

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Business Managers' Rating of Operational Financial Strategies for Success of Small and Medium Enterprises in Enugu State

K. R. E Okoye

Lecturer, Department of Technology and Vocational Education,
Nnamdi Azikiwe University, Nigeria

Nwogo Ikechukwu E.

Student, Department of Technology and Vocational Education
Nnamdi Azikiwe University, Nigeria

Abstract:

This research study sets out to determine business managers' ratings of operational financial strategies for success of SMEs in Enugu State. One research question guided the study and two null hypotheses were tested at 0.05 level of significance. The design of the study was a descriptive survey. Population of the study was all the managers of the 911 registered SMEs in Enugu State. 220 business managers were sampled using proportionate stratified random sampling technique. This comprised 196 managers of small enterprises and 24 managers of medium enterprises. Instrument for data collection was a structured questionnaire titled 'Managers' Ratings of Operational Financial Strategies for Success of Enterprises Questionnaire (MROFSSEQ)' validated by three experts. A reliability coefficient of 0.89 was established using test-retest method and Pearson Product Moment Correlation Coefficient to obtain the value. Mean and standard deviation were used to analyze data relating to research questions while z-test was used to test the null hypotheses. Findings revealed that operational financial strategies were highly relevant to the success of SMEs in Enugu State. Also gender and years of experience did not influence the opinions of the SME managers regarding the relevance of operational financial strategies for success of their enterprises.

Keywords: Finance, operational strategy, Small and Medium Enterprise (SME)

1. Introduction

Many business surveys have identified finance as the key factor determining the establishment, growth and survival of small and medium scale enterprises. The opportunity for SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies hinges on their ability to access funds.

Traditionally, SMEs are encompassed with many difficulties especially in relation to finance. Despite their relevance in the economic growth and job creation, SMEs still face difficulties in obtaining support from commercial banks and investors for a number of well-known reasons, one of which has been pointed out by UNCTAD experts as information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans which makes it difficult for creditors and investors to assess the creditworthiness of potential SME proposals (UNCTAD, 2001).

In Nigeria, SMEs play a major role in the growth of the economy as well as in job creation. The Nigerian government has concerned itself with the creation and sustenance of these SMEs and has been making concerted efforts with the help of foreign and local investors to support the growth of the SMEs. A study by the Nigerian Economic Summit Group in 2002 highlighted that about 70 percent of small enterprises in Nigeria failed within the first five years of operation. In response to this, the Nigeria government has taken genuine steps to ensure that Nigerians play active and worthwhile roles in the development of the economy through the emphasis on entrepreneurship and creation of small and medium enterprises. The Nigerian government has set up many support programmes, regulatory policies, commercial institutions and laws to favour SMEs in the country. One of the steps taken by the Federal Government to support SMEs includes the provision of direct financial assistance to small business organizations through the establishment of specific financial and non-financial institutions. In 2001 for example, the Nigerian Agricultural and Cooperative Bank, Bank of Industry, the Nigerian National Mortgage Bank (NINAM Bank), the non-governmental micro credit institutions which consist of finance companies and community banks were established to render special financial services to SMEs in Nigeria (Tijani-Alawe, 2004).

Despite these attempts by the government, many SMEs are still struggling to survive, many has folded up, some are operating on low profit margins while others are experiencing low market share. The reason for this poor performance by SMEs has been attributed to so many factors such as non-access to adequate fund for business operations, poor managerial ability among managers, high cost of technological facilities, economic instability, and inadequate infrastructure such as light, water and good road network. Inadequate fund has been highlighted as a very important

factor that hinders the establishment and smooth business operations. Hence, there is the crucial need to look into the operational financial strategies utilized by SMEs managers in order to determine what leads to their failure.

Business managers as used in this study refer to persons (hired or owners) that are responsible for the day-to-day management of the enterprise operations. The business managers are therefore in good position to rate the operational financial strategies relevant for success of their enterprises. It is against this background that the study was carried out to determine in the opinion of the managers the operational financial strategies relevant to the success of SMEs in Enugu State.

1.1. Operational Financial Strategies Relevant to the Success of SMEs

Financial strategy, as an operational strategy, is subject to the overall corporate strategy of a company. The practice of accounting has been identified as a fundamental financial strategy relevant to the success of SMEs. Accounting has been described as the language of business (Ekwe & Abuka, 2014). This is in recognition of the fact that without accounting, determining organizational performance would be a mirage (Maseko & Manyani, 2011). Ama (as cited in Okafor, 2011) defined accounting as a set of themes concepts/ideas, and techniques by which financial data are processed into meaningful information for reporting, planning, controlling and decision-making purposes, or simply the process of recording, classifying, reporting and interpreting the financial data of an organization to management and other interested users.

According to Ekwe and Abuka (2014), accounting tells the owners/managers and other stakeholders of the business what is happening in the business. It provides information to a wide range of interest groups and ultimately shows how a business has been managed for a period – whether successfully managed or otherwise. It also provides information regarding the financial position of the firm. Osuala (as cited in Ekwe and Abuka, 2014) emphasized that the knowledge of fundamental accounting skills is very imperative for sustainable business. The non-possession of these fundamental accounting skills by SMEs, therefore, constitutes a problem such that, the chances of survival of the business are slim and the probability of imminent failure/collapse become high. Hence, every small and medium scale enterprises should strive to acquire and possess these fundamental skills.

The fundamental accounting skills are those competencies in basic accounting required by a person to function competently, confidently, and successfully in the process of carrying out one's function of recording daily business transactions. They include skills in book-keeping, purchasing and supply, bargaining, determining labour costs, simple budgeting, keeping of accurate receipts, sales records skills in keeping reliable records, sourcing for market outlets, work in progress records, credit purchases, invoices, cheque payments, keeping customers' records and goods inventory. Others are skills in good credit facility practices, operating the cash payment receipts, cash sales, prudent financial and working capital management (Onoh, 2011). SMEs business managers need the knowledge of fundamental accounting skills for effective financial management of their businesses. The capacity and competencies required to prepare the accounting records, fund sourcing and control of inflow and outflow of money in the business operations are the basic financial skills needed by business managers. Nwoha (2006) stated that accounting provides managers with the information needed for decision making and exposes them to the various users of accounting information.

The development and appreciation of accounting functions such as skills to keep fundamental accounting records and its use is very important to SME managers (Ekwe & Abuka, 2014). Therefore, it is very important that managers of every small and medium enterprise should possess the basic or fundamental knowledge of accounting as a strategy to effectively operate small and medium enterprise. They should be able to appreciate and interpret simple accounting statements. This will increase their accessibility of fund from financial institutions as well as reduce the rate at which they go into liquidation.

1.2. Research Question

This research question guided the study:

How relevant do SME business managers rate operational financial strategies for success of enterprises in Enugu State?

1.3. Hypotheses

The following null hypotheses were tested at 0.05 level of significance.

- There is no significant difference in the mean ratings of male and female managers of small and medium scale enterprises on the relevance of operational financial strategies for success of their businesses in Enugu State.
- There is no significant difference in the mean ratings of experienced and less-experienced managers of small and medium scale enterprises on the relevance of operational financial strategies for success of their businesses in Enugu State.

2. Methods

The study used a descriptive survey design. The study was carried out in Enugu State in South East of Nigeria. The population of the study comprised all the managers of the 911 (812 small enterprises and 99 medium enterprises) registered SMEs in Enugu State. The sample of the study was 220 (196 managers of small enterprises and 24 managers of medium enterprises). Proportionate stratified random sampling technique was used to select the sample.

The instrument for data collection was a structured questionnaire titled 'Managers' Ratings of Operational Financial Strategies for Success of Enterprises Questionnaire (MROFSSEQ)'. It consisted of two parts, part A and part B. Part A sought information about the respondents' personal data such as gender and years of experience while part B

covered the research question and contained 13 items on operational financial strategies. The instrument was validated by three experts. Reliability of the instrument was determined using test-retest method of reliability by administering it twice within an interval of two weeks to 20 SMEs business managers who were not part of the population. Pearson's Product Moment Correlation Co-efficient was used to analyze the data and a reliability coefficient of 0.89 was obtained. A direct delivery procedure was used in administering the instrument to the respondents with the help of three research assistants. At the end of the exercise, two hundred and two (202) copies of the questionnaire which represents 92 percent returns rate were retrieved and finally used for data analysis. Data collected were analyzed using mean and standard deviation to answer the research questions. z-test was used to test the null hypotheses at 0.05 level of significance. The responses to the items in the questionnaire were scored as follows:

Response Key	Ratings	Boundary Limits
Very Highly Relevant (VHR)	5	4.50 – 5.00
Highly Relevant (HR)	4	3.50 – 4.49
Moderately Relevant (MR)	3	2.50 – 3.49
Slightly Relevant (SR)	2	1.50 – 2.49
Not Relevant (NR)	1	0.50 – 1.49

Table 1

The research questions were interpreted using the above real limits. The null hypotheses were not rejected if the calculated z-value was less than the critical z-value while the null hypotheses were rejected if the calculated z-value was greater than or equal to the critical z-value at 0.05 level of significance.

3. Results

Research Question: How relevant do SME business managers rate operational financial strategies for success of enterprises in Enugu State?

S/N	Items on Operational Financial Strategies.	Mean	SD	Remark
1	Adopting weekly cash budgeting.	4.01	0.96	Highly Relevant
2	Employing hardworking staff with ability to generate fund for the organization.	4.51	0.67	Very Highly Relevant
3	Keeping good financial records.	4.86	0.35	Very Highly Relevant
4	Establishing standard for using materials.	4.4	0.54	Highly Relevant
5	Making use of appropriate financial internal control system to reduce debts and losses.	4.79	0.41	Very Highly Relevant
6	Investing business finances wisely in order to yield profit.	4.73	0.54	Very Highly Relevant
7	Keeping proper records of income and expenditure on daily basis.	4.68	0.57	Very Highly Relevant
8	Correctly calculating staff salary.	4.43	0.78	Highly Relevant
9	Maintaining company's working capital ratio.	4.3	0.84	Highly Relevant
10	Placing proper limit on credit sales.	4.2	0.9	Highly Relevant
11	Sourcing operational funds prudently.	4.26	0.84	Highly Relevant
12	Engaging the services of professional accountants.	4.28	0.81	Highly Relevant
13	Engaging the services of auditors.	4.22	0.85	Highly Relevant
	Cluster mean	4.44		Highly Relevant

Table 2: Respondents' Mean Ratings on the Relevance of Operational Financial Strategies for Success of Enterprises in Enugu State

The result from Table 2 showed that items 2, 3, 5, 6 and 7 were rated very highly relevant while the rest items were rated highly relevant for success of enterprises. The cluster mean of 4.44 signifies that items on operational financial strategies are highly relevant for success of enterprises. This denotes that SMEs business managers in Enugu State require these operational financial strategies so as to keep their businesses viable.

- Hypothesis 1: There is no significant difference in the mean ratings of male and female managers of small and medium scale enterprises on the relevance of operational financial strategies for success of their businesses in Enugu State.

Variable	N	\bar{X}	SD	α	df	z-cal	z-crit	Decision
Male managers	119	4.42	0.7					
				0.05	200	-0.19	1.96	Not Rejected and Not Significant
Female managers	83	4.44	0.68					

Table 3: Summary of Z-Test Analysis of Male and Female Respondents on the Relevance of Operational Financial Strategies for Success of Enterprises

Data presented in Table 3 indicated that at 0.05 alpha (α) value and degree of freedom of 200, the z-calculated value of -0.19 is less than the z-critical value of 1.96. The hypothesis is therefore accepted. This implies that male and female small and medium scale business managers did not differ significantly in their mean ratings on the relevance of operational financial strategies for success of enterprises in Enugu State.

- Hypothesis 2: There is no significant difference in the mean ratings of experienced and less-experienced managers of small and medium scale enterprises on the relevance of operational financial strategies for success of their businesses in Enugu State.

Variable	N	\bar{X}	SD	α	df	z-cal	z-crit	Decision
Experienced managers	129	4.44	0.69					
				0.05	200	0.15	1.96	Not Rejected and Not Significant
Less-experienced managers	73	4.42	0.69					

Table 4: Summary of Z-Test Analysis of Experienced and Less-Experienced Respondents on the Relevance of Operational Financial Strategies for Success of Enterprises

Data presented in Table 4 indicated that at 0.05 alpha (α) value and degree of freedom of 200, the z-calculated value of 0.15 is less than the z-critical value of 1.96. The hypothesis is thus accepted. This implies that experienced and less-experienced small and medium scale business managers did not differ significantly in their mean ratings on the relevance of operational financial strategies for success of enterprises in Enugu State.

4. Discussion of Results

The result from the analysis of research question three showed that SMEs managers in Enugu State viewed operational financial strategies as highly relevant for success of their enterprises. Businesses are monetarily sensitive and therefore require utmost care especially in dealing with figures. That is why accounting skill is required in managing the finance of businesses. This finding relates to the findings of Osuala (2009) who emphasized that the knowledge of fundamental accounting skills is very imperative for sustainable business. Furthermore, the results of hypotheses five and six revealed that male and female SMEs managers as well as experienced and less-experienced SMEs managers were of the same opinion in their mean ratings concerning operational financial strategies relevant for success of enterprises.

From the study carried out, the z-calculated values of -0.19 and 0.15 were obtained by the researcher compared with the z-critical value of 1.960 for business managers' responses based on gender and years of experience. This indicates that the hypotheses of five and six were not rejected as regards the relevance of operational financial strategies for success of enterprises. The study disagrees with the assumptions of Okafor (2011) that gender and years of experience could be an influencing factor in the SMEs managers' rating of operational strategies for success of enterprises. However, the nature of SMEs within the environment could be the influencing factor in the SMEs managers' rating of operational financial strategies for success of enterprises.

5. Implications of the Study

This study would expose business managers to the financial skills they are required to cultivate that could lead to the success of their enterprises. Business education students who would become future entrepreneurs would be exposed through this study to the skills and competencies that will equip them to be better business managers.

6. Conclusion

Based on the findings, all the operational financial strategies were found highly relevant. Also, male and female managers of SMEs did not differ significantly in their opinions regarding the relevance of operational financial strategies for success of enterprises. The opinions of experienced and less experienced managers of SMEs also did not differ significantly regarding the relevance of operational financial strategies for success of enterprises.

7. Recommendations

Based on the findings of the study, the following recommendations are made:

- SMEs business managers in Enugu State should strive to adopt the knowledge on the operational financial strategies identified by this study by engaging themselves in trainings that will educate them more on operational financial strategies in order to keep their businesses viable.
- Government should help the SMEs in Nigeria by creating more avenues through which SMEs can access financial supports as well as promote and sponsor SMEs workshops and trainings in order to create awareness of the sources of funds provided by the government.

8. References

- i. Ekwe, M. C. & Abuka, C. K. (2014). Accounting Skills for Sustainable Development of Small and Medium Scale Enterprises in Taraba State of Nigeria. *International Journal of Education Learning and Development*, 2(2), 39-49.
- ii. Maseko, N. & Manyani, O. (2011). Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement (A case study of Bindura). *Journal of Accounting and Taxation*, 3(8), 171-181. Retrieved from <http://www.academicjournals.org/JAT>
- iii. Nwoha, C. (2006). *Advanced financial Accounting*. Enugu: Melfin Publishers.
- iv. Onoh, B. C. E. C. (2011). Basic Accounting Skills needed by Self-employed Building Craftsmen through Entrepreneurship Education. *International Technology Research Journal*, 2(1).
- v. Osuala, E. C. (2009). *Business and computer Education*. Enugu: Cheston Agency Ltd.
- vi. Tijani-Alawe, B. A (2004). *Entrepreneurship Processes and Small Business Management*. Sango Otta: Industrial Science Centre.
- vii. UNCTAD (2001). Issues concerning SMEs access to finance in *Development Strategies and Support Services for SMEs: Proceedings of Four Intergovernmental Expert Meetings*, UNCTAD 2000.
- viii. UNCTAD (2001). Improving the Competitiveness of SMEs in Developing Countries. *The Role of Finance to Enhance Enterprise Development*. United Nations Conference on Trade and Development. UNCTAD/ITE/TEB/Misc.3