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An Assessment of Financial Management Skills of Minibus Taxi Operators in the Cape Town Metropole, South Africa

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Abstract

Small businesses play a major role in the economic development of a nation. Studies conducted on small businesses in South Africa reveal 75% of new small businesses created fail within the first two years of operation, citing improper financial management as one of the reasons for failure. Irrespective of failures of small businesses, the minibus taxi industry in South Africa continued growing, which does not absolve them from failure. This study assessed the financial management skills of minibus taxi operators in the Cape Town Metropole, to assess their financial management skills and awareness of support structures. The study also provides recommendations on the gaps identified to sustain their businesses and stay competitive. The study targeted minibus taxi operators in the Cape Town area and deployed a survey method in a form of questionnaires to gather data. 100 taxi operators were interviewed. Nine financial management activities were identified and an exploratory descriptive study using a survey was conducted on these activities. Cross tabulations and chi-square tests were used to analyze and interpret certain data of interest. The study confirmed minibus taxi operators have limited financial management skills and there was no statistical significance between the number of minibus taxis owned and the different financial management activities assessed. Recommendations are provided on training intervention needed to up-skill minibus taxi operators on those limited financial management skills to ensure better management of their finances.

Keywords: Financial Management Skills, Small Businesses, Minibus Taxi Operators, Financial Management

1. Introduction

Throughout the world, small, medium, and micro enterprises (SMMEs) play a critical role in the economy, partly due to SMMEs being more labour-intensive and having a higher labour-absorption capacity than big businesses (Jacqui and Macquet, 2002). The South African National Small Business Act of South Africa (109 of 1996) classifies SMMEs in the transport sector as enterprises that employ people between one and one hundred employees. The focus of this study was on the minibus taxi industry which largely falls within the small business sector.

According to Sekhonyane and Dugard (2004), minibus taxis have never been part of the formal public transport system in South Africa. The minibus taxi industry in South African has evolved to compete with highly regulated and government-funded bus and rail services. The minibus taxi industry is not a new phenomenon in South Africa:

a basic transport need, coupled with an entrepreneurial attitude by black taxi owners, led to the establishment of what has become a permanent feature of the South African landscape. According to Monica and Van Zyl (2009), the minibus taxi industry in South Africa has been growing consistently in the past years. This growth could be attributed to several reasons, including high demand for public transport.

To compete with bus and rail services, taxi owners must possess financial management skills, as it provides minibus taxi operators with the required skills to manage their finances prudently and to sustain and grow their business. Kritzinger and Fourie (1996) state that without any knowledge of financial management and application thereof, small enterprises may not achieve success in sustaining and growing their businesses. Studies on financial management skills of the minibus taxi industry are scarce or unknown in South Africa. The study aimed to assess their financial management skills and awareness of support structures. The study assists in identifying areas for training to up-skill minibus taxi operators to better manage their finances. The findings will also benefit the minibus taxi industry and government institutions and other support institutions in developing support programmes for minibus taxi operators.

2. Background to the study

In the South African context, SMMEs play a significant role in the economy and society. In the study of Phenya (2011), it is reported the small business sector in South Africa represents 97,5% of the total number of the businesses, contributes 34,8% of the GDP, employs 56% (SEDA, 2017) of the labour force and approximately 42% of the total remuneration is generated by this sector. Road public transport is made up of buses and taxis. The taxi industry consists of two types of taxis, metered taxis, and minibus taxis. A Minibus taxi refers to a public transport vehicle designed to carry more than nine persons but not more than sixteen passengers including the driver (National Road Traffic Acts 93, 1996).

The minibus taxi industry plays a major role within the South African public transport system and more generally, in the South African economy. Even though it is a privately owned (and an unsubsidized) segment of the transport sector, the taxi industry is nevertheless often referred to as part of the public transport sector (Helen Suzman Foundation, 2018). According to the Department of Transport and Public Works (2012:4), minibus taxis carry 65 percent of passenger trips in the urban environment. According to Pillay (2014) 20 million people in South Africa take a minibus taxi every day, with estimated annual revenue of R39.8 billion. Booyse and Akpa (2013) further state in March 2011 the Road Traffic Report (RTMC, 2011) registered 285,858 minibuses on the road nationally.

Recently, in comparing the more general use of minibus taxis, buses and trains by households (as distinct from the more limited sphere of travel to work), 69% of households used taxis, 20.2% used buses and 9.9% used trains, during the calendar month preceding the survey (National Household Travel Survey 2013, published by STATS SA.) According to the Statistics SA 2013 Household Survey, taxi operators transport over 15 million commuters every day. Children get to and from school, every day, and adults can get to work so that they can provide for their families.

According to the Helen Suzman Foundation (2018), Transaction Capital, a JSE-listed company, which provides a range of financial and other services to the South African taxi industry, estimated in its 2017 results presentation that the industry's annual revenue amounts to approximately R50 billion. Transaction Capital also estimates that there are a total of more than 200 000 minibus taxis nationally; where the fleet is on average over 9 years old, requiring replacement and recapitalization.

In 2003, the Western Cape Government started a process of formalizing the public transport system. As part of the formalization of the public transport system, the Western Cape Government undertook a process of registering minibus taxis. As part of registration, minibus taxi operators and drivers were afforded opportunities to participate in Government funded training programmes to uplift the standard of operations and management (Ahmed, 2004). This training included improving the financial viability of minibus taxi businesses.

According to early reports by the City of Cape Town (2009), 70% of people are living and working in and around Cape Town and commuters spent between 40% and 70% of their monthly income on public transport, compared to the international norm of between 5 and 10%. Minibus taxis transport 332 407 (29%) passenger trips a day, which makes it the second-biggest public transport after rail (54%) in Cape Town (City of Cape Town, 2009).

In general, effective management of businesses is dependent on business management skills, such as operational management, financial management, personnel management, strategic positioning, relationship management, and risk management. This study focused on financial management skills and aimed to establish the types of financial management activities performed and lacking in operating the taxi business.

3. Literature review

Financial management is an integral part of a business. Nieman, Hough, and Nieuwenhuizen (2006) state that “financial management is responsible for acquiring the necessary financial resources to ensure the most beneficial results over both the short and the long term and making sure that the business makes the best use of its financial resources. Paramasivan and Subramaniam (2008) also define “financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations”. Being a major industry and still growing, financial management skills are important in managing the finances of minibus taxi operators and ensuring the minibus taxi industry stays competitive and continues to grow.

Various activities could be tested under financial management. To ensure the study was limited to the financial management skills of minibus taxi operators, nine financial management activities identified by Kritzinger and Fourie (1996) were used. In this study, the financial skills as listed by Kritzinger and Fourie (1996), were adopted for analysis with the taxi operators. It is envisaged studying these skills will provide an understanding of financial management in the minibus taxi industry, some of which are discussed below.

Recording of financial transactions is important for various reasons including having records and able to conduct financial statement analysis. There are various methods of recording financial transactions including computerised accounting systems, such as pastel accounting, QuickBooks, Easybooks or manually using journal books.

Financial statements may be drawn up manually or using computerised accounting systems. If computerised accounting systems are used, drawing up financial statements become easy. Computerised accounting systems assist with codifying, interpreting, and presenting financial statements. According to Maseko and Manyani (2011) accounting systems provide a source of information to owners and managers of SMMEs operating in any industry for use in the measurement of financial performance.

Financial statements are analyzed using ratios such as liquidity ratios, activity ratios, debt ratios, and profitability ratios (Beaumont-Smith, 2007). Financial statements analysis assists small businesses in preparing their financial budgets. Preparing financial budgets assist businesses to better manage their finances and can also be used as a guiding tool. There are various sources for preparing a financial budget in business, including determining capital requirements in the long term and working capital, in the short term.

The proper management of working capital, being the capital of a business which is used in its day-to-day trading operations, should give the desired impact on profitability, liquidity, or risk (Gitman, 2010). Padachi (2006) emphasized how critical it is for small businesses to manage their working capital. He further indicates small businesses, which include minibus taxi operators, are not good at managing working capital. The state of finances of minibus taxi operators could restrict or assist minibus taxi operators in accessing finances. Financiers might require minibus taxi operators to provide a financial statement, budget break-downs, and capital requirements.

According to the Ministry of Trade and Industry (1994) “extensive research revealed access to finance as one of the several important factors that are critical for business survival and growth”. To address the problem of access to finance is to focus on improving financial management practices (Orford, Wood, Fischer, Herrington, and Segal, 2003). According to Mutezo (2005) experts in South Africa identified education and training as the most important

factor inhibiting entrepreneurial activity. Government and financial institutions play a significant role in facilitating access to finance, however, small businesses, including minibus taxi operators, understanding how to access finances is equally important.

Financial management also includes managing insurance, taxes, debts, and remuneration. In the minibus taxi industry, vehicle insurance is a necessity to protect the business and passengers from unforeseen business risks. According to KPMG (2013) insurance benefits an economy by encouraging businesses to better manage the risks of their everyday operations, thereby reducing failure rate (Chodokufa, 2009). Thus a sound insurance program is important for the proper protection of minibus taxi operators.

There are different forms and sources of debt. A loan can be used to finance the purchase of a taxi or operating expenses. In managing loans, businesses also should manage internal debt, including non-payment of salaries. If minibus taxi operators do not comply with their remuneration obligations, this can lead to high debt, thus resulting in cash flow problems and failure of the business. It is therefore important that minibus taxi operators understand how debt impacts their businesses. The minibus taxi industry is almost exclusively comprised of black individuals who are underserved by traditional credit providers.

According to Van Dyk, Nel, Loedolff, and Haasbroek (2001:148) training “is a learning experience, focusing on specific skills and abilities needed to perform a job or is a planned, systematic and organized process of providing employees with the specific knowledge and skills needed in their day-to-day work activities”. Maphalla, Nieuwenhuizen, and Roberts (2009) in their study identified a lack of training and as one of five frequently mentioned perceived barriers experienced by township SMMEs. According to Perks and Smith (2006) poor skills level could be attributed to a lack of quality education, inappropriate public-funded training, and a low level of investment in training.

The primary objective of the study was to determine the type of financial management skills possessed by minibus taxi operators and provide recommendations for suitable training. To achieve this objective, the following secondary objectives were identified:

- To investigate the current business experience, training and education levels of minibus taxi operators;
- To investigate the financial management skills possessed by taxi operators;
- To identify financial management skills training needs; and
- Recommend possible suitable financial management training for taxi operators.

4. Research methodology

The study was exploratory as it explored the different financial management activities in the business of minibus taxi operators and descriptive as it provided an account of characteristics of minibus taxi operators. A survey method in the form of a structured questionnaire was used to gather data from minibus taxi operators.

A non-random sample of 120 minibus taxi operators was identified within the Cape Town Metropole. Before conducting interviews, appointments were secured with the respondents. Appointments with respondents were set either telephonically or in person after chain referrals by other respondents, thus using a snowball sampling method. Interviews were conducted at taxi ranks, and where appropriate, at home. A total of 100 questionnaires were deemed to be usable in the analyses. The questionnaire comprised the following main sections.

Section 1: About the business

Questions in this section were intended to determine whether the business surveyed could be regarded as small, based on the definition and description of the small business discussed in the literature review section. It also determined the growth of the business.

Section 2: Experience, training, and education

This section focused on the experience, training, and education levels of minibus taxi operators.

Section 3: Financial management skills

These questions dealt with the proficiency of the respondents about financial management skills. Respondents were required to rate the level of skills on the three-point Likert scale of No understanding or Little understanding of Full understanding.

Section 4: Financial management skills training needed

The section determined whether respondents required financial management training and the type of training required to enhance their financial management competence.

The following steps were taken to determine the validity of the questionnaire:

- The literature on financial management skills was used to determine the questions asked. This ensured content validity.
- The measurement instrument was tested on five participants not subject to the study. This ensure construct validity

The questionnaires used a combination of nominal, ordinal, interval, and ratios measurement data. Data were collected by five interviewers who were appropriately recruited and trained to collect data from the respondents. Due to the absence of a database, a non-random sample, using the snowball sampling techniques was used to gather the data. The study followed the normal ethical consideration, which included an information sheet and letter of consent and assuring confidentiality of the respondents. The study complied with all the ethical and legal requirements of the University of the Western Cape. Data captured were presented in tables and charts for analysis and interpretation. Cross tabulations together with the Chi-square test were used to determine the associations between certain variables.

4.1. Data analyses and interpretation

This section reveals the results from the survey considering the sections listed in the questionnaire. Data captured are presented in the form of tables for analysis and interpretation. Chi-square tests with cross-tabulations were used to understand the relations between certain variables.

4.1.1. Demographic data

Respondents were sourced from the areas included in the City of Cape Town. 120 questionnaires were distributed to respondents, of which 100 were received, resulting in an 83% response rate. The respondents were widespread across the Cape Town Metropole, with the majority (42%) coming from the central area, followed by western areas (35%) and the least southern area (5%). The study further revealed that 91% of respondents, who were also the owners of the business, were involved in managing their businesses. On average, each taxi owner employed between 1 to 5 employees

4.1.2. Financial management activities in the business

This section focuses on financial management activities in the business.

a) Managing the financial management activities in the business

This section provides descriptive data on who manages financial management activities. A list of the activities was provided for the respondents to provide feedback on.

Table 1: Manage financial activities in the business

	Owner	Manager	Accountant	Tax Consultant	Other	Not applicable
Who manages staff salary payments?	81%	18%	0%	0%	1%	0%
Who manages tax matters in the business?	47%	4%	2%	25%	6%	16%
Who prepares cash budgets?	41%	2%	3%	0%	0%	54%
Who manages the collection of money owed in the business?	34%	3%	0%	0%	5%	58%
Who prepares financial statements	18%	0%	9%	0%	1%	72%
Who performs financial analysis?	13%	0%	3%	0%	0%	84%

According to Table 1, 82% and 87% of respondents do not prepare financial statements nor perform financial analysis respectively. 84% of the respondents also do not perform financial analyses and 59% do not prepare cash budgets. The findings reveal that most of them (well below 50%) are not actively involved in the financial activities of the business.

In this section the respondents were also asked to rate the growth of their businesses, using monthly takings and expenses, growth of minibus taxis of the past three years, and the current state of their businesses. 62% of respondents increased their number of minibus taxis in their businesses with between 1 and 5 minibus taxis over the past three years. It was also found 69% of respondents' experienced either stability or growth in their businesses. This supported the findings of Selekane (2014) "that the minibus taxi industry in South Africa experienced tremendous growth".

b) Factors affecting growth

The respondents were probed on the factors that restricted their growth in their business. A list of 12 factors was provided, as listed in Table 2 below. The results were then ranked from highest to the lowest factors affecting growth.

Table 2: Factors affecting the growth of the business

Rank	Category	Frequency
1	Tough competition	62%
2	Family responsibility	56%
3	Taxi violence	54%
4	Tough legislative and regulatory environment	48%
5	Lack of business support	44%
6	Culture conflict	43%
7	Lack of business training	42%
8	Lack of financial management skills	35%
9	Location	33%
10	Lack of finance	26%
11	Other	7%
12	None	2%

According to Table 2, respondents ranked tough competition, family responsibility, and taxi violence, tough legislative and regulatory environment as the five highest factors affecting growth in their businesses. This supported the findings of Boudreaux (2006) that tough competition and unsupportive institutional environment undermines the growth of minibus taxi operators in South Africa.

As regards to financing their minibus taxis, 37% used their savings, 31% from business partners, 27% of loans were from family and friends. 5% of respondents applied for a bank, of which 56% of respondents were successful in securing a bank loan,

Approximately 11% have passengers who owe the business money and there seems to be no debt collection plan. As regards employment relations, 58% of respondents didn't have employment contracts with their employees and 84% did not have any knowledge about the laws governing employment contracts.

c) Experience, training, and education

This section provides the business experience, training, and education of the respondents. It focused on the age of the business started, the educational qualifications of the owners, business, and financial training of respondents. 41% of respondents had been in business for the past 6 years and the remaining 59% were more than 6 years in operation. According to Fatoki and Garwe (2010), in South Africa, a new SME can be described as an SME that has been in existence for less than forty-two months (three and a half years). In the study, more than 86% of respondents had been in business for more than forty-two months, thus they were deemed to be established SMEs.

As regards qualifications, up to 83% of respondents had up to a grade 12 qualification and only 13% had post grade 12 qualifications. The results also indicate that 86% and 94% of respondents had not attended any business and financial management training respectively in the past three years, supporting the findings of Jefthas (2002) who identified 'minibus taxi operators in South Africa are lacking education, skills, and training'. An important finding is that most of the mini-bus operators did not attend any business-related training.

d) Labour and financial management skills

This section measures the levels of understanding of respondents in financial management. A list of the different aspects related to financial management aspects was provided for the respondents to rate their understanding of them. Respondents were asked to rate their financial management skills on a scale of No understanding, Little understanding to Full understanding.

Table 3: Level of financial management skills proficiency

Skills	No understanding	Little understanding	Full understanding
Labour Relations legislation - Labour Relations Act	78%	15%	7%
Labour Relations legislation - Basic Conditions of Employment Act	77%	16%	7%
Analysis of financial statements	59%	35%	6%
Preparing financial statements	53%	44%	3%
Managing debt	51%	39%	10%
Preparing cash budgets	48%	43%	9%
Obtaining of finance	32%	46%	22%
Managing insurance matters	25%	51%	24%
Managing tax matters	23%	52%	25%

According to Table 3, the five highest financial management skills which respondents had no understanding of were: labour relations (78%), basic conditions of employment (77%), analysis of financial statements (59%), preparing financial statements (53%) and managing debt (51%). Also, respondents had little understanding of managing tax matters, managing insurance matters, and obtaining finance.

4.1.3. Financial management training needed

This section illustrates the types of financial management training required by taxi operators. A list of the various financial management activities was provided, as listed in the table below.

Table 4: Training needed by respondents

Training needed	Frequency
How to record financial transactions on a computer systems/ manual journal	75%
How to analyze financial statements	70%
How to manage staff-related matters	65%
How to manage business tax matters	60%
How to prepare cash budgets	55%
How to manage day-to-day working capital	50%
How to manage business insurance matters	40%
How to apply for a loan	35%
Others	10%

In the survey, 61% of respondents indicated they needed training. As shown on Table 4, the top five training needs were identified as how to record financial transactions (75%) on a computer systems/ manual journal, how to analyze financial statements (70%), how to manage staff-related matters (65%), how to manage business tax matters (60%), and how to prepare cash budgets (55%). In general, the findings reveal an overwhelming need to be trained in the various aspects of financial management.

The study further probed to determine associations between some of the variables, using cross-tabulation. The size of the business (number of taxis owned) was cross-tabulated with some of the financial management activities. The next section provides the statistical analysis used to analyze data collected.

4.1.4. Cross tabulations

This section provides the statistical analysis used in the study. Cross tabulation was used to identify the relationship between variables and the chi-square test was used to test whether the observed variables differ from the expected variable, testing for the association, using a 5% significance level ($p=0.05$).

The analysis tests were undertaken to assess the relationship between:

- Number of minibus taxis owned by respondents and preparation of financial statements;
- Number of minibus taxis owned by respondents and performing financial analysis;
- Number of minibus taxis owned by respondents and preparation of cash budgets (monthly/ yearly);

a) Relationship between the number between minibus taxis in the business and preparation of financial statements.

Table 5: Cross-tabulation on the relationship between the number minibus taxis in the business and preparation of financial statements

	Prepares financial statements
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		No	Yes	Total
Number of minibus taxis in the business	% within 1 to 3	75%	25%	100%
	% within 4 to 10	87%	13%	100%
	% within 11 to 20	77%	23%	100%
Total	% within number of minibus taxis in the business	80%	20%	100%

Evident in the cross-tabulation Table 5, 80% of the respondents were not preparing financial statements, the lowest being by owners of 4 to 10 taxis.

In the analyses using the chi-square test, there is no statistically significant ($p=0.86$) relationship between the number of minibus taxis owned by respondents and preparing financial statements. Therefore, one can conclude that there are no differences between the size of the business and preparing financial statements.

b) Relationship between the number of minibus taxis in the business and performing financial analysis

Table 6: Cross-tabulation on the relationship between the number of minibus taxis in the business and performing financial analysis

		Perform financial analysis		
		No	Yes	Total
Number of minibus taxis in the business	% within 1 to 3	81%	19%	100%
	% within 4 to 10	87%	13%	100%
	% within 11 to 20	85%	15%	100%
Total	% within number of minibus taxis in the business	84%	16%	100%

Evident in the cross-tabulation in table 6, over 80% of the respondents were not performing financial analysis. There was no statistically significant relationship ($p=0.9967$) between the number of minibus taxis owned by respondents and performing financial analysis. Therefore, one cannot conclude respondents who had more minibus taxis in the business are performing financial analysis.

c) Relationship between the number of minibus taxis in the business and preparation of cash budgets (monthly/ yearly)

Table 7: Cross-tabulation on the relationship between the number of minibus taxis in the business and preparation of cash budgets (monthly/ yearly)

		Prepares cash budgets (monthly/ yearly)		
		No	Yes	Total
Number of minibus taxis in the business	% within 1 to 3	43%	57%	100%
	% within 4 to 10	67%	33%	100%
	% within 11 to 20	62%	38%	100%
Total	% within number of minibus taxis in the business	55%	45%	100%

About 55% of taxi owners do not prepare cash budgets. There is no statistically significant relationship ($p=0.3074$) between the number of minibus taxis owned by respondents and preparing cash budgets. Therefore, there is no association between the number of taxis owned and the preparation of cash budgets. Thus preparing cash budgets was not affected by the number of taxis owned. With regards to cash shortages, it was established that about 45% experienced some sort of cash shortage, during their operation of their business.

5. Conclusion of data analysis and interpretation

This study investigated the financial management skills of minibus taxi operators in the Cape Town Metropole and to provide recommendations. Respondents, in general, do not prepare financial statements and their businesses were growing. Most taxi owners were financed by savings and personal loans. Taxi owners seemed to lack employment contracts and knew little of the laws governing employment contracts. It was found more than 86% of respondents were deemed to be established SMEs and most of the owners had a grade 12 qualification. Based on the cross-tabulation and chi-square test, the study found there is no statistically significant relationship between the number of minibus taxis owned by respondents and preparing financial statements, performing financial analysis, preparing budgets, and experiencing cash shortages.

It can be concluded minibus taxi operators in Cape Town have limited financial management skills. Sixty-one percent of respondents expressed a need for financial management training. Respondents identified how to record financial transactions on a computer systems/ manual journal, how to analyze financial statements, how to manage staff-related matters, how to manage business tax matters, and how to prepare cash budgets as the top five training needed they needed.

6. Recommendations

The following recommendations are provided regarding appropriate training interventions to support the minibus taxi operators. Efforts should be made to develop financial skills to ensure sustained growth and competitiveness of the minibus taxi industry. In light of the above findings, the following recommendations are made:

(a) Non-formal qualification

Minibus taxi operators to invest in computerised accounting systems to record their financial statements and undertake transactions. The services of a bookkeeper can be secured to undertake financial transactions in the business.

b) Minibus taxi operators who have access to the internet may study basic financial management via the learning management system which is facilitated online, by private or public institutions.

c) Minibus Taxi Association(s) and/ or Federation(s) and/or Government and/or Non-Government institution(s) should organize workshops and exhibitions on financial management customized for minibus taxi operators.

d) Mini-bus taxi owners who need to expand their business could source funding from SA Taxi. SA Taxi fills a critical funding gap, providing credit to entrepreneurs who would otherwise be excluded from the formal economy. SA Taxi should also provide more small business training, financial management courses, and self-help tools to SME owners.

7. Suggestion for future research

Further similar survey research studies can be conducted nationally in South Africa across provinces on financial management techniques used by minibus taxi operators, or similarly, longitudinal studies can be conducted on those minibus taxi operators who were subject to this study and have attended skills training recommended in this study to assess improvement in their financial management in the businesses and impact on businesses.

8. Research limitation

At the time of writing this report, the researcher couldn't access up to date the number of minibus taxis operators in the Cape Town Metropole. The sample might not be representative and small as the exact number of minibus taxi operators is not known.

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