

Assessing the Influence of Financial Management Practices on Selected Small and Medium Scale Enterprises in Delta State Nigeria

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Abstract

This study was carried out to assess the influence of financial management practices on organizational performance of selected small and medium scale enterprises in Delta State, Nigeria. The researchers used survey research design for the study and data were gathered through the use of structured questionnaire. The study revealed that there is positive and significant relationship between financial management practices on the profitability of small and medium scale enterprises in Delta State. Based on these findings the study concluded that financial management practices has significant relationship on the profitability and employees satisfaction of small and medium scale enterprises in Delta State, Nigeria. Based on the findings and conclusion of the study, the study therefore recommends that small and medium scale enterprises should implement risk management of strengthening the firm's management structure, and as a result, its profitability. Small and medium scale business enterprises in Delta State which have not been using financial management practices should adopt it in their operations. This will enhance the business overall profitability. Small and medium business enterprises should make it a priority to work towards the objective of building strong fundamentals that may have a positive effect on their businesses and this will enhance employees satisfaction. Small and medium scale business enterprises should focus on investment that generate positive and net present value, this will add value to an investor's fund.

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1. Introduction

Effective fund management is key to the survival and growth of small and medium enterprises all over the world, and the integral role financial management necessitates the role it plays as it concerns the efficient procurement of funds and their effective utilization in the performance of business activities. Financial management is the act and science of managing money for effective utilization. Small and medium enterprises businesses needs finance to meet business requirements in their day to day transactions (cook and Nixson, 2020). All kind of business activity depends on finance it is often called the life blood of business activitiy. Whether the business concerns are big or small, they need finance to fulfil their business activities. Financial management practices in small and medium enterprises are quite different from the practices obtainable in large firms as a result of the nature of their cash flow cycle, working capital management problems and challenges of raising external finance using equity (Mazzaro, Reboud and Clark 2019). Ofoegbu, Akanbi and Joseph (2018) says that small and medium enterprises are the panacea for the economic growth and development of many developing countries, including Nigeria. According to cook and Nixson (2017) poor management and accounting practices are hampering the ability of smaller enterprises to raise finances. Adequate financial management practices is relevant in other to ensure effectiveness and coordination of business enterprises. Financial management practices or strategy deals with a long term view focusing on strategic goals of the firm or enterprise. Financial management practices ensures the regular and adequate flow of funds to business enterprises. It also provides the best return on shareholders' investment, which majorly depends on the earning capacity and market price of the shares.

Olajide, Jijani, Adeoye and Elegunde (2017) narrated that serious efforts have been directed towards solving the problem associated with the constant, collapse of small-medium enterprises. Shallow (2017) argued that the specific issue of small businesses is that owners lack strategies for effective financial management ranges from good investment decision, proper cash management and financial reporting among others, most of these problems are traceable to the fact that the small and medium enterprises do not do much in the aspect of financial management structure.

1.2 Statement of the Problem

Since their invention, small and medium scale enterprises continue to play a key role in economic development globally through contribution to the GDP, employment creation utilization of local resources and ensuring balance in regional development. They act as spring boards for economic development. Ideally, business enterprises are expected to grow in size by transforming from one stage to the next from micro enterprises with less than ten employees to large enterprises employing more than 250 people.

However, 33% to 44% of new SMES globally fail within the first five years of their business operation due to lack of finances (Thaimuta, 2020). The mortality rate of SMES in Africa remains very high it is within their first three years of operation in Nigeria. The failures of SMES have been attributed to financial management practices. This indicates that only few SMES in the country are able to create employment opportunities and reduce poverty level.

Proper financial management plays an essential role in helping SMES gain access to capital which is essential for business growth. A goods MSE financial management system should ensure the following qualitative characteristics are met: understandability, relevance, materiality, reliability and substance over form, prudence completeness, comparability, timelines and a balance between

benefit and cost. This study therefore was designed to establish how the financial management practices by small and medium scale enterprises affect their performance, business expansion and growth.

1.3 Objectives of the Study

The broad objective of the study is to investigate the effect of financial management practices on organizational performance of small and medium enterprises in Delta State Nigeria. Other specific objectives of the study are:

- i. To ascertain the effect of financial management practices on the profitability of small and medium enterprises in Delta State.
- ii. To determine the effect of financial management practices on employees satisfaction of small and medium enterprises in Delta State.

1.4 Research Questions

Based on the objectives of the study the researchers developed the following research questions.

- i. To what extent does financial management practices enhance the profitability of small and medium enterprises in Delta State?
- ii. Does financial management practices has any significant effect on improve employees satisfaction of small and medium enterprises in Delta State?

1.5 Statement of Hypotheses

To answer the research questions and achieve the research objectives the study will subject the following hypotheses which are stated in the null form to empirical test.

HO1: There is no significant relationship between financial management practices in enhancing the profitability of small and medium enterprises in Delta State.

HO2: There is no significant positive relationship between financial management practices and improving employees satisfaction of small and medium enterprises in Delta State.

2. Review of Related Literature

• Concept of Financial Management Practices

The term financial management practices focus on the discipline of finance with a long term purpose in line with the strategic goals of firms or enterprise. The essence of financial management practices is not only to manage the flow of funds in the organization but to align them with the good intention to meet the goals and objectives of the firm to maximize the financial wealth of business owners. Delkhosh and Mousavi (2021) opine that financial management practices is a process for identification, collection, selection and analysis of the financial data for the assistance to a team of management for the strategic decisions and effectiveness of the organizational assessment. The financial management practices has the role of establishing that the organization finances its operations cost to attain its goal and profit maximization. Ziet low, Hankin and Seidner (2019) noted that financial management is the creation of wealth, planning and monitoring of business financial assets, improving its profitability and generating the required return to capital providers. Financial management practices include all aspects of management that affect the

finances of the company and what is needed to adhere to the overall objective of the organization (Alhassan, Erasmus and Portia, 2018).

Arbana and Muhamet (2019) argue that values should not be demanded by shareholders alone rather value should extend to each of the functions within the organization, including finance functions. Karadag (2017) viewed that financial management knowledge also has a positive effect on the survival of small businesses.

Concept of Small and Medium Enterprises

Small and medium enterprises remain the engine of economic growth and rapid sustainability of the economy. Its potentials necessitate this at generating employment at low capital cost small and medium enterprises are the major back one of successful economies like the USA, where over 23million small business employs more than 50% of the private workforce and generate more than half of the national gross domestic product (GDP). Several criteria are used throughout the world to describe SMES. The World Bank describes SMES as enterprises with a maximum of 300 employees, \$15million in annual income and \$15million in assets (Govoric 2019). Small scale enterprises can be viewed in relations to the value of assets available at their disposal. Small scale businesses can be defined in terms of turnover and the number of staff employed.

- **Performance of Small and Medium Enterprises**

Performance of small and medium enterprises is basic to its wellbeing and enterprises is basic to its wellbeing and survival. The well performance of small and medium enterprises refers to its adequacy and proficiency in managing it investment and financial resources (Adegbie, Urema and Owolabi 2020). Corporate performance is the core of management function of an organization. Hifza (2021) defined performance as the result of the operation completed corresponding to the objectives sought after. Its objectives to strengthen the degree to which the organization accomplishes their objectives Machdar (2019), contented that the performance of the organization is measured by the decision of the form of management of the wealth to be maintained. In the event of that the organization performance is acceptable there will be little or no conflict between the management and the investors. It is accordingly expected that very much planned and executed financial management will make a positive contribution to the making of the value of the organization (Arif, 2020). The subject of performance has gotten significant consideration from researchers in different fields of business and strategic management. Business practitioners in all ranges of organization have additionally been of primary concern since performance affects the wellbeing of the organization and eventually its continued existence. Well performance explains the management proficiency and effectiveness in the utilization of organizations assets, and this thus adds to the economy of the country everywhere (Andrew, 2020).

- **Theoretical Framework**

The research is anchored on financial growth theory. Financial growth theory, Berger and Udelli (1998) developed the financial growth theory for small enterprises where the financial needs and financing options change as the business grows, becomes more experienced and less informational opaque. The theory is familiar with the fact that small enterprises have some stages of passing in their life cycle. Berger and Udell suggested that enterprises lie on where the smaller, younger, more opaque enterprises lie near the left and of the continuum indicating that they must rely on initial insider finance, trade credit and investment. The growth cycle model products that as the

firm grows, it will gain access to venture capital as a source of intermediate equity and midterm loans as a source of intermediate debt.

- **Empirical Review**

The researchers reviewed some empirical studies relating to the study. Rugui and Omagwa (2018) examined the effect of financial management practices, on performance of selected small and medium enterprises in Limuru town, Keruya. The study employed a descriptive research design, the population of the study was 388 registered SMES in the retail business in Lemur town. The study use a purposive sampling technique to sample 39 respondents. Data collection were analyzed using descriptive statistic (means and standard deviation), correlation analysis. Findings reveal that financial management practices are good measures of performance of SMES studies. The study also find out that firms financing and ownership structure have a reasonable positive correlation with performance. The study concludes that small and medium scale business enterprises needs to look for more avenues for financing their business. The study recommended that SMEs needs to partner with stakeholders, especially with financial institutions.

Muneer, Ahmed and Azhar (2019) examined the impact of financial management on small medium enterprises profitability with the moderating role of agency cost. The study used primary data which were obtained from two hundred small and medium enterprises from Faisala bad, Pakitan in analyzing the data, the study used descriptive analysis and structural equation model (SEM) through partial least (PLS) to test the hypotheses. Findings of the study indicate a positive relationship between financial management practices and small and medium enterprises profit ability. The study further recommends higher adherence to financial management practices. Shallow (2017) investigated the strategies for effective financial management in Vincentian small businesses, the population of the study consist of forty small business owners. Data collection was made possible through semi-structured interviews and a review of documentation. Findings indicate that identification and implementation of effective financial management strategies may increase small business success which potentially resulting in growth in the number of small businesses. The study recommended that small and medium enterprises should adopt effective financial planning strategies and prudent accounting practices.

3. Methodology

This study adopted quantitative data analysis for this study; the survey research design was employed. The scope of the study covers selected small and medium scale enterprises in Delta State, Nigeria. The respondents who are owners of small and medium business enterprises in the area were purposively selected in order to accomplish the objective of the study. Primary method of data collection was used for this study through a field survey of businesses with the aid of purposive sampling method. Based on reports of the number of small and medium businesses in the study, the administered questionnaires were retrieved. Each of the dependent and independent variables of the research construct were measured by three (3) items each validated pre-test was also conducted through a pilot study which was carried out for the research instruments validity test result is 0.760. split half method of reliability test results on split halves 0.84 and 0.91 respectively show that research instrument is reliable.

- **Testing of Hypotheses**

The null hypotheses stated in this study were statistically tested in this section. The result of the statistically testing was used to make conclusions on whether to accept or reject the null hypotheses. Pearson product moment correlation via SPSS was used to test the research hypotheses and analyze the dependent and independent variables.

• **Hypothesis I**

HO: There is no significant relationship between financial management practices in enhancing the profitability of small and medium enterprises in Delta State.

HO1: There is significant relationship between financial management practices in enhancing the profitability of small and medium enterprises in Delta State.

Table I: Model summary result for financial management practices end profitability of small and medium enterprises business.

Model	R	R square	Adjusted R square	Std. Error of the estimated
1.	.735	.871	.854	.19351

- a. Predictors (constant) financial management practice
- b. Dependent variable: profitability of small and medium business enterprises

Table 2: ANOVA result for financial management practices and profitability of small and medium business enterprises

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	22.423	1	21.145	77.255	.004
Residual	3.583	157	.0441		
Total	36.006	158			

- a. Defendant variable: profitability of small and medium enterprises business
- b. Predictors: (constant), financial management practices

Interpretation

The result from the model summary table revealed that the extent to which the variance in profitability of small and medium enterprises can be explained by financial management practices is 87.1% ie (R square = 0.871). The ANOVA table shows that F cal 77.225 at 0.004, significant level

Table 3: Coefficient result for financial management practices and profitability of small and medium business enterprises.

Model	Unstandardized coefficient		Standardized coefficients	T	Sig
	B	St. Error	Beta		
(constant)	5.007	.127		11.133	.000
Financial management practices	.693	.012	.735	16.484	.004

- a. Dependent Variable: profitability of small and medium enterprises business

Hypothesis Two

HO2: There is no significant relationship between financial management practices and improving employees satisfaction of small and medium enterprises.

H2: There is a significant relationship between financial management practices and improving employees satisfaction of small and medium enterprises.

Table 4: Correlations of financial management practices and improving employees satisfaction

		Financial management practices	Improving employees satisfaction
Financial management practices	Pearson correlation	1	.667**
	Sig. (2-tailed)		.000
	N	159	159
Employees satisfaction	Pearson correlation	.677**	1
	Sig. (2-tailed)	.000	
	N	159	159

** Correlation is significant at the 0.01 level (2-tailed)

Interpretation

Table 4 above explains the relationship between financial management practice and improvement in employee’s satisfaction. The result implies that there is a positive and high degree of relationship between financial management practices and improvement in employee’s satisfaction since Pearson correlation co-efficient test value 0.000 is less than 0.01 (sign. Level). Hence, it implies that financial employee’s satisfaction.

4. Findings and Discussions

The following findings were made in this study from the test of my hypotheses. The hypothesis one result lies that there is significant relationship between financial management practices and profitability of small and medium scale business enterprises in Delta State. This finding is in agreement with the view expressed by Gavori (2018) which stated that small and medium enterprises can use effective financial management practices to enhance the profitability of their business.

Secondly, findings of this study revealed that there is significant relationship between financial management practices and improving employees satisfaction of small and medium enterprises in Delta State. This finding is in support of the work of Thaimuta (2020) who argued that financial management practices has contributed significantly to improve employees satisfaction of small and medium business enterprises.

Conclusion

The study examine financial management practices and its influence on selected small and medium business enterprises in Delta State, Nigeria. The study revealed that there is significant relationship between financial management practices in enhancing the profitability and employees satisfaction of small and medium business enterprises in Delta State. To conclude financial management

practices is imperative for better performance and growth of small and medium enterprises business.

Recommendations

In view of the findings and conclusion of the study, the following recommendations were proposed for effective financial management practices for small and medium scale business enterprises in Nigeria.

1. Small and medium scale business enterprises should implement risk management policies and strategic initiative with the sole objective of strengthening the firm's management structure and as a result its profitability.
2. Small and medium business enterprises, should focus on investment that generate positive net present value, this will add value to an investor's fund.
3. Small and medium enterprises can strengthen their growth by enhancing optimum cash management through effective record keeping and proper accounting practices.
4. There is a need for small and medium enterprises to increase their financial performance through effective cash flow statement. This would enhance the strategic goals of the enterprises.
5. Small and medium business enterprises which have not been using financial management practices to adopt them in their operations. This will enhance the business overall profitability.
6. Small and medium business enterprises should make it a priority to work towards the objective of building strong fundamental that may have a positive effect on their business and this will enhance employee satisfaction.

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