The impact of cash management on profitability and sustainability of small retail businesses in the Tongaat area, KwaZulu-Natal

By

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Declaration

I, Avika Mungal, declare that this dissertation is a representation of my own work both in conception and execution. This work has not been submitted in any form for another degree at any university or institution of higher learning. All information cited from published or unpublished works have been acknowledged.

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Abstract

Small businesses are vital for employment and job creation in South Africa. The implementation of sound cash management practices is essential to ensure to profitability and sustainability of any successful business. The commonly used expression, “Cash is king” cannot be contested as its validity was more prevalent in this research study. The aim of the study was to identify the current cash management practices of small retail businesses in the Tongaat area and identify the impact of such practices on their profitability and sustainability.

This descriptive, cross sectional study, using a quantitative research paradigm and a non-probability sampling method targeted a sample of 69 businesses in the chosen area. The sample structure consisted of small retail businesses in the Tongaat area of KwaZulu-Natal.

There was a significant relationship between drawing budgets and sustainability. This finding suggests that the more often the business draws up cash budgets, the more viable and sustainable the business is. 78.3% of the respondents acknowledged the importance of keeping records in the business, however, only 29.9% drew up cash budgets.

The findings of this study could be useful to potential, emerging and established owners of all types of businesses since effective and efficient cash management is an integral component of any successful business. There should be more emphasis placed on the impact of how proper cash management practices can affect profitability and sustainability of a small retail business.

A recommendation that adds value to the study was to engage the final-year, National Diploma: Cost and Management Accounting students in an integrated project, where they can provide cash management advice to these businesses. This will enhance the small businesses’ knowledge of cash management and encourage implementation of these procedures to assist in increasing profitability and sustainability in their business.

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LIST OF ABBREVIATIONS

IREC	Institutional Research Ethics Committee
NFIB	National Federation of Independent Business
SEDA	Small Enterprise Development Agency
SPSS	Statistical Package for the Social Sciences

LIST OF TERMS

Bad debts

A bad debt, also known as a doubtful debt, is irrecoverable accounts that the business incur. The bad debt arises from credit sales whereby the debtors are unable to repay the amounts owing. These accounts now need to be written off (Kew and Watson 2012:173).

Cash

Cash comprises of cash on hand and demand deposits. Demand deposits have the same level of liquidity as cash, as these deposits can be withdrawn at any time (Wingerard, Well, Pretotius, Ferreira, Badenhost,and Van Der Merwe 2013:62).

Cash Budget

A budget that forecasts the cash receipts and cash payments of the business and determines the closing balance of cash and cash equivalents held by the business at the end of each period (Bartlett, Beech, Hart, Jager, Lange, Erasmus, Hefer, Madiba, Middelberg, Plant, Streng, Thayser, Rooyen 2014:850)

Cash flow

Cash flow is the amount of money that the business is able to retrieve from customers and debtors (cash inflow) and the same amount of money that the business is able to spend (cash outflow) in a period. Cash flow is referred to the inflow of cash to the business as well as the outflow of cash from the business (Wingerard et al. 2013:62).

Creditor

A creditor is a supplier or any other business that the business purchases from on credit. The business then has to settle the debt at a later date. This is a person to whom the business owes money (Kelly, Barrow and Epstein 2012:25).

Creditor's repayment period

This is a specific period that the supplier allocates for the business to repay the accounts owing. This is normally a certain allocation of days (Kew and Watson 2012:572).

Debtor

A debtor is a person or customer to whom a business sells a product on credit. Credit refers to sales in which the business gives a customer credit directly, and where the business collects the amounts owing at a later date (Kelly, Barrow and Epstein 2012:25).

Debtor's collection period

This is a specific period that the business allocates for debtors to repay the accounts owing. This is normally a certain allocation of days (Kew and Watson 2012:571).

Discount Allowed

Discount allowed is also known as a settlement discount that is given to a customer for prompt settlement of the purchase price (Wingerard et al. 2013:49).

Discount received

A discount which is given to the business by a supplier for prompt settlement of the purchase price owed to the supplier (Wingerard et al. 2013:49).

Expense

An expense is defined as the decrease in economic benefits during the accounting period in the form of outflows from the business. Expenses are all costs incurred to operate the business that are not directly related to the sale of individual inventory (Wingerard et al. 2013:12).

Income

An income is defined as increases in economic benefits during the accounting period in the form of inflows to the business. Income is derived from sales made in the process of selling the businesses inventory (Wingerard et al. 2013:12).

Inventory

Inventory is an asset which the business buys to resell during the normal everyday activity of the business (Kew and Watson 2012:198).

Profit

Profit is the difference between total income earned and total expenses incurred (Kew and Watson 2012:726).

Retail business

A retail business is a form of business that purchases stock or products from a supplier with the intention of reselling these products to a certain customer base. Retailers use a fixed location to sell their products which could range from a small boutique, kiosk or a rented room within a shopping complex (Kew and Watson 2012:20).

Small business

The National Small Business Act of 1996 defines a 'small business' as follows:
"… A separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule" (South Africa. Department of Trade and Industry 2008).

CHAPTER ONE

NATURE, SCOPE AND ORGANISATION OF STUDY

1.1 Introduction

This chapter serves to firstly introduce the background to the study and explain the problem statement as well as the limitations behind this research. The roles and importance of small businesses in terms of the economy will be highlighted as a backdrop to why the impact of cash management on profitability and sustainability of small businesses was an important topic for research.

The chapter will also discuss the rationale relating to cash management knowledge and practices that contribute to increase profitability and sustainability of small businesses. The hypotheses, aim and objectives will also be listed. The approach to the study, its benefits, as well as the methodology will be presented. This chapter will also include an outline of this study.

1.2 Background to the study

South Africa falls behind other third world countries with regards to promoting the development and sustainability of small businesses. Small businesses are vital for employment and job creation in South Africa. According to a report by the Supplier Development Program (SDP), Business Environmental Specialists (2009:1-2), 45% of the employed population of South Africa are employed in small businesses with less than 10 employees. Cash management is an overriding consideration in understanding small businesses. Too often, businesses fail before they have a chance to succeed because they run out of cash. Research statistical analysis indicates that the most crucial cause of business failure is due to the lack of planning. The second leading cause next to poor planning is the lack of cash management practices (McMahon 2006:15).

Ex minister of finance, Trevor Manuel's foreword to the white paper on small business emphasised that, with millions of citizens unemployed and underemployed, it is vital that the government pay full attention to the generation of sustainable and equitable growth of small businesses in the country. He also emphasised that South Africa is ranked 41st out of 43 countries with regard to the survival rate for small business owners, with just 2.3 % of small businesses are been sustainable for more than 3.5 years (Small business development in South Africa 2009:1-2).

A large number of businesses fail due to the absence of cash rather than the absence of profits (Patel 2010). Patel (2010) also indicated that cash management practices are vitally important for the business because it would assist in profitability, future planning and sustainability. The practice of basic concepts of cash management will assist businesses plan for the unforeseen eventualities that almost all businesses encounter.

Foster (2012) indicated that, since the year 2008, business failures have risen by 30% in the past three years. Businesses with less than five employees were hit the hardest. 57% of those small businesses failed in a year. Businesses that had employed six to nineteen employees faced a 40% increase in bankruptcy.

Research by Statistics South Africa (2002) found that approximately 9 out of 10 businesses fail within the first ten years of operation, with 40% of the failures being in the first year of operation. Moore, William and Longenecker (2010:11) emphasised that small businesses are under the misconception that high revenues result in high profits, but fail to realise that if the physical cash isn't obtained from those revenues, businesses will have insufficient cash to pay off expenses and will ultimately face liquidity problems.

The lack of support in terms of cash management knowledge and services for small businesses forms part of the motivation for the study. A further motivation for this study is that, to date, no previous research on this topic was found for the region concerned, i.e., Tongaat, in KwaZulu-Natal.

This study will investigate the impact of cash management practices on the profitability and sustainability of small retail businesses. It will look at the underlying reasons why small businesses are not managing their cash inflow and outflow. A possible resolution would be to provide cash management assistance to these small retail businesses. This would be done to enhance their cash management knowledge of their small business owners so that these businesses could be more efficient in managing their cash and decision making which will enhance their profitability and sustainability.

1.3 Problem Statement

The problem or question is the axis around which the whole research effort revolves (Leedy and Ormrod 2010: 43). It is the difference between the way things should be and the way they are. Research by Statistics South Africa (2002), cited in Radipere and Van Scheer (2005:402), indicates a high business failure rate amongst start-up businesses in South Africa. These small businesses cannot be the platform for growth and development if they are not profitable and sustainable. One possible reason for this prevalence is that small business owners are not equipped to identify the problem areas within their businesses, due to the lack of necessary skills and tools to increase profitability and sustainability.

Likewise, many small businesses owners do not perform many cash management practices simply because they feel they are not necessary and are very time consuming (Debt 2005).

Cash management is the lifeline of every small business. Cheatham, Dunn and Carole (1989:1-2) indicated that one of the most dangerous misconceptions is the common belief among entrepreneurs that adequate profits will automatically result in an adequate cash flow. The lack of cash management knowledge and skills prevent small business owners to adequately manage their cash flow.

A study by Bradley Univ from the University of Tennessee Research, as indicated in Unvi (2014), revealed that just 47% of the small retail businesses still operated after four years.

Unvi (2014) also investigated the major causes for their failure. 46% indicated that the major cause was business owner incompetence. The specific pitfalls were poor collection and control of debtors’ payments, no knowledge of pricing, lack of planning and budgeting, no knowledge of financing and no experience in record keeping.

The gap identified was that small business owners are not performing the basic cash management practices in their businesses. This practice is omitted in business largely due a lack of knowledge and skills to perform the task.

Therefore, the purpse of the study is to investigate which cash management practices are being performed by small businesses, and which practices are challenging for small businesses owners to perform. Moreover, the study investigates if the failure to implement cash management practices impacts on the business profitability and sustainability.

1.4 Limitations of the study

The research is limited to the small retail businesses in the Tongaat area. The qualifying inclusion criterion for this study is specifically businesses with not more than 5 employees. This study addresses cash management practices used to tackle profitability problems. Furthermore, it surveys the owners or suitable representatives of each business in the sample. Therefore, the accuracy of information given in the questionnaire is limited to their knowledge of the cash management practices used in their business. Since this is a quantitative study, the ideal choice was to have the data instrument as a questionnaire.

This study is restricted to determining whether or not small business managers/ representatives are adequately managing their cash practices and if they have the necessary skills and knowledge to perform cash management practices. The literature is also restricted to cash management practices in small businesses and the impact these practices has on the profitability and sustainability. This study is also limited to investigating the impact that cash management practices have on profitability and sustainability.

The term “cash management” in the title refers to cash management practices. The types of cash management practices this study will be limited to are cash flow, budgets, debtor management, inventory management, purchase management and business financing. Sustainability, in this study, refers to the longevity of the business and factors related to business failure. The benchmark for sustainability is the business being in operation for at least six years.

The study will not investigate economic development and other business-related aspects. Therefore, the findings of this study cannot be generalised to all types of small businesses in KwaZulu-Natal.

1.5 Rationale of this study

The purpose of the study is to investigate the impact of cash management practices on profitability and sustainability of small retail businesses in the Tongaat area, in KwaZulu-Natal. Part of the study will also ascertain whether certain cash management practices are being performed in small businesses and, what are the challenges faced? Many small businesses face liquidity problems and eventually fail due to the lack of cash management knowledge and implementation. It is vital to have viable small businesses in developing communities as these businesses provide the basic necessities of the community. Therefore, this study will directly benefit these communities. This study will equip business owners with sound management practices which will ensure the profitability and sustainability of their businesses.

1.6 Variables

The variables used in this research study are presented below.

Independent variable: Cash management practices

Dependent variable: Profitability and sustainability of small retail businesses

1.7 Hypotheses

The hypotheses that will be tested in this study are as follows:

Null hypothesis (Ho): The implementation of cash management practices do not have an impact on profitability and sustainability of small retail businesses in the Tongaat area.

Alternate hypothesis (Ha): The implementation of cash management practices do have an impact on profitability and sustainability of small retail businesses in the Tongaat area.

The hypotheses were formed from the problem statement relating to relevant studies which emphasised the impact of the lack of implementation of cash management practices of small businesses on profitability and sustainability.

1.8 Aim of the study

The aim of the study is to identify the current cash management practices used by small retail businesses in the Tongaat area and identify the impact of such practices on their profitability and sustainability.

1.9 Objectives of the study

In order to achieve the above aim, the following objectives will be addressed:

- To identify the current cash management practices of small businesses;
- To determine why certain cash management practices are not being performed; and
- To identify if failure to implement cash management practices impacts on profitability and sustainability of businesses.

1.10 Method of the research

A descriptive study was chosen to undertake this research to discover and understand the cash management practices implemented by the small retail businesses, which are classified as businesses with less than five employees.

The quantitative research paradigm was used in this study. A cross sectional study was carried out in which information was collected just once, over a period of two weeks in order to answer the research questions. Non-probability, convenience sampling was chosen for this study where the researcher randomly selected businesses based on their availability and willingness to participate in the study. The population of small retail businesses in the Tongaat area comprised of 83 small businesses. The sample size was 69 businesses.

A survey research was conducted. A questionnaire was used to measure cash management practices and their impact on profitability and sustainability of small businesses with statistical precision. The questionnaire was designed with open and closed-ended and Likert type questioning which were answered by the small business owners or suitable representatives of the business owners.

A pilot study was carried out to ensure that the final questionnaire is error free and amendments, if any, are made before the data can be collected for the study.

The recruitment process was conducted by the researcher who personally approached the business owners and explained the researcher's intentions for conducting the study. The DUT consent letter for the respondent's willingness to participate was completed once the candidate's responsibility was fully explained. On completion of the consent letter, the respondent was handed a questionnaire to complete. All the businesses in the sample were aware that all information released would remain confidential and all names would remain anonymous and would not be used for any other purpose other than this research study. No business names were mentioned in the write up of the dissertation.

The retrieval of the completed questionnaire from the businesses was confidential. The researcher provided a self- addressed and prepaid envelope to the respondent to return the completed questionnaires to the researcher. Statistical analysis was performed on the data extracted from respondents using SPSS version 21.0 statistical software.

1.11 Outline of the study

The study consists of the following five chapters:

1.11.1 Chapter 1 – Nature, scope and organisation of study

This chapter has introduced background information of the cash management practices and their impact on profitability and sustainability of small businesses. The chapter also introduced the rest of the dissertation.

1.11.2 Chapter 2 – Literature Review: Cash Management Practices

This chapter will discuss the definition and the importance of cash management practices. It will also present components relevant for effective cash management practices in small businesses.

1.11.3 Chapter 3 – Literature Review: Impact of cash management practices on profitability and sustainability

This chapter will look at the definition of profitability and sustainability. It will also review existing research on the factors that affect the lack of cash management practices and the cash management challenges faced by small businesses, which lead to poor profitability and sustainability in small businesses. This chapter will also identify impact that cash management practices have on profitability and sustainability of small businesses.

1.11.4 Chapter 4 – Research methodology

This chapter will present the methodology used in this research. It will describe the questionnaire used to identify the cash management practices that are currently being used, those that are omitted and those that are challenging for small business owners. This chapter will also describe the methods used for the analysis of the questionnaire data.

1.11.5 Chapter 5 – Presentation, interpretation and discussion of findings

This chapter will present the factors identified by the data analysis as being significant with regard to cash management practices in small businesses and the impact of these practices on profitability and sustainability. The chapter will also discuss the empirical findings of the research in comparison with the existing literature.

1.11.6 Chapter 6 – Conclusions and Recommendations

This chapter will make appropriate conclusions and recommendations relating to the impact of cash management practices on the profitability and sustainability in small businesses. The research will be summarised in terms of what it has achieved in improving cash management practices in small businesses. It will also present the limitations of this study.

1.12 Conclusion

In this chapter, the problem statement and the purpose were explained. The limitations of the study were presented. The rationale for the research and the variables were also described. The aim, objectives as well as the method of research were also outlined. The method of research and significance of the study were described. The outline of the study was also explained.

In chapter two, the literature review will be presented in the form of theories relevant for effective cash management and their impact on profitability and sustainability in small retail businesses. It will also review existing research on the factors that affect poor cash management in small businesses and the factors that are lacking in small businesses.

CHAPTER TWO

CASH MANAGEMENT PRACTICES

2.1 Introduction

In the previous chapter, the background to the study, the problem statement and the limitations of the study were introduced. The aim and objectives of the research were discussed. The approach to the study and the methodology were also presented.

In this chapter, a literature review of the independent variable, cash management practices, will be presented. This chapter will discuss the nature of small businesses as well as the importance of accounting for small businesses. Thereafter, the definition of cash management will be discussed as well as a discussion of the cash management practices which were focused on in this study. This chapter will also investigate the importance of cash management for small retail businesses.

2.2 Nature of small businesses

Small businesses are the vehicle for employment for the majority of the citizens in South Africa. Dr Niel Ranklin of Wits University indicated that 73% of people work in small businesses which employ less than 50 workers. Moreover, 45% of people work in small businesses which employ less than 10 workers, as indicated by the SDP business environment specialist in the report: Small business development in South Africa (2009:1-2). Therefore, there is a great need to provide the much needed support to these developing small businesses to transition them from the informal economy so that they could enter the formal economy of South Africa. It is important to ensure that these businesses have the necessary skills, innovation and productivity to make them profitable and viable for a long period of time.

The retail sector forms an essential part of any community's economic welfare. Tustin (2008), as cited by Ligthem (2011:169), explained that, until just five years ago, these retail businesses were very limited in the less developed areas of South Africa. These undeveloped communities very dominated by small businesses to provide the basic necessities to millions of South Africans. Ligthem (2011:170) indicated that these businesses of the retail sector were established in small unsophisticated business centres. They catered for the lower income group and served as convenience shops selling all the basic necessities.

This research study is being done in the context of small retail businesses due to their importance in the South African economy.

2.3 Importance of accounting for small business

Accounting is a fundamental aspect of successfully running a business (Daily News 2009:2). A great misconception is that small businesses do not need to have knowledge of accounting. However, if a business wants to reach its full potential, the basic accounting principles need to be practised.

Accounting assists businesses with a tool to use to access the business performance and have financial control over the business. Basic accounting practices will enable the business to accurately reflect the businesses incomes and expenses and identify where the money is at all times (Daily News 2009:2).

This study focused on the aspects of cash management practices in the field of accounting. The study identified small businesses' ability to manage cash inflow and outflows in the business as well as how they managed their debtors, creditors, sales and finance; and the effect those practices had on the business profitability and sustainability.

2.4 Definition of cash management

Cash management refers to the management of an entity's cash to ensure sufficient cash to sustain the entity's daily operations, finance continued growth and provide for unexpected payments while not unduly forfeiting profit owing to excess cash holdings (Bartlett et al. 2014:850).

According to Pandey (2004), as cited by Akinyomi (2014:32), cash management is defined as a practice of the ability of controlling the cash inflows and outflows in a business. It also entails the ability to establish the cash balances that are held in a business at all times. Uwuigbe, Uwalomwa and Egbide (2011:49) indicated that cash management entails taking the needed precautionary measures to ensure that adequate cash levels are maintained in the business so that the operational requirements could be met. According to Aliet (2012), cash management is the management of cash to maximise the cash held in the business that is not invested in buying inventory or fixed assets. It essentially is the management of cash to avoid the risk of the business becoming insolvent. The author added that cash management is a rather broad term that refers to the collection, management of cash as well as the payment of cash from the business.

From these definitions, it is evident that cash management is the ability of controlling the cash in the business by reducing the cash outflows and maximising the cash inflows. Consequently, the business will have sufficient cash available to meet operational requirements and avoid the risk of becoming liquidated. Cash management is the ability to identify and implement precautionary measures to ensure that sufficient cash balances are maintained in the business.

2.5 Cash management practices

This study will focus on the following cash management practices:

2.5.1 Inventory management and control

Kincaid (2008) emphasised that proper inventory control procedures could enhance a bigger profit in the business. In the slower moving economy, streaming business operations and focusing on what the majority of the business cash is tied up in could mean the difference between much needed profits or unwanted losses.

Barrera (2013) stated that it’s easy to turn cash into inventory but it’s not easy to turn inventory into cash. Barrera found that when inventory is sold and floor space is freed up, the business profitability really changes. The slow moving inventory should not increase to more than 5% of all inventory stocked in the business.

The author recommended the following strategies to sell slow moving inventory:

- Focus on it:
  Many business owners tend to not focus on the slow moving inventory. However, that should not be the case. Rather put emphasis on those items to attract sales, e.g., displays the items on a demo stand.
- Control stocking methods:
  Make sure that the First-in-First-out system for stocking inventory on the shelf is practised by setting the newer stock at the back of the shelf to allow for the older stock to get sold first.

- Offer discounts:
  Pure judgement should be used when setting discounts. From a business owners' point of view, even if the discounted price is less than the value of the cost, this could be of more value in terms of the business cash flow rather than letting that item remain on the shelf.

- Bundle it with something unexpected:
  Try bundling that slow moving item with something which is of demand to consumers. This strategy would encourage customers to purchase the blended set at a value price (Barrera 2013).

Cohen (2003:1) concurred with Kincaid (2008) by emphasising the importance of applying inventory control systems in business. Cohen (2003:1) indicated that it is vitally important to keep track of that one has in the business and also be aware of what the customers want. There is no point stocking the shelves with what the owner feels is right. Instead, the owner should determine what the market wants and what will sell. Having a stock take in the business will indicate who the fast sellers are and which items lay on the shelf for lengthy periods of time.

Cohen (2003:1) also reported that the retail industry is really tough in the current economy. When the item is in demand, a retail business owner needs to ensure that the shelves are stocked to meet the consumers' demand. However, when the item is no longer of interest to consumers, the owners need to sell the inventory in stock. Cohen (2003:1) mentioned that failing to manage inventory could turn fatal for many start-up businesses, as half of every new business survive for more than 4 years.

McMahon (2006:154) warned that one should beware of silently liquidating a business by not promptly replacing inventory that is sold. For a retail business, slow moving inventory is very costly. Therefore, inventory management is a crucial element of cash management.

2.5.2 Handling Debtors

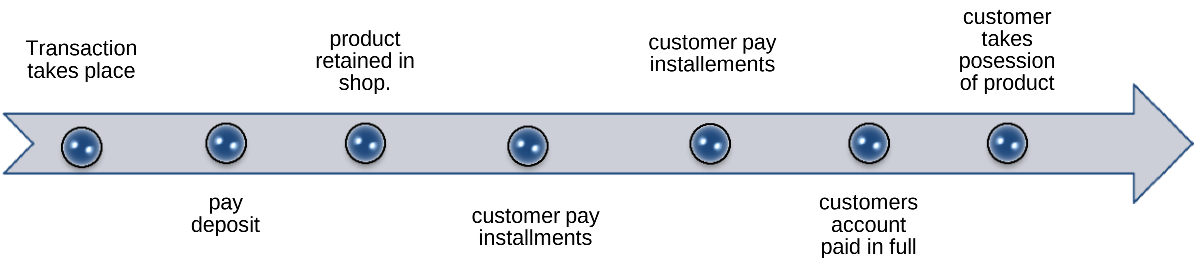
Newly formed, growing businesses are susceptible to cash flow difficulties (Borgia, Burgess and Shank 2003:38). The authors indicated that each business spends cash in order to receive cash. It's just that the wait in between can be long and costly for the business. Promptly receiving the cash owed by debtors could actually be the determining factor of whether or not the business closes down.

Debtors originate from, inter-alia, lay-by and credit systems. The differentiation between a lay-by system and a credit system is stipulated below:

Lay-by system

The lay-by system is illustrated in Figure 2.1.

Figure 2.1 Lay-by system



Source: Self-generated

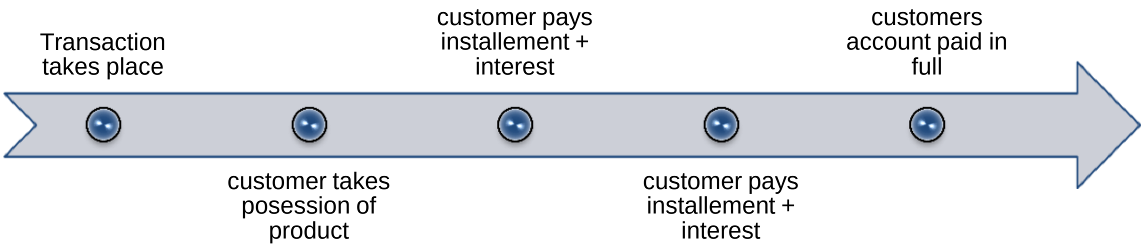
The concept of an item lying for weeks in a business storeroom, customers making gradual payments on the item and not taking the item home until the item if fully paid off, is really making headway in recent years (Anas 2008). According to Susan Jung Grant of the Leeds School of Business, as cited by Anas (2008), since the credit card was introduced in the late 1970s, consumers no longer purchased using the lay-by system. However, in recent years, this system has made a comeback purely on the basis that there were no extra finance charges on the sale. Since the interest charges have increased by banks, many consumers are being restricted from making credit purchases and going the lay-by way. The author also concurred with Sapong (2010) who indicated consumers are attracted to use this system since there are no interest rates and their credit records are not affected by late payments.

Many customers do not have the cash to pay the full purchase price and choose to purchase the item on a lay-by system (Sapong 2010). This method of selling attracts more customers, especially during the festive months when consumer sales generally are on the increase (Sapong 2010).

Credit sale system

Figure 2.2 illustrates the credit system.

Figure 2.2 Credit System



Source: Self-generated

In a traditional credit sale system, when the transaction takes place, the customer takes possession of the garment or product. Thereafter, the customer makes regular instalments on the amount due. These instalments are made within the debtors' collection period set by the business. This instalment is inclusive of an interest fee charged on the purchase price. The customer continues to pay the instalments until the account is paid in full (Sapong 2010).

Bad Debt

According to Kew and Watson (2012:173), a bad debt, also known as a doubtful debt, is irrecoverable accounts that the business incur. These are credit sales that the business incurred whereby the debtors are unable to repay the amounts owing. Therefore, the sales amount would decrease. This will ultimately decrease the operating profit if the business. These outstanding accounts now need to be written off.

2.5.3 Cash budget

A cash budget is a tool used to manage the cash flow of a business. This is a budget that is focused on the cash coming into the business and the cash that leaves the business. Moore, William and Longenecker (2010:584) believed that the cash budget is most important to a small business. The cash budget is used to foresee and overcome cash flow difficulties when there is little cash available or to indicate that there is excess cash inflow available to make investments.

A cash budget is defined as an instrument used to alert business owners on problems such as cash shortages as well as the opportunities that could arise from cash surpluses (Amoako, Marfo, Gyau and Asamoah 2013:188-191). According to ACCA (2012), a cash budget is a budget that describes the flow of cash that comes into and goes out of the business. ACCA (2012) described a cash budget as tool that is drawn up in businesses to ensure that there is adequate cash to achieve all operational goals.

CIMA (2008) defined a cash budget as a budget which incorporates cash received from revenues and other incomes and the estimation of cash payments and outflows in the business to determine how much cash the business has available. Marfo–Yiadom, Asante and Darkwa (2008:133-137) explained that, by using a cash budget, the company can determine potential usages for the planned incomes as well as how to plan for future payments.

From the above definitions, it can be deduced that the cash budget is an essential planning tool to enable businesses to detect surpluses and shortages so that businesses can take the necessary remedial measures to sustain profitability.

There is a clear distinction between "cash" and "cash flow", as explained in the following section.

2.6 The difference between cash and cash flow

The Daily News (2009:3) differentiated between cash and cash flow.

Cash refers to the physical money that the business possesses at the bank or is held on the business premises. It is not in the form of stock, accounts receivables or fixed assets. These assets have the potential to be converted into cash but cannot be used to settle outstanding debts with suppliers or to pay rent and employees' wages.

An increase in profits does not automatically mean that there will be an increase in cash available. A profit is the expected amount of turnover that a business sets out to obtain over a period, while cash is the physical money one has on hand to keep one's business running by paying off expenses. Businesses' profits are of inferior value if they don't go along with a positive net cash flow. Businesses cannot spend the business profits; businesses can only spend the cash available (Daily News 2009:3).

Cash flow refers to the inflow and outflow of money in the business. Observing the money coming in and going out of the business is one of the most time consuming responsibilities of management for any business. Money goes out of the business when expenses need to be paid, suppliers' bills settled and employees' wages need to be issued. Money comes into the business when cash is received from lenders or customers pay off their outstanding debts.

Kinnery (2012:808) indicated that cash flow was the receipt or disbursement of cash; when related to capital budgeting, cash flows arise from the purchase, operation, and disposition of a capital asset.

If there is a greater cash inflow than a cash outflow, the business has a positive cash flow. A positive cash flow indicates that the business has some controls in place to monitor cash, but this does not mean that there are proper cash management procedures put in place (Daily News 2009:3).

If there is a greater cash outflow than a cash inflow, the business has a negative cash flow. This could be due to damaged or expired inventory and poor collections of payments from debtors. If a business does not qualify for additional loans at this point, it could face serious financial difficulty (Daily News 2009:3).

Cash flow is the amount of money that the business is able to retrieve from customers and debtors (cash inflow) and the same amount of money that the business is able to spend (cash outflow) in a period. Cash flow is referred to the inflow of cash to the business as well as the outflow of cash from the business (Wingerard et al. 2013:62).

Cash flow is one of the most important measurements in ones' business. Attention should be paid to the following transactions or issues that may have a negative effect on any small business:

- Slow pay receivables can negatively affect a business cash position; and
- High interest expense and excessive debt service can damage cash flow McMahon (2006:152).

The main objective is to manage the cash inflow and cash outflow so that the business has sufficient cash not only for day-to-day operations but also to cover unanticipated expenses (Daily News 2009:3).

Cash flow does not indicate profitability- many small businesses that have profitable income statements still have cash flow problems (McMahon 2006:155). The author also emphasised on, “when you are out of cash, you are out of business”.

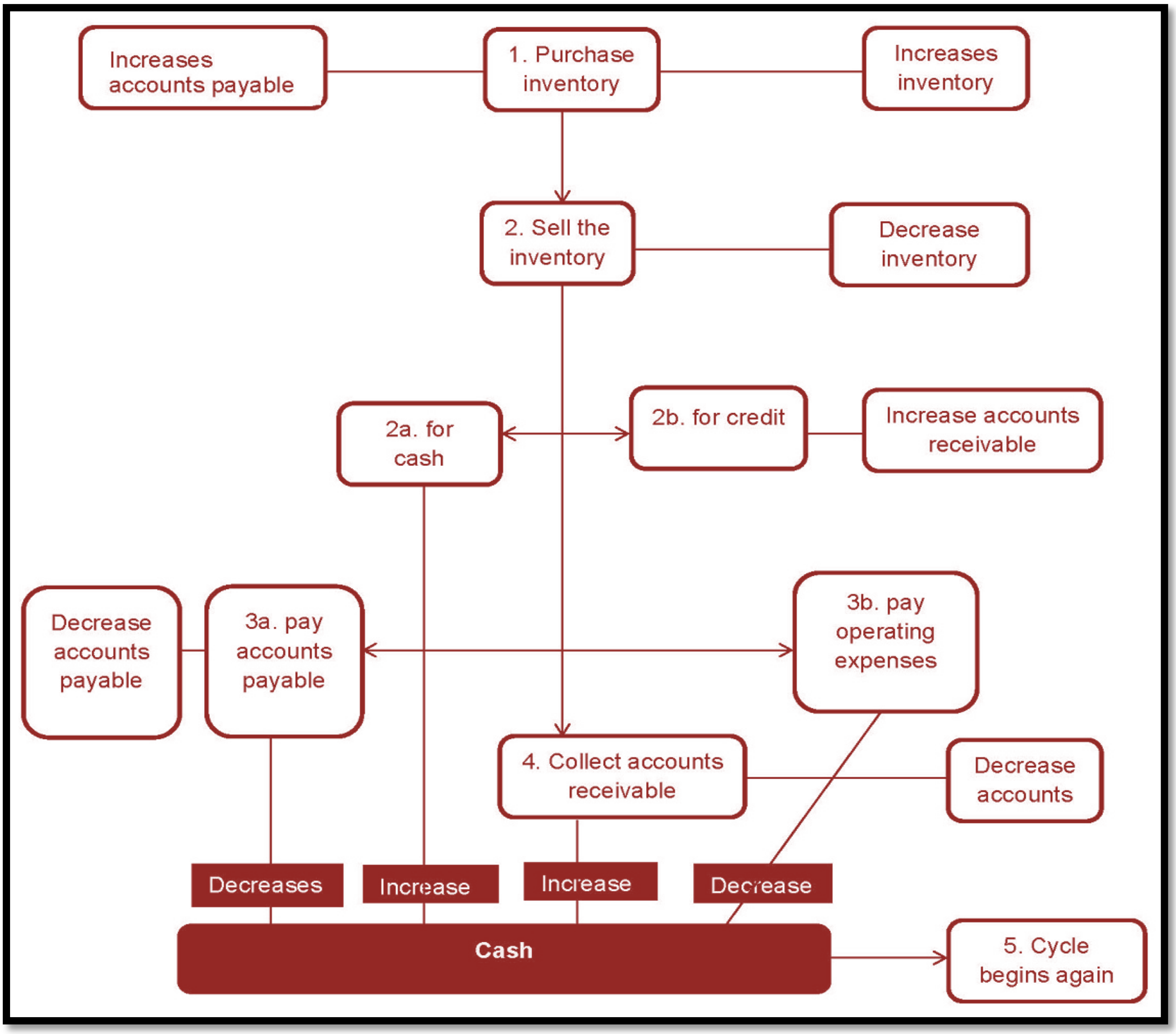
Now that the difference between cash and cash flow has been established, the elements of cash flow will be examined.

2.7 Elements of cash flow

The working capital cycle explains the cash management principles in detail and enhances the understanding of the disbursement of cash inflow and outflow. According to Moore, William and Longenecker (2010: 576), the working capital cycle is one of the most important, yet misunderstood financial discipline of a small business. A working capital cycle of a small business is the flow of resources such as cash through the businesses’ day-to-day operations.

Figure 2.3 indicates the cash flow cycle

Figure 2.3 Cash flow cycle



Source: Moore, William and Longenecker (2010: 577)

The cycle in Figure 2.3 follows 5 steps through which the flow of cash is monitored.

Step 1: Firstly, products are bought for resale. This increases the inventories on hand and it will also increase the balance in the creditors' account if the products are bought on credit.

Step 2: The inventory is then sold. Inventory sold for cash brings immediate cash into the business. If the inventory is sold on credit, the balance in the debtor's account increases.

Step 3: The amounts owed to the businesses' creditors have to be paid off and decreases the cash balance of the business. Other operating expenses, which the businesses incur, have to be also paid for the period.

Step 4: The outstanding amounts owed by the debtors are collected. These amounts decrease the amount owing by debtors and increase the cash inflow.

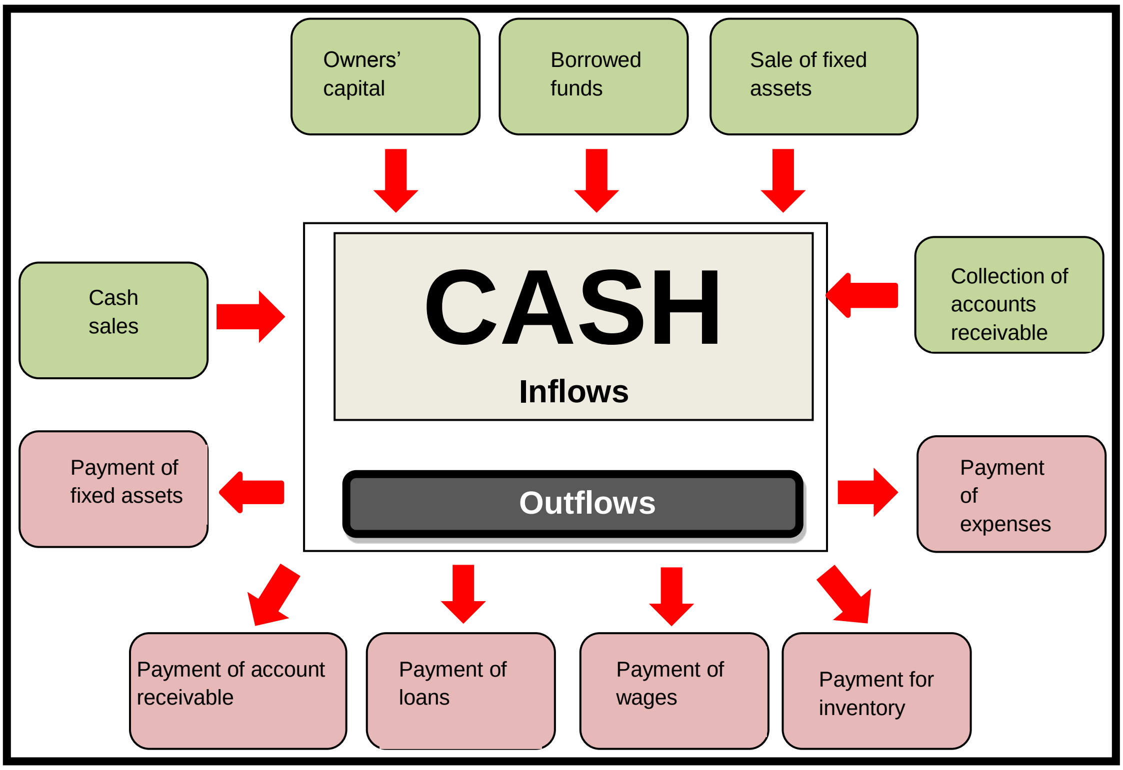
Step 5: Once the obligations are paid and the accounts receivable are collected, the business starts the cycle again (Moore, William and Longenecker 2010: 577-578).

The basis for successful working capital management is to monitor cash flows of a business. Moore, William and Longenecker (2010:578) emphasised the importance of the commonly used phrase "cash is king", by saying that cash is constantly moving through the business. Cash enters the business as the customers pay for the products bought and cash leaves the business as payments are made to suppliers and for other operating expenses that the business incurs.

The authors highlighted the importance of cash management by saying that it's vitally crucial to have a good knowledge of cash flows due to the uneven nature of the cash inflows and cash outflows. They also emphasised that the single thing which can break a business is the poor management of cash flow. The amount of time spent on understanding cash flow and the attention given to it can literally determine whether the business will survive or not.

Figure 2.4 illustrates the flow of cash through a business. It shows how the money enters the business and how it leaves the business.

Figure 2.4 Cash inflow and outflow



Source: Adapted from Moore, William and Longenecker (2010:583).

Moore, William and Longenecker (2010: 583) mentioned that cash flow of a business can only be derived once the difference is distinguished between sales revenue and cash receipts. When a transaction occurs, the revenue is recorded and profits increase. The cash flow is not affected at this point, unless the transaction was a cash sale. Only when the cash is generated from the sale, or when the customers pay off the outstanding amount due, cash receipts are generated and cash inflows increase. In the same way, it is also necessary to differentiate between expenses and cash payments. Expenses occur when the items such as electricity are used or wages are owed. Payments occur when cash is paid for those expenses that were used, e.g., payments for loans and wages.

Once the differentiation between the cash inflows and sales revenues are made, it is vitally important that all small business managers and owners draw up cash budgets to easily forecast when the cash will enter and when cash will leave the business.

Flynn (2009: 22) also expressed that, in order to escape a negative cash flow occurring by small businesses, managers and owners need to incorporate the following measures in their business. These measures monitor the availability of cash and handle the cash inflow and outflow of the businesses.

- **Know where you stand.** The first step is to know what cash flow balance is. By just drawing up a statement of comprehensive income alone will not indicate the company's cash flow position. A statement of comprehensive income only indicates the revenues, incomes, operating expenses and net profits for a certain period. The cash inflow and cash outflow of a business are illustrated in a cash flow statement.
- **Plan not to fail.** It is essential to plan for the future period especially in an unpredictable economy. Without proper planning, businesses can't avoid failure. By recognising the difficulties in the business, proper measures can be put in place well in advance to overcome these challenges.
- **Reassess budgets and major expenses.** In terms of the phrase frequently used, "cash is king", monitoring cash in a slower economy, with smaller profit margins and where payments take longer to be met, is very important (Flynn 2009: 22).

2.8 Importance of cash management practices

According to Alfred (2007), as cited by Akinyomi (2014:58), the importance of managing cash in a business comprises of the following advantages:

- Managing cash helps in achieving liquidity in a business and proper control;
- It assists in the planning towards reducing cash expenses and increasing cash receipts to ensure the business is liquid;
- Proper managed cash is vital as the future cash flow behaviour cannot be predicted, therefore, it's essential to plan; and
- Through proper controls of cash, procedure could be implemented to cater for innovations for cash receipts and cash payments in the business.

Bobitan and Mioc (2011: 302) emphasised the importance of cash management practices by saying that cash management embodies all incomes and payments made within a certain period, highlighting potential inconsistencies which can appear for that period.

Good cash management is necessary because too much cash is costly, as one is paying interest on cash that is not needed. Too little cash is also costly, because businesses are missing out on discounts or opportunities because of a lack of cash or silently liquidating the business by not promptly replacing inventory due to shortage of cash (McMahon 2006:148).

Cash management practices are the most crucial task for business managers. The business becomes insolvent when it fails to pay back the money owed timeously, which is the primary reason for bankruptcy among small businesses. The prospect of such an implication should force businesses to efficiently manage their cash with caution. Proper cash management prevents bankruptcy, thereby increasing profitability and sustainability of businesses (Mbroh 2012:40).

Proper and efficient cash management are imperative to recently established and growing small businesses. The cash flow of a small business could become problematic when the business deals with a number of customers who are difficult to track and when the business sells products higher in demand than their competitors.

Bobitan and Mioc (2011) emphasised the importance of cash management practices by saying that cash management embodies all incomes and payments made within a certain period, highlighting potential inconsistencies which can appear for that period.

Numbers are the language of business. All activities of any business are expressed in numbers. The ability to understand the value of these numbers will ultimately indicate the ability to understand the business. Consequently, McMahon (2006:137) stated that “When you are out of cash, you are out of business”.

2.9 Conclusion

This chapter discussed the nature of small businesses as well as the importance of accounting for small businesses. Thereafter, the definition of cash management was discussed together with cash management practices relating to inventory management and control, handling debtors, cash budget and the elements of cash flow. This chapter also investigated the importance of cash management for small retail businesses.

The next chapter will examine the dependent variables to the study which are profitability and sustainability as well as how cash management practices affect the profitability and sustainability of small businesses.

CHAPTER 3
CASH MANAGEMENT, PROFITABILITY AND SUSTAINABILITY OF SMALL BUSINESSES

3.1 Introduction

In the previous chapter, cash management practices were presented. The chapter also listed the definition of cash management and discussed the cash management aspects related to this study. The importance of cash management for small retail businesses was also highlighted.

This chapter will examine the relationship between cash management, profitability and sustainability. It will first discuss the importance of small business viability. Thereafter, the definition of profitability and sustainability will be introduced. It will also review models, approaches and findings on cash management practices, profitability and sustainability in small businesses. This chapter will also identify the impact that cash management has on profitability and sustainability of small businesses. Finally, this chapter will address cash management challenges faced by small businesses,

3.2 Importance of small business viability

The South African ex minister of finance, Trevor Manuel, emphasised that with millions of citizens unemployed and underemployed, it is vital that the government pay full attention to the generation of sustainable and equitable growth of small businesses in the country. He also emphasised that South Africa is ranked 41st out of 43 countries with regard to the survival rate for small business owners, with just 2.3 % of small businesses are been sustainable for more than 3.5 (Small business development in South Africa 2009:1-2).

A large number of businesses fail due to the absence of cash rather than the absence of profits (Patel 2010). Patel (2010) also indicated that cash flow management is vitally important for the business because it would assist in profitability, future planning and sustainability. The practice of basic concepts of cash flow management will assist businesses plan for the unforeseen eventualities that almost all businesses encounter.

3.3 Definition of profitability

Aliet (2012) indicated that profitability is defined as an income generated in the business which is calculated by subtracting the expenses from the revenue. The author went on by indicating that the word profitability derives from the word “profit” denoted by the Greek letter “n”. This is defined as the difference between the total revenue of a business and the total cost of a business.

Kew and Watson (2012:11) provided definitions from four different sources. The authors first gave the English dictionary definition: “advantage, benefit/financial gain; excess of returns over outlays”. The second definition was from a Business dictionary: “the excess of the selling price of the article or service being sold over the cost of providing it”. Kew and Watson (2012:11) also provided a definition from a director of a professional services company: “income less expenditure, not cash”, and, lastly, a textbook on finance: “income less expenditure for a given period”.

Karuru (2005) has indicated that profitability is the difference between the sales generated by a business and the expenses incurred during the business operations. The author also emphasised that it is important to maximise the sales amount of a business by significantly reducing the expenses incurred in the business.

Brinker (2002) agreed with Karuru (2005) by stating that the definition of profitability is the difference between the revenue and the operational expenses incurred in the business. The author also added that all businesses should aim at significantly reducing their operational expenses and aim at increasing their incomes to maintain a positive net income. This positive net income is referred to as a profit.

The above definitions indicate that profitability is a positive balance after calculating the difference between the businesses sales and the operational expenses i.e., Profit = Sales – Expenses.

3.4 Cash management and profitability

A study by Kakuru (2005) indicated that all businesses should aim at a collecting cash receipts and making payments efficiently to maintain a net balance of a surplus. If these receipts and payments collections are synchronised, a business will encounter this surplus net balance which is regarded as a business profit. The author further added that if this net balance is a deficit, then the business is making a loss. Measures should be put in place to increase the flow of cash into the business.

This study concurred with the study by Pandey (2002) which emphasised the importance of proper cash management to businesses by indicating that every business needs cash available to invest in purchasing inventory to sell as well as to purchase fixed assets in the business to enhance sales. Cash is also needed to make payments on time to creditors to increase growth in sales. The author went on by saying that a business could achieve adequate profits yet still incur cash problems due to rapid cash consumption. Businesses should focus on maximizing cash inflows and minimizing cash outflows so that the surplus cash could be managed into an investment portfolio. This would, in return, increase a business's sales and ultimately increase profitability.

In another study, which was conducted by Saleemi (2002), it was concluded that if proper cash management practices were not conducted by businesses, these firms will definitely not obtain the desired levels of cash inflow. With a restricted cash inflow, the levels of inventory will be restricted and, in doing so, the potential sales will also be reduced. Once sales are reduced, then the profitability of a business will be reduced as well.

Hurdon (2001) concurred with the other authors by indicating that proper cash management practices involve the ability to properly manage the cash inflows and cash outflows. It is vital that businesses have the knowledge to handle these inflows and outflows in the business. Businesses should target reducing outflows and increase inflows to keep money available in the business. Once there is money available in the business, the sales will increase and the profits will also increase.

According to Malik, Waseem and Kifayat (2011:156), there is a strong positive relationship between profitability and accounts receivable, profitability and cash and profitability and inventory. However, there is a negative relationship between accounts payable and profitability. The authors indicated that if there is an increase in cash, credit sales and inventory, the profitability of the business will increase.

Falope and Ajilore (2009:74) concluded that there was a negative relationship between average collection period and profitability, average payment period and profitability and inventory turnover in days and profitability.

In a regression analysis done by Reheman and Nasr (2007), it was revealed that there was a negative relationship between average collection period, inventory turnover in days and profitability.

Lastly, Ebben and Johnson (2011) indicated that businesses with efficient cash management practices were more liquid and they did not require debt financing.

From this discussion, it is evident that cash management practices have an effect on business profitability.

3.5 Definition of sustainability

Findings from a survey done by Berns (2009) at the Massachusetts Institution of Technology indicated that there is no single established definition for sustainability in the business context. Different businesses define the term sustainability in numerous ways. Some businesses define the term purely on the environmental impact while other focus on the social and personal impact. Some businesses look at sustainability in the financial viability of the business for the future period. The author went on by indicating that 40% of businesses defined business sustainability by indicating that it is regarded as maintaining business viability. 60% of businesses defined sustainability in one of the two widely accepted definitions: the Brundtland Commission definition and triple bottom line definition.

3.5.1 Brundtland Commission Definition

“Humanity has the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs. Meeting essential needs requires not only a new era of economic growth for nations in which the majority are poor, but an assurance that those poor get their fair share of the resources required to sustain that growth. Poverty is not only an evil in itself, but sustainable development requires meeting the basic needs of all and extending to all the opportunity to fulfil their aspirations for a better life" (United Nations 1987:16).

3.5.2 The triple bottom line definition

An aspect of the triple bottom line definition of sustainability discussed by the University of Wiseconsin under sustainable management indicates that profitability impacts on sustainability. It was further explained that in order for a business to be successful, it needs to make money. A company has to realise that the business sustainability depends on the skills practised to work peacefully and successfully with the environmental and social settings. Therefore, the profit calculations for a business should incorporate worker displacement as well as the costs of pollution (University of Wiseconsin- Sustainable Management 2014).

Alyssa Farrell, SAS Global Marketing manager for Sustainability Solutions, as cited by Berns (2009), defined sustainability as a business strategy to assist businesses to achieve long-term viability and efficient control over their social and environmental resources.

From the above definitions, it is clear that sustainability is a term that describes satisfying the business needs of the present without compromising the business viability for the future. In this study, sustainability refers to the longevity of the business and factors related to business failure. The benchmark for sustainability is the business being in operation for at least six years.

3.6 Cash management practices and sustainability of small businesses

Cash management is an overriding consideration in understanding small businesses. Too often, businesses fail before they have a chance to succeed because they run out of cash. Research statistical analysis indicated that the most crucial cause of business failure is due to the lack of planning. The second leading cause next to poor planning is the lack of adequate cash (McMahon 2006:15).

Foster (2012) indicated that since the year 2008, business failures have risen by 30% in the past three years. Businesses with less than five employees were hit the hardest. 57% of those small businesses failed over a year. Businesses that employed six to nineteen employees faced a 40% increase in bankruptcy.

A study by Bradley Univ, from the University of Tennessee Research, as cited in Unvi (2014,) revealed that just 47% of the small retail businesses still operated after four years.

Unvi (2014) also investigated the major causes for their failure. 46% indicated that the major cause was business owner incompetence. The specific pitfalls were poor collection and control of debtors' payments, no knowledge of pricing, lack of planning and budgeting, no knowledge of financing and no experience in record keeping.

30% of the failed businesses indicated that their major cause was unbalanced experience or lack of managerial experience. The specific pitfalls were poor credit granting practices and inadequate borrowing practices.

A further 11% indicated that the major cause was lack of experience in line of products sold. They identified that their specific pitfalls were that the businesses carry inadequate or too much inventory as well as they had no knowledge of suppliers (Univ 2014).

Bornstien and Scarborough (2007:40) revealed that small business owners do not know how to run a business or manage cash flow. Obtaining credit for financing the business does not guarantee its success or viability. The authors indicated that the businesses which employed less than 5 people only had a 37% chance of being sustainable for more than four years and the chance of it surviving for more than 10 years was just 9%.

Common reasons for business failures were: the lack of management expertise, and the lack of record keeping knowledge from the owners' part or how to manage inventory. Bornstien and Scarborough (2007) also indicated that small business owners fail because they use five hats. They take on too many responsibilities in the business and find it challenging to manage, control, and successfully run a business.

The primary reasons for small businesses' demise and failure are the lack and incorrect financial forecasting, inadequate access to capital, lack of funding and accessibility to loans which restricts growth (Salazar 2012:93-94). The majority of the challenges can be easily overcome with implementing cash management strategies in the business. His previous research also reflected that a number of small businesses primarily focus on obtaining capital and incomes for operating expenses; it is time consuming and challenging to develop financial strategies and budgets. The research study also concluded that many business owners and managers stipulated that they had no knowledge of how to implement budgets, and that day-to-day cash difficulties overpower the manager's ability to make structured decisions. The highest priority is to eliminate cash management difficulties to increase the cash inflow of the business. From the study done by Salazar (2012:93-94) in Mexico, it was evident that small businesses were facing financial problems. He concluded that 65% of small businesses close their doors in a period of less than 24 months, while one in four survive the 24 month period with a minimal chance of growth and expansion. He also emphasised that financial difficulties and the lack of proper planning represent a central problem that affects business growth, profitability and sustainability.

Janklow (2009:4) indicated that 40 000 small businesses close each month. The author also indicated that the five main reasons why businesses fail are:

- Loss of revenue: this could come in the form of loss of customer base, competitors selling enhanced products and encountering customers whose debts are not repaid, thereby increasing bad debts;
- Poor business models: business models are essential to ensure that opportunity and competitiveness are optimised;
- Management issues: Many entrepreneurs do not have the skills of being managers as well as owners, they lack knowledge and, in many cases, experience;
- Lack of capital: every business should have sufficient capital to start up the business as well as to sustain the business through any unforeseen crisis; and
- Credit/debt issues: many small newly formed businesses don't qualify for loans which impact on the availability of cash to the business. They struggle financially without the assistance from a lender which will increase the cash level to enhance and expand the business (Janklow 2009:4).

The commonly used phrase that "cash is king", emphasises that many small businesses' failure is due to the lack of cash rather than the lack of customers or selling a less superior product. The accessibility of obtaining finance is a major difficulty faced by businesses (Small firms: Cashflow is king 2011:2). Findings from a survey indicated that 30% of small business loans are still being turned down, which impacts on the survival of the business. 78% of those businesses which were turned down did not agree with the reason for refusal.

According to the American Express OPEN Small Business Monitor, a survey was done targeting business owners. The results indicated that more than 60% of business owners showed concern about not having cash available to pay obligations for the future months ahead (Flynn 2009:22).

Ibarra (1995) and Van Auken and Howard (1993), as cited by Salazar (2012:93-94), indicated that crucial factors for business failure are the restricted access to funds and capital, poor financial planning, unexpected growth and inability to cope with increased sales as well as poor forecasting. Many of these causes of failures could be avoided with implementing planning and forecasting strategies in the business.

The majority of small business owners or managers put emphasis on generating large profit margins, a booming growth of sales and strong customer loyalty as being the crucial factors of their business success. The above factors are important contributing factors for the sustainability of businesses. However; a well-adjusted cash flow forecast is just as significant towards the success of any business. The cash inflow of the business is what is used to meet everyday expenses. Any excess after paying off debts can be capitalised to support growth and expansion (Flynn 2009:22).

From this discussion it is evident that cash management practices impact on business profitability.

3.7 Cash management challenges faced by small businesses

The following discussion relates to the cash management challenges faced by small retail businesses.

3.7.1 Lack of cash budgeting

Estimation of expenses can be very challenging. Some expenses, such as employee salaries, supplier pay-outs and petty cash, are routine and are easily budgeted. For growing businesses, however, one can't plan some variables easily. These variables can include a sudden increase in equipment for business growth and unexpected repairs and maintenance. Sales can also be a source of the problem. Reduced sales reduce cash inflows, while increased sales lead to an unprecedented increase in expenditure such as purchase of more products and inventory and delivery charges, overtime wages and increased operating expenses. These unplanned expenses can lead to cash shortages that hinder small business growth, making cash budgets more important (Nick 2009:3).

Many small businesses emphasize the motto: “cash is king”, but they have a very vague estimation as to how much of cash they will have in the next few months. Three quarters of businesses did not plan what their expected cash inflow and cash outflow would be. This directly affects the potential survival and sustainability of businesses. Nick (2009:3) also noted that those businesses who budgeted for the future at least once a year had only a 36% chance of survival. Those that budgeted once a month for the future had increased their chance of survival to 80%. Nick (2009:3) also highlighted that a great misconception amongst small businesses was that enhanced growth would automatically solve cash flow problems, but this growth could lead to much more cash demands if the businesses granted customer discounts just to enhance sales.

Cooley and Pullen (1979), cited by Mong (2011:33-34), established that only 28% of the small businesses drew up cash budgets. Grablowsky (1978), cited by Mong (2011:33-34), compared the cash-management techniques of 66 small businesses and found that only about 30% of the small businesses prepared cash budgets. Cooley and Pullen (1979), cited by Mong (2011:34) indicated that efficient cash management requires cash forecasting as a first step. Roughly 7 out of 10 of the small businesses surveyed did not prepare cash forecasts. Those that did forecast cash flows tended towards a short planning horizon. Cooley and Pullen (1979), cited by Mong (2011:33), viewed that a more fundamental impediment to small-business cash management is that management may not even recognize the existence of a problem. Furthermore, the time required to implement cash management procedures may be viewed by small-business management as taking time from other more important business problems.

According to Barry Worth, a CPA specialist, as cited by Perry (2007), indicated that many small businesses don't know what cash budgets are, so they don't do cash forecasting to know when they will have some of the peaks and valleys.

Amoako, Marfo, Gyau and Asamoah (2013:188-191) stated that the planning and drawing up of a cash budget can be very painful to businesses and not always clear how the effort that went into this preparation can guide a successful output for the business. The author also emphasized that a cash budget could be referred to as a tool for imposing restrictions or even being over optimistic which are challenging for businesses to meet.

3.7.2 Lack of specialised staff

A main focus of many small businesses is that they lack necessary financial information to make essential decisions for the businesses. Small businesses do not have specialised staff to handle the financial decisions in the business. Therefore, the responsibility falls upon the owner who has to handle all financial activities without a solid foundation of financial knowledge. Basic daily financial problems overwhelm small business owners' decision making due to lack of knowledge to implement rectification measures. There is also an urgency to resolve these difficulties so that the business generates an income (Salazar 2012:93-94).

Stewart (2012:11-12) indicated that small businesses experienced financial problems. Stewart added that businesses were struggling to grow and hire competent staff

3.7.3 No bank accounts

Baroncini-Moe (2013) emphasised the necessity for small businesses to obtain a bank account. The author indicated that many small businesses do not have a bank account for the business. However, it would be easier to determine profitability as well as enhance business professionalism and make the business appear more established and legitimate. A bank account will also keep track of what money is coming into the business and what money is going out of the business.

3.7.4 Obtaining a loan

The majority of small business ventures would require some external funding at some point in the business. The very first organisations that many would approach are banks. According to Mr Valaven, the Commissioner of Industries, as cited by Business Line (2011), many small businesses are at their breaking point and risk shutting down due to the lack of funding. He also emphasised that the financing institutions have tightened up the restrictions on applications for a loan which affect majority of the small scale units.

Christ (2009:9) also indicated that financing institutions are not doing enough to assist small businesses in these tough economic times. Many banks are now asking for businesses to use their private homes as collateral even though they have sufficient business assets. Consequently, businesses are sceptical to take on a loan to finance the business

According to Borgia, Deanna and Shank (2003), 585 of small businesses survive for less than 5 years. Younger businesses with a short operating history face challenges in obtaining bank finance. A total of 64% of businesses acknowledged that they had approached three or more businesses for finance. Of those businesses, 54% of businesses have being rejected for finance. Just a minor 9% have indicated that they were not turned down for bank finance.

More than 60% of the businesses that were surveyed indicated that securing a loan was challenging and this restricted their growth. The survey also revealed that 68% of the small business owners transfer their personal savings into the business (Stewart 2012:11-12).

Mbroh (2012:47) indicated that businesses also encounter difficulties in obtaining money for improvement or expansion. The irony is that it is simpler to obtain a loan when the business has money rather than when the business doesn't have the money and really needs the loan to fund the business.

What do lenders look for? Financing institutions would like to know many details about the business before approving a loan. First and foremost, any institution will want to look at its budgets. This indicates a business's stability and provides some surety that it will be paid back their money (McMahon 2006:140).

3.7.5 Poor cash management practices

Kippers (2004) revealed that small business owners knew their business like nobody else. They put their heart, soul and time into making their business successful. The area where they did not have expertise was regarding the financial aspect of record keeping. Kippers (2004) found that businesses lacked the much needed cash management knowledge to properly control the business money. They all wanted to have a positive cash balance from the start of business, it's just that they did not know how to go about to achieve this balance.

Visa Inc. (2006) indicated that 53% of the small business owners indicated that their most challenging cash management component was receiving payments from customers. 21% noted that they had great difficulty to manage and move funds and 14% found many challenges with paying off suppliers on time. Once they have indicated which component of cash management was challenging, the small business owners were also asked to identify the contributing factors towards these challenges. Visa Inc. (2006) noted that slow moving cash through the business was the largest factor driving cash management challenges, especially when accurate estimates could not be made regarding the timing of cash that was owed by and cash that was owed to the business. The second most common point raised as the contributing factor was that, in order to perform cash management techniques, there was a huge amount of labour-intensive administrative work which was very time consuming and difficult for owners to understand and handle along with the normal running of the business (Visa Inc. 2006).

When experiencing poor cash management, it also becomes challenging to employ and maintain skilled and knowledgeable employees Mbroh (2012:47).

Debt (2005:8) revealed that in a survey conducted, 26% of the respondents were hesitant about applying cash management practices in the business as they claimed it was very labour intensive work. 14% of the respondents indicated that there was a lot of administrative paper work involved with cash management practices and they simply did not have the time to do it.

3.7.6 Cash flow difficulties

Meng (2013) highlighted cash flow issues faced by small businesses. They have revealed that the one aspect that keeps small business owners awake at night is the management of cash flows. Meng (2013) revealed that nearly 71% of businesses experience cash flow problems.

Grablowsky (1978), as cited by Mong (2011:33-34), believed that small business managers focused on profits rather than on cash flows. Fargo (2001:1-2) indicated that cash flow difficulties are an on-going concern that one in two small businesses face. Grablowsky (1978), as cited by Mong (2011:33-34), also emphasised that, due to the instability of small business customer base, it would be challenging to introduce techniques used in college textbooks and what larger companies practise. Moreover, due to the lack of knowledge and resources, it will be difficult to overcome cash flow problems after they are discovered.

According to All Africa.com (2013), many business owners do not put much focus on cash flows. The biggest mistake owners are making is that they are confusing profits of the business with the cash flowing into the business. The article also mentioned that, as soon as businesses are reported to have a positive cash flow balance, they make large purchases and forget about the post-dated cheques issued or the payments needed to be made at a later time. Only then do businesses realise they have insufficient funds to pay the obligations. The article also mentioned that businesses do not plan and prioritise the payments of the expenses in order of importance and due dates.

McMahon (2013:2) indicated that one out of three businesses fail due to poor money management. According to Josh Jones, as cited by PR Newswire (2013), many small businesses struggle with planning and accurately identifying how much cash is flowing into the business and how much cash is flowing out of the business.

Jeff Schmidt, as cited by McMahon (2013:2), also revealed that the greater concern for small business owners are not about whether they are making a profit, the concern is about the business being short of much needed cash.

According to an article by The Centralian Advocate (2009:11), a big misconception by businesses is that only businesses that are making a loss are businesses that fail and shut down. There are countless profitable businesses that have closed down due a lack of cash inflow to the business. The article also revealed that it doesn't mean that, because there is an increase in revenues and a decrease in inventories, the business is doing well. The increase in revenues is accompanied by the increase with debtors and the ability to retrieve money owed by those debtors. Having a good profit means nothing without the availability of cash to sustain the business.

Nick (2009:3) revealed that most small business owners request meetings related solely to the lack of planning. Profitability of the businesses was not a problem. When small businesses become insolvent, many say it was a matter of their own bad management decisions. Cash flow forecasting is the largest challenge that small businesses face.

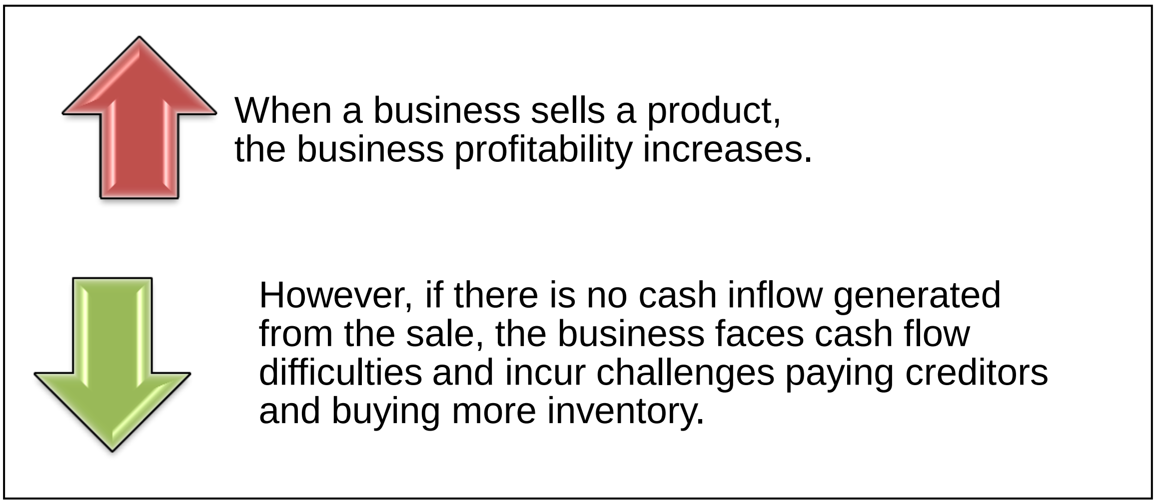
A study by Kunz and Dow Iii (2011:76-79) indicated that profits are not directly proportional to cash flow. The company's profits have increased over a period of time but it had being experiencing cash flow problems. The managers have struggled to sustain adequate money to pay off expenses and debts on time. The company has also reached the maximum limit of funds borrowed from a financing institution and is now using its fixed assets as collateral to obtain more funding. The company also did not develop financial plans because it did not understand all those plans and calculations and also explained that it did not need these budgets to help it run the business.

Since the business opened, the financial reports were prepared by an external bookkeeper. These financial reports only consisted of an income statement and balance sheet. There was no cash flow statements and cash budgets prepared as the businesses did not see the need to develop these statements (Kunz and Dow Iii 2011:76-79).

Many small businesses overestimate their incomes and underestimate their expenses. This inevitably creates serious cash flow problems and the business runs out of cash (McMahon 2006:25).

Figure 3.1 is a model on how cash flow difficulties affects business profits.

Figure 3.1 Poor cash flow affects profits



Source: Self-generated

3.7.7 Inventory control challenges

According to Marketwire (2013), 73% of small businesses have no inventory control system. In another survey carried out in Toronto by 575 small businesses, it was revealed that small businesses were using basic control measures to maintain inventory records. A further 32% were simply using a pen and paper system to briefly keep track of inventory or no inventory controls were in place at all.

Kinciad (2008:44) revealed many responses from small business owners were that they don't implement any inventory control procedures. They indicated that they knew the figure in their head intuitively, or they knew what was moving and what was not moving in the business. Also, they didn't see the need to have controls in place.

The author also indicated that many business owners indicated that they are not aware of the necessary inventory control strategies to put in place. They simply do what they feel is right.

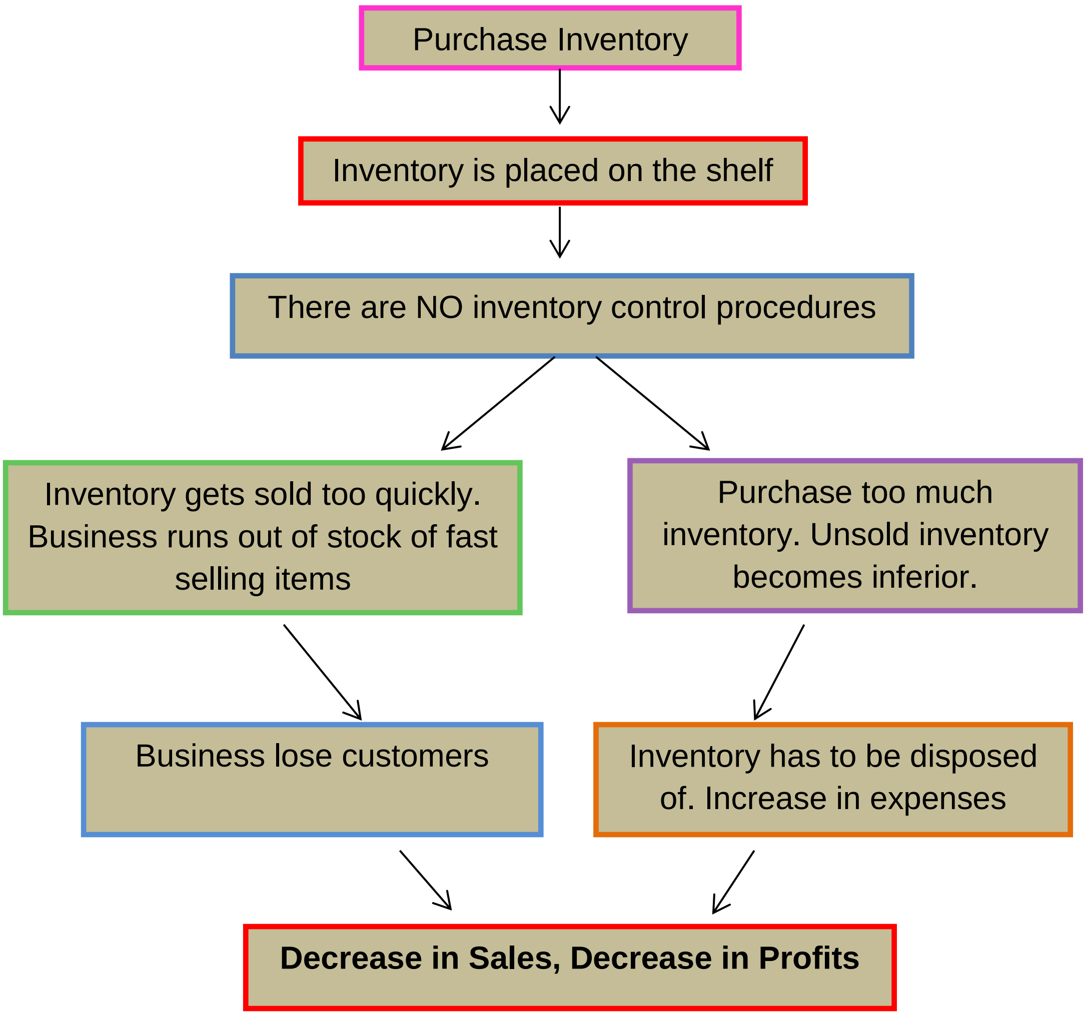
Cohen (2003:1) revealed that every retail business owner encounters the same difficulty. It is either that they have purchased too much inventory that doesn't get sold or they run out of stock of items that are in demand. Once a customer is dissatisfied with the quality or availability of products at the business, the business may lose that customer. Therefore, the business's revenue would decrease which will negatively impact on the profitability.

According to the vice president of a Texas based firm, Grant Wickes, as cited by Kincaid (2008), many business owners are unaware of how much inventory the business has or how much inventory they should have at any given point.

Cohen (2003:1) also indicated that many start-up businesses don't think about inventory control. The author indicated that they lack the knowledge of the impact poor inventory management has on the business. It is only when they are in a cash flow crisis, they realise how important inventory control is.

Figure 3.2 is a model on how poor inventory control affects the business profitability, as concluded from the literature above.

Figure 3.2 Poor inventory control affects profits



Source: Self-generated

3.7.8 Challenges faced regarding payments

3.7.8.1 Debtors' payments

Debt collection is deemed to be one of the most challenging aspects for small businesses. In a survey conducted, 36% of small businesses were not able to indicate the timing of receivables (Debt 2005:8).

According to the 2010 OB10-IARP Accounts receivable survey, as indicated in, The Controllers report (2010:7-8), 41% of businesses have to increase their debtors' collection efforts. 70% of businesses indicated that they try and keep their debt collection efforts in house as they cannot afford contracting outsourced collectors. The report also revealed that 55% of businesses have to call debtors continuously in order to receive payment. 35% of those affected businesses have implemented late payment fees. Moreover, 29% of businesses have indicated that they are not selling to overdue debtors anymore, until debts are paid off.

According to Charlwood (2011), 25% of small businesses experience cash flow problems. The majority of small businesses have struggled to meet their payments because they are dealing with debtors that are not paying back their accounts. Businesses are taking longer than 90 days waiting for payments from debtors. The author also found that 30% of the affected businesses offer discounts for early payments but this incentive was an ineffective measure as debtors did not use this opportunity.

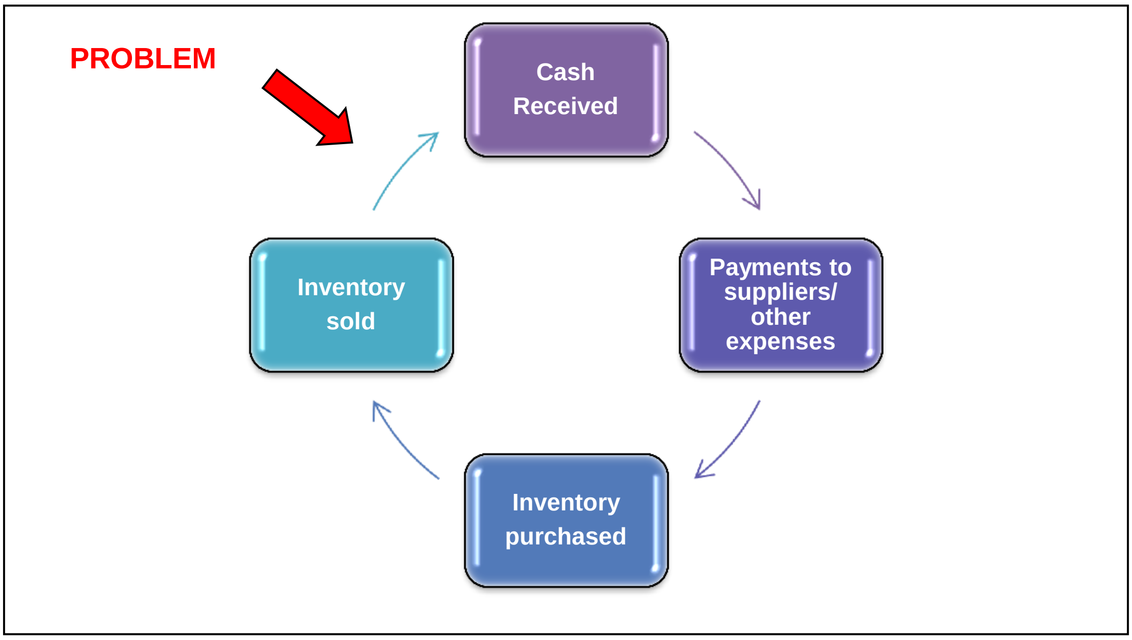
Economou (2012) also agreed with the other authors by indicating that businesses faced the same challenges regarding debtor payment. 83% of small businesses had experienced very slow payment, as revealed in a small business survey. 23% of businesses write off bad debts as debtors do not repay their accounts. Just 27% of small businesses managed to get a bank overdraft to cover the gap in cash flow. The rest of the affected businesses had to use their personal finance to manage the deficit owed by debtors.

According to Dunn and Liang (2011:98), causes of bad cash management were: an increase in unsold inventory, poor control over credit sales, an increase in debtors' collection period and increase in bad debts.

Lastly, Economou (2012) indicated that predictions for the following year ahead seems worrying as an estimated 77% of businesses are concerned that their debtors would become insolvent and will not be able to payback their accounts.

Figure 3.3 demonstrates the problem area of receiving cash from debtors (as discussed in the literature above) in a cash flow cycle.

Figure 3.3 Flow of cash



Source: Self-generated

As illustrated above, the major problem faced by debtors is the lengthy debtors' repayment periods, i.e. the time between the sales of inventory till the time cash is received from that sale.

Lay-by challenge

Sapong (2010) indicated that a major disadvantage with this system is that there are no finance charges, interest charged or late payment fees. Therefore, cash slowly flows into the business, sometimes months after the sale.

Anas (2008) also revealed a major challenge faced by small businesses is that these debtors do not see the urgency to pay off debt as they are not being charged an interest on their overdue account or are paying any additional charge. This is what slows down the cash inflow to the business. Another challenge faced by businesses is that the business still has full responsibility of the item till the debt is paid off and the item leaves the store. If for some reason, the product becomes obsolete, or damaged, the sale is jeopardised.

This makes the problem even bigger as the amount of outstanding debt rises, and the cash flows drop. There are then the added problems that accompany the lack of funding. Incurring increased debt of a small business becomes necessary, and difficulty paying employees and other payments can be a burden. It is imperative that businesses collect payment for products sold, or they won't be able to be as successful as they should be, and may even be forced out of business if the problem becomes too big (Stewart 2012:11-12).

Debtors' collection periods are now averaging 60 days. There is a 60 days' delay of cash flowing into the business from the transaction date. This delay will affect the availability of cash for the expected payments (Small firms: Cashflow is king 2011:3).

3.7.8.2 The impact of bad debts

An uncollectible debt is worthless to the creditor. This occurs after all attempts to collect the debt are unsuccessful. Bad debt is usually a product of the debtor going into bankruptcy or where the additional cost of pursuing the debt is more than the amount the creditor could collect (Kew and Watson 2012:173).

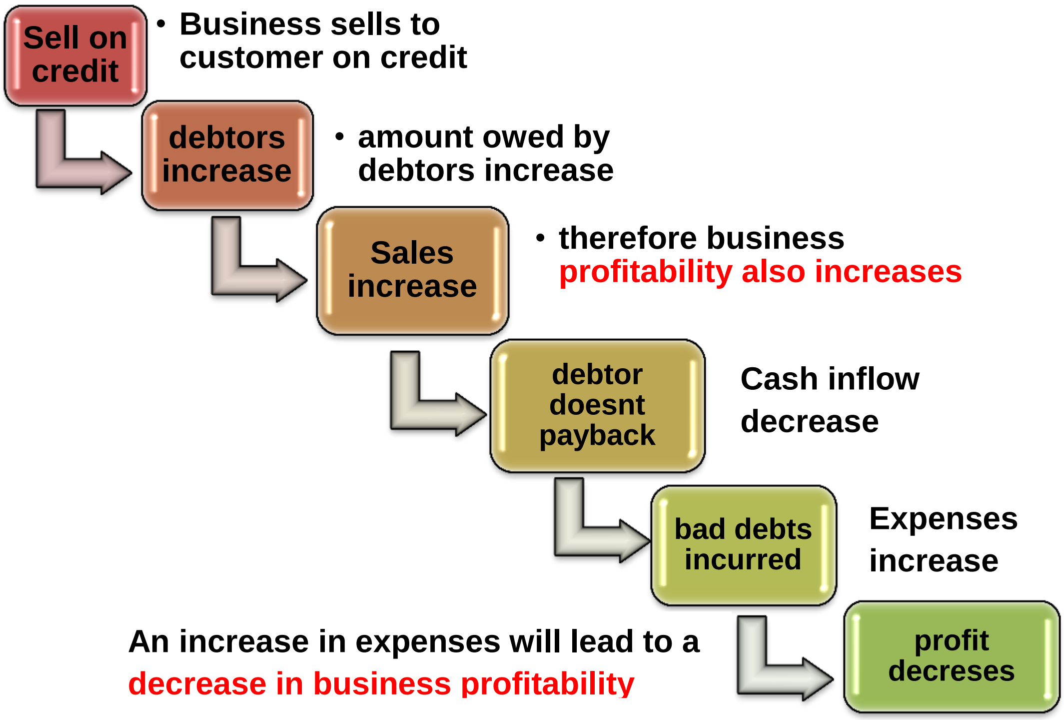
Blake (2010:18) revealed that businesses in the South of Wales are also increasingly writing off debt. Research also indicates that bad debts of European and North American businesses remain high well after the recession.

Bad debts can affect a business in two ways; the first way being that the business cannot repay its accounts owing to their creditors and; the second, the business's debtors, being their customers, don't payback their accounts owing to the business. In both cases, bad debts impact negatively on the business (Kew and Watson 2012:173).

Blake (2010:18) also indicated that 16% of business owners indicate that bad debts threaten business day-to-day survival. In addition to a loss of revenue, there is a significant amount of time and energy that goes into chasing debt that will not be recovered. This loss of revenue will ultimately decrease the business profitability.

Figure 3.4 is a model on how bad debts incurred by a business affect the profitability, as illustrated in the literature above.

Figure 3.4 Bad debts impacting on profitability

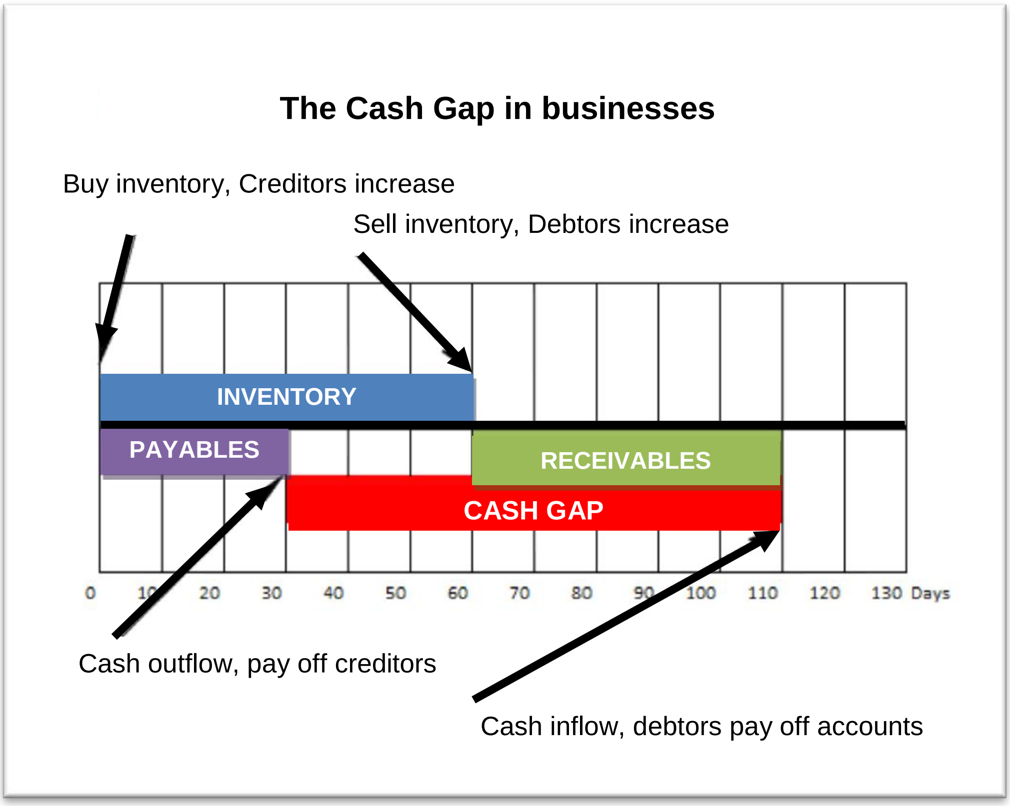


Source: Self-generated

3.7.8.3 Businesses not charging interest on overdue accounts

Borgia, Burgess and Shank (2003:38) explained the importance of managing cash flows in the cash gap model illustrated in Figure 3.5.

Figure 3.5 Cash gap model



Source: Adapted from Borgia, Burgess and Shank (2003)

Borgia et al. (2003:38) stated that, without charging an interest on debtors' overdue accounts, there are negative cash consequences that the business incurs. Inventory is bought into the business with the intention of resale. The business purchases this inventory on credit due to the lack of cash available. The business then takes a month to pay off its existing debt. The cash reserves are now low in the business. This inventory is slowly being sold throughout a period of two months. Once inventory is sold on credit, the account receivables will increase. The business is now running low on cash (cash gap) for a period of more than two months till the debtors pay off their accounts. The authors also indicated that a short cash gap simply means that cash is tied up in the operating cycle for a short period of time. Long cash gaps are very costly for the business. Therefore, without an interest being charged on an account owning, debtors do not see the urgency in repaying their accounts promptly, which affects the businesses' cash flow and ability to repay the businesses' debts.

This is a widespread and stumbling block that businesses all over the world are facing and the lack of business expertise and experience to confront these customers will hinder these growing businesses' growth and profitability.

3.7.8.4 Creditors' payments

According to Perry (2007)**,** many suppliers offer payment terms of 30 to 90 days to customers. At the same time, these businesses tend to repay their accounts as quickly as possible and do not take advantage of terms allowing them to stretch out payments for 30, 60 or even 90 days, without being charged an interest.

Two-thirds of small businesses in Australia are taking longer than 30 days to pay their bills. The study revealed that businesses took an average of 53.4 days to pay their bills. The study also revealed that less than 44% of the respondents actually implement credit control procedures (Small businesses struggling so creditors have to wait longer 2011:27). The authors also revealed that smaller businesses with less than 5 employees suffered the worst deterioration in creditor repayment terms over the past 12 months.

Angus (2011) revealed that one in two small business owners indicated that payments to suppliers were a major problem. A further one in five of these business respondents indicated that late payments of bills are quite serious as they almost brought the business to closure.

Hugh (2009:16) indicated that businesses face a great challenge as many creditors take legal action to enforce a debt and perhaps shut down the business due to businesses not having funds to pay off accounts. The author revealed that the majority of small businesses fail in the first few years because they run out of cash to pay off their bills.

3.8 Conclusion

This chapter represented the literature review relating to profitability and sustainability of small retail businesses. The previous research done on similar studies were also presented. The literature review revealed that small businesses don't see the need for formal records in their business. Many indicate that there is no time in their day to handle financial records. The review further indicated that the absence of cash management in small businesses directly affected the growth and expansion of small retail businesses.

The next chapter will examine the research methodology of the study. The target population as well as the sampling method will be identified. The questionnaire design and administration will also be discussed. The ethical considerations, which were taken into account for the study, will be listed.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

The previous chapter introduced the literature review on profitability and sustainability of small retail businesses. The chapter discussed the definitions as well as the importance of profitability and sustainability of small businesses in South Africa. The previous chapter also examined the cash management challenges faced by small businesses.

In this chapter, the salient aspects of research methodology for this study will be discussed. The population as well as the sample will be defined. The method of sampling will also be presented. Thereafter, the research methods and the chosen data instrument will be discussed. This chapter will also present the method of data collection, pilot testing, a discussion of the statistical analysis used and ethical considerations taken into account.

4.2 Research design

A descriptive study is designed to collect data that describes situations, people or events. A descriptive research could either be qualitative or quantitative in nature. It involves the gathering of quantitative data such as ratings, figures and also demographic data. It also entails the gathering of qualitative information such as describing a process or examining procedures (Sekaran and Bougie 2013:97).

A descriptive study was used to describe the associations between variables. This research focuses on an investigation on the impact of cash management on the profitability and sustainability of small retail businesses in the Tongaat area. This type of study is correlational in nature. A correlational study describes the relationship between the variables. A descriptive study was chosen to undertake this research in order to assist in understanding the characteristics of a group of small retail businesses and also assist in the systematical approach to aspects related to cash management practices in businesses (Sekaran and Bougie 2013:97).

Leedy and Omrod (2010:135-140) state that qualitative research examines the approaches, people’s behaviour and their experiences through methods which include conducting interviews as well as having focus groups. This is done with the attempt to obtain a detailed opinion and comprehensive understanding of the phenomenon from the views of participants. There are many different methodologies engaged with regard to qualitative research and fewer individuals take part in the research as it includes the attitudes, actions and experiences of people.

Quantitative research consists of analysing the theory by stipulating narrow hypotheses and gathering data in order to support or contradict the hypotheses. It is descriptive in nature and the collected data is then analysed and relevant statistics are generated through the use of a Likert type scale survey research, using methods such as interviews and open as well as closed-type questions (Leedy and Omrod 2010:135-140).

The quantitative research paradigm was undertaken in this study. A cross sectional study was undertaken in which information was collected just once, over a period of time, in order to answer the research questions (Sekaran and Bougie 2013).

4.3 Target Population

A target population refers to the entire group of people, things, or events which are of interest to a researcher, who would like to investigate further. It is a specific group identified where a researcher wants to make inferences (Sekaran and Bougie 2013:240).

The target population identified for this study consisted of 83 small retail businesses in the central business district in the Tongaat area. The researcher chose to limit the study to just retail businesses since their sustainability and profitability would enhance employment opportunities to a large section of the unemployed people in the Tongaat area.

4.4 Sampling method

There are two categories of a sampling design:

- Non-probability sampling: this consists of the members in the group not having a known or equal chance of being selected as part of the sample, and;

- Probability sampling: this consists of the members in the identified population having a known chance (also referred to as a nonzero chance) of being selected in the sample (Sekaran an Bougie 2013:245).

The non-probability sampling technique was chosen for this research study.

4.4.1 Sampling

- **Sampling technique**

The convenience sampling technique was chosen for this study. The researcher approached all the small retail businesses in the Tongaat area, which form part of the population. However, the elements from the sample were selected for the convenience of the researcher (Black 2011:224). The researcher chose the businesses from the population that were readily available or those that were willing to participate in the research study (Black 2011:224).

- **Sample**

A sample is a subset of the entire population identified. This comprises of certain members selected from the total population (Sekaran and Bougie 2013:241). The target population for this study consisted of 83 small retail businesses in the Tongaat area. This population of small retail businesses were obtained from the chairman of the Tongaat Business Forum. According to Sekaran and Bougie (2013:26), the sample size for a target population of 83 businesses should consist of 69 small businesses. The sample size was also verified by using the Raosoft software-2009 (Appendix A). This was calculated according to the standard size formula used in statistics:

$$\boxed{n = \left(\frac{Z_{\alpha/2}}{E} \right)^2 p\, q}$$

Source: (Black 2011:275)

4.5 Measuring instrument

A questionnaire was used as the data instrument for this study. A questionnaire is a data collecting device which consists of lists or a series of subject specific questions/statements. When the appropriate informant answers this questionnaire, the researcher can gather a greater understanding of the research question and form appropriate conclusions (Remenyi 2012:91).

4.5.1 Questionnaire design

The questionnaire was designed to be easy to read, with very brief statements which were simple to understand. This made it appealing for the respondents and increased their willingness to participate in the study. The formulation of the questionnaire was based on the literature review which was presented in chapters two and three in order to assess the impact of cash management on the profitability and sustainability of small retail businesses. The respondents were also well informed about the aim of the study. The researcher ensured that the respondents understood the questionnaire. The researcher was available during the completion of the questionnaire to assist with any difficulties experienced or if further explanations were needed.

The structure chosen for the questionnaire was a tabled Likert type scale ranging from 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree. The reason for this style of questioning was that the Likert scale was simple to read and understand. Since completion of the questionnaires was not too time consuming, many businesses agreed to participate in the study without hesitation. The data retrieved from the questionnaires were also simple to code and analyse.

The questionnaire (Appendix B) was divided into two sections.

Section 1

- **Biographical information based on the interviewee:** The interviewees were asked to indicate their qualification, position in the business as well as their work experience.

Section 2

- **Cash management information based on the business**:
  - **Financial information:** The respondents were asked to indicate if there were formal records kept in the business, if they handled cash flows easily,

and also to stipulate if the business was profitable over the past three months.

- **Cash flow analysis/forecasting**: Respondents were asked about the importance of cash management, their ability to draw up cash budgets and control over the money that comes in and leaves the business.
- **Sales:** They were asked to indicate what portion of their sales comprised of cash.
- **Debtor management/sell on credit:** Aspects of debtors' collection policy and bad debts were included as well as discounts and interest on overdue accounts.
- **Stock:** Respondents were asked to indicate whether they had a monthly stock take and control of stock,
- **Control of purchases/buy on credit:** Questions were based on credit purchases as well as the credit repayment period.
- **Purchases:** They were asked if they received a discount on purchases and if they were charged interest.
- **Financing/borrowing costs:** The respondents had to indicate whether the business had a bank account, how often they deposited money into their bank account, if they take a loan to finance the business and if there was cash available for their monthly loan repayments.

The questionnaire consisted of 33 items. The questionnaire was divided into the following 8 sections which measured various themes:

- **Section 1** - Biographical data;
  (Bornstien 2007:40); (Salazar 2012:93-94); (Nick: 2009:3).

- **Section 2** - Information based on the business;
  (McMahon 2006:137); (Akinyomi 2014); (Malik et al. 2011); (Nick 2009:3).

- **Section 3** - Cash flow analysis/forecasting;
  (Moore et al. 2010:584); (Akinyomi 2014); (Amoako 2013:188-191); (Marfo-Yiadom 2008: 131-137).

- **Section 4** - Sales;
  (Charlwood 2011); (Economou 2012).

- **Section 5** - Debtor management/sell on credit;
  (Borgia et al. 2003:38); (Anas 2008).

- **Section 6** - Stock/Inventory;
  (Kinciad 2008); (Barrera 2013); (Cohen 2003:1).

- **Section 7** - Purchases; and
  (Hugh 2009:16); (Angus 2011).

- **Section 8** - Financing/Borrowing costs.
  (Baroncini-Moe 2013); (Christ 2009:9); (Borgia et al. 2003); (Stewart 2012: 11-12); (McMahon 2006:140).

The questionnaire was designed with a range of closed-ended questions based on the above cash management sub-topics. An opened-ended question was also included to enable the respondent to elaborate on any other cash management issues that were not covered in the questionnaire.

4.5.2 Measurement Scale

Combinations of two types of scales were taken into account in designing the questionnaire:

- Nominal: A nominal scale is used to assign different subjects to certain categories and groups. These particular groups are coded with different numbers. Thereafter, the groups are assigned different code numbers which serve as simple and convenient category labels with no intrinsic value, other than to assign respondents to one or two non-overlapping or mutually exclusive categories (Sekaran and Bougie 2013:212).
  Nominal scales were used in the questionnaire to retrieve information in:
  - Section one: Biographical information based on the respondent;
  - Section two: Information based on the business;

- Section four: Sales;
- Section five: Debtor management;
- Section six: Stock/Inventory; and
- Section seven: Purchases.

- Ratio: A ratio scale has an absolute zero point. It measures the magnitude of the differences between points on the scale and also taps the proportions in the differences (Sekaran and Bougie 2013:215).

  Ratio scales were used in the questionnaire to retrieve information in:
  - Section four: What portion of sales is cash?; and
  - Section seven: What portion of purchases is bought on cash?

- Interval: An interval scale allows certain arithmetical operations to be performed on the collected data from the respondents. This assists to compute the means and the standard deviations of the responses on the variables. These rank the responses under categories such as strongly disagree to strongly agree to the statements in the questionnaire (Sekaran and Bougie 2013:214).

  Interval scales were used in a Likert form to retrieve information in:
  - Section two: Financial information;
  - Section three: Cash flow analysis;
  - Section five: Debtor management;
  - Section six: Stock/Inventory;
  - Section seven: Control of purchases; and
  - Section eight: Financing/borrowing costs.

4.6 Pilot Testing

A pilot test was a vital test carried out before the finalisation of the questionnaire. A sample of 8 respondents was randomly selected to participate in the pilot test. These respondents were totally independent from the sample of 69 businesses identified for the research study. They were firstly briefed about the purpose, aim and objectives of this study and also were made aware of the importance of answering the questionnaire as honestly as possible. They were also requested to indicate if the statements were easy to read, understand and follow. The respondents were asked to indicate any shortcomings, problems and ambiguity in the questionnaire. To ensure that the final questionnaire was error-free, all amendments were made before the data was collected for the study.

4.7 Pilot testing results

It was revealed from the pilot test that the questionnaire was simple to understand and answer. There were minor amendments made to the questionnaire since its formulation. These entailed:

- Changing the page layout from portrait to landscape to accommodate the Likert type tables in the questionnaire;
- Increasing the line spacing in the tables to enhance better reading; and
- Adding an opened-ended question so that respondents could elaborate on any other cash management problems which were not covered in the questionnaire.

4.8 Ethical Considerations

In compliance with the Institutional Research Ethics Committee (IREC) at the Durban University of Technology, all businesses which participated in the research study, including the pilot study, were requested to sign a consent letter (Appendix C). This was an agreement to participate in the study underlining the duty and responsibilities of the participant as well as the responsibilities of the researcher. It was only when consent was obtained from the businesses and agreement was made to participate in the research study, was the questionnaire administered to the businesses.

All the businesses in the sample were aware that all information released would remain confidential and all names would remain anonymous and will not be used for any other purpose other than this research study.

The letter of information (Appendix D) also indicated the ethical compliance regarding the research to the participant before filling out the questionnaire. The respondent was also briefed on the key elements of the study. All documents for this research study were approved by the IREC and complied with all regulations made by the committee.

4.9 Data collection

The questionnaire was answered by the small business owners or suitable representatives of the business owners. The recruitment process was conducted by the researcher who personally approached the business owners and explained the researcher's intentions with regards to conducting the study. The researcher also explained that the respondent's identity will not be exposed in this study. The DUT consent letter for the respondent's willingness to participate was completed once the candidate's responsibility was fully explained. On completion of the consent letter, the respondent was handed a questionnaire to complete. The retrieval of the completed questionnaire from the businesses was confidential. The researcher provided a self-addressed and prepaid envelope to the respondent in order to return the questionnaires to the researcher.

4.10 Validity

It is important to ensure that the data instrument designed to measure a particular concept is indeed accurately measuring the variable (Etchegaray 2010:134). The purpose of face validity is to ensure that the statements in the questionnaire measure the impacts of cash management practices of small business. To ensure face validity, a pilot study was carried out with a group of candidates. They were respondents who were not part of the selected sample. The questionnaire measured the desired conceptual domains after evaluation.

Content validity measures whether the survey comprises items that are appropriate to the domain of the measurement of interest (Etchegaray 2010:134).

It was necessary to include small retail businesses in the pilot study to determine if the data instrument measured all the vital elements of cash management of the conceptual domain. Therefore, content validity for this study was ensured.

4.11 Statistical methods/data analysis

There was a range of statistical analyses that were concluded on the retrieved data using the SPSS program, Version 21.0 statistical software.

The following statistical methods were used to analyse and represent the data retrieved from the questionnaire:

4.11.1 Factor analysis

Factor analysis is a statistical approach that can be used to analyse interrelationships among a large number of variables and to explain these variables in terms of their common underlying factors. The objective is to find a way of condensing the information contained in a number of original variables into a smaller set of factors with a minimum loss of information (Gupta and Gupta 2011:142).

A typical use of factor analysis is in survey research, where a researcher wishes to represent a number of statements or questions with a small number of hypothetical factors. Factor analysis can be used to establish whether the various statements do, in fact, measure the same thing. If so, they can then be combined to create a new variable such as a factor score variable that contains a score for each respondent on the factor (IBM Corporation 2011).

Factor analysis is a statistical technique whose main goal is data reduction. A typical use of factor analysis is in survey research, where a researcher wishes to represent a number of questions with a small number of hypothetical factors (IBM Corporation 2011).

Each section of the questionnaire was divided into finer components to show inter-correlations between the variables. A loading at 0.5 was effectively measured along the various components. These statistics were presented on a rotated component matrix.

Factor analysis was used in the study to determine whether the statements that comprised the sections actually measured what was intended. If it did, then the factors (statements) aligned one component (theme). Otherwise, splits would indicate variations in the theme (IBM Corporation 2011).

4.11.2 Reliability Statistics

The two most important aspects of precision are reliability and validity. Reliability is done to measure consistency of scoring in a section. Reliability is computed by taking several measurements on the same subjects. A reliability coefficient of 0.70 or higher is considered as “acceptable” (Gupta and Gupta 2011:66).

The reliability statistics were used in the study to provide a Cronbach’s alpha score on each item per section of the questionnaire.

The score is used to determine whether there is a degree of consistent scoring by the respondents (Gupta and Gupta 2011:66).

This entails that the study would be carried out in a manner which ensures internal consistency and efficient reliability which is free of error, as well as to ensure stability and consistency throughout the study (Sekaran and Bougie 2013:228).

The formation of the questionnaire made it simpler for the respondent to complete the questionnaire with ease. The researcher was present to assist with statements that were not understandable by the respondent. To ensure overall consistency, each questionnaire was standardised in chronological arrangement for every participant. The questionnaire was also pre-coded to ensure that there wasn’t an inconsistency when data was decoded and analysed.

4.11.3 Analysis of the sections

This section presents separately the findings from the respondents largely by descriptive statistics based on the demographic information of the study. All figures were represented by the frequency, with the percentage given.

Each section of the questionnaire which was answered by the respondent was analysed and represented using percentages of agreement as well as disagreement.

Levels of disagreement (negative statements) were collapsed to show a single category of disagreement. A similar procedure was followed for the levels of agreement (positive statements) due to the acceptable levels of reliability and consistency in the factor analysis.

4.11.3.1 Bar graphs

A bar graph consists of two or more categories along one axis and a series of bars, one for each category, along the other axis. The length of the bar represents the magnitude of the measure for each category (Cortinhas and Black 2012: 819).

Bar graphs were used to represent statistics throughout the questionnaire, from section 1 to section 8. They were used to indicate the various levels of agreement and disagreement in a more visual form, using different levels of bars, either horizontally or vertically. For example, a bar graph was used in this study to represent the position the respondent held in the business.

4.11.3.2 Pie charts and doughnut charts

Pie charts as well as doughnut charts are a circular depiction of data where the area of the whole circle represents 100% of the data. The subdivisions represent a percentage breakdown of the total data. These charts show magnitudes of the parts to the whole (Cortinhas and Black 2012: 30).

A pie chart was used in this study in section 5 of the questionnaire, to represent the payment period and the credit purchase defaulters. It was also used in section 7 to represent the cash purchases and creditor repayment period.

4.11.3.3 Cross tabulations

Data resulting from observations made on two different related categorical variables (bivariate) can be summarised using a table, known as a two-way frequency table or contingency table. The word contingency is used to determine whether there is an association between the variables (Willemse 2009:14-17).

Cross tabulations were used in the study to make a comparison between the respondents' highest qualification and the position they held in the business. A comparison was also made between the duration the respondents worked in the business compared to the position they held. In general, cross tabulations were used to determine the spread of the responses across two or more variables (such as respondents' duration worked in the business and the position they held in the business). Cross tabulations provide a more detailed breakdown of the characteristics of the variables and spread of the frequencies. For example, this was used in this study to represent a cross tabulation between the position the respondent held in the business and the duration the respondent worked in the business.

4.11.4 Hypotheses tests

4.11.4.1 p-value and statistical significance

The p-value, which is also referred to the observed significance level, is used to obtain a statistical conclusion in hypothesis-testing problems (Cortinhas and Black 2012: 322).

A p-value is generated from a test statistic. A significant result is indicated with "$p < 0.05$". These values are highlighted in yellow or with a *. The p-value defines the smallest value of alpha for which the null hypothesis can be rejected (Cortinhas and Black 2012: 322).

A p-value test was performed on all the statements in all eight sections of the questionnaire. All significant results were indicated with $p<0.05$ (Cortinhas and Black 2012: 322).

A p-value is used for making a decision in terms of accepting or rejecting a null-hypothesis by comparing it to the level of significance α (Cortinhas and Black 2012: 322).

For example, if the p-value of a test is .038, the null hypotheses cannot be rejected at $\alpha = .01$ because .038 is the smallest value alpha for which the null hypotheses can be rejected. However, the null hypotheses can be rejected for $\alpha = .05$ (Black 2011:302).

4.11.4.2 Chi square test

The chi square goodness of fit test is used to analyse probabilities of multinomial distribution trials along a single dimension. This was done to establish if the variance in the scoring patterns was significant. The null hypothesis states that there is no difference in the scoring patterns (levels of agreement and disagreement). The alternate hypothesis indicates that there is an association (Cortinhas and Black 2012: 687-688).

The p value tells one how likely something is to be true. If a chi square test shows a probability of .04, it means that there is a 96% (1-.04=.96) chance that the answers given by different groups in a banner are different.

A second chi square test was performed in this study to determine whether there was a statistically significant relationship between the various statements (rows vs. columns).

The Pearson's r-value gives an indication on the strength of the relationship between the statements. The Pearson's r-value was performed on all the statements in all eight sections of the questionnaire. The closer the values are to ±1, the stronger the relationship (both positive and negative). The closer the value is to 0, the weaker the relationship (Cortinhas and Black 2012: 641-643).

This was performed in the study to determine whether there was a statistically significant relationship between the various statements. This test was used to compare the statements in section 1 (biographical information) with the statements throughout section 2 – section 8 of the data instrument.

4.11.5 Spearman's rank-correlation coefficient

Spearman's rank-correlation coefficient is a correlation measure performed on the nominal and ordinal data (Cortinhas and Black 2012:749). This was presented and discussed as a technique to measure the amount or degree of association between two statements, e.g., cash management practices and business profitability; cash management practices and sustainability of the business; as well as the knowledge of cash management practices and the implementation of cash management practices in the business. These statements were chosen so that the objectives for the research study could be achieved (Cortinhas and Black 2012: 749). The results are found in the Appendix E**.**

Linear correlation is an associated degree of measure between two interval statements. The level and the direction of any relationship between the perception and expectation statements are, therefore, described by the correlation coefficient calculated by correlating the two means of the statements. Each statement in the questionnaire was compared to the other and all positive results indicated a directly proportional relationship between the variables (Cortinhas and Black 2012: 641-643).

Correlation coefficients were used in this study to determine whether there were any significant relationships between cash management practices and business profitability; cash management practices and sustainability of the business; as well as the knowledge of cash management practices and the implementation of cash management practices in the business.

Positive values indicate a directly proportional relationship between the statements and a negative value indicates an inverse relationship. All significant relationships are indicated by a * or **. A (*) correlation is significant at the 0.05 level (2-tailed). A (**) correlation is significant at the 0.01 level (2-tailed). The correlation on the output of results is independent of any of the biographical data.

4.11.6 Regression Analysis

Regression analysis is the process of constructing a mathematical model or function that can be used to predict or determine one variable by another variable or other variables. *Regression* is a statistical method for estimating the relationship between one or more predictor (independent) variables and a criterion (dependent) variable. Conventionally, regression studies have focused on the correlation between the predictors and the criterion variable. However, regression is a highly flexible approach to data analysis that can be used to compare differences on mean scores of the dependent variable from different categories of one or more independent variables. This application is equivalent to the statistical methods *analysis of variance* and *analysis of covariance.* An evaluator could use regression to estimate the effects of an intervention on an outcome variable, controlling for demographic variables of the program participants and control subjects (Black 2011:508).

Regression analysis was done to measure a relationship between profitability of the business and the various cash management practices.

4.12 Conclusion

The basis of this study was to determine the impact of cash management practices on the profitability and sustainability of small retail businesses. The data instrument was the questionnaire which was handed to the respondents together with a consent letter to acknowledge the respondents' willingness to participate in the study. In this chapter, the research design was selected, and the sample and sampling method were explained. The questionnaire design and administration were outlined. The questionnaire consisted of Likert type questioning, which was easy to understand and answer. The questionnaire was administered to small business owners and managers. The statistical software of the SPSS program was used to analyse and interpret the responses. To ensure validity and reliability, a pilot study was carried out before the questionnaire was finalised.

The ethics regulations and the pilot study process were explained. The validity, reliability and statistical methods were also discussed.

In the following chapter, the empirical results will be presented, interpreted and discussed.

CHAPTER FIVE

PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS

5.1 Introduction

The previous chapter addressed the sample, sampling method and the ethical considerations for this study. It also looked at the type and formation of the data instrument. It also explained the statistical analysis which will be presented in this chapter.

This chapter presents, interprets and discusses the results obtained from the questionnaires. The questionnaire was the data instrument tool used to collect data and was distributed to owners, managers and sales representatives of small retail businesses in the Tongaat area. Software called SPSS version 20.0 was used to analyse the data collected from the responses. The results are presented in the form of descriptive statistics in cross tabulations, and in the form of graphs and other figures for the quantitative data that was collected. Inferential techniques include the use of correlations and chi square test values which are interpreted using the p-values.

5.2 The sample

The sample consisted of the owners, managers and sales representatives involved in small retail businesses in the target area of Tongaat, KwaZulu-Natal. In total, 69 questionnaires were submitted to the respondents and 69 were returned resulting in a 100% rate of response.

5.3 Validity testing: Factor Analysis

Certain components divided into finer components. The factor analysis results are explained below in the rotated component matrix represented by Tables 5.1, 5.2, 5.3, 5.4, 5.5 and 5.6.

Table 5.1 Rotated component matrix of section 2

Section 2: Financial Information	**Factor loading**
	1
There are formal financial records kept	.917
We manage our cash flow easily in the business	.928
The business has being profitable over the past 3 months	.676

Table 5.2 Rotated component matrix of section 3

Section 3: Cash flow analysis/Forecasting	**Factor loading**
	1
It is important to keep records of cash management	.813
I have the time to manage the cash in the business.	.903
I know what a cash budget is	.878
I draw up cash budgets for the business	.889
I know exactly how much money is spent in the business	.852
I know how much money comes into the business	.892

Table 5.3 Rotated component matrix of section 5

Section 5: Debtor management/ sell on credit	**Factor loading**
	1
I give customers a discount if accounts are settled within a certain period	.786
I charge interest on the customers overdue account	.689
I know what impact bad debts have on cash flow.	.829
All my customers pay back their amounts due to us	.651

Table 5.4 Rotated component matrix of section 6

Section 6: Stock	**Factor loading**
	1
I sometimes run "out of stock" for some goods.	.898
I have some products that don't get sold	.898

Table 5.5 Rotated component matrix of section 7

Section 7: Purchases	**Factor loading**
	1
I always have money to pay for the products I buy	.781
I get a discount if I pay my accounts within a certain period.	.781

Tables 5.1, 5.2, 5.3, 5.4, and 5.5 indicate that, for section 2 to section 7, the variables that constituted the components loaded perfectly along one factor each. This finding indicated that the statements that constituted these components

perfectly measured the component. This implied that the component measured exactly what it was meant to measure. Moreover, the factors (statements) aligned one component (theme). Each section of the questionnaire was divided into finer components to show inter-correlations between the variables. A factor loading of 0.5 or above effectively measures the validity of the statements in the above tables.

Table 5.6 Rotated component matrix of section 8

Section 8: Financing/Borrowing costs	**Factor loading**	
	1	2
I have a bank account for my business	.761	.098
I deposit my earnings in the bank daily	.587	.429
I have taken a loan to finance my business	-.457	.794
I have cash to repay my instalments on the loan every month	.316	.839
I have sufficient money in the business without taking a loan.	.800	-.161

In Table 5.6, the components that comprise section 8 can be split along two sub-themes. These sub-themes are:

- The handling of internal funds in the business; and
- The handling of external funds of the business.

Items of the sections that loaded similarly imply measurement along a similar factor. An examination of the content of items loading at or above 0.5 (and using the higher or highest loading in instances where items cross-loaded at greater than this value) effectively measured what it was supposed to measure along the various components.

Component one, as indicated in Table 5.6, illustrates the handling of the businesses' internal funds. This component captures the cash management ability the business has without external funding. This is highlighted in yellow.

Component two illustrates the handling of external funding in the business. This captures the cash management ability of cash received from outside borrowing and financing institutions. This is actually bond related. Here as well, the respective components measured exactly what they were intended to measure. This is highlighted in blue.

5.4 Reliability Statistics

The two most important aspects of precision are reliability and validity. Reliability is computed by taking several measurements on the same subjects. A reliability coefficient of 0.70 or higher is considered as “acceptable” (Gupta and Gupta 2011:66).

Table 5.7 below reflects the Cronbach’s alpha score for all the items that constituted the questionnaire.

Table 5.7 Cronbach’s alpha scores

	Cronbach's Alpha	No. of Items
Section2	0.803	3 out of 3
Section3	0.933	6 out of 6
Section4	Not applicable	
Section5	0.726	4 out of 4
Section6	0.760	3 out of 3
Section7	0.360	2 out of 3
Section8	0.453	5 out of 6

All of the sections, except section 7 and 8, have high reliability scores (> 0.70). This indicates a high degree of acceptability due to the consistent scoring for these categories for this research. (Gupta and Gupta 2011:66).

Sections 7 and 8 have values that were lower than the standard. Some of the reasons for these low values were as follows:

- The number of variables in those sections were small;
- There was a mixing of the rating scales; and
- The construct was newly devised and had a limited scope for a pilot due to the population size.

Section 4 was a single statement and did not lend itself to reliability testing.

It is noteworthy that four out of the six measured constructs had a Cronbach Alpha coefficient of above 0.7.

5.5 Analysis of the sections

In order to achieve these findings, it was necessary to test the corresponding research hypothesis with the empirical data collected.

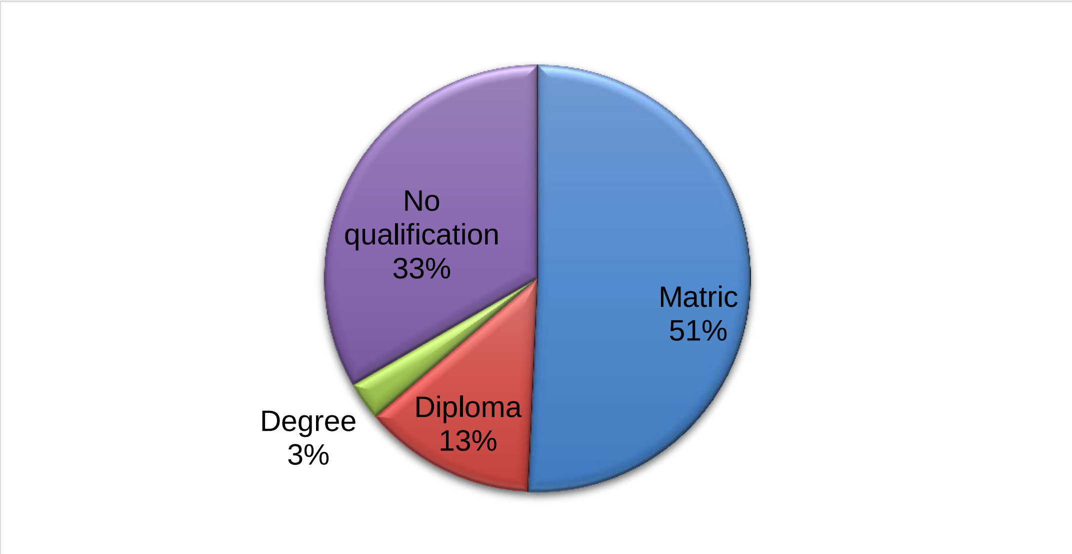
The results are first presented using summarised percentages for the variables that constitute each section. Results are then further analysed according to the importance of the statements.

5.5.1 Section 1 - Biographical data

This section presents a summary of the respondents' descriptive statistics. Descriptive statistics are techniques used to describe the attributes of the biographical information of the respondents based on the research (Gupta and Gupta 2011:31-44).

Figure 5.1illustrates the various qualifications obtained by the respondents.

Figure 5.1 Educational qualification



Just more than half of the respondents (51%) had a matric qualification. This finding indicated that these respondents were managing their businesses purely on the knowledge obtained at a school level. A further third (33%) had no formal qualifications. This means that business owners were running their businesses purely on judgement and experience. Approximately 16% had a post matric qualification, of which 3% were degrees. These findings concurred with Salazar (2012:93-94) who indicated that small business owners and employees were lacking a formal business education.

Table 5.8 illustrates the cross tabulation between the position held in the business compared to the respondents' qualification.

Table 5.8 Positions held vs. qualifications of the respondents

			Position in the business			Total
			Owner	Manager	Sales Representative	
Highest qualification	Matric	Count	14	18	3	35
		% of Total	20.3%	26.1%	4.3%	50.7 %
	Diploma	Count	7	1	1	9
		% of Total	10.1%	1.4%	1.4%	13.0 %
	Degree	Count	1	1	0	2
		% of Total	1.4%	1.4%	0.0%	2.9%
	No qualification	Count	11	5	7	23
		% of Total	15.9%	7.2%	10.1%	33.3 %
Total		Count	33	25	11	69
		% of Total	47.8%	36.2%	15.9%	100.0 %

Table 5.8 shows that nearly half of the respondents (47.8%) were owners, with a little more than a third (36.2%) holding the position as managers. Just 15.9% of the respondents were sales representatives. With more than 50% of the sample being inactive owners, it is evident that they were not actively involved in the day-to-day operations of their businesses.

Table 5.8 also indicates that predominantly, owners and managers had post-school qualifications. A total of 46.4% of owners and managers have a matric qualification. However, 15.9% of owners and 7.2% of managers were running a business without any qualification. It is noteworthy that approximately 67% of the respondents had a qualification of matric and above. From the statistics, it is apparent that the majority of respondents had adequate qualifications.

Janklow (2009:4) indicated that, according to the small business administration, there are approximately 40 000 small business closing each month. One of the five main reasons for closure was that many entrepreneurs did not have the skills of being managers as well as owners; they lack knowledge and, in many cases, experience. This finding did not concur for the sample chosen in this study. Some of the business owners and managers (23.1%) lack qualification which increased the risk of lacking knowledge in the specific business field.

Table 5.9 Cross tabulation - Work experience

			Position in the business			Total
			Owner	Manager	Sales Representative	
Duration worked in the business	0 - < 1 year	Count	10	7	8	25
		% of Total	14.5%	10.1%	11.6%	36.2 %
	1 - 2 years	Count	4	9	1	14
		% of Total	5.8%	13.0%	1.4%	20.3 %
	3 - 5 years	Count	4	5	1	10
		% of Total	5.8%	7.2%	1.4%	14.5 %
	At least 6 years	Count	15	4	1	20
		% of Total	21.7%	5.8%	1.4%	29.0 %
Total		Count	33	25	11	69
		% of Total	47.8%	36.2%	15.9%	100%

Table 5.9 reveals approximately 57% of the respondents worked in the business for less than 2 years. 29% of the businesses sustained their employees for at least 6 years. There was a large number (36.2%) of respondents who worked in the business for just less than a year. Therefore, their responses were restricted to their knowledge of the business in the little time that they were employed in the business. The majority of the respondents (56.3%) had less than 2 years working experience in the business; therefore, they were inexperienced in answering certain aspects of the data instrument.

Table 5.9 also indicates that 11.6% of sales representatives have been working for less than a year in the business. Just 4.2% of the respondents, who were sales representatives, have been working in the business for more than a year.

Table 5.9 indicates that there are newly formed businesses with a 20.3% of owners working in the business for less than two years. This table also reveals that there was a total of fifteen owners who ran their businesses for at least six years.

Table 5.10 reveals the extent of the respondents' knowledge of cash management practices.

Table 5.10 Respondents' knowledge related to cash management practices

	Frequency	Percentage
Yes	46	66.7
No	23	33.3
Total	69	100.0

Two-thirds (66.7%) indicated that they had the required knowledge to manage their cash. Since 84% of the respondents were either owners or managers, it would be expected that they have the required knowledge regarding cash management practices. A total of 33.3% indicated that they had no knowledge of cash management practices. It is quite alarming that 33.3% of these respondents are crucial role players in a business without any knowledge of managing cash.

5.5.2 Section 2 – Information based on the business

This section deals with the basic information related to the business. This section also deals with the profitability and financial records of the business.

Table 5.11 identifies the duration that businesses have been operating and the persons responsible for the accounting records.

Table 5.11 Responsibility of accounting records

			Duration business is operating				Total
			0 - < 1 year	1 - 2 years	3 - 5 years	At least 6 years	
Who handles the accounting records?	Accountant	Count	0	1	2	13	16
		% of Total	0.0%	1.4%	2.9%	18.8%	23.2%
	Owner/ Manager	Count	14	5	7	13	39
		% of Total	20.3%	7.2%	10.1%	18.8%	56.5%
	Other	Count	4	1	2	2	9
		% of Total	5.8%	1.4%	2.9%	2.9%	13.0%
	Nobody handles it	Count	1	2	2	0	5
		% of Total	1.4%	2.9%	2.9%	0.0%	7.2%
Total		Count	19	9	13	28	69
		% of Total	**27.5%**	**13.0%**	**18.8%**	**40.6%**	**100.0 %**

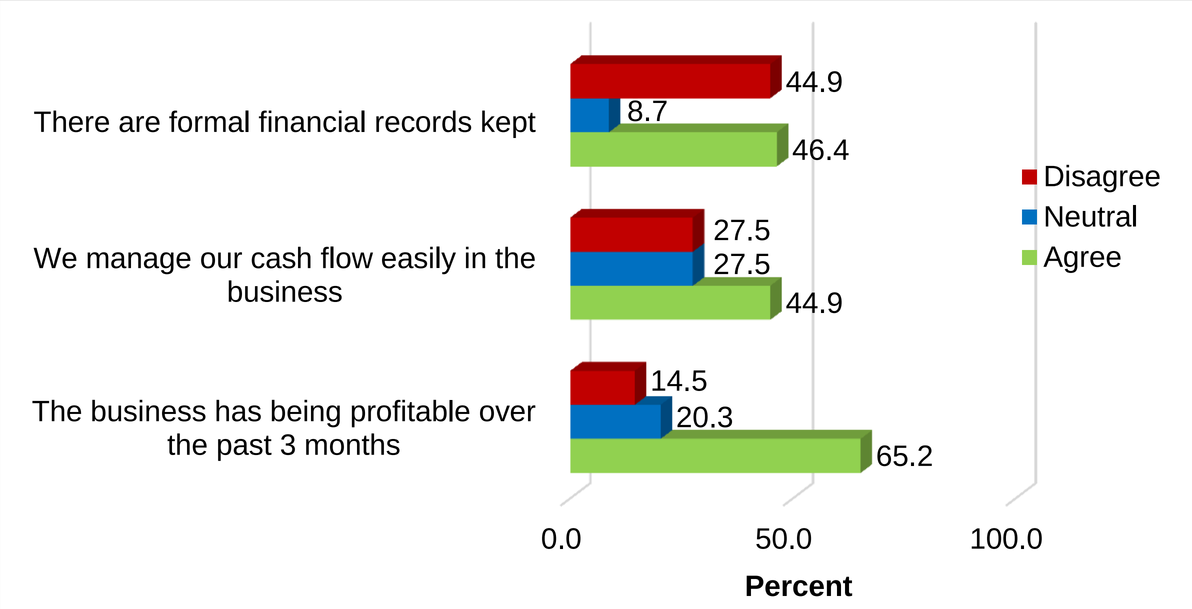
Table 5.11 shows that the longer the business has been operating, the more likely the records are being done by an accountant (18.8% for when the business is operating for at least 6 years) or the owner or manager (18.8% for when the business is operating for at least 6 years). A total of 5.8% of the newly opened businesses get assistance from a family member or friend to assist with the accounting records. 20.3% of newly opened businesses tend to have the owner or manager doing most of the record keeping. It was concerning to note that 7.2% of the businesses indicated that nobody handles the accounting records in the businesses.

Foster (2012) indicated that businesses with less than five employees were hit the hardest. 57% of those small businesses failed in a year. This finding, however, did not concur with the statistics revealed as 72.4% of the businesses, who participated in the study, have been in operation for more than a year.

The findings of the study also concurred with Salazar (2012:93-94) who stated that some small businesses do not have specialised staff to assist with financial records which were managed by the owner. This has become an added responsibility of the owners as 56.5% of businesses owners and managers handle the accounting records.

Figure 5.2 is a summary regarding financial information of the business.

Figure 5.2 Financial information



There were as many respondents who indicated that financial records were kept as there were those who did not (44.9% and 46.4%). Almost half of the respondents did not keep formal financial records in the business. This finding indicated that there was a perception of unimportance regarding cash management practices in these businesses. If small businesses saw a need to keep financial records, they would have kept them. A total of 8.7% of the respondents were neutral.

A little less than half of the respondents (44.9%) indicated that they were able to manage their cash flow. Approximately a quarter (27.5%) were unable to manage their cash flow. It is probable that 27.5% of businesses are not managing their cash flow easily since many businesses (44.9%) don't keep formal records.

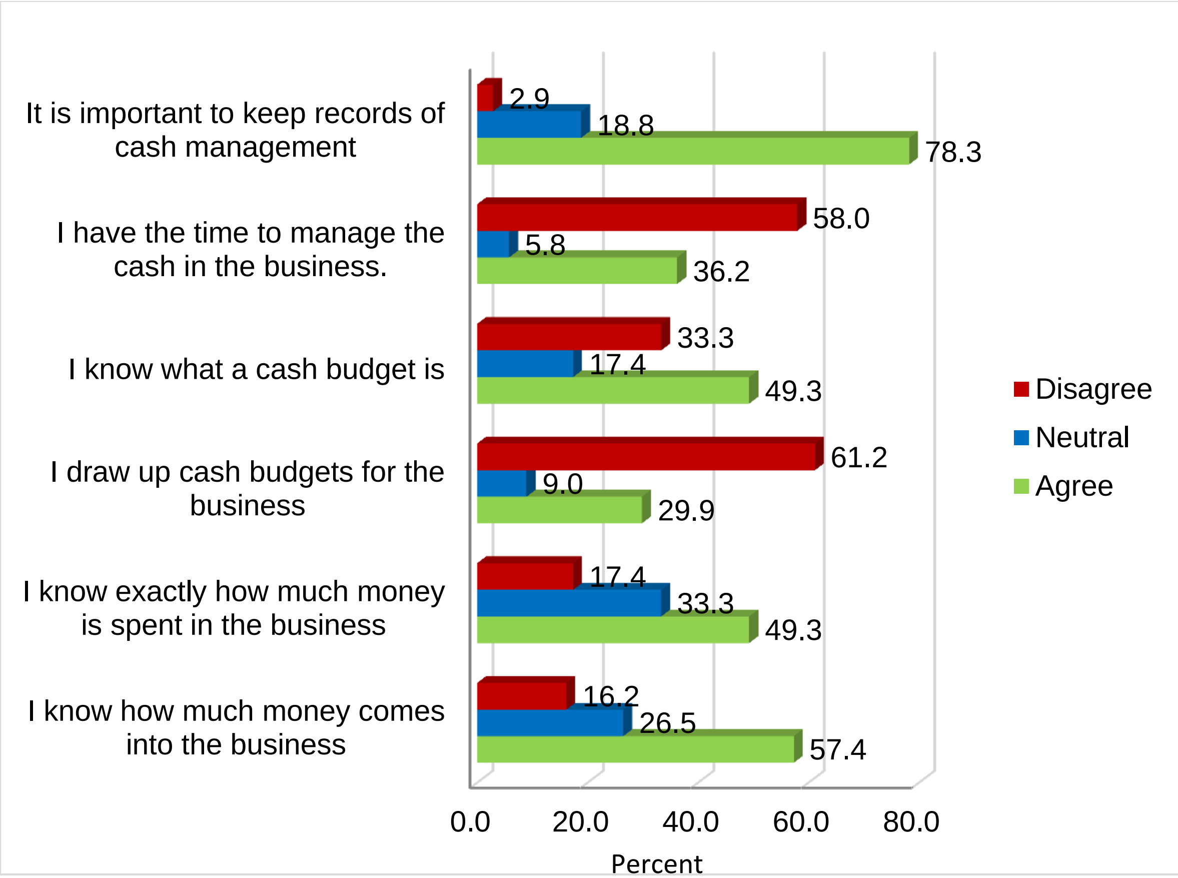
Approximately two-thirds (65.2%) of the respondents indicated that the operation had been profitable in the previous quarter. It was evident that profitability was not a concern for these businesses. Only 14.5% of the businesses indicated that they were not making a profit in the past three months. However, with 44.9% of businesses not keeping proper financial records in the business, it is unlikely that these businesses could accurately indicate that they were generating a profit for the quarter in question.

5.5.3 Section 3 – Cash flow analysis

This section deals with components of a cash flow analysis.

Figure 5.3 is a summary of the scoring patterns regarding cash management practices of the respondents.

Figure 5.3 Components measuring time, knowledge, implementation and importance of cash management



In Figure 5.3, four statements show greater levels of agreement than disagreement. The strongest of these statements was the realisation that it was important to keep records of cash management (78.3%). Just 2.9% of the respondents disagreed with the statement. 18.8% were neutral. These findings show a level of disagreement similar to Kunz and Dow Iii (2010:76-79), since almost 80% of these businesses saw keeping cash management records as important to them. The businesses have acknowledged that it was vital to keep track of cash management records but 58% of businesses have indicated that there was no time to handle these records. However, 36.2% did have time to manage their cash and 5.8% were neutral.

These results concurred with Visa Inc. (2006) who conducted a cash management survey which indicated that a common challenge for small businesses was the labour intensive administrative work that cash management entails. Salazar (2012:93-94) also indicated that it was time consuming and challenging to develop financial strategies and budgets.

A total of 33.3% of businesses indicated that they did not have any knowledge of a cash budget. This finding was alarming as a cash budget was a vital statement that businesses should implement and draw up. 17.4% were neutral on this statement and 49.3% agreed that they had knowledge of a cash budget. Once again, the respondents understood the importance of keeping cash management records and they indicated they had the knowledge to implement the practices but they still chose not to implement the practice of budgeting in the business.

Barry Worth, as cited by Perry (2007), indicated that many small businesses did not know what cash budgets were. Therefore, they did not do cash forecasting to know when they will have some of the peaks and valleys. The research study by Salazar (2012:93-94) also concluded that many business owners and managers stipulated that they had no knowledge of how to implement budgets, and that day-to-day cash difficulties overpower the manager's ability to make structured decisions. The highest priority was to eliminate cash management difficulties to increase the cash inflow of the business.

The majority of respondents (61.2%) indicated that they did not draw up cash budgets. A total of 29.9% of the respondents drew up cash budgets compared to those that did not. It is probable that many of the respondents don't have the knowledge/skills required in the drawing up cash budgets. This finding was in agreement with Mong (2011:33-34) who indicated that only 28% of small businesses drew up cash budgets. Similarly, the statistics revealed by Grablowsky (1978), as cited by Mong (2012:33-34) indicated that just 30% of small businesses prepared a cash budget.

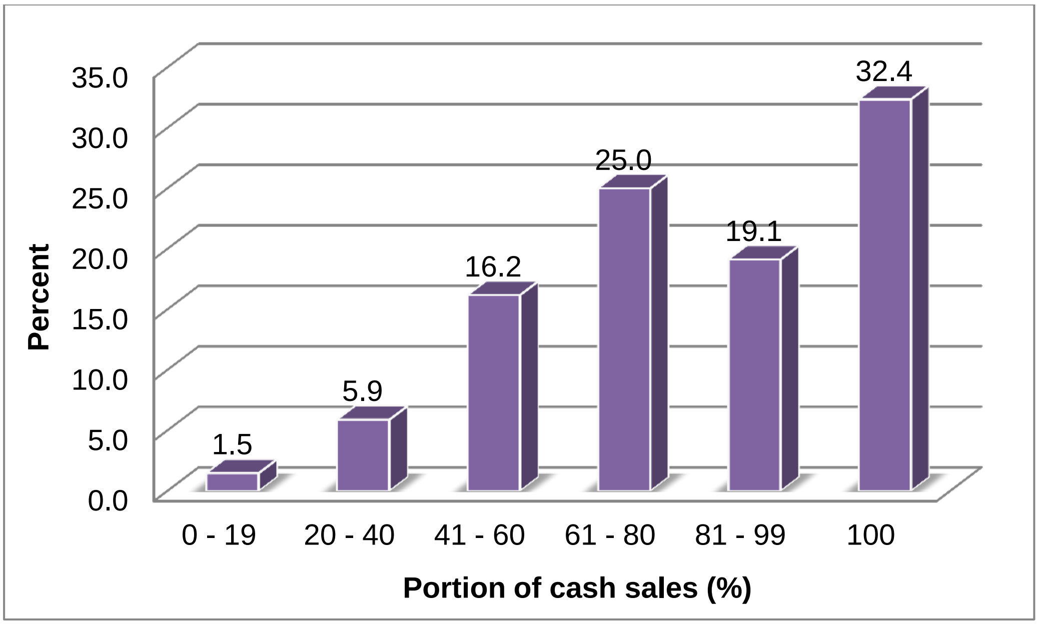
Almost half of the businesses (49.3%) were aware of the actual business expenses. This finding is very alarming because there appears to be no control over the cash outflow from the business. 33.3% of the respondents were neutral on this statement and 17.4% did not know how to calculate the amount of their outflow. A total of 57.4% of the respondents indicated that there were aware of the cash inflow into the business and 16.2% of businesses did not know how much money was flowing into the business.

Nick (2009:3) revealed that three quarters of businesses did not plan their expected cash inflow and cash outflow. This directly affects the potential survival of businesses. He also noted that those businesses who budgeted for the future at least once a year had only a 36% chance of survival. Those that budgeted once a month for the future had increased their chance of survival to 80%. This finding shows the importance of a cash budget, yet the majority of small retail businesses in the Tongaat area choose not to draw up these statements in spite of being aware of the importance of cash management.

5.5.4 Section 4 – Sales

This section describes the portion of the sales that is reflected as cash. The result is shown in Figure 5.4 below.

Figure 5.4 Percentages of sales in cash



Nearly a third of the respondents (32.4%) indicated that all of their sales (100%) were cash sales. These businesses choose not to sell their products on credit, thus increasing their cash inflow. A little less than a fifth (19.1%) indicated that 81% to 99% of their sales were cash, showing that a minority percentage of their sales were on credit. A quarter of businesses sold 61%–80% of their products on credit. The respondents may be shying away from granting credit because they don't have the workforce capacity to maintain a debtor's control account.

However, only 1.5% of the businesses sold the majority of products on credit. Besides the 32.4% of all cash sales businesses, the rest of the respondents were experiencing delayed receipts from sales which slowed down the cash inflow. This finding doesn't concur with Stewart (2012:11-12) who indicated that with the tough economic times, it has become more pertinent to sell products on credit since consumers don't have the cash to buy anymore.

5.5.5 Section 5 – Debtor management / sell on credit

This section deals with the portion of credit sales as well as how the customers pay back their overdue accounts.

Figure 5.5 illustrates the time period that customers take to pay their accounts.

Figure 5.5 Debtor payment period

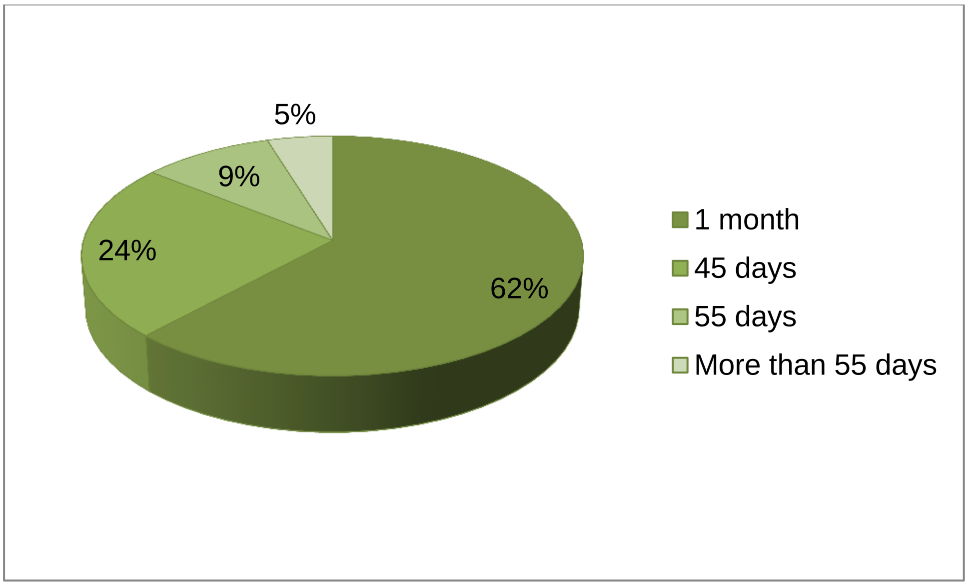
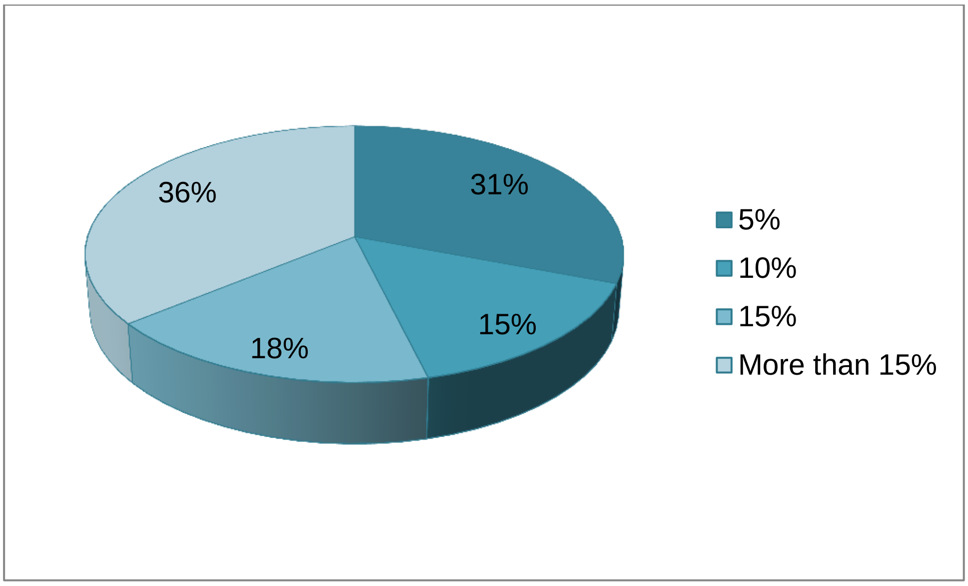


Figure 5.5 shows that approximately 62% of the respondents indicated that most customers pay within a month. The remainder (43.3%) indicated that customers took between 45 and 55 days to pay their instalments. There were 4.8% of businesses that indicated that customers take more than 55 days to pay back their accounts. This finding implied that these businesses go through a long period of waiting for the cash to flow into the business. This wait for the customers to pay back their accounts would impact on the availability of cash that the businesses require to meet their expenses and pay their accounts and expenses incurred for the month. Small firms: Cashflow is king (2011) indicated that debtors' collection periods were averaging 60 days, i.e., there are 60 days delay for cash flowing into the business from the transaction date.

Schizas (2012) also agreed with this finding by indicating that many small businesses wait an average of two months to get paid by debtors, and many cannot survive the financial problems caused by overdue payments. This delay will affect the availability of cash for the expected payments.

Figure 5.6 shows the default percentage rate of customers who buy on credit.

Figure 5.6 Credit purchases defaulters

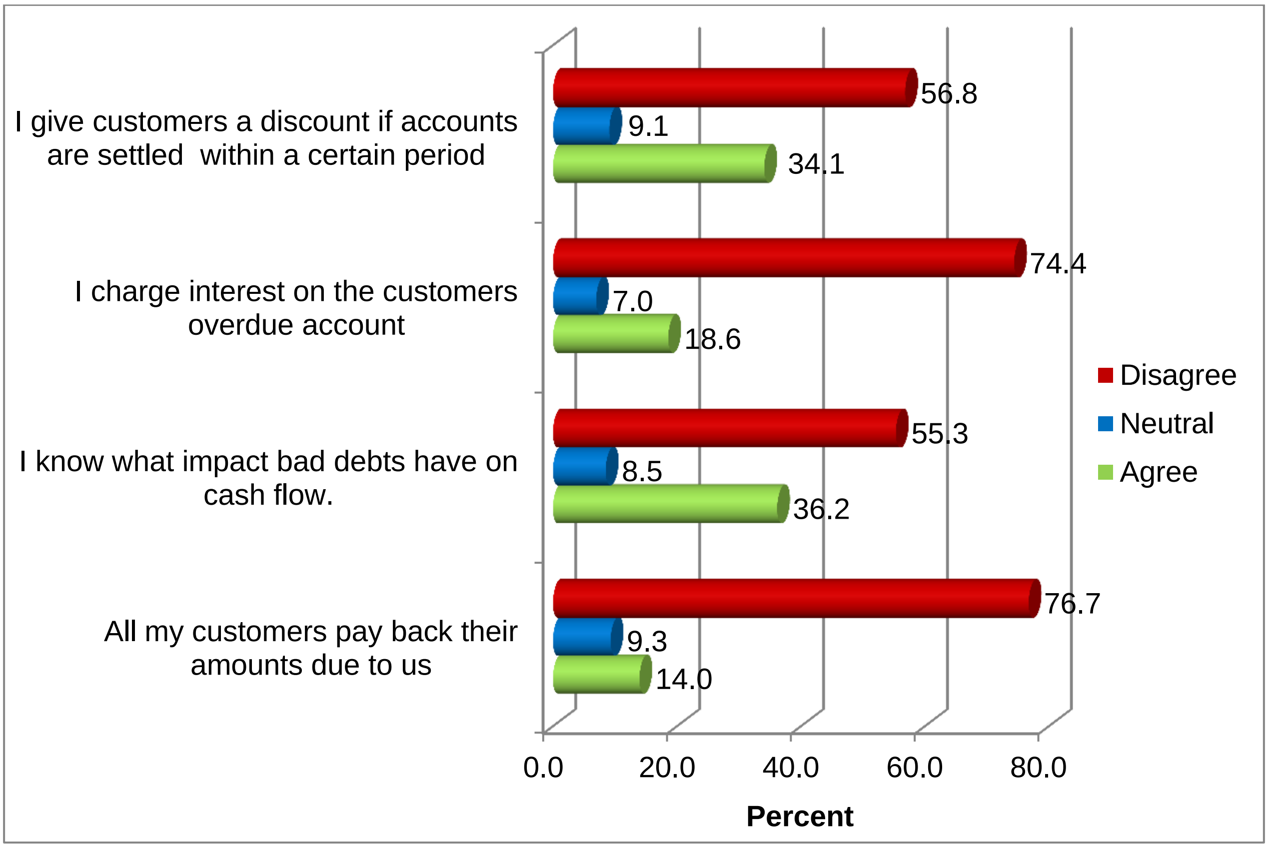


According to Figure 5.6, more than a third of the respondents (36%) indicated that more than 15% of their customers default on their payments. 18% of respondents indicated that 15% of their customers don't pay back their accounts. 15% indicated that at least 10% of the respondents do not pay back their amounts owing. These were products which were sold on credit, where there was no cash inflow to the business from these sales. These are bad debts that the business incurs. Bad debts are a loss to the business impacting negatively on the cash inflow to the business.

The result of a cash management survey done by Visa Inc. (2006) indicated that 53% of small businesses found that the most challenging cash management component was receiving payments from customers. According to Schizas (2012), small businesses waited an average of two months to get paid by debtors, and many could not survive the financial problems caused by overdue payments.

Figure 5.7 is a summary of the responses regarding debtor management.

Figure 5.7 Debtor management



In Figure 5.7, the general trend related to levels of disagreement with each of the statements. Two statements have higher levels of disagreement (75%), whilst the other two statements were at lower levels of disagreement (56%). 56.8% of the respondents did not encourage quick payments from customers by offering them a discount. This was the reason why the majority of customers took more than a month to pay back their overdue accounts. 34.1% of the respondents allowed a discount to customers and 9.1% were neutral. 74.4% of the businesses did not charge their customers an interest on the outstanding payments due. The customers, therefore, did not see the urgency in paying their accounts promptly.

Many of the respondents emphasised that if they had charged interest on an overdue account, they would lose many of their regular customers. They fear that the extra charge will discourage customers to support their business. Just 18.6% of the businesses charged interest on outstanding accounts and 7% indicated that they were neutral on the statement.

A staggering 76.7% of businesses acknowledge that they have customers who won't pay back their outstanding payments. However, 55.3% were not aware of how this bad debt affects their cash flow of the business. This was in line with the high number of businesses which acknowledged that there were many customers who did not pay their accounts. This finding revealed that there was a dire need to impart knowledge in this area to sustain businesses.

According Blake (2010:18), the revenues that small businesses wrote off continues to grow because of customers who cannot pay back their accounts. From this finding, it was evident that the bad debts were not only continuing to increase in the European, North American and South of Wales small businesses but also affected the small retail businesses in the Tongaat area.

A total of 36.2% businesses obtain the knowledge of understanding how bad debts affect a business. 8.5% were neutral. Only 14% acknowledged that they receive payments from all their customers. 9.3% of the respondents were neutral.

The poor knowledge of cash management practices was evident from the responses to these statements.

5.5.6 Section 6 – Stock/Inventory

This section investigates the manner in which the businesses purchase their stock or inventory for sale.

Figure 5.8 represents the portion of the stock that respondents bought for cash.

Figure 5.8 Stock bought for cash

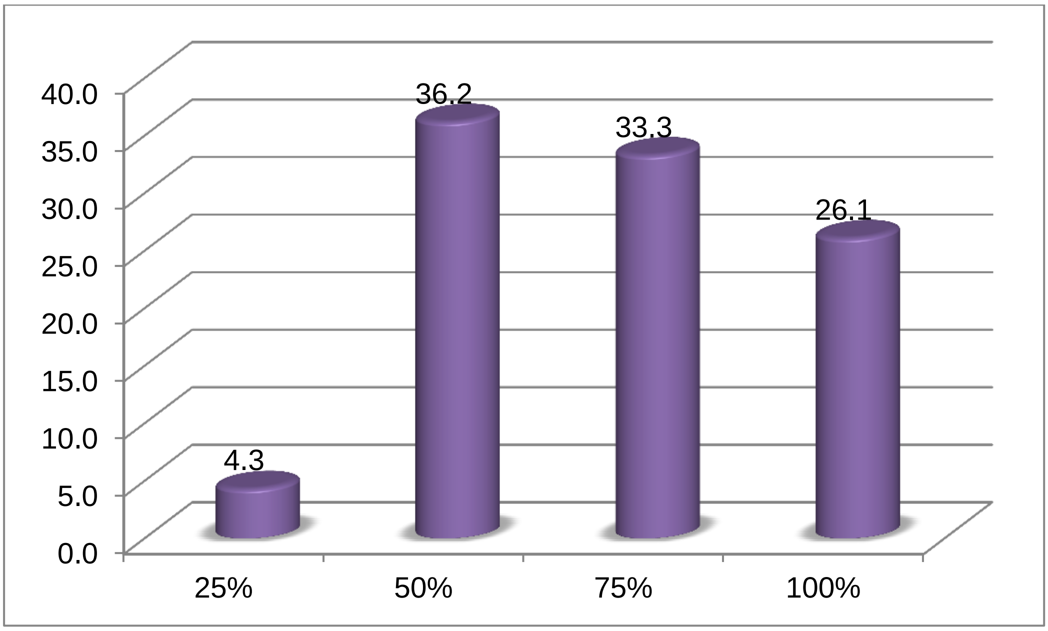
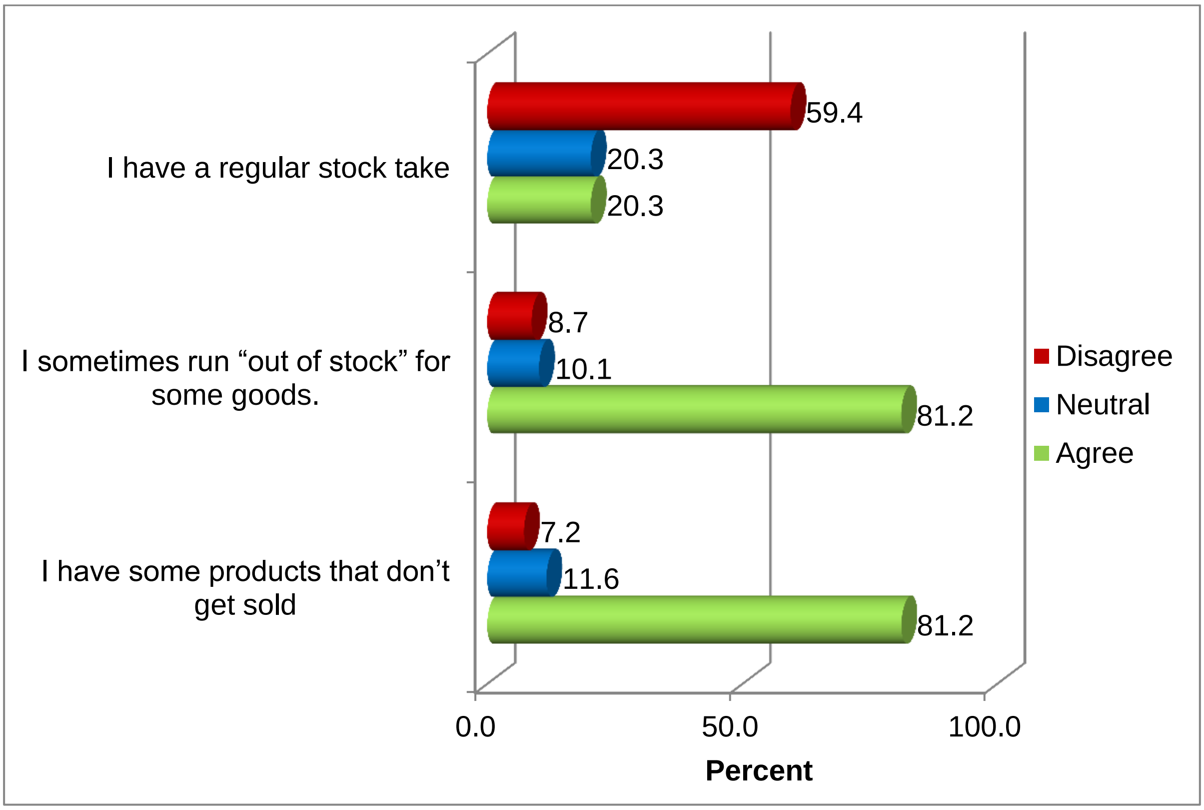


Figure 5.8 shows that less than 5% of the respondents bought a quarter of their stock for cash. 36.2% of the respondents bought at least half of the stock for cash, whereas 26.1% of businesses purchased their entire inventory for cash. The majority of businesses (73.9%) purchased on credit. The slow repayments by debtors slow down the cash inflow, which impacted directly on the purchases of the businesses.

With regards to stock, Figure 5.9 summarises the respondents' levels of agreement with the statements.

Figure 5.9 Respondents’ opinion regarding inventory



According to Figure 5.9, nearly 60% of the respondents did not do a regular stock take. 20.3% of the respondents did have a stock take and 20.3% were neutral on the statement. These results were quite alarming as a stock take is an important measure to apply to control how much inventory was left and when to purchase more inventory.

This finding concurred with a study by Marketwire (2013), who revealed that 73% of small businesses have no inventory control system. A further 32% were simply using a pen and paper system to briefly keep track of inventory or no inventory controls were in place at all.

81.2% indicated that some line items move more quickly than others and are sometimes out of stock, whilst a similar number of respondents indicated that certain products did not get sold easily. Consequently, if a regular stock take had been done, it could avoid the “out of stock” items as this would impact negatively on revenue and profit generation of their businesses. The re-order levels could be determined and more stock would be bought before the current stock was depleted.

These fast selling stocks are the products which were in demand, but, by not having stock, the businesses lose customers.

81.2% of the businesses indicated that they were stocking certain products which don't get sold. These products were lying on the shelf for a period of time resulting in the product reaching its sell by date or the product becoming damaged and inferior to sell. Just 8.7% of the businesses had sufficient stock and 10.1% of the respondents were neutral. 7.2% of the businesses indicated that they did not have products which sit on the shelf and that all their products do get sold. 11.6%, however, were neutral.

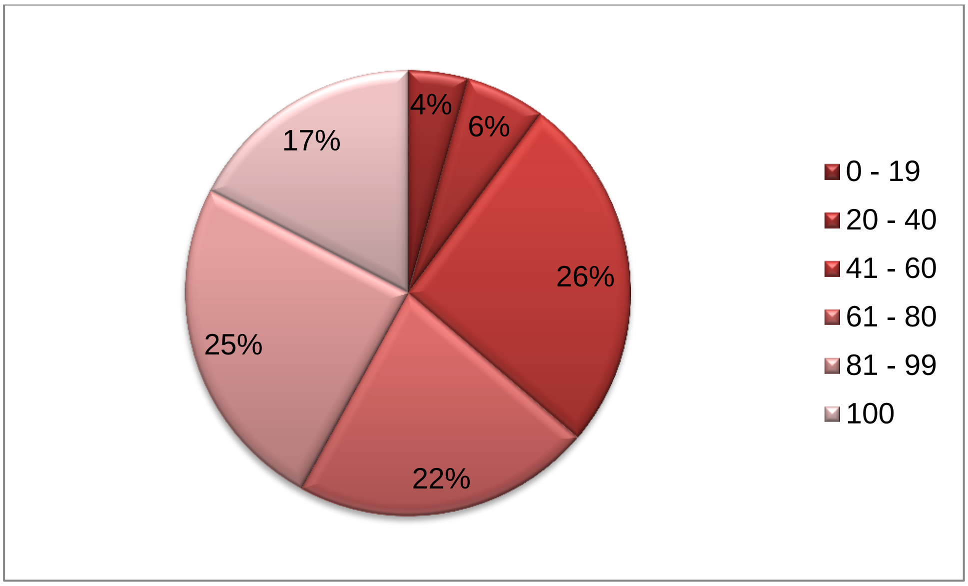
This finding concurred with Cohen (2003:1) who revealed that every retail business owner encounters the same difficulty. It was either that they have purchased too much inventory that doesn't get sold or they run out of stock of items that were in demand. Once a customer was dissatisfied with the quality or availability of products at the business, the business may lose that customer.

5.5.7 Section 7 – Purchases

This section investigates the manner in which the respondents handle other purchases that are required in the business.

Figure 5.10 illustrates the portion of purchases bought for cash.

Figure 5.10 Cash purchase



According to Figure 5.10, 17% of the businesses acknowledge that they pay cash for all their purchases whilst 83% purchase on credit. 26% of businesses purchase between 41–60% of their purchases on credit. The debtor repayment period averaged more than a month could impact on the large amount of credit purchases.

Figure 5.11 illustrates the creditors' repayment period.

Figure 5.11 Creditors' repayment period

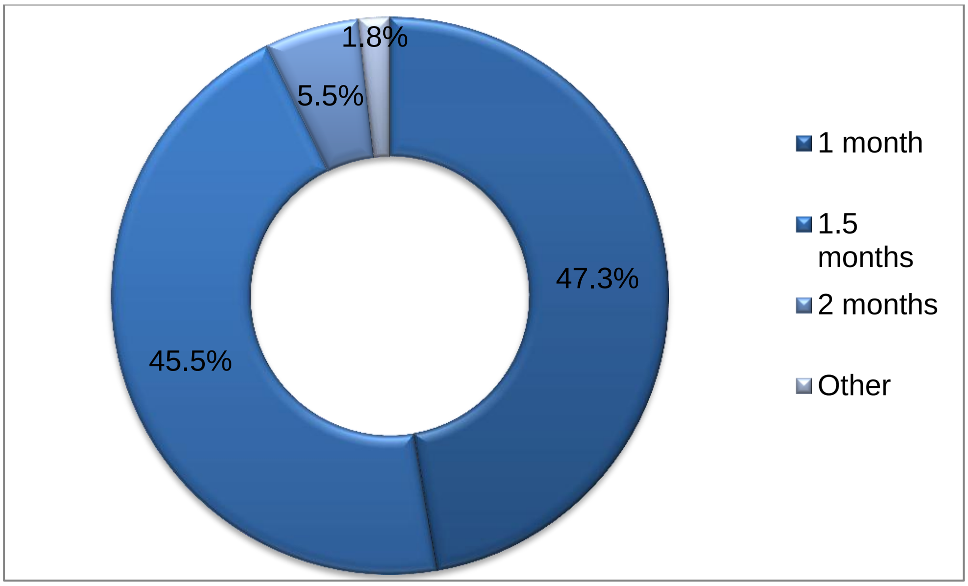


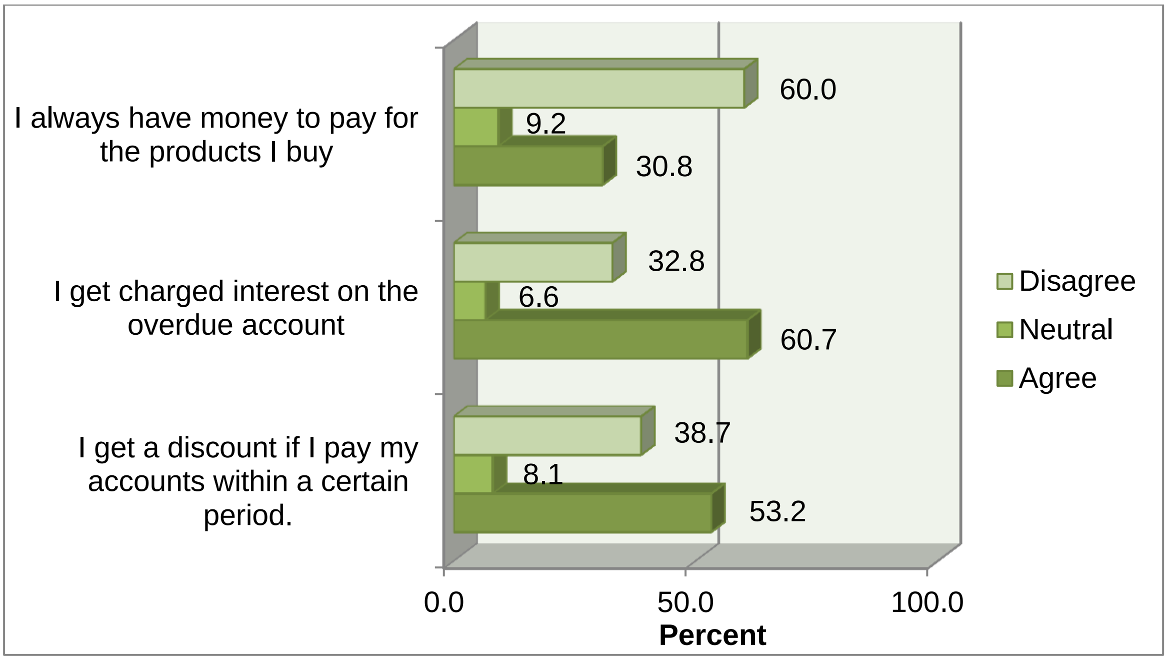
Figure 5.11 show that almost 93% of the respondents repay their creditors within 55 days. However, 45.5% of them repay their creditors in 1.5 months. This repayment period indicates that the cash inflow to the business was very slow. If businesses had cash available, they would pay off their creditors and save on the interest charged. The longer the respondents take to pay off their accounts, the more interest they pay. This is an added expense for the business and impacts negatively on their profitability.

A minor 7.3% prolong their amounts owing to more than 2 months. This long credit repayment period would restrict these businesses from buying more of their inventory from that specific supplier. This restricts the cash availability in the business to timeously settle debts with creditors.

Angus (2011) stated that one in two small business owners indicated that payments to suppliers were a major problem. Two-thirds of small businesses in Australia took longer than 30 days to pay their bills. The study revealed that businesses took an average of 53.4 days to pay their bills (Small businesses struggling so creditors have to wait longer 2011:27).

Figure 5.12 is a summary regarding control of purchases.

Figure 5.12   Control of purchases



A total of 30.8% of the respondents had sufficient reserves to pay for products purchased. 60% of these businesses indicate that they don’t always have money to pay for products they buy. 9.2% of the respondents were neutral. With the majority of businesses not having cash available to purchase, it was evident that they were facing cash flow difficulties. These findings support the very large percentage of credit sales (83%).

This finding concurred with Flynn (2009:22) who referred to the American Express Open Small Business Monitor’s survey on business owners. The results indicated that more than 60% of business owners showed concern about not having cash available to pay for their obligations. Another study also revealed that less than 44%

of the respondents actually implement credit control procedures (Small businesses struggling so creditors have to wait longer 2011:27).

Consequently, these businesses have no choice but to purchase their products on credit. Credit purchases were accompanied by interest charged on accounts owing. Just 32.8% of the respondents indicated that they were not charged interest on their accounts with creditors. 60.7% acknowledged that they incur this additional charge to their purchase amount.

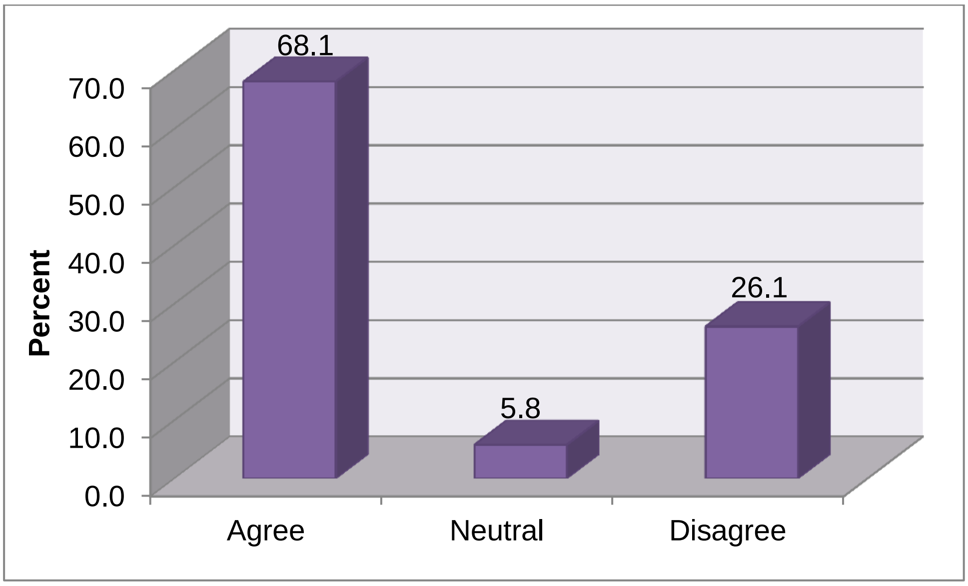
53.2% acknowledged that they did have an incentive of receiving a discount on their amounts owing if their accounts were settled within a specific period. 38.7% of the respondents did not receive this incentive. 8.1% were neutral. The lack of cash available to pay off accounts timeously restricts businesses from taking full advantage of this offer given to them by their creditors.

5.5.8 Section 8 – Financing/Borrowing costs

This section deals with the financing accessibility available to the respondents.

Figure 5.13 indicates whether respondents had a bank account (for their business).

Figure 5.13 Business bank accounts



More than two-thirds (68.1%) indicated that they did have a bank account. 26.1% of businesses operate without a bank account to manage their money and keep track of their inflow and outflow of cash. 26.1% of respondents do not obtain a bank account. The 5.8% that were neutral on the question did not know if the business had a bank account. A bank account is a pre-requisite for formal recordkeeping which is a sound cash management practice. The 1 out of 4 businesses (26.1%) that don't keep bank accounts could experience cash management difficulties.

Those that did have a bank account responded to the statements indicated in Figure 5.14.

Figure 5.14 Bank related statements

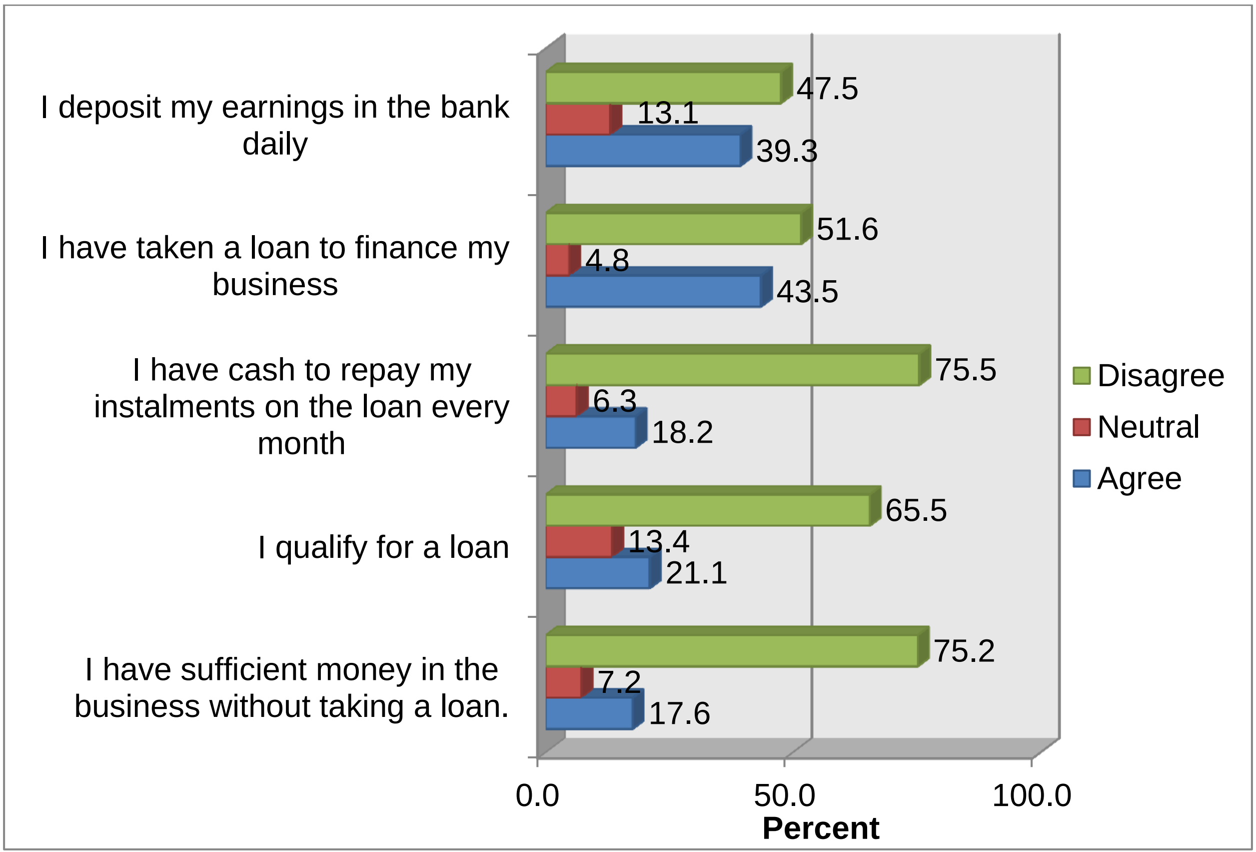


Figure 5.14 shows that there were higher levels of disagreement with each statement than there were for agreement.

Nearly half (47.5%) of the respondents acknowledged that they do not deposit their earnings into their bank accounts on a daily basis. By not depositing often, these businesses were keeping large amounts of cash on the business premises. Such a practice is unsafe. This is also a poor way to track cash inflow as cash keeps accumulating daily without proper records. 39.3% businesses agreed that they deposit earnings daily. 13.1% were neutral.

43.5% of businesses have taken a loan in order to finance their business and their operations. More than half of the businesses (51.6%) were operating without a loan. 4.8% of the respondents were neutral.

Of those respondents who obtained a loan or borrowed money for the business, just 18.2% of them had cash available to repay their monthly instalments on the loan. 75.5% indicated there weren't sufficient reserves available to repay the borrowed money. 6.3% were neutral.

65.5% of the respondents indicated that they did not qualify for obtaining a loan. It is either that they had reached their credit limit or that their incomes were too low to obtain a good credit history. Just 21.1% of the respondents indicated that they did qualify for a loan. 13.4% of businesses were neutral.

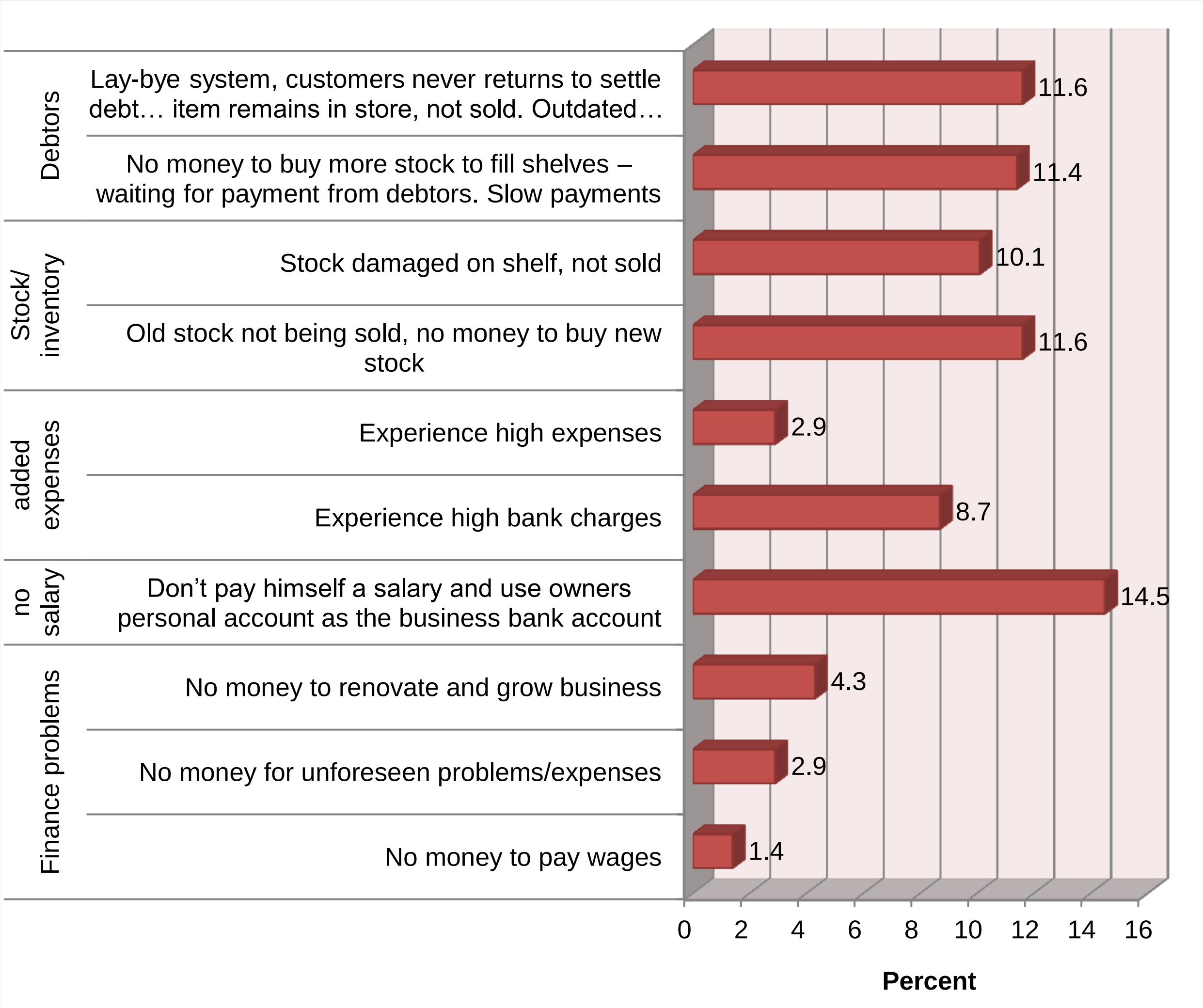
This finding concurred with Janklow (2009:4) who indicated that there are two reasons for business failure. Firstly, many small newly formed businesses don't qualify for loans. Consequently, they have low cash reserves. They struggle financially without the assistance from a lender and were unable to enhance and expand the business. Secondly, businesses did not have sufficient capital to start up the business and sustain the business through any unforeseen crisis.

The study also concurred with Borgia, Deanna and Shank (2003), who revealed that businesses with a short operating history face challenges in obtaining bank finance. The authors indicated that a total of 64% of businesses acknowledged that they had approached three or more businesses for finance. Of those businesses, 54% of businesses have being rejected for finance. Just a minor 9% have indicated that they were not turned down for bank finance.

75.2% of the businesses admit that there isn't sufficient money available to run their business without obtaining or having access to external funding such as a loan. Just 17.6% of the respondents agreed that they were not experiencing cash difficulties. 7.2% of the businesses were neutral.

Figure 5.15 is a summary of the respondents' general comments based on cash management.

Figure 5.15 General comments



According to Figure 5.15, one of the concerns of small businesses was that they sell products using the lay-by system.

11.6% of customers never return to settle the debt on the lay-by item. Some customers take several months to pay the remaining instalment on the purchase price. There were customers who, after a period of time, cancel the sale and have the deposit refunded to them. These findings concurred with Sapong (2010), who indicated that a major disadvantage with this system was that there were no finance charges, interest charged or late payment fees. Therefore, cash slowly flows into the business, sometimes months after the sale.

This does not work in favour of small businesses as these products would have to be redisplayed on the shelf with a chance that it may never be sold due to the change in demand after a period of time.

11.4% of respondents indicated that with the slow payments of outstanding debts from debtors, businesses were operating with minimal cash reserves to purchase more stock. By not stocking up the shelves, these businesses encountered unhappy customers that left the store without the requested product. Once customers were dissatisfied, they were not keen on shopping at that store in future. Thus, many of the small businesses lost valuable customers.

A total of 21.7% businesses encounter unsold inventory that either becomes obsolete, damaged or old. A lot of the cash reserves were invested in this inventory which now has to be disposed. This is an added unexpected expense that businesses encounter.

2.9% and 8.7% of the respondents, respectively, indicated they cannot afford the high expenses and high bank charges incurred in the businesses.

14.5% of the business owners indicated that they do not pay themselves a salary at the end of the month and use personal funds for business operations.

4.3% of the businesses would like to improve the current layout and condition of the business but indicated that there is no surplus cash to do so.

Some small businesses also indicated that there was no cash available to pay their employees a wage. Therefore, they compensate their employees by giving them inventory from the business instead of cash wages. This is not acceptable as each individual has expenses to be paid and obligations to meet.

5.6 Hypothesis Testing

A significant result is indicated with "$p < 0.05$". These values in Table 4.12 are indicated with a (*). The insignificant values with “$p > 0.05$” are highlighted in yellow. The p-value defines the smallest value of alpha for which the null hypothesis can be rejected.

The results are presented in Table 5.12.

Table 5.12 Hypothesis testing

	Chi-Square	df	Asymp. Sig.
Highest qualification	37.609	3	.000*
Position in the business	10.783	2	.005*
Duration worked in the business	7.58	3	.056*
Do you have basic cash management knowledge?	7.667	1	.006*
Duration business is operating	11.87	3	.008*
Who handles the accounting records?	40.159	3	.000*
There are formal financial records kept	9.043	4	.060
We manage our cash flow easily in the business	6.87	4	.143
The business has being profitable over the past 3 months	35.855	4	.000*
It is important to keep records of cash management	25.551	3	.000*
I have the time to manage the cash in the business.	42.957	4	.000*
I know what a cash budget is	13.536	4	.009*
I draw up cash budgets for the business	48.448	4	.000*
I know exactly how much money is spent in the business	17.014	4	.002*
I know how much money comes into the business	16.559	4	.002*
What portion (%) of your sales is cash?	27.294	5	.000*
How long do your customers take to pay you?	33.81	3	.000*
What percentage (on average) of your debtors does not pay back their amounts owing?	4.59	3	.204

I give customers a discount if accounts are settled within a certain period	32.591	4	.000*
I charge interest on the customers overdue account	50.372	4	.000*
I know what impact bad debts have on cash flow.	36.723	4	.000*
All my customers pay back their amounts due to us	60.605	4	.000*
What portion of your stock is bought for cash?	17.203	3	.001*
I have a regular stock take	40.203	4	.000*
I sometimes run “out of stock” for some goods.	67.159	4	.000*
I have some products that don’t get sold	71.072	4	.000*
What portion of your purchases is bought for cash?	18.565	5	.002*
How long do you take to pay your creditors?	40.345	3	.000*
I always have money to pay for the products I buy	36.308	4	.000*
I get charged interest on the overdue account	20.23	4	.000*
I get a discount if I pay my accounts within a certain period.	27.677	4	.000*
I have a bank account for my business	37.594	4	.000*
I deposit my earnings in the bank daily	28.59	4	.000*
I have taken a loan to finance my business	16.71	4	.002*
I have cash to repay my instalments on the loan every month	12.735	4	.013
I qualify for a loan	16.596	4	.002*
I have sufficient money in the business without taking a loan.	31.846	4	.000*

The majority of the values are less than 0.05 which mean that the differences in the scoring patterns are significant (where applicable). This test revealed that the respondents have strong opinions for all the significant values because the responses either incline towards “agree” or “disagree”. The values highlighted in yellow were insignificant with a value of more than 0.05.

A second chi square test was performed to determine whether there was a statistically significant relationship between the statements (rows vs columns).

5.7 Chi square tests

The chi square goodness of fit test is presented on Table 5.13.

Table 5.13 Pearson Chi Square test of the questionnaire statements

	Highest qualification	Position in the business	Duration worked in the business	Do you have basic cash management knowledge?
Duration business is operating	0.064	0.924	.000*	.042*
Who handles the accounting records?	0.165	0.521	.005*	.001*
There are formal financial records kept	0.091	0.119	.000*	.000*
We manage our cash flow easily in the business	0.15	.036*	.001*	.000*
The business has being profitable over the past 3 months	.020*	0.438	.001*	.018*
It is important to keep records of cash management	0.107	0.096	.000*	.000*
I have the time to manage the	.019*	0.052	.000*	.000*

cash in the business.				
I know what a cash budget is	0.097	.027*	.000*	.000*
I draw up cash budgets for the business	.024*	0.35	.000*	.001*
I know exactly how much money is spent in the business	0.374	.015*	.007*	.003*
I know how much money comes into the business	0.106	.002*	.002*	.000*
What portion (%) of your sales is cash?	0.614	0.317	0.677	0.21
How long do your customers take to pay you?	0.065	0.258	0.355	0.245
What percentage (on average) of your debtors does not pay back their amounts owing?	0.266	.033*	0.267	0.208
I give customers a discount if accounts are settled within a certain period	.006*	0.611	0.375	0.801
I charge interest on the customers overdue account	0.186	0.764	0.332	0.188
I know what impact bad debts have on cash flow.	0.14	0.474	.031*	.006*
All my customers pay back their amounts due to us	0.397	0.265	0.149	0.364
What portion of your stock is bought for cash?	0.078	0.564	.021*	.007*
I have a regular stock take	.018*	0.446	.002*	.004*

I sometimes run “out of stock” for some goods.	0.752	0.965	.045*	0.599
I have some products that don’t get sold	0.375	0.878	.003*	0.097
What portion of your purchases is bought for cash?	.042*	0.209	0.153	0.148
How long do you take to pay your creditors?	0.17	0.897	0.259	0.065
I always have money to pay for the products I buy	0.129	0.126	.002*	0.158
I get charged interest on the overdue account	0.228	0.93	.021*	0.311
I get a discount if I pay my accounts within a certain period.	0.429	0.594	0.112	0.323
I have a bank account for my business	0.232	0.499	.000*	.002*
I deposit my earnings in the bank daily	0.448	0.868	.032*	0.187
I have taken a loan to finance my business	0.213	0.769	.019*	0.075
I have cash to repay my instalments on the loan every month	0.089	0.701	0.216	0.222
I want to take a loan but don’t qualify for one	0.553	0.389	0.463	.018*
I have sufficient money in the	.028*	0.434	.004*	.000*

business without taking a loan.				

These tests examine the biographical information in the questionnaire versus all other statements.

The p-value between "I have the time to manage the cash in the business." and "Highest qualification" was 0.019, which was less than the significance value of 0.05. This means that there was a significant relationship between the statements. That was, the amount of time that was spent handling cash was related to the level of education. The higher the level of education, the more time businesses had to handle cash.

There was also a significant relationship between the variable "duration business is operating" and "do you have cash management knowledge". The p-value between these two variables was 0.42*. The knowledge of cash management impacts on whether there were formal financial records kept in the business. This finding concurred with Unvi (2014) who investigated the major causes for business failure. 46% of businesses indicated that the major cause was business owner incompetence. The specific pitfalls were that owners had no knowledge or experience of record keeping, lack of planning and budgeting, and no knowledge of financing. This finding showed that the greater the knowledge, the greater the chance of the business being sustainable.

The p-value between "Do you have basic cash management knowledge?" and "the business has been profitable over the past 3 months" is .018*. This result indicated that there was a significant relationship between the respondents' cash management knowledge and the profitability of the businesses.

There was also a significant relationship between "highest qualification" and "the business has been profitable over the past 3 months" with a p-value of .020*. This result indicated that as the level of qualification increases, so did the profitability of the business.

The test revealed another significant relationship between "I have a regular stock take" and the "highest qualification" with a p-value of .018*. However there was an insignificant relationship between the statements "I have a regular stock take" and “position in the business” with a p-value of 0.446. This finding implied that there was a very significant relationship between carrying out certain cash management practices and the respondents qualification opposed to an insignificant relationship between carrying out certain cash management practices and the position the respondent held in the business.

All values on the table without an (*) or p-values more than 0.05 do not have a significant relationship.

5.8 Correlations

The results are found in the Appendix E. The results indicate the following patterns. Positive values indicate a directly proportional relationship between the variables and a negative value indicates an inverse relationship. All significant relationships are indicated by a * or **. A (*) correlation is significant at the 0.05 level (2-tailed). A (**) correlation is significant at the 0.01 level (2-tailed). The correlation on the output of results is independent of any of the biographical data.

Likewise, the correlation value between “The business has being profitable over the past 3 months” and “We manage our cash flow easily in the business” is .461**. This finding indicated that the management of cash flows with ease directly impacted with the profitability of the business. The easier it was to handle and record the cash in the businesses, the more likely it was for the business to be profitable. This finding did not concur with Kunz and Dow Iii (2011), who indicated that profits were not directly proportional to cash flow. They found that, although profits have increased over a period of time, businesses still had cash flow problems.

However, this finding concurred with another study, which was conducted by Saleemi (2002), who concluded that if proper cash management practices were not conducted by businesses, these firms would definitely not obtain the desired levels of cash inflow. With a restricted cash inflow, the levels of inventory will be restricted and, in doing so, the potential sales will also be reduced. Once sales were reduced, then the profitability of a business will be reduced as well.

Negative values imply an inverse relationship. That is, the variables have an opposite effect on each other. For example: The correlation value between “I give customers a discount if accounts are settled within a certain period" and "the business has been profitable over that past 3 months" is -.054. This result indicated that as the businesses provide more discounts to debtors to settle their accounts, the profitability of the business decreases.

The correlation between, "the business has been profitable over the past 3 months" and "I draw up cash budgets for the business" is .506**. This implied that as businesses drew cash budgets more often, so does the frequency of the business been profitable for the past 3 months. The more cash budgeting is implemented in the business, the greater is the chance of profitability.

Likewise, the correlation between, "the business has been profitable over the past 3 months" and "I have a regular stock take" is .347**. This finding indicated that the greater the incidence of a stock take, the greater the chance of the business being profitable.

These results concurred with Cohen (2003:1), who revealed that if businesses do not perform a stock take, the businesses' revenue would decrease which will negatively impact on the profitability.

A correlation between "we manage our cash flow easily in the business" and "duration the business is operating" is -.415**. This significant relationship suggested that the more viable and sustainable a business is, that is, the longer the business is operating, the greater the chance of them managing their cash flows.

This results concurred with Janklow (2009:4), who indicated that 40 000 small businesses close each month. The author highlighted that the one of the five main reasons why businesses fail was the inability of small business owners to manage their cash flows.

A correlation between "I draw up cash budgets for the business" and "duration the business is operating" is -.474**. This significant relationship suggested that the more often the business draws up cash budgets, the more viable and sustainable the business was. This finding concurred with Nick (2009:3), who indicated that this practice directly affected the potential survival and sustainability of businesses. Nick (2009:3) also noted that those businesses who budgeted for the future at least once a year had only a 36% chance of survival. Those that budgeted once a month for the future had increased their chance of survival to 80%.

Finally, a correlation between "I have a regular stock take" and "duration the business is operating" is -.328**. This significant relationship suggested that as inventory management increases by having regular stock takes, so did the business viability and sustainability.

5.9 Regression Analysis

A regression analysis test was done to measure a relationship between cash management practices and the profitability of the businesses. The factors chosen for this test were those that were most likely to affect the dependent variable.

Table 5.14 indicates the statements that were entered or removed for the regression analysis testing.

Table 5.14 Statements entered/removed

Model	Variables Entered	Variables Removed	Method
1	I have cash to repay my instalments on the loan every month, I charge interest on the customers overdue account, What percentage (on average) of your debtors does not pay back their amounts owing?, I give customers a discount if accounts are settled within a certain period, I get charged interest on the overdue account, I have a monthly stock take, I draw up cash budgets for the business[b]	.	Enter

a. Dependent Variable: The business has being profitable over the past 3 months

b. All requested statements entered.

Table 5.15 is a model summary for the testing.

Table 5.15 Model Summary

Model[b]	R[c]	R Square[d]	Adjusted R Square[e]	Std. Error of the Estimate[f]
1	.822[a]	.675	.556	.642

a. Predictors: (Constant), I have cash to repay my instalments on the loan every month, I charge interest on the customers overdue account, What percentage (on average) of your debtors does not pay back their amounts owing?, I give customers a discount if accounts are settled within a certain period, I get charged interest on the overdue account, I have a monthly stock take, I draw up cash budgets for the business

c. R - R is the square root of R-Squared and is the correlation between the observed and predicted values of the dependent variable. The coefficient (0.822) is positive and strong imply that there is a strong directly proportional relationship between the in cash management practices and profitability (Cortinhas and Black 2012:514).

d**. R-Square** - R-Square is the proportion of variance in the dependent variable ("The business has being profitable over the past 3 months") which can be predicted from the independent variables (**Predictors as listed**). This value indicated that 67.5% of the variance in "The business has being profitable over the past 3 months" can be predicted from the Predictor variables ("I have cash to repay my instalments on the loan every month", "I charge interest on the customers' overdue account", "What percentage (on average) of your debtors does not pay back their amounts owing?", "I give customers a discount if accounts are settled within a certain period", "I get charged interest on the overdue account", "I have a monthly stock take", "I draw up cash budgets for the business".) R-Square is also called the coefficient of determination (Cortinhas and Black 2012:514).

e**. Adjusted R-square** - As predictors are added to the model, each predictor will explain some of the variance in the dependent variable simply due to chance. One could continue to add predictors to the model which would continue to improve the ability of the predictors to explain the dependent variable, although some of the increase in R-square would be simply due to chance variation in that particular sample. The adjusted R-square attempts to yield a more honest value to estimate the R-squared for the population. The value of R-square was 0.556, while the value of Adjusted R-square was 0.642 (Cortinhas and Black 2012:562-563).

Table 5.16 is the ANOVA analysis of variance results.

Table 5.16 ANOVA[a]: Analysis of variance

Model		Sum of Squares	df	Mean Square	F[g]	Sig.[h]
1	Regression	16.255	7	2.322	5.642	.001[b]
	Residual	7.819	19	.412		
	Total	24.074	26			

a. Dependent Variable: "The business has being profitable over the past 3 months".

b. Predictors: (Constant), "I have cash to repay my instalments on the loan every month", "I charge interest on the customers overdue account", "What percentage (on average) of your debtors does not pay back their amounts owing?", "I give customers a discount if accounts are settled within a certain period", "I get charged interest on the overdue account", "I have a monthly stock take", "I draw up cash budgets for the business".

g. and h. **F** and **Sig.** - The F-value is 5.642. The p-value associated with this F value is 0.001. These values are used to answer the question "Do the independent variables reliably predict the dependent variable?" The p-value is compared to the alpha level (typically 0.05) and, if smaller, it can be concluded that the predictors can be used to give a good indication of performance since the significance value is less than 0.05. In this case, since the p-value is smaller than 0.05, it can be stated that the independent variables predict the dependent variable (Black 2011:536) and ((Cortinhas and Black 2012:555).

Table 5.17 is the coefficient results of the test.

Table 5.17 Coefficients

Model[i]		Unstandardized Coefficients		Standardized Coefficients	t[m]	Sig.[m]
		β[j]	Std. Error[k]	Beta[l]		
1	(Constant)	1.220	.621		1.965	.064
	I draw up cash budgets for the business	.471	.207	.601	2.276	.035
	What percentage (on average) of your debtors does not pay back their amounts owing?	-.185	.164	-.232	-1.126	.274
	I give customers a discount if accounts are settled within a certain period	-.319	.143	-.414	-2.226	.038
	I charge interest on the customers overdue account	-.171	.160	-.238	-1.065	.300
	I have a monthly stock take	.190	.193	.207	.982	.338
	I have cash to repay my instalments on the loan every month	.400	.153	.494	2.621	.017

The statements in Table 5.17 regarding cash management practices were chosen from the data instrument to be tested in this regression analysis as it was most likely to affect the profitability of a business.

a. Dependent Variable: The business has being profitable over the past 3 months.

i. This column shows the predictor variables. The first variable (**constant**) represents the constant, also referred to in textbooks as the Y intercept, the height of the regression line when it crosses the Y axis. In other words, this is the predicted value of "The business has being profitable over the past 3 months" when all other statements are 0.

j. **β** - These are the values for the regression equation for predicting the dependent variable from the independent variable. These are called unstandardised coefficients because they were measured in their natural units. As such, the coefficients cannot be compared with one another to determine which one was more influential in the model, because they can be measured on different scales.

Black (2011:523) indicated that the regression equation can be presented in many different ways for example:

$Y_{predicted}$ = b0 + b1*x1 + b2*x2 + b3*x3 + b3*x3

The column of estimates (coefficients or parameter estimates, from here on labelled coefficients) provides the values for b0, b1, b2, and b3 for this equation. Expressed in terms of the variables used in this test, the regression equation is:

"The business has being profitable over the past 3 months**"** $_{\textbf{Predicted}}$ **=** 1.220 + 0.471***** I draw up cash budgets for the business -.185***** what percentage (on average) of your debtors does not pay back their amounts owing? -.319***** I give customers a discount if accounts are settled within a certain period -0,171* I charge interest on the customer's overdue account + 0.190* I have a monthly stock take -0.221* I get charged interest on the overdue account +0.400* I have cash to repay my instalments on the loan every month.

These estimates inform one about the relationship between the independent variables and the dependent variable. These estimates indicate the amount of increase in "the business has being profitable over the past 3 months" that would be predicted by a 1 unit increase in the predictor.

"I draw up cash budgets for the business" - The coefficient (parameter estimate) was .471. So, for every unit increase in "I draw up cash budgets for the business", a 0.471 unit increase in "The business has being profitable over the past 3 months" was predicted, holding all other variables constant. (It does not matter at what value one holds the other statements constant, because it is a linear model.)

"What percentage (on average) of your debtors does not pay back their amounts owing?" - The coefficient (parameter estimate) was -.185. For every unit increase in "What percentage (on average) of your debtors does not pay back their amounts owing?" there was a .185 unit decrease in the predicted "the business has being profitable over the past 3 months" scores, holding all other statements constant.

Likewise, "I have a monthly stock take" - The coefficient (parameter estimate) was .190. So, for every unit increase in "I have a monthly stock take", a .190 unit increase in “the business has being profitable over the past 3 months” is predicted, holding all other variables constant.

In the case of, “I have cash to repay my instalments on the loan every month” the coefficient (parameter estimate) is .400. So, for every unit increase in “I have cash to repay my instalments on the loan every month”, a .400 unit increase in “the business has being profitable over the past 3 months” was predicted, holding all other variables constant.

k. **Std. Error** - These are the standard errors associated with the coefficients. The standard error is used for testing whether the parameter was significantly different from 0 by dividing the parameter estimate by the standard error to obtain a t-value (see the column with t-values and p-values) (Introduction to SAS 2014).

m. **t** and **Sig**. - These columns provide the t-value and 2 tailed p-value used in testing the null hypothesis that the coefficient/parameter is 0. Coefficients having p-values less than alpha are statistically significant for a two tail test. For example, for alpha equal to 0.05, coefficients having a p-value of 0.05 or less would be statistically significant (i.e., one can reject the null hypothesis and say that the coefficient is significantly different from 0) (Anderson, Sweeney, Williams, Freeman, and Shoesmith, 2010:632).

The values highlighted in the column imply that those statements have coefficients that are not zero.

So, if the p-value is less than 0.05, it can be concluded that the – “I draw up budgets for the business” statement was a significant predictor of “the business has being profitable over the past 3 months” as it held a p-value of .035.

However, “I charge interest on the customer’s overdue account” – has a p-value of more than 0.05 and therefore the null hypothesis cannot be rejected. Therefore, one cannot be certain that the intercept is non-zero. This statement held a p-value of .300.

Therefore, in the same way it could be concluded that statement “I give customers a discount if accounts are settled within a certain period” was a significant predictor of “the business has being profitable over the past 3 months” as it held a p-value of .038.

Similarly, “I have cash to repay my instalments on the loan every month” was a significant predictor of “the business has being profitable over the past 3 months” as it held a p-value of .017.

In other studies conducted it was revealed that there was a strong positive relationship between profitability and accounts receivable, profitability and cash available and profitability and inventory. However, there was a negative relationship between accounts payable and profitability (Malik, Waseem and Kifayat 2011:156). The authors indicated that if there is an increase in cash, credit sales and inventory, the profitability of the business will increase.

Another study concluded that there was a negative relationship between average collection period and profitability, average payment period and profitability and inventory turnover in days and profitability (Falope and Ajilore 2009:74).

In a regression analysis done by Reheman and Nasr (2007), it was revealed that there was a negative relationship between average collection period, inventory turnover in days and profitability.

5.10 Conclusion

This chapter focused on the analysis and interpretation of the results of the data instrument. The findings were described and presented graphically according to the target population which comprised of small retail businesses in the Tongaat area, KwaZulu-Natal. The descriptive statistics provided the demographic information of the respondents. From the data analysis and interpretation of the results, it is evident that the lack of cash management knowledge as well as insufficient time dedicated to drawing up formal records in the business was some of the contributing factors to the poor cash management practices among these small businesses. There was no significant relationship between having a bank account for the business, depositing the earnings daily and getting a discount if payments were made promptly on the profitability of the business.

The next chapter will provide conclusions and recommendations based on the main objectives of this study.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The previous chapter focused on the analysis and interpretation of the results of the data instrument. The findings were described and presented graphically in terms of the responses of the sample which comprised of small retail businesses in the Tongaat area, KwaZulu-Natal.

This chapter illustrates how the research aim and objectives were achieved. It also highlights the summary, conclusions on the research findings, recommendations for the findings and the limitations of the study. Previously, small retail business owners and managers may not have been aware that cash management practices are an important factor contributing towards profitability and sustainability of their small business. It is now becoming more evident that cash management practices are, indeed, vital for long-term profitability and sustainability of small businesses. The study revealed the importance of proper cash management practices and the impact they have on the profitability and sustainability of small retail businesses.

6.2 Summary of the study

The purpose of the study was to investigate cash management practices of small retail businesses in the Tongaat area, KwaZulu-Natal. Part of the research was to examine why certain cash management components were not being performed in small businesses and their concomitant challenges. The aim of the study was to identify the current cash management practices of small businesses in the Tongaat area, KwaZulu-Natal and establish their problem areas regarding cash management practices of their businesses.

In order to achieve the above aim, the following objectives were addressed in this study:

- To identify the current cash management practices of small businesses;
- To determine why certain cash management practices are not being performed; and

- To identify if failure to implement cash management practices impacts on profitability and sustainability of businesses.

The literature review provided an overview of small businesses' cash management components required for proper cash management. The review also looked at the cash management challenges facing small businesses. The literature also explored other researches that were done in this area and their outcomes. There were many similarities in the outcomes of research done in other parts of the world compared to this research study. The study also explored the impact that a lack of cash management practices had on the profitability and sustainability of small retail businesses.

The research methodology presented a summary of the research strategy used towards the accomplishment of the objectives of the study. The methodology chapter also discussed the design of the research. This descriptive, cross sectional study, using quantitative research paradigm and a probability sampling method, targeted a sample of 69 businesses in the chosen area.

The method of data collection, analysis of data and the design of the data instrument were also included in the chapter. The formulation of the data instrument, which was a questionnaire, comprised of closed-ended Likert type questioning. The questionnaire also contained an open-ended question for respondents to elaborate and discuss challenges and current practices. This format made the questionnaire appealing to the respondent to answer as well as easy to read and interpret. The sample structure consisted of small retail businesses in the Tongaat area of KwaZulu-Natal.

Chapter five was based on the findings, interpretation and discussion of findings from the data analysis of the instrument. This was done using statistical analysis of SPSS version 21.0 software. The data instrument was analysed using different statistical methods to obtain accurate conclusions from the respondents' responses. The results were compared to previous literature cited in chapter two and chapter three, where it was evident from the similarities among the challenges faced, that this is a similar concern for businesses internationally.

These results were presented using cross tabulations, graphs and tables which were simple to read and extract the necessary information required.

The final part of the study, chapter six, was concluded from the preceding four chapters. This provided a summary of all the chapters in this dissertation. Conclusions were drawn from the data analysis and discussions presented in chapter four and recommendations were made from the findings and the conclusions.

6.3 Conclusions on the findings

This section focuses on the findings in chapter four and formulates conclusions of the study based on the objectives that were set out in chapter one. The questionnaire was structured to achieve the objectives which were set out.

The following discussion indicates how each of the objectives was achieved.

Objective 1: To identify the current cash management practices of small retail businesses

The first objective addressed the respondents' current cash management practices of small businesses.

Although 78.3% acknowledged that it was important to keep records of cash management practices, it was revealed that only 29.9% of businesses drew up cash budgets for their businesses. More than half of the respondents did not have control over the cash inflow and cash outflow of the business. An alarming 76.7% of the respondents indicated that they incur bad debts.

Of the 46.4% of businesses that keep formal financial records, very few track their debtors and request quick payment. 34.1% of businesses enhance quick payment of accounts by offering a discount to customers who settled accounts within a specific period. A minority of businesses (18.6%) acknowledged that they charge interest on an overdue account to encourage debtors to pay back their accounts. Since the remainder (81.4%) of the businesses do not charge interest on the customers' accounts, these customers don't see the urgency to make prompt payments towards their accounts.

Only 20.3% of businesses actually performed a stock take to have control over inventory. A total of 81.2% of businesses indicated that they sometimes run out of stock and have inventory in the business that doesn't get sold.

Just 46.4% of the respondents indicated that they kept formal records. Therefore, profitability of their businesses could not be accurately determined. However, 65.2% of the businesses assumed that they were profitable. With only 49.3% of the businesses actually knowing the cash outflow and 57.4% knowing the cash inflow in the business, many businesses are unlikely to be sustainable over a long period of time. With 75.5% of businesses not having cash to repay loan instalments, it is just a matter of time until many of these businesses encounter financial difficulty and be forced to shut their doors and close their operations.

Objective 2: To determine why certain cash management practices are not being performed

The second objective was addressed by asking the respondents why certain cash management practices were not implemented in their businesses.

The lack of cash management knowledge was identified as a major reason why certain practices were not performed in these businesses. Without basic cash management knowledge, these practices were not implemented in these businesses and seem to be unimportant. Respondents find it more feasible to concentrate on selling their products than spending time drawing up budgets and doing financial records. 58% of the respondents indicated that they don't have the time to manage cash in the business. The lack of cash available in these businesses also prevented them from seeking professional services by hiring an accountant to handle the financial records. The lack of business knowledge by these small business managers and owners indicated that they assume drawing up a cash budget is time consuming and difficult.

It was revealed from the responses of the questionnaire that just 49.3% of the respondents had knowledge of a cash budget. 49.3% of businesses acknowledged that they were aware of how much money was spent in the business. Just 36.2% of the respondents agreed that they were aware of the impact that bad debts on the cash flow. Just over half of these businesses indicated that they know exactly how much income the business generates. 33.3% of the respondents were running a business with no qualification. 50.7% of the respondents had a matric qualification only which implies that their business knowledge is limited to their qualification level.

Monitoring of stock also seemed to be difficult for small businesses. More than 75% of the businesses do not have sufficient inventory to sell whilst 81.2% have inventory that remained on the shelf and became obsolete or old. Tracking outstanding debtors was a challenging factor with 76.7% of businesses acknowledging that they incur bad debts. However, 55.3% of them do not know what impact bad debts have on the business.

The statistics revealed that there is a lack of academic qualification in the business. A total of 23 respondents, which is equivalent to 33.3%, indicated that they have no academic qualification.

Objective 3: To identify if failure to implement cash management practices impacts on profitability and sustainability of businesses

The correlation value between "The business has being profitable over the past 3 months" and "We manage our cash flow easily in the business" is .461**. This finding indicated that the management of cash flows with ease directly impacted with the profitability of the business. The easier it is to handle and record the cash in the businesses, the more likely it is for the business to be profitable.

The correlation value between, "the business has been profitable over the past 3 months" and "I draw up cash budgets for the business" is .506**. This implied that as businesses draw up cash budgets more frequently, so does the chance of the business been profitable for the past 3 months. The more cash budgeting implemented in the business, the greater the chance of profitability.

Likewise, the correlation value between, "the business has been profitable over the past 3 months" and "I have a regular stock take" is .347**. This finding indicated that the greater the incidence of a stock take, the greater the chance of the business being profitable.

Negative values imply an inverse relationship. That is, the variables have an opposite effect on each other. For example: The correlation value between "I give customers a discount if accounts are settled within a certain period" and "the business has been profitable over that past 3 months" is -.054. This result indicated that as the businesses provide more discounts to debtors to settle their accounts, the profitability of the business decreases.

A correlation value between "we manage our cash flow easily in the business" and "duration the business is operating" is -.415**. This significant relationship suggested that the more viable and sustainable businesses are, that is, the longer the businesses are operating, the greater the chance of them managing their cash flows.

A correlation value between "I draw up cash budgets for the business" and "duration the business is operating" is -.474**. This significant relationship suggested that the more often the business draws up cash budgets, the more viable and sustainable the business is.

A correlation value between "I have a regular stock take" and "duration the business is operating" is -.328**. This significant relationship suggested that as inventory management increases by having regular stock takes, so does the business viability and sustainability.

"I draw up cash budgets for the business" - The coefficient (parameter estimate) is .471. So, for every unit increase in "I draw up cash budgets for the business", a 0.471 unit increase in "The business has being profitable over the past 3 months" is predicted, holding all other variables constant. (It does not matter at what value one holds the other statements constant, because it is a linear model).

"What percentage (on average) of your debtors does not pay back their amounts owing?" - The coefficient (parameter estimate) is -.185. For every unit increase in "What percentage (on average) of your debtors does not pay back their amounts owing?" there is a .185 unit decrease in the predicted "the business has being profitable over the past 3 months" scores, holding all other statements constant.

Likewise, "I have a monthly stock take" - The coefficient (parameter estimate) is .190. So, for every unit increase in "I have a monthly stock take", a .190 unit increase in "the business has being profitable over the past 3 months" is predicted, holding all other variables constant.

Similarly, “I have cash to repay my instalments on the loan every month” the coefficient (parameter estimate) is .400. So, for every unit increase in “I have cash to repay my instalments on the loan every month”, a .400 unit increase in “the business has being profitable over the past 3 months” is predicted, holding all other variables constant.

Therefore, if the p-value is less than 0.05, it can be concluded that the “I draw up budgets for the business” statement is a significant predictor of “the business has being profitable over the past 3 months” as it holds a p-value of .035.

However, “I charge interest on the customer’s overdue account” has a p-value of more than 0.05 and, therefore, the null hypothesis cannot be rejected and one cannot be certain that the intercept is non-zero. This statement holds a p-value of .300.

Therefore, in the same way it can be concluded that statement “I give customers a discount if accounts are settled within a certain period” is a significant predictor of “the business has being profitable over the past 3 months” as it holds a p-value of .038.

Similarly, “I have cash to repay my instalments on the loan every month” is a significant predictor of “the business has being profitable over the past 3 months” as it holds a p-value of .017.

The above findings revealed that if small businesses fail to implement cash management practices, there would be a negative impact on business profitability and sustainability.

From the above conclusions the alternate hypothesis (**Ha)** – “the implementations of cash management practices do have an impact on profitability of small retail businesses in the Tongaat area” is accepted.

This study analysed the cash management practices as well as cash management omissions in these small retail businesses. Consequently, the study achieved the aim to identify the current cash management practices used by small businesses in the Tongaat area of KwaZulu-Natal and establish the impact of cash management practices on the profitability and sustainability of those businesses. By analysing the objectives to the study, the intended aim has being achieved.

6.4 Recommendations

Based on the research findings, the following suggestions are made to enhance small businesses' cash management knowledge and practices to enable them to be profitable and sustainable:

Formal Records

The findings of this study have revealed that businesses who indicated that they were able to manage their cash flows also stipulated that they did not have cash to pay for the products they buy. This is a major setback for the majority of small retail businesses in the Tongaat area. An implementation of basic cash management practices could be beneficial to eliminate this difficulty faced by these businesses. Each business should ensure that there are basic financial records kept in the business to monitor and control the cash inflow and cash outflow. Such a practice will enhance business profitability.

Debtors

Businesses should implement a debtor repayment period for all debtors' accounts. Regular reminders should be sent to debtors to encourage quick payments. An incentive or a discount should also be implemented to encourage quick repayments. The businesses should employ a policy that doesn't allow debtors to make additional purchases until their currents accounts are paid in full. Businesses should apply stricter terms when selling items using the lay-by system, and if the product is not paid in full within 60 days, the item should be displayed on the shop floor for sale. The businesses should offer incentives for early payments of their accounts receivable. Currently, 34.1% of the businesses have implemented this procedure to enhance debtor repayments by offering a discount. This will provide these businesses with the much needed liquidity and customers would gain by saving on their purchases. Businesses should also charge an interest on an overdue account. Currently just 18.6% of the businesses implement this procedure. Therefore, debtors do not see the urgency to settle debts timeously.

Inventory

A monthly stock take should be performed in the business. Re-order levels should be set to ensure that the business does not run out of stock of the fast selling items. A stock take would also identify the slow moving items that are not sold quickly. The selling price of these items should be reduced to attract sales. Businesses should always ensure that the older items on the shelf are sold before the newer stock is put onto the shelf to prevent products from becoming expired or obsolete.

Purchases

Businesses should negotiate longer credit repayment terms with suppliers so that the former are allowed extra time to repay accounts the business owes without being charged any interest. Moreover, businesses should purchase from those suppliers who offer a discount if the account is repaid within a certain period. Businesses should purchase non-perishable items in bulk to save on cost. Repaying the accounts owing to creditors just before the due date will allow businesses to hold on to the much needed cash for as long as possible. This cash could be used for other business operations to enhance cash inflow. Therefore, if businesses are not offered a settlement discount, they should not make prompt payments to their creditors.

Financing

All businesses should open a business bank account. Depositing earnings in the bank regularly makes it easier to track the business cash inflow. Moreover, debit payments would make it easier to track business cash outflow. A bank account would also increase the business chances of qualifying for a loan if the need arises. Suppliers would also not hesitate to sell on credit to a business with a bank account as a bank account enhances the business authenticity and professionalism. These businesses should investigate different loan options from various financing institutions. A loan will assist in the cash shortage that 75.2% of the businesses incur. This increase in cash availability could assist in the purchase of inventory and payments. By having sufficient inventory in the business, sales will be enhanced.

Training/Advice

The findings of this research identified the problem areas with regards to cash management practices in small businesses. A short course on cash management could be offered by the Durban University of Technology to small business owners and managers to enhance their basic cash management knowledge.

As part of an integrated project for the final-year National Diploma: Cost and Management Accounting students, their task could be to provide cash management advice to these small businesses. This assignment could commence with students' observations of owners’ cash management practices implemented in the business. Thereafter, assistance could be rendered to businesses with the challenging components of managing their inflow and outflow of cash. This could be done as part of community engagement for the University to engage students in industry practice. The assignment will also benefit these small businesses by enhancing the cash management knowledge of the small business owners so that these businesses could be more efficient in managing their cash and decision making which will enhance their profitability and sustainability.

Small business owners should also seek financial advice and assistance from the Small Enterprise Development Agency (SEDA) to assist in business operations.

The Tongaat business forum should also run programmes on the implementation and benefits of cash management practices so that these businesses can attend such programmes and become familiar with basic procedures to assist them in the handling and recording of cash.

The businesses could also seek assistance from small business coaches. These individuals assist with one-on-one consulting to help small business owners grow their business more profitably and ensure long-term sustainability.

6.5 Limitations

This study was confined to the small retail businesses specifically in the Tongaat area of KwaZulu-Natal. The results, therefore, cannot be generalised to all the small retail businesses in KwaZulu-Natal or South Africa. The study was also restricted to the small retail businesses and, therefore, cannot be generalised to other types of small businesses in the Tongaat area.

6.6 Future research

This study focused on small retail businesses in Tongaat, KwaZulu-Natal. Future research can be undertaken among the businesses in other parts of KwaZulu–Natal or South Africa as a whole. Future research can also be conducted to establish if other types of small businesses also incur the same difficulties regarding cash management practices.

6.7 Conclusion

The research was conducted in the context of low profitability, development and growth of small retail businesses. It seems that poor cash management practices are a contributing factor towards the profitability and sustainability of these small businesses. This study established that this hypothesis was prevalent and that acquisition of knowledge of cash management practices was one of the important elements in the success of a small business.

The investigation into the problem revealed that business managers and owners, who have basic knowledge of cash management practices, were more profitable and had sufficient cash to handle business activities. The study also provided sufficient evidence testifying that a greater portion of owners are operating a business without formal financial records in place as well as without any higher qualification on small business management. The study confirmed that the restriction on a loan and poor debtor repayments played a role on the availability of cash in the small business.

The implementations of cash management practices are vitally important for any successful business. The commonly used expression, “Cash is king” cannot be contested as its validity is more prevalent in this research study. There should be more emphasis placed on the impact of cash management practices on small retail businesses.

The findings of this study could be useful to potential, emerging and established owners of all types of businesses since effective and efficient cash management practices are an integral component of any successful business.

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APPENDIX A

An extract from Raosoft software application output, version 21.

What margin of error can you accept? **5% is a common choice**	5 **%**	**The margin of error is the amount of error that you can tolerate. If 90% of respondents answer *yes*, while 10% answer *no*, you may be able to tolerate a larger amount of error than if the respondents are split 50-50 or 45-55.** **Lower margin of error requires a larger sample size.**
What confidence level do you need? **Typical choices are 90%, 95%, or 99%**	95 %	The confidence level is the amount of uncertainty you can tolerate. Suppose that you have 20 yes-no questions in your survey. With a confidence level of 95%, you would expect that for one of the questions (1 in 20), the percentage of people who answer *yes* would be more than the margin of error away from the true answer. The true answer is the percentage you would get if you exhaustively interviewed everyone. Higher confidence level requires a larger sample size.
What is the population size? **If you don't know, use 20000**	83	How many people are there to choose your random sample from? The sample size doesn't change much for populations larger than 20,000.
What is the response distribution? **Leave this as 50%**	50 %	For each question, what do you expect the results will be? If the sample is skewed highly one way or the other, the population probably is, too. If you don't know, use 50%, which gives the largest sample size.
Your recommended sample size is	**69**	This is the minimum recommended size of your survey. If you create a sample of this many people and get responses from everyone, you're more likely to get a correct answer than you would from a large sample where only a small percentage of the sample responds to your survey.

APPENDIX B

Durban University of Technology

Faculty of Accounting and Informatics

Masters of Technology: Cost and Management Accounting

09 May 2013

Dear Respondent

I, Avika Mungal am a master's student, at the Durban University of Technology.

Your valuable input is required for a research study on ***the impact* of *Cash management on profitability and sustainability of small retail businesses in the Tongaat area KwaZulu-Natal.*** This study is undertaken to identify the current cash management practices being performed and reasons as to why certain practices are omitted.

Please assist by completing the attached questionnaire which will not take more than 15 minutes to complete.

The findings of this study would contribute towards assisting in profitability and future planning of the business.

Your participation of this study is voluntary. You may refuse to participate or withdraw from the study at any time with no negative consequence. Confidentiality and anonymity of records identifying you as a participant will be maintained by the University.

Thank you for participating.

Your assistance is greatly appreciated.

____

Miss Avika Mungal

Lecturer: Department of Management Accounting

Durban University of Technology

Tel: 031 - 373 5647

Questionnaire: *(please place an **(X)** on the chosen option)*

1. Biographical information based on the respondent:

1.1 Highest qualification? Matric ☐ Diploma ☐ Degree ☐ No qualification ☐

1.2 Your position in the business: Owner ☐ Manager ☐ Sales rep ☐

1.3 Duration worked in the business? 0-11months ☐ 3-5yrs ☐ more than 6 years ☐ ☐

1.4 Do you have basic cash management knowledge? YES ☐ NO ☐

2. Information based on the business:

2.1 Duration business is operating: 0-1 year ☐ 1-2 ☐ 3-5 ☐ more than 6 years ☐

2.2 Who handles the accounting records? Accountant ☐ owner other /manager ☐ nobody handles it ☐

Financial information:	**Strongly agree**	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
2.3 There are formal financial records kept					
2.4 We manage our cash flow easily in the business					
2.5 The business has being profitable over the past 3 months					

Below are the elements that are used in cash management. Please indicate how you manage cash inflow and outflow

3. Cash flow analysis / forecasting:	**Strongly agree**	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
3.1 It is important to keep records of cash management					
3.2 I have the time to manage the cash in the business					
3.3 I know what a cash budget is					
3.4 I draw up cash budgets for the business					
3.5 I know exactly how much money is spent in the business					
3.6 I know how much money comes into the Business.					

4. Sales What portion of your sales is cash?	0% - 19%	20% - 40%	41% - 60%	61% - 80%	81% - 99%	100%
5. Debtor management / sell on credit						

5.1 How long do your customers take to pay you?	1 month	45 days	55 days	Longer than 55 days
5.2 What percentage (on average) of your debtors does not pay back their amounts owing?	5%	10%	15%	More than 15%

Debtor management / sell on credit	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
5.3 I give customers a discount if accounts are settled within a certain period					
5.4 I charge interest on the customers overdue account					
5.5 I know what impact bad debts have on cash flow.					
5.6 All my customers payback their amounts due to us					

6. Stock/ inventory: 6.1 What portion of your stock is bought for cash?	A quarter	Half	Three quarter	All stock

Stock:	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
6.2 I have a regular stock take					
6.3 I sometimes run “out of stock” for some goods.					
6.4 I have some products that don’t get sold					

7. Purchases

7.1 What portion of your purchases is bought for cash?	0% - 19%	20% - 40%	41% - 60%	61% - 80%	81% - 99%	100%

7.2How long do you take to pay your creditors	1 month	1,5 months	2 months	longer, specify__________

Control of purchases / buy on credit	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
7.3 I always have money to pay for the products I buy					
7.4I get charged interest on the overdue account					
7.5I get a discount if I pay my accounts within a certain period.					

8. Financing / borrowing costs	**Strongly agree**	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
8.1 I have a bank account for my business					
If the business has a bank account, answer the questions below:					
8.2 I deposit my earnings in the bank daily					
8.3I have taken a loan to finance my business					
8.4I have cash to repay my instalments on the loan every month					
8.5I want to take a loan but don’t qualify for one					
8.6Ihave sufficient money in the business without taking a loan.					

9. Please indicate what other cash management problems faced by the business which is not covered in the questionnaire?

APPENDIX C

CONSENT LETTER

Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, Avika Mungal (name of researcher), about the nature, conduct, benefits and risks of this study - Research Ethics Clearance Number: IREC 027/13,
- I have also received, read and understood the above written information (Participant Letter of Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
- I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
- I understand that significant new findings developed during the course of this research which may relate to my participation will be made available to me.

_______________	__________	______	______________
Full Name of Participant	**Date**	**Time**	**Signature/Rightthumb print**

I, ___________________________ (name of researcher) herewith confirm that the above participant has been fully informed about the nature, conduct and risks of the above study.

________________	__________	__________________
Full Name of Researcher	**Date**	**Signature**
________________	__________	__________________
Full Name of Witness (If applicable)	**Date**	**Signature**
________________	__________	__________________
Full Name of Legal Guardian (If applicable)	**Date**	**Signature**

APPENDIX D

LETTER OF INFORMATION

Title of the Research Study: The impact of cash management on profitability and sustainability of small retail businesses in the Tongaat area, KwaZulu - Natal

Principal Investigator/s/researcher: Avika Mungal

Co-Investigator/s/supervisor/s: Dr. Hari Lall Garbharran (D.P.A)

Brief Introduction and Purpose of the Study: The purpose of the study is to investigate the current cash flow practices performed by the small retail businesses in the Tongaat Area, in KwaZulu - Natal. Part of the research would to ascertain why certain cash flow practices are not being performed in small businesses and what the challenging factors are for them.

Outline of the Procedures: Responsibilities of the participant will be to complete a survey questionnaire which will be handed out personally by the researcher to the small business owner or a suitable representative of the business owner at their business. The estimated time taken to complete the questionnaire is 15 minutes.

Confidentiality: The responses of the respondents will be completely anonymous. The researcher will also be providing a self- addressed and prepaid return envelope in order for the respondent to return the completed questionnaires. There will be no names of businesses mentioned in the write up of this dissertation.

Risks or Discomforts to the Participant: There are no risks or discomforts to the participants.

Benefits: the benefit of the participant will be to receive basic cash management assistance and advice, in order to enhance their entrepreneurial capabilities and improve on the profitability and sustainability of their business.

The benefit of the researcher will be research publications both in conference proceedings then in accredited journals:

- A conference presentation.
- A journal article publication.

Reason/s why the Participant May Be Withdrawn from the Study: There will be no adverse consequences for the participant should they choose to withdraw from the study.

Remuneration: The participants will not receive any remuneration for participating in the study.

Costs of the Study: The participant will not be expected to cover any costs towards the study.

Confidentiality: All the businesses in the sample are aware that all information released would remain confidential. The information will not be used for any other purpose other than this research study. There will be no business names mentioned in the write up of the dissertation.

Research-related Injury: There will not be any compensation for any research related injury because it is very unlikely that there will be any injury occurred while answering of a questionnaire.

Persons to Contact in the Event of Any Problems or Queries:

Please contact me, the researcher, on 031- 373 5647, my supervisor: Dr. Hari Lall Garbharran on 031 -373 5428, or the Institutional Research Ethics administrator on 031 373 2900. Complaints can be reported to the DVC: TIP, Prof F. Otieno on 031 373 2382 or dvctip@dut.ac.za.

General:

Potential participants must be assured that participation is voluntary and the approximate number of participants to be included should be disclosed. A copy of the information letter should be issued to participants. The information letter and consent form must be translated and provided in the primary spoken language of the research population e.g. isiZulu.