Impact of Financial Management Practices on Sustainable Growth of SMEs: A Case of Catering Organizations in Bulawayo Metropolitan Province

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Abstract

The study was conducted to establish the impact of financial management practices on performance of Small to Medium Enterprises (SMEs) in Zimbabwe. The problem statement identified lack of business growth of SMEs. The objectives of the study were to establish the financial management practices on the sustainable growth of SMEs. The study was based on a sample of 101 SMEs from the catering industry that were selected through simple random sampling. Data analysis was done through SPSS version 2.2. The findings of the study revealed that SMEs used mostly four financial management practices: capital budgeting, working capital management, capital structure management and financial reporting analysis. The challenges faced by SMEs in implementing financial management practices were mostly: poor management skills, lack of registration and lack of financial skills. The results of the study implied that most challenges faced by SMEs were localised to the organisation. The study recommended a model for growth of SMEs in which government was the major supporter of SMEs through financial literacy training and financial support. SMEs were recommended to use equitable financial management practices.

Keywords: Financial Management, Sustainable Growth, Rate of Return, Performance

INTRODUCTION

Small and Medium Enterprises (SMEs) are a strong vehicle for the growth of the world economy and hugely contribute to economic development of poor countries (Abor et al., 2010, Azize, 2013)). However, despite their importance, the mortality rate for SMEs in very high. Many SMEs die prematurely, while others perpetually struggle to grow out of SME stage (SMEDCO, 2013). Studies by various scholars show that the high failure rate is attributable to the uncertainty in the business environment but mostly due to poor financial management practices by SME owners (Mboko and Smith-Hunter, 2009). Efficient financial management practices are essential for enterprises to reach sustainable growth. Studies on SME development show that poor financial management has a negative impact on the performance of Small and Medium enterprises (Karunanada and Jeyamaha, 2010; Rehman, 2010; Kasiran and Mohamad, 2016). The purpose of the study was to establish the impact of financial management practices on the sustainable growth of SMEs in Zimbabwe.

Statement of the problem

Despite the several interventions taken to promote the growth of SMEs in Zimbabwe, the mortality rate for SMEs remain very high (Manzini et al, 2020). A Report by SMEDCO (2014) shows that 70% of SMEs in Zimbabwe die at infancy and more than half do not reach five years in business. Studies (Abanisei et al 2013; Sah, 2015; Ngugi and Waweru 2013; Fahartali, 2017) show that poor performance of SMEs is mostly caused by lack of financial knowledge by SME owners. Poor financial knowledge by owners causes SMEs to experience difficulties with regards to financial output.

Main research question

What is the impact of financial management practices on growth of SMEs?

RESEARCH QUESTIONS
Which financial management practices are adopted by SMEs in Zimbabwe?
What is the relationship between implementation of financial management practices and performance of SMEs in Zimbabwe?
What are the challenges faced by SMEs in implementing financial management practices?

Hypotheses

The researchers formulated the following hypotheses on financial management practices and performance of firms.

H1: There is a positive relationship between financial management practices and net profit margin of SME firms.

H2: There is positive relationship between financial management practices and firm return on investment.

H3: There is positive relationship between financial management practices and return on assets of SMEs.

H4: There is a positive relationship between financial management practices and return on capital employed of SME firms.

LITERATURE RIVIEW

Theoretical Framework

A good theoretical framework offers the reader all the pieces needed to understand how the researcher has assembled the study. The contingency theory (Woodward, 1965) has been widely used in studies predicting performance and effectiveness of enterprises and the theory argues that the most appropriate structure for an enterprise is one that greatly fits a given operating contingency, such as technology (Woodward, 1965) or environment (Burns and Stalker, 1961). The resource based theory by Barney (1991) also helps to explain the effect of financial management practices in organisations. The theory is premised on the assumption that the competitive advantage of an organisation is embedded in the utilization of a bundle of valuable resources that are at the disposal of the firm. It is important that firms identify the major potential resources (Armstrong, 2009) which can be tangible or intangible. Myers and Majluf (1984) developed the Pecking order theory which suggests that firms have a particular preference order of raising capital, starting with less risky retained earnings, then safe debt and finally equity. This order is dictated by asymmetric information, released onto the market in each financing category that business managers analyze to make a prudent decision. . This suggests that, for SMEs in Zimbabwe to improve on their cash flows and increase profits, they need to follow a certain hierarchical fashion of financing their operations starting with least cost of operations to the most costly source of retained earnings, safe debt and lastly equity.

Conceptual framework of the study

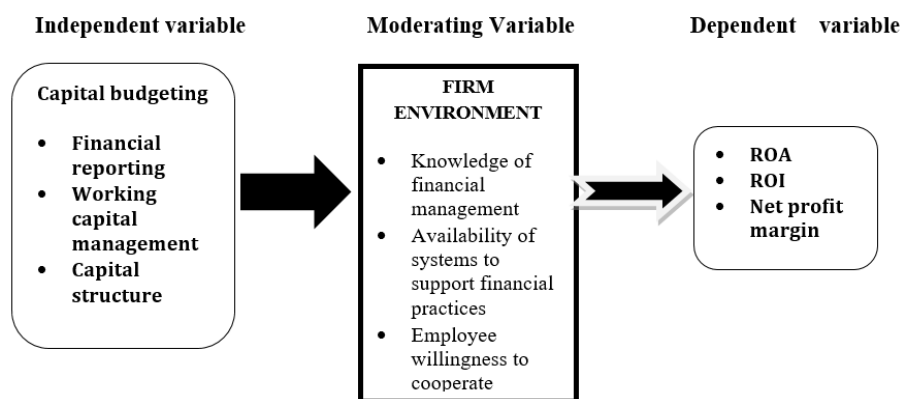The investigation came up with the conceptual framework below:

Fig 1. Conceptual Framework Of The Study (Researchers' Own Derivative)

The framework Fig 1 shows that the overall performance of a SMEs depends on the adoption of financial management practices in the organization. In this study cash flow management will be used as proxy for financial management practices while ROA, net revenue and ROI will be used as proxy for profitability.

RESEARCH METHODOLOGY

In this part of the exploration on financial management in SMEs scientific methodologies utilised ensured reliability of the study.

Research philosophy and design

The positivism philosophy is adopted for this study. The positivist approach was suitable because this study sought to collect quantitative data and the research approach was highly structured. A positivist approach is associated with quantitative research and this type of research is factual, objective and the data collected can be measured (Saunders et al, 2012). The aim of the study was to establish the statistical associations between variables under study and data was collected using a structured survey questionnaire. The researchers surveyed all registered catering SMEs that offer only customized service to clients on specific functions in the city of Bulawayo. Restricting the study to the catering industry was done so as to keep the data manageable. There are approximately 2600 SMEs in the city of Bulawayo and therefore it was not realistic to study all of them. The current survey thus focused on organisations that offer personalized catering services to individuals or corporate on specific functions. This did not include lodges and motels which offer catering services but are also in the accommodation industry. The survey also excluded fast food outlets that occasionally offer catering services as these offer catering on a continuous basis based on a sit in approach. Lastly, only registered catering SME organisations were used.

Population of the study

The reasons for using only registered organizations is that the population for all catering SMEs is known and records can easily be accessed from the Ministry of SMEs. The population in this study were organizations that give personalised catering services which are operational by 30 June 2021. The researchers used owners of catering organizations as respondents. The reason for using owners and not managers is because past

studies by (Nyamwanza, 2013; Moyo, 2012) show that owners of SMEs in Zimbabwe have more reliable information about their finances than managers since SME owners tend to prefer managing their finances to keep control of the organisation and also for confidentiality reasons. There were 143 organisations registered by SME ministry (2020) as catering organisations giving personalized catering services. However 8 organisations had seized operations and had not renewed their registration as at January 2021 according to the information provided by the SME Ministry. Thus the population for the study was 135 organisations. The sample size was 101 Catering SME organisations. The sample size was determined using the Krejcie and Morgan sample table. The Krejcie and Morgan table was used by the researcher because it is easy to use and the researcher does not need to calculate the sample because it is already calculated. The table was determined using the formulae.

S= 〖 x 〗 ^2 NP(1-p)+ 〖 d 〗 ^2 (N-1)+ 〖 x 〗 ^2 P (1-p)

S= required sample size

〖 x 〗 ^2= the value of chisquare for 1 degree at the desired confidence interval

N= population size (which was 135)

P= the population proportion (0.50)

d= the degree of accuracy expressed as a proportion (.05)

The study used one instrument with questions asked the same way to all participants. No face to face interviews were carried out as a precautionary measure to avoid contact with respondents which is discouraged under covid-19 lockdown regulations. Thus to prevent observer error, the researcher used a questionnaire with same questions for all respondents. The researchers used a Likert scale which allows all data to be interpreted the same way statistically. The   Alpha coefficient was used to measure reliability of instrument. The Crobanch's Alpha coefficient is viewed as the most appropriate measure of reliability when making use of Likert scales (Whitley, 2002; Robinson, 2009). For an exploratory or pilot study, it is suggested that reliability should be equal to or above 0.60 (Straub et al, 2004). When the instruments are tested, an overall value of 0.703 will be acceptable.

Data analysis

Table 1: Organisational Details

	Frequency	Percent	Valid Percent	Cumulative Percent
Organisation Years of Operation				
Less than 2 years	30	29.7	29.7	29.7
3-5 years	53	52.5	52.5	82.2
6-8 years	7	6.9	6.9	89.1
9-11 years	5	5.0	5.0	94.1
12+ years	6	5.9	5.9	100.0
Total	101	100.0	100.0	
Number of Employees				
5-25	75	74.3	74.3	74.3
26-50	26	25.7	25.7	100.0
Total	101	100.0	100.0	
SME Legal Formation				
Cooperative	7	6.9	6.9	6.9
Public Company	7	6.9	6.9	13.9
Private Company	56	55.4	55.4	69.3
Partnership	31	30.7	30.7	100.0
Total	101	100.0	100.0	

Source: Primary Data

Table 1 shows the organisational details obtained in the study. The findings show that majority of the organisation (52.5%) had been in operation for 3 to 5 years followed by those which had been in existence for less than 2 years with 29.7%. Only 5.9% of the organisations had a lifespan of 12 years or greater. This proves that the majority of small to medium enterprises have been in existence for very short time periods. The majority (74.3%) of the small to medium enterprises sampled employed 5 to 25 people whilst the remaining 25.7% employed 26 to 50 people. Thus, the findings showed that there was still need for SMEs to improve in terms of employment creation. Further, findings showed that the majority (55.4%) of SMEs were registered as private companies while 30.7% were registered as partnerships. The selection of these 2 forms of legal formations could be a result of the less stringent statutory obligations associated with them. Only 6.9% were registered as either cooperatives or public companies.

CAPITAL BUDGET PRACTICES

The study examined the capital budgeting practices associated with SMEs and findings on these are summarized in Table 2.

Table 2: Capital Budget Practices

	N	Mode	Mean	Std. Deviation
B1Q1 Use of Financial Budgets	101	1	2.0594	1.19851
B1Q2 Evaluate Alternation of Projects	101	2	2.1980	1.10472
B1Q3 Income Projections	101	2	2.3267	1.17566
B2Q4 Owner Involvement in Preparing Financial Budgets	101	1	1.7921	1.10740
B2Q5 Owner Involvement in Income Projections	101	2	2.1980	.96974
B2Q6 Owner Involvement in Investment Projects	101	1	2.2673	1.24813
Q7 Use of Discounted Payback	101	1	2.1485	1.32956
Q8 Use of NPV	101	2	2.2475	1.02378
Q9 Use of IRR	101	2	2.2277	.96831
Q10 Use of Discounted Payback	101	1	2.1485	1.34452
Valid N (listwise)	101			

Source: Primary Data

Table 2 shows the findings on capital budget practices associated with SMEs. The modal value of 1 showed that the majority of respondents indicated that financial budgets were utilised to a very little extent in SMES. The standard deviation of 1.19 was less than the mean of 2.05 showing low variation in terms of responses on this aspect. The respondents also suggested that evaluation of alternation of projects was done to a little extent as reflected by a mode of 2. Similar findings were obtained for income projections with findings showing they were also utilised to a little extent. Findings also showed SME owners were rarely involved in the business. On the other hand, involvement in investment projects was also observed to be to a very little extent. In all these aspects, the standard deviation was less than the mean showing there was minimum variation in responses. The findings further showed SMEs did not make use of known capital budgeting techniques such as NPV, IRR and Discounted payback in evaluation capital expenditure projects. This may imply, projects are undertaken by SMES without assessing the possible cash inflows and outflows from the projects. The findings show that SMEs are not utilising available financial management techniques to make investment decisions. As such, the investment decisions made by the SMEs may not yield optimum returns, thus possibly affecting business continuity.

EXTENT OF AGREEMENT WITH CAPITAL BUDGETING PRACTICES

The study assessed the extent to which respondents agreed or disagreed with specific capital budgeting practices as shown in Table 3.

Table 3: Agreement with Capital Budgeting Practices

	N	Mode	Mean	Std. Deviation
Q11 Organisation regards capital budgeting highly	101	1	2.2673	1.24813
Q12 Organisation regularly uses investment appraisal techniques	101	1	2.1485	1.32956
Q13 The owners is involved in capital budgeting	101	2	2.2475	1.02378
Q14 The company makes use of professional advice in capital investment	101	2	2.2277	.96831
Q15 Business applies computer systems in capital budgeting	101	2	2.2475	1.02378
Q16 Organization uses computers in doing costs evaluation	101	2	2.2277	.96831
Q17 Organization uses ICT in doing income analysis	101	1	2.1485	1.34452
Q18 Organisation uses computer systems to do selection of best projects	101	1	2.2673	1.24813
Q19 Organisation uses computers to do financial budgets	101	2	2.1980	.96974
Valid N (listwise)	101			

Source: Primary Data

As reflected on the output in Table 3, the majority of respondents reflected by the modal value of 1 strongly disagreed that their organisation regarded capital budgeting highly. In addition, the bulk of respondents also strongly disagreed that their organisation used investment appraisal techniques. A lower than the mean standard deviations of 1.24 and 1.32 indicated that respondents were united on these aspects. On the other hand, the majority of respondents disagreed that owners were involved in capital budgeting, and that their companies made use of professional advice in capital management as reflected by the mode of 2 on these aspects. Respondents also disagreed that SME business applied computers systems in capital budgeting or in evaluation of costs. This was reflected by the modal values of 2 on these aspects. Further, respondents strongly disagreed that their SME organisations used ICT in income analysis, selection of projects and in conducting financial budgets. The findings showed that SMEs were lagging behind in terms of adoption of ICTs and computers for capital budgeting and general operations.

CAPITAL STRUCTURE OF SMEs

The findings on the capital structure of SMEs are shown in Table 4.

Table 4: Capital Structure of SMEs

	N	Mode	Mean	Std. Deviation
Q36 Use of owner capital	101	5	3.4752	1.36084
Q37 Use of bank loan	101	5	4.0990	1.01494
Q38 Use of overdrafts	101	2	2.6733	1.09644
Q39 Others sources of capital	101	2	2.6139	1.12223
Valid N (listwise)	101			

Source: Primary Data

As reflected in table 4: the study findings showed that to a very large extent (mode=5), SMEs used owner capital in their operations. The modal value of 5 also showed that to a very large extent, SMEs used bank loans as part of their capital structure. Therefore, the findings showed that the capital structure of SMEs was largely made up of owner capital and bank loans. Respondents also indicated that to a little extent SMEs used overdrafts and other sources of capital, reflected by a modal value of 2. In all responses, the standard deviations were lower than the means suggesting low variation in terms of responses.

CHALLENGES IN IMPLEMENTING FINANCIAL MANAGEMENT PRACTICES

The study also identified challenges faced by SMEs in implementing financial management practices. These are shown in Table 5.

Table 5: Challenges in Implementing Financial Management Practices

	N	Mode	Mean	Std. Deviation
Q44 Poor management skills	101	5	4.3465	.94272
Q43 Lack of registration by firm	101	5	4.1683	1.15818
Q40 Lack of financial skills	101	5	4.0990	1.01494
Q45 Apathy by employees	101	5	4.0693	1.22684
Q42 Legal and regulatory constraints	101	5	3.8317	1.30437
Q41 Financial constraints	101	5	3.7228	1.24995
Valid N (listwise)	101			

Source: Primary Data

As reflected in table5: the challenges were ranked according to the mean. Poor management skills with a mean of 4.34 were identified as the biggest challenge facing SMEs in implementing financial management practices followed by a lack of registration by the firm with a mean of 4.16. A lack of financial skills with a mean of 4.09 was ranked third whilst apathy by employees was fourth. The lowest ranked constraints were financial constraints with a mean of 3.72 and legal and regulatory constraints with a mean of 3.83. This implies that SMEs fail to implement financial management practices largely as a result of poor management skills, lack of registration and lack of financial skills. The standard deviations lower than the means indicate respondents largely agree on these perspectives.

RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT PRACTICES AND ORGANISATIONAL PERFORMANCE.

The study also used the Pearson Chi-Square tests to determine if there is any association between selected financial management practices and organisational performance. The findings of the tests are shown in Table 6.

Table 6: Pearson Chi-Square Tests

Relationship	Pearson Chi-Square		
	Value	df	Asympt Sig (2 Sided)
B1Q1 Use of Financial Budgets * Q46 Net operating margin	20.461	16	0.200
B1Q1 Use of Financial Budgets * Q47 Return on assets	12.573	16	0.704
B1Q1 Use of Financial Budgets * Q48 Return on investment	16.994	20	0.653
B1Q1 Use of Financial Budgets * Q49 Return on capital employed	20.461	16	0.200
B1Q1 Use of Financial Budgets * Q50 Market share	22.509	16	0.127
B1Q2 Evaluate Alternation of Projects * Q46 Net operating margin	26.282	16	0.05**
B1Q2 Evaluate Alternation of Projects * Q47 Return on assets	12.752	16	0.691
B1Q2 Evaluate Alternation of Projects * Q48 Return on investment	19.610	20	0.483
B1Q2 Evaluate Alternation of Projects * Q49 Return on capital employed	26.282	16	0.05**
B1Q2 Evaluate Alternation of Projects * Q50 Market share	19.422	16	0.247
B1Q3 Income Projections * Q46 Net operating margin	12.979	16	0.674
B1Q3 Income Projections * Q47 Return on assets	20.301	16	0.207
B1Q3 Income Projections * Q48 Return on investment	17.819	20	0.599
B1Q3 Income Projections * Q49 Return on capital employed	12.979	16	0.674
B1Q3 Income Projections * Q50 Market share	18.343	16	0.304

Source: Primary Data

The study tested the association between financial management practices such as use of financial budgets, evaluation of alternation of projects and having income projections and organisational performance metrics such as net profit margin, return on assets, return on investment, return on capital employed, and market share. The results largely showed no association between the financial management practices and the performance metrics of the SMEs. In the majority of the tests, the null hypothesis of no association between financial management practice and organisational performance was accepted.

Summary of Findings

The study was conducted to establish the impact of financial management practices on performance of SMEs in Zimbabwe. The objectives of the study were to establish the financial management practices adopted by SMEs in Zimbabwe, to establish the relationship between financial management practices and performance of SMEs in Zimbabwe and find out challenges faced by SMEs in implanting financial management practices. The study findings showewe that the majority of respondents depicted by the mode of 1 indicated that they had very low performances in terms of net profit operating margins, return on investment, return on capital employed, and market share. The only contrasting finding was on return on assets where the modal value of 2 showed that the majority of respondents were of the opinion that their SME organisations just had low performance. The findings largely indicate a depressed performance for SMEs on their investment projects. A summary of findings as per study objectives will be made:

FINANCIAL MANAGEMENT PRACTICES IMPLEMENTED BY SMEs.

The results of the study showed that SMEs used four financial management practices that is capital budgeting, working capital management, capital structure management and financial reporting analysis. However these financial management practices were used to a little extent. The study examined the financial management practices associated with SMEs and findings show that capital budgeting practices were used to a little extent. The study showed that firms under study rarely used budgeting techniques, working capital management practices and capital structure management. The study showed that SME owners did not use capital budgeting techniques such as NPV, payback, when making capital budgeting decisions.

CHALLENGES FACED BY SMEs IN IMPLEMENTING FINANCIAL MANAGEMENT PRACTICES

The study also identified challenges faced by SMEs in implementing financial management practices. The most identified challenges were Poor management skills, lack of registration and lack of financial skills. This implies that most challenges faced were internal although lack of registration was an external challenge. Thus the challenges were within the control of the owners of firms.

THE RELATIONSHIP BETWEEN IMPLEMENTATION OF FINANCIAL MANAGEMENT PRACTICES AND PERFORMANCE OF ORGANISATIONS

The study also tested the association between selected financial management practices and organisational performance. The study tested the association between financial management practices such as use of financial budgets, evaluation of alternation of projects and having income projections and organisational performance metrics such as net profit margin, return on assets, return on investment, return on capital employed, and market share. The results largely showed no association between the financial management practices and the performance metrics of the SMEs. In the majority of the tests, the null hypothesis of no association between financial management practice and organisational performance was accepted. However, the study found existence of a relationship between evaluation of projects and the net operating margin.

CONCLUSION

The study concluded that most SMEs had very low performances in terms of net profit operating margins, return on investment, return on capital employed, and market share. The only contrasting finding was on return on assets where the majority of respondents were of the opinion that their SME organisations just had low performance. The overall picture depicted a largely indicate a depressed performance for SMEs on their investment projects.

RECOMMENDATIONS

- It is therefore recommended in this study that SMEs should adopt financial management methods and practices that fit their ability and context.
- SMEs should effectively implement financial management techniques by hiring qualified personnel or alternatively develop the available staff through training and development programmes.
- SMEs should continuously enquire and analyse the requirements by the money lending institutions.
- SMEs need to take note of new technology and create ways of incorporating the particular technology in their business and benefit from it.
- SMEs must make use of known capital budgeting techniques such as NPV, IRR and Discounted payback in evaluation capital expenditure projects.

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