

**CASH FLOW MANAGEMENT OF COMMERCIAL GRAIN FARMERS IN THE
HIGHVELD OF MPUMALANGA**

By

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Declaration

I declare that the field study hereby handed in for the qualification Master's in Business Administration at the UFS Business School at the University of the Free State, is my own independent work and that I have not previously submitted the same work, either as a whole or in part, for a qualification at/in another university/faculty.

I also hereby cede copyright of this work to the University of the Free State

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Date: November 2022

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Abstract

The primary objective of the study is to evaluate the cash flow management of commercial grain farmers in the Highveld region of Mpumalanga. To investigate whether these farmers follow active cash flow management techniques in managing their farming businesses. Additionally, the study aims to investigate the impact of cash flow management on the financial performance reported in the farmers' annual financial statements.

An overview of an understanding of cash flow management and its usefulness are addressed in the literature review, which are supported by a discussion around the use of cash flow budgets in farming businesses. Farm management is also a key aspect of this study because each farm is unique with its set of goals and targets that farmers seek to achieve at the end of the season. Therefore, the functions of farm management are discussed with a focus on planning, execution, control and fine-tuning because these aspects have an impact on the business's cash flow. Next, the study moves to the research methodology in Chapter 3.

The study research methodology used the qualitative research design because interpretivism was the approach used to acknowledge the different realities and truths of the different farmers that participated in the study. The information was collected through semi-structured interviews with the participants to understand each participant's viewpoint. The interview schedule was compiled and used to gather the data.

The research findings from the interviews identified 10 themes that resonated with the participants. These themes were discussed and assessed, leading to the identification of 4 gaps that exist. The 10 themes were able to address the three secondary objectives of the study and the 4 gaps were complemented by 4 recommendations for the study.

The conclusions derived were firstly, farmers have the knowledge and understanding of cash flow management and its potential impact on a farming business. However, farmers do not practically put this knowledge to use in their farming businesses. Secondly, good cash flow management alone could not conclusively be linked to the profit or loss reported on the farmers' annual financial statements. The aim and objectives of the study were achieved. The study limitations were that it was confined to the Highveld region of Mpumalanga, and limited to grain commercial farmers currently banked with First National Bank. Additionally, a random sample of farmers was selected on the basis that each participant was not to plant more than 3000 hectares per season.

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Chapter 1 Introduction

1.1 Background

In the modern business world, cash flow is the main resource that allows for business sustainability, development, solvency, and managing bankruptcy risk (Plaskova, Prodanova, Ignatyeva, Nayanov, Goncharov & Surpkelova, 2020:1). Plaskova et al. (2020:1) further stated that the success of production and financing activities are directly linked to the efficiency of cash flow management and the use of business funds. According to Khanzadik, Esfahani and Eshtehardian (2017:1) the description of the cash flow framework comprises of scheduled incomes and payments over a specific period that will result in either a surplus or deficit in cash at the end of the period. Myeni (2018:2) proclaimed the importance of understanding the information extracted over the cash flow period, given that cash flow management directly impacts the investment and financing decisions of a business. Joss (2011:1) cites that sound cash flow management is more important for business sustainability than continuous cash flow problems that may lead the business to cease operating. These arguments highlight the importance of farmers to understand cash flow management and its impact on farming businesses.

Nonetheless, business cash flow is among the six listed causes of business closure in the United Kingdom (Plaskova et al., 2020:2). This is characterised by the inability of business owners to properly control cash flow (Haron, Yahya & Haron 2015:3). According to Righetto, Alem and Morabito (2016:1), the management of cash flow aligns effectively with the use of a company's definite net assets to remain profitable. Furthermore, a strategic action plan for a business cash flow in financial management is a serious endeavour performed to fully use available resources and reduce financial costs. Myeni (2018:1) stated that the failure rate of South African small and medium-sized enterprises (SMEs) is high regardless of financial backing from private capital or national treasury due to a lack of financial management. This implies that cash flow management is a key risk for businesses which may include farming businesses.

In addition, other major challenges for business owners include the lack of plans to exercise financial management to become sustainable and successful over time

(Myeni, 2018:1). Haron et al. (2015:4) alluded to a favourable link between well-organised cash flow management and business profitability. Therefore, farmers need to always have a plan for the business to handle cash flow throughout the planting seasons.

Secondly, the inability of managing cash flow information successfully, as it offers benefits for a business to monitor key success indicators that will highlight its position to service its obligations. Lastly, the lack of setting enhanced cash flow plans may put pressure on the business, although improving cash flow planning and handling can keep track of results and improve decision-making for the business to become sustainable. Entrepreneurs lack of proper cash flow management will put their business operations at risk (Myeni, 2018:4). Good cash flow management by a business is necessary to persuade financiers to lend capital (Plaskova et al., 2020:2). The arguments mention the importance for farmers to have cash flow management skills to manage the farming business.

The banks and other financiers prioritise and evaluate a business's ability to manage its cash flow. Supported by a detailed cash flow budget to assess the business's ability to generate income, and cover its operational costs and service debt. The financiers assess the business cycle of the enterprise which determines the inflows and outflows of cash in the business. This will determine the required funding and period for financiers to facilitate any cash flow deficit needs (Kay, Edward & Duffy, 2016:19). This implies that farmers need to have cash flow management plans to be attractive to financiers to avail funds for the farming business to achieve its seasonal goals.

The business cash flow surplus or deficit can be determined in advance through the formulation and assessment of a business cash flow budget over a specific period. The budget guides the business owners and managers to understand the cash flow position of the business and make informed business decisions in time aligned to the business cycle (Khanzadik et al., 2017:116). Business cycles differ from industry to industry, this research will focus on the agricultural industry, particularly the grain sector. This bodes well with tools that contribute to farmers' understanding how planting business cycle impacts cash flow until the sale of the crop.

The agricultural grain industry is a very volatile industry which is largely driven by variable climatic conditions, fluctuating input costs and international grain prices. Every planting season is unique with its own dynamics, influenced by a single or a combination of these drivers which influence crop production, yield, price and ultimately future cash flow of the farming business. When grain prices and yields are high, a positive net cash flow can be generated, whilst a decline in grain prices and yields can generate a negative net cash flow for a farming business. Proper farm management is required to prepare the farming business to respond to the industry changes and volatility that may impact the business's cash flow (Danehower, 2016:4).

Farming is considered a business and requires the necessary management tools similar to other forms of business to maintain good health of sustainability and profitability from operations (Kay et al., 2016:19). The health of a business is directly linked to the available cash in the business. It is considered important for a farming business to maintain greater inflows of income than outflows of expenses, to maintain a favourable cash flow (Soet, 2019:11). Cash flow management requires good planning and agility to adapt the business to changes in the market to maintain liquidity and profitability for the business (Dalton, 2011:9). The arguments support the aim of the study by highlighting how planning impacts the farming business and its cash flow.

1.2 Problem statement

The management of cash flow is a key challenge for many businesses (Myeni, 2018:4). Therefore, the problem is that it is not clear whether the grain commercial farmers in the Highveld region of Mpumalanga understand the importance of cash flow management in their farming businesses. The effect of overlooking or lack of managing cash flow may impact the farming business's financial performance. Consequently, the business may incur a cash flow shortfall to service its normal operating expenses and debt obligations at the end of a harvesting season, placing the business in financial distress. Myeni (2018:4) mentioned that business leaders should understand that cash flow management has a direct result on the survival of an enterprise and that businesses that default on debt obligations are deemed high risk by financiers which adversely affects their future access to borrowed funds.

1.3 Research questions

- i) What is the usefulness of cash flow management for commercial grain farming businesses in the Highveld of Mpumalanga?
- ii) Do commercial grain farmers in the Highveld of Mpumalanga understand cash flow management?
- iii) Does active cash flow management by grain farmers in the Highveld result in better financial performance?

1.4 Research objectives

The research objectives highlight the outcomes the researcher aims to accomplish by conducting the research.

1.4.1 Primary objectives

To evaluate the cash flow management of grain commercial farmers in the Highveld region of Mpumalanga.

1.4.2 Secondary objectives

- i) To analyse the important drivers of cash flow management.
- ii) To investigate the commercial grain farmers' understanding of cash flow management in their enterprises, in the Highveld of Mpumalanga.
- iii) To investigate the effect of cash flow management on the outcome of financial performance for commercial grain farmers in the Highveld of Mpumalanga.

1.5 Research methodology

This section will discuss the roadmap for the gathering of data for the study, highlighting the research design, population, sampling technique and data collection methods.

1.5.1 Research design

A qualitative research design was used for this study because the data for the study was collected through semi-structured interviews with commercial grain farmers in the Highveld of Mpumalanga to investigate their understanding and approach to cash flow management in their enterprises, as each farming enterprise is different. The study employed a research design that focused on interpreting the information collected through interviews and dialogues using words, rather than relying on analysing quantitative data to understand the matter under study (Bryman, Bell, Hirschsohn, Dos Santos, Du Toit, Masenge, Van Aardt & Wagner 2014:31).

Interpretivism was used for this study as it is a qualitative research design. Interpretivism acknowledges that there are many realities and truths from different people, given that their knowledge of matters is different although it still as a whole can be interpreted and explained (Bryman et al., 2014:14). The commercial farmers each shared their farming experiences and knowledge of cash flow management and how it impacts their enterprises because each farmer is unique, and their feedback could be interpreted and explained.

1.5.2 Population

The target population was commercial grain farmers in the Highveld of Mpumalanga currently banking with First National Bank (FNB). The focus was on farming businesses led by farmers who had at least 10 years of farming experience and planting an area of any size up to 3 000 hectares of grains per season. These farming businesses normally do not employ full-time financial managers to oversee the finances of the business, rather the farmers perform this function themselves as these enterprises are more family businesses than corporate companies. The farmers' planting area size data was available from the bank's relationship managers and was used to select the farmers to be part of the research.

1.5.3 Sampling

The section below will discuss the sample selection from the population of farmers in the area of study and elaborate on the strategy to be applied to the research.

1.5.3.1 Sampling strategy

Non-probability strategy can be defined as a strategy of selecting a sample that is non-random with no probability of the population being selected (Blumberg, Copper & Schindler, 2014:191). This strategy was used through purposive sampling, based on the farmers' knowledge and expertise in operating a farming business, furthermore it was used to get the individual participants' views on cash flow management and not necessarily generalize their opinion. To understand the reasons for following or not following cash flow management and the impact of their choices on their businesses.

There are 486 commercial farmers in the Highveld of Mpumalanga banking with FNB, of whom 413 are commercial grain farmers (FNB, 2020:2). The convenient way of selecting the farmers was with the help of bank relationship managers who are linked to the farmers. These relationship managers referred acquainted farmers, those who were available and had a working relationship with their bank relationship manager, and who were willing to participate. The respective bank relationship managers contacted these farmers via telephone. Those who did not wish to take part in the study were removed from the list and the next farmer on the list was contacted.

1.5.4 Data collection method

The researcher initially started with a sample of 20 FNB-banked commercial grain farmers in the Highveld of Mpumalanga to collect data. However, more interviews would have been conducted if data saturation was not reached after the twentieth interview. The interviews were face-to-face individual semi-structured interviews which were held at each farmer's respective office on the farm. The interviews were recorded on a smartphone so that the researcher could refer to the conversations if and when needed.

1.5.4.1 Face-to-face interactions

The interviews were conducted in person at each farmer's office on the farm. These offices provided a good environment for the interviews, as the participants felt comfortable and were able to share additional information with the researcher as it was close at hand. Given the Covid-19 pandemic, the farmers had to complete a Covid-19 screening questionnaire 48 hours before the visit, to inform the researcher

of any possible symptoms experienced. If any symptoms were reported, the interview was postponed by two weeks, whereby the same screening process was done 48 hours before the interview. If no symptoms were reported on the initial screening questionnaire, the researcher visited the farm to conduct the interview while observing the government's prescribed Covid-19 protocols. Alternatively, the meetings could have been conducted via the Microsoft Teams platform. The researcher noted down the farmers' responses and recorded the interviews on a smartphone to enable the researcher to refer back to the dialogue if needed.

1.5.4.2 Semi-structured interviews

Semi-structured interviews were ideal for this study, given that the interview questions had a clear focus on the subject matter and sought to ensure that all aspects were addressed. The participants were also guided on the different themes covered in the interviews.

1.5.4.3 Data saturation

The line of questioning was similar for all the participants, who were all grain farmers. Thus, data saturation could easily be reached from the sample. Data saturation is explained as the stage whereby no new information is added from conducting additional interviews (Guest, Bunce and Johnson, 2018:65). For this study, an initial 20 commercial farmers were planned to be interviewed, although more interviews could potentially have been conducted if data saturation was not reached. Common themes resonated from the sample because grain farmers face similar operations, challenges and markets. As such, the study ended up comprising of 12 participants once data saturation was reached. Guest et al. (2018:65) argued that data saturation is commonly attained after the eighth interview.

1.5.5 Ethical considerations

This section highlights the important aspects to consider for collecting data and conducting the research ethically without any prejudice to the participants while maintaining data integrity. The study was approved for ethical clearance, refer to Appendix 1.

1.5.5.1 Permission obtained

This aspect speaks to the organisation the researcher represents and granted permission for the study to be conducted and for participants to be contacted. The organisation often stipulates the parameters of conducting the research to the researcher (Bryman et al., 2014:121).

The researcher firstly requested the bank's permission to approach farmers from its Highveld Mpumalanga database. Secondly, the researcher requested permission from the farmers to conduct the interviews.

1.5.5.2 Informed consent

This entailed the farmers' understanding of their participation in the study and that all information and processes were fully disclosed to them. The objectives and implications had to be communicated to the farmers and the farmers provided consent to be part of the study (Bryman et al., 2014:124).

The researcher explained the purpose of the interview and study to the participants beforehand and informed them of how the data was intended to be used for the study. This allowed potential participants to fully understand what it would entail to be part of the study. The participants signed a consent form once they agreed to be part of the study.

1.5.5.3 Voluntary participation

The participants were not in any way forced to take part in the study. The participants were free to join or withdraw from the study without any consequences. Voluntary participation entails the participants' willingness to join the study because they understand the purpose of the study (Arifin, 2018:30).

The researcher made it clear to the participants from the onset that participation in the study was voluntary and not forced. Furthermore, the researcher stated that participants could freely withdraw from the study if they wished to do so.

1.5.5.4 Confidentiality and anonymity

This aspect addresses the management of data collected per participant. It seeks to address that the collected data is confidential and should be used for the sole purpose of the study. Furthermore, data should not be shared with third parties without consent (Arifin, 2018:31).

The researcher assured the participants that their information would be used exclusively for the study and that their participation and feedback would remain anonymous for the final submission. The participants' names were replaced by neutral, numbered descriptions to maintain their anonymity. This was not new to the researcher, as the researcher already treated client information with confidentiality in line with bank rules, given the researcher's line of work as a banker at the time of the study.

1.5.5.5 No harm

This is defined as the possible harm that could affect the interviewee as a result of the interview. This harm can hurt the participant's well-being, career development and self-esteem (Bryman et al., 2014:128).

The researcher assured the participants that participation and/or the results of the study would not in any way bring any harm or discriminate against their business or pricing or relationship with the bank. Ethical clearance was approved and attached, refer to Appendix 1.

1.6 Demarcation of study

The section below focuses on the limitations of the research, in terms of the field of focus for the research, the area the research was conducted and the target population. These aspects provided an overall understanding and guidance on the specifics of the research that was conducted.

1.6.1 What is the focus of the study?

The study sought to investigate the important aspects of cash flow management in commercial farming enterprises and whether or not commercial farmers understand the importance of cash flow management for the farming business.

1.6.2 Where the study were done?

The study was conducted in the Highveld region in Mpumalanga, particularly in the associated towns of Standerton, Delmas, Secunda, Ermelo, Lothair, Amersfoort, Chrissiesmmer, Greylingstad, Volkrust and Bethal. These are some of the main commercial grain planting areas in the Highveld.

1.6.3 Who were involved?

The commercial farmers banked with FNB at the time of the study and planted grain in the areas mentioned above. The focus was specifically on commercial farmers planting up to 3000 hectares per season.

1.6.4 Field of study?

Financial management, comprised the field study, as cash flow management links to managing the enterprise's annual budget through monitoring costs and revenue to ensure the survival and sustainable profitability of the enterprise.

1.7 Layout of the study

The section below outlines the additional four chapters that were discussed in this study, to show the roadmap of what each chapter addressed from Chapter 2 onwards.

Chapter 2 covered the literature review of the study focusing on the different topics around cash flow and farm management to address the secondary objectives.

Chapter 3 outlined the research methodology applicable to the study also highlighting sampling, data collection and research design.

Chapter 4 unpacked the results of the interviews, whereby the researcher identified and discussed the common themes from the participants and deduced possible

findings and gaps from the data. This chapter aimed to address the secondary objectives.

Chapter 5 covered how the study objectives were addressed and linked to the study's problem statement. The limitations to the study were also addressed. The recommendations to the findings and gaps in Chapter 4 were discussed and the conclusion was done to address whether the study's aims and objectives were achieved.

1.8 Conclusion

The chapter introduced cash flow management in enterprises and briefly explored the main drivers of this business function. The aim was to bring awareness and understanding to farmers, and highlight the potential impact cash flow management has on their financial performance. The problem statement is supported by the research questions raised in seeking to find solutions to the identified problem.

The management of cash flow in any business operation including commercial farming is an integral function for the success and sustainability of the business. Constant monitoring and interpretation of the cash flow statement and cash flow forecast enable business owners and management to detect problems early and better manage their businesses. Therefore, the need exists to highlight the importance and adoption of this skill in the farming community.

The next chapter focuses on the in-depth functions and drivers of cash flow management in an enterprise through a review of previous research done, including focusing on farm management aspects related to leading a viable and sustainable farming unit.

Chapter 2 Literature review

This chapter covered the theoretical and practical understanding of cash flow management using research already done on cash flow management. Additionally, farm management was discussed highlighting the impact of farm planning and budget development to assist farmers with controlling cash flow of the business.

2.1 Definition of cash flow management

Cash flow management is defined as the process of monitoring, analysing and optimising the movement and timing of money in and out of the business for a specific period (Moore, 2016:1). Cash flow management allows business owners to track the flow of how much money will reach and leave the business, based on the normal running costs and revenue generated during a specific period (Milojević & Miletić, 2014:1). In addition Kay et al. (2016:2) observed this period of time as a future accounting period divided into quarters or months, so that the business can monitor its spending, whether it is spending more money than it earns. In attaining this, it means the business should be able to identify any future cash flow problems through cash management (Kay et al., 2016:2). This implies that when farmers understand cash flow management and its adopted in their operations, it will add value to the farming business.

Soet (2019:3) suggests that cash flow is the heartbeat of every enterprise and that the lack of positive cash flow will result in ongoing financial difficulty. Subsequently may lead to defaulting on obligations resulting in probable bankruptcy for a business. Plaskova et al. (2020:6) alludes that the management of cash flow is important in managing an enterprise and making informed decisions towards business survival and sustainability. Moore (2016:2) also affirms the importance and usefulness of business owners constantly monitoring the business's cash flow to achieve set objectives. The arguments suggest that without cash flow farming businesses will struggle to operate, thus it is important for farmers to continuously monitor cash flow throughout the planting season. The arguments above seek to address the second research question of the study.

2.2 Effective cash flow management

According to Plaskova et al. (2020:4) the universal problem experienced by enterprises revolves around cash flow management ineffectiveness. However, company management has considered control of cash flow as an important tool in monitoring the daily functioning of the enterprise (Haron et al., 2015:65). Proper management of cash flow is associated with compiling cash flow forecasts and cash flow statements to understand and account for the movement of cash in the business (Milojević & Miletić, 2014:27). According to Boss and Pond (2021:2), companies need to employ knowledgeable and skilled employees with an understating of financial and cash flow management, to use and interpret these reports to advise management on the decisions the business needs to make. This holds true, given that companies that decide to implement these measures have shown satisfactory financial results by growing into sustainable businesses (Soet, 2019:16). This implies that farmers need to upskill themselves with financial management tools to better manage cash flow and make sound short and long-term financial decisions for the farm.

Furthermore, Myeni (2018:5) agrees that companies that effectively manage cash flow do not have liquidity, insolvency or bankruptcy issues. Dalton (2011:4) suggests that the quality and interpretation of the cash flow forecast, and cash flow statement are incremental to the success of many businesses, which reiterates how critical cash flow management is for a business. Therefore, companies need to put systems and controls in place to monitor the health of the business (Myeni, 2018:21). This suggests that farmers need to remain liquid for the normal running of the farm to meet financial obligations and interpret the interim reports and budgets to make changes that promote liquidity and positive cash flow.

The health of a business is dependent on its cash flow, as it enables a business to meet its short-term obligations (Soet, 2019:11). The ideal approach to managing cash flow is to ensure that the total inflow of funds exceeds the total outflow of funds to ensure the sustainability of the business. In attaining this, a positive net cash flow is realised and the surplus funds can be invested in a savings account and drawn on demand during the normal business cycle (Boss & Pond, 2021:8). This implies that farmers need to have a full view of the planting season, possible revenue and potential

operating profit to make investment decisions for the farm timeously. Alternatively, any surplus funds can be put in a savings account for future cash flow needs.

According to Milojević and Miletić (2014:11), when a business's sales cycle is too long, it can cause the business to run into cash flow deficiencies. Therefore, cash flow management is useful in balancing the business's debtor and creditor days which effectively will derive the cash flow needs and determine the required working capital funding to bridge the cash shortfall while awaiting debtor payments (Milojević & Miletić, 2014:13). The implication is that farmers need to understand the farm business cycle and its impact on future cash flow requirements for the business.

In addition, Boss and Pond (2021:9) suggest that the a business can use its reserve funds in a savings account to bridge cash shortfalls or borrow funds from a financier until the business receives its income. However, the business can extend its creditors' days by negotiating with suppliers. This will result in retaining cash flow for the business to cover operational costs (Boss & Pond, 2021:15). According to Haron et al. (2015:14), cash flow forecasting allows the business owner to identify the possibility of working capital needs during planning. In doing so, the business can avoid running into cash flow problems in the future and therefore it becomes increasingly important for annual cash flow forecasts to be done to detect any cash flow risks (Moore, 2016:2). The take away is that future planning is important to determine working capital requirements for the season.

Khanzadik et al. (2017:11) states that cash flow risk could be mitigated with proper controls and reports to monitor cash flow on a monthly, quarterly and yearly basis, for the function to be effective. These reports should be understood and interpreted to make informed business decisions to strategise for possible investments or unexpected cash flow constraints. According to Righetto et al. (2016:9) non-compliance with cash flow management together with the lack of implementing controls in the business may lead to cash flow problems in the business, resulting in the business borrowing additional funds over and above planned cash flow projections. As a result of this, the business will struggle to cover its due obligations because the funds would have been allocated to other activities, resulting in the business being insolvent and illiquid, and possibly going bankrupt over the short-term.

Moore (2016:3) adds that an illiquid business may default on its current to medium-term debt obligations, resulting in a negative impact on the business's creditworthiness and ability to source external funding. The arguments suggest that farmers need to constantly monitor cash flow and make changes where necessary rather than waiting for end of the season to identify the cash flow risk. This section seeks to address the first research question of the study.

2.3 Farm management

Nuthall (2018:3) cites that a farmer has two important roles on the farm. The first role is to be a cultivator of the farmlands and the second is to be the farm manager. The cultivation of land is a practical skill learnt over time through working the land from youth. Managing a farm requires financial management skills and tools to keep the farm business profitable. This proposes that farmers need to develop a balance of all duties of managing a farm which are all underpinned the availability of cash in the business to remain operational.

Kay et al. (2016:19–20) cites that farming is considered a business and like any business, requires proper management to survive and be sustainable. In addition, farmers are frequently required to make management decisions and enhance their management skills to maintain the good health of the business. Moreover, these decisions are linked to planning, execution, control and fine-tuning of the farming business aspects, leading to the formation of new information as illustrated and discussed below.

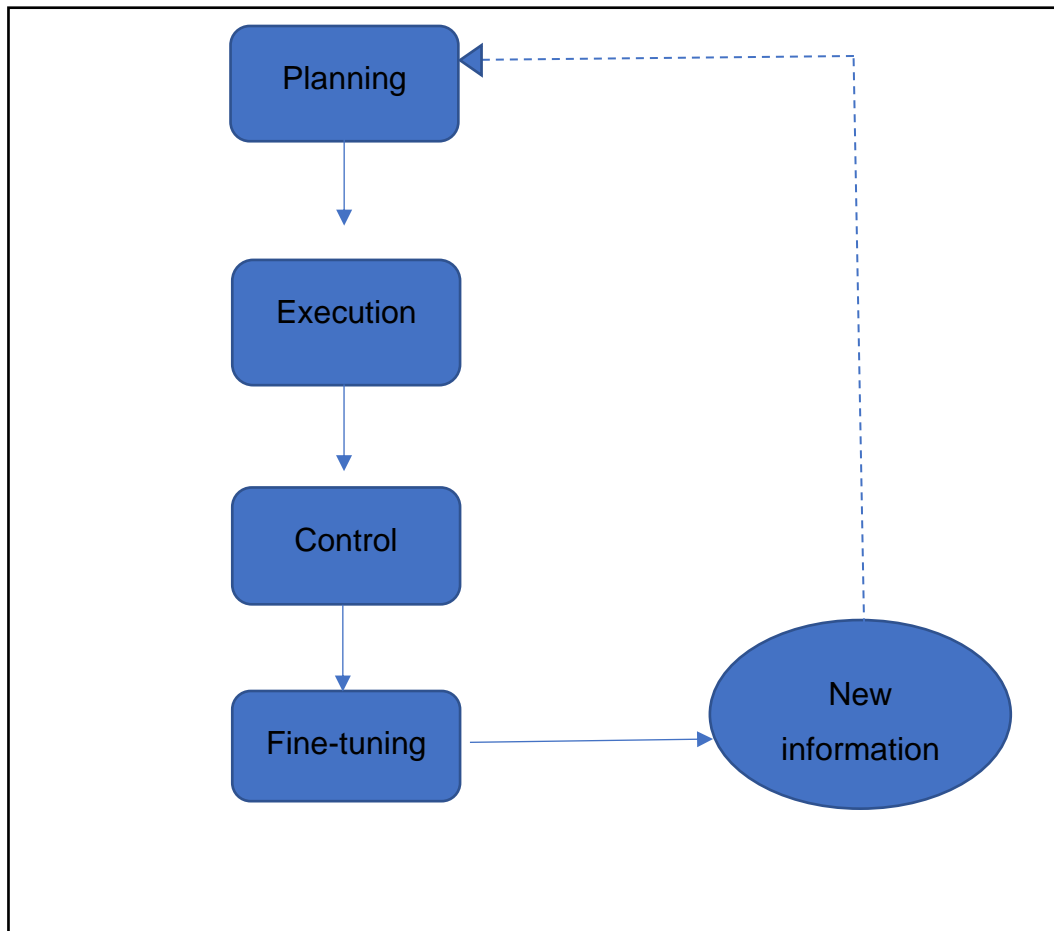


Figure 1 Flow chart on four functions of management. Source: (Kay et al., 2016:20).

2.3.1 Planning

Kay et al. (2016:20) describes the planning function as the most important function of management, setting out the farm goals and developing a farm plan to achieve these goals. The farmer, acting in the capacity of the farm manager, considers viable options that will deliver the best outcomes for the business. This entails negotiating the best prices with input suppliers, logistical arrangements to get inputs on the farm, deciding on planting days, considering hedging pre-season prices and considering planning for cash flow requirements. A combination of these aspects should be used to build a cash flow budget together with the farmer making calculated business decisions to achieve its set goals (Kay et al., 2016:20–21).

2.3.2 Execution

Following the planning stage, farmers need to execute all the planned actions systematically towards achieving predetermined goals. Farmers must coordinate the required resources adequately, such as available cash and inputs (raw material) to cultivate the lands while overseeing the entire process (Kay et al., 2016:20).

2.3.3 Control

Farmers need to monitor activities and constantly compare them to the plans and budgets set out by ensuring that operations realise the desired outcomes or trigger early warnings regarding cash flow drying up. Control allows the farmer to timeously fine-tune the process or curb cost overruns to still achieve the desired results and use all available data to enhance future planning (Kay et al., 2016:21).

2.3.4 Fine-tune

Following the previous stage, fine-tuning considers the information collected and interpreted in the control stage. Where problems are identified, farmers need to mitigate possible constraints with viable solutions. In doing so, farmers are enabled to fine-tune certain aspects of cultivation and procurement or use of cash. As additional information is collected through the farming activities, the process can be fine-tuned or improved for future planning. This will positively influence the farmers' planning function related to future cash flow budgets, leading to a circular process of continuous enhancement with the commencement of each planting season (Kay et al., 2016:21). The functions mentioned above allow a business to improve its standard operations and be innovative as these will positively influence the efficiency of the business and could also be implemented in the cash flow budget of the business. This suggests that farmers can implement this flow of activities which will positively contribute to business management and cash flow management of the farm.

2.4 Usefulness of implementing a farm cash flow budget

According to Danehower (2016:1), a cash flow budget's main purpose is to forecast the timing and amount of income and expenses, additional borrowing that the farm will require during the year, as well as the timing and amount of loan repayments.

Therefore, the cash flow budget forms part of farm planning as a function of management (Soet, 2019:8). Kay et al. (2016:177) describes cash flow budgeting as a financial analysis tool that may be used for both long-term planning and continuous analysis of a farm. Additionally, a cash flow budget guides and informs the farmer about the feasibility of the business projects and if available funds are enough to execute set-out farm plans. Kay et al. (2016:178) states that, where there is a cash shortfall, the farm may borrow capital from financiers to facilitate this working capital shortfall. Therefore, it is important for farmers to negotiate the timing of income and expenses throughout the period to manage cash flow demands in the business (Kay et al., 2016:178). The argument highlights that with prior planning and budget formulation, the farmer is able to identify cash flow needs for the season which assist in quantifying the cash flow need and managing it to remain within budget and attain profitability.

Rottger (2015:2) cites that farming is a seasonal business form as most agricultural cash flow budgets are prepared yearly because most cash inflows occur once annually after harvest. Kay et al. (2016:239) highlights the critical steps to keeping accurate records of actual cash flows to improve future planning. Firstly, monthly actual cash flow records may be compared to monthly budgeted values at month end, provided these are documented and summarised. This comparison can alert the farmer to any significant variances while there is still time to identify any irregularities and respond accordingly. Secondly, documentation of actual cash flows may give valuable insight into a farm's financial structure by demonstrating the interaction between the farm's operational, financing, and investment operations' cash movements. Lastly, accurate records of actual cash flows are an excellent starting point when creating cash flow budget projections as the farmer is better able to make the required changes in order to forecast for future cash flows using the totals and timing of prior cash flows. Examining previous cash flows ensures that crucial items are not ignored in the current budget (Kay et al., 2016:239). This suggests that farmers need to keep record of their operations in order to constantly check their financial performance and to make informed decisions to manage cash flow risk.

Furthermore, Kay et al. (2016:238) states that a cash flow budget is a tool that improves a business's financial management in several ways. Firstly, a debt-borrowing and repayment strategy can be tailored to suit specific farming business needs by avoiding overborrowing and scheduling suitable debt repayment dates aligned to anticipate farm income (cash inflow) dates. The banks and other financiers are better informed to understand the farm business cycle through the compilation of a cash budget and are better positioned to provide financial advice or funding. Secondly, a cash budget allows the farmer the ability to integrate the business and personal finances into a comprehensive strategy. Thirdly, knowing the timing of the scheduled income enables the farmer to make quick cash payments to suppliers and gain discounts on inputs purchased. Fourthly, highlighting the tax implications of the timing of purchases, sales and capital expenditures on the cash budget will help the farmer with tax planning. Lastly, the cash budget can be used as a financial feasibility study for planned investments to determine if the venture will create enough revenue to service its debt (Kay et al., 2016: 238–240). The cash flow budget is important for business planning and management and the correct budget format is important to include the different costs and income aspects of the business. According to Khanzadik et al. (2017:116), the cash flow budget estimates for the remainder of the year are subject to change, therefore actual end-of-year outcomes can be used to revise budgeted numbers for the next year, improving the accuracy of future budgeting efforts. It is for this reason that monitoring and updating real cash flow budgets throughout the year makes preparing the business's annual statement of cash flows efficient for the farming business (Khanzadik et al., 2017:117).

Myeni (2018:8) suggests that proper cash flow management can be achieved by implementing cash flow controls in the business, therefore, the business will not experience any liquidity or solvency issues. In addition, the monitoring of cash flow allows the farming business to make sound decisions to remain operational and sustainable in doing so, the business can be profitable and reinvest surplus funds into expansion. Moreover, the management of cash flow is the heart of the business and without proper control and monitoring the business will have to close its doors (Myeni, 2018:8).

2.5 Steps for formulating a farm cash flow budget

Boss and Pond (2021:78) point out that creating a cash flow budget requires ample information, provided in a logical and methodical approach for simplicity and accuracy. The guidelines for formulating a farm cash flow budget for crop farmers were investigated and presented below.

- Step 1:* Develop enterprise budgets for the different crops to be planted by using key assumptions on input costs, selling prices and potential crop yields to understand the future requirement for the farming operation.
- Step 2:* Estimate the beginning cash balance from the preceding farming season. This can be done through a short-dated cash flow budget showing the last three – four months of the budget inflows and outflows to estimate the closing balance.
- Step 3:* Based on the assumptions in the enterprise budgets, forecast crop output and sales for 12 months. This stage estimates the time the crops could be ready for sale in the appropriate months required.
- Step 4:* Estimate farming operations expenditures over the course of a year and assign each item to the appropriate months.
- Step 5:* Estimate all capital expenditure and purchases in the appropriate months.
- Step 6:* Estimate other cash income and asset sales over the coming year and allocate them to the relevant months.
- Step 7:* Add personal and lifestyle expenditures associated with the farming operation.
- Step 8:* Include planned debt interest and if applicable, repayments according to a repayment schedule.

The data collected from the implementation of the above steps is then organised and represented in a cash flow format. The monthly cash inflow and outflow were

calculated with the resulting amount indicating the business's cash flow surplus or shortfall per month and for the full period.

2.6 Factors affecting farm cash flow

Gulec and Bektas (2019:248) reiterate that cash flow management remains a challenge for many small businesses and the timing of the cash flow of funds is crucial for a business's sales and profits. In addition to this, Wasilewski and Forfa (2020:4) state that agriculture is a volatile industry that operates in volatile markets, due to movement in market factors posing a direct impact on the cash flow of the farming business. Wasilewski and Forfa (2020:4) describe the main factors that impact farm cash flow as commodity prices, input costs, weather conditions, economic conditions, once-off expenditure and level of debt as discussed below.

2.6.1 Commodity prices

Changes in commodity prices have a direct impact on a farming operation's cash inflow, which will have an impact on total cash flow. These commodity prices fluctuate without warning therefore, it is important for farmers to have a pricing strategy to hedge their crop prices because as commodity prices decrease, they lead to lower cash inflow, whereas increases in commodity prices result in higher cash inflows for the farming business (Wasilewski & Forfa 2020:28).

2.6.2 Input costs

The cost of inputs is influenced by movements in the market. Inputs such as fertilizer, fuel and pesticides are required for grain farming. The price of these inputs varies each season based on market supply and demand. As input costs change so does cash flow requirement. An increase in input costs results in higher cash flow requirements to cover the additional costs to procure the inputs (Wasilewski & Forfa 2020:33).

2.6.3 Weather conditions

The agricultural industry is dependent on the weather. The weather can either be favourable or unfavourable, which will directly affect crop development. Moreover, severe weather events such as hailstorms, drought, flooding and heavy rainfall affect

the final crop yields, thus a decline in crop yields may result in a decline in cash inflow, which may adversely affect the farming business's cash flow negatively (Wasilewski & Forfa 2020:35).

2.6.4 Economic conditions

The global economic conditions affect business operations in the form of interest rate fluctuations affecting the repayment ability of the farming business's debt or interest gained on surplus savings. Also, a weakening exchange rate leads to increased expenditure for importing agricultural inputs and equipment, resulting in additional cash outflows required from the farming business (Khanzadik et al., 2017:121).

2.6.5 Once-off expenses

Farming businesses are capital-intensive, given the high cost and longevity of farming equipment needed to cultivate the lands. It becomes a regular occurrence for this equipment to be replaced to keep operations going, making the farming business more dependable on cash for the purchase of new equipment. Due to the nature of these expenses being immediate and random, once-off expenses could decrease the available cash flow for the farming business (Wasilewski & Forfa 2020:35).

2.6.6 Level of debt in the business

Farming businesses commonly expand their operations with borrowed funds and these debts need to be serviced with interest and capital payments from available cash flow. Therefore, expanding farm debt should be a calculated risk that is informed by considerations such as disclosing accurate financial forecasts that the farming business will produce enough revenue to repay the additional debt and remain solvent, considering the capital expansion. Thus, the level of debt in the business impacts the farming business's cash flow (Wasilewski & Forfa, 2016:36). In addition to the above factors, farming businesses also need to be aware of their net cash flow situation and understand the difference between positive and negative net cash flow (Soet, 2019:18).

2.7 Understanding farm net cash flow

Rottger (2015:21) mentions that when there is revenue from the sale of capital assets such as land or big machinery, a high positive net cash flow might arise. In contrast, significant inventory growth, cash acquisitions of capital assets and larger than-usual debt payments might all result in a negative net cash flow, even though the farming business may have achieved higher profit from normal operations. Therefore, a negative net cash flow does not necessarily mean the farm performed poorly, however, the figures need to be interrogated to understand the reason for the large cash outflow and the impact on the farming business financial position. The implication is that farmers need to identify the two types of net cash flows and must be able to provide information and decision behind outcome.

2.8 Conclusion

The literature has highlighted the importance of cash flow management in general businesses, including farming operations. Business owners have the responsibility to manage, monitor and adjust the flow of cash in and out of the business to remain operational and profitable. From the review of the literature, it is evident that farming businesses' success is reliant on management. Farmers need to plan ahead through proper farm management that coincides with the employment of a farm budget linking other expenses and incomes to set up the ever-important cash flow budget. The farmer is not only a producer or cultivator; he is also a manager for the flow of cash in and out of the business. If at any point in the farm budget the projections show a shortfall in cash, the farmer can source working capital from financiers to bridge the gap. Therefore, understanding the farming business's net cash flow is increasingly important and the farmer needs to have contingency plans to manage cash shortfalls.

Continuous monitoring of cash flow is important to identify risk triggers early and make the necessary adjustments and improve planning for the next budget. This means the budget reconciliation of actual versus projection is important to track performance and whether the plan is going on as projected. Thus, cash flow management is important for farming operations to be profitable and sustainable.

Chapter 3 Research methodology

3.1 Introduction

The chapter focuses on the research methodology employed for the study and discusses related procedures that assisted to derive answers to the research questions and towards the achievement of the research objectives. These procedures included identifying the research design, the sampling technique, selecting the correct data collection method to support the objectives of the study and elaborating on the ethical considerations for conducting the study.

3.2 Research design

A qualitative research design was used for this study, given that the data for the study was collected through semi-structured interviews with commercial grain farmers in the Highveld of Mpumalanga. In doing so, the researcher set out to investigate the participants' understanding and approach related to cash flow management in their enterprises and interpret this information through dialogue rather than relying on analysing quantitative data to understand the matter under study. (Bougie & Sekaran, 2020:103).

Therefore, the epistemology used for the study was the interpretivism approach as part of the qualitative research design. Interpretivism acknowledges that there are many realities and truths from different people, given that their knowledge of matters is different although these numerous sources of information can be interpreted and explained (Bryman et al., 2014:14). The participants each shared their farming experiences and knowledge of cash flow management and how it impacts their enterprises because each farming business is unique, and their feedback is of great value to be interpreted and explained for the purpose of the study. Each participant was identified the different tools, as discussed in Chapter 2, which they employ in their farming business. The financial performance of the farming businesses was determined by one or a combination of factors such as the determination of net cash flow from the cash flow budget (either positive or negative) and/or the profitability on the income statement (either loss or profit) with a focus on operating profit, profit before tax and net profit whichever of the two documents the farmer had available.

The financial data was always requested from the participant as the primary source. If the participant did not readily have this data available, the participant referred the researcher to a third party who already had possession of this data, such as the bank in many cases. Given this consent from the participant, the researcher only then could approach the third party to access the data such as the bank. Hence, the possibility of accessing data from a third party is mentioned in the study. Notwithstanding, the researcher was a bank employee at the time of the study, so access to this data with participants' consent was achievable. The researcher, in the role of a banker understood the important obligation of treating participant information with care and confidentiality as expected by the bank in the role having undertaken and completed handling customer personal information training provided by the bank. Hence, the bank authorised the researcher to conduct the research. Therefore, access to this information allowed the researcher to address Objective 3 of the study.

3.3 Sampling

Sampling is defined as the process of selecting a subgroup from a population, which is representative of all groups within the population (Blumberg et al., 2014:191). Sampling was necessary because collecting and analysing data from the whole population was deemed impractical, considering the difficulty to gather data from every willing individual as limitations of resources existed such as access, time, and funds to conduct the study (Saunders, Thornhill & Lewis 2019:292).

A non-probability sampling strategy was used for this study because the study is based on qualitative research. Non-probability sampling can be defined as a strategy of selecting a sample that is non-random with no probability of the population being selected (Blumberg et al., 2014:191). As part of non-probability sampling, the researcher applied a purposive sampling technique that allowed the researcher to select participants based on their farming knowledge and expertise in operating a farming business, particularly cash flow management and not necessarily generalise their opinions to understand their reasons for following or not following the cash flow management approach and the impact of their choices on the business. Considering the above explanation, snowball sampling did not apply to this study.

There are 486 FNB banked commercial farmers in the Highveld region of Mpumalanga, of which 413 plant grains (FNB, 2020:2). The sample size focussed on farmers with at least 10 years of farming experience and who plant up to 3000 hectares of grains per season. From the researcher's experience as a banker who regularly interacts with farmers, farmers planting this range size do not employ full-time financial managers that oversee the financial management responsibilities of the farm. Rather, the farmers oversee the planning, negotiations, marketing, and finances of the farming business themselves, as these enterprises are mostly family-orientated businesses and not corporate companies.

The convenient way of selecting the farmers was with the help of bank relationship managers who are linked to the farmers at the time of the study. These relationship managers referred farmers that met the criteria and were willing participants. The farmers were contacted by telephone by their respective bank relationship managers. Those who did not wish to take part in the study were removed from the list and the next farmer was contacted.

A sample of 20 face-to-face individual semi-structured interviews were scheduled and a cumulative number of interviews were conducted until no new themes are derived. This concept is defined as data saturation, when there is a repetition of themes and no new themes learnt about the subject are identified from one more interview (Bougie & Sekaran, 2020:250). However, more interviews could potentially have been scheduled if no data saturation was reached after the scheduled interviews. As such, the study ended up comprising of 12 participants once data saturation was reached.

3.4 Data collection method

Individual face-to-face semi-structured interviews with a sample of FNB-banked commercial grain farmers in the Highveld of Mpumalanga were conducted to collect data. These interviews were semi-structured with mostly open-ended questions. The interviews were held at each farmer's respective office. The interviews were recorded on a smartphone so that the researcher could refer to the conversation to note important points of the participants for the study feedback.

3.4.1 Face-to-face interactions

The interviews were conducted in person at each farmer's office on the farm. These offices provided a good environment for the interviews, as the participants felt comfortable and were able to share additional information with the researcher as it was close at hand. Given the realities of the Covid-19 pandemic, the prescribed protocols were in place, which required each farmer to complete a Covid-19 screening questionnaire 48 hours before the visit to inform the researcher of any possible symptoms they experienced. If any symptoms were reported, the visit was postponed for two weeks where after the same screening process was repeated 48 hours before the rescheduled interview. If no symptoms were reported on the initial screening questionnaire, the researcher visited the farm to conduct the interview while observing the government's Covid-19 prescribed protocols. Alternatively, interviews could be conducted online via Microsoft Teams platform. The researcher was required to complete the screening form as well for every interview to ensure there were no symptoms. From the researcher's previous farm visits as a banker, it was known that most farmers have access to the internet, therefore, this platform could be effective as a contingency plan. The researcher noted the farmers' responses and recorded the interviews on a smartphone to enable the researcher to refer back to the dialogue if need.

3.4.2 Semi-structured interviews

The semi-structured interview model was ideal for this study, given that the interview questions had a clear focus on the objectives of the study and sought to ensure that all aspects are addressed. The researcher guided the participants on the different themes covered in the interview. The interview questions were mostly open-ended as the study sought to draw a detailed understanding of the study rather than generalise the responses (Saunders et al., 2019:293).

3.4.3 Data saturation

The questions asked were similar for all participants, because of this, data saturation was reached after twelfth interview of data collection. According to Guest et al.

(2018:65) data saturations can be attained after the eighth interview, however the researcher planned to conduct additional interviews until data saturation was reached.

3.5 Ethical considerations

The study had to be conducted with integrity to address the study research questions and obtain the research objectives. This meant that there had to be transparency in the collection of data and the study could bring no harm to any party involved in the study (Bryman et al., 2014:120). The study was approved for ethical clearance, refer to Appendix 1.

3.5.1 Permission obtained

This aspect focused on the organisation's support and approval for the researcher to conduct interviews with its clients. The organisation could stipulate the parameters of conducting the research to the researcher (Bryman et al., 2014:121).

The researcher received the bank's permission to access its database to interview farmers in the Highveld of Mpumalanga. Additionally, the researcher requested permission from the farmers to be part of the study with the assistance of the relationship managers who contacted the farmers in advance.

3.5.2 Informed consent

Informed consent entailed the farmers' understanding of their participation in the study and required that all information and processes were fully disclosed to them. The objectives and implications had to be communicated clearly and comprehensibly and enable participants to give informed consent to be part of the study (Bryman et al., 2014:124).

The researcher explained the study's purpose and intent of the interview to the interviewee beforehand and informed them of how the data was intended to be used for the study. This allowed all participants to comprehend what it would entail to be part of the study. The participants signed a consent form once they agreed to be part of the study.

3.5.3 Voluntary participation

The participants were not in any way forced into taking part in the study. The participants were free to join or withdraw from the study without any consequences. Therefore, voluntary participation was adhered to by the researcher, as participants should willingly join the study because they understand the purpose of the study (Arifin, 2018:30). This aspect was also addressed in the ethical clearance application.

3.5.4 Confidentiality and anonymity

This section addresses the management of data collected per interviewee. It seeks to address that collected data is confidential and should be used for the sole purpose of the study and not be shared with third parties without consent (Arifin, 2018:31).

The researcher assured the participants that their information would be used exclusively for the study and that their participation and feedback would remain anonymous for the final submission.

3.5.5 No harm

This is defined as the possible harm that could affect the participant as a result of the interview, which can have an adverse impact on the interviewee's wellbeing, career development, and self-esteem (Bryman et al., 2014:128).

The researcher assured the participants that participation and/or results of the study would not in any way bring any harm or discrimination to their farming business or pricing or relationship with the bank.

3.5.6 Conflict of interest

This section addressed the potential personal benefit the researcher may gain due to the association with the participants which could compromise the results of the study (Bougie & Sekaran, 2020:162). The researcher openly disclosed their employment by the bank as a banker who works exclusively with farmers as a bank representative. The farmers who took part in the study were bank clients and the researcher affirmed that the relationship between the farmers and the bank would not be affected by the voluntary participation in this study. The study was completely independent of the

bank's operations and how the bank viewed each farmer would not affect any farmer's standing agreements with the bank. The researcher conducted the study ethically per the abovementioned ethical considerations without any prejudice to any bank farmer.

3.5.7 Risk-benefit ratio

This aspect focused on the potential results of the study being affected by the researcher's contribution to the body of knowledge, particularly farm cash flow management. Additionally, focussed on the benefit the participants and the farming community would derive from the study rather than the study resulting in potential harm to the participants (Saunders et al., 2019:235). The study aims to bring awareness of the impact of cash flow management on farming businesses, therefore, the participants benefited from the knowledge shared through the study.

3.6 Conclusion

This chapter aimed to outline the roadmap of the research methodology and design techniques undertaken by the study. This included the data collection strategy, data sampling and ethical considerations. The techniques addressed the study's research questions and guided the process of attaining the research objectives of the study. The qualitative research design approach and sampling approach allowed the study to gather the detailed knowledge required to address the research questions. The study was conducted with the confidentiality of the participants without posing any harm to the parties involved and data integrity was maintained throughout the research to derive the best results for the study. The next chapter will focus on the analysis and reporting of the data collected.

Chapter 4 Data analysis and interpretation

4.1 Introduction

The aim of this chapter is to discuss the detailed responses from the interviewed participants by analysing and interpreting the feedback provided to the researcher. The data collection process detailed in Chapter 3 identified techniques suitable for the study as applied by the researcher to gather the data from grain commercial farms in the Highveld of Mpumalanga. The researcher will discuss the derived themes from the interviews with the participants.

4.1.1 Data saturation

In total, 20 interviews were initially planned with the farmers to investigate their understanding of cash flow management in farming businesses. However, data saturation was reached after the twelfth interview due to a repetition of ideas and themes with a common understanding. No additional or new concepts were gained from additional interviews. Guest et al. (2018:65) highlighted that data saturation occurs often after the eighth interview when additional data collected adds little to no change to the data already collected. The next section will discuss the biological data of the participants.

4.2 Analysis and interpretation of biographical data

The section highlights the participants' biographical information relevant to the study in terms of themselves and their farming businesses. The participant information is depicted in **Table 4.1**.

Table 4.1: Biographical information of participants

Participant	Number of years farming	Number of hectares planted	Crops planted	Geographical area
Participant 1	13	755	Maize; soya beans	Bethal
Participant 2	27	515	Maize; soya beans	Lothair
Participant 3	30	1 885	Maize; soya beans	Bethal
Participant 4	22	342	Maize; soya beans	Standerton
Participant 5	15	965	Maize; soya beans	Greylingstad
Participant 6	20	1 915	Maize; soya beans	Delmas
Participant 7	26	495	Maize; soya beans; sunflower	Greylingstad
Participant 8	30	827	Maize; soya beans; white beans	Chrissiesmeer
Participant 9	17	750	Maize; soya beans	Ermelo
Participant 10	12	1 674	Maize; soya beans	Volkruist
Participant 11	23	2 215	Maize; soya beans; sorghum	Standerton
Participant 12	16	880	Maize; Soya beans	Amersfoort

Source: Compiled by the researcher

4.2.1 Number of years farming

The participants who took part in the study all have at least 10 years of farming experience planting different crops. This means the participants have extensive

knowledge and expertise in managing a farming business and can be expected to have knowledge and understanding of cash flow management in a farming business.

4.2.2 Number of hectares planted

The total area planted by each participant is within the researcher's threshold of up to 3000 hectares. The participants' total planting areas differ from farmer to farmer as the sample depicts a widespread representation of hectare size from small to large farming businesses operating in the Highveld. It is important to not only focus on the larger hectare size operations but to also include the smaller sized operations to get their view on cash flow management.

4.2.3 Crops planted

The popular crops planted across the Highveld are maize and soya beans, while there are still isolated hectares of other crops like white beans, sunflower and sorghum. **Table 4.1** depicts that all participants plant at least two crops per season, thus there are differentiated products produced on the farms to generate diverse income streams.

4.2.4 Geographical area

The participants are all based in different towns across the Highveld, aligning the target audience to the target area of the study. Some participants may plant crops near or in the vicinity of more than one of the towns however, the participants identified with the town where their primary residence is situated.

4.3 Analysis of data

This section will discuss the common themes that emerged from the interviews with the participants. The themes are presented in **Table 4.2** which depicts the number of participants who mentioned the theme and the frequency by which the theme was mentioned.

Table 4.2: Common themes that emerged from the participants

Themes		Number of participants	Frequency Mentioned
1	Financial manager in the business	12	13
2	Planning ahead is important	12	20
3	Setting season target/goals	12	20
4	Importance for the business to have a cash flow budget	10	17
5	Role of the bank in compiling the cash flow budget	12	25
6	Revisiting of cash flow budget	8	11
7	Application of financial tools in the business for monitoring	12	13
8	Role of the accountant in reporting profit or loss	12	14
9	Liquidity in farming	12	21
10	Projected versus actual harvest yield comparison	12	13

Source: Compiled by the researcher

4.3.1 Theme 1: Financial manager in the business

Financial management in the farming business context entails the planning, scheduling and controlling of the financial activities of the business, which in a normal large business is overseen by financial managers with a high wage rate. All 12 participants mentioned that they do not employ internal financial managers in their farming businesses, as their businesses are not large enough to justify the need for doing so. The discussion around the employment of a financial manager was a key

point the participants put across, considering that it was mentioned 13 times by the participants.

Participants 3, 5 and 7 mentioned they had the necessary skills to perform this function themselves.

“Since taking over the business from my father I manage the finances of the business myself, I cannot afford a financial manager for this business.”

Participants 11 and 9 highlighted that the family business requires other family members to perform different functions in the business, although the participants as leaders of the business, remain the key person making financial decisions.

“We do not need a financial manager in our farming business, my wife does most of the bookkeeping function and I have an oversight. We are managing well and know exactly what is happening in the business.”

Participants 1, 2 and 4 understood the importance of a financial manager, however, the size of the business does not justify the need for a financial manager.

“I would love to have one, but they are too expensive for the size of my business, so I have to do the planning and execution of the finance leg as well on top of planting and managing the workers.”

Participants 8 and 6 mentioned the importance of using resources optimally, therefore, they delegate the financial data capturing to a family member similar to participants 11 and 9. Furthermore, they highlight that there is no complexity in the financial reporting given the small to medium size of the business.

“My daughter is the bookkeeping guru in the business but she is not my financial manager. I still make the financial decisions, my business is not that complex to need a financial manager, we don’t plant large like 5000ha + whereby a proper financial management unit is required for that size of business.”

Participants 12, 10 and 4 also highlighted the cost implications of employing a financial manager in the farming business. They raised the matter of the possibility of

conflict since most farming businesses are not corporate companies but rather family businesses. Decisions are made by the farmer, which may contradict the financial manager's advice.

"I do not need an external person to tell me how to run my business. I have plenty of farming experience to manage this farm to not go bankrupt. A finance manager is a waste of money in farming because farmers make the right decisions for their business to survive."

4.3.1.1 Observation summary for theme 1

In considering the above, the employment of a financial manager to oversee the financial management function of the farming business is not required and is deemed unnecessary by all participants. As business owners, the participants perform this function themselves along with the many other duties and roles they assume in managing their farming businesses. This is underpinned by the size of the farming business which has less financial complexity, that the owner and family can manage ordinarily. Another concern is the possibility of conflict, as some participants may disregard the finance manager's recommendations and execute their plans, hence the final decision lies with the participant given the nature of a family business as opposed to a corporate business with role mandates. This theme addresses the first secondary objective of the study, which analyses the important drivers of cash flow management.

4.3.2 Theme 2: Planning ahead is important

As discussed in Chapter 2, planning is important for any business that aims to attain its goals and remain sustainable. This theme came out strongly among all 12 participants as it was mentioned 20 times. The participants stated that as business owners they are farming for a purpose and should therefore set goals and targets. The feedback from the participants is highlighted below.

Participants 1, 4, 5 and 8 indicated that goals are meant to guide the business and should be part of the vision of the farming business.

“We set yield targets for the season and allocate the required fertiliser and seed to achieve the yields. So, we have to plan in advance with the fertiliser and seed sales rep before the start of the season.”

Participants 10, 11 and 9 mentioned that through future planning, the business can capitalise on market opportunities through early engagement with suppliers.

“It is important to plan ahead especially during pre-season because one is able to negotiate better terms and discounts with suppliers which results in a huge positive impact on the cash flow.”

Participants 6 and 2 indicated that future planning allows business owners adequate time management to execute all required functions diligently.

“When I plan in advance, we are able to do all the procurement, land preps, and budgeting within a reasonable time at our own pace without any pressure. We manage our time well to plan and put things in place so that come planting season, we are ready and not running around.”

Participants 3, 7 and 12 emphasised that planning in advance allows the business to determine its funding requirement for the financial years to avoid cash flow problems in future.

“Planning in advance helps me to budget and see how much the business will need from the bank to plant for the season. We do a budget with the relationship manager to see the overdraft I need to plant the season. I put all my expenses and income for the season and the cash flow forecast will show us exactly how much we need without having to borrow again in the middle of the season.”

4.3.2.1 Observation summary for theme 2

From the above, it can be observed that farmers need to focus on future planning to budget in order to see their funding requirement for the year and then proactively engage suppliers to negotiate better terms and discounts to reduce the cost of production and cash outflow. Additionally, time management is improved to conduct all duties timeously for the success of the business. The participants' feedback on this

theme complements the theoretical discussion around planning covered in Chapter 2, whereby Kay et al. (2016:20) explains the importance of developing production goals supported by a farm plan to drive the attainment of goals. This theme addresses the first secondary objective of the study, which analyses the important drivers of cash flow management. Lastly, through future planning, farmers can set goals and targets for the season and align resources so that goals are achieved, as is expressed in the next theme.

4.3.3 Theme 3: Setting seasonal targets/goals

All 12 participants farm for a purpose and therefore each participant sets their own business goals for the season, leading to this theme resonating with all the participants, it was mentioned 20 times in the interactions. The participants elaborated that a business should have short-term to long-term goals to remain sustainable. The short-term goals would be set at the start of every season highlighting the farmer's desired crop yields and what needs to happen to achieve the yields. The long-term goals would be pursued on a basis of acquiring more land to cultivate and introducing precision farming technology and equipment to farm efficiently to improve crop quality and yields. The feedback is discussed in the following section.

Participants 5, 2, 1 and 6 highlighted that the process of goal setting allows the business owners to deploy the required resources, including cash flow towards the process of attaining the business seasonal goals.

“The target is to achieve a minimum of 7 tons per hectare of maize and 2 tons per hectare of soya bean yields each season. Therefore, I purchase direct inputs aligned to these yield targets and the cash flow required were specific to the cost of these inputs.”

Participants 9, 3 and 7 mentioned the importance of setting realistic goals which the business will be capable of achieving, as business owners can use present resources in order to generate future positive cash flow for the business that could be reinvested in the business.

“Setting realistic goals sets the business up to generate future positive cash flow that we can reinvest for expansion or improve our machinery or even repay more towards the bank term loans.”

Participants 4 and 12 highlighted that goals can be adjusted from season to season to correct or improve production and that it is important to align the funding requirement with the changed goals to avoid using excess cash towards unplanned capital expenditure or cash shortfalls for the season.

“Learning from our mistakes makes us reassess our goals and outcomes for the next season, so when we adjust our goals, it means even the money to plant for the season will have to change as well, it might be higher or might be lower but must be aligned to the need for the season.”

Participants 8, 10 and 11 mentioned the importance of considering long-term goals that affect the business. Short-term goals may change from time to time but also align with the long-term goals in terms of the business’s cash flow performance, so that resources are allocated to the long-term goal.

“A farmer needs to have a vision for his business. This vision will influence his long-term goals of where he wants to see the business in the future. With the children growing up they will one day join the business, so by then it should be big enough to accommodate everyone, so I need to think of expansion in my long-term goal so that I buy more land and adopt the latest technology to stay in the market and efficient.”

4.3.3.1 Observation summary for theme 3

The participants were very passionate about this theme because their industry encourages long-term thinking and investment and adaptability with the use of positive cash flow achieved each season. It is important to understand the business goals, how realistic they are and the use of cash flow and other available resources to achieve these goals. This theme addresses the first secondary objective of the study, which analyses the important drivers of cash flow management. The overall interpretation of this theme is that business owners need to carefully assess the business’s short-term to long-term goals and targets in terms of the required cash flow and resources needed

to achieve the goals. These can all then be incorporated in the business cash flow budget that is discussed below.

4.3.4 Theme 4: Importance for the business to have a cash flow budget

Most of the participants understand the importance of a cash flow budget in a farming business. In total, 10 participants mentioned this theme and it came up 17 times during the interviews. The participants have strong views on the role and importance of having a budget for the season, with some ideas raised from the interviews discussed below.

Participants 7 and 3 mentioned that this financial tool assists to compile a comprehensive and complete picture of all the business costs and income anticipated for the season, which will show the collective total expense and total income for the season, which could be compared to the previous year for benchmarking.

“The budget is important for me to see the business total costs and all income for the season.”

Participants 11, 12 and 8 highlighted that the budget allows business owners to identify the possible net cash flow surplus or deficit for the season. Hence, wherever there is a shortfall, the business owner can generate more income for a favourable net cash flow.

“The budget helps us to determine whether the farm is generating profits or not.”

Participants 1, 10 and 5 explained that financiers rely on the business’s cash flow budget to assess any agricultural credit requests for finance. As discussed in Chapter 2, financiers will require the budget along with other supporting information to assess credit risk and granting of credit facilities to the farming business.

“It is important to have a budget because banks and co-ops will not borrow you money without it.”

Participants 9 and 6 mentioned that a complete cash flow budget gives the business owner an overview of the amount of working capital that will be required to fund a full season, therefore he/she can strategise how to deploy the available cash and what percentage of the working capital required can be borrowed from financiers.

“Having a budget helps the farmer to determine the overdraft level required for the season.”

4.3.4.1 Observation summary for theme 4

The discussion above highlights that the participants acknowledged the role a cash flow budget plays in their farming businesses in terms of funding and determining business viability. Although the participants have different reasons and views of why this tool is important in business. Some participants simply compiled a cash flow budget because third-party companies require it for funding, but do not directly use it in the normal operations of the business to make decisions. Other participants can analyse it carefully to make strategic cash flow decisions for the business. This theme addresses the second secondary objective of the study, which investigates the participants' understanding of cash flow management. An interesting discussion that arose from this theme discussion was the role the bank and relationship managers play in annually compiling the budget with participants. This led to the researcher noting it as an additional theme from the interviews, as discussed below.

4.3.5 Theme 5: Role of the bank in compiling the cash flow budget

This theme resonated with all 12 participants because the bank finances all of them for their direct input costs every season. The bank's role in compiling the cash flow was mentioned 25 times. The bank's relationship managers annually renew the participants' credit working capital facilities for the bank. In many cases the participants compile the cash flow budget once a year during the visit to the relationship manager to renew the facilities. The views are discussed below.

Participants 12, 9, 3, 8 and 11 mentioned that the bank is a partner in the business therefore, it needs to be part of the budget development process because it finances the business at a cost to the farmers and thus has a vested interest in the business.

“The bank is my partner in this business, so we do the budget together so that we both know how much overdraft I will need for the season and they can load it.”

Participants 4 and 1 were of the view that the budget is done for the bank’s sake and not necessarily as a tool to manage the business.

“The relationship manager compiles the cash flow budget with me so that the bank can continue to finance my business.”

Participants 2, 5, 7 and 6 similar to participant 4 and 1, understood that the bank visits the participant once annually to do the cash flow budget to determine the overdraft needed for the upcoming season. Once determined, the relationship manager motivates whether the facilities should be renewed for another year. Once approved, the participant will operate the business within the approved limit without reverting to the budget.

“It is the bank relationship manager’s responsibility to compile the budget for my business to determine how much the bank is willing to fund my business and motivate my credit application.”

4.3.5.1 Observation summary for theme 5

The above discussion indicates that the cash flow budget is additional information financiers require to finance a farming business. This means that there is no consideration or in-depth analysis of the budget by the participants once it has been compiled to use as a financial tool for the business. This theme addresses the second secondary objective of the study, which investigates the participants’ understanding of cash flow management. In practice, it is the business owners’ responsibility to compile a detailed budget to present to the relationship manager for consideration during the annual review discussion of their credit facilities. The culture of participants depending on the bank relationship manager to compile a budget is incorrect and becomes a weakness for the business because the use of the budget is not fully exhausted when it comes to being of benefit to the business. This discovery led to another discussion point resulting in a theme discussion around the lack of participants revisiting the cash flow budget during the season, which is discussed below.

4.3.6 Theme 6: Revisiting of cash flow budget

This theme was raised by 8 participants who honestly disclosed their lack of revisiting the pre-season compiled cash flow budget during the season. This is a strong discussion point and it was mentioned 11 times in the interviews.

Participants 10 and 3 mentioned that it is the farmer's responsibility to remain within the financiers' approved credit limit and that the farmer will liquidate some current assets for interim working capital until the large annual crop income reaches the account.

“Once the bank approves my overdraft limit, I make sure I stay within the approved limit. When it is almost fully drawn, I know I have to sell something in the interim until the big harvest money reaches the account.”

Participants 8 and 4 mentioned that once the budget is approved by the bank it is filed and never referred to again to make decisions or to monitor. Although the participants know it can be a useful tool for the management of the business.

“I would really like to revisit the budget midseason, but one forgets about it and just focuses on the available bank balance.”

Participants 11 and 9 highlighted the importance of using the initial budget to measure actual performance during the season, so that the business remains accountable for the planned sales and expenses while remaining cash flow positive.

“We often use the budget to track our actual versus the pre-season budget, because we keep each other accountable for the planned sales and expenses remain within the agreed budget with the bank. It is great to know how the business is performing in relation to the budget. You can ask me anything about our month-to-year sales and I will give you up-to-date figures.”

Participant 6: explained that a comparison of the pre-season budget and the actual budget can be done at the end of the harvest to compare specific assumptions and drivers to measure overall performance for the season.

“I only pull it out at the end of the season to compare the budgeted crop yields and prices to the actual performance after harvest. It is always good to compare to see how you performed and how big the difference is.”

Participant 2: mentioned that the budget is only revisited when the bank does a follow up visit to monitor the progress of the planned budget year to date.

“We only revisit the cash flow budget when the relationship manager does a follow-up meeting during the season, to track the progress of the planned sales and expenses as agreed upon during pre-season planning. Other than on this occasion, we do not revisit the budget we just operate within the given overdraft limit.”

4.3.6.1 Observation summary for theme 6

From the viewpoints gathered above, the observation can be made that participants clearly do not revisit the budget to monitor the progress of planned sales and measure deviations if any. Only a few participants who plant on a large scale consider revisiting the budget to track and monitor cash flow performance. The business owners are not making full optimal use of the budget. This leads to management that is more reactive than proactive as farmers only detect cash flow problems as they happen, rather than in advance, and explore different options to address the cash flow problem. This theme addresses the second secondary objective of the study, which investigates the participants' understanding of cash flow management. Therefore, the fact that cash flow monitoring is not done by participants, thus became a key theme of the discussion that were covered below.

4.3.7 Theme 7: Application of financial tools in the business for monitoring

The financial tools deployed in businesses may differ depending on the goals, objectives and key performance indicators of the business. Therefore, each business owner may use different tools in the farming business. The financial tools help the business to monitor and control financial activities in the business to avoid wasteful expenditures and track the cash flow performance of the farming business. All 12 participants contributed to developing the theme which was mentioned 13 times in the interviews.

Participants 7, 4 and 1 mentioned that there is little to no cash flow budget monitoring to guide the business and make informed decisions. The only indicator used is occasionally checking the available cash in the bank and accounting for overheads.

“The only monitoring done is the available funds in the account to cover overheads like salaries and insurance policies, if there is less to cover all expenses then we need to sell livestock to make payments due month end.”

Participants 5 and 10 stated that reference to the cash flow budget is only made at the end of the season to compare the actual achieved yields and income to what was budgeted to make informed decisions about the next season, although by this time it could be too late to make cash flow decisions if a problem occurred during the season.

“Doing the recon of the budget and actual performance is a good financial tool to measure the year’s performance, one is able to make decisions for the next season and correct where need to.”

Participants 12, 9 and 8 explained that mid-season cash flow budget monitoring is an additional duty for the management, which they do not have time for it as they are inundated with other farming duties. This is a risky approach because the management cannot detach the other farming activities from cash flow.

“We are always busy on the farm, therefore there is not really much available time to sit and monitor the cash flow month to month. It would be good to sit and do it and identify problems earlier.”

Participants 2, 3, 11 and 6 mentioned that management of the business continues with their daily operations as required and any cash flow distress signals should be highlighted by the bank because all inflows and outflows are channelled through the bank and the relationship manager should alert them of any cash issues during the year.

“My bank relationship manager will contact me if the bank detects many cash flow problems identified by their internal systems.”

4.3.7.1 Observation summary for theme 7

The discussion above reflects that the participants understand what monitoring is and why it is necessary for their business, however 10 of the participants do not use any financial tools to monitor cash flow in their businesses. The general sentiment from the interviews is that monitoring is unnecessary and results in more work for the business owners, furthermore any cash flow stress signals should be monitored by the bank. However, this is the incorrect approach as Myeni (2018:8) explains the importance of business owners establishing controls to monitor business cash flow using applicable financial tools to ensure the sustainability and survival of the business operation. This lack of monitoring is the wrong perception by the participants because it creates gaps and exposes the business to financial risk, since cash flow problems are only detected at the end of the season when it is too late to remediate because creditors expect full repayment of credit granted. This theme addresses the second secondary objective of the study, which investigates the participants' understanding of cash flow management. In some cases, it becomes too late for the accountant to intervene to devise plausible solutions for the business as discussed below.

4.3.8 Theme 8: Role of the accountant in reporting profit or loss

The discussion with the participants about business profitability and their income statements led to an interesting theme related to the role played by accountants in compiling their financial statements and reporting the financial performance of the farming businesses. The general sentiment from participants around the role the accountants play in the business's profitability was the same, hence all 12 participants collectively mentioned the topic 14 times during the discussion.

Participants 6, 3, 7, 8 and 4 stated that the farming business is profitable at a farm level however the accountant's mandate is to manage and reduce the participant's annual income tax obligation. Therefore, the accountant will develop a tax management strategy that may sometimes lead to reporting an annual loss on the business income statement. Thus, the financial statements do not always depict the full picture of the farming business.

“The income statement will show a loss for the year, but you can see the budget shows a very positive closing balance at year-end. So do not get confused because the accountant has to reduce my tax payments even if it results in a reported loss for the year.”

Participants 5, 12 and 2 mentioned that agricultural businesses report high revenue levels while also incurring high capital outlays, therefore the tax obligations are also high. Consequently, it means the participants are required to pay tax on their financial performance, which the participants felt is too high and needs to be reduced through a personalised strategy agreed upon with the accountant.

“I paid too much tax and get nothing in return, so I instructed my accountant to always decrease the tax payments as low as possible.”

Participants 11, 10, 1 and 9 explained that tax management is always important for the business and the business must benefit first rather than paying high amounts of income tax. Therefore, sometimes the business will incur capital expenditure or prepay expenses for some operational costs to reduce the income tax obligation within the provisions of the revenue services.

“I would rather do expansions on the farm or pre-pay my inputs for the next season to reduce my business tax payment, even if it means my statements show losses for the year.”

4.3.8.1 Observation summary for theme 8

From the discussion above, the participants gave guidance on assessing financial statements in determining the farming businesses' profitability by linking them to the adoption of cash flow management practice. It requires more discussion with each participant to unpack income statements where losses are reported for the year. Income tax management is very important for these participants and can therefore be directly linked to the income statement profit or loss reported. Therefore, identified income statement losses do not necessarily link to a lack of cash flow management, rather an in-depth discussion is required with the participant to understand the real drivers of the loss. This theme addresses the third secondary objective of the study, which investigates the link between cash flow management and financial performance

outcomes. Where profits are reported on the income statement, the researcher can proceed with the analysis of drivers that influenced the financial results.

4.3.9 Theme 9: Liquidity in farming

The 12 participants continuously mentioned that the farming industry is capital intensive with high volatility, so business owners need to make provision for unforeseen expenses that may be incurred during the off-season while they await the harvesting season. Participants mentioned the importance of multiple income streams to cover potential unforeseen expenses during the year. Therefore, farming businesses need to be liquid during the season to cover extra cash flow requirements until the large season income from the crop realises.

Participants 9, 1, 4, 2 and 7 explained that additional agricultural income is generated from other farming enterprises such as livestock income or grass bale sales. This income also helps when the grain income is lower than expected and more cash flow is required to cover debt obligations.

“I have a cattle component with old cows and newly weaned calves that are available to be marketed to raise additional income when required.”

Participants 12, 8 and 5 mentioned that diversified income streams separate from agriculture are important so that when the industry experiences strain due to droughts or floods, these other income streams can supplement the farming business to maintain cash flow.

“We have a trust entity that gets monthly rental income from residential properties, which assists the farming business with cash flow if and when needed and this is managed through inter-company loans the accountant keeps a track of.”

Participants 11 and 3 explained the importance of liquidity in a farming business due to the possibility of unexpected events that can occur during the season. Therefore, they always put surplus funds into a savings account at the end of every season to use for future cash flow requirements during the next season.

“Liquidity is very important in agriculture because we only receive our big income once a year, so you must be able to survive until you harvest. We have a money market account with cash available to use anytime when funds are needed, and these funds are paid back once the harvest income comes in.”

Participants 6 and 10 highlighted the importance of marketing the crops at the right price and time of the season to gain better margins, which enables a farmer to hold on to their stock and sell during the off-season when demand is high, and supply is low. Therefore, there is always stock from the previous season to sell in the next season at better prices and raise cash flow for the business.

“There is always grain in storage to market and sell through the year to cover our cash flow needs. We aim to sell at the best off-season price when supply is low.”

4.3.9.1 Observation summary for theme 9

The observation from the above is that participants clearly understood and explained the importance of liquidity in their farming businesses to maintain normal cash flow and cover unforeseen expenses during the season. Diversification of income streams away from crop production, whether within or outside of agriculture is important to leverage cash flow shortfalls throughout the season or whenever crop yields are lower than expected, resulting in reduced overall grain revenue unable to cover all the business obligations. This theme addresses the first secondary objective of the study, which analyses the important drivers of cash flow management. The participants understood the impact of maintaining business cash flow by sustaining an acceptable level of liquidity for the farming business to remain sustainable and meet its short-term to long-term obligations. This links to the final theme comparing the initial projected yields to actual yields that will determine the level of liquidity and cash flow required for the future are discussed below.

4.3.10 Theme 10: Projected versus actual harvest yield comparison

The comparison of the actual harvested crop yields to the initial budget crop yield assumptions is an important exercise for business owners to assess whether the business achieved or did not achieve its seasonal goals and targets. The 12

participants discussed this theme comprehensively as it was mentioned 13 times in the discussions. Although, very few mentioned that they perform this exercise while the majority mentioned they only focus on the actual yields achieved.

Participants 4, 7 and 6 understood that the yield assumptions used in the budget are just a guideline of the possible income that can be generated for the season to give the bank comfort on the lending level requested. Not much consideration is given to measuring the deviations from the initial budget.

“The important yields are the actual yields which generate income, therefore there is no value comparing these to the budget. The budget yield assumptions are just a guideline for the bank.”

Participants 10 and 11 stated that the yield analysis is done to compare whether they performed at the expected level. Furthermore, the analysis is done to see the overall net cash flow considering the possible price and yield fluctuations different to the initial budget assumptions.

“We do the yield comparison so that we can determine whether we performed above budget. Sometimes the crop yields may drop but the crop price can increase and then you balance out like initially expected.”

Participants 2, 1 and 5 acknowledged the importance of comparing the actual yields to the budget yields, although, this is not practiced in the business as most often the participants focus on selling the harvested crop at the best price and plan for the next season rather than determining the budget deviations.

“It should be an important task to do in the business because you can gauge the yield performance, although we don’t do it because we only focus on the available stock to market, not what could have been.”

Participants 8, 3, 12 and 9 explained that the yield comparison is usually requested by the relationship manager at the next review of the bank credit facilities, because the previous season’s actual performance needs to be reconciled with the last approved budget to derive the positive or negative deviations incurred by the farming

business. This commentary is required for the renewal of the bank credit facilities to plant the next season.

“This recon is normally done when the relationship manager visits for the annual review of the overdraft, because they always want to motivate it in the credit application.”

4.3.10.1 Observation summary for theme 10

From the viewpoints gathered above, the overall sentiment from the interviews with the participants is that there is an understanding of the importance of the season reconciliation to measure actual performance to planned performance, so that management can reflect on the outcomes of the analysis and implement the suitable solutions to address any negative deviations. Good practices will continue to be implemented to maintain good performance. The reconciliation is important to also determine the net cash flow for the season that will carry over into the new season to fund future operational costs. It can either be negative or positive and management can make the necessary decisions and changes to ensure there is sufficient cash to finance the next season. This theme addresses the first secondary objective of the study, which analyses the important drivers of cash flow management.

4.4 Conclusion

The purpose of this chapter was for the researcher to unpack the data collected from the interviews conducted through the analysis and interpretation of the different realities of the participants regarding cash flow management in their farming businesses. By analysing the data, the researcher was able to derive common themes that resonated with the participants in the quest to understand their reasons for following or not following the cash flow management approach and the impact of this decision on the performance of the business.

The researcher identified 10 themes that came out strongly from the interactions with the participants. Notwithstanding the different opinions and perspectives of each participant, although areas of commonality were prevalent because the participants operate in the same industry. The researcher also addressed the three secondary

objectives that underpin the primary objective of the study by linking each theme to a secondary objective that fully addresses them.

Overall, the participants oversaw their financial management duties of the business themselves and strongly believed their businesses do not require a full-time financial manager to carry out these duties. The participants mentioned the importance of having a farm plan with realistic goals and targets aligned with the vision and purpose of the business.

The goals and targets need to be aligned with the available cash flow and resources in support of the business cash flow. However, the use of a cash flow budget to make business decisions is not universally adopted by many of the participants. It is mainly perceived as a tool that financiers require to extend credit. This perception then influences the lack of revisiting the cash flow budget during the season to monitor progress on the planned forecast, resulting in possible gaps and financial risks that can only be detected at the end of the season. Additionally, a comparison of the end-of-season actual yield to the budget's projected yield is also not common practice among many of the participants. It is deemed the bank's responsibility along with compiling a cash flow budget to review the business's credit facilities with the bank.

The key aspects the participants passionately discussed and diligently managed are firstly, to maintain enough liquidity in the business to cover potential cash flow shortfalls and secondly, to reduce the business income tax obligation through a devised strategy with the assistance of the appointed accountant.

Lastly, the issues discovered from the analysis are that the participants lack the ability to develop their own cash flow forecasts to actively use in normal operations to monitor and control the inflow and outflow of cash in the business and make informed decisions timeously. In addition, the participants need to adopt the measurement of positive or negative cash flow deviations of actual crop income to the budgeted crop income, to better understand the true performance of the business for the season to influence the direction of the business with informed decisions rather than continuing without detailed analysis. The participants understand what cash flow management is and its potential impact on a business, however, the participants did not actively manage cash flow in the business nor compile a cash flow budget to monitor and control cash flow

throughout the planting season. The participants manage cash flow in the business by reactively addressing cash flow shortfalls when and if the need arises.

Chapter 5 Conclusion and recommendations

5.1 Introduction

The chapter aims to conclude this study by linking the study objectives, literature and the themes established from the interviews. This chapter will provide recommendations and highlight the limitations of the study. Additionally, the researcher will address whether the study achieved its set objectives by linking the gaps identified in Chapter 4 to the formulated objectives and research questions identified in Chapter 1. The next sections will cover the summary of the previous chapters already covered with a link to the study research questions and objectives.

5.2 Summary of Chapter 1

In Chapter 1, the researcher highlighted the research problem to be that some grain commercial farmers do not actively manage their business's cash flow during the planting season, and this may lead to the drying up of cash in the business, resulting in the business's inability to service its obligations and possibly default. Subsequently the study was conducted to address this problem with the development of the research questions and objectives to guide the research, and these are discussed below.

5.2.1 The research questions of the study are:

- i) What is the usefulness of cash flow management for commercial grain farming businesses in the Highveld, Mpumalanga?

The research question was answered in Chapter 2, through the literature review compiled by the researcher. It concluded that control of cash flow is an important tool to monitor the inflow and outflow of cash in a business, while also considering the importance of using cash flow budgets and future planning to achieve the business set goals.

- ii) Do commercial grain farmers in the Highveld Mpumalanga understand cash flow management?

The research question was answered in Chapter 4 by addressing themes 4, 5, 6 and 7 whereby participants stated their understanding of the importance of cash flow management and the use of a cash flow budget. However, most of participants do not put this knowledge into practice to better manage the business.

- iii) Does active cash flow management by grain farmers in the Highveld result in better financial performance?

The research question was answered in Chapter 4 by addressing theme 8 on the role of accountants in the reporting of participants' financial statements. The responses of the participants highlighted that even though a participant may manage their business cash flow well, the income statement may report a loss for the year. This loss was overall described to be unpinned by a tax strategy to reduce the business income tax obligation within the provisions of the revenue services. Therefore, active cash flow management alone cannot conclusively be directly linked to the business's reported income statement profit or loss for the year.

5.2.2 Research objectives of this study

5.2.2.1 Primary objective

To evaluate cash flow management of grain commercial farmers in the Highveld in Mpumalanga.

This objective was accomplished by addressing the formulated secondary objectives of the study.

5.2.2.2 Secondary objectives

- i) To analyse the important drivers of cash flow management.

This objective was attained through the literature review done by the researcher in Chapter 2 of the study. It was highlighted that planning is an important driver because it forms part of the functions of management, and through planning, the business owners can compile realistic cash flow budgets for the business to determine cash flow needs ahead. Additionally, it identified cash flow monitoring as another important driver to maintain cash in the business for the season. Lastly, cash flow management

skills are a driver required in the business to manage business cash flow and make informed financial decisions, alternatively a financial manager can be employed to oversee this function. Chapter 4 also addressed this objective through themes 1, 2, 3, 9 and 10 which identified the drivers the participants referred to in the interactions.

ii) To investigate the commercial grain farmers' understanding of cash flow management in their businesses, in the Highveld, Mpumalanga.

This objective was achieved through semi-structured interviews conducted by the researcher and participants. Themes 4, 5, 6 and 7 were addressed in Chapter 4 and it was deduced that the participants understand the importance and impact of cash flow management in their businesses, however, the majority do not practise cash flow management.

iii) To investigate the effect of cash flow management on the outcome of financial performance for commercial grain farmers in the Highveld Mpumalanga.

The objective was achieved in Chapter 4 by addressing theme 8 which discussed the role accountants play in the financial reporting of a participant to manage the annual income tax obligation. The observation from this theme is that good cash flow management does not conclusively lead to financial statements reporting a profit. The profit or loss is driven by the participant and accountant management of tax obligation for the year.

5.3 Summary of Chapter 2

In Chapter 2, the researcher addressed the main topics of cash flow management, which also answered the first research question to achieve the first secondary objective of the study. The topics covered gave an understanding of what cash flow management is and its usefulness in a business to maintain sustainability and make informed business decisions. The second half of Chapter 2 addressed farm management which covered the functions of management, the usefulness of farm cash flow budgets and brief steps on how to compile a farm cash flow budget. Lastly, the chapter focused on the factors that have an impact on farm cash flow and the

importance of analysing the farm's net cash flow at the end of a season, so that farmers can understand the negative and positive net cash flow and the drivers behind the outcome at the end of the harvesting season.

5.4 Summary of Chapter 3

In Chapter 3, the researcher described the research methodology applicable to the study for data collection, while also addressing the ethical considerations of conducting the research without any harm to all related parties linked to the study. The interview schedule was also developed for the planned semi-structured interviews, to help derive answers for the second and third research questions and assist to achieve the second and third secondary objectives of the study.

5.5 Summary of Chapter 4

In Chapter 4, the feedback from the interviews was analysed and interpreted by the researcher, employing the identification of common themes raised by the participants. In this chapter, the second and third research questions were answered and the second and third secondary objectives were achieved to address the primary objective of the study. Additionally, Chapter 4 also assisted the researcher to identify gaps that could assist to solve the study's problem statement and were discussed in the next session.

5.6 Recommendations

The interpretation of the themes discussed in Chapter 4, led to the identification of gaps the study aims to address in solving the problem statement around cash flow management by grain commercial farmers in the Highveld of Mpumalanga. Therefore, the researcher arrived at certain recommendations, which are addressed below.

5.6.1 Formulating own cash flow budget

The feedback from the participants indicated that although farmers understand the importance of the cash flow budget, they do not actively develop their own budget and heavily rely on financiers especially the bank to formulate the budget for them. This

defeats the purpose because the budget should be used by the business owners to guide their farming businesses.

The recommendation is that farmers need to formulate their own annual cash flow budget so that they fully understand this budget and use it internally in their businesses to inform financial decisions as well as present it to the bank for consideration for credit requests. Farmers need to change the perception that the budget is the bank's responsibility and only used for credit requests and rather take ownership of it to actively manage the farming business's cash flow.

5.6.2 Monitoring and revisiting the cash flow budget

The feedback from the participants is that there is no active monitoring of the compiled cash flow budget throughout the season. Additionally, there is no revisiting of the budget to make the necessary adjustments as the market and climatic conditions change which may impact the future cash flow of the business at the end of the season. The farmers are more reactive than proactive in addressing cash flow problems that may occur during the season. They rely on available current assets to sell for reactive cash flow needs rather than constantly revisiting and adjusting the budget in time to address planned cash flow needs through other sources such as bank temporary increased facilities.

The recommendation is that the implementation of financial tools applicable to the farming business need to be introduced with the assistance of the farmer's accountant, to help monitor the inflow and outflow of cash in the farming business and act as a catalyst for informed decision-making that benefits the operation immediately.

5.6.3 Improving the comparison of actual versus budget income

The participants explained that they do not do this task because the focus is only on the actual yields and income that generate instant income. The participants acknowledged that it is an important task in business management, however, it is not practised.

The recommendation is that participants need to implement this task to quantify the cash flow deviation incurred for the season, regardless of whether it is positive or

negative. This will give participants a detailed performance gauge to measure against their projections at the start of the season and their achieved results at the end of the season. If a negative deviation occurred, then management were able to investigate the causes and make informed decisions to adjust operations to avoid future occurrences.

5.6.4 Setting business goals

The theme in Chapter 4 discussed that the participants all set goals and performance targets for the season. This is a good culture for the farming businesses because through setting goals and targets, the farmers stay true to the business vision and mission. It is important for the farmers to set realistic and achievable goals

It is recommended that when the season targets are set, it is important to remember to set the targets with consideration of the available business cash flow and other resources for the season and to avoid large cost outlays that outstrip the cash available for operations. The adoption of this recommendation will ensure planned targets are achieved at the end of the season *ceteris paribus*.

5.7 Limitations of study

The study was focused on grain commercial farmers who are clients of one bank. These farmers all plant through credit using bank overdrafts to finance their direct inputs. No farmers planting with their own funds were included in the study. The study was also conducted in one province, without consideration of other provinces. Furthermore, the study focused only on grain commodities without consideration of other commodities planted in Mpumalanga.

5.8 Conclusion

The study problem statement is that commercial grain farmers do not actively manage the business cash flow, nor do they implement controls to monitor the cash flow throughout the season. This may lead to cash flow shortfalls at the end of the season resulting in the potential default on the business obligations, especially debt obligations with financiers. Once the farming business has defaulted, financiers regard it as a high-risk distressed business. The aim of the study is to bring awareness of the

problem that exists and address topics that highlight the advantages of active cash flow management to avoid future defaults by farming businesses.

The primary objective of the study was to evaluate the cash flow management of grain commercial farmers in the Highveld in Mpumalanga, which was achieved by addressing three secondary objectives. The first secondary objective was achieved through the literature view in Chapter 2 and identified themes in Chapter 4. The second and third secondary objectives of the study were also achieved by the themes identified in Chapter 4.

The results from achieving the objectives, show that commercial grain farmers in the Highveld of Mpumalanga understand cash flow management, its drivers and the impact these have on the farming business. However, the culture identified among the farmers is that, active cash flow management is not practiced in farming businesses even though the farmers are aware of the advantages it offers. The researcher compiled four recommendations farmers can use to improve active cash flow management in the business. Therefore, the study has achieved its goal.

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Appendix 1

Ethical clearance



GENERAL/HUMAN RESEARCH ETHICS COMMITTEE (GHREC)

12-Sep-2022

Dear Mr Gaopalelwe Ngakantsi

Application Approved

Research Project Title:

CASH FLOW MANAGEMENT OF COMMERCIAL GRAIN FARMERS IN THE HIGHVELD OF MPUMALANGA

Ethical Clearance number:

UFS-HSD2022/1098/22

We are pleased to inform you that your application for ethical clearance has been approved. Your ethical clearance is valid for twelve (12) months from the date of issue. We request that any changes that may take place during the course of your study/research project be submitted to the ethics office to ensure ethical transparency. Furthermore, you are requested to submit the final report of your study/research project to the ethics office. Should you require more time to complete this research, please apply for an extension. Thank you for submitting your proposal for ethical clearance; we wish you the best of luck and success with your research.

Yours sincerely

Dr Adri Du Plessis

Chairperson: General/Human Research Ethics Committee

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Appendix 2

Interview schedule

1. How many hectares do you plant?
2. Which grains do you plant?
3. How many years have you been farming?
4. In which town is your farming operation?
5. Do you have a financial manager employed in the business?
6. Do you conduct pre-season planning related to finance and procurement, explain process?
7. Who does the pre-season planning?
8. If answered Yes at 5, how does pre-season planning impact your business?
9. Which of these tools do you use in the farming business?

	Tool	Yes	No
(a)	Is there a farm plan for the season (farm goals)		
(b)	Cash flow forecast/budget		
(c)	Interpretation of the cash flow budget (shortfall, viable business, working capital need)		
(d)	Systems in place to monitor cash flow		
(e)	Measure liquidity/solvency to continue operating		
(f)	Measure total inflows versus outflows for the season		
(g)	Balancing of debtors and creditor days		
(h)	Record keeping of actual cash flow (in & out)		
(i)	Recon planned versus actual budget (income and costs)		
(j)	Interpret net cash flow (why positive or negative)		
(k)	Use actual season cash flow budget to plan next season		
(l)	Use income statement to measure profitability		

10. If answered Yes at 8(b), why do you use a cash flow budget?
11. If answered No at 8(b), why do you not use a cash flow budget?
12. How often do you revisit the cash flow budget, why or why not?
13. Does a cash flow budget recon help you with financial management, explain your answer?
14. What is the usefulness of managing cash flow in your business?
15. What do you think are the key aspects/drivers of cash flow management?
16. What controls are there to manage cash flow in the business?
17. How do you fund any cash flow shortfalls?
18. In your opinion does cash flow management result in better financial performance, why or why not?

Appendix 3

Permission to conduct study

RE: Field Study / Research project

Hi Gao / Francois, my apologies for the belated reply. I support and good luck!

Regards



Bertie Huggett
Head of Agriculture
Business Banking | FNB Commercial

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From: Schlebusch, Francois <FSchlebusch@fnb.co.za>
Sent: Monday, 14 February 2022 08:44
To: Ngakantsi, Gaopalelwe <Gaopalelwe.Ngakantsi@fnb.co.za>; Huggett, Bertie <Bertie.Huggett@fnb.co.za>; Coby, Natasha <natasha.coby@fnb.co.za>
Subject: RE: Field Study / Research project

Hi Bertie

I support the request from Gao for undertaking his studies.

Thx



Francois Schlebusch
Regional Head Agriculture Mpumalanga / Limpopo
FNB Business, Agriculture

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From: Ngakantsi, Gaopalelwe <Gaopalelwe.Ngakantsi@fnb.co.za>
Sent: Wednesday, February 9, 2022 4:44 PM
To: Huggett, Bertie <Bertie.Huggett@fnb.co.za>; Schlebusch, Francois <FSchlebusch@fnb.co.za>
Subject: Field Study / Research project



how can we help you?

Hi Bertie/Francois

Hope the email finds you well.

As previously discussed attached is a letter from the University that supports my research project as part of the course for the final year.

- The study will focus on active cash flow management of grain commercial farmers in the Highveld Mpumalanga.
- The target sample is max 15 FNB banked clients planting <3000ha grains per season.
- I plan to conduct interviews with these farmers on their farms. Their identity will be anonymous as their entities will be allocated an alphabet throughout the study.
- Participation in the study will be voluntary for the farmers.
- The aim is to determine whether these farmers use financial tools particularly budgeting and cash flow management to make decisions and manage the business because these operations do not have full time Financial Managers to run this function. The farmers are rather involved in this function
- Secondly want to measure the financial performance of farmers that use these financial tools and those that don't through a suitable index.

I herewith request authorization to contact our agric clients to be part of the study.

Thank you.

Regards