

Small business has a critical role to play in the economy - but entrepreneurs need better financial skills

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While government is stepping up to support small business more than ever before, the sector will not thrive unless entrepreneurs are also equipped with the financial tools to optimise their organisations - UCT Associate Professor Mark Graham.

The role of small business in promoting growth and development has shot to the top of the agenda this year with both President Ramaphosa in his inaugural [SONA](#) and Minister Malusi Gigaba in his [budget speech](#) highlighting the critical role of this sector of the economy.

Globally, SMMEs are recognised as one of the key drivers of economic growth and job creation – and it is clear that the small business sector [has led the world](#) out of several global recessions – but in South Africa, the sector is under-performing.

Recent data from the Global Entrepreneurship Monitor shows that South African entrepreneurship [lags](#) behind that in similar economies. And for every 1.5 people who were engaged in early-stage entrepreneurial activity in SA in 2016, one was [exiting a business](#).

According to Mark Graham Associate Professor in Accounting at the University of Cape Town, typical reasons for business failure include: insufficient startup funding, incorrect pricing for products or services, growing too quickly or prematurely, and inadequate cash flow.

“We need entrepreneurs to run their businesses successfully so that they can be sustainable,” he says. “Most of these issues can be addressed through a proper understanding of financial and accounting principles and concepts to help entrepreneurs run their businesses better.”

Graham, who runs the Finance for Non-Financial Managers programme at the UCT Graduate School of Business (GSB), emphasises that finance and accounting terms are really just a language that uses numbers to tell a story about a business.

“If you understand the fundamentals of financial principles you will be able to analyse what is happening in any organisation,” says Graham.

“Concepts like profit and cash flow are basic to business. However, people are often surprised to find that while a business can be extremely profitable, there may be a cash flow problem that will soon bring it to its knees.

“Most people don’t know the basics of financial reports, what the right capital structure (i.e. the mix of debt and equity) might be. By getting to grips with concepts like working capital management and cash flow vs profit, business owners and managers can give themselves the best chance of success.”

Jannie Rossouw, head of Sanlam’s Business Market, agrees that financial literacy is key to entrepreneurial success and [has argued](#) that it should be integrated into the school curriculum so that future business owners can understand critical concepts like the time value of money.

“It is imperative that SA starts to spend significant time and resources to address the need for access to quality education aimed at those who want to pursue entrepreneurship and business ownership. We shouldn’t only start teaching these skills at the tertiary level,” says Rossouw.

And it is not just entrepreneurs that would benefit from a better grasp of the basics of finances, says Graham. All businesses should invest in developing the financial skills of their people – especially those in managerial roles.

“It is important for everyone working in business to understand the basic language of business and demystify the jargon – which is one of the things that the course I run at the GSB seeks to do,” he says.

“Feedback from previous course participants shows that people really appreciate being able to see how the numbers are telling a story about the health – or lack thereof – of a business and that this helped them make better business choices.”

Graham concludes: “Sustainable small businesses have big potential to make a significant contribution to the SA economy and put a dent in the unemployment figures. So when Gigaba said that by enabling new businesses with new ideas to emerge and thrive, ‘we are radically transforming patterns of production in the economy’ he is not wrong. But unless serious steps are also taken to equip owners and managers with the financial tools to optimise their companies, we will find that despite more proactive government policies and funding, the small business sector will still not thrive.”

For more information on the Finance for Non-Financial Managers programme contact the Executive Education department at the UCT Graduate School of Business on 0860 UCT GSB or email execed@gsb.uct.ac.za.

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