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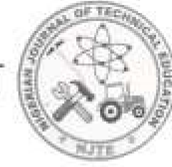

APPRAISAL OF FINANCIAL MANAGEMENT ON PROFITABILITY OF SMES IN ANAMBRA STATE

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Abstract

This study determined the how financial management affected the profitability of SMEs in Anambra state. The study specifically aimed at examining the effect of budgetary practice and capital investment practice on the profit level of SMEs in Anambra State. Survey research design guided the study. The sample size of the study purposively used 129 entrepreneurs. Primary data were gathered via a self-administered questionnaire containing Likert-type scale questions. Spearman Ranked Order correlation was deployed in testing the four null hypotheses of the study. The study found the following: budgetary practice has a statistically significant and positive effect on the profit level of SMEs in Anambra State (p-value = 0.022); capital investment practices significantly and positively affect the profit level of SMEs in Anambra state (p-value = 0.000). the study suggested that corporate managers should ensure that they utilize the efficiency of working capital management to determine sufficient cash flow which their firm requires for the day-to-day operation of the firm while trading-off between liquidity and profitability.

Keywords; Budgetary practice, Capital investment practice, Profit level of SMEs

INTRODUCTION

Since the academic community has become increasingly interested in the financial management used by businesses, particularly SMEs, and business performance, the significance of these practices cannot be overstated. After all, the majority of the

difficulties faced by SMEs are related to 8management, which is the act and science of managing money for efficient use. Small and medium-sized enterprises need finance to meet business requirements in their day to day transactions (Cook and Nixson, 2000). One of the only motivations for running a business is to maximize profits, which is accomplished by making sure that money is allocated correctly to activity areas that result in the creation of productive wealth in order to achieve the enterprise's main goal.

The significance of SMEs in creating employment, high economic growth, improving innovation capabilities, and regional development has led to their recognition as strategically important business units in every nation's economy (Rahim, Mohanty, Abdulrahman, Jayapriya, Ahmad, and Ahmed, 2023) (Somathilake & Pathirawasam, 2020; Gamge, 2014). Small and medium-sized businesses (SMEs) are considered as the engine of economic growth (Khan and Vawaid, 2004) and play a major role in the economic advancement of any nation. Even with a modest level of capital investment, the SME sector has the potential to improve the nation's socioeconomic benefits (Meshack, Nworie & Orji, 2022). The small and medium-sized enterprise (SMEs) sector in Nigeria is widely regarded as the engine of the nation's economy and has made significant contributions to its overall economic development. According to Sani, Noraini, and Umar (2020), SMEs make up 90% of Nigeria's industrial and commercial activities, contributing 7% of the nation's export earnings, 48% of its nominal GDP, and 10% of its real GDP. It boosts employment, encourages the export of goods and services produced locally, and assists the local government in raising taxes to fund socioeconomic development. Major components include the process of obtaining such funds as well as their efficient use and management.

Adegbie and Alawode (2020) assert that Small and Medium-Sized Enterprises (SMEs) play a vital role in driving economic development, particularly in developing countries like Nigeria, which has struggled for over a decade to diversify from petrol-carbon revenue and generate employment. The success of most SMEs can be attributed to their effective financial management practices, whereas firms with poor financial management systems often experience declining profitability. Therefore, it is crucial for SMEs to focus on their capital investment practices, working capital decisions, financing

decisions, and budgetary practices to guide their long-term investment plans, liquidity, sourcing for funds, and performance appraisal.

Numerous business enterprises in Nigeria have failed due to inadequate financial management practices (Ogiriki and Atagboro, 2023). These actions reveal a company's financial fragility through poor management, inefficient resource allocation, and wasteful use of funds. Most managers of underperforming firms have a history of poor financial management practices, which hinder profitable capital investment, working capital, and financing decisions, leading to a decline in corporate profitability (Adegbie & Alawode, 2020). Many SMEs have seen a decline in their financial success and profitability as a result of the inefficiency and effectiveness of pertinent financial management practices as well as the unpredictability of the business environment (Gamlath, 2022). Previous research has looked into how financial management techniques affect a company's profitability. However, based on the researcher's empirical review, none of these studies, such as Ogiriki and Atagboro (2023); Okeyo and Kaplelach (2022); Gamlath (2022); Sani, Noraini, and Umar (2020), Lincoln and Omagwa (2018), Desta, Kenenisa, and Woldemichael (2018), used a combination of capital investment practice, working capital decision, financing decision, and budgetary practice to measure financial management practices in SMEs. By examining how these factors interact to impact financial management strategies and the profitability of SMEs in the state of Anambra, this study seeks to close this disparity. Examining how financial management affects profitability of SMEs in the state of Anambra is the study's main goal. The specific goals of the research are as follows.

1. To determine the effect of budgetary practice on the profit level of SMEs in Anambra state.
2. To ascertain the extent to which capital investment practices affect the profit level of SMEs in Anambra state.

CONCEPTUAL REVIEW

Due to the fact that SMEs can be classified based on a wide range of factors that vary from nation to nation, the SME sector faces the issue that there is no generally recognized meaning for SMEs. Because of this, small and medium-sized businesses have been defined in a variety of ways based on factors like capital, size, number of employees, ownership

and management, and sales volume. However, all definitions concur that small and medium-sized businesses have a low employee count and are defined by having a small capital and turnover. Small and Medium-Scale Enterprises (SMEs) are defined by the Central Bank of Nigeria (CBN) as businesses that employ fewer than 300 people. SMEs are companies that are usually smaller than larger corporations, both in terms of size and scope. Usually run by private individuals, they have fewer staff members and generate lower yearly income than larger businesses. Depending on the nation and industry, the precise definition of a SME can change, but in general, a SME is defined as having fewer than 250 employees and an annual revenue of less than N50 million.

Recent research conducted in Nigeria indicates that SMEs account for approximately 96% of businesses owned by Nigerians, 48 percent of the country's GDP, and 84 percent of employment. This statistic is disheartening and presents a significant challenge. Nigeria's economy depends heavily on small and medium-sized businesses because they foster innovation, job creation, and economic expansion. But a lot of obstacles stand in the way of these SMEs' growth and viability.

Financial management practices

According to Okoli and Okeke (2019), financial management practices encompass managerial techniques such as analyzing financial performance, identifying efficient resource utilization, and creating new resources through innovative means. Planning, raising, managing, and overseeing the funds utilized by the company are the activities involved in this activity (Guthman and Dougal, 2022). Additionally, it is the branch of business management that deals with the prudent use of capital and the careful selection of the capital source to allow a spending unit to proceed toward achieving the objectives. It all comes down to obtaining money at the lowest possible expense and making the most of it by using it as best you can. To cover the financial costs of business operations, funds are raised. Financial management practices can be broadly defined as an administrative set of activities that assist a company in managing its credit and cash so that it can operate profitably (Ogiriki and Atagboro, 2023). These practices involve the acquisition and management of funds needed for a company's assets and activities, the allocation of these funds to various competing uses, and ensuring that the firm's economic

resources are utilized effectively (Sani, Noraini & Umar, 2020).

Top management views financial management as a crucial component of business decision-making that supports their decision-making process. It is an essential organ of management. It is finance function I's centralized structure. e. Decisions about investments, financing, and dividends. It aids in performance evaluation and financial management, which is necessary for all sizes of business organizations. The operational activity of a business is in charge of securing and making good use of the capital required for smooth operations. The division within a company or organization that deals with cash flow, profitability, credits, expenses, etc. is known as financial management. to guarantee that the business has the resources required to meet its goals and objectives. Put another way, it's the application of general management principles to a company's financial resources. Financial management, in general, is the process of overseeing a business's finances to enable profitability while maintaining compliance with relevant regulations. This requires both strategic planning at the highest level and practical implementation on the ground. Investing money so that the profits outweigh the cost of borrowing is essential for any business looking to expand. The main objectives of financial management strategies are to generate cash flow, build business wealth, and provide a sufficient return on investment while taking into consideration.

Budgetary Practices

Adegbie and Alawode (2020) describe budgetary practice as a plan that outlines a firm's expected cash receipts and payments. It is a critical tool of financial management and a vital technique for financial planning. Budgetary practice allows firms to provide a tentative projection and working framework for incomes and expenses over periods of time, under review. The process of budgetary practice involves allocating a firm's financial resources to its units, investments, and activities. By establishing a definite focus for the firm, budgetary practice assists in the coordination of activities and facilitates management control for further actions and attention. It also serves as a parameter for measuring the actual achievements of the firm, unit, department, or ministry. An effective budgetary practice ensures the attainment of well-defined goals and objectives of the firm by critically allocating economic resources to the operational subunits in line with the corporate strategic

policies of the firm. Budgetary practice plays a significant role in the financial management of a firm as it helps to control income and establish priorities by setting clear targets.

The primary objective of budgetary practice is to provide direction and coordination that can help turn the firm's objectives into practical reality. A good budgetary practice assigns responsibilities to budget holders and effectively allocates resources while communicating targets from management to employees. It also motivates staff, improves efficiency, and monitors performance. To be effective, budgetary practice must achieve three crucial objectives, namely maintaining fiscal discipline, achieving allocative efficiency, and achieving technical or operational efficiency (Adegbie & Alawode, 2020). Budgetary practice is a financial management tool used to prepare performance plans and budget requests that outline corporate goals, measures of output, and outcomes in various operational activities, with the objective of achieving performance goals within a defined period. This practice prompts managers to create strategies, goals, and targets before commencing business operations.

Financing decision refers to the process of identifying and selecting the most appropriate financing options for a company's short-term and long-term financial needs. This involves evaluating the company's cash flow, creditworthiness, and financial goals to determine the most efficient and cost-effective financing solutions. Financing decision is the process of determining how a company will obtain the necessary funds to operate and expand its business operations. It involves deciding on the sources and types of capital that will be used to fund the company's activities. Financing decision is the strategic management of the company's capital structure, which involves balancing the use of debt and equity financing to optimize the company's financial performance. The decision is based on factors such as cost of capital, risk level, and market conditions.

Profitability

The extent to which a company's revenue surpasses its expenses is known as profitability. It is the result of a business's operations in their final form (Nyongesa, 2017). This metric, which assesses how well the company manages its assets, is crucial for both business professionals and strategic management academics. The profitability of a business has a big impact on its survival and general well-being. High profitability is an indicator of effective management and

efficient use of resources, which in turn contributes to the overall economy of the country (Addo, 2017). The viability of any business, especially SMEs, depends on profitability. It is typically regarded as the main goal of businesses that prioritize profit (Nthenge and Ringera, 2017). A well-performing SME is typically one that effectively and efficiently utilizes its resources to ensure long-term success by adhering to industry standards and achieving high performance.

SME managers prioritize achieving high operating profitability because it has significant long-term implications for their businesses, including management efficiency (optimizing limited resources), investor satisfaction (wealth maximization), and fulfilling obligations to lenders (repayment of debt and interest) (Saqib, Rao and Azhar, 2017). Determining profitability aids in calculating the return on a shareholder's investment in an organization over a given time frame. For this reason, profit-driven businesses, such as SMEs, aim to increase profitability in order to maximize the wealth of their shareholders and the firm's value. It's important for managers to pay attention to a company's profitability in addition to shareholders. Therefore, it makes sense that managers of successful SMEs would be driven to share more details in order to set themselves apart from businesses that aren't as successful (Erambo, Mulwa, Aketch and Muchibi 2016).

Empirical Review

Ogiriki and Atagboro (2023) examined how changes in financial management methods affected the profitability of manufacturing businesses in Nigeria. The sample for this investigation consists of all Nigerian manufacturing firms that were in operation during the years 2000 and 2019. The information utilized in the study was secondary, and it was gathered from sources including the Manufacturers Association of Nigeria (MAN) 2020 and the Statistical Bulletin of the Nigerian Stock Exchange (NSE) (now the Nigerian Exchange Group). Estimation of the time series data for the study period was performed using an ordinary least squares (OLS) inferential statistical model. All variables of financial management practices (FMP), including working capital management, capital structure management, and capital budgeting management, were found to have a positive monumental effect on return on asset, leading to the study's conclusion that FMPs have a substantial effect on the viability level of manufacturing

corporations. Okeyo and Kaplelach (2022) examined the effects of financial management practices on the financial performance of selected SMEs in the county of Mombasa, Kenya. The specific objective was to determine the effects of financing practices, investments practices, and liquidity practices on the financial performance of selected SMEs in Mombasa County, Kenya. The design of this study was Descriptive research while the population targeted for the research was 206 respondents from selected SMEs in Mombasa County. A sample of 62 respondents was chosen using stratified sampling method, out of which 60 filled and returned the questionnaire. Multiple regression model was specifically used to analyze the study-specific objectives. All SMEs were found to have incorporated financial management practices in their operation. The study concludes that majority of SMEs financial performance affected by financial management practices. Gamlath (2022) examined the impact of financial management practices on the financial performance of SMEs in the plantation sector of Sri Lanka. The data was analyzed by using correlation analysis and regression analysis. According to the correlation analysis, the findings revealed that working capital management practices, capital structure, management practices, and financial reporting and analysis practices were positively correlated with financial performance. Further, the regression analysis indicated that working capital management practices, capital structure, management practices, and financial reporting and analysis practices significantly affected financial performance. Mbanugo, Nwannah, and Udegbunam (2020) conducted a survey to examine the financial management decisions adopted by entrepreneurs operating small and medium scale enterprises (SMSEs) in Anambra State. The study utilized a descriptive survey research design with one research question and one null hypothesis. Descriptive statistics such as mean and standard deviation were used to analyze the data collected, while ANOVA was used to test the null hypothesis at a 0.05 level of significance. The study found that SMSE entrepreneurs in Anambra State applied inventory management practices.

Adegbie and Alawode (2020) conducted a survey to investigate the impact of financial management practices on the financial performance of small and medium-sized enterprises (SMEs) in Ogun state, Nigeria. The study focused on a total of 162 registered

poultry farms with a total of 162 farm managers, excluding non-managerial staff. The sample size of 150 was obtained using the Cochran formula and selected through a multi-stage sampling technique. The collected data were processed into quantitative data and analyzed using descriptive and empirical analysis. The findings revealed that annual budget process, capital structure management, and working capital management have a significant positive impact on profitability in the poultry industry. The study concluded that financial management practices proxies, such as profitability, cash solvency, and economic value added, have a significant positive impact on the performance of the poultry industry. Okoli and Okeke (2019) conducted a study to determine the level of adoption of financial management practices by owners of small and medium scale enterprises (SMEs) in Anambra State for business success. The null hypothesis was tested using Analysis of Variance (ANOVA) at a 0.05 level of significance. The study found that owners of SMEs in Anambra State had a low level of adoption of financial management practices, particularly in establishing financial plans for specific areas of fund allocation and verifying recorded accounting figures regularly. The study also found that the years of business experience of the owners did not significantly affect their adoption of financial management practices. Ali and Adan (2019) investigated the impact of financial management practices on the financial performance of service companies in Mogadishu, Somalia, focusing on working capital management, investment decision making, and financial decision making. The study used both explanatory and descriptive research design, and collected data from 145 respondents using a cross-sectional questionnaire and stratified sampling technique. The data were analyzed using regression analysis to test the hypotheses. The results revealed that working capital and investment decisions significantly influence the financial performance of service companies in Somalia, while financial decisions had no significant impact. The investment decision was found to be the most significant variable in the model, followed by working capital management. Muhammad, Cao, and Shagufta (2019) investigated the impact of financial management practices on the growth and development of small-to-medium-sized forest enterprises (SMFEs) in Pakistan. The study utilized a descriptive survey research design and collected primary data through a structured questionnaire survey. A convenience sampling technique

was used to select 260 SMFEs owners, finance managers, and other finance staff as participants. The study tested five hypotheses using regression analysis. The rate of response was 100%. The results showed that financial management practices significantly influenced the growth and development of SMFEs in Pakistan. Nthenge and Ringera (2017) established the effect of financial management practices on financial performance of small and medium enterprises in Kiambu town in Kenya. The study used descriptive research design utilizing qualitative data captured using a self-administered questionnaire. The data that were collected were analyzed using the regression model analysis. The results of the study showed that working capital management; investment decisions; and financial decisions positively enhance financial performance. Saqib, Rao and Azhar (2017) examined the relationships between financial management practices and profitability of small and medium enterprises and also to checked the impact of agency cost on this relationship. Descriptive survey research design guided the study. The study consists of data analysis of two hundred SMEs from Faisalabad Pakistan. The study used primary data predominantly. SPSS 23 was used for descriptive analysis and Structural Equation Model (SEM) through Partial Least Square (PLS) for hypothesis testing. The findings of this study indicated the presence of positive relationship between financial management practices and SMEs profitability.

METHODOLOGY

Descriptive research of the survey design was used for the study. The research design is descriptive because it involves the collection of data to describe existing phenomena as they exist regarding financial management and SMEs profitability.

The entrepreneurs of small and medium-sized enterprises (SMEs) in Anambra State make up the study's population. Conducting a study involving 750 participants would require significant amounts of both time and resources. Consequently, the researcher determined that it would be prudent to select a sample from the population to draw conclusions based on the data obtained from the participants in the sample.

To determine the appropriate sample size for the study, the Taro-Yamane (1967) formula was utilized. This formula provides a computational technique for calculating the sample size required, as shown below:

$$n = \frac{N}{1 + N(e)}$$

Where:

n - Sample size

N - Population size

e - Sampling error

1 - Constant

Substituting the values in the formula where e = 8%, we have:

N = 750

e = 0.08

n = ?

$$n = \frac{750}{1+750(0.08)}$$

n = 129.31

Approximately, n = 129

Methods of Data Analysis

Descriptive statistical analysis of the data was performed through mean point analysis and frequency counts. Furthermore, the Spearman's Ranked Order Correlation Coefficient was used to test hypotheses at a 5% level of significance using. The analyses were computed with the aid of Statistical Package for the Social Sciences (SPSS) Version 22.

Decision Rule

If the p-value is greater than 0.05, the null hypothesis will be accepted and the alternate hypothesis rejected as a decision rule.

DATA ANALYSIS

Table 1: Presentation of Mean Scores for Budgetary Practice

SN	Statements Covering the Variable of Study	Mean	SD	Remark
A	**Measurement of Budgetary Practice**			
1	Our budgetary practice allocates financial resources to each business unit	4.67	0.71	Accept
2	Budgetary practice in my firm helps us maintain fiscal discipline	4.0	0.79	Accept
3	We attain allocate efficiency because we practice sound budgeting techniques	4.49	0.83	Accept
4.	Budgetary practice helps us achieve technical or operational efficiency	4.53	0.85	Accept

Source: Field Survey; 2024.

Table 2: Presentation of Mean Scores for Capital Investment Practice

B	Measurement of Capital Investment Practice	Mean	SD	Remark
5	We invest funds in projects that are expected to yield some economic benefits in the near future	3.12	1.12	Accept
6	Our firm critically identifies potential investments using investment techniques	4.56	0.50	Accept
7	Our firm analyze and select the best investment opportunities	3.25	1.11	Accept
8.	Our firm implements and monitors the selected investment for maximization of wealth	4.78	0.42	Accept

Source: Field Survey; 2024.

Table 3: Presentation of Mean Scores for Profit Level

E	Measurement of Corporate Performance	Mean	SD	Remark
17	Our SME effectively secures its long-term success through financial management practices	3.84	1.41	Accept
18	Our firm is efficient in use of resources in achieving its financial objectives of profit maximization	3.12	1.12	Accept
19	Our financial management system has increased our firm's performance level by protecting its resources against wastages	4.54	0.70	Accept
20	The actual output or results of our firm as measured against its intended outputs (or goals and objectives) have been on the increase	4.22	1.11	Accept

Source: Field Survey; 2024.

The above tables give the mean scores of the constructs that measured budgetary practice, capital investment practice, working capital management practice, financing decision, and profit level, respectively. For any of the statements to be accepted, the criteria for accept/reject decision is that the mean response must be at least 3.0. According to the tables in question, all the items were accepted since they met the point of reference, and so were duly considered useful for the test of the hypotheses.

Test of Hypothesis

Test of Hypothesis One

H_{O1}: Budgetary practice has no significant effect on the profit level of SMEs in Anambra state.

Table 4: Correlations

			Budgetary Practice	Profit Level
Spearman's rho	Budgetary Practice	Correlation Coefficient	1.000	.213*
		Sig. (2-tailed)	.	.022
		N	116	116
	Profit Level	Correlation Coefficient	.213*	1.000
		Sig. (2-tailed)	.022	.
		N	116	116

*. Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS output; 2024.

The above table shows the effect of budgetary practice on the profit level of Small and Medium Scale Enterprises in Anambra state. The result of the test revealed a positive and significant effect with the value of coefficient of correlation as 0.213. Thus, an increase in

budgetary practice by 1 unit will marginally lead to an increase in profit level by 0.213.

Since the p-value of the test (0.022) is less than 0.05, the null hypothesis is rejected in line with the decision rule while the alternate hypothesis is accepted. As a result, the researcher concludes that budgetary practice has a statistically significant and positive effect on the profit level of SMEs in Anambra State (*p*-value = 0.022).

Hypothesis Two

H_{O2}: Capital investment practices do not significantly affect the profit level of SMEs in Anambra state.

Table 5 Correlations for Hypothesis II

			Capital investment Practice	Profit Level
Spearman's rho	Capital investment Practice	Correlation Coefficient	1.000	.753**
		Sig. (2-tailed)	.	.000
		N	116	116
	Profit Level	Correlation Coefficient	.753**	1.000
		Sig. (2-tailed)	.000	.
		N	116	116

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

Source: Field Survey; 2024.

The above table revealed a positive and significant effect between capital investment practice and profit level of Small and Medium Scale Enterprises in Anambra State value of coefficient of correlation as 0.753.

Since the p-value of the test (0.000) is less than 0.05, the null hypothesis is rejected in line with the decision rule while the alternate hypothesis is accepted. As a result, the researcher concludes that capital investment practices significantly and positively affect the profit level of SMEs in Anambra state (*p*-value = 0.000).

Discussion

It was found that budgetary practices significantly and favorably impacted the profit margin of small and medium-sized businesses in Anambra. In other words, SMEs are more profitable the more their budgetary practices are improved. This could be explained by the fact that effective budgetary practices aid in measuring the actual accomplishments of the organization, division, departments, ministries, etc. Since it carefully distributes financial resources to the operational divisions in accordance with the corporate strategic policies of the company,

an efficient budgetary procedure guarantees the achievement of clearly defined goals and objectives of the organization. According to Adegbie and Alawode (2020), Mbanugo, Nwannah, and Udegbunam (2020), financial management practices have a major impact on a firm's corporate performance, and these findings are in line with their findings.

It was found that capital investment practices significantly and favorably impacted the level of profit earned by small and medium-sized businesses in Anambra. In other words, SMEs are more profitable the more capital investment practices are refined. This might be explained by the fact that more efficient capital investment practices lead to more successful identification of possible investments, more insightful evaluation of available options and the selection of the one that will maximize shareholder value, as well as more effective implementation and oversight of the chosen investment.

Conclusion

The study's conclusions are in line with those of Somathilake and Pathirawasam (2020); Muhammad, Cao, and Shagufta (2019), who found that financial management techniques significantly impact a company's ability to perform professionally. According to the study's findings, managers of high-performing SMEs effectively apply the right financial management strategies needed for both corporate profiteering and business success, which makes it easier for these companies to achieve their targeted corporate objectives. Accordingly, the study suggested that:

1. In order to achieve allocative efficiency, operational or technical efficiency, and fiscal discipline, corporate managers should make an effort to implement effective budgetary practices. 2. It is recommended that small and medium-sized enterprises (SMEs) utilize appropriate investment analysis techniques when identifying, analyzing, and selecting potential investment opportunities, as well as when implementing the chosen projects.

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