

FINANCIAL MANAGEMENT PRACTICES AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISE (SMEs) IN YOBE STATE, NIGERIA

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ABSTRACT - The purpose of this research is to examine the owner/managers-centric antecedents of personal versus firm financial management. These include improper record-keeping, persistent drawings, and their inability to separate personal from firm finances and how they firm performance. The methodology used for the study was a survey of 216 owners/managers with 36 items in a questionnaire was used. Hypotheses were tested using Pearman's correlation and t-test applying the SPSS version 23 software. The data were tested for normality and Common method variance. Findings indicate that financial management relates to firm performance. Pearson's correlation value of 0.483 with p value=0.000 was obtained. This implies proper financial management practice leads to firm superior performance. The t-test indicates p -values greater than 0.05 for all variables. Thus, the two groups of respondents are different. This research basically deal with rational economic dealings and personal and firm financial management. However, little is recorded with regards to owner/managers' financial discipline as it affects firm performance. This work is studying financial record-keeping practices and indiscriminate drawings from firm finances by owner/managers and how such acts affect SME's performance to fill in the gap.

Keywords: Financial Management, owner/managers, firm performance, record keeping, and indiscriminate drawings

1. INTRODUCTION

The role of small and medium scale Businesses in the Economic Development of a nation and of a community or society, in particular, is enormous[1]. This has drawn the attention of researchers, scholars, professionals, government officials, politicians, financial institutions, etc. in search of the way forward towards the development of the sector[2]. The SMEs create opportunities for employment generation, minimizing rural-urban drift, and they put to use our locally produced raw materials. The SMEs create opportunities for employment generation, minimizing rural-urban drift, and they put to use our locally produced raw materials. In Malaysia for instance, SMEs form 97.5% of the industries and account for more than 31% contribution to GDP. In the UK, SMEs contribute 99% of all industrially produced goods and generated up to 50% of their GDP. In China, SMEs generated about 80% of all employments in the urban centers and contributing 50% of tax revenue; hence accounting for 60% of their GDP. In Africa, SMEs have contributed 80% of employment generation and accounted for 50% of the continent's GDP. Given all these benefits, SMEs continued to strive amidst serious managerial problems. This brings us to the basic problem prompting this research.

SMEs notwithstanding the enormous contributions they are making to economic development, various studies point to the fact that in Nigeria, there have not achieved the target expected of them to attain. In this wise, their contribution to GDP has fallen much lower than expected[3]. Despite the fact that the SMEs constitute an integral part of Nigeria's industrial and commercial subsector accounting for 90% of the industrial and commercial operations, accounted only for 7.27% exports of the country with GDP 48.47% considering the nominal terms' perspectives, only 10% in the real terms[4].

Over the years, the rate of SME's failure has been on the increase for a number of reasons.[5] assert from their study on SMEs that the rate of failure of SMEs in the developing countries is higher than in the developed world. In a related study,[6] found that SMEs are faced with the problems of lack of technological know-how, lack of managerial skills,

e.g. ability to record appropriately business dealings, auditing and prioritizing portfolio among others and lack of adequate legislation to protect SMEs against competitions from big multinationals and poor management practices. Over 75% of the SMEs lack finance and the majority of them have difficulty in obtaining soft loans [7]–[11]. The following as the strategic problems of Small Business Enterprises: poor level of financial resources and its management, marketing problems and consumers' concentration, management and human resource issues, lack of systems and controls, and technological skills. One major problem is that, at the moment, most of the SMEs in Yobe State don't maintain appropriate books of account. They don't separate their personal finance from their firm's finances. This makes their capital vulnerable to unnecessary drawings and cash loss.

In Nigeria for instance on the 12th of July 2018, vice president of the Federal Republic of Nigeria Yemi Osinbajo called for the intensification of sound entrepreneurship education and training from primary school level to enhance the capacity of Nigerians in the globally competitive economic environment. This is because of the rate of failure of businesses in the country. Some had good technology, its know-how, and all the necessary resources, yet they could not succeed [12]. In view of the above, this study wants to establish if poor financial management practices have impacted in some ways on the prevailing high rate of SME's failure over the years. To this end, the following: neglects of good accounting and record-keeping, personal and firm finances management, and indiscriminate/excessive drawings of cash and other resources are investigated. A good number of businesses had enough capital to start their businesses but mostly collapsed in shorter than five years of their take up time[13]. Some had good technology, its know-how, and all the necessary resources, yet only 20% of them could succeed in their first five years of operation[14]. In view of the above, the objectives of the study are twofold: First is to examine the relationship between firm financial management and firm performance among the SMEs in Yobe State, Nigeria and the second is to assess whether improper record keeping and indiscriminate drawings by SMEs owner/managers in Yobe

State, Nigeria affects the firm performance. In achieving these objectives, the following questions got to be the answer: The following research questions were formulated to guide the study: Does financial management have any relationship with the financial performance of SMEs in the Yobe State of Nigeria? Do improper record-keeping and indiscriminate drawings of SME's finances affect the firm performance of SMEs in the Yobe State of Nigeria?

It is of significant importance to fill in the identified gap due to less or absence of empirical study on proper personal and firm financial management practices covering effects of items such as indiscriminate withdrawal of cash and other materials from the business, improper financial recording keeping among others. This situation results in managers/owners missing out on some important financial portfolios which might otherwise be profitable. Thus, this study is of immense importance because owners/managers will be educated on how best to manage personal finances distinct from firm finance and most often this is not the case and firms run short of cash to meet so profitable opportunities. The research will get owners/managers educated on the need to withdraw for business purposes only. If it is necessary to withdraw for personal purposes, such drawings should either attract interest on be considered as part of the payment for the services the manager or owner is rendering. On this note, if these are adhered to, it will give room for business finances to be appropriately applied for the growth of the business and achieve superior performance. On the whole, the poor financial management currently in practice in the study area and elsewhere can be corrected through the knowledge stemming from this research.

1.1 Small and Medium Enterprises in Nigeria

In this section, a review of relevant literature will be conducted based on the constructs of the study. These may include financial management, record-keeping, personal finance, and Small and Medium Enterprise's performance. Small and medium enterprises (SMEs) are seen as a driving force for the promotion of an economy [15] SMEs additionally contribute enormously to the economic development of any nation [1]. The benefits of small and medium enterprises in the Nigerian economy cannot be overemphasized[15]. Small and Medium Enterprises play a significant role in employment and income generation, producing import-substituting products, mitigating rural-urban drift, and mobilization of local resources[16]. Majority of the SMEs do not prepare formal books of accounts, do not embrace information technology, and are faced with challenges in accessing finance [17] SMEs in Uganda operate in what is locally termed as "Juakali" which simply means operating in an elementary way[18] this depicts a similar scenario in Nigeria and in most emerging economies. In fact, many SMEs in Nigeria are not registered [19] [20]. [19] Asserts that the industrial sector in Nigeria is controlled by SMEs accounting for 90% of enterprises. This statistic if compared to some advanced economies of the world, one finds more than 98% of enterprises are in the SME sector; nearly 80% total industrial workforce in Japan is SME dominated, while 50% were accounted for in Germany and 46% in the USA are a smaller company.

However, not many of the SMEs are duly registered in Nigeria. Hence, their activities are not necessarily recorded [1, 17, 21, 22]. This is believed to be as a result of the environment in which SMEs are functioning. For example, customers do not request receipts for any purchases of goods they do. Similarly, suppliers of goods to SMEs sometimes do not request for their invoices, contracts of private nature are most often not document, the required standards for auditing books of accounts are not strictly followed and are not enforced[23]–[25] Hence, it becomes tough for SMEs to record the primary transactions; ultimately leaving SMEs with poor financial management practices[26].

1.2 Financial Management and Firm Performance

In [27], the author believes that financial management is based on marshaling and utilizing sources of funds. According to authors [28], financial management deals with channeling and running the funds needed to acquire the enterprise's assets and activities, the allocation of these scarce resources (funds in particular) between alternatives and most often competing uses, and guaranteeing that the funds are used effectually and proficiently in accomplishing the enterprise's goal i.e. superior performance. In fact, careful financial management might aid in generating in-house funding avenue, which may be less costly [29]. Financial Management is also defined as an area or set of administrative function in an organization which is related with the arrangement of cash and credit so that organization may have the means to carry out its objective as satisfactorily as possible"[30].

[31] are of the opinion that the success or failure of SMEs hinges on their financial viability. Unfortunately, often the managers are laymen performing all the tasks of accounting receivables, working capital management, inventory management, etc. [32]. The firm performance can be measure in terms of financial or non-financial basis [33]. This study is considering the firm performance. Additionally, all these tasks are not performed under the auspices of a trained or learned accountant or bookkeeper, but are largely by owner/managers who lack sufficient skills and knowledge of financial accounting controls [34]. Financial management critically performs and upholds great role in administering a business and accomplishing viable financial planning [35] This situation results in the SMEs experiencing cash flow and liquidity problems[36]. This led us to the hypotheses:

Ho₁: there is no significant relationship between financial management and firm performance amongst SMEs in Yobe State, Nigeria.

1.3 Recordkeeping, indiscriminate withdrawals, and SMEs survival

One of the important factors in firm collapse is the indiscriminate withdrawal of cash and material from the business. This can be bounded to the "concept of financial risk". [37] believed that financial risk is the procedures of day-to-day activities in which the intrusion of some outside and interior business factors makes things don't progress as expected; consequently, such a situation increases the danger that SMEs finance doesn't move as planned. For instance, where there is "Nonstandard control inside the enterprise and lack of financial risk management institution" [36] the SMEs will be so weak in financial management that they cannot put

in place a fixed and strict feasible financial management system. It is relevant to bear in mind that the success or failure of SMEs is hinging on viable financial status [31], [38], [39]. In this case, issues of indiscriminate withdrawal of cash and materials will begin to manifest which impacts on the SME's failure rate in the state. This leads us to the hypotheses:

Ho₂: Improper financial record keeping and indiscriminate drawings from SME finances do not affect firm performance.

Ho₃: There is no significant difference between the mean responses of successful and unsuccessful businessmen from Yobe State, Nigeria about the effect of improper record keeping and indiscriminate drawing on firm performance.

2. METHODOLOGY

A survey method is used in which a self-administered questionnaire in a 5 Likert scale was used to collect the data. The measurement rating consists of '1' strongly disagree up to '5' denoting strongly agree. The questionnaire was distributed to 252 business owners/managers selected using the simple random technique. However, a number of 216 firms were used for the research as they are the questionnaires return duly filled. Descriptive statistics were used to present the data, while hypotheses were tested using Pearson's correlation and t-test applying the SPSS version 23 software. The data collected were tested for normality, and the Kolmogorov value of 0.000 indicates normality. Common method variance analysis achieved Cronbach's Alpha of 0.897 indicating data reliability see appendix iii, while 76.657 cumulative extraction sum of squared was achieved indicating data has no common method bias[40].

3. ANALYSIS OF DATA

The respondents were grouped into two. The first group consists of those who are in Business right now a 116 of them were randomly selected; and the second group consists of those whose businesses have collapsed and a total of 100 of them were randomly selected as well. The grouping is done to find out the mean differences of their responses with regards to improper recording keeping and indiscriminate drawing so that inferences can be drawn about the effect of these factors on firm performance.

Distribution of respondents by their business status (successful and Failed Businesses) and a number of returned questionnaires is shown in table 1. The numbers of returned questionnaires by respondents from both the successful and failed businesses are set out. Hundred and sixteen (116) questionnaires were returned by a successful business which represents 91.54% of the 252 respondents, and 100 which is 81.82% also were returned by the unsuccessful business owner out the 110 that were originally issued out. See appendix i.

Test of normality was conducted; the data was found to be abnormally distributed. This is justified by both the Kolmogorov and Shapiro score of 0.000 indicate a very significant p-value lower than 0.05 as shown in Table 2. Since the data are not normal, with have to opt for nonparametric statistical measurement techniques. See appendix ii.

The data tested for reliability. The result indicates the Cronbach's Alpha as 0.897 unstandardized with 0.907 standardized which is shown on table 3. This means that the

data have attended collinearity standard and therefor reliable since it has exceeded the threshold value of less than 0.70[41]. Hence, the data is reliable and we can proceed with the analysis. See appendix iii.

Descriptive statistics were used in which the mean and standard deviation as well as the standard error mean are shown in table 4. All the mean responses of the owner/managers about the variables are different from one another. This indicates that the two groups have different believes regarding the relationship between financial management and firm performance. The respondents equally have a different view of the effect of record-keeping on firm performance. See also appendix iv

The data were found correlating. A Pearson's' correlation value of above .483 with a p-value of 0.000 indicates some positive correlation. There is therefore a significant correlation between firm performance and financial management. The analysis result is seen in table 5, see appendix v.

Table 6 indicates the correlation result between the recording and the firm performance analysis on hypothesis two (H₂). Pearson's correlation of 0.692 is a good correlation and significantly positive at a p-value of 0.000. The correlation is good because it is closer to 1 and to 0 and the p-value is far less than 0.05 threshold of the confidence interval. See appendix vi.

On table 7, the independent t-test suggests that all the significant values are greater than 0.05 for the t-value obtained. Hence, there is a significant difference between the mean score of responses in terms of the respondents believe on financial management, recording keeping and firm performance. See appendix vii.

4 DISCUSSIONS OF FINDINGS

From the forgone analysis, the study investigates the respondents about their view with regards to the designed hypotheses involving firm management in general and specifically on financial record keeping, indiscriminate drawings from the business finances, and their effect firm performance.

4.1 Financial management and SMEs performance

This section, discusses the result of the findings relating to the relationship between the two variables as follows: Firm performance and financial management i.e. first hypothesis (H₁) was exhaustively dealt with. The correlation was used and the coefficient of Pearson's' correlation value of .483 with a p-value of 0.000 indicates a significantly positive correlation. This is shown in table 6. Therefore, a positive significant correlation exists between firm performance and financial management. This implies that generally good financial management practices exhibited and maintained by the SMEs owner/managers may create a superior performance of SMEs in Yobe State. This is because; a lot of wasteful and unwarranted transactions and financial expenditures might not be incurred in the first place. Above all, the choice of the portfolio will have been carefully monitored and selected for the benefits of the business. So, if portfolio management for instance can be handled well and with utmost good faith, the firm will be getting involved in only the most profitable venture; thereby creating great

wealth for the firm. Additionally, if production cost is managed well, the scenario will help greatly in improving revenue generation. This result is consistent with the finding by [13].

4.2 Proper record-keeping, indiscriminate drawings and SMEs performance

The hypothesis testing related to the record-keeping pattern and cash/material drawing from the organization has provided insight into the major problems that bedevil the SMEs operations in the state [42]. The study found that there is a positive and good correlation between proper recording, indiscriminate drawings, and SME's performance with Pearson's coefficient is 0.692 and p-value of 0.000. This implies that the proper keeping of financial records ensured the success of the firm. The more the owner/manager maintain good record keeping policy in their dealings, the better will be their performance as cash management demands good financial planning [29]. The proper dealing that translates to proper record keeping is one side of a coin while avoiding indiscriminate drawings is the other side of the same coin. Thus, these two activities got to be checked-met if adequate and proper financial management is to be achieved.

Furthermore, the t-test result indicates that the mean responses of the two groups of respondent i.e. successful and unsuccessful owners/managers are different. Levene's test of equal variance conducted to show a p-value above .05 for all items tested. This implies that the difference in the two means is not as a result of statistical error, but a real difference in the views held by the respondents about the position of proper accounting and indiscriminate drawings by owner/managers of firms in the study area. That is to say, the higher the rate of indiscriminate withdrawal of cash and material from the business for personal purposes, the less the business proper [43]. Sometimes, individual business owners get to the point of expending beyond what may be realized as profit. Such withdrawals are mostly to add more wives; and that, creates more expenditures. Yet, those individuals never think of the negative impact it can have on their business, Hence, they end up having depleted capital which keeps reducing day by day. This situation sends owners out of business owners within a short time.

5.0 CONCLUSION

In conclusion, whereas there are some SMEs that prepare reports, they retain incomplete records which do not present factual situation of the businesses as in what the firm worth in terms of payables, receivables, assets, liabilities, etc. The result from the researchers such as [43], [44] is in the same direction as the result obtained in this current study. Hence, poor financial management viz: poor or bad accounting record keeping and indiscriminate/excessive withdrawals of cash and materials play an important role in collapsing businesses prematurely in Yobe State.

5.1 Recommendation

The following recommendations were offered to the business owners:

- a) Good and appropriate financial records have to be maintained for receivables, payables, vouchers, payrolls, etc.;

- b) Records of assets and liabilities must always be maintained;
- c) They should get trained in finance and accounting literacy which can be organized by the government or other financial institutions;
- d) Unnecessary/indiscriminate withdrawals of cash and other materials should be discouraged;
- e) Excessive cash and materials drawings should be minimized or stopped;
- f) We need to get trained on banking relationships so as to benefit greatly from the voluminous services available for the SME's consumptions.

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APPENDIX

Appendix I (Table 1)

S/N	Respondents	Number Issued	Returned	Not. Returned	%Returned	%Not Returned
1.	Successful SMEs	130	116	24	91.54%	8.46%
2.	Failed SMEs	122	100	22	81.82%	18.18%
	Total	252	216	46		

Source: Field research 2019

Appendix ii. Table 2. Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistics	df	Sig.	Statistics	df	Sig.
FP1	.261	216	.000	.782	216	.000
FP2	.289	216	.000	.837	216	.000
FP3	.258	216	.000	.868	216	.000
RP4	.257	216	.000	.854	216	.000
FP5	.274	216	.000	.818	216	.000
FP6	.277	216	.000	.819	216	.000

a. Lilliefors Significance Correction

Appendix iii Table 3 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
.897	.907	36

Appendix iv (Table 4). Group Statistics

	Business status	N	Mean	Std. Deviation	Std. Error Mean
Mean FM	Successful Businessmen	121	3.9277	.63898	.05809
	Unsuccessful Businessmen	95	3.8905	.68558	.07034
Mean RK	Successful Businessmen	121	4.0198	.53535	.04867
	Unsuccessful Businessmen	95	3.9537	.61555	.06315
Mean FP	Successful Businessmen	121	3.9118	.69658	.06333
	Unsuccessful Businessmen	95	3.9579	.77030	.07903

Appendix v (Table 5). Correlation Testing H1

		Mean FP	Mean FM
Mean FP	Pearson Correlation	1	.483**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	114.115	49.808
	Covariance	.531	.232
	N	216	216
Mean FM	Pearson Correlation	.483**	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	49.808	93.250
	Covariance	.232	.434
	N	216	216

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

Appendix vii (Table 7). Independent Sample Test

Appendix vi (Table 6). Correlations

		Mean FP	Mean RK
Mean FP	Pearson Correlation	1	.692**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	114.115	61.998
	Covariance	.531	.288
	N	216	216
Mean RK	Pearson Correlation	.692**	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	61.998	70.241
	Covariance	.288	.327
	N	216	216

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

		Sig.	t	df	Sig. (2-tailed)	Mean Difference
Mean FM	Equal variances assumed	.411	.411	214	.682	.03716
	Equal variances not assumed		.407	194.921	.684	.03716
Mean RK/WD	Equal variances assumed	.070	.844	214	.400	.06615
	Equal variance not assumed		.830	187.109	.408	.06615
Mean FP	Equal variances assumed	.577	-.460	214	.646	-.04605
	Equal variances not assumed		-.455	191.587	.650	-.04605

95% confidence interval

