

Topic 3

Executive Summary:

*(The Executive Summary has been adapted from the original research report conducted by FR Research)

Financial Management and Governance for SMMEs

This report on *Financial Management and Governance for SMMEs* is the first step towards the training intervention, which is expected to take the form of workshops.

The role of small, micro- and medium-sized enterprises (SMMEs) in promoting economic growth and job creation has shot to the top of the agenda this year with both President Ramaphosa in his inaugural State of the Nation Address and former Finance Minister Malusi Gigaba in his Budget speech (2018) highlighting the critical role of this sector of the economy. Globally, SMMEs have been identified as one of the key drivers of economic growth and job creation. Small business sector has led the world out of several global recessions – but in South Africa, the industry is under-performing.

In the Wholesale and Retail (W&R) sector, there is a need for small and micro-business owners to run their businesses successfully so that they can be sustainable. The sector is dominated by "spaza shops", "hawkers," and "small retail" outlets serving people in their immediate vicinity. But collectively, these enterprises are powerful because they purchase from wholesalers. They also play a significant role in helping communities that are not accessible to formal enterprises.

Typical reasons for business failure include insufficient start-up funding, incorrect pricing for products or services, growing too quickly or prematurely, poor financial controls, management constraints, and inadequate cash flow, to list a few. Most of these issues can be addressed through a proper understanding of financial and accounting principles and concepts to help entrepreneurs run their businesses better. There is also a need to empower owners with management, financial, marketing and sales, interpersonal, book-keeping, and business planning skills.

This study set out to identify the skills needs of SMME owners and recommend a training manual to address these needs. A mixed methods research design was used for this study. Mixed method research refers to the process of using multiple primary and secondary data collection techniques within a single research paradigm. By using a range of methods and techniques, qualitative and quantitative data can be gathered to make an evaluation. This approach enabled the researcher to acquire an in-depth and holistic understanding of the phenomenon being investigated. The research involved examining the literature on the skills needs of SMME owners and qualitative interviews with SMME owners. Based on the findings of the study, a training manual was developed.

Findings from the study revealed that SMME owners require the following skills:

- Financial control and management
- Budgeting
- Compliance
- Understanding financial statements
- Interest, depreciation and pricing
- Tax
- Business Ethics
- Business planning

Findings from the interview showed that Interviewees recommended that a training manual or workbook was needed to train SMME owners on basic principles of running a business successfully. A workshop should be delivered to SMME owners in the sector based on the training manual (workbook). This should be followed up with one-to-one mentoring.

This workbook will enable small business owners and managers to improve their financial management skills. It focuses on topics such as budgeting, understanding financial statements, complying the laws and regulations, setting prices, tax, interest, depreciation, and other pertinent issues relating to sound financial management. Each issue is presented as a training unit. The trainee needs to follow the instructions for each training unit. At the beginning of each training unit, the trainee will find the outcomes that should be achieved. These outcomes highlight the main issues that the trainee should understand and apply on completion of the unit.

All activities should be attempted as they are part of the training process. The icons below will indicate the required response or activity. The training units are about acquiring skills and applying them in a work setting. It is about understanding, engaging and learning. Trainees are encouraged to discuss issues freely with the facilitator and fellow participants.

The facilitator might not be able to do justice with every training unit since time is limited and the workbook covers a wide range of topics. Trainees are expected to continue using the workbook after the program. Participants are encouraged to share best practices, relate common problems, and form networks. The aim is to bring key issues to the learning situation to explore solutions and enrich the learning experience.