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Working capital and sustainability of private practices in the South African healthcare sector

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Working capital and sustainability of private practices in the South African healthcare sector

Nangamso Kondlo

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A research article submitted to the Faculty of Commerce, Law and Management, University of Witwatersrand in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2023

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DECLARATION

I, Nangamso Kondlo, (student number: 461213), declare that this research article is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Nangamso Kondlo

Signed .....at…Sunninghill……. On the…14th…. day of…June … 2023

DEDICATION

I dedicate the achievement of this life ambition to God and my family. A special dedication to my parents, my brother, and my uncle. You have been the wind beneath my wings. To my parents, thank you for the emotional and financial support; you held my hand through it all. None of this would have transpired if it were not the sacrifices that you have made for me to become a better person in life. To my brother, thank you for being such an inspiration in my life and being there every step of the way. I will do all in my power to continue to make you proud. I am who I am today because of who you are.

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I would want to use this opportunity to pay a particular thanks to my supervisor, Prof. Bhekinkosi Moyo, whose unwavering intellectual guidance and direction, as well as motivation, developed in me the strength to continue with this project; for his patience and continuous comments. Without his encouragement and participation, this work would not have been successful. As a result of his mentoring and guidance, my overall intellectual growth has been significantly aided. I will always be eternally grateful to him for nurturing me.

I would also want to express my gratitude to all the proprietors of the locally owned businesses who welcomed me into their establishments and shared their insights with me.

And finally, I would like to express my gratitude to the one above. Because of all He has done for me, I am a walking testimony of the work that His hands have accomplished.

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ABBREVIATIONS

BHF	Board of Healthcare Funders
CR	Current Ratio
DER	Debt Equity Ratio
DTI	Department of Trade and Industry
FATA	Financial Assets to Total Assets
FCF	Free Cash Flow
GDP	Gross Domestic Product
GP	General Private Practices
ITID	Inventory Turnover in Days
NDAR	Number of Days Account Receivable
NPV	Net Present Value
NWC	Net Working Capital
ROA	Return on Assets
SAMA	South African Medical Association
SAPPF	South African Private Practice Forum
SMB	Small Medium Businesses
SMEs	Small-medium Enterprises
SCF	Statement of Cash Flows
STATSSA	Statistics South Africa
WCM	Working Capital Management

Table of Contents

DECLARATION ..... **i**

DEDICATION……**ii**

ACKNOWLEDGEMENTS ..... **iii**

SUPPLEMENTARY INFORMATION ..... **iv**

ABBREVIATIONS ..... **v**

TABLE OF FIGURES ..... **ix**

LIST OF TABLES ..... **x**

ABSTRACT…… ..... **xi**

CHAPTER 1: INTRODUCTION **1**

1.1 Introduction to the study 1

1.2 Background to the study 2

1.3 Background of the healthcare sector 3

1.4 The research problem and rationale 4

1.5 Research objectives 4

1.6 Research questions 5

1.7 Significance of the study 5

1.8 Delimitations of the study 6

1.9 Chapter Summary 6

CHAPTER 2: LITERATURE REVIEW **7**

2.1 Introduction 7

2.2 Theoretical foundation 7

2.2.1 Free cash flow theory 7

2.2.2 Application of the free cash flow theory on the sustainability of businesses in the health sector 8

2.3 The influence of working capital on small businesses 10

2.4 The influence of working capital on the sustainability of small businesses in the health sector 15

2.5 The influence of working capital on the sustainability of small businesses in the South African health sector 16

2.6 The influence of working capital on the sustainability of general private practices in the South African health sector 17

2.7 Chapter Summary 18

CHAPTER 3: RESEARCH METHODOLOGY 19

3.1 Introduction 19

3.2 Research design 19

3.3 Research methodology 19

3.4 Study population and sampling 20

3.5 The research instrument 21

3.6 Validity and reliability of the research instrument 22

3.7 Data collection and analysis 22

3.8 Limitations 23

3.9 Chapter Summary 23

CHAPTER 4: RESEARCH FINDINGS 24

4.1 Introduction 24

4.2 Demographic data 24

4.3 Results on the research questions 25

4.3.1 Finding 1- Private practices finance their working capital through an overdraft and bank loans 25

4.3.2 Finding 2- There is a relationship between working capital and the sustainability of private practices 27

4.3.3 Finding 3 – Working capital requirements influence the success or failure of private practices in the South African health sector to a great extent 29

4.3.4 Finding 4 – The current government policy framework does not assist small businesses in the South African health sector 31

4.4 A summary of the major findings 32

CHAPTER 5: DISCUSSION OF FINDINGS 35

5.1 Introduction 35

5.2 How private practices finance their working capital 35

5.3 The relationship between working capital and sustainability of private practices..... 36

5.4 The extent of which working capital influences the success or failure of private practices 36

5.5 Current government policy framework and assistance of small businesses in the health sector..... 37

5.6 Chapter Summary 38

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS 39

6.1 Introduction 39

6.2 Conclusions 39

6.3 Recommendations 40

6.4 Prospective Study areas 41

6.5 Chapter Summary 42

REFERENCES,.....……43

APPENDIX A……..... 48

APPENDIX B…… 52

TABLE OF FIGURES

Figure 1: Working Capital Cycle (http: www.planware.org/workcap.htm) 11

Figure 2: Impact of working capital on profitability (Hassan et al., 2011)……...13

Figure 3: Percentage of practices and the number of employees……25

Figure 4: Financing options for working capital used for private practices……..26

Figure 5: Uses of working capital……27

Figure 6: Working capital needs of active practices that sustained the 5-year period..28

Figure 7: Working capital needs of practices that closed down and failed for reach the 5-year period……29

Figure 8: Extent of relationship between working capital and sustainability…….30

Figure 9: Responses on aspects of government policy framework……..31

Figure 10: Rating of government support of SMEs…….32

LIST OF TABLES

Table 1: Summary of findings in relation to research questions……..…33

ABSTRACT

The major aim of this quantitative exploratory study was to investigate the impact that working capital has on the long-term sustainability of small businesses; focusing on private practices in the health sector. The study contributes towards an understanding of the role that working capital plays in improving the chances of survival and thriving for small and medium-sized businesses in South Africa. The study sample (n=76) was drawn from a population consisting of all general practitioners who run private practices in the Gauteng Province of South Africa. Data was collected through an online questionnaire administered via Survey Monkey. The questionnaire used had both closed and open-ended items. Answers to closed questionnaire items were analysed using descriptive statistics. The responses to open-ended items were analysed using content analysis, from which descriptive statistics were derived. The findings show that: private practices fund their working capital needs mainly through overdrafts and bank loans; there is a relationship between working capital and the sustainability of private practices; and the government and current policy frameworks are not doing enough to support the long-term sustainability of private practices in the health sector. Suggestions on how private practices can finance working capital requirements are given. It is recommended that amendments to public policy should be done, focusing on how to improve the long-term sustainability of private practices. Recommendations for future research are teased out.

CHAPTER 1: INTRODUCTION

1.1 Introduction to the study

In recent years, there has been an increased interest by researchers in the functions that Small and Medium-Sized Businesses (SMEs) perform within the context of the global economy (Menisha & Wise, 2018). A portion of this interest arises from the potential impact that small and medium-sized enterprises (SMEs) have in strengthening economic growth, creating employment opportunities, and improving gross domestic product (GDP) per capita across emerging and established economies (Kihonge, 2016). For example, Yikeber (2019) shows that small and medium-sized enterprises are not only sources of income and employment but also create new business owners. They have the ability to employ people, are competitive, flexible, and innovative. While this is so, issues have arisen about whether or not these smaller businesses can survive in the long run, and if they do, what could be the factors contributing to their survival and long-term sustainability. A study conducted by Kalane (2015) indicates that in South Africa alone, 70% to 80% of small enterprises are unsuccessful within the first five years of operation. In the Health Sector, statistics obtained from the Board of Health Funders (BHF) revealed that, in the Gauteng province, between the period of 2009 to 2019, a total of 5 730 private practices were established and 1 329 of those practices closed down due to various factors, including the lack of working capital (BHF, 2022). It is in the light of this background, that this study investigated the role that working capital plays in guaranteeing the long-term sustainability of small and medium-sized enterprises (SMEs) in the South African Health Sector.

There are many different ways to define working capital in the field of finance (Aminu & Zainudin, 2015). For the purpose of this study, the definition by Zimon (2021) was adopted. Zimon (2021) considers working capital to be a cash flow requirement that ensures a company can meet its short-term operating costs and short-term debt obligations. This is referred to as current assets and current liabilities. According to Zimon (2021), working capital is essential for a company to be able to meet its short-term operating costs and short-term debt obligations. The focus of the present study was on liquid assets, especially direct cash flow. Direct cash flow was chosen because it is simple to track, beginning with the deployment of the initial capital to start a business, how it changes over time, and how business operations and sustainability can be constrained due to a lack of such liquidity.

In terms of how to measure sustainability, for this study, the definition provided by Kalane (2015) was utilized. According to Kalane (2015), businesses that have survived and sustained are those that have been operating for more than five years, whereas businesses that have

not been successful are those that have not been able to reach the period of five years in operation.

As noted, this study focused on small and medium-sized enterprises (SMEs) in the healthcare sector of the economy. The healthcare industry is a crucial part of the economy of every nation, and its health is directly related to the economy's capacity for stability and efficiency.

This study investigated the influence that working capital has on the success and failure of private practices in the South African healthcare sector, using Gauteng Province as a case study. The issue of working capital is extremely important when it comes to SMEs that provide medical care as the healthcare sector consists of multitude variabilities, with different SMEs providing a diverse array of services and products. To illuminate and elucidate the role that working capital plays in guaranteeing the long-term sustainability of small and medium-sized enterprises (SMEs) in the South African Health Sector, the study analysed the influence that working capital has on the success and failure of private practices. These Private Practices are defined as enterprises that supply primary health care but are neither controlled nor paid for by the government or by a larger company (Ganyaupfu & Africa, 2019).

1.2 Background to the study

According to Hechavarri'a, Matthews, and Reynolds (2016), the availability and access to finance are at the core of any successful business. As a result, access to working capital is a significant factor in the success or failure of small businesses, as well as their growth and sustainability (Ou & Haynes, 2006). Cassar (2004) contends that in order to begin trade and to fund their expansion, all firms require sufficient amounts of financial resources. More crucially, even once they have obtained the necessary money, they still need to overcome the larger obstacle of managing their working capital, which is a persistent challenge that can either result in failure or success. During the early stages of a company's existence, an inadequate amount of working capital might act as a barrier to the company's capacity to expand and be profitable over the long term (Cassar, 2004).

Research has shown that the speed with which some entrepreneurs start a company is a result of their capacity to source and access financing (Hechavarría et al., 2016; Abdulsaleh & Worthington, 2013). For example, Abdulsaleh and Worthington (2013) argue that accessibility to working capital is a major factor in determining the performance of small firms and entrepreneurs. They point out that a sufficient amount of working capital not only ensures a company's sustainable growth and profitability by fostering the innovation process and fostering the creation of new businesses, but also enables a company to keep up with the challenges associated with its cash flow, which can have an impact on the company's day-to-

day operations. This is in line with a study by Hechavarría et al. (2016), whose findings reveal that effective management of working capital has a significant influence on new enterprises and smaller companies, and the absence of such management poses significant obstacles for aspiring business owners. Abdulsaleh and Worthington (2013) had earlier raised this point when they suggested that new small and medium-sized businesses (SMEs) without operating capital may not be able to survive and thrive.

In light of the aforementioned, it is important that the plight of companies that make up the small business sector be brought to people's attention (Abedian et al.,). As mentioned, the healthcare sector is the primary focus of this investigation. This sector was chosen for the study because the healthcare industry is an indispensable part of the economy, playing a pivotal role in maintaining the health of the economy and ensuring its continued viability (Boyce & Brown, 2010). However, in spite of this, the healthcare industry has not received much research attention, specifically focusing on investigating the effect that working capital has on the growth and longevity of businesses (Delobelle, 2013). This has been the case despite that this effect has been demonstrated to be significant in other industries. This study adds to our understanding of how working capital can play a role in improving the growth performance and long-term sustainability of private practices within the South African healthcare sector (Abedian et al.,).

1.3 Background of the healthcare sector

As a result of its political history and the legacy of apartheid, South Africa is characterized by significant socio-economic disparities, which have a negative impact on the health of a large number of the country's residents, particularly the black African population (Delobelle, 2013). Although the government has attempted to remedy past imbalances through the implementation of the Health Millennium Development Goals, very little progress has been made towards correcting the imbalances (Delobelle, 2013). Access to health care is hampered by large socio-economic gaps between urban and rural areas. This problem is also compounded by the growth and emergence of many diseases, including pre-transitional diseases, non-communicable diseases, as well as increases in cases of crime, violence, and accidents. As a whole, the public health sector is strained and suffers from a lack of adequate resources. The public health system is overburdened and under excessive pressure and operates under heavy strain (Delobelle, 2013). This is not made easier by an inadequate infrastructure and shortages of equipment, making it difficult to appropriately service the greater majority of the population. Existing public health facilities are simply overwhelmed.

Small to medium enterprises (SMEs) are vehicles that are both accessible and scalable in the provision of primary health care. It is imperative that the demand for small businesses in the healthcare industry not be underestimated. In addition, an understanding of the impact that working capital has on the sustainability of private practices operating within the healthcare industry can provide insights into what it is which can be done to boost the percentage of successful small and medium-sized businesses operating within the industry. This can also inform policymakers on ways to handle budgets in order to best assist in the expansion of this particular industry.

1.4 The research problem and rationale

Within the context of the South African healthcare industry, the major purpose of this study was to investigate how the availability of working capital impacts the long-term sustainability of private practices. The fact that different businesses operating in the healthcare industry go through the beginning stages with varying requirements for their available working capital provides the impetus for this line of inquiry. Naturally, the requirements for operational capital or operating cashflow can vary from one type of small and medium-sized enterprise to another, depending on the industry or area in which the SME is active (Aren & Sibindi, 2014). The influence of working capital requirements on the long-term sustainability of SMEs also varies from one economic subsector to another, depending on the particular industry in which the company is active (Aren & Sibindi, 2014).

There is an underlying assumption that there is a relationship between the availability of working capital, or a lack of it, and the sustainability and expansion of private practices operating within the South African healthcare system. The nature of this relationship or association is still far from being fully understood. This investigation focused on SMEs that were founded between the years 2009 and 2019, pre-Covid-19. In particular, the study focused on a sample of relatively small businesses that were just getting their feet off the ground, in the Gauteng Province of South Africa.

1.5 Research objectives

In order to achieve the aim of the study, four objectives were formulated. The objectives of this study were to:

1. Investigate how private practices finance working capital requirements;
2. Understand the relationship between working capital and the sustainability of private practices;

3. Understand the extent to which working capital affects the success or failure of small businesses in the health sector; and
4. Assess the adequacy of capital allocation provided by the current government policy framework in assisting the private practice businesses in the South African health sector

1.6 Research questions

In order to achieve the objectives of the study the following questions were formulated:

1. How do private practices finance their working capital?

2. Is there a relationship between working capital and the sustainability of private practices?

3. To what extent do working capital requirements influence the success or failure of private practices in the South African health sector? And

4. Is there adequate working capital allocation provided by the current government policy framework in assisting small businesses in the South African health sector?

1.7 Significance of the study

In his state of the nation address (SONA) of 2022, the President of South Africa emphasized the significance of small businesses in the expansion of the country's economy, stating that:

> "…the key task of government is to create the conditions that will enable the private sector—big and small—to emerge, to grow, to access new markets, to create new products, and to hire more employees…". Smit (2022).

According to Olawale and Garwe (2010), 75% of small enterprises in South Africa fail to make it (become sustainable), leading to South Africa having the highest rates in the world. The issue of access to financing, or the lack thereof, is always brought up. More still needs to be done to understand why SMEs fail. As alluded to, it is in the light of this that this study contributes to our understanding of the relationship between availability of working capital and sustainability. To better engage with funders, financial institutions, and the government, it is beneficial to conduct an analysis of the influence that requirements for working capital has on sustainability of SMEs. Understanding the extent to which a shortage of working capital has an effect on the small business adds to the body of knowledge that exists in the field of business and entrepreneurship. Although several studies, such as those of Enisan (2019) and

Chatterjee (2012), have acknowledged this as a problem, a lot still has to be known about the reasons for the problem or the impact that the shortage of finance has on the requirements for small firms' working capital. This study addresses that gap and presents sector-specific difficulties on the lack of working capital that affect the improved survival and sustainability of small enterprises in the health sector.

1.8 Delimitations of the study

This study concentrated on one particular sector of the South African economy, namely, the healthcare sector. It investigated the impact that working capital has on private practices operating within that sector. More specifically, the study looked at the private practices in South Africa. The focus was on service-oriented private practices run by general practitioners. Other types of private medical practice, such as dentistry and specialized practices, as well as others, were not covered in this study. The research covered a period of 10 years, from 2009 to 2019. Only general private practices in the Gauteng region were included in the survey. These practices were those registered between the years 2009 and 2019. The choice of this region stemmed from the fact that it was accessible to the researcher, given the amount of time and resources at their disposal.

The private practices that were already in existence prior to the arrival of Covid-19 were the focus of the investigation. This is due to the fact that Covid-19 was a "black swan" event, which means it was an exceptional occurrence that had the potential to skew the data. After all, the conditions of the economy did not conform to what would be considered typical. Therefore, analysing data before COVID-19 made the study viable. This study assumed that other elements that prior research has proven to contribute to the failure of SMEs were constant and primarily focused on the influence of working capital on the sustainability of general private practices.

This introductory chapter is followed by presentations of: a review of literature; the research design and methodology; presentation of findings; discussion of the findings; and a conclusion, as well as recommendations from the study.

1.9 Chapter Summary

The preceding chapter gives a brief overview of the study, introduces the research questions, giving some context, and emphasizes the goal of the investigation. It introduces the research problem and research objectives that the study aims to fulfill, as well as contributes towards an understanding of the role that working capital plays in improving the chances of survival and thriving for small and medium-sized businesses in South Africa.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The preceding chapter gives a brief overview of the study, stating the research questions, giving some context, and emphasizing the goal of the investigation. In this chapter, the theoretical underpinning of the study and literature review are discussed. The literature relevant to the study is appraised. The literature review of this study entails discussions about the value of working capital and how it affects the long-term sustainability of private practices in the South African healthcare sector. Four main constructions formed the subject of these discussions: a) the influence of working capital on the sustainability of small businesses; b) the influence of working capital on the sustainability of small businesses in the Health Sector; c) the influence of working capital on the sustainability of small businesses in the South African Healthcare sector; and d) the influence of working capital on the sustainability of General Private Practices in the South Africa Healthcare sector.

2.2 Theoretical foundation

To explain, forecast, and grasp events, as well as to challenge and advance present knowledge within the constraints of fundamental premises, theories are formed (Fama & French, 2002). The theoretical framework of a study serves as the basis for the development of research concepts and hypotheses. According to Fama and French (2002), a theoretical framework presents the theory that explains why the research problem under consideration should be investigated. A theoretical framework provides a specific perspective or lens through which an investigation can be done. For this study, the cash flow theory was utilized (Bhandari & Adams, 2017).

2.2.1 Free cash flow theory

Cashflow is an important element of every business, large and small businesses. As a result of this, every company's annual report includes the cash flow statement as one of the four key financial statements (Bhandari & Adams, 2017). Jensen (1986) first used the term Free Cash flow (FCF) in relation to agency conflict. Free cash flow is defined by Jensen (1986) as cash flow that is above that which is necessary to finance all operations with positive net present values when discounted at the pertinent cost of capital. The free cash flow theory as coined by Jensen (1986) suggests that enterprises should always maintain a particular level of cash on hand at all times.

The free cash flow hypothesis put forth by Jensen (1986), has been supported by a few researchers. Since then, the FCF theory has gained popularity among those who compile

financial statements, conduct financial analysis, are academics, and write textbooks, as they use the theory to determine whether a company has enough cash to meet its working capital needs, such as paying off debt and other day-to-day operational needs, to better benefit the sustainability of the business (Bhandari & Adams, 2017).

This investigation made use of the cash flow theory in order to investigate the impact that working capital has on companies operating in the health sector in South Africa. Within the context of the South African healthcare industry, this study concentrated its attention specifically on private practices. To achieve this, an online survey was conducted asking private practitioners about their experiences with working capital and how the strength of their balance sheet throughout the life of their business - from the point in time when the initial capital to start the business was deployed to how it changes over time - has influenced the sustainability of their business. These private practitioners also revealed how business operations might have been restricted owing to a lack of such liquidity. As a lack of such liquidity or its availability can, respectively, either lead to the success or collapse of these small and medium-sized enterprises (SMEs), depending on the circumstances.

2.2.2 Application of the free cash flow theory on the sustainability of businesses in the health sector

Cash flow is not only a common term used in business, but it is also an essential subject that is studied in the fields of accounting and economics. The level of cash flow as well as the change in cash flow over time can give valuable information for evaluating the success of a company and determining its path in the future (Bhandari & Adams, 2017). According to Bhandari and Adams (2017), insufficient financial reserves might cause a company to renege on its existing liabilities, which can ultimately result in the company becoming bankrupt. When it comes to value securities, properties, mergers, acquisitions, capital assets, and other types of transactions and investments, cash flow models are utilized.

When considering the current state of the health sector, globally, the past ten years have presented an exceptionally difficult environment for the industry. For example, Pratt (2017) provides additional information on the financial challenges in the healthcare industry that have resulted in the closure of 65 hospitals in the state of California in the United States of America (USA) alone. The emergence of predatory health plan payment structures, the incompleteness of government reimbursement, and the expansion of uncompensated care, unfunded obligations have been aggravated by rising labor costs, which are generating significant financial issues for the healthcare business (Pratt, 2017).

Operating cash flow

The operating cash flow component of the statement of cash flows (SCF) is one of the three key cash flow analysis components found in the SCF, and it is by far the most important of the three (cash flow from financing activities and cash flow from investing activities). The operating cash flow is a measure of a company's ability to generate cash from the operations that make up its main business (Bhandari & Adams, 2017). Jensen (1986) elaborates further on his idea by explaining that firms should keep a certain quantity of cash on hand for their day-to-day operations, for adverse market fluctuations, and for the purpose of seizing attractive investment possibilities that may entail financial expenditures.

In the context of private practices operating within the healthcare industry, operational cash flow can be derived from revenue that is generated directly from patients, and insurance reimbursements. This operational cash flow funds day-to-day business operations, such as wages (for agency or temporary staff), taxes, rent, utilities, and the maintenance of medical equipment. There is also a possibility that the operating cash flow costs include expenditures for the purchase of minor equipment, such as medicines, gloves, detergents, and disinfectants (Pratt, 2017). Because of this, the use of the Free Cash Flow Theory in the process of conducting an analysis of the influence of working capital is relevant for firms operating in the health sector, both in terms of their immediate performance and their ability to endure over the long term.

Exploiting attractive investments and opportunities that may require cash expenditure

According to Pratt (2017), Jensen (1986)’s free cash flow theory of maintaining a particular level of cash on hand at all times can be done, together with other things, in order to be able to take advantage of potentially lucrative investment opportunities that may call for the expenditure of cash, such as reorganizing, expanding, or experiencing a boom in earnings.

Restructuring

Growth is essential to the success of every business. Because it has a sufficient amount of free cash flow, the business is able to restructure itself to meet the demands of its customers. Even while businesses that are expanding and undergoing restructuring may experience negative free cash flow since more money is going into expansion, a continuously negative or low free cash flow can indicate that a corporation is benefiting from restructuring. In a perfect world, restructuring would result in an increase in the company's free cash flow, as well as its overall size (Pratt, 2017). Restructuring is necessary for firms operating in the healthcare industry as it enables them to meet the needs of their customer base.

Expansion

According to Pratt (2017), when a business consistently has high numbers for its free cash flow; that business is ready to expand its operations. This could involve making investments, purchasing additional companies, expanding into additional locations, or recruiting additional personnel (Pratt, 2017). In the field of medicine, expansion can mean a number of things, including the hiring of additional personnel, provision of high-quality services, possession of cutting-edge medical technology, operation in a larger space, and treatment of a greater number of patients, providing services to a more extensive clientele.

Earnings surge

Before making an investment decision, potential investors frequently consider and analyse the company's free cash flow (Bhandari & Adams, 2017). Free cash flow that is consistently high could be an indicator of good earnings in the future. Access to appropriate working capital provides a number of benefits for businesses, one of which is the attraction of additional investors interested in the expansion and improvement of the business.

The preceding section discussed the theoretical foundation and the application of the Free Cash Flow Theory in the analysis of working capital and the impact it has on the sustainability of businesses in the health sector. Pratt (2017) investigated the connection between free cash flow (FCF) and the effectiveness of hospitals. The stochastic frontier model of hospital cost efficiency was evaluated using data from 270 hospitals in the state of California, USA. The findings indicated that hospital free cash flow is significantly linked to the efficiency of the business, and that cash flow does not only impact the ability of hospitals to meet current liabilities, but it is also related to the ability of the hospital to use resources effectively, contributing to the better survival and sustainability of the business (Pratt, 2017).

2.3 The influence of working capital on small businesses

Working capital management, often known as WCM, refers to the process through which a company invests in assets that are only needed for a short period of time. These assets include cash, short-term securities, bills receivable, inventory of raw materials and finished items (Radhika & Azhagaiah, 2012). The management of current assets and obligations, as well as the financing of those current assets, are included in this function. Figure 1 illustrates the working capital cycle, adapted from http: www.planware.org/workcap.htm.

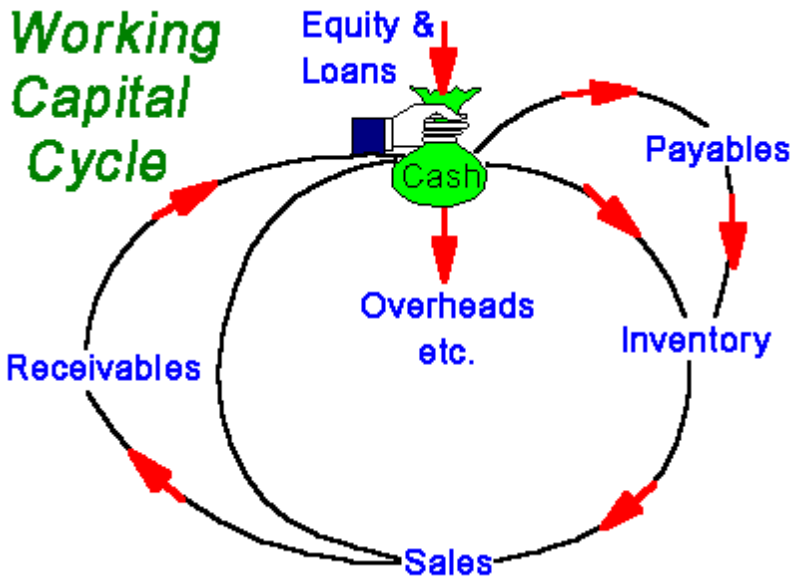


Figure 1: Working Capital Cycle (http: www.planware.org/workcap.htm)

Khan, Jawid and Arif (2012) describe working capital management (WCM) in the context of the Asian world as the financing, investment, and control of the net assets within the parameters of the policy guidelines. From this point of view, the working capital management (WCM) is the differential between current assets and current liabilities. The current assets of a business are subtracted from their current liabilities to calculate their net working capital. This metric is used to evaluate a company's overall financial health because of its impact on the company's capacity to remain profitable over the long run (Radhika & Azhagaiah, 2012).

The management of working capital has received an insignificant amount of attention from academic researchers, despite the obvious importance of the topic (Viskari et al., 2011). Historically, research has placed an emphasis on long-term capital, asset management, and has primarily focused on fixed assets (Komonen, 2010). This is due to the fact that working capital binds a significant amount of funds and can also serve as an early warning sign of issues within a company's operational processes (Radhika & Azhagaiah, 2012).

According to Radhika and Azhagaiah (2012), the management of operational working capital is striking a balance between the reduction of capital tied up to the current assets, which increases profitability, and the minimization of the adverse effects caused by too small amount of operational working capital (Radhika & Azhagaiah, 2012). Radhika and Azhagaiah (2012) are of the opinion that if inventory levels are too low, there is a possibility that there will be disruptions in production, problems with delivery, company losses due to a lack of items, and pricing changes. All of these things can lead to additional expenditures. A decrease in the amount of trade credits issued to clients results in a decline in sales (Molina & Preve, 2009),

and it may also damage the company's connection with its customers. When dealing with vendors who require extended payment terms, it is impossible to take advantage of any discounts that are offered for prompt payment (Wang, 2002).

The management of a company's working capital has a significant impact not only on the company's ability to remain in business but also on its potential to turn a profit. The importance of working capital is stressed in the service sector because of light fixed assets and good profitability. Working capital ensures the company's performance over the long term and helps the company to accomplish its overall objectives (Uguru, Chukwu & Elom, 2018).

According to Uguru et al. (2018), the operation of enterprises requires a specific level of working capital in order to fulfil its short-term costs, operation costs, and short-term debt commitments. This is because short-term costs include things like wages and rent. It has a significant role in the company's ability to maintain its liquidity, solvency, and profitability, which, in turn, has an impact on the company's ability to remain sustainable (Atta, Javed, Khalil & Nadeem, 2017). The ability of small businesses to maintain sustainability is therefore positively impacted by the quality of the management of their working capital. The purpose of good working capital management is to ensure that there is sufficient support for the efficient and effective operation of day-to-day activities. This is accomplished by striking a balance between the three proportions of working capital, which are liquidity, profitability, and risk (Atta, et al., 2017)

According to Uguru et al. (2018), effective management of working capital will involve lowering the minimal level of working capital demand while simultaneously reaping the greatest feasible amount of revenue. Uguru et al. (2018) are likewise of the opinion that the profitability of enterprises has a linear relationship with the effective usage of the entity's working capital. Since the management of a company's working capital can have a substantial impact on both the company's profitability and its ability to remain in business, it is in everyone's best interest to ensure that it is both effective and efficient (Atta,et al., 2017).

Uguru et al. (2018) conducted research to investigate how the management of working capital affects the profitability of brewery firms in Nigeria. According to their findings, one of the most important factors in reaching the desired level of profitability for brewery companies in Nigeria is having sufficient working capital.

In support of Uguru et al. (2018)’s findings, Enisan (2019) undertook a study assessing the influence of working capital on small firms, where she studied the relationship between working capital and company profitability. The outcomes of the research provided support for the hypothesis that the company's ability to maintain its existence, profitability, and

sustainability is positively impacted by the availability working capital. In a similar study, Alvarez, Sensini, and Vazquez (2021) demonstrated the impact that working capital management has on the profitability of Argentine manufacturing firms and demonstrated a positive and statistically significant relationship between components of working capital, profitability, and success of these firms. In another study, Hassan, Aftab, and Qazi (2011) conducted an extensive investigation into the role that working capital plays in determining the profitability, long-term sustainability, and rate of expansion of small enterprises. These authors collected data from Annual Reports and Analysis Reports which were released from the State Bank of Pakistan during 2004-2009. According to their findings, the composition of working capital has a direct impact on a company's ability to turn a profit, as seen in the figure (Figure 2). Their findings are corroborated by Hassan et al. (2011), who found that there was a positive movement of working capital on the firm's profitability during the course of their investigation.

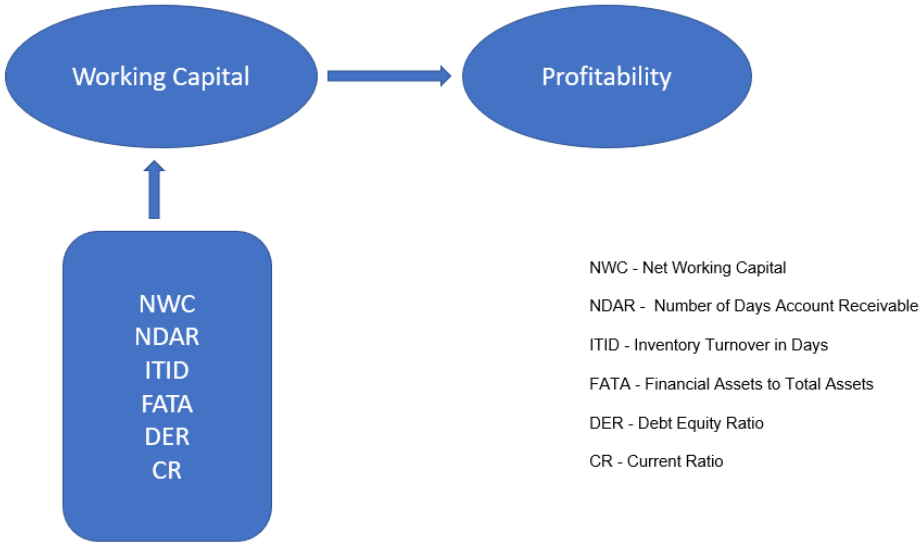


Figure 2: Impact of working capital on profitability (Hassan et al., 2011)

Hassan et al. (2011)'s assertion that working capital has an impact on profitability has been called into question by a number of authors. In order to verify this claim, Chatterjee (2012) conducted research that examined the effect that working capital had on the profitability of a sample of one hundred Indian companies that were listed on the Bombay Stock Exchange over the course of two years, beginning in 2010 and continuing through 2011. Receivable days, inventory turnover days, Payable days, Cash conversion cycle, Current ratio, and Quick ratio on the Net operating profitability of these Indian enterprises were the numerous components that went into measuring working capital. When measuring working capital management, controlled variables such as the proportion of fixed assets to total assets, the debt ratio, and the size of the company were also taken into consideration. Chatterjee (2012)

analysed his research using Descriptive Statistics, Pearson's correlation, and Regression Analysis in order to correlate the theories from a variety of writers. Chatterjee (2012)’s findings show that there is a strong negative association between components of working capital management and the profitability ratios of Indian firms. This indicates that, as the cash conversion cycle increases, it would tend to reduce the profitability ratios of these Indian firms, and the managers might increase the shareholders’ value by shortening this conversion cycle to a minimum level.

It was also noted that the negative correlation between liquidity and the profitability of Indian enterprises continues to exist. Despite this, there is a positive correlation between the size of the firm and the amount of money it brings in. This suggests that the firm's profitability will increase in proportion to its size, providing further evidence that this is the case. Lastly, Chatterjee (2012) found a negative correlation between the amount of debt a company has and its profitability. This was noticed in Indian businesses. The findings of this research indicate that the directors of a company may be able to increase their profits by shortening the time periods of their debtors and inventories in order to lengthen the time periods of their payables. In doing so, they would have to shorten the time periods of their receivables.

Ghodrati (2014), one of the authors that challenged Hassan et al. (2011)'s claim on the impact of working capital on profitability, investigated the link between management of working capital and the performance of Tehran Stock Exchange approved firms over a period of four years. This study was conducted to challenge Hassan et al. (2011)'s claim on the impact of working capital on profitability (from 2008-2012). Because of the research question that was chosen and the data that was collected, it was discovered that determinants of capital investment and profitability are in direct opposition to each other. Ghodrati (2014) discovered that, when the period of collection agreement, timeframe of debt payment, period of inventory circulation and the cycle of cash conversion all increase, the timespan profitability decreases, and the manager can reduce the duration of payment, time frame of cash conversion to the smallest amount of positive significance of associated costs.

The literature above is a good demonstration that different authors have conducted different studies in order to investigate the impact that working capital has on a company's profitability and sustainability. The authors, however, failed to demonstrate the extent to which working capital influences the profitability and sustainability of small businesses. They also failed to indicate whether the correlation between the two variables being measured is weak, medium, or strong. The influence of working capital on profitability and sustainability of small businesses still needs to be investigated and this is the gap that this report aims to fill.

2.4 The influence of working capital on the sustainability of small businesses in the health sector

Although research on the influence of working capital on the long-term sustainability of businesses has been going on, the health sector has not received nearly as much attention. This study contributed to the literature on this issue, with a particular emphasis on the healthcare sector. According to Reynolds and McKee (2012), healthcare is a fundamental prerequisite for attaining sustainable long-term economic development. As a result, recommendations were made to increase the amount of private financing available in order to improve the effectiveness of existing health care systems. In economies that are still developing, there is an increased urgency to broaden patients' access to improved medical treatment. Access to finance that is capable of providing enough assistance for new business ventures is currently the most significant barrier to entry (Pauly et al., 2006).

Anjande (2018) conducted a study of the available literature on healthcare financing and expenditure before doing an analysis of the health sector's financing and expenditure in the state of Benue. The purpose of his study was to investigate both the financing and expenditures of Nigeria’s Benue State's health sector. According to the findings of the study, Benue State's healthcare system has inadequate financing, and the researcher offered various approaches to obtain financial support. Access to working capital is the major resource that influences the survival and growth of these small businesses in the health sector, according to the study conducted by Anjande (2018). The study concluded that there is a need to improve the management of resources in order to provide better healthcare for the general population as Nigeria’s health industry faces significant challenges when it comes to obtaining adequate financing for medical services Anjande (2018). In a related study, Cyril (2021) conducted yet another in-depth study on how the shortage of working capital affects companies operating in the Nigerian health sector, and he came to the same conclusions as the previous study. The impact of private healthcare financing on infant mortality in Nigeria was investigated. In Nigeria, the infant mortality rate is regarded as one of the most important factors that determines the availability, utilization, and effectiveness of the health care system. For many developing countries, the infant mortality rate reveals socio-economic and environmental inequalities (Eboh, Abba & Fatoye, 2018). The findings of Cyril's research indicate that private health expenditure, per capita expenditure, and the percentage of children who are inoculated against illnesses and infections all play a substantial role in lowering Nigeria's infant death rate. Dalci and Ozyapici (2018) conducted a study in 2018 on the impact that working capital has on small and medium-sized businesses in the health industry. Their findings demonstrate that small and medium-sized enterprises (SMEs) operating in the health

care industry might be capital intensive. They call for significant amounts of resources in order to provide high-quality services. Dalci and Ozyapici (2018) centered their research on the question of whether or not financial leverage modifies the relationship between working capital and publicly traded hospitals in Europe. They found that prolonging the length of the cash conversion cycle in hospitals that had minimal financial leverage led to an increase in profitability, which ultimately led to an increase in the business's ability to remain in operation.

Oladimeji (2020) conducted a large longitudinal study to investigate the impact of working capital management on the financial performance of Indian pharmaceutical companies that were listed on the national stock exchange over the course of ten years, from 2011 to 2020. The conclusion of the study demonstrated that return on assets (ROA), which is a measure of how much profit a firm is earning from its capital has a positive impact on the average period, debt ratio and sales growth, which eventually contributes to the success of that business. Another study was carried out by Bem and Szpulak (2021). The focus of their investigation was on the administration of working capital in hospitals located in Poland. The purpose of this study was to investigate and evaluate the methods used by hospitals to oversee their working capital. They also investigated the various methods used by hospitals to finance changes in working capital. Their findings provided an explanation for the manner in which enterprises and hospitals that are not-for-profit handle their working capital. The findings reveal that a longer cash conversion cycle is associated with higher levels of profitability and demonstrate that profits are used to support operational expenses.

2.5 The influence of working capital on the sustainability of small businesses in the South African health sector

Thula (2003) analysed the working capital in the South African healthcare sector by studying two cases from public health care levels and comparing them to practices used to manage working capital with two cases from the same levels of health care in the private health sector. These four cases were all from the same level of health care provision. Her research paper sought to answer the questions of whether or not current procedures in the public sector are in line with the principles of effective management of working capital and whether or not it would be possible to put those principles into practice in the delivery of health care services. Thula (2003) gathered both primary and secondary data. Interviews were conducted with operational and administrative workers at primary and secondary levels of health care. It was discovered that the fundamentals of working capital practices in the private sector of South Africa are, for the most part, consistent with working capital theories and that these fundamentals have the potential to be effectively implemented in the public sector without endangering the health of patients. The public sector was found to have inefficiencies at both

the operational and administrative levels, particularly at the secondary healthcare levels. After making these discoveries, the author gave some suggestions as to how these inefficiencies could be improved in order to construct a sustainable healthcare system in South Africa by using effective working capital management.

Ganyaupfu and Africa (2019) explored primary health care financing mechanisms and estimated their relative impacts on the overall expenditure in South Africa over the period spanning 2000 to 2015. This was done as part of their investigation into the influence that working capital has on the growth and sustainability of small businesses in the South African healthcare sector. The online repository of the World Health Organization's (WHO) Global Health Observatory was used as a repository of time-series data of the health spending indicators. They analysed two different health expenditure models using the Cochrane-Orcutt regression technique. According to their findings, the domestic general government health expenditure had positive impacts that were statistically significant on the overall national health expenditure, whereas the impact of external health expenditure was negative, but significant.

The estimates from the model of health financing arrangements showed that government financing arrangements and voluntary health insurance had significant positive impacts on overall health expenditure over the same sample period, whereas out-of-pocket payments had a significant negative impact on health expenditure.

The previous research findings tried to address the ineffectiveness of working capital management in the South African healthcare sector. However, their analysis did not consider the extent to which working capital, or the lack of it, hinders the success and long-term sustainability of small businesses in the South African healthcare sector.

2.6 The influence of working capital on the sustainability of general private practices in the South African health sector

The private medical industry in South Africa is quite advanced and has always catered to the country's higher income brackets. The private health industry in South Africa has a history of keeping up with developments in industrialized countries and has incorporated a significant amount of cutting-edge technology into medical care, but it can only provide treatment to around 27% of the country's population at any given time (Statssa, 2011).

The already dysfunctional public sector is under a lot of pressure as a consequence of the weight of recurrent epidemics, a lack of available infrastructure and equipment, which has led to a demand for more private structures in order to reduce pressure on already existing health facilities (Delobelle, 2013). This then demands a growth of enterprises in the health sector, particularly those that provide primary care, in order to be able to serve a wider population and

in order to be able to serve low-income households of individuals with a variety of socio-economic standings.

Dalci and Ozyapici (2018) are of the opinion that SMEs in the health sector can be capital intensive and require large amounts of resources to render high-quality services. Due to their intense capital requirements, these SMEs experience failure as some are not able to meet their working capital requirements. Therefore, performing a cost analysis through the study of working capital and the influence it has on sustainability is crucial for this sector, making these private practice businesses benefit from this report.

2.7 Chapter Summary

The objective of this chapter Is to apply available knowledge, making use previous literature to facilitate discussions about the value of working capital and how it affects the long-term sustainability of private practices in the South African healthcare sector. Four main constructions are formed as the subject of these discussions: a) the influence of working capital on the sustainability of small businesses; b) the influence of working capital on the sustainability of small businesses in the Health Sector; c) the influence of working capital on the sustainability of small businesses in the South African Healthcare sector; and d) the influence of working capital on the sustainability of General Private Practices in the South Africa Healthcare sector.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

According to Goundar (2012), the term "research methodology" refers to the sequential procedures and processes that researchers use to understand a particular problem in order to produce a description, an explanation, and a forecast of a studied phenomenon. For this study, the research methodology section includes descriptions of the research design and approach, sampling, data collection, and data analysis (Salkind, 2014). This is the focus of this chapter.

3.2 Research design

According to Abutabenjeh and Jaradat (2018), a research design is a blueprint of the way in which an investigation is going to be carried out. A study design provides an outline of the research methodology, including how data will be collected, analysed, and presented. According to Salkind (2014), there are two methods that can be utilised in research which have a bearing on how data is to be collected and analysed. These are qualitative and quantitative approaches.

This study utilized a quantitative approach. The approach used in this study can be described as exploratory and descriptive (Sreejeshetal., 2014; Brink, 1998). Swedberg (2020) describes exploratory research as an attempt to discover something new and interesting by working through research questions and data in an investigative way. The exploratory and descriptive design was used in this study to gain a deeper understanding of the impact working capital had on the private practices' capacity to remain sustainable over time.

3.3 Research methodology

In order to achieve the research objectives and answer the research questions, data was collected using an online questionnaire, which consisted of both closed and open-ended questions. The questionnaire items solicited private practitioners' experiences of working capital and its links to the sustainability of their businesses. Practitioners' responses to closed questions were analysed and summarized using descriptive statistics and content analysis was used to code responses to open-ended questions. An advantage of using an online survey questionnaire is that it is simple to navigate and utilize. It is for this reason that Saunders et al. (2019) recommend the use of online surveys for studies like the one being reported here. With an online questionnaire, participants can choose a time that is most convenient for them, and the amount of time required to do the survey is significantly less.

Given that medical practitioners are very busy people and have little time to respond to research questionnaires, the use of an online survey was seen as appropriate. Another advantage of the online survey is that it allows the researcher to collect data from a relatively large sample in the shortest possible time without resorting to time consuming in-depth interviews.

From the analysis of the practitioners' responses to the questionnaire items; descriptions, inferences, and interpretations were drawn to address the questions about how private practices finance their working capital, the link between working capital and business sustainability, the extent to which working capital availability influences success or failure of business and whether current government policy frameworks are adequately assisting SMEs in this sector.

3.4 Study population and sampling

A study population is a larger collection of people, subjects, or respondents from which an example will be taken, known as a sample (Saunders et al., 2019). Rahi (2017) describes a population as all people or items the researcher intends to understand, and sampling as the process of selecting a portion of the population for investigation using a pre-determined method. Taherdoost (2016) defines a sample as a subset of the target population that is composed of individuals who are drawn from the target population and who share similar features. In a quantitative research sample, data is often used to derive generalizations about the study population. Because of inherent limitations of both time and resources, it is typically difficult to investigate the entire population.

For the purposes of this investigation, the population of interest consisted of general practitioners who run private practices in the Gauteng region of South Africa. The study specifically focused on individual practices as opposed to group practices. As noted in Chapter 1, the private practitioners targeted were those registered between the years 2009 and 2019, which is the time period covered by the study.

The data for this study was collected in 2022. According to the South Africa Board of Healthcare Funders (BHF), in Gauteng, by the end of 2019, the number of registered general practitioners (GPs) stood at 4 185. Between 2009 and 2019, two hundred and sixteen private practices permanently closed due to a variety of reasons. Of the total number of private practices, 1 329 were by the end of 2019 inactive or no longer in operation due to a variety of

reasons, which include the lack of working capital. From these figures, it means that, in 2019, the population size of private practices in Gauteng stood at 2 640.

The survey questionnaire was sent to all private practices, both active and inactive. One hundred and thirteen practices responded to the questionnaire. Of the 113 questionnaires received, 37 were not considered for the analysis either because the questionnaire was incomplete or completely blank. This left a sample of 76 (n=76) questionnaires for the data analysis.

The sampling procedure used in this study can be described as fitting simple random probability sampling as it gave each of the practices an equal chance of being selected (see, (Speak et al., 2018). The advantage of this type of sampling is that it reduces bias (Speak et al., 2018).

3.5 The research instrument

In this section, the data collection instrument that was used for this research project is described. A data collection instrument is a tool that is designed for the purpose of gathering primary data (Saunders et al., 2019). The online SurveyMonkey instrument used for this study consisted of 34 closed and open-ended questions (see Appendix A for examples).

Eleven questions asked for demographic information, such as the duration that the business had been in operation and whether they functioned as an independent or group practice. The demographic information was used in conjunction with responses to other items to address research questions 1, 2 and 3. Seven questions sought to elicit respondents' understanding of working capital. For example, question 11 said: How would you rate your understanding of working capital management? Six questions elicited information focusing on how working capital had contributed to the success of their business. Another six questions asked respondents to give information about how unavailability of working capital had hindered the success of their businesses. The responses to this set of 12 questions were used as the sources of data for answering research questions 1, 2 and 3. Question 30, for example, asked: What was the influence of working capital on your practice?

Four questions of this instrument were open ended; focusing on research question 4 which addresses the issue of working capital allocation provided by the current government policy framework in assisting SMEs in the health sector. An example is question 32, which asked: How would you rate government support to SMEs in the health sector?

3.6 Validity and reliability of the research instrument

The instrument used in this study was assessed in terms of both face and content validity. The validity of an instrument refers to an assessment of the extent to which an instrument measures what it is designed to measure (Evans et al., 2009; Rusticus, 2014). Face validity is about whether the test or survey instrument can measure what it is designed to measure on the face of it (Evans et al., 2009). In content validity, experts in the field assess, test items, and draw conclusions about whether the items in the instrument can help uncover the characteristics that the research instrument is designed to reveal (Rusticus, 2014).

To determine the face validity of the instrument, a version of the SurveyMonkey questionnaire was shared with three fellow students who were asked to comment on the items. This led to modification, rephrasing, and rewording of some of the items. A second version of the instrument was content validated through a discussion with the research supervisor, who is an expert and professor in the field.

3.7 Data collection and analysis

To collect the data, first, an ethics clearance certificate was obtained from the Wits Faculty of Commerce, Law and Management, Ethics committee. After acquiring the ethics clearance certificate, permission to conduct the study was applied for and granted by the South African Medical Association (SAMA). Thereafter, the Board of Healthcare Funders (BHF), which is the board that governs all private practices in the South African Health Sector, was contacted to seek the data of practices that were registered between the years 2009 and 2019, which is the period covered by the study.

Using the database of South African Medical Association (SAMA), a generative email consisting of the survey link; https://www.surveymonkey.com/r/JLH6VR6 was sent to all private practices in the Gauteng province, South Africa. This gave all private practices in this region an equal opportunity to participate in the study. Respondents received an email containing a survey questionnaire that contained 34 questions, as described in the previous section. Emails were sent to respondents and after the initial email had been sent, two follow up emails were sent. Overall, the data collection period lasted three months.

All the responses obtained from each of the 76 questionnaires from SurveyMonkey were captured into Microsoft Excel, version 2020. Responses to closed questions, including the demographic questions, were analysed with Excel to produce descriptive statistics, such as frequencies and graphs. In analysing the responses to the open-ended questions, content

analysis was used to produce coded data which was then presented descriptively in the form of frequencies and graphs. Coe and Scacco (2017) describe quantitative content analysis as a process during which data is analysed, following a process of coding, and categorizing, using a set of pre-determined instructions. The data for each of the open-ended questions and for each respondent was read and re-read, coded and re-coded in line with the procedures, as outlined by Montgomery and Crittenden (1977) and Woike (2007). Based on this, the respondents were grouped into categories. In coding and categorizing the responses to open-ended questions, the researcher worked with a post-doctoral fellow, and they finally agreed upon codes and categories were reached by consensus.

3.8 Limitations

In a study that was carried out by Baker and Edwards (2016), it was discovered that the size of the data that was collected for the study, in addition to the amount of time that was required for the collection of such data, is dependent on the size of the pool from which the data was drawn. As a result, the amount of time allotted for the completion of the full research project and the collecting of data can be considered a factor that restricted the scope of this study. Due to limited time and resources, this study does not cover a full scale of the population size.

This study is also limited in another way by the fact that it is only focused on one sector of the economy—namely, the health sector—instead of looking at other industries in the economy. Therefore, the findings from this report cannot be generalized to other industries.

3.9 Chapter Summary

This chapter makes use of the quantitative exploratory study to investigate the impact that working capital has on the long-term sustainability of small businesses; focusing on private practices in the health sector. The study sample (n=76) was drawn from a population consisting of all general practitioners who run private practices in the Gauteng Province of South Africa. Data was collected through an online questionnaire administered via Survey Monkey. The questionnaire used had both closed and open-ended items. Answers to closed questionnaire items were analysed using descriptive statistics. The responses to open-ended items were analysed using content analysis, from which descriptive statistics were derived.

CHAPTER 4: RESEARCH FINDINGS

4.1 Introduction

In this chapter, the results from the study are analysed and presented. The results covering the demographic data are presented first. This is followed by the analysis and presentation of results in accordance with the study's research questions. These questions are:

1. How do private practices finance their working capital?
2. Is there a relationship between working capital and the sustainability of private practices?
3. To what extent do working capital requirements influence the success or failure of private practices in the South African health sector? and
4. Is there adequate working capital allocation provided by the current government policy framework in assisting small businesses in the South African health sector?

4.2 Demographic data

As noted in Chapter 3, seven questions in the questionnaire targeted demographic information. It was also mentioned that, of the 113 responses, 37 were removed due to unsatisfactory completion, leaving 76 questionnaires to be considered in the data analysis.

From the data collected of the 76 private practices, 89.47% (68) of them were in active operation and 10.53% (8) were inactive or had closed by the end of 2019. Sixty of the 76 practices surveyed were independent, representing 78.95 % of the sample. Sixteen were group practices. The majority (58.11%) of the surveyed practices were general private practices. The remainder combined general practice with other specialties. It was interesting to find that 52.05 % of the practices did not dispense medication to their patients as part of the consultation and treatment, and it was concerning to find that of these practices, the majority had limited understanding of working capital management. Additionally, they did not have working capital management systems in place for their businesses.

The literature survey in Chapter 2 revealed that a company's overheads costs have a significant impact on working capital requirements in managing ongoing operations (Pratt, 2017). Of these fixed costs, salaries and rent take the biggest share of the overhead cost. Given this, it was interesting to find the number of employees working for each of the private practices. Figure 3 shows a picture of the employment numbers, giving the percentage of practices against the number of employees.

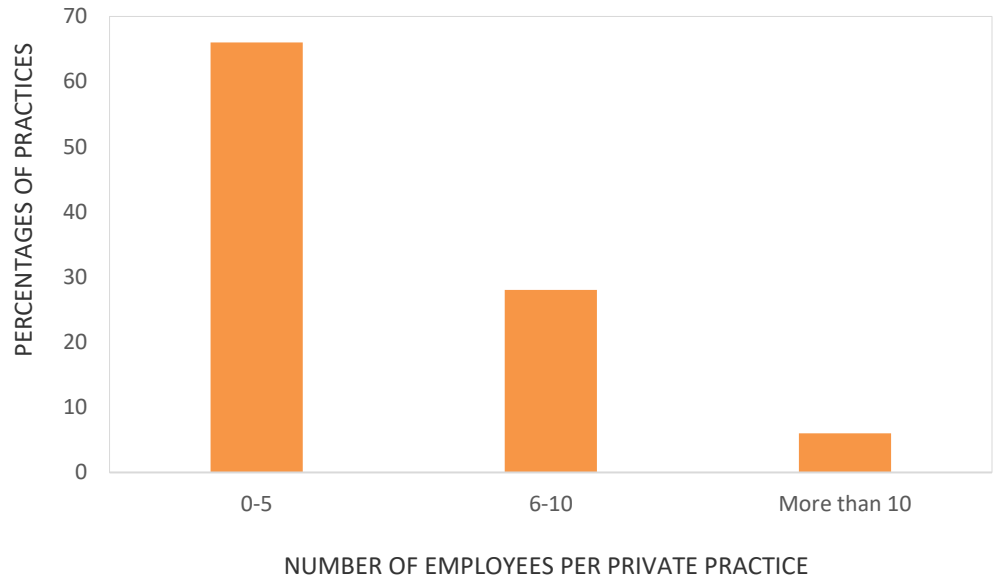


Figure 3: Percentage of practices and the number of employees

When it comes to rentals, about 60% of the private practices reported that they were renting the operational premises. Only 40% owned the operation premises. However, 90% of the surveyed practices owned their medical equipment and the rest used rented equipment.

4.3 Results on the research questions

In this section the findings are presented according to the research questions.

4.3.1 Finding 1- Private practices finance their working capital through an overdraft and bank loans

Analysis of the responses reveals that private practices use various ways to finance their working capital. This is illustrated by Figure 4.

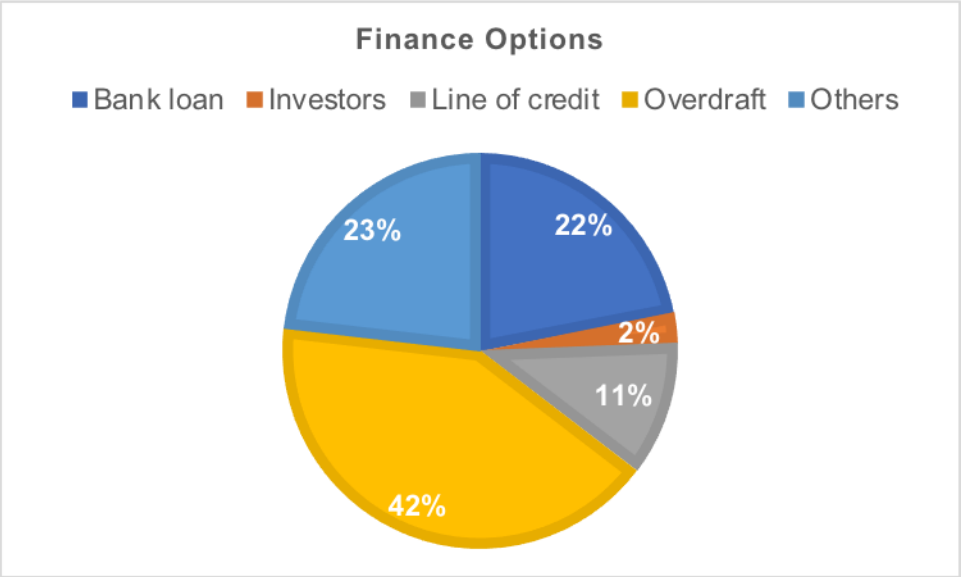


Figure 4: Financing options for working capital used for private practices.

As Figure 4 shows, most of the surveyed private practices finance their working capital requirements through an overdraft and bank loans, while others finance them through investors, line of credit, as well as other resources. “Other resources” may include family, friends, and personal savings. While overdrafts and bank loans are the major source of financing working capital, these practices however, indicated that restrictions on these loans can be rather rigorous, as some of these bank loans require collateral, proven track records and good sales turnover; making it difficult for these businesses to acquire the financial support they need.

In chapter 2, Hechavarría et al. (2016) point out that a company's capacity to meet the problems connected with cashflow can affect the company's day-to-day operations. It is therefore important to have enough working capital to ensure the company's long-term development and profitability. The results of the survey revealed that private practices use working capital for different purposes such as the purchase of medical equipment, remuneration of staff and the expansion of operations. This is illustrated by figure 5.

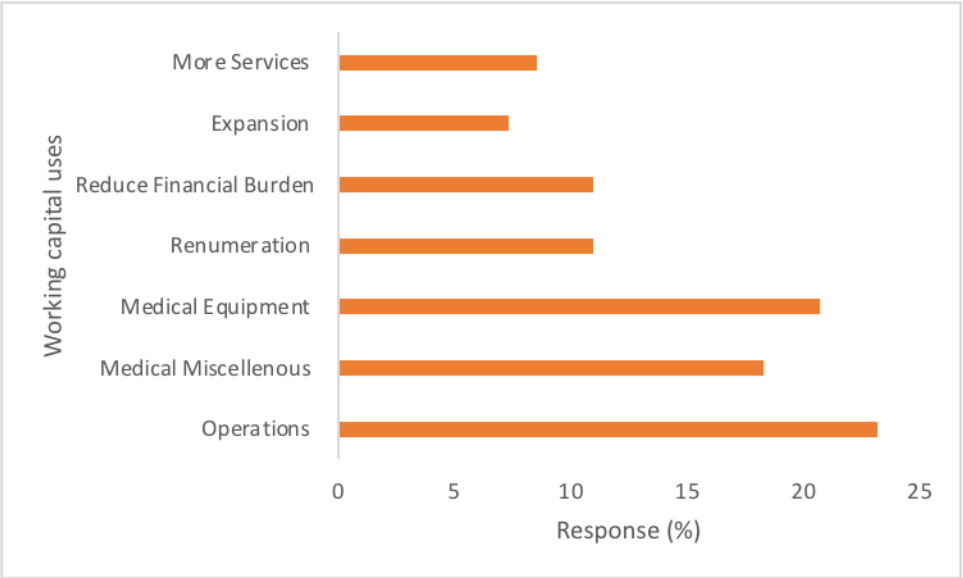


Figure 5: Uses of working capital

4.3.2 Finding 2- There is a relationship between working capital and the sustainability of private practices

To understand the relationship between working capital and the sustainability of private practices, an analysis was made of the influence that working capital had on practices that were able to maintain an active operation over a long period of time (5 years) and those that have closed and failed to reach the 5-year period in operation. In order to get an insight into the influence of working capital on sustainability, the questionnaire had a section of six questions asking about how working capital had made their business successful and sustainable. Similarly, a section of the questionnaire with six questions asked respondents to say how the lack of working capital hindered their business and caused it to close.

Practices that fulfilled working capital requirements and sustained active practice over a five-year period

Findings to the six questions posed to practices that sustained active practice for a period of five years and more, are summarized in Figure 6. Overall, the results revealed that these businesses were able to fulfill their working capital requirements as they were able to; break even, clear debt, cover overheads and operational costs.

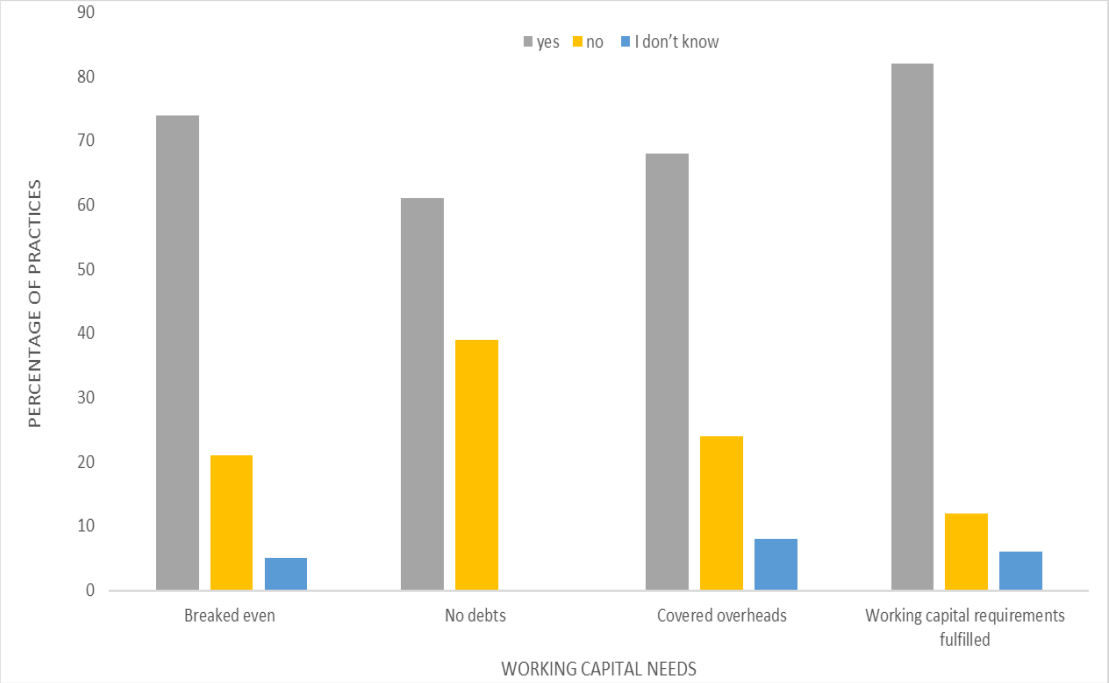


Figure 6: Working capital needs of active practices that sustained the 5-year period

The analysed responses to the six questions revealed that 60% of the sampled private practices were of the view that there is a strong relationship between working capital and the success of their business, as working capital has been a driving force in sustaining their practices. Due to sufficient working capital, these practices in figure 6 were able to meet their working capital requirements, such as covering overheads, clearing debt, and managed to break even. As shown in this figure, because these working capital requirements were met, these practices managed to become sustainable past the 5-year period.

Private practices that failed to fulfill working capital requirements and closed down before reaching the five-year period

The results show that practices that did not have sufficient working capital closed. As mentioned, 10.53% (8) of the practices in the sample were inactive or had closed. This is suggestive of a relationship between working capital and the success or failure of private practices. It was discovered that, private practices that closed experienced problems with funding their working capital requirements. They failed to breakeven, service debt, cover overheads and fulfil their working capital requirements. This is shown in Figure 7.

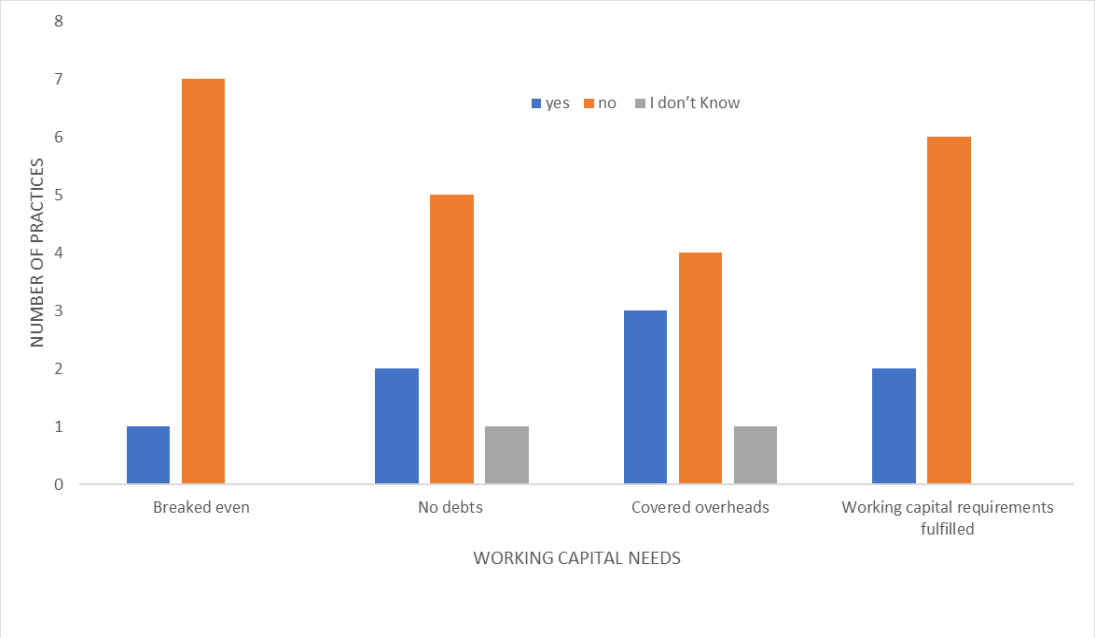


Figure 7: Working capital needs of practices that closed and failed to reach the 5-year period.

Findings from the other six questions revealed that all eight practices that closed attested to the strong relationship between the lack of working capital and the sustainability of their businesses. Those practices that closed singled out the lack of working capital as the major contributor to the failure of their businesses as they failed to meet their working capital requirements.

From the illustrations given above, the following can be isolated as the key findings:

a) There is a relationship between working capital and the sustainability of private practices.
b) Private practices with sufficient working capital were able to remain in active operation past the five-year period, obtaining long-term sustainability.
c) Private practices without sufficient working capital failed to make it past the five-year period in operation and were not sustainable.

4.3.3 Finding 3 – Working capital requirements influence the success or failure of private practices in the South African health sector to a great extent

The extent to which working capital requirements influence the success or failure of private practices was inferred from the respondents' answer to the question: How strong is the relationship between working capital and sustainability of your business? The finding from this is shown in Figure 8. Seventy eight percent of the respondents said it is either strong or very strong.

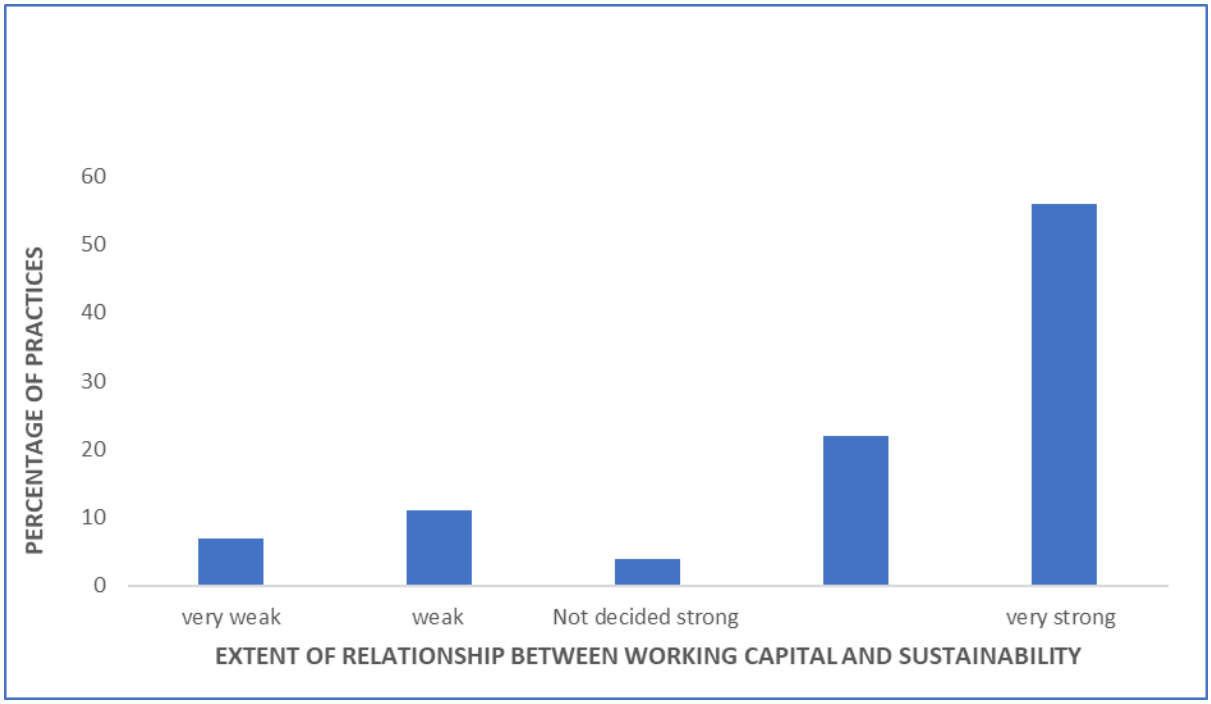


Figure 8: Extent of relationship between working capital and sustainability

From these findings and those from research Question 2, it can be inferred that:

a) working capital influences the success or failure of private practices in the South African health sector to a great extent; as

b) sufficient working capital assists private practices cover all operational costs, their overheads, debt, reach a point of breakeven and maintain long-term sustainability; and

c) with insufficient working capital, private practices are not able to keep up with their day-to-day operational costs which can result in these practices failing.

4.3.4 *Finding 4 – The current government policy framework does not assist small businesses in the South African health sector*

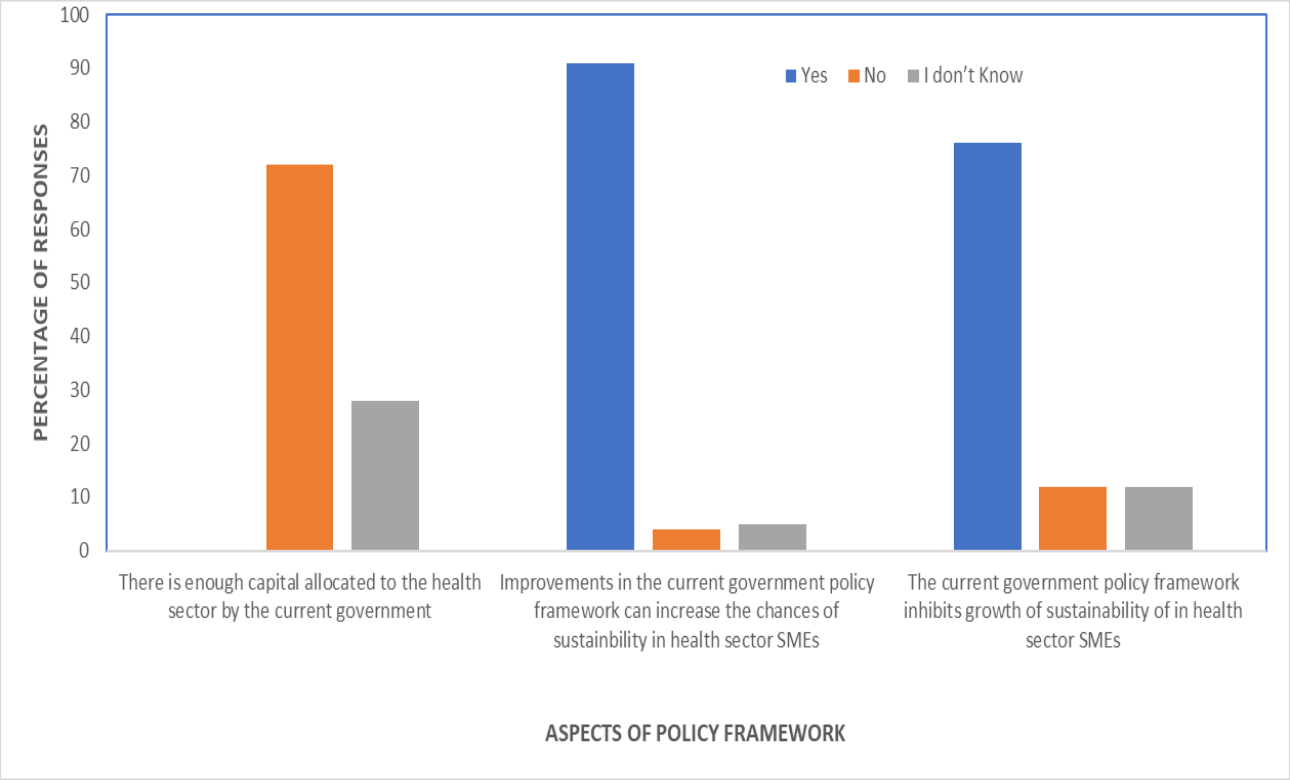


Figure 9: Responses on aspects of government policy framework

In assessing the adequacy of working capital allocation provided by the current government policy framework in assisting the private practice businesses in the South African health sector, the findings in figure 9 were discovered, based on the open-ended questions using the coding. The categories that emerged from the coding on three of the questions were: “Yes,” “No” and “I don’t know.” Overall, the responses pointed towards a lack of capital allocation by the government to the health sector, a need to improve current government policy frameworks and that the current government policy framework inhibits the growth and sustainability of the sector.

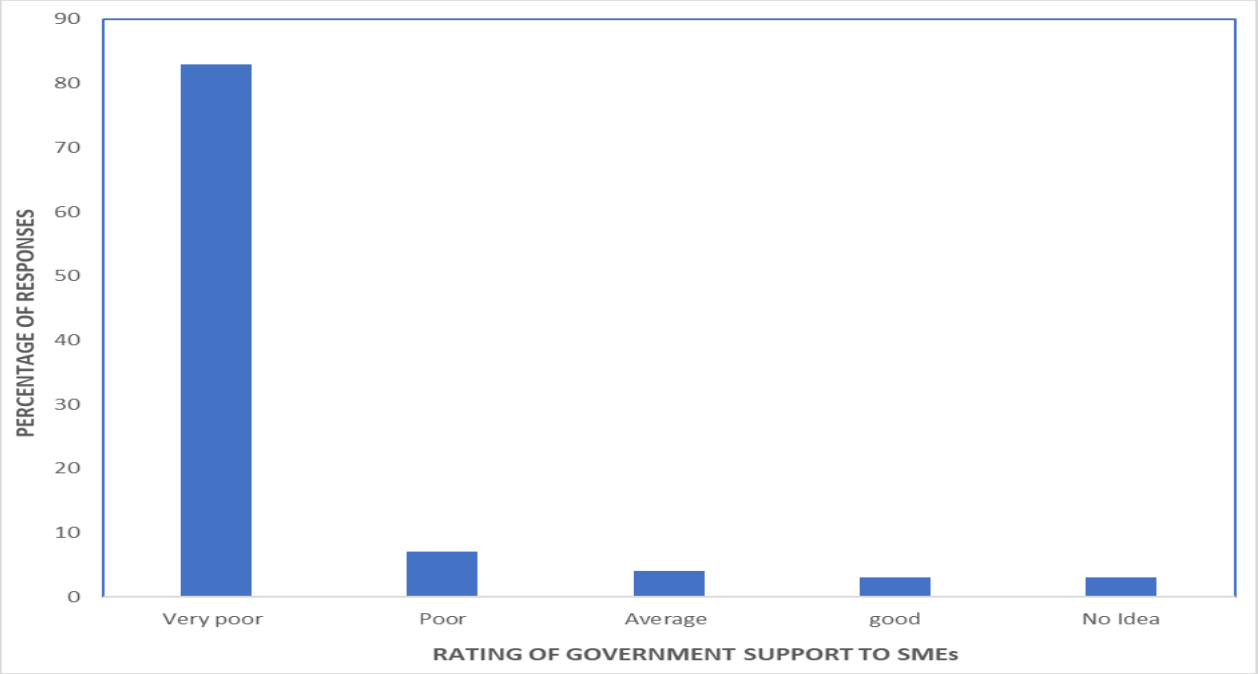


Figure10: Rating of government support of SMEs

On the question of government support to SMEs in the health sector, the coding identified five categories of “Very Poor,” “Poor”, “Average”, “Good” and “No idea”. Overall, most of the respondents rated government support to SMEs in the health sector to be very poor. This picture is shown in figure 10.

4.4 A summary of the major findings

The major findings from this study are summarised in table 1.

Table 1- Summary of findings in relation to research questions

Working Capital and Sustainability of Private Practices in the South African Healthcare Sector			
Research Question 1- How do private practices finance their working capital?	**Research Question 2-** Is there a relationship between working capital and sustainability of private practices?	**Research Question 3 -** To what extent do working capital requirements influence the success or failure of private practices in the South African Health Sector?	**Research Questions 4 -** Is there adequate working capital allocation provided by the current government policy framework in assisting Small Businesses in the South African Health Sector?
Findings as per research question			
• Majority of private practices finance their working capital requirements through an overdraft and a bank loan.	• There is a relationship between working capital and the sustainability of private practices. • Private practices with sufficient working capital are able to obtain long-term sustainability. • Private practices without sufficient working capital fail to make it past the five-year period in operation or remain sustainable.	• Working capital influences the success or failure of private practices in the South African Health Sector to a great extent. • Sufficient working capital assists private practices cover all operational costs, their overheads, manage debt, reach a point of breakeven and maintain long-term sustainability. • Without sufficient	• There is not enough capital allocated to the Health Sector by the current government. • Government support to SMEs in the Health Sector is poor and close to non-existent. • The change in the current government policy framework would increase the chances of sustainability in SMEs in the

			working capital, Private Practices are not able to keep up with their day-day operational costs which can result to these practices not becoming successful.	South African Health Sector. • The current government policy framework is a major inhibitor in the growth and sustainability of businesses in this sector.

4.5 Chapter Summary

In this chapter, the results from the study are analysed and presented. The results covering the demographic data are presented first. This is followed by the analysis and presentation of results in accordance with the study's research questions. This chapter therefore represent the key findings to this study, which are as follows:

- Majority of private practices finance their working capital requirements through an overdraft and a bank loan.
- Private practices without sufficient working capital fail to make it past the five-year period in operation or remain sustainable.
- Working capital influences the success or failure of private practices in the South African Health Sector to a great extent.
- Sufficient working capital assists private practices cover all operational costs, their overheads, manage debt, reach a point of breakeven and maintain long-term sustainability.
- There is not enough capital allocated to the Health Sector by the current government.
- Government support to SMEs in the Health Sector is poor and close to non-existent.
- The change in the current government policy framework would increase the chances of sustainability in SMEs in the South African Health Sector.
- The current government policy framework is a major inhibitor in the growth and sustainability of businesses in this sector

CHAPTER 5: DISCUSSION OF FINDINGS

5.1 Introduction

In this chapter, the findings of this study are discussed. The discussion covers aspects from the literature review and the theoretical framework guiding the study. The discussion is organized under the research questions.

5.2 How private practices finance their working capital

According to Zimon (2021), working capital is essential for every business to be able to meet its short-term operating costs and short-term obligations. The findings of this study support this view. Zimon (2021) argues that it is important for a business to be able to obtain the financing it needs to meet its obligations. To achieve this, working capital is required. Analysis of the responses reveals that private practices use various ways to finance their working capital. This is in line with previous studies which found that working capital is provided in a variety of methods for small firms, for example, Ma'aji, Sok and Long (2020).

Short-term loans, bank overdrafts, tax provisions, and current liabilities are some of the most common ways that small enterprises fund their working capital needs (Ma'aji, Sok, & Long, 2020). This was also the case with the private practices which were surveyed in this study. This is in line with what is happening around the world. According to research by Ma'aji, Sok and Long in 2020, private practices in Cambodia, Asia, use short-term financial sources for operating capital since these are more flexible and cost-effective than long-term options. However, the borrower takes on additional risk with short-term sources since interest rates tend to fluctuate more often and the loan may not be renewed (Ma'aji, Sok, & Long, 2020).

Padachi (2013) found that SMEs in Mauritius rely heavily on owner financing, trade credit, cash credit, and short-term bank loans, providing more evidence for the strong reliance on short-term financing by small businesses' source of funding for working capital. While the findings suggest that the sources of finances for private practices vary, for South Africa, overdrafts are the primary method by which private practices in South Africa fund their working capital needs. Getting a bank loan (23%) and other sources of finance (22%) are also used in South Africa.

It is noteworthy that most of the practices rely on bank loans for financing working capital requirements. However, it needs to be pointed out that restrictions on these loans can be an impediment to successful operation of these practices. It was found that it is often difficult for these businesses to secure the funding they require. This confirms Padachi's work (2013), whose study of the *Mauritius SMEs Sourcing of Working Capital* showed that participants had

difficulties in obtaining bank financing. They further point out that in many cases, bankers do not evaluate proposals based on their economic merits, making it difficult to acquire the financial support needed.

5.3 The relationship between working capital and sustainability of private practices

The findings of this report revealed that businesses with sufficient working capital were able to break even, clear debt, cover overheads, operational costs and fulfilled all working capital requirements. This resulted in these businesses achieving long-term sustainability as they were able to become operational past the 5-year period. This finding supports the free cash flow theory by Jansen (1986), as discussed is Chapter 2 of this report; that suggests that it is vital for enterprises to always maintain a particular level of cash on hand to fund both operational and working capital needs.

On the other hand, it was discovered that businesses which failed to achieve these aspects due to insufficient working capital closed. This finding supports Bhandari and Adams (2017) ‘s hypothesis which suggests that the longevity of a company’s operations depends on the availability of sufficient cash to repay debts, issue dividends, and buy back shares. The overall findings of this study suggest that working capital is directly related to the sustainability of independent practices. Private practices that had access to sufficient working capital were able to achieve long-term sustainability by paying off debts, meeting operational expenses, covering fixed expenditures, and breaking even. Private practices that lacked the resources to satisfy their working capital needs closed before the end of the five-year operating term. These results are consistent with those found by Cassar (2004), who discovered that insufficient working capital during a company's life might hinder its growth and long-term sustainability (Cassar, 2004). This is also in line with Olawale and Garwe (2010), who found that the capacity to fund working capital needs is a key factor in determining the success or failure of small enterprises in South Africa.

5.4 The extent of which working capital influences the success or failure of private practices

This study’s findings show that working capital is a critical factor in determining the success or failure of private practices in South Africa's health care sector. This shows the large extent to which working capital influences the success or failure of private practices. As revealed in Chapter 4, the majority of the respondents are of the view that there is a strong relationship between availability of working capital and success of failure of private practices. Private practices that had adequate working capital were better able to cover their operational costs

and overheads, pay down debt, break even, and remain profitable over the long run. Whereas, those with inadequate working capital, were not able to keep up with their day-to-day operational costs which resulted in them closing and failing to become sustainable over the long run.

These results corroborate previous studies, for example, Ou and Haynes (2006), who found that having access to working cash was a major determinant in the survival, expansion, and long-term sustainability of small enterprises. These results also support the findings of Hechavarría et al. (2016), which show that easy access to working capital is a critical element in the success of small businesses and entrepreneurs. According to Hechavarría et al. (2016), a company's capacity to meet the problems connected with cash flow can influence the company's day-to-day operations. Therefore, it is important to have enough working capital to ensure the company's long-term development and profitability, as supported by Jansen (1986)'s theory of free cash flow.

5.5 Current government policy framework and assistance of small businesses in the health sector

Findings obtained from private practitioners on the open-ended questions indicated that the current government does not provide an adequate policy framework in assisting small businesses in the South African healthcare sector. This has had significant implications for practices, particularly regarding the adequacy of working capital allocation provided by the current government policy framework.

According to the respondents and findings of this report, public assistance to small and medium-sized enterprises (SMEs) in the health sector is minimal at best. Most of these private practices (70%) say that the current government policy framework is a major inhibitor in the growth and sustainability of businesses in the South African health sector, and that improvements to this framework would increase the chances of sustainability in SMEs in this sector.

In support of these findings, the SME Policy Guide (2011) states that the role of government and public authorities is critical in developing efficient, safe, and reliable credit reporting systems that seamlessly cover micro, small, and medium-sized businesses, which in turn, helps SMEs finance their working capital in the health care sector and elsewhere in the economy.

In the next chapter, Conclusions and Recommendations for the study are fleshed out and discussed. The next chapter also addresses how the present government administration should better implement policy implications in order to best assist SMEs in the health sector meet their working capital needs.

5.6 Chapter Summary

The discussion in this chapter begins with a brief summary of literature review and the theoretical framework guiding the study. This discussion is organized under research questions and the findings of this study.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter presents key conclusions that emerge from this study. Future areas of research and recommendations on how private practices can finance working capital, as well as what needs to be done to the public policy to help the industry, are pointed out.

6.2 Conclusions

The following conclusions emerge from this study:

For the sampled respondents, private practices fund their working capital needs mainly through overdrafts and bank loans. However, respondents in this survey noted that these loans typically have severe conditions, including collateral, established track records, and high sales turnover. Most new firms have difficulty meeting these standards since they may not yet be fully functional at the time.

This study also discovered that; there is a relationship between working capital and the sustainability of private practices in the healthcare sector. Private practices in the South Africa's healthcare sector rely heavily on steady cash flows to achieve long-term sustainability in their businesses. Private practices that have adequate working capital are able to pay all of their overhead costs, service debt, achieve a breakeven threshold, and sustain their businesses over a long period; while private practices that lacked it, did not survive beyond the first five years, indicating that working capital affects business sustainability to a great extent.

When it comes to government assistance, this study discovered that the majority of respondents are of the view that the present government does not devote enough capital to the health sector. They view government support to SMEs in the health sector as inadequate and nearly non-existent. The respondents feel that reforms to the present government policy framework will boost the likelihood of SME sustainability in the South African health sector. The current policy framework is a key impediment to company development and sustainability in this sector.

6.3 Recommendations

The following recommendations for private practices are suggested:

In financing working capital requirements of private practices, the following interventions can be implemented:

- Effective oversight by the central bank, financial institutions, and relevant authorities is required to reduce the financial barrier, relax the regulations, and implement reasonable standards to accommodate these start-ups.
- Banks and venture capital funds, among other financial institutions, should examine and rectify their failings. They must take on a more proactive role in extending credit lines to these businesses, but with looser conditions.
- Lending institutions must improve disclosure to small and medium-sized enterprises (SMEs) concerning the criteria for bank funding and credit information systems. As a result, SMEs will have an easier time obtaining bank funding and raising money.
- Since the study showed that private practitioners have a low level of understanding when it comes to working capital management; South African financial institutions can also invest in SME development programmes by providing training that aim to improve financial literacy for South African entrepreneurs. For example, training may teach small and medium-sized enterprises (SMEs) about accounting, business strategies, and financial statements, all of which are necessary for SMEs to manage their businesses successfully. Increasing their level of financial awareness will make these small and medium-sized businesses more appealing to local and international lenders.

Working capital allocation and current government policy framework in assisting small businesses in the South African health sector

The findings of this research have policy implications when it comes to policy making in helping small businesses in this sector access capital. Government and public authorities have a critical role to play in developing efficient, safe, and reliable credit reporting systems that covers micro, small and medium-sized businesses. This can help lenders better manage credit risk and extend access to credit (SME Policy Guide, 2011). The following are recommendations that can be implemented by both the government and policy makers in providing financial support to South African SMEs in the health sector and various other sectors.

- Government should have an in-depth understanding of SME finance constraints to allow prioritization and sequencing in addressing these issues, so that the most binding constraints are addressed.
- Design policy measures, legal reforms and financial infrastructure improvements and interventions on the basis of diagnostics and data (SME Finance Policy Guide, 2011).
- Design financial inclusion strategies and country action plans to provide the context for effective measures to promote SME finance, co-ordination and sequencing with other reforms and initiatives.
- The South African government can also set up second-tier funding facilities to manage on-lend funds to financial institutions in order to accelerate the growth of sound SME retail capability in expanding access to finance (SME Finance Policy Guide, 2011).

- Get Credit Indicator - South African public policy makers can consider the policy instruments across the globe and integrate South Africa's mechanisms into public strategy. By doing so, South African can develop finance institutions like Department of Trade and Industry (DTI) funding, in an attempt to bridge the funding gap and provide funding to the micro-enterprise sector (Marume, Ndudzo & Jaricha, 2016).

One may argue that, throughout the course of the previous several years, the government of South Africa has frequently utilized measures such as grants and lenient lending terms, etc. However, new and emerging policy actions for financing South African entrepreneurs are required. Other policy actions that may also be required include loan guarantees, microcredit, alternative debt finance, crowd funding, and self-financing groups. As a result, the recommendations that were presented earlier can be utilized to achieve holistic access to finance for South African SMEs in order to achieve long-term sustainability (Marume, Ndudzo & Jaricha, 2016).

6.4 Prospective Study areas

At the time of this report, it was discovered that studies of such a nature are relatively uncommon in developing economies, such as South Africa. This is the gap that this study aimed to fill. Building upon the findings of this study, further research can be done in addressing the limitations of this research, making use of other analytical tools in studying the relationship between working capital and sustainability of small businesses or constructing the same research in a new context or location. Researchers can also re-assess and expand the theoretical framework used for this study. The following are therefore recommendations for further research:

Addressing the Limitations of this research

As mentioned in this report, one of the greatest limitations of this study is that it only focused on one sector of the economy. Future research may focus on working capital and business sustainability across various industries in the South African economy.

Making use of other statistical analytical tools

In further analysing the relationship between working capital and sustainability; given the time and resources, another future study may benefit from using other statistical analytical tools such as running a regression analysis, to better understand the causation and statistical extent of which working capital affects the sustainability of small businesses in the South African context.

Constructing the same research in a new context or location

This study focused on the Gauteng Region as the area of study. It would be interesting for future research studies to address this study's research problem in a new context, location, and culture in order to explore mixed and different experiences of small businesses operating in different environments.

6.5 Chapter Summary

The objective of this chapter is to present key conclusions that emerge from this study. Future areas of research and recommendations on how private practices can finance working capital, as well as what needs to be done to the public policy to help the industry. These are based on best practices, to help policy makers develop strategic tools that encourage the access to working capital, creating sustainability in businesses that operate in the health sector.

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APPENDIX A

The last section of this research report attaches supplementary information to this investigation. This includes the survey research instrument, provision of data from BHF, permission letter from SAMA and university ethics clearance.

- **Research Instrument**

  The online survey used as a research instrument for this report can be obtained from the link: https://www.surveymonkey.com/r/JLH6VR6)

- **Survey Responses**

Contextual Analysis of Data



Figure A1 – General Practices vs Mixed Practices

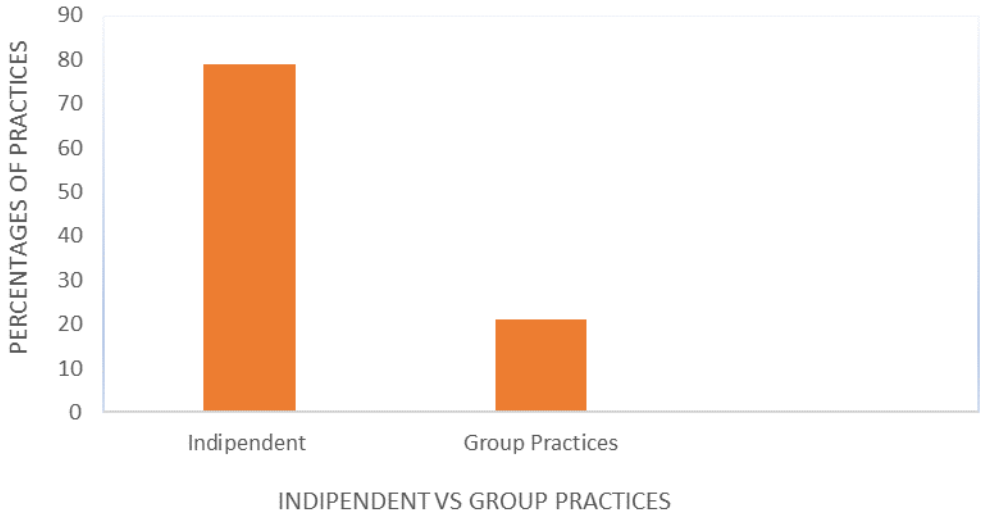


Figure A2 – Independent Practices vs Group Practices

Private practitioner's understanding of working capital and how they can finance their business and working capital requirements.

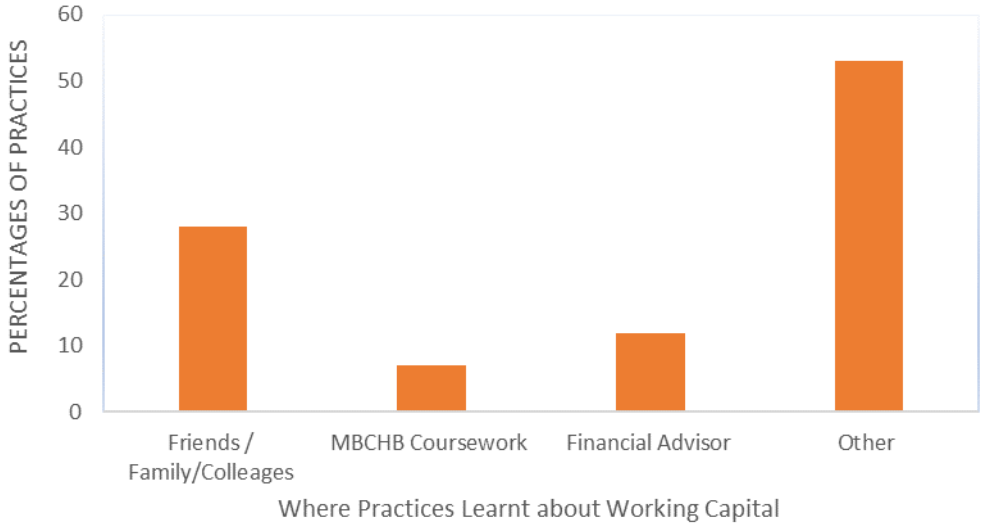


Figure A3 – Where the private practitioners learnt the concept of working capital management

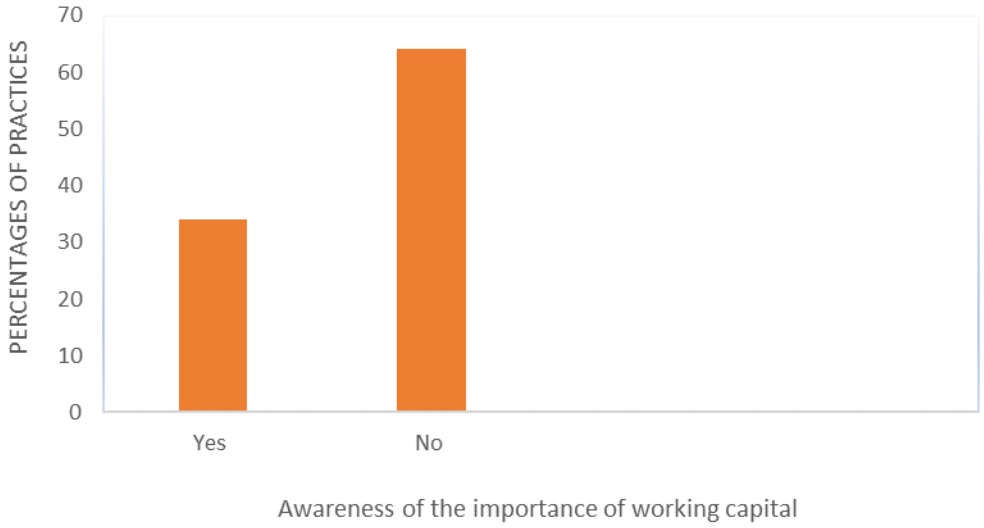


Figure A4- Awareness of the importance of working capital at a start-up phase of a business

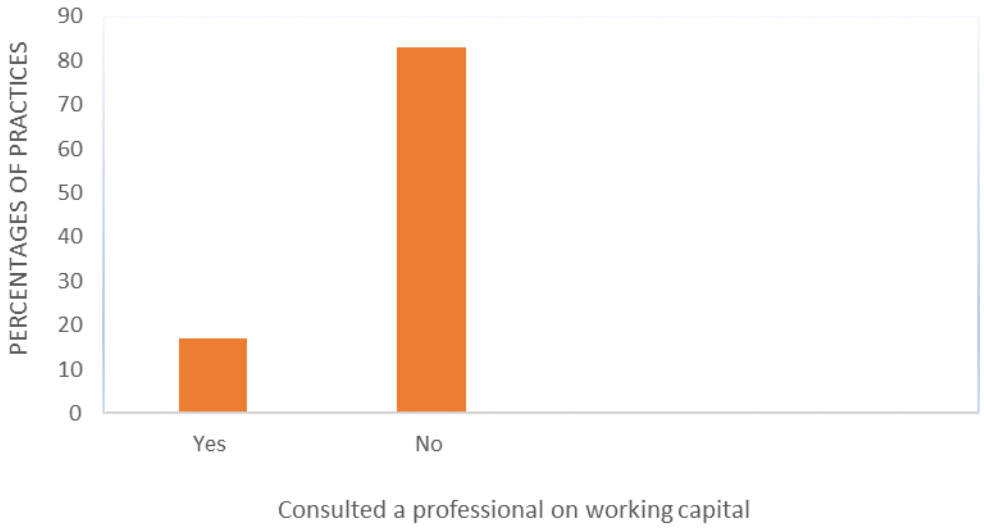


Figure A5 – Private practitioners who have consulted a professional in understanding working capital requirements for their practice and those who have not



Figure A6- Practices with working capital management systems

- **Provision of Statistics from BHF**

From: **PCNS Compliance** <Compliance@bhfglobal.com>
Date: Fri, Dec 2, 2022 at 4:03 PM
Subject: RE: Request of PCNS Data on Private Practices
To: Nangamso Kondlo <nangamsokondlo@gmail.com>

Good day Nangamso

Please find below the stats as requested.

1) Number of General Private Practices established between 2009-2019. [5 730 practice numbers issued in this period for General Medical Practitioners (GPs).]
2) Number of General Private Practices that were still active in 2019 [4 185 practice numbers were still active in 2019]
3) Data of General Practices that did not make it to 2019 and closed down. [216 permanently closed due to GP being deceased or is now a specialist (GP number is closed and provider is issued a new number as a specialist). 1 329 are inactive for various reasons – these GPs can still come back and ask for their practice numbers to be reinstated.]

Kind Regards,
Eunica Guvakuva

Figure A7– Statistics from BHF

APPENDIX B

Annexure B consists of all documents attached and submitted with this research report and include:

- Permission letter from SAMA
- Ethics Clearance
- Turnitin report
- Submission forms and supervisor evaluation form