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Financial Management and Performance of Selected SMEs: A Case of Kogi State – Nigeria

Yusufu Ojochenemi Sunday[a*]

[a] *Kogi State University Anyigba – Nigeria*

A R T I C L E I N F O

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A B S T R A C T

The study took a critical look at financial management and the performance of Small and Medium Enterprises in Kogi State Nigeria. The population of the study consist of 115 selected SMEs located in Lokoja metropolis in Kogi State Nigeria. Questionnaires were distributed to the operators of the sampled SME's. Multiple linear regression was adopted in analyzing the result. It was found that financing enhances the performance of small medium enterprises. The study also found that investment is significant to the performance of SME's, in Nigeria. The study concluded that the components of financial management is significant to the performance of small and medium enterprises. The study recommended that SME's should employ the services of portfolio managers that will help in investment decision making. Finally, there is need for SME's to increase their financial performance through effective long term plan.

1. Introduction

Financial management is the act and science of managing money for effective utilization. Small and Medium Enterprises needs finance to meet business requirements in their day to day transactions (Cook & Nixson, 2000). One of the sole rationale behind operating a business enterprise is to maximize profit, this is done through ensuring that funds are properly channeled to activity areas that leads to productive wealth creation in other to realize the overall objective of the enterprise. Financial management practices connotes analysis of investment of organizational funds in line with the best portfolio to general market valuation of the organization financial management strategy involves managerial controlling and planning of financial resources and activity of a firm to attain the overall objectives of the enterprise.

Small enterprises as engine of growth and developmental needs efficient financial management. It is widely believed that successful business cannot be under taken without sufficient capital. Most small businesses are eager to grow into large organization and even to multinational corporations but they often collapse even before the break even. Financial management is necessary to ensure not only the survival of SMEs but as a panacea for financial institutions to assist in the area of funding through proper financial record.

SME's are the propelling forces behind the success recorded in advance countries, example of such countries are USA, China, Taiwan etc. SMEs has really transformed the economies of developed countries by providing gainful employment and operating indigenous skills and idea recognition which has helped to develop manpower. Due to their numbers, size and grass roots- rural base, SME's are known to be the bedrock of rapid social and economic development (Etuk, Etuk & Baghebo, 2014). In

* **Corresponding author**: Yusufu Ojochenemi Sundaya, Kogi State University Anyigba – Nigeria
E-mail addresses: sunnylivia42@gmail.com

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the developing economies, apart from lack of capital which is often ranked highest, they are often faced with problems of poor performance of SMEs which is necessitated by lack of financial management skills and strategy, wrong investment decision and poor financial reporting system leading to excessive take off cost among others (Shehu, 2014). Olajide, Tijani, Adeoye and Elegunde (2015) narrated that serious effort have been directed towards solving problem associated with incessant collapse of Small and Medium Enterprises. This financial skills needed for effective financial management ranges from good investment decision, proper cash management and financial reporting among others.

The broad objective of the study is to evaluate the effect of financial management and the performance of small and medium enterprises in Kogi State. Specific objectives are:

- To examine the influence of financing on the performance of SME's in Kogi State.
- To ascertain the effect of investment decision and the performance of SME's in Kogi State.

This section defines and explains key concepts as they relates to the subject matter, equally, the contextual structures of the work alongside relevant theories underpinning the study were discussed. Previous related studies were also reviewed in this section.

Conceptualizing Financial management

Kilonzo and Ouma (2015) define financial management as the management of funds and how this funds are channeled towards achieving the overall objectives of the organization and shareholders' value maximization. Kitonga (2013) observed that financial management in formal organizations include an accounting information system, capital structure management, working capital management, fixed assets management, financial reporting and analysis. Alhassan, Erasmus and Portia (2018) observed that financial management involves every aspects of management that affect the finances of the firms or company and what is required to achieve the overall objective of the organization. Karadag (2015) mentioned that requisite knowledge in financial management has a positive effect on the growth of small businesses. Shareholders' investment needed to be given good value, the maximization of shareholders wealth is paramount to the survival and growth of the firm (Yusufu, Suleiman & Akuh,2020).

Financing

Financing involves the strategy which the firm adopts in mobilizing funds to meet the long term and short requirement of the firm. Long term sources of finance involves the mobilization of large funds with a repayable period of five years and above (Janse, 2020). Long term sources of finance is required to measure up with the capital expenses of companies which involves buying of assets, land ,building, plants and machineries. Mutua (2015) observed that short term sources of finance include funds obtain from the following sources, customer advances, trade credit, bank credit and money market instruments.

Investment Decision

Investing is one of the most crucial practices to achieve wealth and financial security which differs from trading. Gveroski and Jankuloska (2017) observed that funds for new investment can be realized from the sale of equity which is the initial invested assets of the owner and through raising of fund from financial institution or external sources.

Investment decision involves a long term process of selecting the best investment option and consider the suitable return from the investment. Capital budgeting techniques can be used to determine the effective utilization of an investment. An investment can be appraised using some of this capital budgeting techniques: net present value, accounting rate of return, internal rate of return, payback period etc.

Concept of Small and Medium Enterprises

It has been observed that SME's in Nigeria constitutes about 97% of the enterprises in the country, with a contribution of about 46% to the GDP and employing over 50% of Nigerian's labour force (MSME survey report , 2010; Taiwo, Ayodeji & Yusuf, 2012). Small and Medium Enterprises are multiple and ranging from micro to cottage industries. SME's has potentials of generating employment at low capital cost. Small and medium enterprises can be viewed in relations to the value of assets available at its disposal. Several criteria are used throughout the world to describe small scale business, they are: Initial capital outlay, financial strength, relative size etc. For the context of this study, we shall adopt the Nigerian definition of SME.

A more proactive strategy is applied to address some major setback faced by SME's, these problems are poor access to finance, government frequent change of policies, multiple taxation and access to market. Performance of SME's can be measured in terms of size, profitability, growth in asset, competitive strength among others (Kaplan publishing, 2012).

Empirical Review

Muneer, Ahmed and Azhar (2017) studied the impact of financial management on small and medium enterprises with moderating role of agency cost. Primary data was obtained from two hundred SMEs from Faisalabad, Pakistan. The study adopted partial least square (PLS) to test the hypothesis. The study found a significant relationship between financial management and SMEs profitability. The study further recommends higher adherence to financial management.

Abimbola and Kolawole (2017) studied the effect of working capital management practices on the performance of small and medium scale enterprises (SMEs) in Oyo state, Nigeria. The study employed the use of primary data with a population of 150 SME's operators. The data was analyzed using multiple regression analysis and spearman rank correlation. Findings showed positive relationship between cash management and inventory management practices on the performance of SMEs. The study recommended that SMEs operators should take cognizance of working capital management in order to boost their performance.

Chinonye, Akinbode and Onochie (2015) examined the strategies for financing Small and Medium Enterprises in

Nigeria: concepts and issues. The study used secondary data. Findings from the study revealed that several effort has been directed by both the government and international agencies in the area of financing SMEs.it was concluded that SMEs contribute to the national economy in the area of job creation, poverty alleviation, infrastructure provision and skill supply.

Theoretical Review

Pecking Order Theory

This study is anchored on pecking Order theory by Donalson in 1961 and modified by Stewart .C Meyers and Nicholas Majluf (1984). Pecking Order theory states that firms has a hierarchy for financing decisions. The best choice is to use internal financing before going for external funds. The Pecking Order Theory (POT) suggests that there is no well-defined optimal capital structure. The basis of Pecking order theory is that firms have no defined debt ratio. Management chooses to choose internal financing before external financing Internal funds bear no floating costs and do not require further disclosure of their own financial information, which could lead to a tougher marketing history and a possible loss of competitive advantage.

2. Material & Methods

The study made use of survey method which was made possible through the use of questionnaire to obtain the data. The study population consist of 115 selected small medium enterprises within Lokoja metropolis using simple random sampling. Questionnaire were distributed to the sampled SME in order to elicit responses on their view based on the research question. In analyzing the data collected , the study used multiple regression.

Specification of Model

The model indicates the dependent variable which is performance of small medium enterprises (PSME). The model also specify the independent variable which is financial management (FMP). The model is presented thus:

PSME= f (FMP) ---------------------------------------(1)

PSME =βo + β1 FIG + β2 IVD + μ---------------- (2)

Where: FMP = an indicator representing financial management (Independent Variable);

Performance SME = Performance of small medium enterprises (dependent variable parameter)

βo = a constant;

β1, β2, =coefficient of the predictor variable;

FIG= Financing (predictor variable)

IVD= Investment decision (predictor variable)

μ= stochastic error term.

f = Functional relationship.

3. Results & Discussion

Table 1
Model Summary

Model	R Square	Adjusted R Square	Std. Error	R Estimate
1	.9277a	0.869	0.867	0.60276

a. Predictors: (Constant), FIG, IVD

b. Dependent Variable: PSME

Table 1 reveals that the adjusted R2 = .867. The result indicates that about 92% relationship exist among the components of the independent variable and dependent variable. The r Square value of 0.869 which indicates that the components of the predictor variable have a combined effect of 86% on the dependent variable. While the Adjusted r Square value of 0.867 also reveals that the accurate influence of the combined variables of financing and investment decision on the performance of small medium enterprises. About 86% of the variations in financial management are explained in the model, while 14% was not explained in the model.

Table 2
Anova Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	304.707	2	101.300	279.382	.000b
	Residual	41.158	115	.362		
	Total	346.767	118			

a. Dependent Variable: PSME

Table 3
Coefficients

Model	unstandardized Coefficients B	std .Error	standardized coefficients Beta	T	Sig
(constant)	1.639	.242		6.762	.000
FIG	.607	.108	1.175	5.640	.000
1 IVD	.500	.080	.875	6.255	.000

a. Dependent Variable: PSME

Findings

The result of the T-Statistics value of 5.640 and the corresponding significant level of .000 indicating that financing is significant and has a positive relationship with the performance of small medium enterprises, base on this, the Null hypothesis (H01) which says that financing does not have significant influence on the growth of small medium enterprises is rejected on the bases that the p- value is less than 0.05. Finally, Table 3.2.2 above shows the result of T- statistics of 6.255 and the corresponding significant level of .000 which is significant at 5% which also indicates that investment decision is significant positively related with the performance of SME's, this indicates that the Null hypothesis (H02) that investment decision do not have significant effect on the performance of SME's, is rejected on the basis that the p-value is less than 0.05.

4. Conclusion

The study analyzed financial management on the performance of SME's, with the specific objective to ascertain the influence of investment decision and financing on SME's. Reviewed literatures focuses on the definition of financial management and its correlation on the performance V.

The following recommendations were made:

(i) SME's, should employ the services of a portfolio manager that can help in investment decision making process.
(ii) Finally, there is need for Small and Medium Enterprises to increase their financial performance through effective long term plan, focusing on the strategic goals of the enterprise.

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