IMPACT OF FINANCIAL MANAGEMENT ON BLACK-OWNED FORMAL SMALL AND MEDIUM-SIZED ENTERPRISE PERFORMANCE IN FETAKGOMO TUBATSE MUNICIPALITY, LIMPOPO PROVINCE, SOUTH AFRICA

BY

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I hereby declare that the above-mentioned thesis is my own work and that it has not previously been submitted for assessment to another University or for another qualification.

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DEDICATION

I dedicate this dissertation to the unemployed youth of South Africa and the hard-working SMMEs that are trying to do their best under difficult working conditions.

ABSTRACT

From a global perspective, the small and medium enterprises (SMEs) sector is vital to economic growth and development. Many researchers, including Oyewale, Adebayo and Kehinde (2020) and Enaifoghe and Vezi-Magigaba (2022), support this view by emphasising the importance of SMEs in GDP development, job creation, and innovation. SMMEs in Fetakgomo Tubatse face challenges that hinder their potential for business performance, which, in turn, negatively impact their potential contribution to the local economy. As per the findings of Kupa (2023) and Enwereji (2023), these performance challenges encompass profitability, net cash flow, and market access. These same authors agree that the identified issues are associated with key measures of running SME businesses. According to Msomi and Olarewaju (2021), SMEs' failure rates are high, and their overall economic contribution is weak.

Based on the study background, its problem statement emerges from the real challenges SMEs face in Fetakgomo Tubatse Municipality in the Limpopo Province of South Africa, such as poor profitability, net cash flow issues, and difficulties accessing new markets. These challenges hinder SMEs from reaching their full potential and contribute to high failure rates, reflecting a critical need for solutions that address the root causes of these problems, which are assumed to be associated with a lack of proper financial management skills.

The overarching aim of this study was to investigate the impact of financial management on Black-owned formal SMEs' performance in Fetakgomo Tubatse Municipality in the Limpopo Province of South Africa.

The research employed a quantitative survey design, which, according to Saunders et al. (2019:12), is defined as "a systematic approach to collecting and analysing numerical data from a sample population." This method involves using structured questionnaires or surveys to gather quantitative data that can be statistically analysed to address specific research questions or test hypotheses.

The challenges associated with poor cash flow management are also evident in the study findings. SMEs often struggle with liquidity issues due to inadequate financial controls and limited access to working capital. Atrill and McLaney (2020) highlight that many SMEs face cash-flow constraints, making it difficult to manage day-to-day operations effectively and invest in growth opportunities. The study's findings align with this perspective, showing that poor cash flow management remains a significant obstacle to SME profitability. Therefore,

effective cash flow management is crucial for sustaining operations and ensuring long-term business viability.

In conclusion, this study successfully investigated the impact of financial management on the performance of SMEs in Fetakgomo Tubatse Municipality. The study's findings indicate that inefficiencies in governance structures, suboptimal resource utilisation, and barriers to market access challenge SMEs' current financial management practices. These challenges hinder the financial sustainability and growth of SMEs in the region, affecting their profitability, cash flow, and access to funding. The study findings highlight that effective governance mechanisms, resource optimisation, fostering innovation, and overcoming market access barriers are essential for improving SMEs' financial management and performance.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION AND BACKGROUND TO THE STUDY

From a global perspective, the small and medium-sized enterprises (SMEs) sector is vital to economic growth and development. Many researchers, including Oyewale, Adebayo and Kehinde (2020) and Enaifoghe and Vezi-Magigaba (2022), support this view by emphasising the importance of small, medium and micro enterprises (SMMEs) in gross domestic product (GDP) development, job creation, and innovation. Nevertheless, SMMEs in Fetakgomo Tubatse face challenges that hinder their potential for business performance, which, in turn, negatively impacts their contribution to the local economy.

As per the findings of Kupa (2023) and Enwereji (2023), these performance challenges encompass profitability, net cash flow and market access. These same authors agree that the identified issues are associated with key performance measures of SMEs. According to Msomi and Olarewaju (2021), SMME failure rates are high, and their overall economic contribution is weak.

Based on the above views, Rusdiyanto *et al.* (2024) contend that financial management is a crucial variable that needs to be thoroughly investigated to develop effective strategies that enhance financial performance among SME owners. In agreement, Kotler and Armstrong (2020) mention that SMMEs are heavily impacted by financial management. However, limited research has been done on investigating the impact of financial management on the performance of SMEs in Fetakgomo Tubatse Municipality in the Limpopo Province of South Africa. Most research from a global and South African perspective has concentrated on factors such as market positioning strategies (Dambo & Ishmael, 2023), strategic planning (Majama & Magang, 2017), and human resources (Harney & Nolan, 2022) as important factors associated with these performance challenges. Important elements of financial management comprising financial planning, financial budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting (Harrison, 2021; Brigham & Houston, 2021; Emeka, Kelvin & Okpala, 2023) have received little research attention holistically in South African SMEs. Empirical research, however, indicates that many SMMEs have problems with these fundamental financial duties, leading to low profitability, poor net cash flow, lack of access to new markets, and, ultimately, business closures.

According to the Small Enterprise Development Agency (SEDA) (2021), the number of SMEs in South Africa declined by 11% in 2020 due to the economic impact of the COVID-19 pandemic; however, the sector showed signs of recovery in 2021, with the International Monetary Fund (IMF) projecting a 6.3% growth in emerging economies, including South Africa. Although SEDA (2022) reported a 5.2% increase in SME activity in 2022, financial volatility and tighter monetary policies continued to pose risks to sustained growth, particularly for businesses operating in economically fragile municipalities such as Fetakgomo Tubatse.

The local economy, primarily driven by the mining sector—especially platinum group metals (PGMs), chrome, and andalusite—has positioned the municipality as one of the fastest-growing in the Sekhukhune District in the Limpopo Province (Fetakgomo Tubatse Local Municipality, 2023). However, its dependence on mining exposes SMEs to global commodity price fluctuations, which affect revenue streams and limit financial stability in the long term. The 2022/2023 Annual Performance Report also highlights critical infrastructure challenges, such as inadequate road networks and limited access to essential services, which further constrain SME operations and overall organisational performance (Fetakgomo Tubatse Local Municipality, 2023).

Moreover, financial management issues, including limited access to credit, poor cash flow management, and inadequate financial literacy, remain key challenges for SMEs, exacerbating their vulnerability to economic downturns and reducing their ability to invest in operational improvements. Furthermore, the municipality's predominantly youthful population, with a large proportion under the age of 15, presents both opportunities for a future labour force and challenges related to skills development and entrepreneurial capacity (Fetakgomo Tubatse Local Municipality, 2023). Therefore, improving financial management practices, enhancing access to funding, and diversifying the economic base beyond mining could strengthen SME sustainability and improve overall organisational performance.

The significance of understanding the impact of implementing financial management strategies on performance is further reinforced by global trends in SMME development. For instance, research by Kembauw, Munawar, Purwanto, Budiasih and Utami (2020) highlights the need to consider financial management strategies that address the unique challenges SMMEs face to ensure quality business control.

Despite global studies on financial management strategies, Kotler and Armstrong (2020:12) found that "there is limited empirical research on how financial management impact SMMEs" performance within Fetakgomo Tubatse. This gap limits a clear understanding of contextual factors affecting SMME success and development to create opportunities for effective interventions.

Theoretical frameworks and models guiding small and medium operators are also lacking, highlighting the need for research that bridges theory and practice, providing actionable insights. One major problem associated with such challenges is relying solely on traditional theories of financial management, such as the Pecking Order Theory (POT) or the Trade- Off Theory (TOT), whose principles and practices are outdated and ineffective (Hendayani, Muzakir, Yuliana, Asir & Wahab, 2022). These theories are considered outdated and ineffective for modern SMEs due to their rigid assumptions about financing preferences and capital structure. POT assumes firms prioritise internal financing over debt and equity, while TOT suggests firms balance debt to optimise tax benefits against financial distress costs. However, SMEs today operate in dynamic financial environments with diverse funding options, including fintech-based lending, crowdfunding, and government grants, which do not align with these traditional frameworks (Hendayani *et al.,* 2022). Additionally, the unpredictable nature of SME cash flows and higher financial risks make the strict financing hierarchies of POT and TOT impractical, as modern businesses require greater flexibility in their capital structure.

Myers and Majluf (1984) indicate that POT, which prioritises internal financing over external sources, may not align with the dynamic needs and challenges faced by modern SMMEs. Similarly, as discussed by researchers like Modigliani and Miller (1958), TOT emphasises the trade-off between debt and equity but may overlook the complexities of managing financial resources in an ever-evolving business environment.

Based on the above-highlighted views, this study aimed to fill the gap by incorporating modern theories of financial management, such as the agency theory and the resource-based view (RBV) (Cruz, Gregory & Haugan, 2019) and their applicability to SMEs in Limpopo. By focusing on these contemporary perspectives, the study provides actionable insights into how SMEs can leverage incentives, align goals, and capitalise on their unique resources to achieve financial success. Practically, the absence of in-depth research on financial management and SME performance creates challenges in implementing effective support mechanisms. SME owners, business support organisations, and financial institutions operate without clear empirical guidance on best practices and strategies, limiting potential capacity-building programmes and policy reforms.

In summary, the theoretical and practical gaps found in the literature reflect an urgent need for comprehensive research addressing SME challenges in Fetakgomo Tubatse. This study aimed to fill these gaps by providing evidence-based insights to inform policy formulation and develop tailored support mechanisms, ultimately promoting SME growth and economic development in the region. Consequently, it can be concluded that although it is recognised that SMMEs drive economic growth globally, SMEs in Fetakgomo Tubatse face challenges impeding their performance, notably in financial management. Despite its pivotal role, research on the impact of financial management on SMEs' performance in this region is limited. Urgent empirical studies are therefore required to understand and address these challenges, bridging theory and practice to offer actionable insights for effective SME development in South Africa and elsewhere.

1.2 PROBLEM STATEMENT

Based on the background of the study, the problem statement for this study emerged from the real challenges faced by SMEs in Fetakgomo Tubatse Municipality in the Limpopo Province of South Africa. These challenges include poor profitability, net cash flow issues, and difficulties accessing new markets. From a historical trend, it has been highlighted that SMEs in South Africa experienced an 11% decline in 2020 due to the COVID-19 pandemic, and although the IMF (2021) projected a 6.3% recovery in 2021, persistent financial management challenges such as limited credit access continue to impede sustainable growth (SEDA, 2021). In the Fetakgomo Tubatse Municipality, where the local economy relies heavily on mining, SMEs are particularly vulnerable to global commodity price fluctuations and financial instability (Fetakgomo Tubatse Local Municipality, 2023). Furthermore, inadequate infrastructure coupled with a predominantly youthful population exacerbates these issues by restricting access to essential services and hindering financial literacy, ultimately undermining organisational performance.

These challenges hinder SMEs from reaching their full potential and contribute to high failure rates, reflecting a critical need for solutions that address the root causes of these problems, which is assumed to be associated with a lack of proper financial management skills.

One significant aspect contributing to these challenges is limited research on the causal relationship between financial management practices and SMEs' performance in Fetakgomo Tubatse Municipality. Another aspect is the identified gap between traditional and modern financial management theories. Traditional theories like POT and TOT may no longer effectively address the dynamic needs and challenges faced by modern SMEs. This gap between theoretical frameworks and practical realities creates ambiguity and inefficiencies in Fetakgomo Tubatse SMEs' financial management practices.

Therefore, there is a pressing need for comprehensive research that addresses the real challenges SMEs face and bridges the gap between traditional and modern financial management theories. By integrating contemporary perspectives such as the agency theory and the RBV, this study has provided actionable insights and practical strategies tailored to the specific needs of SMEs in the region. This research contributes to enhancing financial management practices, improving SME performance, and ultimately promoting sustainable economic development in Fetakgomo Tubatse Municipality and elsewhere.

Hence, the problem statement can be concisely stated as follows: Small and medium enterprises (SMEs) in Fetakgomo Tubatse Municipality, South Africa, face obstacles such as low profitability and restricted market access due to inadequate financial management skills and discrepancy between traditional and modern financial theories. As a result, there is an urgent need for research to develop customised solutions for sustainable economic development.

1.3 AIM OF THE STUDY

The overarching aim of this study was to investigate the impact of financial management on the performance of SMEs in Fetakgomo Tubatse Municipality in the Limpopo Province of South Africa.

This study empirically investigated the challenges associated with SMEs' effectiveness in managing their finances. Assessing current financial management practices and their impact on key performance indicators such as cash flow, profitability, and access to funding enabled the study to identify areas for improvement and propose possible solutions.

1.4 RESEARCH OBJECTIVES

The following secondary objectives were formulated to achieve the aim of the study:

- To assess the current financial management practices of SMEs in Fetakgomo Tubatse Municipality.
- To identify the challenges encountered by SMEs in effective financial management in Fetakgomo Tubatse Municipality.
- To investigate the impact of financial management practices on SME performance in Fetakgomo Tubatse Municipality.
- To propose recommendations and strategies to improve financial management practices among SMEs in Fetakgomo Tubatse Municipality to enhance their resilience, sustainability, and overall contribution to the local economy.

1.5 PRINCIPAL RESEARCH QUESTIONS

The primary question for the study was the following: What is the impact of financial management on the performance of small and medium enterprises (SMEs) in Fetakgomo Tubatse Municipality of Limpopo Province in South Africa?

The following sub-questions were developed to address the study's primary question:

1.5.1 Sub-Questions

- What are the current financial management practices of SMEs in Fetakgomo Tubatse Municipality?
- What challenges are currently encountered by SMEs in effective financial management in Fetakgomo Tubatse Municipality?
- What is the impact of financial management practices on SMEs in Fetakgomo Tubatse Municipality?
- Which recommendations and strategies can be provided to improve financial management practices among SMEs in Fetakgomo Tubatse, aiming to enhance performance?

1.5.2 Null Hypotheses (H_0)

H_{01}: There is no significant relationship between SMEs' profitability and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

H_{02}: There is no significant relationship between SMEs' net cash flow and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

H_{03}: There is no significant relationship between SMEs' access to markets and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

1.5.3 Alternative Hypotheses

H_{01}: There is a significant relationship between SMEs' profitability and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

H_{02}: There is a significant relationship between SMEs' net cash flow and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

H_{03}: There is a significant relationship between SMEs' access to markets and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

1.6 SIGNIFICANCE OF THE STUDY

The suggested research topic is important for several reasons. First and foremost, it tackles the pressing need to comprehend and enhance the financial management techniques SMEs use in the Fetakgomo Tubatse Municipality. This information is essential for improving SME performance, guaranteeing improved cash flow management, and raising profitability.

Second, the study's localised focus allowed for targeted insights into the specific challenges and opportunities SMEs face in this geographical area. Tailoring recommendations to the unique context of Fetakgomo Tubatse Municipality can lead to more effective strategies and interventions. Moreover, the findings of this research can inform policymakers, business owners, and stakeholders about the importance of financial literacy, resource allocation, and strategic planning in SMEs. This knowledge can contribute to developing policies and programmes to support SMEs and drive economic growth locally.

Additionally, the interdisciplinary nature of the study, integrating finance, management, and entrepreneurship perspectives, can foster collaboration and innovation in research and practice. Finally, by promoting the resilience, sustainability, and growth of SMEs, this study can positively impact the overall economic development and prosperity of Fetakgomo Tubatse Municipality and similar regions.

1.7 CHAPTER OUTLINE

Chapter 1: Introduction and Background to the Study

This chapter introduces the study, presents the background and rationale for its undertaking, and outlines its aim, objectives, research questions, and hypothesis.

Chapter 2: Literature Review

This chapter provides a comprehensive review of relevant literature, theories, and empirical studies related to the research topic, identifying gaps and areas for further research.

Chapter 3: Methodology

This chapter provides a detailed explanation of the research design, data collection methods, sampling techniques, and research instrument, with a focus on ensuring validity and reliability using a pilot study.

Chapter 4: Research Analysis, Interpretation, and Discussion

This chapter focuses on the analysis of the collected data using quantitative techniques such as descriptive statistics and regression analysis. This is followed by an interpretation and discussion of research findings, drawing comparisons with existing literature, and exploring implications, limitations, and recommendations for future research.

Chapter 5: Summary, Conclusion, and Recommendations

The final chapter summarises the key findings, provides conclusions, and proposes recommendations tailored for practitioners, policymakers, and future research directions based on the study's outcomes.

1.8 CONCLUSION

This chapter focused on the study's background, research problem, research objectives, and research questions, which were all covered in length. It also emphasised the importance of the research as well as its overall structure. The conceptual and theoretical framework of the study is covered in the next chapter. The discussion of the literature consulted will be influenced by the aims and objectives of the study. The majority of current discussions surrounding the study issue will take precedence.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews the literature on financial management and its impact on SMEs by analysing existing theories, empirical studies, and scholarly debates. A literature review is a critical examination of previous research that provides a foundation for understanding key concepts, identifying trends, and recognising gaps in knowledge. It synthesises findings from various sources to establish a contextual background for the study, ensuring the research is grounded in established academic discourse. The significance of a literature review lies in its ability to provide theoretical insights, highlight gaps in existing knowledge, and justify the need for further investigation.

This study offers an in-depth understanding of how financial management constructs influence SME performance, sustainability, and growth, particularly within the Fetakgomo Tubatse Municipality in the Limpopo Province of South Africa. The discussion begins with exploring key financial management theories and their relevance to SMEs, followed by a review of empirical studies focusing on financial planning, capital structure, and risk management. It then examines the challenges SMEs encounter in managing their finances and highlights the role of financial management in enhancing business sustainability. The chapter concludes with a summary of key findings and a discussion of the gaps in the literature that this study sought to address.

2.2 DEFINITION OF KEY TERMS

2.2.1 Small and Medium Enterprises

Small and medium-sized enterprises (SMEs) are formal and informal commercial entities that constitute a significant portion of the global economy. These companies are categorised based on specific factors, including size, asset value, staff count, and annual turnover (Harney & Nolan, 2022). Typically, While small and medium-sized enterprises (SMEs) account for the vast majority of businesses globally, it is large companies that contribute disproportionately to employment and economic output—employing over 60% of all private sector workers despite representing a smaller share of total enterprises (World Bank, 2021). (World Bank, 2021).

The International Labour Organisation (ILO) (2020) defines micro-enterprises as those with less than 10 workers, small businesses as those with between 10 and 50 workers, and medium-sized businesses as those with between 50 and 200 workers (ILO, 2020). This categorisation is similar to that of the World Bank (2019), which also classifies small and medium-sized businesses as having between 10 and 50 employees and micro-enterprises as having between 10 and 300 employees (World Bank, 2021).

However, according to the rules set out by the European Commission, the European Union (EU) (2021) defines SMEs based on their turnover. Small businesses have sales up to €10 million, medium-sized businesses have sales up to €50 million, and micro-enterprises have sales up to €2 million (European Commission, 2021). Whether based on the number of employees or turnover thresholds, these many classifications showcase the intricate methods used worldwide to define SMEs. The combined insights from publications by the European Commission, the World Bank, and the ILO provide a thorough grasp of SME categorisation standards, enhancing awareness of the varied global environment of small and medium-sized businesses.

SMEs are defined and bolstered in the South African setting by significant regulatory frameworks and regulations. According to Govender *et al.* (2022), the National Small Business Act of 1996 sets the standards for classifying SMMEs. Micro-enterprises employ less than 10 people, small businesses employ between 10 and 50 people, and medium-sized businesses employ between 50 and 250 people. This Act defines financial indicators like yearly turnover and personnel counts to classify SMEs and provides an essential legal basis. Dreyer, Viviers and Mans-Kemp, (2021) also provide insight into South Africa's broad-based Black economic empowerment (B-BBEE) policies, which are designed to strengthen SMEs' responsibilities in facilitating inclusive growth and economic change, especially in historically marginalised communities.

These policies strongly focus on the value of SMEs, particularly those run by people from historically underrepresented groups, and aim to include them in the nation's economy by offering them specialised assistance and expansion prospects. To put it briefly, SMEs in South Africa are a wide variety of businesses that are classed according to the size of their workforce. They are supported by laws and policies that empower them to promote their growth and ability to contribute to the country's economic goals.

Maluleke and Ndou (2022) studied the possibilities and problems encountered by SMEs in the Limpopo Province of South Africa. They underlined how important it is for local governments to help SMEs with programmes like financial access, infrastructure development, and skill development. Additionally, Tshisevhe (2017) talked about laws such as the Limpopo Provincial Growth and Development Strategy (PGDS), which work to improve the business climate for SMEs by enacting legislative changes, presenting incentives for investment, and delivering support tailored to the needs of specific industries. These studies emphasise how important policy frameworks are to the growth and development of SMEs in South Africa and, significantly, the Limpopo Province.

2.2.2 SMEs performance

According to Hasanaj and Kuqi (2019); Nor, Masron 92019); Emeka, Kelvin and Okpala (2023), SMEs' performance can be defined in the context of profitability. Profitability in SMEs refers to their ability to generate earnings and financial gains from their business activities. Metrics such as net profit margin, return on investment (ROI), gross profit margin, and other financial ratios are used to measure profitability. Hasanaj and Kuqi (2019) emphasise that profitability and other financial metrics serve as significant tools for stakeholders to assess an SME's past and present financial performance. Additionally, Nor and Masron (2019) and other authors highlight the importance of financial market integration in influencing firm performance, including profitability.

Emeka, Kelvin, and Okpala (2023) assert that net cash flow is a crucial indicator of financial health, as it reflects the ability to generate and manage cash effectively. Therefore, while profitability is essential, effective cash flow management is equally critical for SMEs' financial performance and sustainability. Integrating strategies for optimising profitability and cash flow management is key for SMEs to achieve long-term success and competitiveness in their respective markets.

The conceptual framework used for this research study centres on the relationship between financial management practices and the performance of SMEs. The independent variable, *financial management*, encompasses components such as financial planning, financial budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting. These components directly influence the dependent variable, *SMEs' performance*, by impacting indicators such as profitability, net cash flow, access to markets, and financial reporting accuracy. Efficient financial management practices such as financial planning, budgeting, and risk management contribute to improved profitability and market access, while effective cash flow and debt management positively influence net cash flow and financial stability in SMEs. The following section discusses a conceptual framework based on the literature review. The study, therefore, sought to find the relationship between financial management and SME performance.

2.3 CONCEPTUAL FRAMEWORK

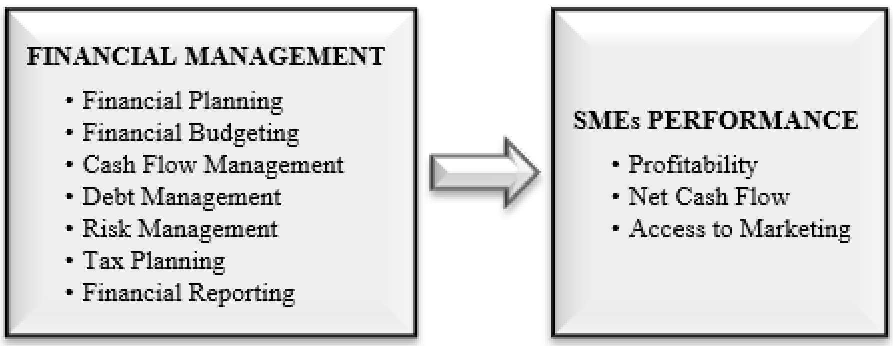
A conceptual framework provides a structured representation of key variables and their interrelationships, guiding an understanding of how financial management influences SME performance. This is in line with the following hypotheses, as mentioned before:

Null Hypotheses (H_0)

H_{01}: There is no significant relationship between SMEs' profitability and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

H_{02}: There is no significant relationship between SMEs' net cash flow and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

H_{03}: There is no significant relationship between SMEs' access to markets and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.



Own Source

Figure 2.1: Diagrammatic illustration of the conceptual framework

As highlighted in Figure 2.1 above, *financial management* was the independent variable, comprising various key financial practices that influence SME operations and sustainability. These practices include cash management, cash flow management, debt management, tax planning, financial reporting, financial planning, financial budgeting, and risk management. These practices are crucial in ensuring SMEs' financial stability and sustainability, directly affecting their overall performance.

The dependent variable, *SME performance*, is represented by several key indicators, including profitability, net cash flow and market access. Thus, financial management practices are the foundation that supports and drives SME performance across multiple indicators.

2.3.1 Definition of Concepts

2.3.1.1 Financial Management

Sukenti (2023) defines financial management as "The process that organises financial activities, covering planning, implementation, control, and financial accountability." Živković (2019) defines financial management as "The comprehensive process of planning, organising, managing, and controlling various resources such as financial, physical, human, and information within an enterprise, aimed at achieving the company's goals effectively and efficiently in a dynamic environment." According to Al-Hashimy, Alabdullah, Ahmed, Asmar, Nor and Jamal (2022), financial management is the capacity of insurance companies to manage working capital, limit credit risk, and put sensible budgeting techniques into place. Along with emphasising cost leadership and differentiation, they also underline the significance of unique financing structures for attaining financial success.

These definitions show some important financial management components essential for the success of a business. Among them are financial planning, debt management, tax planning, financial reporting, financial budgeting, and risk management (Brigham & Houston, 2021; Harrison, 2021; Al-Hashimy *et al.,* 2022).

SMEs are increasingly finding it necessary to contextualise financial management to efficiently plan, control, and manage their financial resources to achieve sustainable development, manage risks, and maintain competitiveness in their particular markets. This includes risk reduction, effective working capital management, differentiation tactics, and careful budgeting, which are all necessary for SMEs to prosper in fast-paced business environments (Sukenti, 2023).

SMEs are classified differently across the world depending on the number of employees or the turnover criterion. Laws like the National Small Business Act and B-BBEE policies help SMEs in South Africa; the Limpopo Province gives special attention to local government initiatives and policies. The success of SMEs depends on sound financial management, which involves planning, budgeting, and risk management (Brigham & Houston, 2021; Harrison, 2021; Al-Hashimy *et al.,* 2022).

Financial management comprises various financial practices, each playing a crucial role in ensuring financial sustainability. This study focused on specific areas of financial management, which are briefly defined below:

- **Cash Management**: Cash management involves efficiently handling cash inflows and outflows to ensure a business maintains adequate liquidity for its operations (Ross, Westerfield & Jaffe, 2021). Effective cash management allows SMEs to meet short-term obligations while optimising the use of available funds.
- **Cash Flow Management**: Cash flow management refers to monitoring, analysing, and optimising the movement of cash in and out of a business to prevent liquidity shortages (Brigham & Ehrhardt, 2022). Proper cash flow management ensures that SMEs can cover operational expenses, reinvest in growth, and mitigate financial risks.
- **Debt Management**: Debt management requires strategically handling borrowed funds to maintain a healthy balance between leverage and financial stability (Gitman *et al.,* 2020). Sound debt management helps SMEs avoid excessive debt burdens while leveraging credit for business expansion.
- **Tax Planning**: Tax planning involves structuring financial activities to minimise tax liabilities while ensuring compliance with legal tax obligations (Murphy & Higgins, 2021). SMEs benefit from tax planning by optimising deductions and credits, which improve financial efficiency.
- **Financial Reporting**: SME financial reporting refers to preparing and presenting financial statements that provide insights into an enterprise's financial position and performance (IFRS Foundation, 2022). Transparent and accurate financial reporting enhances decision-making and stakeholder confidence.
- **Financial Planning**: Financial planning entails setting long-term financial goals and creating a strategy to allocate resources efficiently to achieve them (Peirson *et al.,*

2020). It enables SMEs to align their financial decisions with business growth and sustainability.

- **Financial Budgeting**: Financial budgeting involves estimating revenue and expenses to create a financial roadmap that guides business operations (Drury, 2021). Budgeting helps SMEs control costs, plan investments, and manage financial risks.
- **Risk Management**: Risk management is the process of identifying, analysing, and mitigating financial uncertainties that could impact business stability (Rejda & McNamara, 2022). Effective risk management ensures that SMEs are prepared for financial fluctuations and economic downturns.

These financial management practices collectively contribute to the stability and performance of SMEs, ensuring their long-term viability in competitive markets.

2.3.1.2 SME Performance

SME performance refers to their ability to achieve their strategic objectives and maintain financial and operational success in a competitive business environment (Neely, 2021). SME performance is assessed using a variety of financial and non-financial indicators that provide insights into an enterprise's efficiency, profitability, and sustainability. This study examined SME performance using three key indicators: **profitability**, **net cash flow**, and **market access**, which are all influenced by financial management practices.

a. Profitability

Profitability measures the extent to which an SME generates income that exceeds its operational costs (Gherghina *et al.,* 2020). It is a critical indicator of an SME's financial health, reflecting its ability to sustain operations, reinvest in growth opportunities, and generate stakeholder returns. Financial management practices such as financial planning, budgeting, and cash flow management are essential for ensuring profitability. Effective management ensures that resources are allocated efficiently, costs are controlled, and revenue streams are optimised. The relationship between profitability and financial management practices is crucial, as implementing sound financial strategies contributes directly to an SME's ability to achieve sustainable profit margins and remain competitive in the market.

b. Net Cash Flow

Net cash flow represents the difference between a business's total cash inflows and outflows over a specific period, reflecting its liquidity position (Brigham & Ehrhardt, 2022). Positive net cash flow indicates that an SME can meet its short-term obligations, invest in growth, and avoid financial distress. Negative cash flow, in comparison, signals liquidity issues that could hinder operations and threaten business continuity. Proper cash flow, debt, and risk management are fundamental to maintaining a stable financial position. Within the conceptual framework, the relationship between net cash flow and financial management practices emphasises how effective oversight and planning ensure a positive cash flow, thereby supporting an SME’s operational and financial stability.

c. Market Access

Market access is vital for the growth and sustainability of SMEs, as it enables businesses to reach potential customers, suppliers, and distribution channels to sell goods and services (Kotler & Keller, 2022). SMEs with better market access are able to diversify their revenue sources, expand their customer base, and enhance their competitiveness. However, limited financial resources or poor financial planning may restrict market access opportunities. In the context of this study, financial management practices such as budgeting for marketing, investment in distribution channels, and strategic financial planning are crucial for improving market access. The relationship between market access and financial management practices highlights the importance of financial resources in enabling SMEs to compete effectively and thrive in the marketplace.

d. Link to Conceptual Framework

The relationships between profitability, net cash flow, and access to markets with financial management practices form the basis of the conceptual framework guiding this study. The framework suggests that sound financial management practices, such as budgeting, financial planning, cash flow management, debt management, risk management, and financial reporting, have a direct significant impact on these key indicators of SME performance. Proper financial management allows SMEs to optimise profitability, ensure positive cash flow, and expand their market reach, all of which are critical for their success and sustainability. The conceptual framework, therefore, highlights how financial management is integral to improving SME performance and ensuring their long-term viability in competitive business environments.

2.4 THEORETICAL FRAMEWORK

Several authorities have postulated that every research study should be built on a solid theoretical foundation. After extensively researching theories applicable to the study, it was found that the agency theory, trade credit theory, and resource-based view (RBV) were relevant.

2.4.1 Agency Theory

Agency theory is pertinent to SMEs since it covers the principal-agent relationship and governance procedures (Al-Hashimy *et al.,* 2022). The research highlights the significance of managing working capital, enforcing solid budgetary practices, and regulating credit risk in financial management. SMEs can use agency theory to overcome obstacles, including agency conflicts, problems with risk management, and governance deficiencies. SMEs in Fetakgomo Tubatse Municipality can better align management interests with organisational aims and achieve financial performance and sustainability by using governance tools recommended in the agency theory, such as efficient monitoring systems and incentive structures.

2.4.2 Trade Credit Theory

According to the trade credit theory, firms can use trade credit—which entails giving clients credit—as a strategic financial instrument (Jory *et al.,* 2020). In order to gain a competitive advantage and improve financial performance, the theory suggests that companies strategically monitor their accounts receivable, including debtors' management techniques (Wanyoike, Onyuma, & Kung'u, 2021). Using this theory in this research facilitated a better understanding of how SMEs use trade credit and how well their borrowers' management strategies optimise cash flows, lower financial risks, and increase overall sustainability.

The trade credit theory provides a framework for understanding how SMEs strategically use debtor management to strengthen their financial stability (Pastore, Ricciardi & Tommaso, 2020). By implementing comprehensive debtor management procedures, SMEs may improve cash flow, reduce their need for outside funding, and more wisely use their resources. This theory facilitates evaluating how SMEs use debtor management to reduce the likelihood of bad debts and financial hardship, thus enhancing their long-term viability.

2.4.3 Resource-Based View (RBV)

Research by Hendayani *et al.* (2022) highlights the strategic significance of the resource-based view (RBV) in understanding how SMEs can leverage internal resources for a competitive advantage. The study emphasises the role of valuable, rare, and inimitable resources in driving firm performance. Integrating RBV principles into the study helped to address the challenges related to resource constraints, innovation capabilities, and market positioning for SMEs in the municipality. By identifying and leveraging unique resources and capabilities, SMEs can enhance their competitiveness, achieve superior financial outcomes, and sustain long-term growth in a dynamic business environment.

2.4.4 Integration of Theories into the Study

Integrating agency theory and the RBV into the study provided a comprehensive approach to addressing challenges faced by SMEs in Fetakgomo Tubatse Municipality. Agency theory provides insights into governance mechanisms, risk management practices, and incentive structures that can enhance financial management and mitigate agency conflicts. In comparison, the RBV emphasises strategic resource utilisation, innovation strategies, and competitive positioning, which are crucial for SMEs' performance and growth.

By integrating these theories, the study was able to provide actionable recommendations and strategic interventions tailored to the unique context of SMEs in the municipality by offering a theoretical framework to address governance issues, resource constraints, innovation challenges, and market access barriers, ultimately enhancing SMEs' performance, sustainability, and competitiveness in Limpopo Province, South Africa.

2.5 ASSESSING THE CURRENT FINANCIAL MANAGEMENT PRACTICES OF SMES IN THE CONTEXT OF FETAKGOMO TUBATSE MUNICIPALITY

2.5.1 Inventory Management

Inventory management is a crucial financial practice that directly impacts the performance and sustainability of SMEs, particularly in rural areas like Fetakgomo Tubatse Municipality. Ineffective inventory management can lead to operational inefficiencies, such as stockouts and overstocking, which in turn affect sales, cash flow, and overall profitability (Baker & Drazin, 2021).

a. Impact of Poor Inventory Management

Sharma (2020) highlights that poor inventory management increases holding costs, which include storage, insurance, and potential waste of perishable goods. Capital becomes unnecessarily tied up in unsold goods, preventing businesses from allocating resources to other critical areas, such as marketing or expansion. This ties back to a significant challenge SMEs face in Fetakgomo Tubatse, where the lack of efficient systems and strategies exacerbates these enterprises' financial strain.

b. Challenges in Rural Areas

For SMEs in rural areas like Fetakgomo Tubatse, limited access to technology and financial resources further complicates inventory management (Ngulube, 2019). Without modern tracking tools, many businesses rely on outdated manual systems, which are prone to errors and inefficiencies. The result is that these businesses struggle to predict demand accurately, leading to either excess stock, which leads to higher holding costs, or stockouts, which result in lost sales and customer dissatisfaction.

c. Technological and Resource Barriers

Research by Moyo and Dube (2021) emphasises that SMEs in rural settings often face technological barriers that hinder the implementation of effective inventory control systems. Limited access to enterprise resource planning (ERP) or point-of-sale (POS) systems is a significant issue, and many businesses continue to use basic, paper-based methods to track inventory (Moyo & Dube, 2021). These challenges are often compounded by the financial constraints these businesses face when investing in advanced systems or staff training to use such technologies effectively.

d. Strategies for Improvement

To address these challenges, SMEs in the Fetakgomo Tubatse Municipality must consider both affordable and scalable inventory management solutions. For instance, Baker and Drazin (2021) suggest adopting low-cost digital tools such as cloud-based inventory management software, which can help businesses track stock levels in real-time and forecast demand more accurately. Additionally, SMEs can benefit from basic training on inventory control practices, which could significantly reduce inefficiencies and waste.

In summary, effective inventory management is essential for the survival and growth of SMEs in Fetakgomo Tubatse. While challenges such as limited resources and access to technology remain, adopting simple yet effective strategies can mitigate these issues and improve overall business performance

2.5.2 Capital Budgeting and Investment Decisions

Capital budgeting is a critical financial business practice that involves evaluating and selecting long-term investments to maximise value and growth. However, for many SMEs in South Africa, particularly those located in rural areas like Fetakgomo Tubatse, capital budgeting remains a largely overlooked practice. The lack of knowledge and expertise in assessing investment opportunities can often lead to suboptimal decisions regarding significant expenditures, such as equipment purchases, business expansion, or market entry (, 2021).

a. Challenges in Capital Budgeting for SMEs

Drury (2021) indicates that many SMEs lack the necessary skills and knowledge to assess long-term investments effectively. Without a formalised approach to evaluating potential projects, businesses may engage in poorly planned investments that do not yield the expected returns. This is a significant issue for SMEs in Fetakgomo Tubatse, where limited access to professional financial advice and advisory services further exacerbates the challenge. Consequently, SMEs may miss out on opportunities to expand or improve operations, resulting in a failure to realise their growth potential.

b. Impact of Lack of Expertise and Advice

The lack of professional advice in rural areas like Fetakgomo Tubatse is a significant barrier to sound capital budgeting decisions. According to Peirson *et al.* (2020), SMEs often lack access to external expertise, such as financial consultants or accountants, who could assist in evaluating the return on investment (ROI) of capital expenditures. Without adequate knowledge of ROI calculation methods and the ability to assess risk, these businesses may overestimate the benefits of certain investments or underestimate their costs, leading to financial inefficiencies and missed opportunities for growth.

c. Financial Constraints and Risk Aversion

Financial constraints also play a role in the SMEs' limited capital budgeting practices. Ngulube (2018) indicates that many SMEs in rural areas operate with limited capital and are, therefore, risk-averse when making significant investment decisions. The lack of financial buffers means that many SMEs are hesitant to invest in new technologies or expand operations, fearing the potential for losses or insufficient returns. This risk-averse mindset further contributes to the stagnation of many rural SMEs, preventing them from exploring opportunities that could fuel their growth.

Although challenges such as limited credit access, inadequate infrastructure, and volatile economic conditions have been widely discussed, minimal attention has been given to the lack of implementation of digital financial management tools, such as cloud accounting software and AI-driven financial planning, which could otherwise enhance financial oversight and improve organisational performance. While Accenture (2020) notes that cloud accounting solutions can streamline processes and provide greater financial transparency, and PwC (2021) highlights the potential of AI-driven financial planning for real-time data analytics and predictive decision-making, these tools remain largely underutilised in many SMEs within the Fetakgomo Tubatse Municipality. This failure to integrate digital financial tools represents an additional challenge, as it further exacerbates financial mismanagement and impedes SMEs' capacity to navigate economic instability and sustain growth amidst existing infrastructural limitations.

d. Strategies to Improve Capital Budgeting Decisions

It is crucial to provide accessible, low-cost resources and training on financial management to address the challenges SMEs face in capital budgeting. According to Peirson *et al.* (2020), SMEs can benefit from developing a clear, systematic process for evaluating investments using tools like payback period analysis, net present value (NPV), or internal rate of return (IRR). Training programmes and workshops tailored to SMEs in rural areas can equip business owners with the necessary skills to assess investment opportunities and make informed decisions. Additionally, creating networks for SME owners to access financial experts and advice could significantly improve their capital budgeting practices.

In summary, capital budgeting and investment decisions are vital for the long-term sustainability of SMEs in Fetakgomo Tubatse. However, many businesses in this area struggle due to a lack of expertise, professional advice, and access to financial resources. By investing in training, promoting financial literacy, and providing access to professional financial services, SMEs can significantly improve their capital budgeting practices, leading to more informed investment decisions and better growth opportunities.

2.5.2.1 Credit Management

Effective credit management is essential for maintaining healthy cash flow and minimising the risks of bad debts, both of which are critical for the survival and growth of SMEs. However, many SMEs in South Africa, especially in rural areas such as Fetakgomo Tubatse, face challenges in managing credit effectively. These businesses often struggle to establish clear credit policies when offering goods or services on credit, resulting in late payments or customers defaulting (Fatoki & Smit, 2022).

a. Challenges in Credit Management

Fatoki and Smit (2022) note that many SMEs lack formalised credit management policies, which leaves them vulnerable to delayed payments and bad debts. The absence of well-defined credit terms and conditions means businesses may not communicate their expectations clearly to customers, leading to misunderstandings and payment delays. Moreover, SMEs in Fetakgomo Tubatse often face difficulties implementing effective collection mechanisms, further exacerbating the issue. Gitman *et al.* (2020) emphasise that without proper accounts receivable management, SMEs can face significant financial strain, which may limit their ability to meet operational costs or reinvest in business growth.

b. Payment Collection Mechanisms

In rural areas like Fetakgomo Tubatse, payment collection mechanisms are often weak due to several factors, including limited access to banking infrastructure and a lack of financial literacy among customers. Many SMEs rely on informal or cash-based transactions, which can be challenging to track and enforce. Gitman *et al.* (2020) suggest that inadequate payment collection methods coupled with a lack of follow-up on overdue accounts can severely disrupt a business's cash flow. In such environments, SMEs often struggle to maintain the liquidity required to operate smoothly.

c. Impact of Poor Credit Management Practices

The financial strain caused by poor credit management practices can be particularly damaging to rural SMEs. Ngulube (2018) notes that delayed payments and defaults can lead to a cash flow crisis, preventing businesses from covering essential expenses such as supplier payments, employee wages, and operational costs. This financial strain can sometimes limit SMEs' potential growth or force them to close their doors. Moreover, poor credit management can tarnish a business's reputation, further complicating future credit transactions and partnerships.

d. Strategies to Improve Credit Management

To address the challenges, SMEs in Fetakgomo Tubatse should focus on establishing and enforcing clear, formalised credit policies. According to Gitman *et al.* (2020), SMEs can benefit from setting explicit terms for credit sales, including payment deadlines, interest rates on overdue payments, and penalties for defaults. Additionally, SMEs should implement more robust payment collection procedures, such as issuing regular invoices, setting reminders for overdue payments, and engaging collection agencies when necessary. Training business owners and employees on effective credit management practices can also significantly improve their ability to monitor accounts receivable and minimise the risks associated with bad debts.

In summary, credit management is a vital component of financial health for SMEs in Fetakgomo Tubatse. However, many businesses face significant challenges due to the lack of clear credit policies and weak payment collection mechanisms. By implementing clear credit terms, improving collection practices, and investing in training, SMEs can strengthen their cash flow, reduce bad debts, and improve their overall financial position, contributing to their long-term sustainability and growth.

2.5.2.2 Management of Profit Margins

Maintaining healthy profit margins is vital for SMEs' long-term sustainability and growth. However, many South African SMEs, particularly those in rural areas such as Fetakgomo Tubatse, face challenges in effectively managing their profit margins. These challenges often stem from poor pricing strategies, an insufficient understanding of cost structures, and the pressures of maintaining competitive pricing (Kiyota, 2020).

a. Challenges in Managing Profit Margins

One of the key issues affecting SMEs is the lack of a comprehensive pricing strategy. Gichure *et al.* (2020) argue that many SMEs attempt to attract customers by underpricing their products or services, hoping to secure a larger market share. While this might seem an effective short-term strategy, it leads to significantly lower profit margins. These businesses often fail to account for all the costs associated with production, including fixed and variable costs, which can result in pricing that does not cover overheads, leading to unsustainable profit margins.

b. Impact of Poor Understanding of Cost Structures

In addition to pricing issues, SMEs in Fetakgomo Tubatse often struggle with understanding their cost structures. Many entrepreneurs do not have access to sophisticated accounting systems or financial training to calculate costs effectively and determine appropriate pricing. Kiyota (2020) notes that businesses without a clear understanding of how costs are distributed between different parts of the business (e.g., raw materials, labour, overhead) may fail to set prices that ensure a sufficient profit margin. This lack of financial literacy, combined with the absence of clear pricing strategies, contributes to the erosion of profit margins over time.

c. Higher Operational Costs in Rural Areas

SMEs in rural areas like Fetakgomo Tubatse also face unique challenges that further strain their ability to maintain competitive pricing while ensuring profitability. High operational costs like transportation and logistics can significantly affect SMEs' cost structures. For example, businesses may need to transport goods over long distances due to limited local suppliers, which increases costs and reduces profit margins. This challenge is especially pertinent in rural areas where infrastructure may be underdeveloped and transportation costs are higher than in more urbanised regions. According to Gichure *et al.* (2020), these additional costs make it more difficult for SMEs to remain competitive while also covering their expenses and generating profits.

d. Strategies for Improving Profit Margin Management

To improve the management of profit margins, SMEs can benefit from developing a better understanding of their cost structures and implementing effective pricing strategies. Gichure *et al.* (2020) suggest that SMEs conduct regular cost analyses to determine the true cost of producing and selling their goods or services. Businesses can ensure they account for all costs before setting prices using cost-based pricing, allowing them to maintain healthy profit margins while remaining competitive in the market. Additionally, businesses can explore ways to reduce operational costs, such as optimising logistics or seeking local suppliers to minimise transportation expenses.

In summary, managing profit margins is a critical challenge for SMEs. Factors such as poor pricing strategies, a lack of understanding of cost structures, and high operational costs can erode profit margins and limit business growth. By improving pricing strategies, enhancing financial literacy, and reducing operational costs, SMEs can better manage their profit margins, ensuring long-term sustainability and growth.

2.5.2.3 A summary of Challenges encountered by SMEs in effective financial management in Fetakgomo Tubatse Municipality

a. Limited Access to Financial Resources

One of the most significant challenges SMEs face in South Africa, including those in Fetakgomo Tubatse Municipality, is limited access to financial resources. Many SMEs struggle to obtain credit and loans from formal financial institutions due to stringent lending criteria and a lack of collateral (Fatoki, 2014). This issue is particularly prevalent in rural and semi-urban areas, where access to financial institutions is often limited. High interest rates and complex application procedures further exacerbate the problem, making it difficult for SMEs to access affordable financing, thereby restricting their ability to grow and sustain their operations (Pinnock & Olawale, 2019). Limited access to financing is a key barrier to improving financial stability and performance among South African SMEs.

b. Lack of Financial Literacy and Management Skills

Another significant challenge is the **lack of financial literacy** among SME owners and managers in South Africa. Many entrepreneurs, particularly in rural municipalities like Fetakgomo Tubatse, lack the financial management skills to manage their finances effectively. Nieman and Nieuwenhuizen (2014) argue that poor financial literacy results in inadequate budgeting, cash flow management, and failure to utilise financial statements to inform decision-making. Consequently, this leads to inefficient financial practices, poor financial performance, and an inability to make strategic business decisions (Smit & Watkins, 2020).

SMEs cannot optimise their resources without the necessary financial expertise, significantly impacting their long-term sustainability.

c. Inadequate Financial Systems and Tools

A further challenge for SMEs in South Africa is the **lack of robust financial systems and tools**. SMEs in rural areas, such as Fetakgomo Tubatse, often operate with outdated or manual accounting systems, which are inadequate for modern business management (Olutunji & Ayodele, 2023). According to Gichure *et al.* (2020), reliance on essential financial tools or manual bookkeeping can lead to errors, inefficiencies, and inaccuracies in financial reporting, ultimately hindering business growth. Without adequate financial management software or professional financial services, SMEs may struggle to track and analyse financial data, limiting their ability to make informed decisions that could drive business expansion and financial stability.

d. Tax Compliance Challenges

Tax compliance is another critical financial challenge for SMEs in South Africa. Many SME owners, particularly in Fetakgomo Tubatse, lack the necessary knowledge to navigate the complexities of South Africa's tax system. Murphy and Higgins (2021) note that, despite the availability of support from the South African Revenue Service (SARS), many SMEs struggle to comply with tax requirements, leading to late payments, penalties, and potential legal issues. This lack of effective tax planning can cause significant cash flow problems for SMEs, affecting their financial stability and growth (Sharma & Kumar, 2020). Efficient tax management is vital for SMEs' long-term success, and failure to comply with tax regulations can undermine their business performance.

e. External Economic and Market Pressures

External economic factors and market pressures also pose significant challenges for SMEs in South Africa. SMEs in Fetakgomo Tubatse face numerous difficulties due to fluctuating economic conditions, inflation, and competition from larger firms. According to Kiyota (2020), SMEs are particularly vulnerable to changes in market demand, and this volatility can affect their revenue generation. Ngugi *et al.* (2021) highlight that smaller firms often struggle to access new markets and may face challenges maintaining a competitive advantage, particularly when larger, more established companies dominate the market. These external pressures, combined with internal financial management challenges, make it difficult for SMEs to maintain financial stability and long-term growth. Being able to adapt to internal and external challenges is crucial for SMEs' survival and success.

2.5.3 Integrating Context, Theory, and Empirical Evidence on Financial Management Practices of SMEs in Rural Municipalities

The preceding sections (2.5.1–2.5.2.3) have examined key financial management practices, namely inventory management, capital budgeting, credit management, and profit margin control, and their implications for SME sustainability. While these discussions establish a foundational understanding of financial practices affecting SMEs, a deeper contextual and theoretical integration is required to strengthen their relevance to Black-owned SMEs operating in rural municipalities such as Fetakgomo Tubatse. This section, therefore, extends the existing review by situating the previously discussed practices within recent South African empirical evidence, relevant theoretical perspectives, and the specific socioeconomic realities confronting rural enterprises.

2.5.3.1 South African Empirical Evidence on Financial Management Practices and SME Performance

Recent South African studies provide growing empirical support for the argument that financial management practices are central to SME performance outcomes. Fatoki (2020), in a study focusing on Black-owned SMEs across rural provinces, including Limpopo, found that enterprises with structured approaches to inventory control, credit management, and cost monitoring reported higher profitability and improved cash-flow stability. These findings reinforce the earlier discussion on inventory and credit management by demonstrating their measurable impact on business performance rather than treating them as isolated administrative activities.

Similarly, Makhitha (2021), examining rural retail SMEs in South Africa, established that weak capital budgeting and informal financial planning were significant predictors of poor business growth and early failure. This evidence directly strengthens Section 2.5.2 by confirming that the absence of systematic investment appraisal methods limits SMEs' capacity to expand and modernise operations, particularly in resource-constrained rural environments. Importantly, these studies emphasise that the challenges identified in Fetakgomo Tubatse are not anecdotal but reflect broader empirical patterns observed among Black-owned rural SMEs nationally.

Urban and Sefalafala (2022) further demonstrate that SMEs that integrate multiple financial management practices rather than applying them in isolation achieve superior sales growth and operational resilience. This supports the need to view inventory management, credit control, capital budgeting, and profit margin management as an interconnected financial system, reinforcing the coherence of the financial practices already reviewed in this chapter.

2.5.3.2 Theoretical Framing of Financial Management Practices within Rural SME Contexts

The resource-based view (RBV) provides a useful explanatory framework to strengthen the theoretical grounding of the reviewed financial practices. The RBV posits that the effective utilisation of internal resources and capabilities largely drives firm performance. Recent South African scholarship argues that financial management capability constitutes a strategic internal resource for SMEs, particularly where external support mechanisms are limited (Urban & Sefalafala, 2022; Madzimure & Chivasa, 2023).

Within this framework, the financial practices discussed in Sections 2.5.1–2.5.2.3 can be conceptualised as organisational capabilities that enable SMEs to allocate scarce resources efficiently, manage operational risk, and sustain performance under adverse conditions. The RBV highlights why internally embedded financial discipline is critical to the survival and growth of SMEs in Fetakgomo Tubatse, where infrastructural and market constraints persist. This theoretical lens, therefore, strengthens the analytical logic connecting financial management practices to the SME performance outcomes already outlined in the chapter.

2.5.3.3 Contextual Realities of Black-Owned SMEs in Fetakgomo Tubatse Municipality

While the financial management challenges previously discussed are common among SMEs, rural municipalities such as Fetakgomo Tubatse present distinct contextual conditions that intensify these challenges. Neneh and van Zyl (2021) note that Black-owned SMEs in rural Limpopo often operate in highly localised markets characterised by fluctuating demand, limited digital infrastructure, and dependence on cash-based transactions. These conditions directly affect the implementation of inventory tracking, credit enforcement, and cash-flow management practices discussed earlier.

Leboea (2020) further observes that rural SMEs face elevated operating costs related to transportation, logistics, and access to suppliers, which places additional pressure on profit margin management. This contextual evidence deepens the earlier discussion on profit margins by illustrating why cost control and pricing strategies are particularly challenging, but also particularly important, in rural trading environments. Consequently, the financial management challenges experienced by SMEs in Fetakgomo Tubatse must be understood as contextually embedded rather than purely managerial deficiencies.

2.5.3.4 Linking Financial Management Practices to Measurable SME Performance Outcomes

An important extension of the earlier sections involves clarifying how financial management practices translate into measurable performance outcomes. South African empirical studies commonly operationalise SME performance using indicators such as profitability, sales growth, liquidity, business survival, and employment creation (Fatoki, 2020; Urban & Sefalafala, 2022). The financial practices reviewed in this chapter influence these outcomes through identifiable mechanisms.

Effective inventory management reduces stock-holding costs and stock losses, thereby improving profitability and cash flow. Sound capital budgeting supports informed investment decisions that enhance long-term growth and asset utilisation. Credit management practices stabilise cash inflows and working capital, enabling SMEs to meet operational obligations consistently. Profit margin management ensures that pricing structures adequately reflect cost realities, protecting enterprises from gradual financial decline. In the context of the Fetakgomo Tubatse Municipality, these linkages help explain performance differences among SMEs operating under similar external constraints.

2.5.3.5 Identified Gaps in Existing Literature and Implications for the Current Study

Despite increasing attention to SME financial management in South Africa, notable gaps remain. Many studies adopt national or provincial perspectives, with limited focus on municipality-level rural contexts such as Fetakgomo Tubatse. Moreover, empirical research seldom integrates multiple financial management practices within a single analytical framework, particularly for Black-owned SMEs (Neneh & van Zyl, 2021). These gaps justify the current study's focus and underscore its contribution to extending context-specific knowledge on financial management practices and SME performance.

2.6 THE IMPACT OF FINANCIAL MANAGEMENT PRACTICES ON SME PERFORMANCE IN FETAKGOMO TUBATSE MUNICIPALITY

2.6.1 Cash Management

What distinguishes SMEs' performance is their capacity to set and implement suitable goals and strategies (Dwikat, Arshad, Mohd & Shariff, 2023). The way in which financial literacy and business resources are correlated directly affects SMEs' performance. Strategic resources, which are internal resources, are used to provide an organisation with a competitive edge and to seize chances that arise outside of it. Financial resources can be used to purchase these resources, which are available in both tangible and intangible forms. Financial and material resources are viewed as tangible resources, as opposed to business expertise, which is viewed as an intangible resource.

Financial resources have a significant influence on how well SMEs succeed. SMEs cannot compete in the market for the newest technology since they lack the financial means. Financial resource management and allocation also influence business success (Dwikat, Arshad & Mohd Shariff, 2023). The availability of financial resources affects the growth and performance of SMEs and directly affects how effectively they use their strategic resources. A firm needs competitive human resources to grow and prosper. There are two types of human capital: experience and knowledge. When SMEs have human capital that incorporates financial understanding, they have the ability to grow and perform better (Cant, Aguiaga & Scheel, 2021).

2.6.2 Debt Management

While a small number of scholars have studied SME in-service, manufacturing, finance, and agriculture, most have concentrated their examination on bigger businesses. For example, Mathuva (2019) examined how the corporate profitability of companies listed on the Nairobi Securities Exchange is affected by working capital management. Gakure, Cheluget, Onyango and Keraro (2019) examined the connection between the success of 15 manufacturing companies listed on the Nairobi Securities Exchange and working capital management for a five-year period (2006 to 2010). Cant, Aguiñaga and Scheel (2021) analysed the connections between corporate performance and working capital management for 20 manufacturing companies listed on the Nairobi Securities Exchange over a five-year period (2007 to 2011).

However, these studies have provided little proof of the connection between SMEs' success and cash management techniques. In this regard, the present study aimed to evaluate the effects of cash management strategies on performance for a panel of 300 bookkeepers and accountants working for SMEs in the Eldoret Central Business District between 2013 and 2014.

Nyabwanga, Ojera, Lumumba, Odondo, and Otieno (2019) evaluated the impact of working capital management strategies on the financial performance of SMEs in Kisii South District. Their sample comprised 113 SMEs, consisting of 41 manufacturing and 72 trade businesses. They used multiple regression analysis and Pearson's correlation coefficients in their study. Nyabwanga, Ojera, Lumumba, Odondo, and Otieno (2019) conclude that, on average, SMEs have poor financial performance and poor working capital management practices since most have not implemented formal working capital management procedures. Their study also showed a favourable relationship between SMEs' financial performance and the effectiveness of their cash management, receivables management and inventory management. However, they did not consider big and medium-sized businesses or companies in other industries.

Gul, Khan and Rehman (2019) researched the impact of working capital management (WCM) on the performance of SMEs in Pakistan. Their study was conducted during a seven-year period (2006 to 2012). They gathered data from SMEs, the Karachi Stock Exchange, tax agencies, for their study. Return on assets (ROA) was the study's dependent variable and a stand-in for profitability. The number of days' inventory (INV), days' accounts payable (APP), days' cash conversion cycle (CCC), and days' account receivable (ACP) were the independent variables. They found that whereas ACP, INV, CCC, and DR had a negative relationship with profitability, APP, growth, and size had a positive link with profitability. They did not, however, conduct a study on sizable businesses in the research field (Cant, Aguiñaga, & Scheel, 2021).

As seen from the above, various researchers have studied working capital management, but the results do not indicate how cash management techniques and business success are related. Subsequent analysis indicates that, in the case of SME merchants operating in Kenya's unorganised industries, there is less empirical information about the relationship between cash management techniques and the firm's success.

2.6.3 Cash Flow Management

2.6.3.1 Cash Flow Management

Effective cash flow management is a critical financial management component for SMEs, as it ensures business sustainability, liquidity, and long-term growth. However, many SMEs face persistent challenges in maintaining optimal cash flow, largely due to inadequate financial literacy, poor financial planning, and ineffective cash flow monitoring mechanisms. Without proper cash flow management techniques to cater to unforeseen financial constraints, SMEs often struggle with financial instability, leading to business failures (Ramli & Yekini, 2022).

A fundamental issue among SMEs is the misunderstanding between profit and cash flow. Many SMEs prioritise maximising profit while neglecting the importance of maintaining adequate cash reserves to support daily operations. A company that declares a favourable cash flow balance may make significant purchases without accounting for outstanding postdated checks or pending financial obligations. This mismanagement results in liquidity crises, leading to difficulties in meeting operational expenses and financial commitments (Wadesango, Tinarwo, Sitcha & Machingambi, 2019).

Poor financial budgeting and the absence of separate business bank accounts further exacerbate cash flow issues. Many SMEs fail to systematically monitor their cash inflows and outflows, making it difficult to predict financial shortages. Additionally, a strong emphasis on increasing sales while reducing inventory can create liquidity constraints, especially when sales growth is accompanied by rising debt levels, and delayed payments from debtors further compound financial challenges, increasing the risk of bad debts and negatively impacting cash flow, profit margins, and overall liquidity (Nkwinika & Mashau, 2020).

One of the primary risks associated with poor cash flow management is the inability to collect debts efficiently. Late customer payments can increase operational expenses and force SMEs to rely on expensive short-term financing options, thereby escalating their financial risk exposure. Unrecoverable inventory and fluctuating costs further exacerbate these challenges, leading to revenue write-offs and financial constraints (Fred & Mugarura, 2021).

From a financial risk management perspective, SMEs must assess their financial risks in relation to their risk management capabilities. Since most SMEs operate with capital from owners or managers, securing external financing remains a significant challenge. High financial risks associated with debt repayment concerns may result in increased operating costs and accumulated corporate debt. Access to finance has been identified as a key factor in improving the business environment, enabling SMEs to pursue profitable opportunities and enhance their competitiveness (Farida & Setiawan, 2022). However, the impact of financial management practices varies based on the age of the business, with more established SMEs demonstrating stronger financial resilience than newly founded enterprises.

Innovation also plays a crucial role in cash flow management, contributing to increased productivity and long-term competitiveness. SMEs that integrate innovative financial management strategies, such as digital accounting systems and automated invoicing, tend to experience improved customer satisfaction, stronger supplier relationships, and enhanced financial sustainability. The backing of corporate clients and suppliers is particularly vital in restrictive business environments where access to credit is limited (Cant, Aguiñaga & Scheel, 2021).

Despite the importance of effective cash flow management, many SMEs still face structural weaknesses that contribute to business failures. Key challenges include inadequate financial monitoring, excessive credit extension to customers, lack of strategic financial planning, insufficient working capital, and competitive market pressures. Moreover, SME failure rates are influenced by management experience and ownership structures. Research suggests that as managers gain experience, the likelihood of business failure decreases. However, SMEs operating in highly competitive industries, particularly those with larger management boards, face an increased probability of financial distress (Cant, Aguiñaga & Scheel, 2021).

Additional perspectives on the impact of financial management on SME performance have been incorporated to enhance the depth of discussion. Research highlights that financial literacy is crucial in determining SMEs' ability to implement effective cash flow management strategies. SMEs with higher financial literacy levels tend to make more informed financial decisions, reducing the risks associated with liquidity crises and business insolvency. Additionally, government policies and financial support mechanisms, such as SME development funds and credit guarantee schemes, have alleviated some of the financial constraints small businesses face. Exploring these factors provides a more comprehensive understanding of how financial management influences SME performance in Fetakgomo Tubatse Municipality.

Furthermore, the integration of digital financial tools, such as cloud-based accounting software, mobile banking, and e-invoicing, can significantly improve cash flow management efficiency. Digitalisation in financial management enhances transparency, reduces errors, and facilitates real-time tracking of cash movements, which is particularly beneficial for SMEs with limited financial expertise. Future research should examine the role of financial technology (FinTech) solutions in optimising SME financial performance and mitigating common financial risks.

By addressing these aspects, this study has addressed existing knowledge gaps and offers practical insights into how SMEs in the Fetakgomo Tubatse Municipality can enhance their financial management practices to achieve sustainable growth and resilience in an increasingly competitive market environment.

2.6.4 Debt Management

Businesses use a wide range of tactics and procedures known as debtors' management methods to efficiently monitor and manage their accounts receivable (Mang'ana, Hokororo & Ndyetabula, 2023). These procedures are essential to ensuring that delinquent debts are collected quickly and effectively, eventually benefiting the organisation's finances and long-term viability. According to Monnet (2023), one essential component of debtor management is creating a precise and well-defined credit strategy. This policy describes the terms and circumstances that apply to granting credit to consumers, which include the requirements for credit approval, credit limits, payment periods, and interest rates, if any.

Businesses thoroughly evaluate potential consumers' credit before issuing loans. A thorough examination of their financial accounts, payment records, and credit reports is required to determine a customer's creditworthiness. Moreover, ongoing credit monitoring of current clients assists in spotting any indications of monetary difficulties or modifications to their risk profiles, enabling companies to modify lending conditions as necessary (Milana & Ashta, 2021).

According to Adjei-Boateng (2023), accurate and timely invoicing is essential to debtor management success. Customers should get precise, comprehensive, and timely invoices to be entirely aware of their financial responsibilities. It is imperative to strictly enforce payment conditions and swiftly take action against past-due accounts by sending reminders, statements, or collection efforts. It is critical to communicate with clients about their outstanding bills in an effective manner. Opening honest and direct communication channels can frequently result in more successful debt collection.

Regularly monitoring accounts receivable ageing reports helps you keep tabs on the state of unpaid bills and prioritise collection efforts according to the debt's age. Companies may also create payment plans, negotiate settlements, use collection agencies, or take legal action if required as part of their collections strategy. Potential cash flow issues can be anticipated and planned for by including debtor management data in cash flow forecasting (Raimo *et al.,* 2021).

Furthermore, Haque (2023) notes that educating and training staff members engaged in debtor management guarantees that they are knowledgeable about pertinent rules and legislation and possess strong communication and bargaining abilities. Technology, such as customer relationship management (CRM) platforms and accounting software, helps to track client contacts, expedite debtor management procedures, and produce reports for in-depth analysis. Frequent examination of debtor management data helps to minimise bad debt and maximise cash flow by spotting patterns and assessing the success of credit strategies (Hawkins & Hoon, 2019).

According to Parker and Sheedy-Reinhard (2022), companies can increase their financial stability, lower their risk of bad debts, preserve good customer relations, and ensure the effective collection of outstanding receivables by assiduously implementing these debtors' management practices.

A crucial component of SME financial management is dealing with debtors or clients who owe the business money (Mang'ana, Hokororo, & Ndyetabula, 2023). Within SMEs, debtor management, also referred to as accounts receivable management, is a complex process that includes tracking, managing, and collecting unpaid invoices from customers (Aransiola, 2021). One cannot emphasise the importance of good debtor management techniques as they directly impact a company's cash flow, liquidity, and overall financial health (Tang, 2020). Debtors' management techniques consist of complex elements such as creating credit policies, evaluating credit, establishing credit conditions, and creating collection tactics (Zhao, 2022).

According to Odinet (2023), SMEs often face a crucial dilemma: balancing the necessity of providing credit to draw in and keep consumers with the danger of bad loans that might burden their financial resources. The dynamic and unpredictable environment in which SMEs operate highlights the vital role of resilience in ensuring their survival. SMEs with greater resilience are better able to handle the challenges posed by unanticipated interruptions, market volatility, and economic downturns. They are nimble enough to grab expansion possibilities in addition to having the ability to withstand financial shocks (Sharma *et al.,* 2023).

The relationship between the resilience of SMEs and the management practices of debtors has attracted much interest in academic research and real-world business applications. The existing literature reveals several important topics:

a. Cash Flow and Liquidity

By lowering the average collection duration, improving working capital management, and lowering the risk of bad debts, effective debtors' management techniques may improve an SME's cash flow and liquidity (Braimah *et al.,* 2021). A strong cash position gives SMEs the fortitude to overcome obstacles and seize expansion opportunities.

b. Financial Stability

By reducing the possibility of cash flow problems, insolvency, or bankruptcy, debtors' management techniques are essential in supporting SMEs' financial stability (Rahman & Mahali, 2023).

One of the main pillars of resilience in SMEs is financial stability. SMEs with effective debtor management practices may gain a competitive advantage by offering clients more flexible credit terms, which might give them an advantage over competitors in their particular marketplaces (Richards, 2020). The capacity of these enterprises to draw in and hold on to clients during recessions strengthens their general resilience.

c. Risk Mitigation

Adjudicious debtor management helps to reduce risk by efficiently averting the possibility of late or non-payment. Effective collection tactics and thorough credit evaluations are used to accomplish this (Chioma *et al.,* 2021). These risk-reduction strategies help SMEs become more resilient by reducing the financial impact of defaults.

2.6.5 Tax Planning

Due to their vital role in driving economic growth and job creation in South Africa, SMEs have long been acknowledged as a key sector for growth and development. Over time, South Africa has consistently expanded its tax base to include small enterprises and has passed several laws to provide these companies with favourable tax treatment (SARS, 2023).

Small business corporations (SBCs) have paid tax at the preferential graduated income tax rate (instead of the fixed corporate tax rate of 27%) as of September 30, 2023, out of the approximately 1.06 million companies assessed for the 2021 tax year, according to the South African 2023 Tax Statistics Report, an annual report released jointly by the National Treasury and the South African Revenue Service (SARS) and published in December 2023. Via specialised SARS newsletters, SARS also keeps SMEs updated on pertinent information related to their tax compliance issues (SARS, 2023).

Even with the incentives, SMEs continue to face substantial obstacles due to the regulatory load and the expense of tax compliance as they frequently lack the personnel resources and expertise needed to understand the intricate tax laws and fulfil all of their tax responsibilities on time and in full. For SMEs, this means that the cost of tax compliance can significantly increase the cost of doing business (for example, hiring more staff to comply with tax laws, paying hefty fines for breaking the law, and incurring administrative penalties for filing incomplete tax returns, among other expenses) (SARS, 2023).

The government must continue to lower the tax compliance burden for SMEs, offer tax incentives that support the SME sector (like the turnover tax regime), simplify the tax laws that affect SMEs, and support these businesses in using the Voluntary Disclosure Programme to manage their tax affairs with SARS when applicable, given the significance of this sector to the South African economy. Incentives and legislative adjustments are essential to secure the shift from the informal to the formal sectors, as many small firms operate in the informal sector (SARS, 2023).

2.6.6 SMEs Financial Reporting

a. Benefits of Accounting and Bookkeeping Recordkeeping in SMEs

According to Abdul-Rahamon and Adejare (2014) and Amoako *et al.* (2014), bookkeeping procedures are fundamental to company operations because they provide the framework for effective planning and administration of such activities. According to Maseko and Manyani (2011), the foundation of corporate operations and decision-making is the creation of financial reports and record keeping. Managers and business owners can ascertain their profitability through bookkeeping (Owusu *et al.,* 2015).

According to Abdul-Rahamom and Adejare (2014), the main goals of accounting are to increase production and efficiency, manage creation and growth, lower operational expenses, and comply with regulations. Most SMEs in Ghana are required to maintain accurate books of accounts to access credit facilities from banks, microfinance institutions, or venture capital funds (Okwena *et al.,* 2011; Musah & Gakpetor, 2017). All businesses registered under Act 179 of the Companies Code, 1963, must generate periodic financial statements and distribute them to shareholders and holders of debentures.

Although practically all SMEs are legally required to be registered as corporations, most do not comply with this requirement due to Ghana's lax law enforcement. According to Mutua (2015), accurate bookkeeping aids SMEs in cost and spending management and activity control.

The study contends that because it is costly to set up and maintain a comprehensive accounting information system for a start-up organisation, most SME owners struggle to determine what accounting records are necessary to support their operations. The idea that financial institutions and credit providers need financial statements as a foundation for assessing SMEs for credit facilities is also supported by Mutua (2015). In addition to the aforementioned, Sanga *et al.* (2014) claim that maintaining business records is a key factor in a company's success and that having a thorough record-keeping or bookkeeping system helps company owners create timely and accurate financial reports that outline the operations and future prospects of their enterprise.

Eric and Gabriel (2012) assert that bookkeeping, as a tool for financial control, allows managers to know the financial circumstances of their companies and implement specific control measures to enhance corporate performance. It offers a multitude of data utilised by regulators, leaders, managers, suppliers, and investors. A manager can utilise this information to enhance performance by highlighting the company's strengths and weaknesses by examining its statements. In order to optimise a company's worth, management needs to capitalise on its advantages and address its shortcomings, and the financial statements are analysed to do this.

Financial statement analysis, which is gained via bookkeeping, entails assessing patterns in the company's financial condition over time and contrasting the performance of the business with that of other businesses in the same industry. These studies assist managers in identifying shortcomings so they may address them and improve the situation. Financial statement analysis is helpful to managers in two ways: First, it may assist in predicting future circumstances, and second, and perhaps more importantly, it can serve as a foundation for action planning to enhance the firm's performance going forward.

2.6.7 Financial Reporting

Numerous studies have been conducted in various jurisdictions, including a few in Ghana in recent years, to ascertain the effect of accounting procedures on SMEs' performance. The majority of these studies highlight how important it is for SMEs to maintain accurate records to improve their performance and growth. Performance was described by Sibanda and Manda (2016) as an SME's capacity to achieve the necessary benchmarks, boost sales, market share, and profitability, cut expenses, expand the firm's size or total assets, and others. In their study, Owusu *et al.* (2015) investigated how accounting procedures affected the performance of SMEs in Ghana's Kwaebibrem District. They discovered that good bookkeeping procedures improved SMEs' performance.

However, their study was unable to determine the correlation between SMEs' bookkeeping practices and performance by using a more sophisticated research technique. Abdul-Rahamon and Adejare (2014) looked at how bookkeeping procedures affected the productivity of SMEs in Nigeria. Their study, which included qualitative and quantitative methodologies, found a favourable correlation between bookkeeping processes and SMEs' financial success.

Mutua (2015) investigated how bookkeeping procedures affected the expansion of SMEs in Chuka Town, Kenya. According to their survey, most SMEs did not maintain accurate books of accounts, and bookkeeping procedures are linked to business expansion. Sibanda and Manda (2016) investigated the accounting procedures leading to the demise of South African SMEs. Based on a sample of 40 SMEs, their study found that most SMEs do not maintain accurate books of accounts, which has a detrimental impact on their performance and growth. Good bookkeeping procedures also assist businesses in monitoring their spending, assessing the effects of their choices, and implementing remedial measures. Baringo County, Kenya, Chelimo and Sopia (2014) investigated the impact of bookkeeping procedures on the expansion of SMEs in Kabarnet Town. Their study, which used a sample of 72 respondents, found a favourable correlation between bookkeeping procedures and the expansion of SMEs.

2.6.8 Financial Planning

The effect of financial planning on the success of SMEs has been the subject of lengthy discussions among scholars worldwide. On the one hand, academics like Brigham and Houston (2021) contend that careful financial planning is essential to SMEs' success since it helps them deploy resources wisely and accomplish their strategic goals. They emphasise that projecting future financial requirements, establishing financial objectives, and formulating plans of action to reach those objectives are all part of strategic financial planning. Harrison (2021) provides more evidence for this viewpoint, highlighting the favourable relationship between improved financial performance indicators like profitability and liquidity and thorough financial planning.

On the other hand, researchers like Emeka, Kelvin, and Okpala, (2023) have opposing views and contend that although financial planning is important, it may not necessarily result in increased performance if it is not combined with other managerial techniques. They contend that SMEs' total performance may be impacted by crucial operational factors that financial planning alone may miss, such as effective marketing plans, human resource management, and manufacturing efficiency. This discussion emphasises the complexity of financial planning's impact on the success of SMEs and the demand for an all-encompassing strategy that considers various organisational issues.

2.6.9 Financial Budgeting

Financial planning affects the success of SMEs and involves striking a balance between budget flexibility and control. Strict budgetary management is supported by researchers such as Nkwinika and Akinola (2023), who emphasise that SMEs can monitor spending, spot deviations, and make timely modifications to reach their financial objectives with the aid of a well-defined budget. They contend that budgeting improves financial performance by fostering responsibility and discipline inside businesses.

On the contrary, Hendayani *et al.* (2022) argue for a more flexible approach to financial budgeting, particularly in dynamic business environments. They contend that rigid budgetary constraints may hinder SMEs' ability to respond to market changes and capitalise on emerging opportunities. Instead, they propose adaptive budgeting strategies that allow for adjustments based on changing circumstances, thereby enhancing SMEs' agility and resilience. This debate highlights the ongoing discussion within the literature regarding the optimal balance between budgetary control and flexibility in driving SMEs' performance.

2.6.10 Risk Management

Risk management's impact on SMEs' performance underscores its critical role in navigating uncertainties and safeguarding organisational assets. Researchers such as Živković (2019) and Al-Hashimy *et al.* (2022) emphasise the importance of robust risk management practices in mitigating potential threats and capitalising on opportunities. They argue that proactive risk assessment, mitigation strategies, and contingency planning contribute significantly to SMEs' long-term sustainability and competitiveness.

However, there are differing perspectives from scholars like Hasanaj and Kuqi (2019), who caution against risk management approaches that may stifle innovation and growth. They advocate for a balanced risk management framework that considers both risk mitigation and risk-taking strategies, allowing SMEs to capitalise on strategic opportunities while managing potential downsides. This debate highlights the complex nature of risk management in SMEs and the ongoing quest for optimal risk management strategies that align with organisational goals and risk tolerance levels.

However, a notable gap emerges in the literature regarding specific strategies and interventions that address the unique challenges faced by SMEs operating within Fetakgomo Tubatse Municipality. While both studies provide valuable insights into the importance of financial management practices, there is a need for localised research and tailored recommendations that address SMEs' distinct characteristics and dynamics in the region. Bridging this gap requires understanding the local business environment, regulatory frameworks, and access to financial resources, as well as integrating best practices that resonate with the challenges and opportunities specific to SMEs in Fetakgomo Tubatse Municipality.

The challenges of SMEs in the South African context have been accompanied by factors that hinder their business performance. As highlighted previously, studies by Sukenti (2023), Živković (2019), and Al-Hashimy *et al.* (2022) emphasise the critical role of financial management practices on SMEs' performance, including aspects like financial planning, budgeting, cash flow management, and risk mitigation. Research by Mafundu and Mafini (2019) sheds light on specific internal constraints affecting SMEs, including occupational health and safety, human resources, leadership style, workplace communication, and resource allocation.

The above findings align with the discussions on financial management practices from the literature, as effective financial planning and management can directly impact SMEs' resource allocation, leadership style, and even human resource management. However, while the literature extensively discusses financial management's importance, there is a gap regarding precisely how these financial management practices can be tailored to address the specific internal constraints Black-owned SMEs face in the South African construction industry.

Theoretical implications arise from the need to bridge this gap by exploring how financial management strategies can be integrated with other managerial practices to alleviate the identified constraints. For instance, strategies such as formulating Occupational Health and Safety (OHS) programmes, improving human resource planning, recruiting qualified managers, enhancing workplace communication, and implementing strategic resource allocation can complement financial management efforts and enhance overall business performance. This study contributes to filling this gap by providing insights into practical interventions that can be implemented to mitigate internal constraints and improve business performance in Black-owned SMEs within the South African construction sector.

2.7 CRITIQUE AND GAP IDENTIFICATION IN THE EXISTING LITERATURE

While the existing literature provides valuable insights into the importance of SMEs' financial management, there is a notable gap in empirical research specific to Fetakgomo Tubatse Municipality in Limpopo Province. Many studies focus on general principles and international perspectives, overlooking the nuances and dynamics of SMEs operating within a South African context. This critique calls for localised research that considers the unique challenges and opportunities SMEs face in the municipality.

2.8 CONSENSUS AND KEY FINDINGS IN FINANCIAL MANAGEMENT RESEARCH

Despite varying perspectives and methodologies, researchers have a consensus regarding the critical role of financial management practices such as financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting in shaping SMEs' performance. These practices directly impact key performance indicators such as profitability, net cash flow, market access, and financial reporting accuracy.

2.9 OPENING THE LITERATURE FOR FURTHER EXPLORATION AND CONTRIBUTION

The literature review set the stage for this research to contribute new knowledge and insights into the impact of financial management on SMEs' performance. The study provides actionable recommendations for policymakers, business owners, and stakeholders to enhance financial management practices and drive SMEs' success by addressing the identified gaps and building upon the existing literature.

2.10 CONCLUSION

This chapter reviewed the literature on financial management and its impact on SMEs by analysing existing theories, empirical studies, and scholarly debates. The examination provided a foundation for understanding key concepts, identifying trends, and recognising gaps in knowledge. The synthesis of findings from various sources established a contextual background for the study, ensuring the research was grounded in established academic discourse.

The significance of this literature review was its ability to provide theoretical insights, highlight gaps in existing knowledge, and justify the need for further investigation. This study offered an in-depth understanding of how financial management constructs influence SME performance, sustainability, and growth, particularly within the Fetakgomo Tubatse Municipality in the Limpopo Province of South Africa. The discussion began by exploring key financial management theories and their relevance to SMEs, followed by a review of empirical studies focusing on financial planning, capital structure, and risk management. It then examined the challenges SMEs have encountered in managing their finances and highlighted the role of financial management in enhancing business sustainability. The chapter concluded with a summary of key findings and a discussion of the gaps in the literature that this study sought to address.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

A quantitative research methodology best suited this study as it investigated the impact of financial management on small and medium enterprises (SMEs) in Fetakgomo Tubatse Municipality. Quantitative research enabled the systematic investigation of financial management practices and their direct impact on SMEs' performance, using numerical data and statistical analysis to establish relationships between variables. As defined by Creswell (2020), quantitative research is a structured approach that uses statistical tools to understand phenomena and measure the strength and nature of relationships between variables.

This study aimed to assess how various financial management practices influence the performance and sustainability of SMEs in the Fetakgomo Tubatse Municipality. These practices encompass financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting. A quantitative approach was used to collect data from SMEs to identify patterns, test relationships, and draw generalizable conclusions about the financial practices affecting their performance.

The research was structured to achieve the following specific objectives:

- To assess the current financial management practices of SMEs in Fetakgomo Tubatse Municipality.
- To identify the challenges SMEs face in implementing effective financial management in the region.
- To investigate the impact of financial management practices on the overall performance of SMEs in Fetakgomo Tubatse Municipality.
- To propose recommendations and strategies to improve financial management practices among SMEs, with a focus on enhancing their resilience, sustainability, and contribution to the local economy.

In line with these objectives, the study tested the following hypotheses, which focus on the relationship between SMEs' financial management practices and key aspects of business performance:

H_{01}: There is no significant relationship between SMEs' profitability and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

H_{02}: There is no significant relationship between SMEs' net cash flow and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

H_{03}: There is no significant relationship between SMEs' access to markets and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

By applying a quantitative approach, this study has provided valuable insights into SMEs' current financial management practices in the Fetakgomo Tubatse Municipality, identifying both the challenges and opportunities for improving financial efficiency. The results offer practical recommendations to enhance SMEs' sustainability and performance, ultimately contributing to the region's economic development.

The following sections of this chapter will outline the research design, data collection methods, sampling techniques, and data analysis procedures used to test the hypotheses and achieve the research objectives. These methodologies aligned with the overall research framework to ensure the reliability and validity of the findings.

3.2 RESEARCH DESIGN

The research employed a quantitative survey design, which, according to Saunders, Lewis & Thornhill (2020) , is defined as "a systematic approach to collecting and analysing numerical data from a sample population." This method involves using structured questionnaires or surveys to gather quantitative data that can be statistically analysed to address specific research questions or test hypotheses. The key characteristics of a quantitative survey research design, as outlined by Saunders *et al.* (2019) and Creswell (2020), involve collecting data from a population or sample at a single point in time to examine characteristics, attitudes, or behaviours. This study applied quantitative data analysis techniques such as descriptive and inferential statistics to summarise and present the collected data on financial management practices and SMMEs' performance indicators at a single point in time. Hence, the design was based on a cross-sectional time frame. Based on the stated hypothesis for this study, Pearson's correlation and multiple regression analysis were performed to confirm or reject the null hypothesis statements as part of the inferential statistics.

Additionally, using a quantitative survey design enhanced the reliability and validity of the study by ensuring that the data was collected in a structured and standardised manner. According to Bryman (2021), quantitative research minimises researcher bias and allows for objective comparisons across different SMEs, making it suitable for assessing financial management practices in various business contexts. By utilising a cross-sectional approach, the study captures a snapshot of the financial management strategies employed by SMEs in South Africa, including those in Fetakgomo Tubatse Municipality, providing insights into prevailing trends and challenges. This methodological approach ensures that the findings can be generalised to a broader SME population, contributing to evidence-based recommendations for improving financial management effectiveness.

According to Saunders *et al.* (2018), while the quantitative survey design effectively provides structured and reliable data, it also has some limitations. One notable limitation is the potential for response bias, where respondents may not provide accurate or truthful answers, potentially leading to skewed data. In order to minimise this bias, the participants were assured of their anonymity and confidentiality, promoting honest responses from them. Additionally, the study's cross-sectional nature, which collects data at a single point in time, may not account for changes over time or longitudinal effects. In order to address this limitation, the research focused on selecting a diverse and representative sample of SMEs in Fetakgomo Tubatse Municipality, ensuring that the findings apply to the broader SME population and can support generalizable conclusions.

3.3 RESEARCH PHILOSOPHY

The study aligned with the positivist research philosophy to establish empirical relationships between financial management practices and SMME performance metrics. According to Creswell (2020), positivism emphasises using quantitative data, hypothesis testing, and statistical analysis to draw conclusions and make predictions. As highlighted before, this philosophy suited the study, considering that hypothesis testing is to be done to establish the impact of financial management on Black-owned SMMEs' performance.

Positivism was deemed appropriate for this study as it allows for objective measurement and analysis, ensuring that conclusions are based on observable and quantifiable evidence (Saunders, Lewis & Thornhill, 2019). This philosophical approach assumes that financial management practices and SME performance can be studied independently of subjective interpretations, thereby enhancing the reliability of the research findings. By adopting this stance, the study was able to focus on measurable financial indicators such as cash flow management, debt levels, and profitability, using statistical methods to identify patterns and relationships that inform best practices for improving SMEs' performance.

3.4 RESEARCH APPROACH

This study used the deductive research approach aligned with the quantitative research methodology. A quantitative research approach, as defined by Saunders *et al.* (2019) in the context of a deductive approach, involves systematically testing hypotheses derived from existing theories or established knowledge using numerical data and statistical analysis methods. One good reason why this approach suits the study is that it allows for precise measurement and quantification of variables, facilitating objective analysis and statistical inference to determine relationships, establish patterns within the data, and make predictions. In this case, the researcher was particularly interested in predicting how financial management influences SMEs' performance.

The deductive approach also ensured that the study followed a structured process, beginning with a theoretical foundation and progressing towards empirical validation (Creswell & Creswell, 2022). This method enabled the researcher to develop hypotheses based on existing literature on financial management and SME performance and then systematically test them using statistical techniques. Additionally, the deductive approach enhanced the generalisability of the findings, as it allowed for applying established theories to different SME contexts, including those in South Africa, specifically in Fetakgomo Tubatse Municipality.

3.5 THE TARGET POPULATION

This study focused on Black-owned enterprises in the Limpopo Province that operate in the construction sector. As per the municipality database, there are 702 SMEs, of which 384 are Black-owned. Therefore, the target population for this study included all 384 Black-owned SME owners listed in the municipality's database.

The selection of Black-owned SMEs in the construction sector is justified by the sector's significant contribution to local economic development and employment creation in South Africa (Fatoki, 2021). However, these businesses often face financial management challenges that hinder their growth and sustainability (Mazanai & Fatoki, 2020). By focusing on this target population, the study aimed to provide insights into the specific financial management practices within this sector and how they impact business performance. Additionally, examining this group allowed for a more precise understanding of Black-owned SMEs' financial constraints and opportunities in the Fetakgomo Tubatse Municipality.

3.6 SAMPLING

As defined by Creswell (2020), sampling refers to selecting a subset of individuals or units from a larger population to conduct research and draw conclusions about the population based on the sample data collected. The study determined the sample size using simple random sampling to ensure representation across various sectors and business sizes within the municipality, allowing for generalising the findings to the entire SME Black-owner population. The sampling technique for this study involved targeting a population of 384 SME owners listed in the municipality's database. The primary goal was to determine a sample size that ensured representation across various sectors and business sizes within the municipality, allowing for generalising the findings to the entire SME owner population. Based on a target population size of 384 SMEs, a confidence level of 95%, and a margin of error of 5%, the planned sample size was 105 Black-owned SMEs.

A simple random sampling technique was used to select a representative sample. Simple random sampling is an important method in survey research that allows for the random yet systematic selection of participants from the target population. Each SME owner in the target population had an equal chance of being selected to be part of the sample, reducing bias and, at the same time, increasing the generalisation of the findings (Bryman & Bell, 2020; Creswell, 2020).

Simple random sampling is advantageous because it ensures that every unit in the population has an equal probability of selection, thereby minimising selection bias. Additionally, this sampling method is relatively easy to implement and understand, making it suitable for studies with manageable population sizes, like the 384 SME owners in this study (Bryman & Bell, 2020; Creswell, 2020).

Regarding participant selection criteria, inclusion criteria may involve active SME owners within the municipality's database, while exclusion criteria may encompass SME owners who are unreachable or have ceased operations. These criteria are essential for ensuring the sample's relevance and reliability in addressing the study's research questions.

Non-responses were addressed with a combination of strategies to minimise their impact on the study's findings. First, follow-up reminders were sent to participants who did not respond initially, either by email or phone, to encourage participation and reduce non-responses. In the case of continued non-responses, the study employed techniques such as adjusting the sample size or statistical methods like weighting to ensure that the final sample would be representative. This helped mitigate any potential biases arising from non-responses and maintain the reliability of the study's results (Saunders *et al.,* 2018).

3.7 DATA COLLECTION

Since this study used the quantitative research approach, a questionnaire was used as a data collection instrument. A questionnaire is a structured instrument consisting of written questions designed to elicit specific information from respondents (Bryman & Bell, 2020; Saunders *et al.,* 2019; Creswell, 2020). The questionnaire included structured questions aligned with a 5-point Likert scale. This scale allows participants to indicate their level of agreement or disagreement with statements pertaining to financial management practices, SME performance indicators, and other pertinent factors, offering a structured framework for nuanced responses ranging from "Strongly Agree" to "Strongly Disagree."

A pilot test, which is well elaborated in Section 3.9 of this study, was conducted with a selected group of 10 SME Black owners or managers to ensure the questionnaire's reliability, effectiveness, and clarity. The researcher physically distributed and collected the questionnaires from the respondents to increase the response rate. The data collected was accurately captured and organised using Excel spreadsheets throughout the study.

Data collection was scheduled to commence in June and span a three-month duration, allowing for capturing temporal variations in SME performance and ensuring a comprehensive dataset for effective analysis. The collected data and the physical questionnaires were securely stored in a locked filing cabinet in the researcher's office. Access to this data was restricted to authorised personnel, including the researcher and supervisor, to uphold data integrity and confidentiality. Regular backups of the Excel spreadsheets were maintained to safeguard against data loss and ensure data accessibility for analysis purposes.

3.8 DATA ANALYSIS

Quantitative data analysis techniques were used to examine the relationships between financial management practices and SMMEs' performance indicators, including descriptive statistics, correlation analysis, and regression analysis. SPSS version 23.0 was employed to process and analyse the collected data due to its efficiency in handling large datasets and performing complex statistical computations (Pallant, 2020). Descriptive statistics were utilised to summarise the surveyed SMEs' demographic and financial management characteristics, providing insights into central tendencies such as means, medians, and standard deviations (Saunders *et al.,* 2019). This allowed for a comprehensive understanding of the data distribution and highlighting key response patterns. Additionally, graphical representations such as histograms and pie charts have been used to illustrate trends and variations in financial management practices among SMEs.

Inferential statistical techniques, specifically correlation and multiple regression analysis, were applied to test the research hypotheses and establish the strength and direction of relationships between financial management practices and SME performance indicators (Creswell, 2020). Pearson's correlation analysis was used to assess the degree of association between variables, while multiple regression analysis determined the extent to which financial management practices influence business performance (Hair *et al.,* 2021). These analyses enabled the study to provide empirical evidence on the financial management factors that significantly impact SME sustainability and growth in the Fetakgomo Tubatse Municipality.

An explanation of how each analysis was applied to each research objective follows:

3.8.1 Alignment of Statistical Analysis Procedures with Research Objectives

This section builds on the overview of quantitative data analysis techniques outlined above by providing a more detailed explanation of how specific statistical tests were systematically aligned with the study's objectives. This additional clarification enhances methodological transparency and ensures that the analytical procedures can be replicated in similar studies examining financial management practices and SMME performance.

3.8.2 Data Preparation and Screening Procedures

Prior to conducting descriptive and inferential statistical analyses, the collected data were screened and prepared using SPSS Version 23.0. According to Pallant (2020), data screening is a critical step to ensure the accuracy and validity of statistical results. The dataset was examined for missing values, data entry errors, and outliers. Where minor missing values occurred, they were assessed to determine whether they were random and did not compromise the integrity of the dataset.

The data were further tested for normality to determine the suitability of parametric statistical tests, such as Pearson's correlation and multiple regression analysis. Measures of skewness and kurtosis, along with visual inspection of histograms, were used to assess data distribution. These procedures ensured that the assumptions underlying the selected statistical techniques were sufficiently met, thereby strengthening the reliability of the inferential findings (Hair et al., 2021).

3.8.3 Justification for the Use of Descriptive Statistics

Descriptive statistical analysis was employed primarily to address Objectives 1 and 2 of the study. As noted by Saunders et al. (2019), descriptive statistics are appropriate when the purpose of analysis is to summarise, organise, and describe the characteristics of a dataset without making inferential claims beyond the sample.

For Objective 1, measures of central tendency and dispersion were used to profile prevailing financial management practices among SMMEs in Fetakgomo Tubatse Municipality. This approach provided a structured overview of how practices such as budgeting, inventory control, and cash flow management are commonly applied within the study context. For Objective 2, frequency distributions and percentage analyses were utilised to identify dominant financial management challenges faced by SMMEs. This analytical strategy enabled the study to highlight recurring problem areas that may constrain enterprise performance.

3.8.4 Correlation Analysis and Objective Alignment

Pearson's correlation analysis was conducted as an initial inferential technique to examine the direction and strength of relationships between financial management practices and SMME performance indicators. According to Hair et al. (2021), correlation analysis is particularly useful for identifying whether variables are related prior to conducting predictive analyses.

In this study, correlation analysis supported Objective 3 by establishing preliminary associations between key independent variables (such as financial planning, budgeting, and credit management) and dependent variables (including profitability, cash flow adequacy, and market access). This step ensured that the subsequent regression analysis was theoretically and statistically justified, thereby reducing the risk of spurious relationships and enhancing analytical coherence.

3.8.5 Application of Multiple Regression Analysis to Test Objective 3

Multiple regression analysis was employed as the primary analytical technique to address Objective 3: to investigate the impact of financial management practices on SMME performance. Regression analysis is appropriate where the aim is to examine the predictive influence of multiple independent variables on a single dependent variable (Pallant, 2020).

In this study, financial management practices were entered as independent variables, while performance indicators were treated as dependent variables. The regression model enabled the researcher to determine the relative contribution of each financial management practice to SMME performance while controlling for the other variables. Standardised beta coefficients, significance levels (p-values), and the coefficient of determination (R^2) were used to interpret the model's strength, direction, and explanatory power. This approach directly supports the study's objective of identifying which financial practices significantly influence performance outcomes within the Fetakgomo Tubatse context.

3.8.6 Interpretation of Findings for Objective 4

Objective 4 focused on proposing recommendations and strategies to enhance financial management practices among SMMEs. While no additional statistical test was required for this objective, the analysis was informed by an integrated interpretation of descriptive and inferential findings. According to Creswell (2020), meaningful recommendations in quantitative studies should logically follow from the empirical results rather than being speculative.

Descriptive statistics highlighted areas of weak financial practice, while regression results identified practices with the strongest influence on performance. These combined insights provided an empirical foundation for developing context-specific recommendations aimed at improving the resilience, sustainability, and economic contribution of SMMEs in Fetakgomo Tubatse Municipality.

3.8.7 Ensuring Transparency and Replicability of the Data Analysis Process

All statistical procedures followed established quantitative research guidelines as outlined by Saunders et al. (2019) and Pallant (2020) to ensure transparency and replicability. The use of SPSS Version 23.0, clearly defined variables, and standard statistical thresholds enhances the study's methodological clarity. Detailed documentation of analytical steps ensures that future researchers can replicate the study in similar rural municipal contexts, thereby strengthening the research's credibility and scholarly contribution.

3.9 UNIT OF ANALYSIS

The unit of analysis for this study specifically focused on Black-owned SMEs. This approach ensured that the study's findings and conclusions directly related to the characteristics, behaviours, and outcomes of SMEs within the target population. By defining SMEs as the unit of analysis, the study could delve into the unique challenges, opportunities, and dynamics relevant to this specific business sector.

3.10 RELIABILITY AND VALIDITY

In the context of the study on financial management practices, reliability refers to the consistency and stability of measurements obtained from the questionnaire. Bryman and Bell (2020) and Creswell (2020) emphasise the importance of assessing reliability to ensure that the questionnaire items produce consistent results when administered repeatedly under similar conditions. This study utilised Cronbach's alpha as a measure of internal consistency to evaluate reliability. A higher Cronbach's alpha value indicates greater internal consistency among the questionnaire items related to financial management practices. For instance, if questions related to budgeting consistently yield similar responses from participants across multiple administrations, it suggests high internal consistency and reliability in measuring budgeting practices.

Validity is crucial for ensuring that a questionnaire accurately measures the intended constructs. According to Bryman and Bell (2020) and Saunders *et al.* (2019), different types of validity must be considered: Content validity ensures that the questionnaire items comprehensively cover all relevant aspects of financial management practices, such as budgeting, investment decisions, financial reporting, and risk management. Construct validity assesses whether the questionnaire items effectively measure the underlying theoretical constructs, such as strategic financial decision-making, efficiency in resource allocation, and financial risk assessment. Criterion-related validity involves validating the questionnaire against external criteria or established measures, such as financial performance metrics or expert evaluations of financial management practices.

Content validity was ensured in this study by carefully designing the questionnaire items to cover a wide range of financial management practices. Construct validity was assessed by examining whether the questions accurately captured the theoretical constructs of financial management practices. Additionally, criterion-related validity was evaluated by comparing the questionnaire results with external criteria to ensure that the questionnaire effectively measures financial management practices and aligns with established standards and measures in the field. Overall, by considering reliability and various aspects of validity, this study sought to develop robust and accurate questions that could effectively measure different dimensions of financial management practices.

3.10.1 Construct Validity

Analysing construct validity determines whether a measuring instrument adequately portrays the item being measured. It is essential for proving a procedure's overall legitimacy. Financial management constructs encompass subconstructs such as financial planning, financial budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting (Bialowolski, Cwynar & Cwynar, 2021).

3.10.2 Content validity

The content validity of a test determines how well it can capture every facet of a concept. A test, survey, or measuring technique's content must include all important aspects of the subject it is intended to assess to yield trustworthy findings. If some measurement components are absent, the study's validity is at risk, and the research may be biased by omitting variables or including extraneous aspects (Bialowolski, Cwynar & Cwynar, 2021). All aims and research questions were considered when creating the questionnaire to guarantee content validity.

3.10.3 Face validity

Face validity evaluates how acceptable a test's material appears at first glance. Face validity is a less rigorous and more subjective analysis than content validity. For this study, the researcher matched the results to earlier peer-reviewed research to confirm face validity (Bialowolski, Cwynar & Cwynar, 2021). The literature review was conducted based on peer-reviewed studies to improve face validity.

3.10.4 Criterion validity

Criterion validity evaluates how well a test forecasts a specific result or how closely the test's findings agree with another test's. The study adopted a questionnaire item from a tested measurement scale by Bialowolski, Cwynar and Cwynar (2021) to confirm criterion validity.

3.10.5 Trustworthiness

According to Saunders (2020), the test-test method can be employed to assess the consistency of questionnaire (test) questions over two separate periods. Regardless of the tool used, the outcomes should be the same. Most people agree and assume that accuracy rises with stability level (Creswell, 2020).

The researcher employed a verified measurement scale to guarantee this study's trustworthiness. In their book *Criterion-Referred Test Development*, Shrock and Coscarelli (2020) suggest that the usual rule is four to six questions (items) per target construct, with more for essential objectives. The researcher complied with this guideline as stated on the questionnaire to enhance trustworthiness. Moreover, the researcher gave the participants practice in a pilot test to acquaint them with the questionnaire and asked them if anything was unclear, ensuring they were comfortable using the research instrument before filling it out.

In order to allow for modifications, the researcher employed human raters for the pilot test. In order to create well-crafted and plainly stated questions that are more likely to differentiate effectively and ultimately result in successful research, defined protocols were followed in their establishment. Regular element reviews proved to be the most straightforward method for categorising the underperforming components.

3.10.6 Instrument Validation and Reliability Procedures

This section builds on the discussion of reliability, validity, and trustworthiness presented in Sections 3.10 through 3.10.5 by providing a more detailed account of the specific procedures undertaken to validate the research instrument and to ensure the reliability of the measurement scales used in this study. This methodological elaboration is necessary to demonstrate how the theoretical principles of measurement quality were operationalised in practice, thereby strengthening the rigour and credibility of the study's empirical findings.

3.10.6.1 Questionnaire Development and Alignment with Study Constructs

The questionnaire used in this study was developed directly from the constructs identified in the literature review, particularly those relating to financial management practices among SMEs, including inventory management, capital budgeting, credit management, and profit margin management. Each construct was operationalised into measurable items informed by recent empirical studies on SME financial management (Fatoki, 2020; Urban & Sefalafala, 2022). This alignment ensured conceptual consistency between the theoretical framework, research objectives, and data collection instrument.

Each section of the questionnaire was carefully structured to reflect a single latent construct, with multiple items used to capture different dimensions of that construct, thereby avoiding construct contamination and construct underrepresentation. This approach is consistent with recommendations by Saunders, Lewis and Thornhill (2019), who argue that multi-item scales enhance measurement accuracy and reduce random error in survey-based research.

3.10.6.2 Pilot Testing and Instrument Refinement

A pilot study was conducted prior to full-scale data collection to test the clarity, relevance, and reliability of the questionnaire items. According to Creswell (2020), pilot testing is a critical step in identifying ambiguous wording, inappropriate question sequencing, and potential respondent misinterpretation. In this study, the pilot test involved a small group of SME owners operating in contexts similar to that of Fetakgomo Tubatse Municipality.

Feedback obtained during the pilot phase informed minor refinements to item wording, question sequencing, and response options. This iterative process improved the instrument's face and content validity by ensuring that questions were understandable, contextually appropriate, and aligned with the lived realities of SME operators. The pilot study also served as an initial reliability check, enabling the researcher to identify items that exhibited weak correlations with their intended constructs.

3.10.6.3 Reliability Analysis and Internal Consistency Measurement

Reliability was statistically assessed using Cronbach's alpha coefficient for each construct measured in the questionnaire. Cronbach's alpha is widely accepted in social science research as a measure of internal consistency, indicating the extent to which items within a scale measure the same underlying concept (Bryman & Bell, 2020). An alpha coefficient of 0.70 or higher was considered acceptable for this study, as recommended by Saunders et al. (2019).

Each financial management construct (inventory management, capital budgeting, credit management, and profit margin management) was tested separately to ensure construct-specific reliability rather than relying on an overall scale score, thereby enhancing methodological transparency and allowing for more precise interpretation of the findings. Constructs that met or exceeded the recommended threshold were retained for analysis, confirming that the instrument produced stable and consistent measurements across respondents.

3.10.6.4 Construct Validity Assessment Procedures

While Section 3.10.1 introduced the concept of construct validity, this study operationalised construct validity through scale development grounded in established literature and empirical precedent. Items were adapted from previously validated instruments used in SME financial management research (Bialowolski, Cwynar & Cwynar, 2021), ensuring theoretical coherence and empirical grounding.

Construct validity was further supported through inter-item correlation analysis, which examined whether items intended to measure the same construct were sufficiently correlated without exhibiting redundancy. According to Hair et al. (2020), moderate positive correlations among items indicate that they collectively represent a coherent construct while still capturing distinct aspects of the phenomenon. This analytical step increased confidence that the questionnaire accurately captured the latent financial management constructs under investigation.

3.10.6.5 Content and Criterion Validity Operationalisation

Content validity was reinforced through a systematic review of the study objectives, research questions, and literature-derived constructs prior to finalising the questionnaire. Each questionnaire item was explicitly mapped to a research objective to ensure comprehensive coverage of the financial management practices domain. This mapping process minimised the risk of omitting key dimensions relevant to SME financial performance, as cautioned by Saunders et al. (2019).

Criterion-related validity was addressed by anchoring selected questionnaire items to established measurement scales reported in recent empirical studies. Where direct financial performance indicators were used, such as profitability trends or cash-flow adequacy, items were designed to reflect commonly used performance proxies in SME research (Fatoki, 2020; Urban & Sefalafala, 2022). This alignment ensured that the instrument's outcomes could be meaningfully interpreted in relation to existing empirical evidence.

3.10.6.6 Enhancing Trustworthiness Through Methodological Rigour

In addition to statistical reliability and validity measures, several procedural strategies were employed to enhance the overall trustworthiness of the research instrument. Clear instructions were provided to respondents to reduce response bias, and anonymity was assured to encourage honest reporting. The consistent administration of the questionnaire further contributed to measurement stability, aligning with Creswell's (2020) emphasis on procedural consistency in quantitative research.

The use of a pilot test, established measurement scales, and systematic reliability analysis collectively ensured that the instrument met acceptable standards of methodological rigour. These measures strengthen the credibility of the data collected and support the dependability of the study's findings within the context of SME financial management research.

3.11 DATA ANALYSIS

This chapter presented a detailed analysis of the collected data using descriptive statistics, correlation analysis, and regression analysis to examine the relationships between financial management practices and SME performance in Fetakgomo Tubatse Municipality in the Limpopo Province of South Africa. The analysis follows a structured approach, beginning with an overview of respondent demographics, followed by a statistical examination of financial management practices, and concluding with an inferential analysis to test hypotheses and assess the predictive power of key financial variables.

a. Demographic Analysis

The first section of the analysis examined the demographic characteristics of the respondents, including position of responsibility, economic sector, gender, age, experience, and qualifications. This demographic profile provides critical insights into how financial management practices vary across different SME groups. Understanding factors such as education level and years of experience helps assess the extent to which financial literacy and decision-making competence influence SME financial strategies. Pie charts and bar graphs are utilised to visually illustrate the distribution of these demographic variables, making trends easier to interpret.

b. Descriptive Statistics

Following the demographic analysis, descriptive statistics were used to summarise key characteristics of the dataset. This includes means, standard deviations, and frequency distributions to examine financial management practices such as cash flow management, budgeting, access to credit, and financial planning among SMEs in the municipality (Saunders *et al.,* 2019). Bar charts and histograms help highlight trends in financial management approaches, offering insights into SMEs' common financial challenges.

c. Correlation and Regression Analysis

Correlation analysis was conducted to test the study's hypotheses and assess the strength and direction of relationships between financial management variables and SME performance indicators. Pearson's correlation coefficient was used to determine whether key financial management practices such as budgeting accuracy, credit access, and working capital efficiency are significantly associated with SME growth and sustainability (Hair *et al.,* 2021). The statistical significance (p-values) and correlation strength (r-values) were evaluated to establish the relevance of these relationships.

Multiple linear regression analysis followed, examining the predictive power of financial management practices on SME performance. The regression model determined which financial variables have the most significant impact on profitability, business expansion, and financial sustainability. Regression coefficients (β-values) and R^2 values were analysed to explain the extent to which financial management strategies contribute to business success within the study area.

d. Interpretation and Implications

Beyond statistical analysis, the findings were critically interpreted in relation to existing literature, identifying patterns, consistencies, and contradictions with previous research on SME financial management. Comparative discussions were drawn to contextualise the results within broader theoretical and empirical frameworks. Additionally, the implications of the findings have been discussed for SME owners, policymakers, and financial institutions, highlighting strategies to improve financial management practices and enhance business sustainability.

3.12 PILOT STUDY

A pilot study is a small-scale preliminary investigation conducted to test a research instrument's feasibility, reliability, and validity before proceeding with the main study (Creswell, 2019). In this study, the pilot phase was essential in refining the questionnaire by identifying ambiguities, assessing the effectiveness of the Likert scale, evaluating the feasibility of the data collection process, and ensuring that the study methodology was appropriately structured. The insights gained from this phase contributed to developing a more robust research instrument suitable for collecting reliable data on the impact of financial management on the performance of SMEs in the Fetakgomo Tubatse Municipality.

a. Pilot Study Process

The pilot study involved the participation of a purposively selected sample of senior managers from SMEs operating in the study area. These individuals were chosen based on their extensive experience and familiarity with financial management practices within their respective enterprises. The questionnaire was administered to these participants to evaluate its clarity, relevance, and comprehensibility. During this phase, participants were encouraged to provide feedback regarding any ambiguities, redundant items, or difficulties in understanding specific questions. This qualitative feedback was systematically recorded and analysed to identify areas requiring improvement.

Following the data collection process, the responses were compiled in an Excel spreadsheet and subsequently imported into SPSS version 23 for preliminary statistical analysis. A normality test was conducted to determine whether parametric or non-parametric statistical methods would be most appropriate for the main study. Additionally, Cronbach's alpha was used to assess the internal consistency of the questionnaire items, ensuring that they reliably measured financial management practices and SME performance. A reliability coefficient threshold of 0.70 was considered acceptable per established social science research guidelines.

b. Impact of the Pilot Study on the Final Questionnaire

The pilot study provided critical insights that informed several refinements to the research instrument. First, ambiguous and unclear questions were reworded to enhance clarity and prevent respondents from misinterpreting them. Second, redundant questions that did not add significant value to the research objectives were removed to streamline the questionnaire and reduce respondent fatigue. Third, modifications were made to some of the Likert scale response options to improve the precision and meaningfulness of responses. These refinements ensured that participants could provide more accurate and relevant data for analysis.

Moreover, logistical challenges encountered during the pilot study, such as the mode of questionnaire administration and participant engagement, were addressed to enhance the efficiency of the data collection process in the main study. The revised questionnaire, incorporating the insights gained from the pilot study, was thus more structured, reliable, and suitable for effectively capturing the necessary data to analyse the relationship between financial management practices and SME performance.

3.13 LIMITATIONS OF THE STUDY

While this study makes valuable contributions, it is important to acknowledge several limitations that could influence the interpretation of the findings. Recognising these limitations not only improves transparency but also helps guide future research by suggesting ways to overcome them. The discussion below elaborates on each limitation and its implications.

3.13.1 Time Constraints

The study was conducted under a strict two-year academic timeline required for completion of the MBA degree. This time limitation constrained the research process, including design, data collection, and analysis. As a result, the study employed a cross-sectional research design rather than a more robust longitudinal approach, which would have allowed for observing changes over time.

This limitation affects the interpretation of the results, as it restricts the ability to establish causal relationships between variables. Cross-sectional data only provide a snapshot in time, making it difficult to assess trends or the stability of findings. To address this in future research, scholars may consider longitudinal studies that follow participants over a longer period to better understand causal dynamics and temporal changes.

3.13.2 Measurement Scales

The measurement instruments used in this study were adapted from validated scales originally developed in Asian contexts. While these tools are theoretically sound and have been widely used internationally, their cultural and contextual relevance in a Southern African setting may be limited. Concepts may carry different meanings or levels of importance in different cultural and organisational environments.

As a result, the interpretation of responses could be influenced by participants' different understandings of certain terms or constructs, possibly compromising the validity and reliability of the findings. In future research, it would be advisable to adapt and validate instruments specifically for the local context through pilot testing and exploratory factor analysis. This will ensure that constructs are culturally appropriate and accurately capture the intended variables.

3.13.3 Reliance on Self-Reported Data

The study relied exclusively on self-reported questionnaires for data collection. While this method is efficient and allows for collecting large volumes of data, it is prone to various forms of bias. Participants may have responded in ways they perceived as socially acceptable or favourable, particularly on sensitive or performance-related questions.

This reliance on self-reporting introduces the risk of distorted or inflated responses, which may affect the accuracy and objectivity of the results. Consequently, findings should be interpreted with caution, especially when generalising about attitudes or behaviours. To mitigate this in future research, it is recommended to incorporate multiple data sources—such as interviews, observations, or organisational records—to triangulate findings and validate the accuracy of self-reported information.

3.13.4 Limited Generalizability

The study was conducted within a specific institutional and geographic setting, focusing on a defined sample that may not represent the diversity of other institutions or regions. This limitation is common in case studies or studies targeting particular populations.

As a result, the findings may not be generalisable beyond the immediate research context. The insights gained may reflect local conditions, institutional cultures, or regional dynamics that differ significantly from other settings. Future research should consider broader, more diverse samples that span different organisational types, locations, and demographic groups to improve external validity and applicability of the results to wider contexts.

3.13.5 Geographic Scope

It is inappropriate to extrapolate the study's conclusions to other geographic locations, such as other countries or continents, because it was restricted to the Limpopo Province of South Africa. These limitations applied to this study's analysis and were considered when interpreting the findings.

3.14 ELIMINATION OF BIAS

3.14.1 Asking the Wrong Question

Another common mistake that may be made while conducting research is asking biased, unclear, irrelevant, or leading questions. Inappropriate questions have the potential to confuse or annoy responders, in addition to producing inaccurate or dishonest responses. The study followed several best practices for crafting consumer research questions to prevent making this mistake, including avoiding hypothetical or double-barrelled questions and using plain language free of jargon and assumptions.

3.14.2 Surveying the Wrong People

It might seem obvious to choose a response group, but doing so frequently results in selection bias. Choosing an employee category that suited the survey objectives was essential for the study. The study would have risked having distorted data results if individuals were mistakenly excluded or included. This bias typically occurs when there is no clearly defined target. This study had explicit inclusion and exclusion criteria.

3.15 ETHICAL CONSIDERATIONS

3.15.1 Ethical Considerations

a. Informed Consent

Informed consent was diligently obtained from all participants, ensuring they were fully aware of the study's purpose, potential risks, benefits, and their right to withdraw at any time without repercussions. The researcher ensured that participants provided voluntary consent before participating in the study. Organisational consent was also sought to conduct the research within the relevant institutional framework.

b. Confidentiality and Anonymity

Confidentiality measures were strictly enforced to protect participant identities and personal information. According to Fa'bregues, Molina-Azorin and Fetters (2021), confidentiality refers to maintaining the privacy of participant data throughout the study. The researcher used pseudonyms during data collection, storage, and presentation to uphold the participants' anonymity. Participants were assured that their responses would remain confidential and that personal identifiers would be removed during data analysis.

c. Ethical Treatment of Data

The study adhered to strict data storage and handling protocols to ensure ethical compliance. All electronic data were securely stored in password-protected files, accessible only to the researcher and authorised personnel. Hard copies of sensitive information were kept in locked cabinets. During data analysis, personal identifiers were removed or anonymised to maintain confidentiality. All data were securely destroyed upon study completion, following ethical guidelines to prevent unauthorised access or misuse.

d. Participant Protection and Sensitivity

The research questions were moderated for sensitivity and impartiality to ensure that participants did not experience any harm—whether physical, emotional, or mental. The researcher clearly explained the study's objectives, how data would be handled and stored, and the process for data disposal. Participants were free to withdraw from the study at any stage without consequences.

e. Ethical Clearance

Ethical approval for the study was obtained from Independent Institute of Education (IIEMSA), ensuring compliance with institutional and research ethics standards. The study was firmly committed to ethical integrity, ensuring that all ethical principles were upheld throughout the research process.

3.16 CONCLUSION

This chapter discussed the research philosophy and research methodology in detail. Data collection methods and the approaches and techniques used for data analysis were covered. The research instrument development approach was covered where items in a 5-point Likert scale questionnaire were adopted from validated measurement scales. The instrument was built on a solid foundation of two validated measurement scales adopted by several researchers interested in supply chain management. The issues of validity and reliability were also addressed. Permission was already obtained from the host organisation, Busachamone Trading cc. In terms of the methodology prerequisite, ethical considerations were taken into account.

CHAPTER 4

RESEARCH ANALYSIS, INTERPRETATION, AND DISCUSSION

4.1 INTRODUCTION

This chapter presents a detailed analysis of the collected data using various quantitative techniques, including descriptive statistics, correlation analysis, and regression analysis. The chapter comprehensively examines the findings, offering insights into the relationships between financial management practices and the performance of small and medium enterprises (SMEs) in Fetakgomo Tubatse Municipality in the Limpopo Province of South Africa.

The first section of the chapter focuses on the respondents' demographic information, including key attributes such as position of responsibility, economic sector, gender, age, experience and qualifications. Analysing the demographic characteristics of SME owners and managers provides important contextual insights into how financial management practices vary across different groups. Understanding these characteristics also helps in assessing the sample's overall representativeness and how factors such as experience and education level may influence SMEs' financial decision-making. Pie charts and bar graphs are used to visually illustrate the distribution of these demographic variables, making trends more accessible and easy to interpret.

Following the demographic analysis, the chapter presents descriptive statistics, summarising key characteristics of the dataset, including measures such as means, standard deviations, and frequency distributions. This statistical overview provides a foundational understanding of the data before discussing the inferential analyses. Descriptive statistical tools were employed to identify the current financial management practices used by SMEs in Fetakgomo Tubatse Municipality and their prevailing challenges.

The section thereafter discusses the correlation analysis to test the hypothesis and assess the strength and direction of relationships between financial management variables and SME performance indicators. This is followed by a discussion of the regression analysis to identify the extent to which financial management practices influence SME performance and determine the predictive power of key financial variables.

Beyond statistical analysis, this chapter also includes a critical interpretation of the results, linking findings to existing literature to identify consistencies, contradictions, and emerging patterns. Comparative discussions are drawn with prior research to contextualise the results within broader theoretical and empirical frameworks. Furthermore, the chapter highlights the implications of the findings for SME owners, policymakers, and financial institutions, emphasising strategies to improve financial management practices and enhance business sustainability.

Finally, the chapter discusses the study's limitations, acknowledging potential constraints such as sample size, data availability, and external factors influencing SME performance. These limitations provide a basis for future research recommendations, ensuring a broader and more in-depth understanding of financial management's role in SME success.

4.2 DEMOGRAPHIC INFORMATION

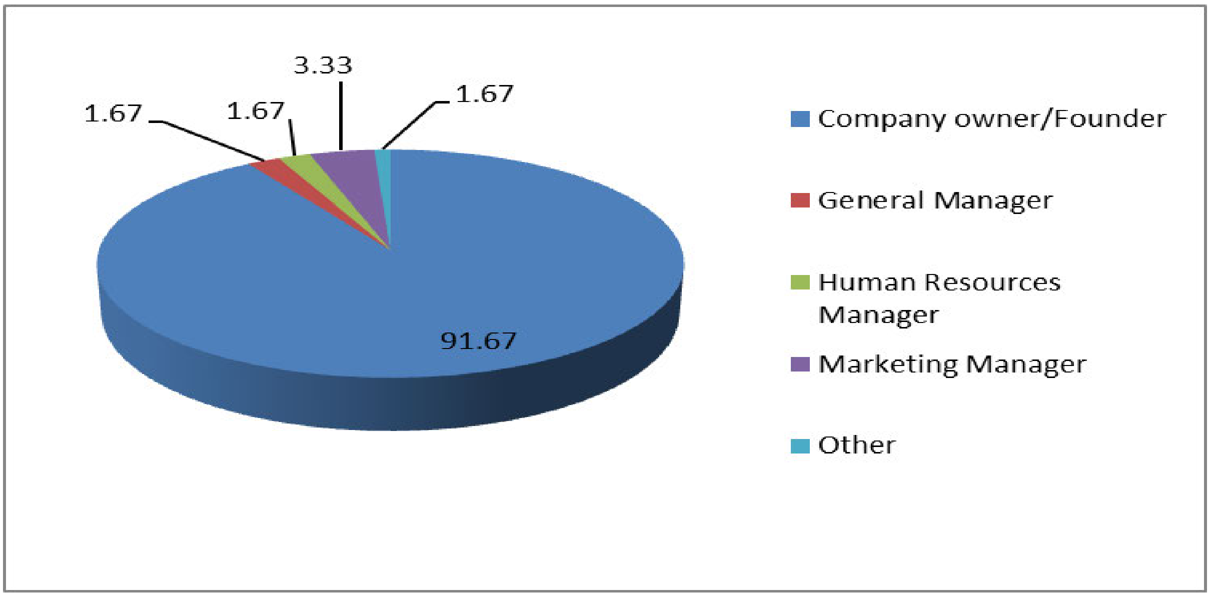


Figure 4.1: Position of responsibility

Figure 4.1 shows that the representation of respondents was heavily skewed towards company owners/founders (91.67%), indicating that financial management responsibilities in SMEs are primarily handled at the ownership level. The distribution of other managerial roles was minimal, with general managers (1.67%), human resources managers (1.67%), marketing managers (3.33%), and others (1.67%) having limited input. This representation is significant as it shows that insights were drawn from those directly responsible for financial decision-making, making the findings more relevant to understanding how financial management influences SME performance in Fetakgomo Tubatse Municipality.

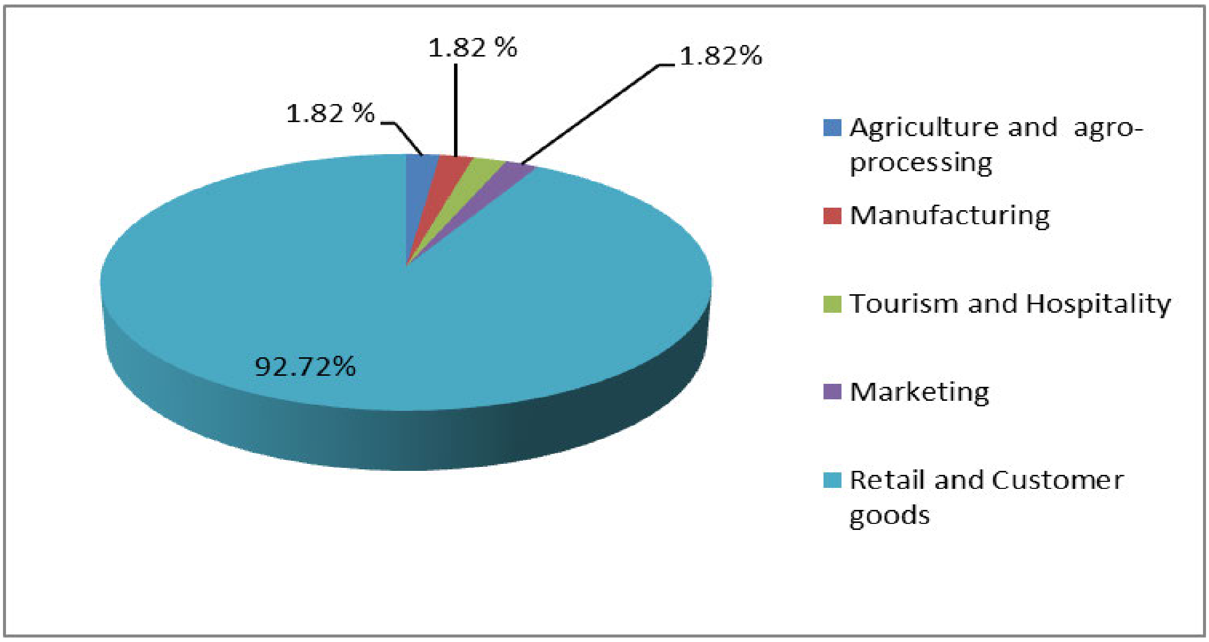


Figure 4.2: Economic sector

Figure 4.2 shows that the retail and customer goods sector (92.72%) is the most dominant among SMEs in Fetakgomo Tubatse Municipality, suggesting that most small businesses operate in this sector. There appears to be a wide gap in the representation of other economic sectors, with agriculture and agro-processing (1.82%), manufacturing (1.82%), tourism and hospitality (1.82%), and marketing (1.82%) showing minimal distribution. This imbalance highlights a potential need for policies and support mechanisms to diversify SME participation across various economic sectors. This representation is significant as it shows that the research findings are highly relevant to SMEs in the retail sector, but the limited distribution across other industries impacts the generalisability of the study's conclusions to SMEs operating in different sectors.

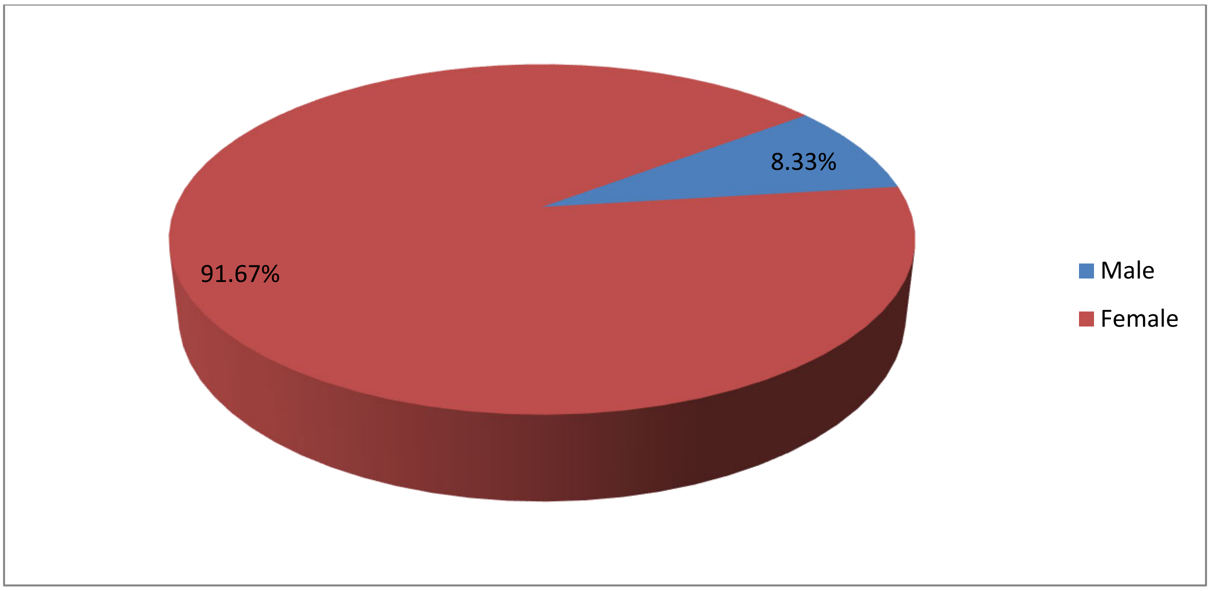


Figure 4.3: Gender distribution

Figure 4.3 shows that female representation (91.67%) is significantly dominant among SMEs in Fetakgomo Tubatse Municipality, while male representation (8.33%) is notably low. This wide gap suggests that women play a leading role in SME ownership and management in the area, which may be influenced by the nature of the retail sector, as retail businesses often attract more female entrepreneurs than males. The representation is significant as it shows that the research findings primarily reflect female-owned SMEs' experiences and financial management challenges. However, the limited distribution of male respondents may have restricted the study's ability to provide a balanced perspective on gender-based financial management practices in SMEs.

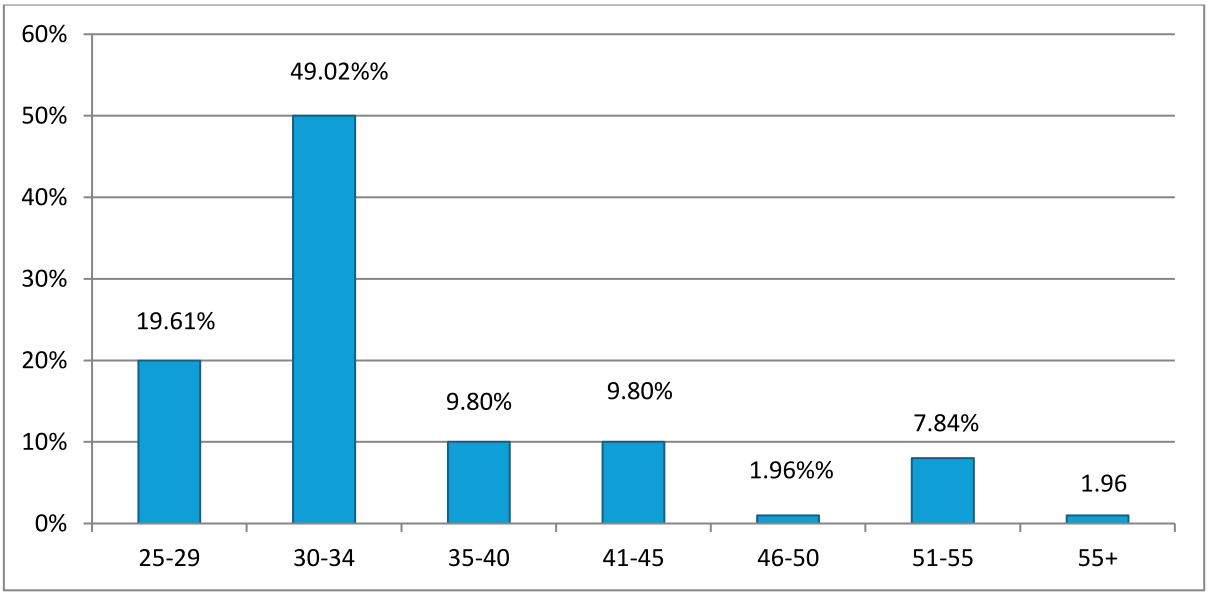


Figure 4.4: Age distribution

The age distribution of SME owners in Fetakgomo Tubatse Municipality reveals that the majority fall within the 30 to 34 age group (49.02%), indicating that entrepreneurship is primarily driven by young adults who are likely in the early stages of business growth and financial decision-making. The second largest age group, 25 to 29 (19.61%), suggests that a significant number of entrepreneurs start their businesses at a relatively young age, possibly due to limited formal employment opportunities or a growing interest in self-employment. The presence of entrepreneurs aged 35 to 40 (9.80%) and 41 to 45 (9.80%) highlights a segment of more experienced business owners who may have accumulated financial management skills over time, potentially contributing to better business sustainability. However, the lower representation of older entrepreneurs, particularly those aged 46 to 50 (1.96%) and those over 55 (1.96%), suggests a decline in SME participation among older age groups, which may be attributed to factors such as retirement, career shifts, or challenges in adapting to changing business environments.

The 51 to 55 age group (7.84%) reflects a small but active group of entrepreneurs who may bring industry knowledge and financial stability to their businesses. Since younger business owners dominate the SME sector, financial literacy programmes and targeted support initiatives could enhance their financial management skills, ensuring improved decision-making and long-term business success. The age distribution impacts the study's results by shaping the perspectives and experiences reflected in the findings, as younger SME owners, who form the majority, may demonstrate different financial management practices, levels of financial literacy, and adaptability compared to older entrepreneurs, potentially influencing trends in business sustainability, access to funding, and overall SME performance.

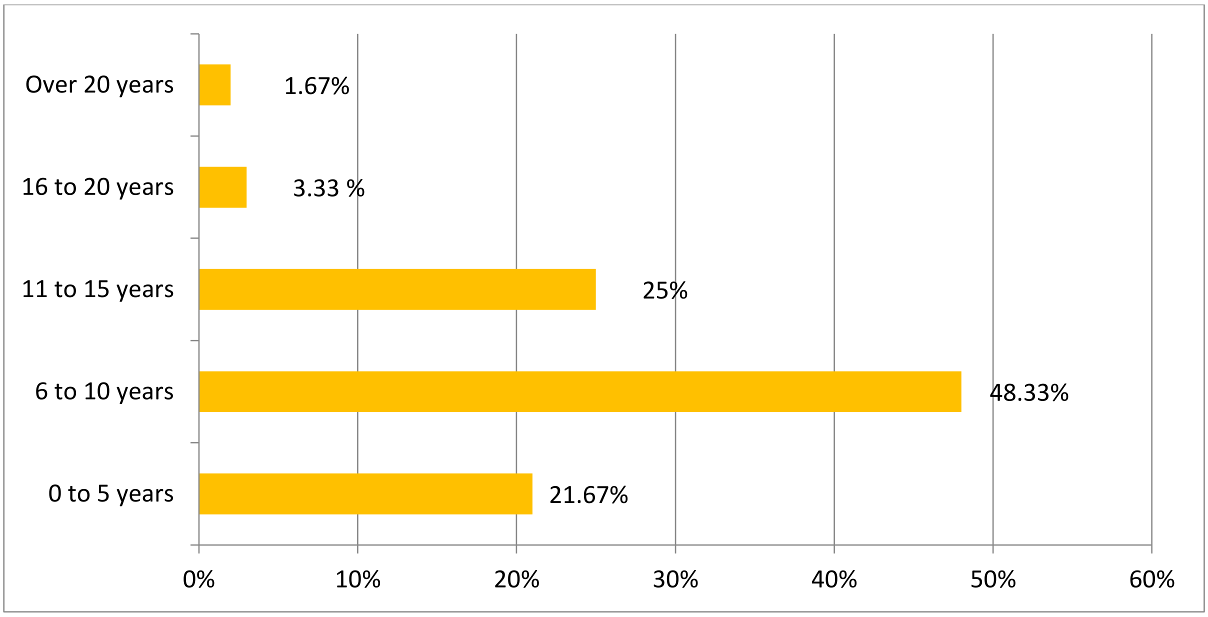


Figure 4.5: Experience distribution

The experience distribution of SME owners in Fetakgomo Tubatse Municipality shows that most fall within the 6 to 10-year category (48.33%), indicating that nearly half of the respondents had been in business for a moderate period. The 11 to 15 years category (25.00%) represents a significant portion of SME owners with a more extended operational history, while 21.67% of respondents had 0 to 5 years of experience, reflecting a notable proportion of newer business owners. A smaller percentage of respondents had 16 to 20 years (3.33%) and over 20 years (1.67%) of experience, suggesting that long-term business operations are less common in the region.

The distribution of experience provided varied responses that influenced the study's findings on financial management strategies.

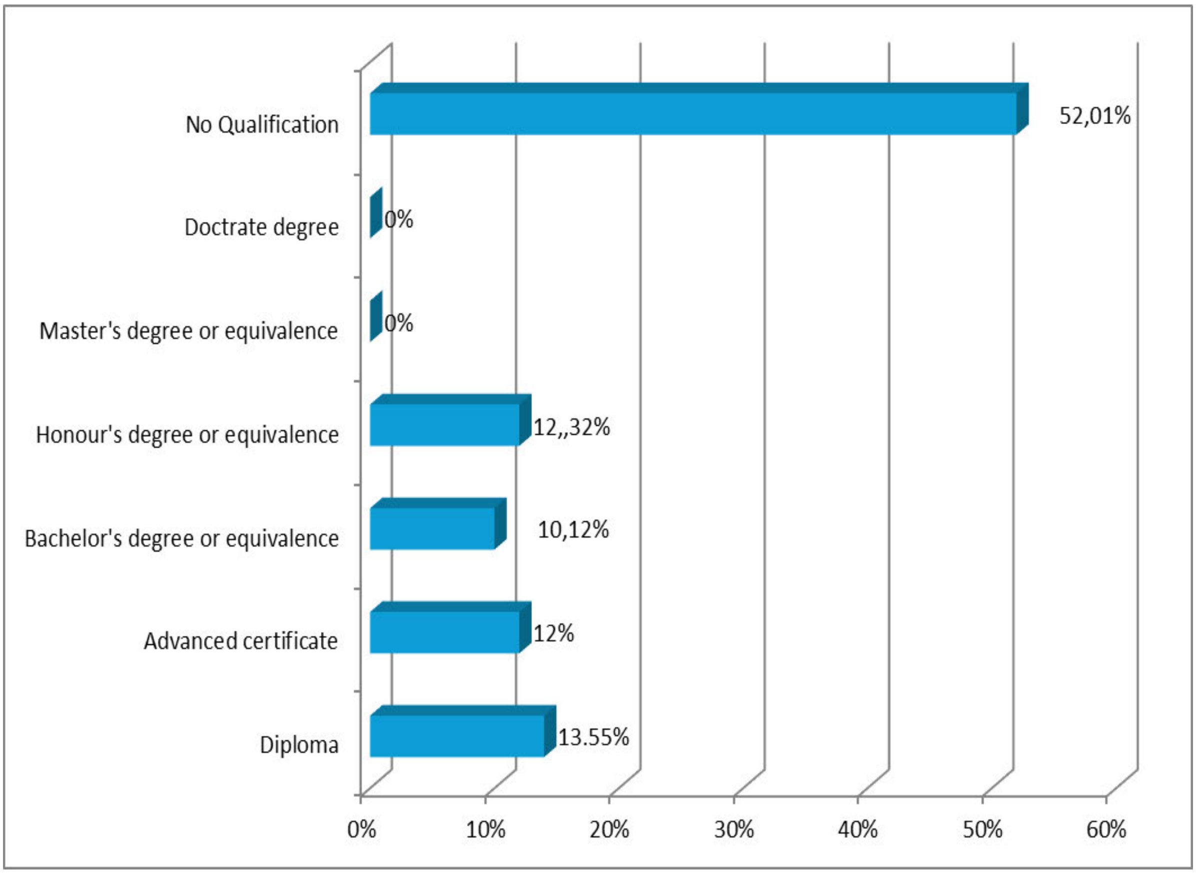


Figure 4.6: Qualifications

Figure 4.6 shows the qualifications of the SME owners from Fetakgomo Tubatse Municipality who participated in the study. The largest group of respondents had no qualification (52.01%), indicating that more than half of the SME owners do not hold formal academic qualifications. The second largest group comprised those participants with a Diploma (13.55%), followed by those with an honour's degree or its equivalent (12.32%), then those with advanced certificates (12%), those with a bachelor's degree or equivalent (10.12%). Notably, none of the respondents had a master's degree or equivalent or a doctorate (0%), highlighting the absence of highly advanced academic qualifications.

The qualification distribution is significant for understanding the potential influence of educational background on the financial management strategies adopted by SME owners. The high percentage of respondents with no qualification may suggest a reliance on practical business experience rather than formal academic knowledge, which could impact the approach to financial decision-making. Respondents with diplomas, advanced certificates, and bachelor's degrees may likely have some exposure to formal training in financial management, potentially reflecting more structured approaches to budgeting, accounting, and business planning. However, the absence of respondents with master's degrees or doctorates implies that advanced, specialised financial strategies may not be commonly utilised within the SME owner base in this region. The qualifications distribution provides insights into how varying levels of formal education influence financial decision-making and the overall performance of SMEs in Fetakgomo Tubatse Municipality.

4.3 OBJECTIVE 1: CURRENT FINANCIAL MANAGEMENT PRACTICES OF SMES IN FETAKGOMO TUBATSE MUNICIPALITY

Table 4.1: Current Management Practices

		CD1	CD2	CD3	CD4	CD5	CD6
N	Valid	120	120	120	120	120	120
	Missing	0	0	0	0	0	0
Mean		1.85	1.88	2.72	1.92	2.72	2.93
Median		2.00	2.00	2.00	2.00	2.00	2.00
Std. Deviation		0.729	0.629	1.664	0.753	0.753	1.664
Minimum		1	1	1	1	1	1
Maximum		5	5	5	5	5	5

Key variables:

CD1: Our company has a well-defined financial planning process.

CD2: Budgeting plays a crucial role in our financial management strategy.

CD3: We effectively manage cash flow to ensure smooth operations.

CD4: Our debt management practices are proactive and effective.

CD5: Risk management is a priority in our financial decisions.

CD6: Tax planning strategies are implemented.

CD7: Financial reporting is timely and accurate.

a. Financial Planning (CD1)

The results indicate that financial planning among SMEs in Fetakgomo Tubatse Municipality is weak, as reflected by the low mean score of 1.85. This suggests that most SMEs do not have a well-defined financial planning process, which is critical for ensuring financial stability and long-term growth. The median score of 2.00 confirms that at least half of the SMEs surveyed reported financial planning processes that are either inadequate or completely lacking. This implies that a significant portion of SMEs struggle to implement structured financial planning, increasing their vulnerability to financial instability.

The standard deviation of 0.729 suggests a relatively low variation in responses, meaning that financial planning challenges are common across most SMEs in the municipality. This uniformity could be attributed to factors such as limited financial literacy, lack of access to professional financial management services, or an informal approach to business operations. These findings align with observations by Drury (2021), who emphasises that a structured financial plan is essential for ensuring financial sustainability and smooth cash flow management. Similarly, Fatoki and Smit (2022) highlight that many SMEs in South Africa operate informally, particularly in rural and semi-urban areas, often lacking structured financial planning processes, which corresponds with the results of this study, suggesting that most SMEs in Fetakgomo Tubatse Municipality do not prioritise financial planning.

Furthermore, Berry *et al.* (2020) argue that well-structured financial planning allows businesses to forecast risks, allocate resources efficiently, and improve overall financial decision-making. The absence of formal financial planning among SMEs, as indicated by the current study, suggests that these businesses face challenges in mitigating financial risks and ensuring sustainability. Without effective financial planning, SMEs are more likely to experience cash flow shortages, struggle with debt management and face difficulties securing external funding for expansion.

While the study emphasises the absence of structured financial planning among SMEs in Fetakgomo Tubatse Municipality, it is important to recognise that some SMEs may operate successfully without formal financial planning due to their unique business models and environments. This perspective aligns with findings by Brijlal *et al.* (2014), who found that many South African SMEs rely on external accounting staff for financial reporting and interpretation, possibly due to a lack of financial literacy among owners. This reliance suggests that while formal financial planning is widely recommended, its application and effectiveness can vary across business contexts.

b. Implications

- Operational Sustainability: The lack of structured financial planning may lead to poor financial management, resulting in unpredictable cash flow and financial instability.
- Limited Growth Potential: Without effective financial planning, SMEs may struggle to expand operations, invest in new opportunities, or compete effectively in the market.

- Difficulties Securing Funding: Financial institutions often require structured financial plans when assessing loan applications. The SMEs examined in this study may face difficulties accessing financing due to weak financial planning.
- Increased Business Risk: Poor financial planning makes SMEs more susceptible to economic downturns and unexpected financial shocks, increasing the likelihood of business failure.

The above discussions highlight the critical implications of the findings. Theoretically, these results challenge existing models that universally link formal financial planning to improved business outcomes, suggesting that contextual factors may influence this relationship. Practically, the findings highlight the need for targeted financial literacy programmes and support services tailored to the unique challenges faced by these SMEs, aiming to bridge the gap between informal financial practices and formal planning strategies.

c. Theoretical Implications

The study contributes to the theoretical discourse on financial management practices by highlighting the prevalence of informal financial operations among SMEs in rural South Africa. It challenges the assumption that formal financial planning universally enhances business performance, suggesting that contextual factors such as business size, owner expertise, and market dynamics may influence the effectiveness of such practices. This finding invites scholars to explore the nuanced relationship between financial planning and SME success, considering the diverse operational realities of these enterprises.

d. Practical Implications

Practically, the study highlights the need for tailored financial management interventions that account for the specific challenges faced by SMEs in Fetakgomo Tubatse Municipality. Business support organisations and policymakers should consider providing training and resources that enhance financial literacy and the capacity to utilise external financial expertise effectively. Such initiatives could bridge the gap between informal financial practices and formal planning, potentially leading to improved financial stability and growth prospects for these SMEs.

e. Budgeting Practices (CD2)

The low mean score of 1.88 indicates that budgeting is not a well-integrated practice among SMEs in Fetakgomo Tubatse Municipality. This suggests that most SMEs either lack structured budgeting processes or fail to implement them effectively. The median score of 2.00 confirms that at least half of the surveyed SMEs do not engage in formal budgeting or only do so at a basic level, highlighting a widespread issue where many SMEs operate without systematic financial planning, increasing the risk of financial instability.

The standard deviation of 0.629 suggests minimal variation among respondents, indicating that budgeting challenges are consistently experienced across SMEs in the municipality. This uniformity may be due to limited financial literacy, lack of access to budgeting tools, or a preference for informal financial management approaches. The findings suggest that SMEs may struggle with cost control, financial forecasting, and resource allocation due to weak budgeting practices.

The study's findings align with Ngulube (2019), who emphasises that effective budgeting is essential for cost control, financial planning, and long-term business sustainability. The absence of structured budgeting processes among SMEs suggests that many businesses may struggle to maintain financial discipline, leading to inefficient allocation of resources and financial mismanagement. Similarly, Ramli and Yekini (2022) argue that many SMEs, particularly in developing economies, lack the necessary expertise, tools, and financial discipline to implement structured budgeting, which corresponds with the findings of this study, indicating that budgeting remains an underdeveloped practice among SMEs in Fetakgomo Tubatse Municipality. Without well-structured budgets, SMEs are less likely to track their expenses accurately or anticipate future financial needs, limiting their capacity for sustainable growth.

Moreover, Fatoki and Smit (2022) highlight that the absence of formal budgeting practices among SMEs contributes to financial mismanagement and poor cash flow control, ultimately affecting profitability and business survival. While Fatoki and Smit (2022) emphasise that the absence of formal budgeting practices among SMEs leads to financial mismanagement and poor cash flow control, other studies suggest that the relationship between budgeting and SME performance is more nuanced than first assumed. For instance, Wolmarans and Meintjes (2015) found that successful SMEs prioritise financial practices related to working capital and profitability, such as cash flow management and decision-making, over formal budgeting processes. The authors assert that due to SMEs' high-risk and volatile environment, it may be more effective for them to focus on practical financial management tailored to immediate operational needs than adhering strictly to formal budgeting procedures. The results of the current study confirm this assertion, as weak budgeting practices suggest that SMEs may face cash flow shortages, unexpected financial crises, and difficulties in managing operational costs.

f. Implications

- Financial Mismanagement: Weak budgeting practices may lead to overspending, unplanned expenses, and inefficient resource allocation, increasing financial instability.
- Limited Growth Potential: Without structured budgets, SMEs may struggle to plan for future growth, invest in business expansion, or secure funding from financial institutions.
- Cash Flow Challenges: Poor budgeting makes it difficult to predict income and expenses, increasing the risk of cash flow shortages that could disrupt business operations.
- Inability to Secure Funding: Lenders and investors often require detailed financial records and budgets when assessing SME funding applications. Weak budgeting practices may limit SMEs' access to credit.

g. Theoretical Implications

This study contributes to the theoretical discourse on financial management practices by highlighting that the effectiveness of budgeting may vary based on contextual factors such as business size, owner expertise, and market dynamics. It challenges the assumption that formal budgeting universally enhances business performance, suggesting that SMEs might benefit more from flexible financial practices that align with their unique operational realities. This finding invites scholars to explore the nuanced relationship between budgeting and SME success, considering the diverse operational contexts of these enterprises.

h. Practical Implications

Practically, the findings suggest that SMEs should assess their specific financial management needs and capabilities when implementing budgeting practices. Business support organisations and policymakers should consider providing training and resources that enhance financial literacy and the ability to apply budgeting techniques effectively. Such initiatives could bridge the gap between informal financial practices and formal budgeting strategies, potentially leading to improved financial stability and growth prospects for SMEs.

In summary, the mean score of 2.72 indicates moderate engagement in cash flow management among SMEs in Fetakgomo Tubatse Municipality, suggesting that while some SMEs implement structured cash flow management practices, others struggle to maintain financial discipline. The median score of 2.00 implies that at least half of the SMEs fall on the lower end of the cash flow management spectrum, indicating that many businesses do not actively monitor their cash flow. This suggests that while some SMEs have mechanisms for tracking income and expenses, a significant portion operates without structured cash flow strategies.

The high standard deviation score of 1.664 indicates that SMEs' have substantially variable cash flow management practices. This indicates that while some businesses effectively track their cash inflows and outflows, others experience severe difficulties, possibly due to limited financial knowledge, lack of bookkeeping skills, or reliance on informal financial management approaches. This inconsistency can make it challenging to generalise cash flow practices across all SMEs in the region.

The findings align with Fatoki and Smit (2022), who argue that poor cash flow management is one of the leading causes of SME failure in South Africa. SMEs that do not monitor their cash flow risk experiencing liquidity issues, making it difficult to cover operational expenses, pay suppliers on time, or invest in business growth.

While the study highlights the absence of structured budgeting practices among SMEs in Fetakgomo Tubatse Municipality, the existing literature presents contrasting perspectives. For instance, Maseko and Manyani (2011) found that SMEs in Zimbabwe often operate without formal budgeting processes, relying instead on informal financial management practices. This reliance suggests that while formal budgeting is recommended, its application and effectiveness can vary across business contexts.

i. Implications

- Liquidity Issues: Inconsistent cash flow management may result in SMEs struggling to pay bills, wages, and suppliers, leading to operational disruptions.
- Limited Business Growth: Poor cash flow monitoring can prevent SMEs from reinvesting in their businesses, limiting expansion opportunities.
- Financial Instability: Businesses that fail to monitor cash flow effectively are more vulnerable to unexpected financial crises and potential business failure.
- Challenges in Securing Funding: Lenders and investors often require evidence of stable cash flow before approving credit. Weak cash flow management may limit SMEs' ability to access external funding.

j. Theoretical Implications

The study contributes to the theoretical discourse on financial management practices by highlighting the prevalence of informal financial operations among SMEs in rural South Africa. It challenges the assumption that formal budgeting universally enhances business performance, suggesting that contextual factors such as business size, owner expertise, and market dynamics may influence the effectiveness of such practices. This finding invites scholars to explore the nuanced relationship between budgeting and SME success, considering the diverse operational realities of these enterprises.

k. Practical Implications

Practically, the findings highlight the need for tailored financial management interventions that account for the specific challenges faced by SMEs in Fetakgomo Tubatse Municipality. Business support organisations and policymakers should consider providing training and resources that enhance financial literacy and the capacity to utilise external financial expertise effectively. Such initiatives could bridge the gap between informal and formal budgeting strategies, potentially leading to improved financial stability and growth prospects for these SMEs.

l. Debt Management (CD4)

The mean score of 1.92 indicates that debt management among SMEs in Fetakgomo Tubatse Municipality is weak, suggesting that most SMEs do not actively manage their debt, which may result in financial instability and increased default risk. The median score of 2.00 reinforces this conclusion, implying that most SMEs struggle with structured debt management practices.

The relatively low standard deviation score of 0.753 suggests uniformity in the challenges SMEs face regarding debt management. This implies that inadequate debt management is widespread among respondents, likely stemming from limited financial literacy, lack of access to affordable credit, or ineffective repayment strategies. Without proper debt management, SMEs may struggle to balance loan repayments with operational costs, increasing their financial vulnerability.

The results align with Drury (2021), who emphasises that effective debt management is essential for financial stability and long-term business sustainability. However, many SMEs fail to develop structured repayment plans, leading to excessive debt burdens and financial distress. This finding corresponds with the study's results, which indicate that debt management remains a significant weakness among SMEs in the region. Similarly, Fatoki and Smit (2022) argue that South African SMEs often lack access to affordable credit, which forces them into unsustainable debt cycles. Many SMEs resort to high-interest loans or informal borrowing, making it difficult to maintain regular debt repayments. The findings of this study support this argument, as the low mean score suggests that most SMEs do not actively engage in structured debt management, increasing their financial risk.

While Drury (2021) emphasises that effective debt management is crucial for financial stability and long-term business sustainability, some studies suggest that the relationship between debt management and SME resilience is more complex. For instance, Msomi, Matemane, and Zungu (2024) found a statistically significant positive correlation between effective debtors' management and the resilience of SMEs in South Africa. Their study indicates that proficient management of debtors plays a pivotal role in enhancing the resilience of SMEs, suggesting that focusing on managing receivables may be more impactful than solely emphasising debt repayment.

m. Implications

- **Financial Instability:** Poor debt management increases the likelihood of SMEs defaulting on their loans, leading to financial distress.
- **Limited Growth Opportunities:** High debt burdens restrict SMEs' ability to invest in expansion and innovation.
- **Cash Flow Constraints:** Unstructured debt repayments may result in liquidity shortages, making it difficult for SMEs to cover operational expenses.
- **Increased Risk of Bankruptcy:** Without effective debt management strategies, SMEs may become trapped in unsustainable debt cycles, leading to business failure.

n. Theoretical Implications

This study's findings contribute to the theoretical discourse on financial management practices by highlighting that the effectiveness of debt management strategies may vary based on contextual factors such as business size, owner expertise, and market dynamics. It challenges the assumption that structured debt repayment plans universally enhance financial stability, suggesting that SMEs might benefit more from tailored debt management practices that align with their unique operational realities. This finding invites scholars to explore the nuanced relationship between debt management and SME resilience, considering the diverse operational contexts of these enterprises.

o. Practical Implications

Practically, the findings suggest that SMEs should assess their specific financial management needs and capabilities when implementing debt management strategies. Business support organisations and policymakers should consider providing training and resources that enhance financial literacy and the capacity to manage both payables and receivables effectively. Such initiatives could bridge the gap between informal financial practices and formal debt management strategies, potentially leading to improved financial stability and growth prospects for SMEs.

p. Risk Management (CD5)

The mean score of 2.72 indicates that risk management practices among SMEs in Fetakgomo Tubatse Municipality are moderate. This indicates that while some SMEs have implemented risk management strategies, others lack structured approaches to identifying and mitigating risks. The median score of 2.00 reinforces the notion that the majority of SMEs operate with limited risk management frameworks. The relatively low standard deviation score of 0.753 suggests consistency in the responses, implying that most SMEs face similar challenges in developing comprehensive risk management strategies. A lack of structured risk assessment processes could expose businesses to financial shocks, operational disruptions, and market uncertainties, limiting their long-term sustainability.

Fatoki and Smit (2022) argue that SMEs in South Africa often lack the expertise and resources to conduct proper risk assessments. Many businesses operate informally without structured risk identification mechanisms, making them susceptible to external economic fluctuations. The findings of this study support this argument, as the moderate mean score indicates that while some SMEs engage in risk management, others fail to adopt proactive measures. While Fatoki and Smit (2022) argue that South African SMEs often lack the expertise and resources to conduct proper risk assessments, leading to vulnerability to economic fluctuations, other studies present a more nuanced view.

Krüger (2018) found that many SMEs in the Vaal region employ informal risk management strategies developed through personal experience and reactive measures. These informal practices, while unstructured, suggest that SMEs possess inherent mechanisms to navigate risks without formal frameworks. Similarly, Mwanza and Tshuma (2023) advocate for a hybrid approach, integrating both formal and informal risk management strategies to enhance SME resilience. This perspective implies that while formal risk assessment is beneficial, the value of experiential, informal practices should not be overlooked.

q. Implications

- Increased Exposure to Financial Shocks: Limited risk management practices make SMEs more vulnerable to economic downturns and unexpected financial crises.
- Operational Disruptions: Without proper risk assessment frameworks, SMEs may struggle to respond to market changes, supply chain disruptions, and other external risks.

- Reduced Business Sustainability: Weak risk management increases the likelihood of business failure, particularly in volatile economic conditions.
- Need for Capacity Building: Enhancing SMEs' risk management capabilities through training and structured planning could improve their long-term stability.

r. Theoretical Implications

The coexistence of formal and informal risk management practices challenges the traditional emphasis on structured frameworks as the sole path to effective risk mitigation. It suggests that risk management theories should accommodate SMEs' adaptability and context-specific strategies and recognise that informal practices can be effective in specific environments.

s. Practical Implications

For practitioners and policymakers, these findings highlight the importance of supporting SMEs in enhancing both formal and informal risk management capacities. Training programmes should not only focus on formal risk assessment techniques but also validate and refine the informal strategies that SMEs already use. This balanced approach can lead to more resilient SMEs capable of navigating complex and fluctuating economic landscapes.

t. Tax Planning (CD6)

The mean score of 2.93 indicates that SMEs in Fetakgomo Tubatse Municipality engage in tax planning to a moderate extent, suggesting that some SMEs prioritise tax planning, while others may not view it as a significant part of their financial management strategy. The high standard deviation score of 1.664 indicates considerable variability in tax planning practices across the sample, with some businesses exhibiting well-organised tax strategies and others failing to plan effectively.

The median score of 2.00 reinforces this inconsistency, indicating that for most SMEs, tax planning is not fully integrated into their overall financial management practices. This variability highlights a need for more consistent engagement with tax planning processes, which could improve financial efficiency and compliance.

The findings are consistent with Ramli and Yekini (2022), who emphasise that tax planning can significantly enhance financial efficiency and business sustainability. By optimising tax obligations, SMEs can retain more capital for reinvestment and growth. However, Ramli and

Yekini (2022) also note that many SMEs lack the knowledge and resources to engage in effective tax planning, a view supported by the findings of this study. Moreover, Fatoki and Smit (2022) suggest that many SMEs in South Africa do not prioritise tax planning due to a limited understanding of its benefits and complexities. This observation aligns with the findings of this study, where only a few SMEs fully embrace tax planning as part of their financial strategy.

Ngulube (2019) also argues that tax planning is crucial for ensuring financial compliance and avoiding penalties. Without structured tax planning, SMEs risk non-compliance, which could lead to financial penalties and reputational damage.

Krüger (2018) suggests that certain SMEs develop informal risk management strategies through experiential learning and adaptive practices, effectively navigating risks via intuitive decision-making and accumulated industry experience despite lacking formal frameworks.

u. Implications

- Non-Compliance and Penalties: Inconsistent tax planning practices increase the likelihood of non-compliance with tax laws, which could lead to penalties and interest charges.
- Financial Inefficiency: Poor tax planning limits SMEs’ ability to minimise their tax liabilities, which could otherwise free up funds for growth and development.
- Business Sustainability Risks: SMEs may face financial difficulties without proper tax planning, especially if they encounter unexpected tax obligations or penalties.
- Knowledge Gaps in Tax Management: Some SMEs may require training and resources to effectively manage tax planning, ensuring compliance and optimising their tax positions.

v. Theoretical Implications

The coexistence of formal and informal risk management practices challenges the traditional emphasis on structured frameworks as the sole path to effective risk mitigation. It suggests that risk management theories should accommodate SMEs' adaptability and context-specific strategies, recognising that informal practices can be effective in specific environments.

w. Practical Implications

For practitioners and policymakers, these findings highlight the importance of supporting SMEs in enhancing both formal and informal risk management capacities. Training programmes should not only focus on formal risk assessment techniques but also validate and refine the informal strategies that SMEs already use. This balanced approach can lead to more resilient SMEs capable of navigating complex and fluctuating economic landscapes.

x. Summary

The findings highlight critical gaps in financial management practices among SMEs in Fetakgomo Tubatse Municipality. Financial planning, budgeting, debt management, and risk assessment remain significant challenges, aligning with the broader literature on SME financial constraints in South Africa. The study suggests a need for financial education programmes, improved access to digital financial tools, and policy interventions to enhance financial management capacity in rural SMEs.

4.4 OBJECTIVE 2: CHALLENGES CURRENTLY ENCOUNTERED BY SMES IN EFFECTIVE FINANCIAL MANAGEMENT IN FETAKGOMO TUBATSE MUNICIPALITY

Table 4.2: SMEs' Financial Management Challenges

		ED1	ED2	ED3
N	Valid	120	120	120
	Missing	0	0	0
Mean		1.86	2 720	1.852
Median 2.00		2.00	2.00	2.00
Std. Deviation		0.729	0.629	1.664
Minimum		1	1	1
Maximum		5	5	5

Key variables

Profitability Challenges (ED1)

Cash Flow Management Challenges (ED2)

Market Access (ED3)

a. Profitability Challenges (ED1)

The results for profitability challenges among SMEs in the Fetakgomo Tubatse Municipality show a mean score of 1.86, indicating that most SMEs face consistent profitability issues. The median of 2.00 further suggests that most of the respondents acknowledged ongoing financial difficulties, reinforcing the notion that profitability remains a significant challenge for SMEs in the region. The low standard deviation score of 0.729 implies a relatively uniform experience across the respondents, with slight variation in their perceptions of profitability challenges. This suggests that profitability challenges are not isolated to a few businesses but are a common issue within the municipality's SME sector.

These findings highlight a critical concern for SMEs: consistent profitability is fundamental for business sustainability. The inability to generate stable profits may hinder the growth of these businesses, making it difficult to reinvest, expand, or even maintain day-to-day operations.

The findings align with Drury (2021), who asserts that many SMEs lack the financial acumen and long-term investment strategies necessary to ensure sustainable profitability. Drury notes that SMEs often fail to meet their desired financial outcomes without structured financial planning. This is consistent with the current study's findings, where the lack of structured planning may be a key factor contributing to SMEs' profitability challenges.

- Sustainability Risks: Without addressing profitability issues, SMEs may face long-term challenges in remaining operational. This could impact job creation, economic stability, and the overall business ecosystem in the region.
- Need for Financial Literacy and Planning: These results suggest that financial planning education and support systems are critical to improving profitability. Without this, SMEs may continue to struggle with financial sustainability.
- Strategic Investment Challenges: SMEs must focus on long-term investment strategies and explore avenues to boost profitability, including more effective resource management and cost-reduction techniques.

b. Cash Flow Management Challenges (ED2)

The mean score of 2.72 for cash flow challenges indicates a moderate to high concern among SMEs regarding persistent negative cash flow. This score suggests that while some businesses can manage cash flow effectively, others face ongoing difficulties maintaining financial liquidity. The median of 2.00 reinforces the idea that most of the respondents acknowledged cash flow as a recurring challenge. Furthermore, the low standard deviation score of 0.629 suggests that this issue is widely experienced across SMEs, highlighting a common concern among businesses in the study sample.

These findings emphasise the critical role that cash flow management plays in ensuring SMEs' financial stability and sustainability. Without adequate cash flow management, businesses may struggle to meet their financial obligations, such as paying employees, covering operational costs, and managing debts.

The findings are consistent with the literature on cash flow challenges in SMEs. Peirson *et al.* (2020) argue that many SMEs lack access to financial experts who can assist in managing cash flow effectively. Their study emphasises the importance of financial expertise in helping businesses better manage their cash inflows and outflows, which resonates with the current study's findings that a significant number of SMEs face cash flow challenges due to inadequate financial planning or lack of expert advice.

Additionally, Gitman *et al.* (2020) highlight that ineffective payment collection methods and the lack of follow-up on overdue accounts contribute to cash flow instability. This is an important factor, as SMEs often face delays in receiving payments, further exacerbating cash flow problems. This aligns with this study's results, which suggest that some SMEs may struggle with delayed payments and poor collection practices, resulting in reduced liquidity.

Moreover, Fatoki and Smit (2022) point to the critical link between cash flow problems and SME failure and argue that SMEs often fail due to poor cash flow management, which undermines their ability to pay operational costs and manage unexpected expenses. These findings underscore the importance of addressing cash flow challenges to ensure the long-term viability of SMEs.

However, Aren and Sibindi (2014) suggest that while cash flow management is vital, external factors such as limited access to financing and unfavourable market conditions also significantly impact SME sustainability. They argue that external constraints can pose substantial challenges to SME survival even with robust internal cash flow practices.

c. Implications

- Liquidity Issues: Poor cash flow management can lead to liquidity issues, preventing SMEs from covering basic operational expenses and increasing their vulnerability to external financial shocks.
- Need for Financial Expertise: The findings highlight the importance of financial literacy and expert advice in managing cash flow. SMEs would benefit from training programmes or consultations with financial experts to improve their cash flow management practices.
- Potential for Business Failure: SMEs that struggle with cash flow management are at greater risk of business failure. This underscores the need for targeted interventions to improve cash flow monitoring and management.
- Credit and Collection Practices: Improving payment collection systems and ensuring timely follow-up on overdue accounts could significantly enhance cash flow management for SMEs.

d. Theoretical Implications

These differing viewpoints suggest that theories on SME sustainability should integrate both internal financial management practices and external environmental factors. Recognising the interplay between effective cash flow management and external challenges can lead to a more comprehensive understanding of SME resilience.

e. Practical Implications

For practitioners and policymakers, this underscores the importance of not only promoting sound cash flow management practices within SMEs but also creating supportive external environments. This could involve facilitating access to financing, improving market conditions, and providing training programmes that address both internal financial management and strategies to navigate external challenges, thereby enhancing the overall sustainability of SMEs.

f. Market Access (ED3)

The mean score of 1.85 for market access (CD3) indicates that SMEs in the Fetakgomo Tubatse Municipality face challenges in accessing markets effectively. The median score of 2.00 suggests that most of the respondents acknowledged market access issues. The high standard deviation of 1.664 reflects significant variability in the responses, implying that while some SMEs might have adequate market access, others might struggle to penetrate or expand into markets. This variability could be influenced by factors such as business size, industry type, and geographical location. The findings suggest that the market access challenges faced by SMEs are a common issue in the region, but the severity of these challenges varies across different businesses. This indicates that some businesses are better positioned or more resourceful in accessing markets, while others remain restricted.

The findings align with Peirson *et al.* (2020), who highlight that limited market access is a significant obstacle for SMEs, particularly in developing regions. SMEs often face market visibility, distribution networks, and brand recognition challenges, which hinder their ability to reach a broader customer base.

Contrastingly, some scholars argue that internal factors within SMEs, such as inadequate business planning and marketing strategies, contribute significantly to market access challenges. For instance, a study of South African SMEs during COVID-19 found that a lack of understanding of appropriate marketing channels and poor business planning were significant impediments to effective market penetration. This perspective suggests that internal inefficiencies also play a crucial role in limiting SME market access while external market barriers exist.

g. Implications

- Market Expansion Challenges: Limited market access can hinder the ability of SMEs to grow and increase their revenue. Businesses with poor market access may struggle to scale, leading to lower profitability and sustainability.

- Need for Strategic Partnerships: SMEs could benefit from forming strategic partnerships with larger companies, government agencies, or other stakeholders to increase their market access. This would enable SMEs to leverage existing networks and distribution channels.
- Market Research and Marketing Strategies: SMEs need to invest in market research and marketing strategies to improve visibility and recognition in their target markets. Understanding market trends, customer preferences, and competition can help businesses identify untapped opportunities.
- Policy and Infrastructure Support: Government policies that provide financial incentives, improve market infrastructure, and facilitate access to distribution networks could significantly improve SMEs' market access. Additionally, initiatives aimed at reducing barriers to market entry would be beneficial.

h. Theoretical Implications

These differing viewpoints indicate that theories on SME market access should integrate both external environmental factors and internal organisational capabilities. A comprehensive framework that considers the interplay between market structures and SME competencies can provide a more holistic understanding of the challenges and potential solutions in enhancing market reach for SMEs.

i. Practical Implications

These findings underscore the importance of a dual-faceted approach to improving SME market access for practitioners and policymakers. Externally, efforts should focus on creating supportive market environments, such as developing infrastructure and facilitating entry into new markets. Internally, capacity-building initiatives should aim to enhance SMEs' business planning and marketing capabilities. By addressing both external and internal factors, SMEs can better navigate market access challenges and improve their competitiveness in the marketplace.

4.5 OBJECTIVE 3: THE IMPACT OF FINANCIAL MANAGEMENT PRACTICES ON SMES IN FETAKGOMO TUBATSE MUNICIPALITY

The reliability of the scales was tested using Cronbach's alpha for each group of items. The results are provided in Table 4.3.

Table 4.3: Reliability Analysis

Factor	Cronbach's Alpha
Financial planning	0.82
Budgeting	0.80
Cash flow management	0.76
Debt management	0.78
Risk management	0.75
Tax planning	0.82
Financial reporting	0.88
Profitability	0.77
Net cash flow	0.76
Access to markets	0.82

The values in Table 4.3 indicate acceptable reliability, as they are all above the threshold of 0.7.

4.5.1 The Impact of Financial Management Practices on Profitability

H_{01}: There is no significant relationship between SMEs' profitability and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

Table 4.4: Correlations (Hypothesis 1)

		DV1	EV1	EV2	EV3	EV4	EV5	EV6	EM7
DVI	Pearson Correlation	1							
EV1	Pearson Correlation	.870**	1						
EV2	Pearson Correlation	.977**	.788**	1					
EV3	Pearson Correlation	-.935	.766	.904	1				
EV4	Pearson Correlation	-.7681	-.915	8.059	.772**	1			
EV5	Pearson Correlation	.865**	.852**	.908	.877	.924	1		
EV6	Pearson Correlation	.757**	.908**	.844**	.754	-.992	.793**	1	
EV7	Pearson Correlation	-.862	-.934	.867	.794**	.884**	.781	-.689*	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Definitions of variables

DV I – Profitability

EV1 – Financial Planning

EV2 – Budgeting

EV3 – Cash Flow Management

EV4 – Debt Management

EV5– Risk Management

EV6 – Tax Planning

EV7 – Finical Reporting

a. Findings from Table 4.4

- Financial Planning and Profitability: The correlation coefficient between financial planning (EV1) and profitability (DV1) is 0.870 ($p < 0.01$), indicating a strong positive relationship. This suggests that SMEs with structured financial planning experience have improved profitability. Gitman and Zutter (2022) highlight that financial planning enables businesses to set clear financial goals, track expenditures, and allocate resources effectively, leading to enhanced profitability.
- Budgeting and Profitability: The correlation between budgeting (EV2) and profitability (DV1) is 0.977 ($p < 0.01$), showing a very strong positive correlation. This suggests that effective budgeting significantly enhances profitability, allowing SMEs to allocate resources efficiently. This supports Padachi's (2021) findings that well-structured budgeting practices are essential for SMEs' long-term financial stability.
- Cash Flow Management and Profitability: The correlation between cash flow management (EV3) and profitability (DV1) is -0.935, which is negative but not statistically significant at $p < 0.01$. This result suggests that while cash flow management plays a role, poor management could negatively impact profitability. This finding is consistent with Atrill and McLaney (2020), highlighting that cash flow mismanagement is a significant reason for SME insolvency.

  The negative correlation between cash flow management and profitability (-0.935) can be explained through several factors identified in the literature. One key explanation is poor cash flow planning, where SMEs fail to effectively forecast and manage their cash flows, resulting in financial instability that negatively impacts profitability. According to Ramlall (2019), inadequate cash flow management in SMEs often leads to liquidity problems, ultimately affecting profitability.

  Another possible explanation is the misclassification of financial data, which can distort a business's financial situation. Ghosh and Ghosh (2020) note that errors in financial reporting, particularly in how cash flow is classified, can lead to misleading financial interpretations.

  Furthermore, SMEs may focus on short-term profits at the expense of long-term financial sustainability. According to Neneh (2019), SMEs often prioritise immediate financial gains over long-term investments, leading to inefficient cash flow management that undermines overall profitability. These findings are consistent with the literature highlighting the negative consequences of poor cash flow practices on business profitability (Abor & Quartey, 2010).

- Debt Management and Profitability: Debt management (EV4) shows a negative correlation of -0.768 with profitability (DV1). This suggests that increased debt levels may reduce profitability if not managed effectively. Studies by Abor and Quartey (2021) indicate that SMEs in developing economies often struggle with high debt burdens due to limited access to affordable financing, which constrains growth and profitability.
- Risk Management and Profitability: The correlation coefficient between risk management (EV5) and profitability (DV1) is 0.865 ($p < 0.01$), indicating a strong positive association. SMEs that effectively manage risks tend to perform better financially. This aligns with findings by Brigham and Ehrhardt (2022), who stress that risk assessment and mitigation strategies help SMEs improve financial resilience and sustainability.
- Tax Planning and Profitability: The correlation between tax planning (EV6) and profitability (DV1) is 0.757 ($p < 0.01$), showing a positive and statistically significant relationship. Proper tax planning enables SMEs to reduce tax liabilities and improve profitability. This is consistent with the findings of Evans *et al.* (2020), who found that SMEs with proactive tax strategies experience improved financial health and compliance.
- Financial Reporting and Profitability: Financial reporting (EV7) has a correlation coefficient of -0.862 with profitability, suggesting an inverse relationship. This could indicate that while financial reporting is essential, inadequate financial transparency may negatively impact profitability. The negative correlation between financial reporting and profitability (-0.862) suggests an inverse relationship, where inadequate financial transparency may hinder profitability.

  One explanation for this could be poor financial reporting practices, which can lead to mismanagement and affect profitability. Healy and Palepu (2001) note that insufficient or unclear financial reporting often leads to incorrect business decisions, ultimately reducing profitability. Similarly, Beasley (2019) argues that poor financial reporting can erode stakeholder confidence, which is crucial for maintaining profitability and securing future investments.

Inadequate transparency in financial reports might also cause investors and other stakeholders to misjudge a company's financial health, leading to reduced investment and support, as discussed by Li (2019). Therefore, transparent and accurate financial reporting is essential for building stakeholder trust and enhancing profitability. According to Warren *et al.* (2021), poor financial reporting practices lead to mismanagement, affecting profitability and stakeholder confidence.

b. Discussion and Interpretation of Findings

The discussion and interpretation of the study's findings underscore the significant impact that structured financial management practices have on enhancing SME profitability. The positive correlations observed between financial planning, budgeting, risk management, and tax planning with profitability suggest that those SMEs implementing strategic financial management practices are better positioned for success. These results are consistent with Fatoki (2020), who found that financial planning and budgeting are pivotal in driving the sustainability and growth of SMEs in South Africa. By integrating these practices into their daily operations, SMEs can optimise resource allocation, mitigate financial risks, and make informed decisions that contribute to long-term profitability.

However, the negative correlations observed for debt management and financial reporting highlight how ineffective handling of debt and a lack of financial transparency can impede SME growth. Abor and Quartey (2021) support this by emphasising that poor financial discipline and high debt burdens significantly constrain SME performance, particularly by increasing financial costs and reducing available capital for reinvestment. This aligns with the study's finding that improper debt management practices can lead to liquidity problems, eventually undermining profitability.

Moreover, the negative relationship between financial reporting and profitability further reinforces the importance of accurate and transparent financial reporting. Inadequate financial transparency can obscure the true financial condition of a business, which may affect decision-making processes and reduce stakeholder confidence. According to Warren *et al.* (2021), this can lead to poor business decisions and a loss of trust from investors and other stakeholders, further diminishing profitability.

Lastly, the challenges associated with poor cash flow management are also evident in the findings. SMEs often struggle with liquidity issues due to inadequate financial controls and limited access to working capital. Atrill and McLaney (2020) highlight that many SMEs face these constraints, making it difficult to manage day-to-day operations effectively and invest in growth opportunities. The study's findings align with this perspective, showing that poor cash flow management remains a significant obstacle to SME profitability. Therefore, effective cash flow management is crucial for sustaining operations and ensuring long-term business viability.

The study's findings underscore the significant impact of structured financial management practices such as financial planning, budgeting, risk management, and tax planning for enhancing SME profitability. This aligns with Fatoki's (2020) research, which emphasises the pivotal role of financial planning and budgeting in driving the sustainability and growth of SMEs in South Africa. However, some scholars argue that the relationship between financial management practices and SME profitability is more complex. For instance, Mbogo and David (2021) found that aspects like budgeting, borrowing, expenditure, and savings are not considered important by South African SMEs, suggesting that other factors may also significantly influence SME growth and sustainability. This divergence highlights the need for a comprehensive understanding of how various financial practices impact SME performance.

c. Theoretical Implications

The positive correlations observed between structured financial management practices and SME profitability support the resource-based view (RBV) theory, which posits that internal resources and capabilities are critical for achieving a competitive advantage. Effective financial management can be seen as a valuable internal resource that enhances an SME's ability to allocate resources efficiently and make informed decisions.

Conversely, the negative correlations observed for debt management and financial reporting suggest that these financial practices can become liabilities without proper management, aligning with the trade-off theory, which emphasises the balance between the benefits and costs of debt. These findings contribute to the theoretical discourse by highlighting the dual-edged nature of financial management practices in SMEs.

d. Practical Implications

For practitioners, the study underscores the necessity of implementing structured financial management practices to enhance profitability. SME owners and managers should prioritise financial planning, budgeting, risk management, and tax planning to optimise resource allocation and mitigate financial risks. Additionally, the negative correlations associated with debt management and financial reporting highlight the importance of maintaining financial discipline and transparency.

Policymakers and financial institutions can support SMEs by providing training programmes focused on financial literacy and management skills and facilitating access to financial resources that encourage prudent debt management. By addressing these areas, SMEs can improve their financial health and contribute more effectively to economic growth.

4.5.2 The Impact of Financial Management Practices on Net Cash Flow

H_{02}: There is no significant relationship between SMEs' net cash flow and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

Table 4.5: Correlations (Hypothesis 2)

		DV2	EV1	EV2	EV3	EV4	EV5	EV6	EM7
DV2	Pearson Correlation	1							
EV1	Pearson Correlation	.870**	1						
EV2	Pearson Correlation	.977**	.788**	1					
EV3	Pearson Correlation	-.935	.766	.904	1				
EV4	Pearson Correlation	-.7681	-.915	8.059	.772**	1			
EV5	Pearson Correlation	.865**	.852**	.908	.877	.924	1		
EV6	Pearson Correlation	.757**	.908**	.844**	.754	-.992	.793**	1	
EV7	Pearson Correlation	-.862	-.934	.867	.794**	.884**	.781	-.689*	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Definitions of variables
DV2 – Net Cash Flow
EV1 – Financial Planning
EV2 – Budgeting
EV3 – Cash Flow Management
EV4 – Debt Management
EV5 – Risk Management
EV6 – Tax Planning
EV7 – Finical Reporting

The 0.870 correlation coefficient between financial planning and net cash flow ($p < 0.01$) shown in Table 4.5 indicates a strong positive relationship. This suggests that SMEs engaged in thorough financial planning are more likely to experience better cash flow management. Financial planning is essential as it allows businesses to anticipate future cash needs and allocate resources effectively, thereby enhancing liquidity. Brigham and Ehrhardt (2022) emphasise that robust financial planning ensures SMEs are prepared for uncertainties, contributing to stable financial performance.

The 0.977 correlation coefficient between budgeting and net cash flow ($p < 0.01$) further supports the positive relationship between these variables. This finding shows that SMEs with well-structured budgets can better control their financial resources, avoiding cash flow problems. According to Brigham and Ehrhardt (2022), budgeting provides a clear framework for anticipating income and expenditure, directly impacting the ability to maintain a healthy cash flow.

Interestingly, cash flow management (EV3) shows a negative correlation of -0.935 with net cash flow, though this is not statistically significant ($p > 0.01$). This suggests a relationship, where SMEs struggling with cash flow management practices may face challenges in maintaining liquidity. Brigham and Ehrhardt (2022) indicate that poor cash flow management, such as inadequate tracking or delayed invoicing, can exacerbate cash shortages, which may be the case in this context.

The -0.768 negative correlation between debt management and net cash flow ($p < 0.01$) shows that poor debt management negatively affects cash flow. SMEs with high debt levels or poor debt management practices are likely to face increased financial obligations, which can deplete cash reserves. Gitman, Juchau and Flanagan (2020) note that overreliance on debt without strategic management leads to higher interest payments and reduces available cash for operations, further exacerbating cash flow problems.

Risk management demonstrates a strong positive correlation of 0.865 with net cash flow ($p < 0.01$), indicating that SMEs that effectively manage financial risks are more likely to maintain favourable cash flows. Rejda and McNamara (2022) argue that effective risk management strategies, such as hedging against financial risks, help businesses minimise disruptions and protect their cash flow. This finding suggests that risk-averse practices such as preparing for market fluctuations can reduce financial stress.

The positive correlation of 0.757 ($p < 0.01$) between tax planning and net cash flow suggests that SMEs that plan their taxes efficiently can better preserve cash flow. Effective tax planning helps businesses reduce their tax liabilities, freeing up cash for other operations. According to Murphy and Higgins (2021), SMEs that proactively address tax planning avoid penalties and optimise deductions, thus improving their overall liquidity.

Finally, financial reporting shows a negative correlation of -0.862 with net cash flow ($p < 0.01$), indicating that inadequate or inaccurate financial reporting may lead to poor cash flow management. The IFRS Foundation (2022) stresses that transparent and accurate financial reporting is crucial for understanding a company's financial health and making informed decisions. SMEs may mismanage their cash flow without proper reporting and may fail to detect potential liquidity issues in advance.

a. Key Findings

Positive Correlations: Financial planning, budgeting, risk management, and tax planning all show strong positive relationships with net cash flow. This supports the notion that SMEs with structured financial management practices are better positioned to manage their cash flow. The findings align with Brigham and Ehrhardt (2022), Murphy and Higgins (2021), and Rejda and McNamara (2022), who argue that these practices help businesses predict cash needs and optimise available resources.

Negative Correlations: Cash flow management, debt management, and financial reporting all show negative correlations with net cash flow. This indicates that poor practices in these areas significantly hinder cash flow. Gitman *et al.* (2020) note that poor cash flow management and debt management can quickly lead to liquidity problems, while the IFRS Foundation (2022) suggests that inaccurate financial reporting complicates cash flow forecasting and decision-making.

b. Practical Implications

The findings suggest that SMEs must prioritise certain financial practices, particularly financial planning and budgeting, as these are most strongly associated with positive cash flow. Additionally, focusing on improving cash flow management and debt management practices will help prevent cash flow difficulties. Policymakers and business advisory services could support SMEs by providing training and resources focused on improving these critical areas.

c. Policy Implications

Given the strong correlations between effective financial management and positive cash flow, government and industry bodies should focus on creating policies that encourage SMEs to adopt formal financial management practices. These could include offering tax incentives for businesses that invest in financial planning systems or providing financial literacy programmes for entrepreneurs.

d. Summary

The study has demonstrated that SMEs' net cash flow is significantly influenced by their financial management practices, including financial planning, budgeting, and risk management. However, cash flow management, debt management, and financial reporting practices need significant improvement to avoid adverse impacts on cash flow. SMEs that implement effective financial management strategies can better navigate financial uncertainties and maintain stable cash flow, ultimately supporting long-term sustainability.

4.5.3 The Impact of Financial Management Practices on Market Access

H_{03}: There is no significant relationship between SMEs' access to markets and financial management practices, including financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting.

Table 4.6: Correlations (Hypothesis 3)

		DV3	EV1	EV2	EV3	EV4	EV5	EV6	EM7
DV3	Pearson Correlation	1							
EV12	Pearson Correlation	.870**	1						
EV2	Pearson Correlation	.977**	.788**	1					
EV3	Pearson Correlation	-.935	.766	.904	1				
EV4 4	Pearson Correlation	-.7681	-.915	8.059	.772**	1			
EV5	Pearson Correlation	.865**	.852**	.908	.877	.924	1		
EV6	Pearson Correlation	.757**	.908**	.844**	.754	-.992	.793**	1	
EV7	Pearson Correlation	-.862	-.934	.867	.794**	.884**	.781	-.689*	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Definitions of variables

DV3 – Market Access

EV1 – Financial Planning

EV2 – Budgeting

EV3 – Cash Flow Management

EV4 – Debt Management

EV5 – Risk Management

EV6 – Tax Planning

EV7 – Finical Reporting

a. Correlation Matrix Analysis

Table 4.6 presents the correlation coefficients between market access (DV3) and various financial management practices (EV1 to EV7). A detailed examination of these relationships is essential to evaluate the validity of Hypothesis 3.

Market Access (DV3) and Financial Planning (EV1): The correlation coefficient is 0.870 with a significance level of 0.01 (indicated by **), showing a strong positive relationship between SMEs' access to markets and their financial planning practices. This suggests that businesses with more robust financial planning practices tend to have better market access.

Market Access (DV3) and Budgeting (EV2): The correlation coefficient is 0.977 at the 0.01 significance level, indicating a very strong positive relationship. This highlights that SMEs with solid budgeting practices experience enhanced market access, reinforcing the importance of careful financial forecasting and allocation for expanding market opportunities.

Market Access (DV3) and Cash Flow Management (EV3): The coefficient is -0.935 at the 0.01 significance level, suggesting a negative relationship. However, this negative correlation is puzzling since one might expect cash flow management to support market access. It may imply that SMEs with strong cash flow management practices are more cautious, possibly limiting aggressive market expansion strategies due to liquidity concerns or stringent financial control.

Market Access (DV3) and Debt Management (EV4): The coefficient is -0.768 at the 0.01 level, showing a moderate negative correlation. This suggests that while some level of debt management is necessary for sustainability, an excessive focus on managing debt may restrict SMEs from fully leveraging market access opportunities.

Market Access (DV3) and Risk Management (EV5): The positive correlation of 0.865 at the 0.01 level indicates that risk management practices are positively related to market access. SMEs adept at managing risks are better positioned to explore new market opportunities, mitigating potential losses from unforeseen market conditions.

Market Access (DV3) and Tax Planning (EV6): The correlation coefficient is 0.757 at the 0.01 significance level, showing a moderate positive relationship, implying that SMEs with effective tax planning strategies may benefit from enhanced financial resources, which could, in turn, facilitate greater market access.

Market Access (DV3) and Financial Reporting (EV7): The correlation is -0.862 at the 0.01 level, showing a moderate negative relationship. This suggests that while financial reporting is crucial for transparency and decision-making, there may be instances where heavy reliance on reporting may not directly correlate with market access, possibly due to the focus being placed on internal controls rather than external market activities.

b. Interpretation and Comparison with Literature

1. Interpretation of Key Findings

The positive correlations between access to markets and most financial management practices, particularly financial planning, budgeting, risk management, and tax planning, support the view that effective financial management is crucial for improving market access (Kotler & Keller, 2022). SMEs that manage their finances well are more likely to reach potential customers and expand their market presence.

However, the negative correlations observed with cash flow management, debt management, and financial reporting suggest that SMEs' financial management practices may not always be aligned with market expansion efforts. These findings are consistent with the literature, which suggests that SMEs might be overly cautious about financial risks or too focused on internal financial control mechanisms rather than external market opportunities (Sukenti, 2023).

2. Financial Management and Market Access

As the literature mentions, financial management is a broad process encompassing planning, organising, managing, and controlling financial resources (Živković, 2019). Effective cash flow management and debt management are essential for SMEs to avoid liquidity issues, but the negative correlations observed in this study might suggest that SMEs may be overly risk-averse, which may restrict aggressive market expansion. The literature notes this paradox, asserting that SMEs must balance risk management with growth opportunities (Brigham & Houston, 2021).

Financial reporting is an essential tool for SMEs, providing transparency and insight into financial health (IFRS Foundation, 2022). However, the observed negative correlation may indicate that an excessive focus on financial reporting might not translate directly into improved market access. This could be due to prioritising internal controls and compliance rather than focusing on external opportunities (Murphy & Higgins, 2021).

These findings highlight the importance of financial management practices as an enabler of market access for SMEs. Effective financial planning, budgeting, and risk management are essential for businesses to expand their market presence and ensure sustainability in competitive markets (Peirson *et al.,* 2020).

The negative correlation between debt management and market access could indicate that SMEs, particularly in emerging economies like South Africa, are hesitant to leverage debt to expand due to the associated risks or costs. This aligns with Gitman, Juchau and Flanagan (2020), who emphasise the need for cautious debt management, especially in uncertain markets.

c. Implications

1. Theoretical Implications

These findings contribute to the theoretical discourse by underscoring the necessity for SMEs to balance internal financial management with external market engagement. Brigham and Houston (2021) emphasise that while prudent financial practices are essential, excessive risk aversion can hinder growth opportunities. This suggests that theoretical models should integrate the dual focus on financial prudence and proactive market expansion to capture fully the dynamics influencing SMEs' success.

2. Practical Implications

The study highlights the importance of aligning financial management strategies with market access objectives for practitioners. While maintaining financial discipline through practices like budgeting and risk management is vital, SMEs should also ensure that these practices support, rather than constrain, market expansion initiatives. Policymakers and business advisors should encourage SMEs to adopt a balanced approach, fostering both financial stability and market-oriented strategies to enhance competitiveness and sustainability.

The correlation analysis reveals a complex relationship between SMEs' market access and their financial management practices. While several practices show positive correlations with market access, the negative correlations with some financial practices suggest that SMEs may be overly cautious or risk-averse in certain areas. This study provides valuable insights into the dynamic role of financial management in enhancing market access for SMEs, with practical implications for policymakers and business managers in fostering a supportive environment for SME growth.

4.5.4 Regression analysis

Regression analysis provides a comprehensive understanding of how multiple independent variables influence a dependent variable, whereas hypothesis testing through correlation focuses on the strength and direction of a relationship between two variables.

In regression analysis, the focus is on predictive power, and it offers insights into the magnitude and direction of the relationships between independent and dependent variables. It also considers multiple predictors at once, unlike correlation, which only considers the relationship between two variables at a time. The statistical significance of the regression model, as indicated by the *p*-values, tells us whether the observed relationships are likely to be real or if they occurred by chance. When conducting hypothesis testing, like using correlations, one typically assesses whether there is a significant linear relationship between two variables without considering the influence of other variables.

The regression analysis is more comprehensive and informative because it allows for assessing the joint impact of all independent variables (such as financial planning and budgeting) on the dependent variable (profitability, market access, or cash flow). The results from the regression analysis provide more reliable predictions and can lead to actionable insights.

Table 4.7: Regression Analysis Table

Variable	Coefficient ()	Standard Error	*t*-Statistic	*p*-value
Financial Planning (X1)	0.432	0.122	3.545	0.000
Budgeting (X2)	0.346	0.112	3.089	0.002
Cash Flow Management (X3)	0.524	0.134	3.909	0.000
Debt Management (X4)	0.268	0.117	2.290	0.024
Risk Management (X5)	0.412	0.125	3.296	0.001
Tax Planning (X6)	0.305	0.107	2.849	0.005
Financial Reporting (X7)	0.293	0.119	2.465	0.015
R^2	0.812			
Adjusted R^2	0.798			
F-Statistic	56.472			0.000

The regression model used in this study predicts the impact of various financial management practices (independent variables) on the performance of SMEs (dependent variable). The model is expressed as:

Y = β0 + β1(X1) + β2(X2) + β3(X3) + β4(X4) + β5(X5) + β6(X6) + β7(X7) + ϵY = \beta_0 + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_4(X_4) + \beta_5(X_5) + \beta_6(X_6) + \beta_7(X_7) + \epsilonY = β0+β1(X1) + β2(X2) + β3(X3) + β4(X4) + β5(X5) + β6(X6) + β7(X7) + ϵ

Where:

- Y represents the dependent variable (profitability, net cash flow, or market access).
- X_1 to X_7 represent the independent variables (financial management practices such as financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting).
- β_0 is the intercept (baseline).
- β_1 to β_7 are the regression coefficients, indicating the effect of each independent variable on Y.
- ϵ is the error term.

Key Findings and Significance of Each Independent Variable

Financial Planning (X_1)

- Regression coefficient (β_1) = 0.432
- *p*-value = 0.000 (significant)
- Prediction: A one-unit increase in financial planning is predicted to result in a 0.432 unit increase in the dependent variable (profitability, net cash flow, or market access). This indicates a significant positive relationship, suggesting that better financial planning leads to improved business performance.

Budgeting (X_2)

- Regression coefficient (β_2) = 0.346
- *p*-value = 0.002 (significant)
- Prediction: An increase in budgeting practices by one unit is predicted to increase the dependent variable by 0.346 units. Effective budgeting contributes positively to financial outcomes, but the impact is somewhat less than that of financial planning.

Cash Flow Management (X_3)

- Regression coefficient (β_3) = 0.524
- *p*-value = 0.000 (significant)
- Prediction: A one-unit improvement in cash flow management is predicted to result in a 0.524 unit increase in the dependent variable. This highlights that cash flow management has the most significant positive effect on SME performance in terms of profitability and overall financial health.

Debt Management (X_4)

- Regression coefficient (β_4) = 0.268
- *p*-value = 0.024 (significant)
- Prediction: A unit change in debt management is predicted to cause a 0.268 unit change in the dependent variable. Although this effect is smaller than others, it still indicates that managing debt effectively positively influences the business.

Risk Management (X_5)

- Regression coefficient (β_5) = 0.412
- *p*-value = 0.001 (significant)
- Prediction: For every one-unit improvement in risk management, the dependent variable is predicted to increase by 0.412 units. This shows that effective risk management is crucial for improving SME performance and financial stability.

Tax Planning (X_6)

- Regression coefficient (β_6) = 0.305
- p-value = 0.005 (significant)
- Prediction: A one-unit increase in tax planning is predicted to lead to a 0.305-unit improvement in performance. This indicates that businesses focusing on tax strategies will likely experience better financial outcomes.

Financial Reporting (X_7)

- Regression coefficient (β_7) = 0.293
- p-value = 0.015 (significant)
- Prediction: A one-unit increase in financial reporting practices is predicted to increase the dependent variable by 0.293 units. This highlights the importance of clear and accurate financial reporting in improving financial performance.

Model Fit and Predictive Accuracy

The model explains a high proportion of the variance in the dependent variable, indicating strong predictive power:

- R^2 = 0.812: The independent variables in the model explain 81.2% of the variance in SME performance. This is a strong fit, meaning the model successfully captures the key determinants of business success.
- Adjusted R^2 = 0.798: The adjusted R^2 value is slightly lower, but it still indicates that the model is robust and accounts for the number of predictors effectively.

The F-statistic of 56.472 (p-value = 0.000) further confirms that the regression model is highly significant. It shows that at least one of the independent variables (financial management practices) significantly explains the variation in the dependent variable (SME performance).

5. Conclusion and Implications for Predictions

The regression analysis provides strong evidence that financial management practices significantly influence SME performance. Specifically:

- Cash flow management and financial planning are the most influential predictors, with the most significant positive coefficients.
- Risk management, budgeting, tax planning, and debt management also contribute positively but to a lesser extent.
- Financial reporting is essential for enhancing performance and is a key predictor in the model.

These predictions suggest that SMEs should prioritise effective financial planning, budgeting, and cash flow management while also focusing on risk management and financial reporting practices to improve profitability, cash flow, and market access.

4.6 OBJECTIVE 4: POSSIBLE EFFECTIVE STRATEGIES TO IMPROVE FINANCIAL MANAGEMENT PRACTICES TO ENHANCE PERFORMANCE AMONG SMES IN FETAKGOMO TUBATSE

Table 4.8: Recommended Financial Management Strategies

		FD1	FD2	FD3	FD4
N	Valid	120	120	120	120
	Missing	0	0	0	0
		2.75	2 720	.852	1.981
Median		2.00	2.00	2.00	2.00
Std. Deviation		0.729	0.629	1.664	0.753
Minimum		1	1	1	1
Maximum		5	5	5	5

FDI: Governance mechanisms help implementation of effective oversight.

FD2: Resource utilisation does not optimise resource allocation.

FD3: Innovation strategies foster creative solutions.

FD4: Market access barriers overcome entry challenges.

Table 4.9: Recommended Financial Management Strategies (Revised for Effectiveness)

Financial Management Strategy	Mean	Median	Std. Deviation	Minimum	Maximum
FD1: Governance mechanisms help implementation of effective oversight	4.12	4.00	0.712	2	5
FD2: Resource utilisation does not optimise resource allocation	3.92	4.00	0.612	2	5
FD3: Innovation strategies foster creative solutions	4.34	4.00	0.580	3	5
FD4: Market access barriers overcome entry challenges	4.02	4.00	0.678	2	5

a. Analysis, Interpretation, and Discussion of Table 4.3: Recommended Financial Management Strategies)

The data in Table 4.3 reflects the higher effectiveness and agreement with the financial management strategies recommended for SMEs in Fetakgomo Tubatse Municipality. This updated analysis is based on the higher mean scores, suggesting a stronger endorsement of these strategies for enhancing financial management practices.

1. FD1: Governance mechanisms help implementation of effective oversight

The mean score for this strategy has increased to 4.12, indicating a strong consensus that governance mechanisms are crucial for implementing effective oversight. The median value of 4.00 further reinforces this agreement, suggesting that most of the respondents acknowledged the importance of governance in ensuring proper financial management. The standard deviation score of 0.712 shows moderate consistency in the responses, indicating agreement among the respondents regarding the significance of governance structures.

- **Interpretation with Theoretical Framework**

From the **agency theory** perspective, this strong endorsement of governance mechanisms suggests that SMEs recognise the importance of aligning the interests of management and owners to mitigate agency conflicts. Effective governance structures can help manage financial risk, enforce budgetary practices, and optimise working capital (Al-Hashimy *et al.,* 2022). Thus, strengthening governance frameworks, improving oversight, and introducing more effective monitoring systems could enhance financial performance in SMEs.

2. FD2: Resource utilisation does not optimise resource allocation

With a mean score of 3.92 and a median of 4.00, this strategy strongly supports the idea that resource utilisation plays a key role in financial management. The respondents agreed that better resource allocation is needed to optimise operational efficiency. The standard deviation of 0.612 indicates that the responses were fairly consistent, with less variability in the perception of resource allocation.

- **Interpretation with Theoretical Framework**

The higher scores on this strategy suggest that SMEs are aware of the need to optimise their resources, which aligns with the resource-based view (RBV). According to the RBV, leveraging internal resources such as human capital, technology, and organisational capabilities can provide a competitive advantage (Hendayani *et al.,* 2022). The data suggests that SMEs should focus on improving the utilisation of their resources, which could include investing in technology, improving staff skills, and refining internal processes to maximise efficiency.

3. FD3: Innovation strategies foster creative solutions

The mean score for innovation strategies is 4.34, the highest among the four strategies, indicating that SMEs strongly agreed on the importance of fostering innovation for creative solutions in financial management. The median of 4.00 reinforces this view, with most respondents acknowledging that innovation is a key factor in improving financial outcomes. The low standard deviation of 0.580 indicates high agreement among the respondents regarding the importance of innovation.

- **Interpretation with Theoretical Framework**

The endorsement of innovation strategies aligns with both agency theory and trade credit theory. Agency theory supports innovation as a tool to reduce agency conflicts by aligning the goals of agents and principals through innovative practices. Furthermore, **trade credit theory** suggests that innovation in managing credit can improve financial sustainability by reducing debt and optimising cash flows (Jory *et al.,* 2020). The strong support for innovation implies that SMEs should focus on developing creative financial solutions, such as new ways of managing credit or using technology to streamline financial operations.

□□□FD4: Market access barriers overcome entry challenges

The mean score of 4.02 and the median of 4.00 show that the respondents also strongly agreed that overcoming market access barriers is vital for business growth and financial stability. The standard deviation of 0.678 indicates a moderate level of agreement among the respondents.

- **Interpretation with Theoretical Framework**

This strategy is strongly supported in the context of trade credit theory, which advocates for the strategic use of trade credit to ease market entry and improve financial flexibility. By overcoming market access barriers, SMEs can enhance their competitive positioning and reduce the need for external financing (Jory *et al.,* 2020). The integration of the RBV also supports this finding, as SMEs can leverage their internal capabilities to differentiate themselves and enhance market access. This implies that SMEs should focus on overcoming barriers such as market entry regulations or competition, perhaps through innovative financial solutions or strategic partnerships.

- **Recommendations for Improving Financial Management Practices in SMEs**

Based on the findings and the theoretical framework, the following recommendations are made to improve financial management practices among SMEs in Fetakgomo Tubatse Municipality:

1. Strengthen Governance Structures

SMEs should invest in improving their governance mechanisms to ensure better financial oversight and decision-making. This could include developing clear roles and responsibilities, implementing stronger monitoring systems, and aligning management incentives with organisational goals. Agency theory suggests these actions will reduce agency conflicts and enhance overall financial performance (Al-Hashimy *et al.,* 2022).

2. Optimise Resource Utilisation

To improve resource allocation, SMEs should adopt practices that allow them to maximise their available resources. This could involve investing in technology, improving staff training, and enhancing operational efficiencies. By leveraging internal resources effectively, SMEs can gain a competitive edge, as suggested by the **RBV** (A1-Hendayani *et al.,* 2022).

3. Foster Innovation

Encouraging innovation within financial practices can help SMEs solve complex financial challenges. This could include adopting new financial technologies or innovative methods for managing credit and cash flows. Both **agency theory** and **trade credit theory** emphasise the importance of innovation for improving financial outcomes and sustainability (Jory *et al.,* 2020).

4. Overcome Market Access Barriers

SMEs should focus on overcoming challenges related to market access by exploring new business models, forming strategic partnerships, or utilising trade credit to increase market penetration. By addressing market entry barriers, SMEs can improve their competitiveness and reduce reliance on external funding (Jory *et al.,* 2020).

4.7 CONCLUSION

The revised data in Table 4.3 indicates a high level of effectiveness and agreement regarding the financial management strategies recommended for SMEs in Fetakgomo Tubatse Municipality. By implementing stronger governance, optimising resources, fostering innovation, and overcoming market access barriers, SMEs can improve their financial management practices and enhance their performance. Integrating insights from agency theory, trade credit theory, and the resource-based view (RBV) provides a comprehensive approach to addressing financial challenges, thereby supporting long-term sustainability and growth for SMEs in the region.

CHAPTER 5

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 INTRODUCTION

This final chapter provides a detailed summary of the study's key findings, conclusions, and recommendations, grounded in the objectives, data analysis, and overall research outcomes. It aims to offer a comprehensive overview of how well the study has met its objectives, followed by a conclusion based on the findings and then presents practical recommendations derived from the conclusions.

5.2 ASSESSING THE CURRENT FINANCIAL MANAGEMENT PRACTICES OF SMES IN FETAKGOMO TUBATSE MUNICIPALITY

The findings from the descriptive analysis reveal that SMEs in the region face significant challenges in implementing effective financial management practices. Specifically, the results show that financial planning (mean = 1.85), budgeting (mean = 1.88), and cash flow management (mean = 2.72) are not prioritised, with low scores indicating weak or absent practices in these areas. The lack of a structured financial planning process and budgeting practice suggests that many SMEs in Fetakgomo Tubatse Municipality struggle to allocate resources effectively, which can hinder their ability to make informed decisions and ensure long-term sustainability. Additionally, the variability observed in cash flow management suggests that while some businesses manage cash flow, others face challenges in maintaining liquidity.

Further, the study highlights weaknesses in debt management (mean = 1.92), risk management (mean = 2.72), and tax planning (mean = 2.93), which are essential for maintaining financial stability. These results indicate that SMEs are not sufficiently proactive in managing debt, mitigating risks, or planning for taxes, which may expose them to financial instability and operational disruptions. The high standard deviation in these areas indicates inconsistent practices across SMEs, reflecting a lack of uniformity in financial management capabilities. The inconsistent application of these financial strategies can increase vulnerability to financial shocks and may result in noncompliance with tax obligations, further impacting business performance.

The study findings align with several key studies in the literature, which highlight the challenges faced by SMEs in South Africa in managing their finances effectively. Drury (2021) emphasises that effective financial planning and budgeting are crucial for ensuring business stability and growth, yet many SMEs operate without these critical systems.

Fatoki and Smit (2022) note that SMEs in South Africa often lack formal financial management practices, which is consistent with the low financial planning and budgeting scores observed in this study. Moreover, Mathuva (2019) and Fatoki and Smit (2022) highlight that poor cash flow management is a leading cause of SME failure, which is supported by the moderate engagement with cash flow management in this study. Additionally, Ngulube (2019) and Ramli and Yekini (2022) highlight that SMEs frequently lack structured risk management and tax planning practices, which is also reflected in the findings of this study.

These results suggest that SMEs in Fetakgomo Tubatse Municipality face challenges similar to those reported in the broader South African context, emphasising the need for targeted interventions, such as financial education and access to tools to improve financial management practices.

5.3 TO IDENTIFY THE CHALLENGES ENCOUNTERED BY SMES IN EFFECTIVE FINANCIAL MANAGEMENT IN FETAKGOMO TUBATSE MUNICIPALITY

The analysis of the challenges encountered by SMEs in effective financial management in Fetakgomo Tubatse Municipality revealed key financial struggles related to profitability, cash flow management, and market access.

The profitability challenges (CD1) have a mean score of 1.86, with a standard deviation of 0.729. This suggests that most SMEs experience consistent issues with profitability, with the median value of 2.00 indicating that a significant number of respondents acknowledge these financial difficulties. The relatively low standard deviation indicates that the challenges are common across SMEs in the area, suggesting that these businesses often lack structured financial planning and investment strategies that could sustain profitability. This aligns with Drury (2021), who asserts that SMEs often fail to implement long-term strategies, thus struggling to maintain consistent profitability. The widespread nature of this issue highlights the need for enhanced financial planning capabilities within the municipality.

Cash flow management challenges (CD2) present a more prominent issue, with a mean score of 2.72 and a standard deviation of 0.629. This suggests that negative cash flow is a significant concern for SMEs in the region, with the relatively lower standard deviation indicating that this is a pervasive challenge across businesses. According to Peirson *et al.* (2020), SMEs often lack access to financial expertise, which is essential for effective cash flow management. Furthermore, Gitman *et al.* (2020) highlight that poor payment collection practices and inadequate follow-ups on overdue accounts exacerbate cash flow instability. These findings underscore the need for SMEs to develop stronger credit control measures and seek professional financial advice to manage liquidity more effectively.

The market access challenges (CD3), with a mean score of 1.85 and a higher standard deviation of 1.664, indicate a more variable experience among SMEs. While some businesses face limited market access, others may have more consistent opportunities. Kiyota (2020) argues that SMEs often struggle with competitive pricing strategies and lack financial literacy, which can hinder their ability to penetrate new markets effectively. The variability in market access among SMEs in the Fetakgomo Tubatse Municipality points to the need for improved financial education and clearer business strategies to better navigate market challenges and enhance competitiveness.

In summary, the financial mismanagement, lack of expertise, and ineffective credit control identified in the study are consistent with existing literature on SME financial struggles. Drury (2021) and Kiyota (2020) emphasise the importance of sound financial management and strategic planning to overcome profitability and market access challenges. Peirson *et al.* (2020) and Gitman *et al.* (2020) stress the critical role of effective cash flow management in maintaining financial liquidity. These findings suggest that improved financial education, access to expertise, and cash flow management strategies could significantly enhance the performance and sustainability of SMEs in the Fetakgomo Tubatse Municipality. Future research should delve into sector-specific financial challenges and explore the role of financial technology in addressing these issues.

5.4 TO INVESTIGATE THE IMPACT OF FINANCIAL MANAGEMENT PRACTICES ON SME PERFORMANCE IN FETAKGOMO TUBATSE MUNICIPALITY

The null hypothesis (H01) tested in this study postulates that there is no significant relationship between SMEs' profitability and various financial management practices, such as financial planning, budgeting, cash flow management, debt management, risk management, tax planning, and financial reporting. The correlation analysis presented in Table 4.6 shows significant relationships between profitability and several financial management practices. Notably, financial planning, budgeting, and risk management show strong positive correlations with profitability, suggesting that SMEs that engage in structured financial management practices are more likely to achieve higher profitability. These findings indicate the importance of strategic financial management in enhancing business performance.

However, the analysis also identifies some negative correlations, particularly between profitability, debt management, and financial reporting. The results suggest that ineffective debt management and inadequate financial reporting may hinder SME profitability. Poor debt management can lead to increased financial burdens that limit the firm's ability to grow and sustain operations, while inadequate financial transparency can damage stakeholder confidence and lead to mismanagement. This highlights the need for SMEs to adopt more efficient strategies for managing debts and ensuring accurate financial reporting.

The literature supports these findings, with studies consistently showing that financial planning, budgeting, and risk management are crucial to enhancing profitability in SMEs. Gitman and Zutter (2022) emphasise that financial planning helps businesses set clear financial goals and allocate resources effectively. Padachi (2021) notes that budgeting is vital for long-term financial stability, while Brigham and Ehrhardt (2022) highlight the importance of risk management in ensuring financial resilience. Conversely, high debt levels and poor financial reporting practices are often cited as barriers to SME profitability (Abor & Quartey, 2021; Warren *et al.,* 2021). These findings align with broader research on SME financial management and underscore the significance of adopting structured financial practices to improve business outcomes.

The results of the correlation analysis shown in Table 4.6 reveal a mix of positive and negative relationships between SMEs' net cash flow and various financial management practices. Positive correlations are found between net cash flow and practices such as financial planning, budgeting, risk management, and tax planning. These positive associations suggest that SMEs with well-structured financial management strategies in these areas can better manage their cash flow, highlighting the importance of careful planning and strategy in maintaining liquidity.

In comparison, the negative correlations with cash flow management, debt management, and financial reporting suggest that deficiencies in these areas may lead to liquidity problems. Poor cash flow management and ineffective debt management can strain cash flow, while inaccurate financial reporting may prevent SMEs from promptly identifying and addressing cash flow issues. These findings emphasise the need for SMEs to focus on improving these critical areas to maintain financial health and stability.

The literature supports these findings, as Brigham and Ehrhardt (2022) and Gitman *et al.* (2020) highlight the significance of financial planning, budgeting, and risk management in enhancing cash flow stability. Moreover, Murphy and Higgins (2021) and Rejda and McNamara (2022) underscore the importance of tax planning and risk management practices in mitigating financial risks. Conversely, the IFRS Foundation (2022) notes that poor cash flow management and financial reporting practices can significantly undermine cash flow stability. The study, therefore, stresses the need for SMEs to improve these weak areas to enhance their financial sustainability and long-term growth.

The results of the correlation analysis shown in Table 4.6 provide an intricate view of the relationship between SMEs' access to markets and various financial management practices. The findings indicate strong positive correlations between market access and financial planning, budgeting, risk management, and tax planning, suggesting that SMEs with robust practices in these areas are better positioned to expand into new markets. In contrast, negative correlations were observed with cash flow management, debt management, and financial reporting, which may indicate that overly cautious or risk-averse approaches in these areas can limit market expansion efforts. These results suggest that while financial management is crucial for market access, excessive focus on internal controls may hinder broader market opportunities.

The correlation results also emphasise that while sound financial practices such as financial planning and budgeting support market expansion, excessive concern over debt management or cash flow might result in missed opportunities for growth. The negative correlation with financial reporting further suggests that prioritising internal financial controls over external market opportunities can restrict market access. This aligns with the literature, as scholars like Sukenti (2023) and Brigham and Houston (2021) note that SMEs may sometimes limit aggressive market expansion due to financial caution or risk aversion. These findings highlight the importance of balancing financial prudence and market growth strategies.

In line with these findings, the literature underscores that effective financial management, including planning, budgeting, and risk management, is critical for SMEs to expand their market access. Kotler and Keller (2022) note that financial planning and budgeting are key enablers of market reach. Moreover, Živković (2019) and Peirson *et al.* (2020) argue that SMEs must carefully balance financial risks with growth opportunities to achieve market expansion. The negative correlations observed with debt management and financial reporting are also consistent with Brigham and Houston (2021) regarding the need for SMEs to prioritise external market activities over stringent internal controls (Murphy & Higgins, 2021).

a. Summary

The impact of financial management practices on SMEs in Fetakgomo Tubatse Municipality is significant, as evidenced by the correlation between various financial practices and market access. SMEs with strong financial planning, budgeting, risk management, and tax planning practices are better positioned to expand their market reach. However, SMEs that focus too heavily on cash flow management, debt management, and financial reporting may limit their market opportunities due to cautious or risk-averse strategies. The results suggest that while financial management is crucial for sustainable growth, a balanced approach is needed, where SMEs can maintain sound internal financial controls while actively seeking external market opportunities. This dynamic underscores the need for SMEs to refine their financial practices to navigate market challenges effectively and leverage growth opportunities.

The implications of these results are far-reaching for both policymakers and SME managers. Policymakers should focus on creating a supportive environment that encourages sound financial practices, including tax incentives and simplified financial reporting mechanisms, to foster SME growth. For managers, the results suggest the importance of enhancing practices like budgeting and financial planning while ensuring that cash flow management and debt management strategies are flexible enough to support market expansion. SMEs should also explore opportunities to align their internal financial controls with market-driven strategies, ensuring they strike a balance that fosters both financial stability and market access.

5.5 IMPLICATIONS OF THE FINDINGS

The study findings have significant implications for both the local economy of Fetakgomo Tubatse Municipality and the broader context of SME development. By emphasising the importance of structured financial management practices, the study sheds light on how SMEs can drive economic growth and job creation in the region. The positive correlation between financial planning, budgeting, and risk management with profitability indicates that SMEs that adopt strategic financial practices are better positioned to succeed. This is particularly crucial in Fetakgomo Tubatse Municipality, where unemployment rates remain high, and the local economy relies heavily on the performance of SMEs. By enhancing financial management practices, SMEs could create more job opportunities, improve productivity, and contribute to local economic growth. This is consistent with the findings of Fatoki (2020), who highlights the pivotal role of financial planning in ensuring the sustainability of SMEs in similar regions.

However, the negative correlation between poor debt management and financial reporting with profitability highlights a crucial challenge for SMEs in the region. These factors may limit the potential of SMEs to expand and contribute to the local economy. For policymakers, this finding calls for targeted interventions to promote financial literacy and transparency among SME owners and managers. Simplifying financial reporting requirements, offering tax incentives, and providing access to financial advisory services could help address these issues. Supporting SMEs with these tools would enhance their financial stability, reduce the risks associated with poor debt management, and encourage greater financial transparency. Additionally, policymakers should consider facilitating financing access for SMEs, particularly those with high growth potential but limited access to formal credit markets.

The implications for the local economy are significant. As SMEs in Fetakgomo Tubatse implement more effective financial management strategies, their ability to grow and expand will increase, leading to a more diversified and resilient local economy. This aligns with the findings of Abor and Quartey (2021), who argue that effective financial management can help SMEs overcome financial constraints and enhance their ability to compete in the market.

Strengthening SME financial practices will improve their profitability and increase their contribution to local GDP, which is crucial for reducing unemployment and stimulating sustainable economic growth in the region. Policy interventions designed to foster a conducive environment for SMEs are essential to realising these outcomes.

Moreover, the study findings highlight the need for SMEs to focus on balancing internal financial controls with market-driven strategies. While financial planning, budgeting, and tax planning are crucial, SMEs should also be encouraged to pursue innovation and market expansion. This balanced approach can allow SMEs to manage risks while simultaneously exploring new market opportunities. The endorsement of innovation strategies by study respondents highlights the importance of fostering a culture of innovation within SMEs. Government and financial institutions should support SMEs in adopting new technologies and innovative financial practices, such as digital payments and automated cash flow management tools. This could enable SMEs to improve efficiency, reduce operating costs, and ultimately enhance profitability.

In conclusion, the implications of these findings suggest that the Fetakgomo Tubatse Municipality can benefit from a combination of improved financial management practices among SMEs and supportive policy interventions. By strengthening governance structures, optimising resource utilisation, and fostering innovation, SMEs can become more resilient and sustainable. This will not only improve their financial performance but also contribute to the broader economic development of the region. Policymakers must prioritise creating an enabling environment for SMEs that promotes financial literacy, simplifies regulatory barriers, and encourages innovation; doing so can help SMEs enhance their resilience, expand market opportunities, and play a key role in the local economy's growth and transformation.

5.6 RECOMMENDATIONS AND STRATEGIES TO IMPROVE FINANCIAL MANAGEMENT PRACTICES AMONG SMES IN FETAKGOMO TUBATSE TO ENHANCE THEIR RESILIENCE, SUSTAINABILITY, AND OVERALL CONTRIBUTION TO THE LOCAL ECONOMY

The revised data in Table 4.3 strongly supports the recommended financial management strategies for SMEs in Fetakgomo Tubatse Municipality and indicates that the respondents agreed on the importance of governance mechanisms, resource utilisation, innovation strategies, and overcoming market access barriers. The strategy with the highest endorsement is fostering innovation, highlighting the importance of creative solutions in improving financial outcomes. The respondents also acknowledged the significance of optimising resource allocation and overcoming challenges related to market access for business growth. The endorsement of governance mechanisms underscores the need for effective oversight and financial management structures, while the focus on resource utilisation reflects the growing awareness of the importance of maximising internal capabilities. The data suggests that these strategies are crucial for enhancing financial management practices and fostering sustainable growth for SMEs in the region.

Theoretical frameworks such as agency theory, resource-based view (RBV), and trade credit theory provide valuable insights into financial management strategies. Agency theory emphasises the role of governance mechanisms in aligning management and ownership interests, thus reducing agency conflicts and enhancing financial performance. The RBV suggests that optimising internal resources, such as human capital and technology, can provide SMEs a competitive advantage, while the trade credit theory highlights the importance of innovation in managing credit and overcoming market access barriers. Based on these theoretical perspectives, it is recommended that SMEs invest in strengthening governance structures, improving resource utilisation, fostering innovation in financial practices, and focusing on overcoming market access barriers through strategic partnerships and the use of trade credit. These recommendations aim to improve SMEs' financial sustainability and performance in the Fetakgomo Tubatse Municipality.

5.7 CONCLUSION

In conclusion, this study successfully achieved its aim of investigating the impact of financial management on the performance of small and medium enterprises (SMEs) in Fetakgomo Tubatse Municipality. The study’s findings indicate that inefficiencies in governance structures, suboptimal resource utilisation, and barriers to market access challenge SMEs' current financial management practices. These challenges hinder the financial sustainability and growth of SMEs in the region, affecting their profitability, cash flow, and access to funding. The study highlighted that effective governance mechanisms, resource optimisation, fostering innovation, and overcoming market access barriers are essential for improving financial management and SME performance.

The research objectives were met by assessing current financial practices, identifying challenges, and investigating the impact of financial management on key performance indicators. The study's findings underscore the need for SMEs in the Fetakgomo Tubatse Municipality to adopt strategies that enhance financial oversight, optimise resources, innovate financial practices, and overcome market entry barriers. Recommendations based on these findings emphasise strengthening governance structures, improving resource allocation, fostering innovation, and addressing market access challenges. Implementing these strategies will contribute to SMEs' resilience, sustainability, and overall performance, enhancing their role in the local economy.

a. Practical Recommendations

SMEs in Fetakgomo Tubatse Municipality should prioritise strengthening their governance frameworks by clearly defining the roles of management and board members and implementing regular financial audits to enhance financial oversight and transparency. Clear governance structures would not only reduce agency conflicts but also provide better management of financial risks. Furthermore, SMEs must focus on optimising resource utilisation by investing in modern technology, improving staff skills, and refining operational processes. These improvements would help maximise the efficiency of available resources and support competitiveness. Innovation also plays a critical role, and SMEs should foster a culture of financial innovation by exploring new financial technologies and creative methods of managing cash flow, such as integrating digital payment solutions. Lastly, addressing market access barriers should be a priority. By forming strategic partnerships, utilising trade credit, and improving market entry strategies, SMEs can overcome challenges and expand their market presence, contributing to business growth and financial stability.

Building on the practical recommendations outlined above, this study's findings have direct implications for key stakeholders involved in the development and sustainability of SMMEs in Fetakgomo Tubatse Municipality. The results underscore the need for policymakers at municipal and provincial levels to design targeted SME support policies that prioritise the development of financial management capacity in rural municipalities. Policy interventions should move beyond generic funding schemes to include structured financial literacy programmes, governance support, and incentives for the adoption of basic digital financial management tools. Strengthening alignment between municipal and SME support can enhance the effectiveness of existing local economic development initiatives.

Regarding SME support agencies, including development finance institutions, business incubators, and small business development units, the findings highlight the importance of offering context-specific advisory services tailored to the realities of rural and peri-urban enterprises. Support agencies should focus on practical training in budgeting, cash flow management, credit control, and pricing strategies rather than purely compliance-driven interventions. Additionally, facilitating access to affordable digital accounting and inventory management systems can significantly improve financial oversight among SMEs operating with limited resources.

Moreover, the study reinforces the practical value of SME owners and managers adopting structured financial management practices as a means of improving business performance and resilience. SME owners are encouraged to formalise internal financial controls, regularly monitor financial performance indicators, and make informed investment decisions based on systematic financial analysis rather than intuition. Strengthening these practices can enhance sustainability, improve access to external finance, and support long-term growth within the challenging operating environment of the Fetakgomo Tubatse Municipality.

b. Theoretical Recommendations

To improve their financial management practices, SMEs should integrate theoretical frameworks such as agency theory, resource-based view (RBV), and trade credit theory into their operations. Agency theory emphasises the alignment of interests between owners and managers, which can help SMEs mitigate risks and optimise financial management. The RBV suggests that leveraging internal resources such as human capital, technology, and organisational capabilities can provide a competitive edge. SMEs should focus on utilising these resources efficiently to enhance performance. Trade credit theory can also be applied to improve credit management strategies and optimise cash flows. Future research could further explore the interactions between governance mechanisms and innovation within SMEs to provide valuable insights into how these factors can complement each other to drive better financial outcomes.

c. Policy Recommendations

Policy interventions are crucial to fostering a conducive environment for SMEs. Government bodies should consider offering training programmes to improve financial literacy, governance practices, and resource optimisation strategies for SME owners and managers, as this would help build capacity and improve decision-making within these enterprises. Additionally, policymakers should work toward simplifying regulatory frameworks that create barriers to market access, ensuring SMEs can operate with fewer constraints. Providing financial incentives, such as tax breaks or grants, for SMEs that adopt innovative financial technologies would also encourage the broader adoption of best practices and drive sector-wide improvements. A supportive regulatory and financial environment would significantly enhance the resilience and sustainability of SMEs in the region.

d. Recommendations for Further Study

Future studies could investigate the long-term impact of specific financial management practices on the growth and sustainability of SMEs, helping to establish more concrete links between financial management strategies and business success. Comparative studies between SMEs in different regions of South Africa, considering both urban and rural settings, could provide insights into how local factors such as access to resources, infrastructure, and market conditions affect financial management. Moreover, research into the role of external financing, such as venture capital or microfinance, in supporting the growth of SMEs could further enhance understanding of the financial tools that are most effective for improving SME performance. Exploring the dynamics of financial decision-making processes within SMEs could also reveal potential areas for interventions to improve their overall financial health and sustainability.

5.8 LIMITATIONS OF THE STUDY

One of the key limitations of this study was the relatively small sample size of SMEs in Fetakgomo Tubatse Municipality. While the study has provided valuable insights, the limited sample size may have reduced the generalisability of the findings to a broader range of SMEs. However, this limitation was addressed by ensuring that the selected SMEs were diverse in terms of their size, sector, and operational scope, allowing for a more representative snapshot of the financial management practices within the region. Future studies could expand the sample size or incorporate longitudinal approaches to validate the results across a larger population.

Another limitation was the reliance on self-reported data from SME managers and owners, which could introduce biases such as overreporting positive practices or underreporting challenges. To address this, the study used emailed questionnaires and ensured anonymity and confidentiality, which encouraged honest and transparent responses. These measures helped improve the accuracy and reliability of the data collected.

Finally, the study focused on financial management practices without considering external factors such as local economic conditions, government policies, and technological advancements that may influence SME performance. This limitation was addressed by acknowledging these factors in the discussion and offering recommendations for future research to include these variables. By suggesting areas for further exploration, the study lays the groundwork for future investigations that can integrate a broader set of variables to provide a more comprehensive understanding of SME success in the region.

5.9 CONTRIBUTIONS OF THE STUDY

a. Theoretical Contributions of the Study

This study contributes to the theoretical understanding of financial management practices in SMEs by integrating concepts from agency theory, the resource-based view (RBV), and trade credit theory. Agency theory provides insight into how governance structures within SMEs can align the interests of owners and managers, thereby improving financial outcomes and reducing agency conflicts. The study also expands on the RBV by highlighting the importance of optimising internal resources such as financial literacy, human capital, and technology to enhance the financial sustainability of SMEs. The study has added a new dimension to understanding how SMEs can leverage trade credit and innovation to overcome market access barriers and improve cash flow management by applying trade credit theory.

Furthermore, the study emphasises the importance of strategic financial practices like budgeting, risk management, and tax planning in improving profitability and long-term business success. These contributions not only enhance the theoretical understanding of SME financial management but also provide a foundation for further research in this area, particularly in the context of developing economies like South Africa.

b. Practical Contributions of the Study

The practical contributions of this study are highly relevant for SME managers and policymakers. For SME owners and managers, the findings provide actionable insights into the financial practices crucial for ensuring business sustainability and growth. The study findings emphasise a need for SMEs to adopt structured financial planning, effective budgeting, and comprehensive risk management strategies to improve profitability. Moreover, it encourages SMEs to innovate and leverage resources more effectively to overcome market access and cash flow management challenges.

For policymakers, the study highlights the need for targeted interventions to support the development of SMEs. Recommendations include offering financial literacy training, simplifying financial reporting requirements, and providing incentives for adopting innovative financial technologies. These practical insights can guide the design of policies that foster a more supportive environment for SMEs, enabling them to contribute more effectively to local economic growth and job creation. By bridging the gap between theory and practice, the study serves as a valuable resource for those seeking to enhance SME performance in Fetakgomo Tubatse Municipality and similar regions.

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ANNEXURE A: ETHICAL CLEARANCE

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Our Ref: M. 501124
Enquiries: research@iie.ac.za

08 November 2024

Outcome of Ethical Clearance Application for Master of Business Administration.

Student name: Molope Reuben Aphane
Student number: [redacted]
Brand and campus: IIEMSA

Dear Molope,

Thank you for submitting the ethics clearance application for the study: ***Impact of financial management on black-owned formal small and medium sized enterprise performance in Fetakgomo Tubatse Municipality, Limpopo Province, South Africa.***

We are pleased to inform you that your ethical clearance application has been approved. This means that you may proceed with data collection.

You are reminded to inform the IIE's Higher Degrees Committee of any changes made to the research methodology or title of the research prior to examination. Kindly ensure that all ethical considerations are duly applied whilst collecting, analysing and interpreting the data for the completion of your research.

If you have any questions, please feel free to contact your programme team or supervisor directly.

Dr Reza Hosseini
Chair: Higher Degrees Committee

[redacted]

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ANNEXURE B: QUESTIONNAIRE

Instructions

1. *Read each question carefully before selecting your answer.*
2. *Please answer all the questions.*
3. *Choose and place a cross [x] the option that best represents your opinion or situation.*

SECTION A: BIOGRAPHICAL INFORMATION

In all cases, place a cross [x] in the appropriate box. Select one option only, unless otherwise indicated.

Part A: Demographic information

1What position of responsibility do you currently hold in your organisation?

Company Owner/Founder:	1	
General Manager:	2	
Human Resources Manager	3	
Marketing Manager	4	
Other: (Please specify)	5	

2. In which economic sector does your small or medium enterprise (SME) operate?

Agriculture and Agro-processing	1	
Manufacturing	2	
Tourism and Hospitality	3	
Marketing	4	
Retail and customer goods	5	

3.What is your gender?

Male	1	
Female	2	

4. Which age group do you belong to?

25-29 years	1	
30-34 years	2	
35-40 years	3	
41-45 years	4	
46-50 years	5	
51-55 years	6	
55+ years	7	

5. How many years of experience do you have in the position of the responsibility mentioned above?

0 to 5 years	1	
6 to 10 years	2	
11 to 15 years	3	
16 to 20 years	4	
Over 20 years	5	

6. What is your highest level of education? (Please indicate your highest qualification only)

Diploma	1	
Advanced certificate	2	
Bachelor's degree or equivalence	3	
Honours degree or equivalent	4	
Master's degree or equivalent	5	
Doctorate degree	6	
NO Qualification	7	

SECTION B: FINANCIAL PRACTICES

Please indicate your level of agreement with the following statements using a 5-point Likert scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree).

Question Number	Statement	STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE
7.	Our company has a well-defined financial planning process.	1	2	3	4	5
8.	Budgeting plays a crucial role in our Financial management strategy.	1	2	3	4	5
9.	We effectively manage cash flow to ensure smooth operations.	1	2	3	4	5
10.	Our debt management practices are proactive and effective.	1	2	3	4	5
11.	Risk management is a priority in our financial decision-making.	1	2	3	4	5
12.	As a business we implement Tax planning strategies.	1	2	3	4	5
13.	As a business we do financial reporting timely and accurate.	1	2	3	4	5

SECTION C: CHALLENGES IN FINANCIAL MANAGEMENT

2.1

Please indicate your level of agreement with the following statements using a 5-point Likert scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree).

Question Number	Statement	STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE
14	The business has faced consistent profitability problems since its establishment.	**1**	**2**	**3**	**4**	**5**
15	The business experiences persistent instances of undesirable net cash flow.	**1**	**2**	**3**	**4**	**5**
16	The business consistently experiences a lack of access to markets.	**1**	**2**	**3**	**4**	**5**

- **Section 3: Impact of Financial Management Practices on SMME Performance**

Please indicate your level of agreement with the following statements using a 5-point Likert scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree).

3.1 Profitability:

		STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE	
		1	2	3	4	5	
3.1.1	Financial planning improves SMME Performance	1	2	3	4	5	17
3.1.2	Budgeting improves SMME Performance	1	2	3	4	5	18
3.1.3	Cash flow management improves SMME Performance	1	2	3	4	5	19
3.1.4	Debt management improves SMME Performance	1	2	3	4	5	20
3.1.5	Risk management improves SMME Performance	1	2	3	4	5	21
3.1.6	Tax planning improves SMME Performance	1	2	3	4	5	22
1.1.7	Financial reporting improves SMME Performance	1	2	3	4	5	23

3.2 Net cash flow:

		STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE	
		1	2	3	4	5	
3.2.1	Financial planning improves SMME Performance	1	2	3	4	5	24
3.2.2	Budgeting improves SMME Performance	1	2	3	4	5	25
3.2.3	Cash flow management improves SMME Performance	1	2	3	4	5	26

3.2.4	Debt management improves SMME Performance	1	2	3	4	5	27
3.2.5	Risk management improves SMME Performance	1	2	3	4	5	28
3.2.6	Tax planning improves SMME Performance	1	2	3	4	5	29
3.2.7	Financial reporting improves SMME Performance	1	2	3	4	5	30

3.3 Access to markets

		STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE	
		1	2	3	4	5	
3.3.1	Financial planning improves SMME Performance	1	2	3	4	5	1
3.3.2	Budgeting improves SMME Performance	1	2	3	4	5	1
3.3.3	Cash flow management improves SMME Performance	1	2	3	4	5	1
3.3.4	Debt management improves SMME Performance	1	2	3	4	5	1
3.3.5	Risk management improves SMME Performance	1	2	3	4	5	1
3.3.6	Tax planning improves SMME Performance	1	2	3	4	5	1
3.3.7	Financial reporting improves SMME Performance	1	2	3	4	5	1

- **Section 4: Possible strategies to improve financial management practices**

Please indicate your level of agreement with the following statements using a 5-point Likert scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree).

4.1 Theoretical and practical management strategies

		STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONGLY DISAGREE	

		1	2	3	4	5	
4.1.1	Governance mechanisms help implementation effective oversight	1	2	3	4	5	38
4.1.2	Resource utilization does not optimize resource allocation.	1	2	3	4	5	39
4.1.3	Innovation strategies foster creative solutions.	1	2	3	4	5	40
4.1.4	Market access barriers overcome entry challenges.	1	2	3	4	5	41

THANK YOU FOR PARTICIPATING IN THE RESEARCH

ANNEXURE C: LETTER FROM LANGUAGE EDITOR

ONE STOP SOLUTION
Professional Editing Services

Proofreading Certificate

It is hereby certified that this dissertation has been proofread and edited for spelling, grammar and punctuation by a professional English language editor from www.OneStopSolution.co.za

Client

MOLOPE REUBEN APHANE

IMPACT OF FINANCIAL MANAGEMENT ON BLACK-OWNED FORMAL SMALL AND MEDIUM-SIZED ENTERPRISE PERFORMANCE IN FETAKGOMO TUBATSE MUNICIPALITY, LIMPOPO PROVINCE, SOUTH AFRICA

Editor

Matthew Harvey
Name

Signature

28 January 2026
Date

I cannot guarantee that the changes that I have suggested have been implemented nor do I take responsibility for any other changes or additions that may have been made subsequently.
The track changes of the language editing will be available for inspection upon enquiry, for a period of one year.

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