

EVALUATING THE EFFECT OF OWNERS' DEMOGRAPHIC CHARACTERISTICS ON THE FINANCIAL MANAGEMENT BEHAVIOUR OF RURAL ENTREPRENEURS IN SOUTH AFRICA

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ABSTRACT

The purpose of this study was to investigate the financial management behaviour of rural entrepreneurs. The quantitative research design was utilized and the survey method was used for data collection. The self-administered questionnaire was used to collect data from one hundred participants. The convenience and snowball sampling methods were used to identify the study participants. The Cronbach's alpha was used as a measure of reliability. Descriptive statistics, factor analysis and the t-test were adopted for data analysis. The results indicated that the financial management behaviour of rural entrepreneurs is unsatisfactorily low. T-test results showed a significant difference between level of education and financial management behaviours of rural entrepreneurs. Recommendations included awareness and use of government agencies to improve the financial management skills of rural entrepreneurs.

Keywords: Behaviour, Financial Management, Owners' Demographics, Rural Entrepreneur, South Africa.

INTRODUCTION

South Africa is confronted with a severe unemployment rate of 27% (Statistics South Africa, 2016). Unemployment and poverty are high in rural areas, with black South Africans living in poverty compared to other races (World Bank Report, 2018). The same report further indicates that poverty is most severe in rural areas as compared to urban areas in South Africa. It is estimated that 70% of rural population live in poverty as compared to only 30% of the urban populace. (Mbuli, 2009). Hussain et al. (2014) opine that “*poverty results from and even consists of a lack of basic securities, which not only include financial resources, but also education, employment, housing, health care and other related aspects leading to deprivation.*” Fetakgomo municipality is not an exception when it comes to unemployment and poverty issues affecting other rural areas. Fetakgomo local municipality is located in the Sekhukhune District Municipality of Limpopo province, South Africa. The majority of the population (99.4%) is from the previously disadvantaged black African population. This present status calls for the creation of many new entrepreneurial businesses lest the community falls into economic stagnation and meltdown. Rural entrepreneurship is central to local economic development through the creation of employment growth, poverty reduction and sustainable economic growth (Nwankwo and Okeke, 2017). The South African government decided to set up a fully fledged Ministry of Small Business Development in 2014 after realising the importance of growing small businesses in the economy (Small Enterprise Development Agency, 2016). The newly appointed president of the

republic of South Africa president Cyril Ramaphosa, acknowledged the critical role played by entrepreneurial business in the economic performance of the country in his opening speech. Radipere (2012) remarks that entrepreneurship activities have a bearing on community development. Entrepreneurship can result in the creation of new businesses, which generates income for the owners as well as their relatives, therefore enhancing livelihoods in rural areas (Badenhorst-Weiss and Cilliers, 2014). Entrepreneurship results in high growth oriented ventures which in no doubt lead to expansion in the GDP through the multiplier effect. More importantly is the wide dispersion of these entrepreneurial businesses which makes them effective vehicles for local economic development (SBP, 2014).

However, notwithstanding the key role played by entrepreneurship, new venture creation is very low in South Africa especially in rural areas (Herrington and Kew, 2015). According to SBP (2014), the failure rate of rural enterprises is very high in South Africa. A significant number of small businesses fail every year in South Africa (Leboea, 2017). One of the causes of the high failure rate of small businesses is a lack of key business skills (Mamabolo et al., 2017), for which lack of good financial management behaviour is one of them (Jindrichovska et al., 2013). Every year, a significant number of South Africans have their assets such as cars, houses and other business assets repossessed by banks due to the inability to settle their debt in time. This is an example of bad financial management behaviour. Good financial management behaviour is an essential component of the personal lives of successful entrepreneurs (Wolmarans and Meintjes, 2015; Karadag, 2015). As indicated by Sayinzoga et al. (2016), effective financial management behaviour enhances the performance of rural enterprises. Bezuidenhout and Nenungwe (2012) point out that financial management skill is one of the critical aspects required for the success of a small business. Existing literature points out that there is a paucity of empirical studies about rural entrepreneurship in developing countries (Pato and Teixeira, 2014). On that backdrop, it is within the scope of this study to investigate the effect of owners' demographic characteristics on the financial management behaviour of rural entrepreneurs in South Africa.

OBJECTIVES

This study aimed to achieve the following objectives:

1. To investigate the financial management behaviour of rural entrepreneurs.
2. To investigate if there is a significant difference in the financial management behaviour of rural entrepreneurs on the basis of gender.
3. To determine if there is a significant difference in the financial management behaviour of rural entrepreneurs on the basis of age.
4. To examine if there is a significant difference in the financial management behaviour of rural entrepreneurs on the basis of the level of education.

LITERATURE REVIEW

Nieman & Nieuwenhuizen (2009) define an entrepreneur as “*a person who sees an opportunity in the market, gathers resources, and creates and grows a business venture to meet customer needs.*” Radipere (2012) defines entrepreneurship as a process of creating new ventures in a bid to realise economic gains. The entrepreneurship phenomenon has gained popularity globally (Mamabolo et al., 2017). It is through entrepreneurship that the United States of America has experienced rapid economic prosperity (Ryan Decker et al., 2014). Entrepreneurship is a crucial tool in developing countries considering expanding their economies

(Nwankwo & Okeke, 2017). The local municipalities and the government at large tend to benefit from entrepreneurship activities in form of taxes paid by numerous small businesses scattered around the country. Supporting entrepreneurial growth can be a panacea to a plethora of problems faced by developing countries (Etuk et al., 2014). Poverty can then be reduced since small enterprises represent the vast majority of businesses in developing countries. Katua (2014) asserts growth oriented entrepreneurial businesses improve and enhance access to infrastructure in abandoned rural areas hence stimulating economic activities and improving living standards of the employees and their relatives. Entrepreneurial businesses actively reduce poverty as they tend to employ poor and low income workers and sometimes they are the only source of employment in rural areas and poor regions (Ali, Rashid & Khan, 2014). Another crucial role played by entrepreneurial businesses is the reduction in the flow of people from rural to urban areas and can easily be established with minimal skill (Agwu & Emeti, 2014). Rural areas like Fetakgomo municipality tend to benefit greatly from entrepreneurial businesses. However, the entrepreneurs in this rural area are not performing to their fullest potential. Their businesses tend to mushroom and die within a short period, which is a cause of concern to policy makers. This study cites the above to poor financial management among rural entrepreneurs.

Effective financial management behaviour can enhance the survival and growth of rural enterprises. To understand the financial management behaviours among rural entrepreneurs, it is important to lay out what constitutes financial management behaviour. Peel & Wilson (1996) identify capital budgeting and financing activities as important aspects of financial management. Lusardi & Mitchell (2011) identify financial planning, saving, retirement planning and investment as elements of financial management behaviour. On the other hand, Mien & Thao (2015) define financial management behaviour as a set of actions one is involved in pertaining the handling of cash, credit, investments, insurance and retirement and estate planning. Dew & Xiao (2011) in their construction of the financial management behaviour scale argue that financial management behaviour can be categorized into; savings and investment, credit management, cash management and insurance management. Butt et al. (2010) argue that these financial management practices can however differ across nations. The authors of this study argue that, it is the understanding and application of such elements of financial management that determines one's financial management behaviour. It is crucial for new business owners to understand financial management principles in order to improve the sustainability of their businesses. Effective financial management has a bearing on firm success (Karadag, 2015). Working capital management is important for new businesses as it is the lifeblood that is a proxy for business success (Degryse et al., 2011). On that note, Masocha & Dzomonda (2016) argue that it is crucial for small business to have a positive cash balance in most cases to take advantage of supplier clearance sales. Chimucheka & Rungani (2013) assert that lack of finance is the major obstacle encountered by small businesses in South Africa. Therefore, investing in stocks can solve financial problems for rural entrepreneurs who wish to expand their businesses without having to pay huge interest rates that come with loans from banks. In addition, it is important for rural entrepreneurs to also save and invest the money they get. This can enable them to raise startup capital for their business and avoid the stress of applying for loans which are in most cases hard to access. However, the results of Lusardi (2008) show that a significant number of people do not save. Similarly, Kotzè & Smit (2008) note that in general people in South Africa do not save at all. Instead a significant number of people in South Africa are sunk in consumer debts. Akande (2011) identifies effective financial management behaviour as a proxy to business success. Equally important is the fact that a significant number of small

businesses are solely owned. This poses a threat to the growth and survival of the business in the event that the owner falls sick. Therefore, it is important for rural entrepreneurs to save money and have an active medical aid cover as poor financial management behaviour can have negative implications to the owner and the business.

RESEARCH METHODOLOGY

The study adopts a quantitative research approach with a descriptive research design. A quantitative research approach is advisable to use as it makes it possible to verify accuracy of the data (Poni, 2014). The survey method was used for data collection. The self-administered questionnaire was used to collect data from one hundred participants without assistance from the researcher. Question items were adapted from the financial management behaviour scale developed by Dew & Xiao (2011) as well as Wolmarans & Meintjes (2015). The two measuring tools exhibited high levels of reliability and validity and have been widely used in the literature to measure financial management behaviour. Likert scale questions ranging from “*I strongly disagrees*” to “*5 strongly agree*” were used to measure financial management behaviour. Demographic variables considered were gender, age and level of education. These were considered based on the indication that they are possible determinants of financial management behaviour yet they haven’t been tested empirically in the context of rural entrepreneurs’ financial management behaviour. Financial management behaviour was measured using four scales which are; savings and investment, credit management, cash management and insurance management. The convenience and snowball sampling methods were used to identify the study participants. The Cronbach’s alpha was used as a measure of reliability. Descriptive statistics, factor analysis and the t-test were adopted for data analysis.

DATA ANALYSIS AND FINDINGS

Response Rate

During the survey, two hundred and forty questionnaires were distributed. One hundred questionnaires were returned. The response rate was forty-two percent.

Demographic Variables

Considering the gender of the rural entrepreneurs surveyed, males constituted 61% while females constituted 39%. The results indicate that males still own more businesses than females in South Africa. This shows that males are risk tolerant than females. Given that entrepreneurship requires individuals to be risk takers, males will automatically record a high number of new venture creation than females as indicated by our results. However, another reason why males still dominate the entrepreneurship career can be attributed to the cultural dynamics in most African countries with South Africa included where females are supposed to be house wives responsible for bearing and raising children while males act as bread winners who work and run businesses. The small number of women participating in the entrepreneurial field can be attributed to high poverty levels in most parts of South Africa where females also venture into business to fend for their children.

In terms of age, the results showed that 17% of the respondents were between 20-30 years of age, while 75% were between 31-40 years and 7% were above 41 years old. The results

show that there is still a small number (17%) of youth between the 20-30 years considering entrepreneurship as a career. Most youths still believe in working in the formal sector as opposed to starting their own businesses.

Another important finding was that a significant number of rural enterprises are sole proprietors and mainly owned by people with matric qualifications (38%). 21% of the respondents indicated that they had below matric qualifications while, 23% indicated that they possessed a degree or equivalent and 18% indicated that they possessed a postgraduate qualification. The results indicate that those with good qualifications for example a degree and postgraduate qualifications do not usually prefer to create their own business but rather seek for employment in the formal sector in the areas they are qualified in. in contrast, those with matric and below end up choosing the entrepreneurial way because of limited choices in terms of work which require certain skills they do not have. Furthermore, the results indicated that predominantly found in the retail and service industries, employing mostly 1-4 employees. The results indicate that 43% of the participants have been in business for 1-5 years. This shows the discontinuance rate of small businesses in this area is high as a significant number of them fails before they reach their first year anniversary.

Descriptive Statistics

To measure financial management behaviour, Likert scale questions ranging from 1. Strongly Disagree-**SD**; 2. Disagree - **D**; 3. Neutral - **N**; 4. Agree - **A**; 5. Strongly Agree - **SA** were used.

Table 1
DESCRIPTIVE STATISTICS FOR FINANCIAL MANAGEMENT BEHAVIOUR OF RURAL ENTREPRENEURS

Statement	Mean	Standard deviation
I compare prices before I purchase a product	2.66	0.95
I pay all my bills on time	1.68	0.96
I keep records of expenses	1.88	1.43
I stick to the budget all the time	2.04	1.11
I pay all my credits on the credit card every month	2.01	0.96
I sometimes spend beyond the limit of my credit cards	3.14	0.91
I make minimum payments only on the loan	3.83	1.07
I actively maintain an emergency savings fund	2.01	1.01
I always save money from every income I get	2.06	0.97
I do save money for things like education and a home	1.80	0.98
I pay for my retirement account every month	2.05	0.91
I have started investing in stocks and property	2.03	0.90
I have an active medical aid cover	1.71	0.93
I have insured all my properties	2.17	1.23
I have a valid life insurance cover	1.40	0.77
Scale mean	2.16	-
Cronbach's alpha	0.84	-

Table 1 shows the descriptive statistics for financial management behaviour of rural entrepreneurs. As indicated by the scale mean of 2.16, the financial behaviour of rural entrepreneurs is unsatisfactorily low. Interpreting from the Likert scale scores, the results showed that on average, rural entrepreneurs disagreed that they were implementing health financial management behaviour in their businesses. Furthermore, the low scale mean of 2.16 implies that

rural entrepreneurs have partial understanding of financial management principles. A significant number of the participants indicated that they rarely save for long term things like education and homes among others. Hence, the low saving behavior exhibited by the participants has a negative impact on their business growth. It was also discovered that rural entrepreneurs do not pay their credits on time and often at times, they exceed their credit limit per month. The authors of this study believe that this is one of the factors which increase the loan denial rate of SMEs by banks. Banks usually check the credit profile of SMEs before they can grant those loans. Furthermore, the results indicate that majority of the rural entrepreneurs do not have health insurance such as a medical aid. In addition, the results revealed that a significant number of rural entrepreneurs do not have life insurances and do not insure their properties.

Table 2
FACTOR ANALYSIS RESULTS OF FINANCIAL MANAGEMENT BEHAVIOUR MEASURES

Financial management behaviour measures	Factor 1	Factor 2	Factor 3	Factor 4
I actively maintain an emergency savings fund	0.76			
I always save money from every income I get	0.78			
I do save money for things like education and a home	0.73			
I pay for my retirement account every month	0.66			
I have started investing in bonds, stocks and property	0.58			
I pay all my bills on time		0.83		
I stick to the budget all the time		0.76		
I keep records of all expenses		0.61		
I compare prices before I purchase a product		0.77		
I pay all my credits on the credit card every month			0.73	
I sometimes spend beyond the limit of my credit cards			0.70	
I make minimum payments only on the loan			0.56	
I have an active medical aid cover				0.66
I have insured all my properties				0.78
I have a valid life insurance cover				0.68
Eigen value	4.41	2.13	1.36	1.21
Percentage of variance explained (56.94%).	29.34	11.36	9.01	7.23

Source: Principal components factor analysis with varimax rotation Kaiser-Meyer-Olkin (KMO) test of sampling adequacy=0.76; Barlett Test of Sphericity (BTS)=443.569, p=0.000.

Table 2 shows factor analysis results for financial management behaviour of rural entrepreneurs. Four factors with Eigen values greater than one were extracted. Factor 1 was labelled savings and investment. Factor 2 was labelled cash management. Factor 3 was labelled credit management. Factor 4 was labelled insurance management. The overall Cronbach's alpha was 0.84, indicating high reliability of the scales. More importantly, the factor analysis was able to retain all the variables from the original tool adapted from Dew & Xiao (2011). It can be deduced that all the variables sufficiently measured the underlying financial management behaviour measures.

TEST OF DIFFERENCE IN FINANCIAL BEHAVIOUR

The second objective of the study was to examine the effect of owners' demographic characteristics on the financial management behaviour of rural entrepreneurs. The owners' demographic characteristics focused on were gender, education and age. Factor analysis categorized financial management behaviour into four factors: savings and investment, cash management, credit management and insurance management.

T Test for Gender Differences

Factor	Female	Male	t-statistic	Sig. level
Savings and investment	2.56	2.69	1.76	0.84
Credit management	2.28	2.29	1.5	0.71
Cash management	1.77	1.75	1.33	0.83
Insurance management	2.16	2.18	1.23	0.65

Note: Sig.=0.05

Table 3 above presents the findings on gender difference in the financial management behaviour of rural entrepreneurs. As indicated by Table 3 above, there is no gender difference in the financial management behaviour of rural entrepreneurs. Considering all the scales, the significant level is above the desired significant level of 0.05. This means that gender is not a determinant of financial management behaviour among rural entrepreneurs. Being a male or female does not determine how people handle financial issues in their lives.

T Test for Level of Education Difference

Factor	Matric and below	Above Matric	t-statistic	Sig. level
Savings and investment	2.61	2.66	1.62	0.01
Credit management	2.31	2.43	2.21	0
Cash management	1.66	1.79	1.35	0.02
Insurance management	2.67	2.78	1.22	0

Note: Sig.=0.05

Table 4 presents results on education differences on the financial management behaviour of rural entrepreneurs. The results indicate there is a significant difference in the financial management behaviour of rural entrepreneurs based on the level education. As indicated above participants with tertiary educational (degree and postgraduate) qualifications tend to understand financial management principles better than those with matric and below qualifications. This shows that education is an important determinant of financial behaviour. As indicated by the biographical information, a significant number of the surveyed respondents possess matric qualifications and below. This is among the reasons why SMEs are struggling to attain growth given that the owners are financially illiterate.

T Test for Age Difference

Factor	35 years and below	Above 35 years	t-statistic	Sig. level
Savings and investment	2.63	2.55	1.67	0.26
Credit management	2.20	2.33	1.55	0.34
Cash management	1.56	1.81	1.36	0.53
Insurance management	2.44	2.69	1.21	0.44

Note: Sig.=0.05

Table 5 above shows statistics on age differences on the financial management behaviour of rural entrepreneurs. The Presidency Republic of South Africa (2015) defines youth as those from ages 14 to 35 years. The results indicate that there is no age difference in the financial management behaviour of rural entrepreneurs. The results suggest that age is not a determinant of financial management behaviour among rural entrepreneurs.

DISCUSSION OF MAIN FINDINGS

Descriptive Statistics

Considering descriptive statistics, the scale mean of 2.16 showed that the financial behaviour of rural entrepreneurs is unsatisfactorily low. Interpreting from the Likert scale scores, the results showed that on average, rural entrepreneurs disagreed that they were implementing health financial management behaviour in their businesses. Furthermore, the low scale mean of 2.16 implies that rural entrepreneurs have partial understanding of financial management principles. A significant number of the participants indicated that they rarely save for long term things like education and homes among others. Hence, the low saving behavior exhibited by the participants has a negative impact on their business growth. It was also discovered that rural entrepreneurs do not pay their credits on time and often at times, they exceed their credit limit per month. The authors of this study believe that this is one of the factors which increase the loan denial rate of SMEs by banks. Banks usually check the credit profile of SMEs before they can grant those loans. Furthermore, the results indicate that majority of the rural entrepreneurs do not have health insurance such as a medical aid. In addition, the results revealed that a significant number of rural entrepreneurs do not have life insurances and do not insure their properties. In comparison with other similar findings, Joo (2008) remarks that good financial management behaviour improves the financial standing of a business. Similarly, Dew and Xiao (2013) argue that people with positive financial behaviours are less likely to be affected by a recession because they could have saved well enough. This is because financial management behaviour has a bearing on one's emotional wellbeing, health and mental functioning (Dew and Xiao, 2010). Failure to pay debts results in one being blacklisted which negatively impacts on the business in the long run. Similarly, Mien and Thao (2015) assert that poor financial management behavior can affect an enterprise negatively. Dew and Xiao (2011) reason that not properly handling consumer debts can risk one falling into the insolvent trap Cash flow management was also found to be an area neglected by rural entrepreneurs. According to Masocha and Dzomonda (2016) an inability to manage cash flows has serious repercussions for SMEs.

Factor Analysis

In terms Factor analysis for financial management behaviour, four factors with Eigen values greater than one were extracted. Factor 1 was labelled savings and investment. Factor 2 was labelled cash management. Factor 3 was labelled credit management. Factor 4 was labelled insurance management. The overall Cronbach's alpha was 0.84, indicating high reliability of the scales. More importantly, the factor analysis was able to retain all the variables from the original tool adapted from Dew & Xiao (2011). It can be deduced that all the variables sufficiently measured the underlying financial management behaviour measures.

Test of Difference in Financial Behaviour

The second objective of the study was to examine the effect of owners' demographic characteristics on the financial management behaviour of rural entrepreneurs. The owners' demographic characteristics focused on were gender, education and age. Factor analysis categorized financial management behaviour into four factors: savings and investment, cash management, credit management and insurance management. The t-test results showed that there is no gender difference in the financial management behaviour of rural entrepreneurs. Considering all the scales, the significant level is above the desired significant level of 0.05. This means that gender is not a determinant of financial management behaviour among rural entrepreneurs. Being a male or female does not determine how people handle financial issues in their lives.

Considering level of education difference, the results indicated there is a significant difference in the financial management behaviour of rural entrepreneurs based on the level education. As indicated above participants with tertiary (degree and postgraduate) qualifications tend to understand financial management principles better than those with matric and below qualifications. This shows that education is an important determinant of financial behaviour. As indicated by the biographical information, a significant number of the surveyed respondents possess matric qualifications and below. This is among the reasons why SMEs are struggling to attain growth given that the owners are financially illiterate. This is consistent to similar studies (Fatoki and Oni, 2014; Kebede and Kuar, 2015). Zakaria et al. (2012) assert that an individual need to acquire certain knowledge in order to have satisfactory financial management behaviour. Accordingly, Lusardi (2008) argues that education is one of the determinants of financial behaviour. Xiao et al. (2010) explain that education enlightens an individual about the dangers of acquiring a number of credit cards. As indicated by Lusardi (2008) lowly educated people are associated with poor financial management behaviours compared to their educated counterparts. Lusardi and Tufano (2009) remark that people with financial knowledge display positive signs of financial management as they understand the art of budgeting and saving. Maarten et al. (2007) coin that people who are financially illiterate are less likely to be involved in investing in high risk/high return investments like stocks.

In terms of age differences, the results indicated that there is no age difference in the financial management behaviour of rural entrepreneurs. The results suggest that age is not a determinant of financial management behaviour among rural entrepreneurs.

CONCLUSION

The benefits associated with rural entrepreneurship especially in developing countries cannot be overestimated. Developing countries like South Africa are confronted with challenges such as high unemployment, poverty and income inequality. Rural entrepreneurship is central to local economic development through the creation of employment growth, poverty reduction and sustainable economic growth. However, rural enterprises exhibit a high level of business discontinuance. Effective financial management behaviour can enhance the survival and growth rate of rural enterprises. Financial management is among one of the critical aspects required for the success of a new venture. The purpose of this study was to investigate the financial management behaviour of rural entrepreneurs. The study also examined the effect of owners' demographic characteristics on the financial management behaviour of rural entrepreneurs. The results indicated that the financial management behaviour of rural entrepreneurs is

unsatisfactorily low. Factor analysis identified the important financial management behaviour aspects to be savings and investment, credit management, cash management and insurance management. The t-test results showed a significant difference between the level of education and the financial management behaviours of rural entrepreneurs. Good financial management behaviour is one of the important skills required by entrepreneurs in order to manage their financial issues well to prolong the lifespan of their business ventures. Hence, issues to deal with financial management behaviour among rural entrepreneurs need to be identified and improved. The results showed that entrepreneurial businesses fail because they have unsatisfactorily low financial management behaviour. Therefore, recommendations include awareness and use of government support programmes to improve the financial management behaviours of rural entrepreneurs. Municipalities can also be involved in providing training for rural entrepreneurs. Rural entrepreneurs are also encouraged to enrol for a certificate in financial management to enhance and improve their financial management behaviours to efficiently run their businesses.

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