FINANCIAL LITERACY TRAINING IN THE SMALL, MEDIUM AND MICROENTERPRISES SECTOR: EFFECT ON BUSINESS GROWTH IN THE EASTERN CAPE, SOUTH AFRICA

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By

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DECLARATION OF ORIGINALITY

I, Iniobong Wilson Akpan, hereby declare that this thesis is my original effort and that no part of it has been submitted to any other university for any form of award. All secondary sources of information have been fully and correctly acknowledged. The study was conducted in full compliance with the University of Fort Hare Research Ethics Policies and Guidelines.

Candidate's signature

STATEMENT BY THE SUPERVISORS

I confirm that the thesis of this candidate, **Iniobong Wilson Akpan**, Student No.: 201107330, has been submitted with our approval.

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DEDICATION

First and foremost, I dedicate this work to the Almighty God who has been all things to me in all circumstances. Without Him this work would definitely not have been possible. Through it all, He has been my strength, my keeper, my guide, my hope, my motivator, my provider and my master. To Him I give all the Glory!

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ABSTRACT

The centrality of financial literacy to business performance is increasingly becoming established in the literature, with several studies attributing business failures, especially in the small, medium and microenterprises (SMME) sector, to the failure of entrepreneurs to acquire needed levels of formal financial training. This emphasis represents a paradigm shift: small business failures were conventionally blamed on lack of access to capital, infrastructural deficits, lack of markets for SMME goods and services, regulatory constraints, and crime. In South Africa, and elsewhere in the developing world, this new orthodoxy has spurned new policy interventions aimed at improving the financial literacy levels in the SMME sector. Such is the drive to entrench formal literacy provisioning in the SMME sector that some microcredit providers now bundle financial management training into their SMME loan packages. However, there is a dearth of empirical studies that demonstrate, in any conclusive way, the effect of financial literacy training on small business growth and sustainability. The question, therefore, about whether formal financial literacy training actually leads to significant improvements in turnover levels and growth appears to be answered more as advocacy rather than on the basis of empirical evidence.

It is against the backdrop of these arguments that the thesis adopted a quasi experimental design to study the business performance of a sample of SMME entrepreneurs who had received financial literacy training (the "treatment group") at least two years before the study's commencement and those who had had no financial literacy training at all (the "control group"). The objective was to determine whether any differences in business growth could be attributed to exposure to formal financial management training or the lack thereof. A survey was conducted with 40 respondents from each of the two groups (*n* = 80). The survey was triangulated with in-depth interviews of a randomly selected sample 10 of SMME operators from each of the two groups. The interviews sought to uncover the entrepreneurs' narratives regarding the sources and salience of financial literacy in the sector. The study was conducted among SMME operators in Port Elizabeth, East London and Mthatha – the Eastern Cape's major centres of commerce and industry.

Data estimation was conducted using the Difference In Difference (DID) estimation model to determine whether financial literacy training has had any effect on the turnover of training

recipients' businesses (the treatment group) over that of non-training recipients (the control group). Also, the DID coefficient was used as a growth rate indicator to determine whether growth has occurred in training recipients' businesses over non-training recipients businesses as a result of having received financial literacy training. The Propensity Score Matching (PSM) was used to estimate the average treatment effect (ATE) and the average treatment effect on the treated (ATET). Quantile DID correlations with covariates were also run to reveal the relationship between turnover (a growth variable) and the covariates as possible influencers of firm performance.

The key findings of the study were that based on the specific financial variables tested, some basic financial management knowledge existed among members of the two groups of SMME operators, but there was very minimal application of the knowledge in the day-to-day running of the business. Operators utilise both formal financial literacy training and informal knowledge sources in the operation of their businesses. The study also found that in comparison, the difference in turnover between the treatment and control group at follow-up period was significant at a P value of 0.000. This gave rise to an overall DID P value of 0.000 in the estimation. However, the significance was in favour of control group businesses as the business of respondents in the "control group" (with no financial literacy training) performed better than that of respondents in the "treatment group" (who had received financial literacy training).

Finally, the study found that financial literacy training had no effect on the growth of businesses in the short term as the growth rate of turnover of the treatment group was lower than that of the control group and the difference between the two rates was significant at a P value of 0.025. Also, compared to itself, the change in turnover levels of the treatment group was not significant in the pre- and post-training periods as revealed by the PSM ATET estimation result. Minimal changes in turnover of the treatment group was not significant at a P value of 0.124.

The study concludes from these findings that while financial literacy remains a salient factor in business, scholarship about the real significance of financial literacy training on small business performance in the short term stands on a relatively shaky empirical foundation, especially when viewed against the background that many SMME entrepreneurs also rely on informal knowledge sources to make everyday business decisions. The study thus highlights the imperative of ensuring that knowledge-related interventions in the SMME sector draws on both formal and informal sources of knowledge.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACRONYMS AND ABBREVIATIONS

ADB Group	African Development Bank Group
AMTS	Advanced Manufacturing Technology Strategy
ASGISA	Accelerated and Shared Growth Initiative for South Africa
ATE	Average Treatment Effect
ATET	Average Treatment Effect on Treated
BEE	Black Economic Empowerment
BBEE	Broad Based Economic Empowerment
BBBEE	Broad-Based Black Economic Empowerment
BCMM	Buffalo City Metropolitan Municipality
CEED	Centre for Entrepreneurship and Enterprise Development
CBD	Central Business District
CGTA	Cooperative Governance and Traditional Affairs
CHAMSA	Chambers of Commerce and Industries, South Africa
CIS	Commonwealth and Independent States
COSATU	Congress of South African Trade Unions
CSIR	National Council for Scientific industrial Research
DBSA	Development Bank of Southern Africa
DEAT	Department of Environment and Tourism
DEDEA	Department of Economic Development and Environmental Affairs
DFID	Department for International Development
DID	Difference in Difference
DNI	Development Initiatives Network
DPLG	Department of Provincial and Local Government
DST	Department of Science and Technology
DTI	Department of trade and Industry
ECDC	Eastern Cape Development Corporation
EEDU	Empowerment and Enterprise Development Units
EOU	Enterprise Organisation Unit
EPU	Economic Planning Unit
EU	European Union

FABCOS	Foundation for African Business and Consumer Services
FFH	Freedom from Hunger
FNB	First National Bank
GDP	Gross Domestic Product
GDS	Provincial Growth and Development Strategy
GEAR	Growth, Employment and Redistribution Policy
GNU	Government of National Unity
IDC	Industrial Development Corporation
ILO	International Labour Organisation
INFE	International Network on Financial Education
IRDP	Integrated Rural Development Programme
IT	Information Technology
JIPSA	Joint Initiative on Priority Skills Acquisition
KZN	Kwa Zulu Natal
LGICT Networks	Local Government ICT Networks
LGTAS	Local Government Turnaround Strategy
MAFISA	Micro Agricultural Financial Institute of South Africa
MFI	Microfinance Intermediaries
NAFCOC	National African Federated Chamber of Commerce
NCR	National Credit Regulator
NEF	National Empowerment Fund
NGOs	Non-Governmental Organisations
NGPS	New Growth Path Strategy
NMMC	Nelson Mandela Metropolitan Council
NPDC	National Product Development Centre
NPI	National Productivity Institute
NPV	Net Present Value
NRF	National Research Foundation
NSBAC	National Small Business Advisory Council
NTYEF	Nations Trust Youth Enterprise Foundation
NYDA	National Youth Development Agency
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary Least Squares

PSM	Propensity Score Matching
RWJF	Robert Wood Johnson Foundation
SA	South Africa
SABS	South African Bureau of Standards
SABTIA	South African Business and Technology Incubation Association
SACBC	Southern African Catholic Bishops Conference
SACOB	South African Chamber of Business
SAFIRE	Southern Alliance for Indigenous Resources
SAHRA	South African Heritage Resources Agency
SAQI	South African Quality Institute
SARS	South African Revenue Service
SASI	South African Savings Institute
SAVCA	Southern African Venture Capital and Private Equity Association
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SETA	Sector Education Training Authority
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Microenterprises
SSACI	Swiss-South African Cooperation Initiative
STATS SA	Statistics South Africa
TIA	Technology Innovation Agency
TNS	TechnoServe
TTO	Triple Trust Organisation
UIF	Unemployment Insurance Fund
UJ	University of Johannesburg
UNCTAD	United Nations Conference on Trade and Development
UPTI	University of Pretoria Technology Incubator
USAID	United States Agency for International Development
VAT	Value Added Tax
WHO	World Health Organisation

CHAPTER ONE

OVERVIEW OF THE STUDY

1.1 INTRODUCTION

The dominant theme in the literature on small, medium and micro enterprises (SMME) is access to capital and how this impacts on business performance and the growth of the SMME sector (Zeller and Sharma, 2000). Shaw (2004), for instance, blames the lack of access to capital as a major hindrance to the start up and expansion of small businesses. Toomey (1998) and Kitchen (1986) cite factors such as the lack of infrastructure (such as transport) and markets for SMME goods. Roy and Wheeler (2006) blame the lack of market knowledge and cooperation among possible business partners, while Scully (2004) highlights the size of microloan amounts, the isolated locations of some businesses, especially the microbusinesses, and inefficient loan administration by some loan providers, as factors that limit businesses in the SMME sector. In South Africa, the following hindrances to growth have been identified: restrictive and regulatory framework, lack of access to markets, too much competition, too few customers, poor infrastructure, high cost of credit, low technical skills, lack of business and marketing skills, low incomes, low educational levels and inferior quality goods and services (Kassim and Hendriks, 2002).

Although there is recent interest in financial literacy as one of the contributing factors to SMME failures, very little empirical work has been done in the country to ascertain its effect on these businesses, especially those businesses that have received some form of financial management training. For example, few empirical evidences exist about the state of financial literacy among SMME operators in the country, such as how financial literacy in the sector is facilitated and how the success or failure of SMMEs intersects with levels of financial literacy and literacy training.

Financial literacy, the ability to understand and manage basic transactions or interactions involving the use of money, is a critical skill. It is even more critical in the world of business where money is the language and the denominator upon which all interactions are based. The need to understand credit terms, the effect of such understanding on business performance, the role of savings and the need for budgeting, the importance of record keeping, management of cash flows, and the estimation of profit (or loss); these and more, could make the difference between success and failure for big, small or micro-businesses – or at least that is how this hitherto understudied aspect of small business is increasingly being profiled (Siekei et al, 2013, Calderon et al, 2013).

The understanding regarding what financial literacy should mean to SMMEs or what a financially literate SMME should be are varied. For example, the Banking Association of South Africa (BASA) (The BASA,Home, 2015) emphasizes among others; personal finance skills, understanding of SME funding and financial services needs, sourcing and negotiating funding needs, understanding of financial risk and risk management, basic literacy in regulatory and tax matters and awareness of possible recourse options in the case of bankruptcy and financial distress. Others, like USAID (2009), defines a financially literate SME as one with adequate knowledge about the most suitable source of finance for the business through the various growth stages and the best way to manage it, ability to source and negotiate business supplies with confidence, a good understanding of the legal and regulatory framework guiding business operations as well as the rights and recourse options available to it.

A review of a wide array of financial literacy studies reveal four dominant themes in the understanding and assessment of financial literacy whether at a personal, household or business management level. These include; money basics (among them cash management, time value of money and expenditure control), borrowing (short term and long term), investing (saving accounts, stocks, bonds, etc) and resources protection through insurance and other risk management techniques (Huston, 2010).

In view of above themes, the present study draws on, among others, the variables outlined in the OECD Programme for International Student Assessment (PISA) (OECD, 2012a; PISA, 2012) which contains elements of these themes in assessment of financial literacy in the SMME sector. The variables, which make up what the OECD refers to as Financial Literacy Framework include: savings, budgeting, use of credit and understanding credit terms, and cash flow management. For the purpose of this study, record keeping and determination of profit or loss will be included among the variables to be assessed. However, while the OECD-PISA framework focuses on financial literacy among school students, the present study adapts this to operators of small, medium and micro enterprises. This study begins with the assumption that “lack of financial literacy [is] one of the factors contributing to ill-informed financial decisions and that these decisions could, in turn, have tremendous negative spill-over effects” (OECD, 2012a; see also DTI, 2012). Based on this assumption, the study interrogates the extent to which this is indeed the case; in other words, the extent to which financial literacy and indeed financial training explains the growth of small businesses in the South African context.

If engaging in SMME enables people to get out of poverty and dependency on welfare (World Bank, 2001), clearly more needs to be known about the role of financial literacy and effect of literacy training in this sector. Herein lies the rationale for this thesis.

1.2 RESEARCH PROBLEM

As stated above, the focus of SMME research has always been on problems of access to capital for start up and expansion purposes (Zeller and Sharma, 2000, Shaw, 2004). Many poor people, as the argument goes, remain poor because they cannot access capital for business start up or expansion purposes; hence, the SMME sector does not expand to create more jobs. Little attention is focused on and very minimal empirical evidence exists on the role of financial literacy and literacy training in the growth of the small medium and microenterprises.

In a study conducted to assess the financial skills of fish vendors in Pasil, a low-income neighbourhood in Cebu City, southern Philippines, Barte (2012) found that fish vendors were not keeping proper record of business income, had no clear basis for determining their profit or loss and lacked cash management ability, and as a result failed to accurately account for daily sales. They also used personal asset acquisition as a measure of profit over the many years of fish vending business and resort to borrowing at very high interest rates. This, the author concluded, may have affected their income and growth to some extent. Although the findings cannot be generalized, as the study was based on only one neighbourhood, the study provides an indication that financial illiteracy could be a problem among SMME operators due to very low income levels and the lack of growth portrayed by businesses in that study.

In the United States of America, a study examining loan applications, decisions and outcomes showed that financial literacy was a stumbling block to securing a loan and operating a successful business (Crews-Klein et al., 2005). In South Africa, a study conducted by USAID (2009) to assess financial education needs among small and medium-scale enterprises (SMEs) found a “serious need” among SMEs as their inability to access funding; a major challenge often reported by SMEs was linked to financial illiteracy. SMEs could neither prepare good business plans nor provide required financial information needed to assess their credit worthiness by fund providers and therefore were often denied loan access. The study also found that only components of financial literacy – and not comprehensive financial literacy material – were being given to SME’s (USAID Southern Africa, 2009).

A major attempt at assessing financial literacy levels among microenterprises in South Africa was the 2010 Small Business Survey undertaken by Finmark Trust (2010), a non-profit organisation. The survey focused on three elements of financial literacy; namely “record keeping”, “offer of credit” and “credit management”. The survey revealed that a level of literacy existed with regard to these aspects. However, in a section where analysis of “obstacles to growth” is provided, the report does not list financial literacy as a variable. Rather, the variables of interest are “space to operate”, “competition” “access to finance”, “crime”, “cost of finance”, “transport”, “electricity”. That Finmark Trust (2010) did not acknowledge financial literacy as a possible factor in the success or failure of small business may well be a reflection of the SMME research orthodoxy referred to earlier - the orthodoxy of such failure being typically blamed on lack of access to finance, cost of finance, lack of adequate business space, and the like (see also Masakure et al, 2008). This therefore prompts the need to investigate the extent of availability of basic financial literacy in the Eastern Cape SMME sector and how this intersects with SMME business growth.

Recent surveys reports a decline in the SMME sector over the period 2012 to 2014 (SBP, 2014; SBP, 2015). Although these have been blamed on problems of regulation, government red tape, declining demand for SMME goods, bad governance, poor service delivery and cash flow problems, skills shortage is also considered a factor (SBP, 2014). Although the survey was inexplicit on the specific skills shortages, the present study seeks to examine whether financial literacy skills is among the skills that is in shortage in the sector. Besides, a recent study of challenges faced by SEDA reported that its training is inaccessible to needing SMMEs, it lacks qualified trainers and mentors, is unable to respond adequately to individual SMME unique training needs and above all, lacks the necessary resources to monitor and evaluate effectiveness of its training programmes on participating SMMEs, the last challenge being a subject of particular interest to it (Maluleke, 2013). It could therefore be assumed that the inaccessibility of SEDA training would be more obvious in the Eastern Cape since the rural provinces of the country often trail behind the more urbane ones in matters of access to resources and development. This study however becomes one of the initial attempts at impact evaluation of SEDA training programmes especially in understanding if its trainees necessarily perform better than non training recipients after the receipt of training. The above mentioned considerations provided the impetus for the conduct of this study

1.3 RESEARCH AIMS AND OBJECTIVES

The main aim of the study is to assess the role of financial literacy training in the SMME sector in the Eastern Cape, South Africa. The specific objectives are to:

i. Examine selected SMMEs in three Eastern Cape cities (Port Elizabeth, East London, and Mthatha) in order to determine if their operators utilize financial literacy training skills, and if so to what extent, and where and how that knowledge is sourced.
ii. Assess the difference in the performance of SMMEs that utilized financial literacy training skill over those that did not.
iii. Determine if financial literacy training skills had any effect on SMME growth.

The following hypotheses are tested:

1. H_0 There is no significant difference in the performance of SMMEs that have received financial literacy training over those that have not.

   H_1 There a significant difference in the performance of SMMEs that have received financial literacy training over those that have not.

Where:

Performance = Difference in turnover between the treatment group (SMMEs that received financial literacy training) and the control group (SMMEs that have not received financial literacy training).

2. H_0 There is no relationship between financial literacy training and SMME growth.
   H_1 There is a relationship between financial literacy training and SMME growth.

Where:

Financial literacy training = Training of SMMEs to enhance their ability to budget, keep proper records of sales and expenses, credit and cash purchases, debtors and creditors; save, meet credit obligations, as well as determination of profit and drawings.

Growth = Overall increase in turnover over the last five years, as reported by respondents (T_1 is 2008-2009; T_2 is 2011- 2012, 2010 being the year of receipt of training).

1.4 SIGNIFICANCE OF THE STUDY

Research into the state of financial literacy and financial literacy training in South Africa's SMME sector is still in elementary stages. As yet only very few organizations – predominantly Finmark Trust- have conducted country-wide surveys in this area. This study contributes useful data regarding financial literacy levels in the Eastern Cape, South Africa. Beyond this, the study attempts to establish empirically, how financial literacy training impacts on turnover and growth of SMMEs. The study also contributes to debates surrounding, for example, the entrepreneurial economy, the discourse which highlights the fact that knowledge (including financial literacy) is the "new" factor of production, and that the more readily it can be accessed, the better for small, medium and microenterprises. In other words, subject to the levels of knowledge they possess, small, medium and microenterprises – and not big businesses in the "managed economy" - hold the key to *new* employment creation and economic growth. The study also provides practical contributions in terms of shedding light on what type of literacy training SMMEs really need, and whether financial literacy training correlates with SMME growth in all locales.

1.5 ORGANISATION OF THE STUDY

The central aim of the study, as stated earlier, is to demonstrate the extent to which financial literacy training explains SMME growth. This is against the backdrop of recent interest in the role of financial literacy as a factor in small business performance, in light of the emerging argument that lack of financial literacy could have tremendous adverse effects on small business performance (OECD, 2012b).

The thesis is organized into nine chapters. Chapter one introduces and provides background information on the entire study. Chapter two provides an overview of the South African small medium and microenterprise (SMME) sector. It discusses the current state of SMMEs in the country showing entrepreneurial levels of activities, participants and size of the sector. General challenges facing the sector are highlighted as well as the potentiality of the sector in supporting employment creation and economic growth. The overview was important in helping contextualize the need for financial literacy knowledge and training and the role it could play in further stimulating the sector.

Chapter three enumerates important institutional, legal and policy framework that guides SMME sector development in the country. It traces SMME sector development policies in the pre and post democratic periods and shows how skills development through training has become pivotal in government's SMME sector development agenda. The chapter also discusses the role apartheid played in perpetuating the underdevelopment of the sector. This chapter was important in providing an understanding of the establishment of training agencies such as SEDA with focused attention on financial literacy training of SMMEs.

In chapter four the theoretical appraisal of discourses upon which this study is based and empirical literature review on the effect of financial literacy on business are conducted. It highlights the emerging theories of firm growth, indicating a shift from theories that have traditionally been used in explaining what gives firms the impetus to grow. These theories ("emerging" or "modern") emphasize knowledge and knowledge production as an important factor that sustains firms' growth and profitability, among them, financial literacy knowledge. This chapter highlights that knowledge is inseparable from entrepreneurship, whether knowledge acquired through entrepreneurship training or local knowledge acquired through relational capital. This prompted the need to further interrogate real world evidence of effectiveness of training knowledge in the chapter. Initial empirical evidence on the relevance of knowledge, especially financial literacy knowledge, in small business profitability and growth is explored. Studies are reviewed to provide initial evidence of effectiveness of financial literacy training in propelling firm growth.

The research methodology utilized in this study is discussed in chapter five. The chapter explains and justifies the research study design and also provides details on the data collection method and the choice of econometric model employed in data analysis. In chapter six is the analysis and presentation of data related to research question one. It also discusses the research finding relating to this objective. Data is presented and discussed in themes that address various aspects of the research objective and the presentation is mainly descriptive and narrative in nature. Chapter seven and eight analyse, present and discuss data relating to research questions two and three respectively. Chapter nine summarizes the result of research findings first, provides implications of the research findings at the policy level, highlights important conclusions emerging from the study and provides directions for possible future research.

CHAPTER TWO

BACKGROUND TO THE STUDY

2.1 INTRODUCTION

Regardless of the recent decline in the number of small businesses in the country (Schussler, 2013), South Africa is seen as one of the countries with a high level of entrepreneurial activities compared to other economies with similar characteristics, and much of these activities are borne out of necessity (necessity entrepreneurship) rather than the need to seize an economic opportunity (occupational entrepreneurship) (Turner et al, 2008). The high level of entrepreneurial activity has resulted in the notion that South Africa has a vibrant SMME sector. Although the government has established and implemented various national SMME development strategies which seek to support and capacitate the sector in order to create jobs and reduce unemployment (SEDA, 2012), the sector is awash with challenges which have resulted in high failure rates of SMMEs in the country (Neneh and van Zyl, 2012).

This chapter provides an overview of the SMME sector with particular reference to the size of the sector, gender and race of participants, as well as growth and inhibiting factors within the sector. It also enumerates various policies and interventions of government (which are aimed at boosting sector development), indicates organisations which support the SMME sector, its role in employment creation, poverty reduction and economic growth, and finally, challenges facing the sector. The concluding section highlights important points covered throughout the chapter.

2.2 THE SMALL, MEDIUM AND MICRO ENTERPRISES SECTOR: AN OVERVIEW

The definition of small, medium and microenterprises internationally, and in the South African context is varied (Turner et al, 2008, Finscope, 2006, Ntsika, 2001). The variations have been attributed to the diverse stages of each country’s development which is reflected in its SMME definition. The challenge with this scenario lies in the confusion it could cause to development funding practitioners in appropriately allocating funds to “qualifying” enterprises (Gibson and van der Vaart, 2008). The connotations used to represent the small business sector also vary. In other parts of the world, the term SMEs is used to represent the small business sector while in South Africa, SMMEs is the preferred term (Mathibe and van Zyl, 2013) at times, survivalist businesses are silently implied in the term. While the reasons for this preference are not known, it is noteworthy that South Africa has a large number of microenterprises and survivalist businesses (Ntsika Enterprise Promotion Agency, 2001) and their inclusion in national priorities and planning is therefore inevitable. For the purpose of this research, the definition of Small, Medium and Microenterprises (hereinafter referred to as SMMEs) offered by the South African National Small Business Act No 102 of 1996 (as amended in 2003) will be utilized and applied throughout this study.

The National Small Business Act defines a small business as any business entity managed by one or more owners and carried out in any of the economic sectors or sub-sectors of the country including its branches if any (Govt Info, 1996). The Act further classifies a small business as micro, very small or a medium enterprise which, depending on its classification and the sector in which it belongs to, employs full time employees in the range of less than 5 to less than 200 employees. A small business has turnover range of less than R150 000 to less than R40 000 000 per year and total gross asset value of between R100 000 and R18 000 000 (excluding fixed property) (Govt Info, 1996). As a result of this Act, Ntsika Enterprise Development Agency and the National Small Business Council (NSBC) were established to facilitate the achievement of the provisions of the Act which was to provide guidelines to the government on small business development and related matters in the country (Govt Info 1996, SACBC 2008). Eventually, the Small Enterprise Development Ageny (SEDA) and the now transmuted Khula Enterprise Finance Limited was born to translate government small enterprise development initiative into practical actions.

Before the National Small Business Act was instituted, the apartheid government had earlier established the Small Business Development Council (SBDC) in 1981 to support the development of small businesses in the country through the management of credit guarantees to small businesses (SACBC, 2008). In the words of the South African democratic government, “the apartheid government undermined self-employment and entrepreneurship in black communities…by prohibiting black people from generating self-employment and entrepreneurship" (SA Info, 2013). There is therefore little doubt that the SBDC actively supported selective development of small businesses in the country.

As part of societal transformation and to facilitate broad-based small business development, in 1996, Khula Enterprise Finance Ltd was established to take over and continue the work of the SBDC which was to oversee credit guarantees to small businesses (SACBC, 2008). In 2004, through the National Small Business Act, the Small Enterprise Development Agency (SEDA) was established through a merger between Ntsika Enterprise promotion Agency, the National Manufacturing Advisory Centre (Namac) and the Community Public Private Partnership Programme (CPPP) (SEDA, 2013). Later, in 2006, the Godisa Trust and the Technology Programmes were integrated into SEDA as Seda Technology Programme (SEDA, 2013). The government also established the South African Microfinance Apex Fund (hereafter referred to as SAMAF) to oversee micro financing of microenterprises. In April 2012, the Small Enterprise Finance Agency (hereafter referred to as SEFA) was established through a merger of SAMAF, Khula and Industrial Development Corporation (IDC)'s small business activities (SEFA, 2013). SEDA was therefore established as an agency of the department of Trade and Industry (DTI) to drive small business development in the country through capacity building activities and information provisioning support (SEDA,2013) while SEFA oversees all matters relating to the financing of survivalist, micro, small and medium enterprises (SEFA,2013).

By consensus, the South African SMME sector is largely informal. According to the World Bank (2013a), informal businesses are businesses that are not registered, not regulated, could evade tax, characterised by casual jobs, temporary jobs and unpaid jobs and are more prone to crime and corruption. While some of these attributes may or may not accurately describe the South African SMME sector, for the purpose of this research, informality implies businesses that are not registered. Although there is consensus on the informality of SMMEs in the country, variations exist on the estimated number. Some authors estimate the total number of SMMEs at 2,432,000 (Stats SA, 2007), others 5,979,510 (Finmark Trust, 2010). Turner et al, (2008) estimates that there are 2,698,000 SMMEs, with 2,291,000 being informal businesses making up 4.9% per capita compared to formal businesses with a total of 407,000 businesses at 0.9% per capita. The differences in SMME estimation shows the difficulties that exist in accurately estimating SMME numbers in the country. Stats SA admits that their SMME estimates are not confident figures because some surveys report SMMEs in terms of number of individuals engaging in SMME business, while others report in terms of number of enterprises (Stats SA, 2007). For example, Finmark Trust (2010) reports that there are 5,579,767 small business owners in the country who collectively own 5,979,510 small businesses.

The table below illustrates the demographic distribution of SMMEs in South Africa (by number of individuals who engage in businesses and by sector):

Table 2.1: Distribution of SMMEs (according to number of individuals) by sex, age, population group and province – Non VAT-registered Business

Classification	**2001**	**2005**	**2009**
	(000)	**(000)**	**(000)**
By sex:	**2258**	**1668**	**1076**
Male	888	743	534
Female	1370	925	541
By Population group	**2258**	**1668**	**1076**
Black African	2019	1542	964
Coloured	83	52	44
Indian/Asian	49	15	14
White	107	58	54
By Age	**2258**	**1668**	**1076**
15-24yrs	212	130	71
25-34yrs	660	462	284
35-44yrs	631	478	336
45-54yrs	480	414	258
55-64yrs	274	184	127
By number of business	**2258**	**1668**	**1076**
1 business	2217	1610	1056
2 businesses	38	56	8
3 businesses	3	1	12
By Province	2258	1668	1076
Western Cape	120	93	67
Eastern Cape	227	206	140
Northern Cape	27	12	8
Free State	133	106	60
KwaZulu-Natal	574	334	235
North West	170	124	68
Gauteng	559	426	239
Mpumalanga	222	135	112
Limpopo	226	233	146

Source: Stats SA, (2009: viii)

SMMEs in the informal sector comprise predominantly wholesale and retail activities (repair of motor vehicles, motor cycles, personal and household goods) while formal sector businesses are mainly engaged in financial intermediation, insurance, real estate and business services (Stats SA, 2007). The more rural provinces in the country such as KwaZulu Natal, Limpopo, the Eastern Cape, Northern Cape, Mpumalanga and the Free State, account for the highest concentration of informal businesses, while the more urban provinces of Gauteng and the Western Cape have the highest concentration of formal SMME businesses (Stats SA, 2007).

The World Bank (2014) insists that sustained inequality in South Africa is the explanatory factor in enterprise development as financial exclusion caused by inequality limits access to capital for business purposes. Rural economies lack business infrastructure that supports access to funding therefore most businesses in the rural provinces are informal because they are easy to start and operate. Besides, the rural provinces have experienced the most increases in unemployment, increase in number of people living in poverty, increase in population growth and decreases in annual household income in recent years (Ndabeni, 2013). These constitute enough push factors for establishment and concentration of informal businesses in these provinces.

A report by SME South Africa (2015) sheds more light on the reasons for informality of businesses in these provinces and the subsequent growth rate in formal businesses in other provinces. A longitudinal survey conducted in the sector from the period 2011 to 2015 reveals that although Gauteng has the largest number of SMMEs, the Western Cape is the fastest growing region in the country for SMMEs (Anderson, 2015) due to the participation of private funders in the sector who themselves prefer to set up their base in the Western Cape and other cosmopolitan cities and reach out to other regions from there (SAVCA, 2015). While 75% of their funding is provided to SME business in the Western Cape, 20% is provided to businesses in Gauteng, 3% to Kwazulu Natal and 1% to the Eastern Cape, Limpopo, Northern Cape and beyond South Africa (SAVCA, 2015; SME South Africa Info, 2015). These reasons further contribute and perpetuate the formality of businesses in the more urbane cities and informality of businesses in the more rural provinces, and by implication, to the growth in businesses in some regions and the lack of growth in others.

There are conflicting reports regarding the dominance of either men or women in the SMME sector. Although by population, there are more women in the country than men, with the population of women estimated at 52% of the total (Census, 2011), men, it is believed, own more enterprises than women (Acs etal 2005, Brijlal et al 2013). De Bruin et al, (2006) acknowledge a “dramatic” increase in the number of women entrepreneurs, figures from Stats SA however, paint a different picture. From the period 2001 to 2005, the SMME sector was dominated by women either as entrepreneurs or as employees. By 2009, the figures were close to even (Stats SA, 2009). The dominance however is skewed in certain sectors. For example, in the informal sector, 52% of businesses are owned and run by women while 48% are run by men. In the formal sector only 31% of businesses are managed by women while 69% are managed by men (DTI, 2008). Women are more dominant in the agricultural sector (60%), community, social and personal services sector (60%) and the manufacturing sector (57%) while transport, construction and financial intermediation sectors are dominated by men (DTI, 2008). By nature of the business, Karunga et al (2000:16) and Isandla Institute (1999) argue that women are dominant in the survivalist business sector with 60% of survivalist businesses owned by women, and on the opposite end, the small business category is dominated by men.

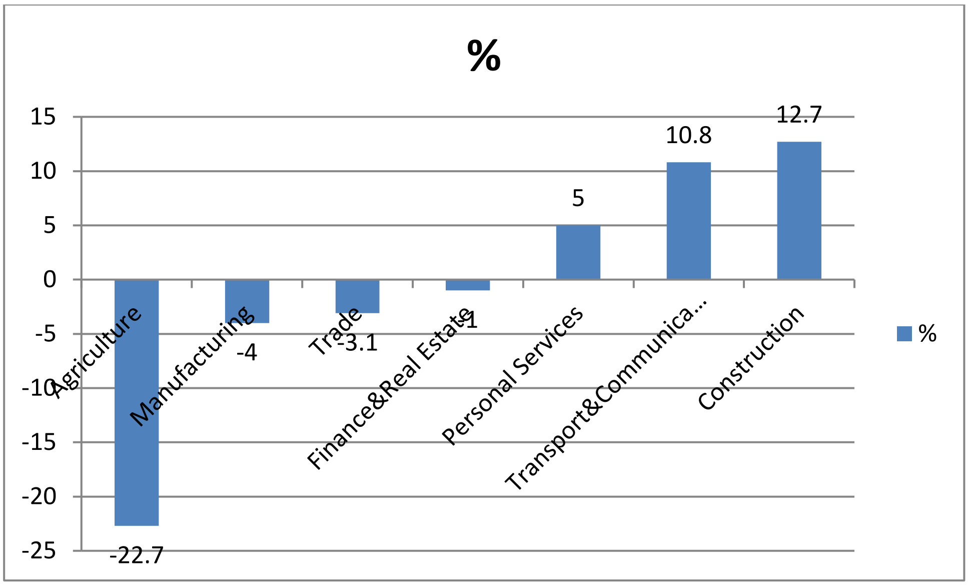
By population group, the SMME sector is dominated by black owned enterprises (DTI, 2008). This dominance is observed especially in the informal sector and in survivalist and micro enterprises. Enterprises owned by whites are prevalent in the formal SMME sector and in small and medium sized businesses (Karunga et al, 2000). Karunga et al (2000) explains that there is a relationship between income levels and type of enterprises. According to the author, people with low levels of income, or no income at all, are likely to engage in businesses for survival. They are unlikely to have meaningful start-up capital and will therefore engage in a survivalist type of business which is a necessity based form of entrepreneurship and is regarded as a person centred enterprise (Karunga et al, 2000). Those with reasonable income are more likely able to raise capital and engage in small and medium sized enterprises. This could imply either occupational entrepreneurship, necessity entrepreneurship or both. There is also a greater chance of survival and continuity in the event that the owner dies. If this was strictly motivated by economic opportunity, it could be said therefore that occupational entrepreneurship is a going concern type of business. Due to the historical nature of the South African society, it is not surprising therefore that black individuals own more survivalist businesses, whilst whites are dominant in small and medium sized businesses.

The ABSA SME Index 2013 explains why there are more female business owners in the SMME sector than male. According to this index, women generally show resilience which is demonstrated in areas of entrepreneurship. Also, women are traditionally more eager to keep the family going, therefore they would do something that would bring in income and allow them the flexibility of caring for the home (Schussler, 2013). Because women are the hardest hit by poverty, some SMME development programmes aim to address gender imbalances and therefore tend to support more women-owned enterprises. For example, the now defunct Khulastart programme of Khula Enterprises Limited targeted women with microenterprise loans through their retail financial intermediaries (RFIs). Ninety percent of loans were granted to women as part of the poverty alleviation drive.

Available statistics shows a greater decline in the number of businesses in the SMME sector than growth. While Stats SA (In table 2.1 above) reported a decline in the number of individuals conducting SMME businesses between the periods 2001 to 2009, the ABSA SME index shows a decline in the number of businesses operating in the SMME sector. Data revealed by the ABSA index shows a significant decline from the last quarter of 2008 to the second quarter of 2010 and thereafter, marginal increases up to the third quarter of 2011 and a further decline into the second quarter of 2012 (Schussler, 2013).

While the index shows a general decline in the SME sector, this is the consequence of significant decline in some sub-sectors and marginal growth in others as shown in the figure below:

Figure 2.1: Sector Growth in three years, 2009 – 2012



Source: Schussler, 2013:1

The decline is not unique to the SMME sector. During the same period, there was a general decline in employment in both the formal and informal sector of the economy (StatsSA, 2013). This decline was due to the general recession that hit the world economy at the time (which started in 2007) and as a result South Africa was also affected. It was initially assumed that developing economies will be shielded from the impact of recession. However, by 2008, the effect had spread across most economies. South Africa, for example, lost an estimated one million jobs by 2009 (Soko et al, 2010), with the agricultural sector suffering the highest declines in employment.

A variety of reasons have been given for the decline in the number of SMMEs in South Africa. Among the reasons are the following: global recession which caused a reduction in demand and a reduction in lending by banks and other financial institutions (Edinburg Group, 2013). Others are: increase in crime rate, xenophobic crime, commercial developments in townships which introduced competition (SEDA, 2009), increases in business running costs, a difficult trading environment (Schussler, 2013), shortage of management skills (Willemse, 2010) and lack of access to finance (Fatoki and Odeyemi 2010, NCR 2011). Others argue further that lack of education and training (Herrington and Wood, 2003), absence of good business management practices, lack of skilled labour, brain drain, lack of financial skills, absence of performance analysis of business operations and incompetent business managers are additional contributory factor (Van Tonder, 2010). Yet, lack of customers, lack of facilities at business premises and infrastructure, laws and regulations (which sometimes thwart the ability to register a business, labour regulations and taxation), lack of information, equipment and appropriate technology (Nelson Mandela Metropolitan Council, 2012), lack of management education, distance and disconnect between residential areas and business areas which increases cost and risk of doing business, lack of assets that could be used as collateral to raise finance and unfavourable business environments in former homelands have also been identified as additional challenges that plague the sector (DTI 1995, Radipere and Van Scheers 2007, Rajaram and O'Neill, 2009).

Regardless of the above, in the last few years, the SMME sector has also experienced marginal growth. According to Schussler (2013), marginal growth experienced in the construction, transport, communication and the personal services sector had been due to a fall in interest rates which enabled businesses to borrow and invest at cheaper rates.

2.3 THE EASTERN CAPE SMME SECTOR

There are contradictory statistics on the size of the Eastern Cape SMME sector, a problem that is not isolated from the national problem. Beyond the shores of South Africa, accurate statistics appear to be a persistent problem especially in the developing world where there is a lack of adequate infrastructure and machinery for statistical compilations. This is compounded by the fact that businesses in the developing world are often largely informal and informality creates an anonymous existence that is difficult to capture even with the most sophisticated statistical instruments. This explains the myriads of SMME data estimations and other data estimations regionally, nationally and globally.

In 2007, the Eastern Cape was considered the third largest SMME market in the country with an estimated 261 000 SMMEs after Gauteng and KwaZulu Natal (DEDEA, 2014). While Stats SA's (2009) estimation shows that there are about 140 000 non-VAT registered (informal) SMMEs that operate in the Eastern Cape, Finmark Trust's 2010 report (compiled by Finscope) indicates that out of a total of 5 979 510 small businesses in South Africa, 15% (or 896 926) were located in the Eastern Cape, the second largest after Gauteng (Stats SA, 2009).

According to Amra et al (2013), upon close observation, the Finscope Survey reveals that 86% of small businesses were not registered with CIPRO which implies that the majority of businesses surveyed (5 142 379) were informal SMMEs. Of this total, between 13% (668 509: DEDEA, 2014) and 15% (771 357: Finmark Trust, 2010 estimation) reside in the Eastern Cape, a figure that is significantly different from Stat SA's estimation. The size of formal SMMEs in the region is among the lowest. While CIPRO reported a total number of 12 246 formal (registered) SMME businesses in the Eastern Cape in 2008 (DEDEA, 2009), the South African Small business Index estimates the region's contribution to the country's formal SMME activity at 5% and 7% of total SMME activity in the country. With a gradual increase in the unemployment rate in the region (Stats SA, Q1, 2012), there is an expectation of an increase in informal businesses in the sector.

The Eastern Cape SMME sector is largely dominated by microenterprises with an estimated 51% located in rural areas (DEDEA, 2014). In terms of district municipalities, Amathole, OR Tambo and the Nelson Mandela Metro harbour the largest share (65%) of SMMEs in the Eastern Cape. Structurally, the Eastern Cape has:

> the third largest number of survivalist enterprises (17% of the national market);…the fourth largest number of micro-enterprises (10%);…a relatively small number of very small enterprises when compared to Gauteng, Western Cape and KZN weighing in at 42%, 16% and 15% respectively; a low percentage of small and medium-size enterprises whereas Gauteng, KZN and the Western Cape account for 46%, 16% and 12% respectively (DEDEA, 2014:4).

The majority of SMMEs (58%) operating in the services sector employ less than six people (66%), are owned by people with matric as their highest qualification (32%) and source start-up capital from their own savings, friends and family (67%) (DEDEA, 2009). A number of development agencies and private sector entities such as SEDA, National Youth Development Agency, ECDC, DBSA, IDC and some commercial banks are involved in SMME sector development in the Eastern Cape. They provide both financial and non-financial support to SMMEs. SMMEs in the region face challenges similar to those faced by businesses at a national level, such as lack of access to finance, poor quality products and services that limits their competitiveness, low education levels, low levels of technical, business and management skills, lack of information on business support services, poor access to procurement and tender opportunities from government and delayed payment for goods and services rendered (DEDEA, 2009).

The annual SMME conference held in East London in November each year (SA government info, 2014) shows a concerted effort on the part of government to transform the SMME sector into a viable, productive and employment generating sector, however, the lack of coordination of the various activities of government institutions and inability to monitor SMME development in order to respond adequately to its needs, continues to thwart any meaningful development in the sector.

2.6. THE ROLE OF SMMEs IN EMPLOYMENT CREATION, POVERTY REDUCTION, AND ECONOMIC GROWTH

The entrenchment of racial discrimination through apartheid resulted in racial inequality, unemployment and poverty in South Africa. The effect of this discriminatory legislation has left the country still battling poverty rates of 34.5% (in real terms) despite improvement in economic growth and increased expenditure on social grants (The World Bank, 2013b).

Although mainly caused by historical factors in South Africa, unemployment is a global phenomenon and the worldwide scourge is alarming. Nasr and Rostom (2013) paint a picture of rising global unemployment especially among the youth while the International Labour Organisation (2014:11) contends:

> The global youth unemployment rate has reached 13.1%, which is almost three times as high as the adult unemployment rate. Indeed, the youth-to-adult unemployment ratio has reached a historical peak. It is particularly high in the Middle East and North Africa, as well as in parts of Latin America, and the Caribbean and Southern Europe.

Besides youth unemployment, the general unemployment levels are equally pessimistic as depicted in the table below:

Table 1.2: Global, regional and country-specific estimates and projections of the total unemployment rate, 2007-16 (percentage points)

REGIONS	2007(%)	2012(%)	2013(%)	2014(%)	2015(%)	2016(%)
Central and South-Eastern Europe (non-EU and CIS	8.2	8.0	8.2	8.3	8.2	8.2
Russian Federation	6.0	5.5	5.8	5.8	5.8	5.8
Turkey	10.3	9.2	9.9	10.0	9.7	9.6
Middle East	10.2	10.9	10.9	11.0	10.9	10.8
North Africa	11.1	12.1	12.2	12.2	12.1	12.1
Sub-Saharan Africa	7.5	7.6	7.6	7.6	7.5	7.5
South Africa	22.3	25.0	25.3	25.2	25.1	25.1
Latin America and the Caribbean	6.9	6.6	6.5	6.5	6.5	6.5
Argentina	8.5	7.2	7.3	7.4	7.4	7.3
Brazil	8.1	6.9	6.7	6.6	6.5	6.5
Mexico	3.4	4.9	5.0	4.9	4.8	4.7

Source: ILO, 2014:19.

The table above shows that compared to other countries at the same level of economic development; such as Brazil (a member of BRICS) and Sub-Saharan Africa, South Africa's current and projected unemployment of between 22.3% and 25.1% in the years 2007-2016 compares as the highest. While the general projections reveal a potentially depressing economic outlook, especially in Central and South Eastern Europe, Middle East, North Africa and Sub-Saharan African countries, the outlook is particularly bad for South Africa. Some countries like Brazil have been able to contain high unemployment through strengthening of the SMME sector to create more jobs. The country depends heavily on job creation by the SME sector to reduce unemployment and an estimated 96% of jobs are created by SMEs annually (Rankin, et al, 2012). As a result of the strategic nature of the sector in unemployment reduction, the government implements policies that are effective in nurturing the sector for growth such as the promotion of public-private partnership and funding of research in the agricultural sector to improve food production practices among SMEs (Gomes, 2006).

In South Africa, as with other countries, while different government policies and programmes have always targeted SMME sector development, the persistent high unemployment levels especially among the youth calls to question the effectiveness of these policies in propelling sector development and growth. While economic growth in the country, on the one hand, has improved steadily over time, at the rate of 3.26% over the period 1993-2011, inequality has increased during the same period from the Gini coefficient of 0.66 to 0.70 (Sharma, 2012). This shows a serious disconnect between increase in economic activities and job creation especially if growth is driven by large firms. Initiatives with proven effectiveness such as the Brazilian SME agricultural sector research funding which leads to high food production by SMEs and employment creation therefore presents a viable option that South Africa could draw from.

The inability of large firms to singularly make an impact on unemployment in South Africa, and indeed the world at large, and the recent focus on SMMEs as the driver of present and future job creation is explained by Thurik (2008). According to Thurik (2008), since the eighties, there has been a shift in focus on large firms as creators of jobs due to a general stagnation or shrinkage in the number of large businesses, which was caused by excessive competition, changes in the world economy and technological advancement, to name a few. Small firms on the other hand are innovative and can adjust easily to changing market needs even though their survival is often in doubt. Emphasis shifted to small businesses as drivers of job creation. As a result, government policies were directed towards boosting this sector in order to support its job creation drive. In South Africa, the government provides both financial and nonfinancial support to boost the small business sector as well as ensuring a business environment conducive for such growth (SA Info, 2013; Jeppesen, 2005) but little empirical evidence exists on the effectiveness of the various support in achieving sector development and growth.

There is growing evidence which suggests the positive contributions of SMMEs to job creation and economic growth thanks to increased attention and purposive intervention by all stakeholders in the SMME sector, globally and nationally (Shaw, 2004; Jeppesen, 2005, Cant and Erdis, 2005). According to de Kok et al. (2013), globally, small enterprises employ more people than large enterprises although the extent of this employment varies between countries. This is due to the stagnation in the size of large enterprises and work automation that has replaced human labour. On the other hand, there has been an increase in entrepreneurial activities in the SMME sector but with little work automation which requires the use of human labour. They also argue that the larger the size of a business organization, the lower the employment growth rate, therefore in most developing and emerging economies, more than 50% of jobs created in the private sector are SMME jobs (de Kok et al. 2013).

Globally, and in South Africa, SMMEs are believed to be net creators of jobs. They assist in poverty reduction and also contribute to economic growth, but the estimation of the extent of their contribution is often varied. For example, in 2000, Ntsika Enterprises estimated that:

> The sectors with the highest contributions to employment by very small ("formal micro") and small enterprises were the services sector, with a combined 70.9% of employment in "community, social and personal services", 59.5% in "trade, repairs, hotels and restaurants, and 44.3% in business services. Meanwhile, medium-sized enterprises [contribution] were significant in agriculture (52.3% of formal employment) and manufacturing (24.6%) (Berry et al, 2002).

These figures however exclude jobs created by the informal sector which was estimated during the 1996 population census at 1.4million. Estimations by SA Commercial Prop News (2013) puts SMME job creation at over 50% of all jobs created in the country.

The quality of jobs created by SMMEs is however, disputable. While the "pro-SME" proponents argue that SMME employees are more innovative as they work in a sector that is innovation driven, Beck et al. (2005) argue that large firms create better quality jobs than SMMEs, as they offer stable employment, better wages and more non-wage benefits at every level of education, experience or industry. Small firms, they argue, are often created as "afterthoughts" or out of necessity and therefore lack the financial strength to adequately provide good remuneration for employees, or show growth potential. It could be argued therefore, that one of the factors that stunts SMME growth is poor remuneration and employment conditions, which cause higher employee turnover, impinging on specialisation of labour, improved productivity and sustainability of enterprises. Broadly speaking, although job creation by SMMEs are "transitive" in nature as employees do not hold long term views of their employment (as they constantly seek to move on to jobs that offer better incentives), they play a critical role in filling the temporary employment gap.

According to Berry et al. (2002), the estimation of jobs in both the formal and informal SMME sector is somewhat problematic. The reason is that often, there is the difficulty of classifying domestic jobs as formal jobs, as a result, it is sometimes included and at other times excluded from job estimations. Even more problematic is the estimation of informal sector jobs because activities in this sector are often unrecorded, therefore any estimations are usually approximations. However, Nasr and Rostom (2013) maintain that small firms are the highest net creators of jobs in developing countries while Toomey (1998) argues that within the SMME sector, it is the manufacturing sector that has the prospect of job creation in the long term rather than the retail sector.

Cant and Erdis (2005) disagree with the notion that the SMME sector has made meaningful contributions to job creation in South Africa. In agreement with other authors, they argue that in the period 1990 to 2001, the SMME sector experienced job shedding on the one hand, and population growth on the other. The reason for job shedding according to them, are persistent 'organisation-based problems' such as lack of resources and skills, 'industry-based problems' such as competition and insufficient demand for SMME products and 'economy-based problems' such as the business cycle, exchange rate and the value of a country's currency. This, they argue, is the main reason why over time, there is no significant reduction in the unemployment figure. For instance, as at January 2000, the official unemployment rate was estimated at 25% while the latest rate as at January 2014 stands at about 24.5%, with an average rate of 25.26% from 2000 to 2013 and an all-time high of 31.20% in the first quarter of 2003 and a record low of 21.5% in the fourth quarter of 2008 (Trading Economics, 2014). They however agree that there is job creation by informal businesses, but argue that they only create jobs for themselves and not for others, therefore the unemployment levels remain unchanged.

Ngek and Smith (2013) on the other hand argue that job creation by SMMEs is not a numbers game, that is, does not correlate positively with the number of SMME businesses. Citing studies done in the US and the UK, the authors argue that only a small number of high growth, high quality SMMEs account for a huge percentage of jobs created in the sector. The challenge for the government therefore is to identify and provide targeted support to these firms as well as increase their numbers in order to increase job creation potential of the sector.

2.6.1 SMME contribution to GDP

"The real engine of sustainable and equitable growth in South Africa is the private sector" (Ncwadi, 2011) and SMMEs are active participants in this sector. A vibrant private sector can impact employment, poverty levels and economic growth more significantly and sustainably than the government, since the government's role in the economy is often interventionist and regulatory in nature. By implication, SMMEs can impact on a country's wellbeing whose indicators are employment, poverty levels and economic growth. For example, in developed countries such as the United States, evidence shows growth of the SMMEs sector and their active participation in economic activities has led to an increase in sales figures and GDP (Acs and Audretsch, 1993). In South Africa, the contribution of SMMEs to economic growth is estimated at more than 45% (SA Commercial Property News, 2013), an indication to the important significance of this sector. As cautioned by Berry et al. (2013), it is very problematic to accurately estimate SMMEs' contribution to the GDP though, for just as in employment estimation, GDP typically records only formal activities, while most SMMEs are active in the informal sector, therefore their contributions are hardly accurately captured. Regardless of estimation problems, it is obvious that SMMEs have made positive contributions to economic growth in South Africa and indeed worldwide.

2.7 CHALLENGES FACING THE SMME SECTOR

There is very little argument regarding the challenges facing SMMEs in South Africa. Some of these challenges are systemic and affect both big and small businesses, while others are peculiar to the SMME sector. It is impossible to discuss challenges facing this sector without reflecting on its recent apartheid past, for, much of the problems faced today are as a result of sector neglect in the past, and poor socioeconomic conditions in the country.

2.7.1 Systemic challenges

According to the DTI (1995), "The obstacles facing small enterprises in 1994, and in some cases still today, are grounded in the legacy of *apartheid"*. During apartheid era there was little or no opportunity for business skills development through formal education or training, nor was there any opportunity to gain business management experience by the black majority.

There was a complete absence of entrepreneurship education which equips people, at least in theory, for entrepreneurial activities. The distance between residential areas and working areas was far apart therefore it became very costly for people to do business and the black majority were restricted to homeland areas within a minimally viable business environment. The limitation of property ownership by blacks ensured that they owned no assets that could serve as collateral in the event of seeking to obtain a loan for business use (DTI, 2004). These deliberate measures caused a general lack of technical and professional business management skills and experience, in a sector which is sometimes seen as the resort for those who cannot find employment in the formal business sector and which is in the domain of black businesses (DTI 2008, Karungu et al 2000). These circumstances perpetrated the underdevelopment of the SMME sector. Today, though, entrepreneurial activities in the country have increased (Turner et al, 2008), unfortunately an equally high failure rate is also evident (Neneh and van Zyl, 2012) which indicates a mismatch between entrepreneurship drive and the skills to sustain it.

2.7.2 Challenges specific to the SMME sector

The challenges of SMMEs are multi-faceted in nature. Some are caused by the nature and characteristics of the business and business owners (the internal environment of the business) while others are caused by the local economic and social environment in which they operate (the external environment). Challenges within the internal environment can be remedied and controlled by the entrepreneur as they are firm-specific or specific to the entrepreneur. Challenges caused by the external environment may be difficult to control singularly by an entrepreneur, and may require partnerships or intervention by those external to the firm, in order for them to be abated.

2.7.2.1 Challenges relating to the internal environment

A business owner is responsible for all the tasks involved in running a business which can sometimes be overwhelming. Some of these tasks such as sales, marketing, financial management and planning, employee management, strategic planning and inventory control may be overlooked, while other areas receive priority attention. Entrepreneurs are also more likely to focus and execute those tasks in which they are skilled (through experience or acquired through education and training) while tasks in which they are not skilled in are likely to be neglected (Cant, 2012). Businesses experience internal environmental challenges as a result of managerial deficiencies and absence of opportunities such as, lack of skills (marketing, management, financial management), lack of planning, lack of finance, lack of appropriate technology, poor profit margins and lack of sufficient information about government support services (DTI, 1995; Zwane, 2009, Tlhomola et al, 2010:)

(i) Lack of information about government support services

Government supports small business enterprises through its institutions and agencies some of which include SEDA, Ntsika Enterprise Promotion Agency, Khula Enterprise Finance (now SEFA) and National Youth Development Agency (NYDA). The support services provided through these agencies manifests in the form of facilitating access to, and provision of information, training, markets, finance and technology, provision of business infrastructure and strengthening of networks among business enterprises to enable information sharing and support (Mathibe, 2010). Mentorship is also an important aspect of business support. There is evidence that these business support initiatives are seldomly successful in addressing the needs of the sector (Mathibe, 2010). Studies show that in some cases, small business owners are not even aware of availability of these services provided at no cost to them, (Mathibe, 2010) and are often unable to bear the cost of sourcing for these services from private providers. A market failure arises as a result of what could be termed market failure.

(ii) Lack of entrepreneurial skills

The possession of the right skills is important in knowledge based economies and can affect firm performance (OECD, 2002), while entrepreneurship education and training can facilitate skills development. These skills include management skills, marketing skills and financial management skills. Management skills are crucial in managing a business in a fast changing world. It enables an entrepreneur to handle the pressures of change, be flexible and able to adapt to changes in the business environment, and position the business for success. A skilled entrepreneur is confident, proactive and able to restructure the business to better respond to changing economic, social and even political circumstances and maintain its competitive position (OECD, 2002). Regrettably, according to the OECD (2002), managers of small firms are more likely to be less educated than those of big firms. The implication is that managers of microenterprises and survivalist businesses are further down the skill scale. A study of SMEs in the United Kingdom, some European countries and Canada revealed that managerial incompetence due to absence of managerial skills was one of the explanatory factors in small business failure, especially among microenterprises and survivalist businesses. Small firms were also found less likely to provide training to its employees than large firms (OECD, 2002).

In South Africa, the challenge of absence of skills is prevalent in all sectors, particularly in the SMME construction sector with specialised needs requirements. Some have claimed that due to the implementation of BEE, black entrepreneurs now have jobs in the construction industry and struggle to deliver them due to a lack of skills (SA Commercial Prop News 2013). The question is, if managerial training is critical to the success of a business, why is this training need not being addressed?

Research shows that for small firms, the cost of training could be cumbersome and difficult to absorb given the limited resources that they have and the training is often generic (since tailor made training is often very expensive) and insufficient to address specific needs of the firm (Storey, 2002). In addition, small firms do not have a long term view of the business, therefore they may not foresee the possibility of recuperating all the benefits of training in the short term and will therefore not consider it a necessity (OECD, 2002; OECD, 2013, Green and Martinez-Solano, 2011). As managers of small firms are more likely to be less educated, they may also see little value in entrepreneurship education and training and may see expenditure on this important need, as a waste of resources. Alasadi and Abdelrahim (2007) therefore recommend management training of SMME owners or managers and its employees as an important step in growing a small enterprise business and ensuring its sustainability. The challenge associated with training is that some businesses generally lack sufficient human capacity to replace those who have gone for training, therefore a conflict of interest ensues between the need for uninterrupted work in the business in the short term, and the need to undergo skills development which will benefit the business in the long term (OECD, 2011).

Marketing skills are one of the important skills for entrepreneurs; sadly, this area has received very little attention in research, particularly relating to the causes of business success and failures. According to Cant (2012), there is a lot of focus on access to capital as the predominant challenge facing small businesses whereas evidence abounds that absence of marketing skill could affect overall success and survival of the business (also Bowler et al, 2007, Murphy, 2006). The author argues that the location, quality of product offering or service, marketing strategy and other marketing related issues all have serious consequences for the business. Failure to address these issues has serious effects on the revenue generated by the business and its long term survival. In determining the success of a business, Cant (2012) argues that often profitability is the predominant measure of business performance, whereas growing customer base and customer satisfaction are important marketing indicators of the reaching of target markets, and good understanding of customer needs respectively, which are important ingredients necessary for business survival. The measure of business success therefore should be composite in nature.

(iii) Financial management skills

As previously discussed, there is evidence of a general shrinkage of the SMME sector. As enumerated above, among the possible causes is the absence of financial skills (Van Tonder 2010, DTI 1995, Willemse 2010). Financial skills comprise financial management skills and accounting skills. Financial management skills enable an entrepreneur to effectively manage the financing and investing activities of a business (Atrill and Mc Laney, 2006). This involves the ability to raise needed funds and identify and invest in productive ventures that would increase the net worth of the business. Unless the business has sufficient internal funds that could be used for investment, sourcing for funds for investment could expose the business to debt. Financial management functions enable effective management of debt in a way that does not harm the business, and also makes an entrepreneur aware of its right as a user of debt. Financial management also involves proper management of resources (for example; managers paying themselves salaries and not haphazard withdrawal of money for personal use, and misuse of business assets) and the application of good financial controls.

Accounting skills on the other hand enable the proper maintenance of accounting records and equip entrepreneurs with the ability to determine whether the business has made a profit or loss through the preparation of relevant financial statements ((Haiden, 2006). These two, according to Taylor (2003) and Stone (2003) are important prerequisites for successful entrepreneurship and new venture creation. Accounting skills allow an entrepreneur to have control over the business while financial management skills contribute to the creation of new ventures by helping to identify the right ventures to invest in (the investment function of financial management) in order to be profitable. Evidence provided by Kotze and Smith (2008) and Rajaram and O'Neil (2009) support the notion that a lack of financial management skills has led to lower rates of new venture creation and higher failure rates among SMMEs operating in South Africa. This, in spite of the various training programmes undertaken by government agencies and the private sector aimed at improving entrepreneurial skills in the sector.

(iv) Lack of access to finance

It is a well-known fact that access to finance is an important prerequisite for small business start-up and expansion. Literature abounds on the role of this important factor in stimulating the SMME sector (UNCTAD, 2001). In recognition of this fact, the 1995 White Paper outlined the improvement of access to finance by small business as one of the strategies to stimulate the SMME sector in order to better position it to contribute positively to the economy (SEDA, 2013). In practical terms, the government set up agencies such as NEF, Khula and IDC (now merged into SEFA), NYDA and a host of other institutions to facilitate access to funds by present and potential SMMEs and entrepreneurs (NCR, 2011). The private sector is also involved in supporting the SMME sector through the provision of finance, mentorship programmes and business incubation services and programmes. Regrettably, their involvement is seen as discriminatory in nature because most SMMEs still struggle to access these services. NGOs have also made some contributed in the provision of funds to the sector, although on a limited scale.

Despite interventions by government, SMMEs, particularly those of an informal nature, still face the challenge of access to finance (USAID, 2009; Mazanai and Fatoki, 2012). For one, small businesses do not have valuable assets that could be used as collateral to obtain a loan. Government enactments and re-enactments of laws have also not succeeded in persuading commercial banks and other finance providers to embrace lending to small businesses, since none of these efforts has, and is able to, specifically address the problem of high transaction cost and riskiness of small businesses – a major deterrent to SMME lending.

Ironically, SMMEs cannot access finance even from government owned institutions and agencies set up for this purpose. Akpan (2005) studied access to microenterprise loans by potential and existing entrepreneurs of Khulastart microenterprise loan programme (administered by Khula's retail financial intermediaries (RFIs) in the Eastern Cape) and found that existing and potential entrepreneurs are excluded from loan access because of the lending criteria used. Even more concerning is that as a result of the merger of Khula, Ntsika and Namac into SEFA, loans of a certain range (microenterprise loans of up to R10 000) have been eliminated due to high transaction costs (SEFA, 2013). Worse still, even when one qualifies for these loans, the requirements that must be met are cumbersome which effectively discourages access. Access to finance therefore still remains a challenge.

(v) Low profit margin

The motivation to run a business is the same for both big and small businesses. Except for non-profit businesses, profit matters to businesses and makes a difference between survival and ~~a~~ failure. Profitability is influenced by two important elements; the volume of sales, and level of expenses. Sales are determined by type and quality of product or service, competition, level of product differentiation, and marketing strategies employed. This is true of all businesses irrespective of size. Expenses are unavoidable and sometimes peculiar to the nature of business.

The SMME sector generally suffers low sales margin and inability to keep expenses down to the level commensurate with low sales. They face stiff competition due to homogeneity of product caused by the inability to differentiate product or service (Tokuda, 2011). When homogeneous products are sold, the SMEs compete among themselves for a limited market share that exists, and also compete with big businesses. Compared to big businesses, the quality of product sold or service rendered is also sometimes questionable, which discourages patronage even from low income earners. These work in tandem with reduced sales, low profit margins and cash flow problems. With a general lack of access to finance to mitigate cash flow problems, this restricts opportunity for growth and sustainability.

(vi) Lack of access to information technology

Technology is the new driver of business. Some technologies support information processing and dissemination (information technology), while others involve the physical equipment and processes involved in the day to day operation of the business (process technology). Use of technology includes online banking, internet access, accounting software to record transactions, personal computers, cell phones, a website, business emails, etc. In a knowledge based economy, technology is the driver of a competitive advantage of firms, and globalisation and digitization have changed the way in which business is conducted (Modimogale, 2008). Change brought upon by technology is best explained by Berisha-Namani (2009:2) as thus:

> Society is changing and is becoming "knowledge society" more dependent on new technologies, with a new economy or "knowledge economy", where knowledge and information are essential and the key factor of production and where ideas, processes, knowledge and information are a growing share of trade in the knowledge economy.

In this global economy therefore, technology plays an important role in both big and small businesses. It enhances wider reach and increased interaction with customers and other businesses, facilitates production processes that are faster and more flexible, helps create smart products and services, and also cheapens the cost of business transactions. Some businesses even offer 24 hour services thanks to the availability of modern technology (Modimogale, 2008, Berisha-Namani, 2009).

Evidence shows that in developed economies such as the UK, there is increased use of modern technology by small businesses which has enhanced their efficiency and growth (British SME, 2013), while the developing economies such as Africa still lags behind in technology access and usage. Compared to other African countries, South Africa is a forerunner in the development and use of modern technologies to enhance business performance. But, with this perceived level of sophistication is the reality that people in the rural areas and most businesses, especially those in the SMME sector, still lack the ability to access and use modern technology to facilitate and conduct business. This, among other things, due to lack of knowledge on the existence and use of technology and the possible benefits, lack of time, inability to see immediate return on investment in technology, and inability to use it (Kapurubandara and Lawson,2007). Venter (2012) on the other hand argues that SMMEs generally have low levels of technological skills, lack the knowledge on use of computers, are unable to identify IT needs of the business, and generally lack the financial resources to acquire basic technological support for the business. As a result, SMMEs have lost out on some of the benefits of technology use in businesses which include: access to important and useful information on the internet which could be beneficial to the business, improvement in supplier customer relationships, as a result of fast administrative processes, and ability to trade nationally which reduces the distance between buyers and sellers (Venter, 2012).

It has been argued that sanctions suffered by South Africa in the past isolated the country from enjoying the benefits of international research and development, thereby causing a lag in technology access and usage, when compared to the developed world. Since the post-apartheid economic reintegration, the country is believed to be aggressively engaged in an effort to close the technology gap (Tlhomola et al., 2010) by increasing access to technology by both individuals and businesses. The pursuit of telephone reduction costs, a plan to complete the submarine cable project that will facilitate international web access, the motivation of IT experts to establish an SMME portal, and establishment of internet cafes in poor and rural areas through granting of subsidies by government (Ncwadi, 2011), is a testimonial to this fact. Whether these plans will eventually be executed and achieved depends on the government's resolve to bridge the technology gap.

2.7.2.2 Challenges relating to the external environment

External environmental challenges are those imposed on businesses by factors outside the control of the business and the external environment in which they belong. Among the challenges, some of which are discussed below are: Regulation, crime, poor infrastructure, high rental cost, theft by workers, competition, lack of access to markets and taxation problems (Zwane, 2009, DTI 1995, Booysen 2007).

(i) Lack of access to markets

As postulated by Toomey (1998), by far, one of the most pressing challenges for small businesses, and yet the least topical in the field of small business research, is market access (see also Rogerson, 2004). The problem of market access could otherwise be interpreted as inability to have sufficient demand for and/or purchase SMME goods and services cheaply, and to secure deals through which goods could be supplied or services rendered both in domestic and international markets. As discussed ~~to~~ earlier, the market for SMME offerings appear constricted as consumers patronise well established big businesses. Within this constricted space, they face severe competition as their products are hardly differentiated and there is little barrier to entry. Even more difficult is breaking into new markets where the demand for their goods could be significantly increased.

Small businesses are unable to access markets because they often lack information about existing market opportunities. They lack the capacity to explore possible opportunities, face high production costs and therefore high prices for their goods, and sometimes exist in isolation from large markets. As noted by Tlhomola et al. (2010), access to markets can ensure survival of SMMEs. It could enable access to products cheaply, and enhances ability to sell at reasonable prices, which could lead to increased sales, profitability and growth. Access to new markets can also facilitate skills transfer and exposure to international markets. Toomey (1998) identifies inter-firm linkages as one of the mediums through which market access can be facilitated (see also Kadwa 2004).

Inter-firm linkages are business relationships or co-operations between big and small businesses. It can take the form of subcontracting, franchising, outsourcing, unbundling, partnership agreements, joint ventures and technological transfer (Chetty, 2009). Through this relationship, small businesses are exposed to market opportunities, specialisation of businesses, diversification of business and growth in level of competence and confidence (Chetty, 2009).

Not surprisingly, the government's call for public-private partnerships among businesses, especially partnerships between big and small businesses, is in recognition of the fact that this relationship could, among other things, broaden market access, and increase the exposure of small businesses to existing and potential opportunities in the market. It has "changed tendering procedures in favour of SMEs, and encouraged (and even pressured) large private corporations to use SMEs as suppliers and distributors" (Jeppesen, 2005). The BEE policy of government is an example of government efforts in establishing a relationship between black owned businesses (which are usually small) and big businesses throughout the country (Chetty, 2009). Although different versions of this idea were later introduced such as BBEE, and BBBEE, as a consequence of a failure to actualise the aims of BEE, it is believed that in some ways these various programmes have the potential to foster a relationship between big and small businesses, and enable it to achieve the benefit envisaged by such partnerships. The challenge however, is whether small businesses that were intended to partake in these programmes have maximised these opportunities to their advantage.

(ii) Problems of crime

Crime in whatever form, degree and manifestation is a global problem that affects individuals and businesses in some way or another, and South Africa is no exception. Being one of the most socially unequal societies in the world this problem is seen as a pandemic in South Africa. The nature of South African crime is often viewed as extremely violent compared to other developed countries like Australia and the UK (Corrigall, 2008). Although crime levels are believed to be declining, available crime statistics are still disturbing. An example from the Small Business Project (2008: 4) states the following:

> Over 2 million crimes were reported to the police in the financial year of 2007/08 in South Africa. Of these, 52 percent were theft, commercial crime and property crime; 24 percent interpersonal violence; 9 percent robberies; 8 percent firearms and alcohol and drugs; and 7 percent damage to property and arson. Analysis of 2007/08 crime statistics shows an increase in crime victimisation of businesses – burglary of business premises increased by 8 percent, commercial crimes by 6 percent, and shoplifting by 2 percent. Even more worrying is a 14 percent increase of robberies in residential premises.

Crime in South Africa affects both big and small businesses and it is believed that available crime statistics are inaccurate, as most crimes go unreported. The most prevalent forms of business crime are burglary, armed robbery, shoplifting, employee theft, and mugging of employees on their way to work (World Bank, 2010). These crimes have serious consequences for business owners, employees and customers. In the past few years Corrigall (2008) observed that there has been a shift in criminal attacks from big businesses to small and isolated businesses.

According to the Word Bank (2010), crime increases the cost of doing business: it can reduce demand as customers may be afraid to consume certain products (such as tourism). Businesses incur additional costs of securing their premises such as installation of special fences, alarm systems, cameras and hiring of security guards to guard the business premises. Others resort to insurance products to protect themselves from the crime risk and some have to fix goods or property damaged through crime. These costs are often passed down to consumers causing increases in prices of small business products and services. Where this is not possible, businesses bear the cost and suffer losses. The latter is true of small businesses since any attempt to pass down the cost of crime to its consumers would drive up prices. Since price is the basis of competition among small business, these occurrences of crime could drive them out of the market.

The consequences of crime to businesses are dire. It limits economic growth and job creation as existing businesses are reluctant to invest, expand and create more jobs. It discourages new venture creation as potential entrepreneurs are worried about their safety at the business premises, survival, profitability and growth of the business, in the face of rampant and repeated attacks by criminal elements (Small Business Project, 2008). In sum, crime reduces employment due to the risk and uncertainty it creates, reduces expected return on investment and allocative inefficiency due to low productivity and lower output (World Bank, 2010).

(iii) Infrastructure problems, regulation and taxes

Business infrastructure has many dimensions. Among them are institutions (Melefane, 2013), education, labour market conditions, incubator programmes, information and physical infrastructure such as business premises (Ncwadi, 2011). South Africa is awash with many institutional infrastructure development programmes which aim to support SMME development. Melefane's (2013) allusion to this is captured, in parts, below:

> Institutional infrastructure support for SMME development has been articulated in legislative, policy and strategy pronouncements through the reconfiguration of public sector institutions' mandates to enable them to deliver on their new SMME mandate. A few examples of sector specific national and provincial departments whose mandates were reviewed to enable them to deliver on SMME development include the departments of Public Works (DPW), through its Expanded Public Works Programme (EPWP)…; Economic, Environmental Affairs and Tourism (DEAT); Provincial and Local Government (DPLG); and Roads, Transport and Agriculture. National and provincial sector departments offer support and resources that enhance sector-specific economic activities in municipalities. The Companies and Intellectual Property Registration Office (CIPRO), an institution established to develop and maintain a register of

> SMMEs in South Africa, supports the DTI in keeping abreast of the gradual development of SMMEs and their ownership. The National Development Agency (NDA), the Centre for Small Business Promotion (CSBP) in the Department of Trade and Industry (DTI), Ntsika Enterprise Promotion Agency, Khula, the Land and Agricultural Development Bank of South Africa and the Industrial Development Corporation (IDC)…. all play a critical role as development financing institutions (DFIs) for SMME development countrywide. In addition to support sourced from national departments, government agencies and provincially based economic development corporations (i.e., Invest North West, Limpopo Economic Development Corporation, Northern Cape Economic Development Agency, Mpumalanga Economic Development Agency and Free State Development Corporation) also provide resources and support for SMME development" (Melefane, 2013:12).

Judging from the above, the SMME sector seems inundated with institutional support, however, physical infrastructure that enables the conduct of business on a daily basis remains a challenge.

Taxation is also seen as one of the major hindrances of small business growth. In South Africa, small businesses pay employees tax (Pay-As-You-Earn), UIF and VAT (Munyaradzi, 2012). Referring to an earlier World Bank study of South Africa's small business compliance cost, Munyaradzi, (2012) argued that the tax registration process is highly complicated and difficult for small business owners to cope with. They incur a huge cost of hiring tax consultants to help prepare and submit their tax (PAYE and VAT) returns (due to unaffordability of an in house expert) and also receive substandard service from SARS, which manifests as delays in receiving tax refunds, long waiting times at SARS offices and poor communication between SARS and the business community.

Regulation has also been highlighted to stifle small business operations. For example, certain legislation such as the National Credit Act is believed to cause a major hindrance to credit access by small business. The prohibition of certain practices by small businesses such as the Forestry Act which prohibits burning of sugar cane farms in KZN during weekends is seen by farmers as having a reduced effect on their productivity and business performance (Clover and Darroch, 2005). Labour legislation also puts significant financial and administrative burden on small businesses as they, depending on the size of the business, are required to pay skills levy and UIF. Businesses suffer high staff costs as a result of minimum wage legislation, difficulties with unions, strikes and difficulty in dismissing staff -which discourages employment (Venter, 2012; Arora and Ricci, 2006). The BBBEE law is another form of legislation which hampers small business growth since a low BBBEE score limits opportunities of small businesses to supply goods and services to the government and big businesses (Venter, 2012). Compliance issues are also a burden. Small businesses are required to comply with a number of legislations such as tax returns (as mentioned earlier), failure of which has serious negative implications to the business. VAT returns are particularly burdensome and cause cash flow problems as businesses are required to pay VAT at the point of invoice rather than when money is actually received (Clover and Darroch, 2005). According to Chamberlain and Smith (2006), if the cost of regulation is controlled, it would ease the pressure on SMMEs and help to unlock their much needed potential.

2.8 CONCLUSION

South Africa has a vibrant SMME sector and this form of business ownership mirrors the reality of inequality in the country. Blacks are predominantly employed in the informal, microenterprise and survivalist businesses while formal, small and medium sized businesses are owned by whites. Women are very active participants in the sector, almost in equal number as men but their businesses are mostly survivalist in nature. The sector is confronted with numerous challenges some of which are internal to the firm (those they can control) and others that are external to them (which they cannot control). Regardless of the challenges, SMMEs have made important contributions to employment creation (de Kok et al., 2013:5) and economic growth (SA Commercial Property News, 2013). Despite the support it enjoys from government institutions and other significant parties, the sector has been on a decline in terms of the number of businesses and individuals engaging in the SMME business (Stats SA, 2009: viii; Schussler, 2013). The decline has been attributed to the challenges faced by SMMEs and the general economic recession that gripped the world economy since 2008. Why the sector has not experienced any significant growth despite the concerted support it enjoys from the government, remains questionable.

CHAPTER THREE

SMME DEVELOPMENT IN SOUTH AFRICA: THE LEGAL, POLICY AND INSTITUTIONAL FRAMEWORK

3.1 INTRODUCTION

Historically, small businesses have often been confronted with numerous constraints which impede on their survival and growth "even in effectively functioning economies" (Ladzani, 2010) but the historical nature of the South African past makes the SMME sector underdevelopment before 1994 very glaring.

The underdevelopment of the small business sector before 1994 was not directly intended but could have been implied due to the laws that were in operation at the time. The selective support of small businesses owned by people from racial groups who were in the minority implies the absence of effective support to small businesses owned by majority of the population. Also, the laws which entrenched these practices led to the near dearth of the SMME sector. Against this backdrop, and coupled with the urgency to address unemployment levels which at the time of the new democratic dispensation was "conservatively" estimated at 26 percent (by official definition and 46 percent by expanded definition; Arora and Ricci, 2006), the post 1994 government faced a mammoth task of reviving the SMME sector to enable it contribute to job creation and move the country out of the poverty levels that prevailed at the time.

This chapter provides a general overview of, and a critical analysis of important institutional, legal and policy framework that are instituted and driven by government which helped shape SMME sector development in the country, and the response of other role players working in partnership with government towards achieving a vibrant and economically viable SMME sector. The chapter also discusses the role apartheid played in perpetuating underdevelopment in the sector.

3.2. THE ROLE OF APARTHEID EDUCATION ON ENTERPRENEURSHIP AND LITERACY

Education and indeed any form of training under apartheid system were purposely driven – to "lock Africans into a subordinate stratum of the society" (Johnson, 1982). Obstacles were placed in the paths of blacks who were in the majority to frustrate acquisition of education and skills. For example, admission of African children in school was limited, as a result a large percentage were forced out of school before they could acquire "functional literacy" (Johnson, 1982:222). The use of mother tongue as a medium of instruction in primary schools and English/Africaans in secondary schools impeded learning through language disconnect between the two educational levels resulting in limited understanding and ability to compete successfully with other race groups. Inadequate school facilities, poor learning conditions, censored knowledge and skills that should be taught and acquired by blacks produced in it poor quality teachers who delivered poor quality education to African students and ensured that Africans are not empowered to break out of their subordinate economic and social condition (Johnson, 1982; Nel and Binns, 1999). Bantu education (as the system of education was popularly called) prepared no one for any vocation other than farm labour. The DTI (2004) explains the effect of apartheid on entrepreneurial ability of the blacks thus:

> "Bantu education restricted opportunities for the acquisition of technical and professional skills by black people. There was total absence of entrepreneurial education or sensitising young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship. Apartheid confined the majority of African people to homeland areas which were not only the poorest in terms of living standards and business opportunities but also lacked a dynamic business environment. Even outside the homelands, the system of apartheid made it impossible for black would-be entrepreneurs to participate in business apprenticeships and partnerships with more established (non black-owned) enterprises. Racially segregated residential areas enforced through the Group Areas Act uprooted millions and led to large capital losses, thereby destroying the fabric of black small enterprises, Segregation increased the distance between black residential and working areas, thereby increasing the cost and risk of conducting business, and, the drastic curtailment of property ownership rights of blacks made it impossible for them to acquire assets that could serve as collateral for loan financing".

From the above, it could be argued that there was no opportunity for skills training and development in the SMME sector therefore initiatives such as financial literacy training provision was not perceived as a priority need since there was no conscious intention to capacitate the sector.

Clearly, the educational system under apartheid did not prepare majority of the population for meaningful participation in economic activities nor did it equip them even in part, with the necessary skills to be able to manage a business. It could be deduced that financial skills acquisition through literacy training and skills development was not prioritised as blacks were never exposed to any meaningful form of literacy that could make them functional in a purposive way. There was therefore no formal skills acquisition to support small business operations. It is against this backdrop that the post 1994 government found its resolve to revamp and capacitate the SMME sector. All policies, strategies and SMME development frameworks were therefore aimed at dismantling and rectifying these imbalances and enabling a broad based SMME sector development (Peters et al, 2014).

3.3 POLICIES AND INTERVENTIONS TARGETING SMME SECTOR DEVELOPMENT IN SOUTH AFRICA.

The pre-1994 South Africa marked an era where general economic development was structurally or racially defined. This implies that SMME development policies and strategies in the country were also racially defined. Some authors have however argued that this was not entirely the case as there was a general neglect of the SMME sector in favour of large businesses and state owned enterprises even in the apartheid era (Rogerson 2006, Mathibe and van Zyl 2011). The focus on the development of large businesses was strategic to a government that was suffering isolation at the time as big businesses generally contribute more financial resources to the government than small businesses.

Due to a general consciousness of the contribution of SMMEs to economic growth, in the late 1970s and 80s, the apartheid government reverted its lack of focus on SMME development (Rogerson, 2006) by establishing the Small Business Development Corporation (SBDC) (von Broembsen, 2003) with the responsibility to manage credit guarantees to small businesses (Southern African Catholic Bishops Conference, 2008). Even with the new focus on SMME development, policies and interventions directed at the development of the SMME sector were still in favour and support of white owned businesses (SA info 2013, Mathibe and van Zyl 2011). Wealth accumulation was racially restricted, therefore, among the blacks, access to skills for self-employment in the SMME sector was also restricted.

The post 1994 South Africa heralded an era with concerted effort at SMME sector development on a balanced non-racial basis. Before the collapse of apartheid, public sentiments had indicated the need for the country to be reintegrated with the rest of the world after apartheid (Davies, 1992; Africa Leadership Forum, 1991). This was necessitated by years of international sanctions and disinvestments which had left the economy almost crippled. There was therefore a need to reposition the country after apartheid and steer it in the direction that will allow an inclusive development. As a result of isolation due to apartheid, the country had lost touch with developments globally, in terms of trade liberalisation and globalisation which had created new realities for doing business (Hurt, 1999). Given its potential, the integration was necessary to enable it "secure the best conditions for its domestic social, economic and political development, required to begin to remove the legacy of the apartheid system" (Hurt 1999) and also grow the economy.

As part of the strategy to move the country forward after 1994, the new democratic government initiated a number of interventions and strategies aimed at addressing the structural imbalances of the previous regime and fostering economic growth and development. Just before the onset of the new democratic government in April 1994, in January of that year, the ANC initiated a reconstruction and development programme (RDP), a policy framework which laid the foundation for all economic reengineering that would take place post 1994 elections (O'Malley, 2013). The White Paper on RDP was later developed to set out strategies and methods that would be adopted in order to implement the reconstruction and development programme (University of Pennsylvania, 2013).

The five key programmes of RDP were: to meet the basic needs of the people, human resources development, economic building, democratization of the state and society, and ensuring effective implementation of the RDP programmes itself (Government Gazette, 1994). In order to effectively develop the economy, the government proposed a more balanced approach to its development strategy. The approach was to stimulate economic activities through the involvement of the big industrial, commercial, mining, agricultural and financial sector as well as the SMMEs (Government Gazette, 1994). It pledged support to SMMEs in areas of access to advice, amendments to legislative and regulatory conditions, broadening access to marketing and procurement, finance, appropriate infrastructure, technology and training, and encouragement of interfirm linkages (Government Gazette, 1994). Subsequent policies and strategies were drafted to support the development of these two sectors to ensure that the objectives of RDP are met.

According to Melefane (2013) and in line with the RDP objectives, support for SMMEs in the country takes four different forms; the political support, legislative support, institutional support and financial and non financial support.

3.3.1 Political support for SMME development

According to the DTI (2004), there has always been government support for small businesses long before 1994. During the great depression in the early 1900s, the South African government at the time assisted the small business sector in order to stimulate job creation and poverty alleviation among the whites (DTI, 2004). Subsequently and in the periods that follow, support for small businesses was implemented through the National Government Department of Trade and Industry, the Small Business Development Corporation (SBDC), the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC) and some regional development corporations. In most cases, support was fragmented into bodies that supported different South African races such as the Coloured Development Corporation and the Indian Development Corporation. Very little or nothing was done for the blacks and even when the SBDC was established in the 1980s to oversee loan guarantees to small businesses, it was not allowed to operate in the black homeland areas (DTI, 2004).

The state of the economy that the new democratic government inherited necessitated prompt action by the government. Similar to other sectors of the economy, the SMME sector needed urgent intervention to stimulate national and broad based SMME development. In the words of Thomas (2013: 43),

> "Up to the April-1994 election SME support policies had little political prominence and did not reach the grassroot level of small enterprise development across the country. It was generally felt that government only paid lip-service to SME support, that established support agencies - like SBDC - neglected the mass of (black) small and micro-enterprises and that in most of the rural areas and black townships no effective institutions addressed the needs of SMEs. Three months after the change of government - at the July 1994 Nafcoc Conference in Transkei - the new Minister of Trade and Industry announced the government's intention to push a radical revision of the SME support strategy as a priority issue. He promised that within three months a draft White Paper would be circulated as a discussion basis for broad consultation".

By end of July 1995, the first Presidential conference on Small Business was held in Durban (Thomas, 2013). Since then, numerous conferences has been held such as the ANC's 50th national conference in Mafikeng in 1997, second national conference on Small Business held in Durban in 1997 and ANC's 52nd national conference in Polokwane in 2007, with the aim to discuss strategies that should be adopted to effectively support the SMME sector (Melefane, 2013). These various activities and engagements shows the support and political will of government to develop and grow the SMME sector.

3.3.2 The legislative and policy environment of SMME support

The legislative actions of government are practical steps beyond the political will. In order to move the process of development forward, the government has had to explore various strategies through adoption of different national policies and passing of pieces of legislation which aimed to provide the basis for its actions. The different policies and legislations are discussed below:

3.3.2.1 White Paper on national strategy for the development and promotion of small business in South Africa (1995)

The white paper setting up the national strategy for the promotion of small business in the country was drawn up in 1995 with assistance and advice from agencies such as United States Aid in Development (USAID), the World Bank, European Union (EU), DFID (UK), Friedrich Ebert Stiftung, and agencies from countries such as Australia, Netherlands, Singapore, Denmark, Germany, Ireland and Japan (Karunga etal, 2000). The purpose of the white paper was to set the frame work and lay out national strategies for the development of small businesses in the country. The key objective of the small business strategy was to:

> "- Create an enabling environment for small enterprises, facilitate greater education of income, wealth and earning opportunities, address the legacy of apartheid-based disempowerment of black business, support the advancement of women in all business sectors, create long-term jobs, stimulate sector-focused economic growth, strengthen cohesion between small enterprises, level the playing fields between bigger and small business as well as between rural and urban businesses and also prepare small businesses to comply with the challenges of an internationally competitive economy" (DTI, 1995).

The critical element of the strategy was to develop a support mechanism for small businesses and reform key institutions that would oversee and contribute to the implementation of this strategy. To effectively support the sector, the white paper discussed the need to create an enabling legal framework, relax regulatory conditions, increase access to information and advice, improve access to marketing and procurement, access to finance, improved physical infrastructure, entrepreneurship training and skills development, educate businesses on industrial relations and labour matters, increase access to technology, encourage joint ventures, capacity-building and strengthening, and giving of tax and other financial incentives (Karungu etal, 2000).

Institutionally, the Department of Trade and Industry oversees the task of formulating, co-ordinating and monitoring all national policies related to small enterprises. The National Small Business Council, the Small Business Development Agency and Wholesale funding agencies were set up to assist in this drive. It was also necessary to restructure the SBDC to position it for an inclusive small business support. Drawing from experiences from Asian countries, the government recognised the development of human capital as an important element towards the realisation of the national strategy and therefore sets it as a priority. The government was however ambiguous in terms of human capital development – whether it implied human capital development of implementing agencies or skills development of business owners in the SMME sector. Provincial and local authorities, local service centres and NGOs, and organised business were co-opted into the drive for small business stimulation and development. Specific responsibilities of these institutions are enumerated in the section that follows.

3.3.2.2 The national Small Business Act/Agency

The National Small Business Act was passed in 1996 which paved the way for the establishment of the National Small Business Council (NSBC) and Ntsika Enterprise Promotion Agency. The Act also provided guidelines on the involvement of the state agencies and institutions on the development of small businesses in the country (DTI, 1996).

The NSBC is the umbrella body that oversees all small business development activities in the country undertaken by both government and non government institutions. Its role is advisory and oversight in nature. It coordinates and oversees all activities of the various agencies and institutions of government and those of non governmental institutions/agencies that are strategic to the implementation of the national strategy on small business development. It also advises government on matters relating to the development of small businesses at the national, provincial and local levels (DTI, 1996).

Ntsika Enterprise Promotion Agency on the other hand coordinates actual implementation of the National Business strategy. It does not relate to small businesses directly but monitors and facilitates the provision of both financial and non financial services to small businesses through the service providers. It provides financial support to small businesses by making finance available to service providers. Through the service providers, it also provides non financial services in the form of training, advice, counselling and provision of any other non financial services to small businesses (DTI, 1996)

These two bodies (established by the Act) are expected to submit reports every financial year end to the Minister of Finance who will then table it in Parliament. The report which is the Annual Review of Small Business in the country must highlight among other things, achievement made so far in driving forward the national small business strategy, challenges facing the sector and recommendations on what could be done to further improve the sector.

3.3.2.3 Growth Employment and Redistribution Policy (GEAR)

In 1994, the new democratic government of South Africa inherited an economy that was in disarray (Lewis, 2001) and extremely unequal. Due to decades of anti-apartheid struggle and the skeletal number of educated elites among the struggle stalwarts, there was a general uncertainty around the competence of the new government to govern effectively and steer the country on the path of economic recovery and growth. The economy at the time needed sound economic policies with little room for experimentation and economic transformation was at the heart of all government policies. The government had to pursue macroeconomic policies that will achieve stabilization and lend legitimacy to the government of national unity (GNU) and the economy, by immediately addressing improvement in fiscal policy of the country, reduce inflation and eliminate the dual exchange rate system.

Gear is an economic policy of the government that lays a broad framework for all government's economic programmes. It was a five year plan built on the vision of RDP which aims to strengthen economic development, increase employment and facilitate income redistribution in favour of the poor (Knight 2001). Through its objectives, it sought to achieve among other things; economic growth of 6% in the year 2000, inflation rate of less than 10%, employment growth and improvement in income redistribution (Knight, 2001).

Lewis (2001) lauds the achievement of certain aspects of GEAR in these words:

> "Within the context of GEAR (whose program covered the 1996-2001 period), the Government reduced the fiscal deficit and government dis-savings, shifted spending to human capital development and poverty alleviation, and forced down inflation from 15-20 percent in the 1980s to below 5 percent (before the mid-1998 "Asian flu" exchange rate turmoil). The end of trade sanctions, lower trade barriers, and an increasingly open capital account spurred South Africa's reintegration in the world economy. And previously disadvantaged groups began crossing the boundary into the formal economy from which they had been excluded, increasing their demand for government services, opening bank accounts, and competing for jobs".

He however argues that the achievements are mixed. For example, interventions to support the rand and induce exchange rate stability cost the country a weak reserve position that it is still struggling to recover from. Also, initiatives to discourage discriminatory labour policies and practices are not able to address distortions in the labour markets that has hampered employment of young or unskilled workers. Heintz (2003) however argues that GEAR has not achieved much in the area of growth. According to him, from the period when GEAR was introduced (1996 to 2002), economic growth fell short of GEAR's forecasts.

> "Between 1996 and 2002, economic growth never came close to the GEAR forecasts. Even if we restrict our attention to GDP in the final years of the period, 2000-2002, the economy grew at an average annualized rate of approximately 3 percent – about half of the target level. The most important contributors to economic growth were an expansion of consumer spending and increased exports. Investment – the linchpin of the GEAR strategy – increased at a lower rate than overall economic growth".

The table below shows the growth of the economy under GEAR

Table 3.1: Growth of GDP and expenditure components, South Africa

	1996 – 2002	1994 – 2002
	Annualised % change over entire period	Annualised % change over entire period
Real GDP	2.4%	2.8%
Household consumption	2.6%	3.3%
Investment	2.0%	3.9%
Government spending	1.6%	0.9%
Exports	2.8%	4.5%
Less imports	1.5%	4.2%

(Source: Heintz, 2003)

Although economic growth fell below GEAR's projections, that is, at 2.4% compared to 2.8% (when comparing the period when gear was introduced, 1996-2002 with the entire democratic era, 1994-2002), it however remained positive compared to the apartheid period. On employment, Heintz (2003) argues that economic growth was not matched with employment as there had been serious job losses in the private sector which pushed up unemployment rate. GEAR is also believed to have failed in income redistribution as households' income especially that of black households fell by over 18% from the period 1995 to 2000 while that of white households increased by 15% during the same period (Heintz, 2003). The interrelatedness of income and employment could explain this outcome. Since employment fell during the same period, it follows therefore that income fell by the same magnitude. HIV/AIDS is also believed to have contributed to a decline in income, as the country is among those with the highest HIV/AIDS pandemic in the world.

According to COSATU the tight monetary and fiscal policies that seeks to reduce current account deficit and reduce inflation was in conflict with the goals of RDP which is job creation, poverty reduction and wealth redistribution since the resultant effect of a reduction in government spending is job losses and government's inability to improve services to the people, a weakness which the government itself admits (Knight, 2001).

3.3.2.4 Accelerated and Shared Growth Initiative for South Africa (ASGISA)

As a result of government stocktaking on the nature of the country's economic growth, ASGISA was born in 2006. The goal of ASGISA was to halve poverty and unemployment by 2014 (The presidency, 2006). It sets the tone for the growth path the country is adopting and showed the national effort that would be made to enable it realise its objectives.

The government sought tangible improvements in the lives of its citizenry therefore the second decade of the democratic government (2004-2014) was very strategic in its programme. As a result, it set a targeted growth rate of 4.5% per annum between 2004 to 2009 and 6% for the period 2010 to 2014 (The Presidency, 2008). According to the government, whilst the improvement in economic growth rate from 4% of GDP in 2004 to about 5% in 2005 had improved employment creation, it has had very little effect on reducing unemployment (Mlambo-Ngcuka, 2006). About one third of South Africans did not benefit from the economic growth, an imbalance caused by the exclusion of many people from mainstream economic activities.

ASGISA is a development path which seeks to achieve an inclusive economy and ensure that the benefit of increased economic growth is shared by all. Among the problems that cause exclusion of people from economic activities is shortage of skilled labour (Mlambo-Ngcuka, 2006). Skills shortage could slow down economic growth because as the economy grows, production of goods and services also increases. Qualified labour skills are needed to assist in the production of goods and services therefore where this is not sufficient to meet demand, the economy could slow down. In order to remove this barrier, the government suggested among other things, skills development especially in the second economy where inequality exists due to the quality of education received from the apartheid government.

In order for the growth in South Africa's economy be to be shared by all, ASGISA adopted education and skills development as one of the pillars through which its objectives will be met. Among the key strategies postulated by ASGISA to address skills development are: to strengthen education system in order to improve literacy and numeracy skills, develop an employment services system that brings employers and employee together, institute a national skills development strategy and develop scarce skills database. Others include; introduction of skills transfer projects to new graduates, employment of experienced professionals in local government structures to assist in project deliveries through re-calling of retired experts and human resource management through skills development programmes among women and the youth especially in the small business sector (Mlambo-Ngcuka, 2006). JIPSA was therefore instituted to identify skills that are in urgent need and develop solutions that will address those needs. One such solution is skills training and development.

The Democratic Alliance argued that ASGISA was merely a fine-tune of earlier policies of the government that earlier achieved very little success (DA, 2007). From the Reconstruction and Development Programme (RDP) in 1994, Growth, employment and Redistribution Strategy (GEAR) in 1996, Jobs Summit in 1998 to Growth and Development Summit (GDS) of 2003, the DA argues, the government has consciously ignored what it terms "the binding constraints" which are spanners in the wheels of success of any of its policies (DA, 2007). According to the party, the government should address constraints such as violent crime, allow investment to be private sector driven, prioritise sectors that will create jobs rather than sectors that are labour intensive and promote manufacturing and export in practical terms through facilitating labour cost reduction measures such as wage subsidies and reduction in corporate tax rates. The present strategies of ASGISA according to the party places less emphasis on these critical elements and therefore would thwart the realisation of the policy's objectives.

3.3.2.5 The Joint Initiative on Priority Skills Acquisition (JIPSA)

As mentioned above, JIPSA is the brain child of ASGISA. It was established to address the problem of skills shortage in a concerted manner in order to move the economy forward.

JIPSA was made up of a team of experts, ministers, business leaders and trade union leaders with the responsibility to identify critical skills that are in shortage and address the problem urgently and in the best way possible (Mlambo-Ngcuka, 2006). Education, skills development and training became an important element in addressing the problem of skills shortage. A plan to review achievements of ASGISA after 18 months shows the urgency of the situation at the time and the need for it to make a meaningful impact on its mandate.

According to Aghion etal, (1999), income inequality is associated with inequality in skills acquisition and inequality can lead to a reduction in economic growth. Consequently, skills levels relate positively with income levels and income levels have a positive relationship with economic growth. When individuals possess limited skills, this limits their ability to produce, limits their earning ability or wage levels and slows down the growth rate. Unskilled population cannot find employment even in the midst of economic growth and abundance therefore it is little surprise that in order that the growth of the South African economy is shared by all, a process of intensive skilling by way of education and training was intensified and executed through ASGISA.

With the growth in South Africa's real GDP at the rate of 3.3% per year between 1994 and 2006 (Mohr etal, 2009), the government identified skills development and training as an important medium through which people will be capacitated to actively contribute to wealth creation and therefore share in its rewards. Since 99.3% of South African businesses are SMMEs, accounting for 53.9% of total employment and 45% to economic growth (NCR, 2011), it stands to reason therefore that any skills development initiative which aims to support economic growth will be directed at both big businesses and the SMME sector. Although the focus of JIPSA was laudable, Taylor etal, (2007) contends that JIPSA's intervention was more focused on producing technical skills in the short term and generally ignore the production of "highly educated civil service or general population"

3.3.2.6 New Growth Path Strategy (NGPS) 2010

The new growth path strategy is the fourth economic policy of government since 1994. According to van Aardt etal (2011), it is a policy which attempts to address specific economic challenges that its predecessors (RDP, GEAR and ASGISA) failed to achieve. Its aim was to "increase economic growth to sustainable rates of between 6% and 7% per year in order to create five million jobs by 2020, thereby reducing the unemployment rate to 15%" (van Aardt etal, 2011). To achieve these growth targets, the policy adopted certain measures some of which are: "increase education and skills development and also review existing training systems, produce 30000 more engineers and 50000 more artisans by 2014 and 2015 respectively, strengthen competition to make the market place more equitable and create and implement a rural development policy that is effective" (S.A. Info, 2011a).

Similar to previous economic policies, the main motivation behind EGPS was economic growth and job creation. Evidence shows that none of the earlier economic policies achieved its targets of sustained economic growth and job creation. Actually, South Africa did poorly in these two fronts between the period 1994 and 2009 compared to countries with similar characteristics (van Aardt etal, 2011). It is questionable therefore why the government created another economic policy rather than review previous policies and address obstacles in the way of success. For, if previous polices failed to achieve this aim what is the guarantee that the new policy will succeed? Aardt etal (2011) therefore blames the government for not creating conditions that enable these targets to be met. The DA (2007) argues that the government must consciously create jobs that are labour absorptive in nature for the growth and employment policy to be met. They also argue that for five million jobs to be created, the country needs to increase the number of businesses by between 50% and 70% over the period to 2020, a seemingly unattainable mission.

To the ANC, the New Growth Path policy was the answer for jobs as it believes it had put in place concrete plans to help it achieve the objectives of the growth strategy, from infrastructure development to repositioning state owned enterprises and development finance institutions (African National Congress NEC Bulletin, 2011). Joseph Stiglitz a respected economists believes the NGP was ambitious and carefully thought out. According to him,

> "I believe that it correctly puts employment at its centre. It seeks to build long-term foundation for a vibrant society in contrast to the short-termism of unregulated markets, made so evident in the recent crises", also, "there are many dimensions to a successful growth strategy that are reflected in the New Growth Path. Some involve direct government actions- investing in economic infrastructure that will earn future returns and tax revenue – but many entail simply setting the rules of the game" (ILO, 2011).

The New Growth Path strategy therefore involved infrastructure development and mobilisation of concerned parties and institutions to contribute towards the realisation of its goals.

The congress of South African trade unions (COSATU) and the private business sector opposed the NGP programme. While COSATU opposed it on the grounds that it fails to enumerate practical measures that would help to fight unemployment and create "decent jobs" as many public sector institutions such as healthcare and education are excluded from the programme, the private business sector believes the programme spells of excessive state intervention in labour markets (ILO, 2011). The silence of critics on inclusion of small business, entrepreneurship and skills development among the strategies to be employed to boost job creation and grow the economy implies that these are acceptable as critical ingredients necessary for the realisation of the goal of the NGP policy.

3.3.2.7 Provincial Growth and Development Strategies (GDS)

Provincial governments are important mechanisms in the actualisation of government plans of economic transformation, inequality reduction, income redistribution and poverty reduction. They help to translate government policies into actions due to the shorter distance between them and the constituencies which they oversee. Recognising this important role, in 2005, the government provided a national strategic framework within which each province could work to actualise its development trajectory as a region. While not directing the day to day activities of the region, the strategy facilitates the setting of provincial strategic plans. This framework enables the programmes of the region to eventually converge with the national objectives. Each province must for instance reflect in the plan, how they would prioritise resource and investment in addressing the needs of its region and stimulate the local economic development. Of particular interest is how the regions intend to help fight poverty, create employment through stimulating economic activities in their areas, which is a national issue (The Presidency, 2005).

The national guidelines led to the establishment of each provincial growth and development strategy. In their PGDS plans, all provinces alluded to the strategic nature of the SMME sector in fostering growth in their regions and identified different support systems that would be put in place to support this important sector. The Northern Cape for instance sought to stimulate the sector through changes to the legislative framework, opening up market access, training, infrastructure development, technology and market development, and provision of finance (Northern Cape Province, 2013) while the Eastern Cape proposed a focal area of training and provision of finance as its strategic direction in the development of the SMME sector in the province (Eastern Cape, 2013)

3.3.2.8 The Local Government Municipal Systems Act of 2000

The South African constitution mandates all local governments in the country to provide services to its people as well as develop their local economy, this, against the backdrop of the dismal failure of municipal governments to deliver services to its people during the apartheid era (Republic of South Africa, 2000). Pretorius and Schurink (2007) captured this reality thus:

> " In post-apartheid South Africa, access to effective public services is no longer seen as an advantage enjoyed by only a privileged few in the community, but as a legitimate right of all residents, particularly those who were previously disadvantaged. This stance emphasizes "service to the people" as parameter for local government transformation"

The new democratic government needed a new effective, efficient, and transparent local government that conforms to the principles of the constitution. To enable local governments deliver on this mandate, in 2000, the government passed the local government municipal systems Act, a law that specifies the conduct of municipal functions covering all areas of municipal structures; from municipal electoral processes, election of Mayors and Councillors and their duties, speakers, establishment of Metros and performance management systems (National Treasury, 2000). Act No 32 mandated and gave local municipalities power to initiate activities and programmes that would lead to the social and economic upliftment of their municipal jurisdictions. It highlighted the manner in which municipal powers and functions are exercised and performed and allows them to mobilise available political and administrative structures for the good of the local economy. Since the passage of this Act, municipalities have pursued economic development of their areas through SMME support such as financial assistance and advice to small businesses, skills training, mentorship programmes and CCTV camera installations in business high risk areas (SEDA, 2007)

3.3.2.9 Local Government Turnaround Strategy (LGTAS) 2009

An assessment of the state of local government in 2009 exposed overwhelming weakness of municipalities at delivering basic services to its people and stimulating local economic development. While some municipalities recorded marginal achievements, majority of them showed dismal failures. Challenges were cited as reasons for failure and a turnaround strategy was proposed (CGTA, 2009). The Local government turnaround strategy was passed in Parliament in 2009 in response to a call by CGTA earlier in the year, to allow municipalities to govern their local municipal areas in the way they deem possible given the unique conditions in their areas. The intention was that the strategy will enable municipalities address the weaknesses and failures reported in the local government review report. The strategy is managed by the Department of Cooperative governance and Traditional Affairs. According to the Local Government ICT (LGICT) Network (2009), “each municipality faces different social and economic conditions and has different performance levels and support needs. Thus a more segmented and differentiated approach was required to address the various challenges of municipalities”.

The challenges facing municipalities could explain service delivery protests which have become the regular face of South Africa in the media. This has often been attributed to the failure in the local government service delivery system. The basic conditions of living has become a privilege especially in townships and informal settlements where majority of the country’s residents live. In areas that are well resourced infrastructurally, there is a problem of haphazard maintenance system and a fear of a complete collapse of infrastructure in others. Several explanations have been given for the failure of local government to deliver some of whom are: poor leadership, poor financial management, incompetent staff, corruption and fraud, lack of responsibility and accountability, political infighting and patronage and countless list of others (Department of Cooperative Governance and Traditional Affairs, 2009). There is little wonder what amount of effort has been put into local economic development in light of the fact that municipalities struggle to deliver very basic services to the people. It could be said that with all the challenges facing municipalities, the stimulation of local economy through SMME support was relegated to the background.

Against this backdrop, the turnaround strategy became critical in rescuing the local government from the downward spiral and “counteracting the forces that undermine the local government system” (Department of Cooperative Governance and Traditional Affairs, 2009). The strategy was to reposition local government to serve local economy better, to among other things, promote local social economic development. Municipalities now aspire to develop their local economies through SMME sector stimulation especially through education and skills development of present and potential entrepreneurs. The persistence of service delivery protests in many municipalities across the country in 2013 almost four years after the adoption of the turnaround strategy speaks volumes about the effectiveness of the strategy in achieving its objectives let alone effectively address the SMME sector development issue.

3.3.2.10 other legislative and policy framework

Above policy and legislative framework are among the many efforts of government at laying the foundation for SMME support since the new political dispensation in 1994. Other framework not specifically mentioned or explained in detail but which are part of government effort include: the South African Constitution, Provincial Spatial Development Frameworks, The Local government White Paper of 1998, The Local government Demarcation Act, The Local Government Municipal structures Act, The Disaster management Act, The Local Government Municipal Finance Management Act and The Local Government Municipal Property Rates Act. These prescripts are aimed at enabling effective mobilisation of resources, performance and functioning of local governments not only to deliver basic services but also to develop the local economies that they oversee. To all municipalities, the development of the SMME sector is at the core of local economic development and ineffectiveness in delivering on their mandate implies a failure to address the needs of the SMME sector.

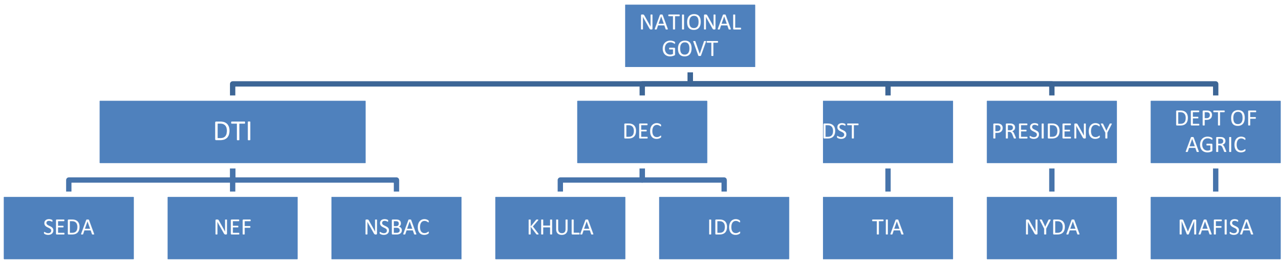
3.3.3 Institutional support for SMME development

The White Paper on Reconstruction and Development sets the tone for SMME development in the country and tasks the Department of Trade and Industry with the responsibility to oversee the formulation, co-ordination and monitoring of all national policies related to small business enterprises (Government Gazette, 1994). In terms of policy, the DTI passed a number of Acts and laws which outline the operations of small businesses in the country. One example is the National Small Business Act of 1996 which established the National Small Business Council (NSBC). As a result of this Act, government institutions such as Ntsika Enterprise Finance Ltd, SEDA and Khula (now SEFA) were established to specifically oversee all non-financial and financial needs of small businesses in practical terms. In response to the national call (DTI, 1995), the private sector and NGOs have also played an active role in the development of the SMME sector, with the international sector being no exception. These agencies and institutions together team up to build a vibrant and sustainable South African SMME sector. The latest effort of the government is the creation of the ministry of small business.

3.3.3.1 The national government support

The national government support of the SMME sector is effected by the respective government departments and agencies. These departments and agencies have different mandates which collectively converge into a single unified SMME sector development vision of the government. The National Credit Regulator (NCR) (2011), gives a detailed sketch of the interrelatedness of national government agencies and departments that are involved in the execution of the SMME support mandate as depicted in the diagram below:

Figure 3.1: South African government agencies and departments that are involved in the execution of the SMME mandate



Adapted from NCR (2011)

The specific activities of these departments and agencies are discussed below:

3.3.3.2 Government department and agencies

(1) The Department of Trade and Industry (DTI)

The Enterprise Organisation unit (EOU) and the Empowerment and Enterprise Development units (EEDU) within the department of Trade and Industry oversee all matters related to small business development in the country. The Small Enterprise Development Agency (SEDA) is an agency within these units that is responsible for SMME development and provision of support services. As part of its mandate, it provides business training in diverse areas of need in partnership with other role players in the sector. SEDA branches, Enterprise Information centres (EICs) and SEDA technology supported business incubators countrywide serve as delivery points through which the national government interfaces with the target market in the provision of services (DTI, 2014). By December 2012, there were 43 branches,18 mobile units, 48 electronic information kioks, 3 enterprise information centres, 12 enterprise development centres, 42 incubation centres and 47 access points of SEDA nationwide (DTI, 2014). However, there is still a drive to increase delivery points to ensure greater access to SEDA services.

The National Empowerment Fund (NEF) was set up by the DTI to facilitate black empowerment through funding of black owned big and small businesses. As at 31 March 2010, a total of 208 disbursements amounting to over R1.5billion had been made, with 156 disbursements amounting to R457 million going to small black owned businesses (NCR, 2011).

In 2006, the National Small Business Advisory Council (NSBAC) was established to provide advice to the minister of Trade and Industry on areas such as strategies to identify and address failures and constraints affecting SMMEs, legislation, standards of small business infrastructure, skills development, creation of access to small business value chains, SMME needs identification and advice on how to monitor and influence provision of support services to the sector (DTI, 2003). Sadly, due to allegations of mismanagement, the first council collapsed in 1998 barely two years after inception (NCR, 2011).

(2) The Department of Economic Development

As part of its mandate and in an effort to promote economic development through sound economic policy, the Department of Economic Development oversees and coordinates activities of various agencies that are critical to the realization of its goals. In order to effectively develop the small business economy, it oversees the activities of entities such as Khula Enterprise Finance Limited and Industrial Development Corporation (now SEFA). The original functions of Khula and IDC have been merged into one mandate of SEFA which is to provide access to finance to Survivalist, Micro, Small and Medium businesses throughout South Africa. Execution of the mandate is done through

> "Delivering wholesale and direct lending; Providing credit guarantees to Small, Medium and Micro businesses; Supporting the institutional strengthening of Financial Intermediaries so that they can be effective in assisting SMMEs; Creating strategic partnerships with a range of institutions for sustainable SMMEs development and support; Monitoring the effectiveness and impact of our financing, credit guarantee and capacity development activities; Developing (through partnerships) innovative finance products, tools and channels to catalyse increased market participation in the provision of affordable finance" (SEFA,2014).

Although a relatively new organisation (established on 1 April 2013) SEFA already has 9 branches representing the nine regions in the country

(3) Department of Science and Technology

The department of Science and Technology is responsible for all scientific research in the country. To promote and direct technology to contribute to economic growth, the Technology Innovation Agency (TIA) was established. The agency was established in 1999 through a merger with the Innovation Fund, Tshumisano Trust, Cape Biotech Trust, PlantBio Trust, LIFElab, BioPAD Trust, and the Advanced Manufacturing Technology Strategy (AMTS) (TIA, 2014). Through the innovation fund, it aims to stimulate technological development and innovation by providing financial and non financial support to entrepreneurs as well as research institutes and institutions that prioritise technological innovation as their core activities. The agency invests in research and development, Intellectual Property protection and helps to commercialise any technology invented in the country (University of Johannesburg, 2014).

(4) The Presidency

Recognising the importance of youth to the economy, the challenges facing them and the alarming rate of unemployment among this segment of the population, the government created the National Youth Development Agency (NYDA) as a unit within the Presidency to coordinate and supervise youth empowerment initiatives. The NYDA was established in 2009 through the merger between the National Youth Commission and the Umsobomvu Youth Fund to allow one single concerted structure and programme at assisting the youth with career skills and to help them start their own businesses. It is involved in information provision, career guidance services, mentorship, skills development and training, entrepreneurial development and support, health awareness programmes and involvement in sport. In the area of entrepreneurial development, the NYDA funds training and gives out loans. According to NCR (2011), the Agency disbursed a total of 7,500 micro loans to the value of R23 million and a further R4 million in loans in the 2009/10 financial year.

(5) Department of Agriculture

The department of agriculture in an effort to contribute and provide focused attention to the development of small scale agriculture, established the Micro-Agricultural Financial Institute of South Africa (Mafisa). According to NCR (2011) Mafisa was established to “contribute to the working poor’s ability to run existing agricultural businesses; to start new ones and be able to develop these into fully commercial operations. Mafisa propels and facilitates the development of financial services intended to uplift very small and micro level farmers, farm workers, farm tenants, small holders, landless emerging farmers and processes, etc”. Farmers can access loans as individuals or groups. They also have access to savings and banking facilities at approved financial institutions.

3.3.3.3 national department initiatives

National departments also have initiatives that seeks to support SMME sector some of which are: the Department of Public Works (emerging contractor development programme), the Department of Energy Affairs (ministers emphasis on SMME development in the energy sector), the President’s office (establish links with foreign enterprises to create labour intensive jobs), the Department for Constitutional Development (Local Economic Development programme in co-operation with the DTI), the Department of Labour (Skills development programmes for self employment). (Karungu etal, 2000).

3.3.3.4. Ministry of Small Business Development

The recent creation of the Ministry of small business added more impetus to government’s resolve to develop the small business sector, since the sector is seen as critical in achieving the much needed transformation and economic development in the country (Fin 24, 2014). This move follows similar initiatives in India (Government of India, 2014), Australia and the United Kingdom (Klue, 2013) where Ministries and Departments are created exclusively to oversee all matters related to small business development. The new Ministry is to provide a concerted small business development assistance to the sector which before this move, was shared by the ministry of finance, economic development and the ministry of trade and industry (Klue, 2013)

The main focus of the new ministry is the development of youth enterprises, support of women owned businesses and assistance of people with disabilities to start and run their own businesses. Achievement of these goals would depend on adequately addressing constraints faced by small businesses, and creating an enabling environment for small business operations. The new ministry has already faced initial struggles of operating independently of the aforementioned three ministries who had been coordinating SMME activities (Thulo, 2014), especially as it was created mid-year after budget allocations have been made and it needed financial assistance from these ministries to be operational. Initial challenges notwithstanding, the expectation is for the SMME sector to be adequately supported in order to create employment, achieve social and economic inclusion, and national cohesion. Since the ministry is still in infancy, its effectiveness is yet to be ascertained.

3.3.3.5 Local, regional and provincial funding programmes and schemes

At the local, regional and provincial levels, different programmes, schemes and agencies have been established to support SMME development. There are provincial government departments with line functions affecting SMMEs, provincial small enterprise agencies such as Mpumalanga Economic Growth Agency (MEGA) in Mpumalanga, Gauteng Economic Development Agency (GEDA) and Gauteng Enterprise Propeller (GEP) in Gauteng, Western Cape Department of Economic Development and Tourism in the Western Cape, Limpopo Business Support Agency (Libsa) and Limpopo Economic Development Enterprise (LimpDev) in the Limpopo, the Northern Cape Economic Development Agency (NCEDA) in the Northern Cape, Ithala Development Finance Corporation and Trade and Investment Kwazulu-Natal in KZN, the Free State Development Corporation (FDC) in the Free State, North West Development Corporation's small business development funding project in the North-West Province and Eastern Cape Development Corporation(ECDC) in the Eastern Cape (NCR, 2011). There are also district municipality initiatives, municipality functions and local agencies and initiatives to strengthen SMMEs (DTI, 2005).

3.3.3.6 Private sector initiatives and community support services

The private sector is also an important stakeholder and participant in SMME development and support. They comprise financial institutions, Venture capitalists, small enterprise consultants, private specialised support services, business chambers and area focused associations, sector/trade associations and sector focused initiatives, extended family based services and community based support services including savings schemes, loan systems and advice centres. They render services ranging from communications and media services, corporate services, support services (by NGOs) and education, training and research for SMMEs (DTI, 2005).

3.3.3.7 Financial and non-finanial support of the smme sector

Support by the government and non-government sector has been both financial and non-financial in nature. An extensive but not exhaustive documentation of SMME support organizations in the country exists and is best captured in Table 3.2 below:

Table 2.2: Financial and non-financial support provided to the SMME sector by some government institutions, the private sector, NGOs and the foreign sector.

GOVERNMENT INSTITUTIONS	
Financial Support	**Non-financial Support**
The DTI – All areas, all sectors	The DTI – All areas, all sectors
IDC- BEE and financial assistance, all sectors	NPDC – Skills Development, all sectors
The NTYEF- Loans and advice, all sectors	SEDA – Skills development, advice, counselling and monitoring, all sectors
NEF-Finance and Financial solutions, black enterprise	CSIR-Skills development, all sectors
NYDA-Loans, training and advice, all sectors	SABTIA-Training, skills Dev., all sectors
SAHRA-Funds, tourism sector	SETA-Training, skills Dev., all sectors
DPLG-Funds, all sectors	DEAT-marketing, tourism sector
	NPI-Research funds, all sectors
	NRF-Research Funds, all sectors
	DST-Advice and research, technology
	SABS-Capacity building, all sectors
	CEED-Skills Dev&training, music sector
	SAQI-Training, all sectors
THE PRIVATE SECTOR	
Financial Support	**Non-Financial Support**
ABSA Agribusiness, Loans, agriculture	ABSA Agribusiness, Training & skills development, agriculture
FNB, Loans, all sectors	FNB, Skills Dev, PHC, tourism, all sectors
Standard Bank Agriculture, Loans, agriculture	CHAMSA, BEE and Networking, members
DBSA, Grant&Dev assistance, all sectors	SACOB, Advice and Counselling, members
FABCOS, BEE, financial assistance, all sectors	TNS, Training, mentorship&advice, all sectors
	NAFCOC, Advice, members
	Free Market Foundation, Skills Dev&training, members
	TTO, Bus. Advice & networking, all sectors
	The Skills Portal, Skills Dev & training, tourism sector
	Northink College, Skills Dev & training, engineering sector
	UPTI, Skills Dev, technology
NGOs AND INTERNATIONAL SECTOR SUPPORT	
Financial	**Non-Financial**
SSACI, Fund for training, all sectors/BEE	Fred Pryor Seminars, Bus training, all sectors
USAID, Fund, training & others, all sectors	WHO, Training on Gen Health & HIV/AIDS, all sectors
	Netherlands Advisory Service, Advice, all sectors
	Royal Danish Embassy, Mentorship & Training, technology/BEE
	Avert.org, Training on HIV/AIDS, all sectors
	IRDP, Education & training, all sectors

	SAFIRE, Bus training, all sectors
	Association for Women's right in Development, women empowerment, all sectors
	South African Women in construction, Advice, construction
	Initiative for Development and Equity in African agriculture, Productivity train/Bus support, agriculture.

Source: Adapted from SEDA 2007: uMgungundlovu SMME Development and Support Plan

Table 3.2 above shows both the financial and non-financial support provided to the SMME sector by government institutions, the private sector, NGOs and the foreign sector. It also shows the multifaceted nature of services provided, ranging from financial to non-financial support and involves the government, private sector, non-profit organisations and foreign institutions/governments. The services range from provision of finance to loan guarantees, mentorship, advice, training and information provision, among others. Although these various support services are often uncoordinated, with some being in conflict with others (DTI, 1995), the participation of these organisations in part shows a concerted effort toward developing the sector through public private partnerships.

3.4 CONCLUSION

Above literature shows concerted effort by government at the national, provincial, local, municipal and district levels at boosting SMME sector development using its legislative, political and institutional powers. It also shows the recognition and prioritisation of skills development in the sector and government's resolve at capacity building as one of the pivotal foundation to a successful SMME business besides provision of financial assistance. The NGOs and community based organisations (CBOs) have also made contributions to the sector either singularly or in partnership with government institutions or initiatives. What the literature has not revealed however, is just how effective these mobilisations have been in achieving the SMME support objective therefore ensuring survival, growth and job creation by the sector.

CHAPTER FOUR

FIRM GROWTH AND SUSTAINABILITY - A THEORETICAL FRAMEWORK AND LITERATURE REVIEW

4.1 INTRODUCTION

Firm growth has attracted a lot of attention in economic research and is perhaps one of the most important areas of enquiry into the nature of a firm. In trying to understand firm growth, the question that is often asked is: What drives firm growth and sustained competitive advantage? Many scholars have written on the subject in an effort to answer this important question and what appear to be new theories have emerged to explain the process of firm growth.

Research has traditionally emphasized firm size, age of firm and investment in research and development as main contributors to firm growth (Audretsch et al 2006 citing Caves 1998 and Sutton 1997). Recent studies have identified other contributors to firm growth. These factors include; strategic choice and industry structures, networking models, business links, technology, organisational culture, internet developments and marketing approach (Dalrymple, 2004). Scholars such as Winter (1987), Itami (1987) and Hsu (2008),argue that knowledge, skills and competence of employees or entrepreneurs, would give a firm an edge over others (the resource based theory of the firm). These scholars refer to these as the new factors of production. Another school of thought calls it human capital development – equipping both employees and entrepreneurs with education and skills to be able to do the job more productively (Lanzi 2007, Xiao 2002).

Others believe in an entrepreneurial firm, arguing that the nature of an entrepreneur and his motivation could drive firm success and growth (Ricketts 2002, Wood 2005, Parker 2004). The role of social networks in the successful management of a business enterprise is also now being highlighted. As Bolton (2005) explains, social capital can facilitate coordination and cooperation among individuals such that individuals can readily support and share idea that are beneficial among themselves. The ideas could be learnt or local but they are ultimately the path to sustainability (Odora-Hoppers, 2002).

This chapter provides theoretical insights that most directly influence the present study as well review relevant literature and provides empirical evidence regarding the effect of business training, inclusive of financial literacy training, on its recipients and on the general SMME sector. This, against the backdrop of recent interest in financial literacy as one of the factors that could contribute to or hinder SMME success, growth and sustainability.

4.2 THE THEORETICAL LITERATURE REVIEW

4.2.1 Resource-based theory of the firm

Traditional theories of the firm emphasise physical resources over human resources in the production process. Firms are traditionally believed to combine two important factors of production - labour and capital – and to value efficiency in the production process as a way of achieving a lower unit cost. The concept of perfect competition becomes important, in the sense that many firms producing homogeneous products compete among themselves. They produce these goods by combining labour and capital. Since these inputs can be easily determined, the marginal contribution of inputs is easily calculated and firms can access complete and perfect information, thereby maximising equal profit, as no single firm can outperform the other (Schmalensee, 1991). This is not however what occurs in a monopolistic arrangement, where large firms collude to control output and influence market prices, which results in price discrimination. Price discrimination allows firms to sell units of products at mark ups that are well above marginal costs. Profits are maximised through the margin between artificially high prices and the unit cost of production (Schmalensee, 1991). To ensure a continuous 'above normal' returns through the price fixing mechanism, firms engage in activities such as vertical integration and also erect entry barriers that may effectively rule out competition.

In an oligopoly, two or more firms produce identical products and may or may not compete among themselves. If they do not compete among themselves, they act together as monopolists, striving to maintain the same cost function, have the same production capacity and, therefore, maximize the same level of profit (Schmalensee, 1991). In essence, oligopolistic firms can collude to make joint profits. However, there is no 'perfect' oligopoly: firms are perpetually in a state of rivalry with one another, even when they may be colluding. According to

Schmalensee (1991), firms always attempt to undercut each other by manipulating (lowering) prices as a way of increasing their market share and profits.

From the perspective of the resource-based approach, besides cost minimisation, improved production efficiency, collusions, price fixing, and integration, firms maximise profits by creating some distinctiveness of product or service. However, researchers explain this "distinctiveness" differently. For example, Schmalensee (1991) speaks of "unique or uncopyable assets". While for Dierickx and Cool (1989) it refers to "inputs that cannot be purchased such as 'learning–by-doing' and organisational culture". Prahalad and Hamel (1990) speak of "unique and specific competencies within a firm that arises due to collective learning on the job that cannot be duplicated elsewhere", while Winter (1987) defines it as "non purchasable assets such as knowledge and competence". Itami (1987) sees distinctiveness as "invisible, non-purchasable assets such as management skill", while the Chicago School of Economic thought maintain it as "intangible asset (information) which is a necessary factor of production"(Conner, 1991). Despite the differing interpretations of distinctiveness, there is at least one point of convergence, and it is that firms draw on assets that are unique to them to get an edge over the competition and increase their profitability. This unique asset could be the specific skills that firms possess.

As inputs are a major resource that organisations utilise to generate more income (rents) and the difference between firms is a function of unique capabilities that they possess, Schmalesee (1991) argues that "within organisations, different hierarchies of resources exist and individual capabilities is a basic resource that helps in the creation of organisation's wealth". The emphasis on skills and capabilities as an important resource in creating organisation's wealth is an idea that has found emphasis rather recently, and which finds support in the growing consensus on human capital as an important factor of production. Skills and capabilities of employees and entrepreneurs have now become the focal point in understanding what sets one firm apart from the rest and enables it to achieve productivity and profitability.

Proponents of the resource-based approach to firms' management emphasise entrepreneurial skills and ability as "a new factor of production". Hsu (2008) describes this as a "knowledge-based economy" where the emphasis is on developing the competence of firms' internal resources, with the main focus being on knowledge development. To Hsu (2008), therefore, knowledge accumulation is a major source of competitive advantage. As argued by Dierickx and Cool (1990), Prahalad and Hamel (1990) and other researchers, what sets a firm apart and provides the unique advantage of profitability and sustainability is not its purchasable assets that could be acquired by competitors, it is instead, the non-purchasable assets. Financial literacy is a non-purchasable and ‘uncopyable’ asset that is unique to each SMME. Entrepreneurs who possess this skill and utilise it in the day-to-day management and running of the business may be able to manage a business effectively toward profitability. Teece, et al. (1990) therefore emphasises the need to “focus on supporting and enabling the mediums through which firms learn and acquire new skills and capabilities”. To Marimuthu *et al* (2009), this is a human capital development issue that, if pursued, can lead to improvement in firms’ performance and profitability.

4.2.2 Human capital development and entrepreneurship

According to Dawson (2013), although Adam Smith had earlier identified individual abilities as an important component of a country’s capital, Schultz (1961) was the first to argue that human beings are “capital goods”; and to “create wealth” from these “capital goods” it was necessary to invest in them through education and training. But it is Becker (1964) who expanded the idea by emphasizing investment in human capital as having the potential to increase future real income of firms. Since then, the definition of human capital has been expanded to include all processes that involve education, training, skills development, or any professional development initiatives that are aimed at enhancing a person’s skills, abilities and values – all of which ultimately lead to increased performance and productivity (Marimuthu et al, 2009; see also Kwon, 2009. There is increasing recognition among countries, organisations, institutions, and businesses of the need to develop human capital as an essential element of business progress.

Initially, the development of human capital was mostly pursued through output-based, cost-based and income-based approaches. The output-based approach focused on school enrolment rates, level of educational attainment, and number of years of schooling. Whilst the cost-based approach focused on the costs paid for obtaining such knowledge, and the income-based approach focused on the ultimate benefits obtained through investment in education and training (Kwong, 2009). This view is echoed by Lanzi (2007), who saw human capital development as following two main approaches: the productive approach and capability approach. The productive approach, according to Lanzi, considers only education as the means through which human capital can be accumulated, with the evidence of such accumulation being the development of the natural abilities of recipients, their relationship with others and good parenting. Here, the outcome of education is measured by test scores while at school, earnings at the workplace after graduation and level of productivity whilst employed.

On the other hand, the capability approach is the extension of the productivity approach. This approach sees human capital development as education in conjunction with the freedom that comes from such empowerment. The benefits of this combination are what Lanzi (2007) terms "instrumental", "intrinsic" and "positional" values. Instrumental values are measured based on test scores and wages earned by graduates. Intrinsic values measure individual achievement of freedom and independence, as a result of education and improvement in general wellbeing, and positional values measure social relations of individuals and their ability to enjoy goods that reflect their social standing in society. Human capital was therefore seen as the empowerment and enrichment of individuals' life and general wellbeing through formal education. There is, however, what Lanzi (2007) refer to as a "narrow" view and a "wider" view of human capital. The "narrow" view is what has been described previously. Alternatively, a "wider" view of human capital would include other formal and informal skills acquired by an individual, which, when accumulated, increase individuals freedom, and empowers them to be able to participate and engage meaningfully in society.

Another school of thought categorises human capital development into two groups: the "general" (or "formal") and the "specific" (or "informal"). "General" human capital development entails the development of human capital through investment in formal education – that is, investment in institutions that specialise in training and help in developing a wide variety of skills (Xiao, 2002). "General" human capital investment impacts on the determination of wage level and initial salary in a job offer (Xiao, 2002), high labour mobility (Tse, 2000), increased innovation, and the creation of new business ventures by employees and firm profits (Sevilir, 2010) – among other market (or monetary) returns. The non-market (or non-monetary) returns of "general" human capital investment include nutritional habits, contribution to democracy, human rights and political stability, reduced crime and environmental protection (Oketch, 2006). It has been argued that when firms invest in "general" human capital development, they are, in a sense, taking a risk: employees could leave and join other organisations after having received an education.

"Informal" (or "specific") human capital development refers to skills development through on-the-job training. It can increase or strengthen a firm's productive capacity and therefore raise productivity of employees. According to Xiao (2002), whereas "general" human capital development helps to determine the salary entry level, on-the-job training helps to drive salary increases and therefore salary growth over time. "Informal" human capital development could be firm-specific or industry-specific (Tse, 2000), depending on whether the expectation is for them to apply their skills to tasks in a specific firm or industry (see also Sevilir, 2010). This form of development, however, leads to immobility of labour, as the skill may not be relevant in many other organisations (Tse, 2000). The general on-the-job training is useful to both the firm providing it, and the employees. The firm benefits from improved productivity of employees while employees can use the skills elsewhere. Besides the workplace, at the family level, "formal" ("general") human capital development has been found to assist in using household inputs more productively in a way that leads to increased household earnings (Yang and Yuying, 2002).

For small businesses, financial management training could be regarded as a form of informal human capital development. In most cases entrepreneurs who are already running their businesses are trained to improve their financial skills and better manage the business. Others are given some form of business training just before inception of the business, on how to manage the business and get it running successfully. Others still, are trained indirectly through mentorship programmes organised as intervention programmes to rescue a business from potentially failing. Yet, other mentorship training programmes operate in the form of partnership with entrepreneurs to build skill and capacity over time until such a time that entrepreneurs can confidently run the business on their own. Regardless of the form that these training initiatives take, they are regarded as informal on-the-job training and are directed specifically at the particular type of business in operation, and prove to positively serve the entrepreneur as long as they do not change their line of business. Skills developed through informal training are however, considered to be non-transferable, and irrelevant in organisations outside the specific industry, and considered therefore as leading to immobility of labour (Tse, 2000). Conversely, financial literacy skills are transferable and can be utilised in any business and industry that entrepreneurs may venture into. These skills could be adapted to serve the literacy needs of any type of business or industry, some additional training may however, be necessary, to introduce entrepreneurs to the business dynamics of the new industry.

There have been attempts to associate human capital development positively with entrepreneurship. As shown earlier, formal education, which is a form of general human capital development, helps to develop a wide variety of skills which could lead to high labour mobility (Tse, 2000), creation of new business ventures by employees and an increase in firm profits (Sevilir, 2010). Martin et al. (2012) elaborate on the nature of training that best supports new firm creation. They identified entrepreneurship Education and Training (EET) as the "best" form of human capital development, arguing that it helps build "human capital assets", gives the right knowledge and skills that addresses entrepreneurial needs, helps give a positive perception about entrepreneurship and could influence a person's decision to eventually become an entrepreneur. To achieve this purpose, they recommend "academic-focused" entrepreneurship education and training rather than a "training-focused" approach. Honig (2001) supports entrepreneurship education with caution. For this author, training is only effective in supporting firm success in smaller firms where the owner – the recipient of the skill - is mainly involved in the management and running of the firm. The skill becomes more directly applicable and useful in this context. In larger organisations, where decision making is carried out by other members of the organisation and not the training recipient, the influence and benefit of skills development could be reduced or even diluted.

Remarkably, there are scholars who question the necessity for entrepreneurship training. Haase and Lautenschlager (2011), for example, argue that there are entrepreneurial attributes that cannot readily be taught – especially those skills that are intrinsic to an individual and can only be acquired through a certain degree of shared experience. How, for example, does one teach another how to have the right mind set and attitude, or how to be proactive and take risks, or even how to manage time or think creatively? Attributes such as motivation, creativity, ability to lead, negotiation, tolerance, ability to network, communication and critical thinking are also beyond what can be successfully taught. Haase and Lautenschlager (2011) further suggest, most business training focuses on development of business plans, accounting and financial training and marketing, skills that are external to entrepreneurs. These authors are of the view that entrepreneurship should be experienced and internalised through internships and apprenticeships which helps to strengthen entrepreneurial "know-how" and "know-why", as opposed to "know-what". It is possibly within this context that Dutta et al. (2011) recommends "specialised entrepreneurship education" and the broadening of educational experiences of would-be entrepreneurs as the "best" form of entrepreneurship education.

Regardless of the type of training received, and perhaps how it is received, Gompers et al. (2005) and Burton et al. (2002) maintain that human capital development can prompt entrepreneurship. In a study in Silicon Valley and Massachusetts, USA, they found that employees of public traded companies, in these two locations, were actually educated and trained in preparation for entrepreneurship and about 45% of all new firms in those areas were owned by employees of public traded firms. This confirms the notion of Sevilir (2010) that investment in general human capital of employees can lead to the starting of new businesses by employees, this is however, at a cost to the firm. The cost is that of a firm losing its employees after investing in their human capital development. It can be postulated that Sevilir (2010) had not taken account of an argument by Gompers et al. (2005) and Burton et al. (2002), that formal training is a conscious training to enable employees to eventually start their business, while informal training arises as a consequence of empowerment which comes from received training. Seen in this context, entrepreneurship is a cost to the firm (Sevilir, 2010) while the informal training is a benefit realised from investment in employee entrepreneurial training.

In the entire discourse of human capital formation and accumulation, and entrepreneurship in particular, one should not ignore the role of family and class. Anderson and Miller (2003) argue that social relations within a family could foster entrepreneurship and the creation of new business. Individuals whose parents are self-employed are more likely to develop entrepreneurial inclinations due to observed or participatory accumulation of skills and knowledge about that business over time. Similarly, people from higher socio-economic backgrounds are endowed with higher levels of human capital, than those from lower socio-economic backgrounds. They also have useful and productive networks that can be utilised to support their business and therefore increase the potential of business profitability (Anderson and Miller, 2003). For Anderson and Miller, family and class are therefore two important influences on human and social capital development, because a family with good socio-economic ability provides opportunity for individuals to train and empower themselves while socially providing the vital networks necessary to support a business.

Acs et al. (2006) and Audretsch and Keilbach (2006) used “knowledge spill over” theory to explain the link between human capital and entrepreneurship. According to these researchers when a firm invests in research and development (R&D), it increases its stock of knowledge and if it is unable to utilise all the benefits of such investments, employees eventually leave and seek new business opportunities of their own. As beneficiaries of an earlier R&D investment, they utilise that knowledge in the new business – hence, the concept of “knowledge spill over”. Although new business creation is a positive outcome of investment in human capital development, the authors imply that whenever there is such an investment, firms must be able to exploit and utilise that knowledge optimally, otherwise it will lead to redundancy, or underutilisation of intellectual resources, which must be used elsewhere. This is not to say that knowledge spill over is the only motivator of entrepreneurship. Acs (2006) acknowledges that mobility of workers, informal networks, linkages and interactions, and a host of other factors do contribute to entrepreneurial activities and that the knowledge spill over theory of entrepreneurship merely explains that additional entrepreneurial activity is created through knowledge spill over.

Time also matters in human capital formation and accumulation. Parker (2004) explains that education, age and experience provide human capital requirements necessary for entrepreneurship which younger people do not have. Older people could have received inheritances and accumulate assets which can be used to start a business. They would also have built enough social networks (social capital) and could easily identify valuable opportunities, that could lead to entrepreneurship.

Clearly, entrepreneurship thrives on the development of the right skills and capability necessary to run a business. The skills could be acquired through education, on-the-job training, learnt through association with a successful family business or accumulated over time. Knight argues that entrepreneurs are not born and there are also “non-entrepreneurs” who are “opportunists who can turn to entrepreneurship when the returns are favourable compared to paid employment" (see Ricketts, 2002). These, in addition to people who have the right skills and motivation to start something new.

4.2.3 Theory of entrepreneurship

Human capital development has found applicability in the field of entrepreneurship. The development of skills and capabilities of employees is believed to increase productivity of workers and give a firm a competitive advantage. Skills development is equally crucial if individuals choose to establish and run the business on their own and therefore assume full responsibility for its success or failure. In order to engage with human capital development in the field of entrepreneurship, it is important to first explore the notion of an entrepreneur.

Who is an entrepreneur?

Different scholars have provided different definitions of an entrepreneur. Traditionally, entrepreneurs are seen as people who organise economic activities and provide capital necessary to start them (Ricketts, 2002). This is called the "classical view" of an entrepreneur and has been criticised on the grounds that it is unclear what the entrepreneur receives as reward; whether "profit, wages of management, interest on capital, monopoly rents, or windfalls" (Ricketts 2002). Ricketts (2002) cites Knight's definition of an entrepreneur as "one who in the absence of perfect knowledge about the possible prospects of a business venture, starts a business in the face of that uncertainty and is prepared to bear the costs and reward". Kirzner sees it as someone who possesses superior knowledge and is able to spot opportunities that others do not and therefore exploits that knowledge for his or her own gain. The entrepreneur, therefore, becomes a middleman who coordinates resources to produce a profit (Ricketts, 2002). To Schumpeter, an entrepreneur is an extraordinary person, an innovator, a revolutionary who alters an existing pattern of production to create something new, or create a completely new commodity or idea. Entrepreneurs also change people's expectations about the market or an idea (Wood, 2005).

Shackle on the other hand maintains that an entrepreneur is an imaginator, someone who can imagine a business opportunity and acts on that imagination being quite aware of the consequences" while Casson (2005) sees an entrepreneur as a judgemental person, someone who makes the right judgement about how well to utilise the scarce resources of the business to make a profit. He describes it as “a person who makes a profit by making difficult judgements” (Ricketts, 2002). Misses, according to Wood (2005) however sees entrepreneurship as the ability to forecast future events and take actions based on the perceived outcome of those events.

The novelties of these definitions have not gone without criticism. For example, Schumpeter criticised Knight’s notion of an entrepreneur as one that conceives a business and makes a profit out of uncertainties, by arguing that this only happens if an entrepreneur owns resources that are marketable, in which case he disposes of the resources if events turn favourable (Parker, 2004). Therefore Knight’s entrepreneur is a capitalist. Kanbur criticized Schumpeter’s interpretation of Knight’s entrepreneur. According to him, Schumpeter assumes that only capitalists can bear the risks inherent in new business ventures and not entrepreneurs, which he argues is not the case (Parker, 2004). Entrepreneurship is often associated with disequilibrium in the market (low levels of employment, unutilised business opportunities leading to non optimal levels of production and supply of goods and services) and the act of it is an attempt to move the economy towards equilibrium. By trying to invent or reinvent existing processes and ideas, Schumpeter’s entrepreneur is seen as a destabilizer that can cause disequilibrium in the market (Ricketts, 2002) and one that does not “create” opportunities but only utilizes opportunities that are presently available (Acs etal, 2006). Woods (2005) criticizes Kirzner’s entrepreneur as completely ignoring the uncertainty and risks that come with perceived opportunity, which can lead to entrepreneurial losses.

According to Parker (2004), Leibenstein defines entrepreneurship as an act of leadership and motivation, a process where entrepreneurs gradually bring new products into being as a result of their motivation, leadership and risk taking abilities, while others like McClelland see entrepreneurs simply as people with personal and psychological traits that are driven by the need for achievement, inner drive to be in control, higher propensity to take risks and cope with uncertainty.

The point of convergence among the different authors is that an entrepreneur is a risk taker who creates economic activity using his power of foresight, good judgement of economic opportunities and ability to spot opportunities that others do not, to make profit as a reward. This implies that an entrepreneur would possess the necessary skills and capabilities acquired whether formally or informally which helps in the successful running and management of the business enterprise.

Not all potential entrepreneurs who have the necessary skills and capabilities can actually start a business though. The question therefore arises: what motivates entrepreneurship? General discussions on entrepreneurship and those offered by previously cited authors point to profit, as supposedly the main motivator for entrepreneurship. Research shows that there are however, other factors that could constitute a push towards entrepreneurship, for example, the conditions in the labour market (Ricketts, 2002). This means that when conditions in the general economy are unfavourable, employment in the formal sectors of the economy will decline which necessitates entrepreneurship. Acs (2006) and Hechavarria and Reynolds (2009) call this “necessity entrepreneurship”; or business initiated by those who are not accommodated in the formal employment sector, those who are semi-skilled, unskilled or poor.

Casson (2005) clarifies those additional motivators of entrepreneurship. Comparing Schumpeter and Kirzner, Casson (2005) argues that entrepreneurship, according to Schumpeter, is motivated by “the will to succeed, the urge to prove oneself superior to others and the desire to establish a dynasty” while Kirzner sees it as “alertness to opportunity” that an entrepreneur is unwilling to forgo. Kirzner’s entrepreneur could be likened to what Acs (2006) calls occupational entrepreneurship, a situation in which one spots an unexploited economic opportunity and seizes it. For Schumpeter and Kirzner, an entrepreneur is someone who is not jobless or in dire need of a means of survival, but rather one that has satisfied this basic need and wants more. To this entrepreneur, the need to be known and seen as successful motivates him to innovate and utilise every seemingly profitable opportunity that presents itself. This is in contrast with the classical view of entrepreneurship which is profit making in an attempt to satisfy basic needs and survive.

Another motivator for entrepreneurship is that people “switch out of employment into self-employment as family assets rise” (Casson, 2005). This means that when a family has accumulated assets to a sustainable level, a member may feel secured enough to be able to undertake self employment. For Parker (2004), differential earnings, lifestyle considerations such as the need to be one’s own boss, and unrealistic optimism can also be a basis for entrepreneurship. Although Parker (2004) does acknowledge that these reasons may have partial truth in themselves, there is ample anecdotal evidence to support the assumptions the author puts forward. The need to avoid compulsory retirement, specific health conditions and possession of skills that are no longer relevant in the labour market could also motivate entrepreneurship (Parker, 2004).

There are also de-motivators to entrepreneurship. Since entrepreneurship is a conscious act by individuals to engage in a business, individuals could also consciously choose not to engage in entrepreneurship. While Gompers et al. (2005), Burton et al. (2002) and Sevilir (2010) see human capital development as giving employees the skill, capability and the confidence to start a business, Bingham and Mier (1993) see human capital development through education as a de-motivator to entrepreneurship. Acs et al, (2005) cite factors such as regulation, administrative processes and government intervention in the economy as possible entrepreneurship de-motivators while Bingham and Mier (1993) argue that for individuals that are highly skilled, the opportunity cost of self-employment could be high compared to being employees, such that they can be forced to abandon entrepreneurship opportunities. This is due to the fact that monetary returns from entrepreneurship could be constant over time while the reward as a highly skilled worker tends to grow over time.

The above argument is in contrast with Acs' (2006) idea of "necessity entrepreneurship" and in agreement with "occupational entrepreneurship". In contrast with necessity entrepreneurship, people engage in individual businesses because they have no other option of survival and employment. The result is that when given a choice, and the option of a better paying job, individuals will choose to be employees rather than entrepreneurs. However, in opportunistic entrepreneurship, some rewards of entrepreneurship outweigh employee rewards, irrespective of the skill level of the employee, hence the opportunity cost of forgoing entrepreneurship could be much higher. Even so, a tight regulation of the economy, administrative bottlenecks relating to business registration and inception, and high expenditure by government could discourage entrepreneurship.

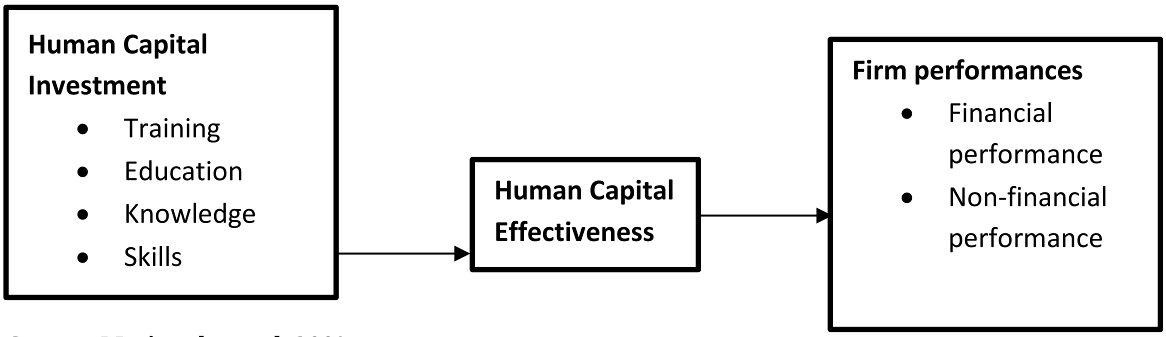
4.2.4. Human capital and firm Profitability

Human capital development has been associated with firm success through the competitive advantage that it creates (Hsu, 2008). There are many benefits associated with human capital development such as higher productivity of workers, longevity of companies, high business and economic growth, generation of new knowledge for the economy (Marimuthu et al, 2009) and the spill over effect which leads to new business creation (Audretsch et al, 2006). With regard to small businesses Audretsch et al (2006) found an association between human capital development and business performance. According to Sydler et al (2013), investment in knowledge and skills enables a firm to absorb new external knowledge that could be useful to them and also bestows reputation on a firm. The view of these authors is that market participants view these outcomes as assets that can generate future economic benefits.

Profitability is the ability of a business to make profit consistently over a period of time. Often, the success of a business is attributed to efficient management and use of resources by managers and entrepreneurs. In other words, the two most important resources of a firm (labour and capital) are combined and managed effectively to give the firm a competitive advantage. The resource-based view of the firm emphasizes not just the physical labour involved in the production process, but also the knowledge possessed by those working in a firm in order for that firm to have a competitive advantage and sustain profitability.

Marimuthu et al. (2009) established a link between human capital and firm performance as shown in figure 4.1 below.

Figure 4.1: The link between Human Capital Investment, Human Capital Effectiveness and Firm Performance



Source: Marimuthu et al, 2009

Figure 4.1 shows that the development of employees could enhance both financial and non-financial performance in firms. From the financial perspective, performance can be measured using indicators such as percentage increase in sales, profitability, return on assets (ROA), return on capital employed (ROCE), return on investment (ROI), earnings per share (EPS), net income after tax (NIAT), etc. (Marimuthu et al, 2009). Of these financial measures, the return on assets (ROA) seems to be the preferred measurement of firm performance in relation to investment in its human capital (Sydler etal 2013). These various measures seek to show how a company's financial health has changed as a result of skill acquisition through education and training. The Return on Assets (ROA) is an important measure of business profitability. It is calculated by dividing total annual net income by the total assets of the business, expressed in the form of a percentage. The usefulness of this ratio is to measure how efficiently the business has used its assets to generate income in a given year. A higher return on assets percentage implies that all the resources of a business (both material and human) were effectively and efficiently mobilized and utilised in generating the business' net income.

The main determinant of income is the level of turnover that the business generates in relation to expenses (which represents the cost incurred in the process of generating turnover). While the assets of a business is mixed (both fixed and variable) in nature, turnover is entirely variable and depends on how assets are aggressively mobilised to generate such turnover. If a business generates a higher turnover, it can conveniently absorb all its expenses and pose a higher net income that would be measured against its assets. Since knowledge is one of the important assets and resource of the business, this implies that managerial skills and capabilities are an important component of the resources that can help plan and execute strategies that would help generate sufficient turnover and good financial management, which ultimately leads to firm growth and profitability.

In the SMME sector, the term 'manager' is often synonymous with entrepreneur; there is hardly a dividing line between an entrepreneur and a manager. An entrepreneur is both manager and employee and is solely responsible for generating turnover, controlling expenses, setting the corporate strategy for the organisation and ensuring firm profitability. As an important asset of any business, organisation, knowledge, skills and capability of entrepreneurs is vital in this sector.

Some entrepreneurs in the SMME sector undertake business out of necessity while others have seized an economic opportunity that presented itself. Some, out of necessity, may initiate a business because they could not find employment in the formal sector despite the skills that they possess. For these types of entrepreneurs, skills obtained through formal or informal training provides residual knowledge that could be employed in the management of a business enterprise. In this instance, they may require training for purposes of becoming acquainted with the sector in which they do business, the nature of business they are undertaking, and for enhancing their business management abilities. For those who resort to this sector because they possess no skills that make them employable, there may be no residual knowledge to rely on; therefore, getting the right skills through skills training and development may be inevitable and could make the difference between business failure and profitability.

While human capital creates positive value to the firm, Honig (2001) cautions that in addition to other factors, environmental conditions such as political and economic instability can equally erode a firm's benefits. Firms and employees are usually unable, in instances of war and unrest, for example, to work more effectively, hence, the benefits of human capital development should always be contextualised.

4.2.5 Managed versus entrepreneurial economy

After the Second World War and until the late 1980's, the world's economy was driven by big enterprises (Thurik, 2008), and governments adopted interventionist economic policies (famously referred to as the "Visible hands", Boermans, 2010) which were in support of large corporations. Firms basked in this support and resources were used in the large scale production and distribution of goods and services. The increase in firm activities led to increase in firm sizes and this was seen as the driving force behind economic growth at the time. Firms wielded significant power by virtue of their size and dominated the economy. The need thus arose for a balance of power by trade unions and government so as to check the excesses of big businesses. Thurik (2008) reflects that although big firms brought about stability and continuity in the supply of standardized products and employment creation, the focus on large firms as the driver of economic growth was to the detriment of small firms, they were neglected and their possible contribution to the economy was overlooked. In developed countries, the role of small firms was confined to the preservation or provision of continuity of family businesses, support of inner city economies and provision of employment to un/semi-skilled workers, or for provision of part-time employment to those who needed it (Thurik, 2008).

In an economy driven by large firms, knowledge was seen as an important endogenous factor that helped explain the growth of the economy. As such there were huge investments in research and human capital development to further consolidate and expand economic activities. This bolstered the place of big firms as drivers of economic growth. There was insufficient focus on small businesses, little to no policies to support the sector, and its potential to contribute positively to the economy was largely ignored. Simply put, small businesses were disadvantaged, as big firms had the edge in terms of knowledge acquisition (human capital development), employment creation and general economic growth.

Thurik (2008) associates the managed economy to the economy of big firms involved in large-scale production and a space where intervention is possible, if only to influence resource allocation and prices. The unmanaged economy was seen as the entrepreneurial economy where entrepreneurial activities take place, with knowledge as its driver. Thurik (2008) explains this notion as such:

> The model of the managed economy is the political, social, and economic response to an economy dictated by the forces of large scale production, reflecting the predominance of the production factors of capital and (mostly unskilled) labour as the sources of competitive advantage. By contrast, the model of the entrepreneurial economy is the political, social, and economic response to an economy increasingly dominated by knowledge as a production factor, but also by a different, yet complementary factor that had been overlooked: entrepreneurship capital, or the capacity to engage in and generate entrepreneurial activity (Thurik, 2008:3).

Thurik (2008) further states that by the 1980's economic activity had moved away from large firms to small firms particularly in European countries and the United States – a kind of revolution that provokes change and which requires innovation based on ideas and knowledge, risk taking, exploration, focus on people rather than on organisation, and an emphasis on the relationship with employees rather than the supervision thereof. The emergence of small businesses was a paradigm shift from the stability, specialisation, economies of scale and predictability offered by big firms in the managed economy, to instability and unpredictability (as only very few firms that start in a given year survive). With a shift from stability (managed economy) to instability (unmanaged economy) came the challenge of financing the entrepreneurial economy. Whereas in the managed economy, the certainty of output and inputs enabled banks to provide finance needed for investment and the resultant economic growth, such a relationship was hampered by uncertainty in the entrepreneurial economy, where financing is undertaken by informal players who are willing to fund high risk investments (Thurik, 2008). Informal capital market therefore played a very important role in the entrepreneurial economy.

There are several possible reasons for this shift. According to Wennekers and Thurik (1999) these include: intensive global competition (which forced firms into mergers in order to survive), uncertainty (which inhibited mass production and led to specialisation in order for firms to survive) market fragmentation, changes in the world economy (which led to a slowdown in demand) and technological progress due to work automation (which led to a reduction in the number of workers needed, shortened production processes, and loss of benefit of economies of scale). In the United States, Brock and Evans (1989) advance reasons such as oversupply of labour as a result of increase in educational levels (which led to wage decline), changes in consumer tastes, and the easing of entry regulation of firms (which encouraged competition). To Loveman and Sengenberger (1991), the shift was propelled by decentralisation of work and vertical disintegration of firms due to low transaction cost, and policies that favoured the small business sector. Audretsch and Thurik (2004) believe the decline was as a result of a shift from a production based economy to a knowledge based economy. The negative consequence of this decline was that employment and economic growth (that was driven by the managed economy) declined while the positive consequence was the emergence of small firms that stimulated entrepreneurship and job creation – what could be seen as the emergence of the unmanaged or entrepreneurial economy.

The entrepreneurial economy is the domain of entrepreneurship and is seen as one of the contributors to a free market economy (Raja, 2009), and the new driver of economic growth. It has also been hailed as one of the contributors to the East Asian miracle, in addition to physical and human capital accumulation (Wennekers and Thurik, 1999). Evidence also shows increase in sales figures and GDP in the United States (Acs and Audretsch, 1993) as a result of increased SMME growth and participation in economic activities. The entrepreneurial economy thrives on knowledge, skills and innovation. According to Thurik (2008), knowledge is not limited to scientific or technical capabilities but is also comprised of ‘soft aspects’ such as ability to create something new, communicate and even be able to manage people and a business successfully. Audretsch (2009) agrees that ideas and innovation are the drivers of the entrepreneurial economy, but Boermans (2010) cautions that not all ideas are good, arguing that a "visible hand" is necessary in controlling some activities and ideas in the entrepreneurial economy in order to prevent the on-set of Schumpeter's "creative destruction". To drive the culture of entrepreneurship, Thurik (2008) suggests that education is crucial, but the question is: What elements of education should be emphasized?

Clearly, if the unmanaged economy, where entrepreneurship belongs, is the new driver of economic growth, employment and productivity (Erken etal, 2008), there should be no surprise as to why policies in the entrepreneurial economy are relaxed, with the aim being to stimulate new venture creation and growth, while policies in the managed economy, where big firms belong, are restrictive and geared towards reducing abuse of power and dominance of firms through regulation. This is evidenced in the South African policies on entrepreneurship support, such as training and mentorship for SMMEs and the provision of start-up and expansion finance to businesses in the SMME sector.

4.2.6. Ethno-economics: Informal knowledge and small business

The concept of intellectual capital was first used and popularised by authors such as John Galbraith and Tom Stewart (Hormiga et al, 2011). These authors' reading of this concept is that it is arguably one of the intangible assets of a firm that should be considered important since there is now an emphatic shift from material (tangible) to intangible assets as a source of a firm's competitive advantage and survival. According to Hormiga et al. (2011), intellectual asset could be broadly classified as human capital, structural capital and relational capital. Human capital resides in individuals, creates intellectual competence for firms and assists in value creation. Structural capital is regarded as knowledge that has been internalised within the firm and resides in the structures of the firm such that even if an employee leaves, the capital still remains and forms part of organisational culture. Relational capital, on the other hand, is the knowledge that a firm derives from its relationship with its environment which comprise of its formal and informal network of customers, suppliers and all other forms of interactions. The entrepreneur's informal networks are an important resource and channel of support to the firm, as it provides both emotional and visible support to an entrepreneur, Such as provision of funding, free labour, provision of information, advice and knowledge sharing.

While the intersection of relational capital and social capital may seem obvious, some authors view relational capital as one of the components of social capital. If one defines social capital as the treasury of norms and trusts that "facilitates coordination and cooperation for mutual benefit" (Putnam 1995), cited in Westlund and Bolton 2003), then it follows that social capital thrives on networks, and networks provide the channel through which people support and share ideas that are beneficial to each other. But what ideas do people share and how do they acquire them? Is it only ideas acquired through education and skills development, ideas acquired through experience or existing local ideas about a particular undertaking? If these ideas were acquired through formal education alone, then the argument would simply be that people who were exposed to formal education through western education (as a consequence of colonialism, for example) had no store of knowledge of their own – that is, their own way of doing things - before, during and after that exposure. Such an argument would be vastly erroneous and diversionary. According to Akpan (2011), one of the major reasons local knowledge is often not acknowledged in contemporary discourses on the knowledge economy:

> is the faulty assumption that there could be societies that are not built on knowledge, or where knowledge is not considered by the local inhabitants as critical to social existence and social reproduction – in other words, that some societies are not 'knowledge economies'. One World Bank study… documents 60 studies that demonstrate that societies – even those widely considered by some as 'traditional' and 'backward' – are, indeed, 'knowledge economies'.

The implication of this argument is that entrepreneurs that may appear to not be adept at specific ("westernised") techniques of doing business – because they are not "educated" in the sense of being exposed to "formal" business training – may still be successful entrepreneurs through utilising the local treasury of knowledge with which they are more familiar, and which comes to them almost as second nature. This is knowledge acquired through relational or social capital, and which supports the growth of small enterprises, especially in Africa (see Odora-Hoppers 2002).

Expatiating on the role of local knowledge and its mode of acquisition within the context of small enterprise growth and development, Fuller and Tian (2006) explain that networks, information sharing and relationships are very important resources to entrepreneurs and can affect the performance of a business enterprise (see also Lechner and Dowling 2003, Nahapiet and Ghoshal, 1998, Liao and Welsch, 2005). Indigenous knowledge is not simply metaphysical and esoteric knowledge, as often assumed. Breidlid (2009) defines the indigenous knowledge system as comprising of "world-views, cultural values and practices, and knowledge systems derived from these worldviews and practices, and related to metaphysical, ecological, economic and scientific fields". In Africa, it is relevant to all aspects of human existence, and not just "agriculture, forestry and medicine", as Breidlid (2009) seems to assume. Odora-Hoppers and Makhale-Mahlangu (1998) rightly point out that indigenous knowledge is:

> a combination of knowledge systems encompassing technology, social, economic and philosophical learning, or educational, legal and governance systems. It is knowledge relating to the technological, social, institutional, scientific and developmental, including those used in the liberation struggles.

This implies that indigenous knowledge can, and does, influence entrepreneur's behaviour and business enterprise performance (Fuller and Tian (2006).

Ethno-finance – and ethno-economics broadly – is therefore "the art of managing money and assets within a financial system that originates and develops from a specific area and denotes or derives itself from the cultural traditions of the people who live in that specific geographical area" (Bray and Els, 2007). These authors argue further that in Southern Africa, and indeed Africa as a whole, people indigenous to a region handle their finances according to traditional practices and customs. For example, in South Africa, local knowledge enables entrepreneurs to manage their financial resources, especially, in the area of saving and lending. With knowledge as the new factor of production and an important resource of firms, the present study attempts to stimulate thinking on the usefulness of this knowledge source to SMMEs.

4.3 REVIEW OF EMPIRCALLY-BASED LITERATURE

It has been argued that education and skills development is one of essential factors in a firm's success, profitability and sustainability. Schmalesee's (1991) argument that "individual capabilities is a basic resource that helps in the creation of organisation's wealth" is a testament to this notion. Individual capabilities are the skills and competencies which individuals possess that enable execution of a task, or engagement in productive activities that creates wealth.

Marimuthu et al, (2009) therefore considers entrepreneurial skill as a human capital development issue with the potential to improve firms' performance and profitability.

Financial literacy is considered an important component of entrepreneurial skill and human capital development with significant contributions to economic development and financial system stability (Garcia et al., 2013). Literacy skill could be associated with personal financial literacy and business financial literacy. This is so because an individual who is savvy in handling personal financial matters is more likely to be financially savvy in the context of business financial management. This is particularly true in the SMME sector where ownership and management is almost inseparable. A financially literate individual would most likely be a financially literate entrepreneur and the implications are multifaceted in a market economy where individuals and businesses operate.

The OECD measures personal financial literacy of financial services consumers in recognition of the influence it bears on economic activities and transactions. Surveys conducted in different countries show not only low levels of financial literacy among consumers, but also an overestimation of financial skills, knowledge and awareness (OECD, 2009a; Xu and Zia, 2012; Zia, 2011). It has been suggested that financial illiteracy at the level of households, and not just recklessness by financial intermediaries, is to blame for the recent global financial crisis (see OECD, 2009a). Due to the complexities of financial issues and the need for individuals, households and businesses to make sound and informed financial decisions, suggestions have emerged that financial education be introduced into the school curriculum (INFE, 2008). The ongoing internationally comparable data on financial literacy which is being compiled by OECD is an attempt to measure levels of financial capability, and also form the basis for international action in addressing the problem of financial illiteracy (OECD, 2009b). According to researchers, this concern has emerged because financial literacy influences economic behaviour and also contributes to financial market efficiency. To individual consumers and households, making wrong financial decisions and choices has dire consequences; to SMMEs, the consequences are even worse – it could spell the end of the business.

Being financially literate means that entrepreneurs have some ability to understand credit terms (for those who fund their business through credit) and the effect these could have on their business. It also means that they understand savings and the role it plays in the survival of the business, they understand the importance of record keeping and budgeting, know how to manage cash flows, are able to separate business expenditure from personal expenditure, keep record of debtors and ultimately, can determine business profit or loss. The absence of this basic financial skill could mean failures of SMME businesses and a very stunted growth for this sector.

Among microenterprises for example, financial literacy needs and its relevance in business survival have long been recognized as a knowledge need by microfinance providers and other credit providers, since the inception of microenterprise credit (Klein and Gomez, 2010). This is why some microenterprise credit providers have introduced financial training and business skills development as a crucial criterion for granting loans. Grameen America, a replication of Grameen Bank of Bangladesh, for instance, makes financial literacy a loan eligibility criterion (Grameen America, 2011). Potential borrowers are taught basic concepts of loan and loan products, savings, interest rates, credit bureau etc. Thereafter, loans are granted with the expectation that borrowers will better manage this resource, and the business successfully.

In South Africa, Khulastart, a microcredit arm of the now defunct Khula Enterprises followed a similar model (Khula Enterprises, 2004), in which potential microenterprise credit beneficiaries are trained at MFI retail outlets before loans are given. In an obvious recognition of the need for financial literacy skill in the SMME sector, some tertiary institutions, government and NGO organizations have provided some financial literacy training and workshops for SMMEs, with the aim of assisting them to better manage their businesses. Nationally, Ntsika Enterprises (a government organization) has played a very active role in small businesses skills training. In the Eastern Cape, some organizations like Fort Hare University, Eastern Cape Development Corporation, Industrial Development Corporation and Small Enterprise Development Agency, have occasionally (and regularly) provided financial literacy training to small and microenterprises. This training constitutes entrepreneurial skills development, whose effectiveness and measurement are discussed in the sections that follow.

3.3.1 Business performance measurement and evaluation: The issues

One of the predominantly contested areas of inquiry into firm growth is the operationalization and measurement of firm performance (Dalrymple, 2004). These issues border on what should be the most appropriate approach to performance measurement; whether financial or non-financial measures. Performance measurement allows researchers to observe changes in the business' economic state from which growth, success, profitability or sustainability could be judged. It could be undertaken as part of firms' routine enquiries at a specific point in time, or to assess effectiveness of programmes or activities that may have been consciously undertaken by firms in order to influence performance.

Financial measures such as total income, total sales, total profit, entrepreneur's income, value of capital assets, return on assets, return on investments, return on equity, total income to assets, sales orders, and non-financial measures such as number of employees, sales and employee growth, and productivity (income and sales per employee) are often used and result in inconsistent outcomes for firm growth analysis (Weinzimmer et al, 1998; Chong, 2008). The most widely used measures are, however, financial measures which, according to Chong (2008), are always objective, simple and easy to understand, and compute although they are often historical, confidential, incomplete, inaccurate and inaccessible to researchers. On the other hand, the same author argues, most SMES are hardly able to maintain proper financial records from where financial measurement data could be sourced and profit as a financial measurement variable is also highly subjective and subject to manipulation and difference in interpretation. These weaknesses could make comparability of performance difficult. Non-financial measures are also important measures of business performance but they lack measurability and their interpretation could be too subjective.

Emphasis on appropriateness of measure of organisational performance is observed in a study by Weinzimmer et al. (1998). In a review of 35 different studies conducted on business growth, the author noted that 80% of researchers use sales growth (a financial indicator) to determine business performance and growth while the alternative preferred measure was number of employees (a non-financial measure) at 20%. Another contested issue in firm performance measurement is the length of observation of performance variables. When measuring firm growth, this variable becomes important "as organisational growth is a time-dependent variable" (Weinzimmer et al, 1998). In the same studies referred to above, Weinzimmer et al. (1998: 242) observed the following:

> five studies considered time frames of 18 months or less, three studies considered time frames of two years, eight studies had time frames of three years, one study had a four-year time frame, 11 studies had a time frame of five years, three studies had time frames of greater than five years, and five studies did not report the time frames used.

From these studies, it emerged that observation or measurement of growth variables over a five year period, is the preferred time frame for measuring business growth although the credibility of other time frames are not in contest.

The use of different performance measures and different time frames could produce inconsistencies in research results, whose consequence, as cautioned by Weinzimmer et al (1998), is that the theories that are developed based on these measurements can be obstructed. It is also suggested that if a financial measure such as sales is used in performance measurement, that it be adjusted for inflation because the presence of inflationary pressures could distort the analysis and interpretation of findings. Although the above author did not find widespread adjustment of sales (in their study) for inflation purposes, it however remains an important consideration. While there is no outright rejection of any of the performance/growth measures, researchers continue to recommend the use of both financial and non-financial measures (in a given research) in order to gain a wider perspective on organizational growth and performance (Chong, 2008).

4.3.2 Measurement/evaluation of training

The term "training and skills development" is generic and potentially subject to diverse interpretation. It could imply training or developing any aspect of employee or managerial skills that would help improve organizational productivity and performance. Although the distinction between business management and literacy training, in the literature, is often blurred, the focus of this review is on financial literacy training. As financial literacy training is often a major component of business training, these two terms are therefore used interchangeably in this study, to mean financial skills acquisition for improved business management.

Training can influence attitudes and behavior. Entrepreneurially speaking, training can influence positive attitudes towards starting a business and/or contribute towards improved management of existing businesses. It could be education based or on-the-job training and claims to its effectiveness in influencing entrepreneurial attitude and performance is mixed, depending on the rigor of evaluation and the methodology used.

4.3.2.1 Education-based training: Evaluating entrepreneurial attitudes

Various studies have assessed the impact of training on attitudes of trainees towards entrepreneurship. In the United States, the Berger Entrepreneurship Programme of the University of Arizona was introduced in 1983 where undergraduate students, MBA students and graduates from other colleges, within the same university, were taught a dedicated curriculum on entrepreneurship, by lecturers from the department of finance, economics, marketing and management. The focus was on teaching specific modules in their subject areas such as competitive advantage, financial management, market research and business plans development, and cash prizes were awarded to students who worked in pairs to develop the best business plans (OECD, 2009c). The aim of the programme was to instil entrepreneurial skills and attitudes among graduate students.

The evaluation of the programme consisted of graduates between 1985 and 1999, and a control group of non-participant graduates. Controlling for individual factors and other environmental factors, results showed a positive effect of entrepreneurship education and training. Graduate participants were 11% more likely to own their own businesses after graduation, than graduate non-participants. Companies owned by, or who employed participants, experienced increases in sales and employment five times more than non-entrepreneurship graduates (Charney and Libecap, 2000). These companies also earned more income than their counterparts. This result is depicted in the table below:

Table 3.1: Effect of Entrepreneurship education on new venture creation and self-employment

	Increase in formation of new ventures		**Increase in likelihood of self-employment**
Non-entrepreneurship Graduates	17.4%	Non-entrepreneurship Graduates	9%
Entrepreneurship Graduates	54%	Entrepreneurship Graduates	27.2%
Marginal effects	25.4%	Marginal effects	11.1%

Source: Adapted from Charney and Libecap, 2000:2

Above table shows that academic focused entrepreneurship education and training in the form of entrepreneurship education can bear positively on attitudes towards entrepreneurship and employment. It confirms arguments by Sevilir (2010) and Martin et al. (2012) that entrepreneurship education can lead to new venture creation through the provision of the right knowledge and skills and instilling a positive perception of entrepreneurship among recipients. It however contrasts with Honig's (2001) notion that entrepreneurship education is a waste of resources unless it is provided to an entrepreneur who is currently running a small business, where they can utilise the knowledge directly in the business. In larger organisations where a recipient is not directly managing the business, he argues, the benefit may be eroded by the lack of decision making power and the knowledge may therefore not be utilised.

In the Netherlands, the Junior Achievement Student Mini-Company programme, saw students from vocational institutions being taught business start-up skills and afforded the opportunity to put theory into practice through setting up and operating a mini company. The programme was undertaken as part of the Junior Achievement Young Enterprise programme which is run internationally, and is targeted at students between the ages of 15-19 years. The programme aimed to expose students to the world of business early in life, thereby enabling them to gain practical experience (OECD, 2009c). An evaluation process, the difference-to-differences framework (whereby expected outcome variables were measured at the start of the programme and at the end of it) was used in evaluating effectiveness of the programme. Students on the programme constituted the 'treatment' group while the 'control' group was made up of non-participating students.

The study found that the entrepreneurship programme had an insignificant effect on skills acquisition and a significant negative relationship with attitudes towards entrepreneurship (Oosterbeek etal, 2008). In addition, there was no significant difference in the development of entrepreneurial skills between the two groups of students. The OECD (2009c) lauded the research as "extremely interesting for the analytical techniques (regression analysis) employed in a rigorous evaluation" but revealed a very interesting dimension of entrepreneurship education – that when rigorously tested using a quantitative analytical tool, training and skills development, through education, has no effect on entrepreneurship and the success thereof. The weakness of the study is that it did not control for other factors that could influence entrepreneurial success.

New Zealand's "Promoting a Business and Enterprise Culture Programme" sought to develop business start-up skills and facilitate setting up of a mini company among vocational college students. The programme was facilitated in a way that allows students to put into practice what is being taught, by running the mini company they had set up. Funds were provided for the actual running of the mini company with the overarching aim of establishing entrepreneurial culture among participating students (OECD, 2009c). Conclusions drawn from the study was that the programme had no effect on entrepreneurial intentions. Although the fund was effective in supporting the activities of the mini company, there was no evidence of improvement in sales, revenue or profitability of the mini company.

Flemming and Owusu-Ansah (2001) conducted a longitudinal study of Irish graduate students who graduated from universities in Ireland between 1984 and 1998 and who had participated in Enterprise Ireland's National Student Enterprise Award Scheme where they were taught entrepreneurship and business management skills. The module included setting up and managing real companies, as well simulated business scenarios. The aim of the study was to track graduates career development path over a ten year period and their venture creation activities. The evaluation process involved a comparison of performance of participants of the programme, with that of non-participants. Three different evaluations were conducted in 1990, 1995 and 2000. Reporting on the findings of the 2000 study, the authors observed that graduates moved towards entrepreneurship over time as the number of graduates that resigned from work to start their own businesses increased progressively. They resorted to entrepreneurship after they had worked for a few years and built experience and confidence to start their own businesses (OECD, 2009c). This finding suggests that entrepreneurship education did not have an immediate impact on entrepreneurial intentions. Entrepreneurial intentions and new venture creation increased with practical experience built over time and within fifteen years of graduation around 33% of graduates had started their own businesses (Flemming and Owusu-Ansah, 2001). This finding corroborates Haase and Lautenschlager's (2011) assertion that entrepreneurship should be experienced and internalised so that entrepreneurs would be able to know how and why certain things are done. This, they say, is necessary for entrepreneurship because certain business skills can only be experienced and not taught.

A related research in Ghana revealed a similar result. Second year undergraduate students from Kwame Nkurumah University of Science and Technology School of Business were exposed to entrepreneurship education with the aim to influence entrepreneurial intentions, aspirations, and attitude towards business start-up. As opposed to 6.5% before entrepreneurial education, 25.8% indicated self-employment as a possible immediate career path after graduation. 54.8% believed the course has motivated them to start their own business to a large extent, 90.3% believed the programme has equipped them with the necessary skills to run a business, while 54.5% felt it highly probable to start their business in the future (Owusu-Ansah and Poku, 2012).

In Nigeria, a study of the influence of entrepreneurship education was conducted among final year students in 2008/2009 academic year in two universities – The University of Calabar and University of Uyo (who have received entrepreneurship education). The study was conducted at the end of the entrepreneurship programme and 26.8% of respondents indicated their intention to go into full time self-employment, which according to the authors, is an indication that the entrepreneurship programme has had a positive impact on the students' entrepreneurial intentions (Ekpoh and Edet, 2011). The weakness of this methodology is that the authors did not measure students' entrepreneurial intentions before the commencement of the programme and therefore it could be misleading to conclude that the 26.8% positive response rate implies a positive influence of entrepreneurial education.

It is important to note that conclusions drawn from the above studies are done without consideration of other variables. Researchers believe that there are factors other than entrepreneurship education that could influence entrepreneurial inclinations. Also, results obtained from above studies are true in so far as attitude towards entrepreneurship is concerned. That entrepreneurship through formal education or training on various aspects of business management can translate into and be beneficial in tangible terms is the subject of the next discussion.

4.3.2.2 Partnership schemes

The partnership scheme of entrepreneurship programmes is an attempt to move the entrepreneurship experience away from the classroom and simulated environments, to real world business experience. It combines theory in the classroom with practical experience in the business world in order to expose students to the challenge of starting and owning a business (OECD 2009c). Depending on the programme, students are accorded opportunities to interact and learn from existing businesses practically and through mentorship with the intent that they confront business challenges at an early stage, learn to overcome them and therefore build their confidence in managing a business. It is yet unclear whether this entrepreneurship education delivery method can achieve better results than a purely education based system.

4.3.3. Practical evidence of training

Literature abounds on entrepreneurial training and its possible effect on attitude towards entrepreneurship. The abundance of literature shows a general agreement that training, whether general managerial training or specifically, financial training has a positive effect on businesses hence the prioritisation of business training by government, development practitioners and multilateral organisations (McKenzie and Woodruff, 2013). The last decade and a half has seen a considerable increase in efforts to accumulate empirical evidence on this matter.

The performance of an enterprise bears directly on the growth and sustainability of the enterprise. Citing Wickham (2006), Eresia-Eke and Raath (2013) argue that a business could show financial growth (changes in total assets, capital, turnover and profit), strategic growth (changes in sales, production, and cost of sales or customer base), structural growth (changes in number of employees, size and location of a business) and organisational growth (changes in the business processes, culture and attitudes). Growth therefore could be measured depending on what type of growth is being investigated, and any changes in the performance of a business are judged according to changes in these growth variables.

The OECD (2002) argues that evidence of effectiveness of training in improving business performance is observed in business survival, growth in sales (strategic growth) and growth in profit (financial growth), whilst McPherson (1996) argues in favour of increase in the number of employees (structural growth) as a more accurate measurement. According to the author, small firms rarely keep accurate record of sales and profit therefore any attempts to accurately measure growth over time using these variables, could be futile. Firms can report fairly easily on the number of employees over a number of years since they do not consider this information sensitive enough to jeopardise their interest should it be available to the public. This is more so, since other researchers have established a positive correlation between growth in sales and growth in the number of employees. In practice, both changes in sales, profit and number of employees have been utilised in various studies to measure business growth.

A study conducted in Kenya's Njoro district provides evidence of effectiveness of financial literacy training on SMME performance. During the Equity Group Foundation's SMME training programme, business owners were taught bookkeeping, credit management and budgeting, among other skills. Changes in revenue levels was used as a measurement of outcome of training effectiveness, monthly revenue levels before and after training were therefore monitored. Using frequency counts, percentages, mean, standard deviation and t-tests as methods of analysis, the study revealed that credit management skills enhanced credit acquisition and enabled proper management of business loans, which led to a reduction in loan liability and interest expenses paid. Budgeting skills helped in the smooth management of cash flows while bookkeeping skills enabled easy tracking and tracing of business transactions on the business recording system (Siekei et al, 2013). This study emphasised an increase in turnover (strategic growth) as a measure of business success and growth.

Dahmen and Rodriquez (2014) differ in the use of turnover and number of employees to measure business success and growth and cited earlier studies where a positive correlation between the use of financial ratios and business success was established as the basis for their objection. In their opinion, the wellness of a business is known and evidenced from what the financials are saying about the business. The financials are reflected in the financial statements, and the use of ratios to analyse financial statements is more revealing of a business' financial position, as ratios "are the window to a company's financial statements and offer understanding to what the financials are saying regardless of the company size or years in business" (Dahmen and Rodriquez, 2014). Financial literacy levels according to above authors is not only reflected in the ability to manage business credit and all other emphasis of literacy, but in the ability of an entrepreneur to prepare financial statements, conduct ratio analysis, be able to gain more insight into a business's performance, and also being able to compare itself with the industry performance to benchmark its success.

As an extension to this argument, a financial statement gives a total picture of the business and reflects every aspect of the business that financial literacy seeks to address. Through its preparation, an entrepreneur gains an understanding of the true state of the business. For example, the growth in turnover could have been propelled by increase in expenses which brought it about, and, increase in number of employees could cause increase in labour cost to the business. The net effect of these two scenarios is that the profitability and hence the financial position of the business remains unchanged. The notion of growth reflected by increase in turnover or number of employees therefore becomes superficial. A financial literacy skill that involves the ability to prepare financial statements remains therefore the proposition of the authors.

In an in depth study of 14 businesses coached by consultants at the Florida Small Business Development Centre, University of South Florida, the authors (Dahmen and Rodriquez, 2014) found that 50% of those businesses had their financial statements regularly reviewed by their owners (conducting financial analysis) while 50% were not reviewed. Those that did not review their businesses admitted that they did so out of avoidance as they were unable to carry out the review due to inadequate financial knowledge. Six out of the seven businesses (86%) that did not do a financial analysis were in financial difficulties as a result of not having a grip on its financial affairs. A financial analysis reveals hidden truths about the state of the business. As one of the tools of financial analysis, ratio analysis can reveal profitability (profitability ratios), level of indebtedness (debt/current ratios) as well as how well business assets and liabilities are being managed within the business (efficiency ratios). Profitability ratios show turnover levels and profit arising from trading activities of the business. Failure to do this analysis may hide the real state of the business. Debt/current ratios show liquidity and indebtedness of the business and if these are not properly managed “debt can grow and become unmanageable, impacting the business’s ability to operate’ while cash flow problems could be abated through management of efficiency ratio variables” (Dahmen and Roderique, 2014). Avoidance of financial analysis has been associated with poor financial literacy and business success and growth. Notwithstanding the acknowledgement of the weakness of an in depth study in this circumstance and the inability to generalise findings due to the smallness of the sample size by the authors, the study does alert interest in financial literacy as a possible determinant of business failure or success.

Providing a different take on effectiveness of financial literacy training, Drexler, et al (2014) sought to determine the importance of literacy training and more importantly, the best method for delivering the training to micro entrepreneurs in the Dominican Republic. The first method involved formal accounting training while the second method used was the rule of thumb – informal on-the-job practical training of entrepreneurs. While the study reported a positive effect of training on small businesses, it concluded that there were considerable improvements in revenues of businesses that went through rule-of-thumb practical training, whilst those that received standard accounting training had no measurable improvements in revenue. Practical training through rule-of-thumb provided a simplified and implementable method of record keeping and accounting for revenues and separation of ownership from business, while formal accounting training seemed theoretical and distant from practice. The study found that rule of thumb training is helpful for less educated entrepreneurs, while educated entrepreneurs will cope well with formal training. For policy considerations, this study indicates that ~~a~~ generic training of entrepreneurs may be fruitless as entrepreneurs have different cognitive dispossessions that must be factored into the type of training that is provided. Ignoring these differences may make the cost of training individuals wasteful, as it would not achieve the desired result.

Among women SMME owners, studies have found mixed results on the effect of business training on business success. Women entrepreneurs are generally believed to underperform against their male counterparts due to a shortage of business skills and a lack of the time and focus necessary for entrepreneurship (Xu and Zia, 2012). Societal and cultural influences also pose added challenges for women owned businesses. For example, in Mexico, through an intensive, yet practical 48 hour training (total training hours over a period of six weeks) workshop, provided to the treatment group of female entrepreneurs, researchers observed increases in revenue and profit as the women put into practice that which they were taught (Calderon et al, 2013). In contrast, a similar study conducted in Pakistan on microenterprise clients found no difference in the effect of business training on women owned enterprises compared to male owned enterprises (Gine and Mansuri, 2011). Women owned enterprises accumulated more fixed assets than men as a way of 'freezing' the cash resources so they will not be wrested by their husbands, but there was no improvement in sales or profit. Business failure rate was also high among women.

The above study highlights factors that could hamper business training success. Besides the method of training delivery as highlighted by Drexler, et al. (2014), cultural and religious practices could hamper the realisation of training benefits. In Pakistan, the study by Gine and Mansuri, (2011) suggests that women's decision making power is limited due to cultural factors. The husbands make most of the household and business decisions, even marketing and production decisions that they may know nothing about and /or has no training. In some instances, women cannot sell or purchase business inputs from the market nor are they allowed to choose the best marketing, production and financial management techniques even when they possess superior knowledge (which could have been obtained through training) over their husbands. They have very little control over the business, this, coupled with the general low literacy levels that women possess in developing countries.

In assessing the effect of training, some researchers have argued that training is profitable where entrepreneurs have had basic literacy, are educated, are currently running a business or have had previous work experience. In these instances, training only helped improve or enhance performance and/or expose them to better techniques or methods of business management (Fairlie et al, 2012; Fairlie and Robb, 2008 and van Praag, 2005). This means that training needs to build on existing knowledge for it to be effective. If business training is the first literacy encounter by an entrepreneur, that training would not be beneficial to the entrepreneur and to the business. This however raises another inquiry into basic literacy levels that best support business or financial training.

In a South African study conducted by Eresia-Eke and Raath (2013), the authors found no significant relationship between business owners' perceived financial literacy levels and business growth. Although business owners perceived themselves to be financially literate, they did not utilise this skill in the business therefore although businesses surveyed showed signs of growth, it had little to do with owners' financial literacy levels as there was an indication that owners could have employed services of professional employees to handle the businesses' financial matters. The training these business owners received was found to have only improved their assumption of financial competency, without any real benefit to the business.

4.3.4 A Critique of training evaluation studies

Evaluation techniques employed in assessing effectiveness of business training programmes are contentious and could render conclusions reached on different evaluation studies questionable. The OECD (2002) cautions against claims of positive association or correlation of management training with firm performance. The argument is that some studies such as one conducted by Huselid (1995) that reported positive association between management training and firm performance were conducted on large firms that are statistically unlikely to fail due to good managerial practices such as performance linked wages and incentive schemes. Such prerequisites, in themselves, motivate employees to work hard so as to benefit from themselves. The result is therefore that the effect of training becomes difficult to assess in such firms. Also, in some studies of small firms where positive associations were reported between management training and firm survival, the OECD found methodological issues that could weaken such associations. When more management practices were included and controlled for in the experiments, the influence of training declined.

In the study of its member countries' SMME management training programmes, the OECD (2002:125) reached the following conclusion:

> Finally, we should point out that we were not able to uncover evidence with regard to the impact of training on firm performance. So, no reliable evidence exists to show

whether the existing supply structure for SME management training serves to enhance competitiveness, growth and survival of firms

They, however, suggested that more analysis needs to be done. Sound and credible methodology should be developed so as to faultlessly establish the link between business training and performance. This gives an indication that there are methodological issues involved in training evaluations.

In studies involving training evaluations influence on firm performance, some authors have disagreed on the selection of study sample, the size of businesses involved in the study and the duration of training. A comprehensive analysis of evaluation studies of different training programmes is illustrated by Mckenzie and Woodruff (2013:27-35) as shown below:

Table 4.2: Characteristics of training delivery and impact of training

STUDY	COUNTRY	TRAINING PROVIDER	TRAINING CONTENT, NEW OR ESTABLISHED	COURSE LENGTH (HRS)	ATTENDANCE RATE (%)	% INCREASE IN PROFIT	% INCREASE IN REVENUE
Berge et al, 2012	Tanzania	Training Professionals	New	15.75	83	Male 5.4%. Female -3.0%	Male 31.0% Female 4.4%
Bruhn and Zia, 2012	Bosnia Herzegovina	Training Organisation	New	6	39	Mixed 15%	n.r.
Calderon et al, 2012	Mexico	Professors and students	New	48	65	Female 24.4%	Female 20%
De Mel et al, 2012	Sri Lanka	Training organisation	Established (ILO)	49-63	70-71	Female -5.4%	Female -14%
Drexler et al, 2012	Dominican Republic						
- Standard		Local Instructors	New	18	50	n.r.	-6.7%
- Rule of thumb		Local Instructors	New	15	48	n.r.	6.5%
Field et al, 2010. India	India	Microfinance credit officers	New	2 days	71	n.r.	
Gine and Mansuri, 2011	Pakistan	Microfinance credit officers	New	46	50	Mixed -11.4% Male -4.3%	Mixed -2.3% Male 4.8%
Glaub et al, 2012	Uganda	Professor	New	3 days	84	Mixed n.r.	Mixed 57.4%
Karlan and Valdivia, 2011	Peru	Microfinance credit officers	Established (FFH)	8.5-22	76-88	Mostly Female 17%	Mostly Female 1.9%
Mano et al, 2012	Ghana	Local Instructors	New	37.5	87	Male 54%	Male 22.7%
Premand et al, 2012	Tunisia	Government office staff	New	20 days+	59-67	n.r.	n.r.
Valdivia, 2012	Peru	Training Professionals	New	108	51	n.r.	Gen training 9%. Training plus tech. assistance 20.4%

Note: 'n.r.' means data not reported

Source: Adapted from McKenzie and Woodruff (2013:29,31).

The above table consists of the main evaluation studies which measure the impact of management training. To date, most reviews on this subject often refer to a number of these studies, for example, OECD, (2002).

Mckenzie and Woodruff (2013) expressed scepticism about the methodological rigour employed in these studies and caution regarding the validity of conclusions drawn from them.

For example, they argue that conclusions drawn from some studies that business training leads to increase in revenue (sales) and profitability is contentious, since revenue and profit are sensitive issues that business owners would be reluctant to share for fear of theft or taxation. These fears could lead to a lower response rate surrounding questions bordering on financial matters, when compared to questions on non-financial matters. In some instances therefore, some studies have had to make inferences from profit margins on the main products sold in order to determine profitability of businesses involved in the study (see studies such as Karlan and Valdivia, 2011; Bruhn and Zia, 2012 and Drexler et al. 2014). The low attrition rate therefore weakens conclusions from studies that purport a positive effect of business training on profitability.

Another criticism is the size and diversity of the sample:

> The key determinants of the power of a study are the size of the sample, how much heterogeneity there is in the sample (the more diverse the set of firms the harder it is to measure a change for them, whether the intervention takes place at an individual or group level). Power is lower for a given sample size when treatments are allocated at a group level, and the size of the treatment effect (Mckenzie and Woodruff 2013:8).

This means that the study sample and the diversity of the sample are very important in sustaining the credibility of a study. If the sample size is too small, generalisations are impossible and if individual business characteristics are too diverse, the higher the coefficient of variation, the more difficult it is to "detect" changes in their performance as a result of training received.

In light of the above information, studies such as Mano et al, (2009) and Sonobe et al, (2012) face sample size problems while de Mel et al, (2009) and Berge et al, (2011) attempted to control heterogeneity by setting eligibility criterion for inclusion in the sample (Mckenzie and Woodruff, 2013). The authors found lower statistical power in some of the studies, indicating that very few studies have found any impact on sales and profitability.

Another weakness observed in the studies in table 4.2 above that has implication for related evaluation studies, is the timing of measurement of training impact. Again, Mckenzie and Woodruff (2013) argue that firms are slow to implement received training therefore the impact of business training is delayed as a consequence and should be best determined not in the immediate short term nor in a much longer term. 62% of above studies according to the authors conducted training evaluations approximately one year after training, a period which they maintain is too short for training benefit to be realised. Researchers in those studies also made only one follow up visit to those businesses, for data collection purposes. The result is that data used for evaluation was not observed over a number of periods. Data was obtained at a specific period and the performance at that specific period was evaluated. The implication of this argument is that preference is given to training evaluations that utilise time series methodology where changes in growth indicators of these businesses are tracked over the medium term (2-3years) as training becomes internalised by the business.

Training content, course length and selection of participating firms remain another contentious issue. The argument is that businesses with a greater chance of survival could have been chosen to partake in the study therefore the effect of business training would naturally be positive. Again, very short training periods such as utilised in research conducted by Bruhn and Zia (2012), a total of six hours, and Drexler et al (2012), 15-18 hours could be regarded as being too short for any learning to have taken place. While very long training periods such as those conducted by Valdivia (2012), of 108 days and Karlan and Valdivia (2011) with a total of 22 sessions over a period of 24 months led to a high drop-out rate (Mckenzie and Woodruff, 2013). With regards to training content, the table below shows the training content which was offered to participants under review:

Table 4.3: Training content

Study	Separating h/hold and bus. Finances	Accounting	Financial Planning	Product Ideas	Marketing	Pricing/costing	Inventory Mgt	Customer service	Business.Invest/ Growth strategis	Employee Mgt	Savings	Debt	Using Banks	Quality	Kaizen/55/Lean	Aspirations/Self-
Berge et al, 2012	X	X	X	X	X	X	X	x		X	x	X	X	x		x
Bruhn and Zia, 2012	X	X	X		X				X							
Calderon et al, 2012		X		X	X	X		x	X							
De Mel et al, 2012	X	X	X	X	X	X	x									
Drexler, et al, 2012:																
"Standard"	x	x	X				x				x	x				
"Rule-of-thumb"	x	x									x	x				
Field et al, 2010	X	X	X													X
Gine and Mansuri, 2011	X	X		X		X										
Glaub et al, 2012																x
Karlan and Valdivia, 2011	X	X	X	X	X	X										
Klinger and Schundeln, 2011		X	X		X	X	x	x							x	x
Mano et al, 2012	X	X			X	X	x						X	x	x	
Premand et al, 2012		X		X	X	X										x
Sonobe et al, 2011: Tanzania		X			X	X	x						x	x	x	
Valdivia, 2012		X		x	X	X		x						x		x

Source: Mckenzie and Woodruff, (2013:30).

Relating the training content (based on table 4.3 above) to effectiveness in propelling positive business outcomes and growth, Mckenzie and Woodruff (2013: 7) concluded:

> Simple accounting practices and financial literacy training may give business owners a better understanding of the profitability of their business but have little immediate effect on sales or profit levels. However, in the longer term, the use of such practices may enable them to reinvest more in their firms because of higher savings, or to make adjustments to product lines or gain a better understanding of which products are more profitable. In contrast, some of the

> other practices may show impacts more quickly – better marketing and customer service may directly increase sales, while costing and quality control practices may lead to reduced costs and increased profits

The above conclusion seems to argue that studies that focus more on accounting and financial matters and less on marketing and client issues would not find significant growth in participating businesses. Also, since financial literacy training does not have an immediate impact, studies that evaluate the impact of business training in the immediate short term (for example less than or up to a year) may not make a valid association between training received and sales growth and profitability (should any increase in these variables be observed). This conclusion seem to imply that financial literacy training does not have a direct cause and effect relationship with sales and profit but, it can trigger actions that would lead to sales growth and profitability in the long term and also help to harness, in financial terms, all business activities that can position a business for growth and profitability.

4.4 CONCLUSION

Taken together, the foregoing review demonstrates that different theoretical discourses credit different attributes as being crucial for enterprise growth and development. While none of the theoretical positions is sufficient in itself, in explaining business “growth drivers”, the present study leans more on some – particularly, those that emphasise the role of knowledge - in examining how financial literacy and literacy training impact small enterprise growth and sustainability within the South African context – particularly in the Eastern Cape. The specific theories in this regard are: theory of human capital development, resource-based theory of the firm and ethno-economics (which emphasises informal knowledge).

Empirically, an evaluation of business training on existing businesses has produced varied results. Some studies have found a positive relationship between business training and growth in sales and profitability, while others did not. One important point revealed by these studies is the methodological weakness of impact studies. The basic indication is, however, that training can influence business organisations even if in insignificant ways. Also, while entrepreneurship or business training is found to have had a positive effect on entrepreneurial attitudes and intentions, it could not significantly propel actual business start-up thereby highlighting other influences on entrepreneurship.

CHAPTER FIVE

RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter explains the methodology employed in this study and illustrates how the data collection methods connect to the broader research objectives outlined in chapter one. Crucially, the chapter demonstrates how validity and reliability concerns were addressed in the study. As stated by Kallet (2004), a study's methodology enables verifiability by providing information that is used to judge the reliability and validity of research, since a major distinguishing feature of academic research is the verifiability of some or all of its findings. While validity shows the extent to which research truly measures what it intended to measure, reliability shows accuracy and consistency of results over time, if the research were to be repeated (Golafshani, 2003). The present study was guided by these two concepts.

5.2 RESEARCH DESIGN

This study is based on a triangulation of methods within the quantitative and qualitative research approaches (Yeasmin and Rahman, 2012). The research design adopted was quasi-experimental otherwise referred to as natural experiment or alternatively, observational studies (Remler and Van Zyzin, 2015) and rooted in what is commonly termed relational research. Relational research investigates relationships between variables and helps to reveal the "why's and "how's" of that relationship (Tredoux and Smith, in Terre Blanche et al. 2006). The research sought to establish the effect of financial literacy training on business performance. SMME growth was used as a *dependent* variable while financial literacy training was the *independent* variable. Experimental research, the basis of quasi-experimental research is the control of the environment of the research in order to observe behaviour and is a common research approach which is generally adopted in human and economic sciences research. To utilise this research approach, at least three criteria must be met. The first criteria is the random assignment of respondents into treatment and control groups to avoid selection problems. The second is experimental control where there is complete equivalence in all features of the two groups in order to eliminate confounding problems while the third is the use of dependent variable that is appropriate for the hypothesis being tested (Charness et al, 2012).

Although experimental research design allows a researcher to establish the causal relationship among variables, Greene (2000) and Gujarati (1995) have, rightly, pointed out that it is often difficult to establish true causality. Indeed, a careful analysis of many "causal" studies show that causality is actually *inferred* rather than directly *observed*; in other words, causality is not entirely an *empirical* concept, as often portrayed. Tredoux and Smith, in Terre Blanche et al. (2006) caution also that in utilising an experimental design, care must be taken in showing that the change in a dependent variable is entirely caused by a change in the independent variable and not attributable to some other change. It must also be proven that the independent variable is an active variable that could be manipulated (that is, increased, decreased or influenced to achieve a particular result) and "the participants who receive one level of the independent variable are equivalent in all ways to those who receive other levels of the independent variable" (Tredoux and Smith, in Terre Blanche et al (2006).

As attested to by Tredoux and Smith (in Terre Blanche et al., 2006), it is more difficult to have "true" experiments when working with human beings than would be in natural science experiments, since in a "true experiment", "a complete equivalence is a requirement", meaning, the two groups must be identical in exact characteristics. In a "quasi- experiment" on the other hand, equivalence "is only required in terms of relevant characteristics; that is, characteristics that could provide a plausible rival explanation of any observed effects". The description of the research design for the present study as "quasi-experimental" or natural experiments was used based on this understanding.

Remler and Van Zyzin (2015:431) define quasi-experiments as "studies of planned or intentional treatments that resemble randomised field experiments but lack full random assignment". They further contend:

> "Very often, treatments that influence outcomes do not just happen naturally- they are implemented precisely to influence outcomes. And because the treatment must be allocated based on technical or political considerations, or because evaluation of the program occurs after important funding and targeting decisions have already been made, the researcher cannot randomly assign people or other units to treatment and control groups".

This implies that in quasi-experiments, strict randomisation of treatment and control groups may be impossible while not necessarily compromising study result. The authors suggested that in order to improve causal evaluation of results some form of randomisation is still required. For example, if individuals cannot be randomly assigned to groups, random choice of geographic location may at least be attempted. Randomisation could then be matched with comparability. Comparability implies matching observable characteristics between the two groups so as to reduce selection bias and increase internal validity. This study addressed randomisation and comparability by randomly assigning respondents to the treatment and control groups and also ensuring that respondents from both groups are located within the same geographic region for exposure to the same economic environment and have all been operational for at least three years prior to 2010.

Meyer (1995) and Remler and van Zyzin (2015) admit that the problems generally posed by empirical research is the “threats to validity” such as omitted variables, trends in outcomes, omission of error terms, variance measurements, selection bias, attrition, non representative samples and the treatment effect. They portend that these problems could be more obvious especially in quasi- experiment therefore a researcher should be very vigilant and attempt to minimise these in the research process and that endogeneity problems are very obvious in quasi-experiments. They argue further that in quasi-experiments, evaluations often occur after decisions and implementations have been made, therefore accurate assignment of respondents into groups based on matched characteristics become unachievable. The possibility of bias therefore arises because the difference in outcome between these two groups may depend on characteristics that would have affected the group whether or not it received a treatment rather than due to the effect of the treatment. This requires the use of appropriate analytical method that can address some of the threats and deliver credible research results.

This study utilised the Propensity score matching (PSM) and difference in difference (DID) as its analytical techniques. Not only were these methods the most appropriate to address this study’s research objectives but they are also able to isolate or control for the biases to make the treatment and control groups more comparable. Several researchers have utilised this research method with credible acceptable results (see Zimmerman, 2003; Cummins et al, 2005; Lacy, 2009; McKee et al, 2007). These techniques are discussed in details in section 4.6.

5.3 STUDY SITES

The Eastern Cape Province was chosen as the site for this study. Besides the convenience of being the province in which the researcher resides, the Eastern Cape is one of the least developed provinces in South Africa and accounting for one of the highest concentration of informal businesses (Stats SA, 2007). Some estimates have considered the Eastern Cape to have the third largest SMME market in the country (DEDEA, 2014). With a concerted effort to grow the SMME sector by the government through the SMME summit held in East London every year, this study found it imperative to assess the contributions of SEDA towards the growth of the sector by evaluating effectiveness of its training programme in the province. The study also sought to contribute to laying the initial foundation for a more robust evaluation of SEDA's SMME training programme.

East London, Port Elizabeth, and Mthatha were chosen for the study, as they are the Province's major centres of commerce and industry and the three cities in the province with the highest concentration of SMMEs. In East London, the focus was on the central business district (CBD) and on the main township of Mdantsane, while in Port Elizabeth, SMMEs were selected from the CBD and the township of Motherwell. Only one site was utilized in Mthatha, that is, the CBD, as this is the main small business node in the city.

Source: http://www.sa-venues.com/maps/eastcape_regional.htm

Figure 5.1: Map of the Eastern Cape, showing the three study sites

Figure 5.1 above shows the political map of the Eastern Cape indicating the three largest commercial centres of Port Elizabeth, East London and Mthata.

The provincial headquarters of SEDA is in East London with branch offices in Mthata, Port Elizabeth, Queenstown and Mount Ayliff. The East London office serves as both regional and branch office. SEDA runs financial literacy training workshops several times a year. The training spans a period of three to five days and covers areas such as budgeting, savings, insurance, credit use and credit management, marketing management, costing and pricing, cash management, record keeping, financial planning, preparation of income statement, balance sheet and ratio analysis among others. Accounting and finance content enjoys dominance over marketing content.

5.4 METHODS OF EMPIRICAL DATA COLLECTION

5.4.1 DATA SOURCES AND SAMPLING

A sample of 354 SMMEs were selected from an estimated population of 140 000 that operate in the Eastern Cape (Stats SA, 2009). SMME statistics from Stats South Africa was chosen for this study on the premise that their survey is generally seen as the best extensive survey at providing statistics on SMME in the country (The DTI, 2008). This sample size is based on a confidence interval (margin of error) of ±5.2% and confidence level of 95%. Macorr Sample Size Calculator was used for the sample estimation.

In order to effectively address research objective (ii) which is to evaluate the difference in the performance of SMME businesses that have received structured financial literacy training over those that have not, the samples were divided equally into treatment groups (made up of 177 SMMEs) and control groups (also comprising 177 SMMEs). Both groups were spread across the major Eastern Cape cities of East London, Port Elizabeth and Mthata. Because of non availability of data on the city-by-city population of SMMEs in the Eastern Cape, the initial intent of the researcher was to reach at least 118 SMMEs per city (this number comprises 59 treatment group and 59 control group members per city). By so doing, the total sampling size of 354 would have been reached but the reality on the ground was different.

During fieldwork, the researcher discovered that Mthata being the smallest of the three cities did not have sufficient number of treatment group members that fall within the treatment group sampling frame therefore both East London and PE had more treatment group members in the sample than Mthata. The researcher could not anticipate any immediate effect of this adjustment on the result of the research. Although Babbie and Mouton (2001) emphasises accurate matching for comparability in experimental research design (a process whereby both the treatment group and the control groups are exactly matched in terms of characteristics, attributes, and by inference, number and location), the reduction in the number of treatment group sample from Mthata does not prejudice the research since as noted by Tredoux and Smith (in Terre Blanche etal (eds) 2006), in quasi-experiments such as in the present study, equivalence is only required in relevant characteristics and conditions under which samples are examined. In the case of this study, the relevant condition is the receipt or not, of financial literacy training.

5.4.2 THE SAMPLING FRAME

The basic parameters for inclusion in the study were specified in the sampling frame for both treatment and control groups. A sampling frame specifies a list of study specimen from which study participants could be drawn using a simple random sampling. In the present study, for the treatment group, the sampling frame was set based on two variables: SMMEs that have been operational for some years prior to 2010 and that received financial literacy training from SEDA in 2010. Other variables such as formality or informality of business, racial component and educational levels did not count as this would pose serious limitations on the study since for example; most businesses in the Eastern Cape are informal businesses.

SEDA clients were chosen for a number of reasons. In the Eastern Cape, a number of organisations are involved in SMME training, among them: SEDA, Fort Hare University's Centre for Entrepreneurship, National Youth Development Agency (NYDA) and the main commercial banks. Some of the commercial banks are involved in SMME training as part of their corporate social responsibility or to meet their Black Economic Empowerment (BEE) or community engagement/community development scorecards or points, and even then, some of these training initiatives are conducted intermittently and facilitated through organisations such as SEDA. The Fort Hare Centre for Entrepreneurship commenced SMME training in 2010 and at that point, it existed only as a pilot programme and had a relatively small number of participants. The NYDA conducts training only for the youth-run businesses, according to the stipulation of their charter, and provides diverse services to its clients.

SEDA is an all-inclusive government agency whose mandate is SMME development through training. It provides scheduled and on-going training to its clients in an effort to help realise the government's national SMME agenda. The choice of SEDA clients was based on the fact that SEDA is the largest trainer in the sector and its client base across the region was large enough to provide sufficient sample for this study. Training recipients in 2010 were chosen on the basis that there were more training recipients in that year than in previous years. Besides, it is fair to consider knowledge assimilation as a process that is evident only after a reasonable period of time. Since the fieldwork was done between 2013 and 2014, it therefore was justifiable to use training recipients of 2010 in order to have a time lapse of at least two years before the benefit of training could be assessed through comparability of turnover levels (performance variable) between the years before training (2008 – 2009) and after training (2011 – 2012), 2010 being the year of training.

For the control group, the sampling frame consisted of SMMEs that have been operational for some years prior to 2010 but which have not received any form of financial literacy training whether from SEDA or from any other organisation. Besides these two conditions, every other consideration remains the same as that of the treatment group.

Reaching the treatment group respondents was very laborious as the researcher had to work very closely with SEDA. At first, SEDA was somewhat sceptical about its involvement in the whole research process since this was their first as the researcher later discovered. To gain their consent to allow its clients to participate in the study, a letter of introduction was obtained from the department of Economics, which introduced the researcher to SEDA and explained the purpose of the research (see appendix G). The researcher also provided contact details of one of her supervisors and a senior manager at SEDA placed a call to the supervisor in the presence of the researcher, asking for more information about the research and asking him to identify the researcher. SEDA requested for a copy of the questionnaire which the researcher provided. They also retained a photocopy of the introduction letter from the department of Economics. The checks and documentation eventually secured SEDA's consent to allow the researcher to conduct research with its clients and got them interested in knowing whether the training they provide actually help businesses otherwise it is a “wasted effort” as one of SEDA’s staff member put it.

The next challenge was the client list. The agency, as recently as early 2013 does not keep an electronic copy of client list. Client lists are compiled manually and every year, the agency sends all previous year’s list and client documentations to the store room. A junior staff member was assigned to help the researcher locate the client list in the store room and her reluctance was understood when the researcher and the staff member got to the store room. Obviously SEDA does not interact with clients beyond training so there seems to be no further need for contact with clients. This informs the setting and storage of files in the store room. Through a long and laborious process, the 2010 client list was found. SEDA did not release this client list to the researcher due to the next challenge.

SEDA has a confidentiality clause with its clients. The confidentiality clause bars SEDA from giving out any confidential information about its clients to anyone without the clients’ consent. An unexpected visit to the clients’ business premises by the researcher would constitute a breach of client confidentially since it would mean that SEDA divulged clients’ business addresses to the researcher without their consent. To obtain the clients’ consent, one of the managers at SEDA (East London regional office) was assigned by SEDA to telephonically contact all its 2010 clients, brief them about the research and seek their consent to take part in it.

Some clients were not reachable as their contact details had changed. Of those that were reachable, about 95% gave their consent and willingness to participate in the study. To further protect its clients, SEDA gave the researcher a letter that introduced the researcher to the clients, indicating its (SEDA’s) consent for the conduct of the research and asking clients to call them should they feel uncomfortable at any stage of the research or should the clients needed clarifications on any aspect of the research (see appendix F). SEDA was able to release the client database to the researcher only after their consents were obtained. SEDA clients are spread across different cities in the region and clients were randomly chosen from the list to make up the total number for the treatment group.

The selection of control group members was less laborious. There was no pre selection of respondents before fieldwork. Business premises were randomly visited during fieldwork with a letter of introduction obtained from the department of Economics of the University of Fort

Hare and questionnaires were administered to managers or owners. Questionnaires that were completed by those who have received some form of literacy training from any organisation were rejected. The rejection was based on the fact that the researcher was interested in comparing only businesses that have not received any financial training with those that have.

5.4.3 SAMPLING TECHNIQUE

As mentioned earlier, a simple random sampling technique was used in selecting participants for data collection for both groups. Random numbers were not statistically generated nor respondents chosen through any statistical parameters. For the control group shops and business premises were visited at random with the research instruments coupled with a letter of introduction from the researcher's department from the university. Before data collection commenced, respondents were told that they have a choice whether or not to take part in the survey. They were also assured of confidentiality of information and that information provided were to be used for research purposes only. Data collection commenced upon their consent.

A random sampling method was also used for the selection of treatment group members. Respondents were randomly chosen from SEDA client list. Upon arrival at respondents' business' premises, the researcher discovered that some of these businesses had closed down after receipt of training due to challenges faced by them and only the contact numbers were still functional. Such businesses were eliminated from the sample and another random pick from the list was done. What was interesting to the researcher was the fact that when initial calls were made to these business owners/operators by a SEDA staff, they never conceded then that the business was no longer in operation. The researcher only discovered this during visitation. One could only assume a number of reasons for this game play. The first probable reason is the fear of admitting to SEDA that the business has failed so SEDA doesn't feel a waste of training time and resources. The second reason that the researcher could deduce from interaction with some of these business owners is that since they understood from SEDA that "someone" was coming to visit them, they felt it was a "perfect" opportunity to tell SEDA what they actually want, through the researcher. Details of this is provided in chapter six.

5.4.4 Sample size

Three hundred and fifty-four (354) SMME operators made up the sample size of this study. This is made up of 177 treatment and 177 control group members. Samples were constituted into two groups of SMMEs – a “treatment group” made up of those whose operators had been exposed to financial literacy training and a “control group” comprised operators who had no such exposure. One hundred and seventy seven “treatment group” SMMEs were randomly selected from the official list provided by SEDA. They were spread across the region. “Control group” respondents – also one hundred and seventy seven in total – were randomly selected in the three cities.

During data collection, many respondents found their business turnover information sensitive and were unwilling to complete that section of the questionnaire. Sadly, this was the most important piece of information needed for this study. Being guided by the University’s ethical considerations in research conduct, there was no attempt to compel them to do so and many questionnaires were rejected as a result. Eventually, only forty (40) fully completed questionnaires of treatment group and forty (40) from the control group could be used in the study. Interviews were conducted with ten (10) members of the treatment group and ten (10) members of the control group and interviews were conducted on their business premises.

5.4.5. Data collection methods

In line with the study objectives outlined earlier, the study utilized a triangulated approach requiring the use of quantitative and qualitative empirical data. Questionnaire survey and in-depth interview were therefore utilized. A questionnaire survey was used to gauge the spread of opinions of respondents while in-depth interviews were conducted in order to adequately gauge the depth of understanding of financial matters by respondents as reflected in research question one. It is noteworthy that the questionnaire was structured to help address the three research objectives of the study. Interview was only used as a complementary resource to help address research objective one.

5.4.5.1 Questionnaire survey

A questionnaire survey, according to Babbie and Mouton (2001), is the oldest form and the most frequently used research technique in both pure and applied research. It is particularly useful in collecting original data, for describing a large population, for measuring variables and may be used for descriptive, explanatory and exploratory purposes. Questionnaire surveys allow the researcher to obtain from a large sample, vital information that gives an indication of the performance of the respondents' businesses. Questionnaires are mainly utilised in quantitative studies with accompanying quantitative treatment of data. The questionnaire was administered to both treatment and control group members and was carefully structured to focus on variables that are very important in the study. Both closed and open ended questions were used in the questionnaire. Besides quantitative information, a few open ended questions contained therein provided supplementary information to the interview data and were carefully compiled to enable the researcher to understand financial literacy levels among SMMEs, literacy skills utilisation and where such knowledge is sourced from (see appendix A).

5.4.5.2 In-depth interview

In-depth interview data were obtained from 20 SMME operators, across the two respondent groups (that is; 10 from treatment group and 10 from control group). These interviews enabled the researcher to gain more insight into the financial knowledge levels of SMME operators and to what extent it guides the operations of SMME businesses.

Since this research is not specific regarding owner/manager SMMEs, interviews were conducted with anyone who was responsible for the day-to-day running of the business. The questionnaire administration followed suit. The researcher did not foresee any bias regarding information provided by owners and that provided by employees, as employees that took part in the survey and interview were those that were actively managing the business on behalf of the owners and were very knowledgeable about the business that they manage. For some employee-operated businesses, employees sought approval from owners before they could speak to the researcher (and the researcher's assistants), or complete the questionnaires. The researcher was given appointments to meet with owners whose employees were unable to provide certain information about the business. The researcher used that opportunity to double-check certain responses provided by employees, with the owners, in order to ascertain the correctness of the information supplied by employees about the business.

Interviews were recorded using a tape recorder. Control and treatment group interviews were separately recorded. Respondents were coded as treatment: respondent 1, 2, etc, while the same method applied to control group coding. This made it easy for specific responses and quotes to be traced to specific respondents.

5.5. INSTRUMENT DESIGN AND ADMINISTRATION

5.5.1 Instrument design

Both open and close-ended questionnaire were used for the survey. The questionnaire was divided into five sections. Section A dealt with biographical data and sought to obtain background information about the business. Although biographical information is not crucial in the present study, it provided important cross-tabulation data which could be used to confirm or reject research findings which suggest that age, gender and level of education act as important influences of business success and growth (see Woldie et al, 2008, Dalrymple, 2004). For the purpose of obtaining this biographical data, closed ended questions were used where respondents ticked boxes that had options that best represented their opinions.

In section B, the characteristics of the business were investigated. This section sought to understand the form, nature and economic sector that the business belonged to. Although not a focal point in this study, this section was, nonetheless, important as it provided certain information such as age and nature of the business, which could be used to argue for the importance or not, of the interface of business form and business longevity (Evans, 1987; Woldie et al, 2008) as part of the discourse on the determinants of business growth. Both open-ended and closed-ended questions were used. Close-ended questions allowed respondents to identify economic sectors of their business which might not have been reflected in the options provided. This turned out to be very important as some respondents indicated some economic sectors that were not included in the options that were provided.

Section C was designed around the core of the thesis, as it investigated aspects of the business's financial management and growth issues. Questions in this section (and the questionnaire in general) were carefully structured to address elements of financial literacy, as defined in the study. The questions attempted to tease out respondents' financial knowledge, their use of such in the business and where such knowledge was obtained. Close-ended questions were used where financial variables were listed and tested. Close-ended questions were important because the researcher was careful to capture through this methodology, all variables that would help measure, analyse and achieve the objectives of the study. A few open-ended questions were also included in the section, which allowed respondents to explain some of their responses in detail.

Section D attempted to find out whether SMME operators had received any form of support (both financial and non-financial) from any SMME support organisations that were operational in the Eastern Cape. This section was important for both treatment and control groups since it enabled treatment group businesses that have received some training from any other organisation, and control group businesses that had received any form of training to be eliminated from the study

Section E had two sets of Likert scale questions. Likert scale questions allowed an investigation of the opinions and attitudes of respondents, and the intensity of such attitudes or opinions (Babbie and Mouton, 2001). The first set of Likert scale questions sought the opinions of treatment group members regarding the usefulness of SEDA's financial training to their business, particularly in the area of applicability of knowledge received. The questions were structured with specific financial literacy outcomes in mind and responses enabled the researcher to understand the usefulness of financial training to the treatment group, from their point of view, and also helped to understand whether they actually applied knowledge they received. The second set of Likert scale questions were designed for the control group. The essence was to understand whether they think financial training is important in the successful running of the business. Depending on the circumstances of the business, their responses mirrored their thoughts on whether they thought financial training would have helped them do better. Their responses also enabled the researcher to sense how they would respond to a free offer of financial training. For both treatment and control group questions, responses were structured in the form of strongly agree, agree, no opinion, disagree or strongly disagree.

Likert scale questions can give rise to a number of biases such as central tendency bias (the tendency for respondents not to indicate very strong opinions) and social desirability bias (the tendency for respondents to try and portray themselves in a good light). To mitigate these biases, the respondents were given the option of remaining anonymous by not filling in the business name on the questionnaire. This worked well as some of them chose to remain anonymous. While not compromising the research inquiry in order to obtain information that is sufficient for this study, the researcher ensured that questions were brief and simple, and that the questionnaire was not too long, so as to cause response fatigue and lead to thoughtless responses.

It should be noted that sectional headings were not indicated on the questionnaires as it was information that was only important to the researcher and not respondents. The reason for non-inclusion was to not give out too much detail regarding the directionality of the questions, and made respondents feel uncomfortable in completing the questionnaire. This does not imply trickery or concealing of information from respondents (Coldwell and Herbst, 2004) but an attempt to maintain a balance between information that is supplied to respondents and that which is relevant only to the researcher.

The in-depth interview was semi-structured. The researcher had a list of questions that were developed to help shed more light on the research objectives. Semi structured interviews are beneficial when an interviewer has only one chance of conducting the interview and where research assistants are used, as it acts as an interview guide to the assistants and enables both the researcher and research assistants to obtain reliable and qualitative data on the same issues. It allows questions to be prepared ahead of time such that the interviewer appears competent and well versed on the subject matter, during the interview process due to familiarity with the questions (RWJF, 2008). The design of both the survey and interview instruments closely mirrored the research objectives (see appendix A and B).

5.5.2 Instrument administration

5.5.2.1 The pilot study

A pilot study was conducted among control group respondents in the East London Central Business District (CBD) to test the validity of the research instruments. The study was conducted among control group members because they were readily available in the CBD. A total of ten questionnaires were administered and two interviews were conducted. According to van Teijlingen and Hundley (2001), a pilot study is an important part of a good research design. Although it does not guarantee success of the study itself, it however increases the likelihood of producing a good research study and assesses the possibility of a full scale research (Nunes et al, 2010). Other benefits include; testing adequacy and clarity of research questions to the respondents, gauge initial reactions of respondents to certain questions which appear to be sensitive, establish whether the sampling techniques were effective, identify logistical problems which might occur during the main data collection process, obtain a sense of financial resources implication of the fieldwork process and prepare adequately for it (Nunes et al, 2010), be able to gauge the number of research assistants that would be needed to obtain full research data, and encounter possible problems that would arise during data collection and adequately train research assistants to handle them.

The pilot study revealed the need for minor adjustments to the research instruments but showed what needed to be done to secure trust and cooperation of control group respondents. Van Teijlingen and Hundley (2001) caution against the use of pilot study materials in the main study due to "contamination error" which could arise "if there were problems with the research tool and modifications had to be made in the light of the findings from the pilot study, data could be flawed or inaccurate". Also, care has to be taken not to include pilot study participants in the main study as they have already been exposed to the instruments and therefore may respond differently. Although this could be beneficial for certain kinds of research, it could result in contamination, in other types of research. Pilot study materials may be used in the study (according to the authors) only where there was no need for modification of instruments after the pilot study.

For the present study, there was no significant modification of research instruments after the pilot study; therefore, the data obtained were used in the main research (part of control group sample) but every effort was made to ensure that data were not collected from pilot study respondents.

5.5.2.2. Cronbach's alpha coefficient test for reliability

Every research seeks to attain validity. Internal validity could be measured statistically and shows the extent to which a research method or instrument consistently measures the same thing. It shows the consistency of research instruments and the logical flow of items or questions in achieving desired results. In empirical research, internal consistency is achieved when there is a correlation among multiple questions, implying that all the questions flow and relate to each other in a logical sequence to achieve the same objective (Johns, 2010).

Cronbach's alpha is an instrument for the testing of internal validity or consistency. It is useful where multiple items (questions) are involved and where there is the need to reduce measurement error (Cortina, 1998). Although Cronbach's test is often used to establish validity of Likert scale questions, it could also be used to establish validity wherever multiple questions are used to probe a situation or phenomenon. It ranges between the values of 0 and 1. Although there is no lower limit to the coefficient, the closer the Cronbach's alpha coefficient is to 1, the greater the internal consistency of items (Gliem and Gliem, 2003). The rules of thumb for

Cronbach’s alpha test are as follows: “> .9 – Excellent, > .8 – Good, > .7 – Acceptable, > .6 – Questionable, > .5 – Poor, and < .5 – Unacceptable” (Gliem and Gliem, 2003). A scale that exceeds 0.6 is often considered the lowest acceptable benchmark” (Johns, 2010).

In pursuant of a credible and valid research project (Golafshani, 2003), the researcher found it imperative to test for validity of research instruments. Pilot study data was used for tests of validity. Multiple questions and responses obtained in the pilot study were subjected to Cronbach’s alpha coefficient test. With an average inter item covariance of 0.5298119 and number of 8 items, the scale reliability coefficient was 0.7901 which is an acceptable level of validity. (see appendix D). The alpha coefficient can increase as the number of items (variables) or the mean inter-item correlations increase. Therefore a higher coefficient could have been obtained had the number of respondents increased during pilot testing.

5.6. MAIN DATA COLLECTION

The pilot study revealed the need for research assistants for timeous completion of data collection and to ensure a high questionnaire return rate. Five research assistants were recruited and trained for the assignment. In addition the researcher conducted data collection with the assistants for one full day so they could gain practical experience of the process. The assistants were only involved in the questionnaire survey while the researcher conducted in-depth interviews. The interviews were recorded on tape (where respondents so permit), and later transcribed and analysed.

On the whole, the researcher spent approximately eight weeks to go through all the processes enumerated earlier in order to eventually identify treatment group members that would take part in the study. The actual data collection took another ten weeks as the researcher, together with the research assistants had to make appointments to visit treatment group members only when it was convenient for them. Sometimes, earlier appointments had to be cancelled and meeting rescheduled. Data gathering with treatment group members was particularly slow as they are scattered all over the Eastern Cape and involved a lot of travelling. Some of the treatment group members who lived quite a distance from the cities requested a copy of the questionnaire through an email which some of them completed and returned. On the whole, most of the questionnaires were completed with the help of the researcher or research assistants while some were completed by respondents and latter collected by research assistants. The field work was conducted between October 2013 and February 2014.

5.7 DATA ANALYSIS PROCEDURE UTILISED IN THIS STUDY

This study is premised on the need to assess whether financial literacy training of SMME operators can propel SMME growth. Although not directly intended, by implication, it means indirect evaluation of SEDA's SMME financial/business training programme in effectively supporting SMME business financial management which could lead to positive outcomes such as increase in turnover and business growth (Chong, 2008; Weinzimmer, 1996). In that sense therefore, this study could be perceived as an evaluation study, one which attempts to evaluate whether that intervention programme has made a difference in the businesses of those who have been trained, over those who have not.

As noted in section 4.3.2, evaluation studies result are often contentious due to differing analytical methods employed. MCkenzie and Woodruff (2013) contends that much of the criticism bears on the lack of methodological rigour in the data analysis model utilised. The last decade has seen concerted programme evaluations by researchers and results have been helpful in assessing the viability of some development programmes. For example, a tabulation of evaluation studies by OECD (2009c) shows different methodological applications in studies that attempted to measure effect of entrepreneurship training on entrepreneurship intensions, business start-up and management. Varied results were obtained even in studies that closely resemble each other due to differences in methodological analysis utilised. Studies that were experimental and quasi-experimental in nature were commended especially those that utilised what the OECD calls a "more robust" analysis technique such as difference in difference and propensity score matching method (PSM).

A recent release by Asian Development Bank (ADB, 2015) shows that numerous ongoing and completed evaluation studies undertaken by the bank utilise a range of techniques from randomised control trials (RCT), randomised IE and regression discontinuity design (RDD) to difference-in-difference (DID) and propensity scoring method (PSM). The most widely used techniques were the DID and PSM. The use of the two methods could partly be in response to the need to conduct a more thorough analysis of intervention programmes since they affect policy changes within those programmes.

To address the problems of empirical research enumerated earlier, the present study utilised comparison groups with the before and after treatment data which, according to Meyer (1995), on its own reduces some of the problems of internal validity such as trends in outcome. To achieve basic comparability, the matching approach or relative equivalence was adopted where the researcher attempted to match the characteristics of both groups as much as possible in terms of years of business existence, geographic location and sample size. Matching to provide adequate basis for comparability further reduces the threat of omitted variables and mis-specified variances. To further isolate some of the validity threats and strengthen results of the study, the PSM and difference-in difference analysis techniques were used (see section 4.6.2 and 4.6.3 below for in-depth discussion on these techniques).

5.7.1. Descriptive analysis

The demographic data and analysis of the first research question are done descriptively; tables and percentages are used to depict responses and opinions of respondents to the survey and interview questions. Descriptive statistics is, in the main, a pictorial presentation of “real-world phenomena” (Kevin Durrheim, in Terre Blanche et al, 2006) by reducing quantitative data into a manageable and more meaningful form (Babbie and Mouton, 2001). It helps organise random data and present them in a form that is simple, meaningful and understandable to users. To this end, responses to survey questions are presented in the form of tables and percentages to reflect the views and opinions of respondents on each financial literacy variable, as well as on sources of financial knowledge and knowledge utilisation. Interview questions are analysed in a way that provides deeper meanings to respondents’ financial behaviour and attitudes.

5.7.2. The Differences-in-Differences (DID) method

When considering methods to evaluate impact of intervention programmes, one obvious challenge is to establish causality. The main requirement for evaluating an impact is establishing that a difference in one, or more, relevant outcomes is caused by a particular treatment. There are a number of analytical techniques usually employed in non experimental research. Two which happen to enjoy the preference of researchers are the before and after comparison of the same individuals; or a comparison of one independent group to another, one whose members are exposed to a treatment and another whose members are not exposed to the treatment. Between group comparison is often achieved by exposing members of one group to a treatment and preventing members of another group (the 'control' group) from receiving this treatment. In this type of comparison, matching is a pre-requisite (Puhani, 2012). Matching is often needed to pair each individual in the treatment group to a member of the control group who has similar characteristics. The study utilised a between group comparison and the difference in difference analysis technique was used to estimate differences in turnover of the two groups before and after training.

The difference in difference method was used in analysisng data relating to research questions two and three and the general specification of the model is as follows:

Diff-in-diffs: without regression

One approach is simply to take the mean value of each group's outcome before and after treatment and then calculate the "difference-in-differences" of the means:

$$Treatment\ effect\ =\ (T_A\ -\ T_B\ )\ -\ (\ C_A\ -\ C_B\ )$$

	Treatment group	Control group
Before	T_B	C_B
After	T_A	C_A

Diff-in-diff: with regression

We can get the same result in a regression framework (which allows us to add regression controls, if needed):

$$y_i\ =\ \beta_0\ +\ \beta_1\, treat_i\ +\ \beta_2\, after_i\ +\ \beta_3\, treat_i * after_i\ +\ e_i$$

Where y_i = turnover

treat = 1 if in treatment group, = 0 if in control group

after = 1 if after treatment, = 0 if before treatment

The coefficient on the interaction term (β_3) gives us the difference-in-differences estimate of the treatment effect.

To see this, plug zeros and ones into the regression equation:

$y_i\ =\ \beta_0\ +\ \beta_1\ treat_i\ +\ \beta_2\ after_i\ +\ \beta_3\ treat_i{*}after_i\ +\ e_i$

	Treatment Group	Control Group	Difference
Before	$\beta_0 + \beta_1$	β_0	β_1

After	$\beta_0 + \beta_1 + \beta_2 + \beta_3$	$\beta_0 + \beta_2$	$\beta_1 + \beta_3$
Difference	$\beta_2 + \beta_3$	β_2	$\boldsymbol{\beta_3}$ *

*Is the coefficient of concern that will tell us the effect of training.

Treatment assumed either 1 if the respondent received training, and zero otherwise. On the other hand, β_2 and β_3 captured the turnover after the training versus before the training for each respondent. As a result the coefficient of one having being treated (having been trained) and after the training, is the one providing the difference in difference. In other words it shows by how much the turnover of the SMME that received training has changed after the training period compared to the turnover of the SMME that has not been trained during the same period.

Differences-in-Differences (DID) estimation has become an increasingly preferred method of estimating causal relationships due to its simplicity and ability to circumvent the problem of endogeneity which is often present in experimental and quasi experimental studies (Puhani, 2012; Solé-Ollé and Sorribas-Navarro, 2008; Bertrand et al, 2003; Dehejia and Wahba, S., 1999). The technique provides unbiased estimate based on assumptions that the model is correctly specified, the error term is 0 and is not correlated with any variable in the model (Albouy, 2016). The evaluation problem is to establish and quantify the impact of a treatment, and estimate what would have happened to participants (the treatment group) in the absence of the treatment – the "counterfactual" (Purdon, 2002; Heinrich et al, 2010). To sufficiently address the counterfactual therefore, Purdon (2002) recommends that researchers decide what the impact measurement variable should be, determine what constitutes success as a basis for comparison as well as decide when to measure. In sync with these specifications, this study utilises turnover as the impact and measuring variable, the effectiveness of training which should reflect in significant increases in turnover of treatment group over those of control group in the periods following receipt of training, the target population being SMME operators and the period of measurement of impact being one to two years after training.

The difference-in-difference approach combines matching with before and after treatment comparison. A treatment group and a control group are selected and data collected both before and after participation (or non-participation). A calculation is then made of the difference in the average outcome in the treatment group before and after treatment, minus the difference in the average outcome in the control group before and after treatment.

Difference in difference (DID) has however been criticised on the grounds that where serial correlations exist, the technique could understate the standard deviation of the treatment effect which could lead to overestimation of t- statistics and significance levels in a study, and a false rejection of the null hypothesis (that there is no effect) (Bertrand et al, 2003; LaLonde, 1986). The recommendation therefore is that regression residuals should be carefully examined and tests of serial correlation carefully tested (Bertrand et al, 2003). Another criticism is that it cannot detect parallel time trends effect therefore studies could attempt to obtain data on other time periods before and after treatment to see if differences would exist in other time frames between the treated and control, or, alternatively, attempt to use another control group in the hope that additional underlying trends would be revealed if any (Albouy,2016). The author however conceded that testing for these biases are only necessary if they are significant and that these are often not a focal point in most researches.

5.7.3. The Propensity Score Matching Method (PSM)

The challenge of evaluation studies is often with the estimation of treatment effects unlike what obtains in pure experimental studies. Estimating a causal effect obtained by comparing a treatment group with a non-experimental comparison group therefore could be biased because of self-selection problems or error in judgment by the researcher in selecting participants to be assigned to the treatment (Dehejia and Wahba, 2002).

Unlike other analytical techniques (such as OLS, t-tests, Hausman test), the Propensity score matching methods (hereinafter referred to as PSM) is preferred because of its ability to isolate the treatment effect, that is, to accurately estimate that possible changes in turnover is due to treatment (training) received. It is also often utilised to correct for sample selection bias due to observable differences between the treatment and comparison groups (White and Sabarwal, 2014). Matching involves pairing treatment and comparison units that are similar in terms of their observable characteristics. When the relevant differences between any two groups are captured in the observable covariates, which occurs due to non random selection of respondents into relevant groups, matching helps to provide an unbiased estimate of the treatment impact (White and Sabarwal, 2014). Matching attempts to pair each individual in the treatment group to a member of the control group (the closest neighbour) who has similar characteristics (e.g. age, gender, education) therefore matches are selected on the basis of similarities in observed characteristics.

The PSM model utilised in the study is estimated as follows:

The impact of treatment for a participant is defined as the difference between the potential outcome where there is exposure to treatment and the potential outcome where there is no exposure to treatment as shown in equation 1 below:

$Yi = Y0i + Di\,(Y1i - Y0i)$……………………………….. 1

Y1i is the outcome of unit i if i were exposed to the treatment

Y0i is the outcome of unit i if i were not exposed to the treatment

Di ∈{0, 1} is indicator of the treatment actually received by unit i

Average treatment effect on the treated

Evaluations generally seek to estimate the mean impact (value) of the outcome variable, which is obtained by averaging the impact (values) across all the individuals in the population. In this parameter, we estimate and measure the impact of training on those who received it:

$E(Y1 - Y0|D = 1) = E(Y1|D = 1) - E(Y0|D = 1)$ ………………..2

a. Assume that all relevant differences between the two groups are captured by their observables *X*:

$Y0 \perp D \mid X$ …………… …………………………..3

X is the set of pre-treatment characteristics

b. Select from the non-treated pool a control group in which the distribution of observed variables is as similar as possible to the distribution in the treated group

For this need:

$0 < Prob\{D = 1 \mid X = x\} < 1\, for\ x \in \hat{X}$ ……………………………….4

Propensity score matching

Since treatment is dichotomous (i.e., D=1 for the treated and D=0 for untreated units), the logit function is used to estimate the propensity score.

$p(x) \equiv Pr\{D = 1|X = x\}$ …………………………………………………… 5

Equation 3 & 4 give

$$Y0 \perp D \mid p(X) \; for \; X \; in \; \hat{X} \; \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 6$$

The model pairs to each treated SMME i some group of 'comparable' non-treated SMMEs and then associate to the outcome (turnover) of the treated (trained) SMME i, yi, the (weighted) outcomes of its 'neighbours' j in the comparison group:

$$\hat{y}_i = \sum_{j \in C^0(P_i)} w_{ij} y_j$$

Where,

• $C^0(pi)$ is the set of neighbours of treated i in the control group

• wij ∈[0, 1] with

$$\sum_{j \in C^0(P_i)} w_{ij} = 1$$

is the weight on control j in forming a comparison with treated i

Average treatment effects were estimated based on PSM. On the other hand the range of matching to ensure that matching occurs only when the propensity scores of a subject and a match differ by less than a specified amount, e.g 0.1 was done. The calliper option was added to the model to test when matching is within the define range. The option provided room to test the robustness of the average treatment effects in the estimation results. Furthermore, average treatment effects of the treated were obtained, this provided the differences in turnover of the treated group before and after treatment in comparison to the control group.

The brief description of PSM by Henrich et al (2010) below gives an accurate summary of importance of matching in quasi-experiments and underscores the importance of PSM:

> …approaches that directly match participants with nonparticipants who have similar characteristics have replaced regression as one of the preferred methods for estimating intervention impacts using comparison group data. The general idea of matching is straightforward. In absence of an experimental design, assignment to treatment is frequently nonrandom, and thus, units receiving treatment and those excluded from treatment may differ not only in their treatment status but also in other characteristics that affect both participation and the outcome of interest. To avoid the biases that this may generate, matching methods find a nontreated unit that is "similar" to a participating unit, allowing an estimate of the intervention's impact as the difference between a participant and the matched comparison case. Averaging across all participants, the method provides an estimate of the mean program impact for the participants. (Henrich et al, 2010:4).

Propensity Score Matching (PSM), a derivation of matching, makes it possible to match along a single measure (the propensity score), which summarises these differences. After participants are matched, the unmatched comparison units are discarded, and are not directly used in estimating the treatment impact (Dehejia and Wahba, 1999). For example, in an earlier work in 1986, Lalonde (1986) faced inability to accurately determine the impact of a labour training programme – the National Support Work (NSW) demonstration, on post intervention income levels – using regression models, fixed effects and latent variable selection models (Dehejia and Wahba, 1999). The composite data used in this analysis were later analysed using PSM and a better treatment effect on the sample was obtained (Dehejia and Wahba, 1999). The PSM is therefore able to isolate the pre-treatment effect thereby combating endogeneity problems and is best when the sample size is large. When the sample size is small however, it is unable to capture or qualify other covariates that could exert influence on the outcome result of the test, or, selection bias due to unobservable covariates (Duvendack, et al, 2012). Another limitation is that due to lack of randomisation in natural or quasi experiments, PSM matching only controls for differences in observed covariates and not in unobserved covariates whereas differences in unobserved covariates could result in estimation bias. However, PSM can still enable estimation of the treatment effect and also provide a diagnostic on the quality of the comparison group even when it cannot adequately account for all observable covariates (Dehejia and Wahba, 1999).

Covariates and correlations analysis could also be performed in a study of this nature (Tucker, 2010) therefore correlations was conducted to assess the influence that some covariate variables could exert on the dependent variables. These variables are discussed below.

5.8. CONTROL VARIABLES

5.8.1 Gender

Gender, the idea that businesses are owned and managed by either men or women, is generally believed to be an important factor in SMME growth. As reported by de Mel et al. (2008), studies conducted on microfinance clients which span across several countries show that business enterprises that were female-owned experienced very slow growth rates and lower profits than male-owned enterprises. This occurs due to the female business owners' inability to access finance and the lack of skills. Citing a research report from different authors on gender and business growth, Johnsen and McMahon (2005) controversially argue that women, by nature, maintain a web of relationships and the business constitutes "one component of a wider system of relationships" which they have to manage, as a result, the business does not receive the focused attention that it requires.

Women-owned businesses are found to be characteristically smaller, employ fewer people and pay less than men-owned businesses. Age-wise, the businesses are often younger and tend to have lower sales than older, more established ones. They face time constraints because of the need to balance family and business matters, are very conservative risk takers and their businesses are largely informal. Women-owned businesses are believed to be mostly concentrated in low growth sectors such as retail sales, personal and educational services sectors. These are traditionally low-growth sectors due to stiff competition and low cost of entry. Since women- owned businesses are often unable to access finance for their business, they often suffer low financial leverage compared to enterprises fun by men, all of which constitute a limitation to growth and sustainability. In contrast to Johnsen and McMahon's (2005) arguments, and despite the above characteristics of women-owned enterprises, some studies have found no relationship between gender and business growth (see Peters et al, 2014).

Although their studies did not find any significant difference in growth between women-owned and men-owned businesses, Johnsen and McMahon (2005) argue further that findings from other studies have raised questions about the notion of "business success" and the measurement thereof, which would have supported de Mel et al.'s (2008) finding that men-owned enterprises grow faster and are more profitable than women owned enterprises. According to Johnsen and McMahon (2005):

> The way women run their businesses to achieve what they define as success may mean that traditional measures of business success may make women-owned businesses appear to be less successful than male-owned businesses...and traditional measures of business success and performance do not adequately represent success for female entrepreneurs

The above assertion requires a careful reflection on what constitutes success to male and female entrepreneurs, for, what constitutes success to one may have a different meaning to the other, and, since all entrepreneurs strive to succeed, they may be striving towards different "objects" of success. Therefore the measurement of success in business, as we know it (based on certain variables) may portray one business as being more successful than the other (Johnsen and McMahon, 2005). The essence is to understand what success in business means to female or male entrepreneurs and therefore judge their performance based on these definitions.

Another issue of contention is that of motivation. The motivation to own an SMME business is different between the genders. While men are motivated by high profitability and growth, women are motivated by personal accomplishments and independence that owning a business brings (Peters et al, 2014), while both genders could be working towards achieving this goal. The measurement of women-owned and operated businesses using parameters that ignore women's motivations for owning a business may be missing the point. Regardless of these contentions, gender remains an important issue in SMME discourse.

5.8.2. Interest rates

The prime lending rate of interest used by banks was considered in this study. Studies have reported high cost of capital as one of the barriers to SMME growth (Bartlett and Bukvic, 2001). High cost of capital poses two threats to SMMEs. The first threat is that it discourages borrowing and reduces access to capital which could be used for expansion purposes, as borrowing is discouraged at very high interest rates. Since business growth is dependent on the level of investment, inaccessibility of capital due to the high cost of capital can reduce SMME growth accordingly. The second threat is the possibility of financial distress. High interest rates place repayment burdens on borrowers. At very high interest rates, businesses face the challenge of covering interest payments and other operational costs, thereby exposing them to financial distress and ~~a~~ possible bankruptcy. Several studies have found interest rate as a major hindrance to business expansion and productivity since it led to high cost of capital (Pretheeba, 2014; Bartlett and Bukvic, 2001; Duan et al, 2009; Moro et al, 2010).

5.8.3. Education levels

There is no contesting the importance of literacy in any sphere of life. To SMME operators/owners, education provides basic literacy that is needed to make sense of business transactions. Some have argued that education levels can limit SME growth because entrepreneurs with low levels of formal education are seen to be unable to make good financial decisions (Ishengoma and Kappel, 2008). Woldie et al. (2008) however, indicate, that there are opposing views regarding the influence of education levels on SMME growth. They argue that while some studies (such as Carter and Jones-Evans, 2000; and Storey, 1994) show that businesses whose owner/ manager possess higher education levels have a greater chance of survival because of the benefit of quality management that it provides, others (such as Hall, 2000; and Barkham et al, 1996) show that SMEs whose manager/owner had degrees generally achieved lower rates of growth than those less well educated.

A study by Peters et al. (2014) of SMMEs in The Western Cape and Kwa Zulu Natal regions of South Africa found an association between education levels and SMME growth. SMMEs owned and operated by educated individuals showed a significant growth in labour force and turnover, when compared to SMMEs with less educated owners. Other studies have also indicated both positive (Ishengoma and Kappel, 2008, Fatoki and Odeyemi, 2010; Ogubazghi and Muturi, 2014) and negative associations (Fatoki and Asah, 2011; Pandula, 2011; Zarook et al., 2013) between education levels and loan access by SMMEs.

5.8.4 GDP growth rate

A symbiotic relationship is often assumed between GDP growth rate and SMME growth. The first relationship assumes that as the economy expands such expansion creates space for increased economic activities which is driven by businesses in both the large business and the SMME sector. The opposite view suggests that the growth of the SMME sector is a causal factor in GDP growth as GDP growth shows an increase in economic activities that is contributed to by SMMEs (Beck et al, 2005). As the GDP grows, the argument goes, the productive capacity within an economy expands to restore equilibrium in the economy and the activities of SMMEs are pivotal in contributing to this equilibrium. SMME growth is therefore related to GDP growth.

5.8.5. Firm characteristics

Firm characteristics are traditionally believed to exert one of the greatest influences on firm growth and performance. They include factors such as size of the firm, age, legal form and the type of sector to which a firm belongs. According to Woldie et al. (2008), earlier studies have suggested that small firms tend to grow more rapidly than big firms since big firms would have fully exploited their expansion capacity to get them to their current levels and small firms have more unexploited opportunities for growth (see also Evans, 1987). According to the authors, other researchers have argued that the form of business bears positively on firm growth as limited liability firms have more opportunities and incentives to take on big and risky projects that can in turn yield higher profit and growth, than other forms of business, and also that certain business sectors typically grow faster than others. Other sets of studies (such as those conducted by Audretsch and Klepper, 2000; Sutton, 1997 and Caves, 1998) had since rejected this trend of thought by Woldie et al (2008) by maintaining that big firms in fact have a greater chance of survival than small firms (Okoye et al, 2013) and if they survive more, they'll inevitably show more growth. Evans (1987) and Yasuda (2005) however found a negative relationship between age of firm and firm growth especially in the manufacturing industries. In service and technology based companies, the relationship is the reverse (Evans, 1987). Above arguments show the relevance of firm characteristics in the SMME growth discourse.

5.9 ETHICAL CONSIDERATIONS

Before the commencement of fieldwork, the proposal for this study was sent to the Faculty and University Ethics Committees for ethical clearance. This committee scrutinises all research conducted by the university community and checks for compliance with national research ethics. It found methods and samples employed in this study ethically compliant. Furthermore, ethical considerations, as outlined in the University's Research Ethics Policy were strictly adhered to. In the field, respondents took part in this study out of their own free will. In the sections that contained sensitive information about the business such as turnover (which is one of the most important variables in this study), respondents were at liberty to respond to this section, or to not, although this information was critical to the study. Questionnaires that did not have this section adequately completed were later rejected.

5.10 CONCLUSION

This chapter provided methodological mapping of the whole research. The research was designed to be both exploratory and quasi experimental in nature, to enable the researcher obtain a good understanding of the links between formal financial literacy training levels of SMME operators and SMME growth in order to determine whether or not financial literacy training was essential for business performance (propelling turnover growth). Questionnaires were used to reach a wider audience of SMME operators to assess their financial literacy levels and financial management practices in the business while interviews were utilised to further probe financial literacy knowledge of the operators . The difference in difference (DID) and propensity score matching methods (PSM) were employed in the data analysis. The next chapters discuss result of findings.

CHAPTER SIX

FINANCIAL LITERACY: KNOWLEDGE SOURCES AND TRAINING UTILISATION BY SMMEs

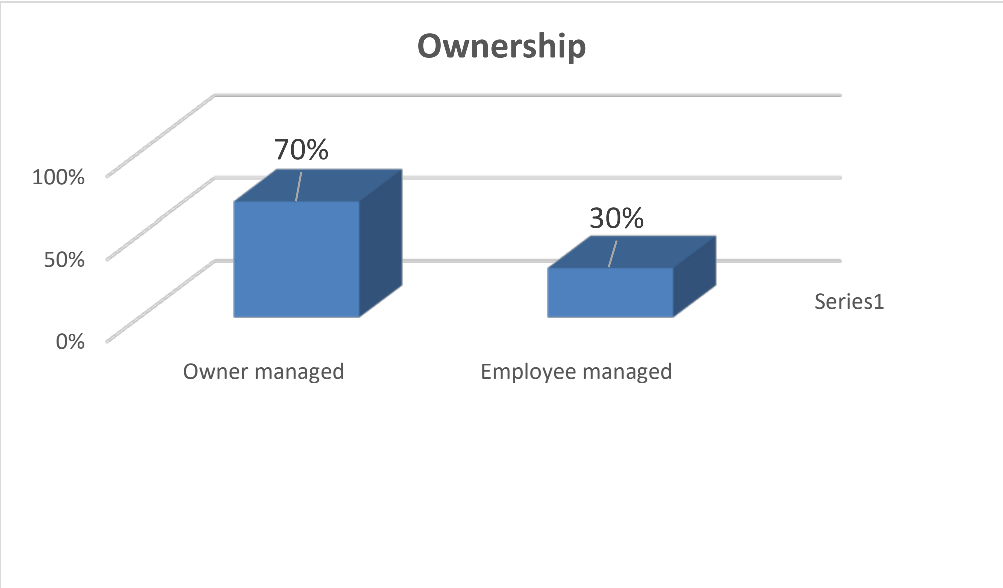
6.1 INTRODUCTION

The first five chapters of this study were preliminary chapters that provided background information to the central theme as well as the methodological approach adopted in the study. In the next three chapters, beginning from the current chapter, data analysis, presentation and discussion based on the three research objectives are done. Each chapter presents and discusses data relating to each of the research objectives. This chapter is the first of the three chapters and in it, data analysis, presentation and discussion of findings relating to research objective one is conducted. Research objective one sought to understand the extent of availability, and usage of financial literacy training knowledge among SMMEs and where the knowledge is sourced from. The presentation is organised into sections and sub sections to adequately address research objective one. Demographic data are first presented followed by data that address the specific research objective.

6.2 DEMOGRAPHIC DATA

6.2.1 Business Ownership of SMME operations

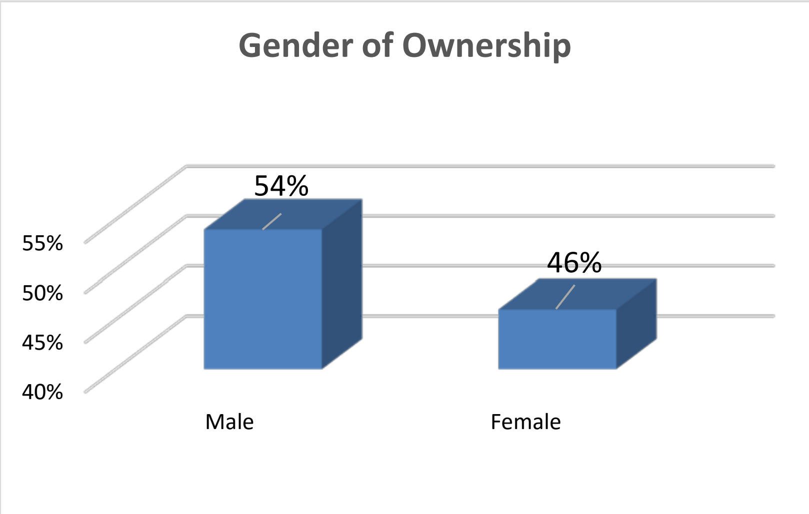
Figure 6.1: Business ownership



Studies conducted in the SMME sector have always emphasised owner-managed SMME businesses. While the present study did not seek to draw such distinctions, the demographic information obtained revealed that 70% of the SMMEs in our sample are owner-managed. This implies that data obtained for this study, through surveys and interviews, were supplied by owners who are more knowledgeable about the business operations than employees. It also reveals the nature of small businesses as businesses that are highly inseparable from ownership therefore, they are often owner managed. This trend is in conformity with national SMME data which reveals that the majority of SMME businesses, especially microenterprises, are owner managed (Abor and Quartey, 2010). The fact that 70% of businesses in our sample are managed by owners, prompts the thinking that these businesses could have been initiated because the owners were unemployed or, as a form of self-employment, a finding which is closely related to the reason for starting a business (as discussed in 5.2.8 below). If these were the motivations for starting a business then entrepreneurs would most likely run it themselves.

6.2.2 Gender of ownership

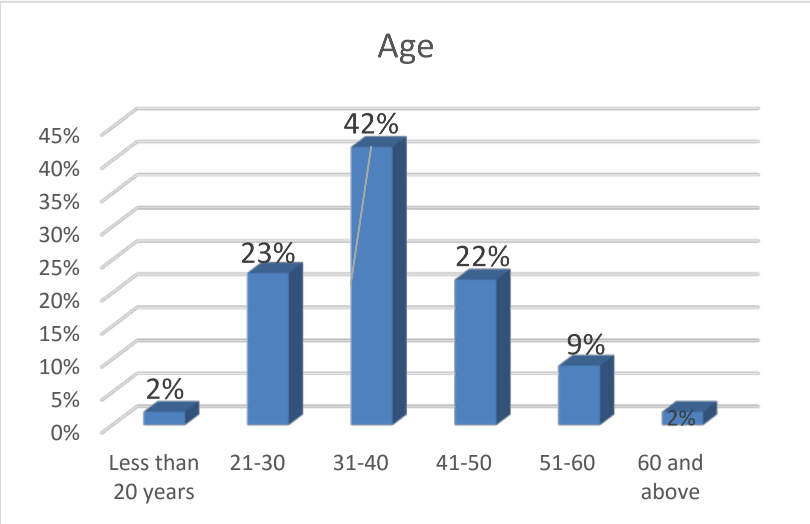
Figure 6.2: Gender of ownership



Gender is perhaps one of the most prevalent contending issues and influencers in SMME-sector research. These issues range from predominance of ownership, to business profitability, survival, growth and business failure. The present data revealed that 54% of businesses are managed by males. The data appears to contradict the national statistics as presented by De Bruin et al. (2006) and Stats SA (2009), but corroborate Acs et al. (2005) and Brijlal et al.'s (2013) assertion that men own more enterprises than women. A plausible argument by Karunga et al. (2000) and the Isandla Institute (1999) could help balance these opposing views. These authors argue that women are dominant in the survivalist business sector, with 60% of survivalist businesses owned by women. Because these businesses (hawkers, vendors and subsistence farmers) (NCR, 2011) were not captured in our survey since data was collected from operators/owners who run their businesses only from shops (although hawkers and vendors are traditionally categorised as microenterprises), this may explain the predominance of male owned businesses in the data. Unsurprisingly, the total entrepreneurial activity (economic activities geared towards value generation as defined by Ahmad and Seymour, 2008) of women in the country is 46% lower than that of men (SEDA, 2015 citing GEM report 2010) which implies that women are less likely to start a business enterprise, than men. In fact, SEDA (2015) concurs that men are 1.5 to 1.6 times more likely to start entrepreneurial activities than women, due to numerous challenges facing women, some of which include lack of start-up capital, which is related to general poverty levels among women.

6.2.3 Age of business operators

Figure 2.3: Age of operators

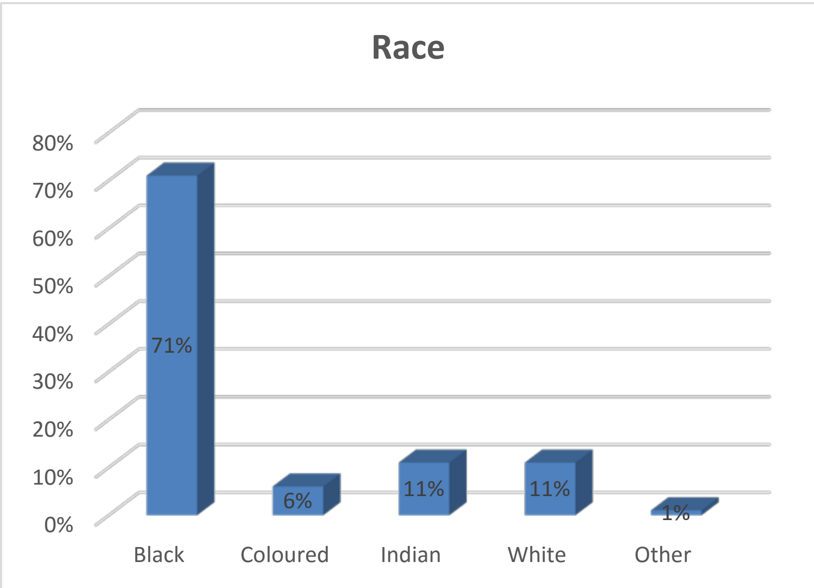


Most SMME operators (42%) in the sample aged between 31 and 40years. On the opposite end, 2% are less than 20 years and 2% are above 60 years of age respectively. This reflects on national statistics as reported by Stats SA (2009) that the age of most SMME operators fall within the 24 and 44 years range. It is noteworthy to observe that the modal age of SMME operators in the sample indicates that the SMME sector is dominated by the youth. The National Youth Policy of South Africa defines the youth as those who are between age 14 and 35 (The Presidency, 2009). This data therefore indicates that the youth are the main drivers of businesses in the sector and may be related to the alarming rate of youth unemployment regionally (40.7%) (Stats SA, 2014) and nationally, where the youth are the hardest hit due to their lack of skills. The SMME sector then becomes a resort for employment, as most activities in the sector do not require specialised skills.

Not surprisingly, the youth are the least savers as they grapple with the “consume now” attitude (STRATE, 2014; The World Bank Group, 2013b; UNCDF, 2012). Since they are the least savers, they are the least able to accumulate enough capital to start a business that requires a huge initial capital outlay hence the predominant form of business which is microenterprises – the cheapest form of business. This findings that majority of businesses in our sample are youth-owned businesses correlates with the low savings level or lack of it, reported in section 6.3.2 below and which is often associated with financial illiteracy (see STRATE, 2014; South Africa.info, 2011).

6.2.4 Race

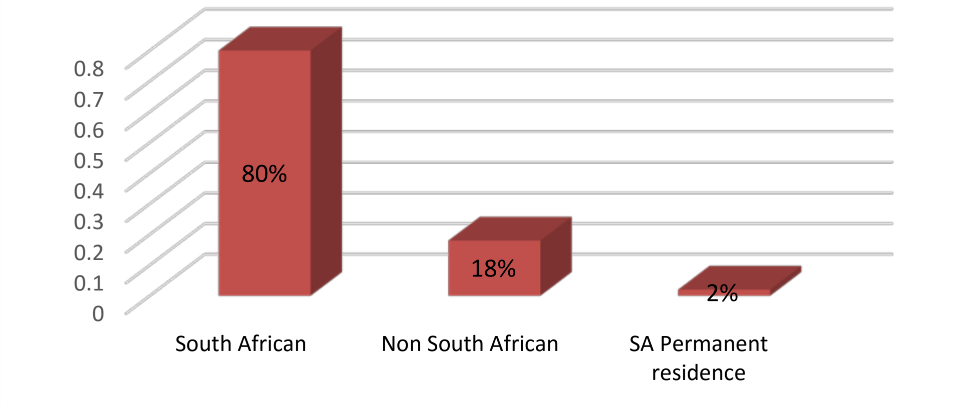
Figure 6.4: Race of operators



The survey data showed that the sector was predominantly black-controlled. 71% of businesses are owned by blacks while Indians and whites each own 11% of businesses respectively. Since the SMME sector in the Eastern Cape is comprised predominantly of microenterprise businesses (DEDEA, 2014), this data confirms the DTI's (2008) earlier assertion of black dominance in the sector especially in the informal, survivalist and microenterprise business sectors. An extension of this analysis is provided by Karunga et al. (2000) who observed that white-owned enterprises are prevalent in the formal SMME sector and in small and medium sized businesses (Karunga et al., 2000) due to accessibility to capital requirements which are often significant and unaffordable by blacks. With very small numbers of formal, small and medium sized businesses in the region, Karunga et al.'s assertion has never been truer.

6.2.5 Nationality

Figure 6.5: Nationality of operators

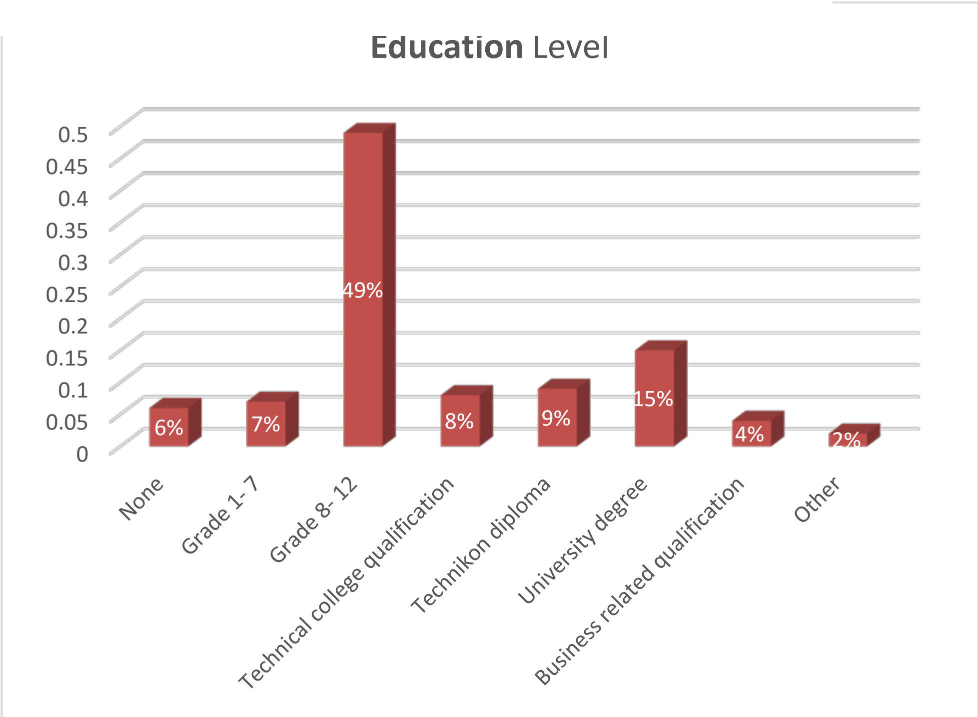


SMME businesses in the sample were 80% owned and managed by South African citizens. Only 2% of SMMEs were owned and managed by foreign nationals who hold South African permanent residence permits, while 18% are owned and managed by foreign nationals with varying residential permits including those with refugee permits. This implies that South Africans are the significant beneficiaries of job creation opportunities of SMME businesses. The data also reveals employment creation of foreign nationals in the sector and their contribution to the region's GDP output (although these entrepreneurs tend to create jobs mostly for themselves). It is also important to note that foreign owned businesses are mostly survivalist in nature and that perhaps the number of foreign businesses could have been more significant, if this study had adequately captured survivalist businesses. In addition, the model of operation of foreign owned businesses is such that it eludes inclusion in the data as those businesses are typically run in informal settlements, townships and villages, away from the CBDs.

In a 2014 study of Greater Newlands (an area encompassing informal settlements and peri-urban villages) in Buffalo City Metropolitan Municipality for example, the only existing SMMEs in the area were foreign owned (BCMM, 2014). In that study, BCMM suggested the need for some form of knowledge sharing between foreign business owners and the locals as a way of boosting entrepreneurial activities in the area. In terms of literacy training, South African SMME operators are more likely to access and utilise financial literacy training provision in the sector than their foreign counterparts since foreign operators may consider that such services are not meant for them.

6.2.6 Education level

Figure 6.6: Educational levels of operators

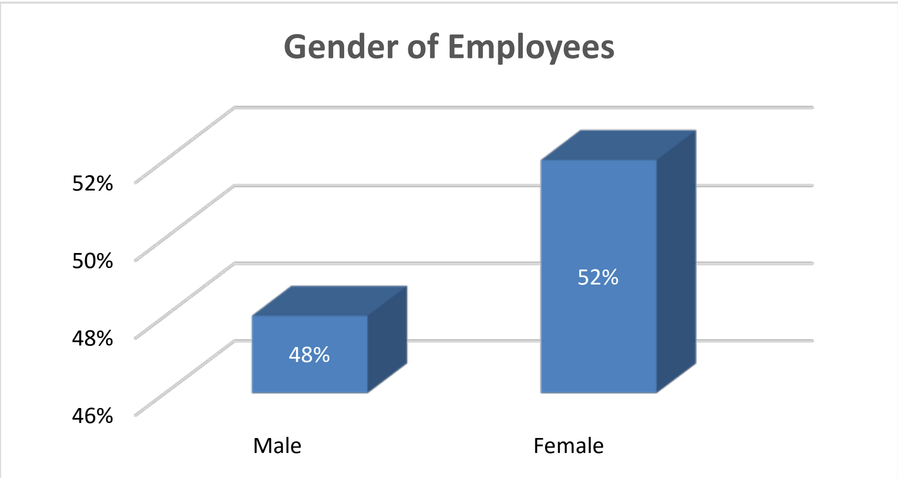


The highest education level of most SMME operators (49%) was a matriculation certificate or grade 12. This is in agreement with report findings of DEDEA, Eastern Cape (2009) that the majority (32%) of operators possess a matric certificate. The next highest qualification in our sample was a university degree (15%), while a total of 23% had other qualifications from technikons or other training institutes as an upgrade of the matriculation certificate. A total of 13% of operators had education levels below a matric qualification or none at all. This result implies that majority of operators had some basic exposure to financial literacy skills. This assumption rests on the fact that at the primary school level, the compulsory economic management science (EMS) module has some financial literacy content. At high school, up to grade nine where learners are yet to choose and pursue their subjects of choice, accounting module continues to provide basic financial literacy knowledge to learners.

This finding also brings to the fore the motivations for starting a business. On one hand, SMME owners with matric certificates may have lacked financial resources to pursue a university education or may have failed matric. In this instance, self-employment becomes the only possible form of employment, a necessity type of entrepreneurship. In turn, those with entrepreneurial instinct may spot unexploited business opportunities, an occupational type of entrepreneurship. Those with university degrees may also have engaged in SMME businesses as occupational entrepreneurship. Generally, this data finding implies low skill levels of SMME operators.

6.2.7 Gender of employees

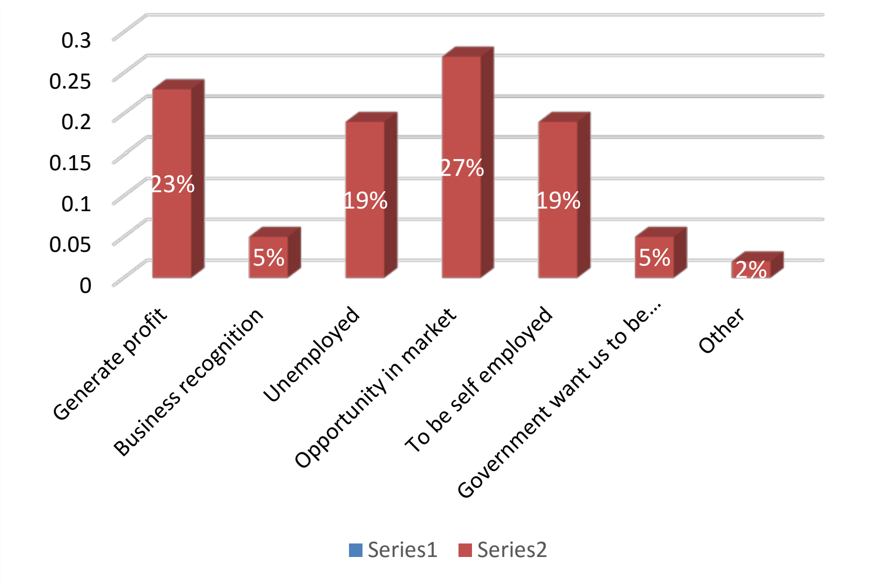
Figure 6.7: Gender of employees



More than half (52%) of employees in the SMME sector are women. This implies that while men generally initiate and manage SMME businesses, their employees are mostly women. This data confirms the argument that women are hardest hit by unemployment since they do not often possess skills that are essential for securing jobs in the formal sector. With lower literacy levels than men, the SMME sector becomes a last resort for female employment since business activities in this sector are less specialised.

6.2.8. Reason for starting the business

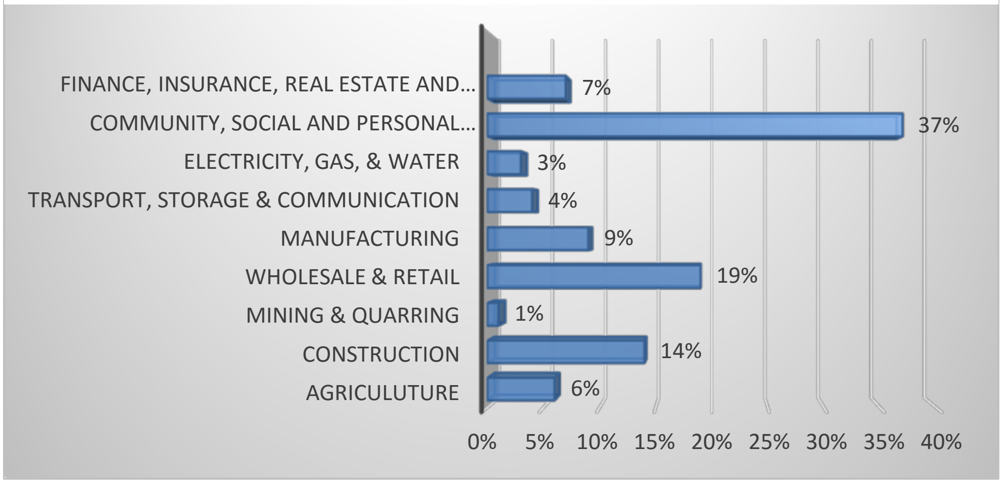
Figure 6.8: Reason for starting the business



The single dominant reason for starting an SMME business (as reflected in the above chart) is the spotting of an economic opportunity (27%), which implies occupational entrepreneurship. The three other motivations: to make a profit, lack of employment and the need to be self-employed, follow closely at 23%, 19% and 19% respectively. This data may appear conflicting as it shows the spotting of profitable economic opportunity in the market, and occupational entrepreneurship, as the main motivation for entrepreneurship, which is contrary to popular beliefs and arguments. However, the three motivations (to generate a profit, unemployment and the need to be self-employed) are closely related to and indicate necessity entrepreneurship. With unemployment levels of 29.1% in the Eastern Cape region (SABC News, 2015), it is not surprising that a total of 61% of entrepreneurs engage in this form of business due to: unemployment (19%), the need to be self-employed (19%), and to generate profit in order to sustain their livelihoods (23%). This shows that the informal or SMME sector is a “social” or “economic sponge” (Ukpong, 1996) that soaks up people who otherwise would have remained unemployed with no source of livelihood.

6.2.9. Economic sector of the business

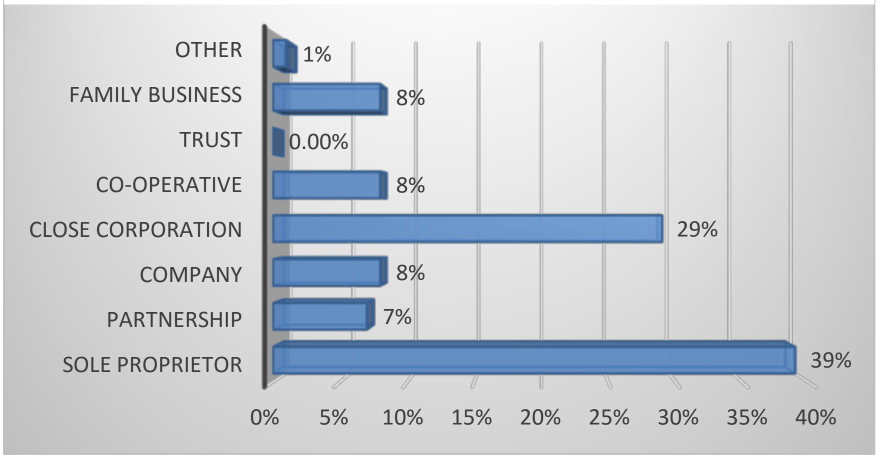
Figure 6.9: Economic sector of the business



SMMEs in the sample are active in the community, social and personal services sector, with 37% of businesses concentrating in this sector. The data confirms an earlier report by the DEDEA (2009) that a majority (58%) of SMMEs are concentrated in the services sector. This sector is mainly a service sector with services including security services, catering services and personal beauty services. The concentration could be explained by the ease of entry and exit that is typical of businesses in this sector which is caused by low capital requirements therefore the sector is generally not regarded as a growth sector due to pressing competition caused by lack of product differentiation. The most unattractive economic sector to SMMEs in the region is the mining sector. This could perhaps be due to the specialised skills required and vast capital requirements involved in the sector. In addition, the region is not significant in terms of mining operations.

6.2.10 Form of business

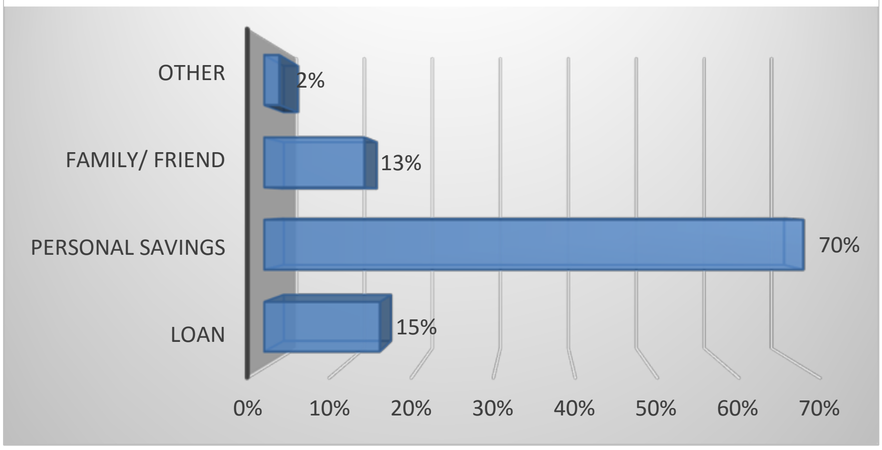
Figure 6.10: Form of business



The most dominant form of business is the sole proprietorship (at 39%) followed by Closed Corporations (CC) at 29%. As expected, sole proprietorship is the easiest form of business to initiate as it requires less initial capital outlay and fewer initial assets. This reflects on the capital requirements of the preferred economic sector of SMMEs in this study sample which is community, social and personal services sector as this sector often requires low initial capital investment and assets. As evidenced in the sources of capital that are discussed in 6.2.11 below, since personal savings is the preferred source of capital in this sector, such resources would only barely meet capital requirement for the sole proprietorship form of business. This form of business allows for ease of entry and exit, therefore SMMEs in this sector are often exposed to stiff competition due to a lack of product differentiation. They often experience low profit margins and high failure rates and rarely show any signs of growth. Besides low initial capital requirements as an explanatory factor in the dominant form of business, the bias could have been contributed to by SEDA. SEDA specifically target micro and small enterprises (SEDA, 2015) for its assistance. Since half of the study sample was made up of SEDA clients, the concentration of microenterprises in the findings is therefore expected. In addition, the Eastern Cape SMME sector is largely made up of microenterprises as reported by the DEDEA, Eastern Cape (2009).

6.2.11 Start-up capital

Figure 6.11. Start-up capital



About 70% of SMMEs utilise personal savings as start-up capital for their business (see also DEDEA, 2009). This finding is not surprising since the dominant form of business as discussed in section 6.2.10 above is the sole proprietorship which often requires less initial capital outlay and finding in section 6.2.3 above also shows that majority of business owners are the youth (who find it difficult to save). This implies therefore that the little they could accumulate through personal savings could only kick start microenterprise businesses.

The finding could also be a reflection of the notion that SMMEs have difficulty in raising finance for the business because they are considered bad credit risks by financial institutions. Financial institutions typically grant loans to already existing businesses with a track record and approved business plans. Microenterprise (the dominant form of business in this sample) entrepreneurs will be less likely able to prepare business plans or have the resources to pay for this service, and eventually meet the loan criterion; they therefore save up for their business start-up. The data also reveals that SMME development efforts by the government, especially to facilitate access to finance, does not benefit microenterprises since the criterion for selecting finance beneficiaries, and the administrative processes involved, even in some government SMME financial support programmes effectively excludes microenterprises and discourages access.

6.3 FINANCIAL KNOWLEDGE SOURCES AND UTILISATION BY SMMES

Financial literacy comprises three components: financial knowledge, attitude and capability (Atkinson and Messy, 2012). For the purpose of this study, these three components have been recomposed into themes that would enable effective analysis of the first research objective of this study. Financial knowledge hereby implies respondents' basic knowledge of financial matters, attitude is importance attached to financial knowledge and desire or demand for financial knowledge while financial capability means actual application of basic financial knowledge in the day to day operations of the business. The themes for data analysis presented below are organised to reflect these three components of financial literacy which include:

1. Availability of basic financial knowledge, and application in the business (Financial knowledge and capability)
2. Sources of financial knowledge
3. Importance of financial knowledge in the business (Attitudes)
4. The demand for financial knowledge (Attitudes)

6.3.1 Data presentation

Survey questions contained elements of basic financial knowledge and tested the availability, spread, and application of such knowledge among respondents. Responses from survey questions therefore revealed these dimensions of financial knowledge in the business. Series of interview questions, and follow-up questions, also provided deeper insights into the extent of financial knowledge that SMME operators possess and utilise. Since interviews are effective in capturing emotions and conveying feelings more clearly than other reserch tools, it afforded respondents the opportunity to express and communicate the reasons why they do what they do, and the researcher the opportunity to evaluate respondents' levels of financial knowledge. Survey and interview questions revealed the level of basic financial knowledge among SMMEs, the need for financial knowledge and the effort by SMME operators to acquire it (demand). Although Gallery et al, (2009) cautions that individuals could over rate their financial literacy skills in the absence of objective tests such as conducting basic financial calculations, the OECD INFE (2011) however illustrates that in the absence of such tests, responses to core literacy questions could still provide a basic indication of the general financial behaviours, attitudes and knowledge of respondents.

6.3.2 Availability of basic financial knowledge, and application in the business – Test of knowledge and capability

In order to understand what financial knowledge guides the day to day running of SMME businesses, it was imperative to first gauge the level of general financial knowledge that operators possess. A number of survey and interview questions were asked in order to test the general level of financial knowledge of participants. Both survey and interview questions tested knowledge of financial skills, some of which includes savings, budgeting, credit and its effect on the business, the benefit of electronic payments by the business, the need for insurance and problems with debt collection. Other financial skills tested include the need to control debt levels, payment of owners' salaray rather than indiscriminate drawings when needed, issue of invoices after a sale or service, cash flow management, record keeping and determination of profit or loss. The following data were obtained:

(i) Savings

Respondents, both from the treatment and the control groups demonstrated satisfactory knowledge of this element of financial literacy. Almost 100% of the respondents believe savings to be very important to the success and sustainability of the business. They believe that savings and insurance act as buffer against unexpected shocks and enables the business to stabilise and recover more rapidly from such.

Interview respondents provided more depth to this conviction. In a follow-up question, when asked what would happen to the business if there is no adequate savings, one respondent explained, "If you don't save it is only a matter of time before the business closes down because you have nothing to fall back on should anything happen to your business". However, further follow up questions reveal that they do not maintain a savings account which serves as a form of investment, nor invest in any other investment products that could provide the buffer that they suggest. The savings account only serves the purpose of providing safe custody of the business'cash assets.

(ii) Insurance

Although respondents acknowledge and understand the importance of having insurance cover for the business, only about half of them (53%) have some basic insurance cover against theft, fire and other unforseen circumstances while 47% do not. This finding shows a discrepancy between the possesion of knowledge and the application thereof. In response to an interview question which focused on insurance, some respondents whose businesses have no insurance cover admitted that they do not have insurance cover nor are they considering it because of lack of resources to accommodate monthly premium payments. They were discouraged about the possibility of losing their benefits in the event of a short term or prolonged premium payment default. Yet others expressed their reservation about the attitude of insurance companies over processing and payment of claims. This, they explained, discourages them because of the "difficulty in claiming from insurance companies".

Another possible explanation is the inaccessibility of insurance products to small businesses. Because of the general high incidence of crime and theft among small businesses, it is possible that insurance companies regard the SMME sector as unattractive because SMMEs are high liability clients. They therefore make very little effort in reaching them. Also, since SMME businesses are largely informal, they attract very little attention of insurance companies due to problems associated with informality of businesses such as lack of identifiable business addresses, lack of credible contact information and many other problems.

(iii) Credit extension and use of credit

Credit sales are potentially risky and are generally shunned by SMME operators. The survey revealed that only 31% of operators extend credit by means of credit sales to customers while 69% do not sell or render services on credit. Interview respondents explained their reluctance on the grounds that some customers would have changed their contact addresses and phone numbers without informing them, which makes debt collection difficult. They believe that inability to collect from debtors would harm the business' cash flow and eventually hurt the business. This scenario is even more critical given the size of the SMME business, volume of transactions and financial security which is usually non existent.

Survey respondents demonstrated some basic knowledge of credit issues and their utilisation in the business. 67% of respondents purchase their stock in cash while 78% also purchase business assets in cash. Although a further probing would have revealed whether or not they are aware of the potential benefit of utilising account receivable and payable as a good credit option, existing research shows that SMEs are often averse to the use of these facilities (Mazzarol, 2014; Ndagijimana and Okech, 2014) due to lack of knowledge of exit facilitites such as factoring in the case of account receivable (Klapper, 2006).

As shown in section 6.2.11, only 15% of respondents started the business with loans. Although it could be argued that using own funds for business start-up is not done as a matter of choice, as SMMEs generally suffer from lack of access to finance for business start-up, their knowledge of implications of failure to pay could have been a deterrent to the use of credit. Respondents believe that if the business fails to pay, accrued interest would be very burdensome. Not surprisingly, the majority of businesses in the sample have never utilised loans as their start-up capital, which is possibly a reflection of their aversion to credit. It also confirms earlier finding that most operators utilise own capitral as start-ups (DEDEA, 2009). Respondents could also tell the difference between loans and interest charged by regular banks and those offered and charged by loan sharks. They believe that credit offered by loan sharks are a "curse" to the business as one interview respondent stated, because the interest rate is usually too high, and a debtor will always struggle to pay.

(iv) Budgeting

Respondents believe in the importance of budgeting and the need to stick to it. 79% of businesses prepare a budget while 21% do not. Of the respondents that prepare a budget, the majority (76%) try to stay within the budget. On the importance of budgeting, one interviewee said: "If you budget, you will be able to see your expenses and know where your money is going". This shows the apparent recognition of budgeting as a financial control tool, that is, a tool to help track and control business expenditure. While the majority tended to see budgeting as a control tool, only a minority of respondents recognised it as a planning tool; a situation where budgeting helps in planning cash requirements of the business in order to ensure availability when needed.

This, in essence, shows a knowledge gap in the area of budgeting as budgeting is both a tool of financial planning and control. The above response and data demonstrates a reasonable move beyond basic knowledge, to application of knowledge in the business.

(v) Record keeping and determination of business' profit or loss

Record keeping takes the form of the issuance of invoices after a sale and the recording of all income and expenses of the business. 93% of respondents issue invoices and receipts after a sale, 90% of them maintain records of business income and expenditure, while 68% of businesses actually prepare income statements to determine profit or loss. On the manner in which business records are kept, data shows that 51% maintain manual business records while 49% keep electronic records. The split between maintenance of manual business records and electronic records shows the slow pace at which SMMEs embrace the use of technology (even in its basic form such as the use of computer) in the business.

Investigation revealed the importance, and attitudes of respondents, towards keeping of proper business records of transactions. When asked what purpose invoices and receipts serve to the business, interviewees' responses indicated a basic understanding of invoices and receipts as evidence of transactions. On the importance of safe keeping of these documents, the primary purpose, according to them, is to serve as a referral in case of disputes with customers. Surprisingly, respondents did not immediately demonstrate a link between keeping of business' records and its use in the preparation of income statements, although the majority of them do prepare their income statements. Lack of association between record keeping and income statement preparation shows a knowledge gap that exists among SMMEs. It shows that the knowledge levels are very basic and shallow. Interviewees also believe it is important to prepare an income statement in order to know if the business has made a profit or loss.

The data also reveals actual application of record keeping knowledge that operators possess as the majority of them believe, and do maintain records of business transactions and also prepare the income statement. This shows that operators not only have this basic knowledge, but also actually apply the knowledge in the day to day running of business operations. The determination of profit or loss through the preparation of an income statement however requires some interrogation. Most operators do not prepare income statements as we know it – in the traditional format of drawing up a statement. As one operator expressed, "I just check the profit I make per item and add them all up. This gives me the idea of how much profit the business has made". When asked whether he has a dedicated book or document where he writes this down every month, he admitted that he doesn't have any such document. He just scribbles and does some calculations at the back of the booklet that he uses to document his sales. While this is typical of this operator in question, the general response of interviewees to the question of income statement preparation suggests that this same attitude may be the case among the majority of them – the lack of proper preparation of an income statement.

The above responses compiled from both the treatment and control group members indicate that very basic financial literacy exists among SMME operators Respondents possess basic financial knowledge on variables under consideration and their importance and effect on the business. Application of such knowledge on most variables reported is however varied.

6.3.3 Sources of financial knowledge

As discussed above, responses show the availability of some basic financial knowledge among business operators, from both treatment and control groups, and the utilisation of the same knowledge, at least in part, in the daily running of the business. On sources of financial knowledge, our survey revealed that 32.4% believe that they learnt on their own (learning by doing), aspects of business financial management and information relavant to the preparation of financial statements (which is an element of financial knowledge). 24.1% claimed they had obtained the knowledge through training they had received, 19.4% believed that their financial knowledge comes from residual knowledge from school (majority of operators are matric holders), 17.6% sourced their knowledge from family members and friends while 6.5% utilised other knowledge sources such as the media, flyers and hiring skilled individuals to prepare their financial statements.

The above mentioned knowledge sources could be categorised into three broad sources: knowledge through training, learning by doing and knowledge obtained informally through relationships and networks. Knowledge through training comes from those that received training from SEDA and training knowledge from high school (a total of 43.5%), those that are self taught - learnt through learning by doing (32.4%) while informal knowledge sources are made up of knowldege obtained from family/ friends (17.6%) and other sources (6.5%). Although operators who utilise residual knowledge from school are not purposely taught business financial matters, such as those that were trained by SEDA, it could be argued that since the majority of business operators in the sample (49%) are matric holders, the EMS and accounting modules at the primary and high school would have provided operators with basic financial literacy skills therefore they are 'quasi-trained'.

Evidence from this data shows that operators in the SMME sector utilise both financial training (formal) and other (informal) knowledge sources in the day to day operations of the business.

6.3.4 Perceived importance of financial knowledge in the business

The majority of respondents interviewed believe that financial knowledge is important to the business especially at the start-up phase, in order to prepare them for effective financial management of the business. They agree that financial knowledge assists in proper cash and expenditure management. Some believe that it is even more necessary when the business grows and expands because it could help to better manage increases in financial resources that arise from the growth process.

Some control group respondents also believe that their business would have performed better if they have had some financial literacy training. When asked through a follow up question, what specific areas of the business training would have been more relevant, they identified the area of expenditure control. They believe financial training would have enabled them to better exercise adequate control over business expenditure, and in the general management of cash flows. Although managed expenditure control may lead to reduced expenses and increased profit, respondents did not associate financial training with an increase in turnover, a view which is held by Mckenzie and Woodruff (2013), that better marketing and customer service are more likely to increase sales, than financial training.

In what was a minority view, when asked whether one should receive financial training before starting a business, and if respondents believe that the business would have done better should they have received some financial training before commencement or in the course of running the business, one interviewee from the control group, a business owner retorted:

> "I don't need any training and I have had no training. Look at this business; I started it ten years ago and we are doing well such that we have branched into another line of business, this one (referring to another business next door which he proudly showed the researcher). I have no degree, not even standard 5. I have an employee who "takes care" of my books and I get someone to just show her what to do. When I started this business I had nothing, today I have two cars and two houses all from this business. In business, all you need is to know your line of business and understand what you are doing".

This interviewee has a second hand gold jewellery store which is his first business and the business next door is a printing business which appeared to be very busy. One employee takes care of the business records, for both businesses. The employee is a bookkeeper by default. She is a staff member that has been tasked with that responsibility and who the owner has paid to be trained.

Although a minority view, the above scenario echoes findings of Eresia-Eke and Raath (2013) that financial literacy of business owners or not, has very little effect on business growth and profitability, as business owners could employ the services of professionals to do the job.

On the other hand, on the same question, on whether one should receive financial training before starting a business, and if respondents believe that the business would have done better should they have received some financial training before commencement or in the course of running the business, most treatment group respondents admitted that based on what they learnt during training, they believe that getting that knowledge before starting the business would have been very helpful. As one respondent puts it, it would have made him 'do things right, from the start".

Likert scale questions were used to further probe the opinions of treatment and control group members on the need for, and importance they attach to, financial literacy training. Two different sets of questions were compiled for the two groups and the results were as follows:

Table 6.1: Likert scale questions responses by Treatment group

	Strongly agree	Agree	Strongly disagree	Disagree	No opinion
	N0 / %	**N0 / %**	**N0 / %**	**N0 / %**	**N0 / %**
I now have savings as a result of financial literacy training	7 (17%)	14 (36%)	5 (11%)	12 (31%)	2 (5%)
I make savings a priority as a result of financial literacy training	9 (22%)	13 (33%)	4 (9%)	13 (33%)	1 (3%)
My business has grown due to financial literacy knowledge	7 (17%)	19 (47%)	4 (11%)	10 (25%)	0 (0%)
I can calculate interest on any amount I borrow as a result of financial literacy training	6 (15%)	15 (38%)	5 (12%)	14 (35%)	0 (0%)
I know how credit can harm my business as a result of financial literacy training	8 (19%)	20 (50%)	1 (3%)	11 (28%)	0 (0%)
I can prepare a budget as a result of financial literacy training	11(28%)	15 (36%)	1 (3%)	12 (30%)	1 (3%)
I have now insured my business against any unforeseen circumstances as a result of training I have received	11(27%)	10 (24%)	7 (18%)	11 (28%)	1 (3%)
I now pay myself a salary as a result of financial literacy training	10(25%)	18 (44%)	7 (17%)	4 (11%)	1 (3%)
I now know the importance of record keeping as a result of training received	11(28%)	20 (50%)	0 (0%)	9 (22%)	0 (0%)
I can now calculate profit/loss as a result of financial literacy training	11(27%)	15 (36%)	1 (3%)	12 (30%)	1 (3%)

The table above shows the opinions of treatment group members on the importance they attach to the training they received and how they believe training has helped them. Responses to the Likert scale questions show general, but not strong agreements or disagreements, that financial literacy training has helped them in the areas indicated in the questions. Although respondents do not feel strongly regarding each of the questions, they however appear split (close to even) on how they perceive the usefulness of training, to the specific elements of the question. On the one hand, respondents generally agree that financial training has enabled them to better handle the financial affairs of the business. It has sensitised and induced positive behaviour towards savings, budgeting, insurance, effect of credit, record keeping and determination of profit or loss, while on the other hand, a significant percentage of respondents also disagree with each of the statements. While the majority seem to agree, a significant number also disagree with the notion that received training has enabled them to change the way they conduct their business' financial affairs.

Questions that relate to knowledge gain, had more affirmative responses than those that tested applicability of knowledge. For example, on insurance, while 27% strongly agree on the association of training to the decision to take up insurance cover for the business, another 28% disagree. This implies that half of SMMES with insurance may have been persuaded through training, while about half were influenced by other factors. The indication of this is that while the majority of respondents view received training positively, opinions are not strong on the effectiveness of financial training in influencing their financial decisions.

Table 6.2: Likert scale questions responses by Control group

	Strongly agree (%)	**Agree (%)**	**Strongly disagree (%)**	**Disagree (%)**	**No opinion (%)**
	N0 / %	**N0 / %**	**N0 / %**	**N0 / %**	**N0 / %**
People should receive financial training before starting a business	20 (50%)	15(38%)	2 (4%)	2 (5%)	1 (3%)
A business can still grow without savings or investment	2 (6%)	12(30%)	5 (12%)	5 (13%)	16(39%)
Financial knowledge is important but there is no need to acquire it through formal financial training	4 (10%)	18(44%)	3 (6%)	2 (6%)	13 (33%)
Business success depends on one's financial skills	14 (34%)	17(43%)	3 (8%)	2 (6%)	4 (9%)
I acquired financial skills at home, I don't need formal financial training	4 (11%)	10(24%)	7 (19%)	5 (12%)	14 (34%)

A business can still grow without formal financial training	8 (20%)	16(40%)	3 (8%)	4 (10%)	9 (22%)
I have grown my business without any formal financial training	8 (21%)	19(47%)	5 (13%)	2 (5%)	6 (14%)

Among the control group, the opinions are not quite evenly split between those that agree and those that disagree. There are also very limited strong opinions. Respondents believe strongly that financial training is most useful to business operators before commencement of the business in order to build capacity. After this phase, they do not consider training very useful. Respondents believe financial skills to be useful but do not place priority in acquiring these skills through literacy training. The general attitude is that their businesses have been operational and has survived without any formal training. Responses to each of the questions show the relative unimportance that this sample of operators attach to financial literacy training. Opinions expressed by respondents show that there must be some form of knowledge, outside of structured knowledge, that is utilised which has helped their businesses to survive. With the admission that success in business depends on one's financial skills and the unimportance they attach to literacy training, the implication is that operators are drawing from informal knowledge sources, and as a result, are not actively seeking to acquire or demand financial literacy training.

The responses of control group members reveal an important dimension about financial literacy. When it comes to knowledge of, and opinions on, financial matters, the responses are generally positive, as respondents feel the knowledge is important, but they do not believe the knowledge should be sourced from financial training. On the application of literacy training knowledge to the business, responses of treatment group members, as reflected in their responses were affirmative though not strong.

Above responses to Likert scale questions show a disparity between knowledge possession, and knowledge application, and the importance attached to financial literacy training by business operators.

6.3.5 Demand for financial knowledge

About 50% of control group members that were interviewed admitted knowledge of SEDA and other organisations that provide intermittent business training to SMMES. Although they realise the importance of financial training to the business, they do not feel the need to receive any form of training themselves. Some believe that their business has not grown enough, or at least out of their control, for them to require training to be able to manage it. Here, they attribute financial literacy needs to business size, that is, the need for training only when business activities have increased as a result of growth. Others, similar to the respondent reported in section 6.3.4, do not see the need for business owners to be trained because they could hire someone else to do the job. Yet, a number of respondents lack information about the availability of free financial training, and many other services that are provided by the government.

Some operators from the control group, unaware of the training support offered to SMMEs by government believe that financial training is very expensive. When asked in a follow up question why he believes training is expensive, one respondent explained that judging by what his friends say, he came to the conclusion that training is expensive. Obviously, this respondent was referring to private consultancy training that his friend had received. This reveals the fact that ignorance of provision of free training in the sector could play a contributory role in the lack of demand for financial training. Judging from responses of some operators, a need drives demand. Since the business does not provide that pressure, respondents feel no need to acquire financial literacy training, even though there is admission of the need for financial knowledge in the business.

The treatment group members present a surprising but similar response. Although they believe that every business needs some form of financial literacy knowledge for effective financial management, the majority of them never actively sought financial training, “Tell them what I really want is finance for my business not the training”, “I actually approached SEDA thinking they would help me with finance but they told me to come for training”, “I thought they will give us money after training”. These responses would imply that even among treatment group members, financial knowledge acquisition is not a priority. They acquired financial training by default and this could influence the lack of attachment of strong importance to this skill and the utilisation thereof in the business. To corroborate this stance, when asked about client selection procedure (for training) during informal discussions with one SEDA staff member, the staff member explained that they often have SMME operators coming to them for financial assistance in obvious ignorance of the role of SEDA and there they would recommend the financial training service to them. Only a minority of SMMEs actually felt the need for financial training and sought to obtain it.

6.4 DISCUSSION OF FINDINGS: FINANCIAL KNOWLEDGE SOURCES AND UTILISATION BY SMMES

Financial knowledge could be structured (acquired through training) or unstructured (acquired through informal sources) and business organisations are sustained by some form of knowledge. Structured knowledge in the sector is provided by SEDA and also acquired from school thus highlighting the role entrepreneurship education in schools could play in enriching financial skills of entrepreneurs. SEDA provides financial management training to SMMEs, as mandated by government, and most SMME businesses are recruited into training by default: businesses that approach SEDA for funding are invited to its financial management training programme, while fewer businesses approach SEDA seeking financial management training help. Literature reveals that some SMMEs belong to professional organisations/bodies such as hair professional association, builders' association, etc. who provide intermittent financial management training and occasional "financial management talks" that are arranged by the organisation for empowerment of its members. Although these SMMEs did not form part of our sample, it was interesting to observe the recent awareness of financial literacy needs of small businesses, and the effort at improving financial literacy knowledge of SMME business operators/owners.

There is learning by doing (among control group respondents) which, as considered by operators themselves, are self taught knowledge. Some operators utilise learning effect or experience effect in the financial management of the business, they learn over time and adapt likewise. Some other operators draw financial knowledge from family and friends, a form of social capital.

The matrix below summarises findings relating to research objective one and serves as the basis for the discussion that follows:

Table 6.3: Financial literacy knowledge matrix

Financial literacy variables	**Knowledge/level of availability in that area**	**Knowledge utilisation in the business**
Savings	Available – basic	Almost none
Budgeting	Available – basic	Basic utilization
Credit demand, supply and consequences of default	Available – sufficient	Good utilisation. Operators generally avoided use and granting of credit
Insurance	Available – basic	Very basic utilization
Expenditure control	Available – basic	Very basic utilization
Invoicing	Available – basic	Basic utilization
Record keeping	Available – basic	Very basic utilisation
Cash flow management	Available – basic	Very basic utilisation
Profit/loss determination	Available – very basic	Very basic quasi-utilisation.

Knowledge levels were rated as: 1 = Almost none, 2 = Very basic, 3 = Basic, 4 = Sufficient, 5 = Good

6.4.1 Basic financial knowledge and application in the business

In 2010, Finmark Trust reported basic financial literacy levels among microenterprises in the country based on three financial literacy variables, which are record keeping, offer of credit, and credit management (Finmark Trust, 2010). Although the report was not focused on financial literacy provisioning, it did provide initial empirical evidence regarding the level of financial knowledge in the SMME sector.

In this study, as summarised in table 6.3 above, availability of very basic financial knowledge was evident from responses to questions that tested financial skills such as savings, budgeting, credit and consequences of credit default, the benefit of electronic payments out of the business, the need for insurance as a safety net in the event of unforeseen circumstances, problems with debt collection, and the need to control debt levels, payment of owners' salary rather than indiscriminate drawings when needed, and the issuing of invoices after a sale or service, cash flow management, record keeping and profit determination.

Most business operators regardless of receipt of training or not, demonstrated a basic understanding of the importance of savings. All businesses maintain a savings account. Businesses that utilise card machines in store and those with no such facilities, which operate strictly on a physical cash basis, know the importance and the need to maintain a savings account. All daily cash takings are deposited into the account before close of banking on the day, or in the morning of the following day. These accounts are essentially maintained as current accounts and therefore provide no security for the business and have very little asset value.

There is availability of knowledge on the importance of budgeting, at least for purposes of expenditure control, and most businesses actually prepare budgets in their own non-conventional ways. Businesses try to stay within the budget because they realise the importance of doing so. While budgeting is an essential tool of cash flow management, it is an important indicator of the long term survival prospects of the business. A business in a perpetually struggling cash position may not survive in the long run and businesses that budget are better positioned to foresee possibilities that could arise, and plan accordingly to contain them. Businesses are generally aware of the benefit of electronic payments out of the business as they believe it helps them to track and control expenditure in order to stay within the budget. Although there are very low levels of use of information technology in the SMME sector, operators are aware of the benefits of electronic transactions regardless, and businesses with these facilities do actually utilise them. They are aware of the importance of payment of owners' salary rather than indiscriminate drawings of cash when needed. Although most admit to sticking to this practice, or at least admit that this is obviously a better business practice, it demonstrates the general apprehension of financial matters by SMMEs.

The cautiousness and general avoidance of credit transactions by businesses demonstrates their knowledge and perception of demand and supply of debt. On the demand side, most SMMEs view credit negatively, as a facility that could cause financial distress should it be utilised, and are unable to meet the repayment obligations. On the supply side, it is seen as a tool that could cause cash flow problems should credit be provided and customers are unable to pay. This negative perception, although not without merit, could limit obvious benefits of credit access and provision. Although lack of access to credit is a major challenge for SMMEs, as they are often not credit worthy, their attitude towards the use of credit could further deepen credit inaccessibility and forfeiture of enormous credit benefits.

Insurance as a safety net in the event of unforeseen circumstances is common knowledge among SMME businesses. While operators are fully aware of the benefits and consequences of not having insurance cover, those not utilising such policies blame this on inability to pay, the fear of losing insurance cover and all monies previously paid in the event of discontinuation with the policy, and the difficulty of making a claim should a liability arise. These reasons explain low levels of insurance product utilization in the sector. Another explanation could be that the SMME market is not generally perceived as a viable market for insurance companies due to the informality of business operations in the sector.

Invoicing and record keeping are not perceived as issues to SMMEs as they are fully aware of the need to document business transactions. Some document business transactions as a point of reference in case of disagreement with customers, in such cases, documentation becomes evidence. Others document transactions because it is normal to keep a record of business transactions, yet others do so because it enables them to have a general view of the business and to determine the overall profitability of the business. For whatever reason, it was obvious that SMMEs (both treatment and control) recognise that documentation, whether keeping of invoices, receipts, bills, till slips and any important documents, is crucial for the general successful management of their businesses. Sadly, most recordkeeping is done and maintained manually, rather than electronically and businesses risk losing important business documents that could be useful in determining performance.

Businesses are run for the purposes of the "bottom line" and any business would normally find a way of ascertaining its bottom line. It was important to assess whether operators themselves can determine their profit or loss, whether they have some knowledge for this important task, and how they calculate such information. It was interesting to discover that operators do this in different ways and also have different interpretations of profit. To some, profit is determined by deducting cost price from the selling price (gross profit), this profit was very important to some businesses. Business running expenses were seen as secondary in profit determination. Operators with this attitude towards profit determination were, for the most part control group members with qualification less than a matric. They were also the ones that complained the most about the state of their business.

Other operators considered both the gross profit and running expenses as important determinants of profitability and therefore incorporate both in the profit determination. This was prevalent among treatment group members and shows a depth of knowledge when compared to control group members. Only a minority of operators outsource this function or employ skilled people to do the job. Outsourcing of the finance function is in agreement with Eresia-Eke and Raath's (2013) finding that the financial literacy level of SMME owners is not crucial for a business' success, as financial functions could be outsourced or assigned to a skilled employee. In the present study, this was the case with businesses that appeared to be doing well, based on a casual observation. It could however be argued that the outsourcing of financial functions will more likely occur in businesses that are successful since they are more likely able to afford these services. Struggling businesses would struggle with affordability and its owners and managers would very likely be the ones to handle this financial function.

SMMEs have demonstrated basic utilization of knowledge in areas of budgeting, business record keeping, determination of a business' profit or loss, demand and supply of credit, and in the use of insurance. With regards to savings, one of the important elements of sustainability, it was found that businesses have not correctly applied available knowledge. There is no real saving by way of investment in any financial products for the business' future use. This raises questions on issues of business sustainability, especially since only half of businesses have basic insurance cover. The lack of savings by businesses is a reflection of a broader national issue; that South African households do not save compared to their debt levels at a savings to debt ratio of 1.7%:75.4% (Dukander, 2013; South African Saving Institute (SASI), (2015). Since the level of savings is always associated with financial literacy levels, the country often receives a very poor ranking in global financial literacy rankings, one of which is the VISA 2012 Global Financial Literacy ranking in which South Africa ranked the lowest among BRIC countries (BankSeta, 2012)

Low savings levels are often associated with low wealth accumulation (BankSeta, 2012:13). As discussed above, there is no questioning the fact that individuals, and indeed entrepreneurs, possess basic financial knowledge. Financial illiteracy is often evident when "sophisticated" financial knowledge is tested (Atkinson and Messy, 2012), especially, financial knowledge required in order to make complex financial decisions, such as quality of savings and types of investment, identification of the right savings that matches one's financial needs and retirement planning. Although reckless consumer behaviour (besides financial illiteracy) is often blamed for high debt levels and low savings, studies have shown other contributory factors that exert equal pressure on individuals' ability to save, some of which are unique to the dynamics of the South African economy. Factors such as:

> "Low GDP growth and unemployment, which increases dependency on the working population, demographics of the nation which shows a largely young population with a spending appetite rather than saving, income level instability that does not allow adequate planning and savings, inflation that reduces disposable income and therefore ability to save, income inequality and poverty that leaves people with nothing to save, and easy access to credit that does not motivate individuals to delay consumption and save" (BankSeta, 2012).

These challenges not only exist at household levels, they also exist at a business level since some of these individuals are themselves entrepreneurs. These challenges therefore influence savings attitude and behaviour of businesses.

Atkinson and Messy (2012) argue that an assessment of financial literacy, even among individuals, depends on the complexity of the financial variables being tested. In their study, they utilised financial variables with "levels of difficulty that isn't complex nor require expert knowledge" such as the calculation of simple and compound interest, explanation of the risk/return concept, the time value of money, definition of inflation, and explanation of the benefits of diversification. Here, they found South Africans to have very low levels of financial knowledge and behaviour. Since individuals become entrepreneurs, this would imply that when higher levels of financial literacy is assessed, South African SMMEs could be found to possess very low levels of financial knowledge and literacy.

Based on the financial variables utilised in this study, the findings of the present study corroborates the result of Finmark's (2010) study that reported availability of basic financial literacy levels among microenterprises, even more so, as the Eastern Cape SMME sector is largely microenterprises. It also affirms Fatoki's (2014) finding that among owners of new microenterprises in South Africa, the financial literacy levels was low. The finding opposes Atkinson and Messy (2012) and Plakoloviae's (2015) finding of very low levels of financial literacy among entrepreneurs since the variables tested in this study did not have levels of difficulty concurrent with those utilised in that study. It also contradicts findings of Oseifuah

(2010) who found above average financial literacy skills level among youth entrepreneurs in the Vhembe District of Limpopo, South Africa.

Findings also show very basic, basic and good utilization of various elements of financial literacy variables. The obvious expectation is that financial knowledge so obtained should be fully utilized especially by treatment group members as they constitute half of the sample in the study. The summary provided in table 6.3 does not quite reflect this expectation. Huston (2010) argues that this expectation is not realistic, that the measure of literacy level (or measure of knowledge level possessed or acquired by individuals) only indicates the capacity individuals have to engage in the right financial behavior but it does not ensure that it would occur. Individuals therefore must consciously decide on knowledge utilization but factors within and outside of the control of individuals such as impulsiveness, behavioural biases and tendencies, individuals' preferences and circumstances that are external to individuals could mitigate against knowledge utilisation (Huston, 2010).

6.4.2 Sources of financial knowledge

As reflected in table 6.4 below, broadly speaking, SMME operators' knowledge could be classified as knowledge obtained through human capital development and social capital. General human capital as postulated by Xiao (2002, see also Sevilir, 2010) arises through formal education while specific human capital development occurs through on-the-job training. SMME operators draw on general human capital through residual knowledge from school since most business operators in the study sample are matric holders. Specific human capital development is acquired through training such as financial literacy training by SEDA. Social capital otherwise known as relational capital is derived from relationships, social and local networks within which operators interact (Odora-Hoppers 2002, Lechner and Dowling 2003 and Liao and Welsch, 2005). This means that SMME operators also draw on social capital from interactions with network of family, friends and others. Financial knowledge derived from these sources remains very basic and may contribute very negligibly to basic literacy which is needed to run a business.

Table 6.44: Financial knowledge sources matrix

Knowledge sources	Percentage (%)	Type of knowledge	Form of knowledge
Training from SEDA and knowledge from school	43.5	Formal and informal	Specific and general human capital development
Self-taught	32.4	Informal	Learning by doing: specific human capital development
Family members and friends	17.6	Informal	Social/relational capital
Other	6.5	Informal	Social/relational capital

Although the study could not measure literacy levels of recipients prior to the receipt of training, some association could be made between financial training and recipients' financial literacy levels based on Likert scale responses. The importance attached to received training by some SMME operators however, confirms this assumption as they did attribute their financial behaviour to the training they received, albeit, not so strongly. The assumption therefore is that operators generally utilise a mix of knowledge sources in the day to day operation of their businesses.

Non training recipients also demonstrated very basic form of literacy on all areas of financial knowledge tested. Since they have received no financial literacy training and have managed to run their businesses regardless, it could be argued that they could have been sustained by some forms of knowledge such as knowledge support from friends and family members.

Hormiga et al. (2011) identified other knowledge forms, on which firms could subsist, aside from structured knowledge (acquired through training). According to them, firms and individuals could draw on relational capital for support. Relational capital is the knowledge that a firm derives from its relationship with its environment, which are its formal and informal network of customers, suppliers and all other forms of interactions. The entrepreneur's informal networks are also an important resource and channel of support to the firm as it provides both emotional and visible support to an entrepreneur. Such support could come in the form of provision of funding for business start up, free labour for the business, free information and advice and financial knowledge sharing (Fuller and Tian, 2006; Odora-Hoppers and Makhale-Mahlangu (1998).

Social or relational capital, is evident in *stokvels* saving schemes and burial societies that are organised by community members outside of formal financial systems. Sometimes collective savings are kept in homes, outside of banking institutions and members borrow, save and are able to respond to household shocks due to these savings. Here, savings also act as insurance against unforeseen circumstances. There is evidence of SMME support by these local formations in West Africa, through the provision of finance for start-up and expansion purposes and knowledge sharing (Arko-Achemfuor, 2012). Entrepreneurs are themselves members of the community who belong to these groups. If they do not have formal savings vehicles, they are more likely to save through membership in these informal groups. The challenge is to strengthen the financial knowledge base of these groups (given the role they play in the communities' lives) since they are important financial knowledge sources to SMME operators.

This finding also corroborates Hilgert and Hogarth's (2003) findings that some individuals source their financial knowledge from personal experiences and from family, friends or peers, or groups that they associate with. In their study the authors found a mixed relationship between these preferred knowledge sources and financial behaviour. Hilgert and Hogarth (2003) found a weak relationship between informal knowledge sources and the level of savings and investment, and a strong relationship between these knowledge sources and cash flow management by consumers. This implies that informal knowledge sources can potentially assist in cash flow management of a business enterprise although it may not be very effective in influencing savings and investment behaviour.

In relation to knowledge sources, black males own and managed the majority of these businesses. Most operators are aged between 31-40 years and are matric holders whose financial management knowledge is derived from training. Training knowledge in our sample is derived from SEDA and from financial subjects in high school . For self taught knowledge, those entrepreneurs possibly learnt on their own, from experiences over time and from family and friends as argued by Hilgert and Hogarth (2003) and Atkinson and Messy (2012). Since South Africa is highly divided along racial lines, strong bonds also exist along those lines and these bonds could translate to social and relational capital which facilitates knowledge sharing.

This argument supports the assertion that among people that are ethnically inclined, trusted members of the community and community leaders are the preferred knowledge sources (Hilgert and Hogart, 2003).

6.5 CONCLUSION

Depending on the nature, focus and variables under investigation, several researches in South Africa have reported mixed results in the evaluation of individuals and groups' financial literacy levels. As revealed by Fatoki and Oni (2014) in their literature, some studies have reported low levels of financial literacy (Symanowitz, 2006; Tustin, 2010; Botha, 2013; Fatoki, 2014) , moderate (Shambare and Rugimbara, 2012; Oseifuah, 2010) and high financial literacy levels (Louw et al, 2013) as a consequence of the measuring instruments used, thereby leading to different conclusions reached on the level of financial literacy in the country. It should be emphasized that result of findings depends on financial literacy variables that are measured and the study population.

This study focused, among others, on variables such as budgeting, use of credit and understanding of credit terms, savings, cash flow management, record keeping and determination of profit or loss. The level of financial literacy among respondents was first evaluated followed by the application of the same in business operations, the importance attached to financial literacy knowledge, the desire to acquire it and knowledge sources. Based on the financial literacy variables utilised in the study, most SMME operators were found to possess basic levels of financial knowledge.

CHAPTER SEVEN

FINANCIAL TRAINING UTILISATION AND EFFECT ON BUSINESS PERFORMANCE

7.1 INTRODUCTION

Interventionist programmes are always geared towards achievement of some expected outcomes; to effect tangible changes to the beneficiary and improved behaviour or performance. As a result, it is always imperative to evaluate intervention programmes, in order to ascertain whether they have achieved intended outcomes. The outcome of such evaluations enables revision of programmes and strategies and a repositioning of such interventions to achieve effectiveness. Against this backdrop, a number of researches have been conducted in the past to evaluate intervention programmes (refer to section 4.3) due to huge investments that are often involved. The evaluation of differences in performance between SMMEs that have utilised financial literacy training skills, over those that have not, therefore implies an indirect evaluation of effectiveness of SMME financial literacy training programmes in assisting SMME sector development.

As discussed in section 4.3, there have been contentions about the most appropriate variables that could be used to measure business performance. Preference (80% of research) has always been in favour of sales, a financial variable and number of employees (20% of research), a non-financial variable (Weinzimmer et al, 1998). This research utilised the use of sales turnover to measure performance between the treatment and control group. A quantitative analysis and presentation based on the outcome variable – turnover is hereby conducted.

7.2 DIFFERENCES IN BUSINESS PERFORMANCE VARIABLES - TURNOVER

To test the hypothesis that there is no significant difference in the performance (turnover level) of SMMEs that have utilized financial literacy training over those that have not, the difference in difference (DID) test was conducted. This test has been utilised in a number of evaluation studies because of its ability to measure the outcome variable before and after intervention, to provide a credible difference between groups and its ability to overcome endogeneity (Puhani, 2012; Solé-Ollé and Sorribas-Navarro, 2008; Bertrand et al, 2003). The DID test sought to determine if there was a difference between the mean turnover levels of the treatment group and control group with the following results:

ESTIMATION RESULTS

Table 7.1: Difference-in-differences estimation results without covariates

Number of observations in the DIFF-IN-DIFF: 160

	Baseline	Follow-up	
Control:	40	40	80
Treated:	40	40	80
	80	80	

Outcome var.	turnover	S. Err.	t	P>|t|
Baseline				
Control	7.5e+04			
Treated	7.5e+04			
Diff (T-C)	0.000	4.0e+04	0.00	1.000
Follow-up				
Control	3.0e+05			
Treated	7.5e+04			
Diff (T-C)	-2.3e+05	3.5e+04	-6.42	0.000***
Diff-in-Diff	-2.3e+05	5.3e+04	-4.25	0.000***

R-square: 0.09
- Values are estimated at the .5 quantile
**Inference: *** p<0.01; ** p<0.05; * p<0.1

Table 7.1 above shows estimation result at both baseline and follow-up periods. The baseline represents pre-treatment period while follow-up represents post treatment period. The significance level of the regression was set at p<0.1. Result shows that the mean turnover of the treated compared to control group in the baseline period was statistically non-significant at a P value of 1.000. In the follow up period, there was a statistical significant difference in the mean turnover level at a P value of 0.000. The difference in difference result at a P value of 0.000 shows a significant difference in the mean turnover levels of the treatment and control group. The result implies that before training, there was no significant difference in the mean turnover levels of the treatment and control groups (at P, 1.000). In the follow up period, the period after training, the mean turnover levels of the treatment group changed at a significant level (P, 0.000) compared to that of the control group but the change was propelled by a higher turnover of the control group as reflected in Diff (T-C) = -2.3e+05 in the table above.

A further estimation was conducted with covariates. The following result was obtained.

Table 7.2: Difference-in-differences estimation results with covariates

Outcome var.	turnover	S. Err.	t	P>|t|
Baseline				
Control	25.781			
Treated	25.824			
Diff (T-C)	0.043	0.126	0.34	0.733
Follow-up				
Control	26.696			
Treated	26.367			
Diff (T-C)	-0.329	0.151	-2.18	0.030**
Diff-in-Diff	-0.372	0.189	-1.97	0.050**

R-square: 0.28
- Means and Standard Errors are estimated by linear regression
**Inference: *** p<0.01; ** p<0.05; * p<0.1

Estimation result after controlling for covariates shows that at baseline, the mean turnover of treatment compared to the control was non-significant at a P value of 0.733. In the follow up period, the period after training, the mean turnover level between the two groups was significant at a P value of 0.030. The difference in difference result between the two groups was significant at a P value of 0.050. This means that when comparing the difference in turnover of the two groups before training and the difference in turnover between them after training with the covariates effect, the difference between them was significant. Again, the difference was propelled by higher turnover of the control group in the follow up period as reflected in Diff (T-C) = -0.329.

The result from table 7.1 and 7.2 above implies that with or without the covariates effect, training did not change turnover levels of the treatment group over that of control group. It explains the counterfactual that without training, turnover of the two groups, on average would remain the same.

7.3 ESTIMATION USING PROPENSITY SCORE MATCHING METHOD (PSM)

As discussed in section 5.7.3**,** the PSM is preferred because of its ability to control for endogeneity effect- isolate the treatment effect, that is, to accurately estimate changes in turnover due to treatment (training) received as well as correct for sample selection bias by matching the two groups according to observable characteristics. The PSM analysis was crucial in showing whether the change in turnover was caused by receipt of training as reflected in the result below:

Table 7.3: Estimating the average treatment effects (ATE) using PSM

```
Treatment-effects estimation                 Number of obs      =      479
Estimator      : propensity-score matching      Matches: requested =        1
Outcome model  : matching                                  min =        1
Treatment model: logit                                     max =        4
------------------------------------------------------------------------------
             |           AI Robust
    turnover |     Coef.       Std. Err.      z       P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
ATE          |
    training |
   (1 vs 0)  |  77814.89    44518.9     1.75   0.080    -9440.553    165070.3
------------------------------------------------------------------------------
```

The above result shows that at significant levels of p<0.1 and P value of 0.08, training was statistically significant in improving turnover levels of the treatment group. The PSM conceptualises the testing differently from DID and it shows a positive improvement. This is due to its matching. Though weaker in statistical power than DID it shows an improvement in turnover of the treatment group. However, even with some improvement, turnover of the treatment group did not rise higher than that of the control group. Average treatment effect by default matches each subject to a single subject with the opposite treatment whose propensity score is closest. Although turnover of the treatment group did not rise higher than that of the control group, the PSM result shows that the reported increase in the mean turnover levels of the treatment group could be attributed to training. Overall however, this finding fails to reject the hypothesis that there is no significant relationship between financial literacy training and business performance as the performance variable, turnover showed no increase over that of control group.

7.4 DISCUSSION OF FINDINGS: DIFFERENCES IN PERFORMANCE BETWEEN TREATMENT AND CONTROL GROUP MEMBERS' BUSINESSES

The effectiveness of intervention programmes in causing desired outcomes is an ongoing debate. Many believe it is impossible to measure and associate changes, if any, to some intervention due to organisational or personal dynamics that are at play. Another argument is that organisations and individuals have intervening variables that are impossible to hold constant in real life whereas most analytical techniques that are used in evaluating these programmes often hold these real life variables constant in order to estimate results. However, as argued by Hausman (2012) that theories should be judged entirely based on the accuracy of their predictions rather than on the "realism of assumptions", it follows therefore that studies should be judged based on the robustness of analytical techniques utilised in accurately estimating relevant research result rather than focus on assumptions employed in the process of analysis.

The PSM and DID employed in this study are considered robust analytical techniques that deliver accurate and relevant research results. Over time, research results utilising these techniques have been invaluable in directing intervention programme policy changes that have had real positive impact on people. Assessment of financial literacy training and its effect on business performance is one of such on-going debates and findings which are discussed below would contribute to the significance of literacy training to small business operators.

Turnover level was used in measuring business performance. Besides nominal increases in turnover which could indicate inflationary pressures, businesses generally seek to improve turnover levels because of its effect on business profitability. The profitability of a business depends primarily on two elements; turnover and expenses. Increase in turnover increases revenue. Expenses are costs incurred to generate sales and increase in expenses without a geometric increase in sales can reduce profit. A business that can control expenses in the face of increased revenue would make a profit, and sustainably so. When turnover declines and businesses are unable to control costs, losses are sustained and entrepreneurs receive poor return on investment.

The turnover of treatment group businesses showed an increase as reported by PSM but the increase did not cause treatment group turnover to rise above that of control group businesses. Since the post training period is two years, this implies that in the short term, financial literacy training has no positive effect on the performance of businesses that have accessed it over those that have not.

The finding of this study therefore failed to reject the hypothesis that there is no significant relationship between financial literacy training and business performance as the performance variable, turnover showed no increase over that of control group. Financial literacy training could have influenced operators' financial attitudes and capabilities judging from Likert questions responses and basic application of financial knowledge discussed earlier but not significantly enough to cause treatment group turnover to increase above that of control group.

This finding corroborates that of Gine and Mansuri (2011) that found no effect of business training on women owned enterprises in Pakistan and that of De Mel et al (2014) that found that although training led to some changes in business practices among training recipients in Sri Lanka, it had no impact on business profits and sales. Since Gine and Mansuri's (2011) study sought to evaluate the effect of business training on businesses from the perspective of gender, it however found no effect of training on the success of women owned businesses as opposed to male owned businesses. Here, gender was considered as a contributing factor.

Findings of this study also supports that of Mckenzie and Woodruff (2013) who argued against relating financial training to effectiveness in propelling positive business outcomes and growth. The authors argue that only marketing skills can potentially lead to increases in turnover and not accounting skills. According to the authors, whereas accounting skills lead to among other things; higher savings, good costing and quality control practices and budgeting which helps improve business profitability in the long term, good marketing and customer service increases sales directly in the short term. Since financial training content is often biased in favour of accounting and record keeping and less towards marketing practices, this result supports that argument since the training content of SEDA has a very insignificant marketing content.

This finding however contradicts that of Siekei et al. (2013) and Calderon et al (2013) that SMME training programmes in Kenya, instituted by the Equity Group Foundation was effective in increasing sales revenue of businesses, and women owned enterprises in Mexico, respectively. The two studies found that financial training enabled proper loans management which led to a reduction in loan liability, budgeting helped improve cash flows and tracking of business transactions and credit acquisition. These bore positively on turnover.

Nyamboga et al (2014) found a similar relationship (as Siekei et al, 2013 and Calderon et al, 2013) between financial literacy and loan repayment by Small and Medium Entreprenuers in Ngara district, Nairobi. The study found that book keeping, credit management and budgeting skills significantly influenced SMEs ability to repay loans. They therefore recommended that SMEs should enrol in financial related programs to enhance their capacities. Kalekye and Memba (2015) also found a positive association between financial literacy and profitability of women owned enterprises as financial literacy training improved their cash management skills, budget preparation and savings level.

The study further contradicts Dahmen and Rodriquez's (2014) study that businesses that were coached at the University of Florida's Small Business Development Centre and who had applied financial analysis knowledge in the business, had less financial difficulties than those who did not. Although the specific outcome of that research was the ability to conduct financial analysis, it did indicate the effectiveness of financial training in assisting with financial analysis of the business. The outcome of financial analysis is to provide information on various dimensions of the business including profitability, solvency, liquidity, stability and efficiency so that corrective actions can be taken; it has no immediate effect on influencing turnover levels.

Drawing on Winter (1987) and Itami's (1987) view on resources based theory of the firm, firms obtain a competitive advantage as a result of "non purchasable assets" (such as knowledge and competence, and management skill). These assets reside in individuals within a firm. They are uncopyable as individuals who possess them are unique and may consequently translate knowledge and skills differently in the conduct of business affairs. However, a proper application and utilisation of knowledge, skills and competencies gives a firm an edge over competition and increase their profitability. Schmalesee (1991) views this as individual capability that can help create organisation's wealth. Hitt et al (2001) refers to individuals' capability as human capital that can affect firm performance and also sets one firm apart from the rest and enables it to achieve productivity and profitability.

Viewed from this perspective, financial literacy training of business operators is a capacity building initiative that could improve individual capability and help create organisational wealth. According to Kumar (2015) wealth is created when firms' managers generate revenue higher than cost incurred in generating those revenues. Kumar's implication is that wealth creation involves increasing organisation's revenue and revenues are generated from sales (turnover) or services rendered. Treatment group businesses had no competitive edge over control group businesses as a result of received financial training, therefore to them, training failed to be a source of competitive advantage. Capability improvement of the treatment group members through training did not translate to the creation of organisational wealth which should be evident through the generation of turnover higher than that of the control group. This study therefore could not uphold the resources based theory of the firm which postulates sustenance of a competitive advantage by firms who possess certain assets over others, and human capital development theory's assertion that training could bring both financial and non financial benefits to a firm.

In evaluation studies where effectiveness of training has been reported, the selection of study participants was contentious as some authors argue that businesses that are already doing well could have been selected for the study, in which case training was naturally going to be effective and reported. The reverse of this argument would be that if struggling businesses are selected for the study, findings will be in the contrary. It is important to note that the majority of SEDA trainees were those who went looking for business funding from SEDA (as discussed in section 6.3.5). One possibility is that this could have been businesses that were struggling therefore provision of training without the needed funding would render training ineffective.

In chapter 4, section 4.3.4; concerns were raised about the timing of performance measurement. The argument is that it takes time for recipients to internalise training and therefore be able to apply acquired knowledge in the business context (Mckenzie and Woodruff, 2013). As a result, a much longer time frame is preferred before evaluation (Weinzimmer et al, 1998). Findings from this study support that argument. Since only the last two periods (2011 and 2012) in the present study relates to the period after training, the result shows that in the immediate short term, training could not influence business performance. If training recipients do not effect basic positive changes within the business sales would not be impacted positively.

Findings of evaluation studies of this nature are often criticized on the basis of sample size and diversity of sample since the power of the study could be reduced by the sample size and diversity of firms in the sample. Generalisations are also impossible where the sample size is too small, and, where there are significant variations in business characteristics, it is impossible to detect changes that are attributable to training (Mckenzie and Woodruff, 2013). Since sample businesses were mostly microenterprises that are involved in community and social services, the variability in characteristics especially turnover was reduced, thereby strengthening the research results and allaying the concerns of the above mentioned authors.

The nature of training delivery is believed to potentially influence training effectiveness. Informal, on-the-job training for SMME operators (a form of informal human capital development) is often believed to be more effective than formal training in a classroom setting. However, the result of this study did not corroborate this view since the expectation did not hold - to detect significant increases in turnover of treatment group over that of control group. Training offered by SEDA could be regarded as informal human capital development since existing businesses are trained on good financial management practices in the business they are currently managing. Some businesses are also trained at a start-up phase to lay the foundation for good financial management practices. Drexler, et al. (2014) reported effectiveness of rule-of-thumb financial training of SMME businesses, an informal capital development. Informal on-the-job training is arguably most effective to entrepreneurs who are less educated, while the more educated entrepreneurs will cope well with formal training.

Motivation could influence business performance. Motivation drives the attitude of entrepreneurs. Businesses that are borne out of necessity entrepreneurship, or "the will to succeed, the urge to prove oneself superior to others and the desire to establish a dynasty", "alertness to opportunity" (Schumpeter (1939) and Kirzner (1979), cited in Casson 2005) and whose entrepreneurs are motivated by these reasons, would innovate and utilise every opportunity that presents itself to their own benefit. Motivation would cause entrepreneurs to see value in every opportunity that comes their way including training opportunities, and will utilise received knowledge to better the fortunes of their business. Motivation would drive their willingness to succeed and knowledge and skills development would be seen as invaluable assets that would assist in that regard. Training would be effective among entrepreneurs that are motivated to succeed therefore the motivation behind starting a business could be an explanatory factor in training effectiveness among SMME operators.

7.5 CONCLUSION

This chapter sought to determine the difference in performance between treatment and control group businesses. Turnover levels was used as the business performance variable. The difference in difference (DID) estimation and propensity score matching were employed in data analysis. The difference in turnover levels of the two groups was estimated using the difference in difference method. The result shows that even after receipt of training, in comparison, turnover levels of treatment group businesses was not higher than that of control group although on average, there was some increase in turnover of the treatment group as shown by the PSM result. This brings to question the effectiveness of short term training in propelling tangible positive changes in businesses.

Broadly speaking however, training remains an important source of organisations' competitive advantage as training increases productivity and efficiency levels of employees. But, for training benefit to be realised, the content learnt must be applied in the workplace. However, as suggested by some authors factors such as individual and organizational factors (Mollahoseini and Farjad, 2012), state of the macro-economy, firm specific problems such as marketing skills, strategy and financial control (Storey, 2002) could militate against the realization of the benefits of training and also influence firm performance. While not implying that training is the only determinant of firm performance, the implication is that an enterprise' performance may or may not change or improve as a tangible benefit of training. Conclusions based on this study were reached while not being oblivious of these mitigating factors.

CHAPTER EIGHT

RELATIONSHIP BETWEEN FINANCIAL LITERACY TRAINING AND SMME GROWTH

8.1 INTRODUCTION

The presentation in this chapter seeks to demonstrate the relationship between financial literacy training and SMME growth using growth rate in turnover as measuring variable. This accords with the viewpoint that sales growth and increase in the number of employees are the preferred measure of business growth especially when measuring the effect of business training on growth of businesses (Richard et al, 2009; Heras et al, 2002; OECD, 2002). However, the use of these variables is sometimes contentious. The argument borders on possible inaccuracies in recording of these variables and the reluctance to disclose information on them due to their sensitive nature (McPherson, 1996). Chong (2008) extends that argument by further stating that the use of profit as a measuring variable is even more subjective and subject to manipulation and interpretation since in most cases researchers often had to estimate profit subjectively to be able to measure growth. Since sales figure is less subjective than profit figures, this study utilises sales growth rate in SMME growth determination.

8.2 ANALYSIS AND PRESENTATION OF DATA

The difference in difference (DID) and Rosenbaum and Rubin's (1985) PSM models were used in data estimation. The combination of model follows the recommendation of Heckman et al (1997) that analytical model combination helps to balance observed covariates of the two groups used in the study. The basis of the balance is that PSM is a parametric approach that serves best with observable covariates while DID is a non-parametric approach that is best with unobservable covariates with fixed effects (Crown, 2014). The use of these two models provides a strong analytical basis for this study. While the DID was used to estimate the difference in growth rate of turnover, The PSM was used to estimate average treatment effect on the treated (ATET) using OLS logit model.

8.3 DETERMINATION OF FINANCIAL LITERACY AND FIRM GROWTH

8.3.1 Estimation sing DID

Turnover was logged to remove underlying trends and the DID coefficient was used as indication of turnover growth. The following result was obtained.

Table 8.1: Difference-in-differences estimation results

Number of observations in the DIFF-IN-DIFF: 160

	Baseline	Follow-up	
Control:	40	40	80
Treated:	40	40	80
	80	80	

Outcome var.	lturnover	S. Err.	t	P>|t|
Baseline				
Control	11.225			
Treated	11.225			
Diff (T-C)	0.000	0.460	0.00	1.000
Follow-up				
Control	12.612			
Treated	11.225			
Diff (T-C)	-1.386	0.406	-3.41	0.001***
Diff-in-Diff	-1.386	0.613	-2.26	0.025**

R-square: 0.14
- Values are estimated at the .5 quantile
**Inference: *** p<0.01; ** p<0.05; * p<0.1

The table above shows that in the follow up period, the period after training, the growth rate in turnover of the treatment group was 11.22% while that of the control group was 12.61%. This result shows that treatment group businesses showed no growth over control group businesses. In actual fact, control group businesses showed some growth over treatment group businesses. The growth rate of control group businesses over that of treatment group was actually significant at a P value of 0.001 leading to overall growth in DID at a P value of 0.025 in the model. Training therefore had no effect on business growth.

8.3.2 Using average treatment effects on the treated (PSM)

Estimation of average treatment effect on the treated (ATET) requires finding matches for the treated subjects only, unlike ATE that requires finding matches for both the treated and control subjects. ATET measures the effect of the treatment on the treated. It measures the difference in turnover of the treatment group before and after training. The following estimation result was obtained:

Table 8.2: Average treatment effects on the treated

```
Treatment-effects estimation                Number of obs      =       479
Estimator : propensity-score matching       Matches: requested =         1
Outcome model  : matching                    min =         1
Treatment model: logit                       max =         4
------------------------------------------------------------------------------
    turnover |      Coef.       Std. Err.      z      P>|z|       [95% Conf. Interval]
-------------+----------------------------------------------------------------
ATET
training     |
   (1 vs 0)  |   76138.89   49484.01     1.54   0.124    -20847.99     173125.8
------------------------------------------------------------------------------
```

The above estimation shows treatment group turnover level of R76 138.89 at a P value of 0.124. This result shows that when compared with itself, turnover of treatment group in the post training period increased marginally by R76 138.89 over that of the pre training period but the marginal increases was not significant (at a P value of 0.124). In other words, training did not have a significant effect in on the turnover levels of the treatment group. This result corroborates the above DID result that found no improvement in turnover growth rate of treatment group over that of control group.

The results presented in table 8.1 and 8.2 above shows that there is no reason to assume that training has had any effect on the growth of businesses in the short term. The reason is that compared with the control group, the growth rate of treatment group businesses was not higher, but rather reduced. Also, compared to itself, the change in turnover levels of the treatment group was not significant in the pre and post training periods. This study therefore fails to reject the hypothesis that there is no relationship between financial literacy training and SMME growth.

Quantile difference-in-differences with covariates

The difference in difference estimation also sought to determine the effects of the covariates on turnover of the treatment and control groups. The regression model tests the middle percentile turnover at 50%. At a significance level of p<0.1, the following result was obtained:

Table 8.3: Effects of covariates on turnover

Report - Covariates and coefficients:

Variable(s)	Coeff.	Std. Err.	t	P>|t|
gender	0.187	0.084	2.232	0.026
education	0.112	0.087	1.286	0.199
reason	0.337	0.100	3.368	0.001
gdp	-0.000	0.000	-0.654	0.513
interest rate	-0.327	0.198	-1.650	0.100
cpi	0.253	0.183	1.378	0.169
sizeofbus	0.037	0.007	5.132	0.000
age	0.011	0.004	2.829	0.005
period	0.390	0.091	4.286	0.000

The above result shows that at the 50th percentile, business operators' personal characteristics such as gender, reason for starting a business and age were significant in influencing turnover levels at a P value of 0.026, 0.001 and 0.005 respectively. Education level was non-significant at P value of 0.199. Business characteristics such as size of the business (as measured by number of employees) and period (number of years of business operation) were significant at P values of 0.000 and 0.000 respectively. Economic factor, the interest rate was a significant influence at a P value of 0.100 while other economic variables such as the GDP and CPI were non-significant at P values of 0.513 and 0.169 respectively.

Result on gender shows that gender is significant in explaining increase in turnover. Since male operators were denoted by the variable 1 while 0 represents female operators, the result indicates that male operators increase their turnover by 18.7% per annum as opposed to their female counterparts. Male operated businesses make 18.7% more turnover than female operated businesses. There is a positive relationship between gender and turnover and the result is statistically significant at 0.026.

Education level has a positive relationship with turnover even though the relationship is statistically non-significant at a P value of 0.199. This means that the higher the educational level of entrepreneurs, the higher the turnover. Turnover increases with level of education by 11.2% per annum.

The reason for starting the business is positively related to turnover. Entrepreneurs who started the business as a result of spotting unexploited business opportunity were denoted by 1 while those that started the business due to other reasons are denoted by 0. Entrepreneurs who have identified economic opportunities make 18.7% more turnover than those who started the business otherwise. Those that identified a business opportunity demonstrate entrepreneurship. Entrepreneurship is therefore statistically significant at 0.001 levels. It is important therefore to identify those that are entrepreneurs than those who are involved in business due to circumstances of unemployment. This means that these are people who will not forgo their business despite any attractive job opening and this drive makes them to be more profitable. Entrepreneurs' businesses are therefore more profitable than businesses of non –entrepreneurs.

The macro economy in which businesses operate can exert significant impact on performance of businesses. Economic growth is reflected by growth in GDP and could impact businesses positively. A decline in GDP on the other hand could impact businesses negatively. In the results, the GDP is negatively related to turnover and statistically non-significant at 0.513 significant levels. The result implies that GDP impacted businesses negatively although the negative impact was non-significant. This result is in line with the economic turmoil at the time. The effect of global recession at the time led to a decline in South Africa's real GDP growth as follows:

Table 8.4: GDP (2007 – 2012)

Years	2007	2008	2009	2010	2011	2012
Real GDP growth %	5.1	3.1	-1.9	1.5	2.7	3.2
Current account balance As % of GDP	-7.3	-7.4	-4.9	-5.7	-6.1	-6.9

Source: National Treasury, 2009 (Note; 2007-2009- actual, 2010-2012-projected)

This macroeconomic variable therefore had a negative effect on businesses including our sample businesses.

There is a negative relationship between interest rate and turnover and this negative relationship is significant at 0.100 levels. The reason is that interest rate has an inverse relationship with investment. Increase in interest rate slows down investment as businesses are reluctant to borrow at high interest rates in order to avoid financial risk. Investment in projects and activities that could increase turnover is therefore strained. The prime lending rate in the country at the time were as follows:

Table 8.5: Prime lending rates (2007-2012)

Years	2007	2008	2009	2010	2011	2012
Prime lending rate (average) %	13.75	15.17	12.10	9.5	9	8.5

Source: Liberta, 2016

Interest rate levels at the time would have discouraged borrowing and investment.

Inflation as denoted by consumer price index (CPI) has a positive relationship with turnover but statistically insignificant at 0.169. In inflationary periods, higher prices are charged for goods and services. Although demand decreases at higher prices, turnover made will increase as a result of high prices charged. Businesses generally experience nominal increases in turnover values without a corresponding increase in profit as a result of inflation. The period 2007-2012 was highly inflationary. From inflation rate of 4.82% in 2006, the progression was rapid and volatile as shown below:

Table 8.6: Consumer price index (CPI) (2007 – 2012)

Year	2007	2008	2009	2010	2011	2012
CPI rate (%)	7.57	9.35	6.04	3.37	6.41	5.71

Source: Inflation.eu. Worldwide inflation data

Turnover levels may have been inflationary but profits are reduced due to inflation.

Size of the business is measured in terms of number of employees. Size is positively related to turnover. The bigger the business, the more turnover it makes. Turnover increases by 3% as the size of the businesses increases. This relationship is significant at 0.00 levels.

Age wise, there is a positive relationship between turnover and age. The older the entrepreneur (or business operator), the more the turnover will increase by 1% per annum. The result shows individuals' experience effect on the business. It reveals that experience could help enhance business practices in ways that could impact positively on turnover. This result is statistically significant at 0.005 levels.

Period of operation is the number of years for which a business has been in operation. The result shows that it is positively related to turnover. The longer the business runs, the more turnover it makes. The relationship is statistically significant at 0.000. This means that the age of the business and experience over time could lead to increase in turnover.

8.4 DISCUSSION OF FINDINGS: EFFECT OF FINANCIAL LITERACY TRAINING ON SMME GROWTH

The initial proposition of Greiner (1972) is that firms' growth and development depends on the age, size of the organization, stages of evolution, stages of revolution and the growth rate of the industry to which a firm belongs. Organisations' age produces the learning and experience effect and allows for internalisation of attitudes over time and the structuring and positioning of businesses for effective performance. Size and business growth are inter dependent. On the one hand, size as measured by number of employees influence sales growth as a result of labour productivity (sales level per-worker) and labour intensity (rate of use of assets to generate sales by workers) (Machek and Machek, 2014; O'Gorman, 2001).

On the other hand a business growth signals the need for more hands to be employed in order to effectively handle increased activities caused by growth. Greiner (1997) also argued that the evolution stage when things go well with a firm and the revolutionary stage when a firm attempts to manage and deal with crises and turmoil both result in eventual growth. The growth rate of the industry also acts as a ceiling to growth as firms grow at a rate that is possible in the industry, breaking through industry growth rate by firms therefore becomes a mammoth task. Machek and Machek (2014) argue further that in the case of small and medium sized firms, growth is often organic, that is, growth arises as a result of its own activities over time. It happens over a number of time periods and is represented by the change of some variables such as output, profit and market share. They argue that growth is one of the life cycles of a firm which is propelled by marketing activities that leads to frequency of business visits by customers (otherwise known as foot traffic) and that firms struggle to grow if they are not in that phase.

As reported in chapter 4, earlier studies have reported investment in research and development, strategic choice, organisational culture, technology, industry structures, and more recently, knowledge and skills of the entrepreneur or employees, local knowledge and social networks as important factors of production that could ensure sustained growth in firms.

Whatever factors propel firm growth, the argument is that growth is time dependent. It is a process that is sustained over time. Growth can be reported if it is sustained over time. If businesses experience intermittent changes in growth variables which is not sustained, growth has not occurred. In discussing firm growth, Penrose (1995) discusses the different associated connotations and stresses that growth is a process of progressive change. The discussion in this chapter is premised on growth as a process of progressive change.

When compared to control group, the growth rate of SMMEs who have received financial literacy training was lower. Compared to itself, turnover levels of treatment group after training was not significantly different from turnover levels before training. Utilising turnover growth rate as a growth variable, this study fails to reject the hypothesis that there is no relationship between financial literacy training and SMME growth.

The implication of this finding is that although financial literacy training gave knowledge and capability advantage to its recipients over those that have not acquired it, this gain has not yet translated into changes within business processes and practices in the short term in order for the growth process to commence.

Lack of growth exhibited by treatment group businesses could be attributed to concerns earlier highlighted by Mckenzie and Woodruff (2013) regarding the timing of measurement of training impact. They argued that firms are slow to implement received training therefore the impact of business training is delayed as a consequence therefore effect of training cannot best be determined in the immediate short term. Consequently, a review of numerous evaluation studies on the timing of evaluation measurement revealed that majority of researchers preferred to measure effectiveness of training 5 years after receipt of training (Weinzimmer et al, 1998). The findings of this study also relates to Penrose's (1995) assertion that growth is a process of progressive change, indicating the relevance of time in experiencing and measuring growth therefore the lack of observed growth in treatment group businesses could be attributed to the measurement of growth in the short term (2years after training), a period considered too short for sufficient internalization of training.

Another argument is that firms are able to grow when they are in the growth phase of their life cycle (Machek and Machek, 2014). Treatment firms in our sample may not have shown signs of growth in the short term possibly because they are not in their growth stages. As this study did not examine the life cycle of businesses in our sample, this reasoning remains an assumption.

This study result is consistent with OECD's (2002) conclusion based on an evaluation of member countries' SMME management training programmes, who found no evidence to suggest that SMME management training of which financial management is a significant part, was effective in enhancing competitiveness and ensuring growth and survival of firms. A further argument to this effect is that there is not sufficient information on turnover for an extensive analysis to be done, as this is often sensitive information for businesses to disclose (Mckenzie and Woodruff, 2013).

Another argument is in the variation of training periods. Some training occurs over a short period of time which is insufficient for learning to take place, while others may be prolonged leading to high drop-out rates (Mckenzie and Woodruff, 2013). The authors also argue that only good marketing training and customer service management can directly lead to improved turnover and profitability in the short term, while financial training is beneficial only in the longer term as businesses learn to invest, or increase the level of investment and savings and control costs which leads to profitability. In this study, SEDA's training occurs on average between 3-5 days, a period that could be considered too brief for learning to have occurred. Although this study is based on financial literacy levels of those operating the businesses on a daily basis and not exclusively on financial literacy levels of SMME owners, it concurs with Eresia-Eke and Raath's (2013) finding that business owners' perceived financial literacy levels have no effect on business growth.

The finding of this study contradicts Siekei et al. (2013), Bart (2012), Dahmen and Roderique, (2014) and Drexler et al. (2014) that found a positive effect of training on businesses surveyed.

Although there were reservations on the result and generalizability of these findings due to factors such as location (Barte, (2012) – one low income neighbourhood), sample size (Dahmen and Roderique, (2014) – 14 businesses) and focus of the study (Drexler et al., (2014) – main focus on training delivery methods), these give an indication of the possible influence of financial training on business growth and profitability. This contradiction is cautiously assumed as these studies did not indicate the period of time after training when their evaluations were done.

The weaknesses reported on the above evaluations studies forms the basis of OECD's (2002) scepticism of studies that found any positive association between business training and business growth and profitability as it is argued that if these studies were subjected to thorough methodological rigour, only few positive results of training effectiveness would be found. A casual reflection on the above attitude would suggest that the body neither believes in the effectiveness of training in influencing performance nor expect any positive association to be found but that is not the case. The concern bears on the general problems of performance measurement.

This finding contradicts the theoretical position on the subject matter. Since this study found no effect of training on business growth in the short term, theories that purport that skills development or human capital development has an effect on firm growth in the short term are challenged.

In the unmanaged (entrepreneurial) economy where small firms operate, knowledge is the main driver of activities (Thurik, 2008) and as a result, small firms are often seen as the "innovation hub". The need to deepen and solidify knowledge in this economy (as well as in the managed economy) in order to accelerate innovation and development has been the thrust of human capital development, which in its broader context include all formal and informal skills (Lanzi, 2007) or general and specific skills acquired by an individual that empowers them to engage in any undertaking with accompanying differential benefits.

Human capital development is a conscious effort to train individuals in order to improve their competence, and evidence has shown positive outcomes in both the financial and non-financial performance of firms (Marimuthu et al, 2009). Yet, as cautioned by Honig (2001), the benefit of human capital development has to be contextualised since it could only be realised under supportive conditions. It also requires time for acquired skills and knowledge to be internalised before the benefit could be realised. For small businesses, financial management training is a form of informal human capital development and in this study, financial skills development provided to the selected SMMEs yielded no positive changes in turnover nor propel growth in the short term.

The covariates gender, reason for starting the business interest rate, size of the business and period of business existence were significant in influencing turnover of businesses in the study especially turnover of control group businesses. This finding is consistent with studies conducted by de Mel et al. (2008), Duan et al, (2009), Peters et al. (2014) and Woldie et al. (2008). These authors found positive influences of gender, interest rate, size of business and business age (especially in service and technology based businesses) on business growth.

8.5 CONCLUSION

This chapter assessed the effectiveness of financial literacy training in propelling SMME growth. Turnover growth rate was used as a growth variable. The DID and PSM estimation result shows that in the short term, financial literacy training did not effect SMME growth. This was evident in the turnover growth rate exhibited by treatment group businesses over that of the control groups.

The finding of this study does not imply that financial literacy training is a wasteful human capital investment, but that knowledge internalisation is a process that is achieved over time for training benefit to be realised. Besides, training only builds capacity but individuals must consciously decide on the utilisation of training knowledge in order for training to be effective. Another indication is that training should be provided in addition to strengthening other knowledge sources from where SMMEs draw knowledge.

Evaluation of the effectiveness of intervention programmes is arguably problematic due to methodological issues and performance variables being investigated. Regardless of the differing contentions, it is imperative to measure programme effectiveness in order to compare the expected with the actual outcomes. Financial literacy training is at the core of most development programmes because of the significance and implication of financial literacy to individuals' and businesses' lives. Financial literacy is often identified as a major knowledge need for SMMEs that can potentially propel sector development, sustained employment and economic growth. As a result, emphasis has been placed on financial literacy training of SMMEs in recent times. Since statistical analysis could not establish any relationship between the acquisition of financial training knowledge and business growth, data presented in this chapter contributes and also extends the debates on effectiveness of short term intervention programmes, especially those directed at optimising SMME sector development in the country.

The next chapter provides the summary, conclusions and recommendations based on findings of this study.

CHAPTER NINE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

9.1 INTRODUCTION

The rationale for this research was articulated in chapter one. Previously it was argued that the interest in financial literacy as a possible factor in business success, growth and sustainability is a paradigm shift from the usual focus on lack of credit access by SMMEs for business start-up and expansion. The lack of credit therefore restricts sector expansion, job creation and poverty reduction. Even with the recent interest in financial literacy as one of the possible contributing factors to SMME failures, very limited empirical works have been done in South Africa to ascertain its effect, especially, on these businesses. There is still very little knowledge regarding the state of financial literacy among SMME operators in the country, such as how financial literacy in the sector is facilitated and how the success or failure of SMME intersects with financial literacy training. A compilation of studies done in South Africa, focusing on financial literacy, show a greater focus on individuals' personal financial literacy than on the level of financial literacy among SMMEs, and its applicability in the sector (Fatoki and Oni, 2014).

This study was undertaken to contribute to initial knowledge on financial literacy among SMME operators and financial literacy levels in the SMME sector as a whole. Although the research area and dimensions of financial literacy in the SMME sector that could be explored are vast, this study focused on some basic definitive financial literacy variables, namely budgeting, savings, record keeping, credit use and management and profit/loss determination.

This study also assessed SMME operators' financial knowledge against these variables and attempted to measure, in real terms, whether financial literacy training, in effect, can make a tangible difference to businesses by for example, leading to improvement in turnover levels and to establish whether a relationship exists between financial literacy training and SMME growth utilising growth rate of turnover as business growth variable.

Based on the above, this chapter provides the summary of major findings, conclusions, policy implications and recommendations arising from this study. It also highlights the contributions made by this research to the SMME sector financial literacy discourse, signposts the limitations of the study and provides directions for future research.

9.2 SUMMARY OF RESEARCH FINDINGS

In order to address research objective one, which was to assess the role of financial literacy in the SMME sector in the Eastern Cape, the researcher needed to determine if operators utilize financial literacy training skills and if so, to what extent, and where and how that knowledge is sourced. Financial literacy knowledge was interrogated and analysed under the headings: basic financial knowledge availability and application in the business (test of financial knowledge and capability), sources of financial knowledge, perceived importance of financial knowledge (test of attitude), as well as the desire and demand for financial literacy training (test of attitude).

Empirical results based on financial literacy variables that were utilised in this study show a general availability of very basic financial knowledge. SMME operators (both recipients and non-recipients of financial training) possess very basic financial knowledge that enables them operate their businesses. The financial knowledge sources of operators are both formal (structured) and informal (unstructured). Formal knowledge in the sector is acquired in both primary and high school and through financial management training with SEDA. Informal knowledge was sourced from friends and family, experiential knowledge and other knowledge sources.

There was found to be a disconnect between knowledge possession and utilisation by SMME operators from both groups. The financial behaviour of operators in certain instances fell short of what they knew because of lack of applicability of knowledge. SMME operators feel content with the level of financial knowledge that they possess and, therefore, even among treatment group members there is no prioritisation of knowledge acquisition. Financial training is acquired by default and this could influence the importance attached to this skill and the utilisation thereof in the business. As evidenced from the mode of recruitment of training participants by SEDA, only a minority of SMMEs actually felt the need for financial training and seek to obtain them therefore training knowledge from SEDA was important in effecting minimal changes in turnover of recipients but not enough to cause them to perform better than those who have not been trained.

Control group businesses maintained higher turnover than treatment group businesses. This raises among others, questions around the internalisation process of received training, the pre-existing condition of businesses before receipt of training, usefulness of training and value placed on training by recipients, training content and sufficiency of the duration of training in facilitating learning.

In the short term, there is no significant effect of financial literacy training on the growth of SMMEs who accessed them. Financial literacy training did not propel growth of businesses in the short term. Other extenuating circumstances such as lack of funds could have temporarily militated against the translation of training benefits into a growth factor for businesses. There was absence of real savings by businesses and low utilisation of insurance products which makes them susceptible to unexpected shocks that could potentially threaten business sustainability.

9.3 CONCLUSIONS BASED ON THE STUDY

Broadly speaking, knowledge is good and informative. It reveals new possibilities and extend the capabilities frontier. In business, knowledge increases productivity. Knowledge of which financial literacy forms part, remains an important need in the SMME sector as it could lead to good financial management, business survival, productivity and growth in the long term. Financial literacy training therefore remains an essential tool of financial literacy knowledge dissemination.

There is a general recognition of the need for good financial knowledge in the successful management of the business especially at inception and growth stages of the business. The challenge however, is the lack of demand for literacy training and also the lack of application of literacy training knowledge by those who have acquired them.

A review of earlier studies done in the area of financial literacy globally and domestically shows that financial literacy health of operators plays an important role in the successful running of a business enterprise. Empirically, against the general belief that SMMEs lack financial literacy knowledge which could be a contributing factor in SMME failures, this study found no such association in the short term because operators have basic levels of financial literacy with which they operate their businesses. Businesses struggle not because their financial affairs are in disarray or they cannot manage their financial resources, but as most of the participants expressed, they lack financial resources to plough back into or invest in the business. Respondents admitted that they miss profitable business opportunities due to a lack of capital. This reveals that the problems of SMMEs remain a lack of access to capital.

Financial literacy training is not effective in providing a competitive edge to its recipients (in terms of influencing significant positive turnover levels) over non recipients, even in the short term. It also does not have a significant effect on business growth. This could be as a result of pre-existing conditions within the businesses. On the other hand, specific activities such as marketing and promotions have often been argued to be more effective in increasing turnover levels concertedly than other forms of interventions, and as a result, have been able to sustain business growth.

There is the need for a re-interrogation of the concept of short term business training (the assumption that a few days training is what is needed to remedy or improve financial knowledge) since the current financial education and training programmes seems to be driven by this assumption. There is also the need for business analysis to be conducted in order to discover what businesses really require to succeed. This will assist in providing just–in-time interventions that will both be valuable to recipients and effective in propelling positive changes that businesses need. Interventions such as training should not be provided based on assumption.

There are many sources of financial knowledge that SMME operators draw from. Although formal (structured) literacy knowledge is provided by SEDA and operators utilise them very minimally, knowledge sources that are informal (unstructured) enjoy wide utilisation. Business operators' formal knowledge in the sector is acquired in both primary and high school and through financial management training with SEDA. Informal knowledge were sourced from friends and family, experiential knowledge and other knowledge sources.

The main sources of finance to SMMEs are from family and friends. This highlights two important facts; SMMEs do not have access to formal finance sources which is a problem that has often been highlighted in SMME literature, as well as the importance of informal finance sources to SMMEs. Interestingly, these finance sources are the most prominent contributors to SMME sector development. Clearly, the push for formal financial institutions to partner with and assist in SMME sector development is still unfruitful. The government's effort in fostering the relationship between financial institutions and the SMME sector through loan guarantees and facilitation of seed capital through their development agencies has also not made significant progress in efforts to change the funding structure of SMMEs.

In relation to SEDA's interest in monitoring and evaluating effectiveness of their training programmes on participating SMMEs, as highlighted by Maluleke (2013), this study concludes that SEDA's training has assisted in financial knowledge provision in the sector as evidenced in the availability of basic financial knowledge but the knowledge has not yet translated into capability that could bring tangible benefits to its recipients businesses since there appears to be a disconnect between what businesses need and what trainers such as SEDA think businesses need. Training need should first be identified before it is provided in order that it becomes beneficial and does not result in a waste of resources. Also, the method of training provision should be reconsidered; whether it should be done using the current delivery mode where operators are given a once-off training or should be facilitated through an on-going mentorship programme.

The overall conclusion drawn from findings in this study is that while financial literacy remains a salient factor in business, scholarship (available knowledge) about the real significance of financial literacy training on small business performance needs careful consideration.

9.4 POLICY IMPLICATIONS

Financial literacy knowledge is crucial and needs to be deepened. Only government has the duty, power and resources to implement such programmes that would reach most SMMEs. However, the usefulness of short term training to recipients and the tangible benefit of a few days training to recipients needs to be interrogated. There is also the need to change the current delivery mode of financial training to the sector. Training provision should not be once off but should be continuous in order for knowledge to be deepened. The government should therefore recruit and engage more bodies and organisations in the provision of training in the sector.

The need for evaluation of training programmes and indeed evaluation of all government intervention programmes cannot be over-emphasised. Government and other support agencies run the risk of implementing programmes based on advocacy rather than on reality and this could amount to a waste of scarce resources. It could also lead to entrenchment of the same problems that intervention programmes seek to address.

9.5 POLICY RECOMMENDATIONS

Based on the findings of the study, the following policy recommendations are suggested:

9.5.1 Entrepreneurship education

Effort to provide financial literacy training to SMMEs in the country is in its formative stages. There is no doubt that financial literacy skills are a critical need in the SMME sector. As of now, the level of access to training by SMMEs remains low compared to the SMME population. There should be a concerted effort at reaching the SMMEs in order to improve their literacy skill. Entrepreneurship education in high schools and colleges could be deepened with reasonable financial management content introduced in the school syllabus to formally capacitate potential entrepreneurs through a formal schooling system. This is especially so as majority of business operators in the sector are matriculants, moreso, as a significant number of operators utilise residual knowledge from school and only very few operators consciously demand financial training.

9.5.2 Incentivisation of training recipients

To encourage demand for literacy training, the government could provide support and incentives to the SMMEs that have attended and received financial training, especially those that are in the business start-up phase.

9.5.3 Mandatory training of SMMEs operating in the real (growth) sectors

There should be a conscious selection of clients for training. Since the aim of training is to support the growth and development of the SMME sector in order to enable it to propel employment and growth, perhaps trainers should target SMMEs that operate in real sectors so that the benefit of training will be realised. The manufacturing sector is the real sector of the economy and is believed to be the main driver of growth and employment. While not neglecting literacy needs of operators in other sectors, financial training could be targeted at SMMEs in this (manufacturing) sector in order to strengthen it and help drive employment creation.

9.5.4 Recognition of other knowledge sources

This research has shown that SMMEs utilise diverse financial knowledge sources in operating and managing their businesses. These knowledge sources are important in supporting the skill needs of the sector and should be promoted. Informal knowledge sources should not be disregarded, but should be promoted and used alongside literacy training knowledge to provide ~~a~~ wholesome support to the financial literacy needs of the SMME sector. Informal networks within which SMME operators interact should therefore be trained so they can in turn provide the right skills needs and support to SMMEs.

9.5.5 Elimination of barriers to fund access

Since the critical needs of SMMEs remain access to capital as indicated by respondents in this study, every effort should be made to remove bottlenecks to access of SMME development funds provided by government. Currently, the requirements for access to government's SMME development fund mirror that of the private sector and effectively hinder access.

9.6 LIMITATIONS OF THE STUDY

This study suffered a number of limitations, although these posed no fundamental threat to the validity and reliability of the study. The first limitation is the relative smallness of the sample size. The sample size of 80, comprised of 40 treatment group samples and 40 control group samples, means that generalizing from the findings must be done with great caution, as the findings are, at best, indicative. A larger sample size relative to the total number of SMMEs in the Eastern Cape would have provided sufficient grounds for generalizability of findings. The result is indicative of the role that financial literacy and literacy training could play in influencing the performance of businesses and assisting with sector development.

Complete reliance on SEDA clients was another challenge. Treatment group members were SMMEs who approached SEDA for funding. Currently, SEDA selects clients for training through the process of re-directing. When clients approach SEDA seeking funding, SEDA invites them for training. These could have been struggling SMMEs that needed some financial interventions at that point in the business. Although some may see some benefits in getting trained, others merely accepted SEDA's invitation and underwent training with the hope that SEDA would provide them with the much needed funds on completion of training. Training would therefore have very little impact in this instance.

Another limitation is the length of time after training for training evaluation to be made. Treatment group members received training in 2010. The OECD recommends a period of 5years after training has been received as the most appropriate time to test the impact of training due to training internalisation arguments. Although it recommends this, it also agrees that a minimum of 1.5 years after training is acceptable for training evaluation. Of the time series utilised in this study, only the last two years represents the period after training. Although the two year period falls below the 5 year period as recommended by the OECD before training evaluation can be done, it has exceeded the minimum acceptable number of years therefore this limitation did not jeopardise the result of this study's finding at this stage. The argument therefore is that a different result would probably have been obtained had change in performance (turnover) been tracked over a much longer period of time, for example five years.

The study was also limited by its scope. It tested very basic financial knowledge such as savings, budgeting, record keeping, asset accumulation, use of credit and credit management, and ability to determine the business's profit or loss. If ~~a~~ more complex financial knowledge, such as simple and compound interest calculation, understanding of time value of money, inflation rate and its effect on business, were tested, conclusions drawn from the study might have been different.

9.7 DIRECTIONS FOR FUTURE RESEARCH

As indicated earlier in the chapter, the research area and dimensions of financial literacy in the SMME sector that could be explored is vast. Some of the limitations of this study, identified above, present opportunities for further research. For example, it would be interesting to know what the outcome would be, had a more complex financial literacy variable such as simple and compound interest rate calculation, understanding of time value of money or the inflation rate and its effect on business, were tested among SMME operators. These variables could also be used to test the financial literacy levels of individuals in the general populace.

Another opportunity for further research is in the area of timing of measurement of effectiveness of financial training. This research considered effectiveness of training two years after training. A time series analysis of training effectiveness over a period of five years after the year of training would perhaps produce more interesting results than that of the present study.

Still, a comparative study of effectiveness of financial literacy training in the country, based on gender and using any performance variable could be undertaken. Elsewhere, this has been one of the favourite research areas. Another opportunity for further research is the training methods involved. A comparative study could be undertaken between an organised classroom based training method and an informal, practical, mentorship type training. These are all unexploited research areas on SMME financial literacy in the country.

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APPENDICES