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**ISSUE OF FINANCIAL MANAGEMENT PRACTICES AMONG
SMMEs: A CASE STUDY OF FORMER TRANSKEI
HOMELANDS IN EASTERN CAPE PROVINCE SOUTH
AFRICA**

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ABSTRACT

Aim/Purpose	The goal of this study was to investigate the financial management practices of SMMEs operating in under developed regions as a challenge facing SMMEs operating in underdeveloped regions using former Transkei Homelands in Eastern Cape Province as a case study.
Background	In South Africa, the works of Cameron and Miller (2008) highlights that South Africa is ranked among top countries in the world with high failure rates of SMMEs during the first year of establishment. This calls for continuous research works to identify factors that could be impeding the progress of SMMEs in South Africa. According to Jayansankaran, (1999) proper financial management practices are among the key deciding factors when it comes to the survival of SMMEs. Mostly SMMEs in underdeveloped regions are owned and managed by one person, the lack of financial management competence on the side of the SMMEs owners or managers in turn could bring serious consequences to the financial stability and growth of the SMMEs. It is against this background that this study focuses on financial management practices among SMMEs entrepreneurs operating their businesses in former Transkei Homelands where survival of SMMEs are critical for economic development of the region.
Methodology	The researcher in this study uses both quantitative and purposive sampling approaches to design an exploratory study to sample 68 SMMEs owners/managers based in the various towns of the selected region.
Contribution	This research will add to the growing knowledge about identifying factors that may be impeding survival of SMMEs.
Findings	The major findings of the study revealed that 95.59% of the owners/managers have no financial management/accounting skills as well as 58.82% of the internal system of recording financial transactions are not audited.

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Recommendations for Practitioners	In view of the findings it is recommended that agencies charged with looking after SMMEs provide training in the area of financial management skills for the SMMEs owners/managers.
Recommendation for Researchers	Future studies can include the other four principles of financial management principles highlighted by Armstrong (2001).
Impact on Society	The research will assist to highlight to funders of SMMEs, policy makers and business support agencies the need for educating SMMEs entrepreneurs especially those operating their businesses in underdeveloped regions in proper financial management practices in order to curb the problem of cash flow faced by SMMEs which leads to SMMEs failure.
Future Research	Checking the skills of the SMMEs entrepreneurs' to prepare, understand and interpretation of financial statements are critical in this context.
Keywords	Financial management skills, SMMEs, underdeveloped regions.

INTRODUCTION AND BACKGROUND

A sector that have been identified worldwide in any country's economy towards poverty alleviation in terms of job creation, industrialization as well as increasing a country's gross domestic production and exports is the SMMEs. Thus, making SMMEs vital to the rural development efforts by various governments across the globe (Nguyen and Waring, 2013; Tassiopoulos, 2011; Vallabh, 2014). In South Africa, the works of Cameron and Miller (2008) highlights that South Africa is ranked among top countries in the world with high failure rates of SMMEs during the first year of establishment. This calls for continues research works to identify factors that could be impeding the progress of SMMEs in South Africa. The political history of South Africa the former apartheid system, not only did it shape the landscape of the nation but also the economy operating conditions for businesses as well, this according to Berry and Clarke (2002) created a dual economy (first and second class) in South Africa. The first class economy, which is developed in terms of using advanced technologies, infrastructures and also linked to the global markets and supply chains operates in the urban areas formerly exclusive for White Europeans. Communities in the former Homelands which were specifically reserved for blacks operates in the second class economy with limited infrastructures, opportunities and experienced inequalities. As a result, the former Transkei Homelands region is among one of the underdeveloped regions in South Africa. Therefore, survival of SMMEs in this region is vital to reducing unemployment levels, poverty and economic development of the region hence, this study. The law requirement by SMMEs especially in terms of audited financial reports in order to comply with government regulations such as taxes makes financial management practices critical for SMMEs (Fatoki, 2012). Vijayakumar (2001) also highlights that optimization of financial management practices within SMMEs have a greater potential of growing SMMEs. Padachi (2010) explains the two core aspects of financial management to be internal which is concerned with the implementing and managing an accounting system in order to generate information for decision making purposes while the other aspect is concerned with externally, the ability to attract adequate financial resources. The five principles of financial management was identified by Armstrong (2001) to be financial planning, financial accounting, financial analysis, management accounting and capital budgeting. This study focuses on financial accounting and according to Armstrong (2001) financial accounting records the financial transactions that have taken place in a business. Thus, efficient financial accounting practices are crucial in SMMEs as they provide an overview of the financial performance of the SMMEs.

PROBLEM STATEMENT

According to Smirat (2013) SMMEs having a sound financial management practices is vital for the daily operation and financial viability of SMMEs. However, among the factors discovered by researchers such as Ncube(2014) and Petrus (2009) that contributes to SMMEs failure during the first two years is lack of financial management competences among managers and owners of SMMEs. Mostly SMMEs in underdeveloped regions are owned and managed by one person, the lack of financial management competence on the side of the SMMEs owners or managers in turn could bring serious consequences to the financial stability and grow of the SMMEs. It is against this background that this study focuses on financial management practices among SMMEs in underdeveloped regions.

RESEARCH OBJECTIVES

The objective of this study is to expand the knowledge base about internal system of recording financial transactions among SMMEs operating businesses in underdeveloped regions. To achieve the objective, the study will specifically seek to answer research questions:

- What internal system is there in place for recording cash receives and cash payments?
- What internal system is there in place for recording when returns or refunds are required?
- Establish the frequency of auditing the available system.

But as noted by Flippo (1960) that the confidence to use or practice in an existing knowledge/tools requires one having received training or a qualification in that area, the study will assess financial management background of the selected participants as well.

LITERATURE REVIEW AND METHODOLOGY

Financial management practices been one of the vital survival factors for SMMEs have been asserted by researchers such as Abdullah et al.,(2009), McMahon and Davies (1994). Therefore, it is critical on understanding the internal financial management practices within SMMEs as it may offer useful insights to assist in resolving the issue. As a result of this, literature has documented various works of researchers on this issue. Perren and Grant (2000) have asserted that the lack of formal bookkeeping and the accounting information in SMMEs can complicate and prolong decision making.

SMMEs owners and managers lacking accounting skills and proper infrastructure to implement accounting recording have been pointed out by Dang (2011). This notion has been echoed in the work of Salikin et al., (2014) who found out that not many SMMEs in Malaysia are adopting financial management tools in their business operations. According to Jayabalan et al., (2009) for SMMEs to stay competitive in the corporate world needs to be aware of financial management practices and use it for better management control and decision making process. The need of hiring qualified financial managers/accountants who may help in preparing proper accounting records and practicing to ensure the sustainability and growing of the SMMEs has been proposed by Salikin et al., (2014). The SMMEs considered in this study were SMMEs with one to less than 40 employees.

RESEARCH APPROACH

Babbie and Mouton (2001) underline that in a research where the aim is developing new ideas or examining phenomena in order to seek new sights with few or no existing studies, exploratory study is recommended. The selected participants were identified by using purposive sampling and the approach was that the researcher first visited the various towns in underdeveloped regions of the former Transkei region to identify the SMMEs owners and managers that best fitted the objectives of the study. 68 participants agreed to be part of the study. According to Bless et al., (2007) quantitative research methods enable a researcher to obtain relevant information from the sample group through a questionnaire with closed and open-ended questions which can be analyzed using descriptive and inferential statistics. Questionnaire was structured and guided by proposed sound financial management practices pointed out by financial management textbooks.

RESULTS

Descriptive Statistics are used in this study to present quantitative descriptions in a manageable form and this paper reviews applied descriptive statistics to describe the results which are presented in four sections based on the objectives of the study below.

The major finding from Table 1 reveals that 85.29% of the sampled SMMEs concerning financial matters are handled by the owners and again 95.59% of the owners/managers sampled neither have a qualification nor have received training in financial management/accounting skills. This findings brings to light the assertion of Dang (2011) that SMMEs owners/managers lacking accounting/financial management skills and other researchers such as Ncube(2014).

Table 1. Biographical information SMMEs, Owners and Managers

Type of business	Frequency	Percentage
Panel beating	16	23.53
Groceries shops	6	8.83
Manufacturing	4	5.88
Clothing stores	15	22.06
Hair saloons	27	39.71
Location of the business		
Idutywa	20	29.41
Butterworth	25	36.76
Tsomo	13	19.12
Mthatha	10	14.71
Years of existence of the business		
Below 3 years	18	26.47
3 – 7 years	23	33.82
Above 7 years	27	39.71
Handling of financial matters		
Owner	58	85.29
Internal accountant	6	8.82
External accountant	4	5.88
Financial management or accounting qualification/training of owners/managers		
Yes	3	4.41
No	65	95.59

The finding in Table 2 reveals that 58.82% of the sampled SMMEs have no system of recording financial transactions. This finding is in line with the finding of the study of Ismail and Zin (2009) that indicated that 40% of the 136 sampled SMMEs in Malaysian had no proper accounting recording system to prepare any financial statements.

Table 2. Internal System for Recording Cash Receive and Payments

Internal System	Frequency	Percentage
Computerized	6	8.82
Receipts books	15	22.06
Note books	7	10.29
None	40	58.82

As highlighted by Maseko and Manyani (2011) that system of recording financial transactions in business helps owners and managers of small businesses to measurement the financial performance of their business and it needs to be monitored, the study explored the frequency of auditing the existing internal system of recording financial transactions as a way of monitoring. The result indicates from Table 3 that 14.71% are audited daily, 4.41% are audited monthly, 22.06% audited yearly and 58.82% are not audited at all.

Table 3. Frequency of Auditing the Internal System

	Frequency	Percentage
Daily	10	14.71
Monthly	3	4.41
Yearly	15	22.06
Never	40	58.82

CONCLUSION AND RECOMMENDATION

In conclusion, the study has identified that there is a short coming in the area of financial management practices among the sampled SMMEs owners/managers operating their businesses in the selected regions. The major findings of the study revealed that 95.59% of the owners/managers have no financial management/accounting skills as well as 58.82% of the internal system of recording financial transactions are not audited. Financial management skills training for the owners/managers are considered vital for the growth and success of the SMMEs. Hence, it is recommended that agencies supporting SMMEs in the region provide training in the area of financial management skills for the SMMEs owners/managers. Future studies can include the other four principles of financial management principles highlighted by Armstrong (2001).

LIMITATION OF THE STUDY

The findings are mainly descriptive of the situation regarding financial management practices among the selected SMMEs owners/managers in the former Transkei Homelands region.

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BIOGRAPHIES



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