OVERTRADING AS A MAJOR DETERMINING FACTOR IN THE DECLINE OF SMEs IN MAFIKENG

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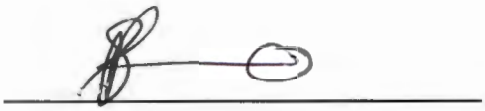
DECLARATION

I, Disebo Nofanele Phumo, declare herewith that this mini-dissertation which I herewith submit to the North-West University in partial completion of the requirements set for the MBA degree, is my work and has not been submitted to this or any other university for a higher degree.



Signature

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DEFINITION OF KEY CONCEPTS

Entrepreneur - A person who develops a business model, acquires the human and other required resources and is fully responsible for its success or failure. It is a person who perceives an opportunity and creates an organisation to pursue it (Bailetti, 2012)

Sustainability –The capacity of something to be maintained or to sustain itself. It is a desired goal of development and environmental management (Mehdi et al, 2014).

Economic growth – It is an increase in a country's productive capacity, as measured by comparing gross national product (GNP) in a year with the GNP on the previous year (Business dictionary.com).

Small and Medium Enterprises - In South Africa, a SME is any business that has 13 million and 15 million of turnover maximum, 1- 49 and 51- 200 employees and a balance sheet maximum of between 5 million and 19 million for small and medium businesses respectively (Olawale & Garwe 2009).

Overtrading - takes place when a company is trading at certain volumes without a proper base of assets to support these volumes. Consequently, the company attempts to stretch the business's working capital, labour capacity and human resources (Kothalawala, 2011).

Working Capital Management – According to Kehinde (2011), working capital management is the totality of management of cash, debtor, prepayments, stocks, creditors, short-term loans, accruals to ensure profitability of the firm. It is the management of the current asset and liability of the firm.

ABBREVIATIONS

Abbreviation	Meaning
AA	Applications Accepted
ACP	Average Collection period
AP	Accounts payables
AR	Accounts Receivables
AS	Applications Submitted
CA	Current Asset
CCC	Cash Conversion Cycle
CL	Current Liability
EAT	Earnings after Tax
EBIT	Earnings before Interest and Tax
EOQ	Economic Order Quantity
GDP	Gross Domestic Product
NWC	Net Working Capital
SARS	South African Revenue Services
SME	Small and Medium Enterprises
TA	Total Assets
TC	Total Cash
VAT	Value Added Tax
WC	Working Capital
WCM	Working capital management

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"I can do all this through him who gives me strength." Philippians 4:13.

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"It always seems impossible until it is done." Nelson Mandela

ABSTRACT

SMEs play a major role in South Africa's economy as they decrease unemployment rate, which in turn promotes job creation and reduces poverty. Business owners need to address factors which cause their businesses to fail, and by doing so, run their companies effectively and efficiently which ultimately results in longevity and growth. The major problem is that there has been an increase in the number of SMEs which fail Mafikeng, despite the fact that government has been trying to assist in this regard. Studies have speculated that the majority of SMEs fail due to cash flow problems. This study sets out to find out whether or not overtrading is the major determining factor in the decline of SMEs. The main objective of this study is to determine if overtrading is a major determining factor in the decline among SMEs in Mafikeng.

A quantitative research method was used in this study. A questionnaire was administered among 100 business owners in the Mafikeng area. Findings show that the majority of SMEs relied on overdraft facilities for financial assistance, which resulted in an increase in liability on a monthly basis. Findings also revealed that the SMEs have a low debt recovery and most of the time; they paid their suppliers late, which resulted in an increase in interest charges. The majority of SMEs experienced cash flow problems. Findings also indicate that respondents never received cash discounts from their suppliers because they never paid on maturity or on the due date.

The study recommends that the government as well as institutions such as SARS should provide training or workshops for business owners to equip them with knowledge and relevant skills, which will enable them to run their companies effectively and efficiently. In doing so, the government as well as SARS, stands to benefit because SARS receives most of its income from these SMEs. In turn, the government would also benefit as it receives its funds from the receiver of revenue.

1 CHAPTER ONE: OVERVIEW OF THE STUDY

1.1 INTRODUCTION AND BACKGROUND

The purpose of this study is to determine whether overtrading is a major determining factor among SMEs in Mafikeng. This is because SMEs in Mafikeng have not survived beyond three years after incorporation. According to Ssekoto (2007/2008), there is a great degree of failure of small and medium sized enterprises in the Mafikeng area. The researcher further emphasised that the performance of SMEs in Mafikeng is generally bad. Mbonyane and Ladzani (2011) observe that 47% of all bankruptcies occur when businesses experience unsustainable growth rates. However, Olawale & Garwe (2009) argue that 75% of SMEs in South Africa fail.

SMEs are significant because they are the engines that drive South Africa's economy. SMEs play a role in reducing the unemployment rate, which means that there is likely to be an increase in job creation and therefore this alleviates poverty. According to GEM (2010), South Africa's unemployment rate ranked 110th from 135 countries. GEM (2011) further mentions that unemployment amongst black South Africans has been worsening since 1994 and the current policies are increasingly questioned because of this increase in unemployment. The problem of unemployment is historically attributable to the apartheid legacy. According to Radipere (2014), it is of great concern that South Africa has a low ranking in terms of global competitiveness and this suggests that South Africa has the smallest amount of entrepreneurs compared to other developing countries. In light of the aforementioned, it follows therefore that SMES are of strategic importance to the growth of the economy, yet most of them are generally failing. It is necessary therefore to investigate whether or not overtrading is the major determining factor in the collapse of SMEs in Mafikeng.

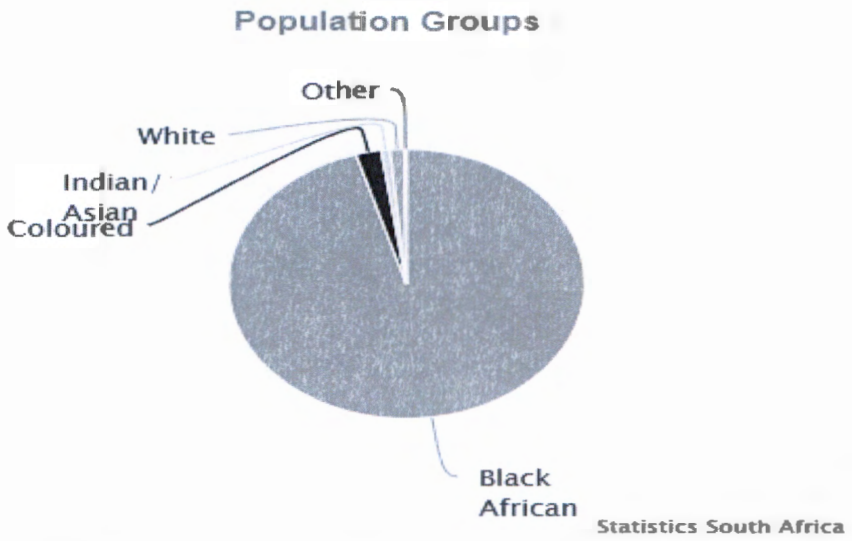
This study outlines the background in section 1.2. This is followed by the formulation of the research problem in section 1.3, the aims and objectives of the study are discussed in section 1.5. Section 1.6 focuses on the importance and benefits of the study while section 1.7 deals with the scope of the study. The outline of the study is discussed in section 1.8.

1.2 BACKGROUND

Mahikeng is formerly and commonly known as Mafikeng. The local Municipality governing Mafikeng is Mafikeng Local Municipality, and Mafikeng is the capital city of the North West province. The municipality is a considerably big local municipality compared to the other four local municipalities located within the Ngaka Modiri-Molema District Municipality. Mafikeng lies close to the Botswana border, about 240 km west of Johannesburg.

Mafikeng Local Municipality has a population of 291 527 according to population census of 2011. The population composition is 95.5% black Africans, 2.3% coloured, 1,3% white and 0,8% Indian.

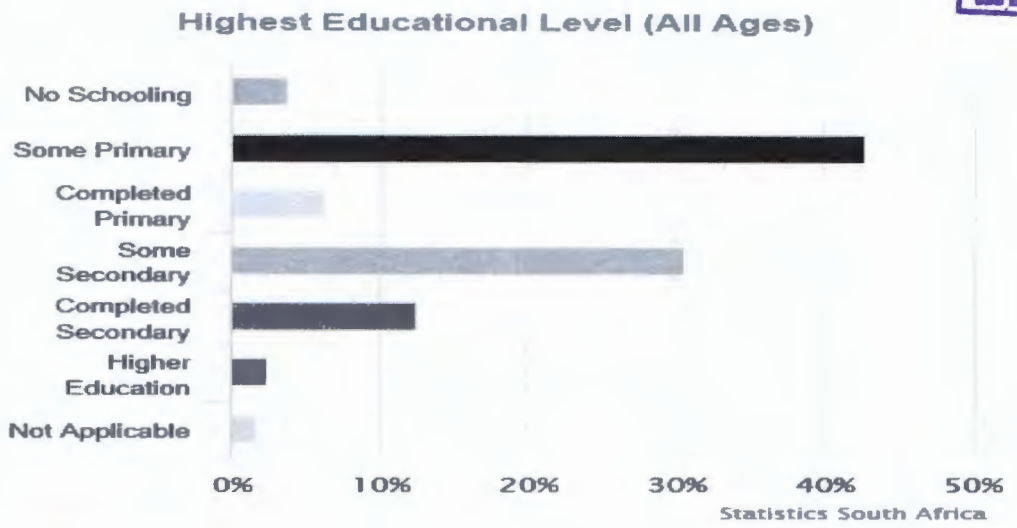
Figure1: Mafikeng Population Group



Source: Statistics South Africa (2011)

Statistics South Africa reveals that for the age group older than 20 years, 10.3 % have no education at all, 30.6% have some form of secondary education, 4,6% have completed primary school, only 26% have matric and 12,4% have some form of higher education (Population Census,2011).

Figure 2: Highest Education Level (All Ages)



Source: Statistics South Africa (2011)

According to population Census (2011), the unemployment rate in Mafikeng municipality is 35.7%.This translates to 33167 unemployed people while 59 726 people are employed. Another category is that of discouraged job seekers which has 12 987 people. Youth aged 15–34 years in the local authority area has an unemployment rate of 47, 1%.

Figure 3: Employment patterns for those aged15 – 64, Mafikeng

Source: Statistics South Africa (2011)

There is high level of unemployment, currently standing at 47% particularly among the youth in Mafikeng. The underperformance of Small and Medium-size enterprises in the local authority was exacerbated by the global financial crisis. This has raised many concerns from electronic mails and customers (Belobo, 2014). However, Edmond and Kennedy (2013:22) point out to the fact that the underperformance in the SMEs was not

caused by the global financial crises but was due to cash flow problems emanating from volatilities in the business environment in general. According to Radipere (2014), SMEs are important because they contribute to the country's GDP (Gross Domestic Product) and are therefore the engine, which drives economic development. They provide job creation as well as wealth creation. Radipere (2014) further mentions that SMEs provide competitive pressure on larger companies because they are able to manufacture smaller quantities much faster. SMEs provide opportunities for individuals in terms of skills development, which assist the individuals in terms of skills development and this enables individuals to realise their full potential (Radipere, 2014).

Most SMEs in South Africa fail in the first three years due to poor cash flow management, poor working capital management and overtrading (Belobo & Pelser, 2014). The researchers believe that the prevailing business environment leads to cash flow problems that in turn pose challenges on the operational efficiency of businesses in general. This means that the organisations are unable to do proper financial planning, budgeting and forecasting which leads to funds not being utilised on critical components essential in ensuring sustainability of the organisation.

According to Mavasa (2005), the North West province is struggling to develop its SMEs. Furthermore, Mavasa (2005) gave an insight on the actions taken by the Department of Economic Development in the province in developing SMEs which were performing poorly. Mafikeng local municipality should create an environment that enables the SMEs to play a meaningful role of creating the employment for its community, particularly where there is high level of unemployment. Furthermore, the provincial government has provided necessary training and financial assistance to the SMEs to ensure that SMEs create jobs and that the entities are sustainable. Despite all government intervention SMEs continue to fail, hence, it was important to investigate why the SMEs continue to perform poorly in Mafikeng local municipality.

1.3 RESEARCH PROBLEM

As noted above Radipere (2014) highlights that SMEs are a source of employment in South Africa generally and Mafikeng in particular given the high unemployment rate in the country. One aspect, which causes an increase in unemployment, is the increase in SMEs, which fail. It is important also to note that the government has been providing financial assistance to SMES. In spite of these attempts from the government providing financial assistance to the SMEs, there is still a high failure rate of SMEs in general. According to Belobo and Pelser (2014), the Department of Economic Development undertook a major project of which twenty million rands was allocated to develop the Mafikeng industrial zone that supports the development of SMEs and another 8 300 000 was allocated to assist in supporting their operational expenditures. Belobo and Pelsor (2014) indicate that even though the Department of Economic Development provides finance to promote the development and survival of SMEs in the country, a lot of them continue to fail.

It appears from the above that despite financial assistance, most of the SMEs fail to take off the ground. On the other hand, studies by authors such as Radipere (2014), Belobo and Pelser (2014) highlight that SMEs could be failing because of a lack of funds and poor cash flow management. This is contradictory to the reality that the government provides a lot of finance to SMEs. If this is the case, it is necessary to find out whether overtrading is the true cause of the SMEs failure in Mafikeng. The problem investigated in this study is establish if overtrading is the major determining factor in the decline of SMEs in Mafikeng.

1.4 RESEARCH QUESTIONS

1.4.1 MAIN RESEARCH QUESTION

Is overtrading the major determining factor in the decline among the SMEs in Mafikeng?
Sub research questions

a) Is the failure of most SMEs a result of poor working capital management?
b) Do SMEs maintain an appropriate working capital management policy system?
c) Is effective working capital management crucial to the survival and solvency of the SMEs?
d) What recommendations could be made to curb poor working capital management in SMEs?

1.5 RESEARCH AIMS AND OBJECTIVES

1.5.1 MAIN RESEARCH OBJECTIVE

The main research objective of this study is to determine whether overtrading is the major determining factor of the decline of SMEs in the Mafikeng.

The following objectives anchor this study:

- ✓ To determine whether or not the failure of most SMEs in Mafikeng is a result of poor working capital management.
- ✓ To establish whether or not SMEs in Mafikeng maintain an appropriate working capital management policy system.
- ✓ To establish whether or not effective working capital management is crucial to the survival and solvency of the SMEs in Mafikeng.
- ✓ To make recommendations on cash flow management practices that could enhance the survival of SMEs.

1.6 SIGNIFICANCE OF THE STUDY

This study is significant because SMEs play an immensely important role in South Africa's economy. According to Olawale and Garwe (2009), SME failure rate lies between 70% and 80%, costing the South African economy millions of rands in employment opportunities. The survival of SMEs is of great significance, especially in developing countries where there are periods of economic instability because such establishments lead to job creation (Olawale and Garwe; 2009).

This study aims to educate potential entrepreneurs about the importance of working capital. Adequate working capital is critical for the survival of any business (Chand, 2016). Chand (2016) further mentions that SMEs make their contribution by helping people survive when nothing better is available. SMEs are enterprises enabling a large number of people to earn some income, thereby reducing poverty.

If entrepreneurs are empowered, then success and growth are guaranteed and therefore SMEs could sustain themselves. It is crucial that entrepreneurs understand the importance of cash flow management as well as the impact of overtrading on small and medium enterprises. In turn, there would be a decrease in the unemployment rate, there would be job creation, poverty would be alleviated and there would be economic growth.

1.7 SCOPE OF THE STUDY

1.7.1 GEOGRAPHICAL

The field of study revolves around entrepreneurship and cash flow management within SMEs in Mafikeng. The study attempts to investigate the knowledge of financial management entrepreneurs have. It also investigates how such financial knowledge exerts an influence that cash flow management has in companies and how it could have an impact on the success or failure of the business due to non-compliance.

The researcher used quantitative research design to identify, analyse and describe the factors contributing to overtrading as a major determining factor in the decline of SMEs in the Mafikeng area. Since the population of SMEs in Mafikeng is huge, a sample of 100 SMEs was deemed sufficient to represent the whole population since it is impossible to study the whole population of 112 856 according to SEDA.

1.8 Outline of the study

The study is limited to the Ngaka Modiri Molema district Municipality, but it is relevant to all other municipalities across South Africa.

The study is structured in the following segments:-

CHAPTER 1: Introduction

The introduction provides a general overview of the study. It specifically outlines the aim of the study, the research problem statement, research question and research objectives.

CHAPTER 2: Literature review

The literature review deals with the theoretical overview of various literature sources such as books, internet, journals and newspaper articles on the area of study.

CHAPTER 3: Research methodology

The research methodology gives details of the research methods used in the study.

CHAPTER 4: Results Presentation, Analysis and Discussions

The chapter contains a presentation of the statistical results of the study and detailed analysis and discussion thereof.

CHAPTER 5: Summary and conclusion

The findings of the study are summarised and recommendations made, before drawing a conclusion.

2 CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

Working capital is an essential component of all business activity and many companies invest a large portion of their funds in working capital. According to Brauwer (2012), business stability is an area of growing interest and one that people are focusing on. In this chapter, the concept of working capital management, cash flow management and overtrading are addressed. Furthermore, a detailed discussion centred on the advantages of managing working capital, factors that affect working capital management, causes of insolvency in companies and signs of overtrading in SMEs. Ratios used to detect overtrading are also discussed extensively.

2.2 DEFINING OVERTRADING AND WORKING CAPITAL

Overtrading is defined as the increase in revenue at a pace that cannot be supported by its working capital (Steyn-Bruwer &Hamman, 2007). According to Steyn, Hamman and Smit (2002), the level of working capital, rate of sales increases, proportion of credit sales and its profit margin determine the structure of the business. Inventories, accounts receivable and accounts payable forms part of working capital. However, it should be noted that the situation is different across businesses. One of the signs that a business might become a victim of overtrading is when it has insufficient levels of current assets and when it does not offer credit, which may cause the business to expand at a high rate. However, a large proportion of credit sales may result in overtrading.

Working capital is defined as the difference between current assets and current liabilities, and is often taken to be a measure of liquidity, (Ding, et al., 2013).This process has become the life of these companies and at times, they companies solely rely on tenders for survival. According to Kehinde (2011), there are organisations, which show that they take long to recover debt from their debtors whereas creditors on the other hand want payment, and in order for SMEs to survive within Nigerian economy, the standard credit policy is essential in ensuring a good financial report as well as excellent control systems. Moreover Kehinde (2011) recommends that SMEs should be made aware on how to properly manage their working capital and thus ensure continuity, growth and solvency. Kehinde (2011) found that some SMEs do not involve working capital to maximum profit.

Working capital management is defined as the management of cash as whole, debtors, prepayments, stocks, creditors, short-term loans and accruals in order to ensure profitability of the organisation. In every company, the role of the financial manager is to ensure effective working capital, prevent insolvency as well as liquidity problems of the organisation. Kehinde (2011) further indicated that effective working capital management needs to be done because it applies to small and medium scale business.

2.3 THE EFFECT OF EFFICIENT WORKING CAPITAL MANAGEMENT ON PROFITABILITY

According to Mathuva (2010), working capital management, which deals with the management of current assets and current liabilities, is very important as it directly affects the liquidity and profitability of the organisation. Pham (2013) indicates that the current assets of a typical manufacturing or distribution company were more than half of the total assets. Profitability is the rate of return on a firm's investment. The purpose of working capital management is to manage the current accounts in order to attain a desired balance between profitability and risk.

One of the most fundamental components of the overall corporate strategy towards creating shareholder value is efficient working capital management. The planning and control of current assets and current liabilities is eliminates the risk of the inability of a firm to meet its short-term obligations and to avoid excessive investment in these assets is only possible if there is efficient working capital (Pham, 2013).

2.4 SIGNIFICANCE OF ADEQUATE WORKING CAPITAL

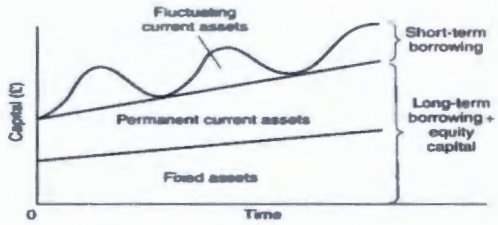
Working capital plays a critical role in any business enterprise as it is often considered to be the lifeline of a business. No business can survive or even prosper without sufficient working capital. According to Chand (2016), a business might have a large investment in fixed assets but without enough working capital, it is weak. In other words, not only is working capital necessary for the industry; it must be available in adequate proportions. That essentially means that the business must meet its optimal working capital requirements. For the business to be viable, the volume of working capital should not exceed or be less than the actual requirements.

Optimal working capital assists in:-

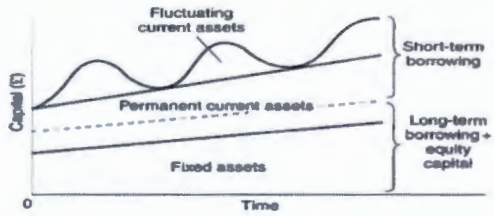
- A business with sufficient working capital can take advantage of favourable opportunities that may arise. For instance, purchasing of raw materials, executing special orders or even waiting to take advantage of better market positions that arises.
- Enjoy good credit standing because of better credit terms on purchases, lower manufacturing cost due to cash discounts received, favourable rates of interest on bank loans etc.
- Companies with sufficient working capital are able to survive during periods of depression when large amounts are locked up in inventories and receivables.
- The financial soundness of a business enhances the general morale within the company.

2.5 WORKING CAPITAL POLICIES

Slide 5.0



Financing working capital: the matching approach



Financing working capital needs: an aggressive strategy

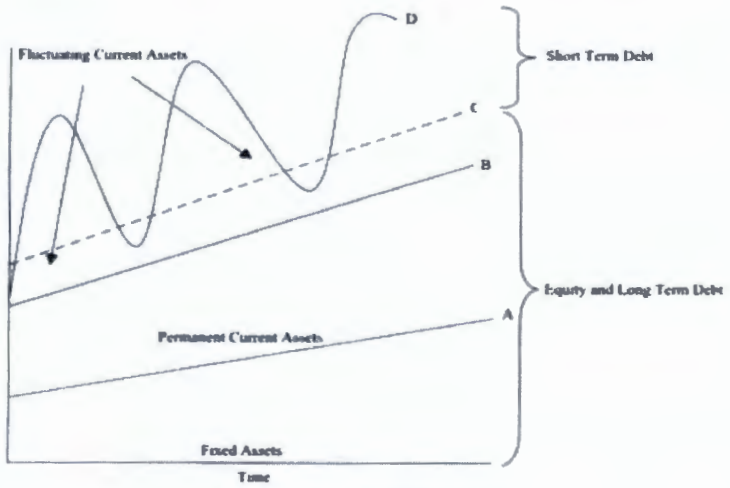


FIGURE 8.2 Conservative Policy

Moderate financing policy – According to Correia et al (2010) the moderate financing policy is when the firm attempts to match financing with working capital investment. Moderate financing policy has characteristics of both aggressive and conservative policies. Moderate policy assumes risk which is lower than restricted and higher than conservative.

Aggressive financing policy – this is when a firm finances part of its permanent current assets with short-term finance and ignores matching (Correia et al, 2010). The estimation

of current assets for achieving targeted revenue is done very aggressively without considering any contingencies and provisions for any unforeseen events

Conservative financing policy – the dotted line could lie above the permanent level of current assets. This indicates that long-term finance was used to finance both permanent and some proportion of fluctuating current assets. This policy is less risky but it might generate the lowest returns because the cost of long-term finance will be higher than that earned on short-term deposits. Companies, which use conservative working capital policies, assume the advantage of almost no risk or low risk. This policy guarantees the entrepreneur of the smooth functioning of the operating cycle.

2.6 THE PRINCIPAL ADVANTAGES OF MAINTAINING SUFFICIENT WORKING CAPITAL

1. Continuation of production in the business thereby preventing commercial insolvency.
2. Maintenance of credit by quick payment to suppliers of raw materials and others.
3. Availability of cash discount, which increases the volume of profit of the company.
4. Banks are willing to grant seasonal loans.
5. The good opportunities can be exploited without risk.
6. Assurance of the availability of emergency capital on soft credit terms.
7. This ensures that fixed assets are utilised thereby enhancing productive efficiency, which eventually results in overall efficiency in the firm.
8. Ensuring an environment that offers security, confidence and most importantly certainty thereby enhancing employees' morale.
9. Due to the availability of sufficient funds, regular payment of dividend is assured.
10. Maintaining continuous flow of materials by making necessary expenditures on innovation through research and technical development thus enhancing production efficiency.

2.7 FOUR COMPONENTS OF MANAGING WORKING CAPITAL

Working capital refers to the funds required to meet the daily obligations of business operations. Hence, Sinha (2016) describes working capital as the life-blood of an enterprise. The fact remains that working capital keeps the wheels of the enterprise on. Sinha (2016) further mentions that working capital needs to be maintained at an adequate level.

According to Sinha (2016), excessive and inadequate working capitals are harmful for an enterprise. For example, if current liabilities are more than current assets, it negatively affects the liquidity position of the business. In case the current assets are in excessive volume, the profitability of the business is adversely affected due to some assets lying idle. The management of working capital refers to the ability to manage different components of current assets and current liabilities.

2.7.1 MANAGEMENT OF CASH

Every enterprise, irrespective of its scale, requires cash injection in order to meet daily obligations. Hence, the enterprise needs to decide carefully how much should be carried in cash. Management of cash aims at striking a fine balance between two contradictory objectives of meeting the cash disbursement needs and minimizing the amount locked up as cash balance (Sinha, 2016).

For this purpose, cash management addresses the following four problems:

1. Controlling the level of cash
2. Controlling inflows of cash
3. Controlling outflows of cash
4. Optimum use of surplus cash.

2.7.1.1 Baumol Model of Cash Management

According to Diacogiannis (1993), the cash management model, known as the Baumol model, determines the optimal cash position of a firm under certain conditions. The model is of great use in terms of cash management purposes. It is known as the "the transactions demand for cash model" which stipulates that cash and inventory problems are one as developed by William J. Baumol. Diacogiannis (1993) further mentions that the model is

used for cash and inventory management. According to the model, there is a tradeoff between transaction cost, opportunity cost and holding cost or carrying cost of cash. Therefore businesses try to reduce the cost of holding cash and the cost of converting marketable securities into cash.

Relevance

Many companies attempt to minimize the costs of holding cash. They inject little cash into changing marketable securities to cash. This is where the Baumol model becomes relevant, especially on the cash management aspect (Diacogiannis, 1993).

Use of Baumol Model

The Baumol model of cash management helps companies to determine the optimal cash position or balance under certainty, which is desirable to them (Diacogiannis, 1993). The model is based on the trade-off between the liquidity provided by the ability to carry out transactions and the opportunity cost of holding cash (i.e. the interest foregone by holding one's assets in the form of non-interest bearing money). Diacogiannis (1993) states that the nominal interest rate and the level of real income, which corresponds to the amount of desired transactions and to a fixed cost of transferring one's wealth between cash and interest bearing assets, are therefore the key variables of the demand for cash.

Assumptions

The Baumol model of cash management is based on the following critical assumptions:

- The business should be able to convert its securities into cash, while ensuring that the transaction costs are constant. Nevertheless, under normal circumstances businesses incur both fixed and variable costs.
- The company is able to predict its cash requirements with a high degree of certainty.
- The company should get a fixed amount of money at regular intervals.
- The opportunity cost of holding cash should be known to the company and should remain constant over a considerable period.

- Cash payments should be done at a consistent rate over a certain period. In other words, cash outflow should be regular.

Equational Representations in Baumol Model of Cash Management

Transaction Cost = c (T/C)

Holding Cost = k(C/2)

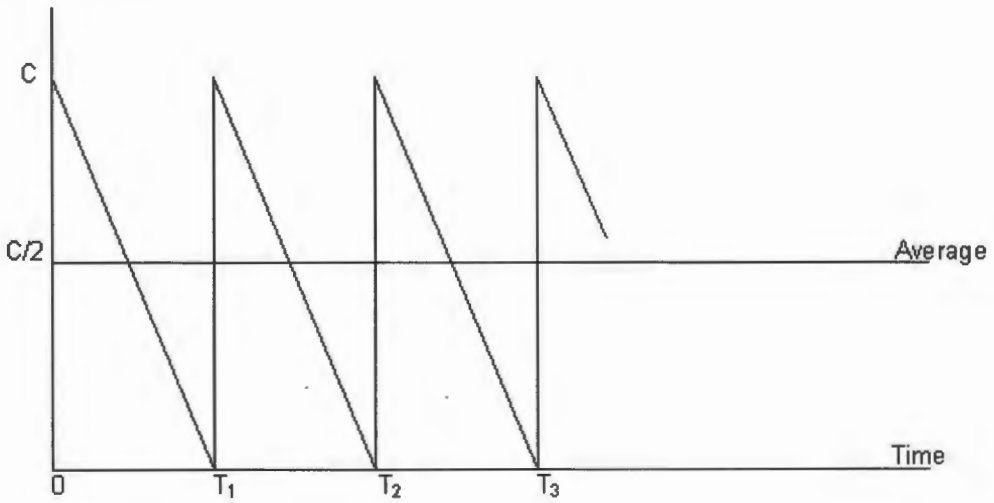
Total Cost = k(C/2) + c (T/C)

Where T is the total cash requirement, C is the cash balance, c is the cost per transaction and k is the opportunity cost.

Limitations of the Baumol model:

1. Cash flows are not allowed to fluctuate.
2. No consideration is given to an overdraft.
3. The pattern of future cash flows bears uncertainties.

For instance if a firm sells securities and has an initial balance of C rupees, as the firm incurs expenses, its cash balance decreases until it reaches zero. Marketable securities are then sold for the firm to get its money back and as a result, the cash balance decreases gradually. The average cash balance will be C/2 and this can be shown in the following figure:



The firm incurs an opportunity cost for maintaining a cash balance. There is always a return on marketable securities. Suppose the opportunity cost for holding cash is denoted by k, therefore, the firm incurs a holding cost of:

Holding cost = k (C/2)

Another cost, which the firm incurs when converting marketable securities into cash, is known as transaction cost. The total number of transactions per year is found by dividing total funds required (T) by the cash balance (C). The cost per transaction is assumed constant. Suppose the cost per transaction is c, then the total transaction cost will be:

Transaction cost = c (T/C)

Therefore, the total annual cost of the demand for cash will be:

Total cost = k (C/2) + c (T/C)

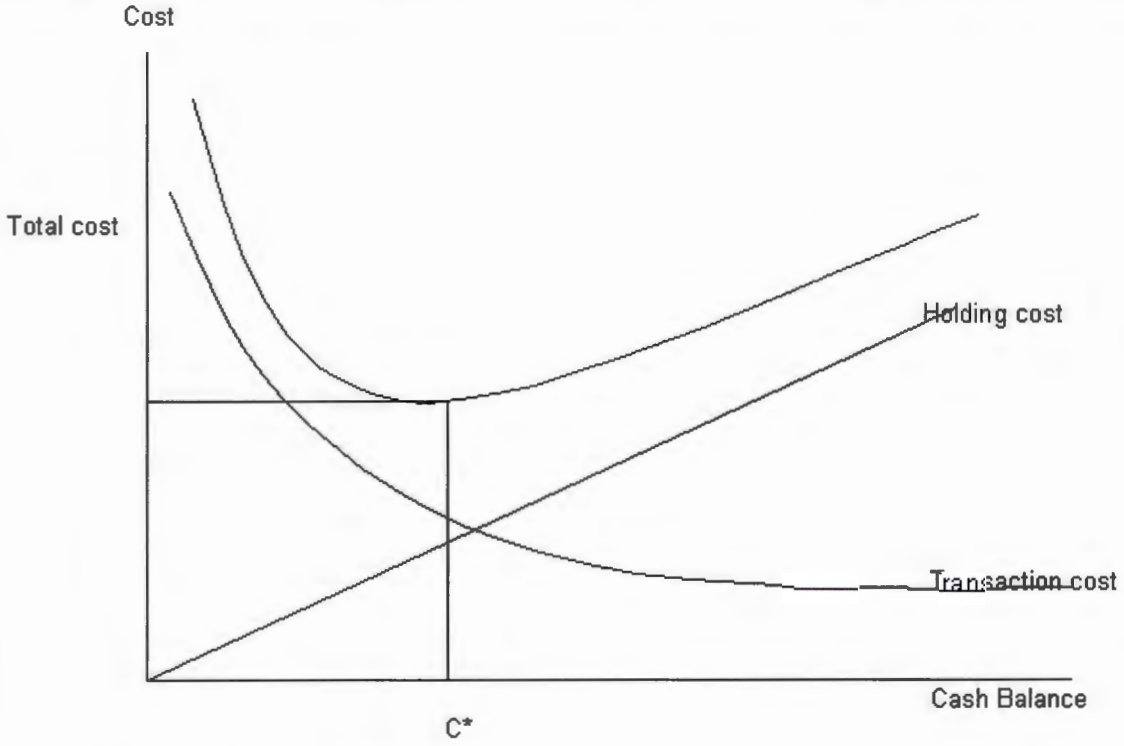
Cash balance at optimum level

According to Diacogiannis, (1993), the holding cost will also increase and the transaction cost will reduce because of a decline in the number of transactions as the demand for cash, 'C' increases, hence, it can be said that there is a relationship between the holding cost and the transaction cost.

When the total cost is minimum, the optimum cash balance, C* is obtained.

Optimum cash balance (C*) = Ö2cT/k
Where, C* is the optimum cash balance.
T is the total cash needed during the year.
K is the opportunity cost of holding cash balances.

The optimum cash balance will increase with the increase in the cost per transaction and total funds required. However, it decreases with an increase in the opportunity cost.



2.7.2 MANAGEMENT OF INVENTORY

Inventories refer to raw material, work-in-progress and finished goods. These constitute a major portion, about 60% of total current assets. According to Diacogiannis (1993), transaction motive, precautionary motive and speculative motive are the three foremost motives for holding inventory in a firm. However, holding inventories involves costs, i.e. ordering costs and carrying costs.

The maintenance of inventories should be at an optimum size. Inventory management is a trade-off between costs of acquiring as well as the cost of holding inventories. Among various models evolved for managing inventories, the commonly used model is Economic Ordering Quantity (EOQ) Model based on Baumol's cash management model. The other model of inventory management is ABC Analysis also known as CIE i.e., Control by Importance and Exception. This method controls expensive inventory items more closely than less expensive items.

2.7.2.1 ECONOMIC ORDER QUANTITY (EOQ) MODEL

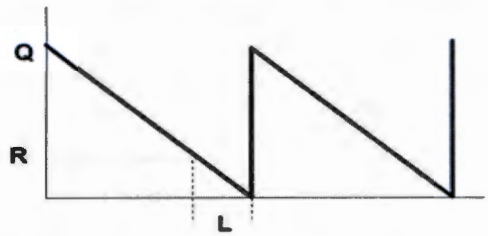
The economic order quantity (EOQ) is the order quantity that minimizes total holding and ordering costs for the year. Even if not all the assumptions hold exactly true, the EOQ gives a good indication of whether or not current order quantities are reasonable.

What is the EOQ Model?

- Cost Minimizing "Q"
- Assumptions:
  - Relatively unchanging and known demand rate
  - The cost of the fixed item
  - Fixed ordering and holding cost
  - Constant lead time

Of course, these assumptions do not always hold, but the model is robust in practice.

What would Holding and Ordering Costs Look Like for the Years?



A = Demand for the year

Cp = Cost to place a single order

Ch = Cost to hold one unit inventory for a year

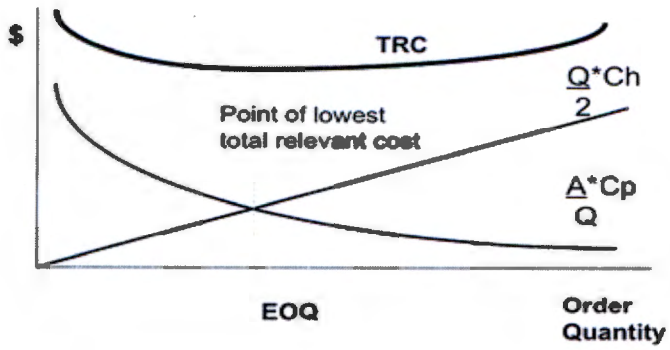
Total Relevant* Cost (TRC)

Yearly Holding Cost + Yearly Ordering Cost

$$\frac{Q}{2} * C_h + \frac{A}{Q} * C_p$$

"Relevant" because they are affected by the order quantity Q

Economic Order Quantity (EOQ)



1 EOQ Formula

$$\sqrt{\frac{2 * A * Cp}{Ch}}$$

2.7.3 MANAGEMENT OF ACCOUNTS RECEIVABLE

Accounts receivables of a company are all the debtors of the company. A good relationship with the debtors ensures that payments are received earlier in order for the company to meet its short-term obligations. In most industries, the main source of income is the money from clients where at times payments are delayed and processed late. This results in a failure to meet all short-term obligations. An increase in accounts receivables results in a decrease in working capital.

According to Sinha (2016), accounts receivable represent the amount of goods sold on credit with a view to increase the volume of sales. Accounts receivable constitute a major portion of current assets. The main objective of maintaining accounts receivable is achieving growth in sales, increasing profits and meeting competition. Like inventories, maintaining accounts receivable also involves certain costs such as capital costs, administrative costs, collection costs and defaulting costs, i.e., bad debts.

The size of accounts receivable depends on the level of sales, credit policy, terms of tirade and efficiency of collection. A larger size of accounts receivable increases profitability and reduces liquidity and vice versa. Therefore, accounts receivable need to be maintained at an optimum size. The optimum size of accounts receivable occurs at a point where there is a "trade-off" between profitability and liquidity.

2.7.3.1 CREDIT POLICIES

In order to expand or maintain sales, businesses normally use trade credit as a marketing strategy (Nyabwanga et al, 2011). A proper management of receivables supported by low levels of bad debts, a short creditor's collection period and a good credit policy improves the firm's financial performance. It should be noted also that the businesses' ability to attract new customers is enhanced. According to Ross et al (2008), there is real need for a sound credit policy that would optimize the value of the SSE.

The carrying costs of granting credit is made up of the costs of managing credit and debt collections, cash discounts and bad debts which increases with an increase on the amount of receivables granted. A loss in sales because of failure to grant credit constitutes an opportunity cost, which has an indirect relationship with the amount of receivables (Nyabwanga et al. 2011). As noted by Ross et al (2008), for firms with proper inventory management, an optimal credit can be established, thus minimizing the total costs of giving credit.

There is need for firms to maintain good working relationships with customers and suppliers in order to have favourable credit terms (Kothalawala, 2011). However, companies must guard against the danger of overtrading by granting customers long credit terms and receiving short credit terms from suppliers. Because of this, firms have to make regular payments to suppliers in order to have sufficient inventory to keep up with sales that are increasing at a faster rate. However, it may be difficult for the company to have enough working capital to do the payments since customers take long to pay in cash.

In this case, there would be need for the business to apply to banks for a loan in order to fill up the gap in working capital. It would now depend on the banks to grant the loan or not but in most cases, they grant the loan but put a limit on the overdraft that may not be easily removed when there is need for more cash. Therefore, as noted by Kothalawala (2011) businesses with high sales growth rate end up failing to pay their bills.

Any successful business has the responsibility to put policies in place, which will assist in governing the company and ensuring that all activities within are at par with what is required of them. Determining when debtors should remunerate or when the company should be paying its debts is of significant importance. Usually in most industries, operating expenses require payment every month and this requires a lot of cash flow.

Therefore, companies should implement a 30-day account for both its debtors and creditors in order to adhere to the policies in place.

2.7.4 MANAGEMENT OF ACCOUNTS PAYABLE:

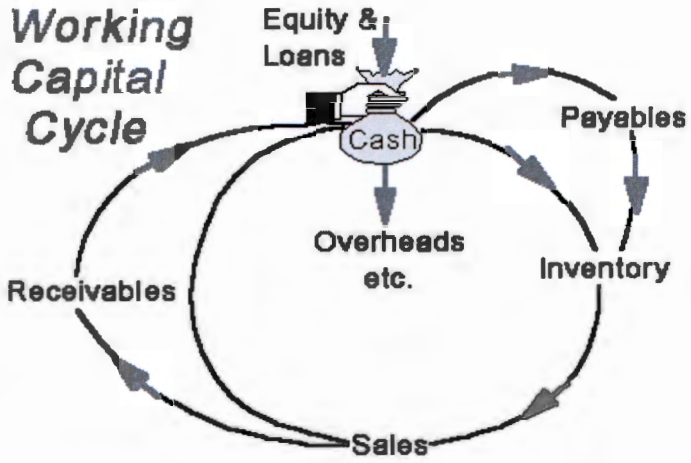
All the creditors, which require payment from the company, are known as accounts payables for the company. The ability to manage the creditors of the company efficiently positions a company at an advantage. Maintaining a good relationship with the creditors simply means paying them on time, which leads to an increase in discounts and this could form part of savings by allocating the discounts in the reserves of the company. Higher working capital levels allow firms to increase their sales and acquire greater discounts for early payments, which may increase the firms' value (Baños-Caballero et al, 2014). Alternatively, higher working capital levels require financing and, consequently, firms face additional financing expenses, which increase their chances of going bankrupt. A decrease in accounts payables results in an increase in working capital.

Accounts payable are just the reverse to accounts receivable, therefore accounts payable emerges due to purchasing goods on credit. This refers to a loaning of goods and inventories to the buyer. This is also called 'buy-now, pay-later.' The underlying objective of accounts payable is to slow down the payments process as much as possible (Sinha, 2016). It should be noted that the saving of interest cost should be offset against loss of credit standing of the enterprise. Therefore, the enterprise must ensure that payments are kept up to date to maintain a good credit record.

The significant points on effective management of accounts payable are:

a. Obtain most favourable credit terms with the prevailing credit practice.
b. Being able to make payments on maturity or due dates.
c. Keeping a good track record of past dealings with the suppliers.
d. The tendency to divert payables should be avoided.
e. Provide full information to the suppliers must be provided.
f. Incidents of delinquency should be monitored constantly.

Figure 1.The working capital cycle



2.8 NATURE OF WORKING CAPITAL AND ITS RELEVANCE TO SMES.

Working capital plays a critical role in any business endeavour. It is regarded as the lifeblood of any business or project. It determines the pace, scope, direction and quality of the product. In fact, without working capital there is no execution of the project. All other resources of the project can only be acquired through working capital (Ugochukwu and Tobechkwu, 2014).

According to Nobanee and Abraham (2014), working capital is the value of current assets and current liabilities. Current assets include cash, accounts receivables, raw materials, work-in-progress and finished goods inventories, whereas current liabilities include accounts payables, notes payables and accruals. Many corporate finance managers focus on the management of these individual components of working capital in order to improve overall efficiency. Resources such as labour, materials, management expertise and machinery can be acquired when funds are available. Therefore, the client must have capital to make interim payments to the contractor as the work progresses as well as to cater for increases in overhead expenses (Ugochukwu and Tobechukwu, 2014).

2.9 CAUSES OF INSOLVENCY IN COMPANIES

2.9.1 CASH FLOW PROBLEMS

Arian (2016) argues that nearly all companies get into insolvency because of cash flow problems. Cash flow is a problematic issue that SMEs deal with. The high level of insolvency in companies is mainly due to cash flow problems. Cash flow is the lifeblood of any company and too often, people concentrate on whether they are making a profit or not. Profits are of no use if the liquidity position of the business is not in good shape. If the greater portion of that profit were tied up in debtors, inventory or work in progress there would be no cash to meet current obligations such as payment of bills (Arian, 2016). (Anadolu & Anadolu, 2008) concurred with this.

Due to companies using unstable sources of finance, shortfalls are not sustained. During times of recession cash reserves are wiped out and businesses would have to turn to shareholders or their bankers for financial support. This challenge applies to both contractors. It even becomes worse when onerous contract clauses are in operation i.e. "pay-when-paid" and the "right to set-off."

2.9.2 OVERTRADING

Another serious cash flow challenge is caused by overtrading when the small company grows faster than its capital base. In this case, all cash would be tied up in stocks, trade debtors and work in progress. There would be no money left to pay for labour, additional materials, hiring of machinery and loan repayments. In addition to that, the small company or subcontractor may not be getting regular payments in advance from the main contractor but need to make monthly payments for hiring machinery, materials, labour and wages, overheads and debt repayments. Most of the sub-contractor's money is tied up in trade debtors, stocks and work in progress as mentioned earlier on. Therefore, that money could be drawn from the capital base.

2.9.3 POOR FINANCIAL CONTROL

Successful companies do well in cash flow management and control through employing advanced methods of cash flow monitoring and forecasting. They are able to generate good management accounts that aid in cost allocation. The unfortunate part of it is that the majority of small companies are not able to prepare management accounts.

Numerous companies become insolvent due to the lack of proper accounts in their organisations. Most of them cannot recover on time what is due to them in terms of debts, thus allowing these to accumulate until their delays makes them impossible to collect later. The advantage of strategic cash flow is that one collects early and pays late. However, late payment is viewed as a contributory factor to the large number of insolvencies in the construction industry.

2.10 FIVE WARNING SIGNS OF OVERTRADING

Taysom (2011) identified five signs, which are an indication of overtrading, and they are as follows:

- When you need to borrow money to get through each month – this happens when the enterprise regularly produces unexpected costs but does not have cash resources to cover those unexpected costs.
- When a company's profit margins are low- low, this will affect negatively on cash flow.
- Customers are making late payments - late payments from customers lead to late payments to your suppliers as well as overhead costs.
- When a major supplier is getting nervous – if you fail to make payments to your supplier on time on a regular basis, it causes nervousness as uncertainties on whether the supplier will be paid or not.
- When your accountant's face has gone green - an accountant is able to identify warning signs of overtrading so it is very important that management listens to them.

2.11 OVERTRADING AND WORKING CAPITAL

2.11.1 SMALLL AND MEDIUM ENTERPRISE WITH OVERTRADING

Ward (2010) indicated one of the problems that causes financial troubles for most of the organisation, particularly small and medium enterprises, is overtrading. Overtrading occurs when a company grows too rapidly with insufficient long-term finance to affirm the increased level of assets held, given the higher operational level. The amount of working capital increases when sales increase. The organisation may apply pressure to its debtors and creditors in cases where extra finance is not available. They may pressurise existing debtors for early payment to get extra money to cover for the late payment to creditors. The increase in inventories and trade receivables outweighs the increase in trade payables resulting in a resource requirement that needs financing.

If corrective measures are not properly implemented to resolve this, the organisation will increase the overdraft and cause liquidity challenges. Ward (2010) argued that over-trading is one of the reasons for the downfall of Sock Shop in 1990 in America. Even established organisations attempting to expand rapidly could face the challenges inherent in over-trading. For organisations that are planning to expand, these should take the required long-term investment in working capital into account in the initial decision-making process. The role of the manager should be to predict the future working capital needs in the situation whereby a small organisation realises a large order with a major player in a market (Phan, 2013). The organisation should consider buying new equipment, more raw materials and employing more staff.

The organisation may request the bank for an overdraft or leasing equipment for the funds required. However, small suppliers fail to convince the buyer to make early settlements or honour the credit terms by paying within the stipulated period (Ward, 2010). Large companies are the ones that often have the power in the business relationships. The problems become more serious when trading in overseas and overtrading when economy moves out of a recession. The organisation may increase the level of inventory when the demand rises. This can be the basic situation where overtrading exists. The organisation wishes to make use of improved demand by seeking to fill all the orders but misses the finance capacity (Ward, 2010).

2.12 CAPITAL STRUCTURE

Since Modigliani and Miller, financial economists have advanced a number of leverage relevance theories by relaxing the perfect capital market assumption of the original Modigliani and Miller paper (Michaelas and Chittenden, 1999). According to Correia et al, (2010:14-1), a strategic financial decision was taken regarding the way in which financing is arranged, which results in a capital structure. Correia et al (2010), further mention that the level of debt relative to equity, type of debts and equity it plans to hold since there are short-term and long-term debts as well as equity that it wants to maintain is decided by management.

Michaelas and Chittenden (1999) argue that tax-based theories, asymmetric information as well as signalling theories are the three categories that the theory of capital structure can be classified. Jindrichovska (2013:84) states that different capital structure theories revealed that the levels of debt in small businesses were determined by the capital structure. Jindrichovska (2013) further mentions that during periods of improved economic conditions, short-term debt ratios in SMEs increase and on the other hand, average long-term debt ratios reveal a positive relationship with changes in economic growth.

The company's capital structure is of significant importance because it clearly discloses how management is planning on financing its debt. A crucial responsibility for management is to secure appropriate funding which meets the requirements of the firm in terms of working capital (Ugochuku and Tobechukwu, 2014). Companies have a choice of financing using equity, using debt or a combination of both, of which they more often finance using debt as it is cheaper and this forms the foundation of the financial success of the company. According to de Almeida & Eid (2014), short term financing sources are used as long term sources through the constant renewal of the credit lines in its capital structure and this is commonly practiced by Brazilian companies.

Ugochuku and Tobechukwu (2014) suggest that how current assets should be financed either by short, medium or long term finance, which type of finance i.e. bank loan or overdraft, and the relationship between the levels of fixed assets and current assets and they suggest that these are decisions which should be taken by management. According to Ugochuku and Tobechukwu (2014), finance has always been problematic to secure by indigenous companies` in Nigeria because of their inability to make accurate cash flow

predictions in the industry. This has painted a bleak picture on the future of SMEs. Therefore, it is imperative for companies to create a favourable environment that promotes efficient management. This would attract many sources of finance.

Ratios used to detect overtrading

According to Steyn-Bruwer and Hamman (2007), various commentators have identified numerous ratios that assist in managing and detecting the symptoms of overtrading and they are the following:-

- ✓ The working capital ratio and the quick ratio – there is less risk if assets are more than liabilities and the larger the difference, the better;
- ✓ The gearing ratio – if the debt to equity ratio is higher, it causes the risk to be higher;
- ✓ When the total assets to net sales ratio is low, this is an indication that sales are more than what can be safely financed by the assets;
- ✓ The debtors' collection and creditors' payment periods indicates how quickly sales are converted to cash and how long the suppliers must be aid. Cash flow problems arise when the creditors' collection period is greater than the creditors' payment period;
- ✓ The number of times in a year that working capital is turned over in relation to net sales as measured by the net sales to net working capital ratio;
- ✓ The sufficiency of equity investment in relation to sales volume as measured by net sales (owners' equity – intangible assets) ratio is an indication of overtrading if the ratio is higher;

- ✓ The extent to which the suppliers are used to help finance activities as measured by the accounts payable to sales ratio. The higher the ratio, the more financing it requires;
- ✓ The following bankruptcy ratios are used to identify potential financial problems up to three years before the real financial failure:
    - the net working capital to total assets ratio, viewed as the most important indicator of looming disaster.

- the cash flow to total debt ratio – the ratio should be high to avoid liquidity problems.

Ratios are the most important tools in financial analysis that assists financial analysts on the implementation of plans that improve liquidity, profitability, financial structure, financial leverage, reordering and interest coverage. Ratios can be predictive even though they report mostly on past performances and provide lead indications of potential problem areas.

Ratio analysis makes use of trend analysis where the financial figure of a company over a period is used for comparative purposes. Corrective measures can be taken where necessary after observing a particular trend. The analysis can also help the business to benchmark against other businesses both within and outside the industry.

There are many factors to consider when comparing ratios over a certain period or when comparing the financial ratios of different companies.

- Make an appropriate allowance for any changes in accounting policies that occurred during the same time span if you are making a comparative analysis of a company's financial statements over a certain period.
- Allow for any material differences in accounting policies between your company and industry norms when comparing your business with others in your industry.
- Inquire about the types of accounting policies used when comparing ratios from various fiscal periods or companies because different accounting methods can result in a wide variety of reported figures.
- Determine whether the ratios calculated were before or after adjustments were made to the balance sheet or income statement such as non-recurring items and inventory or pro forma adjustments because in many cases, these adjustments can significantly affect the ratios.
- Any departures from industry norms must be examined carefully.

2.12.1 LIQUIDITY RATIOS

Ratios that measure the ability of a company to meet its short-term debt obligations, called liquidity ratios, are a result of dividing cash and other liquid assets by the short-term borrowings and current liabilities. The higher the liquidity ratios are, the higher the margin of safety that the company poses to meet its current liabilities. An indication that the company is in good financial health and if it is less, then that means, it will likely fall into financial difficulties, is reflected by liquidity ratios greater than one.

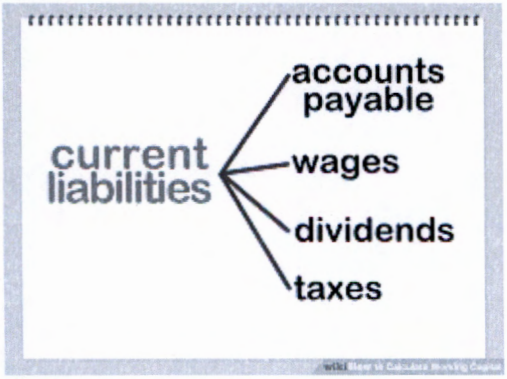
Majority of these managers have little or no knowledge of determining and measuring whether they are able to convert their current assets into cash or are able to pay off their short-term debts. This determination of short-term debts is established by using the following ratios:-

2.12.2 CURRENT RATIO

Current ratio, also known as the working capital ratio, is the balance sheet financial performance measure of the company liquidity. It indicates a company's ability to meet short-term obligations. Excessively large levels can indicate excessive receivables and inventories as well as poor working capital control. The current ratio measures whether or not a firm has enough resources to pay its debt over the next twelve months. Potential creditors use this ratio to determine whether to make short-term loans. The aim of utilising the current ratio is that it gives a sense of the efficiency of the company's operating cycle or its ability to turn its product into cash.

Current Ratio = CA/CL

Figure 2: Current liabilities

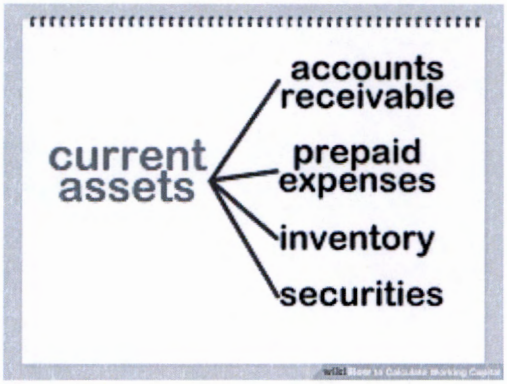


2.12.3 ACID TEST RATIO

The acid test ratio, which is also known as the quick ratio, measures the company's financial position as well as its current liquidity. As stated in figure 2, current liabilities comprises of accounts payables, wages, dividends and taxes.

Acid test ratio = (CA- I)/CL

Figure 3: Current assets



2.12.4 CASH RATIO

A modification of quick ratio and indicates the extent to which readily available funds can pay off current liabilities is known as the cash ratio. Potential creditors mainly use this ratio as a measure of a company's liquidity, how easily it can service debt as well as cover short-term liabilities. Figure 3 indicates that current assets comprises of accounts receivables, prepaid expenses, inventory and securities.

Cash ratio – TC/CL

2.12.5 RATIO OF ABSOLUTE LIQUIDITY

This ratio gets rid of any unknowns pertaining to receivables, subsequent innovation in ratio analysis. It determines tests on short-term liquidity in terms of cash and marketable securities.

Absolute Liquidity Ratio = Cash + Marketable Securities/ CL

2.12.5.1 Interval of Basic Defence

(Cash + Receivables + Marketable Securities)/ X365
(Operating Expenses + Interest + Income Taxes)

The Basic Defence Interval assists in determining the period in days the business can cover its cash requirements without any additional financing. That is if all revenues in the company suddenly dries up or ceases.

2.12.6 TURNOVER OF RECEIVABLES

Receivables Turnover Ratio = Total Credit Sales/ Average Receivables

Employing the funds invested in receivables indicates management's efficiency, which is another indicator of liquidity, is indicated by the receivables turnover ratio. Any changes in collections can easily be detected by close monitoring of the ratio on monthly or quarterly basis.

2.12.7 THE PERIOD OF AVERAGE COLLECTION

Average Collection Period = (Accounts + Notes Receivable) / (Annual Net Credit Sales) x365 days

Another litmus test for the quality of your receivables business, which gives you the average length of the collection period, is the average collection period (ACP). Outstanding receivables should not exceed credit terms by 10-15 days and if one allows different types of credit transactions, such as a retail outlet selling on open credit and instalment, then the ACP must be calculated separately for each category. Discounted notes, which create contingent liabilities, must be added back into receivables.

2.12.8 INVENTORY TURNOVER

Inventory Turnover Ratio = Cost of Goods Sold/ Average Inventory

Multiplying your inventory turnover by your gross margin percentage determines the inventory turnover ratio. If the result is 100% or greater average inventory is not too high.

2.12.9 WORKING CAPITAL RATIOS

Numerous people believe that the solution to any business problem is increased sales and they are spot on. The business must also have good policies pertaining to other current assets. Such policies must be augmented by enough working capital. There are two types of working capital i.e. gross working capital (which is all current assets), and net working capital, which is CA less CL.

If one realises that they do not have sufficient working capital, they can correct it by lowering sales or by increasing current assets through either internal savings (retained earnings) or external savings (sale of stock). Following are ratios that can be used to evaluate your business's net working capital. This ratio is particularly valuable in determining your business's ability to meet current liabilities.

2.12.10 WORKING CAPITAL TURNOVER

Working Capital Turnover Ratio = Net Sales /Working Capital

This ratio assists in determining whether your business has many fixed assets, which you cannot convert into cash quickly. A high ratio could be a sign of overtrading. If the ratio is, too high it is an indication of an urgent need for additional funds to support the business, as the money will be tied up in fixed assets.

2.12.11 CURRENT DEBT TO NET WORTH

Current Debt: Net Worth Ratio= CL/ Tangible Net Worth

It is a measure of the amount of funds currently contributes to the business's operations by creditors. Debt that exceeds its invested capital and a ratio of 60% or above for small businesses as this usually spells trouble and is not permissible and a ratio of 75% should raise an alarm to large companies.

Funded Debt to Net Working Capital

Funded Debt: Net Working Capital Ratio = Long-Term Debt /Net Working Capital

Funded debt (long-term liabilities) is equal to all obligations that will become due after 12 months from the balance sheet date. Net working capital should never be less than long-term liabilities and all these ratios intend to measure whether a company is able to meet its short-term obligations or not.

2.12.12 RATIOS OF INCOME

2.12.12.1 Turnover of Total Operating Assets

Turnover of Total Operating Assets Ratio= Net Sales/ Total Operating Assets*

This ratio indicates the extent to which the business is utilising operating assets to generate revenue. If sales increase, it would require investments in operating assets. However, if there is a reduction in sales, it may require a reduction in operating assets. It therefore indicates whether there is an over or underinvestment in the assets.

**Total operating assets = total assets - (long-term investments + intangible assets)*

2.12.12.2 Net Sales to Tangible Net Worth

Net Sales: Tangible Net Worth Ratio =Net Sales /Tangible Net Worth*

This ratio shows if the money invested is equal to sales generated by the business. The ratio reveals possible credit problems that could arise. These problems are referred to as under trading or overtrading. Overtrading occurs when the business uses a relatively small amount of investment in order to transact excessive sales volume. Lack of proper management skills may also result in overtrading. Just like overtrading, under trading results from poor investment decisions by management and their lack of skill and ingenuity.

**Tangible Net Worth = owner's equity - intangible assets*

2.12.12.3 Gross Margin on Net Sales

Gross Margin on Net Sales Ratio= GM* /Net Sales

An analysis of this ratio over many years assists the business in ascertaining if there is a need for policy reviews on purchasing decisions, mark-ups and general merchandising. A lower cost of sales, increase in the proportionate volume of high margin products or any combination of these variables lead to a high gross profit margin. .

**Gross Margin = net sales - cost of goods sold*

2.12.12.4 Operating Income to Net Sales Ratio

Operating Income: Net Sales Ratio =Operating Income /Net Sales

The profitability of sales is determined by the operating income to net sales ratio. The ratio results from regular business operations such as manufacturing, buying and selling. It should be noted that operating income comes from ordinary business activities and does not take into account income taxes, other revenue or losses and interest on long-term debt.

2.12.12.5 Acceptance Index

Acceptance Index = AA /AS

A company is at high risk if the majority of its sales volumes is constituted by two or three major accounts, unlike the same volume coming from a large number of customers. The normal scenario is when a company loses 0.7% of its major accounts while it is catastrophic when it loses a third. Therefore, it is important for an expanding business to spread the risk of dependency by embarking on rigorous sales through active promotion and prudent management of the credit department. Such effort will be reflected by the quantity of newly opened accounts, although the quality of customers will emanate or come from the company's management policy. This index of effectiveness only applies to certain type of business.

2.12.13 PROFITABILITY RATIOS

There is a close link between income and profitability ratios. Such link helps in bringing about effective management on investment and returns generated on sales. Profitability ratios are a class of financial metric that are used to assess a business's ability to generate earnings compared to expenses and other relevant costs incurred during a specific period of time.

2.12.13.1 Gross Profit on Net Sales

Gross Profit on Net Sales Ratio = Net Sales - Cost of Goods Sold /Net Sales

This ratio determines whether the average mark-up covers your expenses and results in profitability or not. If the gross profit margin continues to be lower than the average margin the business is making a loss. It is important for every business to keep track of the downward trends in their gross profit rate, as it is an indicator of future problems. However, the gross profit rate differs significantly from one business to another. Gross profit rate can be affected by location, size of operations, and the intensity of competition as well as sales.

2.12.14 NET OPERATING PROFIT RATIOS

2.12.14.1 Net Profit on Net Sales

Net Profit on Net Sales Ratio = EAT* /Net Sales

This ratio is primarily concerned with net earnings as a fraction of net sales.in other words it shows the relationship between net profits and investment levels. An increase in basic expenses will cause profits to rise disproportionately greater than sales above the break-even point of operations. Sales expenses could be substituted out of profits for other costs to generate even more sales and profits.

**EAT= earnings after taxes*

2.12.14.2 Net Profit to Tangible Net Worth

Net Profit: Tangible Net Worth Ratio= EAT /Tangible Net Worth

This ratio is related to the net profit on net sales ratio. However, it complements the net profit on net sales ratio by appraising of net profits related to investment and assesses management's ability generate returns.

2.12.14.3 Net Operating Profit Rate of Return

Net Operating Profit Rate of Return Ratio = EBIT /Tangible Net Worth

The methods of financing which a company uses, influences this ratio. It makes use of EBIT and not EAT. A misconception of omission occurs when creditors support total assets but it should be noted that it is after interest is paid to creditors that profit is realised. This ratio provides a company with a very important means of comparison because in instances where financial charges are exorbitant, instead of computing return on assets ratio, net operating profit rate of return ratio is computed.

2.12.14.4 Management Rate of Return

Operating Income/ (Fixed Assets + Net Working Capital) =Management Rate of Return Ratio

Shows how profitably the assets are being employed in the business. If the assets are not being employed profitably to generate enough operating income, it means the entity will not be able to service its debts and consequently it may lead to insolvency

2.12.14.5 Earning Power

Earning Power Ratio = (Net Sale X EAT) /Tangible Net Worth

The Earning Power Ratio combines asset turnover with the net profit rate. Earning power can be increased by heavier trading on assets, by decreasing costs, by lowering the

break-even point, or by increasing sales faster than the accompanying rise in costs. One must always remember that sales hold the key.

2.12.15 BANKRUPTCY RATIOS

The majority of businesses facing bankruptcy lament on their failure to detect early warning signs on their company's decline in earnings. There are ratios, which are able aid businesses in predicting bankruptcy before it is too late for a business to take corrective actions and for creditors to reduce probable losses. Careful planning allows the business to avoid predicted futures in turning to reality. Bankruptcy ratios are used to predict any future financial problems for up to a maximum of three years. Amongst these ratios the Cash Flow to Debt ratio is considered the best predictor of business failure.

2.12.15.1 Working Capital to Total Assets

Working Capital to Total Assets Ratio =Net Working Capital /TA

This liquidity ratio is the most valuable indicator of a looming business disaster because it records net liquid assets relative to total capitalization. Operating losses, which are consistent, will result in shrinkage of current assets as compared to total assets. Serious financial problems are a result of negative net working capital as depicted by a negative ratio.

2.12.15.2 Retained Earnings to Total Assets

Retained Earnings to Total Assets Ratio= Retained Earnings /Total Assets

New or start-up businesses usually have a low retained earnings to total assets ratio which shows profitability but a negative ratio denotes problems. Businesses of up to three years old often fail. However, it should be noted that results could be manipulated to give surplus earnings.

2.12.15.3 EBIT to Total Assets

EBIT: Total Assets Ratio =EBIT /Total Assets

The value of assets is derived from the earning power of the business. Therefore, the degree of insolvency depends on the earnings generated by the business. It should be noted that maximizing earnings on total assets is different from maximizing return on equity. The two are affected by the degrees of financial leverage applied on each.

2.12.15.4 Sales to Total Assets

Sales: Total Assets Ratio =Total Sales Total Assets

Sometimes it is difficult for management to operate under highly competitive environments. This ratio exposes management's ability to operate under such conditions without the use of intangible assets. However, it should be noted that the ratio becomes useful if used in collaboration with other ratios such as Retained Earnings to Total Assets, Working Capital to Total Assets and EBIT to Total Assets. In this case, it can be a source of valuable information indicating imminent danger. The business should have a ratio of 200 percent to be certain about its future prospects of success.

2.12.15.5 Equity to Debt

Equity: Debt Ratio= (Market Value of Common + Preferred Stock) /(Total Current + Long-Term Debt)

This ratio depicts the rate at which a company's assets can depreciate before it gets insolvent. A business with a ratio of at least 200 percent is safe.

2.12.15.6 Cash Flow to Debt

Cash Flow: Debt Ratio =Cash Flow* /Total Debt

Debt does not materialize as a liquidity problem until its due date therefore, the closer to maturity, the greater liquidity should be. There are various accounting techniques of determining depreciation; therefore, this ratio is used for evaluating one's own company and not to compare it to other companies.

Cash flow = Net Income + Depreciation

2.12.16 LONG-TERM ANALYSIS

2.12.16.1 Current Assets to Total Debt

Current Assets: Total Debt Ratio =Current Assets / (Current + Long-Term Debt)

This ratio determines the degree of protection linked to short- and long-term debt. More net working capital protects short-term creditors. A high ratio (significantly above 100 percent) shows that if liquidation losses on current assets are not excessive, long-range debtors can be paid in full out of working capital.

2.12.16.2 Stockholders' Equity Ratio

Stockholders' Equity Ratio = Stockholders' Equity /Total Assets

This calculation is able to approximate relative financial strength as well as liquidity in the long run, of which a low ratio

2.12.16.3 Total Debt to Net Worth

Total Debt to Net Worth Ratio =Current + Deferred Debt /Tangible Net Worth
A business's total liabilities should rarely exceed its tangible net worth. If it does, creditors assume more risk than stockholders do. This means that a business that is severely burdened with high interest charges will most likely lose out to well financed competitors.

2.12.17 COVERAGE RATIOS

2.12.17.1 Times Interest Earned

Times Interest Earned Ratio =EBIT/ Interest payable

This ratio shows the number of times earnings cover fixed-interest payments on long-term debt.

2.12.17.2 Total Coverage Ratios

Total Coverage Ratio = (EBIT+ s) / I (1-h)

I = interest payments

s = payment on principal figured on income after taxes (1 - h)

This ratio is an expansion of the Times Interest Earned ratio. The borrower does not only pay interest but is also obliged make payments towards the principal. A ratio of one or above is an indication that the company generates sufficient earnings to completely cover its debt obligations.

2.12.18 LEVERAGE RATIOS

Creditors normally prefer business owners to take steps that would secure their margin of safety. Management on the other hand need flexibility in in terms of dealing with risk by multiplying return on equity offered by debt. This group of ratios calculates the proportionate contributions to the business by both shareholders and creditors. However, it should be noted that although leverage can magnify earnings it exaggerates losses.

2.12.18.1 Equity Ratio

Equity Ratio = Common Shareholders' Equity /Total Capital Employed

This ratio shows how much of the total capital employed is from the shareholders or owners of the business. Residual owners supply slightly more than 50% of total capital employed. Equity ratio measures the proportion of total assets that are financed by shareholders as opposed to creditors.

2.12.18.2 Debt to Equity Ratio

Debt: Equity Ratio =Debt + Preferred Long-Term /Common Stockholders' Equity

A low ratio indicates high degree of protection on creditors. In other words, creditors have a sense of security in that the owners funds can absorb potential loses of capital and income. A high ratio on the other hand denotes less protection for creditors.

Total Debt to Tangible Net Worth

If the business is expanding, the distributive source of funds used to finance the expansion can be traced using the total debt to tangible net worth ratio. Tangible net worth is most commonly a calculation of the net worth of a company that excludes any value derived from intangible assets such as copyrights, patents and intellectual property.

2.12.18.3 Debt Ratio

Debt Ratio =Current + Long-Term Debt /TA

A low ratio is good as far as creditors are concerned but management may produce a high ratio through financial leverage. Debt ratio can be interpreted as the proportion of a company's assets that are financed by debt.

2.13 CASH CONVERSION CYCLE

Cash plays a pivotal role in an organisation because it supports almost all activities in the organisation. In times of distress cash cushions companies and helps them to capitalise on existing opportunities (Tsai, 2007). According to Enqvista et al (2014) another important measure of working capital management is the cash conversion cycle (CCC). It measures the length of time between a company's expenditure for the procurement of raw materials and the collection of sales of finished goods known as the CCC. This measure of working capital management in this study will be adopted as our own. The business must strive to shorten the CCC in order to reach optimal levels that meet its requirements (Enqvista et al, 2014). According to (Brigham and Earnhardt, 2005), the CCC can be shortened through the following ways:

1. Inventory conversion period reduction through processing and selling goods more quickly
2. Speeding up collections by reducing the receivables collection period
3. Slowing down the firm's own payments by lengthening the payables deferral period

A short CCC indicates quick collection of receivables and delays in payments to suppliers. This is associated with profitability given that it improves corporate efficiency in its use of working capital. Low inventory levels, tight trade credit policies and utilizing obtained trade

credit as a means of financing can increase risks of inventory stock-outs, decrease sales stimulants and increase accounts payable costs by forgoing given cash discounts. (Enqvista, et al., 2014) further mentions that managers must always consider the trade-off between liquidity and profitability when managing working capital. (Tsai, 2007), argues that the CCC is one of the popular supply chain performance measures. It contains three elements:-

a) Inventory days
b) Receivables days
c) Payables days.

The three cycle times mentioned above vary from industry to industry but it is dependent on the organisation's influence in the market with respect to its suppliers and customers. Three main factors have significant influence on the CCC of the organisation:

a) The credit terms for AR to its customers and the pattern of early collection of AR.
b) The lead-time production and delivery and the timing of cash outflows.
c) The credit terms for AP from its suppliers and the pattern of early payment of AP.

Table 4: Financial ratios relevant to overtrading

	Ratio	Components	Degree
1.	Current ratio	Current assets to current liabilities	Low
2.	Quick Assets ratio	Quick assets to quick ratios	Low
3.	Working capital turnover ratio	Net working capital to net sales	Low
4.	Trading ratio	Net worth to net sales	Low
5.	Inventory turnover ratio	Average inventory to net sales	High
6.	Debtors – creditors ratio	Sundry debtors to sundry creditors	Low
7.	Long-term finance – net sales ratio	Net worth and long term debt to net sales	Low

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2.14 INVESTMENT IN WORKING CAPITAL

According to (Kumar, 2011), investment in working capital simply means to invest money in liquid and current assets. Working capital is a vital aspect in any company when seeking to operate fixed assets more efficiently. In working capital investment, money is kept in cash and is invested in the form of inventory, debtors and short-term securities. The value of investments must be greater than current liabilities.

The importance of investment in any industry is very high do to the fact that investments assist the company in preparing for financial constraints in the future. A company could invest in assets or save cash for inevitable times. Investments are there to generate other income for the company, which gives it liberty of getting other income and not solely relying on income from clients. Deducting a certain percentage from each payment that the company receives and allocating it to savings would be of great use to the business.

Acquiring plant and leasing it out when it is not in use is another way of generating other income. This results in the company to be in a better position to be able to settle its debts.

2.15 INTEREST COVERAGE

Interest expense is one of the aspects in cash flow management, which the company can easily manage. Interest is incurred due to late payments to suppliers or creditors. If the company makes sure that it has enough cash on hand, then interest paid will be decrease. This will result in an increase in cash flow. The findings by Filbeck and Kruger (2005) is that the changes in interest rates has an effect on working capital management, as the organisation have lesser probability to make payments early when interest rate increase. This will result in account payable been stretched.

2.16 TAXATION

According to Ugochuku and Tobechukwu (2014), the standard form of contract provides for withholding tax, which is deducted at source before interim certificates, and claims are paid to the company. This tends to reduce the amount of working capital available to him

and he may be required to look elsewhere to make up the shortfall if he has to have adequate working capital for the project. According to Ugochuku and Tobechukwu, (2014), the public sector client is required, under taxation law of Nigeria, to retain ten to fifteen percent of value of a contractor's earned certificate to cover the contractor's payment of withholding tax and value added tax (VAT). Therefore, instead of paying his tax after the end of the year, the company is taxed at source and often before the end of the year. Ugochuku and Tobechukwu (2014) further explains that the repercussion is that the company is prevented from utilising the value of the tax to fund his working capital requirement and he resorts to borrowing from external source of credit to fund his current liabilities shortfall.

One of the other important aspects when dealing with cash flow management is taxation. In the tendering process, VAT is the only tax liability catered for. Therefore, it is the responsibility of the company to make sure that other taxes due to SARS like employee tax and income tax is provided for accordingly. Taxation is paid with the profits that companies make after completing projects, which in turn reduces the profits that the company accumulates. Investments play a huge role because they relieve the company's financial constraints

Effective working capital management will help businesses to reduce their reliance on external financing. They will instead use the funds released for further expansion thereby improving the company's financial flexibility. Moreover, the company can reduce its financing costs as less external finance is used on working capital requirements.

2.17 REDUCING IMPACT OF OVERTRADING

Ward (2010) suggested steps in order to reduce the impact of over-trading. The company should continue with the growth policy and take steps to obtain the correct type of long-term financing. For the non-current assets that cannot generate sufficient income and are not critical to the business, the organisation can sell for cash to finance working capital.

Pham(2013) mentions that the working capital policy should be examined with a view of reducing the trade receivables and inventory-holding period and also increasing the trade payable period without harming the relationship with the prices/discounts agreed with the

suppliers. The organisation should to review the growth plan. If the organisation is growing too fast with a limited financial capacity, it can get financial troubles.

2.18 CHAPTER SUMMARY

The chapter highlighted the challenges that SMEs face and what causes the increase in failure of many companies and that includes finances as well as the ability to run and manage these companies. This chapter addressed four components of working capital management, which comprised of cash management, inventory management, accounts receivables and accounts payables management. It was noted that working capital plays a vital role in the survival of business enterprises.

3 CHAPTER 3: RESEARCH DESIGN AND METHODS

3.1 INTRODUCTION

This chapter presents the research design and methodology, including sampling, population, data collection, ethical considerations and data analysis adopted throughout this research. The research methodology defines the research activity, procedures, scales of measurement and what the outcomes of the study reveal about the problem identified (Pérez, 2011). Research methodology specifies the steps taken to find out the result of a given problem on a specific matter that is also referred as a research problem (Industrial Research Institute, 2010). A quantitative methodology was used in this research.

3.2 RESEARCH DESIGN

Creswell (2014) defines research design as the overall strategy that a researcher chooses to integrate the different components of a study in a coherent and logical way. This strategic practice enables the researcher to address the research problem effectively. The research design ensures that the evidence found enables the researcher to answer the research questions as clearly as possible. A research design is a logical task carried out to ensure that the evidence collected allows the researcher to answer questions or test theories.

Bryman and Bell (2011) state that the research design assists in the provision of research framework for data analysis and data collection. Moreover, Cooper & Schindler, (2011) submit that research design conveys the structure of the research problem or the framework, organisation or configuration of the relationships among variables of a study, and the plan of investigation used to obtain empirical evidence on those relationships.

Burns and Grove (2012) state that designing a study helps researchers to plan and implement the study in a way that assists them obtain the intended results, thus increasing the chances of obtaining information associated with the real situation. This study used a

quantitative research design to identify, analyse and describe factors contributing to overtrading as a major determining factor in the decline of SMEs in Mafikeng area.

3.2.1 QUANTITATIVE RESEARCH

According to Brynard & Hanekom (2006: 37), quantitative methodology has to do with analytical research and intends to reach a universal statement. Lancaster (2005) defines quantitative research as data, which one is able to express numerically or classify by some numerical value. Lancaster (2005) further mentions that quantitative data is frequently thought of as being more objective and scientific than qualitative data. The characteristics of quantitative research are as follows:-

- It seeks the facts or causes of a social phenomenon.
- It is an unmistakable and controlled measurement,
- It is outcome orientated.
- It assumes a stable reality.
- It is objective.
- It is particularistic.
- It is ungrounded and it is verification orientated.

This study quantified factors identified as contributing to overtrading as a major determining factor in the decline of SMEs in Mafikeng. Quantitative data was transposed into numbers in a formal, objective, systematic process to obtain information and describe variables and their relationships (Bryman and Bell, 2011).

The quantitative approach was relevant for this study and chosen because its findings on the selected sample reflects a more accurate picture of the overall population as noted by Johnston and Vanderstoep (2009).

3.3 RESEARCH POPULATION AND SAMPLE

3.3.1 POPULATION

Population is defined as the total collection of samples that is available for observation and have common attribute(s) which research hypothesis refers (Bryman and Bell, 2011). Population is once more defined as a collection of objects, events or individuals having some common characteristics that the researcher is interested in studying. The population encompasses the total collection of all individuals, cases or elements about which the researcher wishes to draw conclusions.

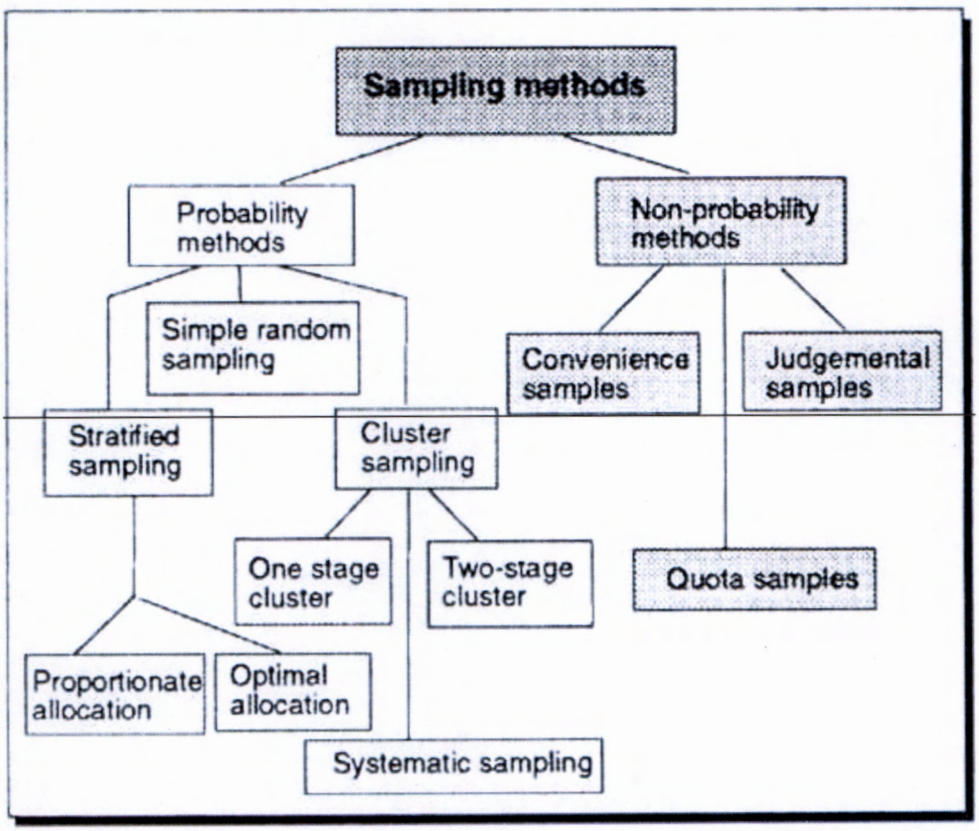
It should be noted that it is practically impossible to study the whole population. Hence, sampling is necessary to circumvent the problem. Sampling enables the researcher to generate outcomes from a sample that are representative of the whole population but what is vital is for the researcher to be able to select the most relevant sample in order to achieve the intended research objectives. According to Small Enterprise Development Agency (SEDA) in 2016 there were approximately 2 251 821 SMEs in South Africa. SEDA states that there are 112 856 SMES in Mafikeng. Therefore, the targeted population is 112 856 SMME's in Mafikeng.

3.3.2 SAMPLING

LoBiondo-Wood and Haber (2014) define a sample as a portion of the population that is chosen represent the entire population. This means that the larger class of events is known as a population, which is a complete set of observations and the smaller class is a sample. Creswell (2014) indicates that when the population is too large for the researcher to attempt to survey all its members, a small but carefully chosen sample is then used to represent the population. According to Leedy and Ormrod, (2014), the sample of 100 is sufficient for a total population of 112 856 as the case in the Mafikeng municipality where this study was conducted. The study therefore surveyed 100 of the 112 856 SMMES in Mafikeng.

3.3.3 SAMPLING TECHNIQUE

Probability and non-probability sampling are two general sampling approaches. Probability sampling enables individuals in the population to have a chance of being included in the sample, and the mathematical probability that any member will be selected can be calculated (Chatuecedi, 2013). The researcher used non-probability sampling in this study. According to Etikan (2016), non-probability sampling is the probability that any element which will be included cannot be specified. The researcher used purposive sampling for this study because the population in this study was relatively huge (Etikan, 2016). Etikan et al (2016) further mention that in a purposive sampling, the researchers rely on their experience, ingenuity and previous research findings to deliberately obtain units of analysis in such a manner that the sample they obtain may be regarded as being representative of the relevant population. For this reason, the researcher only conducted interviews with the owners of the companies or the heads of the finance department.



3.4 VALIDITY AND RELIABILITY

Validity explains the ability of the researcher to describe and interpret what he found out in the research study without distorting the findings of the participants intentions (Dahlia, Gregg & Van, 2011:106). Truthfulness, fairness, and honesty were established in this study.

Reliability measures the degree of consistency of the research process (Gratton and Jones, 2011:92). Reliability invites dependability, which makes sure that the processes of data collection were accurate and relevant data attributed to the research questions
In this study, the researcher carefully formulated the questionnaires to ensure that they gave a reliable result; also it was handed to human resource experts to ensure that the questions measured the required attributes.

3.5 QUESTIONNAIRES

Gray (2011:352) stated that questionnaire is a tool that is used to collect information in an empirical research. A questionnaire is a list of questions that represents the researcher's view or perception to the study (Bastic & Matalon, 2007:82). Furthermore, questionnaires have advantages as compared to other data collection tools. Bastic and Matalon (2007:82) and Maree (2010:157) maintain that questionnaires are relatively low in costs and are an easy method used to gather data from participants.

A view from to O'Leary (2004: 154-155) is that when comparing the questionnaire to other research techniques, it has significantly more advantages because the distribution of the questionnaire is comparatively cost-effective in terms of time, money as well as travelling. The other advantage is that the researcher is able to send questionnaires to a broader geographical area for the participants to complete questions when it is convenient to them. The use of questionnaires gives individuals a chance to respond anonymously and openly, particularly on controversial issues (Nong, 2007:49).

Ravhura (2006) views questionnaire as an efficient and effective way of data collection because they could be distributed to larger population at the same time. The responses given by the participants over the questionnaire are easily summarized and quantified. It becomes easy for the researcher to use large samples and obtain large volume of data

when applying a questionnaire technique in his or her research. The respondents to this questionnaire will be chief executive officers as well as financial managers

In this study, (100) questionnaires were constructed and administered to the business owners in Mafikeng. The choice for this method assisted in formulating questions that were easy for the respondents to answer, easy to code and to analyse.

3.5.1 THE QUESTIONNAIRE ITEMS

The questionnaire was based on the objectives of the study as outlined in chapter 1. The structure of the questionnaire was in four sections, namely, section A, section B, section C and Section D and attached as "Appendix" of the research project. The first, labelled Section A which assessed the respondents' knowledge of working capital management and if it is utilised efficiently. Section B addressed the strategic models used to curb overtrading. Section C addressed the working capital management policies and section D addressed the effective working capital management as well as the survival of SMEs

3.6 ETHICAL CONSIDERATIONS

According to Maree (2010:41), the researcher must observe some ethical considerations in the process of research. O'Leary (2010:41) asserts that the researcher must observe what is acceptable and what is not acceptable in the process of conducting a research. Some of the ethics, according to O'Leary (2010:41), are:

- Anonymity and confidentiality of the respondents' identity;
- Consent of the respondent;
- Informed protection against harm.

Ethical considerations were followed as provided in the research ethics of the university. According to Flick (2006), research has become an ethical issue on a broader scale and led to some countries developing codes of ethics and established ethics committees to address ethical issues. This was aimed to defend the interests of the participants in the

study and avoiding unethical matter that may arise from data that is manipulated. The participation of respondents in the study was voluntary and no one was forced to answer questions.

4 CHAPTER 4: FINDINGS, ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter analyses different outcomes from the statistical analysis of the data collected. The data was collected using questionnaires as it was the most relevant method in this regard. The questions asked were split into four sections: section A focuses on working capital management, section B focuses on strategic models used to curb overtrading, section C is about working capital management policies and section D addresses the effectiveness of working capital management and the survival of SMEs.

In this study, 100 questionnaires were distributed randomly to companies in the Mafikeng area. Of those distributed, 96 were received back with one spoiled, and three did not return the questionnaires. However, the number of respondents who returned the questionnaires was representative of the population. The district has a population of 112 856 SMEs who were assessed in terms of the SEDA 2016 report. Statistical Package for Social Sciences (SPSS22) was used to carry out the statistical analysis. The data was captured first in a spreadsheet in tabular format with variables extrapolated from the questionnaire. SPSS was then used to extract results and present them in tables and graphical format.

Section A: WORKING CAPITAL MANAGEMENT

Table 1: Working capital management

Key: SA = Strongly Agree, A = Agree, U= Unsure, D = Disagree, SD = Strongly Disagree

Item No.	Item	SA(%)	A(%)	U(%)	D(%)	SD(%)
1	I am able to pay my creditors on time (N = 96)	14.58	18.75	5.21	36.46	25
2	My debtors pay me on time (N = 96)	1.04	13.54	1.04	53.13	31.25
3	I often have to use my overdraft facility in order to meet my monthly obligations (N = 96)	18.75	48.96	8.33	19.79	4.17
4	We are experiencing an increase in income but the current level of cash cannot sustain it (N = 96)	5.21	57.29	13.54	17.71	6.25
5	The company often shows low debt recovery over credit payment (N = 96)	9.38	57.29	15.63	15.63	2.08
6	I frequently experience cash flow problems (N = 96)	25	61.46	1.04	7.29	5.21
7	Majority of my profits is part of debtors work in process (N = 96)	39.58	34.38	4.17	20.83	1.04
8	I am able to predict future cash needs (N = 95)	7.37	26.32	26.32	33.68	6.32
9	My company is financed through both equity and debt (N = 96)	2.08	14.58	18.75	40.63	23.96
10	I use short-term financing sources as long-term sources through the renewal of credit lines (N = 95)	8.42	35.79	21.05	32.63	2.11
11	I receive cash discounts from my creditors (N = 96)	19.79	20.83	5.21	46.88	7.29
12	I have more current assets than current liabilities (N = 96)	2.08	13.54	4.17	50	30.21

Item No.	Item	SA(%)	A(%)	U(%)	D(%)	SD(%)
13	My debtors take longer to pay (N = 93)	25.81	60.22	1.08	9.68	3.23
14	The business is making more sales than what can be sustained by its assets (N = 96)	10.42	43.75	16.67	23.96	5.21
15	Owner's equity is sufficient to sustain sales volume (N = 96)	1.04	20.83	19.79	55.21	3.13
16	I am able to pay my short term obligations (N = 96)	36.46	18.75	3.13	36.46	5.21
17	I often evaluate the credit policies in the company (N = 96)	9.38	19.79	8.33	44.79	17.71
18	The mark-up on goods normally covers my expenses (N = 96)	10.42	57.29	16.67	11.46	4.17
19	I am able to turn my assets quickly into cash (N = 96)	3.13	17.71	20.83	51.04	7.29
20	I am able to cover expenses without additional financial aid (N = 96)	13.54	22.92	1.04	42.71	19.79
21	The company is experiencing little or no growth in reserves (N = 96)	6.25	56.25	11.46	15.63	10.42
22	There is an unusual increase in trade payables / creditors (N = 96)	15.63	61.46	9.38	12.5	1.01
23	There is a rapid decrease in cash balances and its equivalents (N = 96)	19.79	61.46	8.33	10.42	0
24	There is a lot of inventory on hand (N = 96)	20.83	52.08	7.29	14.58	5.21
25	The interest charges payable are increasing rapidly (N = 96)	13.54	55.21	17.71	11.46	2.08
	Average Response (%)	**13.58**	**38.02**	**10.65**	**28.58**	**9.17**

4.2 ANALYSIS A

Based on the responses presented in Table 4.1, there is evidence that 36.46% is not able to pay their creditors on time whereas 53.13% are not being paid by their debtors on time. If the client fails to pay on time then creditors suffer and in turn do not receive payment timeously. The respondents end up using overdraft facility in order to meet monthly obligations and that means that their debt increases. Again, 48.96% agree that they are dependent on overdraft facilities for financial assistance, which means their liability increases on a monthly basis as they have to spend extra money on the interest on overdraft facility. The companies are not able to cover their expenses without additional funding.

According to the findings, the companies are experiencing a rapid increase in income that is not commensurate with the level of cash generated. Steyn Bruwer and Hamman (2007) define overtrading as a rapid increase of revenue at a pace that cannot be supported by its working capital. According to the findings, 57.29% experience a low debt recovery, which means that they frequently experience cash flow problems and these are the real signs of overtrading. There is not enough money at hand to take care of the expenses incurred by the company since the greater portion of profits is part of uncollected debts and work in process. Financial statements would indicate a high increase in turnover as well as high profits but the bank balance would be inadequate to take care of the day-to-day running of the business. This is a problem that eventually leads to the failure of many companies in Mafikeng.

According to the findings, 33.68% of the respondents are unable to predict their cash needs meaning that they are not able to budget how much they need on a monthly basis. Findings reveal that the companies rarely receive cash discounts because they never pay their creditors on time. Taysom (2011) identifies this as one of the signs that a company might be overtrading. Kothalawala (2011) further supports this by mentioning that companies find it difficult to hold enough working capital, which would ensure that the company runs smoothly. According to Ugochuku and Tobechukwu (2014), the inability to accurately predict cash flows has made it difficult to secure financing.

Findings reveal that 17.71% of the respondents do not experience an increase in income, which is not in line with cash generated whereas 57.29% agreed that they do experience such. Further, 57.29% of the respondents revealed that their companies often show low debt recovery over credit payments. This is supported by Kehinde (2011) who states that some companies indicated that they took long to recover debt. This means that their clients take too long to pay and in return, they are unable to pay their creditors. Majority of profits are in uncollected debts and this statement is supported by 39.58% of the respondents who strongly agree as well as 34.38% of those whose who agree. This situation has an impact on cash flow because the company would reflect high profits on financial statements but not have cash at hand. A significant 33.68% of the respondents are able to predict future cash needs whereas 26.32% are unsure. This indicates that there are no proper budgeting or forecasting techniques used to assist in this regard.

A total of 40.63% of the respondents revealed that their companies are not financed through a combination of equity and debt. They either choose one of the two and in most cases they finance their enterprises through debts. Findings also reveal that 46.88% of the respondents do not receive cash discounts from their suppliers. The only way to receive discounts is if you settle early or on time. Since these companies receive late payments, they do not pay their creditors on time. Half of the respondents, which is 50%, revealed that they have more current liabilities than current assets meaning such that they cannot pay their current liabilities with their current assets, which is a sign of liquidity problems. A significant 60.22% of the respondents further indicated that they have debtors that take longer to pay; hence, they are not able to turn their assets quickly into cash. On the other hand, 51.04% of the respondents revealed that they cannot turn their assets quickly into cash.

According to findings, 57.29% of the respondents revealed that their mark-up on goods normally covers for expenses whereas 11.46% disagree. From the data, 42.71% of the respondents were not able cover expenses without additional financial aid. They resort to overdraft facilities or take up loans at financial institutions. Findings revealed that 56.25% of the respondents are experiencing little or no growth in reserves, meaning that there is no saving or investment taking place. A total 61.46% of respondents revealed that there is an unusual increase in trade payables as well as a decrease in cash balances and its equivalents. Since clients take longer to pay, creditor liabilities are carried over for around

two or three months and this means that the liability increases. Once the client pays, the money goes straight to the creditors and therefore cash balances decrease rapidly. At times, the cash received is not enough to cover all expenses, which is a sign of overtrading.

Cash discounts assist in saving cash for the company and that money could be set aside as reserves for the company. Paying creditors on time also reduces interest paid liability meaning that more money could be put into reserves. Findings also reveal that the companies do not often evaluate the credit policies in the company (44.79%). A total of 61.46% of the respondents admit to experiencing a rapid increase in trade payables as well as a rapid decrease in cash balances. This is because clients do not pay on time, which leads to creditors increasing and accumulating. When they are finally paid, they have to pay liabilities of previous months. This accounts for the 55.21% of the respondents who admit to experiencing an increase in interest charges due to not paying the creditors on time.

Findings revealed that there is a lot of inventory on hand, of which 52.08% of the respondents agree. This is a sign that there is poor inventory management controls in the companies. The use of models such as the Economic Order Quantity (EOQ) assists in terms of reducing total holding and ordering costs. Another problem is that the companies keep a lot of inventory on hand which leaves them at a risk of their inventory being obsolete or being damaged. This also indicates that there is lack of inventory management in these construction companies. The companies show little or no growth in reserves meaning that they are not able to save money. These companies show signs of poor working capital management, which is a major cause of overtrading.

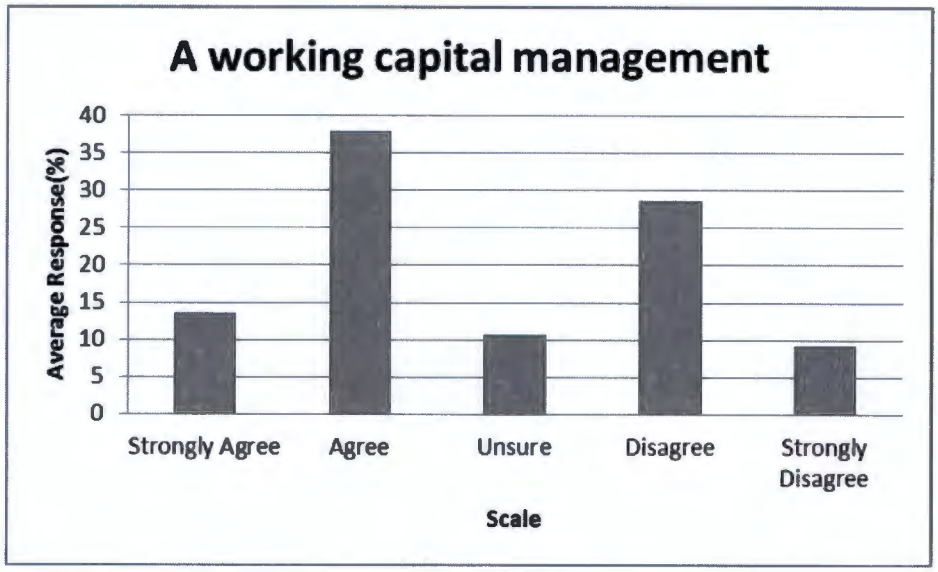


Figure 1: A working capital management

SECTION B: STRATEGIC MODELS USED TO CURB OVERTRADING

Table 2: Strategic models used to curb overtrading

Key: SA = Strongly Agree, A = Agree, U= Unsure, D = Disagree, SD = Strongly Disagree

Item No.	Item	SA(%)	A(%)	U(%)	D(%)	SD(%)
26	My company finances a part of its permanent current assets with short-term finance (N = 96)	12.5	63.54	13.54	9.38	1.04
27	My company uses long-term finance to finance both permanent and some proportion of fluctuating current assets e.g. Issue of shares, term loans from banks, retained earnings (N = 95)	8.42	60	3.16	20	8.42
28	My assets are financed by a debt instrument of almost the same maturity (N = 96)	19.79	62.5	1.04	15.63	1.04
29	My accounts receivables constitutes a major portion of current assets (N = 96)	20.83	59.38	5.21	13.54	1.04
30	Debtor's collection period do not normally exceed the stipulated period by 10 - 15 days (N = 96)	1.04	19.79	15.63	45.83	17.71
31	The company often seeks more external financing (N = 95)	26.32	60	1.05	9.47	3.16
32	The company has debt that exceeds invested capital (N = 96)	27.08	53.13	3.13	12.5	4.17

Item No.	Item	SA(%)	A(%)	U(%)	D(%)	SD(%)
33	Average return is continually higher than the gross profit rate. (N = 95)	12.63	55.79	8.42	14.74	8.42
34	My business total liabilities exceed its tangible net worth (N = 96)	19.79	34.38	16.67	21.88	7.29
35	A business is handicapped with heavy interest charges (N = 95)	21.05	55.79	4.21	15.79	3.16
36	I am able to invest in assets and save cash for inevitable times (N = 96)	22.92	28.13	4.17	40.63	4.17
37	The company strives to reduce costs of holding cash (N = 95)	7.37	29.47	7.37	51.58	4.21
38	The company is able to estimate its cash requirements accurately. (N = 96)	19.79	27.08	5.21	40.63	7.29
39	The business knows the opportunity cost involved in holding cash (N = 96)	18.75	51.04	7.29	21.88	1.04
	Average Response (%)	**17.02**	**47.14**	**6.86**	**23.82**	**5.15**

4.3 ANALYSIS B

Findings revealed that 63.54% of the respondents finance a part of its current assets with short- term finance. This was accounted for by 60% of the companies in Mafikeng that use long-term finance for both long term assets as well as current assets. This means that with the money they receive, they also have to re-pay liabilities incurred. According to de Almeida and Eid (2014), companies used short- term financing as a long-term source through constant renewal of credit lines. This also indicates signs of cash flow mismanagement. Evidence lies in the fact that 59.38% of the respondents indicated that their accounts receivables constituted a major portion of current assets. This means that the company's money is tied in debtors and therefore this issue escalates the problem of cash flow.

Findings also revealed that 45.83% of the respondents disagreed, which means that outstanding receivables do exceed credit terms. According to findings, 55.79% revealed that the gross profit is continually lower than the average returns. In this case, 21.05% of the respondents strongly agreed that their business was handicapped with heavy interest charges. This is followed by 55.79% who also agree. This is a problem because interest

charges reduce the company's profits. During the tendering process, the bill of quantities does not take into consideration the interest charges when payments are late.

A total of 40.63% of the respondents are not able to invest in assets and save cash for inevitable times whereas 22.92% are able to invest in assets and save cash. This indicates that there is awareness in promoting savings and investments in the industry even though it is growing slowly. Findings also revealed that 53.13% of the respondents have debt that exceeds their invested capital, meaning they do not have sufficient money to pay their debts and therefore rely on financial aid. Ukaegbu (2014) explains this in a meaningful fashion that lends credibility to the significance of invested capital. From the data, 40.63% indicate that they are not able to invest in assets and save cash for inevitable times.

Findings also indicate that no effort is made by companies to reduce the costs incurred by owning cash or maybe they do not have sufficient knowledge on how to reduce such costs. A significant 51.04% of the respondents know of the opportunity cost involved in holding cash but they do not seem to be using the knowledge to their advantage. This could be due to lack of proper systems or inability to use financial models. Correia et al (2010) explains financial policies and shows clearly how to use them efficiently. Figure 4.2 graphically illustrates how strategic models could be used to curb overtrading.

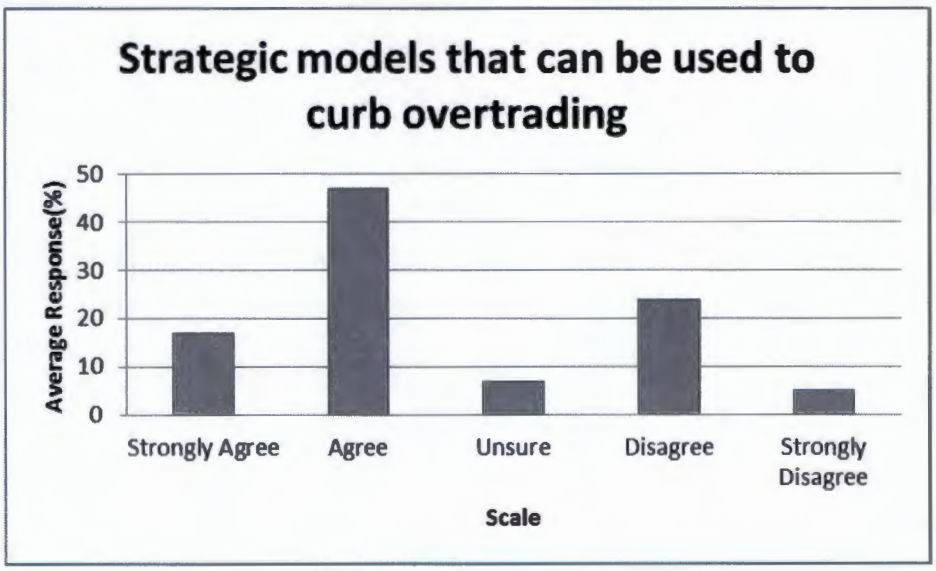


Figure 2. Strategic models used to curb overtrading

SECTION C: WORKING CAPITAL MANAGEMENT POLICIES

Table 3: Working capital management policies

Key: SA = Strongly Agree, A = Agree, U= Unsure, D = Disagree, SD = Strongly Disagree

Item No.	Item	SA(%)	A(%)	U(%)	D(%)	SD(%)
40	A lot of money is tied up inventories and debtors (N = 94)	19.15	46.81	1.06	22.34	10.64
41	There is an availability of emergency capital on more lenient terms (N = 94)	4.26	20.21	8.51	56.38	10.64
42	The company is able to control the inflow of cash (N = 94)	11.7	18.09	3.19	50	17.02
43	The company is able to control outflows of cash (N = 94)	4.26	18.09	1.06	41.49	35.11
44	The company is able to adequately use cash surplus (N = 94)	5.32	15.96	17.02	42.55	19.15
45	The company is able to maintain inventory at an optimum size (N = 94)	4.26	21.28	18.09	39.36	17.02
46	I am able to build good relationship with customers and suppliers and thus receive favourable credit terms (N = 94)	18.09	30.85	4.26	35.11	11.7
47	I am able to keep a good track record of past dealings with the suppliers (N = 93)	25.81	31.18	3.23	33.33	6.45
48	The company's long term liabilities exceed its net working capital (N = 93)	7.53	35.48	29.03	25.81	2.15
49	The value of investments in my company is greater than its current liabilities (N = 94)	8.51	27.66	6.38	50	7.45
50	The business is able to make regular payments for a specific period. (N = 94)	6.38	20.21	8.51	47.87	17.02
	Average Response (%)	**10.48**	**25.98**	**9.12**	**40.39**	**14.03**

4.4 ANALYSIS C

Findings in Table 3 reveal that the respondents are not able to control the inflow as well as the outflow of cash in the company. Sinha (2016) supports this statement, mentioning that companies need to decide carefully how much should be converted into cash. Cash management addresses the control of the inflow as well as the outflow of cash. This is due to the fact that because there are no proper systems as well as policies in place that assist in such decisions. A total of 46.81% of the respondents admit that their income is tied up in inventories and debtors. According to Chad (2016), companies hold large investments in

fixed assets without enough working capital. This means that either they buy too much inventory or inventory moves slowly. This accounts for the 39.36% of the respondents who are not able to maintain inventory at an optimum level. They are also not able to turn their debtors into cash quickly, meaning they do not receive their payment on time. A significant 17.02% of the respondents strongly disagreed, whereas 50% disagreed that there is an availability of emergency capital on more lenient terms. Emergency capital is money that is saved or simply the reserves of the company.

Findings revealed that 50% of the respondents were not able to control the inflow of cash. On the other hand, 41.49% were not able to control the outflows of cash. One needs to know how much money they are receiving and how that money is spent. Of the total respondents, 35.11% were not able to maintain good relations with suppliers and customers and therefore they did not have access to good credit terms. On the other hand, 30.85% were able to maintain good relations with creditors. This could be explained by considering that they have been using the suppliers for the longest of periods so they would be given favourable credit terms in good faith. Findings also revealed that 50% of the respondents disagreed that their value of investments in the company was greater than its current liabilities. This boils down to the problem of companies not being able to save or invest.

The companies are not able to maintain good relations with the suppliers and customers and therefore do not have access to favourable terms. According to (Kothalawala, 2011), companies need to maintain a good working relationship with its customers as well as suppliers in order to have credit terms, which will be favourable to them. Of all the respondents, 50% revealed that the value of investments in their companies is not greater than its current liabilities meaning that they do not save a lot, money comes and goes. The companies are not able to make regular payments over a specific period, with a significant 47.87% indicating this quagmire. This is caused by cash flow problems and lack of efficient management of working capital (Ssekoto, 2007). Findings further reveal that 35.48% of the respondents agree that their long-term liabilities exceed net working capital whereas 25.81% do not agree. Only 29.03% of respondents was not sure. Figure 4.3 graphically illustrates the working capital management policies (Kehinde, 2011).

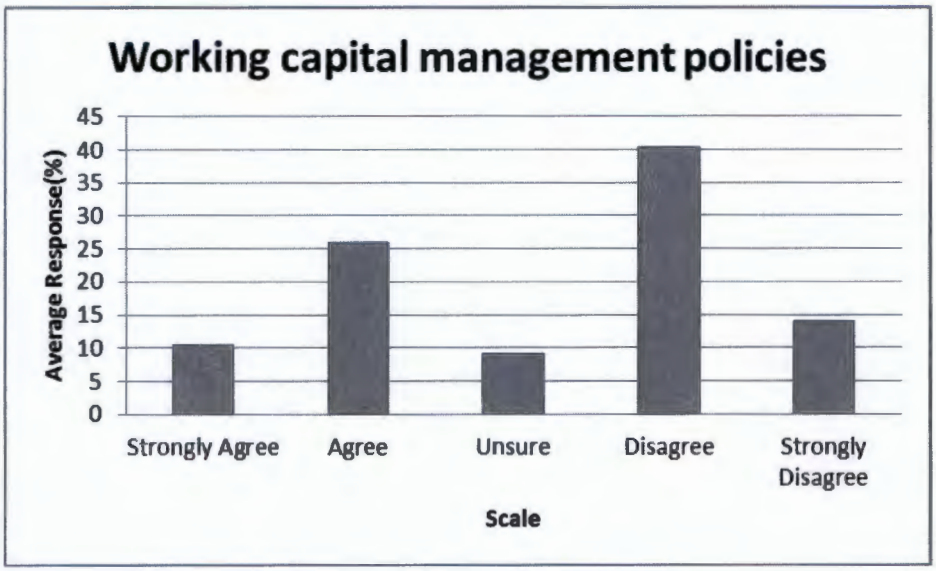


Figure 3: Working capital management policies

SECTION D: EFFECTIVE WORKING CAPITAL MANAGEMENT AND THE SURVIVAL OF SME'S

Table 4: Effective working capital management and the survival of SMEs

Key: SA = Strongly Agree, A = Agree, U= Unsure, D = Disagree, SD = Strongly Disagree

Item No.	Item	SA(%)	A(%)	U(%)	D(%)	SD(%)
51	More profits are generated when cash discounts are offered (N = 92)	32.61	65.22	1.09	1.09	0
52	Inadequate working capital is harmful for the company (N = 92)	25	61.96	6.52	6.52	0
53	The company has sufficient funds to meet the day-to-day obligations of business operations (N = 94)	14.89	21.28	9.57	44.68	9.57
54	Cash flow problems result in companies being insolvent (N = 94)	23.4	44.68	5.32	11.7	14.89
55	The company is able to convert financial securities into cash while maintaining the same transaction cost (N = 94)	6.38	10.64	5.32	54.26	23.4
	Average Response (%)	**20.46**	**40.76**	**5.56**	**23.65**	**9.57**

4.5 ANALYSIS D

Of the total respondents, 65.22% agree that cash discounts generate more profit for the company whereas 32.61 % strongly agree. This means that these companies are aware that cash discounts generate more profit but they do not have the proper tools in place, which would enable them to achieve what they wish. The respondents are also aware that inadequate working capital management is harmful for their companies and could hamper the company's lifespan because cash flow management is the most crucial aspect of any business (Ukaegbu, 2014). Sinha (2016) also supports this statement.

Not any company can ever run efficiently and effectively without cash flow. According to Sinha (2016), working capital is described as the life-blood of a company. Working capital needs to be maintained at an adequate level (Sinha, 2016). Most companies do not have sufficient funds to meet the day-to-day obligations of the business and this observation is supported by 44.68% of the respondents. A little less than a tenth of the respondents at 9.57% were not sure and another 9.57% strongly disagreed. This reflects poor cash flow management. Findings revealed that 44.68% of the respondents are aware that cash flow problems do result in most companies being insolvent. The companies are not able to convert securities into cash whilst maintaining the same transaction cost.

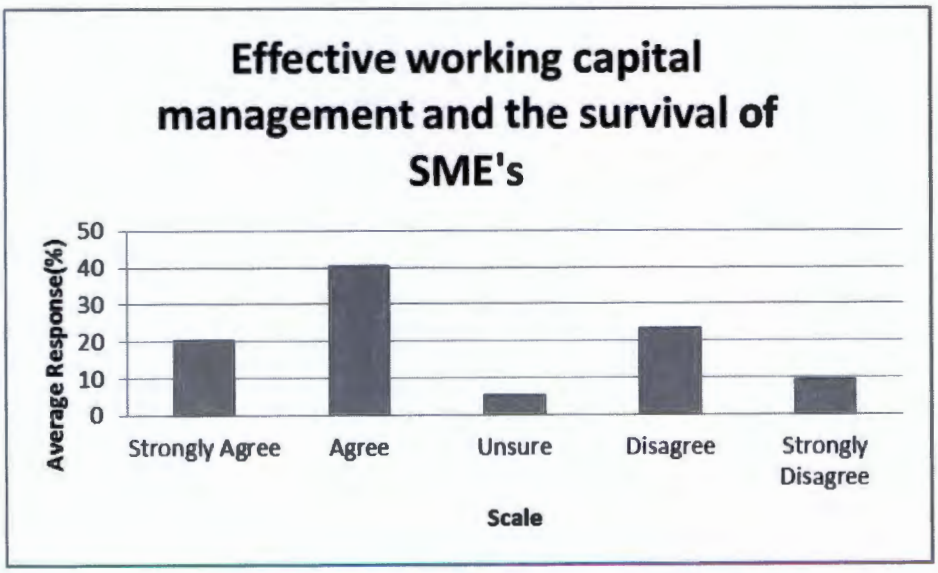


Figure 4: Effective working capital management and the survival of SME's

Section E: Reliability Analysis

Cronbach's alpha (α) reliability coefficient, whose numerical value ranges from zero to one measures the reliability (or internal consistency) of the items in the Likert scale. A high value (close to 1) for Cronbach's alpha reliability coefficient indicates good internal consistency of the items in the scale.

Table 54: Cronbach's Alpha

Dimension	Cronbach's Alpha (α)	N of Items	Variables
Section A	0.120	25	V1 – V25
Section B	0.638	14	V26 – V39
Section C	0.740	11	V40 – V50
Section D	0.528	5	V51 – V55

The Cronbach's alpha coefficients in Table 4.5 for sections B and C are close to one, suggesting that the items in the scale have relatively high internal consistency.

4.6 CHAPTER SUMMARY

In summary, the respondents' responses to the questionnaires were analysed using the SPSS tool, mainly using tables and graphs to present results. The number of respondents who participated in the study was 96 and they assisted in clearly identifying and understanding the challenges that SMEs go through as well as coming up with measures to address these issues. In the analysis of the relationship between different variables, the study only considered those that showed a level of significance that is below 0.05, and ignored those above.

5 CHAPTER 5: RECOMMENDATION AND CONCLUSION

5.1 INTRODUCTION

This chapter assesses all the discussion in the literature review as well as the outcomes of data analysis in order to make a conclusion and present some recommendations by combining the two. The study sought to evaluate overtrading as a major determining factor of corporate decline among the SMEs in the Mafikeng construction industry. This chapter also reports on whether or not the research questions were addressed. Some of the questions addressed sought to establish whether or not poor working capital management is a result of the failure of most SMEs in Mafikeng. Another important question is whether or not SMEs maintain an appropriate working capital management policy system as well as the effectiveness of working capital and its value to the survival and solvency of SMEs.

5.1 RESEARCH DESIGN AND METHODOLOGY

A quantitative method of research was decided upon as the most relevant to use is extracting perceptions of a large population. Furthermore, with quantitative method it is easy to establish the relationships between different variables and how they influence the factors of overtrading as well as determining if it is one of the causes of corporate decline in Mafikeng. The data collection instrument was a questionnaire, which was made up of fifty-five closed-ended questions. The 100 questionnaires were distributed and there was 95% response rate. The questionnaires were distributed to owners of SMEs as well as heads of the finance department in these establishments.

5.2 SUMMARY OF FINDINGS

The main intention of the study was to establish whether working capital mismanagement was the major determining factor of corporate decline among SMEs in Mafikeng. The objective of this study was to identify financial ratios which could be used to measure if overtrading existed as well as analyse the consequences of poor working capital management. This study also addressed the importance of proper cash flow management. The answers to this question were sought by asking relevant questions directed specifically at the business owners.

Findings revealed that majority of the respondents were not receiving their money from their clients on time and therefore were not able to pay their suppliers on time. Respondents had also experienced an increase in revenue, which could not be sustained by the current levels of cash. Another alarming aspect was that the majority of the respondents were unable to pay their current liabilities with their current assets and this was an indication of liquidity problems. Majority had a problem of cash flow due to cash held up in debtors and a lot of inventory on hand. The individuals agreed that working capital was important for the survival of SMEs in Mafikeng.

5.3 RECOMMENDATION

The government should work hand in hand with accounting firms and financial institutions in order to create awareness among business owners about the management of working capital as this ensures continuity, growth and solvency in SMEs. Business owners should identify which financial policies are aligned with their companies and ensure that these are implemented. There are models used in working capital management, which could assist companies to manage their working capital more efficiently and effectively. SMEs should adopt models like the economic order quantity models as well as the Baumols model such that these inform their day-to-day operations. The EOQ is used to manage inventory and ensure that companies do not purchase more inventory than what they actually require. This ensures that money is not tied up on inventory and this is likely to cash flow. The Baumols model on the other hand assists companies with cash management.

Companies should adhere to credit terms and pay suppliers on time as this helps alleviate the increase in interest charges. The capital structure of a company is of great importance because it reveals how management plans to finance its debts. Proper planning enables companies to determine the right source of funding for their companies, which would be tailored to suit the company's needs. The use of financial ratios is very important in ensuring the survival of the company. Financial ratio analysis helps companies to analyse the financial position of the company, which in turn enables management to make informed decisions pertaining to implementation of plans that improve liquidity, profitability, reordering, financial structure, interest coverage and leverage. These also assist in providing lead indications of potential problem areas.

The government should provide workshops and seminars, which address sound business practices to ensure that entrepreneurs have the basic knowledge of how to run a business. The South African Revenue Services should also hold workshops in order to educate business owners on all statutory tax compliances. It is envisaged that such workshops would assist them in not paying more than they should. This helps eliminate interest and penalty charges, which in turn improves cash flow within the companies. All business owners should go on a basic finance course in order to have basic understanding on how to handle or properly manage their finances.

Investment and savings are very important in any business. Owners should adopt the culture of investing and saving money, which they could always use when there is a cash flow shortage instead of borrowing money. There should be long-term as well as short-term investment, where short-term entails investment in working capital. Investments are there to generate other income for the company, which gives it the liberty of getting other income and not solely relying on income from clients. Deducting a certain percentage from each payment that the company receives and allocating it to savings would be of great use to the SME business. Acquiring plant and leasing it out when it is not in use is another way of generating other income. This results in the company getting into better position to settle its debts.

The above would curb poor working capital management, poor cash flow management and in turn eliminate overtrading as well as ensure the survival of SMEs in Mafikeng.

5.4 LIMITATIONS OF THE STUDY

The scope of study is limited only to companies in Mafikeng; hence the results of the study may not be applicable to other provinces. For the purpose of future research, the scope of the study ought to be extended by including all provinces.

5.5 CONCLUSION

This was a quantitative study on overtrading as a major determining factor of corporate decline among SMEs in the Mafikeng. Working capital management involves managing the firm's inventory, receivables and payables in order to achieve a balance between risk and returns and thereby contributes positively to the creation of value a firm. Investing a lot in inventory and receivables reduces the profit, whereas too little investment or aggressive working capital financing strategy increases the risk of not meeting obligations as and when they become due.

Many business owners do not care about the financial matters of their businesses. This is attributed to lack of financial literacy required in the preparation and analysis of financial statements or simply recording transactions. In some cases, the business owners are occupied in other aspects of the business such as production, sales, and purchasing as well as managing people. They mostly rely on accountants to work on finances but it is important for them to be involved since the success of the business relies on them.

One of the most critical elements of business management is financial management and within this function, asset management is of significant importance. The acquisition of assets is a crucial element in the life span of the business. Failure to have an appropriate policy on assets spells disaster for the business. The business inevitably experiences a short life span. In fact, poor financial management in most SMEs is the main underlying cause of many problems that lead to early collapse of the SMEs. Equipping business owners with proper skills on efficiently managing their companies reduces the failure of SMEs and is beneficial to the economy in the long-run.

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APPENDIX A: QUESTIONNAIRE

	SECTION A: WORKING CAPITAL MANAGEMENT	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
1	I am able to pay my creditors on time					
2	My debtors pay me on time					
3	I often have to use my overdraft facility in order to meet my monthly obligations					
4	We are experiencing an increase in income and it cannot be sustained by current levels of cash					
5	The company often shows low debt recovery over credit payment					
6	I frequently experience cash flow problems					
7	Majority of my profits is tied up in debtors or work in progress					
8	I am able to predict future cash needs					
9	My company is financed through both equity and debt					
10	I use short-term financing sources as long-term sources through the renewal of credit lines					
11	I receive cash discounts from my creditors					
12	I have more credit assets than current liabilities					
13	My debtors take longer to pay					

	SECTION A: WORKING CAPITAL MANAGEMENT	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
14	The business is selling more than can be safely financed by its assets					
15	The equity investment is sufficient in relation to the sales volume					
16	I am able to pay my short term obligations					
17	I often evaluate the credit policies in the company					
18	The mark-up on good normally covers my expenses					
19	I am able to turn my assets quickly into cash					
20	I am able to cover expenses without additional financial aiding					
21	The company is experiencing little or no growth in reserves					
22	There is an unusual increase in trade payables / creditors					
23	There is a rapid decrease in cash balances and its equivalents					
24	There is a lot of inventory on hand					
25	The interest charges payable are increasing rapidly					

	SECTION B: STRATEGIC APPROACHES THAT CAN BE USED TO CURB POOR WORKING CAPITAL MANAGEMENT	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
26	My company finances a part of its permanent current assets with short-term finance					
27	My company uses long-term finance to finance both permanent and some proportion of fluctuating current assets e.g. Issue of shares, term loans from banks, retained earnings					
28	My assets are financed by a debt instrument of almost the same maturity					
29	My accounts receivables constitutes a major portion of current assets					
30	Outstanding receivables do not frequently exceed credit terms by 10 - 15 days					
31	The company often requires additional funds to support its financial structure					
32	The company has debt that exceeds invested capital					
33	My gross profit rate is continually lower than my average return					
34	My business total liabilities exceed its tangible net worth					
35	A business is handicapped with heavy interest charges					
36	I am able to invest in assets and save cash for inevitable times					
37	The company makes an effort to reduce the costs incurred by owning cash					

38	The company is capable of predicting its cash necessities					
39	The company is aware of the opportunity cost required for holding cash					

	SECTION C: WORKING CAPITAL MANAGEMENT POLICIES	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
40	A large amount of money is locked up in inventories and debtors					
41	There is an availability of emergency capital on more lenient terms					
42	The company is able to control the inflow of cash					
43	The company is able to control outflows of cash					
44	The company is able to adequately use cash surplus					
45	The company is able to maintain inventory at an optimum size					
46	I am able to maintain good relations with suppliers and customers and therefore have access to favourable credit terms					
47	I am able to keep a good track record of past dealings with the suppliers					
48	The company's long term liabilities exceed its net working capital					
49	The value of investments in my company is greater than its current liabilities					
50	The company is able to make its cash payments at a consistent rate over a certain period of time					

	SECTION D: EFFECTIVE WORKING CAPITAL MANAGEMENT AND THE SURVIVAL OF SME'S	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
51	The availability of cash discounts increases the volume of profit for the company					
52	Inadequate working capital is harmful for the company					
53	The company has sufficient funds to meet the day-to-day obligations of business operations					
54	Cash flow problems result in companies being insolvent					
55	The company is able to change the securities that they own into cash while keeping the cost of transaction the same					