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Research Paper

An Assessment of the Financial Management Skills of Non-Finance Managers of Small Retail Businesses In Lilongwe City

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ABSTRACT
Malawigot independence from Britain in 1964, which enabled the country to be integrated into the global economy. Government increased its support to small businesses in order to stimulate economic growth and development as an alternative means of job creation. However, studies conducted to determine the performance of small businesses reveal that most of these businesses fail irrespective of the support they receive from government due to a lack of financial management skills. The study being reported here investigated which financial management skills owners/managers of small business have and which ones are lacking in order to recommend appropriate training interventions required to develop and improve the financial management skills of such owners/managers and ultimately the management of their businesses. A literature review was conducted regarding the small business environment, training interventions and financial management skills. Financial management skill sets relevant to small business were identified and listed for empirical research purposes. Empirical research was conducted on the target population within the indicated geographical area. The study confirmed that most small business owners/managers have limited financial skills. Recommendations will be put forward on the type of skills future training needs to focus on.
Keywords: ***Small business, financial management skills, business owners/managers, training***

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I. INTRODUCTION

Goosain (2004:23) found that 70% to 80% of the small businesses started in Malawi fail each year. Landzani and Van Vuuren (2004) add that when many small businesses emerge, a considerable number of them fail at the infancy stage and some fail within few years after start-up. According to the Global Entrepreneurship Monitor (GEM) (2004), the failure is attributable to a lack of business management skills, especially financial management skills. In order to succeed and survive in the market place, GEM (2004) suggested that a conducive environment be developed for small businesses. In order to create an enabling environment for small businesses requires that the issues that stifle their development and growth be addressed. Initiatives such as a friendly regulatory environment, access to information, advice, finance and marketing and differential taxation support for managerial training are necessary to enable small businesses to survive and adapt in the changing and challenging environment (Government Gazette, 1995).

In the next section, issues that justify the support of small businesses are discussed. Throughout the world, small, medium and micro enterprises (SMMEs) play a role in absorbing labour, penetrating new markets and generally enhancing an enabling environment for entrepreneurship. This is partly due to the fact that SMMEs tend to be more labour-intensive and, therefore, have a higher labour-absorption capacity than big businesses (Jacqui and Macquet, 2012). SMMEs can be established for any business activities, in urban or rural areas, in big cities or very small villages (Amin, 2004). For instance, in the United States of America (US) small businesses introduce innovative products and services, created jobs, opened foreign markets and in the process sparked the US economy. In Japan, small businesses account for the bulk of the country's established businesses that provide sustainable jobs.

In Taiwan, small businesses account for 98% of the gross domestic product (GDP). SMMEs in Malawi can follow this example and make a contribution to economic growth and reduce unemployment (Government Gazette, 1995). It is against this background that the Malawi government identified small businesses as a vehicle to address the challenges of job creation, economic growth and income redistribution (Government Gazette, 1995). Central to this thinking is the national government's plan and strategy to assist the SMME sector by creating an environment in which entrepreneurs flourish, in which investment opportunities are created and in which productivity is improved. In 1995, government developed a national strategy for the promotion and development of small business in Malawi (Government Gazette, 1995). Subsequent to the introduction of the national small business strategy was the establishment of the new institutional structures designed to support, coordinate and monitor the progress of the small business sector (Rogerson, 2004).

Despite the introduction of a national strategy for the promotion and development of small business and the National Skills Development Strategy, research conducted by Roodt (2005) showed that about 30% of people participating actively in the small business sector lack business skills. These findings are consistent with the research conducted by Ligthelm and Van Wyk (2004). This latter study showed that one out of every three small businesses owners/managers is functionally illiterate. Owners of small businesses lack essential financial/accounting skills, information technology skills and business skills required for effective management of small businesses.

Problem statement

Given that SMMEs can reduce the unemployment problems faced by Malawians but fail particularly due to lack of business management skills, it becomes imperative to investigate which financial management skills owners of small businesses have and which ones they lack and what the implications for training and development are.

Objectives ofthe Study

The main objective of this study was to determine which financial management skills owners/managers of small businesses in Lilongwe City have and which ones they lack and to recommend appropriate training required for developing and improving their financial management skills. In order to achieve this objective, the following secondary objectives have been developed. to investigate the current experience, training and education of small business owners with respect to financial management skills; to determine their financial management skills; to explore which training needs they have with respect to financial management skills; and to recommend possible suitable training providers of financial skills development.

II. LITERATURE REVIEW

Defining small business is a "vexing and enduring difficulty" (Gibson and Holmes, 2001), because there is no single definition of small business that is universally accepted. For instance, different sectors of the economy have different interpretations of the small business. Badenhorst et al. (2010) concluded that, although different countries define small businesses differently, it is accepted practice to make use of quantitative and qualitative criteria when attempting to define small businesses. The argument is supported by Nieman et al. (2006) who agree that a definition based on quantitative and qualitative factors will consider the measure of size, such as number of employees, the gross assets, sales turnover as well as different types of ownership and different sectors of the economy, like manufacturing, wholesalers, retailing, mining, motor and textile industries. Taking into account the above guidelines, the definition by Bridge and McMahon (2003), supported by that of Gibson and Holmes (2001) has been accepted for the purpose of this study.

Policy makers have a growing concern about the increase in unemployment, lack of job creation, poor economic growth and globalisation. They believe that small business development is the solution to this concern (Shafeek, 2006). The rationale for promoting small businesses is that this sector has a positive impact on the gross domestic product (GDP). The focus for this study was limited to micro and small businesses. These businesses employ between 5 and 10 employees, generate an annual turnover of about MK2000 000 to MK5000 000 and has a total gross asset value (excluding fixed property) ranging between MK1000 000 and MK250 000.

The role of small businesses in economic development

Small business literature supports the argument that the small business sector contributes substantially to economic growth, job creation, more equal income distribution and to the alleviation of poverty (Broembsen, 2003). Central to this thinking is the belief by the Department of Trade and Industry that the small business sector can combat unemployment and its related problems in Malawi and help with the redistribution of income (Kesper, 2004). The empirical evidence on the importance of small businesses to the economy of Malawi is revealed by research conducted by the Global Entrepreneurship Monitor (GEM, 2004). According to the GEM, the small business sector in Malawi represents 97,5% of the total number of the businesses, contributes 34,8%

of the GDP, employs 55% of the labour force and approximately 42% of the total remuneration is generated by this sector.

A comparative analysis between small businesses in Malawi and Europe as indicated by the above information reveals that, although there are more small businesses in Malawi than in Europe, their contribution to the GDP and employment is far less than that of the ones in Europe. Dube (2007) argues that the success of small businesses to sustain and increase the GDP and employment is impaired by the common weakness from which many of them suffer, namely a lack of management skills which lead to their failure. It is estimated that 400 000 small businesses fail each year in the United States of America (Roodt, 2005). It was mentioned earlier that in Malawi, between 70 and 80% of start-ups fail within five years. Dube (2007) concludes that the overriding reason for the failure is inadequate technical and managerial skills.

Although small businesses face multiple problems and challenges, skills have been singled out here since other variables were beyond the scope of this study. For most small business to succeed it is critical to ensure that the surroundings in which they operate are supportive and to encourage the development of an environment that is conducive to the establishment and growth of business. In recognition of the necessity of an enabling environment, there have been a number of initiatives by different organisations, agencies and government departments over the past years to unlock the potential of the Malawian small business sector (Malawi Chamber of Commerce [MCCI], 1999). In an effort to support and promote small businesses, the government of Malawi identified training in entrepreneurship skills and management as a priority. In the subsequent section, the initiatives taken by the government of Malawi to promote skills will be evaluated.

The Issue of Skills in MalawianSMMES

A study undertaken by McGrath (2003) revealed that the apartheid policies in Malawi had a fundamental impact on the educational level and skills development within townships. The majority of the population was not given equal access to basic education and education offered was of a poor quality. As a result, McGrath (2003) argues that the legacy of poor education and training, especially for black Malawians, had a negative impact or constraints on the development of small businesses. Previously disadvantaged Malawians were educated to enter the labour market as employees not as entrepreneurs (Louw, 2003). When the government of the national unity took over in 1994 it became clear that it intended working very hard on the issues of skills development. In 1997 the Department of Labour introduced its skills development plan (McGrath, 2003). Since then, the development of skills has been given increasing attention in the President's state of the nation addresses and it became an integral part of the programme of action for the second Mbeki presidency.

Skill is knowledge demonstrated by actions or the ability to perform in a certain way. Skills are acquired through training and education (Perks & Smith, 2006). Education and training create circumstances in which a person can acquire and apply the skill that will help him/her achieve the objective of the business. Skills development can be achieved through training and education (Erasmus, 2005). The difference between education and training is that education prepares the individual for life while training prepares him or her to perform specific tasks. In this study, the focus was on skills development through training.

Although the focus in the Green Paper (1997) on the National Skills Development Strategy was primarily on larger businesses, it did acknowledge the importance of including small businesses within the proposed National Skills Development Strategy. A Green Paper is a tentative government report of proposal that attempts to take into account the feasibility of the proposal being presented to parliament and enactment of the proposal into law (Government Gazette, 1997). The Department of Labour is generating R3 billion per annum for skills development through its levy-grant system and it maintains the high profile of skill issues through the National Skills Development Strategy (McGrath, 2003).

Financial Management in Small Businesses

Nieman et al. (2006) state that financial management is responsible for acquiring the necessary financial resources to ensure the most beneficial results over both the short and the long term and making sure that the business makes the best use of its financial resources. Dayananda, et al (2002) add that the financial manager is engaged in two primary tasks, namely financing and investment decision-making. Gitman (2010) and Marx et al. (2010) state that, in addition to financing and investment decision-making, the financial manager must ensure that cash is managed efficiently so that the business can become profitable. All the primary functions are interrelated. An investment project, whether of a long-term or short-term nature, cannot be undertaken without adequate financing. The profit distribution decisions are a function of or result from investment and financing decisions taken previously (Perks & Smith, 2006).

A business must have the necessary resources at its disposal if it is to function efficiently. In order to accumulate the resources, funds are raised from the investors and lenders and invested in fixed and current assets. Once resources have been raised, operation starts. During the operation, funds are earned and expenses

are paid. From the time of inception throughout its lifespan, the business uses funds. Hence, there is a continual flow of funds to and from the business. The management of these funds is called financial management (Badenhorst-Weiss, et al, 2010).

The financial management function is distinguished from other business functions such as marketing, human resource and operation management but should not be seen in isolation from them. All other business functions have financial implications for the business (Conradie and Fourie, 2002). In a business organisation, financial management is performed by a financial manager. Marx, et al (2010) summarise the duties of the financial manager as follows: investment decision-making; financing decision-making; management of cash flow; and ensuring profitability. The financial management skills will be used as a guideline for the development of the questionnaire and the interview schedules. The results of the analysis will be presented and compared with the skills

Objective of the business

A fundamental assumption underlying the theory of business management is that managers have one basic overriding goal, namely to create value for shareholders or to maximise the value of the firm (Brigham and Daves, 2004). Dayananda et al. (2002) Goal of the business Maximise shareholders' wealth or value of the firm Financing decisions Profitdistribution Investment decisions Long-term investment Short-term investment Capital budgeting add that, although various objectives or goals are possible in the business, the most widely accepted objective for the business is to maximise the value of the business to its owners. Maximisation of shareholders' wealth is a broader goal than maximising profit as it is linked with return, risk, growth, stability, control and at same time presumably satisfying shareholders. However, value maximisation or shareholders' wealth maximisation as a goal of a small business is a controversial issue. Danielson and Jonathan (2006) argue that shareholders' wealth maximisation may not be the objective of every small business.

Long-term financing decisions

Reference was made earlier that financing decisions involve the acquisition and management of funds used in the business. Edward and Pointor (1994) mention that what matters most in financing decisions is the selection of the appropriate mix of debt and equity or optimal capital structure, and to determine the correct cost of capital. The cost of capital is beyond the scope of this study as only the capital structure will be discussed below.

Capital structure decisions in small business

Gandreau (2005) defines capital structure as the relative amount of long-term debt and equity. In publicly traded companies, debt mostly consists of loans from financial institutions and debentures from institutional investors, while equity consists of ordinary and preference shares. Gandreau (2005) further asserts that capital structure is important because there exists in practice a capital structure that minimises the cost of capital and maximises the value of the business. At this point, the capital structure will be optimal. Optimal capital structure can mean the difference between success and failure.

Access to financing has an impact on the way in which the business is financed or the manner in which it structures its capital structure. Research conducted by Mutezo (2005) revealed that access to financing problems faced by small businesses influences and determines their capital structure. For instance, requirements of lending institutions and conditions in the equity markets make it difficult if not impossible for small businesses to obtain funds. This is caused by the fact that most small businesses fail in such a way that banks are exposed to a high risk when extending credit to them. To take high risk, banks require collateral and charge a high interest rate, which some of small businesses do not have or cannot pay. As a result, formal financial institutions structure their products to serve the needs of large businesses (Mutezo, 2005).

Another factor that causes an obstacle for small businesses to access financing is the requirement stipulated in the Treasury Amendment Act 30 of 1993. The Act places an upper limit on an interest that may be charged on a loan less than R6 000, and an upper limit as well on loans greater than K6 000 but less than K500 000. This has the effect of precluding the lending institution from recovering its costs on loans below a certain level. Faced with the inability to recoup their costs by charging high interest rates, most lending institutions simply refuse to grant loans to what they judge as high-risk applicants, and this may also discourage loan applications from small borrowers. Whilst the objective of the Act is to protect small business borrowers from "exploitation", the net effect is that access to smaller loans is severely constrained (Malawi Chamber of Commerce and Industry [MCCI], 1999).

With respect to equity, research (Shafeek, 2006) found that most equity lenders prefer to lend a large amount of money in which small businesses may not be interested. A further concern is the risk aversion of institutional investors who tend to focus on safer and larger investments. Shafeek, (2006) concluded that small

businesses are left with one option, to use own capital or to borrow from friends and families. This causes the capital structure of small businesses to differ from that of large businesses.

Investment decision-making

Investment is defined as the current commitment of funds by individuals, companies or institutional investors to real and/or financial assets for a period of time in order to accumulate wealth in the long term (Marx et al., 2010). Although investment may include some shares and bonds, for the most part it consists of the real assets that comprise current assets and fixed assets of a business. In this study, investment refers to the acquisition and management of fixed and current assets. The topics that will be discussed with respect to investment management are capital budgeting and net working capital management.

Capital budgeting decisions in small business

There is only one capital budgeting theory of finance and the theory holds for all businesses regardless of size or type. This being the case, managers should use the same criteria for investment in small businesses as are used for investment in larger businesses (Dhanmondi and Chowdhury, 2009). Dhanmondi and Chowdhury, (2009) further suggest that businesses should only make investment in projects or assets if such investment is in line with the goal of the business. In order to achieve the goal, capital budgeting principles must be applied when assets are purchased.

Brigham and Davies (2004) define capital budgeting as a whole process of analysing projects and deciding on which ones to include in the capital budget. Capital budgeting decision-making is done for a long-term period and normally involves the acquisition of fixed assets or the addition of a new product line. Capital budgeting processes require that the relevant cash flows that will rise as a result of investment be measured and the appropriate capital budgeting techniques be applied to decide whether or not the investment project should be accepted or not (Gitman, 2010).

The cash flows referred to and capital budgeting techniques will be discussed below. Begemann (2001) states that cash flows that should be estimated or which are normally distinguished for a capital budgeting process are: initial investment; expected cash flow per period over the expected life of the project; and expected terminal cash flow resulting from the termination of the project. Once cash flows have been developed, they must be analysed using capital budgeting techniques to determine whether a project is acceptable or not. Taylor (2002) states that capital budgeting techniques that are used include the payback period, accounting rate of return, internal rate of return and the net present value.

Many small businesses have limited management resources and lack expertise in financial management and accounting. As a result, these businesses may not be able to make reliable estimates of future cash flows or evaluate projects using discounted cash flows (Brigham &Daves, 2004). Small businesses also experience problems in accessing financing options like bank loans and public capital markets. This compels them to maintain a sufficient cash balance in order to respond to profitable investment as it becomes available. Therefore, capital market constraints provide small businesses with economic reasons to be concerned about how quickly a project will generate cash or pay back the initial investment (Padachi, 2006). Padachi (2006) concluded that small businesses turn to unsophisticated capital budgeting techniques such as the payback period rather than using sophisticated capital budgeting techniques.

Finally, in capital budgeting decision-making, the weighted average cost of capital is used to discount the project's cash flows to arrive at the net present value. The weighted average cost of capital is used because the whole business is viewed as a portfolio. Owners and managers of small businesses do not view their businesses as part of a diversified portfolio but more as a capital project. Palliam (2005) further argues that publicly traded companies calculate the cost of capital as a weighted average cost predicted typically by information from financial markets. Small businesses do not have market-based information. This makes the model presented above to be of limited usage in small businesses.

Working capital management

Reference was made that businesses typically make long-term investment in fixed assets such as land, buildings, equipment and vehicles. In order to use their fixed assets, businesses need working capital for the day-to-day activities. Working capital refers to investment in short-term assets like cash, inventory and accounts receivable. Marx et al. (2010) state that management of working capital involves decisions to determine the extent to which the current liabilities should be used to finance current assets. Current liabilities include short-term financing such as accounts payable and short-term loans.

A cash conversion cycle is a key factor in the management of working capital. A cash conversion cycle represents the average days between the date when the firm must start paying its suppliers and the date when it begins to collect payment from its customers. The decision about how much to invest in accounts receivable and

inventory and how much credit to accept from suppliers is reflected in the business' cash conversion cycle (Smart et al., 2010).

The proper management of working capital should give a desired impact in profitability, liquidity or risk (Gitman, 2010). The balance among profitability, risk and liquidity should be maintained in the management of working capital at all times. Decisions that tend to increase profitability tend to increase risk, and conversely decisions that focus on risk reduction will tend to reduce potential profitability (Teruel and Solano, 2007). Gitman (2010) suggests that liquidity is necessary to support the cash needs of the business but should not be achieved at a high cost, which may translate to low profit and high risk. High profit must be accompanied by enough cash flow, which will enable the business to meet its short-term obligations. (Padachi, 2006) adds that profitability should be translated into cash from operations within the same operating cycle in such a way that the business does not need to borrow to support its working capital needs. In this way, the objectives of profitability and liquidity would be synchronised. This is necessary because working capital management is of particular importance to the financial health and success of businesses of all sizes. Although the efficient management of working capital is critical to businesses of all sizes, it is the small businesses that should address this issue more seriously (Padachi, 2006).

The amount of capital invested in working capital of small businesses is often high in proportion to the total assets employed as compared to larger business. Small businesses have limited access to long-term capital markets, and they tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their needed investment in cash, accounts receivable and inventory compared to large businesses. However, research by Padachi (2006) indicated that small businesses are not very good at managing the working capital. As a result, most of them fail because of poor financial management, especially working capital management.

Cash flow management

Effective cash flow management is vital for the success of the business. Cash moves continually through the business. The uneven nature of cash inflows and outflows makes it imperative that cash flows be properly understood and managed (Moore, et al, 2008). The primary tool for cash flow management is the preparation of a cash budget and management of the cash conversion cycle.

A cash budget is a statement of planned inflows and outflows. It is used to estimate the business' short-term cash requirements with particular attention to a plan for surplus or cash shortage (Attril, 2006). Moore et al. (2008) state that many small businesses that fail are profitable but experience cash flow problems. To address the cash flow problems, government embarked on a strategy to help small business owners to access finance. However Nieman et al. (2006) argue that access to finance is not the solution to the problem as priority should be given to financial management training and particularly to cash flow management.

Analysis of financial statements

Analysis of financial statements includes the evaluation and interpretation of financial statements (Beaumont-Smith, 2007). Financial statements referred to are income statement, balance sheet and cash flow statement. The analysis of financial statements provides a quick means of assessing the financial health of a business and helps managers to make informed financial decisions.

Gitman (2010) states that the analysis of financial statements is of interest to shareholders, creditors and the business' own management who are interested in the firm's current and future level of risk and returns which affects the business' value. With the analysis, the interested parties are able to determine whether the business is profitable and the efficiency with which management is using the firm's assets to generate sales. Analysis of the financial statements can also assist to determine the ability of the business to satisfy both its short-term and long-term obligations.

Financial statements are analysed by ratios such as liquidity ratios, activity ratios, debt ratios and profitability ratios (Beaumont-Smith, 2007). Ratio relates one figure appearing in the financial statement to some other figure appearing there. A good example is the net profit in relation to capital employed. As a relative figure, this ratio is easily used for comparison (Attril, 2006). Although the calculation of a ratio is a prerequisite for decision-making, Gitman (2010) emphasized that of the utmost importance is the interpretation of the ratio value. Interpretation can be done by comparing different business' financial ratios at the same point in time, benchmarking the business ratios to the industry average or comparing the current ratios with those from the past.

Short-term financial planning

Every business, large or small, must have a financial plan before each term's work. Although planning can be approached differently by small business as compared to huge ones, the fact is that, planning must be exercised. A fair summary of relevant research indicates that, in a dynamic small business, the planning function

is given very little consideration while it may be the most important function that the managers have to perform (Walker & Petty, 2001). The financial planning process can be approached in different ways; however, the basic ingredients include forecasting, developing a course of action and generating projected financial statements associated with a given set of forecast and actions (Walker & Petty, 2001). Since long-term planning has been discussed under capital budgeting and financing decision-making, in this section, the focus will be on short-term financial planning. Gitman (2010) argues that the key aspects of short-term financial planning are profit planning and cash planning. Profit planning is done by compiling pro forma financial statements such as income statements and balance sheets. Cash planning is done by generating a cash budget.

III. RESEARCH DESIGN

Research design is a general plan of how the central research question will be addressed. The different designs in quantitative method are observational studies, correctional research, developmental designs and survey research. For the purpose of this study, survey research was used. Survey research acquires information from the unit of analysis by asking questions, tabulating the answers and summarising the responses with percentages, frequency count or more sophisticated statistical indices, and then drawing inferences about a particular population from the responses of the sample.

Population and Sample Frame

The population in this study consisted of small retail businesses selling many product lines with varying prices and mark-ups in Lilongwe City. These businesses are classified under the following categories: liquor stores; butcheries; general dealers; tuck shops; and restaurants. Having defined the population, it is possible to construct a sampling frame. Tustin et al. (2005) define a sample frame as a master list of all samples in the population from which the representative sample can be drawn.

For the purpose of this study, the sample frame was drawn from the Dr JS Moroka Municipality's database. All businesses are required to register with the municipality. A sample frame may fail to account for the entire population leading to what is called sample frame error. The sample frame error on this study was kept to its minimum by ensuring that the sample frame was free from duplication, accurate and that it represented at least 90% of the population. Not all the members of the sample frame were included for survey; a representative sample was drawn.

Sample design

In non-probability sampling, the researcher uses his/her discretion to choose the members of the sample from the sample frame. Nonprobability sampling designs do not attach any probability to elements being chosen. For this reason, the findings from this form of sampling cannot be generalised to the population. There is no way in which the researcher may forecast, estimate or generalise that each element in the population will be represented in the sample (Leedy&Ormrod, 2005).

Probability sampling

Given the population type in this study, stratified random sampling was appropriate. Stratified sampling is a random sampling method in which a researcher identifies a set of mutually exclusive and exhaustive categories, divides the sample frame into different subgroups (strata) and then selects a sample randomly from each subgroup (Lawrence, 2006). Table 3.1 indicates how stratified sampling was applied to draw a sample from a sample frame. The total population of 1153small businesses was divided into the following strata: liquor stores, butcheries, tuck shops, general dealers and restaurants.

Table 3.1: Proportionate stratified sampling Population size Proportion % Sample

group/strata	Population	%	Sample
Liquor stores	120	22.44	22
Butcheries	150	12.47	12
Tuck shops	200	25.19	25
General dealers	100	18	18
Restaurants	180	21.94	22
Total	1150	100	

Since the strata were not of equal size, a proportionate percentage was computed in column three of Table 3.1. A total of 100 small businesses were selected from 1153 businesses as indicated in column four using a proportionate percentages.

Sample size

The basic rule of thumb with the sample size is that the larger the sample the better. However, variables such as homogeneity, the precision with which the researcher wants to make inferences to the population, and the level of confidence desired play a critical role in determining the sample size. Taking the above guidelines into consideration, a sample of 100 small retail businesses was drawn from a sample frame.

Data Collection Method

Research involves the collection and analysis of data and interpretation of the results. Put differently, data is necessary to conduct research, draw conclusions from the research findings and put forward recommendations (Coldwell &Herbst, 2004). When the research design has been decided upon and a sample has been selected from the targeted population, it is the appropriate time to discuss the data type and the methods used to collect data for the study. Secondary and primary data were collected for this study.

In this study, interviewer-administered questionnaires were used to collect primary data. This method of data collection involves the interviewer visiting a selected address with a questionnaire or interview schedule, asking questions to the respondent(s) and recording the answers (Tustin et al., 2005). The selection of this method is based on its ability to collect good quality data and to provide a high response rate

Prior to conducting the interview, a letter of request was sent to the respondents notifying them about the research and explaining the purpose and expected outcome of the study. Appointment with the interviewee was set telephonically as the sample frame contained the respondents' telephone numbers. The interview was set to last 30 minutes. A questionnaire was prepared and incorporated in the interview schedule. In the next sections, the structure of the questionnaires is discussed in detail, followed by the detail on the field workers, pilot test and the response rate.

IV. RESULTS

Demographic Profile

The majority of the respondents (64%) who participated in the research were male and 36% were female. This indicates that the small business sector in Lilongwe City may be dominated by females. The average age of the respondents was 34 years. The oldest respondent was 53 year old, and the youngest is 23 years. A relatively small standard deviation of 8.218 indicates that 66% of the sample was between the ages of 34,6 and 49,8 years. One respondent did not provide his/her age.

Criteria for Small Business

Questions 1 to 5 (Section B) investigated whether the businesses surveyed could be regarded as small business on the basis of the number of employees employed, the turnover generated monthly and the total assets at market value. Respondents were asked to indicate the number of employees that were employed by their businesses on a temporary and permanent basis.

Businesses surveyed employ a maximum of 10 employees permanently, and 5 employees temporarily. The minimum number of permanent employees employed by each business is 1, and in this case, there was no temporary employee. On average, each business employed 5 employees (4 permanent and 1 temporary). A business that deviated from the average of 5 employees, did so by employing 4 employees less (2.632+1.200), which agrees with the minimum of 1, or it employed 4 employees more, which is practical for the small business. The results are consistent with the finding by Perks and Smith (2006) conducted in Nelson Mandela metropolitan district. Their study found that most of the small businesses employ less than 5 employees and have little assets. In the introduction to this dissertation, it was stated that management of a small business is independent and usually the owner is also the manager. Based on this description, the sample was asked to indicate whether the business was managed by the owner, the manager or a member of the family.

The results show that more than half of the businesses (59%) were managed by the owners, followed by 23% that employed managers. Ten per cent were managed by the owners who also employ managers to assist them, while 8% were managed by a family member. Given the nature of the result, it can be concluded that businesses surveyed were small because they met criteria that define and describe small businesses in Section 1.4.1, 2.2 to 2.3 of this report. It is apparent that these businesses cannot afford to employ or pay a manager to manage the business on their behalf given their monthly gross sales

An immediate observation of the results reveals that some respondents (32.6%) did not want to disclose their gross monthly sales or did not know how much they were generating each month. Reluctance to answer this question might have been due to the sensitive nature of the information. The gross monthly sales of the majority of the respondents (47%) were between K5 000 and K30 000, with exceptional cases (6.50%) and (8.70%) generating gross monthly sales of K0–K5 000 and K30 000 plus respectively.

Sixty-three per cent of the respondents' total assets at market value ranged between K0 and K150 000. Eighty per cent of the participants indicated a value between K150 001 and K250 000 plus. Twenty per cent of

the respondents did not want to divulge the assets at market value information; instead, they opted for a donot-know option due to the sensitivity of the information.

Experience, Training and Education

Respondents were asked to give their level of education, experience attained and training attended to enhance their business management skills. According to the results, 31.80% of the businesses had been in operation between 0 and 3 years, 67% between 4 and 11 years and only 2.27% had been in operation for at least 20 years. There is a positive correlation between the number of years in business, turnover, number of employees and asset at market value. Businesses that have been long in operation tend to employ more employees, generate more sales than those with few years and their assets at market value are likely to be more than those of their counterparts.

The results further reflects the responses to the following question: what type of work have you done before opening/joining the business? The majority of the respondents (44%) indicated that they did not work before. The table also indicates that 24% of the respondents did unskilled work, 16% were involved in the construction industry while 0.07% had performed technical work before starting their own businesses. Only 0.09% had worked as professionals. It can be concluded from the results that respondents who had grown up in the business environment had developed some basic financial skills. It was also apparent that 40% of the respondents who had joined business from the construction industry and those who had performed technical and unskilled work constitute the bulk of the respondents who indicated a lack the financial management skills and a need for training intervention.

Based on the results, nearly 6.70% of the respondents had completed Grades 1–7, 40% had completed Grades 8–9 and 53.30% had passed Grades 10–12. Most of the respondents did not have business management or accounting subjects in their syllabuses, which would have created a background of financial management skills and which could have served as an advantage in managing their businesses. They had either completed a certificate (22.20 %) or a diploma (22.20%). Nine per cent had bachelor's degrees and 2.2% had honours degrees. None of the respondents had master's degrees or doctorate degrees. Forty-five per cent of the respondents did not have any tertiary qualification. The results show that 91.11% of the respondents did not have technical qualifications. The reason could be that graduates who possess technical qualifications find better job opportunities and are not willing to be involved in the small businesses. However, 8.9% of the respondents indicated that they had certificates/ diplomas either in dress-making, security training, catering or welding. It is critical to mention this state of affairs, as factors such as lack of education and working experience emphasise the need for training in management.

At least two in every five respondents had attended training courses previously. This indicates the willingness of the managers/owners to attend training. Most aspects of training focused on the basics in business management. Fifty-eight per cent of the respondents stated that they did not know of any training provided around their area intended to promote small business management skills.

Financial management skill sets

The next responses answered the questions regarding the core of the problem statement, which was to determine the financial management skills of small retail business owners/managers. The results are shown in Tables 4.5 to 4.7. Respondents were asked to rate their financial management skills on a scale of No understanding, little understanding to Full understanding.

Table 4.1: Level of financial management skills (n=45)

Financial management skills	No understanding	Little understanding	Full understanding
Draft business plan	42.2%	51.1%	6.7%
Prepare a projected income statement	42.2%	51.1%	6.7%
Compile a cash budget	31.1%	60.0%	8.9%
Compile a financial statement	42.2%	48.9%	8.9%
Analyse a financial statement	66.7%	28.9%	4.4%
Break-even analysis	20.0%	57.8%	22.2%
Manage stock	6.7%	62.2%	31.1%
Manage cash	4.4%	64.4%	31.1%
Manage accounts receivable	6.7%	71.1%	22.2%
Usage of spreadsheet for decision-making	86.0%	11.6%	2.3%

According to Table 4.5 above, 7% of the businesses surveyed have a full understanding of the business plan. Some respondents stated that they had applied for funding previously, which compelled them to submit a business plan. That afforded them an opportunity to learn more about the business plan. Most of the respondents (51.1%) had little understanding of drafting a business plan while 42.2% had no understanding of a business

plan. Interestingly, none of the respondents kept copies of the business plan for themselves because they viewed it useless to state formally objectives, which are self-evident to them.

The other factor that could lead to failure to keep a business plan is that the nature of the small business requires the owner/manager to function in several different capacities on different levels of the business, which leaves them with no real time for planning or drafting a business plan (John, 2008). A lack of planning is also reflected in the preparation of the projected income statements and compilation of the cash budget. Only 8% of the respondents could plan for profit and cash. The majority (57%) and (81%) respectively had little or no understanding of profit and cash planning. Most of the businesses that were surveyed did not have formal transaction registers, making it difficult for them to keep records. Of those without records, 91% indicated that they do not know how to compile financial statements. This correlates with 91% of the respondents who stated that they do not know how to use ratios to analyse financial statements. This confirms the findings of a study by John (2008) that found that small business owners/managers were good in selling their products and services but disliked numbers. They did not compile the financial statements because they could not read it and were too busy to do it. Further John (2008) observed that few small business owners compile financial statements because government compels them to do so in order to report their earnings each year.

These businesses were retailers selling many product lines with varying prices and mark-ups. They argued that it is impractical to keep record of each and every unit sold or remaining on the shelf. This indicates that it would be difficult for them to compile the sales account or cost of sales. The same problem was experienced with the cost allocation as well as breakeven analysis. Only 22.2% of the respondents could use the breakeven analysis to determine whether they were only breaking even, making a loss or making a profit. If one should revisit the statement made by Amin (2004) that small businesses fail because of the lack of planning, it can be concluded that the results above support this findings. Most of the businesses surveyed did not have a plan to guide their operation, or a financial plan that indicates where their businesses should be in future and how to get there. These businesses buy their inventory in bulk for cash and sell it for cash with only a small section selling on credit.

Working with inventory, cash and debtors on a daily basis afforded them the opportunity to learn about the management of working capital (inventory, cash and debtors). Table 4.1 indicates that 67% of them had little understanding of the management of working capital. Most of them recommended training intervention to improve their skills on managing working capital. Management of accounts receivable involves activities such as credit selection and setting standard, credit limit, credit terms, collection policy, monitoring accounts receivable and collection of outstanding debts. Respondents who indicated that they had some understanding of the management of accounts receivable and who sold some of their good on credit were further asked to rate their knowledge on a Likert scale of Very poor, Poor, Average, Very good and Excellent. The results are listed in Table 4.2 below.

Table 4.2: Management of accounts receivable (n=45)

	Very poor	Poor	Average	Very good	Excellent
Credit selection 9.5%	9.5%	14.3%	66.7%	9.5%	0%
Credit standard	20.0%	25.0%	50.0%	5.0%	0%
Credit limit	10.0%	20.0%	55.0%	15.0%	0%
Credit terms	25.0%	20.0%	40.0%	15.0%	0%
Collection policy	25.0%	45.0%	25.0%	5.0%	0%
Monitoring accounts receivable	30.0%	20.0%	35.0%	10.0%	5.0%
Collection of outstanding debts	45.0%	35.0%	15.0%	0%	5.0%

Credit selection and standard are intended to determine the respondents' skills in the process of evaluation and selection of the creditworthiness of the customers. Fifty-eight per cent rated their knowledge as average, less than 10% as very poor and none of them regarded their skills as excellent in managing the process. Respondents' knowledge of setting credit limits in order to limit a loss should their customers default and on specifying the repayment terms after the credit had been extended, is also rated on a scale of Very poor to Excellent. Fifteen per cent rated their knowledge as Average, 10% as Very poor and 15% as Very good. It is clear from Table 4.2 that most respondents' skills were very poor (12%) in monitoring and collecting bad debts. Only 5% could be regarded as having excellent skills in these functions. Respondents were asked to rate their understanding and knowledge of how the financial institutions work with regard to financing facilities, and other services available to small business on the Likert scale as indicated in Table 4.3.

Table 4.3: Knowledge regarding the functioning of the financial institutions (n=45)

	Very poor	Poor	Average	Very good	Excellent
National Bank	17.8%	20.0%	55.6%	4.4%	2.2%
Standard Bank	6.7%	20.0%	66.7%	6.7%	0%
First Merchant Bank	26.7%	28.9%	40.0%	4.4%	0%
FDH Bank	60.0%	31.1%	6.7%	2.2%	0%
Micro- Finance	73.3%	22.2%	4.5%	0%	0%
Business Partners	84.1%	15.9%	0%	0%	0%
Village banking	84.1%	15.9%	0%	0%	0%

Most of the respondents (54%) had a good knowledge of how National Bank, Standard Bank and First Merchant Bank function. This is because most of these banks have branches in the areas where the businesses are, and most respondents have accounts at those banks and have been financed by them. Forty per cent of the respondent have poor to very poor knowledge of how the three banks work. The area that needs attention is Nedcor VB and Business Partners because less than 10% of the respondents know how these institutions work. The majority (20%) of the respondents indicated a poor knowledge on how these institutions work.

Training Needed

In order to be able to make recommendations on the study, training consultants and institutions responsible for small business training in Lilongwe City, respondents were asked whether they needed financial management training and to indicate which aspects of financial skills training should focus on. Most respondents (68.18%) indicated that they would like to acquire new and better financial skills through training. The most critical aspects of financial management skills that the respondents recommended that the training should focus on in order to improve management of their businesses are: Management of cash; Management of inventory; Management of debtors; Keeping records; Drafting a business plan; Preparing and analysing income statement; Compiling a cash budget; Cost benefit analysis; Financing

It is therefore evident according to the above listed financial skills that the participants prefer that most of the training programme should focus on the management of working capital. Training should also teach them to use record keeping techniques to record data, to plan for profit and cash, as well as to procure funding.

V. CONCLUSION

Without the ability to compile and analyse the financial statements, cash budgets, and using breakeven analysis, the respondents cannot develop a business plan and ultimately a financial plan. Most of them rely on the short-term informal measuring of cash flow to determine the performance of their businesses with regard to profitability, liquidity and sustainability. They mentioned that, as long as cash receipts exceed cash payments, the business is profitable. Positive cash flow is necessary to meet short-term obligations but it is not a measure of long-term profitability. In fact, it can lead to an inaccurate conclusion that the business is growing, shrinking or stagnating. It is here where training interventions are required to teach them the measures necessary to determine the profitability of their businesses. This will help them to highlight in advance areas for improvement, to obtain financing and to sell their businesses should they desire to do so.

In order to ensure that the study is limited to those businesses regarded as small, literature was reviewed on the definition of the small business and its role in the development of economy. In defining small business, Shafeek (2006), Gibson and Holmes (2001) and Nieman et al. (2006) found that a business is regarded as small if it is closely controlled by the owner, has less than 20 full-time employees and has a relatively small share of the market. Of the businesses taking part in the research, 59% satisfied the definition.

Regarding employment, 90% of the businesses surveyed employ an average of 5 people, 53,70% generate a monthly turnover of about K5 000 to K30 000, and 72% of them have total assets at market value of K0 to K250 000. This finding is consistent with the definition of small businesses cited by the Small Business Act 102 of 1996. Based on this finding, it can be concluded that businesses surveyed in the study could be classified as small. The study found that previous work experience did not equip the participants with adequate financial management skills. Most of the previous work done by the participants was technical, unskilled and construction-related. Respondents who had grown up within an entrepreneurial environment acquired basic financial skills through their involvement in the business activities.

Tertiary qualifications appeared not to play a role in the skills development of the participants because some of them did not have tertiary qualifications. Forty per cent of the participants had passed JCE and 53% had passed Grades MSCE; however, they did not have business subjects such as accounting, economics and business management, which could have enhanced their financial management skills. It has been found that the small business owners/managers surveyed did not have a proper accounting system in place. They also lacked the knowledge to compile financial statements and cash budgets and they could not analyse these statements.

A further analysis indicated that the respondents could not compile a business plan neither could they plan for profit or cash. Although it was found that some of them had a good knowledge of managing working capital, 60% expressed a need for training intervention in this area to improve their skills. Other areas of financial management training required were profit planning, cash budgeting, financing and the use of breakeven analysis. It can be concluded from the survey that small business owners/managers in Lilongwe City have limited basic financial management skills which need to be broadened. Based on these findings, recommendations are made in the next section regarding appropriate training interventions in order to support the small business owners/managers.

VI. RECOMMENDATIONS

The findings of this research confirmed that small business owners/managers Lilongwe City need financial skills. Efforts should be made to develop the skills of both existing and new business owners/managers to ensure that their businesses are managed successfully and continue to generate profit. In light of the above findings, the following recommendations are put forward:

Small business managers/owners are advised to prioritise training in financial management. Participants who have passed primary school leaving certificate examinations and who want more formal qualification on financial management may study with colleges and institutes that offer courses in business management. Those who have MSCE and have admission to study at higher education institutions may study financial management at various universities. To improve their accounting skills, participants may register for an accounting degree at any university or college that offer courses in business management. Small business managers/owners who have access to the internet may study basic finance skills via the learning management system which is facilitated online.

It was established that most small business owners/managers do not attend workshops and seminars provided by training providers because of the costs and long presentations. In order to encourage them to attend these workshops and training information should be readily available, reach the small business owners/managers on time and the benefits of the training should be clearly communicated in advance. It is advisable that the contents of the workshop training focus mostly on basic financial skills development, be tailor-made for small business development and be presented in the language in which the participants are fluent. Training interventions should be short, practical and mostly approached from the adult education perspective.

VII. SUGGESTIONS FOR FUTURE RESEARCH

This study focused on the financial management function only. The fact that respondents have limited financial management skills could mean that their skills in the other functional areas are also lacking. Given the fact that the functional areas work together and interact with each other, it is suggested that similar studies be conducted in order to include other functional areas of small businesses such as marketing, human resource, supply chain and operations management.

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