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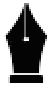

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THE RELEVANCE OF FINANCIAL MANAGEMENT TOOLS TO THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN NIGERIA

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Abstract

Small and Medium Scale Enterprises (SMEs) are proved to be the backbone of all developed and developing nations. The development of SME sector is of paramount importance to any country irrespective of their level of development, since this sector has great potential to generate maximum socio economic benefits to the country with minimum level of investment. This study focuses on the Relevance of Financial Management Tools to the Growth of Small and Medium Scale Enterprises in Nigeria. Five hypotheses were formulated and tested. The primary data was obtained through the administration of questionnaires. The result of the regression analysis and ANOVA used to test the hypotheses indicates that financial management tools which includes profitability, effective internal control, effective financial reporting, accounting record/documentation, and working capital has significant impact on the growth of SMEs as shown by the result in the analysis. However, only accurate record keeping and documentation has positive significance. Therefore based on these findings, the study recommends that SMEs should make constant effort to adopt the needed financial management tools since they have a positive influence on the growth of SMEs. Further studies should explore increased data sets to confirm the relevance of other variables.

Keywords: SMEs, Developing Nations, Financial Management Tools, Economic Growth, Investment

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INTRODUCTION

Small and medium enterprises (small firms) or SMEs play vital roles in a nation's industrialization process and sustainable economic growth (Ariyo, 2005); encouragement of entrepreneurship, employment generation (Ogujiuba et al, 2004); reduction of poverty and contribution to the Gross Domestic Products (GDP) of many countries (Taiwo, Ayodeji and Yusuf, 2012; Audretch, 2010; Paul, 2009; Rogers, 2002). In spite of the various sources of fund made available to them, accessibility to both short-term and long-term credits from banks has not been easy for SMEs because of the poor risk perception which fund providers have of small firms. The poor risk perception can be reduced if quantitative and qualitative financial information details of firms can be ascertained, adequate collaterals provided and effective banking relationships established (Okafor and Onebunne, 2010).

Thus, qualitative and quantitative financial details provide required information about the quality of a firm in terms of size, profitability and leverage levels (Merve and Niskanen, 2010); as well as asset base and sales volume (Okafor, 2007). Researchers argue that firms that excel in such variables enjoy easier access to credit at lower interest rate and lower collateral requirements (Okafor, 2007; Cole and Wolken, 1995; Ennew and Binks, 1995). According to Ajagu, 2005, Small and Medium Enterprises (SMEs) occupy a place of pride in virtually every country of the world. Because of their significant roles in the growth and development of various economics, they have been suitably referred to as "the engine and catalysts for socio-economic transformation of any country". SMEs are the strongest promise we have for industrial growth. Ajayi and Jegede, 2015 posit that Small and Medium Scale Enterprises have drawn a lot of interest among scholars, policy makers, business owners and people in general. The term SMEs covers a wide range of perceptions and measures, varying from country to country and between the sources reporting SME statistics. Some of the commonly used criterions are the number of employees, total net assets, sales and investment level. However, the most common definition used is based on employment, but, there is a variation in defining the upper and lower size limit of an SME (Ayyagari, Beck & Demirguc-Kunt, 2006).

According to Hatten, 2008, Small and Medium Enterprises is used in the European Union and other international organizations to designate companies that have a limited, specified number of employees, while the United States typically uses the term "SMB" (Small to Medium Business) instead. Classification as SMEs is based on the number of employees, generally between 10 and 100, depending on jurisdiction (Norlaphoompipat, 2008). Financial management is the management of finances of a business in order to achieve the financial objectives of the business (McMahon, 2008). For the success of any business, good financial management is necessary. Good financial management will go a long way in helping to ensure

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all your available business resources are used efficiently and effectively and provide an optimum return to you. For small and medium scale enterprises (SMEs), where there is always a greater risk of insolvency, good financial management is critical to operating a sustainable business. Cash flow management or cash conversion cycle is a key concern for small business owner-managers who are often under great pressure to secure sufficient cash flow and working capital to keep the business profitable.

The relevant financial management tools to this study include financial reporting; accounting recording and source documentation; internal control; cash flow and working capital management and profitability (Grondin and Cieply, 1999).

Statement of the Problem

The foundation of most developed economies was built on a very strong and virile small business structure. In the same vein, it is an established fact that for the third world economies to be developed there is a need to build and sustain the growth as well as survival of small businesses (Olajide, Adeoye, Tijani and Elegunde, 2015). Generally, the failure rate of SMEs in Africa is very high (Adelakun, 2008; Ebiriga, 2011). Most SMEs in Nigeria die within their first five years of existence, while some go under between the sixth and tenth year and only about five to ten percent thrive and grow to maturity. Many factors have been attributed to this premature death of SMEs. Key among them include insufficient capital, irregular power supply, infrastructural inadequacies (water, roads etc.), lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping and records, inability to adopt entity principle in business. Other factors such as, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber of staff, cut-throat competition, etc, are also paramount (Agwu and Emeti, 2014).

Out of the many specific causes of SMEs' poor performances and failure in Nigeria, financial challenges appear most prominent (Okpara, 2000). Financial challenges relate to fund availability, fund accessibility and fund management. The focus of most SMEs is on fund availability and accessibility with little or no attention to fund or financial management, which most recent researches have asserted (Stigliz and Weiss, 1981; Srinivas, 2005).

In addition, most business enterprises do not have competent and experienced financial managers, which compound the financial management inadequacies of the firms (Kamyabi & Devi, 2012). Some questions arise as to whether Nigeria SMEs adopt relevant financial management tools such as financial ratios, balance score cards to prepare financial statement.

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There is a clear need for more effective financial management in SMEs, to prepare the way for the need to facilitate the adoption of more formal and advanced financial management tools in SMEs for effective performance. It is against this background that this study seeks to emphasize the impact of using relevant financial management tools in enhancing the growth of SMEs in Nigeria.

Research Questions

From the statement of problem, the research questions are stated as follow:

1. How does level of profitability affect the growth of Small and Medium Enterprises (SMEs) in Nigeria?
2. To what extent does effective internal control system impact on the growth of SMEs in Nigeria?
3. Does qualitative financial reporting affect the growth of SMEs in Nigeria?
4. What is the impact of accurate accounting records and efficient documentation on the growth SMEs in Nigeria?
5. In what ways does working capital as a tool of financial management affect the performance of SMEs in Nigeria?

Research Objectives

The main objective of this study is to determine the impact of relevant financial management tools on the growth of Small and Medium Scale Enterprises in Nigeria.

The specific objectives are:

1. To determine the impact of profitability level on the growth of SMEs in Nigeria.
2. To examine the extent to which effective internal control system impact on the growth of SMEs in Nigeria.
3. To determine the impact of qualitative financial reporting on the growth of small and medium scale enterprises.
4. To investigate the impact of accurate accounting records and efficient documentation on the growth of SMEs in Nigeria.
5. To assess the impact of working capital on the performance of SMEs in Nigeria.

Research Hypotheses

H_{01}: There is no significant relationship between profitability and growth of SMEs in Nigeria.

H_{02}: There is no significant relationship between effective internal control and growth of SMEs in Nigeria.

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H_{03}: There is no significant relationship between qualitative financial reporting and the growth of SMEs in Nigeria.

H_{04}: There is no significant relationship between accurate accounting records/documentation and the performance of SMEs in Nigeria.

H_{05}: There is no significant relationship between working capital and the growth of SMEs in Nigeria.

Significance and Justification for the Study

This study became extremely important as it will be of immense benefit to researchers and SMEs owners in Nigeria, as it will provide in-depth knowledge on the various aspect of financial management tools which may be adopted and implemented by management of various business enterprises. This research work would also prepare ground for further research in this area.

LITERATURE REVIEW

Conceptual Review

The term SMEs covers a wide range of perceptions and measures, varying from country to country and between the sources reporting SME statistics. Some of the commonly used criterions are the number of employees, total net assets, sales and investment level. However, the most common definitional basis used is employment, but, there is a variation in defining the upper and lower size limit of an SME (Ayyagari, Beck & Demirguc-Kunt, 2003).

Financial management defined the as one of several functional areas of management but it is the central to success of any small business (Meredith, 1986). The emphasis here is the central role and position of financial management in relation to the other specific areas of business management. According to McMahon (1993), financial management is based on mobilizing and using sources of funds, that is, raising the funds needed to finance the enterprise's assets and activities, the allocation of these scare funds between competing uses, and with ensuring that the funds are used effectively and efficiently in achieving the enterprise's goal. This will involves planning, controlling and decision making responsibilities that will embrace various types and sources of finance, how these may be accessed, and how to choose among them; alternative ways in which finance raised may be used and how to select those that are likely to prove most profitable; as well as different means of ensuring that finance entrusted to specific activities to realize the returns that were anticipated on its allocation to them.

The nation needs the Small and Medium Enterprises (SMEs) because they contribute meaningfully to economic development. They are in the forefront of output expansion,

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employment generation, income redistribution, promotion of indigenous entrepreneurship and production of primary goods to strengthen industrial linkages. Small scale industry orientation is part and parcel of Nigeria.

Concept of Small and Medium Enterprises (SMEs)

There is no universal definition of small enterprise. In theory and practice there are many terms used to describe SME including, “small business”, “small enterprise”, “small company”, “small and medium enterprise”, “small and medium sized enterprise” etc (Scarborough & Zimmerer, 1984).

SMEs are non-subsidiary, independent firms/organizations which employ fewer numbers of employees. This number varies across countries. According to the European Union (EU), SMEs are categories of micro, small and medium-sized enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million Euros.

In Nigeria, the Central Bank of Nigeria in its monetary policies circular No. 22 of 1988 defined SMEs as enterprises which have an annual turnover not exceeding Five Hundred Thousand Naira (N500,000). For the sake of clarity, the National Policy on Micro Small and Medium Enterprises (MSMEs) has given a clear distinction of enterprises, based on employment and Assets. SMEs are organizations which can best be described through their capital, scope and cost of projects, annual turnover, financial strength and number of employees amongst other things.

Nigeria is unarguably one of the largest economies in the Sub-Saharan Africa[1]. Though she relies majorly on oil, her economy is also grown by pockets of corporate organizations covering almost all spheres of activities within the country, ranging from multinational corporations with offices within the country, indigenous companies, and largely by small and medium scale enterprises (SMEs).

According to the Central Bank of Nigeria (CBN), under its Small and Medium Enterprise Credit Guarantee Scheme (SMECGS), SMEs are firms with asset base (excluding land) of between N5million – N500 million and labor force of less than 300. Some of the commonly used criterions are the number of employees, total net assets, sales and investment level. However, the most common definitional basis used is employment, but, there is a variation in defining the upper and lower size limit of an SME (Ayyagari, Beck & Demirguc-Kunt, 2003).

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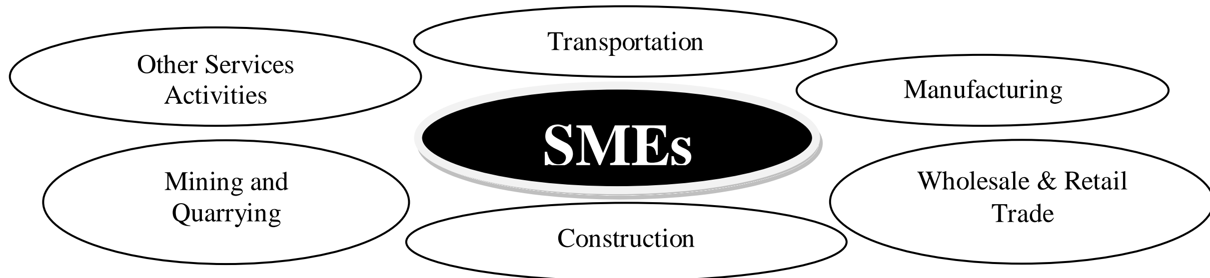
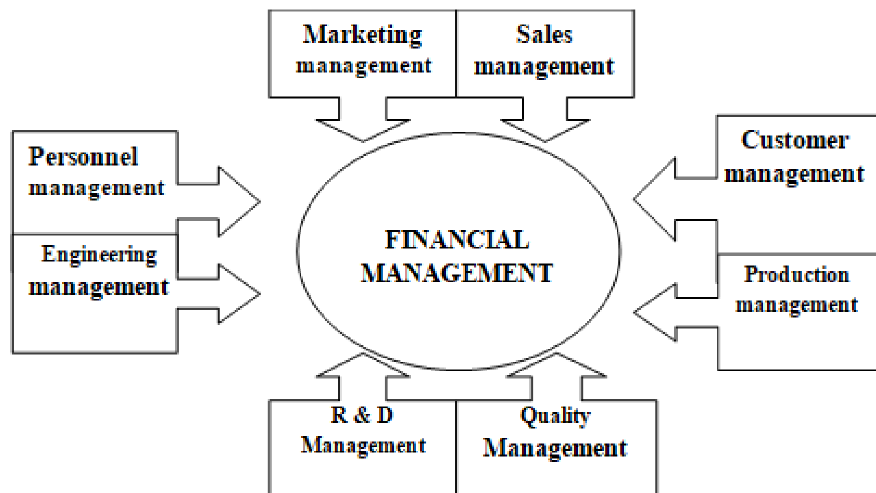
Figure 1: The Various Sectors of SMEs



The Problems of SMEs

The SMEs below desired performance and impact on the Nigerian economy is cause for concern (Onugu, 2005). A review of literature reveals plethora of problems, which are enormous, fundamental and far-reaching. These include high interest rate on sources of finance; lack of appropriate and adequate managerial and entrepreneurial skills with the attendant lack of strategic plan, business plan, succession plan, adequate organizational set-up, transparent operational system; inadequate, inefficient, and at times, non-functional infrastructural facilities, which tend to escalate costs of operation as SMEs are forced to resort to self provision of utilities; lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them due to poor and inadequate documentation of business proposals, inappropriate and inadequate collateral, high cost of administration of small loans as well as high interest rates; unfair trade practices characterized by the dumping and importation of substandard goods by unscrupulous businessmen in the pace of globalization and trade liberalization; weakness in organization, marketing, information-usage, processing and retrieval, personnel management, accounting records and processing, etc.

Figure 2: The Central Position and Role of Financial Management



Source: Meredith (1986)

Objectives of financial management

The main objective of financial management tools is to assist users like SMEs owners to guide them in operation and smooth running of the business, that is, planning, directing, organizing and controlling a company's capital resources. Most of the objectives serve in a support capacity to provide business owners with relevant information on the company's business operations. These include issues such as support accounting functions; providing decision information, and risk management; improve operational controls which ultimately help business owners improve their company's overall financial operations.

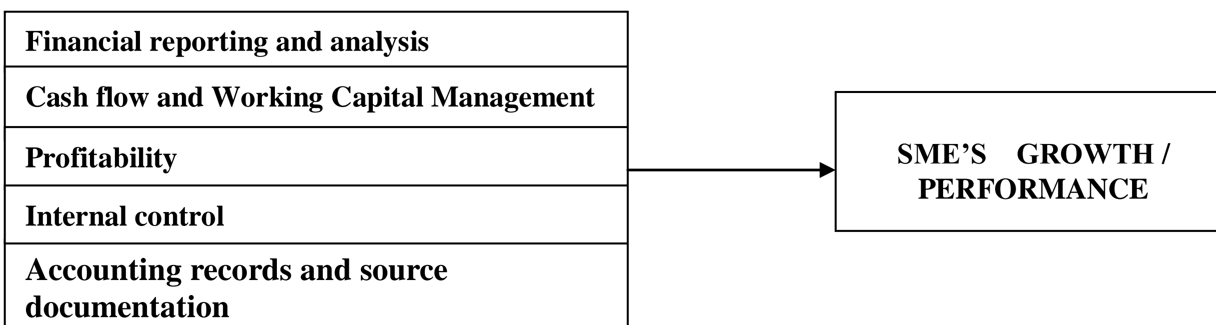
Functions of Financial Management

Some of the functions of financial management are estimation of capital requirements; determination of capital composition; choice of sources of funds; investment of funds; disposal of surplus from business through dividend payment or retained profit policies; management of cash and financial controls.

Financial Management Tools

Financial management as used in this study is composed of five (5) constructs and these include; working capital management; financial reporting and analysis, Profitability, Internal control, Accounting records and source documentation. Ross (1999) indicated three kinds of decisions the financial manager of a firm must make in business; these include the financing decision, and decisions involving short-term finance and concerned with the net working capital, investment and financial reporting. Similarly, Ang (1992) indicated three main financial decisions including the investment decisions, financing decisions and dividend decisions. Financial management practices in the SME sector have long attracted the attention of different researchers, and depending on different objectives, researchers emphasize different aspects of financial management practices (Kieu (2001). McMahon, Holmes, Hutchinson and Forsaith (1993) and McMahon (1998) summarize their review of financial management practices in Australia, the UK and the USA.

Figure 3: Conceptual Framework



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Financial Reporting and Analysis

Financial reporting involves the disclosure of financial information to management and the public (if the company is publicly traded) about how the company is performing over a specific period of time, usually quarterly and annually. They are included in a public company's annual report. Financial reporting helps management to engage in effective decision-making concerning the company's objectives and overall strategies; help management discern the strengths and weaknesses of the company, as well as its overall financial health; provides vital information about the financial health and activities of the company to its stakeholders including its shareholders, potential investors, consumers, and government regulators and serves as a means of ensuring that the company is being run appropriately. It is subject to some very strict reporting regulations enforced by the Securities and Exchange Commission (SEC), resulting in the preparation of Financial Statements and Analysis; statement of Comprehensive income; the cash flow statement; and changes stockholders' equity.

Cash flow and Working Capital Management

Cash flow management is the firm's ability to generate cash from its customers, at all times. Burns and Walker (1991) examined working capital management as a whole among small manufacturing firms in the USA, working capital policy, managing working capital components, including cash, receivable, payable and inventory management, and relationships between working capital management practices and profitability, which are considered highly essential to the survival of SMEs everywhere.

Cash management practices among SMEs were found to be inadequate as not less than 67 percent of respondents in a study in Virginia, USA agreed that no cash flow forecasting were being done in SMEs (Grablowsky, 1978; Grablowsky and Lowell, 1980).

In Cooley and Pullen (1979), cash management was seen as the process of planning and controlling cash flows, consisting of three basic components: cash forecasting practices, cash surplus investment practices and cash control practices. However, Murphy's (1979) study indicated that active cash management in small enterprises in the UK was unusual, and that there was little inclination to invest surplus cash on a short-term basis to collect these accounts receivable.

Profitability

This is the state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio.Profitability is the primary goal of all business ventures. So measuring current and

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past profitability and projecting future profitability is very important. Managers must constantly look for ways to change the business to improve profitability.

Internal Control

Internal control is all of the policies and procedures management uses to achieve the goals of safeguarding company's assets; ensure the reliability and integrity of financial information; ensuring compliance; promoting efficient and effective operations and accomplishment of operational goals and objectives of the business. The framework for Internal Control system as adopted by financial reporting finance, University of Washington includes: Control environment; Risk Assessment; Monitoring and Reviewing; Information and communication and Control activities.

Accounting Records and Source Documentation

These are the business forms that document all financial transactions of a business. Business forms include purchase orders, receipts, and invoices. It is important for all businesses to have an efficient and accountable system that documents all purchases, sales, and inventory. There is therefore the need for adequate source documents that record any specific item of financial transaction for processing and bookkeeping.

Problems in Financial Management

According to Marquiscodjia (2017), The problems of financial management include the firm's ability to raise cash for the entire organization with a long-term vision; and require work in tandem with investment bankers to evaluate lender risk appetite; repaying the borrowed funds, as the borrowed funds may not have been wisely deployed to good use; funding Long-Term Initiatives; raising cash for corporate activities; recording transactions accurately: managing corporate finances; publishing accurate financial statements; analyzing financial data; hiring and retaining top performers (knowledge capital" employees); increasing revenues and profitability and slashing costs to mitigate potential shortcomings in revenue management.

Financial Characteristics of SMEs

According to Kieu (2001), financial characteristics of enterprise are often in the form of accounting ratios, derived from financial statements to provide useful information for numerous purposes. This information can be used to quantify the position of small business in terms of their profitability, liquidity, and leverage and to compare them with other or large enterprises. Stevens (1973), conducted factor analysis on several ratios and reduced the number of ratios

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into the six factors, namely leverage; profitability; activity; liquidity; dividend policy and earnings ratio identifying financial characteristics. Burns (1985) analyzed financial characteristics and profitability of small companies in the UK using quick ratio, current ratio, gearing, long-term debt ratio, and interest cover ratio to define financial characteristics of the companies.

Hutchinson, Meric and Meric (1988) used financial ratios including liquidity ratios, leverage ratios, activity ratios, profitability ratios and growth ratios to identify financial characteristics of the firm. Also Hutchinson and Mengersen (1993); Jaggi and Considine (1990) Stevens (1973), Laitinen (1992) examined the effect of growth on financial characteristics using profitability, liquidity, and leverage ratios.

Measuring Financial Characteristics

Liquidity

Liquidity refers to the overall level of cash and near cash assets (such as debtors and stock) held and cash inflows and outflows that add to and subtract from the sum of these assets (McMahon and Stanger, 1995). When used for determining financial characteristics, liquidity is often measured as ratios. There are two kinds of ratios used by most researchers such as (Stevens,1973; Burns,1985; Jaggi and Considine,1990; Hutchinson and Mengersen, 1993):

Current ratio = Current assets / Current liabilities

and, Quick ratio = (Current assets – Inventory)/ Current liabilities

In general, previous researchers strongly agreed in the use of these two ratios as measures of liquidity and to determine financial characteristics of small enterprises.

Financial Leverage

Walker and Petty (1978) defined financial leverage to be the process of using senior (debt or equity capital with a fixed return) capital to increase the rate of return on junior securities. Similarly, Ross, Westerfield and Jaffe (1999) posited that financial leverage is related to the extent to which a firm relies on debt financing rather than equity. Financial leverage is often measured by the Equity ratio (Equity/Total asset) according to the work of Hutchinson, Meric and Meric (1988); Long-term debt ratio (Long-term debt/Total capital) as used by Burns (1985); Long-term debt to equity ratio (Long-term debt/Common stock equity) as used by Jaggi and Considine (1990); Debt ratio(Total debt/Total assets) as used by Brigham (1995) and Ross, Westerfield, and Jaffe (1999) and Debt-to-equity ratio (Total debt/Total equity) according to the study of Brigham (1995) and Ross, Westerfield, and Jaffe (1999).

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Activity

Hutchinson, Meric and Meric (1988) measure activity characteristic by using (i) Inventory ratio = Inventory/Sales (ii) Receivables ratio = Accounts receivable/Sales (iii) Fixed assets ratio = Fixed assets/Sales and (iv) Total asset turnover = Sales/Total assets

Profitability

According to Jaggi and Considine (1990), profitability is a crucial indicator for determining the financial position of the firm. The firm is considered financially weak when its profitability is sliding or the profitability is lower than industrial average (e.g. return on assets). Burns (1985) measured profitability by three ratios (return on total assets, return on net assets, and return on equity) concluding that return on total assets is the best measure of a firm's efficiency in the use of assets because it is independent of financing methods. While return on equity is purely a measure of return to shareholders.

THEORETICAL REVIEW

Discourse in financial management domain is usually anchored on some theories which include the Agency theory, pure expectations theory and liquidity preference theory.

The simplest of interest rate theories is the pure expectations theory which assumes that the term structure of an interest contract only depends on the shorter term segments for determining the pricing and interest rate of longer maturities. It assumes that yields at higher maturities (such as that of 5, 10, or 30 year bonds), correspond exactly to future realized rates, and are compounded from the yields on shorter maturities. Pure expectation theory also supposes that expectations of future rates coincide exactly with future rates realized in time. The market is a perfect predictor of future supply and demand. The pure expectations theory is in some ways similar to the efficient market hypothesis, in that it assumes a perfect market environment where expectations are just about the only determinant of future prices.

From these basic assumptions, the pure expectations theory (PET) posits that future interest rates on longer maturities depend only the rates of previous periods.

The Liquidity Preference Theory is a further development to the pure expectations theory (PET). That is, liquidity preference theory is essentially an improved version of the pure expectations theory. Since PET assumes rates across the maturity spectrum to be equivalent in quality and function, we would expect a homogenous distribution of both downward and upward sloping yield curves, but we most of the time get the upward slope. The liquidity preference theory was devised to explain this situation. This theory introduces the concept of a risk or liquidity premium to the equation for predicting future rates. It posits that, while the term

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structure (the yield curve) of interest rate contracts are substitutable for the most part for different maturities (i.e. a ten-year bond is partially a substitute for two consecutive five-year bonds purchased), there is a risk factor that leads to the yield curve to be upward sloping most of the time. Thus, even if the interest rate expectations were the same across the entire spectrum of maturities, the yield curve would still be sloping upwards due to the inherent risk of acquiring a debt instrument at a longer maturity. The risk premium is the result of lesser liquidity of long maturity interest rate contracts, as well as the higher risk of default the more we delay the date the repayment. In a two-way relationship, the lower marketability of long-term instruments leads to their lower liquidity, and that also contributes to a higher interest rate on a consistent basis.

This study is anchored on agency theory. Agency theory is based on principle of owner separation from people or people with authority or capacity to run a company (Blair, 2004) and the creation of lawful relationship between owner and management (Fama and Jensen, 1983). When the company becomes global, the stakeholders in one company may come from all over the world, which means creating a diverse company ownership. This reality has increased the distance between the principal and agent. Although the agent must act reasonably and has good intention in managing the company, searching the agent chain in this condition might be difficult, and minimizing the agent risk is almost impossible (Stapledon and Webster, 2000).

The improvement of accountability and transparency in the management of company is essential to reduce agency cost. The accountability and transparency will increase the better information flow from the company to the shareholder, which then will reduce information asymmetry. Farrar and Hannigan (1998) said that, disclosure has long been recognized as the dominant philosophy of most modern system.

Watts and Zimmerman (1986) also revealed the importance of financial report as a tool to reduce information asymmetry. According to Jensen and Meckling (1976) agency theory approach, showed that accounting plays a contract role because accounting is used as a mechanism in contract nexus that leads to company’s control system. One of the reasons in the literature for the rules of accountability and transparency is the accounting information can be considered as public goods. It is because the shareholders pay implicitly for this goods, but does not have an ability to demand the share of this payment from the new shareholder (Watts and Zimmerman, 1986; Beaver, 1998). It means that potential investors and stakeholders get free information paid by the existing shareholders. This, in turn, will result in low level of obtained information, which is also an indication of market failure (Healy and Palepu, 2001).

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Agency theory is extensively employed in the accounting literature to explain and predict the appointment and performance of external auditors and financial consultants. It also provides a useful theoretical framework for the study of internal auditing function. Likewise, the theory not only helps to explain and predict the existence of internal audit but that is also helps to explain the role and responsibilities assigned to internal auditors by the organization and predicts how the internal audit function is likely to be affected by organizational change. It is also true that agency theory provides a basis for rich research, which can benefit both the academic community and internal auditing profession.

According to Anderson, Francis and Stokes (1993), Agency theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behaviour of agents. In order to harmonize the interest of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal.

EMPIRICAL REVIEW

Financial manager of a firm must make some major decisions in business i.e. the budgeting decision, the financing decision, decisions involving short-term finance (Investment decision) and concerned with the net working capital. (Ross and Jaffe, 1999; Ang, 1992).

As suggested by McMahon (1995), another way of identifying the major decisions of financial management is to look at the Financial position of a business, in terms of the amount and composition of a business investment in current and non-current assets, the types of finance used to acquire assets, and relate to the achievement of an appropriate balance between short-term and long-term sources, and between debt and equity sources, as well as the proportion of profit earned that should be retained in a business to finance development and growth, and the proportion, which may be distributed to the owners.

Most authors and researchers approach the specific areas of financial management in different ways depending upon their emphasis. the specific areas of financial management, which have regularly been raised and discussed by the recent authors and researchers such as Walker and Petty (1978), Barrow (1984), Meredith (1986), Cohen (1989), English (1990) and McMahon (1995). For example, Walker and Petty (1978) on financial management planning, financial leverage, investment decision-making, working capital management and sources of financing (short-term and long-term financing, intermediate financing and going public.

Barrow (1984) emphasizes on the tools of financial analysis, including business controls; measure of profitability; control of working capital; control of fixed assets, cost; volume; pricing and profit decisions, and business plans and budgets. Meredith (1986) emphasizes information

systems as a base for financial management including financial management records and reports. Cohen (1989) focuses on working capital management and tools of financial management such as ratio analysis, profitability measures and bread-even analysis. English (1990) emphasizes objectives of financial management including liquidity, profitability and growth.

It is a known phenomenon that most small business organizations do not pay necessary attention to financial management in their business activities, noting that, in a small business organization of less than fifteen employees, it becomes extraordinary to attempt to establish such a financial department as a specialized outfit (Ekeria, 2008). Owualah (1999) pointed out poor financial management as one of the financial problems of small business firms, noting that this weakness impact on their ability to operate successfully or even access external sources of finance; and that proper management of the financial resources of any small business firm is a necessary condition for its survival, drawing attention to inventory management, credit management, and cash planning among others.

Another area of decision for a financial management system in small business enterprises is implementation of risk management strategies which involves insuring the fixed assets of the business and also guarding against loss of critical employees. Also, the area of management of cash shortages that can help prevent cash flow problems and deal with them when they come is also paramount. In the view of Anumaka (2009), the lack of adequate liquidity to meet current obligations when they become due frequently results in problems which more often than not, lead to the failure of the enterprise. A common cause of such business failure at various stages in business's life cycle is poor financial management, rationalization of expenditure and maximization of income; optimization of the use of resources; strengthening management control and management information systems; exploring new revenue streams; provision of best value for goods and services and seeking prices to reflect true cost of business.

In spite of the various sources of fund made available to them, accessibility to both short-term and long-term credits from banks has not been easy for SMEs because of the poor risk perception which fund providers have of small firms. The poor risk perception can be reduced if quantitative and qualitative financial information details of firms can be ascertained, adequate collaterals provided and effective banking relationships established (Okafor and Onebunne, 2010).

Qualitative and quantitative financial details provide required information about the quality of a firm in terms of size, profitability and leverage levels (Merve and Niskanen, 2010); as well as asset base and sales volume (Okafor, 2007). Researchers argue that firms that excel in

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such variables enjoy easier access to credit at lower interest rate and lower collateral requirements (Okafor, 2007; Cole and Wolken, 1995; Ennew and Binks, 1995).

In Olajide, Adeoye, Tijani and Elegunde (2015) on Financial Management As A Tool For The Growth Of Small Business Enterprises In Lagos State: An Empirical Approach, it was revealed that there is a relationship between financial management and growth of SMEs. The research also revealed that having financial management knowledge does not guarantee the achievement of SMEs goals and objectives.

Recent and old financial management literatures targeted on small enterprise owner-managers emphasize the importance of developing skills in reading and interpreting financial statements to monitor the financial health and progress of firms (Cole, and Wolken, 1995); Konstans and Martin, 1982; McMahon, 1986; Meredith, 1986; Walker and Petty, 1986; Barrow, 1988). Quality financial statements help to provide break-down of cost of a firm on a frequent or regular basis as well as help to maintain up-to-date figures on contribution to profit of individual products or product lines (McMahon and Davies, 1994). It can also help in comparing a firm's performance with industry figures. Effective use of financial ratio analysis in managerial evaluation, planning and decision making can increase business profitability, growth and survival (McMahon and Holmes, 1991). Another aspect of financial management practice which creates problems for small firms is working capital management. Working capital is necessary for carrying out the day-to-day operations of a firm. It is defined as current assets less current liabilities, which involves the maintenance of proper balance in the management of cash, debtors, stock and creditors.

Mazzarol, Reboud and Clark (2015) centered on the financial management practices of small to medium enterprises; however, the necessary financial management tools were not emphasized on, but rather more on how financial management practices like sources of financing, cash flow and working capital etc can be used to enhance SMEs.

Also Kilonzo and Ouma (2015) investigated financial management practices on growth of Small and Medium Enterprises. They discussed such practices like investing, financing, accounting etc, and the effect they have on SMEs.

Okafor (2012), focused on Financial Management Practices of Small Firms in Nigeria: Emerging Tasks for the Accountant, and investigated financial management practices, financial routines or activities to improve skills in order to enhance SMEs.

Ohachosim, Chidi ,and Titus, (2012) emphasized the financial practices focusing on accounting information system. Kieu (2001), focused only profitability and the effect or impact it has on SMEs.

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METHODOLOGY

The area for this study consists of some selected Small and Medium Scale Enterprises in Osun state, Nigeria. The study investigated SMEs in the business area of mining, construction, wholesale/retail trade, transport, agriculture, and other services to businesses or persons. Osun state is located in the south-western part of the Nigerian Federation.

The research is based on survey research design with the use of primary data. The instrument of data collection is the use of structured Questionnaire. This was also supplemented by personal interviews for set of responded who were inadequately educated. A total of 100 SMEs were considered, while 50 were selected due to inadequate and incomplete data set. Thus, a total of 200 Questionnaires were administered, by means of probability sampling to elicit responses from targeted population adopting the $1/10^{th}$ rule, to a selected total population of 50 SMEs (an average of 4 for each SME)..The results were analyzed using the liner regression model.

The model used is based on measurement of the relationship between the independent variables (financial management tools) and the Dependent Variable (Growth of Small and Medium Enterprises) represented by X and Y respectively.

$Y = f(x)$,

Where

X = financial management tools

Y = Small and Medium Scale Enterprises Performance

The variables under SMEs were:

SMEs = f (Growth)

This will be represented as $(y_{1 ....} y_n)$

Where

y_1 = Growth

The proxies for financial management tools include profitability, impact of internal control system, effective financial reporting, effective accounting records, and working capital management.

$$\text{Growth} = f(x_1, x_2, x_3, x_4, x_5) \quad (1)$$

Where

X_1= Profitability of growth on SMEs.

X_2= Effective internal control on the growth of SMEs

X_3= Effective financial reporting on the growth of SMEs

X_4= Accounting records/documentation on the performance of SMEs

X_5= Working capital management on the growth of SMEs

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The econometric form of the linear regression model will be given as:

SME Growth = $\alpha_{0+}\beta_1x_1+\beta_2x_2+\beta_3x_3+\beta4x4+\beta5x5+\mu$ (2)

Where

α_0 = Slope of model

$B_1 \ldots B_5$ = Co-efficient of the parameters

M = Stochastic (error) term

ANALYSIS AND FINDINGS

Impact of Profitability on Growth of SMEs in Nigeria

Table 1 Assessment of the Impact of Profitability on Growth of SMEs in Nigeria

S/N	Impacts	1	2	3	4	5	ΣWf	RSI	Rank
1	Financial management tools have a significant effect on a firm's profitability.	0	0	0	24	106	626	4.82	**1ST**
2	The profitability of an enterprise depends on the owners' financial knowledge.	0	0	0	114	16	536	4.12	**3RD**
3	Profitability is an important goal of any enterprise.	0	0	0	64	66	586	4.51	**2ND**
4	There is a significant difference between SME owners who use financial management tools and those who do not.	5	17	21	70	17	467	3.59	**4TH**

From the above, most respondents are of the opinion that financial management tools has significant effect on a firm's profitability as this had the highest mean score (4.82). Also, respondents believe that profitability is an important goal of any enterprise as this had the second highest mean score (4.51).

However, of the possible impacts of profitability on the growth of SMEs listed above, respondents are not fully convinced that there is a significant difference between SME owners who use financial management tools and those who do not, as this had the lowest mean score (3.59) of the possible impacts considered.

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Impact of Effective Internal Control System on Growth of SMEs in Nigeria

Table 2 Assessment of the Impact of Effective Internal Control System on Growth of SMEs in Nigeria

S/N	Impacts	1	2	3	4	5	ΣWf	RSI	Rank
1	Effective internal control leads to the growth of an enterprise.	0	0	0	58	72	592	4.55	**2ND**
2	Effective internal control plays an important role in the enterprise as a whole.	0	0	0	96	34	554	4.26	**4TH**
3	Effective internal control makes it easier to find out any problem before it occurs.	0	0	0	57	73	593	4.56	**1ST**
4	Workers or employees perform their duties better when there is effective and proper internal control	0	0	0	69	61	581	4.47	**3RD**

From the above, most respondents are of the opinion that effective internal control makes it easier to find out any problem before it occurs as this had the highest mean score (4.56). Also, respondents believe that effective internal control leads to the growth of an enterprise as this had the second highest mean score (4.55).

However, of the possible effects of ICT adoption listed above, respondents are not fully convinced of the role effective internal control plays in the enterprise as a whole, as this had the lowest mean score (4.26) of the possible impacts considered.

Impact of Effective Financial Reporting on Growth of SMEs in Nigeria

Table 3 Assessment of the Impact of Effective Financial Reporting on Growth of SMEs in Nigeria

S/N	Impacts	1	2	3	4	5	ΣWf	RSI	Rank
1	Effective financial reporting helps management to engage in effective decision-making concerning the company's objectives and overall strategies.	0	0	0	58	72	592	4.55	**2ND**
2	Financial reporting provides vital information about the financial health and activities of the enterprise.	0	0	0	59	71	591	4.54	**3RD**
3	Financial reporting makes work easier for the owners of enterprises or the people who uses them.	0	0	0	38	92	612	4.71	**1ST**

From table 3 above, most respondents are of the opinion thatfinancial reporting makes work easier for the owners of enterprises or the people who uses them, as this had the highest mean score (4.71). Also, respondents believe that effective financial reporting helps management to engage in effective decision-making concerning the company's objectives and overall strategies, as this had the second highest mean score (4.55).

However, of the possible impacts listed above, respondents are not fully convinced that the financial reporting provides vital information about the financial health and activities of the enterprise, as this had the lowest mean score (4.54) of the possible impacts considered.

Impact of Accounting Records/Documentation on Performance of SMEs

Table 4 Assessment of the Impact of Accounting Records/Documentation on Performance of SMEs

S/N	**Impacts**	**1**	**2**	**3**	**4**	**5**	**ΣWf**	**RSI**	**Rank**
1	Proper accounting records are very important to business owners.	0	0	0	63	67	587	4.52	**2ND**
2	Irregular records can affect the fortunes of SMEs.	0	0	0	92	38	558	4.29	**3RD**
3	Accounting records/documentation helps to avoid any problem or misappropriation of accounts.	0	0	0	57	73	593	4.56	**1ST**

From the table above, most respondents are of the opinion that accounting records/documentation helps to avoid any problem or misappropriation of accounts, as this had the highest mean score (4.56). Also, respondents believe that proper accounting records is very important to business owners, as this had the second highest mean score (4.52).

However, of the possible impacts listed above, respondents are not fully convinced that irregular accounting records/documentation can affect the fortunes of SMEs, as this had the lowest mean score (4.29) of the possible impacts considered.

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Impact of Working Capital on the Growth of SMEs

Table 5 Assessment of the Impact of Working Capital on the Growth of SMEs

S/N	Impacts	1	2	3	4	5	ΣWf	RSI	Rank
1	Working capital helps to plan and control cash flows.	0	0	0	55	75	595	4.57	**1ST**
2	Working capital ensures the proper accounts of all cash flows	0	0	0	72	58	578	4.45	**2ND**
3	Working capital ensures that all funds are being utilized properly and efficiently.	0	0	0	88	42	562	4.32	**3RD**

From table above, most respondents are of the opinion that working capital helps to plan and control cash flows, as this had the highest mean score (4.57). Also, respondents believe that working capital ensures the proper accounts of all cash flows, as this had the second highest mean score (4.45).

However, of the possible impacts listed above, respondents are not fully convinced that working capital ensures that all funds are being utilized properly and efficiently, as this had the lowest mean score (4.32) of the possible impacts considered.

Hypothesis Testing

Decision Rule

To accept alternative hypothesis if the P-value obtained by ANOVA, co-efficient of regression using SPSS is lower than 5% which is the usual benchmark specified by the SPSS for this analysis, otherwise, fail to accept alternative hypothesis and accept the Null hypothesis.

1. $H_0$1:There is no significant relationship between profitability and growth of SMEs in Nigeria.
2. $H_0$2: There is no significant relationship between effective internal control and growth of SMEs in Nigeria.
3. $H_0$3: There is no significant relationship between qualitative financial reporting and the growth of SMEs in Nigeria.
4. $H_0$4: There are no significant relationship between accurate accounting records/ documentation and the performance of SMEs in Nigeria.
5. $H_0$5: There are no significant relationship between working capital and the growth of SMEs in Nigeria.

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$H_0$1: There is no significant relationship between Profitability and Growth of SMEs in Nigeria

Table 6 Hypothesis Testing 1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.052[a]	.003	-.005	.500

a. Predictors: (Constant), B1

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.085	1	.085	.341	.560[b]
	Residual	32.038	128	.250		
	Total	32.123	129			

a. Dependent Variable: C1

b. Predictors: (Constant), B1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.368	.141		9.703	.000
	B1	.066	.113	.052	.584	.560

a. Dependent Variable: C1

The regression analysis above shows that the Model summary statistics reveals that Pearson correlation coefficient "R" is 0.052 which indicates that there is a positive correlation between Profitability and Growth of SMEs in Nigeria.

The adjusted R-squared of the double log model is 0.003 implying that 0.3% of the observed variations in respondents' perceptions were explained by the explanatory variables incorporated in the model while other variables which accounts for the 99.7% were not included. The P-value of the ANOVA is higher than the significant value of % at 56%, the alternative hypothesis is rejected and the null hypothesis is accepted, that there is no significant relationship between profitability and SME growth.

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$H_0$2: There is Significant Relationship between Effective Internal Control and Growth of SMEs in Nigeria

Table 7 Hypothesis Testing 2

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.045[a]	.002	-.006	.500

a. Predictors: (Constant), C3

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.064	1	.064	.255	.614[b]
	Residual	32.059	128	.250		
	Total	32.123	129			

a. Dependent Variable: C1

b. Predictors: (Constant), C3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.510	.135		11.222	.000
	C3	-.045	.088	-.045	-.505	.614

a. Dependent Variable: C1

The regression analysis above shows that the Model summary statistics reveals that Pearson correlation coefficient “R” is 0.045 which indicates that there is a positive correlation between effective internal control and growth of SMEs in Nigeria.

The adjusted R-squared of the double log model is 0.002 implying that 0.2% of the observed variations in respondents’ perceptions were explained by the explanatory variables incorporated in the model while other variables which accounts for the 99.8% were not included. The P-value of ANOVA (0.614 or 61.4%) was statistically insignificant at 5% level, which indicates that there is no significant relationship between effective internal control and growth of SMEs. The Alternative hypothesis is rejected and null hypothesis is accepted.

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$H_0$3: There is Significant Relationship between Qualitative Financial Reporting and Growth of SMEs in Nigeria

Table 8 Hypothesis Testing 3

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.002[a]	.000	-.008	.501

a. Predictors: (Constant), D3

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.000	.986[b]
	Residual	32.123	128	.251		
	Total	32.123	129			

a. Dependent Variable: C1

b. Predictors: (Constant), D3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.449	.171		8.488	.000
	D3	-.002	.097	-.002	-.018	.986

a. Dependent Variable: C1

The regression analysis above shows that the Model summary statistics reveals that Pearson correlation coefficient "R" is 0.002 which indicates that there is a weak positive correlation between effective internal control and growth of SMEs in Nigeria.

The adjusted R-squared of the double log model is 0.000 implying that none of the observed variations in respondents' perceptions was explained by the explanatory variables while other variables which accounts for the 100% were not included. The P-value obtained by ANOVA (0.986 or 98.6%) was statistically insignificant at 5% level, which indicates that there is no significant relationship between qualitative financial reporting and growth of SMEs. The Alternative hypothesis is rejected and the Null hypothesis is accepted.

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$H_0$4: There is a Significant Relationship between Accurate Accounting Records/Documentation and the Performance of SMEs in Nigeria

Table 9 Hypothesis Testing 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.358[a]	.128	.121	.428

a. Predictors: (Constant), E1

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.450	1	3.450	18.841	.000[b]
	Residual	23.442	128	.183		
	Total	26.892	129			

a. Dependent Variable: E2

b. Predictors: (Constant), E1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.192	.118		18.629	.000
	E1	-.326	.075	-.358	-4.341	.000

a. Dependent Variable: E2

The regression analysis above shows that the Model summary statistics reveals that Pearson correlation coefficient "R" is 0.358 which indicates that there is a high positive correlation between accurate accounting records/documentation and performance of SMEs in Nigeria.

The adjusted R-squared of the double log model is 0.128 implying that 12.8% of the observed variations in respondents' perceptions were explained by variables incorporated in the model while other variables which accounts for the 87.2% were not included. The P- value of ANOVA result (0.000) was statistically significant at 5% level which indicates that there is a significant relationship between accurate accounting records and performance of SMEs. The Alternative hypothesis is thus accepted and the Null hypothesis rejected.

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$H_0$5: There is a Significant Relationship between Working Capital and the Growth of SMEs in Nigeria

Table 10 Hypothesis Testing 5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.159[a]	.025	.018	.492

a. Predictors: (Constant), F3

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.800	1	.800	3.311	.071[b]
	Residual	30.931	128	.242		
	Total	31.731	129			

a. Dependent Variable: F1

b. Predictors: (Constant), F3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.142	.160		7.114	.000
	F3	.168	.092	.159	1.820	.071

a. Dependent Variable: F1

The regression analysis above shows that the Model summary statistics reveals that Pearson correlation coefficient “R” is 0.159 which indicates that there is a positive correlation between working capital and performance of SMEs in Nigeria.

The adjusted R-squared of the double log model is 0.025 implying that 2.5% of the observed variations in respondents’ perceptions that was explained by the explanatory variables incorporated in the model while other variables which accounts for the 97.5% were not included. The P-value of ANOVA reveals that 0.71 or 71% was statistically insignificant at 5% level which indicates that there is no significant relationship between working capital and the growth of SMEs in Nigeria. Therefore, alternative hypothesis was rejected and null hypothesis rejected.

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From the result of the analyses, only the effective accounting records and documentation has significant relationship with SMEs performance. That is other variables are insignificant, that is profitability, effective internal control, qualitative financial reporting, and working capital have no significant relationship with the performance of SMEs in Nigeria. The P-values obtained from the tests reveal a high disparity from the 5% level of significance set in our decision rule except for accounting records and financial documentations by the selected SMEs.

This may be due to small samples used in the study. It is not also far-fetched as most SMEs are not officially registered and do not follow basic accounting principles and reporting formalities. Further research can employ a larger sample to confirm the level of relationship.

CONCLUSION AND RECOMMENDATIONS

It is therefore concluded that performance of SMEs are majorly independent of their level of profitability, internal control system, working capital, and financial reporting quality.

Based on the outcome of the survey, the following recommendations are made:

1. Firms should make efforts to put in place sound and effective financial management tools.
2. An effective internal control system should be established.
3. Proper and effective financial reporting should be ensured.
4. Accounting records/documents should be well managed to avoid the issue of misappropriation of accounts.
5. The firms auditors should properly guide and train these small businesses to practice the International Financial Reporting Standards (IFRS) principles and guidelines, going forward, to ensure that their final accounts competes with others worldwide.
6. Government should continue to encourage the growth and expansion of SMEs to the mutual benefits of growing the economy.

LIMITATIONS OF CURRENT STUDY

In Nigeria like most African countries, law enforcement is weak, and hardwork is hardly compensated. This always contends with policy implementation that bears negative impact on the performance of business, especially the SMEs. Thus proper assessment of the contribution of SMEs may be difficult to comprehend. Limitations also exist in the efforts to obtain adequate and most current data for analysis, as updated data is hampered by poor record keeping. Most SMEs also operate in the background and are not duly and officially registered, which make it difficult to capture their contribution to the bottom-line. However, these do not affect the results of this study significantly.

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