IMPACT OF LATE PAYMENT BY THE HEALTH DEPARTMENT ON SMALL, MEDIUM AND MICRO ENTERPRISES IN NGAKA MODIRI MOLEMA DISTRICT

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DECLARATION

I, the undersigned, declare that this dissertation, **Impact of late payment by the health department on SMMEs in Ngaka Modiri Molema District,** is my own work, and that all the sources I have used or cited have been indicated and duly acknowledged by means of complete references.

SIGNATURE **DATE**

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ABSTRACT

The purpose of this study is to investigate the impact of late payment by the North West Department of Health on Small, Micro and Medium Enterprises (SMMEs) rendering services in the Ngaka Modiri Molema District. Between 2007 and 2014, approximately 440 000 small businesses in South Africa closed down due to cash flow problems as a result of late payments by public sector institutions. Late payments by the North West Department of Health for services rendered by SMMEs have been a cause of concern due to its ripple effects on the survival of the SMMEs. To address the research problem, a descriptive survey research design with a review of literature combined with a quantitative approach was used. Coded questionnaires were designed and administered to a sample of 100 randomly selected SMMEs in the Mafikeng area of South Africa. In total, 84 completed questionnaires were returned and considered valid for statistical analysis. The study identified that late payments have created significant cash flow problems for the majority of the SMMEs and their impact is so severe that some of the SMMEs have closed down their businesses. Specific strategies are recommended to assist SMMEs experiencing late payment as well as for future research.

KEY TERMS: Small, Micro and Medium Enterprises, late payments, service providers, department of health, small business sector.

LIST OF ACRONYMS AND ABBREVIATIONS

Acronyms and Abbreviations	Meaning
ACCA	Association of Certified Chartered Accountants
AGSA	Auditor General South Africa
DoH	Department of Health
EU	European Union
GDP	Gross Domestic Product
IT	Information technology
NDP	National Development Plan
NWU	North-West University
PFMA	Public Finance Management Act
RSA	Republic of South Africa
SACCI	South African Chamber of Commerce and Industry
SEDA	Small Enterprise Development Agency
SMME's	Small, Micro and Medium Enterprises
SPSS	Statistical Package for Social Sciences
Stats SA	Statistics South Africa
UK	United Kingdom
ZAR	South African Rand

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CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Many government projects experiences delay in completion beyond the required contractual time frame and one of the contributing factors is late payments to the contractors and service providers (Okeyo, Rambo & Odundo, 2015:325). Late payments by the North West Department of Health (DoH) for services rendered by Small, Micro and Medium Enterprises (SMMEs) have been a cause for great concern due to its ripple effect on the survival of the SMMEs (Ansah, 2011:27). According to the monthly perfomance reports issued by Provincial Treasury in April 2017, approximately 7 211 SMMEs were not paid within the stipulated 30 days by the North West Province DoH. On the State of the Nation Address (2016/2017), former President Jacob Zuma in a direct recognition and acknowledgement by politicians pointed out that SMMEs are not paid on time. With the above context in mind, the purpose of the current study is to investigate the impact of late payment on SMMEs rendering service to the North West province DoH.

1.2 BACKGROUND TO THE STUDY

Late payments by public sector institutions for services rendered to them by SMMEs have a ripple impact, not only to the services providers but as well to all players in the contractual agreement. According to Ansah (2011:28), late payment always results in severe cash flow problems for the service provider and sometimes leads to business closure. Ansah (2011) further substantiates that the problem of late payments sometimes escalates to going for formal dispute resolution such as 'arbitration' or 'litigation' and those processes are very costly to the SMMEs and they take a long time to be resolve. In the wake of this problem, the South African Chamber of Commerce and Industry (SACCI) conducted a survey in 2013 and found that 60% of SMMEs are not paid within the stipulated 30 days by the government departments (SACCI, 2013). According to SACCI (2013), almost all of the non-paid SMMEs were facing cash flow and liquidity constraints and approximately 10% of them have permanently down-scaled operations due to late payments.

According to Okeyo, Rambo & Odundo (2015:325), timely payments by public sector institutions to service providers is critical for ensuring the continuity of providing and completing quality services within time, budget and quality specification. However, in South Africa, the problem of non-compliance with the 30 days payment terms to suppliers by the South African Treasury regulations has been identified by the Auditor General South Africa (AGSA) as one of the hindrances to economic growth (AGSA, 2017). For these reasons, there have been calls for all government departments to honour payments within the legislated 30 day period after receipt of invoices from the SMMEs rendering the services.

SMMEs constitute a critical pillar of the South African economy and society, and will continue to be so in the foreseeable future. In South Africa, there are approximately 2.8 million SMMEs that on aggregate contribute between 52% and 57% to the Gross Domestic Product (GDP) and employ more than 50% of all formally employed people in South Africa (Business Owner, 2006; Makakane, 2014:2; Von Ketelhodt & Wöcke, 2008:4). The South African Government's future growth policy and industrial policies rely heavily on the future growth of SMMEs (Von Ketelhodt & Wöcke, 2008:4). However, SMMEs are far more vulnerable to volatility in the macro-economic environment, especially cash flow constraints.

According to the Small Enterprise Development Agency ([SEDA], 2014), approximately 440 000 small businesses have closed down between the year 2007 and 2014 due to cash flow problems emanating from late payments by government departments and as such many jobs have been lost. According to Statistics South Africa ([Stats SA], 2014) one of the reasons behind the staggering unemployment rate of 27.7% in the second quarter of 2017 was due to the closure of some of the SMMEs. To alleviate this, SEDA has provided a new telephone hotline to report any late payment by SMMEs who experienced late payment from public sector institutions. Despite all these efforts, late payments practices to service providers still persist within the North West DoH.

The mandate of the DoH is to provide health services to all the people in South Africa through caring and accessible high-quality health system (Republic of South Africa [RSA], 2002). The North West DoH requires the services of SMMEs in the transportation of medicines to various clinics and hospitals, catering food services at various hospitals, purchases of stationery and the provision of security services, among others. The scourge of late payment by this department to its service providers has been a topic of debate (Ansah, 2011:28; Owolabi, 2014:197; Ramachandra & Rotimi, 2015:43).

By extension, Ansah (2011:28) argues that the problems of late payments are not only felt by SMMEs in South Africa but also in developed countries such as the United Kingdom and Australia. For example, a quarterly survey by Close Brothers Business Survey in the United Kingdom (UK) reveals that 73% of SMMEs in London, 72% in the South West and 87% in Northern Ireland also experience late payments by public institutions (SmallBusiness.co.uk: 03 October 2017). In this regard, there is a vicious cycle due to the fact that these SMMEs end up deferring salary payments, increasing bank overdrafts and paying their suppliers late in order to remain liquid.

Studies have shown that payments have many effects on project participants, as funding is the core of any economic transaction and has immediate impact on cash flows (Ramachandra & Rotimi, 2015:43). Fgure 1.1 below shows the default payments by the North West DoH in the year 2016.

Table 1.1: Effective payments for 2017 by the DoH to its service providers

	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	% as at Jan 2017
Invoices paid within 21 days			0	2038	1632	1550	1073	1453	1039	497	9.0
Invoices paid within 30 days	24	2356	2829	1547	1070	1430	1409	1039	1076	177	3.0
Invoices paid after 30 days	100	6155	4704	2818	3467	3214	3128	3269	3065	1579	29.0
Invoices not yet paid after 30 days	7511	4074	2653	1719	1851	1276	2056	2625	2690	3249	59.0

Source: DoH (2018)

From the Table 1.1, it is evident the more than half (59%) of invoices are settled after the stipulated time frame of 30 days by the national treasury. Similarly, the Treasury SCM Review Update reported that in a survey where 29,803 SMMEs responded, 34% were not paid within 30 days and 65% indicated a major challenge in capital access.

The official provincial report on 30 day payments is performed on a monthly basis and consolidated in the province before being sent to National Treasury. A further analysis of payments performance by the North West DoH to service providers for the third quarter of 2017 reveals the following as shown in Table 1.2 below.

Table 1.2: 2017 third quarterly payments by DoH to service providers

	October 2017/2018		November 2017/2018		December 2017/2018	
	Invoice count	Value	Invoice count	value	Invoice count	value
Invoices paid within 21 days	1,656	164,696,157	1,186	87,118,985	1,838	252,533,991
Invoices paid between 21 and 30 days	1,381	74,669,724	895	26,367,997	850	40,563,786
Invoices paid within 30 days	3,037	239365,881	2,081	113,486,982	2,688	293,097,776
Invoices paid after 30 days	2,767	110,975,747	2,605	121,106,971	3,070	155,266,365
Invoices not yet paid after 30 days	3,429	323,226,401	3,614	293,473,804	4,227	377,177,736
Percentages per month						
Invoices paid within 21 days	19.9%	24.5%	14.3%	16.5%	18.4%	30.6%
Invoices paid between 21 and 30 days	15.0%	11.1%	10.8%	5.0%	8.5%	4.9%
Invoices paid within 30 days	32.9%	35.5%	25.1%	21.5%	26.9%	35.5%

(Source, DoH, 2018)

Table 1.2 reveals that as of 31 October 2017, a total of 3,429 invoices worth South Africa Rand (ZAR) 323 226 401 had not yet been paid after 30 days. These figures increased by 35.5% as at 31 December 2017. This late payment practice by the North West DoH could continue for the foreseeable future and negatively affect service providers if care is not taken.

1.3 RATIONALE FOR THE STUDY

The study investigates the potential economic impact of late payments by the North West DoH to SMMEs. Late and non-payments have an immediate impact on cash flow which in turn drives service providers to source additional funding by means of overdraft, trade credits or other means to sustain their survival (Ramachandra & Rotimi, 2015:44). Prior studies indicate that late payment creates some kind of domino impact on services provided, especially by SMME's (Ansah, 2011:28). According to Section 38 (1)(f) of the Public Finance Management Act (PFMA) No 1 of 1999, the accounting officers must settle all contractual obligations and pay all the amounts owing, including intergovernmental claims, within the prescribed or agreed period. In addition, Treasury Instruction note 34 (8.2.3) provides that unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice. Despite all these regulations, there is sceptical criticism with respect to late payments practices by the North West DoH to service providers.

The researcher's awareness of this serious problem calls for a theoretical and empirical understanding into the perceived impact of late payments on SMMEs rendering services to the North West DoH. Furthermore, limited research has been conducted so far on the impact of late payments from the perspective of SMMEs and more specifically from the South African context. In this regard, the rationale for this study was to fill the literature gap and add to the body of knowledge with respect to the impact of late payments to SMMEs.

1.4 PROBLEM STATEMENT

Late payments by public institutions constitute one of the biggest problems negatively affecting Small, Micro and Medium Enterprises rendering services to these institutions (Ramachandra & Rotimi, 2015:43). This problem has resulted in increased costs, loss of productivity and revenue and many lawsuits between owners and the institutions and sometimes contract termination (Owolabi, 2014:197). Those processes are very costly to the Small, Micro and Medium Enterprises and they take a long time to be resolved (Ansah, 2011:28). Late payments persist in the Department of Health and continue to be a key concern to the service providers. According to the monthly performance reports on 30 days payment issued by Provincial Treasury, the Department of Health has consistently, for over a year, failed to pay its service providers on time. A total amount of approximately ZAR 377 million owed to about 4 227 Small, Micro and Medium Enterprises (refer to Table 1.2) has been outstanding as at 30 December 2017. Due to these outstanding debts, the majority of the Small, Micro and Medium Enterprises rendering services to the North West Department of Health are currently experiencing cash flow difficulties as well as loss of productivity and revenue, which are essential elements for firm survival.

1.5 MAIN RESEARCH QUESTION AND SUB QUESTION

The following research questions were conceptualized to guide the study:

Main Question

- What are the perceived impacts of late payment on the survival of SMMEs?

Sub Questions

- What factors influence the survival of SMMEs?
- What strategies are implemented by SMMEs to mitigate the impact of late payment by the DoH?
- Do late payments affect the relationship between the DoH and service providers?

1.6 RESEARCH OBJECTIVES

Main - Objective

- To assess the economic impact of late payment on the survival of SMMEs in the Ngaka Modiri Molema District rendering services to the North West DoH.

Sub – Objectives

- To determine the factors influencing the survival of SMMEs
- To determine possible strategies implemented by SMMEs to mitigate late payment by the North West DoH.
- To determine whether late payments have any economic impact on the contractual relationship between the North West DoH and service providers.

1.7 RESEARCH METHODOLOGY

Leedy and Ormrod (2010) assert that, "a research methodology is a systematic process of collecting data in order to measure and arrive at an understanding of the phenomenon with which the researcher is concerned or interested". A research methodology presents several details of the study like the philosophy underpinning the study, sampling procedures followed, decisions regarding population, the overall research design and the data collection methods as well as the steps observed in the analysis of the data. collected in the current study, a descriptive survey research design with a quantitative research approach grounded on positivist paradigm was employed to find empirical answers to the research questions posted in this study.

The population for this study consisted of the service providers classified as SMMEs rendering services to the Ngaka Modiri Molema District's DoH in the North West Province. This District is comprised of Local Municipalities of Mafikeng, Tswaing, Ditsobotla, Ratlou and Ramotshere Moiloa. A simple random sampling was employed to select the unit of analysis for the study. In this regard, a closed ended self-administered structural survey questionnaire was the appropriate research instrument used to collect empirical data from the selected unit of analysis. The empirical data was then entered into an Excel spreadsheet and transferred to statistical computer programme, Statistical Package for Social Science (SPSS) for analysis.

1.8 SIGNIFICANCE OF THE STUDY

- The results of this study could be of immense help to the both public institutions and service providers. This could inform public organisations to avoid making late payments.
- The results of the study alert service providers to the risks of late payment so that they know the early warning signs and are better prepared in the eventuality of that happening.
- Another practical implication the research results for this study could have is assisting service providers and policy makers to make them conscious that late payments could be universal but they seriously affect business operations and should therefore be mitigated.

1.9 DEFINITION OF KEY TERMS

Late payments: late payment refers to when an entity has been providing goods or services to a certain company or an organisation, yet the organisation fails or neglects to pay within the agreed time. Later payment also refers to service payment made after the stipulated 30 days on or after invoice date.

Small, Micro and Medium Enterprises (SMMEs): The definition of SMMEs varies depending on the context of the phenomenon being study. Small and micro enterprises in South Africa are defined as any business employing fewer than 50 staff, while a medium enterprise is considered to have fewer than 200 by the South African National Small Business Act (RSA, 2004). In the context of this study, SMMEs refers to any Small, Micro and Medium Enterprises currently rendering services to North West DoH.

Service providers: A service provider is any organisation providing third party services to another organisation (RSA, 1996). The term service provider has been used interchangeable with SMME's.

1.12 CHAPTER OUTLINE

This study consists of five chapters and these are as follows:

Chapter one of the current study lays out the research approach, specifies the research objectives, give a background to the study and states the research problem. The proposed research method and structure of the dissertation were also outlined. The chapter provides the road map through which the entire study must follow.

Chapter two reviews literature on SMMEs and late payments by public institutions in South Africa. The literature served to provide a theoretical grounding of the subject as well as serving to provide a basis for developing data collection tools.

Chapter three. This chapter discusses the research design and methodology used. It discusses in detail the empirical investigation used for the quantitative research approach which ranged from population and sampling techniques down to the method of data collection and its analysis. Chapter 3 also teases out issues of reliability and validity as well as ethical consideration for conducting the research.

Chapter four presents the research findings, the analysis results as well as a discussion and interpretation of the findings.

Chapter five presents a summary of the primary data and reviewed literature. A set of recommendations based on these findings is also presented.

1.13 CHAPTER CONCLUSION

This chapter provides the road map through which the entire study follows. The research problem, the research questions, a justification of the study and an outline of the proposed research methodology were outlined and justified. An outline of the study was also presented. The next chapter presents a review of the literature.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The previous chapter presented the road map which this study must follow. This chapter reviews literature relating to the theme under this study. This chapter begins by looking at literature to SMMEs and finally examines policies, trade credit, ripple effects and creditworthiness.

2.2 DEFINING SMMES

There is no universal definition of micro, small and medium enterprises. The European Union under its EU Recommendation 2003/361 (2010) determined that the main factors determining SMEs are staff headcount, turnover and the balance sheet. Under this definition, the upper threshold of an SME is a maximum headcount of 250 and turnover of 50 million Euros or a balance sheet of 43 million Euros. In China, an SME may have 1 to 3000 for the headcount and have a turnover of 40 Yen to 300 million Yen. Likewise, every country has its own context-specific parameters through which it determines what an SME means. These myriad definitions have resulted in an inability amongst scholars to arrive at a universal definition of an SME.

Small, micro and medium enterprises are known throughout the world as contributing to a country's GDP as these enterprises employ more people than macro enterprises and government combined. These enterprises face a multitude of challenges which they have to overcome to ensure survival of their businesses. One such challenge is the non-payment from both government and private sector for services rendered. Famiyeh Adaku, Ameyaw and Amoatey (2015) conducted a r study in Ghana and found that there are many factors contributing to delays in completion of state housing construction projects and one of such reasons is the late payment to contractors.

According to the South African National Small Business Act (102 of 1996), SMMEs are specified as distinct and separate business entities. MacMillan and McGrath (2000:2) observe that of significant importance for any business to make headway in the contemporary global economic system is a strong personal inner-drive, being disciplined, being goal oriented, being focused and exhibiting a passion for seeking new opportunities.

Despite the fact that significant research has been done on SMEs and their contribution to sustaining employment and driving gross domestic product (GDP) growth, the findings prove that SMEs are of significant importance for the economy in both low income and high income countries across the globe.

Table 2.1: Requirements for the definition of SMMEs

		Number of Employees		
Country	Name	Micro	Small	Medium
European Union	Small and Medium Enterprises	<10	<50	<250
USA	Small & Medium Businesses	n/a	<100	<500
Asia	Small & Medium Enterprises	<5	5-50	51-150
Egypt	Micro, Small & Medium Enterprises	1-4	4-14	15-49
Ghana	Micro, Small & Medium Enterprises	1-5	6-29	30-39
Brazil	Small & Medium Enterprises	1-19	20-99	100-499
Russia	Small & Medium Enterprises	1-9	10-49	50-99
India	Small & Medium Enterprises	n/a	15-100	101-250
China	Small & Medium Enterprises	n/a	<300	300-2000
South Africa	Micro, Very Small, Small, and Medium Enterprises	<5	20-49	50-200

Source: Edinburg Research paper (2015).

Evidently, every country has its own quantum in determining a definition that best suits the economic situation thereof. Furthermore, another determining factor besides number of employed people is the annual turnover of a company. For example, in South Africa the quantum for annual turnover are <ZAR 200 000, ZAR 3 million-ZAR 32 million and ZAR 5 million-ZAR 64 million for Micro, Small and medium enterprises respectively.

Gibson & Van Der Vaartindeed (2014) defined SMME's as "a formal enterprise with an annual turnover, in US Dollar terms, of between 10 and 1000 times the mean per capita gross national income, at purchasing power parity, of the country in which it operates. In the South African context SMMEs refers to any small business with the quantum for annual turnover of less than ZAR 200 000, ZAR 3-ZAR32 million and ZAR 5-ZAR64 million for Micro, Small and medium enterprises respectively".

The Department of Health in North West had 3,249 (Figure 1.1) invoices that were not paid beyond the legal 30 days as at 31 December, 2017. The January snapshot below further shows that the number of invoices paid after 30 days amounted to 29% of the total invoices; and 59% of invoices were not paid at all even after 30 days. By implication, and assuming that all service providers were ultimately paid, the Department of Health had about 88% of its invoices paid late.

Figure 1.2 reveals that the total number of invoices submitted but not paid after 30 days increased from 3,249 in January 2017 to 4,227 in December 2017. This figure is higher but in percentage it represented 42.3% of the total invoices. The invoices paid after the due date or 30 days was 30.7%. The December snapshot, following the logic used above, then had 73% of service providers subjected to late payment. Looking at the two snapshots, January and December 2017, only 12% and 17% of invoices in those respective months were paid on time.

The then minister in the Presidency for Planning, Monitoring and Evaluation, Jeff Radebe, in 2016 articulated that the central role of the thriving small business sector in the achievement of the National Development Plan (NDP) goals cannot be overemphasised. He said that 47% of the South African workforce is employed by the small business sector with about 7.3 million employees. He further stated that South Africa needs to create a further 11 million jobs to achieve full employment. However, these goals can never be achieved if the small business sectors particularly are not paid within the stipulated period of 30 days. Figure 1.1 illustrates the effective payments for 2017 by the DoH to its service providers.

2.3 LATE PAYMENT

Payment is a sum of money paid to someone in return for goods, work done or services rendered (Ansah, 2011:29). In the context of this study, payment is "the sum of money paid to a service provider after their work for certain projects has been successfully completed. In accordance with section 38(1)(f) of the Public Finance Management Act (PFMA), Accounting Officers are obliged to settle all outstanding contractual obligations and settle all invoices pending to all creditors within the agreed or prescribed period."

On the other hand, Treasury Regulation 8.2.3 provides that "unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement." The European Union Directive, Circular No.2 (2012), United Kingdom Public Contracts Regulations (2015) and the Australian Government Finance Circular No.2 (2012) have all enacted 30 days as the maximum period in which to pay SMEs after submission of invoice.

2.3.1 The Global knowledge: Awareness of the problem

The phrase 'late payment' has become a global indictment which has to be dealt with as soon as is possible in order to facilitate economic growth. The late payment of SMMEs is a problem not confined to any particular country, region or continent. It is an international problem that has now been recognised and accepted as a hurdle that impedes economic growth. It is noted that 95% of the world's enterprises are SMMEs and that these account for about 60% of private sector employment (Edinburg Group, 2015). The European Union put in place a directive (2011/7/EU) which sought to address non-payment of SMMEs. Amongst others, the directive obliges public entities to pay SMMEs within 30 days after receipt of an invoice and to charge interest for any late payment.

The South African government has explicitly accepted that the scourge of late payment is a major problem. This is evidenced by various presidents in their address of The State of the Nation and State of the Provinces address (2017/18 financial year). National Treasury Instruction Note: 34 (2011) solely addresses and obligates public institutions to pay SMMEs within 30 days after receipt of invoices. North West Provincial Treasury Regulations 8.2.3 provides that "unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or in the case of civil claims, from the date of settlement or court or judgment, from the date of settlement or court judge civil claims."

The UK government has guidelines for both suppliers and buyers to public institutions which came into effect on 26 February 2015 which stipulate that valid invoices should be paid within 30 days. It is mandatory that the 30 day window is included in all contractual agreements. This is further reinforced by the Late Payment of Commercial Debts Regulations which the government passed in 2013, making the payment of invoices within 30 days obligatory. In Australia, the Government Finance Circular No.2 of 2012 also obliges the public sector to pay SMMEs within 30 days. In general, the whole world has a problem with public institutions paying SMMEs within 30 days. There is also an indication from various literature that 30 days has been accepted internationally as the most reasonable payment period.

The UK public Sector "*Payment Performance, Facts all public authorities need to know*" reported in the circular that the UK owes 46 billion Pounds to SMMEs. The paper further contends that late payment causes a ripple effect down the supply chain, thus amplifying the problem, and it is one of the leading causes of bankruptcy in the SMMEs cohort. The same circular quotes the European Union (EU) press note that reads, "If the date or period is not fixed in the contract, the creditor will be entitled to interest for late payment after 30 days following the date of the invoice." In 2013 the UK passed The Late Payment of Commercial Debts Regulations where in government declared the 30 days' payment after receipt of invoices as obligatory (Commercial Debts Regulations, 2013).

European Central Bank (2015) argues that the empirical evidence from annual data across the EU-27 countries suggests that payment delays may reduce profits, increase the likelihood of bankruptcy and ultimately slow economic growth. The paper further finds that if late payment becomes a culture, the suppliers will inevitably price the cost of such credit. The bankruptcy of companies has a knock–on effect on creditors of such firms in that a higher bankruptcy rate could increase the cost of capital, even to firms with access to credit. The Federation of Small Businesses (2013) states that 73% of small businesses have experienced late payment for goods supplied and services rendered within a period of 12 months.

According to Badrolin (2016), 41% of contractors indicated that at some point they received late payment from government projects. More than half (53%) of them indicated they have received late payment from privately-funded projects. Only 14.4% of the respondents indicated they were never paid for their services in government-funded projects while 33.3% indicated non-payment from privately-funded government projects (Judi & Rashid, 2010; Naseem, 2006). In the UK, the construction industry is at the lower end of the payment period spectrum with invoices tagging an average of 57 days after they are received (Experian, 2003).

Bacs (2013) argues that a payment processing company showed that in the UK SMEs faced an average waiting period of more than 38 days after bills were due before they received the money. In Europe the Intrum Jusitia annual European Payment Index survey revealed that in 2012, bad debts losses incurred by European companies reached an unprecedented high of 350 Euro billion of cash flow across the UK economy.

2.4 TRADE CREDIT

Cowton, San-Jose & Bus (2017) postulates that when a supplier provides goods and services to another organisation in return for payment which will be received at a later stage constitutes trade credit. Mian and Smith (1992) also define trade credit as a payment arrangement between the seller and the buyer where the former allows delayed payment for products or services rendered instead of being paid promptly. Trade Credit plays an important role in firm financing policy (Trade Credit and SME Profitability; 2013). For the buyer it is a source of financing through accounts payable, while for the seller, trade credit is an investment in accounts receivable. More often than not, SMMEs (buyer) would take products from a particular supplier (seller) with an agreement to pay at a later date. The SMME completes his offering using this material and delivers to a client. There is yet another arrangement where the client promises to pay the SMME at a later date.

Trade credit is also a major source of external financing for companies (Stern & Chew, 2003). Most of the companies use trade credit to manage cash flow. Services and goods are received and are converted into cash generating products whilst the suppliers are not paid. There are a number of studies and commentaries on Business to Business trade credit ethics and various governments have now come to the rescue of SMMEs. The latter tend to suffer a great deal since they may not have sufficient cash to meet contractual obligations.

So, most less-developed economies tend to use trade credit as a form of short term bank credit and are generally used to financing a company's working capital (Peel & Wilson, 1996; Shenoy & Williams; 2011). In the Asian region, India has the longest credit period which is at 90 days and this is closely followed by Malaysia at 30 to 90 days. Paul *et al.* (2012) show that the developed Asian economies like Hong Kong and Singapore have a trade credit of only 30 days. The same study further shows that in Eastern Europe the 'accounts payable' to 'total liabilities' vary between 21% in Hungary to 49% in Bulgaria. The percentage is high because of the restricted availability of bank finance. In the final analysis, literature confirms that it is not an accident that companies are paid late but is a calculated move on the part of defaulting companies to manage working capital.

In 2012 the European Payment Index survey revealed that bad debt losses incurred by European companies reached an unprecedented EUR350 billion due directly to late or non-payment. Taylor (2012) notes that in 2012 a total of 266,000 SME businesses in the United Kingdom claimed late payment to be a major problem in their enterprises. Of this number, 16% claimed their companies were almost out of business and 41% were forced to pay their own suppliers late. The ripple effect of late payment on businesses has a devastating effect on the whole supply chain.

The severity of trade credit can best be seen in the USA when Trade credit increased 4 times between 1990 and 2000 (Statistical Abstract of the United States, 2003). The statistics reveal that the amount of outstanding accounts payable reached $3,758 billion. In 2003 trade credit was used by 60% of SME businesses in the United States.

Trade Credit therefore is widely and heavily used to support business operations (Brennan *et al.* 1988). It enables companies to "receive necessary supplies in advance of receiving payment for their own products, thus helping to support their production processes and economic activities." However, Cowton *et al.* (2017) contend that this puts a strain on the supplier's own financial resources because goods or services are produced and provided without, at least for a time, receiving cash and as business wisdom has it 'cash is king'. There is also literature that advocates for trade credit in order to assist companies to increase sales (Brennan *et* *al.* 1988: Emery, 1987; Petersen & Rajan, 1997). In a sense, these assertions by these authors mean that trade credit should be used in place of bank credit wherever possible. With these theories, businesses feel entitled to extending trade credit terms which would otherwise not be suitable for other businesses particularly SMMEs. Some financial texts suggest that purchasing companies should stretch the credit period offered by suppliers (McMenamin, 1999). Gitman *et al.* (1996) confirm that a basic strategy normally applied is to pay accounts payable as late as possible without damaging the firm's credit rating and supplier relationship.

Small businesses are particularly inconvenienced in many ways by being paid late. A vegetable farmer contracted to provide vegetables to a larger retail store is at the mercy of the owners to pay him in time. He has overheads like salaries, water, electricity and telephony to take care of. If some of these obligations are not met, it may mean the end of the road for the farmer. Small businesses are particularly vulnerable. According to Ryan (2008), small businesses are especially at risk when it comes to late payment when dealing with large corporations. This is especially compounded by the fact that the large corporations use these late payments as a form of interest-free overdrafts.

2.5 ECONOMIC VALUE AND SURVIVAL OF SMMES

The survival of SMMEs is not only the interest of entrepreneurs running these enterprises but that of governments and other stakeholders in the broader supply chain where these enterprises participate. The importance of SMMEs to economic growth and GDP cannot be underestimated.

According to the Australian government (2011) SMEs contributed around 60% of the total industrial value added during the 2009/10 financial year (Edinburg Group, 2015). The same report asserts that in OECD economies, over 95% of firms are SMMEs and account for 55% of GDP. By contrast, the developing countries have over 90% of all firms outside the agricultural sector as SMMEs. In South Africa 91% of the formal business entities are SMMEs and contribute between 52 and 57% to GDP. In Ghana, 92% of businesses are SMMEs and these contribute 70% of Ghana's GDP (Abor & Quartey, 2010). With the kind of contribution this sector has to the economy, sustaining these enterprises becomes of utmost importance. Countries with high unemployment rate cannot therefore afford to lose SMMEs.

For SMMEs, cash flow is a priority. This presents a challenge in periods of economic downturn where obtaining finance for raw materials while extending credit to customers becomes extremely vexed. In an economic upturn, the small businesses are also in particular need of cash to exploit emerging opportunities. So, either way, small entities tend to lose either when there is an economic downturn or upturn when their payment is late. This makes it particularly necessary for these businesses to pay early so that they can capitalise on emerging opportunities and remain viable (Credit Control, 2014). In essence, the growth of SMMEs in a state such as South Africa is greatly dependent on being liquid and having the ability to take advantage of further business opportunities.

Badroldin *et al.* (2016) reports on late payment practices in the Malaysian construction and indicates that late payment from the client has become a habit in the construction industry. He also adds that this practice has caused many implications such as disturbance of supply chains, uncomfortable relationship between the payer and the payee, the higher contracts sum due to higher risk, bankruptcy and others.

The United Kingdom's (UK) Federation of Small Businesses conducted a survey among SMEs on late payment in 2011. The key findings of this May 2011 research showed the following:

- 73% of small businesses experienced late payment for goods supplied and services rendered within the last 12 months,
- 40% claimed that 31% of their invoices are paid late; 20% claim over 50% of invoices are paid late,
- Over the past 12 months 66% of members have written off invoices. This obviously affects the profitability of these companies, and
- 53% of small business owners spent one to six hours per week chasing invoices. The time spent is unproductive and impedes the business owner from growing his business.

The Federation of Small Businesses further states that the UK government estimated that in 2008, there were 4,000 businesses that went down as a direct result of late payment and this cost UK businesses 180 million Pounds. The paper argues that late payment is not only commercially wrong but also ethically wrong in that private companies and/or government may render small businesses insolvent if paying late.

Table 2.2: Late Payment

Statement	Responses
It reduces business profitability	43%
I'm late paying suppliers	38%
It curtails business growth	30%
It leads to additional borrowing	29%
It restricts productivity	19%
I have difficulty paying staff	17%
other	9%
No impact/Not applicable	11%

The South African Treasury document, SCM Review Update (2016), concedes that non-payment of suppliers on time adversely affects businesses and the economy at large with the end result being higher than usual prices after suppliers transfer the cost of non-payment to the government. This assertion is corroborated by the European Central Bank (2015) wherein it says if a government has a tradition of taking a long time to pay bills, then suppliers price the cost of such credit into the goods supplied. At the time of writing this SCM update document, the entire government obligation to creditors was close to R80 billion.

It has been pointed out that paying suppliers and staff under Late Payment culture can be devastating to a business. This may lead to borrowing and effectively increase expenses in the form of interest. As seen in the UK survey, 4000 SMEs wound up operations in 2008 as a direct consequence of late payment. Similarly, in 2016 the South African government owed its service providers or creditors about ZAR80 billion. Surely the SMMEs cannot survive under these conditions.

2.6 FACTORS INFLUENCING THE SURVIVAL OF SMMES

Survival is defined as the state or fact of continuing to live or exist, typically in spite of an accident, ordeal, or difficult circumstances (Rantseli, 2011).

Access to capital

According to Czinkota and Ronkainen (2003:49) it is vital that SMMEs secure the requisite raw materials and necessary expertise/competence so that they are better poised to be competitive and remain viable and grow even during adverse operating conditions. Limited capital access negatively influences growth and inhibits the entrepreneurial spirit (Nasser *et al.,* 2003:399). For South Africa's burdened society, "access to fund remains extremely restricted, as money financial institutions like banks are exceptionally preservationist and risk averse. These financial institutions normally do not fund SMMEs that are considered risky and have no collateral or dependable track records" (Luiz, 2002:67). Most of these SMMEs that are able to arrange start up finance find that the cost capital is very high. Limited access to capital, which contributes to the high failure rate of SMMEs, has also been cited as a challenge (Herrington *et al.* 2009:15).

Access to Technology

Robbins (1996) defines technology as how an organisation transforms its inputs (materials and information) into outputs (products and services). Technological capability is a critical and decisive factor in developing competitive positions, strengths and sustained growth (Ngoc, 1999) and the development of technological capability is crucial to overcome the fast changing and fiercely competitive global market (Chantanaphant *et al.*, 2012).

Access to technology, "globalization, innovation and technological discoveries of modernity have seen an increased number of businesses build on intellectual property, high-tech innovations and quality assurance" (Nasser *et al*, 2003:399). Without the above technical advances, SMMEs would find it particularly difficult to survive and grow. These advances, particularly Information technology (IT) allows organizations to maximize productivity and work more efficiently (Mbonyane & Ladzani, 2011). Some of the benefits and advantages that IT brings to businesses include the protection of records, electronic storage and faster communication.

Crime

One of the factors affecting business negatively is the level of crime and security. With high levels of crime investors shy away from participating in a country's economy and security of individual investors in a country also becomes cause for concern (Strydom & Tustin). South African entrepreneurs particularly see crime as one the biggest challenges facing the survival of SMMEs in the country.

Specific Causes

There are two key reasons the individual becomes an entrepreneur and it is when an opportunity is identified or a person who is unemployed feels the need to go into business. The South African SMMEs failure rate is approximately 50%. This failure rate is attributed mainly to lack of business skills.

In 2013, the total of individuals engaged in informal sector business without matric represented 77% while in the formal sector was 38.82%. In both categories of informal and formal sectors, those who had matric were 19.34 and 34.83% respectively. These statistics point to a painful truth that the majority of entrepreneurs have no or little business skills.

Effect of Lack of Business skills

The Provincial governments and some corporates as part of the latter's corporate citizenship commitments provide assistance to new entrepreneurs. Most of this assistance is a consequence of individuals trying to extricate themselves from unemployment and poverty. The National Development (NDP) notes that small businesses in the service sector are negatively affected by a shortage of skills. This shortage is mostly true for business services such as accounting and sales capabilities.

The first casualty in running a business is managing cash flow. Invariably, most of these small enterprises end up using business funds for non-business related personal needs with the result that stock cannot be purchased to continue or sustain the business. A valid example of this state of affairs is proliferation of Somalis, Bangladeshis and Pakistanis who have hired leased struggling businesses in both urban and rural areas. Through prudent financial discipline, they have turned such business into very sustainable and lucrative businesses. It has been noted that the majority of micro and small enterprise do not keep records.

Amra, Hlatshwayo and McMillan (2013) quote statistics suggesting that 76.84% of the informal sector entrepreneurs have no matric and 48.96% in the formal SMME sector do not have matric. Almost all literature on SMMEs in South Africa identifies lack of finance as the key hindrance to SMME development. Ladzani and Netswera say 51% of companies they surveyed had business plans of which 92% were owner compiled. They further point to the fact of the sample surveyed, 84% did not receive financial assistance.

The South African banks have been criticised for not supporting SMMEs but the same criticism should be directed to government sponsored institutions like Small Enterprise Finance Agency, DBSA and DTI that do not pay for services on time and therefore complicate matters for the SMMEs.

The economic meltdown in the United States of America was blamed on banks that gave unsecured loans. The above statistical information points to aspiring entrepreneurs whose majority do not know how to compile a bankable business plan. It also follows logic that new entrepreneurs are not conversant with the strict requirements of the financiers. In the final analysis, financiers will be inclined to finance projects that are not likely to fail. The financiers cannot therefore be expected to provide lending to entities that carry high risk and do not have collateral security on such borrowings.

The informal sector is also experiencing challenges with regards to advancing finance to SMMEs. The individuals engaging in this category do not have registered companies; neither do they have financial track records that financiers may make decisions on. Stats SA (2013) states that 79.1% of those operating in the informal sector have no bank accounts and over 90% have no credit facilities, financial assets and mortgage bonds.

2.8 SOUTH AFRICAN PUBLIC SECTOR SCM PROCESS

According to the South African National Treasury (2005), the first stage of procurement is demand management. This is a stage where needs are identified.

The identified needs must be aligned to the strategic objectives and budget of the Department. The said plan must be approved by Head of the Department before being implemented. The plan must be strictly adhered to, to avoid audit queries.

On the other hand, the acquisition by government of goods and services is referred to as acquisition management (Bizana, Naude & Ambe, 2015). The process "involves a process of ensuring that bids are evaluated according to the criteria that was indicated when advertised, concluding the total cost of acquiring an asset and lastly ensuring that contracts are approved by the correct parties. In this phase three methods of acquiring goods must be observed. These methods are petty cash, quotation or tender process depending on the threshold" (National Treasury, 2005).

According to National Treasury regulations (2005), logistics management is the third phase of Supply Chain Management Process. This phase entails processing of payment, receiving and distribution of items, setting of inventory levels, placing of purchase orders and coding of items. Logistics management officials must ensure that vouchers are 100% compliant before an order is generated. Once an order is given to the service provider this means that there is a commitment/agreement between the department and the specific service provider. An order form is binding and therefore the two parties must strictly abide to the terms and conditions. Khalo (2007) indicates that logistics management includes contract management, inventory control and transport management.

After goods/services are delivered, suppliers face challenges in the procurement process. Most of the departments in government, municipalities and private sectors will put effort when starting procurement processes e.g. requesting quotations, until an order is issued etc. Officials will continually call suppliers until the service is rendered. The suppliers will now be at a mercy of the officials. Officials start avoiding suppliers' calls, which is not acceptable.

Delayed payments have many undesirable effects. One such is that it may affect service delivery and the contract prices. The Malaysian study on late payment practises in the construction industry (Khairul *et al.*, 2015) alludes to the fact that the problem of delayed and non-payment in the Malaysian construction industry had affected the entire stakeholders, especially main contractor, subcontractor, supplier, labour contractors and society. This resulted in the adverse effect on workers' livelihood and welfare and also on the continuity of the affected projects. Effectively, the whole supply chain becomes negatively affected by late payment and consequently, as in government, the services that have to be rendered to communities become compromised.

Famiyeh *et al.* (2015) indicates that there are about five main connected delay factors in Ghanaian state housing construction projects which late payment is one of them. The study further states that delays in payment to contractors and frequent price changes are factors common in developing countries. Famiyeh *et al.* (2015) further indicates that the delay in payment to contractors/suppliers in Ghana is the highest ranked cause of delay in project execution. The study contends that government is the main financier of most public sector projects and that the disbursement of budget allocations is often erratic.

Zuma *et al* (2017) alludes to the fact that there were several variables leading to the delay in the supply of much needed stock by the DoH. Some of the delay was caused by contractual issues, non-stock on the part of the suppliers as businesses of suppliers close for various reasons. In as much as other reasons for failure of government to equip health centres with medicines including non-payment of suppliers are understandable, the ultimate consequence is failure to provide health care to a nation.

2.7 RIPPLE EFFECT: STAKEHOLDERS AND THE SCM

The phenomenon of ripple effect means a spreading effect or series of consequences caused by a single action or event. In the context of this research study, we explore the ripple effect of late payment in the whole supply chain and its stakeholders.

The ripple effect of late payment is best demonstrated by the collapse of a British Company, Carillion, which had trade agreement of paying its SMEs in 120 days. Paul Christensen, Chief Executive of Previse, a company that develops and offers artificial intelligence solution that supports instant payments between corporates and SMEs, wrote and said "The collapse of Carillion means a tragedy of layoffs, not only for thousands of workers within the company, but also for many of its 30,000 small and medium-sized suppliers who are owed hundreds of millions of pounds. And, in turn, the suppliers of those suppliers who will, in turn, feel the ripple effect of defaults on unpaid invoices."

2.9 CREDITWORTHINESS

A credit rating is an evaluation of the creditworthiness of a debtor, especially a business (company) or government. The evaluation is made by a credit agency of the debtor's ability to pay back the debt and the likelihood of default (Patel, 2015). Creditworthiness is a valuation performed by lenders that determines the possibility a borrower may default on his debt obligations. The most important factors that are considered are repayment history and credit score. Lenders like banks and financial institutions use this score to assess a borrower's creditworthiness. (DTI, 2015).

Tim Vine, Head of European Trade Credit, SME (2018) said smaller businesses are often dependent on prompt payments from larger firms for their cash flow and financial success. He further stated that 58% of small business owners say late payments are putting their businesses at a very real risk. Betar (2015) observes that "managing cash flow and debt is often a challenge for small businesses, with late payment cited as one of the biggest causes of this. Taking on wrong kind of customers could have negative effect on their businesses and ultimately may lead to its own demise."

Like any type of business, SMEs need financing for basic purposes:

a) The first is working capital which is required once the production cycle once has been stabilized,
b) Secondly there is working capital. This is required for maintenance purposes, to create new businesses or to expand old ones,
c) Lack of collateral or capital,
d) Low profitability,
e) SME Skills and literacy,
f) Lack of credit data,
g) Poor customer knowledge, and

h) Poor business enablers: for example, a legal framework that adequately protects creditors.

These are the major reasons making it difficult for SMEs to access finance from main stream banks. As a result, prompt payments to SMEs seem the only way of ensuring their survival and growth. Once they have grown, access to more finance will become easier because the obstacles above will have been overcome.

Most countries have credit bureaus like Credit Rating and Information Bureau of India Ltd (CIBIL) whose primary function is to monitor credit transactions of individuals and commercial entities and maintain a database of credit reports and scores. An unfavourable score may take months and years of continuous good behaviour to erase it. Individuals and companies have therefore got to manage their financial affairs prudently.

The South African Chamber of Commerce and Industry conducted a survey in 2013 among its SMME members in relation to the impact of late payments or payments made after 30 days. The survey found that 60% of SMMEs not paid within 30 days were temporarily constrained by cash flows while 10% had to permanently down-scale operations. The Department of Treasury reported in its SCM Review Update (2016) that in a survey wherein 29,803 SMMEs responded, 34% were not paid within 30 days and 65% indicated that access to working capital or funding is a barrier to doing business with government. Obviously, this means the SMEs do not qualify for loans at banks.

The access to funding is a function of good financial scruples and a history of timeous payments. This necessarily implies that the cash-flow in and out of the company must be reasonably good.

According to CEDAR Financial (2015) companies experiencing late payment from customers will inevitably suffer if there are no cash reserves to mitigate unfavourable cash-flow situations. This statement is true to SMMEs in particular who do not have large sums of cash as reserves. Cedar Financial identifies three consequences of late payment and they are the following:

- When a customer or customers do not pay a company, the first option available would be to make a loan from a bank or any lender. The loan will be used to pay suppliers and also keep a healthy image for the company. The downside of this action is that a loan is made with the intention of recovering debt and then repaying the loan. There are always risks that some debts may even be written off. Above all, a loan is an expensive form of financing in that interest has to be paid on the loan.
- Once a company is in the red, as it were, suppliers may hesitate to do business with a company that delays payments. The view of suppliers is that businesses that pay late are likely to be insolvent. Suppliers will therefore be wary of doing business with such a company (SEDA, 2013).
- The last thing this would do to a company is to affect its credit score and thus affect future possibilities of expansion and growth. Late payments will adversely affect a credit score. The credit score will also be affected if the company is frequently paid late because there will be a decline in incoming cash. Business that conduct due diligence on business partners will not do business with those who show financial weakness or credit worthiness. The companies that experience late payment have to invariably dedicate time, effort and money to recover payments (DTI, 2015).

2.10 STRATEGIES FOR COMBATING LATE PAYMENT IN GOVERNMENT

The EU (2011) compels public authorities to pay their invoices for the goods or services purchased within 30 calendar days. However, the directive allows public authorities to pay their invoices within maximum 60 calendar days when it is expressly agreed in the contract and provided it is objectively justified in the light of the particular nature or features of the contract. In addition, the directive also allows member states to extend the payment period of 30 calendar days up to a maximum of 60 calendar days for certain types of public undertakings and public entities providing healthcare which are duly recognised for that purpose. However, the new directive allows member states to maintain or bring into force provisions which are more favourable to the creditor than the provisions necessary to comply with the directive.

The South African government has made 30 day payments after invoice a policy that has to be observed by all public entities. Notwithstanding, SMMEs continue to be subjected to late payment. It can therefore be said that the legal framework from government is in place to pay service providers within 30 days but individual departments have challenges that militate against the successful implementation of this policy.

It is a matter of fact that the accruals of the client (Department of Health) in this research topic, as evidenced by the 2015/16 and 2016/17 Annual Reports, have been unusually high and in the region of ZAR600m. This effectively and necessarily implies that creditors of all types are not paid until a new budget allocation is made.

2.11 CULTURE OF NON-PAYMENT

In his presentation, Thutsini (2015) gave a startling revelation about the scourge of late payment even within government. In accordance with Section(1)(f) of the PFMA Accounting Officers must settle all contractual obligations and pay all money owing within the prescribed or agreed period. Furthermore, Treasury Regulation 8.2.3 prescribes a period of 30 days from receipt of an invoice or another time period, as agreed. Instruction Note No. 34 dated 30 November 2011 obliges all public departments to submit monthly information to the relevant treasuries by the 7th day of each month. The latter is meant to monitor the payment culture and progress in addressing non-payment.

In his presentation as mentioned above, Thutsini (2015) revealed that whereas the National departments were making substantial progress in paying as prescribed, the provinces were falling behind. It is noted from the presentation that provincial departments payments made after 30 days in April 2015 amounted to ZAR 1.9 billion in contrast to ZAR 944 million in 2013. The number of invoices in the corresponding period increased from 24,380 invoices to 34,157 invoices. The most worrying picture was however the statistics of payments not made after 30 days. In this category, ZAR 3.3 billion was still outstanding by April 2015 and the total number of invoices was 41,162. The corresponding 2013 figures were ZAR 1.1 billion with the number invoices at 22,132. Effectively the number of invoices not paid after the prescribed period increased by 86% while the amount affected by this increased by 200%. The picture is different when one focuses on national departments. In 2013 the national department had an average of 9,789 invoices (ZAR 255 million) not paid after 30 days. By April 2015 this figure reduced to 3,902 (ZAR147 million). In the final analysis, late payment still exists but is decreasing.

The Association of Certified Chartered Accountants (ACCA) (Ending Late Payment; 2015) conducted a survey in all the regions of the world to look into and better understand the extent of the late payment problem. The study further asserts that at any given time a total of $ 282 billion of payments are late enough to be classified as problematic. Converted to a South African currency using the 2015 average rate of ZAR 12 per dollar, this represents approximately ZAR3.384 trillion. The following table is an extract from the ACCA paper referred to above.

Table 2.3: Incidents of Non-Payment per Region

Region	Large Corporates	SMMEs
North Americas	12%	28%
Western Europe	24	39
Central & Eastern Europe	20	30
Middle East	30	40
South Asia	22	44
Asia Pacific	21	29
Africa	43	56
Caribbean	30	52

From the above data Africa, the Caribbean islands and South Asia have the highest incidents of non-payment. The irony here is that developing countries must create an environment that is friendly to the growth and development of SMMEs since this sector absorbs more unemployed people than large corporate and government combined. The figures above also point to the fact that SMMEs are the most vulnerable and affected compared to large corporates. The study further confirms the position that working capital, access to short term credit from banks, access to liquidity at the top end supply chains and business indebtedness contribute greatly to the culture of non-payment. ACCA views late payment as 'late payment is a feature in business and not a bug'.

The most important aspect of SMMEs is the labour intensive nature of businesses. They therefore have the ability to absorb unemployed people. The development of SMMEs is therefore very critical particularly to developing nations. The World Bank

Survey of 47,745 businesses employing between 5 and 250 people across 99 countries showed that 67% of full time and permanent employment was attributable to this sector (Ayyagari *et al.*; 2011). Between 2002 and 2010, 85% of total employment growth was attributable to SMMEs (De Kok *et al.*, 2011).

The Edinburg Group have managed to publish statistics of the contribution of SMMEs towards the country's GDP. The following is an extract from the Edinburg Group statistics.

Table 2.4: Contribution of SMME's towards the country's GDP

Country	Employees	GDP Contribution
Morocco		46%
Bangladesh	<100	58%
Ecuador	<50	55%
South Africa		61%
Ghana		80%
North America	<500	57%
South Asia	<500	88%

Source: Edinburg Group (2015)

These figures simply show that the importance of SMMEs is critical to all countries. With the South African unemployment rate at 27.7% (Official or formal rate) it is important that the SMMEs should be well looked after.

Even though this study focuses on the impact of late payment on suppliers, the researcher finds it proper to highlight what causes late payment.

- Rendering service without purchase order.
- Political interference.
- Service providers submitting incomplete invoice.
- Non-availability of budget.
- Officials deliberately delaying payment to get bribes from suppliers.

These are some of the causes that have to be attended to with immediate effect as they impact badly on suppliers rendering service with government.

2.12 CONCLUSION

There is an obvious need to address the scourge of late payment which has a negative snowball effect on the whole supply chain of goods and services. The SMMEs, their suppliers and employees of these entities are all affected should the late payment fail to be addressed. The threat of insolvency, SSMEs borrowing money at a cost to meet obligations and reduction of staff are realities facing SMMEs as a consequence of late payment. The literature review has substantially shown that late payment is not confined to South Africa alone but is an international problem.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

The previous chapter reviewed literature relating to the theme of this study. The literature reveals that there is a gap in the existing body of knowledge regarding the impact of late payments on SMMEs. This chapter focuses on the research design and methods employed to generate empirical answers to the research questions posted in section 1.5. The chapter begins with the research design and the philosophical underpinning of the study, as well as the methods of investigation. Next the data collection and analysis techniques are discussed and the chapter concludes with issues of validity and reliability as well as ethical consideration.

3.2 RESEARCH PHILOSOPHY

A research philosophy is a conviction about the way in which research about a phenomenon should be conducted (Given, 2008:732). However, it is vital to question the research paradigm that guided the philosophical assumptions underpinning this study. A research paradigm is a set of assumptions and perceptual orientations shared by members of a research community and determine how these members view both the phenomena and the research methods that should be employed to study those phenomena (Given, 2008:591). According to Creswell (2014:10), this worldview arises out of actions and situations of the phenomenon under study. The reported cases of late payments to services providers in South Africa is a situation that calls for continuous research in the drive towards a better solution. The pragmatic paradigm focuses mainly on what works for a problem and that is why it deals with the problem by employing a positivist approaches to derive more knowledge about the problem (Creswell, 2014:10).

This study adopted a positivist paradigm with a quantitative research approach which aims to evaluate the social world objectives and predict the effects of late payments on SSMEs, as well as analyse whether or not the predicted generalisation of the phenomenon studied prove to be true. Positivism holds the central belief that an objective reality exists that is independent of any individuals' objective experience and value (Hesse-Biber, 2010:14). The positivist researcher prefers working with an observable social reality and such research produces generalisations similar to those produced by the natural scientists.

Working from the positivist approach, the researcher was able to obtain an in-depth understanding of the phenomenon being studied, which is the impact of late payments by the North West DoH on SMMEs. The strategy of enquiry implemented to obtain answers to the research questions was a questionnaire that supports the principles of quantitative research and a positivist paradigm as well as descriptive research design.

3.3 RESEARCH DESIGN

A research design is a strategy that allows the researcher to select research respondents, collect data and choose the right tools to statistically analyse the data (Maree, 2010:70). Bowen (2005:216) emphasised that the researcher should spell out the research design and methodology in detail to make the research process as transparent as possible. However, according to Walliman (2011:9), the choice of the research design depends on the nature of the research problem and the objective of the study. The objectives of this study are deterministic in nature and therefore call for a descriptive survey research design. Descriptive research design "attempts to investigate and examine situations in order to establish what the norm is and what can be predicted to happen again under the same circumstances" (Walliman, 2011:10). Affirming the above cited authors, this design was particularly appropriate for the current study as it aims to investigate the impact of late payments on SMME's so as to established the norms for theses impacts by using a quantitative research approach which is often at the centre of positivism.

3.4 RESEARCH METHODS

Research methods are the tools and techniques use to collect and analyse data so as to arrive to a conclusion (O'Leary, 2010:85). The research problem for the current study seeks to investigate the impact of late payment on operations of SMMEs. In this regard, the research approach employed in this study includes intensive literature review and a quantitative method research approach.

3.4.1 Research approach

A research approach can either be quantitative, qualitative or both and each of this approach is design to explore specific research questions and attempts to address the post positivist approach of challenging the traditional belief of absolute truth (William, 2007:65). The nature of the research problem, questions and objectives of the current study calls for a quantitative research (Daniel, 2012:43).

3.4.1.1 Quantitative research approach

According O'Leary (2010:99), quantitative research is an objective search for singular truths that relies on hypotheses and variables, and is large-scale. Given (2008) put it in yet another way in that quantitative research is based on numerical data analysed statistically and is appropriate for examining who has engaged in what behaviour or what has happened. Quantitative research approach was vital as the main objective of the current study was to determine the economic impacts of late payment on the survival of SMME's in the Ngaka Modiri Molema District rendering services to the North West DoH.

3.4.2 Research site and context

The research site for this study is the Ngaka Modiri Molema District in the Mafikeng area of the North West province of South Africa. This District comprised of Local Municipalities of Mafikeng, Tswaing, Ditsobotla, Ratlou and Ramotshere Moiloa.

3.4.3 Population

Hair, Wolfinbarger, Ortinau and Bush (2008:129) define a target unit of analysis as "consisting of the complete group of elements that are identified for investigation based on the objectives of the research". Population is a complete set of elements that possess some common characteristics. In April of 2016 the North West DoH had a total of 7 511 SMME's not paid after 30 days of rendering a service. This figure reduced to 3 249 by end of January 2017. For purposes of this research study, the population has been identified as the total number of unpaid SMMEs operational in the North West province as at end of January 2017.

3.4.4 Sampling frame and strategy

As the total unit of analysis for the study was in excess of 3 000 and is located within a particular geographical area in the North West province, a simple random sampling technique was used to select 100 SMME's in the Ngaka Modiri Molema District to participate in the study.

3.5 DATA COLLECTION AND ANALYSIS TECHNIQUES

Gerber-Nel, Nel and Kotze (2005:88) observe three main methods of collecting data and these are survey, experiment and observation. Data collection on the other hand is the process through which the researcher gets to collect and ascertain the experiences, preferences and perceptions of the research population, getting answers which can be used to answer the research questions. The survey questionnaire was the primary data collection tool for this study.

3.5.1 Questionnaire

According to Siniscalco and Auriat (2005:4), questionnaires are survey instruments used to collect data from individuals about themselves, or about a social unit. The current study adopted a descriptive survey research design with a quantitative approach therefore a questionnaire was the appropriate research instrument to collect primary data. Furthermore, data was collected on the basis that assessed, evaluated and quantified the opinions, viewpoints, perceptions, beliefs or attitudes of service providers towards the impact of late payments on their operating activities. A five-point Likert type scale closed ended questionnaire was design by the researcher. The questionnaire was divided in four sections (refer to Appendix A).

3.5.2 Data analysis and statistical techniques

Data analysis is defined as "a process of evaluating data using analytical and logical reasoning to examine each component of the data provided" (Saunders *et al.*, 2009:590). The empirical data collected for this study was first entered into a spreadsheet by means of coding. The coded data was analysed by use of computer software, the Statistical Package for Social Sciences (SPSS). The analysed data was presented and interpreted in chapter four using tables and graphs. Descriptive statistics were used to find the mean scores and standard deviation of the responses. Multiple regression and correlation analysis were conducted to find the relationship between the dependent and independent variable.

3.6 VALIDITY AND RELIABILITY

Ultimately researchers must be concerned about the extent to which the measuring instrument they are using is accurately representing the construct they want to include in their research (Coe, *et al.,* 2017:238).

Validity

Validity is defined as the accuracy of an assessment or whether or not it measures what is supposed to measure (Maree, 2014). Content validity was applied. The research questions are designed to have a logical correspondence to the test items; the questionnaire therefore is an estimate of how a measure represents the elements of a construct.

The researcher further personally visited selected suppliers to ensure that distribution and collection of questionnaires was done appropriately and that selected suppliers understood what was expected of them. This was easy because all selected suppliers are based within Ngaka Modiri Molema district where the researcher is also located.

Reliability

Great care was taken to ensure reliability of this research. By its definition, reliability is the idea that any significant results must be more than a one-off conclusion and be inherently repeatable if performed under the same conditions (Saunders *et al.*, 2009:597). It is an important technique used by quantitative researchers to determine if the study consistently gets the same results when the same tools are used (Susanne, 2012).

Care was taken during the design of questions since they focus on the objective of the research. Therefore, the researcher applied the Cronbach's alpha reliability method because it is concerned with how well the items in a set are positively correlated to one another. This is an estimate of internal consistency and measured between 0.00 and 1.0. A coefficient or Cronbach alpha above the acknowledge threshold of .7 was regarded as reasonably consistent among responses.

3.7 ETHICAL CONSIDERATIONS

According to Schemerhorn, Davidson, Poole, Woods Simon & McBaron (2014), ethical consideration should always be put at the forefront of any research project as the researcher deals with human subjects and the society. Ethical behaviour is accepted as morally good and right as opposed to bad and wrong in a particular setting (Schermerhorn *et al.*, 2014). O'Leary (2010) further defines ethics as the rules or behaviour that help one to know what is acceptable within a given research project.

Ethical behavior is conduct that is accepted as morally good and right as opposed to bad and wrong in a particular setting (Schermerhorn *et al.*, 2000). Schemerhorn *et al.* (2000) further articulate the existence of society, subject, client and the researcher in every research project. The rights of all these participants' must be observed at all times. The researcher will have expectation of an ethical subject and client whereas the subject has a right to choose to participate or not, to safety and to be informed. O'Leary (2010) further defines ethics as rules of behavior that help to know what is acceptable within a profession. Ethical behavior is a manner that is in tandem with what society or community considers being good, moral or conventional.

This study observed the principles of respect for human dignity and justice as stated by Pilot and Hunger (1999:153-159). In this study, compliance with principles of research ethics was achieved through implementing measures that confirmed with the principles of informed consent and autonomy. The researcher obtained ethical clearance from the university's research unit to conduct a study relating to the impact of late payment on suppliers. The university approval letter (consent form) was then taken to the department of Health in order to source secondary data from the department. An approval from the Department of Health Head of the Department was obtained to source secondary data which is 30 days payment report that shows the status of invoice paid within a particular month and beyond. The researcher adhered to the principle of voluntary participation by suppliers by ensuring that none of the respondents were forced to participate, and all were granted the right to discontinue at any stage of the research should a need arise. Permission was also sought in writing from SMME's rendering service in the researched Department those affected by late payment. They were informed about the objective of the research and participants were also allowed to make independent decision without fear.

The rights and privacy of all the participants involved in this study were respected at all times. The researcher obtained ethical clearance from the North West University (NWU) research unit to conduct a study with respect to the impact of late payment on SMMEs. A permission letter to conduct research was also issued by the Head of the Department for the North West DoH. Throughout the research process, the researcher adhered to the principle of voluntary participation by ensuring that none of the respondents were forced to participate, and all were granted the right to discontinue at any stage of the research should a need arise. All sources were cited and properly referenced.

3.8 CONCLUSION

A detailed review of the research design and the methodology applicable to this study was outlined. This included data collection and analysis techniques. The quantitative research approach was adopted to collect and analyse empirical data for this study. Issues of valid and reliability as well as ethical consideration we dealt with in details.

The next chapter analyses and presents the empirical perceptions obtained from selected SMMEs regarding the effects of late payments by the North West DoH.

CHAPTER 4

INTERPRETATION AND PRESENTATION OF DATA FROM EMPIRICAL FINDINGS

4.1 INTODUCTION

The previous chapter discussed in detail the research design and methodology used for this study. This chapter focuses on the presentation, analysis and interpretation of quantitative empirical data obtained with respect to the impact of late payment by the DoH on SMMES in Ngaka Modiri Molema District. The interpretation and presentation of the data was done using frequency tables and graph. The findings were grounded on addressing the objectives of this study which were to answer the following research questions:

- What are the perceived impacts of late payment on the survival of SMME's?
- What factors influence the survival of SMME'S?
- What strategies are implemented by SMME'S to mitigate the effects of late payment by the Department?
- Does late payment affect the relationship between DoH and service providers?

4.2 RESPONSE RATE

For the purpose of this study, 100 questionnaires were distributed to the selected sample and 84 questionnaires representing a response rate of 84% were completed and valid for analysis. The percentage of questionnaire return is above the average of expected return of 50% suggested by Babbie and Mouton (2002:261).

4.3 DEMOGRAPHIC DISTRIBUTION

This segment analyses the demographic profile of the SMMEs owners. The focus was on the age group, gender, position in the company and education level of the owners.

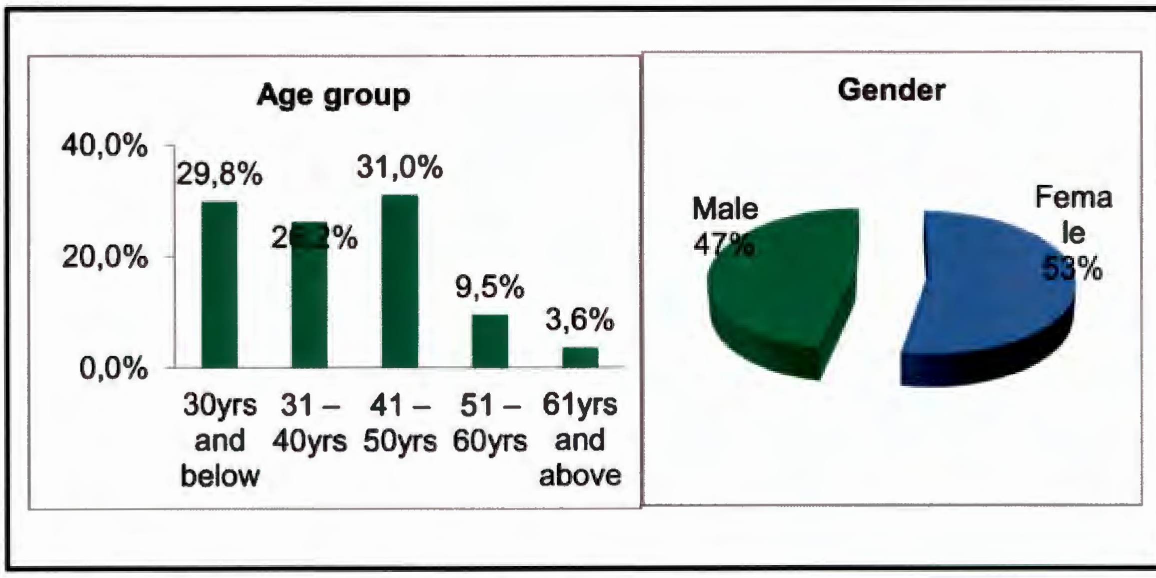

Figure 4.1: Age group (N=84) and Gender (N=81)

Figure 4.1 reveals that majority (31%) of the SMME's are owned by people of the age group 41-50 years of age, followed by persons younger than 30years. More than half of (53%; n=43) of the SMMEs survey are owned by females, which is a representative of the entire South African population in terms of gender (51% female and 49% male) according to Stats SA (2018).

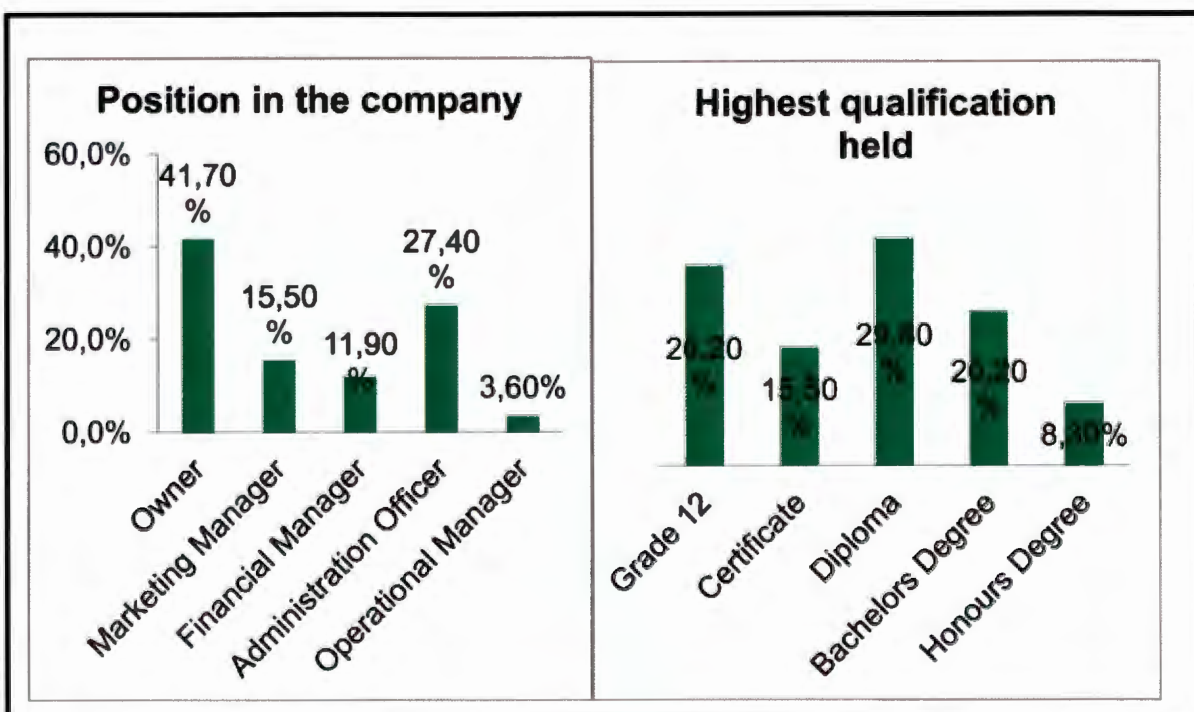

Figure 4.2: Position in the company (N=84) and Highest qualification held (N=84)

Thus, the proxy for the number of SMMEs was taken as the number of owners. Together 41,7% of the employees working in the SMME's are owners, more than a half (58.3%; *n=49*) of the SMME's employ other workers besides the owner, a number which has not changed much in the last seven years as identified in the literature review. The substantial number of SMME owners has some secondary education (26.2%), and the combine majority (73.8%) have a tertiary education while only 8.3% have an Honours degree.

4.4 FACTORS INFLUENCING THE SURVIVAL OF SMME's

The main objective of the current study was to investigate the impact of late payment on SMMEs rendering service to the DoH in the Ngaka Modiri Molema District in the Mafikeng area of the North West province of South Africa. This section investigates various factors influencing the survival of these SMME's. For each of the factors identified, respondents were required to rate their answers using a five-point Likert-type response scale as presented below: SA = strongly agree, A = agree, U = unsure, D = disagree, SD = strongly disagree. The results of the data are presented in Table 4.1.

Table 4.1: Factors influence the survival of SMME's

Objectivity Dimensions	SA (%)	A (%)	U (%)	D (%)	SD (%)
Late payment has affected my Companies cash flow (N=82)	42.7	30.5	2.4	9.8	14.6
Late payment has affected my companies profit (N=81)	35.8	34.6	3.7	14.8	11.1
My company had to make a loan with financial institutions (N=83)	28.9	41	1.2	15.7	13.3
Average Response (%)	**35.8**	**35.4**	**2.4**	**13.4**	**13**

Table 4.1 above illustrates that almost a half (42.7%) of the respondents strongly agree and a further 30.5% agree that late payment has affected the company's cash flow. The combined results show that more than two-thirds (70.4%) of the respondents are of the agreement that late payment has negatively affected the company's profit. Lastly, 66.9% (28.9% + 41) of the respondents agreed that their

company had to make loans covenant with financial institutions. These findings show a close similarity in the overall critical impact of delayed payments with the study findings of Zidane and Andersen (2018) which indicates that delayed payments by public institutions have negatively affected the cash flows and operating profits of most of the Norwegian construction industry and as such these contractors have to source alternative cash to cover their expenses.

In general, most of the respondents were fairly in agreement with an average response of 35.8% and 35.4% for strongly agree and agree respectively that the above factors have significant negative impacts of the survival of SMMEs.

4.5 INDICATORS OF FINANCIAL DISTRESS AMONG SMMES RENDERING SERVICE WITH THE DEPARTMENT OF HEALTH

This section requires respondents to share their opinions with respect to indicators of financial distress among SMMEs rendering service with the DoH. For each of the objective dimension, respondents were requested to rate their reactions using a five-point Likert-type response scale as presented below: SA = strongly agree, A = agree, U = unsure, D = disagree, SD = strongly disagree. The results of the data are presented in Table 4.2.

Table 4.2: Indicators of financial distress among SMME's rendering service with the Department of Health.

Objectivity Dimensions	SA (%)	A (%)	U (%)	D (%)	SD (%)
Had to sell companies assets to compensate for late payment (N = 82)	29.3	28	4.9	26.8	11
Late payment negatively affected my creditworthiness with financial institutions (N = 84)	28.6	44	2.4	13.1	11.9
I struggled to pay workers (N = 80)	36.3	36.3	0	11.3	16.3
Had to borrow money to pay creditors (N = 81)	33.3	37	2.5	17.3	9.9
My company was liquidated (N = 78)	38.5	20.5	10.3	14.1	16.7
Had to borrow money to pay overheads (N = 80)	43.8	25	3.8	16.3	11.3
Average Response (%)	**34.97**	**31.8**	**3.98**	**16.48**	**12.85**

Combined results show that more than half (57%) of the respondents agree that they have to sell company assets to compensate for late payment. A greater majority (70.6%) are of the opinion that late payment has negatively affected their creditworthiness with financial institutions. While 68.8% (43.8%+25%) of the respondents have to borrow money to pay overheads, an even significant majority (72.6%) struggled to pay workers due to late payments by the department of health. More than two-third (70.3%) of the respondents have to borrow money to pay creditors, while almost 60% of the SMMEs are currently facing liquidity problems due to late payments by the department of health to service providers. This finding is in line with a study conducted by Agyekum-Mensah and Knight (2017), whose findings indicate that due to delayed payments, majority of contractors in Ghana were facing liquidity problems and have to borrow money to pay creditors.

In general, most of the respondents were fairly in agreement with an average response of 34.97% and 31.8% for strongly agree and agree respectively that the above indicators have significantly resulted in financial distress among SMME's rendering service with the Department of Health.

4.6 STRATEGIES IMPLEMENTED BY SMMEs TO MITIGATE THE EFFECTS OF LATE PAYMENT BY THE DEPARTMENT.

This section requires respondents to share their opinions with respect to possible strategies that can be implemented to mitigate the effects of late payment by the Department of health. For each of the objective dimension, respondents were requested to rate their responses using a five-point Likert-type response as presented below: SA = strongly agree, A = agree, U = unsure, D = disagree, SD = strongly disagree. The results of the data are presented in Table 4.3.

Table 4.3: Strategies implemented by SMMEs to mitigate the effects of late payment by the DoH.

Objectivity Dimensions	SA (%)	A (%)	U (%)	D (%)	SD (%)
Had to seek legal advice (N = 84)	33.3	25	3.6	27.4	10.7
Staff and management had to take temporary cuts (N = 84)	26.2	42.9	1.2	15.5	14.3
Company write off debt (N = 84)	28.6	36.9	1.2	19	14.3
Company lay off staff (N = 81)	27.2	42	2.5	14.8	13.6
Did you use your personal banking account (N = 82)	41.5	31.7	1.2	13.4	12.2
Had to borrow money from friends (N = 82)	26.8	43.9	2.4	12.2	14.6
Had to borrow money from family (N = 80)	36.3	36.2	0.0	12.5	15.0
Had to use family credit facilities (N = 81)	40.7	28.4	2.5	17.3	11.1

Had to use company credit facilities (N = 82)	39	30.5	2.4	7.3	20.7
Average Response (%)	**33.29**	**35.29**	**1.89**	**15.49**	**14.06**

Table 4.3 reveals that more than half (58.5%) of the respondents had to seek legal advice, while almost 70% of the respondents have to put some of their employees on temporary leave as possible measures to reduce the impact of late payment by the Department. The results further reveal that 65.5% (28.6% + 36.9%) of the respondents write off debt owed to them by the DoH as a result of late payments, while 70.7% (26.8% +43.9%) and 72.6% (36.3% + 36.3%) of the respondents have to borrow money from friends and family respectively to cover for the late payments by the department of health. Furthermore, almost 70% of the respondents have to use family as well as company credit facilities to cover for the late payments.

In general, most of the respondents were fairly in agreement with an average response of 33.29% and 35.29% for strongly agree and agree respectively that the above possible strategies can be implemented to mitigate the effects of late payment by the Department of health.

4.7 LATE PAYMENT AFFECTS RELATIONSHIP BETWEEN STAKEHOLDERS (DOH AND SERVICE PROVIDERS).

Another objective of the current study was to investigate the impact late payments have on the relationship between the department of health and service providers. For each of the objective dimension, respondents were required to rate their responses using a five-point Likert-type response scale as presented below: SA = strongly agree, A = agree, U = unsure, D = disagree, SD = strongly disagree. The results of the data are presented in Table 4.4.

Table 4.4: Late payment affects relationship between DoH and service providers

Objectivity Dimensions	SA (%)	A (%)	U (%)	D (%)	SD (%)
Late payment has not affected my relationships with the Department (N = 84)	11.9	9.5	2.4	28.6	47.6
I will do business with the Department once again if asked to do so (N = 84)	10.7	22.6	31	23.8	11.9
I am able to deliver quality service despite not being paid (N = 84)	11.9	42.9	9.5	29.8	6

It does not matter when the department will pay me as long as they will one day pay me (N = 83)	10.8	15.7	0	30.1	43.4
Average Response (%)	**11.33**	**22.68**	**10.73**	**28.08**	**27.23**

The combined results from Table 4.4 clearly indicate that in general, the majority (average response of 28.08% and 27.23%) of the respondents disagreed that late payments have affected their relationship with the department of health. However, more than a third (35.7%) of the respondents disagrees that they will do business with the Department once again if given the opportunity. On the other hand, more than half (54.8%) of the respondents agree that they are still able to deliver quality services to the Department of Health despite not being paid on timely basis. Lastly, a greater majority (73.5%) of the respondents disagree that it does not matter when the department pays them as long as the department pays at a later stage.

4.8 RELIABILITY ANALYSIS

Cronbach's Alpha (α) coefficient was used to measure the internal consistencies (reliability) of the items on the 5-point Likert scale. The Cronbach's Alpha (α) coefficient is said to be reliable when the average extracted communalities is at closer to 1. Table 4.5 shows the constructs of the questionnaire as well as their level of reliability.

Table 4.5: Reliability analysis

Subscale	Cronbach's Alpha (α)	N of Items	Mean	Standard Deviation	Internal consistency
Section 2*	0.962	3	2.33	0.11	Excellent
Section 3(a)	0.966	6	2.42	0.17	Excellent
Section 3(b)	0.973	9	2.44	0.12	Excellent
Section 4*	0.810	4	3.36	0.56	Good
Total	**0.939**	**22**	**2.63**	**0.39**	**Excellent**

**Items 4 in section 2 and 4 of the questionnaire were removed from these subscales in order to increase reliability coefficients, and therefore, they were longer considered in this study.*

Using Cronbach alpha, Table 4.5 indicates that the internal consistency (reliability) for the four subscales was all found to be above the threshold of 0.7. The Cronbach alpha was found to be 0.962 for Section 2, 0.966 for section 3a, 0.973 for section 3b and 0.810 for section 4. As all the Cronbach alpha are above the acknowledge threshold, there were considered to be good and deemed satisfactory for exploratory analysis. This is an indication that the empirical findings for this study are valid and reliable.

4.9 DESCRIPTIVE STATISTICS

A summary of the descriptive analysis is shown in Table 4.6. The *N* value only includes variables with no missing data. The mean, standard deviation and skewness of each of the identified subscale indicate that it can be assumed that these subscales are normally distributed. All means seem reasonable. A simple procedure was designed to decide whether a variable is at approximately normal is that the absolute skewness is less than plus or minus one (< +/-1.0) (Morgan, Gliner, & Leech, 2009).

Table 4.6: Descriptive statistics

Objectivity Dimensions	N (Valid)	Mean	SD	Skewness
Factors influence the survival of SMME's				
Late payment has affected my Companies cash flow	82	2.23	1.46	0.95
Late payment has affected my companies profit	81	2.31	1.38	0.82
My company had to make a loan with financial institutions	83	2.43	1.40	0.74
Overall mean		**2.32**		
Indicators of financial distress among SMME's				
Had to sell companies assets to compensate for late payment	82	2.62	1.43	0.31
Late payment negatively affected my creditworthiness with financial institutions	84	2.36	1.34	0.88
I struggled to pay workers	80	2.35	1.48	0.85
Had to borrow money to pay creditors	81	2.33	1.36	0.77
My company was liquidated	78	2.50	1.53	0.52
Had to borrow money to pay overheads	80	2.26	1.45	0.79
Overall mean		**2.40**		
Strategies implemented by SMME's to mitigate the effects of late payment				
Had to seek legal advice	84	2.57	1.46	0.33
Staff and management had to take temporary cuts	84	2.49	1.40	0.71
Company write off debt	84	2.54	1.44	0.57
Company lay off staff	81	2.46	1.39	0.74
Did you use your personal banking account	82	2.23	1.43	0.92
Had to borrow money from friends	82	2.44	1.39	0.81
Had to borrow money from family	80	2.34	1.46	0.85
Had to use family credit facilities	81	2.30	1.44	0.76
Had to use company credit facilities	82	2.40	1.56	0.77
Overall mean		**2.42**		

Late payment effects on relationship between the Department of Health and service providers				
Late payment has not affected my relationships with the Department	84	3.90	1.40	-1.12
I will do business with the Department once again if asked to do so	84	3.04	1.18	-0.03
I am able to deliver quality service despite not being paid	84	2.75	1.18	0.28
It does not matter when the department will pay me as long as they will one day pay me	83	3.80	1.42	-0.91
Overall mean		**3.37**		

Table 4.6 reveals that majority of the respondents turn to be in agreement with the items with positive skewness values and disagreed with items indicated with negative skewness values. Values of skewness that are closer to zero imply that the respondents are unsure with the items mentioned in Table 4.6. Most of the variables have skewness values between -1 and 1, meaning that they are approximately normally distributed therefore inferential statistics was performed to determine the correlations between variables.

Values of the mean closer to 2 shows that the respondents tend to agree, while values of the mean that are closer to 3 indicate that the service providers tend to be unsure and those closer to 4 shows that the service providers tend to disagree with the items listed in Table 4.6.

Standard deviations indicate that the responses are slightly closer to their respective means. Low standard deviations indicate that the responses are clustered closer to their respective means.

4.10 CORRELATION ANALYSIS

Spearman's rank correlation coefficient was computed to analyse if there was any statistically significant association between the age group, educational level and the perceptions of service providers with respect to the effects of late payments by the department of health to SMMEs. The correlation is statistically significant if the $p <$ 0.05 level of significance.

The spearman's rank correlation coefficient is given by $r = 1 - \frac{6\sum D^2}{N(N^2-1)}$

$-1 \leq r \leq 1$

Where:

D = differences of ranks of corresponding values of dependent and independent variables

N = number of pair values in the data.

The following correlation coefficients relationships were performed.

Table 4.7: Spearman's rank correlation coefficient between age group and perceptions of respondents on the impact of late payment on SMMEs

View	
Had to sell companies assets to compensate for late payment (N = 82)	r = 0.283* *p* = 0.010

**Correlation is significant at the 0.05 level*

Table 4.7 reveals that there is a statistical significant difference r = 0.283 p = 0.010 between the age group with respect to the impact of late payments on SMME's. The correlation coefficient (0.283) is positive ($r > 0$). This implies that that older service providers tend to disagree that they had to sell companies assets to compensate for late payment, whereas younger service providers tend to agree that they had to sell companies assets to compensate for late payment. This research finding can further be justified as shown in Figure 4.3 below.

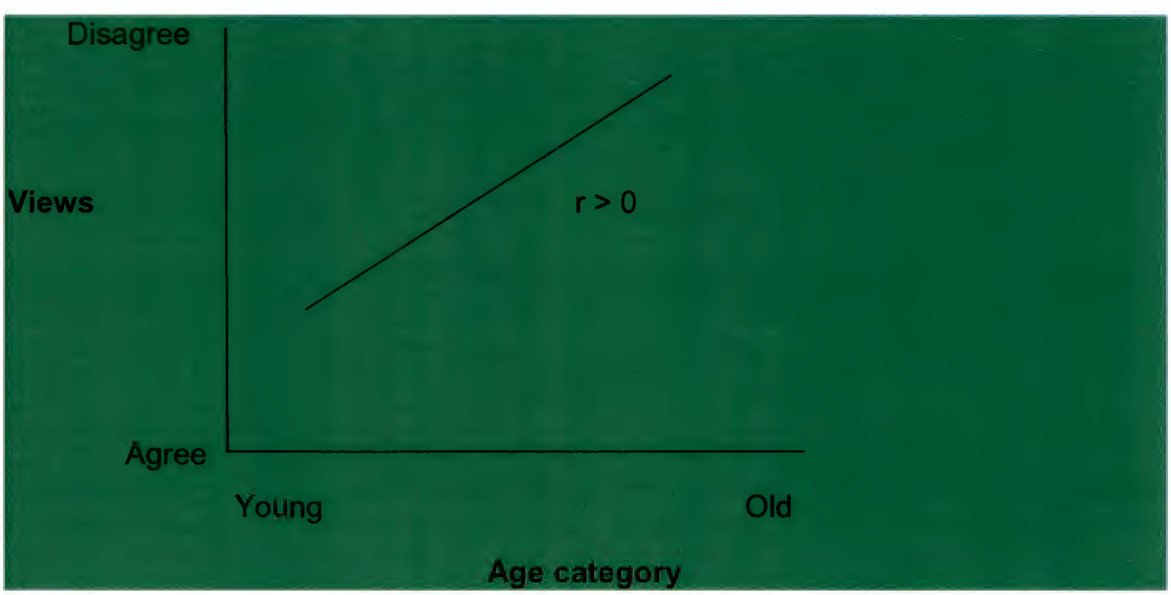

Figure 4.3: Perceptions of service providers versus age ($r > 0$)

As seen in Figure 4.3, the majority of the SMMEs are owned by young respondents of the age group 41-50 years. In relation to late payments the young respondents are convinced that due to late payments by the Department of Health, they had to sell company assets to compensate for late payment. On the other hand, older respondents with more experience might have other alternatives ways to compensate for the late payments rather than selling company assets.

Table 4.8: Spearman's rank correlation coefficient between educational level and views perceptions of respondents regarding the impact of late payment on SMME's financials.

Views	
Late payment has affected my Companies cash flow (N=82)	$r = 0.297^*$ $p = 0.007$
My company had to make a loan with financial institutions (N=83)	$r = 0.219^*$ $p = 0.047$
Had to sell companies assets to compensate for late payment (N = 82)	$r = 0.481^*$ $p = 0.000$
Late payment negatively affected my creditworthiness with financial institutions (N = 84)	$r = 0.266^*$ $p = 0.014$
I struggled to pay workers (N = 80)	$r = 0237^*$ $p = 0.034$
Had to borrow money to pay creditors (N = 81)	$r = 0.224^*$ $p = 0.045$
My company was liquidated (N = 78)	$r = 0.227^*$ $p = 0.046$
Had to borrow money to pay overheads (N = 80)	$r = 0.264^*$ $p = 0.018$
Had to seek legal advice (N = 84)	$r = 0.348^*$ $p = 0.001$
Staff and management had to take temporary cuts (N = 84)	$r = 0.300^*$ $p = 0.006$
Company write off debt (N = 84)	$r = 0.246^*$ $p = 0.024$
Did you use your personal banking account (N = 82)	$r = 0.250^*$ $p = 0.024$
Had to borrow money from family (N = 80)	$r = 0.286^*$ $p = 0.010$
Had to use family credit facilities (N = 81)	$r = 0.255^*$ $p = 0.022$
Had to use company credit facilities (N = 82)	$r = 0.235^*$ $p = 0.033$

*Correlation is significant at the 0.05 level

Table 4.8 indicates that there is a statistically significant difference $r > 0$. $p < 0.05$ between the educational level with respect to all the items listed in Table 4.8. Furthermore, all the correlation coefficient for the above listed items in the table is positive ($r > 0$). The positive correlation coefficients imply that respondents with high levels of education tend to disagree, whereas less qualified respondents tend to agree with the items listed in Table 4.8. In this regard, less qualified respondents perceived that late payment by the department of health has a negative impact on the SMME's cash flow and as such they had to enter into loan covenants with financial institutions to compensate for the negative impact on the company cash flow. Figures 4.4 below further justify these research findings.

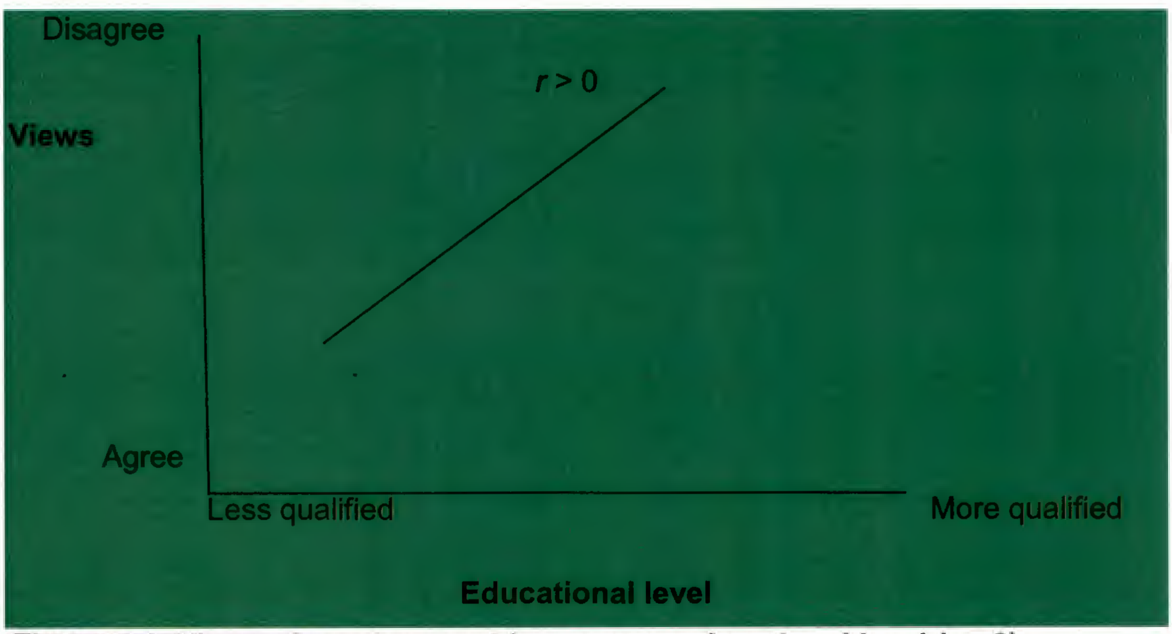

Figure 4.4: Views of service providers versus educational level ($r > 0$)

Figure 4.4 demonstrates that respondents who are more qualified tend to disagree with the items listed in Table 4.8 indicating they are of the view that late generally has a significant negative impact on the company financials impact. However, the combined majority of the respondents in this study have achieved at least a tertiary education level, in this regard they can apply alternatives measures to alleviate the effects of late payments be the department of health on their company financials.

However, the Spearman's rank correlation coefficient between educational level and perceptions of respondents regarding the impact of late payment on SMME's financials also reveals three items with negative correlation coefficients as show in Table 4.9 and Figure 4.5 below. Negative correlation coefficients imply that there is a strong inverse relationship between the educations levels with respect to the items listed in table 4.9 below.

Table 4.9: Spearman's rank correlation coefficient between educational level and views perceptions of respondents regarding the impact of late payment on SMME's financials

Views	
Late payment has not affected my relationships with the Department (N = 84)	$r = -0.342^*$ $p = 0.001$
I will do business with the Department once again if asked to do so (N = 84)	$r = -0.409^*$ $p = 0.000$
I am able to deliver quality service despite not being paid (N = 84)	$r = -0.328^*$ $p = 0.002$

**Correlation is significant at the 0.05 level*

The correlation coefficient of the three items in Table 4.9 are all negative implying that more qualified service providers tend to agree with the listed items, whereas less qualified service providers tend to disagree. These findings indicate the existence of dissimilar views among service providers with regards to the effects of late payment on the relationships between service providers and the Department of health. Figures 4.5 below further justify these research findings.

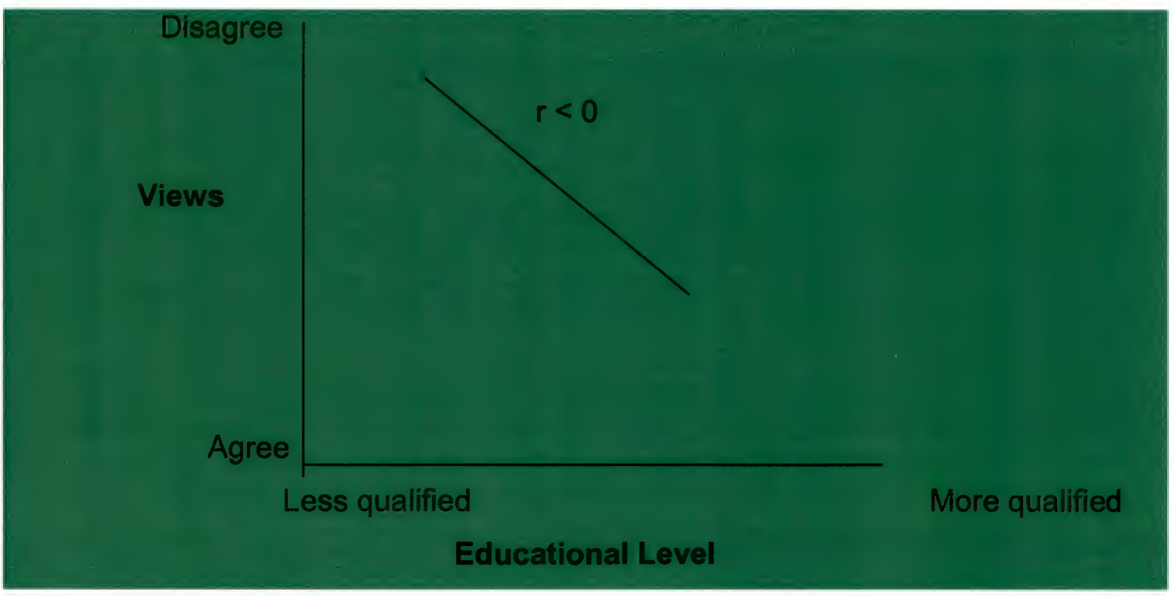

Figure 4.5: Views of service providers versus educational level (r < 0)

Figure 4.5 indicates that there is a greater influence from the department of health regarding their relationship with service providers especially with less qualified service providers. This finding opposes the study conducted by Ahmad and Lukman (2017), whose analysis reveals a positive relationship between education level and stakeholders relationships due to late payments.

4.11 CONCLUSION

This chapter presented and interpreted the empirical data that emerged from the quantitative investigation of the effects of late payments by the North West department of health to service providers. The analysis focused on answering the research question and as such all the research objectives for the current study were attained.

The next chapter presents the conclusions and recommendations for this study. Limitations and recommendations to both service providers and the North West department of health as well as for future research will also be pointed out.

CHAPTER 5

FINDINGS AND CONCLUSIONS

5.1 INTRODUCTION

The main aim of the study was to investigate the impact of late payment on SMMEs rendering service to the DoH in the North West Province of South Africa. In this chapter the findings and conclusions of this research are presented. This chapter begins with a summary of the entire study, followed by a discussion of the major findings from empirical data and deductions thereof. The chapter concludes with a discussion of the limitations of the study and recommendations to both departments of health and service providers as well as for future research.

5.2 SUMMARY OF THE STUDY

Chapter one of the current study lays out the research approach, specifies the research objectives, give a background to the study and states the research problem. The proposed research method and structure of the dissertation were also outlined. The chapter provide the road map through which the entire study must follow.

Chapter two reviews literature on SMMEs and late payments by public institutions in South Africa. The literature served to provide a theoretical grounding of the subject as well as serving to provide a basis for developing data collection tools.

In chapter three, this chapter discusses the research design and methodology used. It discussed in detail the empirical investigation used for the quantitative research approach which ranged from population and sampling techniques down to the method of data collection and its analysis. Chapter 3 also included issues of reliability and validity as well as ethical consideration for conducting the research.

Chapter four presented the research findings, the analysis results as well as a discussion and interpretation of the findings.

Chapter five presents a summary of the primary data and reviewed literature. A set of recommendations based on these findings is also presented.

5.3 SUMMARY OF FINDINGS

5.3.1 Demographic characteristics

The study reveals that most of the SMMEs providing services to the DoH are owned by females who are aged between 41 to 50 years. Findings further show that majority of the SMMEs owners are employers. This finding is consistent with the findings of the employees working in the SMMEs. The findings show a positive correlation between age and having to sell company assets to compensate for late payment. This explains why older service providers with long term experiences and a higher level of education tend to develop strategies to compensate for late payments rather than selling their assets. This study established that most of the owners of the SMMEs are operating at the senior official or management level. This finding can be attributed to the fact that most of the owners have at least a tertiary education.

A summary of the findings to answer the research questions are presented below in section 5.3.2 to 5.3.3.

5.3.2 To what extent does late payment affect the survival of SMME's?

According to Hopkins and Richmond (2017:61), a month delay in being paid would reduce capital spend and could lead to reduced profitability for as long as five years thereafter. The study reveals that late payment by the North West DoH has a negative significant impact on the cash flow as well as the operating profits of the majority of the SMME's rendering services to the department. In this regard, a significant number of SMMEs had to take loans with financial institutions so as to settle their expenses. However, despite these negative impacts, most of the SMMEs are still able to deliver quality service to the DoH.

These findings concur with previous study by Ashraf and Ghanim (2016) whose findings suggest that delayed payments to contractors is one of the most significant motive for deferments in the completion of public projects in this country and this problem has negatively affected the financial performance of these contractors.

5.3.3 What factors influence the survival of SMMEs?

Research have shown that the magnitude of the effects of late payments varies considerably depending on the type of services being rendered by the SMMEs (Ibrahim, 2013:448). The study found that most of the service providers have to sell company assets to compensate for late payments for them to survive. Late payments have negatively affected the creditworthiness of service providers with financial institutions as they borrow money to pay overheads and sometimes are not able to pay employees. However, in the course of this process some of the SMMEs end up being insolvent.

These findings extent on the body of knowledge on a similar study conducted in Scotland, Northern Ireland, England and wales by Hopkins and Richmond (2017). Their empirical findings reveal that one in every four SMEs has been declared bankrupt due to late payments by their customers. However, the research finding contradicts Hopkins and Richmond (2017) in that there is evidence that late payment is linked to an inability to access affordable finance, due to an inability to demonstrate to lenders a clear cash flow.

5.3.4 What strategies are implemented by SMME'S to mitigate the effects of late payment by the Department?

The study also found that service providers often implement the following strategies to mitigate the effects of late payments, namely: seek legal advice, put some of their employees on temporary cuts, write off debt owed to them by the DoH as a result of late payments, borrow money from friends and family, use family as well as company credit facilities to cover for the late payments.

However, findings from literature have shown that the longer companies wait for payment, the lower the level of investment they make. Affirming this assertion, Hopkins and Richmond (2017:61) findings indicates that late payment also forces many affected businesses to focus on 'day-to-day' activities rather than longer-term plans for growth and expansion.

5.3.5 Does late payment affects the relationship between DoH and service providers?

It was found that late payment does not have any affect the relationship between service providers and the DoH, as such they will continue to do business and still able to deliver quality service to the department of health despite not being paid on timely basis.

5.4 SIGNIFICANCES OF THE STUDY

The results of this study could offer insights into how small business can mitigate the effects and reduce the extent to which it is common practice, both those experiencing late payment and those adopting late payment practices.

The results of this study could be of immense help to the both public institutions and service providers and especially to academics. Public institutions can better understand the dynamics of managing projects and make efforts to reduce the incidences of delays in payments.

The results of this study could help service providers to be aware and know about the potential impact of late payments in their projects and possible strategies to mitigate the impacts, which would help to identify the possible risks as early as possible.

Another practical implication is to make service providers and policy makers conscious that late payments are universal.

5.5 LIMITATIONS OF THE STUDY

This study was conducted in a particular area in South Africa, which is the Ngaka Modiri Molema District in the Mafikeng area of South Africa. Hence the sample of service providers was therefore limited to only 84 SMME's, so that generalisation of the findings is only speculative and cannot be over emphasis. The study was also limited in terms of design and methods.

5.6 RECOMMENDATIONS

Late payment has a wide range of consequences for SMMEs, including cash flow shortage, low profits, being unable to access finance and discouraging trading, all of which act as a drag on economic and productivity growth (Hopkins & Richmond, 2017:63). Base on the findings for this study, the following recommendations were made to both public institutions and SMMEs.

As part of its commitment to support sustainable small businesses growth in south Africa, this study recommend that the south Africa government should integrate commitments towards prompt payment into their policies. These will assist SMMEs be keen to work with public institutions that pay on time, avoiding costly late payment charges or compensation claims and strained relationships with the government departments.

Although it is argued that diversified income streams and client bases are however, not always possible for many SMMEs. The current study however recommends that SMMEs should maximising other revenue streams through diversification to prevent a heavy dependency on one particular public institution.

The South African government should introduce a requirement for government departments to report on their payment practices, including making public the proportion of invoices they pay beyond agreed terms. This will assist service providers to be aware of the departments' payments practice before entering into any contractual agreement with the department.

The study recommend that the South African national Treasury should extent the stipulated 30 days payments to at least 60 or 90 days, which is in line with payments practice of most public companies. This time duration will afford the departments more time to sort its payments.

For future research

This study only explored the potential impact of late payments by the DoH to service providers classified as SMMEs, hence future research could develop a similar study but in a broader spectrum by looking at the causes and effects of delayed payments by all governments departments upon both large and small companies.

5.7 CONCLUSIONS

SMMEs constitutes a critical pillar of the South African economy and society, and will continue to be so in the foreseeable future. Delay is one of the risks that any business may face. However, the current practices of late payments by government departments to these SMMEs remains a constraint to the operations, growth and transition of SMMEs rendering services to these departments. Despite, these negative impacts, this research provides empirical evidence that there still exists a strong business relationship between the DoH and its service providers and the majority of these services providers are still willing to continue doing business with the DoH in the foreseeable future, in spite of payment delays.

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APPENDIX A

QUESTIONNAIRE

PARTICIPANT INFORMATION SHEET

Ethics clearance reference number: NWU-00462-1854

My name is Millicent Tumane. I am doing master's in business administration (MBA) at North-West University – Mafikeng Campus. I have designed my interview questions for data collection on Research Topic: **"Impact of late payment of SMME's in the Department of Health in the North West Province"**

May you kindly complete this questionnaire which will take about 15 minutes of your time. Your responses are important to the success of this research. The purpose of this research is to establish the impact of late payment on SMMEs. The analysis may reveal certain aspects that may require to be shared with government. Without pre-empting the outcome, any adverse outcome will be communicated to the department.

Research of this nature helps South Africa to understand its strengths and weaknesses. Your participation is yet another step in helping the country to understand itself and it is highly appreciated. Should you seek any clarity regarding this questionnaire or the study feel free to contact me on 079 511 7083 / 018 388 2474, email address: kmtumane@nwpg.gov.za

Kind Regards,

K. M.Tumane

Thank you for your time.

SECTION 1: BIOGRAPHICAL DATA OF RESPONDENTS

The aim of this questionnaire is to establish the impact of late payment on SMME's rendering service in the Department of Health in the North West Province. The study is for academic purpose. Respondents will remain anonymous in the analysis of data, presentation of results and discussion of the outcomes. You are requested to complete the questionnaire with honestly. Please mark the appropriate block with an **X.**

1.1 Age

1	2	3	4	5
Under the age of 30	Between 31 and 40	Between 41 and 50	51 and 60	60 and older

1.2 Gender

1	2
Female	Male

1.3 What position do you hold in the company?

1	2	3	4	5
Owner	Marketing Manager	Financial Manager	Administration Officer	Operational Manager

1.4 Highest qualification held

1	2	3	4	5
Grade 12	Certificates	Diploma	Bachelor of Degree	Honours Degree

SECTION 2: What factors influence the survival of SMME's?

	Objectivity Dimensions	**SA**	**A**	**U**	**D**	**SD**
1	Late payment has affected my Companies cash flow					
2	Late payment has affected by companies profit					
3	My company had to make a loan with financial institutions					
4	My company could pay overheads					

SECTION 3: What are the indicators of financial distress among SMME's rendering service with the Department of Health?

	Objectivity Dimensions	SA	A	U	D	SD
1	Had to sell companies assets to compensate for late payment					
2	Late payment negatively affected my creditworthiness with financial institutions					
3	I struggled to pay workers					
4	Had to borrow money to pay creditors					
5	My company was liquidated					
6	Had to borrow money to pay overheads					

3.3: What strategies are implemented by SMME's to mitigate the effects of late payment by the Department?

	Objectivity Dimensions	SA	A	U	D	SD
1	Had to seek legal advice					
2	Staff and management had to take temporary cuts					
3	Company write off debt					
4	Company lay off staff					
5	Did you use your personal banking account					
6	Had to borrow money from friends					
7	Had to borrow money from family					
8	Had to use family credit facilities					
9	Had to use company credit facilities					

SECTION 4: How does late payment affect relationship between stakeholders (Department of Health and service providers)?

	Objectivity Dimensions	SA	A	U	D	SD
1	Late payment has not affected my relationships with the Department					
2	I will do business with the Department once again if asked to do so					
3	I am able to deliver quality service despite not being paid					
4	The Department can be trusted to pay service providers within accepted and approved time frames					
5	It does not matter when the department will pay me as long as they will one day pay me					

APPENDIX B

REQUEST FOR PERMISSION TO CONDUCT RESEARCH

Department of Health

1ST Street

Mahikeng

2745

06 July 2018

My name is Millicent Tumane, a student of Master of Business Administration at the North West Business School. I am conducting a research study on impact of late payment by Health Department on SMME's rendering service in Ngaka Modiri Molema District. I have obtained ethical clearance from the University, ethical clearance no: **NWU-00462-18-54**. I therefore seek permission to have access to the 30 days payment reports, list of service providers affected by late payment and also wish to invite employees working under Supply Chain Management and Finance to complete the attached questionnaire. The questionnaire will require approximately 5 to 10 minutes to be completed.

Should you wish to participate in the study, please note that your participation will be voluntary and you may withdraw as and when you wish. I would also like to assure you that your identity will be kept secret and your responses will not be used against you.

Yours Faithfully

Millicent Tumane

kmtumane@nwpg.gov.za

079 511 7083

APPENDIX C

COMBINE TITLE REGISTRATION AND NOTICE OF SUBMISSION FORM

Name of Faculty:

Faculty of Economic and Management Scier

NWU®

7.1.11 COMBINED TITLE REGISTRATION AND NOTICE OF SUBMISSION FORM:

This form will be used only for the title registration of mini-dissertations (for programmes where a student has only 6-12 months to complete a mini-dissertation module).

New Title		Title amendment	✔	ATTACHMENTS	*mark if yes*
Functionaries		Functionary amendment		Research proposal	
Examiners		Examiner amendment		Keywords	
				CV Examiner 1	
				CV Examiner 2	
Ethics nr	NWU-00462-1854	Article format: Yes ○ No ◉		CV Examiner 3	

First Name and Surname	MILLICENT TUMANE		
Student number	16091647	NRF ORCID	0000-0003-2803-4475
Programme code	5BEQ01	Date of first registration	JANUARY 2017
Name of degree	MASTERS IN BUSINESS ADMINISTRATION		

Classified No

TITLE The new title should be language edited prior to registration

Impact of late payment by the Health Department on SMME's in Ngaka Molema District

Millicent Tumane

Student signature

- This form will only be recognised as a dual-purpose form (for Title registration and Notice of submission for examination) once all the examiners have been indicated on the form *(two examiners are required, of which at least one must be an external examiner)*.
- A Notice of non-submission must be submitted by a student who is not ready to submit by 31 October 2018.
- In the case of the above mentioned situation, a student is obliged to inform the relevant supervisor and Faculty Advisor at Higher Degree Administration of the non-submission via email.

Functionary type	Title, First Name & Surname	Personnel number or email address if external person	Signatures
Supervisor / Promoter	Professor Wedzerai	Wedzerai.Musvoto@nwu.ac.z	Wedzerai S Musvoto
Co-Supervisor / Co-promoter			
Co-Supervisor / Co-promoter			
Assistant-Supervisor / Assistant Promotor			

Internal / External examiner

External examiner details

External examiner details

Faculty signature

Meeting minutes reference date

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APPENDIX D

LANGUAGE EDITING CERTIFICATE

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NOORDWES-UNIVERSITEIT
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Office: 0183892451

FACULTY OF EDUCATION

Cell: 0729116600

Date: 22nd November, 2018

TO WHOM IT MAY CONCERN

CERTIFICATE OF EDITING

I, **Muchativugwa Liberty Hove**, confirm and certify that I have read and edited the entire mini-dissertation, **Impact of late payment by the Health Department on small, medium and micro enterprises in Ngaka Modiri Molema district by Keatlaretse Millicent Tumane, Orcid.org 0000-0003-2803-4475, submitted in partial fulfilment of the requirements for the degree *Master of Business Administration* at the North-West University.**

Keatlaretse Millicent T was supervised by **Professor Wedzerayi Musvoto** of the North-West University.

I hold a PhD in English Language and Literature in English and am qualified to edit such a thesis for cohesion and coherence. The views expressed herein, however, remain those of the researcher/s.

Yours sincerely

Dr M.L.Hove (PhD, MA, PGDE, PGCE, BA Honours – English)

NORTH-WEST UNIVERSITY
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APPENDIX E

TURNITIN ORIGINALITY REPORT

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