CHAPTER 1

INTRODUCTION AND ORIENTATION

We can begin to see that organisational intelligence is not something that resides in a few experts, specialists, or leaders. Instead, it is a system-wide capacity directly related to how open the organisation is to new and disconfirming information, and how effectively that information can be interpreted by anyone in the organisation.

(Wheatley 1999:99)

1.1 BACKGROUND TO THE RESEARCH TOPIC

Every person associated with an organisation, be it a public listed company, a small private company or a government institution, forms a link in the organisation's information chain. Although the aim of financial information is to communicate meaning, the information per se, contains no meaning. The meaning exists in the minds of the sender and the receiver of the information (Thill & Bovée 2002:13). Thus, to communicate financial information effectively, the receiver of this information must share similar meanings for the words and symbols used by the sender.

Financial illiteracy can be regarded as a communication barrier, similar to bad connections, poor acoustics or any other distraction. Any one of these barriers will lead to a state of uncertainty when a decision must be made. According to Smith (2005: 59), "Decision making under conditions of uncertainty always provides the possibility of sub-optimal choices: psychological evidence ... suggests that managers may act in a biased and irrational manner with regard to their tolerance of both risk and ambiguity." Risk prevails when the uncertainty gap cannot be bridged. Simon (1996:119) introduced the word "satisficing" to refer to the decision methods that look for good or satisfactory solutions instead of optimal ones. If decision makers are uncertain, they will "satisfice". Satisficing is one of the ways in which decision makers deal with their inability to facilitate uncertainty.

One of the principal functions of the preparers of financial information is to provide useful financial information to stakeholders in order to facilitate decision making for the planning, control and allocation of organisational resources (Cheng, Luckett and Schultz 2003:40) . The usefulness of financial information, however, is not only the information dimension mentioned, but is also affected by the users' perception, interpretation and utilisation of the information. The usefulness of information depends on how feedback on the users' perception and interpretation of the information can influence the providers to produce information that satisfies their needs.

The understanding of how entities manage information, especially financial information, has a significant effect on decision makers' ability to plan strategies and create a competitive advantage. To create a competitive advantage, decision makers need the right information at the right time as well as the ability to assimilate it. Meaningful information can be regarded as communicated knowledge, and according to Ditillo (2004:401), the understanding of how an entity can manage knowledge is an issue that has received increasing attention in both theory and practice over the past decade. He also states that "knowledge and the capability to create and utilise such knowledge are the most important sources of competitive advantage" in organisations. Knowledge creation focuses attention on both information and individuals' ability to use it. Edwards, Collier and Shaw (2003: 35), also regard organisational knowledge as an asset, "the use of which is a key driver of competitive advantage". Consequently, power in organisations is the capacity to utilise the energy created through relationships between information and knowledgeable individuals.

Communication thus plays a vital role in facilitating decision making. In a financial context, Smith (2003:17) contends that, the communication process requires one to distinguish between

- the transmitter of the message
- the financial message to be conveyed
- the "vehicle" of transmission (eg, the annual report)
- the recipient of the message
- the impact of the message, resulting in a decision

Smith's list, however, has a missing link in order to properly facilitate the communication process. This weakness is feedback from the recipient to the transmitter of the message. Feedback loops regulate the flow of information and are essential to alleviate uncertainty in the communication process. Without feedback, the relationship between the transmitter and receiver of the message could become clouded. If the recipient is not financially literate it is also possible that the recipient could misinterpret the message. For users to be able to give feedback, however, it may be inferred that financial literacy can contribute towards users requiring more detailed and useful information: "an expansion of the breadth of knowledge that the user may acquire a better sense of what is useful and what is not ..." (Belkaoui 1989:9). Consequently, if information cannot be transmitted successfully to stakeholders and understood by them, communication did not in fact occur and this could lead to a defective relationship between the organisation and its stakeholders.

While measurement of financial information is regarded primarily as the domain of accountants (Koornhof 1998:2), the users of this information are not necessarily accounting experts. Users in this sense refer to everyone who uses financial information for decision-making purposes, at all levels of the organisation. Wolk, Dodd and Tearney (2004:163) refer to the definition of accounting, published by the American Accounting Association's (AAA) Statement of Basic Accounting Theory (ASOBAT), as the "… the process of identifying, measuring and communicating economic information to *permit informed judgements and decisions by users of the information ...* ". Informed judgement refers to the user's ability to critically appraise the information and reach a decision on the basis of it. Knowledge of the subject matter, in this instance, finance or economics, will contribute to users' ability to critically appraise the information. The above definition therefore implies that information must not only be properly prepared and communicated, but that the users must also be able to interpret and use it. A key objective of financial information is its usefulness. As early as April 1971, the Trueblood Committee, enumerated 12 objectives of financial accounting in which "decision usefulness" can be seen as the central theme of all these objectives. There are, however, problems associated with the decision-usefulness approach in accounting, of which user diversity is the most prevalent (Schoonraad 2003:50). Each member in an organisation is a user of financial information, for example, the managing director uses internal and external financial information for strategic decision making, while the production manager mainly focuses on financial information on the costing of a specific product. User diversity also means that users demonstrate different levels of financial literacy and that their ability to process financial information may be hampered if they are financially illiterate.

Users of financial information need to receive information that supports decision making. Internal users of financial information are usually involved in the day-to-day running of the business and therefore have a better understanding of the business and greater expertise than external users in interpreting trends and results (Koornhof 1998:31). In any business there are users with different information needs as well as different financial backgrounds, means of acquiring information and responsibilities. Some users of financial information are involved in decision-making activities, without being involved in the daily running of the entity, and in many instances, without the necessary expertise to interpret the financial information presented to them.

1.2 STATEMENT OF THE PROBLEM

The problem addressed in this thesis relates to the complexity of the financial literacy phenomenon to act as an interface between financial and economic information and the decision-making proficiency of individuals in organisations. This phenomenon can be conceptualised in the following dimensions, which will be discussed in more detail in section 1.2.1. Firstly, it involves the haphazard use of the term “financial literacy”. Secondly, it relates to the perception that financial literacy consists only of two separate systems (the information system and the human behaviour system) and is not also considered as one encompassing process. Thirdly, the gap between complex financial and economic information, on the one hand, and the decision makers’ mental processes, on the other, is difficult to reconcile, without using an interface. In the last instance, the education of financial literacy, especially in South Africa, is not possible without a clear identification of the diversity of the local organisational fraternity.

1.2.1 Perspectives on the problem statement

The general use of the term “financial literacy” poses a problem because of the different meanings attached to it. Various research studies (Dopfer 2005; De Beer 2006) have shown that the case of terminology is considered to be one of the primary obstacles in transcending meaning. Dopfer (2005:18) contends that disciplines such as economics suffer from a *language deficit* and this is a handicap both for theoretical expression and its communication. A distinction is necessary between the general and specific meaning of the term “financial literacy”. De Beer (2006:56) states that “certain words become overburdened with meaning while others are hallowed out and, in the process, stripped of their meaning”. The term “financial literacy” consists of the words “financial” and “literacy”, both of which are used to represent a myriad of issues that can easily lose their relevance when used together.

According to Collins dictionary and thesaurus the word “financial” also refers to the words: “economic”, “business”, “commercial”, “monetary”, “fiscal” and "pecuniary", each one of which has meanings of its own. "Literacy", according to the same dictionary, basically means or is synonymous with: the ability to read and write; education, learning and knowledge. When these words are combined to form one term, "financial literacy", a whole new dimension emerges, which encompasses more than the individual terms listed above. In an organisational context, financial literacy can refer inter alia, to the process of obtaining financial knowledge, understanding and using financial information for decision making.

The term "financial" can also refer to the information dimension, while "literacy" can refer to the mental processes of individuals when using this information. This implies that in an organisational context, both the information system (matter) and the human behaviour system (mind) are intrinsically involved with financial literacy and decision making. In Wilber's (2001:25) view "ultimate reality is a unity of opposites", in other words there are no boundaries. Financial literacy should therefore not be seen as a boundary, but as part of a process to unite the information system and the human behaviour system. Hence to facilitate decision making, these two systems need to be reconciled into one encompassing process.

A further problem addressed in this study is whether complex financial information, as produced by the information system of an organisation, is useful for decision making by the different stakeholders. Information only has value if it has the potential to influence a decision. The decision-usefulness objective of accounting implies that the information produced by the accounting system will also be understood by those with the least ability (AICPA 1973:13). Although the International Financial Reporting Standard's (IFRS) framework identifies many users with different information needs and financial competencies, IFRS "follows an investor-centred approach by suggesting that other users' information needs will largely be satisfied by providing the information that the investors, as providers of capital, require" (Vorster, Koornhof, Oberholster, Koppenschaar, Coetzee, Janse van Rensburg &

Binnekade 2008:5). If investors are regarded as users who are more proficient in financial matters, then some of the other users with "least ability" as mentioned above may find it difficult to understand the information produced on an IFRS basis. In addition, users with high financial literacy may themselves benefit, to the detriment of those with poorer financial literacy.

The question that comes to mind is whether general purpose financial reports, where the users cannot readily be identified, and where assumptions have to be made by the preparers on their behalf, can really communicate information useful to all users for decision making. While it is recognised that the accounting system is but one of the producers of financial information, it is also acknowledged that it may have an affect on other financial information provided to decision makers. According to Gouws (1997:76,78), the dependency on the accounting system and the way information should be produced, builds a false sense of confidence. The accountants' ability to communicate accounting information effectively is crucial to bridge the gap between the entity and the users. Communication, however, is dependent on more than only the provision of information - it also relies on the recipient's ability to use the information. Goldberg (2001:92) describes this dilemma as "plastering over a gaping hole in the fabric of communication". Since it is almost impossible to bridge the communication gap from the information side only, it is also necessary to enhance the users' mental ability to understand it.

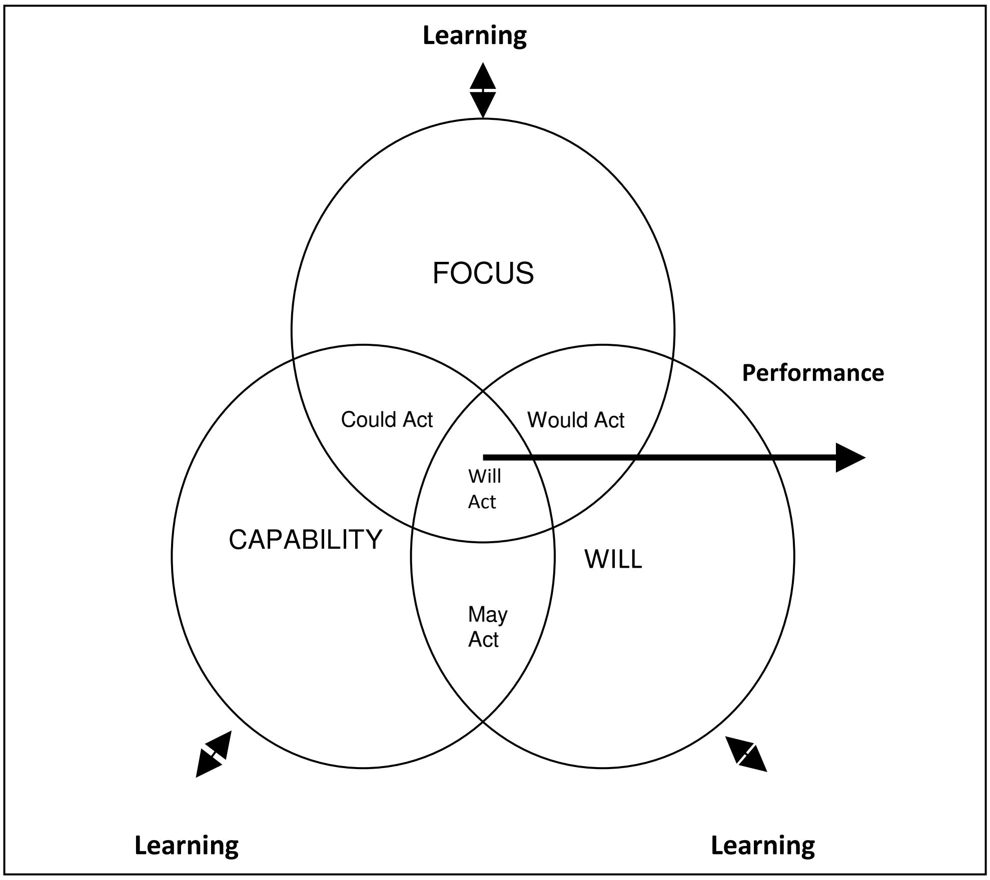
A further dilemma is that while some of the recipients of financial information are known or strongly suspected to be incapable of analysing much of the detail contained in "general purpose" financial reports, those who are capable, can scarcely be satisfied by any amount of detail that could be provided (Goldberg 2001:92). One may infer that it is extremely difficult to satisfy the needs of both the more financially literate and the less financially literate users of financial information. Dunn, Cherrington and Hollander (2005:12) reiterate that most of the users of general purpose financial statements lack a good deal of information that they should have, but that they actually suffer more from an *overabundance of irrelevant information*, which enhances their uncertainty. One of the principal questions and challenges facing the accounting profession, as one of the providers of financial information is therefore: How can accountants add value to business organisations in today's computerised, interconnected, global business environment (Hunton 2002:60)? Since the problem is clearly not a lack of information, but instead, in most instances, too much information, there is also a need for an interface between the information system and the decision makers to enhance decision making. Although Gouws (1997:63) states that "It is evident that a decision-oriented information system should produce information which meets the needs of its users", the diversity of users makes it difficult to meet all their different needs with the same information set. Simon (1977:108) concludes as follows: "The scarce resource today is not information, but the capacity to process it." It follows that while providers of information have a responsibility to provide users with enough information, users also have the responsibility to enhance their capacity to understand and use it. A financial literacy interface can thus contribute to narrow the gap between the information provided, on the one hand, and the decision makers, on the other.

In order to enhance the financial literacy of decision makers in South African organisations it is imperative to first take cognisance of the diverse compilation of the financial information users in the country. It is a well-known fact that South Africa suffers from skills shortages in many areas. According to Venter (2005:47), trained human capital is a serious constraint in the South African economy, there is a general shortage of skilled labour and that since 1994, the country has lost at least 250 000 skilled workers to the Western world. The Auditor General also reported in 2005 to the National Assembly that there is a chronic shortage of senior managers in the public service and an even larger shortage in the provincial and local government sector. One of the possible reasons advanced by Roux (2005:59) for the current lack of service delivery in, for example, some municipalities in South Africa, appears to be inadequate human resource capacity and expertise. This apparent lack of skills, which presumably includes a lack of financial literacy among people currently participating in financial decision making in South African organisations, puts pressure on the education system to provide individuals who can participate fully in the economy of the country. Financial illiteracy poses a threat not only to the overall performance of business organisations but also to the economy of the country itself and the entire region.

In order to create a performance-driven organisation, country or region, each member of the organisation needs to be knowledge driven. Smith and McLaughlin (2003:1) cite Wiig, who confirms that overall knowledge management will become more people-centric because it is the networking of competent and collaborating people that makes successful organisations, and organisations need to adopt greater people-centric perspectives of knowledge. Performance-driven organisations need people who can think and operate at all levels in the organisation. According to Gouws and Lucouw (2000:35), “researchers are beginning to recognise organisations as being systems, construing them as learning organisations and crediting them with some type of self-renewing capacity”. If people on all levels in the organisation, for instance, are unwilling to become more financially literate, the organisation will find it difficult to enhance its performance. Wheatley (1999:98) concurs that “if a system has the capacity to process information, to notice and respond, then that system possesses the quality of *intelligence”.* The capacity to intelligently think about and process financial information, however, is dependent on the financial capability of all the individuals in the organisation. Thinking and knowledge creation in an organisation should not only be an individual activity but also needs a joint organisational activity. As stated by Beinhocker (2005: 354) “organisations provide a vehicle for collective learning”. Hence, for organisations to acquire a higher order of intelligence and decision-making capability, all individuals in the organisation need to continually generate and utilise new information.

Organisations clearly need a management system based on the intelligent use of information. Smith developed a generic model (fig 1.1), to present such an outcomes-driven knowledge management performance system (Smith & McLaughlin 2003:3). The three fields namely *focus*, *will* and *capability*, presented in the model form a dynamic system, and optimal performance is represented by complete congruence of all three fields.

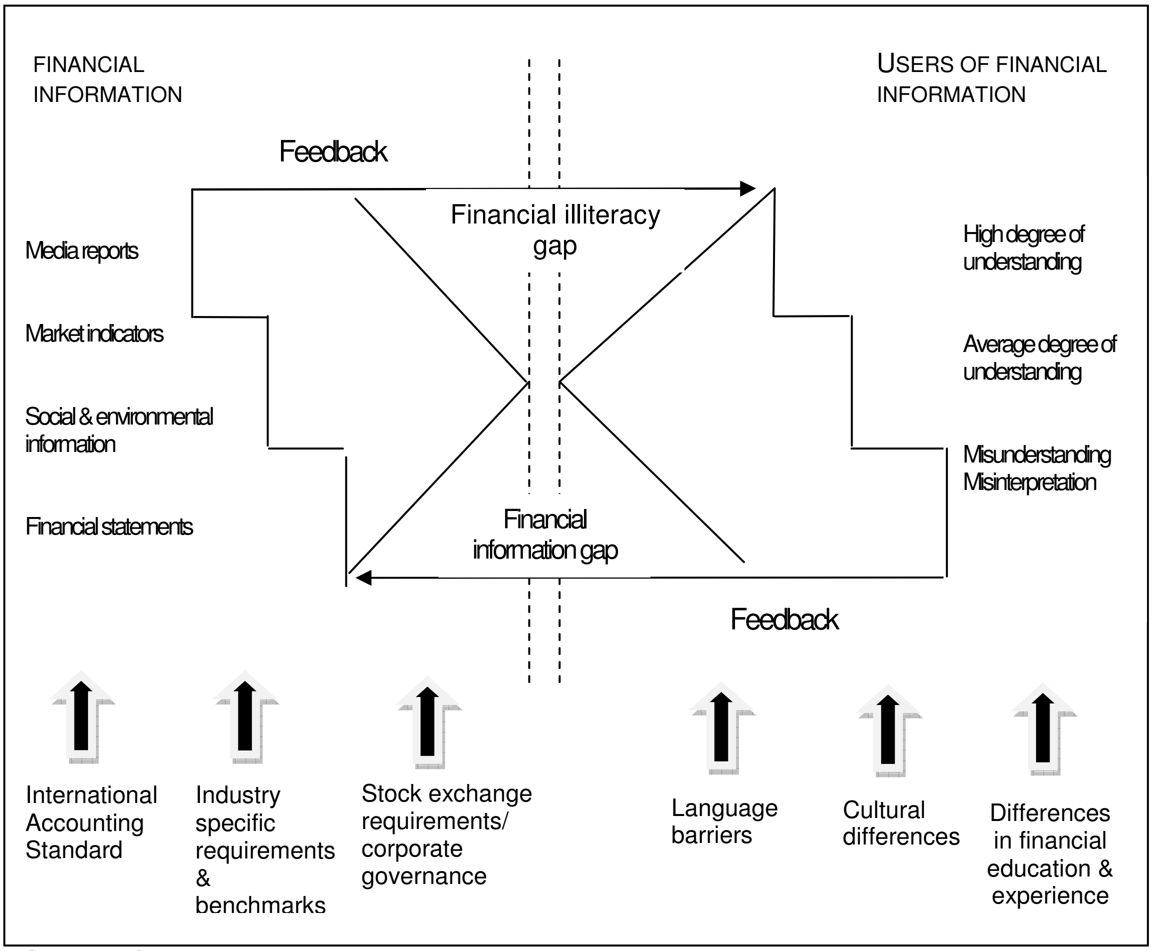
Figure 1.1: The performance system



Source: Smith & McLaughlin (2003:4)

The fields presented in the model (fig 1.1) can be seen as invisible forces in an organisation. The successful interaction between the fields, focus, will and capability will result in learning, which will ultimately lead to action. Action ultimately promotes performance. With regard to the apparent lack of financial literacy among some decision makers in organisations, the focus in this study will mostly be on capability and the interactive influence between learning and capability. However, it is acknowledged that activities initiated in one field will influence one or more other fields. For example, will can be positively shaped by addressing how the people in an organisation meet, and people meet at their "boundary" and "every individual has their own boundary" (Smith & McLaughlin 2003:7). The individual's financial capability or lack thereof can be seen as such a boundary. In order to expand decision makers' boundaries their levels of uncertainty have to be addressed. Learning is an important way of addressing uncertainty (see chapters 3 & 6). It can further be assumed that enhanced financial literacy will expand financial decision makers' boundaries and will contribute towards a coordinating interface, where decision makers' level of uncertainty can be lessened. A preliminary model is used to illustrate the research problem as described above and is depicted in figure 1.2.

Figure 1.2: Financial literacy: towards a coordinating interface



Source: Own observation

There are a myriad of ways in which financial information can be acquired, as indicated in the examples shown in figure 1.2. With reference to Figure 1.2, it is evident that financial information, influenced by countless rules, standards and legislative requirements can be “mystifying rather than revealing” (Schoonraad 2003:43). In some instances, the complexity of financial information can increase users’ uncertainty levels and confuse rather than enlighten them. The users of financial information, on the other hand, need to understand the information in order to interpret it correctly for decision making. Feedback from the users to the creators of financial information is imperative to initiate growth and entry into an otherwise closed system. Closed systems are the result of very little feedback. Proper flow of information happens in an open system where users respond, albeit positively or negatively, to the information. Feedback may be indicative of to what extent both sides need to change in order to accommodate each other.

The users’ side in figure 1.2 indicates that individuals have different levels of understanding financial information. A high degree of understanding presupposes that users have a higher level of financial literacy. There are also language and cultural differences as well as differences in financial education, which complicate the process of becoming more financially literate and acquiring a higher degree of financial understanding. From figure 1.2 it can further be deduced that in spite of the complexity of the information side and the barriers and differences on the users’ side, organisations have a responsibility to ensure that decision making takes place. An interface that will narrow or strive to diminish the gap between the information system, on the one hand, and the decision makers, on the other, is contemplated.

1.3 RESEARCH AIMS AND OBJECTIVES

The main research aim is to develop a financial literacy model as a coordinating interface between financial information and decision makers in order to enhance sound financial decision making.

The secondary objectives to support the main research aim can be formulated as follows:

(1) to analyse and comprehend the terminology employed when using the *financial literacy* concept in relation to South African organisations
(2) to explain complex phenomena by using systems theory
(3) to investigate the diverse financial literacy challenges facing South African organisational decision makers
(4) to determine the useful attributes of financial information necessary for decision making and establish if an information value chain, with feedback loops from the users to the providers of information, will add value to the decision-making process
(5) to investigate the difference between the information needs of the decision makers and the current state of financial information presented to them
(6) to explain decision makers' levels of thinking and their evolving financial consciousness in a learning organisation
(7) to use a conceptual model to illustrate how financial literacy as an interface can narrow the gap between financial information and the users thereof

1.4 RATIONALE FOR THE STUDY

1.4.1 Importance of the research

Globally, there seems to be a sense of urgency to enhance the financial literacy of decision makers. In the USA, for instance, the American Institute of Certified Public Accountants (AICPA) introduced their "360 Degrees of Financial Literacy" campaign at a press conference in May 2004. According to an opinion poll commissioned by the AICPA, "Americans generally do not show great familiarity with a range of things that can impact their financial planning" (Tie 2004:14). In another example, the Financial Services Authority (FSA) and the Basic Skills Agency (BSA) in the UK developed an Adult

Financial Literacy Framework to support those individuals and organisations working to improve their own financial capability and that of others (BSA & FSA 2006:3). These efforts to improve the financial understanding of individuals and organisations in the countries mentioned provide a comprehensive approach to financial education, focusing on the information that people need at each stage of their lives, from childhood to retirement.

Since the early 1990s a broad spectrum of stakeholders in South Africa has recognised the importance of financial literacy in the way that individuals and communities build wealth and protects their assets (Piprek, Dlamini & Coetzee 2004:3). According to the final report of FinMark Trust, *Financial Literacy Scoping Study and Strategy Project*, the South African marketplace, "has experienced a plethora of activities in financial literacy since the late 1990s". This research project by FinMark, endorses the fact that financial literacy is not a skill that is acquired through once-off learning, but rather a function of continuous repetitive learning over a lifetime. It further states that there is a need in South Africa to improve the outreach, particularly to disenfranchised communities and various segments of communities: the poor and unemployed, rural communities, pensioners and others (Piprek et al 2004:66). A financial literacy framework similar to the one established in the UK could contribute to a more structured approach to financial education in South Africa.

For users to be fully informed, at least minimal competence, not only technical but also moral and ethical astuteness, is required. Because financial decisions, especially in organisations, can impact directly or indirectly on all stakeholders of the organisation, the larger community or the environment, it is necessary to contemplate the moral and ethical consequences of those decisions. According to Riahi-Belkaoui (2000:307), "interest in the human information processing approach arose from a desire to improve both the information set presented to users of financial data and the ability of users to use the information". Failure in competencies to interpret financial information can expose the user to manipulation and financial detriment by other stakeholders or even the management of organisations.

The New Partnership for Africa's Development (NEPAD) is the programme of the African Union (AU) which constitutes a holistic vision developed by the African leaders to promote sustainable development in Africa. According to Venter and Neuland (2005:xv): "Africans are no longer prepared to be wards of benevolent guardians from abroad; they want, and assert their right, to be architects of their own destiny and sustained upliftment." Uneducated and unskilled people will never be able to play a meaningful role in the economic growth and development of their country or benefit from the opportunities presented by, say, the African Renaissance. Improving both the political and economic situation of South Africa, and of the African continent, is one of the basic ideas underlying the African Renaissance concept (Cling 2001:123). Hence becoming financially literate is but one of the basic processes necessary to enable people to lead meaningful lives in a community, country or region.

In South Africa, administrative incompetence in the public service can be related to a lack of skills in financial management. According to Beauchamp and Hicks (2005:13), public service organisations in particular, are highly diverse and complex, and make complicated trade-offs between competing demands and interests. Nowadays financial management responsibilities are widely diffused and are no longer the exclusive interest of the chief financial officer (CFO), and this demands a high degree of financial literacy from managers throughout the organisation (Beauchamp & Hicks 2005:16). The Public Finance Management Act (Act 1 of 1999, as amended by Act 29 of 1999) (PFMA) is also a key element in the management of public finances and provides, inter alia, for the responsibilities of persons entrusted with financial management in public entities. Because these managers are, according to the PFMA, accountable for sound financial management, one can argue that they do not only need financial information in a "digestible" format, but must also acquire the competencies to interpret the information in order to make proper management decisions.

The South African National Skills Development Strategy (NSDS 2005-2010), spells out the national priority areas to which the projected over R21,9 billion income from the skills development levy, will be allocated over the next five years. It is quite clear that skills development, as well as accelerated broad based black economic empowerment (BBBEE) and employment equity (EE), are important for employment creation and poverty eradication. Financial literacy is one of the critical skills necessary for sustainable growth, development and equity.

In order to adhere to the above-mentioned National Skills Strategy and other legislation, decision makers in organisations at least need to understand the financial information they receive. The financial department in an organisation also needs to know what kind of information will be useful for its specific users. Financial information needs to have certain qualitative characteristics to be useful for decision making on the one hand, the users need to have the knowledge and skills to use the information to the benefit of the entity, on the other.

The strict regulations that apply to the presentation of financial statements of public entities and companies also pose a problem. Apart from adherence to the accounting standards, Treasury regulations and corporate governance issues also come into play in the preparation and presentation of some financial statements. With regard to arbitrary, complicated and misleading rules, Riahi-Belkaoui (2000:52) refers to the "selective financial misrepresentation hypothesis". According to him, the problem is that standard setters have been "captured" by the intended regulatees and others involved in the financial reporting process, resulting in a process in which the main objective of regulation, which is the protection of consumers, is reversed to make the regulatees the beneficiaries. This hypothesis is assumed to be across both public and private sectors, "since participation in both sectors is motivated to support standards that selectively misrepresent economic reality when it suits their purpose" (Riahi-Belkaoui 2000:52). The needs of the users of financial information, especially those who lack the necessary financial expertise, have to be considered by the regulatees and financial standard-setters.

The introduction of a financial skills development strategy to support users, who may need financial decision-making skills, may address one part of the problem. A model or strategy also needs to be developed to bridge the information gap between the current complex ways in which financial information is presented to decision makers and their ability to understand and use the information.

1.4.2 Previous and current research on this subject

Previous studies, in both the financial and psychological literatures, suggest that different people may process the same information differently, depending on factors such as their knowledge structure, experience and cognitive characteristics (eg, Gregory 2004; Cheng et al 2003; Goldberg 2001; Anderson & Krathwohl 2001). According to Smith and McLaughlin's (2003:6) research, satisfying the physiological needs of individual employees correlates directly with the quality of an individual's performance. They further believe that the need for self-actualisation pioneered by Goldstein and polished by Maslow is critical to the development of cultural traits that successful knowledge management implementation demands. This confirms the fact that the human behaviour system plays a vital role in the decision-making process and merits further investigation.

The AICPA's "360 Degrees of Financial Literacy", as mentioned above is a national effort of the American CPA profession to research the state of financial literacy in the USA. The Association of Chartered Certified Accountants' (ACCA's) world-class research programme, "Global insight into responsible business", was issued in September 2005. One of ACCA's international research priorities deals with enhancing financial literacy. In the introduction to their statement on enhancing financial literacy they state the following (ACCA 2005: 12):

> More than ever before there is a need for greater financial literacy among both, the general public as well as senior management. Along with the furore over personal investment schemes in some parts of the world, recent developments in governance have led to greater involvement in audit and remuneration committees of those without a strong financial background.

Goldberg (2001:70-93) also conducted research on the provision of information to decision makers and dedicated an entire chapter in his book, *A Journey into accounting thought,* to communication in accounting. With reference to Ayer (1955), Goldberg pointed out "that some things are harder to communicate than others, because either a suitable set of symbols has not been devised or mastered, or the intended receivers have not had the experience or the appropriate training to understand the transmitted message". In a financial context, the set of symbols in the transmitted message may, inter alia, consist of amounts, narratives, graphs or even ratios. Many authors have elaborated on the complexity of financial information (Epstein 2007; Coppin 2006; Pickard 2007a) needed for decision making. The fact that some of the receivers of financial information lack the financial literacy to comprehend the symbols used in it complicates the decision-making process.

In South Africa, research by FinMark Trust, resulted in their report: *Financial Literacy Scoping Study and Strategy Project*. The objective of this study was to research the financial literacy programmes in South Africa and pay specific attention to recommendations for the implementation of the Financial Sector Charter (2003) which should improve the state of financial literacy in South Africa (Piprek et al 2004:4). Chapter 2 in this study gives a comprehensive overview of some of the findings of the FinMark research.

A search on the Nexus Database System did show that some research on adult basic education, basic life skills education, workplace literacy, arithmetic and English language literacy skills (Griffiths 1976; Jappie 1992; Dadabhay 1999; Ncube 2001) were undertaken. Zungu (1996), conducted research on "The factors associated with economic literacy among Black South Africans and the significance of teaching and learning the economic sciences". Key words, such as, financial literacy, economic literacy, accounting and literacy, literacy and intellectual capital, did not reveal specific research on financial literacy for decision makers in South African organisations.

1.4.3 Beneficiaries of this research

The vision of the NSDS 2005-2010, "skills for sustainable growth, development and equity", echoes the need for South African citizens to cope with change. According to the mission statement of the previous strategy document, South Africans need to be equipped with skills to succeed in the global market and be afforded opportunities for self-advancement (Prinsloo 2004:2-3). South Africa plays a key role in the Southern African Development Community (SADC) and this confirms that the lack of skills among some South Africans needs to be addressed prior to them contributing positively to the SADC region's economic sustainability. It would thus indirectly benefit the country and its region if the financial literacy phenomenon were addressed and put into perspective with regard to the decision makers' need to understand the financial information they receive.

South Africans appointed into management positions, either as employees, entrepreneurs, board members of public entities, trustees, members of audit committees and directors of companies, without formal training or experience in financial decision making will benefit directly from the study. These decision makers are accountable to all the stakeholders of the organisation and need financial training fit for their purpose. It is unfair to expect people who do not understand the information communicated to them, to be accountable for the decisions they take without educating them for their specific decision-making responsibilities.

Educators engaged in financial training, at school level, tertiary level, adult basic training or workplace skills training, will also indirectly benefit from this research study. If they have a better idea of the different levels of learning involved in financial literacy training and the need of decision makers in organisations to understand the financial information relevant to their responsibilities they will be able to develop fit-for-purpose training.

1.5 RESEARCH METHODOLOGY

Although the focus of this research is financial, an interdisciplinary approach is also adopted. An interdisciplinary approach recognises the fact that only by viewing the financial information system as a whole, in relation to its environment and including areas addressed by related disciplines, can it be comprehended (Koornhof 1998:21). In this study, related areas of concern include information management, communication, human behaviour in decision making and financial education.

To implement the research objective specified above, a literature study and an empirical survey will both be used to draw conclusions and make certain recommendations. Mouton (2001:86) confirms that "it is essential that *every* research project begins with a review of the existing literature". The literature study will further lead to the identification of a target population for the empirical survey as well as the design of the questionnaire.

1.5.1 Literature study

To know where one is heading, it is important to know where one came from. Hence, before embarking on a research project, a researcher should review previous work in the field (Terre Blanche & Durrheim 1999:17). A literature study, which entails the examination of recorded facts in books, professional journals, dissertations and technical reports, will be used in chapters 2 to 7 and to a lesser extent in the remaining chapters.

The literature study will consist of an investigation of the financial literacy challenges facing South African financial information users, the nature of financial information, the information value chain, financial education, and decision makers as primary users of financial information. The ability or lack of financial information to satisfy the needs of different decision makers will also be researched. A literature review on the cognitive ability and different levels of learning involved in financial literacy education will also be used. This involves basic interdisciplinary research relating to, inter alia, education and the communication process.

1.5.2 Empirical research

Empirical research will be conducted to supplement the theoretical component of the study. Refer to chapter 9 for a detailed discussion on the empirical research process. This aspect of the research is generally concerned with establishing the relationships between variables, that is, for example, how one variable changes as another changes (Ryan, Scapens & Theobald 2002:119). The research therefore aims to establish certain relationships between the variables: financial information (matter) and decision makers (mind), and decision making in the organisation. Bohm and Hiley (1993:384) introduce "the notion that consciousness shows or manifests on two sides which may be called the physical and the mental", and further contend that "active information can serve as a kind of link or 'bridge' between these two sides". For the purpose of this study, the financial literacy concept will be researched to serve as such a link between the physical and the mental processes, that is, between the financial information system and the decision makers.

The empirical research will consist of interviews with financial role players as a basis for the development of the questionnaire. The questionnaire will firstly focus on the perceptions of decision makers on different levels of the organisation on the financial literacy concept. It will further question financial literacy for decision making in organisations and the attributes of financial information for decision making.

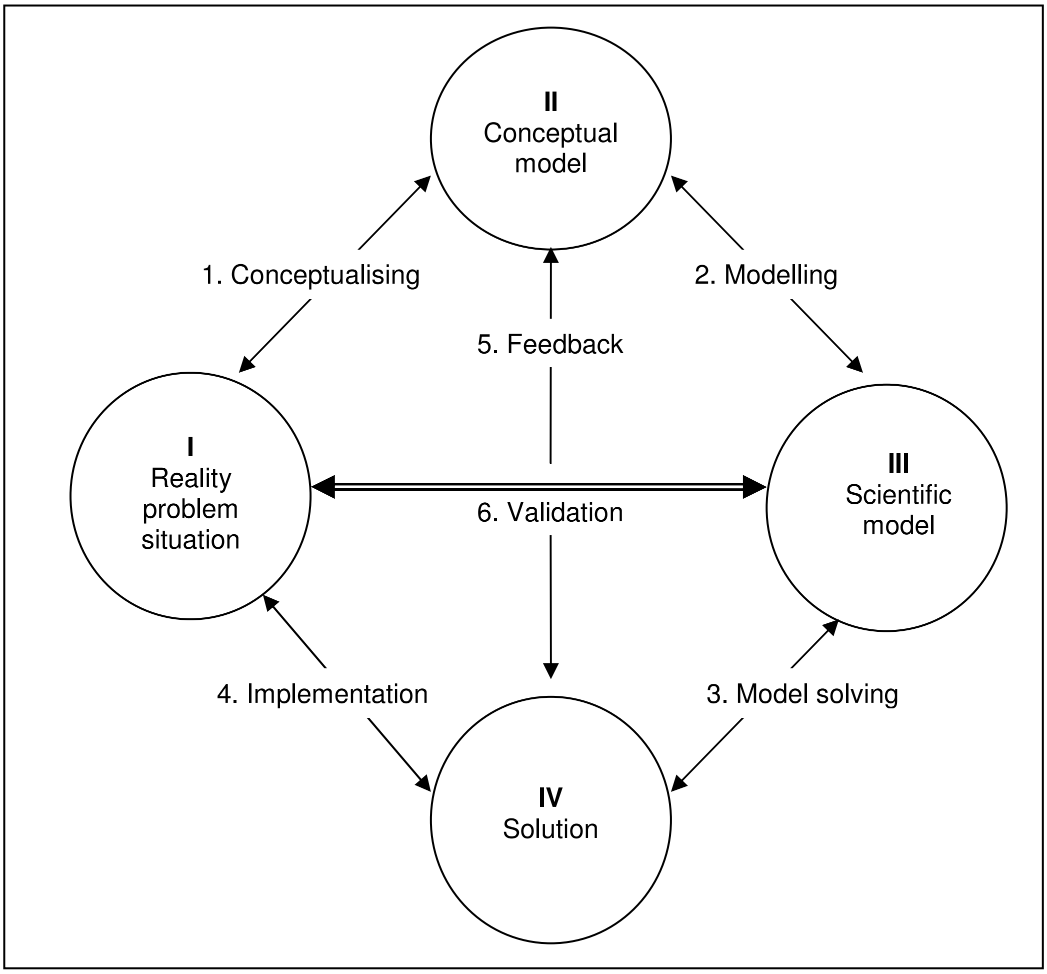
Chapters 9 to 11 of the study will discuss the results of the survey research. The objective, hypotheses and target groups of the survey will be identified in this part of the study. It will also explain the design of the questionnaire, the data collection process, the preparation of the data, the interpretation of the research results, and finally, conclusions and recommendations on the basis of the research findings (Oppenheim 1979:1-2). The results of the empirical survey will be incorporated into the outcomes of the model and indicate areas for future research.

1.5.3 Problem solving by using the Mitroff model

The perceived financial literacy interface model will be introduced in chapter 8. A model for problem solving designed by Mitroff, Betz, Pondy and Sagasti (1974) will be used as basis for the development of a financial literacy interface model. Koornhof (2001:259) concurs that the Mitroff model is "found to be especially useful in Accounting areas where well established research methods are lacking, for example where new knowledge is generated or naturalistic and exploratory research are undertaken". Because of the multidisciplinary nature of this study, it is difficult to choose if the problem lies more on the information side or on the cognitive behaviour of the decision makers and where to start with the research. As explained by Koornhof (1998:10), the Mitroff model is circular in the sense that there is no predefined starting or end point, which implies that the research project could begin at any one of circles I, II, III or IV, as depicted in figure 1.3.

This model (see fig 1.3) is used to demarcate the scope of the research in a simple system of interconnected activities prior to endeavouring to construct the financial literacy model.

Figure 1.3: Mitroff's systems view of problem solving



Source: Mitroff et al (1974:46-58).

Chapter 1 therefore commences at circle I (see fig 1.3), in which the existence of the specific *reality problem situation* is identified. The problem as identified, concerns the complexity of the financial literacy phenomenon to act as an interface between financial information and the financial decision-making proficiencies of individuals in organisations.

Circle II, the construction of a *conceptual model,* which sets out the variables necessary to identify the nature and extent of the specific problem is discussed in chapters 2 to 7. Chapter 2 will conceptualise the background to and necessary conditions for sustainable financial literacy in South Africa. Chapter 3 introduces the variables necessary to identify the financial literacy construct to act as an interface between the financial information system and the human behaviour system. While chapter 4 explains the information dynamics and the information chain in the organisation, chapter 5 will focus on the complexity of financial information from an array of financial information sources. Chapter 6 views the learning for certainty versus learning for uncertainty paradox as the basis for financial literacy. To conclude the conceptual model, chapter 7 places in perspective the decision makers and the challenges for financial information to satisfy their needs. Chapter 8, however, will focus on the design of a model to link the features of the financial information systems to those of the financial knowledge creation needs of the decision makers in order to form a financial literacy interface.

Circle III, as depicted in figure 1.3, represents the scientific model. The formulation of the scientific model links the relevant activities as described in the preceding literature study together in a qualitative relationship. Where the conceptual model will be used to contextualise the literature and introduce the financial literacy phenomenon, the scientific model tests certain characteristics of the model empirically. Feedback from financial role players will be used to substantiate the complexity of the problem and legitimise the conceptual model. Chapters 9 and 10 explain the methodology used in the empirical research and the results obtained from the questionnaire. The questionnaire will be used to establish some of the problems and complexities of the financial information system and decision makers' ability to use the information. Because individuals are very sensitive about their cognitive abilities and education levels, decision makers' financial literacy levels will not be tested. Owing to the ethical constraints in testing individuals' financial literacy levels, their perception of the financial literacy construct will be tested instead.

In circle IV (see fig 1.3), the scientific model will be applied to a proposed *solution* to minimise both the financial literacy and the financial information gaps. The envisaged financial literacy interface will form the breakthrough between certainty and uncertainty. Activity 5, depicting feedback in the narrow sense, is applied when the goal is to derive better scientific solutions (Koornhof 2001:257). Feedback from the empirical research will thus be used to suggest solutions to the problem and propose further research to be done on the problem. This will form part of the concluding chapters 10 and 11. Activity 6, the *validation* of the research, will not be performed. Since an awareness of the financial literacy interface proposed in this thesis has not yet been created among decision makers in organisations, the construct should first be introduced and tested in organisations before it can be validated. Because of the need to create an awareness of the financial literacy interface in organisations, the *implementation* activity (activity 4) will also not be performed in this study.

1.6 CHAPTER LAYOUT

This study comprises 11 chapters, subdivided as follows:

Chapter 1: *Introduction and orientation*

This chapter introduces the study. The background to the study, a discussion on the problem statement as well as the rationale for the study will be highlighted. This is followed by a discussion of the research approach and layout of the study.

Chapter 2: *Financial literacy challenges in South Africa*

In view of the current financial literacy challenges facing South African decision makers, background information will be given on the South African political dispensation and the requirements for financially literate individuals to implement the government's programme of action. The impact of the education system on the state of financial literacy as well as presently available financial literacy programmes will be highlighted. The necessary financial literacy conditions for sustainable development in South Africa will also be discussed.

Chapter 3: *A systems view of the financial literacy interface*

A systems view of the organisation will be introduced. Financial literacy as the interface between two systems, the decision-oriented financial information system (matter) and the human behaviour system (mind) will then be explained. The importance of an organisation's intellectual capital and financial literacy in a cultural diverse society will also be highlighted.

Chapter 4: *Information: the creative energy of the organisation*

Information dynamics and knowledge complexity will be described. An analysis of the characteristics of financial information will be analysed. The role of the accountant and financial reporting as a communication tool will be discussed and the argument for an information value chain put forward.

Chapter 5: *Sources of financial information*

An overview of current available financial information will be provided. The complex nature of currently available financial information will be discussed. The financial knowledge, or lack thereof, of decision makers in relation to this information will be addressed. Their ability to create value for the organisation by interpreting currently presented financial information will also form part of this chapter.

Chapter 6: *The learning for certainty versus learning for uncertainty paradox as a basis for financial literacy*

Key concepts in the financial literacy sphere will be defined. Financial literacy will be unpacked according to Bloom's six levels of thinking and Beard's teaching model. The notion to guide learners towards a state of uncertainty in order to prepare them for decision making for an unknown future will also be discussed.

Chapter 7: *The evolving financial consciousness of decision makers*

The changing face of South African decision makers as primary users of financial information will be explained. Their need to acquire a financial consciousness with regard to financial information and decision making will be investigated.

Chapter 8: *A financial literacy interface model*

The role of a conceptual model will be explained in the light of the basic financial literacy proficiencies required by decision makers. The financial knowledge creation process will contextualise the influence of the outer and inner environment on interpretation of financial information. Mitroff's system view of problem solving as introduced in chapter 1, will lay the foundation for the development of the financial literacy model.

Chapter 9: *The methodology used to establish the authentic essence of the financial literacy construct*

The research objectives of and rationale for the research methodology used, will be explained. The process of conducting the empirical research by way of interviews and questionnaires will be highlighted. The statistical presentation of the data and the research limitations will be further outlined.

Chapter 10: *Presentation and analysis of the research findings*

This chapter focuses on the presentation and analysis of the research findings. The desirability of financial capacity building for decision makers will be discussed. The need to present financial information to users in a more user-friendly way will be highlighted.

Chapter 11: *Summary, conclusions and recommendations*

This chapter contains a summary of the previous chapters, with recommendations based on the literature review and the empirical investigation. The influence of the empirical survey on the scientific model will also be illustrated. Conclusions will be drawn and recommendations made for possible further research.

CHAPTER 2

FINANCIAL LITERACY CHALLENGES IN SOUTH AFRICA

To outmaneuver other nations, the government of an emerging economy needs to build, harness and channel the country's human capital towards the achievement of goals that will benefit everyone.

(Dorrian 2005:22)

2.1 INTRODUCTION

Besides functioning in the global arena, South Africa also plays a pivotal role in the economies of the southern African region. The whole spectrum of decision makers in South Africa, needs at least minimal competencies in finance to enable them to participate in the economies of the country and the region. According to Meyer (2004:123), although information is one resource that can be applied to solve problems that contribute to the poverty phenomenon, the usefulness of information as a resource depends on the manner and format in which it is communicated to users in need. However, the problem, is that "the potential users' level of understanding, their knowledge base, their way of handling information and the type of communication mechanisms they use to control the flow of information, will determine how outside information will be accepted and applied" (Meyer 2004:123). In a multicultural society, such as South African society, the level of individuals' financial literacy can contribute to or hinder the way in which they understand and apply financial information.

The aim of chapter 2 is to put the complexity of the financial literacy problem, specifically in using financial information for decision making, in South Africa, in perspective. It will discuss the financial literacy challenges facing the South African economy and the impact of the current political dispensation on the development of the country's human capital. Background to the education system and its role and limitations in financial education also needs to be examined. The key issue is not whether education and training are beneficial, but what appropriate skills are required to catapult the people of South Africa to higher levels of employment. The objective of this chapter is also to investigate financial literacy as a prerequisite for the successful implementation of the numerous programmes initiated by government and the private sector for the social and economic upliftment of the nation. In view of the demand for transformation and black economic empowerment (BEE), the issue of decision makers' accountability compels one to also focus on the financial literacy challenges in both the private and public sector.

Chapter 2 commences with a background study on the impact of political ideologies on the country's human capital. The financial literacy needs of South African society and the impact of their social and political background on the way they perceive financial information are explained. The necessity for financially literate individuals to implement the government's programme of action is considered. The role of the education system to satisfy the diverse financial skills and knowledge requirements of the South African decision makers to utilise financial information is then discussed. Financial literacy challenges and the necessary financial literacy conditions for accelerated growth and sustainable development in the country are a significant part of this chapter.

2.2 POLITICAL IDEOLOGIES AND THEIR IMPACT ON THE COUNTRY'S HUMAN CAPITAL

Although there is no single reason for individuals' political choices, economic pressures are important reason for choosing a particular political ideology. "The political economy of a country is the way in which the production, distribution and consumption of wealth are organised within that society" (Venter & Landsberg 2006:234). In addition to a country's internal political ideologies, globalisation also has a major impact on a country and its economy in particular. According to Venter and Landsberg (2006:246): "No matter what form of government a country has, the state is always to a greater or lesser extent involved in the economy, if only through its function of formulating and implementing macroeconomic policy." It follows that the financial literacy levels of the policy makers will influence the way they formulate the country's economic policy, while the financial literacy levels of the economic role players will also determine how well the policy will be implemented.

The new democratic South Africa emerged after the 1994 general elections and immediately had to face a global environment. Because, prior to 1994, South Africa's economy was excluded from full participation in the world economy, the question was: Should the country adopt a neoliberal model of capitalism or a more social-oriented model that could perhaps function in the capital paradigm? Although there was and still is a notion towards a social-oriented model, the South African economy is primarily positioned as a capitalist market system. In a capitalist market system, capital formation and resource allocation are in the hands of individuals or organisations. Hence, such a free-market system will benefit from individuals with at least some level of financial literacy. To assess the stance of and challenges facing financial literacy in South Africa it is imperative to briefly reflect on the ideological background of the country's historical legacy. This is necessary because the education system and the economy as a whole are influenced by the political dispensation of the day.

2.2.1 Democracy

The characteristics of a democratic dispensation include specifications of the manner in which representatives are elected; limitations on their terms of office; and the majorities required to pass legislation in parliament; and the freedom of individuals and organisations to make their own financial decisions. In a democratic dispensation, individuals are presumably responsible for creating and sustaining their own financial well-being. Welsh (2004:5) summarised this as follows: "Democracy is simultaneously a set of principles, a way of taking decisions, and a method of regulating conflict, while ensuring that basic freedoms are upheld." Thus if political power is supposed to come from the people, then a democratic society needs people who can make their own financial decisions and be accountable for the decisions they take.

Because economics and politics are inextricably linked, two major variants of democracy have developed, namely democratic capitalism and democratic socialism. Both these forces play a role in the economic dispensation of the new democratic South Africa.

2.2.2 Democratic Capitalism

Democratic capitalism favours an economy based on “free individual commercial activity, a strong central government, and a relatively paternalistic representative political system” (Baradat 1994:77). Free individual commercial activity suggests that individuals will be in a position to make financial decisions, that is, they will have a certain measure of financial know-how. Although the mainstream of the national liberation movement was influenced by socialist ideas, the African National Congress (ANC) government has embraced capitalism or a free-market system in South Africa, which has ultimately led to the emergence of a new generation of capitalists. In a free-market system, where the one individual generates income or creates wealth at the expense of another, financial knowledge will contribute to the successful participation in such a system.

Notwithstanding political demands from the left, such as accelerated social delivery and pressure from the liberal right to say, end cost-boosting labour legislation, the government has succeeded in getting the economy to reposition itself as a financially disciplined capitalistic market system (Bruggemans 2004:80 & 83). Hence if the capitalist economy is to keep on growing amidst these opposed forces, there needs to be a common aim to empower the whole South African workforce so that they can participate fully in the global market. By making financial training part of this empowerment process, people will participate more confidently in the economy.

2.2.3 Democratic socialism

The liberation movement in South Africa, influenced by socialist ideas, envisaged a prominent role for the state in transforming the national economy to realise equity for the poor and previously disadvantaged people. The state suddenly found itself between international and national capital interests, on the one hand, and national labour and consumer interests, on the other (Allen 2006:3). Although the aims of these ideologies may differ vastly, their execution depends on having financial resources as well as capable individuals who can manage these resources. It follows that financially literate individuals who can manage their own and the organisation's resources will contribute to the advancement of the aims to transform the economy and improve the lives of the less advantaged.

The concept of *ubuntu* (African humanism), which is based on values such as inclusivity and concern for others, advocates principles such as sharing and communal living. Given the social injustices of the past, it is understandable that the political left, in particular organised labour will favour increased social delivery and accelerated transformation. This, in turn, calls for improving or honing skills, especially, the financial skills of previously disadvantaged individuals to participate in the quest for better social delivery. Hence to enhance economic growth initiatives such as BEE and increase full participation in the economy, the need for financially competent individuals is constantly increasing. Thus, without economic growth, the inequalities of the past and other social backlogs cannot be addressed. One may therefore infer that although South Africa favours a capitalist economy, the social intent to uplift people and capacitate every individual with financial literacy in order to become part of the economy is equally critical.

2.2.4 The democratic South African economy at the start of the 21st century

One of the features of the capitalist-oriented South African economy, at the start of the 21st century, is the previous neglect of human capital development.

According to Venter and Landsberg (2006:244), this neglect in the field of the formal education in particular, results in a shortage of skilled labour and the managerial skills necessary to develop productivity and competitiveness, while unemployment continuous to increase. To reap the benefits of a true capitalist economy, the people need to be empowered, not only with monetary resources, but also with the necessary skills and know-how to allocate these resources in such a way that they can participate fully in a capitalist-oriented economy.

Unemployment has a devastating effect on the economy of any country and major social and political implications. One of the aims of the Government's Accelerated and Shared Growth Initiative of South Africa (ASGISA) is to reduce unemployment levels and halve poverty and unemployment by 2014 (State of the Nation 2006:8 & 15). Unemployment does not always mean that there are no work opportunities, but it can also mean that a person is not skilled enough to do the work and is therefore unemployable. Many organisations need individuals who have financial training and experience. Hence to become sustainable and remain as such in the 21st century South Africa, the quality of, inter alia*,* the financial literacy education of the most vulnerable in the country has to be addressed. Presumably if more financially educated individuals are employable, they will eventually make a greater contribution to reduce poverty and unemployment.

The informal sector constitutes a vital part of the South African economy and has the potential to provide income-generating and employment opportunities to the unemployed of the country (Wiese 2006:22). However, when entrepreneurs in the informal sector lack the business acumen needed to successfully practise their trade, this sector may not grow to its full potential. The informal sector of the economy will therefore benefit greatly from financial training or financial skills development. The problem is that many informal businesses do not contribute to the government's sector education and training authorities (SETAs) and are thus left out in the cold as far as receiving grants for formal skills training and development is concerned.

South Africa in the 21st century aims to become a key role player in the economies of the SADC countries as well as a player in the global economy. "A key objective of international economic relations would be to make South Africa's economy more competitive, particularly through seeking access to international know-how, new technology, and global trading and investment" (Venter & Landsberg 2006:251). However, to be successful and to fully participate in the global market, local businesses will benefit from managers and decision makers who are financially competent enough to participate in international trading and investment.

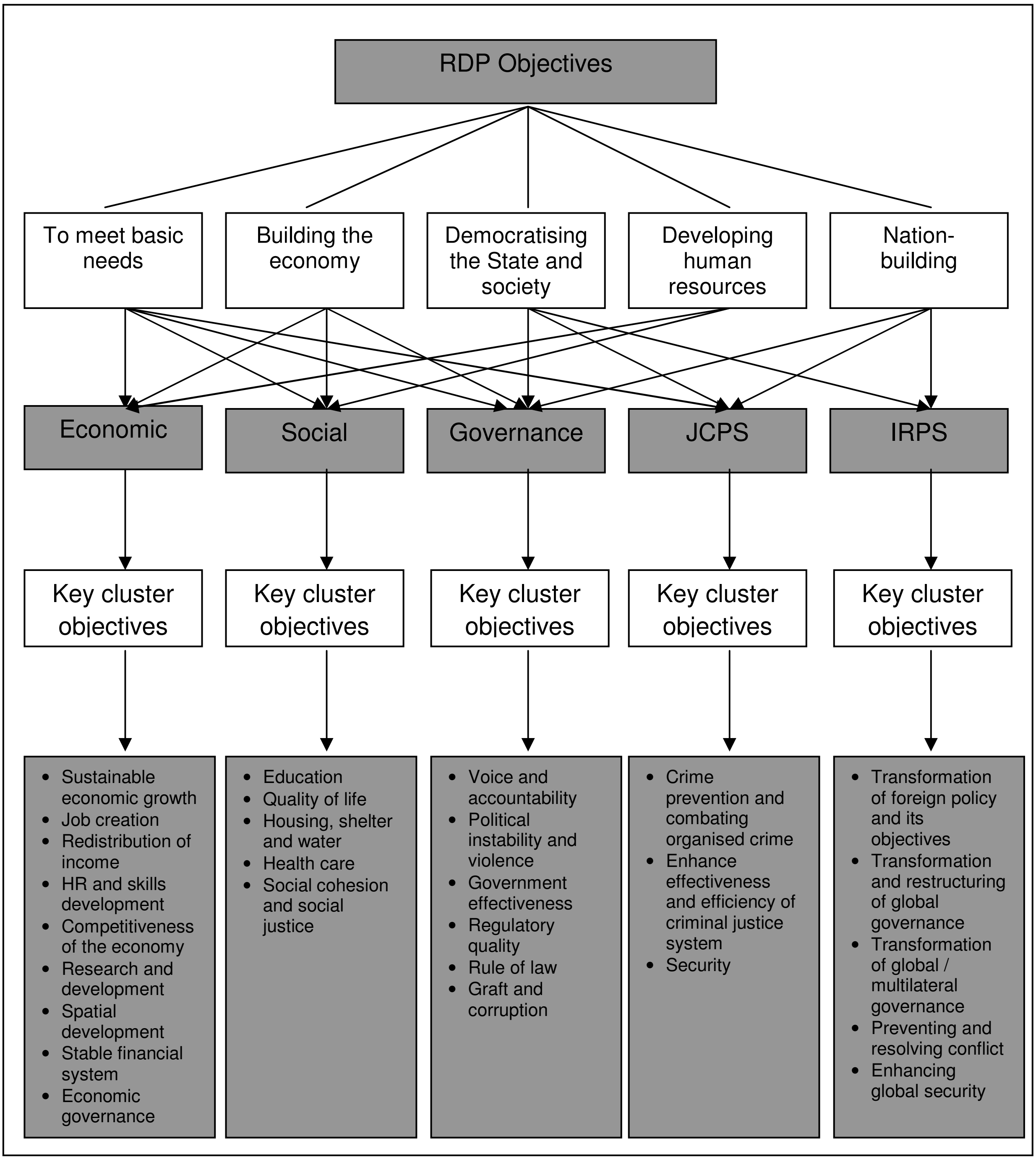
2.3 THE REQUIREMENTS FOR FINANCIAL LITERACY IN THE IMPLEMENTATION OF THE GOVERNMENT'S PROGRAMMES OF ACTION

In order to address the public's expectations for equal education, housing and social services after the transition to majority rule in 1994, the government of South Africa formulated two broad, macroeconomic policies. The first was known as the Reconstruction and Development Programme (RDP) of 1994. This programme focused on the demand side of the economy and dealt with the way in which wealth should be distributed. The RDP was the government's "first policy blueprint for tackling the country's huge historic inequalities and social backlogs …" (Bruggemans 2004:67). The second macroeconomic policy was known as the Growth, Employment and Redistribution Strategy of 1996 (Gear). Gear dealt with the supply side of the economy and was necessary to stimulate growth in order to realise the services envisaged in the RDP (Venter & Landsberg 2006:236). Although the aims of both these programmes are admirable, their achievement depends primarily on the expertise of those participating in the programmes. Huge amounts of money are necessary to implement these programmes, which in turn implies that people with financial acumen also needs to play a part in the financial management thereof.

Although Gear was based on free-market principles, with the emphasis on growth in employment, it was chiefly supported by three pieces of legislation - the Basic Conditions of Employment Act (1997), the Employment Equity Act (1998) and the Skills Development Act (1998) (Venter & Landsberg 2006:236). The introduction of these Acts can be regarded as intervention in the economy, but was justified on the basis that they were promulgated to broaden participation in the economy and redistribute wealth. Although these Acts confirm the government's commitment to improve the skills levels of the workforce, there is still a lack of skills in some critical areas, such as the financial disciplines. According to Van Eeden, Viviers and Venter (2004: 52), a lack of people with financial skills and management competencies influence small business success in South Africa. It follows that the skills shortage in the financial area cannot be alleviated merely by introducing new Acts, but rather by creating an awareness of the advantages of being financially skilled.

The RDP had the following key objectives, namely to (1) meet basic needs, (2) build the economy, (3) democratise the state and society, (4) developing human resources and (5) build the nation. These policy objectives of government were consolidated into the priorities of five Cabinet clusters as depicted in figure 2.1. Huge amounts of taxpayers' money are involved in achieving the objectives set by the RDP, which stresses the fact that its activities have major financial implications and responsibilities. One may therefore assume that these objectives of government can only be achieved if there are enough individuals who are competent in managing the money allocated to each one of these clusters in order to deliver the proposed services.

Figure 2.1: RDP objectives and the priorities of the five Cabinet clusters



Source: Towards a ten year review (2003:118)

As shown in figure 2.1, there are many cross-cutting issues in each of these clusters: (1) economic, investment and employment; (2) social; (3) governance and administration; (4) justice, crime prevention and security (JCPS) and (5) international relations, peace and security (IRPS) contribute to a number of broad RDP objectives. Although all the clusters presumably contribute to a better and improved standard of living for all the people of South Africa, the first three key cluster objectives as illustrated in figure 2.1 are of specific interest to this study. These key cluster objectives indicate, inter alia, the need for sustainable economic growth, skills development, education, governance and accountability. Sustainable economic growth is only possible if there are enough skilled individuals to govern and manage the institutions responsible for service delivery. One would presume that to achieve the set objectives of these clusters, each and every decision taken has financial implications. Government therefore needs at least financially literate public servants to accomplish the remarkable goals set by the RDP, GEAR and other programmes.

Some of the key objectives of the *economic cluster* (see fig 2.1) are job creation, the elimination of poverty, the reduction of inequality and the overall sustainable economic wealth. According to Beinhocker (2005:318), "wealth is knowledge and its origin is evolution". Hence to achieve the objective of sustainable economic wealth, acquisition of knowledge, including financial knowledge, is imperative. Although macroeconomic stability lays the foundation for economic growth, especially that of increased investment, the growth in employment opportunities and skilled employees is a prerequisite for this cluster to reach its set objectives. While many unskilled workers are unemployed, there is a shortage of suitably skilled workers in, for instance, the financial services, information and communication technology skills (Towards a ten year review 2003:36). One of the actions of the economic cluster was the establishment of the Joint Initiative on Priority Skills Acquisition (JIPSA) to recruit and retain high priority skills in the labour market. It follows that although there may be a large reservoir of young unemployed matriculates or even graduates, their expertise may be in subjects that fail to prepare them for employment where financial knowledge is a vital prerequisite.

The *social cluster* as depicted in figure 2.1, in turn, deals mostly with the improvement of basic living conditions, social cohesion and education. The money spent on programmes to achieve these goals has to be managed, on the one hand, and people who are then placed in a better social and financial position through these programmes, on the other also need to know how to manage their financial resources in order to maintain their living conditions. Although the different programmes addressing income, human resources and poverty have already shown some improvement (Towards a ten year review 2003:31), priorities such as the implementation of the National Skills Development Strategy (NSDS) and the improvement of general education, need to be addressed. In this regard, ASGISA was established to reduce the country's unemployment levels (State of the Nation Address 2006:10) which, in turn, will alleviate the state of poverty in some societies. This will only be possible if the education system can deliver people who attain sought after skills, including certain financial skills. The key aspect of education and its impact on financial education, however, will be discussed in more detail in the next section.

Four of the RDP objectives (to meet basic needs, to build the economy, to democratise the state and society and to build the nation) cross-cut to the *governance* cluster (see fig 2.1). The inclusion of government effectiveness, regulatory quality and accountability into the governance key cluster objectives, has indicated government's good intentions to properly manage the resources at its disposal. These intentions led to the introduction of a new constitutional and legislative framework during the first years of the democratic state. The implementation of, inter alia, the PFMA, further improved accountability in public entities and government as a whole. The Act emphasises the significance of good management and accountability and recognises the importance of sound information for good management practices. The objectives of the PFMA can be summarised as follows: to secure transparency, accountability and sound management of the revenue, expenditure, assets and liabilities of the institutions to which it applies (PFMA

1999). This leads one to believe that the officials and executives responsible for the management of the public entity need to have the financial acumen to achieve these PFMA objectives. In addition, the first King Report in 1994 and the second King Report in 2002 also led to a renewed effort to ensure that the boards and management of companies and public entities act in the best interest of all stakeholders (the King Report 2002). However, good governance requires that people who are accountable or even liable when acting in executive positions, at least have enough financial savvy to properly manage the entity's resources and know when to question the numbers presented to them in financial reports.

It follows from the above that although government operates in different clusters, to succeed in fulfilling its key cluster objectives, the clusters have to interact with one another to reach the main objectives of the RDP. At the basis of all these programmes are the alleviation of poverty, job creation and business empowerment to create a better life for all. The then, president Mbeki, stated the following in his State of the Nation Address (2006): "to meet our objectives, we will have to pay particular attention to the issue of scarce skills that will negatively affect the capacity of both the public and private sectors to meet the goals set by ASGISA". Consequently, to meet all the mentioned development objectives and to build the nation's social fabric, individuals who have financial knowledge and skills will contribute vastly to manage programmes and institutions in such a way that they can be accountable for the public money at their disposal.

2.4 THE IMPACT OF THE SOUTH AFRICAN EDUCATION SYSTEM ON FINANCIAL LITERACY

Although there are many social, economic and political prerequisites to obtain full employment in a country, the education system is often blamed for the state of unemployment. In the foreword to Dorrian (2005:xii), Clem Sunter emphatically states that "the principal responsibility of any nation is to foster its own talent and improve its education system. Education and more education is the foremost characteristic of any winning nation." Paragraph 29 of the Bill of Rights contained in the Constitution, states that everyone has the right to a basic education, including adult basic education and further education, which the State must progressively make available and accessible.

The South African education system had to make the transition from an education system based on race exclusivity in the pre-1994 dispensation, to not only a nonracial system of education, but also to a globalised education system. Apart from its apartheid heritage, education in South Africa also had to face the wide range of cultural backgrounds and language differences of learners before it could even contemplate the needs of a globalised, highly technical financial educational environment. Hence an overview of education in the pre-1994 dispensation is required before one can discuss the impact of the post-1994 education system on financial literacy.

2.4.1 Education in the pre-1994 dispensation

It is not the purpose of this study to discuss the education system in detail, but to view how the system impacted on the financial literacy and numeracy skills of the learners in this dispensation.

Prior to the 1994 elections, there were 19 education departments (Kallaway 2002:212). The curriculum of the different education departments was biased in terms of race and gender and was mainly aimed at providing the economy with unskilled migrant labour. According to Gaitskell, "for most of the 1950s and 1960s, the school curriculum for African primary schools was based on minimum literacy skills, plus sewing and housecraft for girls and woodwork and gardening for boys" (Emerging voices 2005:97). The perception has been that during the pre-1994 period, "all good quality education was the sole property of schools for whites, in white residential areas, beyond the reach of non-white students" (Du Plessis 2001:65). As a result of these inequalities and discriminatory policies, a huge portion of the current adult population of the country was deprived of acquiring quality education and, in many instances, never had the opportunity to take subjects such as Mathematics and Accounting, both of which contribute to acquisition of numeracy and financial literacy skills.

2.4.2 Education in the post-1994 dispensation

After assuming power in 1994, the government consolidated the different departments of education into nine nonracial provincial education departments and extended the number of years of free and compulsory education for everyone to 10 years. Before embarking on a discussion of financial education at school, tertiary and adult level it is necessary to view formal education in South Africa in its broader context. Formal education in the country is categorised in the National Qualifications Framework (NQF) according to three levels:

(1) General Education and Training (GET)
(2) Further Education and Training (FET)
(3) Higher Education and Training (HET)

The GET band consists of the receptive year (grade R) and learners up to grade 9, as well as an equivalent Adult Basic Education and Training (ABET) qualification. The FET band consists of grades 10 to 12 in schools and all education and training from the NQF levels 2 to 4 (equivalent to grades 10 to 12 in schools) and the N1 to N6 in FET colleges. The HET band consists of a range of degrees, diplomas and certificates up to and including postdoctoral degrees. Financial education in the GET, FET and HET bands will be discussed in the next subsection.

2.4.2.1 Financial literacy at school level

General school education (GET) consists of three phases, namely the Foundation Phase (grades 1 to 3), Intermediate Phase (grades 4 to 6) and Senior Phase (grades 7 to 9). The Foundation Phase currently comprises three learning programmes, namely Literacy, Numeracy and Life Skills. During the

Intermediate Phase, schools decide on the nature and number of learning programmes on the basis of the resources available to the school, but these should be drawn from the learning areas offered in the Senior Phase (South Africa Yearbook 2005/06:217). These are: Languages, Mathematics, Arts and Culture, Life Orientation, Social Sciences, Natural Sciences, Economic and Management Sciences and Technology. Learners enter the FET band which provides learning and training for grades 10 to 12, on completion of the compulsory phase of education in grade 9 or via the ABET route.

The different school curriculums were reviewed to establish whether currently basic financial literacy education is included. Apart from the Mathematical and Economic and Management Sciences Learning Areas, brief references to numeracy and costs (financial implications) were found in the Grade R to Grade 9 Technology, Natural Sciences, and Arts and Culture learning areas. According to the Revised National Curriculum Statement (NCS) Grades R-9 Policy (C2005 2002), the Mathematical Learning Area in this phase, includes some learning areas that can serve as foundation for financial literacy education:

- *Numbers, operations and relationships*

  Because numbers and calculations are an integral part of financial education, this learning area can be regarded as a vital basis towards financial literacy education. The understanding of how to determine and interpret relationships, for example, certain performance indicators, is equally important.
- *Patterns, functions and algebra*

  The aptitude to identify certain patterns and functions of numbers adds to the learners' ability to use financial information provided in certain formats and can serve as a basis for learners in eventually becoming financially literate.

- *Measurement*

  To be able to measure or have the ability to ascribe value to something is an important part of any financial education and constitute proficiencies necessary in becoming financially literate.
- *Data handling*

  Learning how to capture data or to keep proper records enhances the learner's ability to provide information. Data are processed into information and because information is important for decision making, knowledge of data handling is a necessary prerequisite in financial literacy education.

Of particular interest to this study are Learning Outcomes 1 to 5 of the above-mentioned Mathematical Learning Area, in which learners are supposed to learn how to recognise, describe and represent numbers and relationships, to critically analyse and interpret data and to be able to draw conclusions and make predictions. If these learning outcomes can be achieved, they may well serve as a basis for financial education. This basis in numeracy and problem solving techniques properly linked to the Economic and Management Sciences Learning Area, will contribute greatly to learners' ability to analyse and interpret financial information where numeracy, relationships and data interpretation are of great significance.

The purpose of the Economic and Management Sciences (EMS) Learning Area (Grade R-9) is to equip learners with the knowledge, skills, values and attitudes that will enable them to adapt, participate and survive in an economically complex society (C2005 2002). Most of the aims of the EMS can also be seen as a vital basis for financial literacy education. According to C2005, the learning area aims to enable learners, inter alia, to:

- *Become economically literate*

  Decision makers need economic literacy or general knowledge about economic functions if they wish to operate effectively in the workplace or even make personal financial decisions.

- *Understand and apply economic and management principles and concepts in a responsible and accountable way*

Financial decisions can hardly be made if the principles of, say, inflation, interest rates and recession, are not taken into account and understood. Accountable decision makers do not take decisions without taking the bigger economic picture into account.

- *Understand and reflect critically on the wealth creation process*

Wealth can be measured in a variety of ways. The way in which wealth is created or increased, according to Beinhocker (2005: 4-5) is one of the most important and oldest questions in economics. It will be useful if learners can at least measure their own wealth and reflect on wealth creation with regard to their own economic activities.

- *Understand and promote the importance of savings and investments for economic development*

Knowledge on savings and investments can be regarded as fundamental in financial literacy education. Different modes of savings and investments, which ultimately lead to capital formation, can already be introduced at an early stage of financial literacy education.

- *Understand the impact of economic activities on human, natural and financial resources and socioeconomic systems*

Most, if not all economic activities have both financial and social consequences. A decision to produce a certain product must take into account the effect that this may have on natural resources, or on the labour force.

Notwithstanding the above-mentioned outcomes of the EMS Learning Area, research has shown that few school leavers are able to properly plan and manage their finances and some are even totally ignorant about how to utilise financial resources when they enter the labour market (Van Rooyen 2007:1; Swart 2003:16). To enhance school leavers' financial knowledge, the JSE partnered with the Department of Education to provide an "in-depth financial literacy curriculum to Grade 9 and 10 pupils in 250 schools in Gauteng"

(Dlamini 2008). Another example where the private sector became involved to counterbalance this lack in financial skills, is the *Rapport*, Standard Bank and Master Card project (*Money skills for learners*) to enhance learners' money skills and prepare them to make better financial decisions.

Although the Foundation and Intermediate phases of the EMS learning area are economically more generally oriented, they provide a solid basis for the introduction of the financial concepts and techniques necessary for acquiring more specific financial education in the Senior Phase. A problem in both these phases is that there is a major difference in the capacity of individual teachers to implement the Department's programmes for the management and economic sciences. The good news, however, is that up to 2004, initiatives such as the Standard Bank Foundation invested in approximately 10 000 of the nearly 29 000 schools in South Africa in the area of material development and capacity building of teachers in these subjects (Piprek et al 2004:20). The Bankseta in partnership with the Department of Education: Eastern Cape and the South African Institute of Chartered Accountants' (SAICA) Thuthuka programme, are trying to improve the skills levels of educators in subjects, such as, Mathematics, Accounting, English and science (Bankseta 2008:1). If the majority of teachers can be better equipped, they will hopefully produce individuals who have not only mastered basic financial principles and accounting techniques, but who can also relate these to the economy as a whole and who will eventually become financially literate participants in the economy.

Apart from Mathematics, which is a vital element in the curriculum of a grade 10 to 12 learner who intends to pursue a career in business, the subjects, Business Studies and Economics, will also contribute positively to such a career. However, the Accounting subject can also be regarded as an essential subject in the make-up of any individual, irrespective of the career he or she wishes to pursue. This claim is based on the purpose statement of Accounting as stated in the NCS. According to the NCS (2003), the subject of Accounting "develops learner's knowledge, skills, values, attitudes and ability to make meaningful and informed personal and collaborative financial decisions in economic and social environments". Although these outcomes are in line with the kind of outcomes envisaged for a financial literacy curriculum, the subject currently tends to focus more on the technical aspects of recording transactions and the disclosure of its results and not as much on developing values, attitudes and the ability to make financial decisions.

Subjects relating to finance, the business environment as well as mathematics usually enhance the chances of employment in the economic world. Claxton (1999:274) concurs that "it is equally widely accepted, around the globe, that schooling in general is very far from delivering the quality of education that is needed. Even in many industrialised nations, basic levels of literacy and numeracy are unacceptably low". The reason for this, according to Claxton (1999: 341), is that many schools focus too much on achievement, exercise only the students' intellectual capabilities and deprive children of sustained opportunities to grapple with real difficulties and challenges. "Even in their own terms, schools are not very successful at establishing the bases of literacy, numeracy and rationality, and at the same time, may unwittingly undermine resilience" (Claxton 1999:341). It follows that subjects such as Accounting, Mathematics and/or Economics contribute to preparing students for a career in business or to enable them to make better personal financial choices. However, for those who do not wish to have a career in business, a basic financial literacy course, encompassing elements from the mentioned three subjects, could be contemplated as part of the school curriculum.

Apart from a need for basic financial literacy education for everyone, the economy could also do with learners who will eventually become financial experts and pursue a career in finance or accounting. According to Ignatius Sehoole, executive president of SAICA, there is a dire need for chartered accountants (CAs), specifically black CAs, to fuel economic growth. SAICA therefore initiated the Thuthuka Education programme to, inter alia*,* enhance the mathematical skills of students at matric level (Sehoole 2006:82). Although the Thuthuka Programme seems to be having a positive impact on the Mathematics, Accounting and English results at school level, the initiation of more similar programmes could encourage learners to choose Accounting as a grade 12 subject, especially if they are considering a business career.

2.4.2.2 Financial literacy at tertiary level

Tertiary educational institutions have a decisive role to play in providing the vocational and technological training of future leaders in developing countries. Delors (1998:27) regards higher education (HE) institutions as scientific establishments and centres of learning offering occupational qualifications, combining high-level knowledge and skills, with courses and content continually tailored to the needs of the economy. However, one of the main drawbacks of these institutions is that there is a tendency to train students to the demands of certain professional practices alone and to emphasise practical applicable skills at the cost of intellectual formation (Rossouw 2006:4). A subject such as Accounting, in which a great deal of time is spent teaching the technical aspects of recording transactions and how to disclose the results thereof, may fail to also focus on intellectual formation. Intellectual formation inculcates a spirit of inquisitiveness and critical reasoning that is necessary for decision making in a changing economic environment. One could argue that in order to prepare students for a profession in the business world or even only to participate in business activities, HE institutions also have to provide graduates not only with technical subject-related financial knowledge, but also with an enquiring mind, ethical values and a social consciousness. They have to be taught that financial decisions could also have social, ethical or environmental consequences.

Again, as in the case of school education, the subject choice in the HE phase could be constitutive of the career opportunities for the student. One could therefore assume, for example, that an introductory financial course could be to the advantage of students in any field of study since it could add to the business and financial competencies of the qualified individual. The problem with introductory financial education, especially accounting education, however, is that it is “too abstract, stripped of all the ingredients that are in concrete experience: emotion, needs, values, character, etc” (Slabbert & Gouws 2006:337). In particular, this will pose a problem for students not pursuing a career in accounting, for they will find the subject intimidating and removed from the practical realities of the business world. One could infer that there is a need for an introductory financial course that would develop all students’ numeracy and financial abilities to empower them to make their own basic financial decisions without the assistance of a financial expert. It is a fact that numeracy and literacy are building blocks for success in most professions and should therefore enjoy a great deal of attention (Aan die voorpunt … 2006:84). The contention is that numeracy and literacy education is necessary to prepare students for any profession and, in turn, is fundamental to the process of becoming financially literate.

2.4.2.3 Adult education in financial literacy

Adult illiteracy has been a great concern not only in South Africa, but also worldwide. According to Claxton (1999:274-275): “Globally there are estimated to be nearly 900 million adult illiterates. In Britain almost 15 percent of school-leavers and adults have limited literacy skills, while 20 percent of adults have limited numeracy skills”. Britain’s Education and Skills Secretary, Ruth Kelly, confirms that too many British adults lack the basic literacy and numeracy skills employers demand (Russell 2005:8). According to the 2001 Census, at least four million South Africans in the 20 years-and-over age group had no schooling at all, while another four million had limited schooling at primary school level (South Africa Yearbook 2005/06:222). One could therefore infer that eight million South Africans (2001 Census) did not acquire basic financial literacy teaching through the formal schooling process. Although they could have acquired financial skills through work experience, the country still lacks people with adequate financial knowledge to sustain the economic growth rate envisaged by government.

The adult literacy rate in any country is a primary outcome indicator for education and basically refers to the portion of the population over 15 years that can read and write in one language. Thus if approximately 71% of the population over 20 years has not completed secondary schooling, this could have a significant human capital impact on employment (Towards a ten year review 2003:20). This implies that they also did not have access to any financial or business-related subjects. The problem is that this not only has an impact on the workforce, but also on the self-esteem of the nation as a whole. "The fundamental problem of adult illiteracy and innumeracy is not so much that people have not acquired these skills. It is that they have come to believe they cannot" do it (Claxton 1999:275). Hence, as a starting point, programmes in numeracy and financial literacy for adults would have to focus on building learners' self-esteem and their "believe" that they have the potential to become competent in financial matters.

Government intervention led to various legislative measures, programmes and funding to improve the provision and delivery of adult basic education and training. Government's commitment to adult education is reflected in Minister Manuel's Budget Speech for 2007, where the National Department of Education receives a further R850 million for a step-up in its adult basic education and training programmes (Manuel 2007). The SETA for Finance, Accounting, Management Consulting and Other Financial Services (Fasset) has also allocated funding for the delivery of an ABET programme for the financial sector (Fasset 2008). The high unemployment figures in the country, however, are a clear indication that many individuals are still excluded from the formal economy. One possible reason is that they do not have the means, on the one hand, or the faith in themselves, on the other, to enrol for these and other similar courses to prepare them for a career in the public or private sector. In becoming more financially literate, financial education would help to provide them with confidence to engage in financial activities and thereby get better access to financial services and employment opportunities.

2.5 OTHER FINANCIAL LITERACY PROGRAMME INITIATIVES IN SOUTH AFRICA

The time constraint in today's fast-paced work environment necessitates the development of shorter, more informal learning programmes to empower the nation. Dorrian (2005:15) argues that "put into the context of the 'brain drain', the South African government has a moral responsibility to create the kind of environment that attracts and retains a calibre of human capital that is nothing short of world class". The Organisation for Economic Cooperation and Development (OECD) also recommends that financial education should be considered as a tool to promote economic growth and stability (OECD 2005). Therefore, besides recruiting skilled employees, it is the responsibility of both the private and public sector to initiate programmes to uplift the financial knowledge and self-esteem of the existing workforce to promote economic growth and stability.

Whereas chapter 3 of this study will also refer to international financial literacy programmes, reference in this chapter will be to South African financial literacy initiatives and programmes only. As part of the general upliftment of skills in the country, the deputy president initiated the Joint Initiative on Priority Skills Acquisition (JIPSA). She stated in this regard that "skills shortages are not just one of the constraints facing the governments accelerated growth initiative but it is a potentially fatal restraint" (Hutton-Wilson 2006:4). Financial illiteracy could be regarded as such a potentially fatal restraint in economic growth in the country. Some of the main principles of the adjusted National Skills Development Strategy (NSDS) 2005–2010 are to support economic growth for employment and poverty eradication, to promote accelerated BBBEE and EE and advance the culture of excellence in skills development and lifelong learning. SETAs were established to facilitate skills development in the different economic sectors, including the financial and accounting sector.

The 23 SETAs are supposed to identify critical skills shortages in their sectors and facilitate skills development in these areas. The Financial and Accounting Services SETA (Fasset) introduced new social development programmes in finance and business. These are, for example, the Chartered Institute of Management Accounting (CIMA) Tirisano II Learnership Project, the Thuthuka Work Readiness Programme, the Stan Hutcheson and Associates (SHA) Work Readiness Programme and the Public Accountants and Auditors Board (PAAB) Work Readiness Programme (Staff reporter 2005:62). These programmes, however, focus more on individuals pursuing some kind of career in finance. Although this is a major step in the right direction for the already more financial literate employees, it would be to the advantage of all the other sectors if their SETAs were to contribute to their financial literacy status by way of financial or business literacy programmes. Although both the Insurance SETA (Inseta) and the Banking SETA (BankSeta) indicated that they have specific programmes in financial or consumer literacy (Piprek et al 2004:31), there is still a need for programmes to enhance the financial literacy of decision makers in all organisations.

ECI*Africa* conducted a study on financial literacy programmes in South Africa on behalf of FinMark Trust. The final report was published in March 2004 under the title: *Financial literacy scoping study and strategic project*. According to the authors of this Report, despite multiple financial literacy initiatives, South Africans remain largely underserved by programmes offering financial education (Piprek et al 2004:iii). The FinMark Trust study indicated a high level of "confusion" about financial matters, even among fully banked individuals, and 45% indicated a level of confusion about financial matters. This percentage increases to 60% of the respondents without bank accounts, which is an indication that the lower-income households and pensioners remain the most vulnerable to, inter alia, lack of financial planning and exploitative schemes (Piprek et al 2004:1). These high percentages of uncertainty or confusion with regard to financial matters confirm that there is still a problem with regard to financial capacity building and that there is a continuous challenge to provide more financial literacy programmes or a more specific fit for purpose financial education.

To ensure consistency in the standard of programmes developed, programme developers have to accredit their programmes with the NQF embodied in the South African Qualifications Authority (SAQA). Some of the unit standards for financial literacy registered at SAQA include the following: “Develop a business plan for a small business” (level 4), “Investigate ways of managing financial risk in own lives” (level 4), “Interpret basic financial statements” (level 4), “Describe the financial life cycle of an individual” (level 5), and “Describe the basic principles of personal income tax” (level 4). A comprehensive list of unit standards for financial literacy can be obtained from the SAQA website. Some of the private institutions that do provide accredited financial literacy programmes are: First National Bank (FNB), the READ Trust and the Microfinance Regulatory Council (MFRC) (Piprek et al 2004:34). In a country with such a diverse workforce, the role of multimedia, in-house, tailor-made and community-based initiatives, even if they are not accredited, are vital in educating the masses on financial matters. According to the FinMark study, the providers of financial education in South Africa are divided into four broad categories (Piprek et al 2004: 18). A summary of these programmes and their financial education scope is presented in table 2.1.

Table 2.1: Summary of financial literacy programmes in South Africa

Main providers	**Programme initiatives by:**	**Type of programme:**
The government	- The Department of Education - The Department of Housing - The Department of Trade and Industry (DTI) - Department of Labour (SETAs)	- Formal school education - Housing consumer programme - Broader consumer rights - Learnerships through the NSDS
The financial industry	- National or broad industry level, eg Financial Services Board (FSB) and MongiMali - Sector level, eg LOA, SAIBA, SAIA, SACCOL, MFRC, MLA and SASI	- FSB: collaborative initiative of financial literacy. MongiMali: inform consumers on debt - Consumer literacy programmes Borrower rights programmes and education on prudent financial management

	- Institutional level, eg banks, insurers, assurers, funeral schemes - Corporate Foundations, eg Teba Bank, African Bank's Money School, Standard Bank Foundation	- Broad-based financial literacy programmes, client oriented. Classroom-based financial literacy programme – FNB - Broad-based financial literacy programmes on indebtness. Life skills enrichment: savings and good personal money management
Nonprofit organisations	- You and Your Money (NGO) - Consumer bodies - Vuka Trust, Read Trust - Unions	- Indebt counselling - Consumer rights and protection - Financial intelligence training, community-based training - Limited financial literacy initiatives
The housing sector	- Home Loan Guarantee Company (HLGC) - The Rural Housing Loan Fund - The National Department of Housing	- Training on home ownership for bond applicants - Financial implications of owning a home - Empower consumers on housing options (through HLGC)
Private companies	- Summit Financial Partners - Vukani Africa Investment Management Services - Ikhumiseng Consulting	- Employee-based programmes on general financial wellness - Transform African clients from consumers to investors - Employee-based training, eg debt management programme

Source: Own summary from the FinMark Report (Piprek et al 2004:18-34)

Despite the numerous programmes listed in table 2.1 and even those not mentioned, the outreach is mostly limited to financial education for consumers, pertaining to personal finances and individuals with a high debt level. The debt management programmes seems to be reactive and product oriented with few broad-based financial literacy programmes in place (Piprek et al 2004:35). Although it is essential for consumers to be financially literate, the scope of this study is not on consumers, but on the financial capabilities of individuals in management, executive or other decision-making positions. From the above summary, one could infer that there is a shortage of programmes in South Africa to introduce decision makers in organisations to the arcane world of finance.

2.6 FINANCIAL LITERACY CHALLENGES IN SOUTH AFRICA

The financial literacy challenges in South Africa can only be addressed if there is a shift in the attitude of all prospective and present economically active citizens towards their ability to become financially literate. According to Claxton (1999:6), “too many people believe that, if they find something difficult, it means they are lacking in intelligence, rather than simply that they haven’t yet developed, or retrieved, the right learning tool”. People’s fears of any subject in which numbers and figures comprise the main component of the syllabus can already develop during their school careers. At tertiary level, the pass rate in subjects such as Accounting and Economics does not encourage students not wishing to pursue a specific career in these disciplines to enrol for them. Another argument is that some individuals could be more interested in social sciences, whereas others might be more interested in the financial and mathematical fields. Clearly individuals as well as cultural groups differ in their preferences and the way they perceive certain subjects or professions, as will be discussed in the next subsection.

2.6.1 Cultural diversity

Different cultural backgrounds influence the thinking and actions of people, the way they react to situations or even the way they do business. The interaction between individuals from diverse cultural backgrounds assures resilience in their thinking and actions. “Notions of ‘tradition’ and ‘culture’ do frame historical consciousness and generate modalities for social action” (Kallaway 2002:271). This was evident when the *ubuntu* concept was incorporated into the new South African democratic, capitalist dispensation. For example, Venter (2005:40) states the following: “The elections of 1994 have transformed South Africa from a white-dominated political order to a black-dominated political order, with egalitarianism deemed more important than individualism.” A country with 11 official languages will obviously boast many different cultures among the different social groups, and these differences also need to be accommodated in they way business is done in the country. Financial education needs to take cognisance of the cultural diversity of individuals seeking financial training. As a starting point, one could establish whether different cultural groups attach different meanings to certain financial concepts.

An added diversity is seen in the way women are treated in different cultural groupings. Because of some African customary laws, it is more difficult for women to be empowered for bargaining with men in households and local communities (Allen 2006:189). Many women, especially those in rural areas, lack financial skills because they were traditionally deprived of opportunities to participate in the formal economy, let alone afforded the opportunity to gain financial education. Women's entrepreneurial skills also need to be enhanced by involving them in economic activities and encouraging them to participate in financial literacy tutoring programmes.

In some instances, it may be difficult to relate African traditional forms of subsistence production and communal ways of lending and savings (stokvels) to the ways of a global economy. According to Allen (2006:190): "Global market culture is expanding everywhere at the expense of traditional cultures and religions." If individual entrepreneurs and whole communities are capacitated to not only produce more than they consume, but also to sell more than they buy from the open market, becoming more adept in handling the financial side of their growing businesses is crucial. This means that they at least have to learn and understand the financial language and mechanisms used in doing business in the local and global arena.

In the sociopolitical context of the country, managers need to manage cultural diversity in their organisations, especially the way different cultures perceive certain financial concepts such as profit, capital and individual ownership. According to Booyzen (2005/2006:12), the ultimate aim of diversity management is to empower all staff members and to ensure that with social reconciliation, diversity becomes an actual resource and strength of the organisation. Consequently, this challenge can only be met if skills transfer and financial mentorship programmes are initiated to capacitate the entire workforce to understand the organisation's financial goals and objectives without alienating people from different cultural backgrounds.

2.6.2 Loss of human capital

Human capital can be lost in various ways. If people are not properly educated, their potential intellectual contribution to society is lost. If people emigrate or die, the loss of human capital is irreversible and irreplaceable. If those who emigrate are also those with financial knowledge and experience, the scarcity of financially educated individuals increases even more. This phenomenon is especially problematic for developing nations because they already have a scarcity of skilled professionals, especially in the financial area. When trained individuals leave a country permanently (the brain drain) a huge investment in higher education is also lost, which places an added burden on, for example, higher education institutions to educate even more people than usual. According to Bennett (2003), 40% of African professionals live outside the continent. The loss of financially learned individuals in top executive positions makes sustainable economic and environmental development on the continent even harder.

Another issue contributing to the loss of human capital is the negative impact of the HIV/AIDS pandemic on workforce numbers. It is predicted that HIV/AIDS will have a devastating effect on the South African economy in general and on individual businesses specifically. Apart from factors such as decreased productivity, increased overhead costs, reduced profitability and diminished investor confidence, HIV/AIDS will also result in a reduction of the overall available skills base (The King Report 2002:109). Randall (2002:86) confirms this by listing one of the impacts of HIV/AIDS on business as follows: "Increased labour turnover, leading to a loss of skills, knowledge and experience, and consequently declining morale and lower productivity". Consequently, apart from increased administration costs, continuous replacements will also result in increased training and skills development costs. In view of the existing shortage of financially knowledgeable individuals, this pandemic will place an additional burden on organisations' training budget to ensure that they have a financially literate workforce.

The economic and social consequences of the HIV/AIDS pandemic are catastrophic, according to the United Nations, it is projected that the life expectancy should decline in most affected countries, inter alia, South Africa, to 45 years between 2005 and 2010 (Cling 2001:128-129). If one assumes that most corporate leaders and managers fall more or less into the 40 to 50 age category, there will be a huge need for succession planning, especially in respect of company or public entity decision makers. Organisations will eventually have to train more people, especially in financial and management skills.

2.6.3 Transformation and empowerment

The primary goal of transformation is to make both the private and public sectors more representative of the demographic composition of the nation. In the public sector, government, for example, introduced severance packages for employees. This resulted in a reduction of the dominance of white males in the higher management positions specifically. The considerable loss in financial skills and experience, inter alia, had an adverse affect, on "... the ability of the public service to function efficiently in the short term" (Venter & Landsberg 2006:84). They contend that long-term negative consequences are "also possible if stringent measures are not undertaken to develop the necessary skills and capacity which is an essential component of modern-day government". Financial knowledge and know-how are considered to be one of the skills necessary to capacitate employees, especially those in management and decision-making positions to fulfil their tasks. Coetzer (2005:41) confirms that "a rapid developing society and economy in which transformation has a central role there is a big need for directors – many of whom are fresh to the role – to be skilled for their functions on boards of companies". Hence, transformation calls for measures to ensure that employees at all decision-making levels in both the public and private sector are financially literate enough to function according to their position of responsibility.

One of the challenges of empowering individuals financially lies not only in the successful transfer of property, but also in the transfer of financial competencies. Minister Trevor Manuel mentioned that “empowerment is also about broadening participation in management, it is about skills and human development, it is about procurement practices and it is about social responsibility investment” (Manuel 2004). Participation in management, however, is only possible if the managers are financially competent to make decisions and realise the affect thereof on the organisation and society. It is all about being financially literate enough to fully participate in the economy. The Minister’s view that transformation and BEE can only be possible if the concerned individuals are financially empowered necessitates the introduction of financial education programmes by both the private and public sectors. Skills development is rightly one of the pillars of the BEE Scorecard. According to the *Learnership* indicator in the scorecard the “no-obligation ‘learn-while-you-work contracts are thought to be an ideal way to provide new market entrants with the experience they require, particularly in areas where there is a scarcity of black skills such as accounting” (FNB 2008). Organisations can therefore make a meaningful contribution empowering their employees by implementing financial learnership programmes.

Of late, the transferral of company shares to previously disadvantaged people has enjoyed much attention in the media. Although the idea is to ensure a more even distribution of wealth in the country, the transfer of ownership needs to be handled with care. In this regard, Nedbank’s Lot Ndlovu comments that although it is desirable that ownership through black economic empowerment should provide as many people as possible with shares, a skilled and knowledgeable owner is still in a better position than unskilled owners (Jekwa 2006:26). Financially knowledgeable individuals will have a better perception of what their shares are worth and will be better equipped to contribute to the company's success, than shareholders with no financial acumen. If some of these new owners who may have excellent industry-related expertise, lack basic financial know-how, they could jeopardise the company's financial future by taking uninformed financial decisions.

Transformation in the financial sector, especially with regard to the recruitment of accountants and auditors, also poses a problem. In an interview with Cheryl James, CEO of Fasset, it was reported that the financial sector was rated second worst overall in terms of EE (Butcher 2005a:46-47). One of the reasons for this could be that few previously disadvantaged learners with higher grade Mathematics and/or Accounting as matriculation subjects are coming through the formal education system. This ultimately results in not enough students enrolling for degrees in the Accounting or Auditing study fields. Hence, for employment equity and transformation endeavours to succeed, the South African economy could do with not only financially literate individuals, but also professional accountants and auditors from previously disadvantaged groups.

2.6.4 Globalisation

Globalisation featured in many of the previous sections, but it is necessary to mention it as one of the financial literacy challenges in South Africa. The pre-1994 sanctions isolated South Africa's business community in many ways. With the new dispensation came a rapid integration into the global market, which opened local businesses to the outside world. Playing in the global arena has an effect on the way businesses think and how they change to accommodate foreign ideas and principles. Dorrian (2005:23) contends that "countries with global aspirations need to create and maintain a proper knowledge infrastructure". With regard to global economic participation, financial knowledge is one of the key resources that can help the country's economy grow. Doing business in a global environment can be intimidating when one does not have the financial knowledge and experience to deal with the intricate world of international business.

2.6.5 Interaction and engagement with the financial sector

Consumers, businesses and the public sector interact with the financial sector almost daily. However, access to financial services might, in some instances, be hampered because financially illiterate individuals find the terminology and calculations used by financial institutions hard to understand. The challenge to clients and prospective clients of banks and/or other money lending organisations is to understand, among other issues, the terms and conditions in their lending agreements. Clients have to take informed decisions about borrowing or investing money. The financial sector, on the other hand, also has to reduce the risk of lending money to uninformed and financially illiterate clients.

The financial sector committed itself to the development of a BEE Charter. The signatories of the Charter, comprising the major role players in the financial sector, undertook to invest from the effective date of the charter to 2008, a minimum of 0,2% of annual post-tax operating profits in the financial education of consumers. They are also committed to spending 1,5% of total basic payroll, over and above any skills levies payable, per annum on training of black employees (Financial Sector Charter 2003: par 5.5 & 8.4). It is imperative that financial literacy education should start with employees working in a financial institution and that they at least have financial knowledge and experience applicable to the sector. According to the Financial Sector Charter (2003: par 3), one of the challenges confronting the financial sector is the low levels of black participation, especially black women in meaningful ownership, management and high-level skilled positions in the sector, and that the pool of intellectual capital needs to be improved. High-level skilled positions in the financial sector will obviously require a pool of financially literate employees. This could only be done by attracting new entrants to the financial sector and by investing in the skills development and training of new black professionals and managers, especially in financial literacy.

As seen by the money they are prepared to spend on human resource development, financial institutions are committed to investing in the development of a broad-based and diverse pool of skills for the financial sector. The financial sector plays a critical role in promoting sustainable development by financing business activities and providing a lifeline for economic activities (Moyo & Rohan 2006:289). However, they will not be able to render these services if their own workforce is not at least skilled in financial matters. Some of these needed skills in the banking sector, for instance, are in the opinion of Butcher (2005b:78), “information technology, management and leadership, customer interface, specialist financial skills and legislative compliance”. If the workforce lacks financial literacy, they will find it difficult to eventually become financial specialists as suggested by Butcher. To intercept the shortage in financial skills, the Bankseta plans to develop learnerships in each of the mentioned areas, and many of these learnerships will target the unemployed and pre-employed youth. The financial sector leads by example in its commitment to the development of financial skills, not only with regard to its employees, but also of the consumers who need to interact with this sector.

2.7 NECESSARY FINANCIAL LITERACY CONDITIONS FOR SUSTAINABLE DEVELOPMENT IN SOUTH AFRICA

In order to become more competitive in the local and global markets, companies and public entities need to unlock the potential of all their people and create a confident workforce with a culture of lifelong learning. “On a national scale the successful economies, in the increasingly cut-throat global marketplace, will be those that find forms of education to produce workforces that are adaptable, innovative and all-round smart” (Claxton 1999:247). South Africa faces critical skills shortages in, inter alia, the financial and management fields of government and private companies. Moyo and Rohan (2006:289) contend that the “inaccessibility of financial services for both individuals and micro-enterprises is a fundamental impediment to progress towards sustainable development, particularly in Africa". Thus, to encourage sustainable development in South Africa it would be commendable if the leadership of today, in both the private and public sectors could do everything in their power to leave a legacy of informed financially literate individuals.

2.7.1 Unlocking the potential

To unlock the potential of a nation means much more than creating jobs and employing people. It is about empowering the employed to do the job well and enabling them to make enlightened decisions on the basis of their knowledge and experience. According to Ng'onga (1998:15) "Africa is the perennial tortoise in the world's race for social and economic development". Africa's own hurdles, such as a lack of skills and expertise in many fields, in the financial field too, hinder its economic development. Africa is a potentially wealthy continent in terms of natural resources and an abundance of human resources – but why is its social and economic development moving at such a slow pace? One could argue that Africa, in particular South Africa, has to create and maintain a proper financial knowledge infrastructure if it wishes to compete in the global economic race.

At a fundamental level, the development of an individual's potential starts with becoming both literate and numerate. To add to the dilemma, Onyeani (2000:83) states that Africans also "lack an understanding of economic history or business techniques". This lack of understanding of the economy and how to operate in the business world can only be addressed by perpetually investing in financial education. Literacy and numeracy are basic building blocks that will ultimately lead to empowerment and social upliftment, but individuals also need an understanding of the business environment. Mufuruki (2006:5) mentions that Africans refuse to invest in people and then wonder why they are forever dependent on others, and refuse to reward talent and wonder why there is so little of value created on the continent. If Africa is to become less dependent on others, it will have to unlock the financial potential of all its economically active people. People who have the necessary knowledge to participate fully in the economy become more fearless and creative; they become players in the business game and do not continue to be spectators.

2.7.2 Transparency and accountability

Transparency and accountability are two of the seven characteristics of good corporate governance listed by the King Report (2002:11-12). Corporate governance entails more than compliance with legislation - it is about creating a corporate culture and ethos in which fundamental values drive and guide the enterprise in all its stakeholder relationships (Armstrong 2002). Fundamental values are dependent on individuals who can make fair financial decisions. At the heart of sound stakeholder relationships lies financial accountability. Good governance in the private and public sector therefore needs leaders and decision makers who have the ability to make financial decisions and be accountable for these decisions. Accountability in the public sector expects of the decision makers to not only use public funds wisely but also to provide quality public services with the available resources. For instance, the security of life and property is a major gauge of a government's ability to provide sound governance, while the absence of it is an indication of other factors such as unemployment and an unhealthy gap in the distribution of wealth (Etuk 2003:130), which in turn could be indicative of shortcomings in the financial management of the entity. Okoye (2003:12) confirms that the "ultimate aim of governance is to secure the peaceful, harmonious and progressive existence of individuals in a given political entity". One may thus infer that to demonstrate good governance, financially accountable leaders in both the private and public sectors are imperative.

As in the rest of the world, South Africa has also had its fair share of corporate failures, for example, Masterbond, MacMed, Leisurenet, Regal Treasury and Fidentia. Governance scandals are not restricted to the private sector; the public sector is also prone to corruption and mismanagement. The arms-deal scandal is a case in point. According to Piti (2004:16), one of the key corporate governance issues underlying company failure is that board's fail to challenge chief executives and do not adopt a questioning and independent approach, allowing them to take timely action. If board members do not have a solid financial basis and do not always understand the information presented to them, they will lack confidence to challenge executive managers on financial issues. Nevertheless, with regard to fraud and corruption, "CEOs and boards will no longer be able to claim ignorance of material aspects of the companies whose shareholders they represent and will be called to account for their actions like any other criminal" (Mammatt 2005/2006:9). Thus, board members are not only responsible to stakeholders for the financial performance of an entity, but are also accountable for the way they achieve their performance targets. According to Sweeney (2004:22), "director education is emerging as a key component to good governance". Because directors or board members are financially liable and accountable, they can no longer be ignorant of the financial position and performance of their company or public entity. In gaining confidence to ask the right questions about the finances of the organisation, board members might be less prone to deception by outside parties.

South Africa is a changing society and economy, driven by transformation. Coetzer (2005:41) contends that out of necessity, transformation often results in more inexperienced directors being appointed to boards. Hence the problem is that "seasoned or green, directors are subject to the same level of personal liability for their decisions, and this is driving demand for director development". It follows that directors who are financially literate and those who are not, are both liable if the organisation fails because of financial mismanagement. Director development is not a luxury but an essential ingredient of good governance and accountability towards stakeholders.

2.7.3 Lifelong learning

In order to alleviate poverty and improve the general welfare of people, leaders in government and in the private sector would benefit from making a paradigm shift towards creating a financial literate society. Kroukamp (2004:23) states that “traditional productive factors seem to provide less and less added values whereas knowledge is perceived to be the main production factor of the future”. Knowledge as a productive factor includes financial knowledge. The management skills of political leaders, public servants and other office-bearers are going to be a determining factor in combating inadequacies in service delivery. It is imperative that the focus is on excellence in service delivery and sound financial management. Dorrian (2005:158) holds that “in any transformation process, re-education is often a critical factor in ensuring that employee skills can play a positive role in successful transformation”. Because of the changing economic situation, re-education, in financial matters, needs to be an ongoing process.

Lifelong learning in financial matters also implies that the new breed of managers and other decision makers should keep abreast of changes in the global business environment and adapt their financial training and education needs to the fast-paced work environment. South Africa preferably wants civil servants and executives who are not only equipped to meet the challenges in the country, but also the challenges of leadership on the continent. Mufuruki (2006:6) emphatically states that “Africa must over the next 20-30 years, work towards securing its future by deliberately investing in its people through better education, training and mentoring”. This includes education in all the financial aspects of the various organisations. Hence, South Africa will only be able to play a hegemony role on the continent if the continuous development of the country’s human capital resources becomes a priority.

2.7.4 South Africa and the African Renaissance

South Africa has a commitment to enhance the economic stability and the sustainable development of both the country and the continent. Economic stability, however, is only possible if decision makers have a clear understanding of the financial implications of their policies and decisions. If the financial resources are mismanaged by financially illiterate decision makers, everybody, especially the less fortunate, will suffer because of it. Minister Alec

Irwin stated in 1998 that South Africa's future in an increasingly globalised world economy is intrinsically linked to that of its neighbours. He added that "South Africa can hope neither to be an island of prosperity in a sea of poverty, nor to compete efficiently on the global market while ignoring its regional partners" (Cling 2001:141). One of the caveats to this view is that it is imperative for South Africans to acquire financial and business acumen, before they can even anticipate contributing to the financial growth of its neighbours. If South Africans lack the will to educate themselves in financial matters or government, and the private sector does not initiate and fund financial training, they will not be able to play a part in the development of the region.

Two of the initiatives in multilateralism in Africa have been the establishment of the African Union (AU) and the New Partnership for Africa's Development (NEPAD). Apart from promoting an African peer review mechanism, a political governance initiative and free and fair elections, NEPAD's programme of action includes investing in Africa's people through a comprehensive human resource strategy (Venter & Neuland 2005:278). The African Renaissance may be enhanced if a structure such as NEPAD develops the full capacity of Africa's people by promoting a sense of financial responsibility amongst the continent's decision makers. "NEPAD sought a paradigm of mutual accountability and mutual responsibility between Africa and its outside development partners to create the conditions for meaningful and sustainable development in Africa" (Venter & Landsberg 2006:258). While NEPAD's aims of accountability and mutual responsibility are laudable, they will be difficult to accomplish it if the role players do not have the financial knowledge and the will towards the good governance of NEPAD's programmes.

One of the South African Development Community's (SADC) objectives is to further enhance the standard of living of the people of Southern Africa and to support the socially disadvantaged through regional integration (Schoeman 2005:17). This objective demonstrates a serious desire to uplift the people of Africa and southern Africa in particular. Thus, for the African Renaissance to succeed, these desires have to lead to action and this will only be possible if the levels of financial education and knowledge of the people are appropriately enhanced.

2.8 A NEW CLASS OF DECISION MAKERS

Since the abolition of apartheid in 1994, South Africa has experienced a significant transition in the political arena as well as the business world. Where previously, company or public entity boards consisted mainly of a homogeneous group of white males with similar socioeconomic and educational backgrounds, these boards now have to be more representative of the demographic composition of the country. Swartz (2005:29) states unequivocally that “affirmative action and black economic empowerment practices have resulted in increased pressure for greater colour diversity on the boards of directors of South African publicly listed companies”. Dorrian (2005:159) maintains that this diversity in the South African workplace actually contributes to innovative thinking. Although this diversity brought a positive new dimension to these boards, it is necessary for their financial literacy levels to be up to speed, because most of the strategic decisions on board level have financial implications.

The lack of service delivery, especially in the public sector, has been frequently reported on. For example, the Auditor General reported in 2005 to the National Assembly that there is a chronic shortage of senior managers in the public service. “The pressure from government on the private sector to transform itself and to implement BEE, pulls competent black managerial staff from the state sector to the private sector, thus aggravating the problem of skills, especially management skills, in the public service” (Venter 2005:51). Good financial managers cannot be pulled out of the proverbial hat, but needs experience and expertise in his or her field, people skills and also financial knowledge. If individuals with some or most of these competencies are not available, especially in the public sector, it demonstrates that there is an urgent need for financial education to enhance the decision making.

2.8.1 Financial experts versus financially literate decision makers

There is no doubt that all decision makers cannot become financial experts, but a basic understanding of financial literacy in terms of one's own financial responsibility level would contribute acutely to the successful management of an organisation. The majority of board members or company directors serve on boards because they have expertise in fields other than finance. Coetzer (2005:41) confirms that "directors do not need to be experts in every area, but they need to be empowered to ask the right questions and demonstrate that they have properly applied their minds in making decisions". Although they cannot all be financial experts, they do at least have to acquire basic financial knowledge in order to contribute to the organisation's performance.

The King Report (2002) proposes the establishment of various committees to assist boards in their decision-making responsibilities. According to the King Report (2002: 29), each board should have an audit committee. Although board committees are established to assist the board with its duties and responsibilities, the ultimate responsibility remains with the board. The draft Companies Amendment Bill 2005, the Public Finance Management Act 1999 (PFMA), Treasury Regulations and the Protocol on Corporate Governance in the Public Sector also provide guidelines on the composition, scope and mandate of the audit committee. Marx and Dijkman (2006:26-27) hold that to adhere to the skills requirements set for the composition of the audit committee, outside members can be coopted, but then the majority still need to be financially literate. Financial literacy is thus a prerequisite for audit committee membership. Mammatt (2007:29) further states that although the audit committee performs a substantial amount of work towards ensuring the accuracy of the financial information, ultimately the entire board approves all the financial reports, and the board therefore also has to acknowledge this responsibility. This proves that all board members have to at least know what they are approving when they approve these reports.

To assist board members, an independent audit committee is crucial in ensuring the proper identification of financial risks and reporting practices. Hence, when selecting audit committee members, it is regarded as best practice to select members who have the necessary levels of financial literacy. In the USA, the requirements for financial experts and financially literate individuals serving on audit committees are legislated by the Sarbanes-Oxley Act. In South Africa it is not legislated, but considered best practice, according to the King Report, and is therefore not always as strictly adhered to. The fact that audit committees are, in some instances, constituted of members who are neither financial experts nor financially literate could have a negative effect because the "inclusion of financial experts on audit committees is likely to add structure to the discussion of overall reporting quality and improve the consistency of assessments of overall reporting quality" (McDaniel, Martin & Maines 2002:163). Although the audit committee must ensure that the firm's financial condition is understood by the board and accurately reflected in the financial reports, the board cannot abdicate its financial responsibility to the audit committee. The Blue Ribbon Commission's Report on Director Professionalism (NACD 2001:10) regards financial literacy as one of the personal characteristics that all individual board members should possess. It states in no uncertain terms that boards should seek only candidates who are financially literate. The problem is that the report does not define the term "financially literate", and the fact that financial literacy requirements may differ from one country or institution to another.

2.8.2 The development of all three economies of South Africa

A new class of decision maker is not necessarily part of the formal economy as described above. According to Freeman (2000:1), Africa, like South Africa, has three economies, namely the informal, the formal and the global. The informal economy, also referred to as the second economy, has a vital element of the

South African government's development policy and plans to combat poverty (Wiese 2006:23). If the formal economy requires decision makers with financial and business acumen, the informal economy will require even more financially literate ones because a great deal of expertise is concentrated in one person – he or she is an owner, manager and worker, all in one.

2.9 SUMMARY

With its political background and diverse composition of people, South Africa faces unique financial literacy challenges. Innovative organisations that use the imagination, intellect and experience of every stakeholder will be in a better position to enhance performance and increase wealth. To succeed in creating conditions for rapid economic growth and job creation in a democratic capitalist society, increasingly more individuals need to become financially literate consumers, labourers and decision makers. It is presumed that the government's programmes of action will enhance service delivery if public servants become more effective and if their financial competencies are improved.

The strength of any nation depends on the quality of its formal education system. South Africa implemented a Revised National Curriculum that seeks to create a lifelong learner who, among other things, is confident, independent, literate and numerate. There is currently a great deal of emphasis on enhancing education in Science, Technology and Mathematics. Although these subjects are of critical importance, it is equally necessary to empower the scientists, technicians and mathematicians in conducting business and handling their and their organisations' finances. In the end, every person becomes a consumer, and as such, also needs to make financial decisions.

The unique financial challenges in South Africa have much to do with differences in cultural backgrounds, the emigration of skilled workers, transformation and BEE. It remains a challenge that individuals with different levels of financial intelligence are all supposed to use the same intricate financial information prepared by the so-called "financial experts". Riahi-Belkaoui (2004:69) summarises this dilemma as follow: "To be fully informed requires at least minimal competence, not only technical, but also moral and empirical. Failure in any of these competencies exposes the user to ideological domination that is conveyed in the accounting reports by management, eager to maximise its own interest". Those decision makers with the fewest financial abilities are more prone to being exploited than those with financial capabilities.

Unlocking the potential of all individuals to become financially literate will presumably contribute to the sustainable development of the country's growing economy. To eradicate poverty and unemployment, the country and the southern African region as a whole need individuals who can participate fully in the economy. Exploiting the financially uninformed only leads to more poverty and social inequality. It is also true that financially illiterate consumers more easily become the targets of crime and corruption. However, financially literate people and financial experts also need to be transparent and accountable in their dealings with people who are not financially competent. It is therefore necessary that the less financially skilled in society must engage in some form of learning to continuously improve their knowledge of financial matters and in doing so improve their standard of living. Spies (2004:98) concludes as follows: "Poverty is not the same as being poor – id est, it is not just being without money. Impoverished people are caught in a trap of hopelessness and meaninglessness because of their inability to serve their own needs and those of the communities within which they exist." Thus, the second decade of South Africa's nascent democracy asks for decision makers who are competent, transparent and accountable to their stakeholders. Decision makers operating in the formal, informal and global economy need to become at least financially literate in order to fulfil their stewardship obligations. The challenges facing South African decision makers with regard to their cognitive abilities to understand and use financial information for decision making will be discussed in more detail throughout this study.