

Financial Management Literacy of Early Childhood Development Centre Managers in Mafikeng

Phillip Baka

Student number: 22022988

Mobile: 074 849 7832



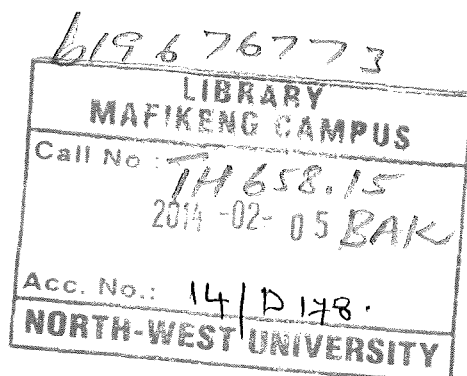
Email: bakapa1@gmail.com

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A research report submitted to the Faculty of Commerce, North-West University
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Supervisor: Prof. T. E. B. Assan



ABSTRACT

This study investigated the level of financial management literacy of Early Childhood Development (ECD) centre managers. According to Hutchinson, Sohl and Vlahos (2004) the running of a child care centre require “substantial business skills”.

In South Africa, privately-owned ECD centres fall under the classification of small businesses which play a significant role in the national economy by providing employment and contributing to the Gross Domestic Product (GDP).

This study used a survey method consisting of a questionnaire and a structured interview. The population for the study was made up of all the managers or owner-managers of privately run ECD centres in Mafikeng. A sample of 14 ECD centre managers was randomly selected from the population.

The research sought to find out the financial management challenges that ECD centres face as small business units, the current level of financial management literacy of ECD centre managers and the strategies by ECD owners to improve the level of financial management literacy of ECD centre managers.

Key findings from the study are that ECD centres face many financial management challenges; the level of financial management literacy of ECD centre managers is generally low and there are very few or no strategies by ECD owners to improve the level of financial management literacy of ECD centre managers.

Recommendations from the study are that ECD centre owners should invest in information technology and financial training to ease the burden of managing finance. The literature suggested that those who use computers do not struggle to maintain accounting records since most of the ECD centre managers do not have accounting knowledge.

Keywords: financial management literacy, early childhood development, small business

DECLARATION

I, Phillip Baka, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master in Business Administration at the North-West University, Mafikeng Campus. It has not been submitted before for any degree or examination in this or any other University.

Signed at MMA BHATO

On the 12TH day of SEPTEMBER 2012.

DEDICATION

I dedicate this research work to my wife Margaret and my three children: Kaplan, Tawanda and Pauline who supported me throughout my studies. They suffered a lot of inconvenience as I kept them away from the only computer we had for the whole family when I worked for endless hours on the machine.

I want my work to be an example for my children to emulate as they intend to study at University after high school.

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ABBREVIATIONS AND ACRONYMS

DoE – Department of Education

DSD – Department of Social Development

DTI - Department of Trade and Industry

ECD – Early Childhood Development

EFT – Electronic funds transfer

FET – Further Education and Training

GDP – Gross Domestic Product

MS Excel – Microsoft Excel

NGO – Non –Governmental Organisation

SAEP – South African Education and Environment Project

SARS – South African Revenue Services

SEDA – Small Enterprise Development Agency

SETA – Sector Education and Training Authority

SME – Small and Medium Enterprise

CHAPTER 1: INTRODUCTION

1.1 Introduction

The Department of Social Development, DSD, (2006) defines Early Childhood Development (ECD) as the physical, social, emotional, intellectual and spiritual processes of development in young children aged 0 -9 years. ECD services are provided at ECD centres which are places where a group of 6 or more children below schoolgoing age are regularly provided with the service. These centres could be at home, at a hospital, under a tree, at school, in a community hall or in a building designed for the purpose.

Child-care centres have become more popular with the increase in the number of working mothers. According to Statistics South Africa (2011), 42% of mothers are aged between 16 - 24 years and are under pressure to earn a living unless they still stay with their parents. These mothers are the potential customers for ECD centres and look for affordable, safe and secure places for their children while they go to work. Hence there is a potential business opportunity for those who have a passion for working with children and are willing to be their own bosses.

All ECD centres which comply with the regulations of the Department of Social Development are eligible for a monthly subsidy of R15 per child (DSD, 2006). This amount is not enough to run an ECD centre where children receive meals. Parents who can afford it and demand quality service are prepared to pay high fees. It is the proper management of this revenue which can bring success to an ECD centre therefore there is a need for ECD centre managers to have good financial management skills. This study investigated the level of financial management literacy of ECD centre managers in Mafikeng in the North-West Province of South Africa.

This chapter states the purpose of the study and provides motivation for undertaking the study. It includes a statement of the research problem and research questions to be answered at the end of the study. Limitations of the study, assumptions and definitions of key words form part of this chapter which ends with a brief summary of the chapter.

1.2 Background of the study

The role of small businesses as a key to a country's economic growth has been widely documented (Grundling&Kaseke, 2010; Padachi, 2006). Grundling and Kaseke (2010) further elaborate that the strategy of the South African government is to:

- curb unemployment through job creation;
- alleviate poverty, and;
- redistribute wealth through growth.

Despite the importance of small businesses to the national economy, the failure rate of small businesses was very high compared to that of large businesses (Padachi, 2006). Barrow (2006), attributes small business failure to the inability of financial managers to plan and properly control the current assets and current liabilities of the firm.

McNamara (2011) recommends that new business leaders and managers have to develop at least basic financial management skills. Financial management is defined as the process of managing the financial resources, including accounting and financial reporting, budgeting, collecting accounts receivable, risk management, and insurance for a business (Small Business Notes, 2011). A person who has the basic skills described in the definition can be said to have financial management literacy.

According to Mason (2011), there are small business failures that are a result of poor financial management such as:

- choosing a business that is not profitable;
- inadequate cash reserves;
- failure to price the products or services correctly, and;
- failure to adequately anticipate cash flow.

The purpose of this study was to investigate the level of financial management literacy of ECDcentre managers in Mafikeng. ECDcentres fall under the definition of small business which states that a small business is a separate and distinct entity including co-operative enterprises and non-governmental organisations, managed by one owner or more. ECDcentres are therefore faced with similar problems that other small businesses face.

Research conducted by Argue (2008) for the South African Education and Environment Project (SAEP) Child Care programme established that the ECD centres scored poorly on financial management, which was one of the attributes which was essential for progression from one level to another. There are several levels of ECDs defined by the age of the child (DSD, 2006). A centre which is able to offer education to all levels up to nine year olds can be said to operate at the highest level.

Argue (2008) studied twelve crèches in the Phillipitownship outside Cape Town. The study assessed the progress of each crèche through a variety of criteria developed through practical experience and examination of the Department of Health and Social Services Child Care Manual. The criteria included:

- constitutional components;
- physical structure;
- professional and statutory registration;
- human resources;
- financial management, and;
- media.

Under financial management, the features investigated were:

- availability of an active fundraising plan;
- fundraising budget, and;
- operating budget.

On a scale of zero to ten, the average score by the ECDs on these aspects was 3.1. The interpretation of this score was that little attention was given to financial management at the ECD centres. This study investigated the level of financial management literacy of ECD centre managers in Mafikeng.

1.3 Problem statement

The problem to be addressed was the low level of financial management literacy of ECD centre managers. It has been noted that small businesses face challenges in financial management, and ECD centres are not an exception. In this study, ECD centres investigated

were those that are run by independent individuals or organisations with a profit motive and can therefore be regarded as small business units. Although such centres receive government grants if they comply with all the requirements, such grants are not enough to sustain the business (DSD, 2006). There is a need for proper business planning in order to thrive. It is this financial planning and other financial management skills that this research investigated. The purpose of this study was to investigate the nature and scope of financial literacy among ECD managers, the challenges they face in executing their duties as well as the strategies to overcome the financial management literacy challenges.

The income for ECD centres is mainly derived from fees collected and this in turn depends on the number of children enrolled (Layton, 2008). If the number of children drops, the centre will not be able to cover its expenses and it may close down and this may affect many stakeholders such as the owners, employees, children and society at large.

1.4 Research questions

The key research question is: Do ECD centre managers have the financial management literacy required to effectively manage their business or centres? To address this key question, the research sought to answer the following questions:

1. What financial management challenges do ECD centres face as small business units?
2. What is the current level of financial management literacy of ECD centre managers in Mafikeng?
3. What are the strategies by ECD owners to improve the level of financial management literacy of ECD centre managers?

1.5 Aim and objectives of the study

The main aim of this study was to investigate the level of financial management literacy of ECD centre managers in Mafikeng. In order to achieve that aim the following objectives had to be fulfilled:

1. to determine the financial management challenges that ECD centres face
2. to establish the current level of financial management literacy of ECD centre

managers in Mafikeng

3. to find out the strategies centre owners may utilise improve the level of financial management literacy of ECD centre managers

1.6 Significance of the study

The study fills a gap in that it points out the best practice in managing business finances for the business owner. For the customer, it ensures a continual supply of the product and services offered by the business since a collapse of the business means that they may no longer obtain the benefits that they were getting. For the government, the continued existence of the business means the government may raise more revenue in the form of taxes, and for the employees of the business, the existence of the business means they have a means of living. For the providers of finance such as banks, the existence and success of the business mean that they are assured of revenue in the way of interest paid on the loans provided.

1.7 Delimitations of the study

This study focussed on the level of financial management literacy of ECD centre managers, the financial management problems they face and strategies by owners of ECD centres to improve the financial management literacy of the managers. It is acknowledged that there are many factors that can impact on the success of a business such as human resource management, marketing and sales management but the researcher chose to focus on financial management because this area has been identified as a major cause of small business failure (Pinson & Jinnett, 2006). This research also focused on small businesses instead of businesses in general due to the high rate of small business failure (Padachi, 2006).

1.8 Definition of terms

The following definitions were used in this research:

Early childhood development – the process of emotional, mental, spiritual, moral, physical and social development of children from birth to nine years (DSD, 2006).

ECD Centre – any building or premises maintained or used, whether or not for gain, for the admission, protection and temporary or partial care of more than six children away from their parents (DSD, 2006)

Financial accounting – the accounting system associated with the preparation of the main financial statements: income statement, balance sheet, statement of cash flows and statement of shareholder's equity (Averkamp, 2011).

Financial management – the planning, directing, monitoring, organising, and controlling of the monetary resources of an organisation (Averkamp, 2011).

Financial planning – the process of developing and implementing a coordinated series of financial plans to help an enterprise achieve financial success (CPA Australia, 2009).

Risk management – the way in which adverse effects of risk are managed and potential opportunities are realised (CPA Australia, 2009).

Small Business – the National Small Business Act, South Africa, 1996, defines a “small business” as a separate and distinct entity including co-operative enterprises and non-governmental organisations, managed by one owner or more (DTI, 2007).

1.9 Assumptions

The researcher assumed that the respondents had enough knowledge in the area of ECD centres to be able to clearly articulate answers to the questions posed. This assumption may not be valid as some business owners may not have the level of training to understand the technical terms used. However, care was taken to phrase the questions in simple terms that enabled the respondents to answer such questions without difficulty.

1.10 Summary

This chapter established the need for the study which was to find out the level of financial management literacy of ECD centre managers in Mafikeng. The next chapter reviewed the literature relevant for this study leading to the formulation of research instruments which were used to collect data.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter was divided into sections based on the themes identified in the preliminary literature review. The themes are : book keeping, cash flow management, preparation of financial statements, financial analysis, financial planning and budgeting, and financial control and risk management. All the six themes together constitute the concept of financial management according to Small Business Notes, (2011). Each of these themes will be discussed in the light of the relevant literature.

To the best knowledge of the researcher there is no research which was specifically conducted on financial management in ECD centres but there are studies on financial management in small business under which ECD centres fall. This research will draw on such studies and relate it to ECD centres. The first section of this literature review will give a brief overview of the history of ECDs in South Africa. This will be followed by each of the six themes stated above. A conclusion will summarise the key points raised in the literature review and link to the next section.

2.2 History of ECDs in South Africa

The post apartheid South African government inherited a fragmented education system that did not cater for all South Africans (Argue, 2008). In an attempt to correct the imbalance, the new government provided funding for ECD education in 1997. The goal was to have universal access to Grade R by 2010, with 85% of new Grade R learners starting in existing primary schools, while 15% would be enrolled in independent schools which included community schools (non-public schools in the townships). Disadvantaged communities were targeted for funding. In these communities, the government pledged to provide R2 per child enrolled in Grade R. This per capita subsidy was up to a maximum of 30 children enrolled at an ECD centre (DoE, 2011).

Notwithstanding the effort made, the funding was not enough to cover the cost of running an ECD centre. Argue (2008) noted that those teachers who were qualified moved to more affluent areas where schools could demand fees to pay higher salaries for the staff. This is

where the concept of running ECDcentres as business units comes in and effective financial management skills become relevant.

It is important to remember that though ECDcentres are not profit-making organisations such as retail shops, they play an important role in providing education and employment for the personnel who work at the centres. The next section will discuss the small business enterprise concept in South Africa.

2.3 Small Business Enterprise Concept

In South Africa, as in other countries, small business is defined according to industry type. The criteria differ among countries but the most common criteria are: number of full-time employees, annual turnover and asset value. Table 2.1, adapted from the National Small Business Act no. 102.27 of 1996 shows the criteria for the definition of a small business in the social and personal service sector in which ECD centres would fall (DTI, 2007).

Table 2.1 : Classification of small business in the social and personal service

Sector or subsectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees Less than	Total annual turnover Less than	Total gross asset value (fixed property excluded) Less than
Social and Personal Services	Medium	120	R10.00m	R5.00m
	Small	50	R5.00m	R2.50m
	Very small	10	R1.00m	R0.50m
	Micro	5	R 0.15 m	R 0.10 m

2.4 ECD and Small Business Enterprise

Running an ECD centre compares very well with running any other small business. Hutchinson, Sohl and Vlahos (2004:47) maintain that managing a child care centre requires “substantial business skills”. In their research-based manual called *Developing a Child Care Centre*, the authors outline the core skills required for the effective running of a child care centre as:

- financial planning and analysis
- rapid response to shifting revenue and expense factors/ managing change
- managing collection of fees and subsidies
- relationship with subsidy programs
- staff recruitment, training, supervision and retention
- parent relations/ customer relations
- regulatory compliance

These skills are basically the same as those required to run a small business with a few differences depending on the type of industry. For example, ECD centre managers have to contend with the fact that it is impossible to be financially viable at an ECD centre with less than 100 children (Hutchinson et al, 2004). These authors further assert that it is probably a mistake to select as a child care centre manager an individual who has only early childhood training and experience. Hence the reason to treat ECD centres as business units.

2.5 Elements of Financial Management for ECD Centres

2.5.1 Introduction

This section will discuss elements of financial management which relate to ECD centres by making reference to accounting concepts drawn from various sources and current research that is being done on the topic in similar environments.

2.5.2 Bookkeeping

Martins (2010:36) defines bookkeeping as the process of keeping and maintaining financial records. According to Martins, bookkeeping is, “a silent factor that can either make or break your business.”

The statement made by Martins, is supported by Butler (2011) who outlines the need for bookkeeping in order to:

- enable stakeholders to understand the financial position of the organisation;
- be able to monitor income and expenditure against the budget;
- provide for accountability and transparency;
- be able to plan financially, and;
- provide for security – to avoid loss of money through mismanagement, corruption and theft.

Studies by several researchers have identified poor record keeping as a major challenge for small businesses. Research done by Maseko and Manyani (2011) on the accounting practices of Small and Medium Enterprises (SMEs) in Zimbabwe revealed that the majority of the SMEs did not keep complete accounting records because of lack of accounting knowledge. This problem resulted in inefficient use of accounting information for performance measurement. The reason for not keeping records was cost and time constraints. Radipere and Van Scheers(2005) established that 31% of respondents in their study did not know how to record transactions and 20% experienced problems with bookkeeping. These findings are consistent with the results of studies by Yahya, Fatt, Othman, Rahman and Moen (2011) who concluded that the records are not maintained frequently in small businesses. Ipinge (2010) explained the failure to maintain financial records by saying that small business owners are usually sole proprietors and try to perform all operations by themselves but do not have the time nor the skill to do everything. Another reason given by Ipinge(2010)for not keeping records is ignorance of the importance of financial information. According to Davis, Dunn and Boswell (2009) keeping manual records on accounts receivable requires knowledge of accrual accounting while most small business tend to be cash oriented. Accrual accounting requires more knowledge of accounting than cash accounting. This knowledge may not be available to small business owners (Okpara&Kabongo, 2009). At an ECD centre, there will be a need to keep records of accounts receivable as there will be outstanding fees.

The first step in bookkeeping is getting organised. This point is supported by Howard (2010). Getting organised involves finding space from which to work.

To keep paperwork in order, Howard (2010) suggests having a few in trays labelled as follows:

- Unpaid Expenses;
- To be Entered;
- Bank Statements;
- Correspondence.

Cymru (2008) cautions about filing away paperwork until it has been dealt with. He further suggests printing expenses that are received via email as it makes it easy to enter. Sales invoices could be produced in an accounting software programme, and in this case they can be printed and filed straight away.

Holst (2010) recommends the purchase of a few stationery items such as trays, files and “Entered” and “Paid” stamps. Paperwork entered into the accounting software programme should be stamped “Entered” and expense invoices as “Paid” once they have been settled. He further says that it is a good idea to write on the supplier invoice the date paid and the method of payment (such as cash, cheque or EFT [Electronic Funds Transfer]).

Isidro (2011) gives tips on keeping business records and contends that running a successful business entails keeping accurate and timely information. A clear financial picture allows one to monitor the success or failure of the business. Isidro (2011) further suggests that a perfectly adequate record keeping system for a small business might include some or all of the following:

- cheque register – preferably a separate bank account for the business;
- summary of receipts of gross income;
- monthly summary listings of expenses;
- disbursements record (cheque register or expense journal);
- asset purchase register;
- employee compensation record.

Most of the records can be produced by a computer system although Epstein and Moore (2006) suggest keeping paper records in addition to the digital records in case the computer system fails.

Cash receipts usually show details of the main income accounts for the organisation. For example, an ECDcentre could have the following accounts (Layton, 2008):

- Tuition – for funds required to pay salaries for educators and buy stationery;
- Meals – for preparation of food for children, if such is provided;
- Recreation – for purchasing and maintaining recreational equipment;
- General purpose – paying utilities such as electricity and water.

Once the receipt has been written, the fees journal should be completed. A student ledger is an important document which could show outstanding fees from each student and this enables followup on fees collection (Layton, 2008). These records can be used to prepare financial statements. A computerised accounting system works along the same basic principles but has many advantages compared to the manual system. According to Guerin (2011), any good bookkeeping system must be:

- relevant,
- understandable,
- reliable,
- complete,
- up-to-date,
- consistent,
- acceptable to the outside world.

A number of small businesses use bookkeeping service providers. Martins (2010) suggested three checklists for choosing a good bookkeeping service provider. The checklists focus on:

- the level of professionalism of the bookkeeping company. This is closely related to experience and reputation.
- the technological level of service. Martins (2010) further states that technology makes it possible to achieve speed and accuracy which are important attributes in the world of accounting.

- the bookkeeping support service. This can be likened to after-sales support where the company offers extra service to their clients.

While a bookkeeper may be necessary, McNamara (2011) states that a bookkeeper may not relieve the business owner of the responsibility to understand financial data which is required for decision-making. According to McNamara, a bookkeeper is necessary at the beginning to help in setting up the bookkeeping system. This statement means that every business owner has a personal responsibility to understand financial data.

Many small businesses are trying to use computerised bookkeeping but are mainly hampered by lack of training (Davis, Dunn & Boswell, 2009). According to Kumar (2010), the following are the advantages of a computerised bookkeeping system compared with a manual system:

- speed – bookkeeping software is able to run reports much faster than a manual accounting system. Reconciling the accounts is quick and easy.
- accuracy – using business software can ensure a more accurate and efficient accounting cycle.
- fluid results – it is easy to view the records.
- quicker and easier to generate financial statements.

For a person who has a non-accounting background, it is only essential to learn how to do the entries correctly. Once data has been entered it is posted to the relevant ledgers by the system and reports can be generated. This could be a big advantage for small business managers whose accounting background is weak, yet who need to prepare financial statements on a regular basis (Shapiro, 2010).

In addition, there are a number of software packages specifically designed for the management of childcare businesses such as Childcare Manager (Personalised Software, 2006). This program is an all-in-one childcare management system and accounting software. It can handle all the common records required for running an ECD centre and process financial data to produce financial statements quickly and accurately. Annexure D shows the homepage of the Child Care Management system.

2.5.3 Cash flow management

It is generally acknowledged that cash flow is the single most pressing concern for a small business. Cash flow is simply defined as the flow of money in and out of the business. According to Datawatch(2004) cash flow shows the level of ability of a company to meet its financial obligations. With a positive cash flow, a company would be able to meet payroll, pay suppliers, meet debt payment and make distributions to owners.

Allot (2007) identified four principles regarding cash management. The first is that a conscious effort has to be made to control cash. The second is that cash management is an integral part of the business cycle and the third is that information is needed to manage cash. This could be information on :

- Customer's creditworthiness;
- Customer's current track record of payments;
- Outstanding receipts;
- Supplier's payment terms;
- Short- term cash demands;
- Short-term surpluses;
- Investment options;
- Current debt capacity; and
- Long-term projections.

The final principle is that the person who does the management of cash must know how to do it well. This is why it is important for owner managers of small businesses to be literate in financial management, whether they do the job themselves or delegate it to someone.

Research by van Auken and Doran (2008) on small business capitalisation patterns established that cash flow is a problem for small businesses at whatever stage of development. One of the reasons for this problem, shown by studies by Monks (2010), is the inability of small businesses to receive credit from suppliers. Suppliers want assurance that they will be paid and this may be difficult to provide for small businesses whose financial information may be in a mess (Yahya et al, 2011).

According to a report by Hutchinson et al (2004), ECD centres have problems in managing credit resulting in bad debts, which average 5% of the total revenue for most centres. Bad

debts occur when a centre is unable to collect fees owed to it. Advice on solving this problem given by Modigliani, Reiff and Jones (2006) is not to let payments fall behind as it becomes harder to collect. They even suggested having a “ pay in advance” policy with parents.

Appel(2011) traces the flow of money into the business and states that inflows may come from:

- Sale of goods/services to customers;
- Customers paying outstanding accounts;
- Bank loan;
- Interest on investments;
- Investment by shareholders in the company.

All the listed sources are possible for an ECD.

Money flowing out of the business could be for:

- Purchasing finished goods for resale;
- Paying salaries and wages and other operating expenses;
- Purchasing fixed assets;
- Paying principal and interest on loans;
- Paying taxes.

Jackson (2010) contends that cash inflows tend to lag behind the cash outflows creating a shortage or cash- flow gap. This gap has to be narrowed or completely closed through cashflow management. Reid (2007) outlines the consequences of poor cash management as:

- the organisation has insufficient funds to pay creditors resulting in late payment penalties and interest charges;
- lack of funds to finance large projects or events that were planned and budgeted for;
- use of overdraft and other credit facilities to finance cash shortages;
- loss of credibility with suppliers;
- inability to pay salaries at the month end;
- dishonoured cheques from banks.

2.5.4 Preparation of financial statements

One of the primary responsibilities of management of a business is to prepare and present financial statements. Financial statements provide information required for making decisions concerning planning and control. These financial statements must meet the needs of different users who may be (Doussy, 2008):

- investors – Investors are interested in knowing whether they are likely to obtain a return on their investment or not;
- employees – Employees are interested in the stability and profitability of the business as this will guarantee them continued employment;
- creditors – Creditors are interested in whether the business is able to pay their loans or not;
- suppliers – Suppliers need information that will assure them that they will be paid;
- customers – Customers are interested in the existence of the business to obtain the products and services that the business offers;
- government and their agencies – Government agencies such as SARS would want to know how much tax the business should pay; and
- public – The public benefits of the business as it contributes to the national economy and they are interested in stability.

Doussy (2008) contends that financial statements cannot always meet all the needs of all users, but some of the needs are common to all users, for example, knowing how much revenue the business is generating. Generally, three statements are usually prepared by businesses: income statement, balance sheet and cash flow statement and these meet the needs of most users (Raiborn, 2010; Khumalo, 2001).

Kolitz, Quinn and McAllister (2007) state that the objectives of financial statements is to provide information about the financial performance, financial position and changes in the financial position of the business. The income statement provides information on the financial performance of the business over a period of time while the balance sheet shows the financial position of the business at a specific time and the cash flow statement reports on the flow of cash into and out of the business (Elliot & Elliot, 2006).

Reeves (2011) suggested that the statement of cash flow is the most useful of all the financial statements for planning purposes. He elaborated his assertion by saying cash is the life blood of the business and without cash the business fails. Most small businesses do not have the ability to borrow money as easily as larger businesses do. Reeves further explained that the statement of cash flow was useful in determining the short-term viability of a company, particularly its ability to pay its bills.

According to Doussy (2008) and Mohr (2008), for the financial statements to be useful, they must possess the following key characteristics:

- understandability – the users of financial statements must be able to understand them;
- relevance and materiality- information is useful when provided at the right time and its materiality depends on whether it reports things that are significant;
- Reliability – this measure if the information truly represents the transactions that occurred; and
- comparability- the information disclosed in the financial statements should be capable of being compared over time.

However, studies by Agyei-Mensah (2010) showed that small businesses do not have sound financial systems in place which can enable them to prepare financial statements. The major reason for this is the lack of accounting skills by small business owners coupled with high prices charged by professional accountants. This is confirmed by Maseko and Manyani (2011) who said small business have problems with keeping complete records. The next section discusses the uses of financial statements in financial analysis which is important in assessing the performance of the business and any other organisation including ECD centres.

2.5.5 Financial analysis

The preparation of financial statements is a means to an end, which is making informed decisions about the health of the business. Financial statements have a value that goes beyond their use as supporting documents for loan applications and tax returns (Reeves, 2011). One way of analysing financial statements is to use ratio analysis which calculates the ratio between two line items on the financial statements. According to Reeves (2011), the following are the most critical ratios for most small businesses:

- liquidity ratios – these ratios measure the ability of a business to meet its short-term obligations. Two ratios fall under this category and these are the current ratio and acid-test ratio;
- profitability ratios – these ratios measure the ability of a business to generate profits. Several ratios can be computed under this category which may include the gross profit margin, net profit margin, return on assets, and return on equity;
- activity or efficiency ratios – these ratios measure how efficiently the business is able to utilise resources to generate profits. Included under this category are ratios such as an inventory turnover ratio, accounts receivable turnover, accounts receivable days and accounts payable days;
- leverage ratios – these ratios measure how the business is able to use debt to finance business operations. Ratios which fall under this category are debt ratio and interest cover.

Ratio analysis on its own is meaningless unless the ratios are compared with ratios of companies in the same industry. For example, the inventory turnover ratio of a supermarket is very high compared with that of a furniture shop. Therefore it is meaningful to compare inventory turnover ratios of supermarkets since they are in the same industry.

It is also important to compare ratios of the same business across a period in order to identify trends. This kind of analysis requires financial statements for at least two years before a comparison can be made. It is therefore important that ECD managers become conversant with financial management literacy to enable them to understand and manage their centres effectively and efficiently (Barrow, 2006).

Studies by Fadzlina and Fadhil (2010) on the management of company finances among small and medium companies in Malaysia found out that small businesses do not rely on accounting information for decision-making hence the absence of financial analysis. The lack of analysis is attributed to low awareness of the importance of financial management, a point which is supported by Agyei-Mensah (2010: 43) when he says “poor financial management is the major cause of small business failure.”

2.5.6 Financial planning and budgeting

Business financial planning is defined as a process in which a business:

- assesses its financial position;
- determines its objectives and;
- formulates financial strategies on how to achieve those objectives.

(Elahi, 2008).

Elahi justifies why it is necessary to plan because:

- the future is uncertain;
- business can be complex;
- risks and rewards come and go;
- management is improved by planning;
- it increases chances of success.

In their manual titled, 'Developing a child care centre', Hutchinson et al (2004) state that business planning is essential to the successful operation of an ECD centre. This view is supported by Layton (2008) who says there is a need to plan, monitor and control the money received and spent at an ECD centre. Layton further outlines 7 big financial management mistakes which are made in children's services, which are:

- being scared of finances
- not budgeting
- not checking income against budget
- not checking expenditure against budget
- not allowing for provisions
- not controlling costs, and
- not checking utilisation figures

Financial planning should be a continuous activity where the plan is reviewed regularly and performance is measured against specific targets. According to Wasner (2008), without thoughtful financial planning, even the most promising small business will struggle to succeed. Wasner says that there are eight things to consider in order to create a sound financial plan. These are:

- realistic revenue and expense projection;
- funding reserves;

- planning for departure or addition of the owners;
- development of strong business relationship with one's bankers;
- accurate recordkeeping and regular monitoring of financial status;
- consulting a tax professional;
- obtaining business –related insurance;
- determining pricing formulas and policies.

One of the most important budgeting tools is a cash budget. Bond (2005) defines a budget as a plan for owners and managers to achieve the goals of the business in a specific time period. Bond further explained that a budget is meaningful after an income statement and a balance sheet have been prepared. Information from these financial statements is essential for creating a budget. In addition, Bond recommends that small businesses should prepare and analyse budgets on a monthly basis to enable the owners to control unexpected cash uses.

The creation of a budget requires the making of realistic estimates based on past experience. For example, for revenues that are dependent on competition, the local economic climate, internal operations and capacity of the enterprise need to be analysed in forecasting that is projected in a budget. A budget does not exist in a vacuum and for that reason business owners and managers are advised to consult line managers, suppliers and key personnel in the budget-making process. Bond (2005) outlines the advantages of a cash budget as follows:

- it allows management to make decisions regarding their cash position;
- it allows the business to evaluate and plan its cash needs;
- it helps assess whether there are periods when short-term borrowing is needed;
- it helps assess any long-term borrowing needs.

A cash budget has three main components which are:

- time period-time period is the period for which the budget will apply;
- cash position-the cash position is the amount of cash the business wishes to keep on hand and this depends on the nature of the business;
- estimated sales and expenses.

- budgeting,
- expenditure,
- travel allowances,
- assets,
- auditing,
- petty cash,
- staff salaries,
- staff bonuses,
- operating a bank account.

For example, all money received must be banked.

Other controls include preparing:

- a trial balance which checks the accuracy of the recording process;
- a bank reconciliation statement;
- an audit at the end of the year.

However, studies by Ipinge (2010) on the development of SMEs in Namibia revealed that 78% of the respondents in the study had never done an audit. Another area of financial management worth considering for an ECDcentre is risk management. Stock (2011) defines risk as real or potential events which reduce the likelihood of achieving business objectives. Stock further elaborates that risk management is a means by which business opportunities are maximised and potential losses are reduced. Risk management follows several stages which are:

- risk identification;
- risk assessment;
- risk mitigation.

CPA Australia (2009) describes risk management as a process which starts with the identification of threats and then implements processes to minimise them. They identify the following categories of risk:

- The risk posed by customers – if the business relies on a few major customers the departure of these customers may severely affect the business; (In the case of an ECDcentre, this is not a threat as children come from different families. There are far more than a few important customers;)
- The risk posed by suppliers – relying on a few suppliers can affect the business as the suppliers may have bargaining power to raise the price of their products;
- The risk posed by competitors – the strategies employed by competitors can reduce the market share of the business. In this case, ECDcentres that come up with innovative ideas on recreational facilities, technology such as the introduction of computers and better catering services can win a significant share of the market.
- The risk posed by technology
A business which can make good use of technology can gain a competitive advantage over its rivals and hence the use of technology can be a threat to businesses that do not use technology. However, the use of computers can bring risks to data security as other people can hack into the system;
- The risk posed by financial transactions
Fluctuations in revenues can lead to liquidity risk where the business may not be able to meet its short-term financial obligations. For example non-payment of fees may result in cashflow problems.
- The risk posed by location of the premises
The location of the business is important because it affects suppliers' and customers' access to the business. For an ECDcentre, if the premises are located far from the community, there may be transport problems for children.
- The risks caused by the market or the economy
An ECDcentre located in a rural area cannot expect to charge high fees because the community may not afford such type of fees and economic hardships will force parents to opt for cheaper ECDcentres.
- The risk posed by internal controls
If there are few adequate internal controls, the business may be exposed to loss of funds through theft and corruption. In addition, there may be legal risks due to negligence such a child being injured because of poor safety measures at an ECDcentre.

In addition to the risks identified in the previous section, the DSD (2006) has a list of risks that may lead to the closure of the centre. These risks are:

- unsafe buildings or structures;
- refusal to meet requirements as stipulated by the local authorities;
- jeopardizing the health of children;
- insufficient personnel;
- incapable personnel;
- chronic lack of or inappropriate stimulation programme;
- discrimination that leads to violation of the rights of children;
- drastic reduction in the number of children utilising the facility;
- a management committee that is not functioning; and
- the community shows no interest, or there is no longer a need for the facility.

Most of these risks have financial implications. For example, money is required to hire more personnel and maintain the buildings in a safe and clean manner. In a study on the development of enterprise-wide risk management framework in an organisation, Louw (2007:56) concluded that no organisation can effectively manage risk and achieve its business objectives without “ accurate, timely and comprehensive monitoring and reporting.” This study investigated the financial literacy levels of ECD managers.

2.6 Strategies for improving financial literacy

Averkamp (2011) defines a strategy as a long-term plan to achieve organisational objectives. In order to improve the financial management literacy of ECD centre managers a strategy is required to acquire the relevant skills. Skill is knowledge acquired through formal or informal training as well as through practice (Perks & Smith, 2006).

The Small Enterprise Development Agency (SEDA) was established in 2004 through the National Small Business Act (Act 29 of 2004) in order to implement the national government’s small business development strategy. SEDA has branches in all provinces and offers assistance to small businesses in various phases of their life cycle (DTI, 2007).

In addition, Sector Education and Training Authority (SETA) have been established to ensure that the skills needs of every sector of the South African economy are identified and that

training is provided. SETA collects a compulsory skills development levy payable by employers registered with the relevant SETA. This levy is used to finance training of employees (SETA, 2010). Small business managers/ owners may also study financial skills at higher education institutions such as universities. This option may not be suitable as it is more expensive.

South African banks have introduced initiatives that support small business skills development. These banks are ABSA, First National Bank, Standard Bank and Nedbank. The banks provide free services such as consultational, advisory services, workshops and seminars to small business (ABSA, First National Bank, Standard Bank & Nedbank; 2011).

Furthermore, Further Education and Training (FET) colleges provide both vocational and academic education training. Some of the FET colleges like INTEC college offer distance education courses. Online assistance in business management is also available from Business Partners Ltd who host a website entitled SME Toolkit South Africa. This website offers software, business forms, tools, articles and training to help small businesses to grow and prosper. Users of the website can register for free to access the information (SME Toolkit South Africa, 2012). However, research by Ferreira, Strydom and Nieuwenhuizen (2010) found that the failure rate of SMEs is still high despite the assistance given. The explanation for this was that there was no quality control and feedback regarding the assistance given by the government or private sector. This means that without feedback there was no way of deciding which areas needed improvement.

According to studies conducted by Abor and Quartey (2010), the reason for lack of training in SMEs is that entrepreneurs cannot afford the high cost of training and advisory services and other do not see the reason to upgrade their skills due to complacency. Abor and Quartey recommended that government should offer tax incentives to certain training institutions and Non-Governmental Organisations (NGOs) to provide training to small businesses. Another problem which affects training in SMEs is lack of knowledge of the availability of support systems. Studies by Ladzani and Netswera (2009) found that only 18% of small businesses received training support because of a lack of knowledge of the availability of support.

2.7 Summary

The literature review has shown that financial literacy includes a number of important aspects, all of which must be undertaken together to effectively manage the use of finances in a business. These subparts of financial management complement each other. ECD managers have to acquire the relevant skills; since they cannot delegate everything they must ultimately make decisions which will impact the success of the business.

The last section of this chapter dealt with strategies available for improving financial management literacy of ECD centre managers but there are indications that small businesses are not aware of strategies which could be used to improve their operations. Chapter 3 will discuss the research methodology used in this study.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology that was followed to address the research questions for this study. It consists of an introduction, description of the research methodology, the research design, population and sample, research instrument, procedure for data collection, description of data analysis and interpretation, limitations of the study, discussion of validity and reliability. The chapter ends with a conclusion which restates the research questions and provides a justification of the research questions..

3.2 Research methodology

This research was descriptive and used mixed methods. Creswell and Clark (2007:43) define mixed methods as “methods of research which involve both collecting and analysing quantitative and qualitative data”. Quantitative data involve close-ended information which can be expressed numerically while qualitative data involve open-ended information that the researcher gathers through interviews. In this study a questionnaire was used to collect quantitative data and structured interviews were used to collect qualitative data.

The advantage of mixed methods is that it provides more comprehensive evidence for studying a research problem than either quantitative method or qualitative research alone (Creswell and Clark, 2007). The authors further argue that quantitative research is weak in understanding the context or setting in which people talk. This weakness is offset by qualitative research which has its own weakness in that it involves smaller groups of participants and is therefore difficult to generalise to a larger group.

Mixed methods were suitable for this study because the nature of the data collected was both quantitative and qualitative and the researcher wanted to downplay the weakness of each method taken separately. The detailed description of the research methodology is presented below.

3.3 Research Design

A survey method was used in this study. According to Bhattacharyya (2009), this method involves collecting data by asking questions of people who are considered to have the required information. Advantages of this method are that it yields a wider range of information and it is faster and cheaper than observation. The limitations of the method are that respondents may be unwilling to provide information, or some respondents may be unable to provide the information, for example if the organisational policy forbids them from revealing information. In addition, semantic difficulties may cause problems for the respondents (Blaxter, Hughes & Tight; 2010).

The survey method was suitable for this study because the respondents, in this case managers or owners were considered to be knowledgeable about their organisations and would therefore have the required information. There was also a need to collect a wide range of information on financial management literacy, which included bookkeeping, cash flow management, financial reporting, financial analysis, budgeting and risk management. Other reasons for selecting the survey method were cost and time. The study was funded by the researcher whose resources were limited and there was a time-frame in which the research had to be completed so time was important.

The weaknesses identified in the survey method were addressed by obtaining informed consent from the participants and ensuring that the research instruments are pre-tested. In order to pilot test the questionnaire, 10 participants similar to those who later answered the questionnaire were selected and the questionnaire was administered to them. The responses obtained were used to adjust the structure and content of the questionnaire to avoid ambiguity in questions and make the questionnaire easy to complete.

3.4 Research approach

The research approach used in this study is a mixture of quantitative and qualitative methods. According to Leedy and Ormrod (2012) in quantitative research data is collected from a large sample by means of standardised procedures. The data is numeric and it can be analysed by statistical procedures to obtain objective results. In contrast, qualitative research uses non-standardised instruments to collect extensive amount of verbal data from a small number of participants. Data analysis is subjective and there is a potential for bias in the analysis.

The type of data determines the research approach used. In this study, a mixed method was used because the data collected was both numeric and verbal. Numeric data was collected through questionnaires while verbal data was collected by means of structured interviews.

3.5 Population and sample

This section deals with research population, the sample, sampling techniques and data collection tools.

3.5.1 Population

The population for this study consisted of all managers of privately owned ECD centres in Mafikeng. These are ECD centres owned by individuals, partnerships or companies and not by the community or government. There are about 21 ECD centres in Mafikeng and each centre is managed by one manager. These managers formed the population for the study.

3.5.2 Sample and Sampling Method

Due to time constraints and costs it was not possible to include every subject in the study and therefore there was a need for sampling. A simple random sampling was used in order to give each subject an equal chance of being selected (Fink, 2008). First, the researcher located the ECD centres on the city map and assigned each centre a unique code consisting a number which corresponds with the alphabetical listing of the ECD centres on the map. A sample of 15 ECD in total (75% of the population) was randomly selected using a statistical software package called Smith's Statistical Package (SSP).

The computer will select a random sample of size k (where k is any number less than the population size, N) from a given population. To run the programme, the values of k and N need to be supplied and the computer will return a list of random numbers. The ECD centres whose codes match the selected random numbers were included in the sample.

3.6 The Research Instruments

Data for this research was obtained by use of a questionnaire (Annexure A) and structured interviews (Annexure B). According to Kumar (2011) the choice of methods of data collection is determined by:

- the nature of the investigation
This refers to whether the issues to be discussed require anonymity or not.
- the geographical distribution of the study population
- the type of study population
This refers to the level of literacy of the respondents

Kumar further states that the advantages of questionnaire are that:

- it is less expensive
- offers greater anonymity and therefore increases the likelihood of obtaining accurate information

According to Goddard and Melville (2001), the disadvantages of a questionnaire are that:

- its application is limited
a questionnaire cannot be supported by observation as does interviews
- the response rate is low
- there is likelihood of self-selecting bias
- there is no opportunity to clarify issues
- a response to a question may be influenced by the response to other questions
- it is possible to consult others

The use of a questionnaire was suitable for this study because costs had to be kept low and the respondents were assumed to be sufficiently literate to be able to understand the questions. To increase the response rate, the questionnaires were hand delivered by the researcher who also made a physical follow-up on non-returns, giving an overall response rate of 14 out of 15. In addition, the questionnaire was made user-friendly so that questions were not difficult to interpret. This was possible because the questionnaire was pre-tested on participants similar to those used in the study and corrections were made to the questionnaire.

The questionnaire contained 35 questions with 28 closed questions and 7 open-ended questions. There were eight sections of the questionnaire covering the whole concept of financial management literacy and designed to answer the three research questions in this study. Table 3.1 shows the structure of the questionnaire and Annexure A shows the questionnaire used for the study.

Table 3.1: Questionnaire structure

Section	Topic	Closed	Open	Total
1	Demographic data	5		5
2	Bookkeeping	3	1	4
3	Financial statements	3	1	4
4	Financial analysis	3	1	4
5	Cash flow statement	2	1	3
6	Financial planning and budgeting	3	1	4
7	Financial control and risk management	2	1	3
8	Strategy	7	1	3
	total	28	7	35

Structured interviews were done as a follow-up to clarify issues raised in the questionnaire and the same respondents were used. According to Gillham (2005), in a structured interview the researcher asks a set of predetermined questions using the same wording and order as specified in the interview schedule. Gillham further elaborates the advantages and disadvantages of structured interviews as:

- it provides uniform information which makes it easy to compare the data
- it provides opportunity for the researcher to explain the questions to the participants
- it requires fewer interviewing skills

The disadvantages are its rigid interview structure and rigid interview content.

Structured interviews were suitable for this study because the researcher wanted to collect information which was easy to compare. In addition, the literacy level of small business managers varies widely hence there may be some who need assistance with interpretation of questions.

3.7 Procedures for Data Collection

Data was collected between the 15th and 31st of August 2011. The researcher obtained informed consent from each participant before administering the research instruments. Participants were informed that they were free to withdraw from the study at any time if they so wished and that their actual names would not be used. A cover letter (Annexure C) explaining the purpose of the study was submitted to each ECD centre manager identified for the study.

Questionnaires were hand delivered by the researcher as the area concerned is not large and this ensured that the research instrument got to the intended recipient, which improved the response rate. Participants were given two days in which to answer the questionnaire, after which the researcher collected the responses. If the responses were not ready at the agreed time, the researcher made another round of collection.

In order to interview participants the researcher had to make an appointment at a time which was convenient for both parties. On the day of the interview, the researcher arrived at least five minutes before the scheduled time and had all the required resources ready. The resources used were a notebook, pen and a digital recorder. Each interview lasted for about ten minutes and was recorded. These interviews were done between the 8th and 17th of September 2011.

3.8 Response Rate

The response rate was 93.3% which means that 14 out of 15 questionnaires were returned although some took a long time to return. This response rate is in line with reported research statistics which regards questionnaire return of 65% as generally satisfying the survey research procedure. General patterns that emerged from the completed questionnaires were therefore used to infer characteristics of ECDs in Mafikeng and therefore represent only a partial picture.

3.9 Data Analysis and Interpretation

The data was analysed by use of MS Excel spreadsheet. First, the data was tabulated and descriptive statistics, which included frequency distributions, were calculated and graphs

were plotted to display the information. Sample responses to open-ended questions were tabulated and classified. Chapter four provides details of the data analysis and interpretation.

3.10 Limitations of the Study

The limitations to this study are:

- this study only concentrated on a small segment of the ECDs which are privately owned and does not reflect what happens in the rest of ECDs and hence the results cannot be generalised to all ECDs in the country
- Businesses are not keen to share financial information and respondents might have deliberately misrepresented themselves.

3.11 Validity and Reliability

This section discusses the validity and reliability of the research instruments.

3.11.1 Validity

Leedy and Ormrod (2012) define the validity of a measuring instrument as the extent to which the instrument measures what it is actually intended to measure. In order to ensure validity of the questionnaire questions, the instruments were pilot tested on participants similar to those used in the study and adjustments were made to the questionnaire.

3.11.2 Reliability

Fink (2008) describes reliability as a measure of the extent to which an instrument yields consistent results when the characteristic being measured has not changed. Reliability was improved by the use of triangulation since the data were collected by two different methods, that is, the survey questionnaire and the structured interviews.

3.12 Summary

This chapter described the methodology which was used for this study, which was a combination of a survey and structured interviews involving 14 ECD centres in Mafikeng. A mixed method was used because it was considered suitable for the type of data which was collected as described in the chapter. Ethical considerations were observed in the collection of data by obtaining informed consent from each participant and ensuring the confidentiality of information collected. The next chapter presents the data obtained.

CHAPTER 4: ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents the results of the study. The analysis of the quantitative data was done with MS Excel to produce frequency tables and graphs while the content analysis was done on qualitative questions. Preceding the presentation of the results is a demographic analysis of the respondents in view of what was planned. The results are grouped according to the research questions to which they refer and a summary of the results is given at the end of the chapter.

4.2 Demographic Profile of Respondents

Responses were obtained from 14 out of the 15 ECD centres in the study sample. This was considered to be a good response rate for a questionnaire. The first two questions in the questionnaire were meant to obtain demographic data. Figure 4.1 shows the length of the existence of the ECD centres which indicates that most of the ECD centres (85.7%) were well-established, having existed for more than 15 years.

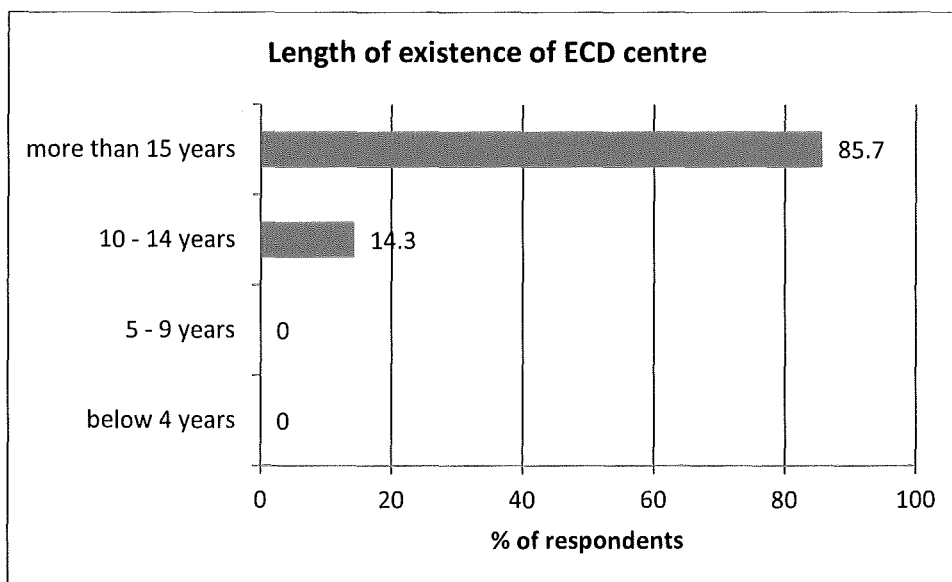


Fig. 4.1: Length of existence of ECD centre

The demographic data was necessary to find out if the ECD centres were able to sustain themselves in terms of enrolment. Figure 4.2 shows that 12 of the 14 ECD centres had high enrolment which indicates that the ECD centres in the study had sufficient revenue base.

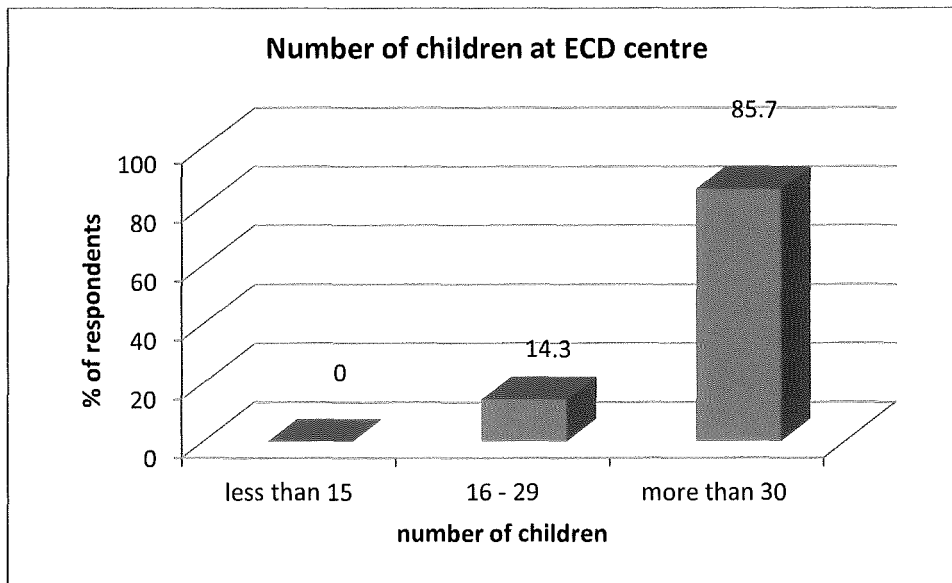


Fig. 4.2: Number of children at ECD centre

The information on enrolment was necessary because this study assumed that the ECD centres had an enrolment that was enough for economic viability. Hutchinson et al (2004) argued that an ECD centre with less 100 children is unlikely to be viable. The first interview question was on demographic data and sought to establish the ownership of the ECD centre. All the responses indicated that the ECD centres in the study were owned by individuals and therefore qualified for the definition of small business assumed in the research design.

4.3 Results Pertaining to Financial Challenges at ECD centres

Research question 1 sought to find out the financial management challenges faced by ECD centres as small business units. Participants were asked to indicate how they kept their financial records. Fig. 4.3 shows the responses which suggest that a small number of ECD managers (35.7%) use computers for bookkeeping while the majority still use only a manual bookkeeping system.

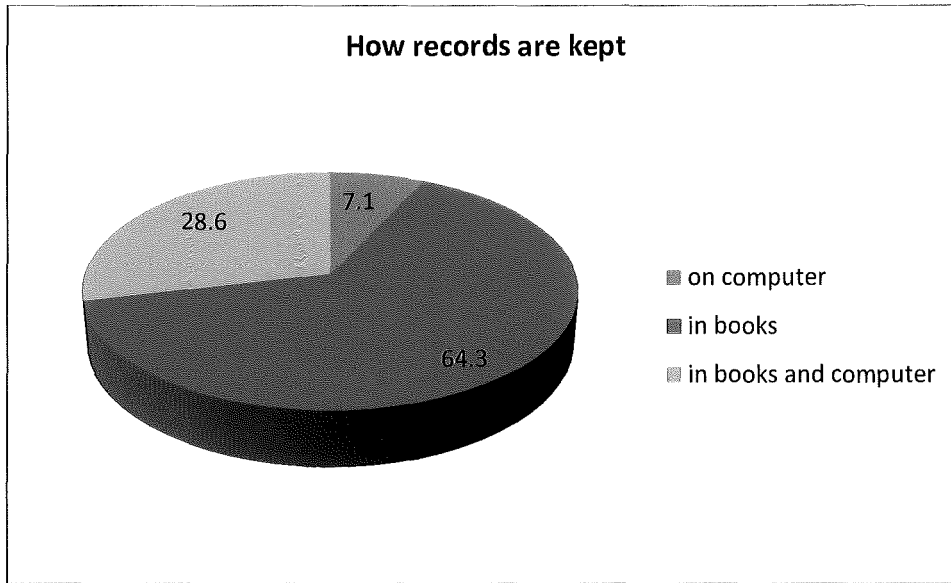


Fig. 4.3: How records are kept

Closely related to the method of keeping records was the question on whether the managers experienced problems with their record-keeping systems. The majority (92.9%) of the respondents said they had no problems with record-keeping.

Respondents were also asked to indicate who had the responsibility of preparing financial statements. Fig. 4.4 shows that only 28.6% prepared financial statements on their own with 57.1% opting to use bookkeeping companies while 14.3% engage other people.

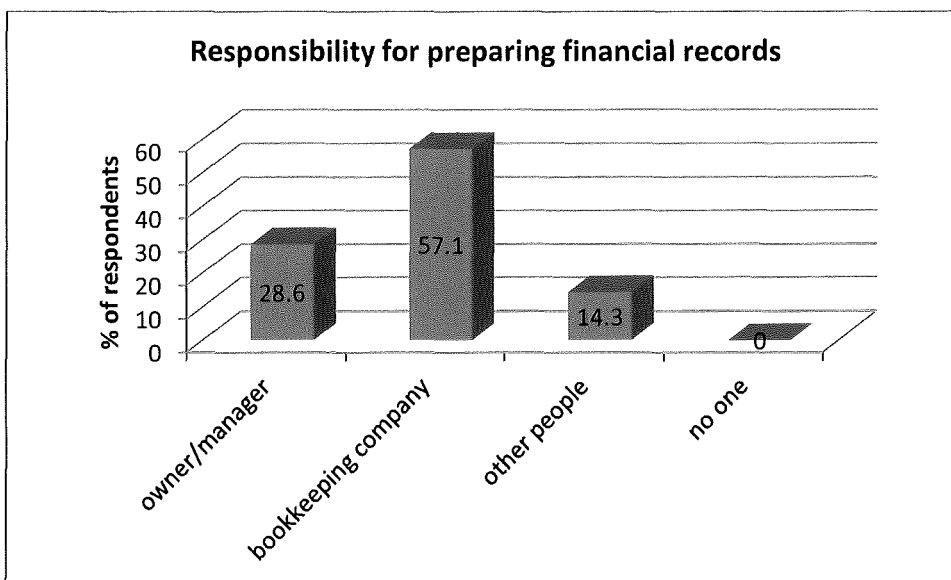


Fig. 4.4: Responsibility for preparing financial records

Another financial challenge was whether they experience late payment of fees which can affect cash flow management. Fig 4.5 shows

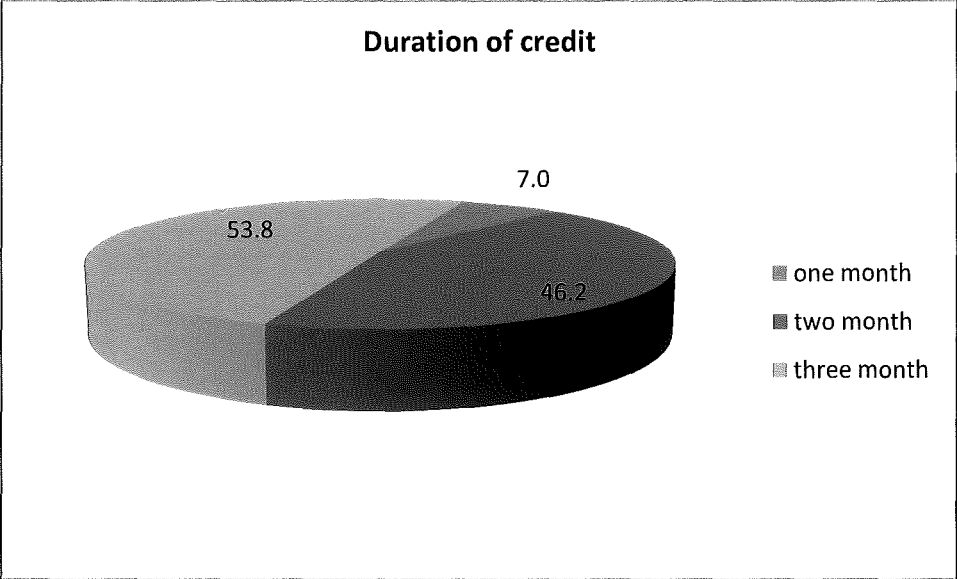


Fig 4.5: Duration of credit

that 53.8% of the respondents said parents owed fees for three months or more. Most of the respondents interviewed indicated that they face problems in collecting fees.

There was a better response rate to this question than the others, with ten responses out of a possible maximum of fourteen. Five out of the ten respondents indicated that salaries for staff would be affected. In addition, one participant said food and stationery would also be affected. Another response stated that they were not affected because they budgeted for it, having noted the trends in the payment of fees over the years.

The follow-up interview with this question confirmed the responses given in the questionnaire that staff salaries and procurement of food were affected by late-payment of fees.

Participants were asked to describe risks that may affect the running of their centres. There were seven responses to this question. Three of the responses cited non-payment of fees as a risk. This is a financial risk because it affects cash flow and therefore the ability of the ECD centre to meet its financial obligations. One participant mentioned inadequate teachers as a risk while two responses cited low enrolment. Another response stated non-compliance with

regulations of the Department of Social Welfare as a risk which could lead to closure of the centre.

The follow-up interview clarified the question for the participants who could then give their answers but a few still struggled to identify risks.

4.4 Results Pertaining to Current Level of Financial Literacy

Research question 2 sought to find out the current level of financial management literacy of ECD centre managers. Asked to indicate the financial statement they considered most important, Fig.4.6 shows that the majority (71.4%) of the respondents thought that the income statement was the most important financial statement while only 28.6 % said all three were important. None of the participants considered the balance sheet and cash flow statements to be useful. This shows that most respondents did not understand the importance of accounting information.

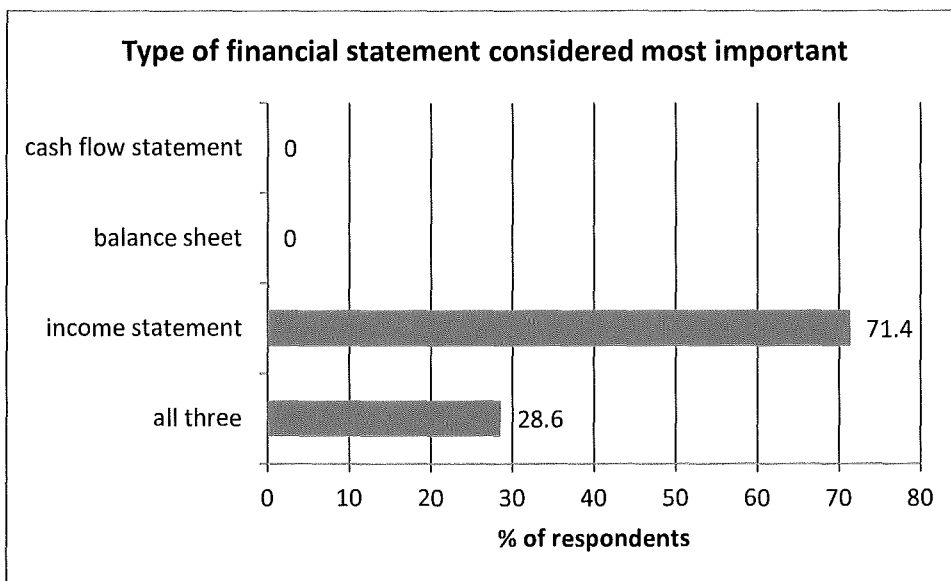


Fig. 4.6: Types of financial statements considered most important

On the issue of how often they prepared financial statements. Fig.4.7 suggests that monthly financial statements are the norm, but quarterly and yearly were also done. The responses appear to be influenced by the level of financial literacy of the participants since the level of financial literacy appears to determine the frequency of financial reporting within a year.

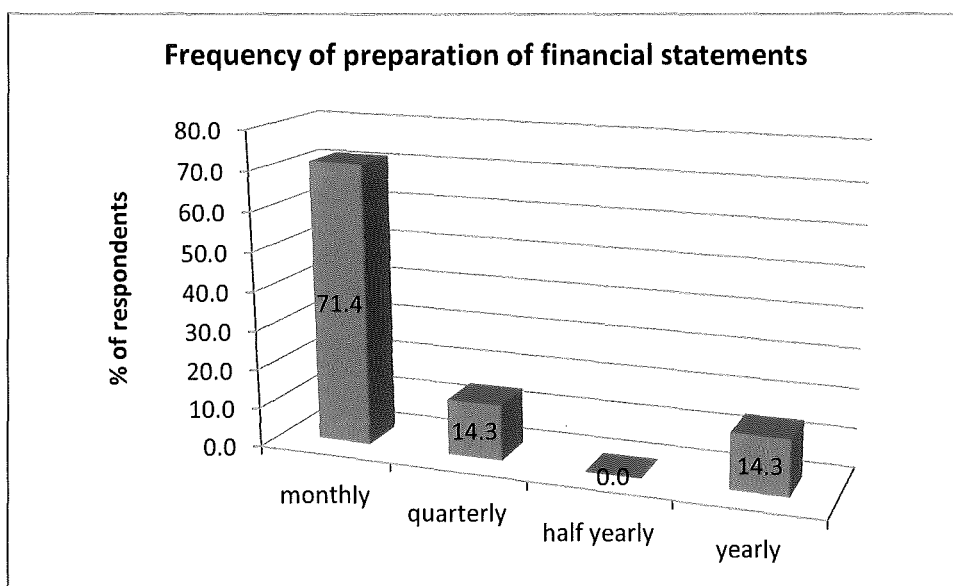


Fig. 4.7: Frequency of preparation of financial statements

Table 4.1 shows that only a few (14.3%) of the respondents said they analyse financial statements. The majority (85.7%) of ECD managers do not analyse the financial statements. Comparison of statements from year to year was the most popular method of financial analysis. These results show that ECD centre managers do not make full use of accounting information and these indicate low financial literacy.

Table 4.1: Financial analysis

Question	Response	Total	%
Do you analyse financial statements?	yes	2	14.3
	no	12	85.7
Which methods of financial analysis are used?	financial ratios	1	7.1
	Comparison with other CCs	0	0.0
	Comparison across years	13	92.9

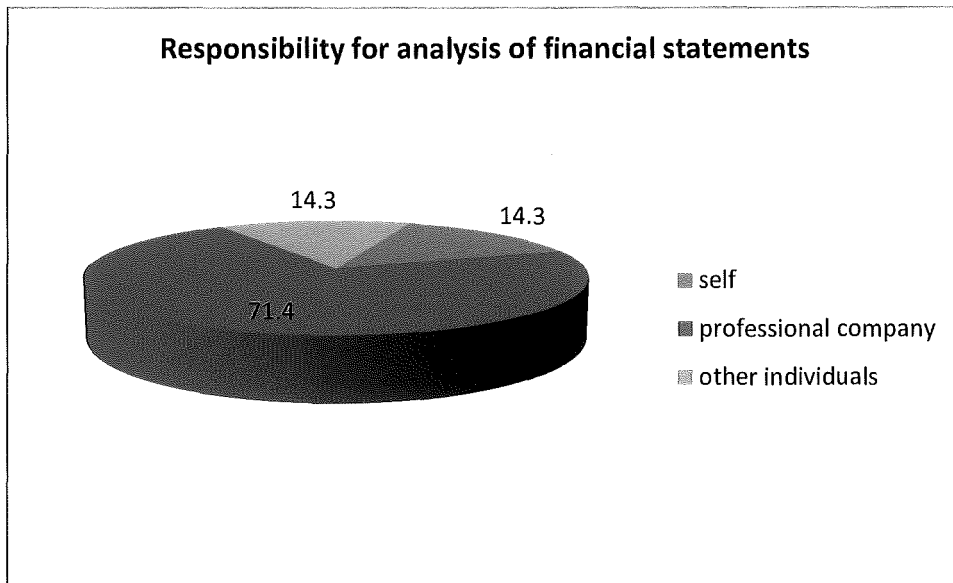


Fig. 4.8: Responsibility for analysing financial statements

Question 5.2 asked participants to indicate how they deal with late payment of fees which is part of cash flow management. All the respondents stated that they send reminders. Other choices available in the question were sending children away, use of debt collectors and doing nothing. The interpretation of these results is that ECD centre managers do not have comprehensive strategies for dealing with outstanding debts.

The analysis of budgeting in Table 4.2 shows that nearly all the centres prepare budgets; monthly budgets were the most popular followed by yearly budgets but there were also half yearly budgets. Management had the major responsibility in preparing budgets although other people were involved. The interpretation of these results is that budgeting is done fairly well although interviews suggest that the monitoring of the budgets was not done consistently.

Table 4.2: Budgeting

Question	Response	Total	%
Do you prepare financial budgets?	yes	13	92.9
	no	1	7.1
Who prepares the budgets?	management	13	92.9
	management and workers	0	0.0
	other people	1	7.1

Table 4.3 shows an analysis of financial controls that are available in the ECD centres under study. Twelve out of thirteen participants said they prepare trial balances to check the accuracy of their recording of financial transactions and only one out of thirteen did not prepare trial balances.

Table 4.3: Financial control

Question	Response	Total	%
Do you prepare a trial balance?	yes	12	85.7
	no	2	14.3
Do you reconcile bank statements with the cash book?	yes	13	92.9
	no	1	7.1

Table 4.3 also shows that almost all the respondents (92.9%) performed bank reconciliation while 7.1% did not. Performing bank reconciliations is a sign that the business manager understands the value of financial controls and hence shows financial literacy.

There were three open-ended questions pertaining to the current level of financial management literacy of ECD centre managers. One of the questions required respondents to state which financial statement they considered most important and their reasons for their choice. The responses indicated that about 50% of the participants had some idea of the value of financial statements but only the income statement.

The second question asked respondents to indicate how they use information from their financial analysis. Only a few (20%) could clearly explain how they use financial analysis information. The interpretation of this result is that they do not know about financial analysis.

Asked to explain how they use budgets, only about 10% of the respondents could explain how they use their budgets; this is despite having indicated that they prepare budgets frequently. The inability of the participants to explain the use of budgets is an indication of low financial literacy.

4.5 Results Pertaining to Strategies for Financial Literacy Improvement

Research question 3 sought to find out the strategies by ECD owners to improve the level of financial management literacy of ECD centre managers. The questionnaire contained three

questions to address this research question. Fig.4.9 shows that although 71% of the participants indicated that they needed training in financial management only 17% (Fig. 4.10) attended some form of training in the last 12 months.

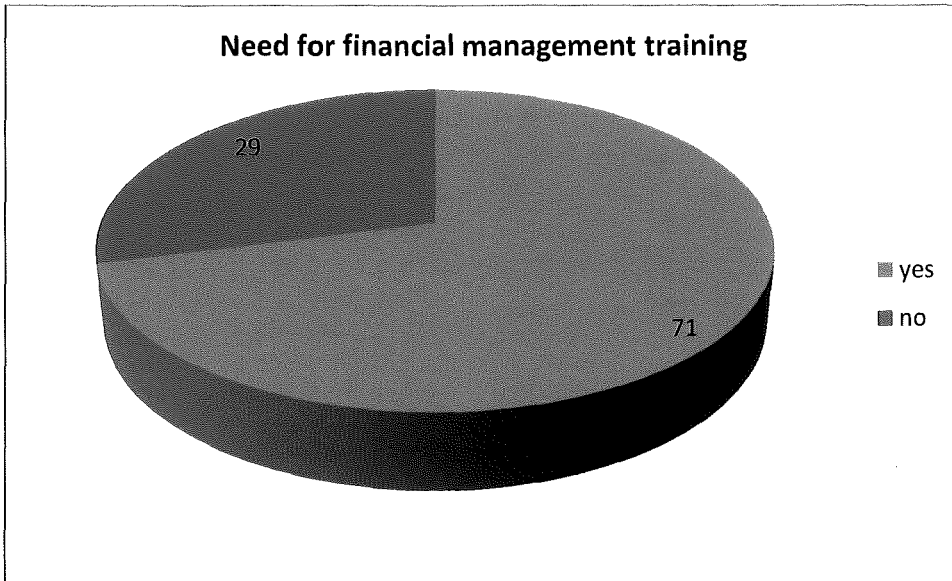


Fig. 4.9: Need for financial management training

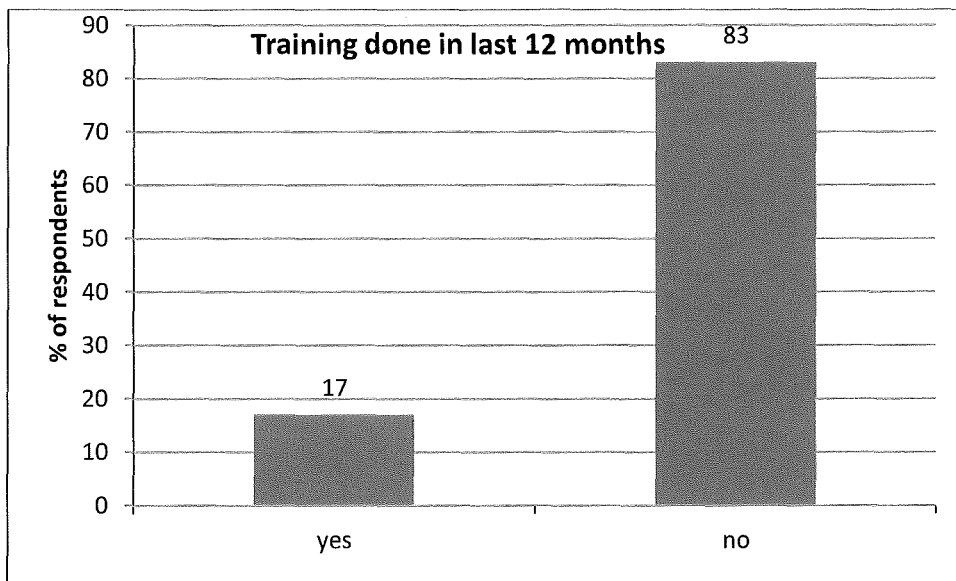


Fig. 4.10: Training done in last 12 months

These results mean there is very little being done to improve the level of financial management literacy of ECD centre managers. Twelve months is long period for people to go without in-service training especially where indications are that there is lack of skill in key areas of the business.

Evidence from interviews suggest that most of the training done was in the area of teaching and learning rather than in the management of the ECD centre. In addition, very little financial assistance was given by ECD centre owners to enable their managers to attend training.

Table 4.4 shows the responses given to selected questions linked to strategies for improving financial management literacy.

Table 4.4: Financial improvement strategies

	Response	
	Agree	Disagree
Hand-on financial training is readily available for staff development	21%	79%
Financial training for staff development is easily accessible	13%	87%
There are known organisations where financial training for my business is provided	34%	66%
There are subsidies available for financial training in my organisation	7%	93%
Government is not doing enough to help small business financially	45%	55%

The results in Table 4.4 show that 79% of the respondents indicated that hand-on training was not readily available. This suggests that most ECD managers had no opportunity to improve their financial management skills. Closely related to the availability of training is the issue of accessibility. Accessibility is linked to availability of resources and whether the ECD managers can reach the places of training. A large number (87%) of the respondents said

accessibility was a problem; again making it difficult for ECD managers to receive training. In addition, most ECD managers did not know of organisations that could provide financial training despite there being many such organisations in the country as noted in the literature review.

Furthermore, 93% of the participants indicated that subsidies were not readily available for them to undertake training. Subsidies are necessary because Abor and Quartey (2010) found that entrepreneurs cannot afford the high cost of training. Providing subsidies is therefore a good strategy to improve employee skills.

The participants also thought that the government was not doing enough to assist small businesses. This perception could be a result of lack of information on the support available.

4.6 Summary

The analysis of results showed that ECD centre managers face a number of problems which are inability to prepare a full set of financial statements, incomplete analysis of business performance, problems with cash flow management resulting from late payment of fees, inability to make full use of budgets, not managing all possible risks, not having the right knowledge and skills to manage an ECD centre and not receiving the right support to improve their financial management skills

The next chapter will discuss these findings with reference to the literature reviewed in Chapter 2.

CHAPTER 5: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter will discuss the results obtained in the previous chapter with particular reference to the literature reviewed. The first part will discuss the demographic profile of the respondents then there will be a discussion of the results pertaining to each research objective.

5.2 Demographic profile of respondents

The results show that most of the ECD centres had been in existence for more than 15 years. This indicated that they had survived the usual failure period for small business. An explanation for this is that registered ECD centres qualify for a subsidy from the government (DSD, 2006). Although this is not enough for the ECD centre to thrive, it makes a difference. The other reason for survival is that the average enrolment (above 100) is sufficient to make the ECD centres break-even. This point is supported by Hutchinson et al (2004) who argue that most stand-alone or single ECD centres serving fewer than 100 children are unlikely to be financially viable unless they receive subsidies.

5.3 Discussion of Results

This section will discuss the results pertaining to the three objectives stated in Chapter one.

5.3.1 Discussion pertaining to financial challenges at ECD centres

The results pertaining to financial management challenges faced by ECD centres indicate that ECD centre managers do not have problems with record-keeping although only a few (35.7%) use computerised systems. These managers failed to prepare a full set of financial statements, with the income statement being the most popular. There were also problems with collection of fees. Most parents owed the ECD centres fees for up three months or more.

The results obtained on record-keeping are inconsistent with the findings of Radipere and van Scheers (2005) and Yahya et al (2011). These researchers found out that small businesses had problems with recording transactions and frequently maintaining records. The reason for this difference is that all registered ECD centres which receive subsidy from the government are required to comply with the regulations of the Department of Social Development which insist on records for money disbursed (DSD, 2006).

Even though the results show that centre managers have some understanding of financial records they are not able to produce a full set of accounting records for their ECD centres and these findings support those of Maseko and Manyani (2011) who established that SMEs do not keep complete accounting records because of lack of accounting knowledge. This point is supported by Agyei-Mensah (2010) who discovered that small businesses do not have sound financial systems in place to enable them to prepare financial statements.

According to Kolitz et al (2007) preparing only the income statement is not appropriate as the three financial statements (income statement, balance sheet and cash flow statement) are required to give a complete analysis of business performance. In fact, Reeves (2011) argues that the cash flow statement is the most useful for planning purposes.

The findings on cash flow management which show that ECD centres struggle with collection of fees concurs with the findings of Hutchinson et al (2004) which indicate that ECD centres have on average bad debts of 5%. This also agrees with findings by van Auken and Doran (2008) that small businesses experience cash flow problems at whatever stage of development.

5.3.2 Discussion pertaining to current level of financial literacy

The results pertaining to the current level of financial management literacy of ECD centre managers suggest that ECD centre managers do not have sufficient skills to prepare and analyse a full set of financial statements which is why 71.4% of them prefer to use professional companies. These managers do not have effective strategies for cash flow management since almost all of them merely suggested sending reminders to parents who owe fees for three or more months. Although budgets were prepared, responses to interview questions suggest they were not used effectively to monitor expenditure. The results also

show that the ECD managers were not fully aware of the risks that their centres were exposed to.

The inability to prepare financial statements is explained by Maseko and Manyani (2011) who found out that SME owners/managers lack accounting knowledge. This point is supported by Ipinge (2010) who said small business managers are ignorant of the importance of accounting information. An explanation of these findings is that small business owners are usually the managers as they may not afford the cost of employing a professional person. This was the usual case in this study where the owners of the ECD centres were also the managers. The results concerning financial analysis concur with the findings of Fadzlina and Fadhil (2010) who found that small businesses do not rely on accounting information, hence the absence of financial analysis.

The absence of budgetary controls found in this study can be explained by the findings of Mbonyane and Ladzani (2011) which stated that small businesses fail to grasp the importance of correct budgeting. Budgeting does not end with just formulating the financial plan but there should also be monitoring of the expenditure (Bond, 2005).

The problems that ECD centre managers experience with cash flow including the inability to manage all risks, can be explained by the findings of Wang et al (2010) that strategic planning is rare or non-existent in SMEs.

5.3.3 Discussion pertaining to strategies for financial literacy improvement

The results pertaining to strategies for improvement of financial management literacy of ECD centre managers indicate that most of the ECD managers do not have the right skills to manage the ECD centres. This is because although they are qualified as educators, managing a child care centre requires 'substantial business skills' (Hutchinson et al, 2004:47). Although there are many programmes available to improve the level of financial management literacy of ECD centre managers such as those offered by SEDA and SETA colleges, only 17% of the participants had attended training in the past 12 months. A possible explanation of this finding is that ECD centre owners are not aware of some of the government programmes to assist small business. Another reason could be that the majority of small businesses made use of on-the-job training because the training was costly and time consuming (Kotze, 2010). Literature support for running ECD centres is not readily available as with other small

business. For example, none of the visited centres knew that there was accounting software tailor-made for childcare centres.

The findings on strategies for improving financial literacy are consistent with the findings of Ladzani and Netswera (2009) who found that lack of knowledge of the availability of support systems could hinder accessibility. Findings by Ferreira et al (2010) also support the results of this study as they found that the failure rate of small businesses is high although assistance is available. Such assistance is not useful unless the intended recipients get to know about it. In this study it was reported that there was assistance from SEDA and that employers could claim a subsidy from the skills development levy which they are obliged to pay on a monthly basis (DTI, 2007).

5.4 Conclusions of the study

In this chapter a discussion of the results of the study was done. There is an agreement between the results of the study and findings on financial management in SMEs except for record-keeping. The reason for the difference was explained. The results show that the business environment for small businesses is the same although there are things that are specific to certain industries.

The findings suggest that ECD centres face many financial challenges, the level of financial management literacy of ECD centre managers is generally low and there are no clear strategies by ECD centre owners to improve the level of financial management literacy of ECD centre managers. These findings are in line with the objectives of the study and address the research problem about the level of financial management literacy of ECD centre managers.

5.5 Recommendations

The recommendations from this research are directed towards specific stakeholders who are the ECD centre owners and the government through the Department of Social Development.

ECD centre owners – these are the owners of the business and it is in their best interest to grow the business through investing in technology which will simplify the running of the centre. Technology in this case refers to an accounting system such as

Child Care Manager discussed in this study. Davis et al (2009) found out that those SMEs which use computerised systems do not hire external accountants frequently. A computerised system is cheaper than trying to obtain an accounting qualification. Access to the internet is also important for marketing purposes and communication with parents.

The Department of Social Development: – the government should make ECD centre managers aware of national efforts to assist SMEs and encourage them to attend such courses. According to Monks (2010) many SMEs are not aware of government initiatives. There is also need to improve the quality of training of entrepreneurs as Monks also charges that government agencies and mentors were unqualified and inexperienced.

5.6 Suggestions for further research

This research focused on financial management literacy of ECD centre managers. Management is a broad field although financial management is considered one of the key areas of management. Gill, Biger, Mathur, Shah and Bhutani(2010) found out that management skills were necessary for small business owners. This is supported by Nienaber (2007) who revealed that South Africa lacks senior competent managers who can create a competitive advantage by managing customers well. Further research should therefore be conducted to assess the general management skills of ECD centre managers.

5.7 Summary

This chapter presented a discussion of the results of the study with particular reference to the literature reviewed. The findings of the research are that ECD centres experience a lot of financial management problems like other small businesses and that the ECD centre managers do not fully understand how to run the finances. There is a need for training in the actual running of the ECD centres. As stated in Chapter 1, small businesses are an important component of most economies and need support from all stakeholders. ECD centres are not just a business as they develop a valuable product, which is the child.

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ANNEXURE A: QUESTIONNAIRE

The purpose of this questionnaire is to collect information on financial management literacy in Early Childhood (ECD) centres.

1. Demographic Data

Please tick against your answer in the last column.

1.1 Please indicate how long your centre has been in existence	Less than 4 years	
	5 - 9	
	10 - 14	
	more than 15	
1.2 How many children does your centre have?	Less than 15	
	16 - 29	
	above 30	
1.3 What is your highest level of qualification?	not yet qualified	
	college certificate	
	diploma	
	degree	
1.4 Where did you obtain this qualification?	Private college	
	university	
1.5 Did your course include how to manage finances of a ECD centre?	Yes	
	No	

2. Bookkeeping

2.1 How do you keep you financial records?	on computer	
	in books	
	both books and computer	
2.2 Who prepares you financial records?	The owner/manager	
	bookkeeping company	
	other people	
	no one	
2.3 Do you face any challenges in maintaining your financial records?	Yes	
	No	

2.4 If you answer to 2.3 was yes, please briefly explain the problems you face.

3. Preparation of financial statements

3.1 Which financial statements does your centre prepare?	Income statement	
	Balance sheet	
	Cash flow statement	
3.2 How often do you prepare the financial statements	monthly	
	quarterly	
	half yearly	
	yearly	
3.3 Which of these financial statements do you consider most important?	All three	
	Income statement	
	balance sheet	
	cash flow statement	

3.4 Please explain you answer to question 3.3.

4. Financial analysis

4.1 Do you analyse your financial statements?	Yes	
	No	
4.2 Who analyses your financial statements?	Self	
	Professional company	
	Other individuals	
4.3 Which methods of financial analysis are used?	Financial ratios	
	Comparison with industry	
	Year on year	

4.4 If you analyse financial statements, please indicate how the information is used.

5. Cash flow management

5.1 Do you have parents who owe fees for more than	one month	
	two months	
	three months	
5.2 How do you deal with late payment of fee?	nothing	
	send reminders	
	send children away	
	use debt collectors	

5.3 If you indicated that some parents fail to pay fees on time, please briefly explain how this affects the running of your centre.

6. Financial planning and Budgeting

6.1 Do you prepare financial budgets?	Yes	
	No	
6.2 How often do you prepare your budgets?	monthly	
	quarterly	
	half yearly	
	yearly	
6.3 Who prepares the budgets?	management	
	Management and workers	
	Other people	

6.4 If you prepare budgets, please briefly explain how they help you in running your centre.

7. Financial controls and risk management

7.1 Do you prepare a trial balance?	Yes	
	No	
7.2 Do you reconcile bank statements with the cashbook?	Yes	
	No	

7.3 Please briefly describe any risks that may threaten the closure of your centre?

8. Strategy

8.1 Do you need training in financial management?	Yes	
	No	
8.2 Did you attend any training in the last 12 months?	Yes	
	No	

8.3 If you attended training in the last 12 months, please give details on the nature of the training and topics covered.

Question	Response	
	Agree	Disagree
8.4 Hand-on financial training is readily available for staff development		
8.5 Financial training for staff development is easily accessible		
8.6 There are known organisations where financial training for my business is provided		
8.7 There are subsidies available for financial training in my organisation		
8.8 Government is not doing enough to help small business financially		

Thank You

ANNEXURE B: INTERVIEW SCHEDULE

1. Is the ECD centre owned by an individual, partnership or company?
2. What kind of planning was necessary before commencing business?
3. What business records does the business compile and keep?
4. If you prepare financial statements, how do you make use of them?
5. What are your strategies to manage cash flow?
6. How do you manage potential risks to your centre?
7. What kind of financial controls does your centre practice?
8. Are there any courses that you have attended or that you attend in order to improve the running of the centre?
9. What would you say are the challenges in running your centre?
10. What advice would you give to someone who would like to run an ECD centre?

ANNEXURE C: LETTER TO PARTICIPANTS

International School of South Africa

P. Bag X2233

William Dick Avenue,

Mafikeng

20th September 2011

Dear Participant

For my Master of Business Administration degree at the North West University, I am undertaking a study of financial management in Early Childhood Development (ECD) centres.

By virtue of being the owner/manager of an ECD centre you qualified to participate in the case study I am conducting. Will you please take five minutes of your time to complete the questionnaire?

You may be assured that your responses will remain completely confidential. The survey is not concerned with the evaluation of you as an individual or your organisation. No information you provide will be presented in any way that could identify you or your ECD centre. Information will therefore be presented in such a manner that confidentiality is maintained.

Should you feel threatened during the process you are free to withdraw without any repercussions? However in order that the results may accurately represent the situation in Mafikeng it is critical that you give the questionnaire your best and most serious effort.

If you have any queries about the project, please feel free to contact my supervisor, Prof. T. E. B. Assan at North West University.

Sincerely,

Phillip Baka

ANNEXURE D: CHILDCARE MANAGEMENT HOMEPAGE

Childcare Manager - Myself (Childcare Center)
File System Help Family Children Accounting Employee Client Report Reports Help

Dashboard

Home

Reports

People

QuickStart

- Home
- Family
- Children
- Accounting
- Employee
- Client Report
- Reports
- Help

Childcare Management

- Home
- Family
- Children
- Accounting
- Employee
- Client Report
- Reports
- Help

Childcare Management

- Home
- Family
- Children
- Accounting
- Employee
- Client Report
- Reports
- Help

Childcare Management

- Home
- Family
- Children
- Accounting
- Employee
- Client Report
- Reports
- Help

Childcare Management

- Home
- Family
- Children
- Accounting
- Employee
- Client Report
- Reports
- Help

Center Summary

Center Summary

Accounting

Employee

Client Report

Reports

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