FACTORS AFFECTING FINANCIAL STABILITY OF SMALL AND MEDIUM ENTERPRISES: A CASE STUDY OF EMERGING MARKETS

Nonhlanhla Mbatha*, Muswenkos Ngibe*

* Faculty of Accounting and Informatics, Durban University of Technology, South Africa

Abstract

Small and Medium Enterprises (SMEs) play a significant role in the South African economy as they provide job opportunities to communities and contribute to the South African gross domestic product. However, the majority of small businesses lack financial skills, which results in the falsification of financial information and analysis and inaccurate financial reports leading to decline of confidence by investors and negative impact on stakeholders. Therefore, this study examines the critical factors that affect SME’s financial stability which in the long run result in the liquidation of SMEs.

The study was descriptive and quantitative in nature, using questionnaires to collect data from a sample of one hundred and twenty (120) SMEs across the Durban area. The findings show that lack of understanding of financial reporting has a negative impact on the financial stability of the business. Also, the lack of insufficient financial experience proved to have a negative impact on the financial stability of SMEs.

The study recommends that a short accounting programme should be developed by government incubators to assist and provide owners and accounts staff of SMEs with practical experience in financial reporting in order to increase their level of understanding financial reporting processes.

Keywords: Small Medium Enterprises, Financial Reporting, Financial Credibility, Financial Stability

JEL Classification: M41, G31

DOI: 10.22495/rgcv7i1art1

1. INTRODUCTION

Small and Medium Enterprises (SMEs) are faced with many challenges which negatively impact on their growth and existence. The literature reviews indicate that the challenges include leadership skills, capital, management of funds/profits, resources, government regulations, technology, human capital and environmental factors. Despite these difficulties, SMEs are still expected to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic development (Franco and Haase, 2010: 504; Ismaila, 2011; Fatoki, 2014: 922). In other words, SMEs play a pivotal role in the general improvement of living standards in South Africa (Lekhanya, 2016:13; Olawale and Garwe, 2010: 730) with 91 percent of the formal businesses estimated to be SMEs (Abor and Quartey, 2010: 218).

The aim of this study was to ascertain the effect or impact of the financial stability and credibility of financial reporting of SMEs on their sustainable growth.

The financial statements within the operating entity play a very significant role in determining the financial position and financial performance of the business. The financial stability of the business is determined by analyzing financial reports within that financial year. SMEs have a responsibility to assess the financial position and performance of an entity which determines the financial stability of SMEs. This highlights the significance of financial reporting and is supported by Atrill and McLaney (2009) who state that financial reports assist users of financial statements with financial information, to evaluate and make decisions based on the financial statements and financial performance of the business. Borio and Tsatsaronis (2005: 1) add that the implementation and usage of financial information and financial systems are the key factors in indicating the direction in which the business is going in terms of financial position, performance and stability. Wiese (2014: 68) argues that financial stability is negatively affected by unsustainable high profit, lack of experience, bad services, economic downturn and weak cooperation among financial officers and can critically affect both financial reporting and financial stability of SMEs (Laux, 2012: 239) which is generally measured by their financial performance (Ismaila, 2011: 4).

Hence, strong leadership, with qualified financial officers can result in improvement of financial performance and financial stability of SMEs (Rajaram, 2008: 1).

Problem Statement

Lack of in-depth understanding and information of financial reporting, lack of financial expertise and skills, finance, poor administration, economic growth, and human resources to build the required changes for sustainability within the organisation
has contributed to the failure of many SMEs (Singh, Olugu and Musa, 2016: 610). This has been evident from the failure rate of SMEs from 63 percent to 75 percent in the first two years of trading (I-Net Bridge, 2011; Olawale and Garwe, 2010: 279; Kongolo, 2010: 2288). Moreover, SMEs play an integral role in the sustainability of the South African economy with over 90 percent of African business operations; and contribute to over 50 percent of African employment and Gross Domestic Product (GDP) (Ramukumba, 2014: 19). Therefore, if these critical factors are not addressed with urgency, the South African economy will be affected immensely.

Primary Objective
The aim of this study was to identify the critical factors that affect financial stability of SMEs, with specific reference to Durban, Kwa-Zulu Natal.

Secondary objective
- To identify factors affecting the credibility reports, and
- To ascertain the contribution of financial reporting to the financial stability of SMEs.

2. LITERATURE REVIEW

A brief overview of the SMEs sector in Kwa-Zulu Natal

According to the South African National Small Business Act of 1996 as amended by the National Small Business Amendments Acts of 2003 and 2004, SME is a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, including its branches and subsidiaries managed by one owner or more. This type of business is identified by the number of employees, sales, gross profits or turnovers (Mahembe, 2011: 65). SMEs consist of 100 or more but less than 500 employees (Abor and Quartey, 2010: 220; Modimogale and Kroeze 2011: 2). SMEs have been a part of the economic growth, providing employment to middle and low income population groups and have actually been the engine of economic development (Beck and Demirgüç-Kunt, 2006: 2932). This means that SMEs play a significant role in South African economic growth of business sectors and are major contributors to the provision of job opportunities (Lekhanya, 2010: 1; Peters and Brijlal, 2011: 266). They provide employment to about 60 percent of South Africa’s labour force and are instrumental in the growth of any economy (Bisseker, 2014; Cant and Wild, 2013:707; Singh, Olugu and Musa, 2016: 609).

With such impact and steady contribution to the South African economy, surprisingly, liquidation rates of SMEs have halted their existence. Bridge (2011); Olawale and Garwe (2010: 279) indicated that 63 percent to 75 percent SMEs, in the first two years of trading, are liquidated. A current study by Wiese (2014:38) further confirmed that, nine out of ten firms are liquidated in the first year of operation, while 80 percent of new start-up fail within the first three years. Pinhold (2008) argues that one of the primary reasons for SMEs’ failure is their abnormal rate of creation. They are formed at a rate far higher than is needed by the economy.

Challenges faced by South African SMEs

SMEs are faced with numerous challenges that are within and outside the business and these challenges include accounting skills, risk management, general management, professionalism, and green business (Idemobi, 2012; Fatoki, 2014). These critical challenges affect the development, growth and sustainability of SMEs. Ahmad and Seet (2009) argue that lack of management skills in transforming and sustaining the organisation critically contributes to the failure rate of SMEs. The major leadership mistakes which contribute to the high failure rate are lack of financial responsibility and financial reporting, lack of capital, going into business for the wrong reasons and underestimating business time requirements (Valdiserri and Wilson, 2010). Additionally, Olawale and Garwe (2010: 730) argue that SMEs exhibit higher growth rates in percentage terms, however, most new small firms do not grow at all as they are established as a last resort (necessity) rather than first choice (opportunity). Hence, the high failure rate negatively impacts on the ability of new SMEs to contribute meaningfully to job creation, economic growth and more equal income distribution in South Africa (Olawale, 2014: 926).

Factors affecting financial reports

In order for any successful business to operate efficiently, its reporting must be precise and accurately reflect the transactions made by the organisation. In any case, the law requires all SMEs to prepare financial statements and they are often subject to audit (Maseko and Manyani, 2011: 172). Dick and Missonier (2010:1) agree and adds that financial information plays an important role in a business entity as it performs a significant role in recording financial information (Service, 2013: 38). In order to perform that task, a qualified accountant is necessary for the effective running of the business (Moloi, 2013:28). Hence, financial reporting is created to identify the movement of business resources in order to identify the wealth of the business through financial statements (Harrison, Horrigen, Thomas and Suwadry, 2014:2). Well, Schipper and Frances (2013: 2) concur that financial reporting is essential to improve the financial stability of the organisation in order to make informed decision about the future of the entity. But then again, these decisions should be based on several financial statements from previous months and years to ensure the overall picture of how the business is progressing financially (Mary, 2016). Moreover, financial reports are not only pivotal to the organization, but they are integral to auditors and most importantly the stakeholders (Peecher, Solomon and Trotman, 2013: 578). Therefore, failing to understand or track financial information can quickly lead to dangerous business situations, such as low cash flow or the possibility of bankruptcy (Vitez, 2016).

In a study conducted by Maseko and Manyani (2011) the majority of SMEs in Zimbabwe (Bindura) do not keep complete accounting records because of lack of accounting knowledge and as a result, there
is inefficient use of accounting information to support financial performance measurement by SMEs. Madurarpperuma, Thilakerathne and Manawadu (2016) also found that most SMEs in Sri Lanka do not keep complete accounting records due to lack of accounting knowledge and the cost of hiring professional accountants. McMahon (1999) also revealed that some SMEs fail to prepare complete set of financial statements even though they have well-maintained books of accounts but because financial statements and reporting accurately requires proper preparation. Newhard (2013: 28) recommends that owners of SMEs use financial reporting framework as it has extensive accounting, reporting, and disclosure guidance that will result, over time, in effective and consistent financial reporting. Although there are many reliable accounting information systems for SMEs to support accurate preparations of financial statement, they are not prioritized and used to benefit the organisation (Bruwer and Smit, 2015: 49). As a result, this makes it difficult for the entrepreneurs to calculate their business profits efficiently (Madurarpperuma, Thilakerathne and Manawadu, 2016).

Factors influencing financial stability

The literature review on small business shows that the maturity of SMEs is developed but fails to exist for a long period of time. Most factors that affect the continuity of the business is “lacking innovative capacity” (Franco and Haase, 2010: 505). Franco and Haase (2010: 505) also state that controlling equity and debt finances to achieve the balance appear to be still an issue for SMEs to date. Tracy (2010: 1) adds that one of the issues affecting the financial reporting is accuracy during the preparation stage of financial statements. This is caused by lack of understanding financial reporting, business requirements and lack of control over resources which result in financial instability (Chuthamas, Islam, Keawchana and Yusuf, 2011:184). In order to achieve pertinent and precise financial reporting, a financial accountant should be deployed by SMEs to manage, develop and prepare financial reports to avoid any issue of inconsistencies and mismanagement of business finances. However, according to Schmitt (2010), this is not practiced by SMEs as majority of people in SMEs working under accounting sections have no financial or accounting qualifications. While others may have relevant qualifications, they lack experience, perspective and understanding in the practical division. Therefore, experience is important in the world of work and an inexperienced employee dealing with financial reports has a negative effect on the financial stability of a business entity (Schmitt, 2010).

Although it is important to acquire the services of experienced accountants, Engel, Hayes and Wang (2010:136) advise that their services are very costly. However, they are critical for the effective financial administration of the business and they ensure that the organization complies with the financial reporting standards set by the International Financial Reporting Standards (IFRS).

3. RESEARCH METHODOLOGY

A quantitative research method was adopted for this study to ensure that the research aims and objectives were achieved. For the purposes of this research, data was collected from SMEs in the following sectors in the Durban area, namely: trading, industry and manufacturing, accounting firms, independent accountants and or chartered accountants. Primary data was collected from 120 participants within the above mentioned sectors. A non-probability sampling technique (convenient sampling) was used to determine the sample size for this study. It is worth noting that SMEs outsourced their accounting to accounting firms and it is, in this reason that accounting firms and charted accounts were selected.

Questionnaire design

The questionnaire was carefully designed in order to meet the objectives of the study and formulated through the objectives of the study and literature reviews. The questionnaire was used to collect data about the key variables to enable the researchers to ascertain critical factors affecting credibility reports and financial reporting in order to achieve financial stability of SMEs.

Shown in Table 1 below is the structure of the questionnaire.

Data analysis

The primary data gathered was coded and cross-checked for any inconsistencies before analysis. This ensured that the results were error-free and reliable. The empirical data was analysed by means of descriptive analysis using SPSS version (23.0).

Validity and reliability

In order to improve validity and reliability of the data collection instrument, the questionnaire was sent to research experts to check whether the instrument covered all the critical variables, and also if the questions had no ambiguity. Secondly, it was pilot tested to the 10 % of sample size, which enabled the researcher to determine whether the questionnaire was an effective and reliable data collection instrument for the purpose of achieving the aims and objectives of this study. The measure of reliability was obtained in the administering the same questionnaire to different groups which did not form part of the main study.
Table 1. Summary of key questions

<table>
<thead>
<tr>
<th>Factors that influence financial stability</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of understanding of financial reporting</td>
<td>Does lack of understanding of financial reporting impact negatively on financial stability of the business entity?</td>
</tr>
<tr>
<td>Inexperienced staff</td>
<td>Does an inexperienced employee dealing with financial reports impact negatively on the financial stability of the business entity?</td>
</tr>
<tr>
<td>Lack of integration among staff</td>
<td>Does the lack of integration among staff members negatively impact the financial stability of the business entity?</td>
</tr>
<tr>
<td>Investors</td>
<td>Do creditors, shareholders and investors who invest in the business by supplying resources and capital, have a positive impact on the financial stability of the business entity?</td>
</tr>
<tr>
<td>Slow growth in the economy</td>
<td>Does slow growth in the economy have a negative effect on the financial stability of the business entity?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factors affecting the credibility of a financial reports</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor administration</td>
<td>Does poor administration of resources negatively impact financial reporting of the business entity?</td>
</tr>
<tr>
<td>Lack of financial data</td>
<td>Does lack of precise financial data negatively impact the financial reporting of the business entity?</td>
</tr>
<tr>
<td>Accuracy of information</td>
<td>Does the accuracy of accounts information positively impact on the validity of financial statements?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contribution of financial reporting to the financial stability of the business entity</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak cooperation among staff</td>
<td>Does weak cooperation among the financial staff negatively affect the financial stability of a company?</td>
</tr>
<tr>
<td>Lack of knowledge and information</td>
<td>Does lack of 21st century knowledge and information about accounting software systems negatively affect financial stability of a business entity?</td>
</tr>
<tr>
<td>Lack of financial control processes</td>
<td>Does inadequate control of financial processes negatively impact on the financial stability of a business entity?</td>
</tr>
<tr>
<td>IFRS for SMEs</td>
<td>Does the new IFRS for SMEs principles and discloser of items negatively affect financial stability of a business entity?</td>
</tr>
<tr>
<td>Awareness of financial accounting</td>
<td>Does knowledge and understanding of the financial accounting standards and accounting framework negatively affect the financial stability of a business entity?</td>
</tr>
</tbody>
</table>

Reliability test

Cronbach’s Alpha was used to test for reliability and validity of this study at a 0.75 significant level. 13 items were tested as depicted by the table below. The scores were high (0.759) for the selected items, indicating a high degree of acceptable, consistent scoring for the different categories of this research.

Table 2. Reliability test

<table>
<thead>
<tr>
<th>Reliability Statistics</th>
<th>Cronbach’s Alpha</th>
<th>Cronbach’s Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.759</td>
<td>.779</td>
<td>13</td>
</tr>
</tbody>
</table>

4. RESEARCH FINDINGS

The objective of this section was to identify the factors that influence financial stability and credibility of a financial reports of SME’s.

The following section presents the findings of the study in the form of figures and bar graphs.
The results, as shown in figure 1, illustrate that the majority of the respondents, 49 (49%) agree and 40 (40%) strongly agree that lack of understanding of financial reporting negatively affected the financial stability of the business. While only 3 (3%) strongly disagree, 1 (1%) disagreed and 7 (7%) were neutral to the statement. This is a clear indication that financial reporting is one of the contributory factors to the liquidation of SMEs prematurely owing to the fact that SMEs do not have adequate understanding and knowledge of financial reports and most importantly financial reporting. This is confirmed by Jindrichovska (2013: 80). He states that a number of owners run the business without being involved in the financial reporting process, and consequently "do not have enough knowledge or interest in recording transactions, preparation and analysis of financial statements." This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that inexperienced employees dealing with business financial reports can lead to wrong decisions being taken due to lack of understanding of financial reporting ($Z(N=100) = -7.693, p<.0005$) with a mean score of 4.22.

The results, as shown in figure 2, illustrate that the majority, 48 (48%) of the respondents agree and 45 (45%) strongly agree that inexperienced staff dealing with financial reporting have a negative impact on financial stability of the business. Only 3 (3%) respondents disagreed and 4 (4%) were neutral. Wiese (2014: 68) confirms that a lack of experience threatens business sustainability. This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that inexperience has a negative impact on the financial stability of the business ($Z(N=100) = -8.491, p<.0005$); with a mean score of 4.35.

Figure 1. Lack of understanding of financial reporting

Figure 2. Inexperienced employees dealing with financial reports

Figure 3. Lack of integration among staff
The results, as shown in figure 3, illustrate that more than half, 56 (56%) of the respondents agree and 32 (32%) strongly agree that the lack of integration is another factor that impacts financial stability negatively. Only 7 (7%) of the respondents were neutral, while 4 (4%) disagreed. This indicates that small businesses need to run workshops or team building activities that will improve cohesiveness amongst staff, in order to build unity, sound communication, and strong relationships (Islam, Khan, Obaidullah and Alam 2011: 290). This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that lack of integration among staff has a negative impact on the financial stability of SMEs, \((Z(N=99) = -8.182, p<.0005)\); with a mean score of 4.17.

**Figure 4. Investors**

The results, as shown in figure 4, illustrate that more than half, 55 (55%) of the respondents strongly agree and 37 (37%) agree. Only 4 (4%) and 1 (1%) were in disagreement with the statement. The results clearly show that business investors play an integral and influential role in the business' financial stability and sustainability. The more investors a business has, the higher the chances of growth, innovation, stability and sustainability. This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that investors, namely creditors, shareholders, banks, have a positive impact on financial stability of SMEs \((Z(N=100) = -8.276, p<.0005)\); with a mean score of 4.41.

**Figure 5. Slow growth in the economy**

The results, as shown in figure 5, illustrate that the majority, 46 (46%) of the respondents agree and 41 (41%) strongly agree with the statement that the economy's slow growth and economic downturn affect the business' sustainability, as confirmed by Wiese (2014: 68). 10 (10%) respondents were neutral, with 2 (2%) strongly disagreeing and 1 (1%) disagreeing with the statement. This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that slow growth in the economy has a negative impact on financial stability of SMEs \((Z(N=100) = -7.833, p<.0005)\), with a mean score of 4.23.
The results, as shown in figure 6, illustrate that more than half, 53 (53%) of the respondents agree and 44 (44%) strongly agree that poor administration of resources is one of the major contributory factors that affect financial reporting of SMEs. Only 2 (2%) respondents strongly disagree and 1 (1%) disagrees with the statement. As stated by Singh, Olugu and Musa (2016: 610) most small businesses are unsuccessful due to a lack of knowledge, skills, finance, and human resources. This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that poor administration has a negative impact on financial reporting ($Z(N=100) = -8.319$, p<.005), with a mean score of 4.36.

The results, as shown in figure 7, illustrate that more than half, 53 (53%) of the respondents agree and 45 (45%) strongly agree that the lack of precise financial data has a negative impact on the credibility of financial reports of SMEs. Only 1 (1%) respondent disagreed, while 1 (1%) was neutral to the statement. This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that lack of precise financial data also has a negative impact on the credibility of the financial reporting ($Z (N=100) = -8.825$, p<.005), with a mean score 4.42.

The results, as shown in figure 8, illustrate that more than half, 56 (56%) of the respondents strongly agree and 41 (41%) agree that accuracy of accounts information is significant for financial reporting and financial stability. Only 3 (3%) respondents were neutral to the statement. This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that lack of accuracy of information has a negative effect on the reliability of the information ($Z (N=100) = -8.848$), with a mean score 4.53.
The results, as shown in figure 9, illustrate that more than half, 59 (59%) of the respondents agree and 34 (34%) strongly agree that weak cooperation among staff affects the financial reporting process and financial stability of the business. While 4 (4%) of the respondents were neutral, with 3 (3%) disagreeing with the statement. This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that weak cooperation among staff has a negative impact on financial stability through financial reporting ($Z(N=100) = -8.497$, $p<.0005$), with a mean of 4.42.

The results, as shown in figure 10, illustrate that more than half, 53 (53%) of the respondents agree and 27 (27%) strongly agree with the statement that the lack of knowledge and information about accounting software systems negatively affects financial reporting which in turn impacts on the financial stability of SMEs. 14 (14%) of the respondents were neutral, while 6 (6%) disagreed with the statement. Accounting software play a pivotal role in financial reporting and their intelligent presentations are crucial elements to keep the business operational in this competitive sector of SMEs (Modimogale and Kroeze, 2011). This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that lack of 21st century information also negatively affects financial stability ($Z(N=100) = -7.618$, $p<.0005$), with a mean of 4.01.

The results, as shown in figure 11, illustrate that more than half, 55 (55%) of the respondents agree and 44 (44%) strongly agree with the statement that inadequate control of financial processes have a negative impact on the financial stability of SMEs. These findings show the strong relationship between the two variable factors of financial reporting and financial stability.
The results, as shown in figure 12, illustrate that the majority, 70 (70%) of the respondents agree and 28 (28%) strongly agree with the statement that the new IFRS for SME principles and the disclosure of items has a significant impact on the SMEs financial stability. Only 2 (2%) disagreed with the statement. This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that IFRS for SMEs’ principles and disclosure have a significant impact on business financial stability of SMEs ($Z(N=100) = -8.874, p<.0005$); with a mean score of 4.24.

Figure 13. Awareness of financial accounting

The results, as shown in figure 11, illustrate that half, 51 (51%) of the respondents strongly agree and 48 (48%) agree with the statement on awareness of financial accounting. With only 1 (1%) of the respondents being neutral. This shows that knowledge and understanding of financial accounting standards and accounting framework contribute to the financial stability of a company and most importantly, an accountant is crucial for SMEs in order to comprehend, prepare and practice proper financial reporting in accordance with the IFRS. This finding is shown to be statistically significant as shown by the Wilcoxon signed ranks test which indicated that awareness of the financial accounting has a significant impact on financial stability of SMEs ($Z(N=100) = -8.918, p<.0005$); with a mean score of 4.50.

5. LIMITATIONS OF THE STUDY

This study only included SMEs situated in Durban. The findings, therefore, may not be generalised to other areas outside Durban or Kwa-Zulu Natal. However, they can be used to enhance performance and promote accurate financial reporting to ensure financial stability of SMEs.

6. FINDINGS

The results of the study clearly indicate that (1) the factors that influenced financial stability were lack of integration among staff (56%), lack of understanding of financial reporting (49%), inexperienced employees dealing with financial reports (48%) and the slow growth in the economy (46%); (2) the factors affecting the credibility of financial reports were inaccuracy of accounts (56%) and poor administration (53%), which is attributed to inexperience of handling financial reports and inadequate knowledge of financial reporting amongst employees performing financial accounts for SMEs; (3) the contributing factors of financial reporting which affect financial stability were IFRS for SMEs (70%), weak cooperation among staff (59%), lack of inadequate control of financial processes (55%) and lack of 21st century knowledge and information about accounting software (53%).

7. CONCLUSIONS

On the basis of the findings, it is concluded that financial reporting and the credibility of the reports affect the stability and moreover the sustainability of SMEs. The inadequacy, inexperience and lack of knowledge of staff who deal with financial reports, poor administration and lack of control of financial processes including lack of current knowledge and information about accounting software are the key factors that negatively impact on the stability and consequent sustainability of SMEs.

Prior research shows that accounting information systems are crucial in managing transactions of the organisation. Therefore, contributions of proper financial reporting will accurately assist SMEs in tracking financial information to determine the effectiveness and
efficiency of their operations. However, neglecting to comprehend or track financial information can rapidly prompt to risky business circumstances, for example, low income or the likelihood of insolvency. It is key that SMEs in South Africa start aligning and exposing themselves to financial reporting frameworks to improve their financial reporting. In similarity to the study conducted by Turyahewa, Sunday and Seekajugo (2013:3884) in Uganda, this study concludes that owners of SMEs should develop a positive attitude towards adopting financial management practices so as to achieve desired business performance.

8. RECOMMENDATIONS

With SMEs playing a pivotal role in South African economy by creating jobs, improving life style of many South Africans, poverty reduction and noticeably, contributing to the gross domestic product, it is the responsibility of the South African government to ensure their growth and sustainability.

Based on the findings and the conclusions of the study, the following recommendations are intended to improve the financial reporting of SMEs which, according to this study is one of the major contributory factors to sustainability of SMEs:

- Substantial assistance is needed from the government and well established organisations to mentor and educate leadership of SMEs. As recommended by Olawale and Garve (2010: 736) government support agencies that can help new SMEs with finance and training such as SEDA should be rigorously marketed to create awareness on financial reporting.

- The existing government incubators should support SMEs with in-depth accounting programmes, workshops and training for those SMEs that do not have adequate knowledge and understanding of financial reporting as stipulated by the IFRS. This will improve the awareness of the importance of financial accounting and its purpose towards stability, innovation, growth and sustainability of small businesses.

- SMEs need to have qualified accountants to ensure credibility of financial reports, resource control, administration and data control. If this is not rectified, it can detract potential investors.

- Due to the ever evolving business sector, SMEs need to send their staff members for workshops and training to enhance staff capabilities.

- Businesses continuously need new, fresh ideas, in order to maintain a standard or better achieve their goals than competitors. This will not only improve staff capabilities, but also their level of integration and cohesiveness, which is vitally needed for the business operations to be efficient and productive (Kavanah and Drennan, 2008: 279).

REFERENCES:


