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Cash management practices of small, medium and micro enterprises in the Cape Metropolis, South Africa

Abstract

The aim of this research article is to investigate the cash management practices of small, medium and micro enterprises (SMMEs) in the Cape Metropolis, in South Africa. Data are collected from a sample of 200 SMMEs by means of a closed-ended questionnaire survey. The findings of the study revealed that most of the sampled SMMEs manage their cash effectively. However, only a minority of these entities hold cash for speculative purposes or even invest their surplus cash gainfully, thus, they fail to optimize on their scarce cash resources. Likewise, only a minority of the SMMEs employ computers for managing their cash, which is rather surprising given the proliferation of computers at a low cost in South Africa.

Keywords: cash management, SMMEs, decision-makers, practices.

JEL Classification: M.

Introduction

Cash is the lifeblood of every business, big and small alike (Abioro, 2013). A business may be profitable and yet without cash to meet its obligation as they fall due will be forced to close down (Enow 2015). By contrast, a loss making business may still continue to operate if it has cash. Effective cash management does not only increase chances of survival of a business, it also helps to attract investors who can fund its expansion, as the first thing that investors look for when evaluating a business is its cash flow, which, in turn, reflects its cash management practices (Merchant Factors, 2013). In addition, effective cash management increases the flexibility and competitive advantage of a business in dealing with emergency situations or taking advantage of opportunities as they arise, at a short notice (Gyebi & Quain, 2013). Furthermore, it enables a business to take advantage of cash discounts and avoid costly sources of finance when raising funds (Uwonda, Okello & Okello, 2013).

Unlike big businesses, small and medium enterprises (SMMEs) operating in South Africa, SMMEs have a limited access to cash given their lack of collateral required by banks as well as a success track record (Biljon, 2015). Following the global financial crisis of 2007 to 2008, most banks, which SMMEs rely on heavily for cash borrowing, have adopted restrictive lending criteria that has dramatically reduced SMMEs' access to cash. Even as South Africa recovered from the global financial crisis, South African banks have maintained their credit-restrictive mind-sets (Merchant Factors, 2013). South African SMMEs, therefore, unlike their larger counterparts that have access to a variety

of cash sources, have to manage their cash effectively if only to survive.

Notwithstanding the importance of cash and the limited access that SMMEs in South Africa experience, anecdotal evidence suggests that these entities do not seem to manage their cash effectively (Biljon, 2015). Specifically, most of these entities do not prepare cash budgets or forecasts, do not conduct bank reconciliations and do not monitor their cash flows on a real-time basis (Bruwer, 2015). Worse still, some lack bank accounts and appear to be ignorant about their liquidity (Small Business Connect, 2015). Many SMMEs also take a passive approach to their cash management, rely on manual processes or simple accounting software to manage their cash even as their businesses grow (Enow, 2015). Eventually, these businesses face liquidity problems that result in their closure.

Indeed, the failure rate of SMMEs in South Africa is reported to be one of the highest in the world as about 70% to 80% of these entities fail during their first three years of existence (Ngary, Smith, Bruwer & Ukpere, 2014). Although prior research in other countries has partly attributed a high failure rate of SMMEs to ineffective cash management practices (Sunday, Burani & Eliabu, 2013; Sunday, 2010; Uwonda et al., 2013), limited research has been conducted in South Africa to investigate the cash management practices of SMMEs in the country. Therefore there is a gap in research on cash management practices of South African SMMEs. Given the importance of SMMEs in creating employment opportunities that are desperately needed in South Africa, and bearing in mind the high failure rate of these entities in the country, it is imperative that their cash management practices be investigated.

This article attempts to fill in the gap in the prior literature by investigating the cash management practices of SMMEs in the Cape Metropolis, in

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South Africa. The rest of the article proceeds as follows: Section 1 reviews the relevant prior literature. Section 2 presents the methodology adopted, followed by results and discussion in Section 3. Final Section provides the summary and conclusion of the article.

1. Literature review

Notwithstanding the importance of cash to SMMEs and the fact that they have limited access to cash, prior studies conducted in different countries suggest that these entities do not manage their cash effectively (Pietersen, 2012; Nyamao, Patrick, Oondo & Simeyo, 2012). A Ghanaian survey of 199 SMEs by Pietersen (2012) found that 51.3% of enterprises neither forecasted nor had a cash target for their businesses. In addition, only 32.7% of the enterprises prepared monthly cash budgets, although 65.3% of the enterprises deposited their sales proceeds on a daily basis. Furthermore, only 13.6% of enterprises re-invested their cash surpluses but 56.3% of the enterprises often spent within their budgeted limits. Pietersen (2012) observed that most SMMEs lacked financial expertise to prepare cash budgets and invest cash surplus. Although insightful, the preceding study was conducted in Ghana (West Africa) and, therefore, their findings may not be generalizable to South African SMMEs.

In a similar study, Nyamao, Patrick, Oondo and Simeyo (2012) assessed the cash management practices of 159 Kenyan Small Scale Enterprises (SSEs) and found that 60.9% of these entities seldomly prepared cash budgets and that only 23.6% of the SSEs prepared the budgets often. Unsurprisingly, most SSEs (67.3%) did not pre-determine a target cash balance in advance. Of the sampled SSEs, 56.4% regularly experienced cash surpluses but they did not invest the surpluses in short term investments. Nyamao et al. (2012) concluded that most Kenyan SSEs had cash-management problems. Nyamao et al. (2012) study was conducted in Kenya, therefore, its findings may not be generalizable to South African SMMEs.

A related questionnaire survey by Masoud and Mbega (2012) on cash management practices of 16 Tanzanian small businesses found that 68.8% of these entities did not prepare cash budgets. Only 6.3% of small businesses pre-determined a target cash balance in advance. Like in Nyamao et al. (2012) study, 50% of the small businesses always experienced cash shortages and 56.2% did not invest their cash surpluses in short term investments. Furthermore, only 31.3% of the businesses deposited their cash surpluses in bank accounts. Masoud and Mbega (2012) concluded that a lack of financial knowledge was a major cause of ineffective cash management in small businesses in

Tanzania. Given that Masoud and Mbega's (2012) study used a small sample size, its findings may not be generalizable to all Tanzanian small businesses let alone the South African SMMEs.

In yet another East African, Sunday et al. (2013) assessed the cash management practices of 386 Small and Medium Entities (SMEs) in western Uganda. Sunday et al. (2013) found that the cash management practices of Ugandan SMEs were weak and that most of these entities experienced frequent cash shortages due to a failure to prepare cash budgets on a monthly basis. In addition, only a few SMEs had a cash surplus and those that did, did not invest it in interest-bearing accounts.

Another Ugandan study by Uwonda et al. (2013) on cash-flow management of 120 SMEs found that 41.8% of these entities did not prepare cash budgets and that another 20.33% did not even monitor their cash flow. Only 59% adhered to their cash budgets but 33% disregarded budgetary controls. In addition, 53.3% of SMEs did not prepare a bank reconciliation statement. The preceding two studies were conducted in Uganda, thus, their findings may not be generalizable to South African SMMEs.

No study could be found on cash management practices of South African SMMEs. This, alongside the above-mentioned gaps in the prior literature, suggests a need for a recent study to investigate the cash management practices of South African SMMEs. This study aims to fill in the gap in the literature by investigating the cash management practices of SMMEs in the Cape Metropolis, in South Africa.

2. Methodology

2.1. Questionnaire design. The perceptions of the decision-makers of SMMEs that comprised owners, managers and accountants on the cash management of their businesses were elicited using a questionnaire survey. A closed-ended questionnaire was designed that comprised fourteen questions in two sections, namely, section A and B. The questionnaire which was in form of multiple-choice or yes/no questions was designed to be easy to answer, a strategy deployed to maximize the response rate by minimizing the time required to complete it, which ideally should have been 15 minutes.

Section A of the questionnaire elicited information on a respondent's personal profile as well as the respondent's business profile. This section which comprised five questions, elicited information such as respondent's position in the business, gender, accounting educational background, number of years the SMME has been operating and number of employees of the SMME. This information was

meant to ensure that the selected respondents were owners, managers or accountants of an SMME and thus the appropriate to participate in this study.

Section B elicited information on cash-management practices of a respondent's business. This section comprised 9 questions that required a "yes" or "no" response. Respondents were required to indicate if their businesses had a bank account, conducted bank reconciliation, prepared cash budgets, pre-determined its cash shortage or surplus, invested cash surpluses, held cash for speculative purposes, monitored cash flows regularly, used computers to manage cash in their day-to-day operations and spent cash as planned.

Before distributing the questionnaire, a pilot test was conducted whereby the questionnaires were completed and critically evaluated by ten academics with vast experience in questionnaire design. The questionnaires were then adjusted according to the recommendations of the academics and when re-submitted to them were found to be clear, concise and understandable.

2.2. Population and sample selection. The population comprised owners, managers and accountants of SMMEs operating in the Fast Moving Consumer Goods (FMCG) Sector in the Cape Metropolis as these were deemed to be the decision-makers of SMMEs that ought to be familiar with the cash management practices of the entities. A target sample of 200 FMCG SMMEs was set given a lack of a comprehensive list of all SMMEs operating in the Cape Metropolis. To achieve this target, 270 respondents were approached. An accidental-sampling technique was employed to select the sample given that it advocates the drawing of a sample from the part of the population that is conveniently accessible to the researcher (Collis & Hussey, 2003).

2.3. Questionnaire distribution. On completion of the pilot test, the data collection process commenced with the identification of potential respondents. The researcher and the seven other trained researchers visited the premises of the potential respondents, explained the purpose of the study, the research methodology employed, and ethical considerations such as anonymity of respondents, confidentiality of information divulged as well as the limited risk in participating in the research. The potential respondents were, then, requested to indicate their willingness to participate in the study. Where the potential respondents agreed to participate, the researcher administered the questionnaire by reading the questions to the respondents and recorded their responses by marking them with an "X" in the appropriate box of the questionnaire.

2.4. Response rate and test for non-response bias.

Out of the 270 respondents that were approached to participate in this survey, 220 agreed to participate in the survey. Thus, 220 questionnaires were completed, 20 of which were found to be incomplete and were, thus, withdrawn from the sample. Therefore, out of the 270 potential respondents that were initially approached, only 200 completed usable questionnaires resulting in a response rate of 74.07%.

To minimize the effect of a non-response bias, different respondents that ranged from owners, managers and accountants, male and female, from different industries were approached and encouraged to participate in the survey. In addition, the profile of the respondents as well as that of their businesses was analyzed and found to indicate that respondents of different persuasions had answered the questionnaire (De Villiers & Van Staden, 2010). Furthermore, respondents were persuaded to participate in the survey using the face to face approach even if they had little interest in cash management practices (De Villiers & Van Staden, 2010). Given the large number of respondents of 200, a high response rate and diverse respondents, the risk for non-response bias was minimized.

3. Results and discussions

3.1. Respondents' personal and their business's profile.

Table 1. Respondents' personal and their business's profile

	Number of respondents	Percentage
Position in the business:		
Owner	136	68%
Manager	45	22%
Accountant	2	1%
Supervisor	17	9%
Total	200	100%
Gender:		
Male	137	68.5%
Female	63	31.5%
Total	200	100%
Accounting background:		
Seminars	22	11%
Short course	42	21%
Diploma	22	11%
Degree	14	7%
Masters	4	2%
None	95	48%
Total	200	100%
Age of the business:		
Less than 2 years	14	7%
2-5 years	105	52.5%
6-10 years	52	26%

Table 1 (cont.). Respondents' personal and their business's profile

	Number of respondents	Percentage
More than 10 years	29	14.5%
Total	200	100%
Number of employees:		
1 to 5 employees	153	76.5%
6 to 50 employees	47	23.5%
Total	200	100%

The respondents were asked to provide information on their personal profiles relating to their position in the business, gender and accounting-education background. The purpose of this information was to ensure that the appropriate respondents had been selected to participate in the survey and also to ensure that respondents of different characteristics and persuasions participate in the survey in order to minimize non-response bias.

Of the respondents, 68% were owners, 22% were managers, 1% was accountants and 9% were supervisors (see Table 1). Given that 91% of the respondents were either owners or managers, it can be concluded that the appropriate respondents were selected to participate in the survey. Concerning the gender of the respondents, 68.5% were male while 31.5% were female.

With regard to the accounting-education background of the respondents, 48% did not have any accounting-education background whatsoever (see Table 1). Of the respondents, 21% had attended a short course in accounting, while 11% had attended accounting seminars. A similar percentage (11%) had a diploma in accounting, whereas 7% had a bachelor's degree. Only 2% had a master's degree in accounting. In short, the management of working capital was basically undertaken by decision-makers with limited-to-no formal accounting knowledge.

As far as how long the respondents' businesses are concerned, 52.5% of the respondents indicated that their SMMEs were two to five years old, while 26% indicated that their SMMEs were six to 10 years old; 14.5% indicated that their SMMEs were more than 10 years old, while only 7% indicated that their SMMEs were less than two years old (see Table 1). Given that SMMEs that are two years old or more are expected to have developed sound cash management practices, one would expect that the respondents' SMMEs should have developed these practices as 93% of them were at least two years old.

Concerning the number of employees, the findings indicate that 76.5% of the respondent's SMMEs had one to five employees, while 23.5% had six to 50 employees. In the South African context, the former

can be classified as micro enterprises while the latter were classified as small enterprises. Therefore, this study focused only on the cash management practices of small and micro enterprises.

3.2. Cash management practices of SMMEs.

Respondents were asked to indicate by a way of a yes or no question whether their SMMEs had a bank account, conducted bank reconciliation, prepared cash budgets, pre-determined its cash shortage or surplus, invested cash surpluses, held cash for speculative purposes, monitored cash flows regularly, used computers to manage cash in their day-to-day operations and spent cash as planned.

3.2.1. Whether businesses have a business bank account. As summarized in Table 2, 62% of the respondents indicated that their businesses had a bank account, while 38% indicated that their businesses did not have the same. A Binomial Test (2-tailed) conducted revealed a significant difference was found between the proportion of the respondents whose businesses had a bank account (62%), and the proportion of those whose businesses did not have a bank account (38%) ($p < 0.05$).

The above results are consistent with the findings of Sunday, Uwonda et al. (2013), and Yiadom and Agyei (2006) who also found that most of the small-scale enterprises in Uganda and Ghana had a business bank account, but in contrast to the findings of Nguyen (2001) which found that only 19% of SMEs in Vietnam had a cash surplus deposited in a bank account. A possible explanation for the difference is that Nguyen's (2001) study was conducted in 2001 when SMEs were still ignorant of the benefits of business bank accounts.

3.2.2. Whether businesses conducted bank reconciliation. As shown in Table 2, 53% of the respondents whose business had a business bank account indicated that their businesses conduct bank reconciliations, while 47% indicated that their businesses did not do the same. Based on the Binomial Test (2-tailed) conducted, a significant difference was found between the proportion of the respondents whose businesses conduct bank reconciliations (53%) and those whose businesses did not (47%) ($p < 0.05$). It is rather disappointing that almost half of the respondents' businesses did not conduct bank reconciliations, which is critical for uncovering irregularities such as unauthorized withdrawals and ensuring that a business's transactions have been recorded correctly. The preceding results of this study are consistent with the findings of Sunday et al. (2013) who found that most SMEs in western Uganda did not conduct bank reconciliations.

Table 2. Cash management practices of SMMEs

	Yes	No	N	p-value
1. Have a bank account	62%	38%	200	0.001*
2. Conduct bank reconciliation	53%	47%	124	0.00*
3. Prepare a cash budget	60.5%	39.5%	200	0.004*
4. Have a way to pre-determine cash shortage/surplus	68.5%	31.5%	200	0.00*
5. Invest cash surplus	40.5%	59.5%	200	0.009*
6. Hold cash to take advantage of investment opportunities	41%	59%	200	0.013*
7. Monitor cash outflow on regular basis	73.5%	26.5%	200	0.00*
8. Use computers to manage cash	35%	65%	200	0.00*
9. Spend cash as planned	62.5%	37.5%	200	0.00*

Note: * statistically significant differences ($p < 0.05$) at 95% confidence level.

3.2.3. Whether businesses prepared cash budgets.

As illustrated in Table 2, 60.5% of the respondents indicated that their businesses prepared cash budgets, while 39.5% indicated that their businesses did not do the same. Considering the importance of cash budgets in enabling business entities to determine their future cash needs and in decisions such as the credit terms to extend to debtors without facing liquidity problems, it is rather disappointing that quite a significant percentage (39.5%) of SMMEs did not prepare these budgets. The Binomial Test (2-tailed) conducted revealed a significant difference between the proportion of the respondents whose businesses prepared cash budgets (60.5%) and those whose businesses did not (39.5%) ($p < 0.05$).

The preceding results of this study are consistent with the findings of Nguyen (2001) and Mensah-Agyei (2012) who found that most SMEs prepared cash budgets on a monthly basis. However, the results of the current study contrast those of Yiadom and Agyei (2006), Pietersen (2012), and Masoud and Mbega (2012) who found that most SMEs did not prepare cash budgets. A possible explanation for the difference is that South African SMMEs may have had the financial knowledge required to prepare cash budgets, perhaps due to Government intervention, that may have been lacking in the other African countries.

3.2.4. Whether businesses have a way to pre-determine cash shortages/surplus.

As summarized in Table 2, 68.5% of the respondents indicated that they had a way to pre-determine cash shortages/surpluses but 31.5% indicated that they did not. A Binomial Test (2-tailed) conducted revealed a significant difference between the proportion of the respondents who indicated that their businesses had a way to pre-determine cash shortages/surpluses (68.5%) and those whose businesses did not (31.5%) ($p < 0.05$).

By comparing the results of this question to those of the previous question, an interesting observation can be made that 8% of the businesses had an alternative way of pre-determining their cash shortage or surplus other than by using cash budgets. The preceding results of the current study contrast with those of Pietersen (2012) and Nyamao et al. (2012) who found that most small enterprises neither forecasted nor had a cash target for their business. A possible explanation for the difference between this study and those of Pietersen (2012) and Nyamao et al. (2012) is that most of the South African SMMEs in the current study had prepared cash budgets and used them to determine cash shortages/surpluses, unlike the SMEs in the two preceding studies.

3.2.5. Whether businesses invest their cash surplus.

As disclosed in Table 2, 40.5% of the respondents indicated that their businesses invested their cash surpluses, while 59.5% did not. A Binomial Test revealed a significant difference ($p < 0.05$) between the proportion of the respondents whose businesses invest cash surpluses (40.5%) and those whose businesses did not (59.5%). The preceding results suggest that a majority of the sampled SMMEs did not optimize on the utilization of their resources, and are consistent with the findings of Nguyen (2001), Pietersen (2012), Mensah-Agyei (2012), and Nyamao et al. (2012) who found that most SMEs did not invest their cash surpluses.

3.2.6. Whether businesses hold cash to take advantage of investment opportunities.

As shown in Table 2, only 41% of the respondents indicated that their businesses held cash to take advantage of investment opportunities, while 59% indicated that their businesses did not do the same. A Binomial Test revealed a significant difference ($p < 0.05$) between the proportion of the respondents whose businesses held cash to take advantage of investment opportunities (41%) and those whose businesses did not (59%). Considering the relative difficulty faced by SMMEs when raising cash for investment purposes, the preceding results suggest that SMMEs may have been foregoing a low cost source of capital in favor of more costlier sources when pursuing business opportunities.

3.2.7. Whether businesses monitor their cash flow on regular basis.

As summarized in Table 2, 73.5% of respondents indicated that their businesses monitored their cash flows on a regular basis, while 26.5% indicated that their businesses did not do the same. The Binomial Test (2-tailed) conducted revealed a significant difference ($p < 0.05$) between the proportions of the respondents whose businesses monitored their cash flow on a regular basis (73.5%) and those whose businesses did not (26.5%). The

preceding results are not surprising given the advancements in information technology in South Africa that has enabled banks to provide businesses with an update of their bank account balances after each transaction.

The preceding results are consistent with the findings of Sunday et al. (2013) who found that most SMMEs ensure the safeguarding of cash and have efficient internal control systems in place to monitor their cash. However, the results of the current study contrast with those of Sunday et al. (2013) who found that most SMMEs do not have internal control systems in place to monitor their cash. A possible explanation for the difference between the current study and that of Sunday et al. (2013) is that the latter study was conducted in a remote part of Uganda, an area likely to have a limited access to advanced information technology.

3.2.8. Whether businesses use computers to manage their cash. Only 35% of the respondents indicated that their businesses made use of computers to manage cash, while 65% of the respondents indicated that their businesses did not (see Table 2). The Binomial Test (2-tailed) conducted revealed a significant difference between the proportion of the respondents whose businesses used computers to manage cash (35%) and those whose businesses did not (65%) ($p < 0.05$). The preceding results are rather disappointing considering the proliferation of computers at low cost that can enable businesses to manage their cash more effectively. These results are consistent with the findings of Pietersen (2012) and Sunday et al. (2013) who found that most SMMEs did not use computers to manage cash.

3.2.9. Whether businesses spend cash as planned. As summarized in Table 2, 62.5% of the respondents indicated that their businesses spent cash as planned whereas 37.5% of the respondents indicated that their businesses did not spend cash as planned. Given that only 60.5% had prepared cash budgets, the above results suggest that 2% of the sampled businesses may have used some type of cash budgets, though they did not refer to the budgets as cash budgets. The above results also suggest that most of the sampled businesses controlled their expenditure, an attribute vital for the survival of SMMEs given their limited access to cash. The Binomial Test (2-tailed) conducted revealed a significant difference was found ($p < 0.05$) between the proportion of the respondents who indicated that their businesses spent cash as planned (62.5%) and those whose businesses did not (37.5%). The above results of this study are consistent with the findings of Uwonda et al. (2013) who found that most SMMEs adhere to budgets by ensuring that expenditure is explained and justified.

Summary and conclusion

The aim of this article was to determine the cash management practices of SMMEs, in the Cape Metropolis in South Africa. The results of the article show that 62% of the sampled SMMEs have a bank account. Of these, only 53% conduct bank reconciliation. The results also show that 60.5% of the sampled SMMEs prepare cash budgets but 68.5% have a way to pre-determine a cash shortage or surplus. This together with the fact that 62.5% spend cash as planned suggests that some SMMEs are able to pre-determine their cash shortages or surpluses, and even spend money as planned without having to prepare a cash budget. The results further indicate that 73.5% of the sampled SMMEs monitor cash outflows on a regular basis. By contrast, only 41% of the SMMEs hold cash to take advantage of investment opportunities. Indeed only 40.5% of the entities invest their cash surplus. Worse still, only 35% of the sampled SMMEs use computers to manage cash.

Although the above results suggest that most SMMEs manage their cash effectively, the fact that only a minority of SMMEs hold cash for speculative purposes or even invest surplus cash suggests that they are not optimizing their utilization of this scarce resource. This could imply that either the decision-makers of SMMEs are ignorant of the available short-term investment opportunities or they simply are not generating a cash surplus that can be invested. Given the proliferation of computers at a low cost, it is rather surprising that only a minority use them for managing their cash. This could be attributed to the prevalence of computer illiteracy among most decision-makers of SMMEs, particularly the micro enterprises. For SMMEs to optimize cash management which will further enhance the wealth of their businesses, they should invest their cash surpluses in profitable investments.

The findings of this article have implications for decision-makers of SMMEs as they will be made aware of the benefits of managing their cash effectively, particularly with regard to the need to use computers to manage cash, need to hold cash for speculative purposes and the need to invest cash surplus in the various short term investment opportunities available. They may have to take regular training and workshops on the above-mentioned aspects of effective cash management practice, which currently they seem lacking. The South African Government may also draw from the findings of this study when developing interventions meant to increase the survival rate of SMMEs by facilitating training workshops that focus on cash management skills of decision-makers of SMMEs through the Small Enterprise Development Agency.

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