity to expand. There are similarities in terms of numbers of those who are going to use debt*

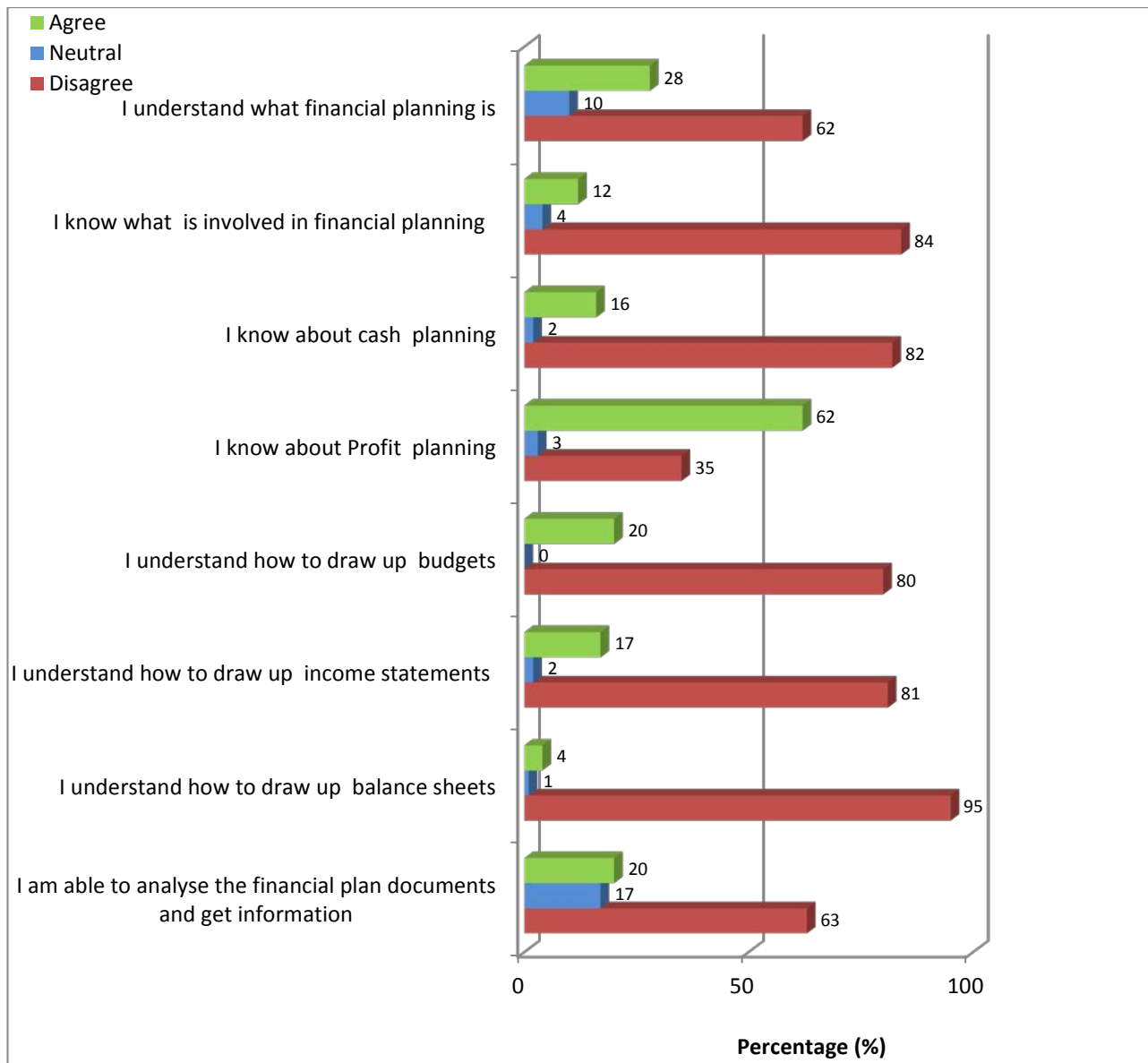
*(27.5%) and those who will apply for government subsidies (25%). This confirms the trend in other questions involving sources of finance, which indicate that most of the small and micro enterprises do not like borrowing.*

#### **4.4.1.7 Financial planning knowledge**

Figure 4.10 indicates the response rate for the data that measured financial planning knowledge. This section sought to explore the financial planning knowledge small and micro enterprises owner-managers have as well as different aspects involved in financial planning.

*The overall pattern in Figure 4.10 is a response of “disagreement” except for nearly two-thirds (62%) who agreed with the statement regarding knowledge of profit planning. Most of the respondents only understood profit calculation. However they did not understand the rest on the processes which are involved in financial planning. Even those who indicated that they do understand what financial planning is, they are not able to analyse the financial planning documents and extract some useful information.*

This pattern is supported by Kojo (2010:175), who found that almost half of the respondents (46.1%) disagreed and strongly disagreed with the question about their ability to plan and manage their finances.



**Figure 4.10: Financial planning knowledge**

*Most of the small and micro enterprises owner-managers (84%) (Figure 4.10) indicated that they do not understand what is involved in financial planning.*

This finding is in line with earlier studies by Abdel (2010:163) who found that small and micro enterprises owner-managers have serious problems with

financial planning literacy.

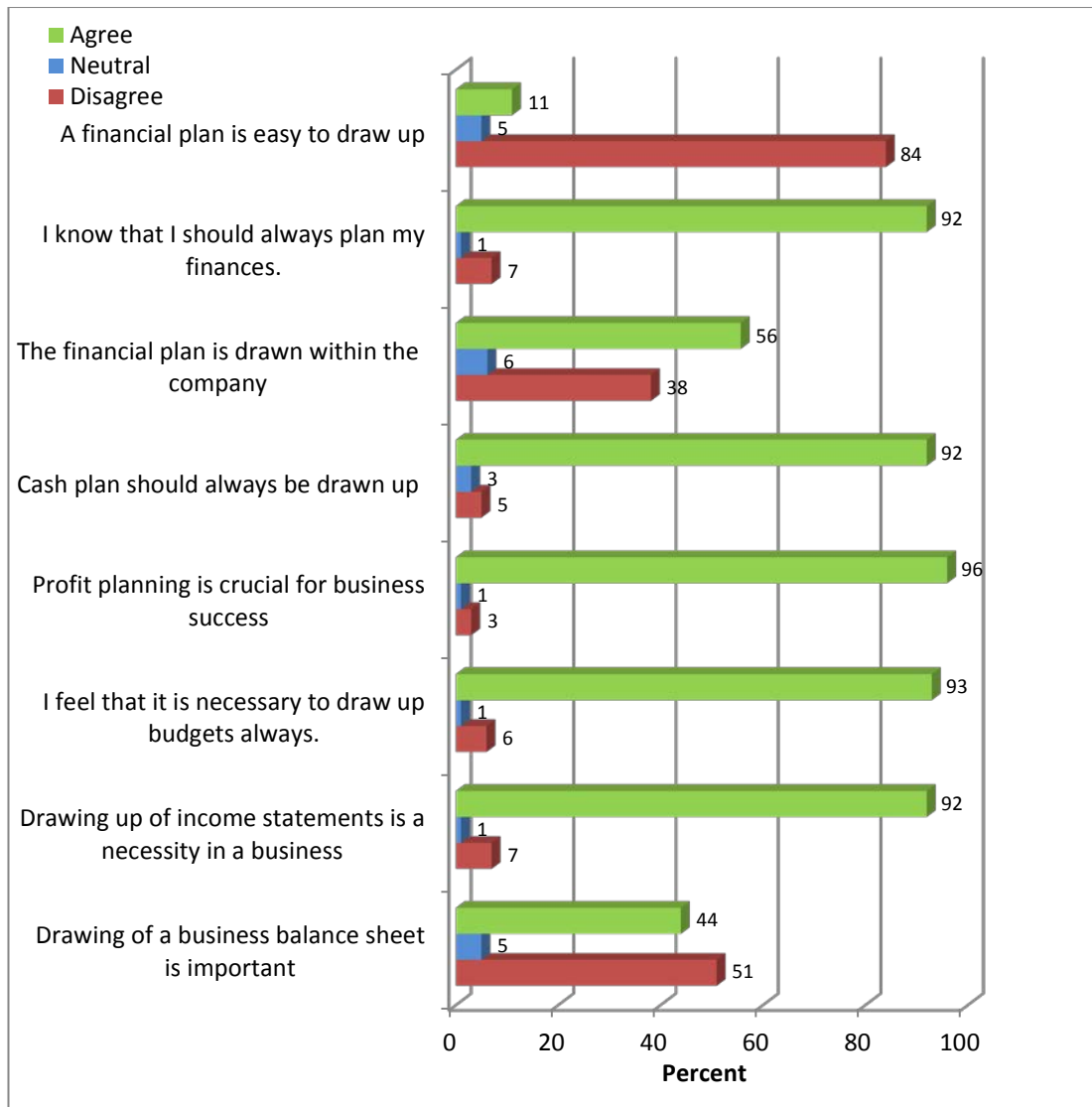
#### **4.4.2 FINANCIAL PLANNING PERCEPTIONS**

This section is concerned with how small and micro enterprises owner-managers feel about the practice of financial planning in their businesses.

##### **4.4.2.1 Financial planning perceptions and practices**

Question 3 sought to address the above matter by investigating their attitudes towards financial planning as well as their current practices. Figure 4.11 shows responses to question 3.

### Summary of the responses to perception towards financial planning.



**Figure 4.11: Financial planning perceptions**

*Most respondents (84%) did not believe that a financial plan was easy to draw-up. In conversations about the questionnaire during data collection, respondents were asked about drawing up of a financial plan and they indicated that though some of them tried to draw up a financial plan, it is a very difficult exercise for them to do.*

The finding is supported by Kojo's (2010:175) study in which he found that nearly half of the respondents disagreed that they could draw up a financial plan, use or manages their finances.

*The study showed that respondents do appreciate the importance and necessity of a financial plan for the success of their enterprises, although incorporating and practising it is a problem to them. This is shown by high levels of agreement for the following statements, viz; I know that I should always plan my finances; The financial plan is drawn within the company; Cash plan should always be drawn up; Profit planning is crucial for business success; I feel that it is necessary to always draw up budgets; Drawing up of income statements is a necessity in a business.*

*The majority of the respondents (84%) disagreed that a financial plan is easy to draw up.*

This finding is in line with earlier studies by Millarcom Inc. communication management (2007: 1-3) and Abdel (2010:163) who indicated that small and micro business owner-managers do not know how to draw up a financial plan.

*When asked whether the financial plan is drawn up within the business, 38 percent of the respondents disagreed. A possible explanation could be that some of them outsource all financial matters to external accountants and financial experts, or they do not draw up financial plans at all in their businesses.*

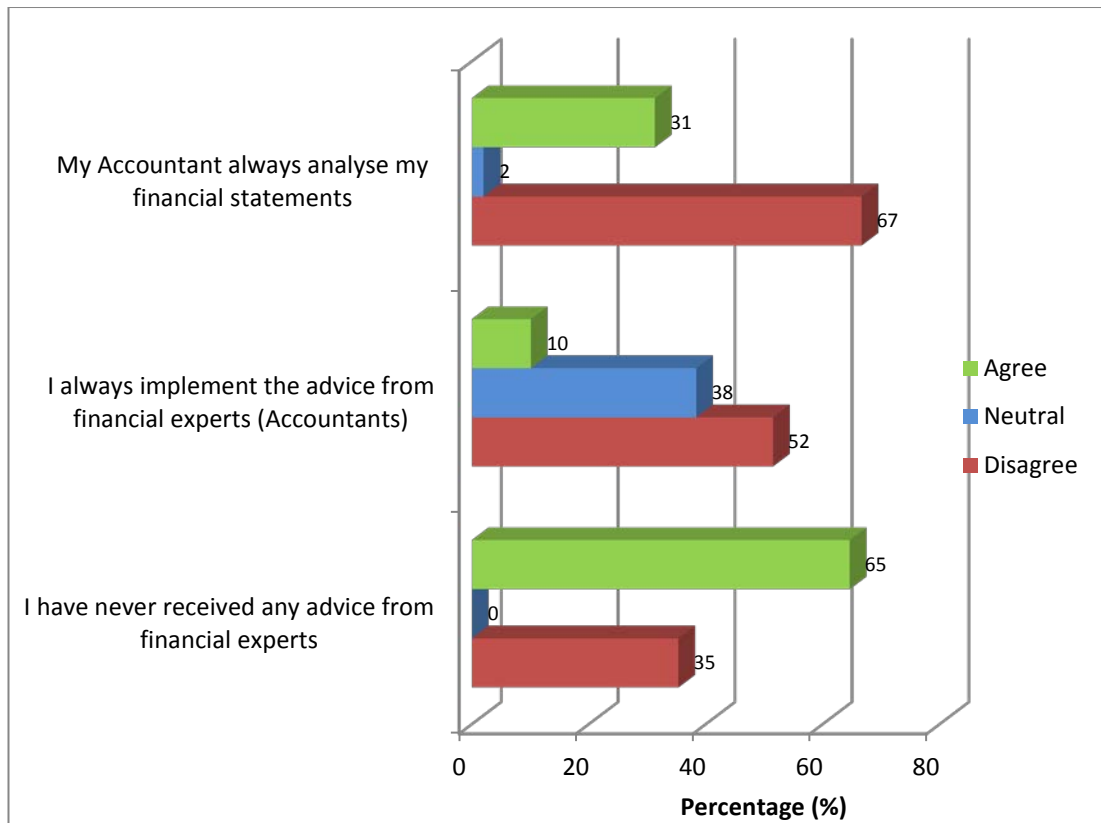
The finding on whether the financial plan is drawn up within the entity is consistent with preceding studies by Terblanche (2011:99) and Yahya and Susela (2011:183). They found that small firms rely on their external accountants for business advice and that they outsource accounting services, including financial statements.

*Over half of the respondents (51%) disagreed that drawing up a balance sheet in a business is important. This result may be explained by the fact that most of the small and micro enterprises do not own assets, especially fixed assets, and most of them do not buy or purchase on credit. For a company to draw up a balance sheet, there must be assets and liabilities. The only assets most of them have are current assets in the form of inventory.*

#### **4.4.3 FINANCIAL PLANNING IMPLEMENTATION**

This section investigated whether or not small and micro enterprises implement and use the advice and recommendations from accountants and financial experts. It also explained how respondents implement advice and recommendations given. Figure 4.12 shows the findings to this section.

## Summary of the scores on financial planning implementation



**Figure 4.12: Financial planning implementation**

*A total of 67 percent of the respondents were in disagreement with the statement that their accountants always analyse their financial statements. The main reason for such a result may be that many of them cannot afford to hire an accountant to do the job for them, or there are no records to be analysed.*

*On whether they implement the advice from financial experts, more than half of the respondents (52%) indicated that they do not implement the advice. From the questionnaire administration, when they were asked about implementation of the advice, the majority of them explained that they only implement the advice in a way which suits their businesses, not exactly as*



*given by the accountants. The reason for this response may be that the owner-managers are responsible for the day-to-day running of the businesses. Therefore they know what works best for them.*

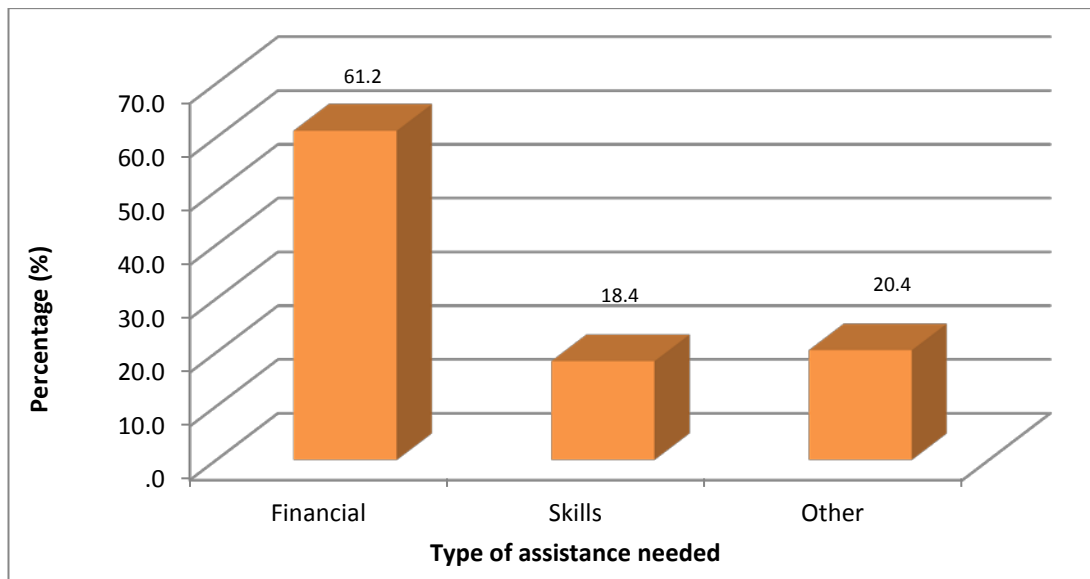
*Over half (65%) of the respondents indicated that they have never received any advice from a financial expert. This may be due to the fact that most of them cannot afford to pay for the services of an accountant or financial expert. Therefore, they did not consult an expert for advice on financial planning. The other reason is that some of them try to do the planning on their own; especially the basics, to get something to work on and thus they have never consulted a financial expert, hence, their status of never ever obtained advice from an accountant.*

#### **4.5 ASSISTANCE OR SUPPORT NEEDED**

Small and micro enterprises need all the support they can get to improve their trade. The following section establishes the type of assistance and support they require in order to improve their activities.

##### **4.5.1 Assistance or support needed**

Assistance or support small and micro enterprises need in order to succeed and grow in their operations was gathered by Q5. Figure 4.13 shows the extent to which they need assistance and support in different categories.



**Figure 4.13: Assistance needed from business support organisations**

*More than two thirds of the respondents (61.2%) indicated that assistance by financial means is most important to them. They want assistance in the form of money so that they can order more and sell more (expansion). They want to make money as soon as possible. About a fifth of the respondents (20.4%) indicated that they would want other forms of assistance other than skills development and financial support. The “other” assistance they indicated they need are beyond the scope of this study. For example, some highlighted the issue of parking; permanent places to operate from like fixed buildings of their own and others did not need anything. Those who indicated that they do not need anything may have thought that the assistance will be offered on credit, of which they would not want to owe anyone anything.*

*During data collection, respondents showed that they have lost trust in government organisations that can assist them for free, so they treat everyone with suspicion, and they think that they have to pay for anything they get. There is a lack of information transfer between government*

*organisations especially the department of Commerce and Industry on what and how the small and micro enterprises can benefit from government without having to pay back anything.*

## **4.6 DESCRIPTIVE STATISTICS**

This section presents the descriptive statistics based on the demographic information of the study and these will all be handled under one category. They are defined, interpreted and presented in sections 4.6.1 and 4.6.2.

### **4.6.1 Description of statistics**

Descriptive statistics describe the organisation and summary of quantitative data. Univariate and bivariate analyses are most appropriate for descriptive statistics. Univariate analysis is concerned with measures of central tendency and measures of dispersion. The most appropriate measure of central tendency for interval data is the mean and the most appropriate measure of dispersion for interval data is the standard deviation.

Bivariate analysis concerns the simultaneous measurement of two variables. It portrays and allows the understanding of the relationship between the two variables (Lind, Marchal and Wathen 2008:118).

Descriptive statistics are useful as they summarise results for an experiment. Descriptive data analysis aims to describe the data that is being investigated, the distribution of scores on each variable, and the determination of whether the scores on different variables are related. They (descriptive statistics) are also used to interpret data on a Likert scale which is a 5 or 7 point scale. The likert scale is one of the rating scales developed to measure attitudes directly

by allowing an individual to express the extent to which they agree or disagree to a given statement (McLeod 2008:1). The following measurements (coding) on the Likert scale were used in the interpretation of results:

- 1 - Strongly disagree;
- 2 – Disagree;
- 3 - Neutral/uncertain;
- 4 – Agree; and
- 5 - Strongly agree.

#### **4.6.2 Definitions and Interpretation of descriptive statistics**

All interpretations will be based on the information in Table 4.8.

##### **a) Frequency**

This refers to the number of times the various values of a phenomenon occur, from which the percentage and cumulative percentage of any occurrence is calculated (Sekaran 2010:439).

##### **b) Mean**

The mean is defined as the arithmetic average; it is the sum of the observed values in the distribution divided by the number of observations (Cooper and Emory 1995 as cited in Zondo 2005:99). This is shown on Table 4.8.

**Table 4.8: Statistics results**

	N	Mean	Median	Mode	Std. Deviation
	Valid				
I understand what financial planning is	100	<b>2.38</b>	<b>2.00</b>	<b>1</b>	1.384
I know what is involved in financial planning	100	<b>1.91</b>	<b>2.00</b>	<b>1</b>	1.173
I know about cash planning	100	<b>1.97</b>	<b>2.00</b>	<b>1</b>	1.185
I know about Profit planning	100	3.21	4.00	4	1.423
I understand how to draw up budgets	100	<b>2.01</b>	<b>1.50</b>	<b>1</b>	1.367
I understand how to draw up income statements	100	<b>1.96</b>	<b>1.00</b>	<b>1</b>	1.355
I understand how to draw up balance sheets	100	<b>1.41</b>	<b>1.00</b>	<b>1</b>	<b>.830</b>
I am able to analyse the financial plan documents and get information	100	<b>2.30</b>	<b>2.00</b>	<b>1</b>	1.374
A financial plan is easy to draw up	100	<b>1.75</b>	<b>1.00</b>	<b>1</b>	1.226
I know that I should always plan my finances.	100	4.48	5.00	5	1.030
The financial plan is drawn within the company	97	3.33	4.00	5	1.694
Cash plan should always be drawn up	100	4.46	5.00	5	<b>.926</b>
Profit planning is crucial for business success	99	4.64	5.00	5	<b>.706</b>
I feel that it is necessary to draw up budgets always.	100	4.54	5.00	5	<b>.937</b>
Drawing up of income statements is a necessity in a business	100	4.45	5.00	5	1.029
Drawing of a business balance sheet is important	100	2.69	<b>1.00</b>	<b>1</b>	1.796
I always plan my financials	100	3.47	4.00	4	1.417
I always calculate my gross profit	99	<b>2.44</b>	<b>2.00</b>	2	1.409
I always calculate my net profit	99	3.61	4.00	4	1.398
I always draw up cash flow statements	99	<b>1.46</b>	<b>1.00</b>	<b>1</b>	<b>.896</b>
I always analyse financial statements and act accordingly	99	<b>2.09</b>	<b>2.00</b>	<b>1</b>	1.031
My Accountant always analyses my financial statements	99	<b>2.25</b>	<b>2.00</b>	<b>1</b>	1.452
I always implement the advice from financial experts (Accountants)	99	<b>2.33</b>	<b>2.00</b>	3	1.088
I have never received any advice from financial experts	99	3.58	4.00	5	1.679

**Interpretation of mean results:**

*The results showed that questions 13 and 14 (Table 4.8 have a mean of 4.64 and 4.54 which are close to a mean value of 5. A mean of 5 represents a “Strongly Agree” perception of participants. This indicates that most people strongly agree that profit planning is crucial for business success and that it is necessary to draw up budgets all the time.*

Questions 10, 12, 15 and 24 have a mean of close to 4. This mean represents an average "Agree" perception of respondents. This indicates that most people agree that they should always plan their finances, that they should always draw up cash plans, that drawing up of income statements is a necessity, and that they have never received any advice from financial experts.

Questions 4, 11, 16 and 17 have an average mean of 3. This mean represents an uncertain perception of the participants. This indicates that most people are not sure and they do not know about profit planning, financial planning and the importance of drawing up a business balance sheet.

Questions 1, 2, 3, 5, 6, 8, 9, 18, 21, 22 and 23 represent a mean of close to 2, which is a "Disagree" perception from the respondents. This indicates that most people disagree that they understand financial planning, that they know what is involved in financial planning process, that they know about cash planning, that they understand how to draw up budgets, that they understand how to draw up income statements, that they are able to analyse financial documents and get information, that a financial plan is easy to draw up, that they always draw up gross profit, that they always analyse their financial statements and act accordingly, that their accountants always analyse their financial statements for them and that they always implement the advice given to them by financial experts.

Questions 7 and 20 have a mean of 1 and this represents an average "Strongly Disagree" perception of the participants. This indicates that most

*people strongly disagree that they understand how to draw up balance sheets and that they always draw up cash flow statements.*

### **c) The Median**

According to Sekaran and Bougie (2010:441), the median is the central item in a group of observations arranged in an ascending or descending order. This is shown on Table 4.8.

#### **Interpretation of median results:**

*Questions 10, 12, 13, 14 and 15 have a median of 5. The median value represents a predominantly “Strongly Agree” perception of the respondents. This indicates that most of the people strongly agree that they should always plan their finances, that a cash plan should always be drawn up, that profit planning is crucial for business success, that it is necessary to always draw up budgets and that drawing up income statements is a necessity in a business.*

*Questions 4, 11, 17, 19, and 24 show a median of 4 and it represents an “Agree” perception of respondents. This indicates that most people agree that they know about profit planning, that the financial plan is drawn with the entity, that they always plan their finances, that they always calculate their net profit and that they have never received any advice from financial experts.*

*Questions 1, 2, 3, 5, 8, 18, 21, 22 and 23 have a median of 2. This median value represents a “Disagree” perception of participants. This indicates that most people disagree that they understand what financial planning is, that*

*they know what is involved in financial planning, that they know about cash planning, that they understand how to draw up budgets, that they are able to analyse the financial plan documents and get information, that they always calculate gross profit, that they always analyse financial statements and act accordingly and that they always implement the advice from financial experts as it is.*

*Questions 6, 7, 9, 16 and 20 indicate a median of 1 which represents a “Strongly Disagree” perception of the respondents. This indicates that most people strongly disagree that they understand how to draw up income statements, that they understand how to draw up balance sheets, that a financial plan is easy to draw, that drawing up of a balance sheet is important and that they always draw up cash flow statements.*

#### **d) Mode**

The mode is the most frequently occurring number in a set of data (Sekaran and Bougie 2010:441).

#### **Interpretation of mode results: (Table 4.8)**

*Questions 10 to 15 plus question 24 have a mode of 5. The mode value represents a “Strongly Agree” perception of respondents. This indicates that most of the people strongly agree that they should always plan their finances, that the financial plan is drawn with the entity, that a cash plan should always be drawn, that profit planning is crucial for business success, that they feel that it is necessary to always draw up budgets, that drawing up of income statements is a necessity in a business entity and that they have never received any advice from a financial expert.*



*Only questions 4 and 19 show a mode of 4. The mode value represents an "Agree" perception of respondents. This indicates that most people agree that they know about profit planning and that they always calculate their net profit.*

*Question 23 shows a mode of 3 which represents an uncertain perception of respondents. This indicates that most people are not sure about financial advice from financial experts (because some of them have never received any) and they do not implement the advice they receive from financial experts.*

*Question 18 has a mode of 2, which represents a "Disagree" perception of respondents. This indicates that most people disagree that they always calculate their gross profit.*

*Questions 1, 2, 3, 5, 6, 7, 8, 9, 16, 20, 21 and 22 have a mode of 1. This mode value represents a "Strongly Disagree" perception of respondents. This indicates that most people strongly disagree that they understand financial planning, that they know what is involved in financial planning, that they know about cash planning, that they know how to draw up budgets, that they understand how to draw up income statements, that they understand how to draw up balance sheets, that they are able to analyse financial plan documents and get information, that financial plan is easy to draw up, that drawing up of a business balance sheet is important, that they always draw up cash flow statements, that they always analyse their financial statements and act accordingly and that their accountants always analyse their financial statements.*

#### **e) Standard deviation**

The standard deviation is a measure of the dispersion of a group of data relative to the mean (average) of the group. Hargrave (2001:1) and Agresti, (2009:47-48) define it as a measure of variability based on the deviation of the data from a measure of central tendency such as the mean or a sort of typical distance of an observation from the mean. A low standard deviation indicates that the data points tend to be very close to the mean and high standard deviation indicates that the data points are spread out over a large range of values. The mean and the standard deviation are usually reported together. According to Streiner (1996:498), standard deviation is simply an index of how closely the individual data points cluster around the mean.

Interpretation of standard deviation results: (Table 4.8)

*Questions 7 and 20 indicate a small standard deviation with values less than 0.9. The values indicate that the standard deviation is close to the mean. Therefore, it can be reliably concluded that the majority of the people strongly disagree that they understand how to draw up balance sheets and that they always draw up cash flow statements.*

*Questions 1, 2, 3, 5, 6, 8, 9, 18, 21, 22 and 23 have standard deviation values located around 1. Since the standard deviation values are clustered closely about the mean, it gives a reliable reflection that most of the people disagree that they understand what financial planning is, that they know what is involved in financial planning, that they know about cash planning, that they understand how to draw up budgets, that they are able to analyse financial plan documents and get information, that a financial plan is easy to draw up, that they always calculate their gross profit, that they always analyse their financial statements and act accordingly, that their accountants*

*always analyse their financial statements and that they always implement the advice from financial experts.*

*Questions 4, 10, 12, 17, 19 and 24 have larger standard deviations and this shows that the responses are widely scattered about the mean. This result indicates a wide variation of respondents' perception, and, therefore, cannot give conclusive reliable measure.*

#### **4.6.3 Statistics Results**

Table 4.8 shows the summary of the descriptive statistics results. The descriptive statistics covered the mean; median; mode and standard deviation results which have been explained in the preceding sections.

*The results from Table 4.8 show the same pattern as that shown by graphical and inferential statistics. For instance, the mean for question 7 and question 20 are around 1 and their standard deviation is also around 1. As per the coding system of the analysis, standard deviation of a 1 represents a strong disagreement to the given variable and the results shown on Table 4.8 are the same as those shown by graphical and inferential analysis.*

*The rest of the responses show a mean of above 1 to approximately 5. A standard deviation of above 1 shows a wide spread of responses and as per the coding of the analysis, responses above 1 indicate responses ranging from 'disagree' to 'strongly agree', and the same pattern is also shown in graphical and inferential analysis.*

## 4.7 HYPOTHESIS TESTING

A hypothesis, as defined by (Willemse, 2001:185), is “a claim or statement about a population characteristic”. A hypothesis test is performed in order to determine whether there is enough statistical evidence to enable the researcher to conclude that a hypothesis about a parameter is reasonable. Therefore, it is necessary to decide whether the difference that exists between the hypothesis and the sample result is significant (not supportive) or chance (supportive) (Willemse, 2001:185).

The null hypothesis (**H<sub>0</sub>**) states that there is no association between the two variables. The alternate hypothesis (**H<sub>1</sub>**) indicates that there is an association.

The traditional approach to reporting a result requires a statement of statistical significance. A **p-value** is generated from a **test statistic**. These values are highlighted in the table showing the summary results of the chi square, (Appendix D). The chi-square results are interpreted under the following conditions:

- (a) A **p-value** of less than or equal to **0.05** indicates a statistically significant relationship between or among variables.
- (b) A **p-value** of greater than **0.05** indicates that there is no statistical significant relationship between or among the variables.

The Chi Square test was performed to determine whether there was a statistically significant relationship between the variables (rows vs. columns) (Appendix D). The Chi Square test results are presented and explained in the following paragraphs numbered 4.7.1 to 4.7.15.

#### **4.7.1 Test for relationship between business lifetime and frequency of financial statements analysis**

*The result indicates a **p-value** of **0.873**, which is greater than 0.05. This shows that there is no statistical significant result between the two variables. This means that the length of time a business has been in operation does have an influence on the frequency a business analyses its financials and acts accordingly.*

*The test results concerning the length of time a business has been operating and all other variables have *p* values greater than 0.05.*

#### **4.7.2 Test for relationship between the number of employees an enterprise has and their knowledge about financial planning**

*The test provided a **p-value** of **0.015** which is less than 0.05. This score means that there is a significant relationship between the number of employees a business has and knowledge about financial planning. Thus, the number of employees a business has does not influence the knowledge about financial planning.*

#### **4.7.3 Test for relationship between turnover per year and understanding of what financial planning is**

*The result indicates a **p-value** of **0.010**. Since the value is less than the level of significance, it implies that there is a significant relationship between the variables. That is, financial planning does not have an influence on turnover per year.*

#### **4.7.4 Test for relationship between the manager-owners' highest educational qualification and knowledge about what is involved in financial planning**

*The test results indicate a **p-value** of **0.765** which is greater than **0.05**. This means that there is no statistical significant relationship between owner-managers' highest educational qualification and knowledge about what is involved in financial planning. Thus the two variables influence each other.*

#### **4.7.5 Test for relationship between ownership of business premises and the feeling that it is a necessity to always draw up budgets**

*The result indicates a **p-value** of **0.001** which is less than 0.05. This result means that there is a significant relationship between the two variables and, thus, they do not have an influence on each other.*

#### **4.7.6 Test for relationship between type of business venture and whether a financial plan is drawn within the enterprise**

*The result indicates a **p-value** of **0.038**, which is less than 0.05. This means that there is a significant relationship between the type of business venture and whether the financial plan is drawn within the enterprise. Thus the two variables have no influence over each other.*

#### **4.7.7 Test for relationship between the size of the enterprise and an understanding about drawing up of budgets**

*The result indicates a **p-value** of **0.048** which is less than 0.05. This shows that there is a significant relationship between the two variables. This means that the size of business does not influence the extent or understanding of drawing up budgets.*

#### **4.7.8 Test for relationship between how enterprises finance their stock and whether they always calculate their net profit**

*The result indicates a **p-value** of **0.806** which is greater than 0.05. This shows no statistical significant relationship between the two variables. This means that the enterprise's source of stock finance does influence the frequency of net profit calculation.*

#### **4.7.9 Test for relationship between the variable of whether they plan their finances and the knowledge of what is involved in financial planning**

*The result indicates a **p-value** of **0.613**, which is greater than 0.05. This shows that there is no statistical significant relationship between the two variables. This means that the knowledge of what is involved in financial planning does influence whether the business owner-managers plan their financials.*

#### **4.7.10 Test for relationship between the who is responsible for drawing up a financial plan in an enterprise and how easy a financial plan is to draw up**

*The result shows a **p-value** of **0.233** which is greater than 0.05. This shows that there is no statistical significance relationship between the two variables. This means that the easiness of drawing up financial plan does have an influence on who draws it up.*

#### **4.7.11 Test for relationship between the source of capital and knowledge about profit planning**

*The test result indicates a **p-value** of **0.012** which is less than 0.05. This shows that there is a statistical significant relationship between the two variables. This means that the source of capital does not influence the business owner-manager's knowledge about profit planning.*

#### **4.7.12 Test for relationship between how much a business spent on capital assets and the ability of owner to analyse financial plan documents and get information**

*The result shows a **p-value** of **0.08** which is less than 0.05. This indicates that there is a statistical significant relationship between the two variables. This means that the ability of the owner-manager to analyse financial plan and get information has no influence on how much is spend on capital assets.*

#### **4.7.13 Test for relationship between the intention to expand the business and the feeling that it is a necessity to always draw up budgets in a business**

*The result indicates a **p-value** of **0.829** which is greater than 0.05. This shows that there is no statistical significant relationship between the two variables. This means that the feeling that drawing up budgets always is a necessity and does have an influence on whether a business intends to expand or not.*



#### **4.7.14 Test for relationship between how the business is going to finance the expansion and the frequency of planning their financials**

*The result shows a **p-value** of **0.045** which is less than 0.05. This reveals that there is a statistical significant relationship between the two variables. This means that frequency of financial planning has no influence in how the business is going to finance the expansion.*

#### **4.7.15 Test for relationship between the size of the enterprise and knowledge of what is involved in financial planning**

*The Chi-square test concerning the size of business and knowledge of what is involved in financial planning provided a **p-value** of 0.032 which is less than 0.05. This score means that there is a significant relationship between the two variables. Thus, the size of businesses does not influence the knowledge they have about financial planning.*

### **4.8 CORRELATION ANALYSIS**

Correlation analysis tests the strength of the identified association between variables (Wegner 1995:101).

Bivariate Pearson's correlation indicates the direction, strength and significance of the bivariate relationship among the given variables of the study (Cooper and Emory 1995:391). Bivariate Pearson's correlation was also performed on the data of this study and the results can show the following standings:

1. The significant of correlation;
2. If there is significance, whether it is positive or negative –( indication of the direction of correlation); and
3. The strength of the correlation.

Correlation analysis was used to find out the relationship among different variables and is aimed at establishing the effect of different variables on the small and micro businesses' perception towards financial planning. Positive values indicate a directly proportional relationship between the variables and a negative value indicates an inverse relationship. The results indicate the following patterns which are presented on the correlation table (Appendix E).

a). *A variable for whether they plan their financials and a variable for who draws up the financial plan have a **p-value** of **0.297**, which is more than 0.05. The variables do not statistically have a significant correlation.*

b). *A variable for the number of employees an enterprise employ and a variable for turnover per year have a **p-value** of **0.737**, which is more than 0.05 and shows no statistical significant correlation. This is a directly related proportionality. This implies that the larger the number of employees, the greater the turnover. The converse is also true. That is, as one factor decreases, so does the other.*

c). *A variable for the number of employees and a variable for whether they plan their finances, however, have a correlation value of **-0.288**. Thus the more planning that is done, the smaller the number of employees an enterprise has and vice versa. This is an inverse correlation.*

d). *A variable for the length of time a business has been in operation and a variable for turnover per year have a **p-value** of **0.089**, which is larger than 0.05. This shows no statistical significant correlation. This is a directly related proportionality and it implies that the longer the business has been in operation, the higher the turnover per year.*

e). *A variable for the highest educational qualification of the owner-managers and the variable for the type of business they operate have a **p-value** of **0.198**, which is more than 0.05. The variables do not statistically have a significant correlation.*

#### **4.9 CONCLUSION**

In this chapter, the findings of the study show that most of the small and micro enterprises' financial planning practices are consistent with the literature reviewed except for some variances, which are mainly due to settings and the country's level of development. Some of the variances are explained in the following paragraphs:

The variances include outsourcing of financial planning, which it is prevalent in developed economies where the accounting services are examined by government. In addition to the variances, is the source of start-up capital. In developing economies, mostly in Africa, the source is the owner's savings or family, so they do not see the need to keep records, unlike developed economies, where they rely more on debt for start-up capital. Small and micro businesses in developed economies are expected to keep proper records of their business finances since the bank will need those plans when they want to lend them money and also that the bank will pay attention to their investment to make sure that it is safe. Therefore businesses are compelled to keep their financial planning up to date. The extent to which small and micro businesses put effort into financial planning is another variance. In developed economies, there is a bigger number of businesses which try to plan their finances than in developing economies. This is due to the fact that literacy levels in developed countries are higher than in developing countries.

This chapter objectively presented the results of the fieldwork conducted among small and micro enterprises in the Durban CBD. It analysed and interpreted the data gathered through questionnaires and questionnaire

extension (asked some questions verbally) by use of descriptive statistics, graphs, and tables and cross tabulation as well as inferential statistics. Through the use of all these statistical analysis methods, the findings are identical. The findings of the study were also compared to the literature reviewed in trying to determine the perception of small and micro enterprises towards financial planning, especially their knowledge, practices and implementation of financial planning advice from financial experts.

The presented outcomes identified the relationships and differences between variables in the study as well as highlight areas where improvement is needed. Based on these outcomes, in the next chapter, conclusions drawn from the study will be presented. It will further highlight the summary, conclusions and limitations of the study and offer recommendations based on the interpretation of the results.

The next chapter will draw a summary of theoretical orientation; state achievements of the study objectives: present conclusions and recommendations as well as determine the possibility for further studies.

## **CHAPTER FIVE**

### **RESEARCH SUMMARY, CONCLUSIONS AND RECOMENDATIONS**

#### **5.1 INTRODUCTION**

In the preceding chapter, the results were analysed and interpreted using tabular, graphical, descriptive and inferential statistics including Chi-Square tests and correlations.

Having outlined the results in the previous chapter, a set of key conclusions can now be formulated. The findings and conclusions are based on previous studies by various researchers (Chapter 2), as well as the results from this study done in order to ascertain the financial planning knowledge, financial planning practices and the implementation of financial planning advice used by small and micro enterprises. This chapter will begin by summarising the theoretical and empirical study. Discussion of the significant findings will then follow as well as the explanation and conclusions to confirm the research objectives. The restrictions encountered during the study process, along with recommendations reached from the investigation are also presented in this chapter. The chapter concludes by suggesting future research opportunities.

#### **5.2 SUMMARY OF THEORETICAL ORIENTATION**

In chapter two, section 2.2, it was established that most of the small and micro enterprises fail in their infancy mainly due to lack of financial planning knowledge among their owner-managers. The need to improve their financial planning knowledge was the main drive behind the theoretical background. Acquisition and practice of simple and basic financial planning processes was emphasised. The existing knowledge business owner-mangers have,

what they are currently practising and their implementation of advice from financial experts were deliberated on in-depth in the literature review in chapter 2.

### **5.3 SUMMARY OF EMPIRICAL STUDY**

An empirical study is any research that reports the results of a study that uses data derived from actual observation or experimentation (Bruns, 2010:1). The empirical part of this study was intended to test the perception of small and micro enterprises owner-managers' perception towards financial planning by looking at the knowledge they have, their practices and the implementation of financial planning.

The results found that the role of education among the participants in the Durban CBD (Warwick Triangle) responses is insignificant. The findings are consistent with the theoretical background. All the findings that had statistical significant results were compared to the literature review and discussed in detail.

The study reveals that most of the small and micro enterprises owner-managers in the Durban CBD (Warwick Triangle) lack financial planning knowledge and they do not plan their finances, they just trade blindly. However, there is room for improvement if they can master the basics of financial planning and put them to use in their businesses.

### **5.4 ACHIEVEMENT OF RESEARCH OBJECTIVES**

Objectives are the backbone of any study and their achievement is of vital importance. The results obtained in chapter 4 have provided support to the

main objectives of the study. The extent to which the objectives of this study were achieved is elaborated as follows:

#### **5.4.1 To establish and evaluate small and micro enterprises' financial planning knowledge**

The findings showed that most (84%) of the small and micro enterprises owner-managers have no knowledge of the processes involved in financial planning. This is shown by their responses to question 2 in which 84 percent of them disagree to the given statements on Figure 4.10, in chapter 4, which are about financial planning knowledge.

#### **5.4.2 To investigate how small and micro enterprises perceive financial planning**

Results from the analysis revealed that the majority (96%) of the small and micro enterprises in the Durban CBD (Warwick Triangle) view financial planning as crucial in the success of their businesses.

This is shown in their responses to question 3 in Figure 4.11 in chapter 4, which is about their financial planning perception, where their responses are above 90 percent in the 'agree' option. The owner-managers feel that financial planning is important although they lack knowledge of financial planning and cannot do it themselves.

#### **5.4.3 To identify the nature and financial planning tools they use**

Like any establishment, small and micro businesses have got their own practices they follow when it comes to finances. It was revealed that there is a lack of formal procedures among small and micro enterprises (Alattar et al. 2009:102-103).

This study showed that the majority of respondents do not plan their finances. They do not draw cash flow statements or analyse their financial statements, they just trade blindly.

#### **5.4.4 To evaluate the implementation of financial planning knowledge by small and micro enterprises gained from financial experts**

Analysis on whether small and micro enterprises owner-managers implement the advice given by the accountants or financial experts findings showed that the majority (52%) do not implement the advice (Figure 4.12, chapter 4). Some of the respondents, who try to implement the advice, implement it in their own way, not as directed by the accountant. About 65 percent indicated that they have never received any advice from financial experts.

### **5.5 RESTRICTIONS AND LIMITATIONS OF THE STUDY**

The limitations of a study may be intrinsic to future research opportunities and the restrictions and limitations which became apparent during the study are highlighted as follows:

1. The study focused only on one area in Durban, but the findings are broader in their general application. A substantial amount of data is available as it pertains universally, and not specifically to South Africa. The findings relate only to small and micro enterprises in the Durban CBD and cannot be generalised to all entities in South Africa or other countries.
2. Language was a big problem during data collection especially to the respondents who are not well-versed with the English language; an interpreter had to be used.



3. Getting clear and adequate information from the respondents was difficult since, normally, most people are not comfortable providing information concerning their finances. The respondents were even more reluctant to provide out information because of an unwarranted earlier incident in which the former deputy Mayor of eThekweni Municipality sent some spies to interview people on their feelings and view about turning the Early Morning Market into a shopping mall. People provided information without any concern to what the information was going to be used for, only to find out later that the information they provided was used against them. Therefore they were sceptical about talking to anyone about their business activities. The respondents initially refused to answer questions. The researcher approached the union leader who convinced the respondents that their information was solely for research purposes.

## **5.6 RECOMMENDATIONS**

The following recommendations are made from the analysis of the information obtained from this research based on its context:

1. The results of this study can also be used as reference for people who are interested in starting their own businesses. The results will provide insights into decision making in starting a small business and also for any companies which are interested in continuing, sustaining and growing their small and micro business activities in the Durban CBD.
2. Having identified some of the challenges facing small and micro enterprises in Durban, it is prescribed that government and its agencies responsible for small, medium and micro enterprises should play an influential role by providing incentives to these businesses.

3. The incentives should be delivered through an establishment that really cares for the success and sustainability of small, medium and micro businesses in the country and should be examined in a further study.
4. On the other hand, small, medium and micro enterprises in Durban should not fully rely on government agencies. They should try to find their own path of progress by relying on strategies which allow them to access new markets, increase their revenue and widen their customer base.
5. Since small and micro enterprises owner-managers' financial planning knowledge is limited, they need a simple yet highly effective reporting system that allows them to monitor business performance on a yearly, monthly, weekly and even daily basis.
6. Small and micro enterprises need to know simple things like the following:
  - How much was paid for a product;
  - How much was the handling, storage, processing and delivery fee;
    - How many units were sold during the day, week or month;
    - What the total sales revenue is;
    - What the overheads are; and
  - What the net profit or percentage is?

## **5.7 RECOMMENDATION FOR FUTURE RESEARCH**

If the selected small and micro enterprises act on the conclusions emanating from this study and the recommendations made, then the avenues for further research consist of the following:

- To investigate the effects or impact of financial planning implementation in the business;

- To research the successes and or failures of businesses due to implementation of financial planning; and
- Since the findings of this study were limited to small and micro enterprises in the Durban CBD, it will be of interest to conduct further research on a wider scale for similar businesses in this category.

## **5.8 CONCLUDING REMARKS**

This study has highlighted the plight of small and micro enterprises in Durban in relation to their financial planning knowledge and the need to improve it for the betterment of their businesses. Financial planning knowledge they have, financial planning tools they are currently using and the implementation of financial planning advice from financial experts were discussed in the literature review. The empirical data which was used for this study was based on questionnaires which were self-administered to each and every one of the respondents.

During the formulation of the problem statement, this study was developed around a number of objectives and these are highlighted as follows:

- To establish and evaluate small and micro enterprises' financial planning knowledge;
- To investigate the financial planning practices employed by small and micro enterprises; and
- To evaluate the implementation of financial planning advice from financial experts by small and micro enterprises owner-managers.

The achievements of the above objectives were evaluated in this chapter.

Apart from the achievements of the research objectives and the part that government has to play in the whole business of small and micro enterprises

in Durban, it can also be concluded that small and micro enterprises owner-managers in the Durban CBD, working on their own or with the assistance of their accountants, need to develop their financial planning knowledge skills if they are to succeed, grow and reap business benefits from the financial information they record.

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## **APPENDIX A**

### **LETTER OF INFORMED CONSENT**

LETTER OF INFORMED CONSENT

24 Heather Road, Glenwood

Durban

4001

November 2011

**The perception of small, medium and micro enterprises in the city of Durban (CBD) ( kwazulu natal (KZN)).**

**Dear Sir/Madam (Respondent)**

I am studying a Master of Technology Degree in Business Administration at Durban University of Technology. This research project is aimed at investigating the perception of small, medium, and micro enterprises towards financial planning and what methods they are currently employing in their businesses and how to improve their financial management methods.

Would you agree to participate in this study? Your participation in this study is voluntary and your co-operation in completing the questionnaire will be greatly appreciated. This research is of high confidentiality and anonymity. There is no right or wrong answers, so feel free to say whatever you feel like and you can withdraw from the study at anytime. Always remember that you

are making a valuable contribution to the project and it might help the small, medium and micro entrepreneurs' in their financial planning.

Available sources of information

If you have any further questions you may contact my supervisor (Mr Myers)  
Department of Auditing and taxation, Durban University of technology.  
Tel: 031 373 5380

Please complete the questionnaire as honestly and as accurately as possible.

I thank you for your co-operation in advance.

Yours faithfully,

Masters student: **Mary Mutanda**: Student number: **20925636** Tel: **0711353344**

Authorisation

Kindly complete the following as consent of your willingness to participate in this research study:

I,-----,have adequately discussed the study with the researcher and understand that I may withdraw from it at any time without giving reasons, and voluntarily agree to participate by being interviewed.

Signature----- Date: -----

## APPENDIX B

### QUESTIONNAIRE

Please mark with an (X) in the appropriate block or number

#### 1. Biographical information

1.1 How long has the business been in operation?	
0-1	1
2-3	2
4-5	3
6 and above	4

1.2 How many employees do you employ?	
0-5	1
6-10	2
11-50	3
51-100	4
101 – 300	

1.3 What is your turnover per year?	
< R100000	1
R101 000 – 500000	2
R500 000 -1mil	3
R1mil – 5,5 mil	4
R1,5 mil -5 mil	5
R5 mil – R10 mil	6
> R10 mil	7



<b>1.4 Highest educational qualification-</b>	
Less than matric	1
Matric	2
Post matric (Diploma, Degree, PhD etc)	3

<b>1.5 Business Premises</b>	
Own	1
Rent	2
Others(please specify)	3

<b>1.6 What type of business do you do?</b>	
Retail trading	1
Manufacturing	2
Technical	3
Tourism/Hospitality	4
Others(please specify)	5

<b>1.7 Which of the following do you fall under?</b>	
Medium business (51 – 100)	1
Small business (10 – 50)	2
micro business (1 – 9)	3

<b>1.8 How do you finance your stock?</b>	
Debt	1
Equity	2
Other	3

## 2. Financial Planning Knowledge

<b>2.1 Do you plan your finances?</b>	
Yes	1
No	2
Other	3

<b>2.2 Who draws up your financial plan?</b>	
Myself (owner)	1
External Accountant	2
Other	3

<b>2.3 How did you finance the start of your business?</b>	
Debt	1
Equity	2
Other	3

<b>2.4 How much did you spent on capital assets this</b>	
R1 – 10 000	1
R10 – 100 000	2
R100 000 and over	3

<b>2.5 Do you intend to expand your business?</b>	
Yes	1
No	2

<b>2.6 How are you going to finance your expansion?</b>	
Debt	1
Equity	2
Cash	3
Government subsidy	4

<b>2.7 Do you agree or disagree with regard to your financial planning knowledge?</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
2.7.1 I understand what financial planning is	1	2	3	4	5
2.5.2 I know what is involved in financial planning	1	2	3	4	5
2.7.3 I know about cash planning	1	2	3	4	5
2.7.4 I know about Profit planning	1	2	3	4	5
2.7.5 I understand how to draw up budgets	1	2	3	4	5
2.7.6 I understand how to draw up income statements	1	2	3	4	5
2.7.7 I understand how to draw up balance sheets	1	2	3	4	5
2.7.8 I am able to analyse the financial plan documents and get information	1	2	3	4	5

### **3 Financial Planning perceptions**

3.1 A financial plan is easy to draw up	1	2	3	4	5
3.2 I know that I should always plan my finances.	1	2	3	4	5
3.3 The financial plan is drawn within the company	1	2	3	4	5
3.4 Cash plan should always be drawn up	1	2	3	4	5

3.5 Profit planning is crucial for business success	1	2	3	4	5
3.6 I feel that it is necessary to draw up budgets always.	1	2	3	4	5
3.7 Drawing up of income statements is a necessity in a business	1	2	3	4	5
3.8 Drawing of a business balance sheet is important	1	2	3	4	5

#### 4. Financial Planning Implementation

<b>To what extent do you agree or disagree with the following statements pertaining to your financial planning knowledge?</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
4.1 I always plan my financials	1	2	3	4	5
4.2 I always calculate my gross profit	1	2	3	4	5
4.3 I always calculate my net profit	1	2	3	4	5
4.4 I always draw up cash flow statements	1	2	3	4	5
4.5 I always analyse financial statements and act accordingly	1	2	3	4	5
4.6 My Accountant always analyse my financial statements	1	2	3	4	5
4.7 I always implement the advice from financial experts (Accountants)	1	2	3	4	5
4.8 I have never received any advice from financial experts	1	2	3	4	5

**Thank you for your cooperation let me ask you the last part of the questions.**

<b>5. What assistance or support would you want to get from business support organisations?</b>
---

--

**Thank you for your valuable time and participation**

## APPENDIX C

### QUESTIONNAIRE RESPONSES

#### How long has the business been in operation?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0 - 1	12	12.0	12.0	12.0
2 - 3	14	14.0	14.0	26.0
4 - 6	20	20.0	20.0	46.0
6 or more	54	54.0	54.0	100.0
Total	100	100.0	100.0	

#### How many employees do you employ?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0 - 5	56	56.0	56.0	56.0
6 - 10	1	1.0	1.0	57.0
11 - 50	42	42.0	42.0	99.0
101 - 300	1	1.0	1.0	100.0
Total	100	100.0	100.0	

#### What is your turnover per year?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid < R100 000	39	39.0	39.0	39.0
R101 000 – R500000	25	25.0	25.0	64.0
R500 000 – R1 million	14	14.0	14.0	78.0
R1 million – R5,5 million	14	14.0	14.0	92.0
R1,5 million - R5 million	5	5.0	5.0	97.0
R5 million – R10 million	3	3.0	3.0	100.0
Total	100	100.0	100.0	

#### Highest educational qualification-Manager/owner

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than Matric	39	39.0	39.0	39.0
Matric	44	44.0	44.0	83.0
Post Matric (Diploma, Degree, PhD etc)	17	17.0	17.0	100.0
Total	100	100.0	100.0	

**Business Premises**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Own	7	7.0	7.0	7.0
	Rent	91	91.0	91.0	98.0
	Other	2	2.0	2.0	100.0
	Total	100	100.0	100.0	

**What type of business do you do?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Retail trading	76	76.0	76.0	76.0
	Manufacturing	2	2.0	2.0	78.0
	Technical	21	21.0	21.0	99.0
	Other	1	1.0	1.0	100.0
	Total	100	100.0	100.0	

**Which of the following do you fall under?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Medium business (51 – 100)	1	1.0	1.0	1.0
	Small business (10 – 50)	48	48.0	48.0	49.0
	Micro business (1 – 9)	51	51.0	51.0	100.0
	Total	100	100.0	100.0	

**How do you finance your stock?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Debt	21	21.0	21.0	21.0
	Equity	74	74.0	74.0	95.0
	Other	5	5.0	5.0	100.0
	Total	100	100.0	100.0	

**I understand what financial planning is**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	37	37.0	37.0	37.0
Disagree	25	25.0	25.0	62.0
Neutral	10	10.0	10.0	72.0
Agree	19	19.0	19.0	91.0
Strongly Agree	9	9.0	9.0	100.0
Total	100	100.0	100.0	

**I know what is involved in financial planning**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	45	45.0	45.0	45.0
Disagree	39	39.0	39.0	84.0
Neutral	4	4.0	4.0	88.0
Agree	4	4.0	4.0	92.0
Strongly Agree	8	8.0	8.0	100.0
Total	100	100.0	100.0	

**I know about cash**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	43	43.0	43.0	43.0
Disagree	39	39.0	39.0	82.0
Neutral	2	2.0	2.0	84.0
Agree	10	10.0	10.0	94.0
Strongly Agree	6	6.0	6.0	100.0
Total	100	100.0	100.0	

**I know about Profiplanning**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	21	21.0	21.0	21.0
Disagree	14	14.0	14.0	35.0
Neutral	3	3.0	3.0	38.0
Agree	47	47.0	47.0	85.0
Strongly Agree	15	15.0	15.0	100.0
Total	100	100.0	100.0	



**I understand how to draw up budgets**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	50	50.0	50.0	50.0
Disagree	30	30.0	30.0	80.0
Neutral			.0	
Agree	9	9.0	9.0	89.0
Strongly Agree	11	11.0	11.0	100.0
Total	100	100.0	100.0	

**I understand how to draw up income statements**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	52	52.0	52.0	52.0
Disagree	29	29.0	29.0	81.0
Neutral	2	2.0	2.0	83.0
Agree	5	5.0	5.0	88.0
Strongly Agree	12	12.0	12.0	100.0
Total	100	100.0	100.0	

**I understand how to draw up balance sheets**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	71	71.0	71.0	71.0
Disagree	24	24.0	24.0	95.0
Neutral	1	1.0	1.0	96.0
Agree	1	1.0	1.0	97.0
Strongly Agree	3	3.0	3.0	100.0
Total	100	100.0	100.0	

**I am able to analyse the financial plan documents and get information**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	39	39.0	39.0	39.0
Disagree	24	24.0	24.0	63.0
Neutral	17	17.0	17.0	80.0
Agree	8	8.0	8.0	88.0
Strongly Agree	12	12.0	12.0	100.0
Total	100	100.0	100.0	

**A financial plan is easy to draw up**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	61	61.0	61.0	61.0
	Disagree	23	23.0	23.0	84.0
	Neutral	5	5.0	5.0	89.0
	Agree	2	2.0	2.0	91.0
	Strongly Agree	9	9.0	9.0	100.0
	Total	100	100.0	100.0	

**I know that I should always plan my finances.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	6.0	6.0	6.0
	Disagree	1	1.0	1.0	7.0
	Neutral	1	1.0	1.0	8.0
	Agree	23	23.0	23.0	31.0
	Strongly Agree	69	69.0	69.0	100.0
	Total	100	100.0	100.0	

**The financial plan is drawn within the company**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	25	25.0	25.8	25.8
	Disagree	12	12.0	12.4	38.1
	Neutral	6	6.0	6.2	44.3
	Agree	14	14.0	14.4	58.8
	Strongly Agree	40	40.0	41.2	100.0
	Total	97	97.0	100.0	
Missing	System	3	3.0		
Total		100	100.0		

**Cash plan should always be drawn up**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	4.0	4.0	4.0
	Disagree	1	1.0	1.0	5.0
	Neutral	3	3.0	3.0	8.0
	Agree	29	29.0	29.0	37.0
	Strongly Agree	63	63.0	63.0	100.0
	Total	100	100.0	100.0	

**Profit planning is crucial for business success**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	1.0	1.0	1.0
	Disagree	2	2.0	2.0	3.0
	Neutral	1	1.0	1.0	4.0
	Agree	24	24.0	24.2	28.3
	Strongly Agree	71	71.0	71.7	100.0
	Total	99	99.0	100.0	
Missing	System	1	1.0		
Total		100	100.0		

**I feel that it is necessary to draw up budgets always.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	4.0	4.0	4.0
	Disagree	2	2.0	2.0	6.0
	Neutral	1	1.0	1.0	7.0
	Agree	22	22.0	22.0	29.0
	Strongly Agree	71	71.0	71.0	100.0
	Total	100	100.0	100.0	

**Drawing up of income statements is a necessity in a business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	6.0	6.0	6.0
	Disagree	1	1.0	1.0	7.0
	Neutral	1	1.0	1.0	8.0
	Agree	26	26.0	26.0	34.0
	Strongly Agree	66	66.0	66.0	100.0
	Total	100	100.0	100.0	

**Drawing of a business balance sheet is important**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	51	51.0	51.0	51.0
	Disagree			.0	
	Neutral	5	5.0	5.0	56.0
	Agree	17	17.0	17.0	73.0
	Strongly Agree	27	27.0	27.0	100.0
	Total	100	100.0	100.0	

	Disagree	Neutral	Agree
<b>I am able to analyse the financial plan documents and get information</b>	63	17	20
<b>I understand how to draw up balance sheets</b>	95	1	4
<b>I understand how to draw up income statements</b>	81	2	17
<b>I understand how to draw up budgets</b>	80	0	20
<b>I know about Profit planning</b>	35	3	62
<b>I know about cash planning</b>	82	2	16
<b>I know what is involved in financial planning</b>	84	4	12
<b>I understand what financial planning is</b>	62	10	28

**I always plan my financials**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	15	15.0	15.0	15.0
Disagree	15	15.0	15.0	30.0
Neutral	5	5.0	5.0	35.0
Agree	38	38.0	38.0	73.0
Strongly Agree	27	27.0	27.0	100.0
Total	100	100.0	100.0	

**I always calculate my gross profit**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	28	28.0	28.3	28.3
Disagree	41	41.0	41.4	69.7
Neutral	3	3.0	3.0	72.7
Agree	12	12.0	12.1	84.8
Strongly Agree	15	15.0	15.2	100.0
Total	99	99.0	100.0	
Missing System	1	1.0		
Total	100	100.0		

**I always calculate my net profit**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	14	14.0	14.1	14.1
	Disagree	13	13.0	13.1	27.3
	Neutral			.0	
	Agree	43	43.0	43.4	70.7
	Strongly Agree	29	29.0	29.3	100.0
	Total	99	99.0	100.0	
Missing	System	1	1.0		
Total		100	100.0		

**I always draw up cash flow statements**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	69	69.0	69.7	69.7
	Disagree	22	22.0	22.2	91.9
	Neutral	3	3.0	3.0	94.9
	Agree	2	2.0	2.0	97.0
	Strongly Agree	3	3.0	3.0	100.0
	Total	99	99.0	100.0	
Missing	System	1	1.0		
Total		100	100.0		

**I always analyse financial statements and act accordingly**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	34	34.0	34.3	34.3
	Disagree	32	32.0	32.3	66.7
	Neutral	27	27.0	27.3	93.9
	Agree	2	2.0	2.0	96.0
	Strongly Agree	4	4.0	4.0	100.0
	Total	99	99.0	100.0	
Missing	System	1	1.0		
Total		100	100.0		

<b>My Accountant always analyse my financial statements</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	47	47.0	47.5	47.5
	Disagree	19	19.0	19.2	66.7
	Neutral	2	2.0	2.0	68.7
	Agree	23	23.0	23.2	91.9
	Strongly Agree	8	8.0	8.1	100.0
	Total	99	99.0	100.0	
Missing	System	1	1.0		
Total		100	100.0		

**I always implement the advice from financial experts (Accountants)**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	29	29.0	29.3	29.3
	Disagree	22	22.0	22.2	51.5
	Neutral	38	38.0	38.4	89.9
	Agree	6	6.0	6.1	96.0
	Strongly Agree	4	4.0	4.0	100.0
	Total	99	99.0	100.0	
Missing	System	1	1.0		
Total		100	100.0		

**I have never received any advice from a financial expert**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	21	21.0	21.2	21.2
	Disagree	14	14.0	14.1	35.4
	Neutral			.0	
	Agree	15	15.0	15.2	50.5
	Strongly Agree	49	49.0	49.5	100.0
	Total	99	99.0	100.0	
Missing	System	1	1.0		
Total		100	100.0		

**What assistance or support would you want to get from business support organisations?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Financial	60	60.0	61.2	61.2
	Skills	18	18.0	18.4	79.6
	Other	20	20.0	20.4	100.0
	Total	98	98.0	100.0	
Missing	System	2	2.0		
Total		100	100.0		

## APPENDIX D

### STATISTICAL ANALYSIS

#### Chi-square goodness-of-fit tests – significant results

The test was done on all questions to ascertain the significance of relationship between variables.

The table summarises the results of the chi square tests.

	How long has the business been in operation?	How many employees do you employ?	What is your turnover per year?	Highest educational qualification- Manager/owner	Business Premises	What type of business do you do?	Which of the following do you fall under?	How do you finance your stock?	Do you plan your finances?	Who draws up your financial plan?	How did you finance the start of your business?	How much did you spent on capital assets this year?	Do you intend to expand your business?	How are you going to finance your expansion?
I understand what financial planning is	0.206	0.099	.010*	0.352	0.912	0.771	0.068	0.184	.026*	0.141	.003*	0.215	0.332	0.065
I know what is involved in financial planning	0.735	0.056	0.078	0.765	0.826	0.900	.032*	0.109	0.613	0.122	.040*	.022*	0.421	0.132
I know about cash planning	0.359	.015*	.000*	0.833	0.901	0.933	.007*	0.189	0.057	0.217	0.062	.017*	0.264	0.091
I know about Profit planning	0.227	0.123	0.639	0.899	0.778	0.109	0.330	0.056	.000*	0.077	.012*	0.179	.043*	.002*
I understand how to draw up budgets	0.174	0.053	0.137	0.246	0.218	0.968	.048*	0.064	.006*	.033*	0.132	0.265	0.067	0.494
I understand how to draw up income statements	0.157	0.189	0.567	0.348	0.171	0.696	0.282	.000*	.000*	0.066	.001*	0.512	0.268	.007*



I understand how to draw up balance sheets	0.286	.000*	0.073	0.760	0.716	0.912	.000*	.000*	0.338	.001*	0.143	0.384	0.265	0.063
I am able to analyse the financial plan documents and get information	0.710	0.053	.035*	0.159	0.736	0.665	0.062	0.658	0.477	.026*	0.260	.008*	0.077	0.142
A financial plan is easy to draw up	0.287	0.072	0.141	0.519	0.577	0.428	.040*	0.234	0.283	0.233	0.506	0.526	0.287	0.159
I know that I should always plan my finances.	0.109	0.934	0.490	0.541	0.979	0.076	0.601	0.563	0.717	.032*	0.136	0.957	0.737	0.776
The financial plan is drawn within the company	0.068	.025*	.002*	0.123	0.304	.038*	.022*	.005*	0.110	.000*	.018*	0.090	0.523	0.085
Cash plan should always be drawn up	0.085	0.893	0.881	0.256	0.988	0.803	0.571	0.541	0.092	.006*	0.069	0.906	0.387	0.466
Profit planning is crucial for business success	0.769	0.879	0.913	0.432	0.997	0.992	0.443	0.057	0.648	.010*	0.329	0.973	0.216	0.794
I feel that it is necessary to draw up budgets always.	0.163	0.960	0.492	0.402	.001*	0.927	0.808	0.269	0.437	.007*	0.270	0.983	0.829	0.057
Drawing up of income statements is a necessity in a business	0.662	0.102	0.950	0.239	0.523	0.872	0.767	0.697	0.587	.024*	0.113	0.747	0.814	0.372
Drawing of a business balance sheet is important	0.355	.012*	0.921	0.423	0.793	0.923	.003*	.008*	0.450	.018*	.043*	0.337	0.764	0.110
I always plan my financials	0.514	.027*	.031*	0.144	0.587	0.394	.002*	0.263	.000*	.000*	0.079	0.263	0.556	.045*

I always calculate my gross profit	0.705	0.086	.005*	0.266	0.974	0.478	0.057	0.268	0.235	0.140	0.242	0.749	0.916	0.230
I always calculate my net profit	0.869	0.237	0.071	0.258	0.583	0.588	0.118	0.806	.003*	.007*	0.165	0.710	0.809	0.734
I always draw up cash flow statements	0.863	.000*	0.194	0.403	0.931	0.882	.000*	.000*	0.160	.002*	.033*	0.476	0.167	.004*
I always analyse financial statements and act accordingly	0.873	.001*	0.148	0.313	0.505	0.951	.000*	.000*	0.733	.005*	.005*	0.634	0.577	0.082
My Accountant always analyse my financial statements	0.798	.000*	.003*	.002*	0.902	0.872	.000*	0.774	0.083	.000*	0.917	.000*	0.661	0.818
I always implement the advice from financial experts (Accountants)	0.163	.000*	0.639	.020*	0.273	0.709	.000*	.004*	.001*	.027*	0.060	0.180	0.611	0.570
I have never received any advice from financial experts	0.123	.050*	.049*	0.340	0.570	0.774	0.070	.029*	0.362	.002*	0.827	0.267	0.394	0.406

For example, the p-value for “What is your turnover per year?” and “I understand what financial planning is” is 0.010. Since the value is less than the level of significance, it implies that there is a significant relationship between the variables. That is, financial planning does have an influence on turnover per year.

## **APPENDIX E**

### **CORRELATIONS**

		How long has the business been in operation?	How many employees do you employ?	What is your turnover per year?
How long has the business been in operation?	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	100		
How many employees do you employ?	Pearson Correlation	0.08	1	
	Sig. (2-tailed)	0.429		
	N	100	100	
What is your turnover per year?	Pearson Correlation	0.089	.737**	1
	Sig. (2-tailed)	0.377	0	
	N	100	100	100
Highest educational qualification-Manager/owner	Pearson Correlation	-0.085	.538**	.560**
	Sig. (2-tailed)	0.4	0	0
	N	100	100	100
Business Premises	Pearson Correlation	0.057	-0.182	-0.11
	Sig. (2-tailed)	0.572	0.069	0.278
	N	100	100	100
What type of business do you do?	Pearson Correlation	-0.123	0.058	0.029
	Sig. (2-tailed)	0.221	0.568	0.773
	N	100	100	100
Which of the following do you fall under?	Pearson Correlation	0.018	-.889**	-.693**
	Sig. (2-tailed)	0.858	0	0
	N	100	100	100
How do you finance your stock?	Pearson Correlation	0.05	-0.035	0.056
	Sig. (2-tailed)	0.624	0.727	0.577
	N	100	100	100
Do you plan your finances?	Pearson Correlation	0.054	-.288**	-0.18
	Sig. (2-tailed)	0.593	0.004	0.075
	N	99	99	99
Who draws up your financial plan?	Pearson Correlation	0.189	0.008	0.011
	Sig. (2-tailed)	0.081	0.944	0.92
	N	86	86	86
How did you finance the start of your business?	Pearson Correlation	0.138	0.012	-0.073
	Sig. (2-tailed)	0.169	0.909	0.471
	N	100	100	100
How much did you spent on capital assets this year?	Pearson Correlation	0.018	.575**	.540**
	Sig. (2-tailed)	0.86	0	0
	N	100	100	100
Do you intend to expand your business?	Pearson Correlation	0.136	0.005	-0.072
	Sig. (2-tailed)	0.177	0.962	0.477
	N	100	100	100
How are you going to finance your expansion?	Pearson Correlation	-0.066	-0.106	-0.201
	Sig. (2-tailed)	0.535	0.319	0.056

\*\*. Correlation is significant at the 0.01 level (2-tailed).

\*. Correlation is significant at the 0.05 level (2-tailed).

## Correlations

Highest educational qualification- Manager/owner	Business Premises	What type of business do you do?	Which of the following do you fall under?	How do you finance your stock?	Do you plan your finances?	Who draws up your financial plan?
1						
100						
-0.099	1					
0.326						
100	100					
.198*	0.053	1				
0.049	0.599					
100	100	100				
-.538**	0.098	-0.173	1			
0	0.334	0.085				
100	100	100	100			
0.014	-0.126	0.016	0.04	1		
0.891	0.213	0.876	0.695			
100	100	100	100	100		
-0.183	-0.069	-0.088	.346**	0.021	1	
0.07	0.498	0.387	0	0.839		
99	99	99	99	99	99	
-0.009	0.046	0.023	-0.06	-0.016	.297**	1
0.937	0.672	0.835	0.583	0.883	0.006	
86	86	86	86	86	85	86
-0.136	-0.13	-0.046	0.073	.538**	0.075	-0.14
0.178	0.196	0.648	0.472	0	0.459	0.197
100	100	100	100	100	99	86
.439**	-0.164	-0.051	-.508**	-0.004	-0.13	-0.012
0	0.103	0.617	0	0.967	0.198	0.914
100	100	100	100	100	99	86
-0.091	0.169	0.011	0	0.01	0.128	0.094
0.369	0.093	0.912	1	0.919	0.207	0.39
100	100	100	100	100	99	86
-0.114	0.179	0.035	0.069	0.087	0.115	0.06
0.283	0.09	0.739	0.516	0.41	0.279	0.601



How did you finance the start of your business?	How much did you spent on capital assets this year?	Do you intend to expand your business?	How are you going to finance your expansion?
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1			
100			
-0.007	1		
0.945			
100	100		
-0.03	0.06	1	
0.765	0.556		
100	100	100	
0.185	-0.051	.257*	1
0.078	0.632	0.014	





## APPENDIX F

### DESCRIPTIVE STATS RESULT

	N	Mean	Median	Mode	Std. Deviation
	Valid				
I understand what financial planning is	100	2.38	2.00	1	1.384
I know what is involved in financial planning	100	1.91	2.00	1	1.173
I know about cash planning	100	1.97	2.00	1	1.185
I know about Profit planning	100	3.21	4.00	4	1.423
I understand how to draw up budgets	100	2.01	1.50	1	1.367
I understand how to draw up income statements	100	1.96	1.00	1	1.355
I understand how to draw up balance sheets	100	1.41	1.00	1	.830
I am able to analyse the financial plan documents and get information	100	2.30	2.00	1	1.374
A financial plan is easy to draw up	100	1.75	1.00	1	1.226
I know that I should always plan my finances.	100	4.48	5.00	5	1.030
The financial plan is drawn within the company	97	3.33	4.00	5	1.694
Cash plan should always be drawn up	100	4.46	5.00	5	.926
Profit planning is crucial for business success	99	4.64	5.00	5	.706
I feel that it is necessary to draw up budgets always.	100	4.54	5.00	5	.937
Drawing up of income statements is a necessity in a business	100	4.45	5.00	5	1.029
Drawing of a business balance sheet is important	100	2.69	1.00	1	1.796
I always plan my financials	100	3.47	4.00	4	1.417
I always calculate my gross profit	99	2.44	2.00	2	1.409
I always calculate my net profit	99	3.61	4.00	4	1.398
I always draw up cash flow statements	99	1.46	1.00	1	.896
I always analyse financial statements and act accordingly	99	2.09	2.00	1	1.031
My Accountant always analyse my financial statements	99	2.25	2.00	1	1.452
I always implement the advice from financial experts (Accountants)	99	2.33	2.00	3	1.088
I have never received any advice from financial experts	99	3.58	4.00	5	1.679

## APPENDIX G

### SAMPLE SIZE DETERMINATION

#### Sample size of a given population size

N	S	N	S	N	S
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	175	2000	322
55	48	320	181	2200	327
60	52	340	191	2400	331
65	56	360	196	2600	335
70	59	380	205	2800	338
75	63	400	210	3000	341
80	66	420	217	3500	346
85	70	440	226	4000	351
90	73	460	242	4500	354
95	76	480	248	5000	357
100	80	500	260	6000	361
110	86	550	265	7000	364
120	92	600	274	8000	367
130	97	650	278	9000	368
<b>140</b>	<b>103</b>	700	169	10000	370
150	108	750	186	15000	375
160	113	800	201	20000	377
170	118	850	214	30000	379
180	123	900	234	40000	380
190	127	950	254	50000	381
200	132	1000	269	75000	283
210	136	1100	285	1000000	384

Source: Sekaran and Bougie (2010:295-6)

N- Number of participants S- Sample size

For this study (N) – 140 and (S) – 103. 103 was used since it is the number nearest to 100 which is the sample size for this study.