Extent Owners of Small and Medium Scale Enterprises Adopt Suitable Financial Management Practices for Business Success In Anambra State, Nigeria

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Abstract- The need to ensure the success of small and medium scale enterprises necessitated this study to ascertain extent owners of small and medium scale enterprises adopt financial management practices for business success in Anambra State. Descriptive Survey research design was adopted. The population comprised 2502 owners of small and medium scale enterprises who were registered with Anambra State Ministry of Commerce, Industry and Technology. A validated structured questionnaire with a reliability coefficient index value of 0.84 using Cronbach alpha was used to collect data. Mean rating and standard deviation were used to analyze data collected while Analysis of Variance (ANOVA) was used in testing the null hypothesis at 0.05 level of significance. The findings of the study revealed among others that such financial management practices as establishing financial plans for specified areas of fund allocation and verifying recorded accounting figures regularly were adopted at a low extent by the owners of SMEs in Anambra State. It was also revealed that years of business experience of the owners did not significantly affect their mean ratings on the extent they adopt the financial management practices in their businesses. It was concluded that the extent of adoption of financial management practices among the owners of SMEs in Anambra State was low. It was recommended among others that professional bodies such as National Association of Small and Medium Enterprises (NASME) should organize their members coherently with a view to guiding them through dissemination of relevant and up-to-date information on the identified financial management practices needed for business success.

Index Terms- Owners of Small and Medium Scale Enterprises, Adopt, Financial Management Practices, Business Success

I. INTRODUCTION

Small and Medium Scale Enterprises (SMEs) have been billed as the building blocks of the economy. According to Tafamel and Idolor (2008), the roles of SMEs in an economy include employments generation, rural development, youth empowerment, contribution to national income and growth, spread and development of adaptable technology, and regional balanced growth channel. In support, Osamwonyi (2009) opined that SMEs have been a major engine of economic growth and technological progress. To this effect, it seems that SMEs have been the primary source of employment generation in Nigeria and Anambra State in particular in recent times.

Oguntolu (2008) defined small and medium scale enterprises as business organizations set-up by individuals or group of individuals known as business owners for the main purpose of providing goods and services. Their classification into small and medium enterprises depend on the scale or size of business these business owners control. Furthermore, these enterprises engage in different types of activities ranging from construction, agro-allied, information technology, manufacturing, educational establishment, business services, tourism and leisure. The National council on Industry (NCI) and Central Bank of Nigeria in Aigbevboile (2008) defined small and medium scale enterprises based on the criteria used in Nigeria. They noted that small scale enterprises are those businesses whose total cost inclusive of working capital but excluding cost of land is over N1.0 million but not more than N40 million and a labour force of between 11 and 35 workers and medium scale enterprises are businesses whose total cost, inclusive of working capital but excluding cost of land are above N40 million, but not more than N150 million with labour force of between 36 and 100 workers.
Many of these enterprises abound in Nigeria and Anambra State in particular due to favourable economic climate which includes natural resources, large markets and abundant skilled labour force (Obi, 2011). Anambra State is a State that has three senatorial zones that are mostly urbanized by different sizes of business enterprises and business owners/entrepreneurs. These business owners are entrepreneurs who have the ability to see and evaluate business opportunities, put together the necessary resource to take advantage of them and to initiate appropriate actions to ensure success. Entrepreneurs are mostly known to be resourceful, hardworking and possess the ability to utilize business opportunities available to them.

The goal of every business is to be successful and success is defined in various ways. Literature shows inconsistencies of what constitutes measure of success. Some researchers focused on use of financial indicators while others considered non-financial indicators of success. In the perspective of this study, business success is the financial measures of performance such as turnover of sales, profitability, return on investment to predict the success and failure of a firm.

Unfortunately, in Nigeria and in Anambra State in particular, the profitability and return on investment of many SMEs seems to be low resulting to little contributions to the production base of the state despite the favourable climate. El-Rufai (2012) noted that these enterprises have contributed little or nothing to its objectives of employment generation and wealth creation. Obi (2011) also observed that these small businesses are experiencing reduction in their business size, slow expansion rate and even business failures. The problems faced by small and medium enterprises include inadequate working capital, stiff competition from larger companies, difficulties in sourcing raw materials, low capacity utilization, lack of management strategies, poor educational background of operators, and poor financial management practices topping most in the list (Okoli & Ezenwafor, 2015).

Based on the forgoing, it is apparent that the survival of any small and medium scale enterprise is dependent on the adoption of effective financial management practices. Management according to Kotler (2014) noted that management is an essential activity that helps SMEs pursue or achieve their stated goals. This means that the management measures taken by an organization in the planning, control and co-ordination of its financial resources are very significant to the performance of that organization in terms of profitability.

Years of business experience possessed by owners of enterprises have also been cited as an important factor influencing different aspects of SMEs performance and success. This takes different dimensions in terms of start up experience, business type experience and length of service on the job. Thapa (2007) found that there is a positive association between experience and small business success. Boden and Nucci (2000) also averred that business owners or managers with 10 or more years of experience and/or 4 or more years of college/university education were less likely to fail than their counterparts without such experiences. However, these are assumptions that are yet to be empirically investigated. This study is therefore conceived to ascertain the extent owners of small and medium scale enterprises adopted suitable financial management practices for business success in Anambra State, Nigeria.

Financial Management Practices Suitable for Success of SMEs

Financial management as opined by Zedine (2002) are managerial practices concerned with analyzing financial performance, identifying ways to use resources efficiently and finding creative ways to generate additional resources. Van Horne (2001) identified three key objectives of financial management as; creating wealth for business, generating cash and providing an adequate return on investment having in mind the risk the business is taking and the resources invested. These objectives are attained only when finance functions are prudently discharged through the adoption of suitable financial management practices.

Financial management practices are suitable if they are relevant and effective; judging from its ability to achieve the organizational intended financial management objectives. Madura (2008) averred that business organizations who adopt suitable financial management practices will survive in the midst of sharp competition, avoid financial risks and bankruptcy, achieve increase in production volume and maximize profit and minimize expenditure. Stanley (2010) noted suitable financial management practices in organizations in terms of processes associated with good financial planning, control and in taking good decisions regarding financial activities. Good financial management process helps an entrepreneur interpret financial reports including income statements, profits and lose, cash flow statements and balance sheet statements; maintaining good allocation of working capital within the business operations, good review and functioning budgets, revenue and cost forecasting. Others are taking good decision on investment, market financing and dividends (Madura, 2008 & Stanley, 2010). Okoro (2006) revealed that SMEs needed relevant knowledge in financial management as accounting information, financial planning and control, working capital management etc for effectiveness in the management of business finances. However, he noted that poor adoption of these strategies among SME owners result to failure in their businesses and their financial resources. Trung (2010) also discovered positive impact correlation of financial management practices, such as good capital structure management, working capital management, financial reporting, analyses and accounting information on SMEs profitability. Okolo (2014) noted all the identified financial management practices as relevant for the success of small and medium scale enterprises in the opinion of owners of SMEs in Niger-Delta Region. This opinion did not also differ among them relative to their years of business experience. In view of this, one could believe that 90 percent failure among small and medium scale enterprises are associated with poor financial management practices. Okoli (2008) also opined that most problems of SMEs tagged “inadequate capital” by their owners/or manager could really mean poor financial management practices resulting from incompetence and experience in the management of their organizational financial resources. Most of these entrepreneurs lack knowledge of good accounting and book keeping procedures and are unable to distinguish between profits and loses in their businesses.

However, these views are either theoretical assumptions and have not been empirically proven to be the case among small and medium scale entrepreneurs in Anambra State. It therefore becomes imperative judging from the strategic position of Anambra State as a mercantile state in Nigeria that the determination of the financial management practices adopted by owners of small and medium scale enterprises for business success is carried out so as to provide remedial solutions where they are not adopted.

Theoretical Underpinning

This study is strengthened by the Capital Structure Theory propounded by Franco Modigliani and Merton Miller in 1958 . The capital theory has three different views namely; the Net income approach, the Net operating income approach and the intermediate approach Under the Net Income (NI) approach, the cost of debt and cost of equity (business owners’ money) are assumed to be independent to the capital structure. It is noted that while the weighted average cost of capital declines, the total value of the firm rises with increased use of leverage. Under the Net Operating Income (NOI) approach, the cost of equity is assumed to increase linearly with leverage. Consequently, the weighted average cost of capital remains constant and the total value of the firm also remains constant as leverage is changed. However, under the intermediate (optimum) approach, the value of a firm can be increased or the cost of capital decreases within the reasonable limit of doubt and then increases with leverage. In order words, an optimum capital structure exists when the cost of capital is minimum or the value of the firm is maximum. The relevance of this theory to the present study is that it helps to provide direction for the entrepreneur on the strategies for managing the capital of the firm. This will equip the owners of SMEs with the relevant knowledge on capital or working capital management of their businesses which is a very important for financial management practice needed in the management and profitability of any business enterprise.

Research Question

To what extent do owners of small and medium scale enterprises in Anambra State adopt suitable financial management practices for business success?

Hypothesis

One null hypothesis was tested at 0.05 level of significance

There is no significant difference in the mean ratings of owners of small and medium scale enterprises in Anambra State on the extent they adopt suitable financial management practices for their business success based on years of experience (0-5 years, 6-10years and above 10years).

II. Method

The study was a descriptive survey. The population of the study comprised 2502 owners of small and medium scale in Anambra State who registered with the State Ministry of Commerce, Industry and Technology. The sample comprised 750 owners of small and medium scale enterprises drawn from registered SMEs in Anambra State using stratified random sampling. Data were collected with a validated structured questionnaire on a five point response categories of VHE (Very High Extent), HE (High Extent), ME (Moderate Extent), LE (Low Extent) and VLE (Very Low Extent). The reliability of the instrument was established with the questionnaire administered on 10 owners of registered small and medium scale enterprises in Enugu Metropolis, Enugu State who were not included in the population of the study. Cronbach Alpha reliability method on the obtained data yielded a score of 0.90 for internal consistency which was deemed high for the study. The researcher administered copies of the instrument with the aid of three research assistants. Out of the 750 copies of the questionnaire administered, 605 copies were returned and were all found usable.

The data collected from the respondents were analyzed using mean and standard deviation. The mean value was used to answer the research questions while the standard deviation was used to ascertain the homogeneity or otherwise of the respondents' ratings. ANOVA was used to test the null hypothesis at 0.05 level of significance. The following boundary limits were used to determine the extent of adoption by owners of SMEs:

Very High Extent	4.50-5.00
High Extent	3.50-4.49
Moderate extent	2.50-3.49
Low Extent	1.50-2.49
Very low Extent	0.50-1.49

For the hypothesis, where the calculated f value is less than the critical value of f, it means that the variable does not significantly affect respondents' mean ratings and the hypothesis was not rejected. Conversely, where the calculated f value is equal or greater than the critical f value, it means that the variable has a significant influence on the respondents' mean ratings and the hypothesis was rejected.

III. Result

The result of the study are presented in Tables 1 and 2

Table 1: Respondents mean ratings on the extent they adopt suitable financial management practices for business success (N=605)

S/NO	Items on financial management practices	$\bar{X}$	SD	Remarks
1.	Adopting weekly cash budgeting.	2.47	1.07	Low Extent
2.	Suitably allocating funds to sections of the enterprise.	3.80	1.13	High Extent
3.	Keeping accurate records of sales and purchases.	3.28	0.94	Moderate Extent
4.	Establishing financial plans for specific areas for fund allocation	2.29	1.17	Low Extent
5.	Using long term loan for long term financing	2.03	1.08	Low Extent
6.	Using short term loan for short term financing	2.29	0.96	Low Extent
7.	Investing excess funds in marketable securities	1.80	0.87	Low Extent
8.	Maintaining firmness in the management of working capital	1.97	0.93	Low Extent
9.	Adopting credit and collection period policies that are in-line with objectives of the enterprise.	2.22	0.99	Low Extent

10.	Maintaining maximum credit volume.	2.34	1.16	Low Extent
11.	Applying regular application of budgetary control measures.	1.83	0.96	Low Extent
12.	Making projections on the expected profit or loss for a given period.	2.28	1.04	Low Extent
13.	Ensuring accountability and transparency in the use of business finances.	2.61	0.84	Moderate Extent
14.	Verifying recorded accounting figures regularly.	2.48	1.13	Low Extent
15.	Recording properly all source documents (invoice, receipt etc.).	3.50	1.07	High Extent
16.	Maintaining daily income and expenditure record.	2.26	1.08	Low Extent
17.	Preparing balance sheet	2.03	1.04	Low Extent
	Cluster Mean	**2.44**		**Low Extent**

Data contained in Table 1 shows that the respondents indicated that they adopt two items, with mean ratings of 3.80 and 3.50 at a high extent, another two with mean ratings of 3.28 and 2.61 at a moderate extent and the remaining 13 items with mean ratings of 1.80 to 2.48 at a low extent. The cluster mean of 2.44 indicates that owners of small and medium scale enterprises in Anambra State adopt suitable financial management practices for business success at a low extent. The standard deviation of the items ranged from 0.84 to 1.17 which showed that the respondents were not very far apart in their opinion.

Table 2: ANOVA summary of respondents mean ratings on the extent they adopt suitable financial management practices for their business success based on years of experience

Source of Variance	Sum of Squares	df	Mean Square	F-cal	F-Crit	Decision
Between groups	1204.93	2	602.47			
Within groups	14584.4	12	1215.37	0.50	3.89	Not Significant
Total	15789.33	14	1817.84			

The information in Table 6 indicates that the calculated F-value of 0.50 is less than the F- critical value of 3.89. This means that that there is no significant difference in the mean ratings of owners of small and medium scale enterprises in Anambra State on the extent they adopt suitable financial management practices for their business success based on years of experience. Therefore, the hypothesis is not rejected.

IV. Discussion and Implications of the Study

The findings of this study revealed that owners of small and medium scale enterprises in Anambra State adopt most of the identified suitable financial management practices at a low extent except suitably allocating funds to sections of the enterprises and proper recording of source documents that were practiced at high extent. Adopted at moderate extent are financial management practices of keeping accurate records of sales and purchases, also ensuring accountability and transparency in the use of business finances. This agreed with Okoro (2006) who revealed that most often owners of small and medium scale enterprise fail to adopt suitable financial management practices and this deprive them of their business success. In confirmation Trung (2010) discovered that there is a positive impact correlation of financial management practices and profitability of SMEs. Trung discovered such positive impact in such practices relating to working capital management, financial reporting, analyses and accounting information. All these were adapted to a low extent in the opinion of the owners of SMEs in Anambra State. No wonder the observations made of SMEs slow expansion rates and constant failures that result to their high rate of premature deaths in Anambra State (Obi, 2011; Okoli & Ezenwafor, 2015). According to Osamwonyi and Tafamel (2010), the reason for poor adoption of financial management practices by SMEs include lack of management skill, poor record keeping, weak access to financing, multiple taxation, and inconsistent policies. Osamwonyi and Tafamel advocated that seminars and workshops should be organized consistently to improve SMEs' financial management capabilities, as well as the institutional co-ordination of the efforts of relevant agencies and institutions, and the streamlining of the myriad of taxes stifling SMEs.

It was further revealed that significant difference did not exist in the mean ratings of owners of small and medium scale enterprises in Anambra State on the extent they adopt suitable financial management practices for their business success based on years of experience. This is in agreement with Okolo (2014) who revealed that experienced and inexperienced small and medium scale entrepreneurs did not significantly differ in their mean ratings on the extent they adopted suitable financial management practices in their businesses.

The findings of the study have far reaching implications for potential entrepreneurs starting up small and medium scale businesses that knowledge and adoption of suitable financial management practices in their businesses would ensure efficient management process and business success. The findings of the study also have implication for curriculum planners in entrepreneurship studies, accountancy, business administration and business education on the integration of financial management practices to adequately empower the graduates to succeed in business enterprises.

V. Recommendations

Based on the findings of this study, the researcher proffers the following recommendations:

1. Owners of small and medium scale enterprises in Anambra State should make concerted effort to adopt suitable management practices identified by this study to enable them manage their financial resources as well as business risks for business success.
2. Government at all levels should organize workshops and seminars for operators of SME by the agencies responsible for the development of small and medium scale business on the identified financial management practices.
3. Government policies with regard to sources of raising funds for the establishment of small and medium scale enterprises should be given the widest publicity so as to prevent potential entrepreneurs from falling into the hands of shylocks that often result in excessive or exorbitant interest charges.
4. Professional bodies such as National Association of Small and Medium Entrepreneurs (NASME) should organize their members coherently with a view to guiding them through dissemination of relevant and up-to-date information on the identified financial management practices needed for business success.

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