



Financial Management and Organizational Culture as a Hybrid for SMEs' Performance in Nigeria

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

Purpose: This study jointly examines the impact of financial management and organizational culture on the performance of SMEs in Nigeria with particular reference to Oyo State.

Methods Purposive sampling techniques were employed to select a total of 658 SME operators/managers engaging in trading, manufacturing, services, Agro-allied, and construction. Mean, and least square method of estimation was used to analyze the data.

Results: The result reveals that financial management and organizational culture jointly and independently influence SMEs' performance. The study further reveals that SMEs are ready to imbibe financial management culture if adequate training on financial skills is provided for the sector by the government, accounting professional bodies, and the tertiary institution of learning, which will foster the growth of entrepreneurship and prudently manage their finances.

Implications: The implication of this study is that for the sector to swimming in prosperity, SMEDAN should make the certificate in financial management culture as of the prerequisites for the registration. Also, the Federal Ministry of Education should introduce financial management culture into curricula for all tertiary institutions of learning as well as accounting professional bodies in Nigeria.

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1. INTRODUCTION

Small and medium-sized enterprises (SMEs) have been noticed by economists, policymakers, researchers, and scholars as to the economic hub of nations in terms of sustainable development via job creation, poverty alleviation, and wealth creation. Research provides empirical evidence that SMEs constitute about 91% of corporations in developed nations, while the sector provides over 89% of employment in emerging economies [1] [2] [3] [4] [5]. In spite of these laudable and commendable contributions of the sector in advanced and developing nations, its effects have not been felt in Nigeria.

Previous studies have attributed this unpalatable scenario to poor financial management culture which often leads to business failure in the first 5 years of operations [4] [6]. In line with the assertion, [7] affirm that over 95% of SMEs fail in business within the first 5 years as a result of inadequate preparation of the owners for financial management. In the same vein, [8] also reaffirms that one of the challenges confronting SMEs in Nigeria is the poor management of finance. [9] lament that most SMEs failed to incorporate the components of organizational culture well to enhance productivity. In the same vein, [10] argues that SMEs experienced failure as result of lack of commitment to support the creation of good organizational culture in SMEs. Research confirms that organizational culture influences every aspect of society, far beyond what is commonly recognized, not only able to change, guide, and display but also give significant contributions by influencing the thought, feeling, interaction, and financial behaviors in the organization [11]. According to Wilkins [12], organizational culture explains an alteration of an organization's environment, financial structure, financial culture, and technology. Organizational culture, therefore, is a major variable that measuring work environment and assist individuals to realize the way organizations function and offer norms for the performance in the organization [12].

Financial management and organizational culture have received a lot of attention in the study of the work environment. It has been measured and conceptualized in different ways, but remains a challenge concept [11]. Many studies on the constructs mentioned above have been carried out in large companies and in different

conceptual relationships. This study will therefore examine these concepts from a different angle by examining the relationships between them in small and medium-sized enterprises in Nigeria. Academically, there is a gap in the perception of financial management and organizational culture at the SME level. This study justifies the need to fill this contemporary gap in the literature and offers suggestions on how to improve the performance of SMEs through a culture of effective financial management.

2. RESEARCH OBJECTIVE

The specific objectives of this study are to:

- i. Examine the extent to which financial management has impact on SMEs' performance
- ii. Determine the extent to which financial management has impact on SMEs' performance

2.1 Theoretical Framework

This study is rooted in institutional theory as developed by Selznick in 1948. According to Selznick [13], the social process is the standing point of a firm which includes the norms, routines, rules and regulations, and rituals that influence organizational behavior [14]. Selznick depicts that environmental factors are major predictors of organizational behavior, organizational structure, organization strategies, governance, and organizational processes [14]. The theory postulates that individuals and firms can determine what structures and practices should be in an organization independently. This implies that SME operators can adopt structures and practices from similar or large organizations to be in line with the institution's norms [14]. The theory, therefore, advocates that SMEs in Nigeria should employ rules, routines, and knowledge pertaining to financial management as tools for sustainability in managing the SMEs. Karadag [15] is of opinion that institutional theory is the lens through which SME operators understand the rudiments of rules, routines, and knowledge of effective financial management. In the same vein, Froelich [16] argues that the application of institutional theory in SMEs will enhance financial skills and benefit small business owners. Obazee [4] also provides empirical evidence that a better understanding of the institutional dynamics of an organization is a tool to explore financial

management practices. Thus, the institutional theory was a useful base for this research.

2.2 Small and Medium Enterprises (SMEs)

There is no convergent definition of SMEs among nations, scholars, and researchers. The SMEs were viewed from different perspectives. For instance, The World Bank views SMEs as businesses with a maximum of 300 workers, \$15 million in annual income, and \$15 million in assets [17]. The National Council of Industries refers to SMEs as business enterprises whose total costs, excluding land, are not more than two hundred million naira (₦200, 000,000.00) [18]. The Federal Ministry of Industries in Nigeria defined SMEs as businesses with an asset base of between 5 million Naira and 500 million Naira, and a labor force of not more than 300 individuals (Central Bank of Nigeria, 2014). In spite of different definitions given to SMEs across the globe, empirical evidence has shown that SMEs are indispensable for sustainable development. According to Aliyu, Yusuf, and Naiimi [19], SMEs contribute significantly to the development of the SME sector and the economy, which characterized about 99% of all businesses in Romania, provided around 50% of GDP, and approximately 65% of employment. In the same view, Odetayo et al. [1] confirm that SMEs provides about 80% employment for Nigerians. Musimenta, Nkundabanyanga, Muhwezi, Akankunda, and Nalukenge (2017)[20] also establish that about 96% of Nigerian businesses are SMEs compared to 53% in the United States and 65% in Europe. This connotes that SMEs are the only sector that can drive the country to achieve its ivory tower by 2030.

2.3 Financial Management and SMEs' Performance

Theoretical and empirical evidence that optimal application and commitment towards financial management practices result in an increased company's performance. According to Nieman, Hough, and Nieuwenhuizen [21], financial management is a function responsible putting together for the necessary financial resources of a firm to ensure that the most beneficial results over both the short and the long term are obtained and to make sure that the firm channels these financial resources to the best of use. According to Padachi, Howorth, and Narasimhan [22] financial management is careful, informed planning for the future to

ensure the generation of positive cash flows. It also involves the administration and maintenance of the financial assets of a firm as well as identification and management of risk. Sucuahi [23] is of the opinion that financial management such as budget preparation, keeping daily records, stock control, workable business plans, reconciliation, savings, and personal finance are germane to entrepreneurial success among women. Atkinson and Messy [24] also observe that financial management equips investors to understand financial management concepts, financial products, and the capability to make use of financial abilities to gain personal welfare via financial security. The study of Pandey and Gupta [25] establishes that financial management culture equips small business entrepreneurs to make sound financial decisions that enhance operations. In a similar study, Usama and Yusoff, [26] reiterate that financial management enables SMEs to understand and analyze financial facts and act accordingly. In the same vein, Eniola and Entebang [27] reaffirm that financial management empowers an entrepreneur with a spectrum of financial skills, which have a significant effect on financial decision-making, financial behaviors, and financial attitudes, regarding sound choice making and finally accomplishing enterprise performance. Therefore, the following hypothesis emerged:

H₁: Financial management is positively related to SMEs' performance

2.4 Organizational Culture and SMEs' Performance

The attention of scholars, researchers, and management practitioners has been drawn to the concept of organizational culture as they realized that culture affects the behavior and success of individuals, teams, and organizations. Bellou [10] describes organizational culture as all interactions of employees within an organization and its associated meaning that employees attach to those behaviors. Organizational culture includes factors such as language, gestures, vision, norms, symbols, assumptions, beliefs, and habits among others. These routine practices are imparted and taught to new organizational members so that they can perceive, think, and practice. Organizational culture impacts the employees, people, and groups in a variety of ways by interacting with each other. According to Dwirantwi [28], organizational culture comprises the attitudes,

experiences, beliefs, and values of the organization, acquired through social learning, that control the way individuals and groups in the organization interact with one another and with parties outside it.

Kissack and Callahan [9] argue that many scholars have noted that culture would remain linked with superior performance only if the culture is able to adapt to changes in environmental conditions. In the same vein, Al-Enezi [29] notes that organizational culture has been an important theme in management and business research for the past few decades due to its effect and potential impact on organizationally and individually desired outcomes such as commitment, loyalty, intent to turnover and satisfaction. In today's business environment, organizational culture is used as a powerful tool that portrays many facets of a workplace as well as to quantify the way a business functions [30]. Research has confirmed that organizational culture is not only able to change, guide and display but also give significant contributions by influencing the thought, feeling, interaction, and performance in the organization [31]. Equally, Ohiorenoya [11], and Ezekiel and Dairus [32] also reiterate that organizational culture has a strong influence on business performance. Thus, it is hypothesized that:

H₂: Organizational culture is positively related to SMEs' performance

2.5 Model Specification and Analytical Technique

To evaluate the impact of financial management and organizational culture on SMEs' performance; mathematically, the model is expressed as follows:

SMEs' Performance = f (Financial Management and Organizational Culture) i

$Y = f (X_1, X_2)$ ii

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mu_i$ iii

Where the variables are defined as:

Y- SMEs' Performance

X₁ - Financial Management

X₂ - Organizational Culture

μ - Error term.

3. METHODOLOGY

A questionnaire survey was used to obtain data from thousand and ten (1,010) SMEs registered with SMEDAN in Oyo State, with help of two research assistants. A total of 658 participants responded to our study, which was a 65% response rate. Of the responses, the gender composition was 234 female (35.6%) and 424 male (64.4%). The average age of the participants was 25.6 years, with all ages ranging from 23 to over 25 years. The respondents engaging in trading (28%), manufacturing (26%), services (23%), Agro-allied (18%), and construction (5%). The scale used to measure financial management, organizational culture, and performance was developed and validated by Obazee [4], Govori [17] and Al-Enezi [29] respectively. It is a Likert-type scale anchored on the 5-point rating scale. Its response format ranges from "strongly agree" (5) to "strongly disagree" (1). The author reported Cronbach reliability alpha of .86, .91, and .89 respectively. The instruments were submitted to a panel of experts for validation. The panel carried out a content analysis of each of the questionnaires and eliminated items found to be irrelevant to the research problem. After necessary modifications, the panel of experts recommended the use of the instruments for the study. Mean, and least square method of estimation was used to analyze the data.

4. RESULTS AND DISCUSSION

Table 1 depicts the level of involvement in financial management practices by SME operators/managers. The result reveals that most SMEs prepare a cash budget, cash reconciliation, and issue receipts to customers on a daily basis, while their daily transactions are recorded manually. This connotes that SMEs in Nigeria is not on the same page with SMEs in developed and developing nations in terms of financial management skills such as working capital skills, financing skills, accounting information skills, credit management skills, budgeting skills, and inventory management skills. The study confirms the Sajuyigbe et al. [5]' findings that lack of saving skills, inventory management skills, and record maintaining skills are the major elements affecting the performance of SMEs in Nigeria. In another study, Kandolo's [33] finding reveals that the lack of use of computer-assisted software in recording transactions, preparing income statements, and cash flow statements in accordance with

accounting standards is a major challenge for SMEs in developing nations.

Table 2 summarizes the responses of the participants regarding organizational culture. The study depicts that majority of them of SMEs show the sign of toward new developments, which was ranked highest with a mean value of 3.46 followed by openness toward new developments (M = 3.41), search for measures that are most appropriate to reach our objectives (M = 3.39), to evaluate and, if necessary, adjust our business's policy regularly (M = 3.31), Play along with circumstance (M = 3.15) and adapt to the economic situation (M = 3.14). This implies that SMEs are ready to embrace new developments happening around the world. The implication of this finding is that if adequate training on financial management culture is provided for the sector by the government, accounting professional bodies, and the tertiary institutions of learning, it will foster the growth of entrepreneurship and prudently manage their finances.

Table 3 presents the regression analysis of the model, showing the relationship between the dependent variable (SMEs' performance) and the independent variables (financial management

and organizational culture). From the model, variables are significantly related to an R-value of 65.8% (P<0.05). The R-square value at 0.432 depicts that the independent variables explained 43% variance in the dependent variable. This is to say that financial management and organizational culture explained 43% of the total variation in SMEs' performance, while 57% of the variation is explained by other variables not included in this model. The results also revealed that the model has a good fit, as indicated by the F-value of 6.695, and is statistically significant at P<0.05. This connotes that financial management and organizational culture are joint predictors of SMEs' performance. The study is consistent with studies of Okpara [34], Sucuahi [23], Atkinson and Messy [24], and Pandey and Gupta [25] that financial management practices are major determinants of small business performance. In another study, Rathnasiri [35], Ezekiel and Dairus [32] also establish that organizational culture has a strong influence on business performance. The implication of this finding is that for the sector to continue roaring in this global competitive environment, the sector must leverage its financial management culture.

Table 1. Distribution of respondents by financial management practices

Statement	N	Mean	Remark
We prepare cash budget on regular basis	658	3.50	Accepted
The cash reconciliation is done on a daily basis	658	3.87	Accepted
The cash receipts are issued to customers on a daily basis	658	4.01	Accepted
Income statement is prepared in accordance of accounting standard.	658	2.70	Rejected
We follow the standard method of preparing cash flow statement	658	2.65	Rejected
Daily transactions are recorded manually	658	4.12	Accepted
The business uses computer assisted software in recording transactions	658	2.15	Rejected
The business uses internally generated cash only	658	3.97	Accepted
The business uses borrowed funds from bank	658	2.23	Rejected
The business has easy access to bank loans	658	2.51	Rejected

Table 2. Distribution of respondents by organizational culture

Statement	N	Mean	Remark
We Play along with circumstance	658	3.15	Accepted
We adapt to economic situation	658	3.14	Accepted
Openness toward new developments	658	3.41	Accepted
Responsiveness toward new developments	658	3.46	Accepted
We are very achievement oriented	658	3.12	Accepted
We think it is important to evaluate and, if necessary, adjust our Business's policy regularly	658	3.31	Accepted
We constantly search for measures that are most appropriate to reach our objectives	658	3.39	Accepted

Table 3. Result of regression analysis

Variable	Model (SMEs' Performance)
Constant	3.872
Financial Management	.169(.008)*
Organizational culture	.031(.879)
R	.658
R Square Adjusted R Square	.4320.428
F	6.697*

*P<0.05 **P<0.01 t-value in parenthesis.

5. CONCLUSION AND RECOMMENDATIONS

This study jointly examines the impact of financial management and organizational culture on the performance of SMEs in Nigeria with particular reference to Oyo State. Purposive sampling techniques were employed to select a total of 658 SME operators/managers engaging in trading, manufacturing, services, Agro-allied, and construction. Mean, and least square method of estimation was used to analyze the data. The result reveals that financial management and organizational culture jointly and independently influence SMEs' performance. The study further reveals that SMEs are ready to imbibe financial management culture if adequate training on financial skills is provided for the sector by the government, accounting professional bodies, and the tertiary institution of learning, which will foster the growth of entrepreneurship and prudently manage their finances. Therefore, the study recommends that SMEDAN should make the certificate in financial management culture as of the prerequisites for the registration. Also, the Federal Ministry of Education should introduce financial management culture into curricula for all tertiary institutions of learning as well as accounting professional bodies in Nigeria.

CONSENT

As per international standard or university standard, Participants' written consent has been collected and preserved by the authors.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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