Financial Management Practices & The Performance of Selected Small and Medium Enterprises in Kogi State-Nigeria

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ABSTRACT

The study took a critical look at financial management practices and the performance of Small and Medium Enterprises in Kogi state Nigeria. The study sought to establish a relationship between financial management practices and the performance of Small and Medium Enterprises. The population of the study consist of 115 selected SMEs located in Lokoja metropolis in Kogi State Nigeria. Quantitative research method was used to elicit more information from respondents with the distribution of questionnaire. Multiple linear regression was used to analyze the data collected from the field .The study found that financial management practices is significant to the performance of Small and Medium Enterprises. Findings also revealed that financing enhances the performance of small medium enterprises. The study concluded that small medium enterprises have been affected positively by financial management practices using the various components of financial management. The study recommended that Small and Medium Enterprises should employ the services of portfolio managers that could help in investment decision making through channeling of surplus cash into the various short term investment opportunities available. Finally, there is need for small medium enterprises to increase their financial performance through effective long term plan.

Key Words: Financial management practices, financing, Investment decision, performance of Small and Medium Enterprises.

1.1 Background to the Study

Finance as a field was formally a branch of economics until the 20th century when it emerged as a separate discipline of its own (Pandey, 2004).

Financial management is the act and science of managing money for effective utilization. Small and Medium Enterprises needs finance to meet business requirements in their day to day transactions (Cook & Nixson, 2000). All kind of business activity depends on finance, it is often called the lifeblood of business activity. Whether the business concerns are big or small, they need finance to fulfill their business activities. The ultimate rationale behind operating a business enterprise is to maximize profit, this is done through ensuring that funds are properly channeled to activity areas that leads to productive wealth creation in other to realize the overall objective of the enterprise. Financial management strategy connotes analysis of investment of organizational funds in line with the best portfolio to general market valuation of the organization financial management strategy involves managerial controlling and planning of financial resources and activity of a firm to attain the overall objectives of the enterprise. Financial management strategy and practices in SMEs are quite different from the practices obtainable in large firms as a result of the nature of their cash flow cycle, working capital management problems and challenges of raising external finance by means of equity (Mazzarol, Reboud & Clark, 2015).

Adequate financial management strategy is relevant in other to ensure effectiveness and coordination of business enterprises. Financial management strategy deals with a long term view focusing on strategic goals of the firm or enterprise. Financial management strategy ensures regular and adequate flow of funds to business enterprises, it also ensures the best return on shareholders' investment which majorly depends on the earning capacity and market price of the shares (Dawuda & Azeko, 2015).

Small and Medium Enterprises being an engine of development and growth needs efficient financial management strategy, it is widely believed that successful business cannot be under taken without sufficient capital. Most small businesses are eager to grow into large organization and even to multinational corporations but they often collapse even before the break even. The Small and Medium Enterprises has potential role in the socio economic development of Nigeria, this is among the reasons the federal government of Nigeria has continued to play domineering effort since 1970s because the following roles of SMEs in the provision of greater employment , industrial development, development of indigenous technology and increasing local content industrial output. There is no doubt that the number of SMEs has increased with in the last 25 year .Financial management strategy is necessary to ensure not only the survival of SMEs but as a panacea for financial institutions to assist in the area of funding through proper financial record. Ahiawodzi and Adade (2012) maintained that SMEs compliment the activities of the larger scale industries through their integration into the mainstream of industrial development.

1.2 Statement of Problem

Small and Medium Enterprises are the propelling forces behind the success recorded in the development of big economies in the world, example of such countries are USA. China, Taiwan etc. SMEs has really transformed the economies of developed countries by providing gainful employment and operating indigenous skills and idea recognition which has helped to develop manpower. It is crystal clear that because of the number, size and grass roots- rural base of Small and Medium Enterprises, they are regarded as the bedrock of any nation's rapid social and economic development (Etuk, Etuk & Baghebo, 2014). In the developing economies, apart from lack of capital which is often ranked highest, they are often faced with problems of poor performance of SMEs which is necessitated by lack of financial management skills and strategy, wrong investment decision and poor financial reporting system leading to excessive take off cost among others (Shehu, 2014). Inefficient financial management may damage business efficiency and this will continuously affect the growth of the Small and Medium Enterprises (Kilonzo & Ouma, 2015). The importance of cash to SMMEs and the fact that they have limited access to cash, prior studies conducted in different countries suggest that these entities do not manage their cash effectively (Pietersen, 2012; Nyamao, Patrick, Odondo & Simeyo, 2012). Olajide, Tijani, Adeoye and Elegunde (2015) narrated that serious effort have been directed towards solving problem associated with incessant collapse of Small and Medium Enterprises. Shallow (2017) argued that the specific problem of small businesses is that owners lack strategies for effective financial management which is a major impediment to the survival of some Small and Medium Enterprises. This financial skills needed for effective financial management ranges from good investment decision, proper cash management and financial reporting among others. Most of these problems are traceable to the fact that much is not done by the SMEs in the aspect of financial management structure. For Small and Medium Enterprises to grow favorably, there should be a long term procedure that outlines the components of financial management strategies to maximize profit and ensure good return of shareholders fund. However, there is a knowledge gap about financial management strategy and the growth of Small and Medium Enterprises in Nigeria, most studies have shown little focus on this area, this study intends to fill the knowledge gap since previous studies have not captured the subject matter.

1.3 Objectives of the Study

The broad objective of the study is to evaluate the effect of financial management practices and the performance of Small and Medium Enterprises in Kogi State. Specific objectives of the study include:

(i) To examine the effect of financing on the performance of small and medium enterprises Kogi State.

(ii) To investigate the effect of investment decision on the performance of Small and Medium Enterprises in Kogi State.

Implication of the Study

The study will enable policy makers and the government to be aware of various strategies that can be used to enhance the growth and performance of Small and Medium Enterprises.

The result of this study will enable the operators of small and medium enterprise to evaluate the effect of financial management strategy on their businesses. The management will appreciate the positive effects that financial management strategy can enhance the growth of SMEs. This study will help in enhancing the financial management practice of different Small and Medium Enterprises by way of improving their financial and investment decision making so as to optimize the value of the shareholders.

The study will also enable the researcher know and understand other reasons that are attributed to the growth of Small and Medium Enterprises. The study will give all other stakeholders' confidence to continue ejecting finances and their efforts respectively since their objectives will be realized once when good financial management strategies are implemented.

Finally, this study will help provide information for managers, shareholders and customers with regards to having an effective financial management strategy.

LITERATURE REVIEW

This section defines and explains key concepts as they relates to the subject matter, equally, the contextual structures of the work alongside relevant theories underpinning the study were discussed. Previous related studies were also reviewed in this section.

2.1 Conceptual Framework

2.1.1 Concept of Financial Management Practices

Financial management practices involves the management of funds and how the funds are used to achieve the objectives of the organization and shareholders' value maximization (Chandra, 2011; Kilonzo & Ouma, 2015). The essence of financial management practices is not only to manage the flow of funds in the organization but to also align them with the good intention to meet the goals and objectives of the firm so as to maximize the financial wealth of business owners.

It is very important to know that shareholders investment needs to be given good value, the maximization of shareholders wealth is paramount to the firm. Pandey (2004) defines financial management as a discipline that deals with the financial decisions that a firm make using some financial tools of analysis. Gitman (2011) on the other hand defines financial management as the concept of time, money and risk and how they are related to each other. Delkhosh and Mousavi (2016) opine that financial management strategy is a process for identification, collection, selection and analysis of the financial data for the assistance to team of management for the strategic decisions and effectiveness of the organizational assessment .According to Kitonga (2013) typical financial management practices in organizations include an accounting information system, fixed assets management, working capital management, financial reporting and analysis, capital structure management etc. In order to carry out measures to increase capital efficiency and install a system whereby it is permanently monitored, you must first have a comprehensive system for managing capital expenditure which also manages your investments, your finance and your working capital (Karadag,2015). Zietlow, Hankin and Seidner (2007) noted that financial management is the creation of wealth, planning and monitoring of a business' financial assets, improving its profitability and generating the required return to capital providers. Financial management practices include all aspects of management that affect the finances of the company and what is needed to achieve the overall objective of the organization (Alhassan, Erasmus & Portia, 2018). Arbana and Muhamet (2017) argue that values should not be demanded by shareholders alone rather value should extend to each of the functions within the organization including finance functions. Karadag (2015) viewed that financial management knowledge also has a positive effect on the survival of small businesses. Turyahebwa, Sunday and Ssekajugo (2013) see financial management as activities related to record keeping of the finances of an organization which include financial planning ,budgeting, reporting, cash flow management and working capital management.

2.1.2 Financing

Financing involves the strategy which the firm adopts in mobilizing funds to meet the long term and short requirement of the firm, sources of finance can be classified into long term and short term. Long term sources of finance involves the mobilization of large funds with a repayable period of more than five years (Janse, 2020). Long term sources of finance needs to meet the capital expenditure of the firms such as purchase of fixed assets, building, land, plants and machineries. The long term sources of finance are preference shares, long term loans, fixed deposits, equity shares. Mutua (2015) observed that short term sources of finance include funds obtain from the following sources, customer advances, trade credit, bank credit and money market instruments. Small companies frequently suffer from a particular financial problem of lack of a capital base. Forkuoh and Li (2015) maintained that Small businesses are usually managed by their owners and available capital is limited to access to equity markets, and in the early stages of their existence owners find it difficult in building up revenue reserves if the owner managers are to survive. A question concerns how small businesses determine sources of finance in such difficult circumstance. When a firm is forced to use external financing sources, managers select the least risky and demanding source first. When it is necessary to issue external sources, debt issuance is preferred to new equity (Ngary, Smith, Bruwer & Ukpere , 2014). In an attempt to explain small firm financing behavior, other scholars have relied on agency theory. Agency theory holds that investors who have equity or debt in a firm require costs to monitor the investment of their funds by management or the small business owner (agency costs). This view suggests that financing is based on the owner-manager being able to assess these agency costs for each type of financing, and then select the lowest cost method of financing the firm"s activities. One weakness of this explanation is that no one has yet been able to measure agency costs, even in large firms (Myers & Majluf, 1984). Barton and Gordon (1988) suggest that the following characteristics must be accounted for in any explanation of firm financing decisions: behavior at the firm level; fact that the capital structure decision is made in an open systems context by top management, and decisions reflects multiple objectives and environmental factors, not all of which are financial in nature. Firms financing decision appears to be a product of many internal and external factors, as well as managerial values and goals.

2.1.3 Investment Decision

Investment decision involves a long term process of selecting the optimal investment alternatives and consider the reasonable and stable return from the investment, this involves the use of capital budgeting techniques to determine the effective utilization of investment. Many times decisions regarding investment into fixed assets, like Factory Building, Plant and Machinery are taken without doing any scientific analysis. Various techniques that can be used to evaluate investment in capital assets include: a payback period with its attendant variations in discounted payback methods, accounting rate of return or return on investment, net present value, internal rate of return etc. the overall objective of an organization's financial management strategy is to maximize the value of shareholder wealth.

These decisions have long term effects on the business and should be taken only after a detailed analysis of the market scope, competition and by applying discounted cash flow techniques like IRR (Jindrichovska, 2013). Optimizing capital investments is one of the most important levers both for improving value-based performance indicators and for securing the availability of sufficient liquidity. Investing is one of the most crucial strategies to achieve a long term wealth and financial security which differs from trading. Gveroski and Jankuloska (2017) observed that funds for new investment can be realized from the sale of equity which is the initial invested assets of the owner and through raising of fund from financial institution or external sources. The importance of capital investment decisions to business, finance literature has proposed various techniques that should be used to evaluate the financial viability of this investment before committing the organization's resources to it (Muneer Ahmad & Azhar 2017).

2.1.5 Concept of Small and Medium Enterprises

The universal definition of Small and Medium Enterprises is difficult to describe due to the fact that their definition can be described differently depending on the context, dimensions, levels and the nature of economic development (Vongkhamheng, 2017). Small and Medium Enterprises are regarded as the engine of economic growth and rapid sustainability of the economy, this is necessitated by its potentials at generating employment at low capital cost. This means that there is no precise definition for SME's(Berisha & Pula,2015). Even though the definition of SME's is diverse, the basic definition of SME is based on two dimensions, namely , the number of employees and sales volumes. These aspects are recognized as the fundamental factors to define SME's (Ardic, Mylenko & Saltane, 2011). The World Bank describes SMEs as enterprises with a maximum of 300 employees, $15 million in annual income, and $15 million in assets (Govori, 2013). Small scale enterprises can be viewed in relations to the value of assets available at its disposal. Several criteria are used throughout the world to describe small scale business, they are: Initial capital outlay, financial strength, relative size etc. For the context of this study, we shall adopt the Nigerian definition of SME. The central bank of Nigeria defines small and medium scale enterprise operating in Nigeria as an enterprise with fixed capital or asset between #5million ($26,932 and $ 2,693,240), turnover of less than 100 million ()$538,648) per annum and labour force between 11 and 300 (CBN,2003). Nigeria SME's constituted 97% of the entire enterprises in Nigeria, it contributed about 46% to the gross domestic product (GDP) while more than 50% of Nigerian's workers were employed by SME's(MSME survey report , 2010; Taiwo, Ayodeji & Yusuf, 2012). Small and Medium Enterprises are multiple and ranging from micro to cottage industries. It is evidently clear that Small and Medium Enterprises could play a catalytic role in the economic transformation of Nigeria economy through technological advancement, export, increasing local content value. It is undoubtedly accepted that small scale business forms the bedrock of any nation's industrial take-off especially in a typical developing country like Nigeria.

Ofoegbu, Akanbi and Joseph (2013) says that SMEs are the panacea for the economic growth and development of many developing countries including Nigeria.

A more proactive strategy is applied to address some major setback faced by SME's, these problems are poor access to finance, government frequent change of policies, multiple taxation and access to market. According to Cook and

Nisxon (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance.

2.1.6 Concept of Performance of Small and Medium Enterprises

The performance of Small and Medium Enterprises can be measured in terms of size, profitability, growth in asset, competitive strength among others (Kaplan Publishing, 2012, p. 1). By supplementing financial measures with non-financial measures about strategic performance and implementation of strategic plans, businesses can communicate objectives and provide incentives for managers to address long-term growth and financial performance measures to provide support for SMEs.

2.2 Empirical Review

Alhassan, Erasmus and Portia (2018) examined financial management practices using four components: working capital management practices, capital structure management, accounting information and financial reporting practice, and the use of capital budgeting techniques and fixed assets management. Performance of SMEs was examined from the context of profitability measured by Return on Assets and of growth. The study sampled 100 SMEs from Accra with data collected through the administration of a questionnaire. Data were analyzed using descriptive statistics and Pearson correlation analysis. The results of the descriptive statistics revealed that working capital management practices had the highest mean score, followed by accounting information and financial reporting practices, capital structure management and finally, the use of capital budgeting techniques and fixed assets management, in that order. The Pearson correlation analysis showed a positive association between the four components of financial management practices and between SMEs profitability and growth. The results emphasize the need for SMEs to improve on their financial management practice to improve the profitability and growth of these firms. It is recommended that the use of capital budgeting techniques be improved, as this area of financial management, even though it impacts positively on the performance of SMEs had the least score. Most importantly, the managers of SMEs should use discounted cash flow techniques to evaluate investment and projects before committing the resources of the company. SMEs are encouraged to adopt IFRS for SMEs to enhance their financial reporting practices. This will also improve their decision making and access to capital which will allow these SMEs to expand.

Muneer, Ahmed and Azhar (2017) examined the impact of financial management on Small and Medium Enterprises profitability with moderating role of agency cost. The study made use of primary data which was obtained from two hundred SMEs from Faisalabad, Pakistan. In analyzing the data, the study used descriptive analysis and structural equation model (SEM) through partial least square (PLS) to test the hypothesis. Findings of the study indicates a positive relationship between financial management practices and SMEs profitability. The study further recommends higher adherence to financial management practices.

Shallow (2017) investigated the strategies for effective financial management in Vincentian small businesses, the population of the study consist of four st Vincent small business owners. Data collection was made possible through semi structured interviews and review of documentations. Findings indicates that identification and implementation of effective financial management strategies may increase small business success which potentially resulting in growth in the number of small businesses in St Vincent. The study recommended that SMEs should adopt effective financial planning strategies and prudent accounting practices.

Abimbola and Kolawole (2017) examined the effect of working capital management (WCM) practices on the performance of small and medium scale enterprises (SMEs) in Oyo state, Nigeria. The study was carried out on 150 SMEs operators who were selected using stratified random sampling method. Primary data was employed with the aid of questionnaires. Data were analyzed using multiple regression analysis and spearman rank correlation. Findings showed positive relationship between cash management and inventory management practices on the performance of SMEs. The study recommended that SMEs operators should take cognizance of working capital management in order to boost their performance.

Agbemava, Ahiase, Sedzro, Adade, Bediako, Nyarko and Kudo, (2016) examined the impact of financial management practices on the performance of SMEs in the Ho Municipality. The study sampled 200 SMEs from the municipality and used descriptive analysis as well as correlation analysis to achieve the objective of the study. The outcomes of the study showed that there was a positive association between proper financial reporting practices and growth of SMEs. The study concluded that sound financial management practices assist in decision making as well as help SMEs to access capital and expand their operations.

Kilonzo and Ouma (2015) investigated Financial Management Practices on growth of Small and Medium Enterprises: A case of Manufacturing Enterprises in Nairobi, kenya. Primary data was collected from 41 SMEs using a questionnaire administered to the business owner/manager of the SMEs. A simple random sampling technique was used to select the SMEs. Descriptive and inferential statistics were used to analyze the data. The study established that 75% of the SMEs sold their products cash while 82% maintained a cash limit, 92% have a manual inventory register, 35% have invested in long term assets while 45% used internally generated funds for business financing. 55% do not have a formal accounting system and 74% prepared financial statements without a qualified accountant. The Ministry of Industrialization should introduce capacity building programs for SMEs in the issues of financial management practices.

Chinonye, Akinbode and Onochie (2015) assessed the strategies for financing Small and Medium Enterprises in Nigeria: concepts and issues, the data used for the study was gotten through secondary source in less developed countries. Findings from the study revealed that several effort has been directed by both the government and international agencies in the area of financing SMEs.it was concluded that SMEs contribute to the national economy in the area of job creation, poverty alleviation, infrastructure provision and skill supply.

Mutua (2015) examined the effect of financial management strategy on the growth of SMEs in Chuka Town, Kenya. The study sampled 300 SMEs and used descriptive analysis as well as regression analysis to achieve the objective of the study. The study results shows that the majority of SMEs do not keep proper books of account, which affect their ability to make proper business decisions, fulfil their tax obligations, and raise the needed capital from creditors or banks to support their operations. Finally, the study concluded that proper bookkeeping practices influence the growth and financial performance of SMEs in Kenya.

Jindrichovska (2013) investigated financial management in SME's. The paper adopted qualitative study reviewing recent studies on small and medium sized companies in order to concentrate on the main critical issues of SMEs financial management. There are three core elements of financial management: (1) the question of liquidity management and cash flow management. Cash is company's most precious nonhuman asset. (2) The question of long term asset acquisition – which directs the long term course of business. (3) Questions of funding, capital structure and cost of funding. The most imminent question is the liquidity management. A business will never see the long term if it cannot plan an appropriate policy to effectively manage its working capital. Generally, the study found that poor financial management of owner-managers is the main cause underlying the problems of SMEs.

Abor (2012) examined how SMEs capital structure affects their financial performance. The study adopted a quantitative approach using secondary data. Multiple regression was used to analyze the data. The study found that long-term debt was positively associated with gross profit margin of SMEs. The study also reported a negative association between short-term finance and a gross profit margin of SMEs in Ghana and South Africa. Other studies on financial management practices that included capital structure management reported a positive association between the two variables suggesting that SMEs will improve their financial performance by choosing the right mix of debt and equity to reduce risk and at the same time enjoy some tax shields from the interest obligations.

Bhunia (2012) examined relationship between financial management and growth of SMEs .The study implement an empirical study of logistic regression analysis with repeat sampling data after segregating the financial records data into variables. The result reveals a significant relationship with SMEs' and the practices of financial management.

2.3 Theoretical Review

Pecking Order Theory

The study is based on the Pecking Order Theory. The theory was first suggested by Donalson in 1961 and it was modified by Stewart c. Meyers and Nicolas Majluf in 1984. Pecking order theory of capital structure states that firms have a preferred hierarchy for financing decisions. The highest preference is to use internal financing (retained earnings and the effects of depreciation) before resorting to any form of external funds. The Pecking Order Theory (POT) suggests that there is no well-defined optimal capital structure; instead the debt ratio is the result of hierarchical financing over time. The foundation of POT is that firms have no defined debt-to-value ratio. Management has a preference to choose internal financing before external financing Internal funds incur no flotation costs and require no additional disclosure of proprietary financial information that could lead to more severe market discipline and a possible loss of competitive advantage. If a firm must use external funds, the preference is to use the following order of financing sources: debt, convertible securities, preferred stock, and common stock. By including a discussion of pecking order theory in the capital structure unit financial managers are exposed to a broad base of both theory and practice that will enable them to better understand how important financing decisions are made. In addition to the traditional discussion of the impact of taxes, financial distress, and agency costs upon capital structure decisions, Pecking order theory help financial managers to gain insight to how management motivations and market perceptions also impact these decisions. Furthermore, the addition of pecking order theory into the basic discussion of capital structure provides one more opportunity for critical thinking to occur. For example, a financial manager can show how the debt ratios of leading companies in particular industries differ from the industry averages to which most companies are usually compared during a cross-sectional financial analysis.

3.0 Methodology

The study adopted survey method which involves the administration of structured questionnaire to collect primary data from respondents. The population of the study consist of 115 selected small medium enterprises within Lokoja metropolis using simple random sampling. Questionnaire were distributed to the sampled SME in order to elicit responses on their view based on the research question. The study employed multiple linear regression to analyze the data collected.

Model Specification

The dependent variable is performance of small medium enterprises (PSME), while the independent variable is financial management practices (FMP). In order to achieve the hypothesis, multiple linear regression was used to estimate the model. The model is presented thus:

PSME= f (FMP)---(1)

GSME =βo + β1 FIG + β2 IVD + μ--- - -------------------------------- (2)

Where: FMP = an indicator representing financial management Practices (Independent Variable);

Performance SME = Performance of small medium enterprises (dependent variable parameter)

βo = a constant;

β1, β2, = coefficient of independent variable;

FIG= Financing (a predictor representing Independent variable)

IVD= Investment decision (a predictor representing Independent variable)

μ= Stochastic error term.

f = Functional relationship.

3.1 Data Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.9277[a]	.869	.867	.60276

a. Predictors: (Constant), FIG, IVD

b. Dependent Variable: PSME

The table above reveals that adjusted R2 = .867. The result indicates that about 92% relationship exist among the components of the independent variable and dependent variable. The r Square value of 0.869 indicates that the components of independent variable have a combined effect of 86% on the dependent variable. While the Adjusted r Square value of 0.867 also indicates the accurate influence of the combined variables of financing and investment decision on the performance of small medium enterprises. The implication of this is that about 86% of the variations in financial management practices are explained in the model, while the remaining 14% is explained by other factors which was not captured in this model.

Table 3.2.1

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	304.707	2	101.300	279.382	.000[b]
	Residual	41.158	115	.362		
	Total	346.767	118			

a. Dependent Variable: PSME

b. Predictors: (Constant), FIG, IVD

The F-Statistics value of 279.382 and the significance level of .000 in Anova table above is less than the alpha level of 0.05%. This means that the result is good and the model is fit for the achievement of the overall objectives.

Table 3.2.2

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.639	.242		6.762	.000
	FIG	.607	.108	1.175	5.640	.000
	IVD	.500	.080	.875	6.255	.000

a. Dependent Variable: PSME

3.3 Findings

The T-Statistics value of 5.640 and the corresponding significant level of .000 which is significant at 5% level of significance indicating that financing has significant effect on the performance of small medium enterprises, base on this, the Null hypothesis (H01) which says that financing does not have significant influence on the growth of small medium enterprises is rejected on the bases that the p- value is less than 0.05. Finally, Table 3.2.2 above shows the result of T-statistics of 6.255 and the corresponding significant level of .000 which is significant at 5% which also indicates that investment decision has significant effect on the performance of small medium enterprises, this indicates that the Null hypothesis (H02) that investment decision do not have significant effect on the performance of small medium enterprises is rejected on the basis that the p-value is less than 0.05.

3.4 Conclusion and Recommendations

The study analyzed financial management practices on the performance of Small and Medium Enterprises with specific the specific objective to ascertain the influence of investment decision, and financing has on Small and Medium Enterprises. Reviewed literatures focuses on the definition of financial management practices and its correlation on the performance of Small and Medium Enterprises.

The empirical study reveals that financial management practices enhances the performance of Small and Medium Enterprises. Based on this study, conclusions can be made that financial management practices enhances the performance of Small and Medium Enterprises , this is can be achieved by using the components of financial management like investment decision through deployment of capital and planning future investment contributes and financing strategies among others to enhance the growth of Small and Medium Enterprises.

The following recommendations were made:

(i) Small and Medium Enterprises should employ the services of a portfolio manager that can help in investment decision making process and the need to invest cash surplus in the various short term investment opportunities available.

(ii) Finally, there is need for Small and Medium Enterprises to increase their financial performance through effective long term plan, focusing on the strategic goals of the enterprise and less profitable firm should not go for debt financing. It is better for the less profitable firms to use their internal resource rather than external resources.

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