

DURBAN UNIVERSITY OF TECHNOLOGY

**ASSESSING THE INFLUENCE OF FINANCIAL LITERACY SKILLS ON
SMALL AND MEDIUM BUSINESS SUCCESS IN MKHAMBATHINI**

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ABSTRACT

The success of small and medium enterprises (SMEs) is vital for the economic growth of any emerging economy, including that of South Africa. The sector directly impacts the country's growth prospects since it is a significant contributor to the gross domestic product (GDP) however, the failure rate of SMEs is high throughout the world, and South Africa is no different. This study adopted to examine the influence of financial literacy skills impact on SME success. The success and sustainability of any SME rely heavily on the technical skills to manage financial issues within the business. This study adopted a quantitative research approach by administering an in-depth questionnaire to SME owners or managers. This study was quantitative and descriptive. The empirical results revealed that efficient use of information on income, expenditure, borrowing, business protection and saving/investment has a significant impact on SMEs' success in Mkhambathini Municipality. This study concluded that financial literacy is an important tool for the success of a medium and small business because it helps to understand and evaluate the information needed to make daily decisions that have a financial impact on business. This study, therefore, recommends timely training of small business owners on how to use financial information attached to their businesses to achieve business growth within the shortest time in the region.

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DEDICATION

I dedicate this work and give special thanks to my mother, the late Mrs Sikazile Meyiwa Mkhize. I would not have been able to complete this study without your unwavering support and encouragement throughout my study until you took your last breath last year. Thank you, Ma.

DECLARATION

I, Joyful Sindisiwe Mkhize, declare that the work presented in this dissertation is based on my research and that I have not submitted it in part or in full to any other institution of higher learning to obtain an academic qualification.

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Joyful Sindisiwe Mkhize

15 May 2024
Date

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LIST OF ACRONYMS AND ABBREVIATIONS

DSBD Department of Small Business Development

DTI Department of Trade and Industry

GDP Gross Domestic Product

GEM Global Entrepreneurship Monitor

IDC Industrial Development Corporation

LED Local Economic Development

NEF National Empowerment Fund

Seda Small Enterprise Development Agency

SME Small and Medium Enterprises

SPSS Statistical Package for the Social Sciences

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CHAPTER 1

OVERVIEW OF THE STUDY

1.1 Background to the study

The executive authority pronounced a proficient department of small business development in 2014 after recognising the significance of expanding small businesses in the economy (State Enterprise Development Agency 2016:2). Amongst other sources of the dominant collapse rate of SMEs, is the absence of important professional skills like financial management knowledge (Mamabolo, Kerrin and Kele, 2017:3). According to Iramanin, Suryani, and Lindiawati (2017:284) financial literacy is the capacity to study, investigate, lead and communicate the monetary circumstances that impact human welfare. This comprises creating financial recourse and discussing economic events. In SME setting, financial literacy is the scope to scrutinise, oversee and examine the economic conditions of an SME. The bigger the SME owners leverage, the more fitting it is to make the SME investment, leverage commitments take advantage of investment opportunities that can improve the company's benefit. Atkin and Messy's (2012) study express that financial literacy is paramount for shareholders since it allows shareholders to grasp and manage economic output. The people's shallow degree of financial literacy is one of the recent commercial predicaments of the thriving casual fraternity.

Financial literacy does not only include trade and return on investment beside wealth, planning and banking fundamentals. Financial literacy should be seen as the interpretation and application of financial aspects, which allows for holders to engage in improved economic decision making. Samkin, Pitu and Low (2014:47), on the other hand, narrate financial literacy as the ability to acknowledge economic knowledge together with financial statements and cash flows.

There is a universal understanding that in spite of their size, Small-Medium-sized Enterprises (SMEs) generate more employment compare to big businesses and are an important factor for development (Guliman 2018:25). Thus, innovative ideas are developed by people whom start-up small businesses and those individuals in many investigations are known as entrepreneurs or small business people (Shangase2016). Entrepreneurship can be categorised into five categories (Shangase 2016. These categories comprise of casual, small, medium, large, and macro-enterprises through which one has its particular attributes with discreet necessity and quality (Iramani, Suryani and Lindiawati 2017).

The five categories of business differ by which SMEs are explained as an enterprise that hire not more than 250 employees, explicitly in South Africa (SA) (Government Gazette of the Republic of South Africa 2003). The description of SMEs varies in all nations (Ngubane 2015). Such businesses are usually privately owned and managed as sole proprietorships. The lawful explanation of a small-medium scale enterprise also differs world-wide as suggested by Dahmen and Rodrigues (2014). SMEs are also in charge managing innovation and competition in various economic sectors (Guliman 2014:16).

South Africa's National Small Business Act 1996, as amended in 2003 defines an SME as "a separate and distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including its branches or subsidiaries if any is predominantly carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards and can be classified as an SME by satisfying the criteria mentioned in the schedule of size standards" (Government Gazette of the Republic of South Africa 2003:26).

In the past, SMEs were identified as a major custodian for developing growth in countries. For example, Guliman (2015:19) noted that SMEs had

significantly contributed to minimising the unemployment numbers, which steer to the nourishment of societies across the globe. Despite these notable advantages of SMEs, they are frequently faced with many challenges that destroy them at the early stage, before they are fully fledged established enterprises. Most SME owners encounter a challenge whenever they try to acquire lending for their businesses. When they do get the loans, the owners struggle to make the payments for interest making it impractical to break even (Briere 2014).

Looking at SME trends worldwide, it is clear that SMEs are an essential driver in addressing the challenges of job creation, economic growth and equitable distribution of wealth (Musie 2016). However, SME failure reduces per capita income of the country, poverty, negative balance of trade and payment, increased job losses and unemployment. Therefore, it is necessary to manage the economic growth of each country by encouraging entrepreneurship which lead to the creation of viable SMEs. Creating these established SMEs requires total dependency on entrepreneurship and the need for entrepreneurs (both potential and existing) to possess plausible entrepreneurial characteristics and business practices that enable them to create sustainable SMEs. Consequently, in order to support the long-term survival of SMEs there is a need to critically address all kinds of enterprises characteristics and business practice (Briere 2014). The triumph of small and medium enterprises (SMEs) is necessary for the South Africa's financial events as it directly impacts economic growth. SMEs make an enormous contribution to economic development through distribution of wealth, creation of employment, advancement of technology, poverty alleviation and innovation (Muhammad 2024).

The non-success of SMEs is outrageous internationally, South Africa is no different. The effectiveness of any small and medium enterprise (SMEs) depends on the capacity of the business person to possess financial literacy expertise in controlling financial issues within the enterprise. Lately, financial

literacy has gained longing interest from many associates involving academics, government and the private sector (Roberts, Struwig, Gordon, Viljoen, and Wentzel 2014).

After the financial meltdown in 2008, an extended quantity of nations implemented developmental programs to enhance their citizens' financial literacy intensity. Nevertheless, Bay, Catusus and Johed (2014:36) posit that financial literacy is an idea that must be learnt in practically because the attributes that constitute financial literacy change with time. Consequently, the country's plans dealing with financial literacy challenges must arise from knowledgeable research. Nyambonga, Nyamweya, Adi, Njeru and George (2014:181) reported that one-half of SMEs make it through the first five years, and only a few grow into real businesses that succeed utilising available innovation strategies. Notably, Karadag (2015:25) articulated that below the belt financial management were amongst causes why SMEs do not succeed.

According to Otieno (2016:1), past literature on financial literacy and financial performance direction of SMEs, although the direction of causality is not clear. The author further states that many SMEs fail because of a lack of financial literacy skills. Drexler, Fisher and Schoar (2014) posited that normally business people have limited financial literacy skills to make complex financial decisions. Business people do not possess financial literacy skills, thus undermining the ability to access different sources of financing, which can assist in growing and sustaining the business.

According to Sibanda (2013:660), financial literacy is defined as the aptitude of a human to form a knowledgeable choice and make successful determination regarding the handling of money; thus, financial literacy is necessary for small and medium business owners. Widdowson and Hailwood (2007:39) inferred that financial literacy assists humans in capitalising on the increased financial competition by presenting their risk management knowledge and skills. Similarly, Sindani (2019:1) agrees with the authors

above that financial literacy is a person's ability to understand how money can be used or managed to improve situations.

Sindani (2019:1) further posited that financial literacy includes the potential to arrive at better decisions, take appropriate action for the management of cash flows and the ability to eye appropriate financial decisions. Aribawa (2016) found that financial literacy impacts a firm's performance and business stability. Lusimbo (2016) articulated that business owners with low financial literacy levels accounted for minimal business development.

According to Fatoki (2014), the victory of SMEs is based mainly on the financial management competences of entrepreneurs. Disney and Gathergood (2012:3) declares a powerful connection with financial literacy and consumer financial investments. The writers highlighted that people with minimal standards of financial literacy paid more interest when borrowing money than those with high financial literacy levels.

Muhammad (2024) also posited that people with elevated levels of financial literacy would probably settle minimum return on credit cards and mortgages. According to Cant (2013), investors with maximum levels of financial literacy get higher returns on investment. Apart from allowing better financial decision making, Financial literacy also assist people to adapt to changes that impact everyday financial well-being, like recession, rising unemployment and fast-growing inflation (Otieno 2016:2). Similarly, Samkin, Pitu and Low (2014:45) is consistent with the other authors reporting that financial literacy is at all levels. it is also essential to promote social cohesion. In a financially literate community, people engage positively.

1.2 Problem Statement

Unemployment is recognised as a serious factor hindering economic recovery and delaying continuous economic development (Scheers 2016: 349). SMEs are pin pointed as the sector that furnish employment and skills development (Mohamed et al. 2013, cited in Mbatha 2015:4). SMEs are internationally known as the steering wheel of economies everywhere. It can be deemed that attention to the effect of financial literacy on SME's success takes part in an essential role in securing growth of SMEs (Roberts, Gordon, Struwig, Viljoen and Wentzel (2014). Atkinson and Messy's 2012 study (cited in Musie 2016) pinpoints that financial literacy is important in managing a business. Good financial expertise in a business can make a distinction, a manager who understands the financial books of an organisation knows the business better. (Yawson 2018:9). According to Sindani (2019:2), despite scholars agree about the important part of SMEs in economic development, there is still uncertainty as to why some SMEs grow and others remain the same or close business altogether.

All economies pursue to depend on SMEs to act a crucial part in activating and strengthening profitable development. Mills and McCarthy (2014) believed that SMEs hire a huge fraction of the private sector, which creates 60 to 80 per cent of net new employment annually in the United States. Lusimbo (2016) posited that 91 percent of official business entities in South Africa are SMEs, contributing between 52 to 57 percent to the GDP and about 61 percent of employment. A thriving SME, as a result, accord immensely to the economy by creating of employment. It is evaluated that SMEs are accountable for nearly by 60 % of private sector employment and contribute almost 57 % to the gross domestic product of the country (South African Reserve Bank 2016:19). Looking at the importance of the socio class role played by SMEs in South Africa, SMEs must succeed. The success rate of SMEs in South Africa is relatively low. Numerous studies conducted by Karadag (2015:26), Zondo and Thusi (2016:211) and Mamabolo, Kerrin and Kele (2017:2) contended that

lack of financial management skills, poor managerial and marketing skills as the main reasons for the high rate of failure among SMEs.

Mungal and Garbharan (2014) posited that the non-success rate of SMEs in South Africa is considered excessive in comparison to other countries. Mthabela (2015) and Leboea (2017) share the same sentiments. According to Lekhanya (2015), this is because of factors like leadership. As stated by Kimberlee (2019), management conduct of leaders are important factors that affect SME continuity and growth. Growth in economies today pays attention to priorities like productivity through innovation. This innovation is an important condition for the acquisition of technology and organisational change (Simodisa 2014).

Fatoki and Odeyemi 2010 echo the same sentiment that the poor success rate of SMEs is outrageous, approximately 75%, in South Africa. According to Ulla, Naimi and Yusoff 2016 even in developed countries, 80% to 90% of SME fail within the first two years. Smit and Watkin 2012 concur that the failure rate for South African SMEs is 75 %.

1.3 Research objectives

- To assess the current literacy skills of SME managers.
- To assess whether financial literacy skills impact SME success in Mkhambathini.

1.4 Significance of the study

Such a research is crucial because, as Ngubane (2015) posits, the most apparent advantage of small business growth is the contribution SMEs make to employment. Many studies (Obago 2014) (Lekhanya 2017), (Dzomonda 2018) and (Musie 2016) stated that small business plays a pivotal part in creating employment.

Furthermore, this study is crucial when bearing in mind that micro businesses in South Africa normally fail within two years. There-fore, this study intends to establish financial literacy and its components as a key factor to SME success. SMEs are known internationally as an essential root of creativity, innovation and flexibility (State enterprise Development agency 2016:6). Muriithi (2017:36) confirms that it has been established that SMEs can assist in reducing unemployment poverty and inequality. Muriithi (2017:36) further states that SMEs are notably the engines directing economic development.

According to Rambe and Moswenyane (2017), although small business contributes significantly to the reduction of property. The governing authorities are deeply concerned about the rate at emerging enterprises collapsing. There is a common perception within scholars that studies that merges the SMEs and financial literacy are limited, particularly in the South African context (Fatoki, 2014:151). Mabula (2018:34) posits that few studies in emerging economies have attempted to analyse financial literacy based on consumers. There is limited literature on financial literacy skills and SMEs, particularly in the Mkhambathini area. This study focuses on the part played by financial literacy skills in SME business success.

problem statement, and objectives. The significance of the study is also provided. This chapter concludes with a brief overview of the remaining chapters of the study.

Chapter Two: Literature Review Chapter two provides a literature study on the definition of small business and micro-enterprise as entrepreneurship Africa. Creation of employment opportunities by SME, innovation and creativity contribution of the SME sector, SME contribution to economic growth and development, challenges faced by SMEs in accessing financial literacy, labour challenges, lack of skilled and experienced employees, lack of managerial skills, limited access to finance, Demand factors, Information communication and technology, Role of government in promoting SME, development finance institution and National empowerment fund

Chapter Three: Research methodology. The research paradigm is quantitative. This covers the research design, the method of data collection, sample size and sampling technique, and the method utilised for data analysis.

Chapter Four: Data analysis/Process Data Chapter four deals with the presentation and discussion of data obtained from the distributed questionnaire to selected SME owners in Durban KZN. The results are integrated with concepts identified during the literature review,

Chapter Five: Introduction, review of the major findings, academic contribution, private sector, educational institution, entrepreneurs, limitation of the study, suggestion for further studies, recommendations and conclusion

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This segment presents an extensive literature review on small and medium enterprises (SMEs), financial literacy, and entrepreneurial behaviour. The study includes a conversation on the significance of SMEs in the world, challenges experienced by SMEs, and budgeting. Debt, access to finance and savings.

2.2 The significance of SMEs in the economy

A considerable part of the economy of emerging economies is made up of SME, these businesses are the practical growth and employment chance for many people in the world (Cant 2013). The bigger economic wealth is derived from SMEs (Simodisa 2014). SMEs are important in presenting fresh business ideas (Mahohoma,2018).

In the African continent, indispensable existence of SMEs is experienced. Nevertheless, SME's part is not only for economic growth but also for transformation and poverty alleviation (Makasi 2023). Moreover, the authority of SMEs involves modernisation and feasible growth. Compatible with the study, the government of Kenya and

Zambia have recently been enthusiastically entangled in taking on policies to generate sustainable and competitive SMEs (Ndesaulwa and Kikula,2017). Furthermore, the SME fraternity worldwide is extensively encouraged, and the sector's contribution to the creation of employment, economic growth and innovation is discussed below.

The unemployment disaster faced by South Africa remains in a quarter of the people being without jobs, and those who are tired of looking for jobs are incorporated; the number increases to almost 40 percent (Lekhanya 2015). Dissimilarly, to other economies, the amount of economic activity in South Africa is minimum. The findings of the Global Entrepreneurship report 20 14 declared that there is a direct relationship between the level of early-stage entrepreneurship activity and per capita income. However, the SME sector's vital contribution in economically developing a nation has been acknowledged internationally (Pietrzak 2014).

One of the sources of high SME collapse is the deficiency of key business skills (Mamabolo et al. 2017). The lack of good financial management is one of them (Musie 2016). Yearly a substantial amount of South Africans have cars, houses, and other business assets, repossessed by banks due to the inability to settle their debt in time. This is an example of bad behaviour. Sound financial management behaviour is an important element of the personal lives of successful entrepreneurs (Plakalovi 2015). As indicated by Dzomonda and Fatoki (2016) productive financial management conduct enhances the performance of rural enterprises. The authors further stated that financial management skills are one of the many critical aspects required for a small company's success.

Lekhanya (2015:21) posits the amount of unsuccessful SMEs are estimated at 70 to 80 percent. Kennon, Schutte, and Von Leipzig

(Bugwadin (2022) believes that the failure rate is because South Africa is unable to overcome the issues of access to funding, which translate to a lack of ability to acquire needed physical, human and consulting resources.

Entrepreneurial pursuit apart from adding value to productivity and create employment but also assist in developing financial freedom (Plakalovi 2015). SMEs are seen as the drivers of economic growth and unbiased development in emerging economies. SMEs are labour-intensive, capital saving and able to create a billion jobs the universe needs by the end of years (Agwu and Emeti 2014). According to Ndesaula and Kikula (2017), SMEs are crucial in guaranteeing survival of less privileged households.

According to Serame (2019), there are roughly 5.6 million SMEs in South Africa, of which 17.3 % are affiliated with businesses of Intellectual Property Commission and possess a bank account. The formal sector presented itself as more informed whites in Western Cape and Gauteng, with a higher turnover. Nonetheless, it was revealed that most black-owned SMEs are in the non-formal sector. Table 2.1 outlines the key indicators of SMEs in South Africa.

Table 2.1 Key small and medium enterprise indicators

Key Indicator	2015 Q2
Number of SMEs	2 251 821
Number of formal SMEs	1 497 860
Number of informal SMEs	1 497 860

SME owners as a % total employment	14%
% Operating in trade and accommodation	43 %
% In Community Services	14%
% In construction	13 %
% Operating in finance and business services	12 %
% Black Owned SMEs	34%
% Operated Income groups	7%

Mahohoma (2018)

According to SME South Africa (2018), 56 % of SMEs are located in Johannesburg, 11% in Cape Town and 11% Durban and the remaining are based around other cities. Additionally, SMEs in South Africa 2018 contended that many of SME owners are males (52%) and the highest number of SMEs are black African. 47% percent hire between 2 to and 5 individuals. The remaining number is where the business owner is just the only employee. Side by side to other African nations, SME South Africa (2018) revealed that South Africa's rate of emerging entrepreneur is very minimum, with emerging businesses noted at 60% existing in not more than three years. As stated by Global Entrepreneurship Monitor South Africa (2016/17), Herrington, Kew, and Mwanga (2017) distinguished that the entrepreneurial activity in the 25-34 age group is less than a third of the African average and substantially lower than the average for efficient, driven economies at 17%. South Africa is classified at number 58 out of 65 countries regarding entrepreneurial participation by 25-34-year olds. A

discouraging result likely a factor to South Africa's decrease in the total early-stage entrepreneurial activity and is a cause of concern in its implications for future entrepreneurial activity in the country. Table 2.2 outlines the findings.

2.3 Creation of employment opportunities by SMEs

According to Ntuli (2022), the significance of SMEs is concerned with creation of employment and attending to social issues. In growing nations, SMEs are accepted as a solution to reduce unemployment, as SMEs are more labour intensive than bigger businesses. The establishment of SMEs is a serious initiative regarding the elimination of poverty and escalating employment to impoverished places. Attribute to scarce work opportunities, authorities and partners have moved the focus to the empowerment and development of the SME sector, which is labour-intensive and makes an eloquent and substantial contribution to the creation of employment (Makasi 2023). SMEs generate approximately 80% of all new employment opportunities, and more than 70% of the South African working class is employed in the sector (Seda 2016: 6).

As stated in the Quarterly Labour force survey (2017:2), the principal pandemic challenge in South Africa is the excessive unemployment rate of approximately 27.7 %. SMEs are not only a tool utilised to create employment but also, they take over retrenched individuals (Smit and Watkins 2012:6325). According to Makasi (2023), in many growing economies, SMEs are more adaptable and accessible to changes in the economic situations. SMEs need minimal funds and for that reason can generate acceptable levels of continual employment. Internationally, SMEs supply around 60% of employment in the European Union. Zondo (2023) also concurs that SMEs are fundamental job creators whilst, on average large companies

downsize and retrench personnel. However, Ibrahim and Manmood (2024) assert that the capacity of SMEs is exaggerated since SMEs contribution in the creation of jobs has been non-permanent since most SMEs collapse before their fifth year of business, further contributing to a lack of employment.

According to the National Small business act no. 102 of (1996:2), a small business is explained as “a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries” According to Mbatha (2015:13), SMEs are a very important factor in the economic growth of the business sector. Promoting SMEs is accepted as the key to economic growth, and job creation (Ncube,2016) further states that the contribution towards growth, job creation and social progress is important, and SMEs are regarded as an essential element in achieving economic growth.

Global Entrepreneurship Monitor report [GEM] (2015) opined that Botswana and Senegal are top performing African countries with regard to entrepreneurship with a total entrepreneurship activity (TEA) of 33% and 38%, respectively, and South Africa’s TEA continues to slog behind at 9.2%. A developing country like South Africa is expected to have a TEA of about 13 % (Global Entrepreneurship Monitor 2015). This paints a bleak picture of SME sectors' ability to contribute meaningfully to economic growth. The report above produced in (2016/2017) also recorded relatively low total entrepreneurship activity progresses to be vulnerable entrepreneurship possibility and economic growth. The GEM depicted a desolate picture of South Africa’s unemployment rate, which has been reported at almost 20.6 percent, with an expanded rate above 40 percent and youth unemployment at over 65 percent.

The unreliability of the country's political space has spilt over to the business landscape, which is indicated by the rating agencies' downgrade to junk status. Singer, Amoros and Moska (2014:24) share the same sentiment that South Africa's TEA is low compared to its counterparts. Moreover, the nation's early-stage entrepreneurial activity is also very low at 7 %. Musie (2016:9) articulates that an entrepreneur is believed to be the cause for discovering and driving new combinations of production factors to create a social economy that would employ the teeming population, especially the youth. Musie (2015) argued that an entrepreneur is an individual who spots potential in an opportunity and device plans to achieve success in the market and earn profits.

Bagwandin (2022) highlighted those entrepreneurial motivations, often including self-realisation, financial success, personal growth, status and autonomy. Wu (2017:12) examined the determinants of being a necessity versus an opportunity entrepreneur tend to be male, younger, wealthier, more proactive and optimistic. Behavioural intentions are a means of explaining why people partake in entrepreneurial activity, and others do not. Significantly, Msomi (2022) posited that entrepreneurs identify an opportunity to create, and grow successful organisations. Shangase (2015:3) further states that it is pivotal to note that creating SME does not always mean it will grow and be successful. The nation is faced with low levels of entrepreneurship and growth in the SME sector, even though SMEs have an essential role in dealing with the challenges of our country. SMEs globally have a high failure rate (Mahohoma 2018), which is no different to SMEs in South Africa. SMEs in South Africa absorb only about 55% of the employment, compared to other countries like India and China, where 90% of the employment is absorbed by SMEs (Mahohoma,2018).

Entrepreneurship is a precondition for any business. According to a report by the Global Entrepreneurship Monitor (GEM 2017), South Africa is falling behind its peers. The youth of South Africa and the youth of Angola, Botswana, Ethiopia, Ghana, Malawi, Namibia, Nigeria, Uganda and Zambia were compared in a GEM survey in 2012, where the rate of perceived opportunities for South Africa came in at 39%, well below the average of 70% for sub-Saharan Africa. 39% was the lowest percentage overall. The survey also revealed that South Africa's rate of perceived capabilities for its youth is also the lowest at 40% compared to sub-Saharan Africa, with an average of 76%. South Africa continues to feature below the sub-Saharan Africa average of 60% for a pool of potential entrepreneurs for the youth population at 20 % (GEM 2017).

The overall entrepreneurial climate for entrepreneurship development in South Africa appeared to be unfavourable when out of 54 countries, South Africa ranked 34, ranging in income levels and regions, in terms of total entrepreneurial activity, in 2010 (Herrington, Kew and Kew, 2010). In South Africa, SMEs stretch across all sectors of the economy (Finscope, 2010). The majority (78.7%) of small businesses in South Africa offered retail services, whilst only 21.3 % provided services to their clients. According to Abor and Quartey (2010), 91% of formal business entities are SMEs, contributing significantly to GDP and absorbing a big percentage of the labour force. The majority of South African SMEs remain in the early business phases, which is less than 3.5 years since start-up, lacking growth. The performance in this sector is unsatisfactory and is evident from the number of liquidations inactive enterprises registered. The evidence is further supported by the change in business focus within the first three years of the enterprise being in operation (Shamileee 2014).

The new global economy is an economy of innovative ideas and technology. The creation of jobs results from innovation and the discoveries that lead to entrepreneurship. The capacity to design new technology and improve existing technology has brought unique change and critical role-played by SMEs. The creativity of small businesses is the factor that fuels entrepreneurship spirit and economic growth (South African Reserve Bank 2016:9). It is eminent that SMEs develop innovative products suitable for local communities by attracting and training new talent. (According to Lusimbo 2016) SMEs are considered more innovative than larger businesses for reasons such as lack of beaurocracy, competitive markets, and stronger incentives. SMEs are regarded as technology leaders and important leaders in many industries (Sindani 2019).

Zondo (2023) maintains that SMEs are a nest for the improvement of entrepreneurship, innovation and fierce behaviour and provide a foundation for a longer growth period and SME advancement to larger businesses. Kikula (2017) posits that SMEs are praised for their participation in availing competition to existing businesses, reducing prices and providing new products through innovation and technological advancement. Growing innovation, international competition and different customer needs and effective utilisation of resources require the need for new kinds of management expertise. Leadership should be considered an inclusive, joint and reflective process based on values and ethics (Komitu 2019). Sindani (2019) believes that for SMEs to be sustainable, it is critical that SMEs grow a culture of innovation in their businesses through the training of staff. This is of great importance because leadership play an essential role in the execution of sustainable development and in stimulating both innovation and competition (Omoruyi, Olamide, Gomolemo and Donath 2017).

The establishment of a successful SMEs may attain economic growth Katarag (2015:29), as the employment opportunities created by SMEs will result in individuals earning income, which leads to an increase in demand for goods and services. According to Makasi (2023), SMEs play a massive role in improving the standard of living. The diversity of SMEs has become a vehicle for economic growth and development. According to Sibanda (2013:648), prosperous SMEs not only absorb a substantial part of the employed labour force, but they also reduce crime and government expenditure. Guliman (2015) posits that SMEs are among the most vital drivers of which low-income households can reduce poverty. Small and medium enterprises are perceived as playing an important role in numerous economies. Consequently, authorities worldwide focus on the development of SMEs. Despite their importance, SMEs are burdened by many challenges, and all of these are discussed below.

Any country desirous of sustainable economic growth must find ways of inspiring the development and growth of SMEs (Ngubane 2015:13). It is further stated that even though SMEs do not hire a massive number of individuals, their existence in multiple forms hires a more significant number of individuals in the long run. Makasi (2023) found that for SMEs to grow and reach their true potential, emerging economies like South Africa need to address the challenges of unemployment and slow economic growth. Muhammad (2024) is of the opinion that SMEs face many challenges that disturb growth and development, including a lack of managerial skills and incompetence found in entrepreneurs that fail to adapt to technological trends and struggle to access finance. Most SMEs face difficulty choosing a location for their businesses and often high government regulations. Msomi (2022) believes that one of the biggest challenges SMEs face is rigid government regulations that suffocate growth. Due to the minimal funds available, it is difficult and expensive to hire skilled labour in South Africa. It is an expensive cost

made by the confines of the labour regulations such as the employment and minimum wage regulations (Ngubane 2015:8).

Msomi (2022) posits that government plays a huge part in existing and emerging SMEs by offering them different funding and grants. The authors further state that the government focus on proper designing institutions and providing effective entrepreneurs with a predictable framework for business. The success of SMEs depends on the financial decisions rely on financial decisions made by entrepreneurs scoping from financing to working capital and savings. It has been argued that an excellent financial foundation for entrepreneurs' business is important for the SME's success and growth (Abiodun 2016). Financial behaviour includes fair use of financial resources deciding whether a business will survive based on the decisions made that lead to profit maximisation and maximising sales (Abiodun 2016). Financial literacy is associated with financial behaviours such as cash flow, debt management, savings and investment practices that maximise the profits of SMEs (Grohmann et al. 2015).

The SMEs sector is a significant factor in economic growth in all economies. Various factors identified as determinants of SME growth include institutional barriers, the business's interaction with government legal requirements, taxation, and financial barriers. Grohmann et al (2015) further opined that the how and when questions are more important in the context of business growth. Growth is a decision that is taken by an entrepreneur, like how to grow domestically and globally. The critical role played by SMEs in all economies attests to the sector's growth and stability. This focus has been improved by developing an international network like the Global Entrepreneurship network, whose goal is to direct resources for the sector through gatherings like the Global Entrepreneurship Summit held in Kenya in July 2015. Serame (2019) suggested that business growth can be measured in many ways,

including value addition, revenue generation, and volume of assets. On the contrary, Mateev and Yanko (2010) posited that financial structure, productivity, sales revenue and total assets have more impact on growth. However, they warned that the workforces, and investment in research and development have a low influence on business growth likelihood.

While access to financial services has a constructive effect, many obstacles hinder account penetration in several countries. Grohmann et al (2015) established that less than a quarter of adults in Africa are formally banked and many are reported utilising informal ways of borrowing and saving. Moreover, a high number of SMEs were unbanked because of the non-availability of financial services providers, low income, which does not warrant one to have a bank account, inadequate documentation, and high cost of opening and maintaining accounts. Despite the indicated importance of financial education and the move by many countries to implement national plans to support it, many people lack an understanding of basic financial skills.

According to Serame (2019), financial literacy found substantial gaps in knowledge levels even in highly developed economies like Japan, where 71 % of the respondents lacked knowledge of equities, and 29 % lacked knowledge of insurance and pensions. This information shows the need to have more knowledge for improving the level of financial literacy. The workplace is one of the perfect places to do it. Financial literacy is essential not only for workers but for employees and companies as a whole because it contributes to productivity and effectiveness (Eniola & Entebang,2015). Serame (2019) suggested that financial literacy skills and knowledge can impact a national economy. For individuals it can also mean higher wealth and interest in planning for retirement. However, the advantages are not only one-sided; providing employees with information to become financially

knowledgeable of financial products, in general, will result in a healthier workforce.

Despite the importance and contribution of SMEs to the economy, there are restrictions associated with SMEs' initiation, growth and development. Yaacob and Radzi (2016:127) indicate that factors like labour challenges, lack of managerial skills and limited access to finance might hinder SMEs growth and development. According to Olukayode, Osman, Hussein, Ismael, Masaud and Mansor (2014:28-31), included in the challenges facing SMEs is the absence of integration of information and technological skills into their businesses. Literature reveals the main factors impacting the growth of rural businesses (Ngugi & Bwisa 2013 and Orus & Delalic 2014). These factors can be divided into two categories: internal factors that entail characteristics of entrepreneurs and businesses and external factors that entail population trends, government support, labour markets and availability of finance.

Despite recognising the importance of SMEs in the economy, SME failure continues to occur. SME success is mainly dependent on several factors like lack of technology, limited access to international markets, and the existence of strict legislation that hinder the development of the sector. This sentiment is also articulated by those who posit that rural entrepreneurs encounter many challenges like illiteracy, lack of finance and fear of taking risks (Ngugi & Bwisa 2013 and Orus & Delalic 2014). Lekhanya (2015) claimed that the nation's institutional restrictions involve excessive borrowing costs, complex tax systems and government systems that might discourage entrepreneurial growth in a South African economy. Jaiswal (2014:1020) confirms that SMEs are faced with many challenges, including the inefficiency of supply chain networking, growing competition, and global markets.

However, rural entrepreneurs are faced with challenges associated with the state regulatory framework. Leboea (2017) posited that rural-based SMEs had established an unusual drive to get started, grow, compete and survive longer than some urban-based SMEs. Even when SMEs comply with the regulations of the country, the basic policies and rules influence the growth and survival of SMEs.

South African Reserve Bank (2016:21) suggests that the shortage of skilled labour negatively affects the development and survival of the SME sector. The shortage is more frequent in the manufacturing sector. According to Organisation for economic co-operation and development (2015:59), rigid labour laws result in high failure among SMEs, as it is difficult to retrench workers even if they are unproductive. SMEs in the manufacturing sector are labour-intensive, and South Africa's relatively high minimum wages negatively affect SMEs (Gem: 2014:43).

While there is a consensus that skilled and experienced employees contribute positively to the growth and development of any business, it is challenging and expensive for SMEs that have just started their businesses to employ such workers. Yawson (2009) remarked that the shortage of skilled labour is a significant obstacle facing SMEs in South Africa; access to a pool of suitably-skilled and properly motivated labour is needed to sustain growth. Jaiswal (2014) believes that starting a business is not just enough; managing it should be just as important. The agency further maintains that the lack of skills in managing businesses is the bane of many SMEs, and while entrepreneurs are often good at starting businesses, they are, however, poor at the management thereof. This is assigned to the entrepreneurs and SME owners, who either do not hire appropriately skilled personnel or think it is costly and unnecessary. Unfortunately, unskilled labour is employed in the process, ultimately leading to the demise of such businesses. Serame (2019) claims that infrastructure quality can affect new SMEs' growth prospects, especially in countries such as South Africa. However, many

developing countries suffer from a deplorable state of basic infrastructures, such as transportation, telecommunication and electricity.

According to Makuwe (2021), SME owners are frequently managers of their businesses and usually have no formal qualifications in management or leadership. Lack of managerial skills among SME owners acts as a restriction on the growth and development of the SME sector, and it also adds to the high rate of failure of SMEs. Magontha (2013) affirms that very rarely do SME owners undertake training to improve managerial skills. According to Mahohoma (2018), many SME owners are unwilling to hire qualified managers, fearing losing control of their businesses, and this survival and growth of SMEs. Sharmlee (2014:15) remarked that financial management is accountable for obtaining the necessary financial resources to ensure the most favourable results over the short and long term and ensure that the business utilises the resources efficiently.

Management in SMEs, as debated in the literature is the central element in influencing a business's sustainable growth and competitive advantage, with the managerial competence has a constructive impact on the performance of SMEs. Managerial expertise, education, knowledge, and start-up experience are utilised to measure managerial competencies. In South Africa, there are a few individuals with business management expertise; therefore, only a few SMEs are victorious (Makuwe 2021). Evidence has noted that for SMEs to be successful, managers must have the skills and abilities to run the business. (Musie 2016) asserted that there is limited skilled managers in South Africa.

As debated in the literature, leadership in SMEs is an essential component affecting business growth and competitive advantage. The position of an entrepreneur is a vital determinant of innovation (Abdul

2018). In a study conducted by Ndesaulwa and Kikula (2017), the authors found that management; technical skills are some of the challenges that promote instability. Leadership in SMEs is very complex and needs leadership characteristics that will assist in developing the business importantly and embracing internal and external challenges (Guliman 2015). The qualities assigned to leadership by Ademola and Musa (2016)) encompass the ability to innovate, plan strategically, and ensure business development and sustainable growth. Cant (2017) asserted that innovative ideas and looking for opportunities are vital leadership skills that impact sustainable growth.

According to Muhammad (2024), access to finance is defined as an instance where the entrepreneur feels that financial or non-financial challenges bring little or zero threats to the achievement of tangible or intangible resources and services. Lack of access to finance is nearly universally indicated as a key challenge for SMEs. The majority of SMEs may utilise inappropriate technology because of affordability. In many instances, even with the availability of credit, entrepreneurs may lack appropriate knowledge because the lending conditions may force the purchase of heavy immovable equipment that can serve on a collateral loan. Lack of access to credit for small business forces SMEs to depend on high-cost, short-term finance (Helfat 2015:3)

According to Makuwe (2021), the importance of financing SMEs cannot be underestimated, as it plays a crucial role in the growth and development of SMEs. SMEs internationally depend on self-financing by entrepreneurs. Gambetta (2019) concurs with the author that numerous SMEs utilise personal financial resources, and often, assistance from family members to provide financial capital in return for a share in the business. As a business expands, more financial resources are required for expansion and to ensure the long-term survival of the business. Although all businesses require financial resources to emerge, survive and grow, it is not easy and cheap for

SMEs to access external financial resources. Access to financial resources is denied rather quickly. Hence limited access to finance has been named a constraint to SMEs realising their full potential. According to Serame (2019), the private credit market is a vital factor in SMEs' development as they make unsecured loans available. Recognising the importance of SMEs, the South African Government encourages commercial banks through credit guarantees to grant credit to SMEs financing (FNB 2013:6).

According to Gambetta (2019:12), access to finance is access to financial services in the form of demand deposits, credit payments or insurance. Businesses have adequate availability of finance if they can acquire financial services that are affordable, usable and meet their financial expectations. Singer, Amoros and Arreola (2015:65) found that the entrance of money to money-related assets may have a significant effect on business growth.

SMEs have an enormous number of challenges emanating from limited financial, and managerial resources, which affect the interior resources of the business (Carbó, Valverde, Rodríguez Fernández, and Udell 2016). Moreover, to elevate and streamline SMEs' potential, financial resources are proposed to be available as it will enhance SMEs' ability to survive (Helfat 2015:6). According to Yacoob and Rahman (2016). South African banks are less willing to finance SMEs. The inability of SMEs to obtain finance is listed as the main external challenge.

The small Enterprise Development Agency (SEDA 2016) and Sibanda (2018) agreed and noted that the major challenges for SMEs, are inadequate financing and credit mainly because mainstream financial institutions are reluctant to invest in SMEs. Access to finance is influenced by the business's demographics, size, ownership type, and turnover. The inability to declare assets and management of the

account and general records of the business has an impact on financial institution's' refusal to commit long-term investments for SMEs (Mutoko and Kapunda 2017:8).

According to Ntuli (2022), the lack of access to medium- and long-term credit is a massive stress to those SMEs that want to expand their business activities. The reason for the lack of financial institutions will to avail funds is that SMEs present a high risk to the lender as they may not have enough assets to cover their debt in case SMES are unable to repay (Kennon and Schutte 2013). Furthermore, Peprah (2016) indicated that a lack of skills to prepare a well-planned and researched loan application for the acquisition of funds was a challenge among SMEs. These challenges influence the innovation and sustainable growth of SMEs (Entebang and Eniola 2016).

According to Abdul (2018) management in SMEs is the central element in impacting business sustainability growth and competitive advantage, the role of the entrepreneurial leader, is an effective tool for innovation. This places pressure on entrepreneurs to acquire the skills required to maintain and sustain business operations. In a study conducted by Chimucheka and Mandipaka 2015, the authors found that management skills, technical skills and knowledge are included as challenges in SMEs' lack of stability. Similarly, entrepreneurs need to pay attention not only to how to produce and sell products but manage the markets and finances of the business as well (Sustainable Business Report 2017). Mamabolo (2017) professed that marketing skills are one of the skills that are required for the development and sustainability of SMEs. The OECD (2017) asserted that South Africa would achieve better results for employment creation and opportunities by ensuring the acquisition of skills in line with labour market requirements.

According to Sharmlee (2014:18), one of the significant issues indicated access to finance as an obstruction to SMEs' growth. SMEs are more troubled than larger businesses regarding access to finance. They contain a huge part of the emerging private sector in most countries. SMEs in South Africa have minimal access to markets because of high competition and slow economic growth. These are some of the factors influencing demand for finance (SME South Africa). Furthermore, SME South Africa concluded that the regulations in the country affect SMEs. Sindani (2019) asserted that SMEs' business environment were fundamentally affected by the 2008 global crisis. The fiscal crisis had put out their financial constraints. As a result, slow economic growth, investment, and shortages in funding have emerged (Sindani 2019).

Guliman (2015) believe that financial institutions generally charge higher interest when borrowing SMEs because SMEs are high risk with limited assets that can be utilised as collateral for the debt. The high-interest rate is sometimes influenced by the prime lending rate. Fin (2018) established that the high transaction cost is a challenge for SMEs and financial institutions. The cost involved with evaluating SMEs credit worthiness is high and financial institutions find it difficult to do business with SMEs. Raising resources to finance business activities is an integral aspect of every business that cannot be disregarded. Finance for SMEs has been a challenge. The main source of finance includes bank loans, loans from friends and family, venture capital, and own funds (Ibrahim 2017:10).

According to Leboea (2017), the dominance of the informal sector in attending to the financial requirement of SMEs is due to the limitations of formal sources of income. The study further infers that emerging businesses may be unable to furnish collateral for loans. It is, therefore, important for entrepreneurs on which sources of finance will be suitable for their business. According to SME South Africa (2018), SMEs in

South Africa have limited access to markets and are incorporated with high competition and slow economic growth. Sindani (2019) commended that the business environment for SMEs was remarkably affected by the 2008 economic meltdown. The crisis irritated the financial limitations. Consequently, shortage of funding, low investment and growth became even more stretched and most resilient to businesses. The financial gap, explained as a difference between SME demand for funds and the supply of funds, can happen for many reasons. These reasons can be on the demand or supply sides (Serame 2019). Pepra (2016) approximated that the SME credit gap between 86 billion rands and 346 billion rands in South Africa constitutes a great opportunity for innovative lenders to penetrate the SME market.

2.10 Information and communication technology

The arrival of information communication and technology has affected many industries and organisations. Information and communication technology Globalisation and digitalisation have changed the way business operations occur, and competition in the marketplace. This change has brought a new economy named the knowledge economy.

Knowledge is a valuable possession in the economy; knowledge is buying and selling. Luccheti and Sterlacchini (2004:152) are of the opinion that the high growth rate in the United States economy in the 1990s was due to the timely adoption of ICT. Currently at the helm of the organisational performance. Information is an important asset allowing SMEs a competitive advantage in the new economy. However, they indicated that access to information is challenging in developing countries like South Africa due to a lack of infrastructure. Access to information part played by SMEs cannot be underestimated; it helps SMEs make favourable business decisions.

Information technology alludes to giving access to information through telecommunications. Bevani (2015) explains information communication technology as any technology that supports information gathering, processing, distribution and use. ICT is seen as all technologies used to create, analyse, package, distribute, and transmit data electronically (Mnwithiga 2016). ICT is an important tool that allows SMEs to improve their competitiveness in business. In the quickly changing business environment. The effective use of information communication technology gives SMEs a competitive advantage to intensify how they conduct business and increase core competencies (Rambe 2017). Information and communication technology refer to a wide range of computerised technologies. ICT allows communication and electronic capturing, processing and transmission of information. These products incorporate desktop computers, laptops intranets and business productivity software such as spreadsheets and enterprises software. Information communications technology and innovation. SMEs' adoption of information communications technology (ICT) nationally and worldwide has been regarded as foundational to any business operation. According to Cant, Wiid and Hung (2015); Agwu, Taiwo and Evawere (2016); and Mbuyisa (2015), ICT is simply one major element in remaining competitive. Xero Report (2017) argued that technology adoption is expensive. However, its benefits and significance in innovation and sustainable growth are paramount. For SMEs to compete in today's global economy, the OECD (2018) claimed these SMEs would have to invest in and infuse new technologies to ensure the competitiveness of workforces. Bevan (2015) stated that the adoption of digitalisation continues to be a challenge to leaders due to the lack of ability to adopt digital technologies to create value and enable faster product commercialisation (Mungal and Garbhanan 2014).

The planet has become a global village. Information communication technology (ICT) has resulted in a little world while allowing the business to operate smoothly. Adopting information communication technology is viewed as as significant to any victorious businesses (Agwu 2018). Mungal and Garbhan (2014) asserted that SMEs should invest substantial funds in information technology if they wish to sustain growth and remain competitive in the market. Ndesaulw and Kikula (2017) posit that different forms of technological innovation are an important for SMEs in realising higher production levels. Fatoki (2014) asserted that SMEs, particularly in South Africa, are not fast in embracing new technology, which was similar to the findings by (Komitu 2019). The Xero Report (2017) declared that irrespective of the high cost of adopting information technology, its benefits and importance are of vital nature to intensify innovation and sustainable business growth.

2.11 The role of government in promoting SMEs.

The growth of SMEs has been a focal point for the government since 1994, yet the on-going authorities' efforts, and small businesses continue to struggle. In 1996 the South African Parliament passed the National Small business council. With its mandate to represent and support the interest of small businesses (Simodisa 2014). Government play an integral role in existing SMEs and those starting up by making funds and grants available for SME promotion. The state's focal point on creating effective institutions is providing SMEs with the framework necessary for business and skills to scale up their operations (Grohmann et al. 2015). As such framework is needed when the state interacts with SMEs to make available fundamental support through already existing agencies. Thus, the state is regarded as involved when committing to providing help to SMEs through policies that favour SMEs and institutions that assist SMEs in their endeavour to succeed (Ngubane 2015:28).

As stated in NEF (2014:46), The National Empowerment Fund by the National Empowerment Fund Act of 1998 supports and facilitate income equality and transformation. The NEF is a funding agency whose mandate is to stimulate and support businesses. And the creation of employment opportunities. Through its different business sectors, the Industrial Development Corporation (IDC) supply sector focused on financial products ranging from R1 million upwards, with designated finance products focused on a small development and black economic empowerment. An important development is a cooperation in product design among the development finance institution to close the critical financing gaps for small businesses. The NEF's command and findings are in line with national growth and industrial objectives, which aim to increase South Africa's competitiveness and support for small businesses (NEF:2014:47). According to Serame (2019), the National Empowerment fund is a driver and leader in promoting and facilitating black economic participation by furnishing funds financial and non-financial support to black-owned empowered businesses. The National Empowerment fund also promotes a culture of savings and investment among people.

With the creation of the Department of Small Business and Development, the government has reconfirmed the importance of Small Businesses in South Africa's economy and the hope that they will lead the way to a thriving future (World Bank 2014). The first initiative that the government has taken towards supporting SMEs is to create a separate department which will aim to strengthen SMEs to stimulate economic growth and the creation of jobs. The South African Institutional framework and policy have noted different departments that can help in the development and sustainability of Small Businesses, such as the Small Enterprises Development Agency (SEDA) the National Empowerment Fund, to mention a few. According to DSBD

(2014:18), objectives are to provide substantial support to small businesses and cooperatives. Increased support through public agencies. Entrepreneurship development, and make available incubation and support programmes. The DSBD affirms that it directs to implement a vigorous entrepreneurship drive and allows an environment conducive for South Africans to start and sustain businesses. The objective of this involvement is to try to unlock economic opportunities, consequently, inclusive growth and sustainable employment (DSBD2014:38).

The strategy desires to improve the contribution of franchising to the economic empowerment of historically disadvantaged entrepreneurs by increasing their participation in franchising. This includes creating an entrepreneurial culture through franchising, promoting association and connecting between big and small businesses to support the establishment of new businesses. For this, to matter, this strategy proposes to stimulate entrepreneurship through franchising. This strategy proposes a framework for franchise opportunities utilising a comprehensive database.

The aim of the B-BBEE strategy bears relevance to SME development. Achieve and support a substantial increase in the number of new black enterprises, increasing the number of black people who manage existing new businesses in the priority sectors of the economy, which the government has established in its macro-economic reform strategy and increasing and promoting economic community enterprises and cooperatives. (DTI, 2005). Apart from a business owned by blacks, the BBEE strategy also aims to increase procurement from black-owned businesses. That involves setting preferential procurement measures to increase preference to black-owned businesses. In addition, the Department of Trade and Industry, the BBEE strategy aims to coordinate incentive grants that target SME initiatives and to an

administration system that links the incentives grants to other financial and non-financial support mechanisms to maximise SME access and BEE impact.

The IDC is a national development finance institution that promotes economic and industrial development. The IDC furnishes finance for industrial projects and promotes partnerships between and across industries in South Africa and beyond South African borders. Its investment products include equity funds, BEE financing of equities and private funding.

The DBSA is a government-owned entity that aims to accelerate sustainable socio-economic development and improve quality of life by driving financial and non-financial investment in the social and economic infrastructure structures. Water, energy, transport and information communication technology (ICT) are its key focus areas.

The small Enterprise Finance Agency, also known as SEFA, was established in April 2012 because of the merger of the South African Micro Apex Fund, Khula Enterprise Finance LTD and the small business activities of Industrial Development Corporation. There are nine offices around the country, SEFA mandate is to contribute towards the eradication of poverty by supporting the survival and growth of SMEs.

The Black Business Supplier Development Programme is a cost-sharing grant for black-owned small businesses to help them improve their competitiveness and stability. The project provides grants up to the value of R1 million. This grant is divided into R800 000 for tools and equipment on 50:50 costs sharing bases and R200 000 for business development and training interventions to improve corporate governance, training provisions, management, productivity and utilising current technology on an 80:20 cost-sharing basis.

2.21 Financial Literacy

Financial literacy is observed as a key factor in improving access to the utilisation of financial services. It is contemplated to play a progressively important role in financial improvement. The organisation for Economic Cooperation and Development separated financial literacy as a merger of financial awareness, knowledge, skills, attitude and behaviour needed to make sound financial decisions. Financial literacy generates awareness in ordinary humans regarding financial products and services. RIB (2013). Human capital is associated with business performance (Ndiaye2018). Successful businesses need skilled employees and managers (Olafsen and Cook 2018). An important skill required is financial literacy, which is explained as understanding information, aptitudes and practices vital to make a money-related decision (Lewis & Lindley 2015).

According to Iramani Suryani & Linda (2017), financial literacy is essential for entrepreneurs to assess their business's financial events and take decisions. Financial literacy should aid businesses in dealing with obstacles in innovative credit markets. Financial literacy allows entrepreneurs to control risk through plans such as maintaining financial reserves and purchasing insurance. Entebang and Eniola (2017:561) identified financial literacy as a common challenge in SMEs, lack of financial literacy has an effect on businesses in the inception phase, and subsequently, Briere (2014:3) concluded that lack of financial literacy is the main reason for SMEs' failure. According to Ademola and Musa (2016:53), financial literacy is a measure of the degree to which an individual interprets key financial concepts and possesses the ability to manage finances through longer planning and considering economic changes. Financial literacy can be further explained as how individuals control their money regarding insuring, investing, saving and budgeting.

This involves knowledge and skills to manage finances like budgeting and managing the market properly to realise the business objectives (Dahmen & Rodrigues 2014).

Lack of financial management skills position a significant challenge to SMEs' growth and minimises their competitiveness compared to larger businesses. Internationally, financial literacy rates are lower among men in most countries (OECD and ASEAN 2017). The World Bank Global Development Report 2014 on financial inclusion found that SMEs in emerging economies face substantial financial management constraints that sabotage their contribution to employment, growth and innovation (Ademola 2016). The author found that the relationship between access to financial resources and business growth is more promising for those with high compared to low literacy. On the contrary, venture capitalist may be more likely to provide funding for business which requires managers with financial literacy. Furthermore, financial literacy training earmarking SMEs alone is the only way. In his study, Komitu (2019) concluded that financial literacy among women entrepreneurs was poor and record-keeping systems were not up to standard.

According to Guliman (2015:18), the level of financial literacy of entrepreneurs is essential in the operation of the businesses noting the greater complexity of running the business's daily financial transactions, the existence of illiteracy not only raise vital questions for policy but also has inference for household and business behaviour. It is noted that entrepreneurs who desire to grow need to have confidence in their finances and be well-informed (Pietrzak 2014). Suppose the entrepreneurs are illiterate regarding their finances. In that case, the financial knowledge of the business will also be in a bad position. It will lead to reduced innovation, and inability to access different financing

resources due to non-awareness, thus, this frame of mind leads to possible failures of SMEs. (Plakalovi 2015).

Entrepreneurship in South Africa needs three types of support: human, financial and social capital (Briere 2014). Concerning human capital, entrepreneurs will benefit immensely from entrepreneurial skills and training according to their developmental stages. The absence may be caused by a lack of inadequate training and a poor education system. Studies conducted in developing economies have shown that the importance of entrepreneurship education lies in the positive relationship between the level of education and the desire to entrepreneurial (Herington, Kew & Kew 2014).

For instance, money-related proficiency likewise calls for sharp spending. This indicates planning budgets, paying bills on time and guaranteeing that credit cards are paid timeously every month. Link oversight about budgetary basic leadership ideas can be to retirement planning, lack of investment in the stock exchange and poor financial conduct (Madinga, Mapuranga, & Maziriri 2018). Budget is an important part of business needs it is perceived as necessary for administration control. Therefore, author contended that budget is an element of execution assessment and was the result of a lack of knowledge. Warue and Wanjira (2013) suggest that one reason why SMEs fail is the absence of budgeting. Dahmen and Rodrigues (2014) proposed that small business is the backbone of economies. If the financial literacy skills of entrepreneurs are not adequate for those required to run a successful business, it is more than the individual business at risk. Yawson (2018:14) posits that financial literacy for SMEs must involve the ability of entrepreneurs to read and interpret financial statements and work with numbers to make informed judgements (Lekhanya 2015). Furthermore, Pietrak (2014) revealed that the lack of an easy definition impacts the study of entrepreneurship. In consequence, there are more

significant definitions of entrepreneurship found in the literature. The literature has been arranged into two groups, namely social and corporate entrepreneurs. Social entrepreneurs are people who venture into business with the motive of dealing with social challenges as opposed to producing a profit. Musie (2016:10) outlines these people as those who create new businesses intending to assist others.

The people who are driven to engage processes by having the urge to see change and the less fortunate succeed. According to Germak and Robinson (2014:5), social entrepreneurs have a mission to change the world, their towns and communities by the creation of businesses with a social impact. On contrary corporate entrepreneurs aim to build businesses by spotting opportunities and turning them into competitive advantages. Moezoddin, Rajjie, Daeijavad and Ghotbi (2014:5) asserted that corporate entrepreneurship is considered a development of internal markets and comparatively small and independent units made to create internal ventures and expand. According to Karadag (2015), SMEs have many challenges in managing and controlling their business finance. The absence of financial management knowledge knows how and skills was recognised as significant cause of the failure of SMEs. Karadag(2016) further found that financial management practices impacting SME performance were working capital, fixed assets management and financial reporting and control practices.

Samkin *et al.* (2014) agrees with these findings after exploring the financial literacy skills necessary to manage small businesses in New Zealand. The authors demonstrated that managing records of income received, debtors, and credit sales were critical in running a victorious business. Karadag (2015) also piloted a study to demonstrate the role of financial management practices in Turkey. It was established that financial management practices that affected SME performance were working capital management, financial reporting and control practices.

Their study also revealed that the extent of financial management skills was very low.

Although entrepreneurs have been researched extensively over the years, the concept of entrepreneurship is still broadly understood and remains uncertain. Muhammad (2024) contributed to the topic by finding that financial literacy affects the survival and growth of new ventures. It was found that the adoption of financial tools, including financial statements and financial ratios. According to Nyambonga *et al.* (2014:10), financial literacy through training of SMEs concerning bookkeeping, credit management, and budgeting has increased SME's ability to repay loans. It is noticeable that financial literacy is important in managing business finances. It can be argued that businesses with owners who are financially literate were able to achieve more economical results.

According to Abdul (2018:32), entrepreneurship should entail foresight, interpreting the market and the ability to pinpoint opportunities. It is further stated that entrepreneurship requires a creative skill consisting of creativity, and behavioural skills like problem-solving skills.

Entrepreneurship is the exercise of starting a business, representing of a start-up business offering an innovative product or service. The entrepreneur sees a chance and often displays biases in taking the position to exploit the opportunity, including design actions to develop a business plan and acquire human, financial and other resources. Entrepreneurship may operate within an entrepreneurship ecosystem, which includes government projects that support SMEs (Ngubane 2015:12). Plakatovi (2015) researched financial literacy skills and neighbourhood effect. The author found that a zip code's educational level has a remarkable effect on financial literacy. The author further added that social learning is a method of financial knowledge

acquisition. The researcher also asserted that social factors, including acquiring advice from financial professionals, are a huge influencer on a financial attitude of people. A financial attitude like risk awareness, environmental factors and training may have had an additional benefit on the business's success. The social environment of entrepreneurs also plays an important role in the profitability of a business., based on how conducive the environment is (Ibrahim 2017).

According to Shangase (2015:63), SMEs generate 57% of the Gross Domestic Product (GDP), contribute 43% of the total value of salaries and wages paid in SA and employ 56% of all the former private sector employees. The National Development Plan remarked that 90% of all new jobs created by 2030 would come from SMEs (Department of Small Business Development 2014). Hence, statistics show that SMEs are vital to sustain and pay attention to the SA Government (Erasmus et al., 2013:52). With the massive contribution of SMEs to the improvement of the market economy, the stimulation of entrepreneurial skills, flexibility and the quick adoption of changing market demand and supply situation helps in promoting employment and diversifying economic activities. According to Abdul (2018), entrepreneurs start and operate SMEs. Significantly, entrepreneurs spot an opportunity to create and grow successful businesses, that ability is a basic skill of an individual who is an entrepreneur (Plakalovi (2015)). It is necessary to note that creating an SME does not always mean it will grow and be successful. Plakalovi (2015) contended that not everyone who has an idea and starts a small business is, in reality, an entrepreneur. Further, some SMEs do not grow, and as a result, this discourages the creation of new opportunities and the contribution of SMEs to the economy of South Africa (Plakalovi (2015)).

Plakalovi (2015) posits that important factors to consider as managing skills to avoid business failure, which entails planning a business before

it is established, include general management skills, Customer service, knowledge of competitors, Market orientation and accounting for business purposes like sight into expenditure, income, profit and loss, and skills to use income wisely. Plakalovi (2015) further explain that entrepreneurs are intimidated by difficult situations and need to be able to make immediate decisions. However, they also have to exercise patience until a task has been completed and the goal reached. According to Serame (2019), entrepreneurs need particular skills to start, manage and develop their businesses: management, marketing, customer service, conceptual and financial skills. Cant et al. (2015:4) stipulate that SMEs' lack of financial and marketing skills hinder their businesses' success and development.

Apart from skills, Oduyoye, Adebola and Binuyo (2013:15) opined that infrastructure, including communications, transportation and roads, is essential in improving the growth of businesses, large or small, in any economy. Oduyoye et al. (2013:20) conclude by emphasising the importance of infrastructures like power supply, good roads, water and security because many small businesses have failed due to the neglect of the vital support from the government for rural communities.

Entrepreneurs must work closely with other people, assist and enhance one another's success potential because working as a team brings in collaboration of expertise. SME owners need to realise that they cannot be successful in isolation as Ms Lindiwe Zulu, (the then Minister of Small Business Development) said that South African small business owners need to work together with foreign business owners to share ideas how they succeed in the business industry so they can generate good ideas, develop and implement them together (Komitu 2019). Entrepreneurial activity (defined as behaviour concentrating on opportunities) may occur in both small and large businesses and outside the business world (Sibanda 2013). On the other hand, small businesses can be a

vehicle for entrepreneurs to introduce new products and processes that change the industry and for people who run and own a business for a living (Briere 2014).

Financial knowledge is explained as the interpretation of key financial terms and concepts of the realisation required daily (Sindani 2019). Financial knowledge is a kind of capital required in life through the ability to manage income, expenditure and savings safely (Guliman 2015). Erasmus (2019) believes that improved financial knowledge is said to result in more responsible financial behaviour. The high level of knowledge is positively related to individuals involved in various best practices and financial attitudes like possession of emergency funds and management of overdrafts (Jaiswal 2014).

Financial knowledge is a very important feature of any decision-making process, regardless of the subject matter. The financial knowledge key outcomes from key impact areas such as borrowing, savings and investment (Lursadi and Mitchel 2014). Lursadi and Mitchel 2014 carried out many surveys on financial literacy and found generally used questions to measure financial knowledge. In a study that they conducted examining the impacts of financial literacy on economic decision-making in the United States. The authors concluded that minimal financial savvy businesses incur high costs and pay higher fees, and financial knowledge is an investment.

Successful financial management behaviour can amplify the survival and growth of the rural businesses. Furthermore, financial literacy to interpret financial management behaviour among rural entrepreneurs. It is crucial to lay out what makes financial behaviour. Obage (2014) describe financial management behaviour as a set of steps one is involved in handling cash, credit, investments, insurance and retirement planning. Dzomondo (2018) argues that these financial management practices can disagree across countries. The author argues that the

understanding and application of such elements of financial management principles for the improvement of their businesses brings business success. Working capital management is essential for new business as it is the lifeblood and a substitute for business success. Jaiswel (2014) argue that it is essential for small business to have a positive cash balance in most cases to take advantage of supplier clearance checks. Similarly, entrepreneurial growth can be a universal of small enterprises representing the vast majority of business in developing countries. Kikula (2017) contends that growth-aligned entrepreneurial businesses improve and enhance access to infrastructure in deserted rural areas, stimulating economic activities and improving employees' living standards.

Business and financial risks are asserted to be greater because of the instability of the economic system. SMEs in emerging markets have to deal with more challenges and economic conditions than in developed markets. Financial managers of SMEs in emerging markets are finding it difficult to survive. Entrepreneurs should. The knowledge of unreliability or risk involved with investment is vital because it assists the business in making changes in behaviour to prevent uncertainties. However, it is noted that in finance that the more risk you take, the more significant the returns (Ibrahim 2017).

2.25 Budgeting

A budget is a plan that narrates all future business activities demonstrated in financial terms. Budget is a standard by which a business's performance is measured. Budgeting is the activity of preparing, compiling and managing financial budgets Budgeting is assisting the management of a business and improving the ability to attain substantial returns and keep losses low (Bugwadin 2024). Nevertheless, according to Sibanda (2014), a budget is a vital feature

of the business plan. It is explained as the most important financial document that indicates the expected contribution from activities of an organisation in terms of revenue and expenditure over a specific time. Budgeting can be explained as a needed piece of administration control framework that goes for advancing coordination and correspondence within sub-units in a business, and provides a framework for judging performance and motivates managers and other employees (Madinga, Mapufa, and Maziriri 2018). Warue and Wanjira (2013) noted that a budget is an impression of administration assumption regarding the association's wage stream and money-related position in fiscal terms. Lack of budgeting financial literacy impacts performance.

Organisations produce budgets for planning to assign resources like human, physical and financial. Budgets utilise old figures as a base, and as a business increases in size, the accuracy of the budget improves because of historical figures to draw from (Muhammad 2024). Budget is an instrumental factor for the success of business operations. However, in most businesses, most SMEs pay attention to cash flows. The author found that managers of SMEs utilised budgeting to manage performance but did not have the skill to produce budgets consistently. Sibanda (2013) argues that financial planning should not be consolidated into financial literacy. Sibanda (2013) further stated that financial literacy entails only understanding investing and financial planning rather than the actual process. Females were not consistent in the application of financial planning. Nevertheless, Fatoki (2014) demonstrated that most SMEs do not survive because of a lack of financial skills and budgeting skills.

Budgeting is an essential aspect of a business environment; a budget is a key to evaluating managerial performance (Pietrzak 2014:27). Singh and Bendre (2017:259) posited that entrepreneurs should understand financial planning; a person should be able to understand

the importance of preparing a budget. Financial literacy is about allowing people to make educated decisions regarding budgeting, spending, and saving (Ndou: 2016:25). According to Mungal and Garbharran (2014:12) suggested, three-quarters of businesses do not plan for their expected cash inflows and outflows. This error hinders the possibility of survival and sustainability of the business. Entrepreneurs make decisions about budgeting for non-current assets and how to increase non-current assets. Financial literacy includes the ability to comprehend monetary decisions. This implies budget planning, accounting for bills and ensuring that debts are paid on time every month. The absence of budgeting financial literacy among SMEs greatly affects their performance (Maziriri, Mapuranga and Madinga 2018:3).

2.26 Debt management

Debt management is the capacity to execute activities of business within a budget. A plan is usually meant to assist in managing debts, primarily those with high debt. Ibrahim (2017) stressed that debt management skills are an essential financial literacy skill that enables SMEs to acquire capital at minimal costs. Musie (2016) found that SMEs are not financially literate when it comes to debt management. On the contrary, (Ibrahim 2017) claims SMEs know the results of poor debt management. One of the many SME challenges is the lack of skills to perform calculations accurately and the absence of numeracy skills (Plakalovi 2015). The author additionally stated that financially illiterate entrepreneurs fail to make accurate estimations of debt, and funds are borrowed at higher interest.

Many governing authorities in developed and developing countries are worried about the financial literacy of their people. Lusimbo (2016) posits that the growing interest in financial literacy as an important life skill has been because of factors like the transfer of risk from the

government and employers to individuals by introducing contributory pensions to replace automation pensions which has encouraged workers to secure their financial future security, upon retirement. These trends have transferred the burden of substantial financial decisions to individuals who must be adequately financially literate to take the required steps to shield themselves from illegal schemes.

Access to finance is key for SMEs to be profitable in producing capacity. Healthy competition creates jobs and curbs poverty. However, SMEs in Africa seldom meet the requirements set by banks, which perceive SMEs as a risk because of poor guarantees and minimal information about repaying loans (Cant 2013:715). According to Lusimbo (2016:20) people who are less financially literate are likely to face more problems concerning debt management, savings and credit. Obago (2014:63), in his study to ascertain whether financial literacy had any influence on personal financial management among bank officials in Kenya, the author revealed that high numeracy skills have a positive relationship with higher levels of household and better financial decisions.

The ability to make credit choices with customer inclination needs an understanding of credit terms and markets. People with more learning can acquire lower borrowing costs. Money-related information might improve the borrower's ability to oversee credit, making them more preferred to the loan specialists. People with lower levels of debt literacy have a more significant share of fees on credit cards than borrowers with higher levels of debt literacy (Madinga, Mapuranga, and Maziriri 2018).

According to Obago (2014: 55), access to finance is the accessibility of financial services in the form of deposits, credit payments or insurance. Businesses have better access to finance if they can finance to approach financial services that are affordable and meet their financial

need. Most SMEs are started with personal resources, but as the business grows, more financial resources are required for expansion and survival of the term.

Access to finance is one of the significant challenges faced by the SME sector in South Africa. The growth of SMEs requires an adequate supply of financial capital; nevertheless, lack of finance is identified as a hindrance to such growth (Leboea 2017:71). Ngubane (2016:26) argued that finance, in general, is a massive issue for SMEs. It is maintained that SMEs can finance business growth in many ways. The question is whether to accept external equity finance return for part ownership of the business. Most SMEs are unaware of other financial organisations capable of providing financial assistance for their businesses. This gap of knowledge means that most businesses struggle when they cannot access finance from financial institutions.

Lekhanya (2016:30) posited that the institutional restriction including high borrowing costs, might lead to low entrepreneurial growth in a country like South Africa. Financing SMEs plays an important role in SMEs' growth and development. SMEs generally depend on self-financing by entrepreneurs. Eventually, they move to debt finance as they do not have enough profit generated to expand their operations (Mahohoma 2018).

Another source of funding available for SMEs is venture capitalism, which is when funds are raised from investors and redeploy by investing in high risk opaque, mostly young businesses. Venture capital is considered a key driver to ensuring success by academics and professionals (Musie 2016:72). Entrepreneurs are also expected to make investment decisions like investing in property and land to maintain the financial stability of the business. Financial literacy includes the ability to comprehend monetary decisions Mungal and

Garbharran (2014:12. For the high net worth, education is important to gain greater returns from their investments in the market and to avail credit at reasonably lower prices. Whether savings or investing, the lesson that a higher return implies higher risks cannot be lost sight of. People need to be educated to balance their investments in terms of liquidity and risks so that they should not invest all their eggs in one basket (Bendre and Singh 2017:360).

The art of saving is an essential component of financial literacy. Saving can be explained as economic security and wealth accumulation for an enhanced standard of living. It involves setting funds aside for future consumption (Ibrahim 2017). Realization of the existence of growth opportunities would be less beneficial unless organizations have the required resources to capitalize on such opportunities. Returns from investment offer a means of funding for growth opportunities.

In addition, the investment may serve as collateral for securing funding from financial institutions while at the same time exposing SME owners to funding opportunities. Bongomin (2017) found evidence that greater levels of foreign direct investment (FDI) are associated with higher performance. Thus, it is argued that SMEs that invest are more likely to pursue growth opportunities because of resource availability and or the potential to secure funding (Ndesaulwa 2017).

2.28 Record Keeping

Record keeping is an essential accounting process that includes recording all transactions for sustainability and growing business. This encompass collecting, organising, storing and financial information of a business. The business records are to be utilised by entrepreneurs as

a guide for route action, making decisions and keeping good relations with stakeholders (Lusimbo 2016).

Yawson (2018:11) believes that record keeping is vital to entrepreneurs to recall the occurrence, events, and other influences on a business; therefore. Bankers, other credit and policymakers. The author indicated that record keeping allows the entrepreneur to decide whether a business is operating at a profit or not and whether the business will be able to meet its commitments as it falls due. The author further indicated that it is not feasible for an individual to recall events, and other impacts on business. Therefore, transactions are recorded in certain books and later analysed, interpreted and communicated to the parties interested in the information.

Musie (2016) asserted that record keeping is equally essential in every economy, business and even households. The author stated that lack of correct record keeping and understanding of business records are not the most recurring causes of business failure. Therefore, it is worth noting that record keeping will allow the entrepreneurs to determine which of the record is kept up to date.

According to Sucuahi (2013), it is vital for business owners because it provides important data for making decisions. The author added that record-keeping is a measure of financial literacy. Sucuahi (2013) found that most SMEs utilise notebooks to record information instead of journals and ledgers. Kalekye and Memba (2016) noted that SMEs store and manage records informally.

Lusimbo (2016) believes that SME managers are not applying bookkeeping in their business because of the absence of skills and knowledge of what to do. Most SMEs hire unskilled individuals for clerical and accounting management as a result, they are not able to keep accurate records hence the inability to determine profits or loss

Every business need written records, which managers use as a guide to taking decisions (Lusimbo 2016). Ezejofor, Ezenyirimba and Sucuahi (2013) declared that a perfect accounting system is judged by how well records are kept and the ability to meet internal and external information needs. Quality accounting information will intensify financial management and access to finance by SMEs.

Wise revealed that an increase in financial literacy directs to faster production of financial statements. Sucuahi (2013), in a study to establish the importance of accounting records in SMEs, posited that SMEs that kept accounting records correctly could measure performance accurately. The author also contended that concerning expansion, managing competitive edge, prevention of failure of businesses and filling tax returns need to be supported by quality financial information pertinent to users and efficient.

2.29 Financial Inclusion

Financial inclusion is a determined attempt to support the formal financial system to be accessible to all levels of society. So it encouraged quality economic growth while eradicating poverty. The importance of financial inclusion is derived from various factors (Iqbal and Sami 2017).

Financial inclusion is defined as the process of ensuring access to financial services and enough credit when required by vulnerable groups, such as weaker sections and low-income groups, at an affordable cost. Financial inclusion aims to provide financial services to a large underprivileged population of the country (Iqbal and Sami 2017). According to Varghese and Viswanathan (2018), the term financial inclusion is the process of ensuring timely access to financial services and enough credit where needed vulnerable groups are affordable.

Financial inclusion can be seen as a process of enabling access to credit and improving banking services at the optimal cost.

According to Varghese (2018), financial inclusion is defined as a process that ensures the ease of access, availability and usage of formal financial services. It represents the state where all members of society have access to a full set of financial services at affordable prices and conveniently". Gandhi and Mohan (2014) remarked that financial inclusion is securing the availability, and usage of the formal financial system for all members of an economy. A comprehensive definition of financial inclusion has been furnished by the Rangarajan Committee Report (2008), wherein financial inclusion has been explained as "the procedure of ensuring access to financial services and timely and enough credit where needed by vulnerable groups such.

Cossa, Madaleno and Mota (2018:911) highlight that individuals are faced with difficult financial instruments to increase financial security, but many are not properly prepared to make financial decisions. This aroused interest in the knowledge of financial literacy levels. Effectively financial literacy significantly influences financial decision-making. Drexler, Fischer and Schoar (2014:1) posited that entrepreneurs usually suffer from sufficient financial literacy to make the complex financial decisions they face. According to Bendre and Singh (2017:362), financial literacy generally refers to a set of skills that allow people to manage their money wisely, with some understanding of a financial concept.

Numerous nations, including the United States of America, Australia, the United Kingdom, Portugal and New Zealand, began to stimulate financial literacy knowledge for SME sustainability. Government and non-governmental organisations promote financial education programs in schools to instil financial behaviours that may persist into adulthood

and, ultimately, SME owners. Those who attend these programs exhibit different financial behaviours, for example, level of savings (Berry, Karlan and Pradhan 2017:911).

While looking at the level of financial literacy among owners of new micro-enterprises in South Africa, Fatoki (2014:151) reports it is at minimum. The areas studied by the author include financial planning, analysis and control, book-keeping, understanding of funding sources, business terminology, finance and information skills, and use of technology and risk management. Kumar and Naidu (2017:12) agree with the author above by suggesting that the economic awareness of people can be measured from Financial planning, financial analysis and control accounting. However, entrepreneurs have low level of financial awareness and understanding sources of income, business terminology, finance and information skills and the use of terminology.

Karadag (2015:30) conducted a study to determine the role of financial management challenges in small and medium-sized enterprises. The study revealed that financial management practices that affected SME performance were working capital, management, fixed asset management, financial reporting and control practices. Samkin, Pitu and Low (2014:47) study confirm these findings after investigating financial literacy skills needed to manage a small New Zealand business. The authors concur that management of records of received income, management of debtors and control of expenditure were important in running a successful SME. According to Eniola and Entebang (2017:571), each business owner needs to have a good level of financial literacy. Financial literacy can increase the company's performance however, an entrepreneur's financial knowledge is not the only requirement for the success of a business.

Dahmen and Rodgers (2014:1) conducted a study focused on business facing financial hardships, rarely looking for financial information. Amongst other findings was that entrepreneurs that had financial difficulties did not welcome advice. This alliance attests to a sound connection between financial literacy skills and business success. Significantly, Erick (2016:12) revealed a sound relationship between financial literacy and the financial performance of the small business owners. The authors concluded that high entrepreneurial financial literacy leads to significant financial performance. Some of entrepreneurs with low levels of financial literacy skills hire third parties to take care of the financial aspect of the business, which increases overheads. Entrepreneurs with high financial literacy skills understand reasonably the aspects of their business. Financial literacy skills give them confidence that their business will continue to have financial success and generate profit in the future (Samkin, Pitu and Low 2014:59).

According to Seethamraju and Diatha (2019:5175), small organization must benefit from digital payments. The adoption of digital payment and other general digitalization is encouraged to minimize time taken by banks to action transactions. Small businesses are encouraged to have a business risk plan should an event transpire. Risk management is proper use of resources to minimize risk. Insurance, on the other hand, assists the business in minimizing financial waste. (Setyawan, Wajdi Isa, & Syamsudin (2017:54).

Small and Medium Enterprises (SMEs) are viewed as custodians of economic growth. They benefit a country's GDP, employment, innovation. The SMEs depend on bank finance for day to day functions. SMEs do not always get the needed support from the formal financial sector. Many of SMEs face difficulties in accessing credit. Small borrowers do generally not have broad access to formal finance.

According to (Sucuahi 2013), financial inclusion covers a wide array of services by the banking sector. One crucial area relates to borrowings from banks by the lower strata of the unorganised segments of the economy, which per force has to depend upon non-institutional sources when the avenues from formal sources are not forthcoming. Financial inclusion thus becomes of utmost importance while assessing the role of the SME sector in a country.

CHAPTER 3

RESEARCH METHODOLOGY

This chapter of the study describes the methodology and procedures utilised to implement the study's data collection, and the method used to analyse the data. The chapter further outlines the research design, target population, sampling method, measuring instrument, data analysis, pretesting, validity and reliability and ethical consideration.

3.1 Research methodology

According to Ndou (2016) research methodology is seen as a discipline of learning how research is performed. Muhammad (2024) remarked that research methodology is the assumed method followed by a set of procedures applicable to a specific analysis.

3.2 Research design

Sekaran and Bougie (2013) posits that research design is the positioning of circumstances for data gathering and examination in a technique that merges relevance to the research purpose. The research design is a visible composition where research is administered and accounts for a plan for the collection, measurement and analysis of data. Ndou (2016) believes that research design is an idea that identifies the sources and types of information pertinent to the research problem, and a plan clearly stating which approach will be used for gathering and analysing the data. In brief, the research design must at least contain a more precise research problem statement, procedures and techniques to gather information, the population to be studied and methods to analyse data.

According to Yawson (2018:28), research design is the researchers' overall plan for obtaining answers to research questions. Creswell (2014) commented that research designs can be done in three methods: qualitative, quantitative, and mixed method. This study employed a quantitative design. This study will

be descriptive. This design is suitable for this study to identify the relationship between financial literacy levels and the business success of SMEs. According to Mbatha (2015:38), the purpose of quantitative research is to determine a particular conduct by inspecting the correlation between two variables.

The advantage of utilising the quantitative approach is that the data are significant and without discrimination, unlike the qualitative approach, where the researcher is part of the process during data collection. Research design is the comprehensive plan for collecting answers to research questions (Muhammad 2024). According to Yawson (2018), research design entails the procedural outline for the conduct of the investigation. Ntuli (2022) contended that a research design is a structure or strategy for obtaining answers to research problems.

The primary purpose of the research design is to allow the researcher to plan a proper research process that would maximise the validity of the results. Cooper and Schindler (2014:140) also of the same opined that a quantitative research approach aims to evolve and make use of mathematical methods regarding an incident.

This study adopted a quantitative research approach by administering an in-depth questionnaire to SME owners or managers. This study was quantitative and descriptive. Musie (2016) articulated that a quantitative research method is appropriate when researchers attempt to improve the objectivity, replicability of the findings. Musie (2016) further insinuated that the descriptive study is preferred if the research study seeks to construct an accurate representation of the persons, events and situations. Studies by Mahomoma (2017:67), Yawson (2018:63) and Ndou (2016:43) also noted that a quantitative research design is appropriate when the researcher looks at the cause and effect of variables and also permits the researcher to test the theory with the empirical data and describe and explain variables.

This study aims to determine the extent to which small business managers follow financial literacy concepts in managing their business affairs. The investigator utilised a quantitative research design to collect information from SMEs in Mkhambathini. The investigator would be separated from influencing findings with his/her views. This method was cost-effective and also saved time. Furthermore, the influence of financial literacy skills on SME success is measured based on opinion (Musie 2016). A quantitative research design was considered pertinent for this study.

3.3 Quantitative research methodology

Trochim (2005) narrated that quantitative research is an impartial procedure followed when exploring a phenomenon. The research findings are allocated numerical values and the researcher uses mathematical and statistical methods to assessing the results. Zikmud (2013) opined that quantitative research is scrutinising theories by establishing and specifying hypotheses and collecting data to accept or reject these hypotheses. Ngubane (2015) noted that quantitative research consists of information or data in numbers, making it possible for the researcher to measure or quantify the variables under investigation.

According to Creswell (2014), the descriptive study approach objective is to collect data about one or many attributes of the population in a certain field of study. The author further argues that the descriptive design may be used for originating theories, pointing out challenges within current practice.

3.4 Target population

According to Wagner (2016:5) target population is the whole score of all elements chosen from a sample. The target population is the complete number of the matter that meets the research standard differing attribute (Creswell 2013:158). Sekaran and Bougie (2013) denoted that successful research entails an understandably determined study population to ensure a representation sample size. The target population comprises SMEs in the

Mkhambathini area in KwaZulu Natal. A sampling frame, which entails SMEs who are in the Mkhambathini municipal database. According to Integrated Development Plan (2018:122), there are approximately one thousand (1000) SMEs in the Mkhambathini area.

3.5 Sample size

A sample size is a subset of a population chosen to participate in a group of participants selected from a population Yawson (2018). The sample size is a classification of participants selected from a population. Sample size may be interpreted as a chosen part of an aggregate based on a judgement about the aggregate (Leedy and Ormond 2013). According to Ngubane (2015), a sampling is the procedure of selecting study participants to classify a population of study. It allows the chance to minimise the quantity of data to be collected into subgroups instead of incorporating all possible areas (Zikmund 2013). Musie (2016:31) noted that when choosing a sample size, one must consider that the sample should represent the population statistically. Musie (2016:31) further deduced that a statistical test requires a minimum of 30 respondents. The sample was randomly selected from a total of 1000 SMEs, and 100 SMEs were chosen to take part in the research.

3.6 Sampling Method

According to Leedy and Ormornd (2013), probability sampling and non-probability sampling are utilised more than other methods. Probability sampling is also called random sampling or opportunity sampling, where every population item has the same opportunity of being incorporated in the sample. It comprises of simple random, systematic, stratified, and cluster sampling. Ntuli (2022) remarked that probability sampling is the chance that any member or element of the population being selected is known. Bryman and Bell (2015:179) noted that researchers utilise simple random sampling because each consideration remaining in the study population has the same probability of being selected for the sample.

Non-probability sampling is the process that doesn't allow any underpinning for approximating the probability that each unit in the population has of being selected in the sample. It comprises of accidental sampling, systematic matching, theoretical sampling, quota sampling, purposive sampling and snowball sampling (Ngubane 2015).

The probability sampling method will be utilised for the study. According to Mahohoma (2018) probability sampling technique is used if the study has a sampling frame. In this study, simple random sampling will be applied because it is a just way to choose a sample without any bias. The simple random sampling method is utilised in this research because it is an unbiased random selection where each participant has an equal chance of being chosen in the survey. On the report of the sample size table produced by Sekaran and Bougie (2014), for a population consisting of 1000 units, a sample size of 300 must be utilised. The sample will be chosen by taking every odd number, for instance, one, three, five until the number, one thousand.

3.7 Measurement instrument

The measuring instrument was a questionnaire. The questionnaire was adapted from studies undertaken by Mahohoma (2018:104) and Musie (2016:90). The questionnaire was self-administered. The initial phase of the questionnaire was the letter of information and consent. The questionnaire consisted of closed-ended questions. It was be divided into five questions, demographic information, company information, budgeting, investing and borrowing. There was a total number of seventeen questions. The researcher personally collected questionnaires.

3.8 Data analysis

Polit and Hungle (2013) posited that data analysis depicts benefits of researchers' labour because it furnishes the information that will eventually permit it to narrate situations, predict events, and identify and quantify differences between events Musie (2016). Data should be handled with greatest appreciation and care. They examine with proper instruments to give

accurate and applicable study outcomes to guarantee that the primary objectives of the study are met. (Ndou 2016). Data analysis can help a researcher interpret data to gain meaningful insights into the problem being examined (Shangase 2016:20).

According to Msomi (2022), data analysis is utilised to express facts, decide patterns, provide descriptions, and examine theories. In data analysis, the primary is arranged in a way that allows to draw out helpful information (Mahohoma 2018:72). On fulfilment of the data collection exercise. The data will be edited and coded before analysing. Data was analysed using the SPSS statistical package (Version 25), and the necessary statistical test will be conducted. MS Excel was used to capture data in spreadsheets to ensure that data was prepared sufficiently for statistical analysis. This tool was utilised because it can cater to large data volumes and produce effective and efficient results. Statistical investigations in this study were computed by a statistician using SPSS software. Blaxter (2010) narrates that SPSS allows coding of raw data to change and reorganise it, statistical and multivariate analyses ranging from listing the frequencies of different responses, calculating means through cross-tabulation, correlation, regression analyses and statistical testing significance of the results.

3.9 Data collection instrument

For this study, data were collected via a self-administered structured questionnaire. A questionnaire is a written tool utilised to acquire information from respondents. According to Cooper and Schindler (2014), a researcher utilises questionnaires because questionnaires facilitate data processing, are economical, participants can remain anonymous and self-administered questionnaires improve the speed of recording responses amongst other advantages. The researcher used closed-ended questions because coding and analysing the responses was easier. Each reply was assigned a number to facilitate the capturing of data. According to Murphy and Bhojanna (2010), closed-ended questions are distinct and force respondents to reply according

to the dimensions that interest the researcher. The design of the questionnaire was kept straight forward to motivate relevant participation by the respondents. The questionnaire entailed of seventeen closed-ended questions, including a mix of dichotomous questions, multiple choice questions, and rating questions. According to Cant (2013), a dichotomous question is a question which offers two alternative answers to select from, whilst a multiple-choice question is a question with more than two alternative answers. The questionnaires were addressed to the owners/managers of the SMEs. The contact details of these owners/managers were obtained from the Mkhambathini Municipality business database.

3.10 Primary data

Primary data relates to data collected from sources such as people or businesses through the data collection technique (Ntuli, 2022). In this study, primary data was information collected anew. To commence collecting primary data, the supply chain senior officer responsible for the database was contacted and escalated the matter to the municipal manager. The municipal manager was engaged regarding the matter, and permission was requested. The municipal manager agreed and allowed the supply chain senior office to grant access to the database. The data collection commenced as soon as DUT also granted permission.

3.11 Piloting

Before utilising a research questionnaire to gather data, the questionnaires should be pilot tested (Sharmilee (2014:79)). The pilot test aims to simplify the questionnaire so that the respondents have no challenges in completing the questions. Moreover, they will be no issues in recording the data. Pretesting allows the researcher to gather some assessment of the question's validity and the reliability of the data collected. Bryman and Bernaur (2015) agree with Sharmilee (2014:51) that pilot testing is a small version of a full-scale or trial run in preparation for the complete study. The pilot study was conducted among 10 randomly chosen respondents within the study area to determine

if any of the questions were vague, the amount of time to complete the questionnaire and to demonstrate if the research instrument is aligned with the objectives of the study. The outcome revealed that the questions were understandable. The average time of completing the questionnaire is twenty minutes, and the research tool was aligned with the research objectives. The SME for whom the pretesting was performed will not be part of the sample of SMEs selected. When the data collection process was completed, the data was edited and coded before analysing. Data was examined utilising the SPSS statistical package (Version 25), and the required statistical test was performed.

3.12 Delimitation

This study took place in the Mkhambathini area. This study was confined to SMEs in the geographical area of Mkhambathini only. The centre of attention of the study was on chosen SME owners and managers in the Mkhambathini area. To undertake a study of all SMEs in KZN, time and resource constraints mean that attempting a study of that magnitude would be a big task. The study was further limited in scope. Only financial literacy and its components are explored as an influence on the growth and development of selected SMEs in the Mkhambathini area.

3.13 Reliability

According to Bryman and Bell (2015), quantitative researchers utilise reliability and validity to combine notions and operational-level research to ensure that the measuring instrument is accurate and measures what it anticipated to evaluate. Reliability refers to the level at which a variable is compatible with what it is intended to measure. Reliability also denotes the extent to which the measurement process is free from random errors and the extent to which the obtained scores may be generalised to different situations (Laura and Bernaur, 2014). If the study results can be reproduced under a similar methodology, then the research instrument is considered reliable (Sharmilee 2014:68).

According to Johnson and Christen (2014), reliability evaluates the dimensions to which outcomes are compatible and accurate over time, constituting the total population under study. Brymand and Bell (2015) posited that reliability means assessing the tool producing the same results under similar circumstances if redone on the same person or utilised by two other researchers. Mahohoma (2018) suggested that reliability involves consistency, accuracy and predictability of the research outcomes. To achieve reliability, the questionnaire will be a pilot test. Data will be collected from ten potential respondents as a pilot test before distributing the main questionnaire to the target population, and data will be coded systematically. Reliability also will be addressed through Cronback's Alpha.

3.14 Validity

According to Creswell (2014), validity is an essential term in research and refers to the philosophical and scientific robustness of the study. Its main objective is to increase the accuracy and functionality of findings by excluding or controlling as many variables as possible, allowing for greater assurance in the findings of the particular study (Sekaran and Bougie 2013). According to Zikmund (2013), validity refers to the weighing instrument and what it is supposed to evaluate in terms of the context of the study. Ndou (2016) remarked that the validity of the questionnaire is a test of the truth to the dimension to which the questionnaire as a research instrument provides data that relates to the interpretation of the changeable idea.

Validity mentions the level at which procedure is free from systematic and random mistakes (Creswell, 2014). According to Mbatha (2015), validity also denotes how well the data quantifies what it was supposed to measure. Validity explains the outcomes of the test and not the test itself. In quantitative research, the ultimate question is whether face validity will be tested by engaging with three experts, a statistician, an experienced scholar, a financial director and a language expert to scrutinise the questionnaire.

Face validity is how the measuring instrument measures what it is supposed to measure (Bryman and Bell, 2015). To attain face validity, questions were formulated according to the study's objectives. Marczyk (2005) notes content validity as how accurate the questions comprehensively and appropriately measure the concepts being studied. Content validity was achieved by determining the clarity of questions, relevance, completeness, consistency and time required to complete questions by pre-testing questionnaires.

3.15 Anonymity and confidentiality

Participants were assured that the data provided will not be tracked down to them in any not to participate. Anonymous. Data will be destroyed after five years

3.16 Letter of information and consent

A letter of information and concern together with the questionnaire included full information and the aim of the study. The letter gave the respondents a chance to ask questions about the study.

3.17 Ethical considerations

According to Ntuli (2022), ethics refers to generally accepted standards of right and wrong behaviour. The researcher gave the respondents assurance that an acceptable level of secrecy would be sustained. The respondents were not asked to divulge their particulars, and that the study participation was voluntary. For the purposes of this study, the researcher informed the respondents on how the information collected was used and disclosed after data analysis. Research ethics is an important issue that governs research activities (Ntuli 2022). The research entails specific principles that form a generalised framework and policies about how research should be approached. Ethical clearance to conduct the research study was obtained from the Durban University of Technology, and the cover page of the questionnaire entailed information about the study's objectives. Ethical

clearance indicated that the participation was voluntary and that anonymity would be ensured.

CHAPTER 4

RESULTS AND DATA DISCUSSION

4.1 Introduction

This chapter provides an analysis and explanation of the results of the study. Information collected by way of questionnaires are analysed. The results are presented in pie charts, graphs, tables and figures, and a brief interpretation. The previous chapter focused on the methodology used in the study. This chapter includes determining the response rate and discussion. The data was captured on an excel spreadsheet and then analysed using SPSS.

The participants were asked to indicate their perspective on how they follow financial literacy concepts in managing their SME finance. The statistical tools utilised for data analysis incorporated descriptive statistics.

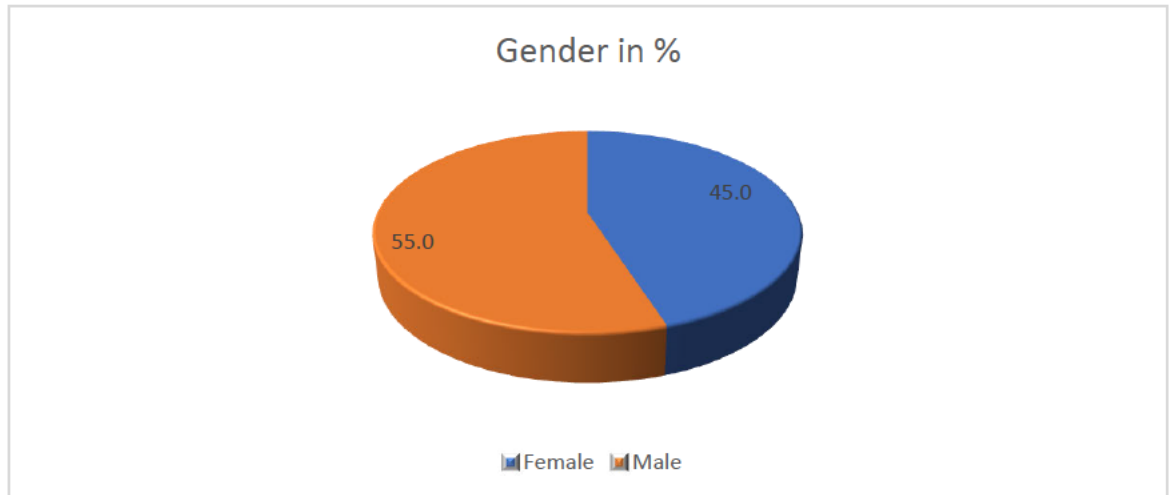
4.2 Response rate

A sum of 160 SMEs were chosen to take part in this research study, 147 entrepreneurs responded to the call to participate. Quite a number of questionnaires were excluded from the study for different reasons. Some respondents never returned the questionnaires to the researcher, and those who were not completed them in full. According to Lekhanya (2015), there is no commonly accepted standard for a minimum acceptable response rate; however, the author argued that researchers generally consider an acceptable response rate to be from 15% to 20% and above, with 10% being the minimum. However, for this study, only 100 questionnaires were considered to have met the study's criterion, thus obtaining a response rate of 63 %.

4.3 Gender of respondents

The sample showed in figure 4.1 that 55% of the respondents are male, and females constitute the least population (45%) represented in the study.

Figure 4.1. Gender

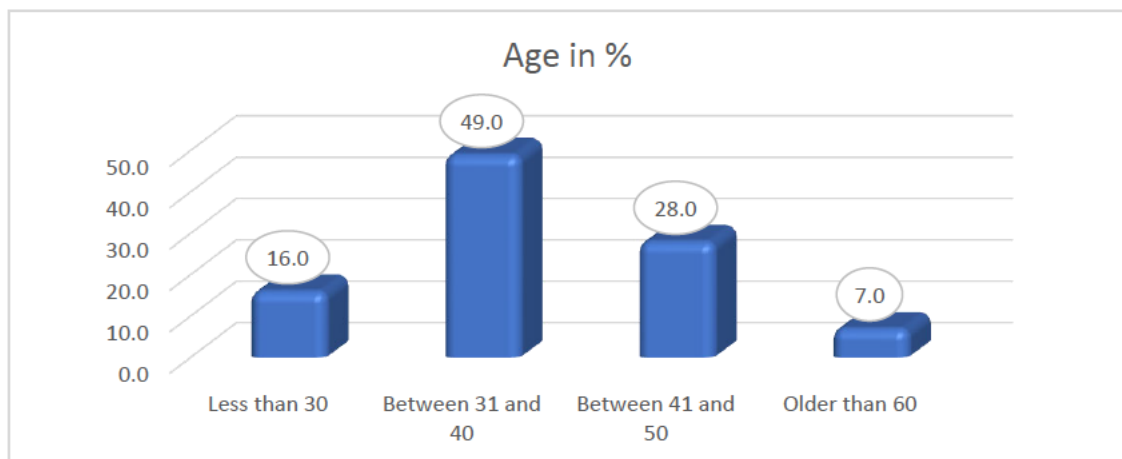


Source: Author's design (2024)

4.4 Age of respondents

Figure 2 shows that 16% of the respondents were less than 30 years old. 28 % of the respondents were between 41 years and 50 years old. The highest number of respondents was between ages 31 to 40, at 49%. The respondents that were older than 60 years old were 7 %.

Figure 4 2. Age

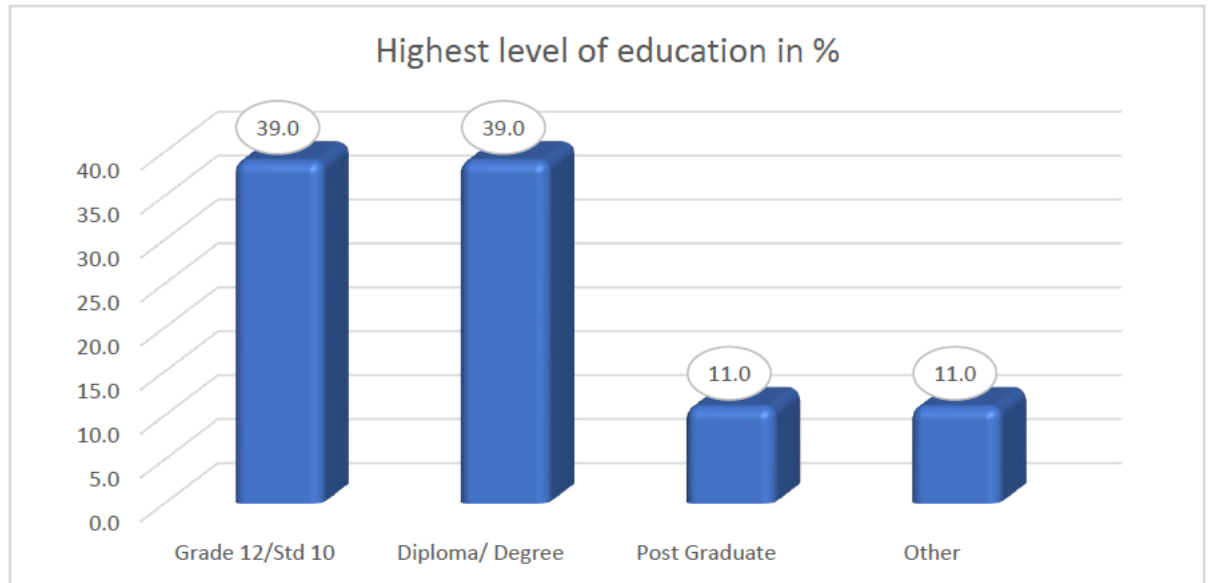


Source: Author's design (2024)

4.5 Highest level of education

Figure 4.5 shows that 39 % of the respondents either had a grade 12 certificate as their highest level of education or possessed a diploma or degree as the highest level of education, respectively.

Figure 4. 5 Highest level of education

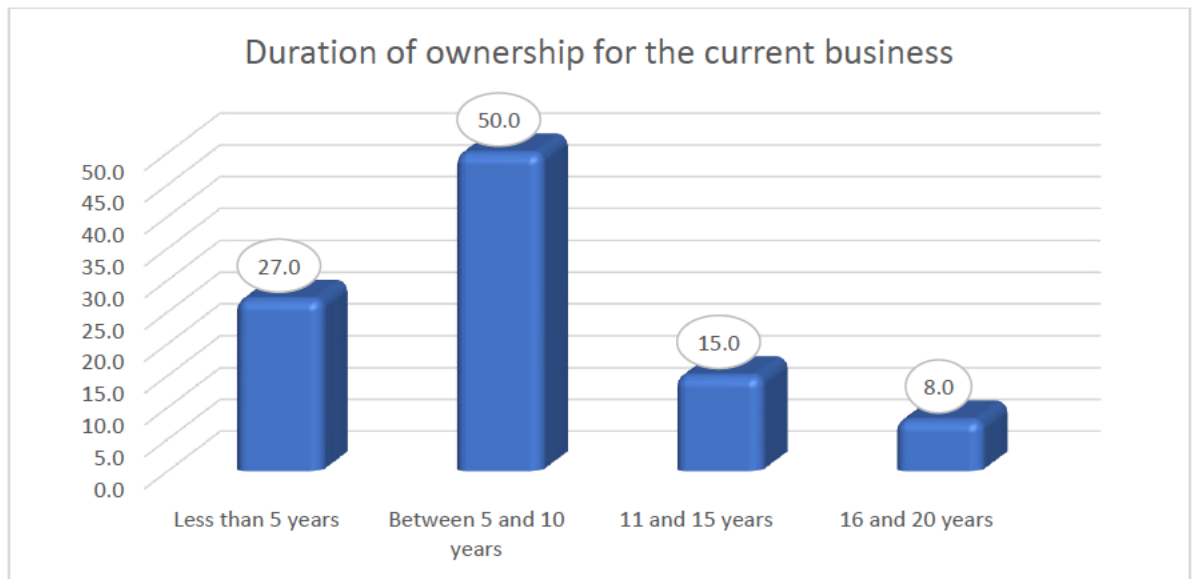


Source: Author's design (2024)

4.6 Period of the business existence

The results in figure 4.4 below deduce that 50 % of the SMEs have been owned for between 5 to 10 years. 27 % of the SMEs have existed for less than 27 years. 15 % of the SMEs have been in existence between 11 and 15 years. Only 8 % of SMEs have existed between 16 and 20 years.

Figure 4.4 Duration of business existence



Source: Author's design (2024)

4.7 Annual turnover

During the data collection process, participants were not requested to state the exact annual turnover for their business. The researcher believed that the respondents would be unwilling to disclose that type of information. Consequently, the respondents were only asked to stipulate their annual turnover in a bracket scale. As noted in table 1, respondents were requested to indicate their turnover at the year of inception. 68 % of the SME turnover at the year of inception was less than R250 000. However, 29 % of the SMEs made a turnover of more than R 250 000.00. 3 % of SMEs made a turnover of over R 500 000.00 in the year of inception.

Table 4.1 Annual turnover

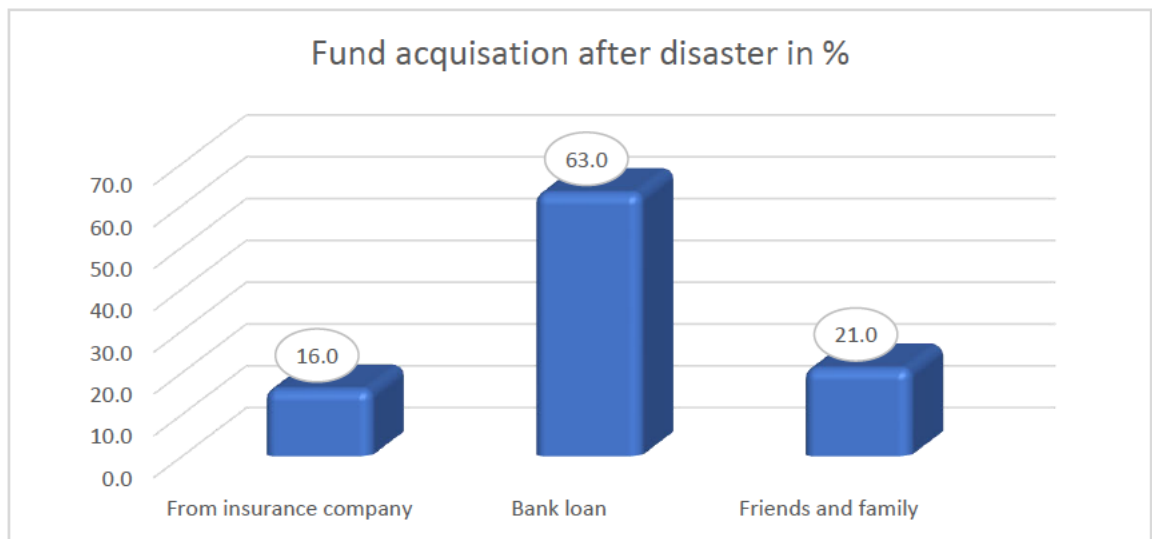
	Frequency	Valid Percent
Less than R 250 000	68	68,0
250 001 –500 000	29	29,0
500 001 – 1 000 000	3	3,0
Total	100	100,0

Source: Author's design (2024)

4.8 Fund acquisition after a disaster

In figure 4.6 below, in the event of a disaster, the majority of the respondents, 63 %, indicated that they would seek assistance from a bank loan. 16 % of the respondents said they would get assistance from an insurance company. The other respondents at, 21 %, will get assistance from friends and family.

Figure 4.6 Fund acquisition after a disaster



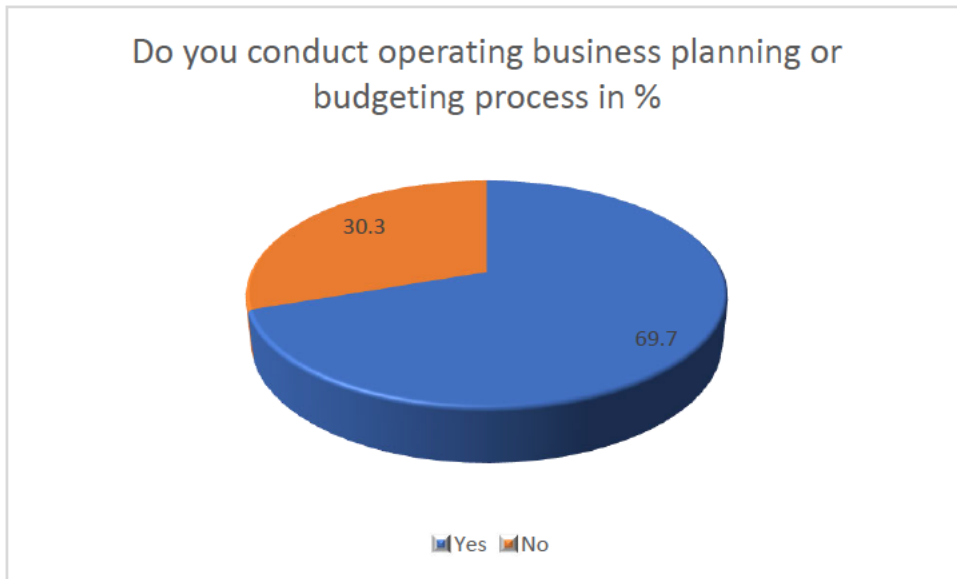
Source: Author's design (2024)

The results above indicate that 60% of respondents acquired their funds from bank loans after a disaster, while 16% acquired them from insurance companies. The results above show that 69% of respondents save money in a commercial bank, followed by 17% who indicate that they place it in a company safe.

4.9 Budgeting

Figure 4.7 portrays responses acquired when the participants were questioned if they take on budgeting activities to manage their businesses. Most of the respondents, at 69.7 %, that they utilise budgets in their businesses compared to the 30.3 % who stipulated that budgeting is not part of running their businesses.

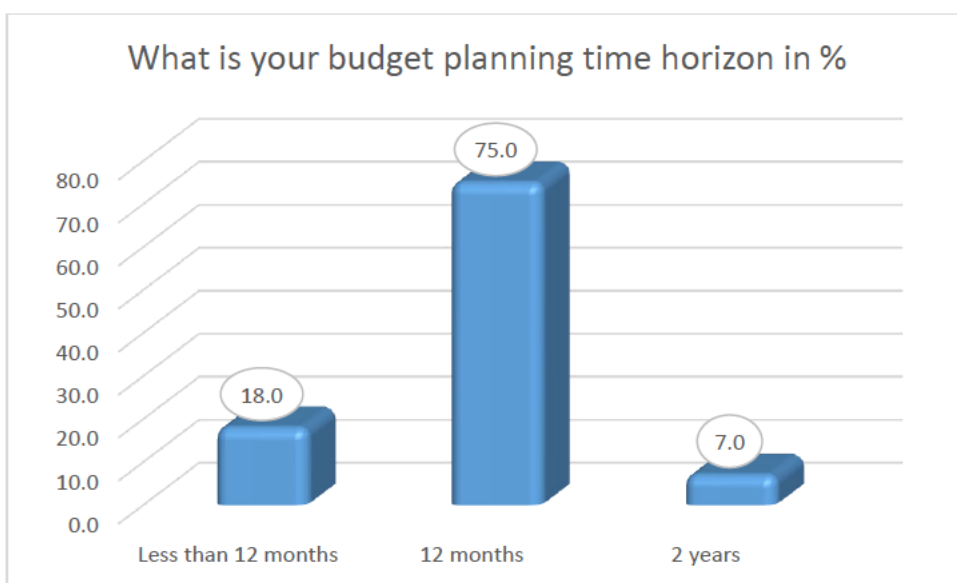
Figure 4.7: Business planning and budget process



Source: Author's design (2022)

Respondents who stipulated that they applied budgeting activities in their SMEs were also asked about the time frames considered for budgeting purposes. As noted in Figure 4.7 the, 75 % of the respondents recorded that they based their budgeting on a 12-monthly cycle, and 18% prepared their budgets for less than a year. Other respondents, at 3 %, base their budget on a 2-year cycle period.

Figure 4.8 Budget planning time horizon



The results show in 4.2 the statistics for the illustrative answers provided by the participants when asked to rate each statement from 1 being strongly agree to 5 being strongly disagree and 3 as midpoint of the scale. All the participants rated all the statements applicable to their business as all the scores were higher than 3, which is the neutral point. The results below indicate that most respondents agree with the statements measuring budget because the overall mean is $M=4.28$. For instance, it is reported that an astounding 83.3% of respondents agree with the statement, "enterprise develops business objectives to be achieved in a year". Furthermore, 64.1 agree and strongly agree (32.1%) with the statement, "Enterprise makes use of budgeting process such as activity-based budgeting, beyond budgeting, rolling budget instead of traditional budgeting." In summary. However, many of the participants concur with the statements evaluating budgeting, a few are still on the fence about budgeting.

Table 4.2 Budgeting

Variable	Disagree	Neither agree nor disagree	Agree	Strongly agree	Mean	St dev
Enterprise develops business objectives to be achieved in a year		10.3	83.3	6.4	3.9	4.09
Enterprise consistently prepares operational budgets on a		12.8	41.0	46.2	4.33	.696

predetermined basis, e.g. bi-annual, annual, etc.						
The business prepares the budget at the beginning of the financial year and reviews at year-end		11.5	44.9	43.6	4.32	.674
Budgets form a basis for employee performance contracts		6.4	48.7	44.9	4.38	.608
There is a strong alignment of the budget with the company strategy		1.3	1.3	51.3	4.42	.593
Enterprise makes use of budgeting process such as activity-based budgeting, beyond	1.3	2.6	64.1	32.1	4.27	.574

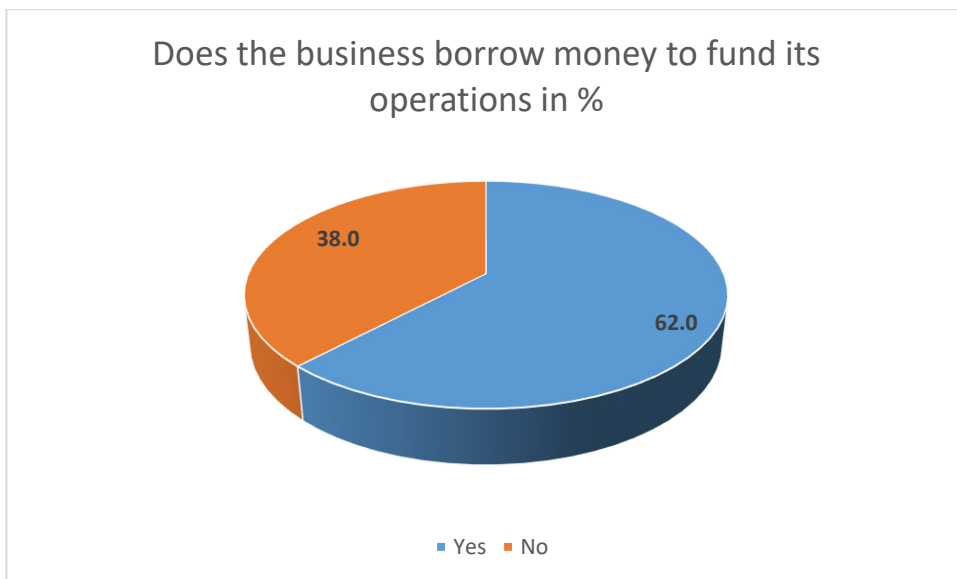
budgeting, rolling budget instead of traditional budgeting						
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Source: Author’s design (2024)

4.10 Borrowing

Figure 4.8 depicts the answers collected from participants when asked if they participated in borrowing activities in their SMEs. 62 % of the respondents stipulated that they raise capital by borrowing activities whereas 38 % illustrated that they do not.

Figure 4.9 Does the business borrow money?

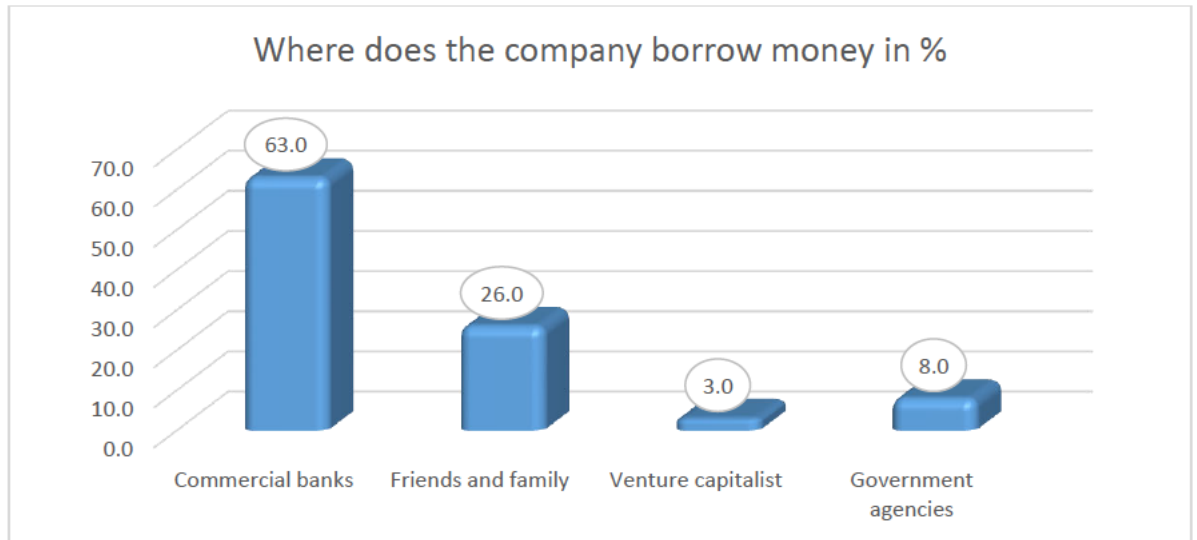


Source: Author’s design (2024)

The respondents showed that they consider numerous institutions to acquire capital. Figure 4.9 shows that most of the participants (63%) indicated that commercial banks were the primary source of funds. 26 % of respondents said they borrow funds from family and friends. Government agencies assist only

8% of the respondents in borrowing funds. The least utilised institution for a respondent to borrow funds from was venture capitalist at 3%.

Figure 4.10 Where does the company borrow money?

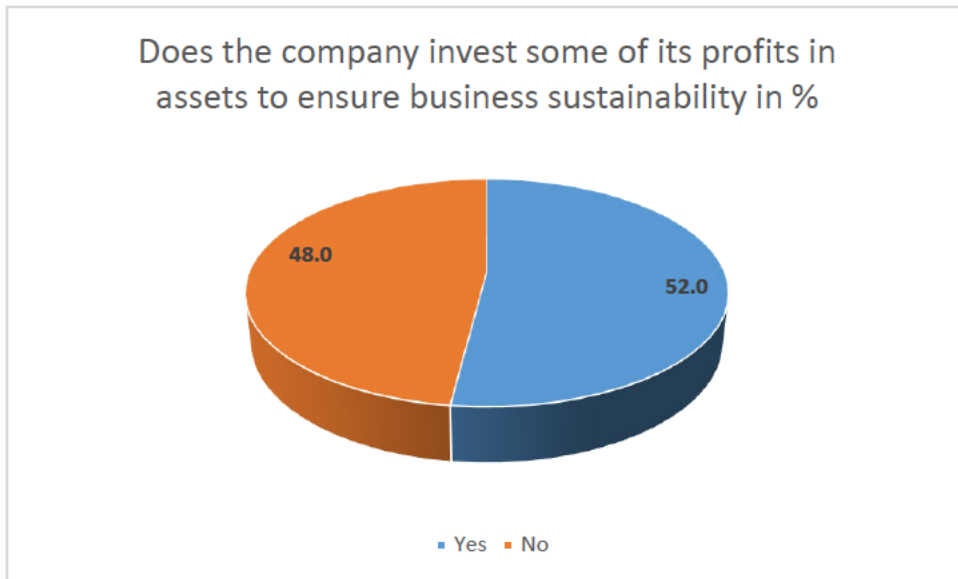


Source: Author's design (2024)

4.11 Investing

The respondents were additionally asked about investing activities in their SMEs. The highest number of participants, 52%, deduced that they involved investment activities in their SMEs. Only 48 % of the respondents mentioned that they did not participate in investing activities.

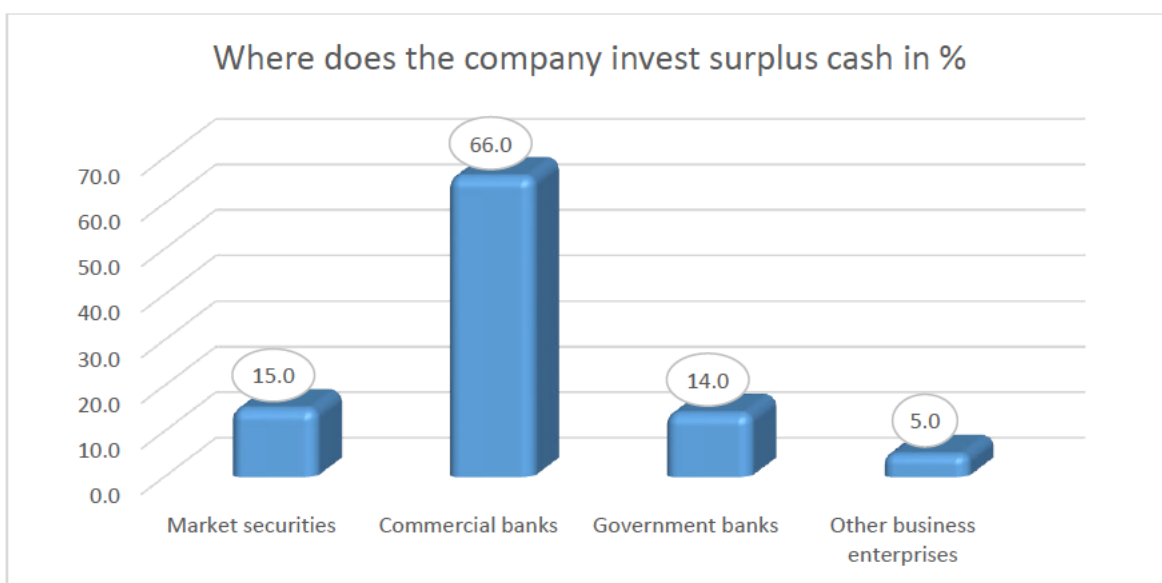
Figure 4.11 Investments of profits



Source: Author's design (2024)

Those who participated in investing activities mentioned that the majority (66% of their retained income was invested in commercial banks. 15 % of the respondents indicated that they invested in marketable securities, and 14 % of the respondents invested in government banks. Only 5 % of the respondents mentioned using other business enterprises as an investing stream.

Figure 4.12 Business investments



Source: Author's design (2024)

The outcome shown in table 4.3 shows that 63.5% of respondents agree that enterprises use third parties to conduct business investments. In addition, it seems as though while 61.5% of respondents agree that "Company invests in human capital development, e.g., training of staff", 3.8% of respondents seem to disagree with this statement. In conclusion, we can report that while some respondents disagree with these statement majority of the respondents agree simply because the mean score is above 3.5 (Mean= 4.15).

Table 4.3 Investing

Variable	Disagree	Neither agree nor disagree	Agree	Strongly agree	Mean	Std dev
Enterprises invest its surplus cash in order to generate more income in the future	3.8	5.8	73.1	17.3	4.04	.625
Consideration of financial measures such as NPV, IRR and ROA is important before committing to an investment		25.8	38.5	36.5	4.12	.784
Enterprise makes use of the third party to conduct investment for the business		21.2	63.5	15.4	3.94	.608

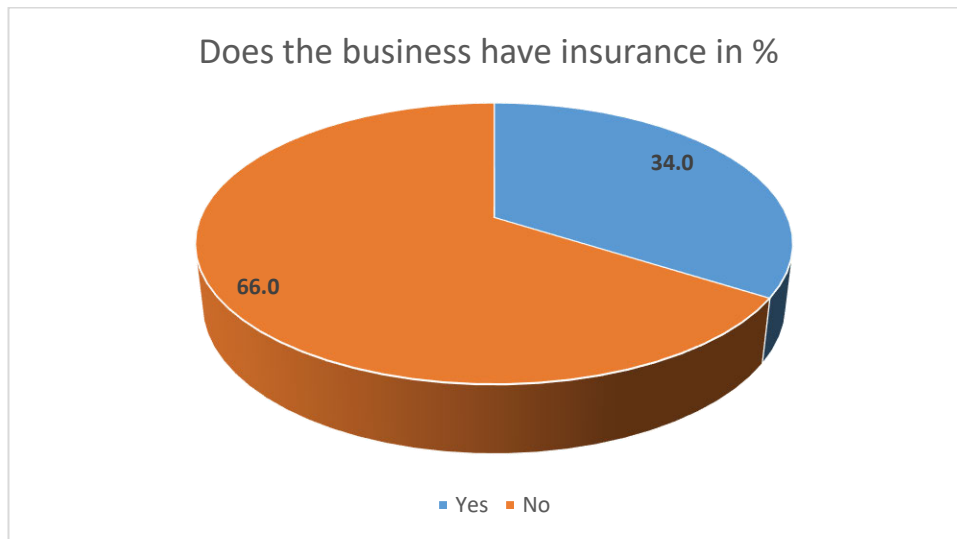
Investing in e-commerce infrastructure such as an internet website is critical for the business success		9.6	46.2	44.2	4.35	.653
Company invest in research and development initiatives		7.7	55.8	36.5	4.29	.605
Company invests in human capital development, e.g. training of staff		3.8	61.5	61.5	4.19	.687

Source: Author's design (2024)

4.12 Business Insurance

When the respondents were asked if they had business insurance for their SMEs. 66 % of the respondents said they have insurance, whereas 34% said their SMEs do not have business insurance.

Figure 4.13 Business Insurance



Source: Author's design (2024)

The participants that noted that they have business insurance for their businesses were also asked exactly what they have insured. Most respondents have insured their trading stock at 56.1 %. 41.5% of the respondents have insured business premises. Only 2,4 % have insured movable assets.

Table 4.4 What SME have you insured?

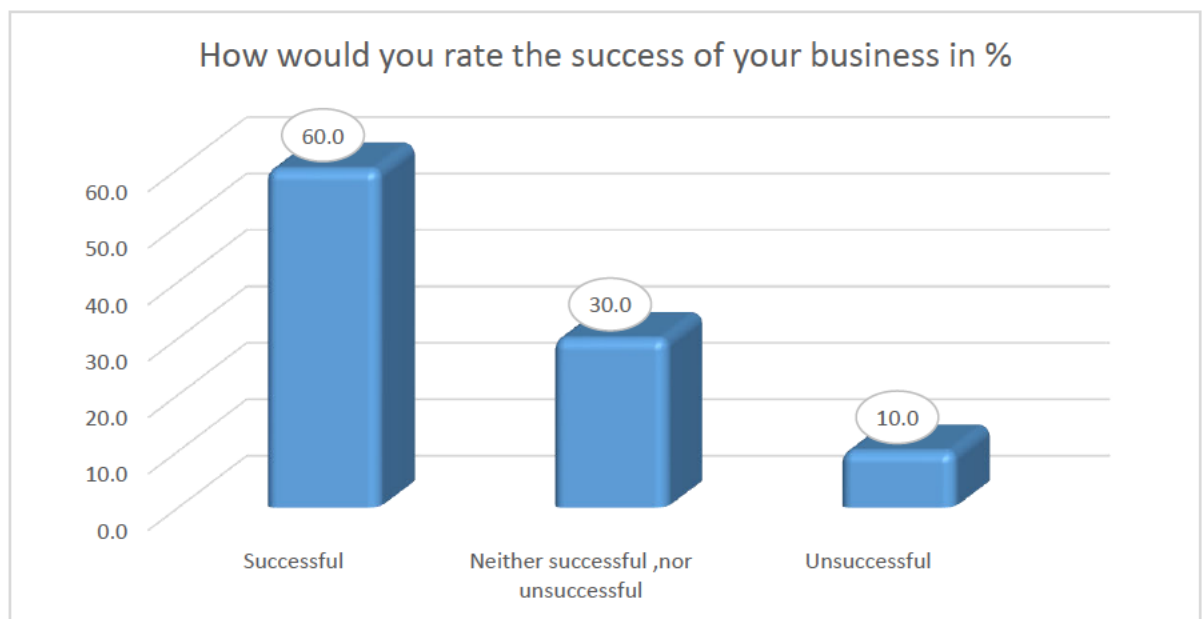
		Responses	Percent of Cases
		N	
INSURANCE	Business premises	17	41,5%
	Trading stock	23	56,1%
	Movable assets	1	2,4%
Total		41	100,0%
a. Dichotomy group tabulated at value 1.			

Source: Author's design (2024)

4.13 Business Success

The respondents were asked to rate the success of their business. Approximately 60% of the respondents considered their SMEs successful, and 30 % considered the SMEs to be neither successful nor unsuccessful. 10% of the respondents considered their businesses unsuccessful.

Figure 4.14: Success of business



Source: Author's design (2024)

4.14 Evaluation of business success

The measures above are used to evaluate the success of one's business; therefore, it is reported that 71% of respondents measure their success by their net profit and surprisingly, about 1% measure it but the production of new products and services. 17 % of the respondents evaluate their business success by turnover whereas 11 % evaluate their success by the value of assets

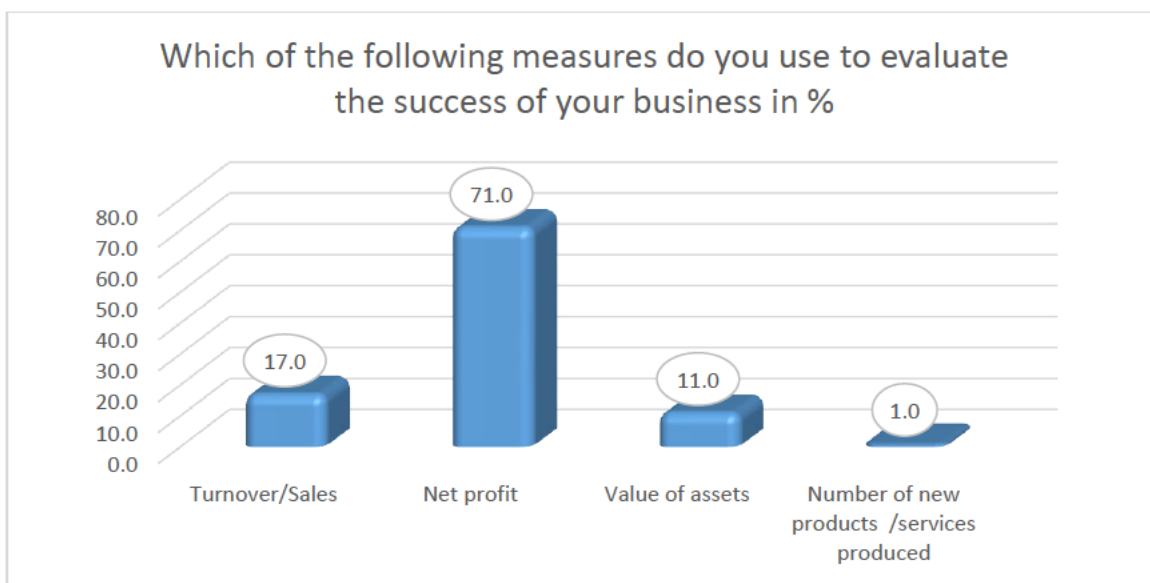
Table 4.5 Which of the following measures do you use to evaluate the success of your business?

	Frequency	Valid Percent
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Turnover/Sales	17	17,0
Net profit	71	71,0
Value of assets	11	11,0
Number of new products /services produced	1	1,0
Total	100	100,0

Source: Author's design (2024)

Figure 4.15 Measures for the success of businesses



Source: Author's design (2024)

4.15 Use of ITC

The results indicate that 75% of the respondents disagree with the statement "I use ITC to deal with customers"; furthermore, approximately half of the respondents (50%) strongly disagree with using ICT to deal with suppliers. It has also been reported that 59% disagree with using ICT to obtain customer feedback and while 54 of the respondents indicated that they strongly disagree with using ICT to get new customers.

Table 4.6 Utilisation of ICT

I use ICT to deal with customers

	Frequency	Valid Percent
Agree	3	3,0
Neither agree nor disagree	4	4,0
Disagree	75	75,0
Strongly Disagree	18	18,0
Total	100	100,0
I use ICT to get feedback from customers		
Neither agree nor disagree	14	14,0
Disagree	59	59,0
Strongly Disagree	27	27,0
Total	100	100,0
I use ICT to get new customers		
Agree	2	2,0
Neither agree nor disagree	8	8,0
Disagree	36	36,0
Strongly Disagree	54	54,0
Total	100	100,0

Source: Author's design (2024)

4.16 SMEs' access to financial support

Based on the results in Table 8, 68% of the participants agree that SMEs will blossom with more access to loans, furthermore, 51% of respondents have also reported that they agree with the statement, "Bank interest rates on loans are a major drawback for growing SME's". In addition, 51% of respondents agree that SMEs will look for paths for financial help if they know of existing financial organisations. Finally, 54% of the respondents strongly agree with the statement: "If SMEs are given tax incentives, it will assist them in building a strong financial base".

Table 4.7 SME access to loans

SMEs will thrive better with more access to loans and financial support.		
	Frequency	Valid Percent

Neither agree nor disagree	6	6,0
Agree	68	68,0
Strongly Agree	26	26,0
Total	100	100,0
Bank interest rates on loans are a major drawback for growing SME		
Neither agree nor disagree	5	5,0
Agree	51	51,0
Strongly Agree	44	44,0
Total	100	100,0
SMEs will seek avenues for financial help if they know of existing financial organisations.		
Neither agree nor disagree	5	5,0
Agree	51	51,0
Strongly Agree	44	44,0
Total	100	100,0
If SMEs are given tax incentives, it will assist them in building a strong financial base.		
Disagree	2	2,0
Neither agree nor disagree	2	2,0
Agree	42	42,0
Strongly Agree	54	54,0
Total	100	100,0

Source: Author's design (2024)

4.17 Reliability of constructs

Reliability is the extent to which the measurement of a phenomenon provides stable and consistent results (Taherdoost, 2016). The reliability analysis was conducted on the following constructs (Investing and borrowing), including their items to measure the internal consistency. The cut-off value of Cronbach's alpha is 0.7 (Hair et al., 2014), although 0.6 is sometimes acceptable (Malhotra et al., 2017). Table 4.10 demonstrates that all the

constructs are internally consistent in their measurement because Cronbach's Alpha value ranges within the required thresholds (0.6). The results in table 4.10 demonstrate that all the constructs are internally consistent in their measurement.

Table 4.8 Reliability of constructs

Constructs	Items	Corrected Item-Total Correlation	Cronbach's Alpha	Final number of items and (initials)
Borrowing	Borrowing1	0,494	0,608	5 (5)
	Borrowing2	0,345		
	Borrowing3	0,199		
	Borrowing4	0,245		
	Borrowing5	0,593		
Investing	Inv1	0,395	0,614	6 (6)
	Inv2	0,428		
	Inv3	0,347		
	Inv4	0,303		
	Inv5	0,190		
	Inv6	0,420		

4.18 Discussion of the results

The results in figure 4.9 depict that the majority (62%) of the entrepreneur's source capital by borrowing activities and only (38%) did not participate in that process. The study noted that accessibility of finance was one of the key problems that SMEs should deal with (Serame 2019). The results in figure 4.10 note that most entrepreneurs utilise commercial banks as their primary source of capital. This validates the findings of previous studies on the matter of capital sourcing. The results support Bendre and Singh (2017), who noted

that SMEs prefer commercial banks as a source of capital. The study confirmed that they are entrepreneurs that secured funding from alternative sources. As illustrated in figure 4.10, 26% of entrepreneurs would instead borrow funds from friends and family. This is supported by Musie (2016), who noted that SMEs would instead utilise funds borrowed from friends and family or personal savings. Figure 4.10 further depicts that a minimum percentage of 3 % uses venture capitalists as a form of capital. Fatoki (2014a) noted that most SMEs know little about venture capitalists. This causes SMEs to utilise mostly commercial banks as their source of capital.

Komitu (2019) posited that budgeting was essential to running business finances. According to Pietrzak (2014), 90 % of SMEs utilise budgeting as a business operating instrument. This study established that 75 % of SMEs, as depicted in figure 4.8, practice budgeting based on a 12-month cycle. This finding is consistent with Musie (2016), who established that many SMEs prepared their budgets in the same time frame. Only 18 % of SMEs, however noted that they prepare their budgets in less than 12 months. Table 4.2 depicts findings that budgets aligned with the SMEs' objectives. This finding corroborates with Warue (2013), who said that budgets mirror what management expected concerning SME performance. Budgets demonstrate how the business is performing in proportion to its objectives and overall strategy. This study revealed that investment in communication and technology should form part of activities performed by SMEs. Yang (2015) accentuates that SMEs should spend money on information communication and technology. The resources that should be acquired include computers, software, and skills. Moreover, it has been established that information and technology influence the performance of a business (Bevan 2015). This was also supported by Mwithinga(2016), who noted that SMEs regard excellent IT support as an essential tool for running a business.

This study corroborates with Musie (2016) regarding investment practices. The author established that SMEs do not utilise complex investments to

evaluate their investment decisions. Musies' (2016) findings revealed that SMEs prefer to use standard investment procedures, and those have a positive impact on the success of the SMEs. The study established that the utilisation of financial literacy components like financial statements has a good influence on SME's ability to meet their loan obligations.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

The aim of this chapter is to present the study's summary, conclusions and recommendations. The summary outlines a brief overview of the study in light of the formulated objectives.

5.1 Overview of the study

The study disclosed that SMEs are seen as the engine of any economy. SMEs are important in the improvement of GDP and in encouraging entrepreneurship. South Africa has a ridiculous rate of unemployment and poverty, SMEs are critical because they address the very burning challenge of unemployment and poverty that many economies face (Mabula 2018:35).

Thus, challenges influencing the success of SMEs need to be communicated rigorously by all stakeholders (Mbatha 2015:29). The study noted financial know-how as one of the elements influencing the success of SMEs. Considering this, this study aimed at bestowing the growth of literature on the subject by determining whether the financial literacy concepts are practised by SMEs. The study's results disclosed that many entrepreneurs considered the financial literacy concepts when running their businesses (Muhammad 2024). The study aimed to assess the current literacy skills of SME managers and to assess whether financial literacy skills impact SME success in Mkhambathini.

5.2 Findings of the study

The study established that many SMEs depend on debt as the preferred option to finance their businesses. In line with a study conducted by Yawson (2018:16) which deduces that the SMEs' primary source of capital was commercial banks. Even though entrepreneurs do not consider interest rates

when looking for finance, SMEs are less interested at whether the long term or short term. Musie (2016:45) incited that awareness of debt maturity influences the interest rewarded over a period of time. This study deduced the restricted utilisation of venture capitalism as a form of finance. This highlighted the issues raised by Musie (2016:42) that entrepreneurs have little to no knowledge about the existence of venture capitalists.

Compatible with Ahmad and Mohamed (2012:34), this research agreed that SMEs managed budgets based on 12-month period and analysed them within a year. It was also deduced that SMEs consider business goals when preparing budgets. It was fascinating to record that budget was considered when evaluating employee employment performance contracts. This is consistent with findings by Pietrak (2014:78) that many SMEs aimed at utilising budgets to assess employee performance. This study also noted that SMEs utilise traditional budgeting methods, Contrary to Zeller and Metzger (2013:56), who posited that most businesses prefer complicated budgeting techniques.

The study also discovered that financial literacy concepts like budgeting, borrowing and budgeting have a useful influence on SMEs. This finding is consistent with Scheers (2014:352) displayed that financial concepts such as financial reporting, management of debtors and sales were crucial in the running of SMEs.

This study deduces that most of the SMEs were managed by owners who have the necessary education qualification to run the SMEs. This is contrary to Musie (2016:67), who established that entrepreneurs did not have the required qualifications to manage their SMEs.

The study disclosed that a higher number of SMEs utilise banks as their primary capital source. This corroborates the findings of the earlier studies on the matter of finding capital for SMEs. This finding supports Wu (2012:

16), who noted that SMEs prefer commercial banks as funders for their businesses.

This literature also justified that a minimum amount of SMEs source capital from alternative sources. Some SMEs choose to borrow money from family and friends. This is consistent with Leboea (2017:6), who noted that SMEs would instead utilise their savings or borrow from friends and family.

The study also confirmed that many SMEs have little to no knowledge about venture capitalists as a source of capital. This is in line with the finding by Fatoki (2014a), who noted the limited interest of SMEs in using venture capitalists to fund their businesses. Venture capitalists should avail themselves and create awareness of their existence among SMEs.

The study deduced that SMEs preferred utilising standard budgeting methods. The study also established that SMEs prepared budgets on 12 month baseline. This finding supports Ahmed and Mohamed (2012:68), who established that many SMEs prepare their budget in a similar time frame. Investments by SMEs are important so that SME growth and sustainability can be ensured. Investing in assets minimises operating costs and encourages sustainability (Mwithinga 2016). This study also noted that incorporating IT as a tool for operating SMEs is useful. Young (2009) emphasised that SMEs should invest in IT equipment like computers, programmes and IT skills. Additionally, It has been confirmed that information communication and technology influence SME performance in a positive way (Bayo- Moriones et al., 2013). This finding is re enforced by Musie (2016) who noted most SMEs took good IT support as an essential tool in running a prospering SME.

The literature revealed that SMEs had many problems (Katarag 2016:24). Financial knowledge was highlighted as one of the obstacles impacting the performance of SMEs (Nyambona et al. 2014). This study demonstrated that

SMEs who utilised budgeting, investing, and borrowing also managed to improve their turnover and increase their staff complement. SMEs who indicated that they use financial literacy concepts minimally showed less or no increase in turnover.

5.3 Contributions of the study

Scholars are particularly interested in studying financial literacy as it is vital for SME's success. Many studies before concentrated on developed markets and paid little attention to South Africa, mainly in Mkhambathini, a semi-rural area where the study was conducted. More over the studies in the South African context

Financial education should be taken as a subject not only at the university but also at primary school.

5.4 Private Sector contribution

The study noted that SMEs do not always know the maturity of the debt. Commercial, financial institutions should initiate programmes to enhance the financial knowledge of SMEs. The literature also underlined the absence of consciousness by SMEs concerning sources of capital like venture capital funds and government agents.

5.5 Educational Institutions contribution

Academic organisations should pay attention to education and growth programmes directed at improving the financial literacy skills of SMEs. The point of financial literacy should be dispensed to the people as soon as possible, even at primary school stages.

5.6 Contribution to entrepreneurs

SME owners to take responsibility for improving their financial management knowledge by way of coaching and development. SMEs should work on networking with the sector to impact knowledge on each other.

5.7 Limitations of the study

- The research design was quantitative, and only utilised closed-ended questions. The respondents could have been limited in conveying their comprehensive opinion on the matter
- The study focused on SMEs from one database.

5.8 Suggestions for future studies

- The study's design was quantitative and descriptive. The study can be conducted using a different design approach.
- The study utilised one database; future studies can contemplate using a broader sampling approach.
- The literature only contemplated demographic factors such as age, education and gender. The upcoming research can consider including black, indian or white, to demonstrate if any important difference exists in the utilisation of financial literacy concepts across cultures.
- A related study could be conducted in other municipal regions in KwaZulu-Natal.

5.9 Conclusion

- Many African countries encounter social, economic and socio-economic challenges. South Africa is no exception. It is acknowledged internationally that SMEs are pivotal in addressing these challenges. The authorities have acknowledged that many issues in the National Development Plan will be addressed by developing a healthy SME sector.
- The study revealed that access to capital is one of SMEs' main obstacles (Varghese2018). In agreement with a study by Makuwe (2021), It was noted that the primary source of capital was via debt or

equity or a mix of both. Debt is provided by banks, and equity is sourced from the business owners.

- Many entrepreneurs are faced with complex financial decisions in managing businesses daily. Although some entrepreneurs do know about running SMEs, many still lack the knowledge, skill and attitude to manage the finances of their organization professionally.

5.10 Recommendations

This study noted that many SMEs use financial literacy concepts however, there is still many of SMEs that do not use financial literacy notion. These challenges must be attended to address the challenges of economic growth on a healthy SMEs industry. It is important for public organisations like Industrial development corporations and Small enterprises. Development Agency to put energy into training SMEs about budgeting and financial knowledge. The training curriculum should include budgeting, borrowing and investing. This report could clarify areas of interest regarding SMEs' utilisation of financial literacy concepts.

In enhancing the financial literacy of SMEs within the municipality, policymakers should specifically design initiatives and training to enhance entrepreneurs' financial literacy levels.

The government should communicate with academia in tertiary institutions to arrange workshops, conferences and seminars to provide and provide small business owners with the necessary facilities and skills to act effectively and efficiently manage the business. The government at the local stage should arrange financial education capacity-building programs and financial awareness campaigns on bookkeeping, financial accounting, debt management and banking services literacy for small business owners to advance their businesses.

The study documented a significant positive relationship between financial literacy and the performance of small business enterprises. This implies that

improvements in the financial literacy of small business owners were positively associated with improvements in financial performance. However, financial literacy has a relative influence on small business enterprises' performance. It can therefore be concluded that the financial literacy of small business owners significantly influences small business performance.

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APPENDIXES



Appendix 1

RESEARCH QUESTIONNAIRE

Assessing the influence of financial literacy skills on small and medium business success in Mkhambathini.

Thank you for taking the time to complete this questionnaire. The survey aims to examine the financial literacy levels of entrepreneurs. The findings of this research study will assist government and SME development agencies to understand better challenges faced by entrepreneurs as far as financial management is concerned. The insight from this study will inform government and SME agencies to develop effective programmes that can better equip entrepreneurs with proper financial management skills to run successful enterprises.

The questionnaire is divided into five sections

Section A: Demographic information

Section B: Company information

Section C: Budgeting

Section D: Investing

Section E: Borrowing

The responses will be utilised strictly for statistical purposes only.

Section A: Demographic information

PLEASE INDICATE YOUR ANSWERS BY PLACING A CROSS (X) IN THE APPROPRIATE COLUMN

1. Gender

Female ¹	
Male ²	

2. Age

Less than 30 ¹	
Between 31 and 40 ²	
Between 41 and 50 ³	
Older than 60 ⁴	

3. Indicate your highest level of formal education

3.1	Grade 12/ Std 10 ¹	
3.2	Diploma / Degree ²	
3.3	Post Graduate ³	
3.4	Other ⁴	

Section B: Company information

PLEASE INDICATE YOUR ANSWERS BY PLACING A CROSS (X) IN THE APPROPRIATE COLUMN

4. How long have you owned your current enterprise?

4.1	Less than 5 years ¹	
4.2	Between 5 and 10 years ²	
4.3	11 and 15 years ³	
4.4	16 and 20 years ⁴	
4.5	Above 20 ⁵	

5. No. of (full-time) employees

5.1	Less than 50 employees ¹	
5.2	51 to 100 employees ²	
5.3	101 to 150 employees ³	
5.4	151 to 200 employees ⁴	
5.5	Above 200 ⁵	

6. How much was the business turnover in the very first financial year when the business started (Please mark the appropriate box with an X or click once to check or uncheck a box

Less than R 250 000 ¹	
250 001 –500 000 ²	
500 001 – 1 000 000 ³	
1 00 000 01 – 2 000 000 ⁴	
Above 2 000 000 ⁵	

7. How much was the business turnover in the very first financial year when the business started (Please mark the appropriate box with an X or click once to check or uncheck a box

Less than R 250 000 ¹	
250 001 –500 000 ²	
500 001 – 1 000 000 ³	
1 00 000 01 – 2 000 000 ⁴	
Above 2 000 000 ⁵	

8. Please mark the appropriate box with an X on the appropriate answer in the statements below.

	Statements	Strongly Agree¹	Agree²	Neither Agree or Disagree³	Disagree⁴	Strongly Disagree⁵
8.1	I use ICT to deal with customers ¹					
8.2	I utilise ICT to deal with suppliers ²					
8.3	I use ICT to get feedback from customers ³					
8.4	I use ICT to get new customers ⁴					

9. If a natural disaster occurs, such as flooding or vandalization of the business premises. Where would you acquire funds to open business for operations again?

From insurance company ¹	
Bank loan ²	
Friends and family ³	

10. What does the company do with savings?

Save in a commercial bank ¹						
	Statements	Strongly Agree ¹	Agree ²	Neither Agree or Disagree ³	Disagree ⁴	Strongly Disagree ⁵
11.1	Enterprise develops business objectives to be achieved in a year					
11.2	Enterprise consistently prepares operational budgets on a predetermined basis, e.g. bi-annual, annual, etc.					
11.3	The business prepares the budget at the beginning of the financial year and review it at year-end					
11.4	Budgets form a basis for employee performance contracts					
11.5	There is a strong alignment of the budget with the company strategy					
11.6	Enterprise makes use of budgeting processes such as activity-based budgeting, beyond					

	budgeting, rolling budget instead of traditional budgeting					
Place in company safe ²						
Deposit in owners/manager's personal account ³						

Section C: Budgeting

PLEASE INDICATE YOUR ANSWERS BY PLACING A CROSS (X) IN THE APPROPRIATE COLUMN

This section of the questionnaire allows us to understand the extent to which you conduct budgeting in your business

11. Do you conduct operating business planning or budgeting process?

Yes ¹	
No ²	

If you answered yes to question 11, please rate the following statements

12. Please rate the following statements.

	Statements	Strongly Agree ¹	Agree ²	Neither Agree or Disagree ³	Disagree ^{e4}	Strongly Disagree ⁵
12.1	SME will thrive better with more access to loans and financial support.					
12.2	Bank interest rates on loans are a major drawback for growing SME					
12.3	SME will seek avenues for financial help if they know of existing financial organisations.					
12.4	If SME are given tax incentives, it will assist them in building a strong financial base.					

13. What is your budget planning time horizon?

Less than 12 months ¹	
12 months ²	
2 years ³	
Greater than 3 years ⁴	

Section C: Investing

PLEASE INDICATE YOUR ANSWERS BY PLACING A CROSS (X) IN THE APPROPRIATE COLUMN

14. Does the company invest some of its profits in assets to ensure business sustainability?

Yes ¹	
No ²	

If the answer is yes to question 13, please rate the investing activities of the business
Please indicate, by means of an "X."

	Statements	Strongly Agree¹	Agree²	Neither Agree or Disagree³	Disagree⁴	Strongly Disagree⁵
14.1	Enterprises invest their surplus cash in order to generate more income in the future					
14.2	Considering financial measures such as NPV, IRR and ROA is important					

	before committing to an investment.					
14.3	Enterprise makes use of the third party to conduct investment for the business					
14.4	Investing in e-commerce infrastructure such as an internet website is critical for the business success					
14.5	Company invest in research and development initiatives					
14.6	Company invests in human capital development, e.g. training of staff					

15. Where does the company invest surplus cash?

Market securities ¹	
Commercial banks ²	
Government bonds ³	
Other business enterprises ⁴	

Section E: Borrowing

PLEASE INDICATE YOUR ANSWERS BY PLACING A CROSS (X) IN THE APPROPRIATE COLUMN

This section of the questionnaire allows us to understand the extent to which you use financial literacy components in managing your business.

16. Does the business borrow money to fund its operations?

Yes ¹	
No ²	

If the answer is yes to question 15, please rate your business borrowing activities

	Statements	Strongly Agree¹	Agree²	Neither Agree or Disagree³	Disagree⁴	Strongly Disagree⁵
16.1	Company considers the cost of borrowing, like interest rate, before taking on a loan					
16.2	Financial ratios such as debt ratio are considered before taking out a loan					
16.3	Enterprise splits long-term and short debt in order to manage the balance sheet					
16.4	Tax benefit is taken into consideration when deciding an optimal capital structure for the firm.					
16.5	Enterprise is fully conversant with the process of acquiring funding from different financial institutions					

17. Where does the company borrow?

Commercial banks ¹	
Friends and family ²	
Venture capitalist ³	
Government agencies ⁴	

18. Does the business have insurance?

Yes ¹	
No ²	

If the answer to question 18 is yes, what have you insured?

Business premises ¹	
Trading stock ²	
Movable assets ³	

19. How would you rate the success of your business?

Successful ¹	
Neither successful, nor unsuccessful ²	
unsuccessful ³	

20. Which of the following measures do you use to evaluate the business's success?

Turnover/Sales ¹	
Net profit ²	
Value of assets ³	
Number of new products /services produced ⁴	

End of questionnaire

Thank you very much for taking the time to complete this questionnaire