

Do Accountancy Skills of Management Influence the Attainment of Key Financial Objectives in Selected South African Fast Moving Consumer Goods Small, Medium and Micro Enterprises?

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Abstract: In a South African dispensation SMMEs play an important socio-economic role as they add much needed value to the national economy. Unfortunately as much as 75 per cent of these business entities fail after being in operation for less than four years – a failure rate that is regarded to be among the worst in the world. In order for SMMEs to remain in operation key financial objectives need to be achieved and it is believed that the lack of skills (among other factors) may adversely affect the latter. Thus, for this study, the primary objective was to ascertain whether accountancy skills of members of management, of selected South African fast moving consumer goods (FMCG) Small, Medium and Micro Enterprises (SMMEs) had any influence over the attainment of their respective business entities' key financial objectives. Descriptive research was performed through the deployment of quantitative research methods whereby a survey was disseminated to 500 members of management of FMCG SMMEs. Stemming from the results, it became apparent that accountancy skills did have a positive statistically significant influence over sampled South African SMMEs' attainment of key financial objectives, but only to a marginal extent.

Keywords: Accountancy skills; SMMEs; South Africa; Financial objectives

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1. Introduction

According to a report by the Wholesale and Resale Sector Education Training Authority (W&R SETA) the significance of Small Medium and Micro Enterprises (SMMEs) is widely accepted around the globe (ILDPA, 2014). In South Africa, these business entities are viewed as separate and distinct business entities, including co-operative enterprises and non-governmental organisations, managed by one or more owner which, including its branches or subsidiaries, are predominantly carried on in any sector or subsector of the national economy (South Africa, 1996). Moreover, prior research (Nemaenzhe, 2010) found that South African SMMEs are legally charged with the attainment of three core-socio economic objectives, namely that of poverty alleviation, the reduction of unemployment and the boosting of the national economy. While taking into account that 90 per cent of all business entities in South Africa are classified as SMMEs (Mouloungui, 2012), it is not surprising that South African SMMEs provide employment opportunities to approximately 60 per cent of the national workforce while simultaneously contributing an estimated 50 per cent to the national Gross Domestic Product (GDP) (Naicker et al., 2017; Bruwer, 2016).

Notwithstanding the foregoing, the failure rate of South African SMMEs is disconcerting as is reported that 75 per cent of these business entities fail after being in existence for less than four years (Wiese, 2014; Ayandibu & Houghton, 2017). Otherwise stated, in recent times, more and more South African SMMEs have been failing on a monthly basis since the early-2000s (Biyase, 2009; Bruwer & Van Den Berg, 2017). This high failure rate is believed to be mainly caused by three factors, namely: 1) resources and opportunities (e.g. financial resources, human resources, etc.), 2) business management expertise (e.g. skills, knowledge, etc.), and 3) multiple origins of failure (e.g. strategic risk factors, operational risk factors, etc.) (Smit, 2012; Sin & Ng, 2013; Petersen et al., 2018; Masama & Bruwer, 2018).

According to a previous study (UWC, 2013) African SMMEs that placed emphasis on reducing the adverse influence of the risk category “business management expertise” increased their chances to remain in operation by 40 per cent. Alternatively stated, based on the aforementioned study, an enhancement of skills and knowledge of management resulted in better sustainability for African SMMEs. When taking into account the findings of a local study that an array of business skills were lacking both in South African SMME management (Bruwer & Smith, 2018), clear tangent planes emerge as to (probably) why South African SMMEs may have such high failure rates.

While government has made attempts at improving the sustainability of South African SMMEs, it has failed to include skills development as one of its strategies. According to the Department of Trade and Industry (DTI) Report an Integrated Strategy for Small Business Development (DTI, 2005) the South African government has acknowledged the role it should play in providing favourable

conditions to enable the growth of small business undertakings. One of the key features in this report is the issue of creating a conducive legislative framework that reduces red tape. These enabling environments illustrated in the DTI Report were further supported by the White Paper on National Strategy on the Development and Promotion of small business in South Africa. However, more than a decade after its implementation, much is still left to be desired in relation to the enhancement of South African SMME sustainability.

Throughout the remainder of this paper, discussion takes place under the following main headings: 1) conceptual framework, 2) research design, research methodology, research methods and ethical considerations, 3) results and discussion, 4) recommendation, and 5) conclusion and avenues for further research.

2. Conceptual Framework

Taking into account that this study made use of linear regression analysis, for the remainder of this section, applicable terms which were measured during the results and discussion section are clearly conceptualised. Relevant discussion for the remainder of this section takes place under the following headings: 1) financial objectives, and 2) accountancy skills.

2.1. Financial Objectives

Financial objectives can be regarded as monetary targets which will allow an organisation to remain in existence for the foreseeable future (Beck et al., 2016). Without clear objectives working towards sound financial indicators, a business is almost destined to fail. This is specifically supported by the notion that lenders and investors scrutinise the financial indicators of a business before providing credit or investing in it (Kotane & Kuzima-Merlino, 2012). While SMMEs might not have the same modern or advanced accounting services as their larger counterparts, they are expected to have at least the basic skill of bookkeeping (Petkovič & Rac, 2009). In core, the three main financial targets which should be achieved pertain to that of profitability (whether income is larger than expenses), solvency (whether assets are larger than liabilities) and liquidity (whether adequate cash is on hand to allow for business operations to continue as normal) (Petkovič & Rac, 2009; Ngary et al., 2014).

According to a study conducted by Bruwer & Coetzee (2017) South African SMMEs are not achieving their financial objectives. This may be directly associated with the phenomenon that these small business entities fail after being in existence for less than 36 months (Mwangi & Gachunga, 2014; Masama & Bruwer, 2018). Since one can only manage what one measures (Drucker, 1954) it may be that South African SMME management is not actively managing the attainment of their respective business entities' financial objectives as they are not actively (or clearly) measuring

it. The foregoing is highly probable as South Africa faces a scarce skills challenge that negatively impacts on the sustainability of SMMEs – one of which is that of accountancy skills which can be taught and learned (Bruwer & Smith, 2018).

2.2. Accountancy Skills

Accountancy skills should allow an individual to provide relevant business stakeholders with useful financial information in order for them to make the best economic business decisions (Bruwer, 2010; Mewse, 2011; Kamyabi & Devi, 2012). Otherwise stated accountancy skills pertain to a collection of accounting skills, business management skills, financial management skills and management skills. Each of these skills is briefly elaborated below as per the conceptualised definitions of Bruwer & Smith (2018):

- Accounting skills: Those competencies required to perform functions regarding the recording of transactions, reporting of the financial situation of an organisation and the providing of recommendations to enhance the financial situation of an organisation;
- Business management skills: Those competencies related to the holistic planning, -, organising-, leading- and controlling activities in a business;
- Financial management skills: Those competencies required to efficiently and effectively manage money in such a manner to accomplish financial objectives of a business entity;
- Management skills: Those competencies related to problem-solving, decision making, planning, delegation, communication and time management.

In a study by Abor and Quartey (2010) critical business skills are lacking in South African SMMEs; strongly related to that of accountancy skills. This view is supported by Bruwer (2010) where it was found that South African SMME management does not have sufficient accountancy skills (themselves and/or internally) in order to make informed business decisions. The latter dispensation has not changed over the course of almost a decade as accountancy skills are regarded by most SMME management to be irrelevant (Bruwer & Smith, 2018).

3. Research Design, Research Methodology, Research Methods and Ethical Considerations

This study was both descriptive and quantitative in nature, and survey research was conducted. A five-point Likert scale was used in the design of the questionnaire.

The questionnaire was administered to a total of 500 respondents (sample) through means of a non-probability sampling method – purposive sampling. This sampling

method was ideal as the researchers did not know the size of the population. All 500 respondents positively responded to the survey, constituting a 100 per cent response rate. In order for responses to be regarded as valid, each respondent had to satisfy the following set of delineation criteria:

- Each respondent had to be the owner and/or manager of his/her South African SMME;
- Each respondent had to have decision making power in his/her South African SMME;
- Each respondent had to be older than 18 years;
- Each respondent had to be a South African citizen;
- Each respondent had to be actively involved in the business operations of his/her South African SMME;
- Each respondent's South African SMME had to adhere to the definition of a SMME as per the National Small Business Act No. 102 of 1996;
- Each respondent's South African SMME had to be classified as either a sole trader, partnership or a close corporation;
- Each respondent's South African SMME had to be regarded as a non-franchised business entity;
- Each respondent's South African SMME had to employ between 0 and 50 full-time employees;
- Each respondent's South African SMME had to operate within the fast moving consumer goods industry;
- Each respondent's South African SMME had to be in existence for at least 1 year.

Ethical guidelines were adhered to in the collection of data from the respondents. During the study all respondents were safeguarded from physical harm, and all respondents voluntarily took part in the study (and could withdraw from it at any point in time without being discriminated against). The information collected from all respondents during the survey was treated with confidentiality and all of the respondents were assured of anonymity.

4. Results and Discussion

For the remainder of this section, discussion takes place under the following headings: 1) descriptive statistics, 2) factor analysis and model specification, and 3) linear regression analysis.

4.1. Descriptive Statistics

Respondents were asked an array of demographical questions pertaining to themselves and their respective SMMEs. A summary of these results are shown in Table 1 and Table 2.

Table 1. Summary of demographical results of sampled SMMEs

Demographical aspect	Summary
Type of business	“Sole trader” = 77.4%, “Partnership” = 8.8%, “Close Corporation” = 13.8%
Non-franchised	“Yes” = 100%
Full-time employees employed	“0 – 5” = 80.2%, “6 – 10” = 12.2%, “11 – 50” = 7.6%
Years in operation	“1 – 5” = 39.6%, “6 – 10” = 29.0%, “10+” = 31.4%

Table 2. Summary of demographical results of respondents

Demographical aspect	Summary
Position	“Owner” = 35.8%, “Manager” = 32.4%, “Owner and manager” = 31.8%
Years’ experience in position	“1 – 5” = 53.6%, “6 – 10” = 34.2%, “10+” = 12.2%
South African	“Yes” = 100%
Highest qualification	“Primary education” = 30.2%, “Secondary education” = 41.6%, “Tertiary education” = 28.2%
Decision making power	“Yes” = 100%

In addition to the above, respondents were asked to rate their agreement on three statements pertaining to their respective SMMEs’ financial objectives. From the results, the following was evident:

- When asked whether income is more than expenses, 74.8 per cent agreed, 19.4 per cent were unsure and 5.8 per cent disagreed;
- When asked whether assets are more than liabilities, 75.4 per cent agreed, 17.8 per cent were unsure and 6.2 per cent disagreed;
- When asked whether sufficient cash was on hand, 78.2 per cent agreed, 15.2 per cent were unsure and 6.2 per cent disagreed.

4.2. Factor Analysis and Model Specification

In order to ascertain whether there existed a relationship between the accountancy skills of members of management of South African SMMEs and the attainment of their respective SMMEs’ financial objectives, applicable factor analysis was first conducted through principal access factoring. The reason for the latter was to

optimally reduce the number of independent variables (from seven items to two factors). When performing factor analysis, a legitimate factor can be recognised if it has a KMO test score of at least 0.600 and a Cronbach Alpha score of at least 0.600 (Field, 2009; Cohen & Sayag, 2010). A summary of the results from the factor analysis performed is shown in Table 3.

Thus, in order to help determine whether there existed a statistically significant relationship between the accountancy skills of members of management of South African SMMEs and the attainment of their respective SMMEs' financial objectives, one regression model¹ was developed:

$$\text{FINOBJECT} = \alpha + \beta_1 \text{ACCSKILLS} + \varepsilon.$$

All variables that were applied in the model above, including their measurements are described in Table 4.

Table 3. Summary of reliability tests on variables

Factor tested	Item name	Factor loading	Cronbach's Alpha	KMO test score
ACCSKILLS	Accounting skills	0.694	0.713	0.618
	Business Management skills	0.831		
	Financial Management Skills	0.764		
	Management Skills	0.699		
FINOBJECT	Profitability	0.822	0.822	0.618
	Solvency	0.666		
	Liquidity	0.799		

Table 4. Description and measurement of variables used in this study

Variable	Description	Measurement
FINOBJECT (dependent)	Key financial objectives	It measures the attainment of SMMEs key financial objectives. It assumes a value between 1 and 5, where 1 indicates "strongly disagree" and 5 indicates "strongly agree".
ACCSKILLS (independent)	Accountancy skills (factor)	It shows whether SMME members of management had relevant accountancy skills. It assumes a value between 1 and 5, where 1 indicates "strongly disagree" and 5 indicates "strongly agree".

4.3. Linear Regression Analysis

From the linear regression analysis performed, a R^2 of 3 per cent was calculated. This means that despite possible statistically significant results, the dependent variable is not solely influenced by the tested independent variable(s) – as represented by " α " and " ε " in the regression model. Regardless of the

¹ Symbols " α " and " ε " represent the constant(s) and error(s) in each model.

aforementioned, there was a weak statistically significant relationship between ACCSKILLS and FINOBJECT at the 1 per cent-level – refer to Table 5.

Table 5. Summary of linear regression analysis performed

		FINOBJECT
Independent variables	R ²	0.030
	F	15.623
	Sig	0.000
ACCSKILLS	Std β	0.174***
	Sig.	0.000

Using the results in Table 5 as a basis, the statistically significant prediction can be made that with 99 per cent confidence, if ACCSKILLS improve, it will result in the better attainment of FINOBJECT ($\beta = 0.174$)

5. Recommendation

Using the results of this study as basis, it is strongly recommended that relevant stakeholders of South African SMMEs operating in the fast moving consumer goods industry are afforded the opportunity to attend free (accredited) skill developed programmes on, inter alia, ACCSKILLS which, in turn, are funded through the Wholesale and Retail Sector Education Training Authority (W&RSETA). Upon completion of such programmes, participants should receive certificates of competence.

6. Conclusion

Taking into account the socio-economic importance of South African SMMEs, it is of no surprise that these business entities receive much attention from government and researchers alike. Unfortunately scholarly literature suggests that South African SMMEs have one of the worst failure rates in the world. Among the major contributors to the latter dispensation is the lack of skills – particularly those basic business skills which are not developed within SMME management.

Stemming from the results of this study, the importance of skill development was justified as ACCSKILLS, in particular, has a statistically significant influence on the attainment of sampled South African SMMEs' key financial objectives. In addition, the attainment of these key objectives has a knock-on effect on the overall existence of these business entities in the foreseeable future.

Avenues for further research include, among other, the influence of ACCSKILLS on the existence of South African SMMEs and the extent to which the ACCSKILLS of South African SMME stakeholders are developed.

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