

## Financial Management Practices Applied By Entrepreneurs for Operations of Small and Medium Scale Enterprises

**Mbanugo, Cyriacus Izuchukwu**

Business Education Department,  
Nwafor Orizu College of Education, Nsugbe,  
Anambra State, Nigeria.  
E-mail: cyriacandrew1@gmail.com

**Nwannah, Nkechi Lynda**

Department of Technology and Vocational Education  
Nnamdi Azikiwe University, Awka.  
E-mail: [nknwannah@gmail.com](mailto:nknwannah@gmail.com).

**Udegbumam, Emmanuel Obidi**

Department of Technology and Vocational Education,  
Nnamdi Azikiwe University Awka,  
Anambra State, Nigeria.  
Corresponding author e-mail: [uemmanuelobidi@yahoo.com](mailto:uemmanuelobidi@yahoo.com).

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### Abstract

*The need to improve operations of small and medium scale enterprises necessitated this study to ascertain the financial management practices applied by entrepreneurs for operations of small and medium scale enterprises in Anambra State. One research question guided the study and one null hypothesis was tested. Descriptive survey research design was adopted for the study. The population consisted of 811 small and medium scale entrepreneurs in Anambra State as at June, 2019. Out of which a total of 268 were sampled using the proportionate random sampling technique. The instrument for data collection was a structured questionnaire with a 13 items. The instrument was validated by three experts and a reliability coefficient of 0.88 was obtained using Cronbach alpha method. Data collected were analysed using descriptive statistics of mean and standard deviation to answer the research questions. The ANOVA was used to test the null hypothesis at 0.05 level of significance. Findings revealed that inventory management practices were applied by entrepreneurs of SMSEs in Anambra State. The findings also revealed that years of experience had no significant difference on the respondents' mean ratings on the inventory management practices applied by small and medium scale enterprises in Anambra State. The study concluded that majority of the SMEs in Anambra State apply inventory management practices in the operation of their businesses.*

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**Keywords:** Financial management practices, entrepreneurs, small and medium scale enterprises.

### Introduction

Small and medium scale enterprises (SMEs) form a large part of the economy and are the drivers of socio-economic development in any country. (SMEs) referred to the countless

tiny businesses operated by the poor in the cities, towns, and villages of the developing world (Victor, 2011). Small and medium scale enterprises sub-sector has come into the mainframe of policy formulation in Nigeria owing to its vital contributions to economic development. Like in the developed countries, SMEs have enabled entrepreneurship activities through which small and medium scale enterprises sub-sector has employment generation, poverty reduction and achievement of sustainable livelihood (Ogujiuba, Ohuche & Adenuga, 2014). It makes up about 97 percent of businesses in Nigeria and provides 50 percent of Nigeria's employment and its industrial output (Taiwo, Ayodeji & Yusuf, 2012). Government and development experts have, therefore, realised the fact that SMEs possess the needed catalyst to turn the economy around for good (Anyanwu, 2009).

In Nigeria, the significance of SMEs is relatively high, which is caused by not only their large share, amounting to 89.9 percent of all formally declared businesses in the economy, but also from their resilience to the shocks in turbulent Nigeria economy (Kamau & Assumpta, 2015). Nigerian SMEs, which were faced with serious challenges during and after the severe economic crises that hit the economy within the last three decades, increased their share in the economy significantly, as the Nigeria government took radical steps towards attaining a more stable economy and sustainable growth (Okojie, 2010). Okojie further noted that during restructuring period in Nigeria SMEs became one of the key elements of the macroeconomic improvements in Nigeria due to their significant role in the growth of overall GDP, new job creation and exports.

Despite the positive outlook and growth trends of the sector, SMEs in Nigeria, as in most developing economies, are faced with a number of challenges. These challenges include insufficient managerial skills, lack of trained personnel, poor access to financial resources and low utilisation of new technologies. Among these, insufficient financial management system is a core problem area for Nigeria's SMEs (Kamau & Assumpta, 2015). Financial management is the centre of the overall management system in a business. The ineffectiveness and inefficiencies of financial conduct have detrimental effects on the longevity and performance of SMEs (Meredith, 2006). Most problems militating against the survival of SMEs are financial in nature (Kamau & Assumpta, 2015). Aremu (2010) noted insufficient financial management as a critical and common cause of SMEs failures. In addition, poor knowledge of financial management combined with uncertainty of the business environment often leads SMEs to face serious problems regarding financial and overall performances, which can threaten the survival of the enterprise (Kamau & Assumpta, 2015).

Financial management according to Organization for Economic Cooperation and Development (OECD) in Okojie (2010) opined that problems militating against the survival of SMEs are financial in nature. Aremu (2010) noted insufficient financial management as a critical and common cause of SMEs failures. In addition, poor knowledge of financial management combined with uncertainty of the business environment often lead SMEs to face serious problems regarding financial and overall performances, which can even threaten the survival of the enterprise (Kamau & Assumpta, 2015). Small and medium scale enterprises will achieve their desired objectives to the extent that managers adopt appropriate financial management practices. Financial management practices in SMEs sector have long attracted the attention of researchers. Depending on different objectives, researchers emphasise different aspects of financial management practices. McMahon (2008) summarized their review of financial management practices in Australia, United Kingdom (UK) and United State of American (USA) to include financial structure management, inventory financial management, working capital management, financial reporting and analysis, accounting information systems and financial planning. Financial management practice as used in this study is inventory financial management.

Inventory refers to stocks of goods necessary to do business. It is also called the idle resource of an enterprise. Kamau and Assumpta (2015) defined inventory as the stock of any item or resource used in an organisation. Inventory as a business concept evolved only in the 1950's mainly due to the increasing complexity of supplying one's business with materials and shipping out products in an increasing globalised supply chain and inventory management (Cecil & Robert, 2010). Inventory management according to Rose (2009) refers to the control of materials and goods that have to be stored for later use. It helps an enterprise to avoid tying up capital so as to guide against incurring costs of spoilage, storage and so on. Hamza, Murtala and Antwi (2015) noted that an effective inventory management practice is important to the successful operations of most organisations, unfortunately the importance of inventory is not always appreciated by majority of the managers of SMEs. Arthur, Aluonzi and Byamukama (2014) reported that managers of most firms stated that managing inventory helps to safeguard against shortages and to keep production running. It aims at discovering and maintaining optimal levels of investment in all types of inventories and maximising the flow of goods, information and other related resources like people and energy from the point of origin to the point of final consumption (Edwin & Florence, 2015).

The influencing factors in the content of inventory management practices of SMEs could be years of experience. Years of experience to this study means the number of years the entrepreneurs have been in the business. In fact, there is recognition in the literature of the significance of the contribution of entrepreneurial experience to venture performance (Adeyemi, 2014). Adeyemi noted further that prior entrepreneurial experience can lead to success. Gorton (2009) observed that all managers irrespective of years of experience believe that the management of cash levels has a pivotal role in creating firms value. Similarly, specific experience in similar businesses ensures survival and growth. It could be said however that the older the entrepreneurs are in their businesses, the more they are equipped to apply adequate financial management practices.

Financial management practices are a veritable tool for SMEs growth and development. Small and medium scale enterprises all over the world are facing many challenges which include inadequate finance, inadequate market information, and negative attitude of consumers towards locally produced goods and so on. Small and medium scale enterprises in Anambra State are not immune to these challenges. It therefore follows that for these entrepreneurs to successfully manage their enterprises, there is the need to adopt viable inventory management practices that will be aimed at reducing these challenges. This study is therefore imperative as it aimed to ascertain the financial management practices applied by entrepreneurs for operations of small and medium scale enterprises in Anambra state so as to ensure their continued existence amidst the present economic reality.

## **Statement of the Problem**

SMEs in Nigeria are not free from problems. Kaya and Alpkan (2012) stated the causes of poor operations of SMEs included lack of adequate financial management, problem of identifying profitable ventures, lack of market information. Others include negative attitude of the populace towards locally produced goods, inexperience in record keeping, poor management skill and lack of proper education. Adefusi (2009) stated that the causes of poor operations of SMEs are lack of adequate financial management, problem of identifying profitable ventures, lack of market information among others. This is true of most SMEs entrepreneurs in Anambra State. This is because majority of entrepreneurs in the state are either school drop-outs, uneducated or educated without basic financial management knowledge. This situation seems to be responsible for the failure of many SMEs in the State. Consequently, the economy of the state may remain stagnant if the situation is not properly

addressed which will on the long-run lead to high level of poverty and unemployment. However, it appears that entrepreneurs of SMEs in Anambra State are not applying adequate inventory management practices in their businesses. Hence this study is essential as it will help to assess the operations of SMEs by entrepreneurs in the state as it concerns inventory management practices so as to determine appropriate strategies to remedy the situation.

### **Purpose of the Study**

The main purpose of this study was to ascertain the financial management practice applied by entrepreneurs for operation of small and medium scale enterprises in Anambra State. Specifically, the study determined:

1. inventory management practice applied by entrepreneurs for operation of small and medium scale enterprises in Anambra State

### **Research Question**

The following research question guided this study:

1. In the opinion of entrepreneurs in Anambra State, what are the inventory management practices applied by entrepreneurs for operation of small and medium scale enterprises?

### **Hypotheses**

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

1. There is no significant difference in the mean responses of entrepreneurs on the inventory management practices applied for operation of small and medium scale enterprises in Anambra State as a result of years of experience (0-5yrs, 6-10yrs and above 10 years).

### **Method**

Descriptive survey design was adopted for the study. The design was considered appropriate for this study because the study sought the opinions of entrepreneurs of small and medium scale enterprises on inventory management practices applied in Anambra State. The population for the study comprised 811 registered entrepreneurs of SMEs in Anambra State out of which a sample of 268 entrepreneurs of small and medium scale enterprises were selected through randomisation from each stratum. Instrument for data collection was a 13-items structured questionnaire. The instrument was validated by three experts in business education. To ascertain the reliability of the instrument, the researchers conducted a pilot test whereby copies of the instrument were administered to 20 selected small and medium scale entrepreneurs from Enugu metropolis, Enugu State which is outside the study area but have similar characteristics with the studied area. Data collected were analysed using Cronbach alpha to determine internal consistency and obtained a reliability index at 0.88. The administration of the instrument was carried out personally by the researchers with the aid of three research assistants.

Data collected regarding the research question were analysed using mean and standard deviation. Analysis of Variance (ANOVA) was used to test the null hypotheses at 0.05 level of significance. Where disagreement existed among the three groups in hypothesis two, the Scheffe Post-hoc test was conducted to determine the group to which the disagreement relates. A decision rule was based on a real limit of numbers thus; mean

responses between 3.50-4.00 were regarded as strongly agree; mean ratings of 2.50-3.49 were considered as agree; mean responses of 1.50-2.49 were regarded as disagree and items with mean responses 1.00-1.49 were regarded as strongly disagree.

Furthermore, items with mean responses of 1.50-2.49 and 1.00-1.49 were considered as disagree and strongly disagree respectively. In testing the null hypotheses, where the calculated p-value is less than the stipulated level of significance (0.05), it meant that there was a significant difference and the hypothesis was rejected. Conversely, where the calculated p-value is equal to or greater than the stipulated level of significance (0.05), it meant that there was no significant difference and the hypothesis was not rejected.

## Results

### Research Question 1

In the opinion of entrepreneurs in Anambra State, what are the inventory management practices applied by entrepreneurs for operation of small and medium scale enterprises?

**Table 1: Mean ratings of entrepreneurs on inventory management practices applied for operations of small and medium scale enterprises in Anambra State (N=252).**

S/N	Inventory Management Practices	$\bar{X}$	SD	Remarks
1.	Uses cost reduction from inventory management practice to increase profit performance	2.64	0.54	Agree
2.	Uses computer assisted software in recording inventory theory	2.10	0.61	Disagree
3.	Uses historical data to determined Inventory levels	2.55	0.52	Agree
4.	Uses Economic Order Quantity model in inventory management	2.85	0.48	Agree
5.	Uses inventory theory to determined Inventory levels	1.77	0.73	Disagree
6.	Prepares inventory budget	3.45	0.34	Agree
7.	Reviews inventory levels	2.96	0.44	Agree
8.	Investigates discrepancies in inventory	2.54	0.47	Agree
9.	Uses owner's experience to determined Inventory levels	2.45	0.57	Disagree
10.	Prepare internal and external financial reports	2.00	0.67	Disagree
11.	Ensure experiences cash shortage	3.25	0.37	Agree
12.	Uses standard costs	3.46	0.27	Agree
13.	Apply periodic review of overhead rates	3.47	0.25	Agree

Data in Table 1 show the mean responses of entrepreneurs in Anambra State on the inventory management practices applied for operation of small and medium scale enterprises. The results revealed that nine items (1, 3, 4, 6, 7, 8, 11, 12 and 13) had the mean scores that ranged from 2.45 to 3.47 were agreed as inventory management practices applied by entrepreneurs in Anambra State for operation of small and medium scale enterprises. While, four items (2, 5, 9 and 10) were rated disagreed with mean scores that ranged from 1.77 to 2.45. The standard deviations ranges from 0.41-0.83 showed that there is homogeneity amongst responses indicating a greater consensus of opinions.



## Hypothesis 2

There is no significant difference in the mean responses of entrepreneurs on the inventory management practices applied for operation of small and medium scale enterprises in Anambra State as a result of years of experience (0-5yrs, 6-10yrs and above 10 years).

**Table 2: Summary of Analysis of variance on mean responses of entrepreneurs on the inventory management practices applied for operation of small and medium scale enterprises in Anambra State as a result of years of experience.**

Variable	Sum of Squares	df	Mean Square	F	P-value	Decision
Between Groups	1.42	2	1.71			
				0.38	0.68	Not Significant
Within Groups	460.90	249	1.85			
Total	462.32	251				

As shown in Table 2, there is no significant difference among the three groups in terms of their mean ratings on the extent inventory management practices are applied in SMEs as a result of years of experience (0-5, 6-10 and above 10 years), as the F-ratio is 0.38 and *P-value* (.68) is greater than the stipulated 0.05 level of significance. Therefore the null hypothesis is not rejected.

## Discussion of Findings

The findings of the first research question revealed that majority of items on inventory management practices were rated agreed by entrepreneurs of SMEs in Anambra State. This implies that they do apply them. The results revealed that the major of the SMEs uses inventory management practices. The findings are in consonance with Hamza, Murtala and Antwi (2015) noted that an effective inventory management practice is important to the successful operations of most organizations, unfortunately the importance of inventory is not always appreciated by majority of the managers of SMEs.

The results of the null hypotheses revealed that years of experience of the entrepreneurs did not significantly affect the respondents' ratings of inventory management practices applied by entrepreneurs in their small and medium scale enterprises in Anambra State. These results agreed with Arthur, Aluonzi and Byamukama (2014) who reported that managers of most firms stated that managing inventory helps to safeguard against shortages and to keep production running.

## Conclusion and Recommendations

Based on the findings of this study, it is concluded that entrepreneurs of SMEs in Anambra State applied to some extent, inventory management practices in the operation of their businesses. It is also concluded that years of experience of the entrepreneurs do not significantly affect the opinion of SMEs entrepreneurs on the extent they utilize inventory management practices in the operation of their organisations. This means that SME entrepreneurs, irrespective of years of experience can imbibe effective inventory management practices. The government through relevant agencies on small and medium scale enterprises should be informed of the financial management practices such as inventory management practices so as to enable them formulate and implement favourable policies that would enhance the financial management practices of small and medium scale enterprises.

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