



**THE IMPACT OF FINANCIAL MANAGEMENT ON THE  
GROWTH OF SMEs: A PERSPECTIVE OF SMEs IN  
KALINGALINGA**

**By**

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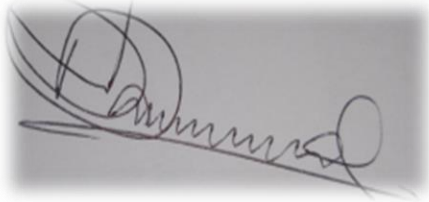
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## **Declaration**

I do hereby declare that the work submitted here is my own. This is submitted as part of the Master's Degree in International Business requirements at ZCAS University, which is in collaboration with the University of Greenwich in the United Kingdom. This work has however never been submitted in any form to any other university for any degree or examination.



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## **Abstract**

The study was undertaken to investigate the impact of Financial Management (FM) practices on Small and Medium Enterprises (SMEs) growth and further identify the factors that enhance sustainable SME growth and further, the extent to which these factors have contributed to the performance and growth of SMEs in Zambia. The proposed area of this study is Kalingalinga, where there is a high concentration of SMEs. The study has also proposed measures that would enhance and sustain SME growth for them to be competitive and assume their expected role in the economic development process in Zambia. The literature reviews reveal that much of the work previously done concentrated more on the importance of SMEs in the development agenda of most economies. How little has been done in the area of Financial Management and this aspect affects SMEs' performance. A survey method of data collection using self-administered structured questionnaires. The respondents were managers/owners and other levels of employees of the participating SMEs. The study revealed that most of the SMEs in the chosen sample had not adapted to the use of Financial Management practices, had no stock inventory records, credit management procedures were not adequate and did not practice any risk management procedures. There were few SMEs with proper financial management practices and these were found to operate profitably. The lack of Financial Management practices in most SMEs was attributable to a lack of qualified and skilled manpower. Many SMEs found it difficult to obtain funds for business growth from banks and other lending institutions because of failure to produce cashflows and sound business plans. Many of them operated in poor infrastructure and lacked ICT skills and cannot compete effectively with local and foreign large enterprises due to poor quality products and lack of marketing strategies. Reskilling and training programs in entrepreneurship in financial management were found to be necessary. Recommendations were made for Government to intervene and provide the necessary infrastructure, providing appropriate training, and equipping the SMEs with marketing skills.

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## **Chapter One: Introduction**

### **1.1 Background**

Chapter gives the overall outline of the subject being researched. The research is contextualized in this chapter, which includes the study backdrop and the research challenge that led to this investigation. The study's aims, as well as the research questions and any assumptions made by the researcher, are underlined, as are the explanatory and dependent variables. The contributions to the research, as well as the research strategy, approach, and data gathering methods, are discussed. The dissertation layout is also highlighted. The impact of financial management methods on the growth of SMEs in Kalingalinga is the topic for this research.

There is a wealth of information available about the contributions of SMEs to economic development. Small and medium-sized businesses (SMEs) have become an important part of an economy and a vital part of the business eco-system (OECD,2017). Most SMEs, particularly in developing nations, function in the informal segment and contribute significantly to their countries' gross domestic product (GDP). According to Nuwagaba (2015), citing (DeSmidt, 1990); the bulk of SMEs in South Africa function in the informal sector, with about seven hundred thousand of such enterprises contributing between 16 and 40% of the country's GDP (GDP). SMEs have contributed significantly to South Africa's social and economic growth, and they continue to do so. Studies conducted on South African SMEs by Kromberg (2005), indicated that they contribute about 30% of the country's GDP. However, Skinner, (2006), noted that if all SMEs operating but not formally registered are included, the percentage could be higher

Tanzania is another example, where SMEs are key in the country's social and economic change since it transitioned from a command to a market economy. SME contributions to GDP in that country are estimated to be around 60%, with the majority of these occurring in the informal sector, (MIT 2003).

SME industries are prominent in Japan, since they account for nearly all of the country's firms (Japan's Patent Office, 2009),. In many low-income nations, such as Pakistan, the term "business size" refers only to small and medium-sized businesses. (Muneer, *et, al*, 2017)

Enabling people to engage and prosper in a less constrained environment, as well as to contribute more aggressively to the digital revolution, is critical for economic development and inclusive globalization. SMEs help to achieve the Sustainable Development Goals (SDGs) at all levels of development by promoting inclusive and sustainable economic growth, the creation of jobs and decent work for all, the promotion of sustainable industrialization and the encouragement of new ideas, and the reduction of income inequalities (OECD,2017).

Market failures, blockages, and inadequacies in the business environment and policy sphere, on the other hand, disproportionately harm SMEs due to organizational constraints. SMEs' contributions are influenced by government investments in education and training, innovation, and infrastructure, as well as access to essential resources such as skills, knowledge networks, and funding (OECD,2017).

SMEs in most developing countries are still suffering from the effects of the global financial crisis of 2007-2009. The COVID-19 pandemic has exacerbated the situation for SMEs further in some developing countries, such as Zambia, by disrupting supply value chains, disrupting the movement of people, goods, and services, and causing a slump in donor aid and FDI inflows into these economies (Lim, Morse and Yu, 2020).

Micro, small, and medium-sized enterprises (MSMEs) form the majority of Zambia's private sector, which holds enormous potential for future growth. However, these SMEs face numerous obstacles in expanding their businesses, including a lack of access to markets and financing, skills gaps, and compliance with international operating standards. Strengthening the MSME base is thus recognized as a critical component of promoting dynamic and responsible private sector growth. The majority of these SMEs, are defined by the commercial operations of firms operating in traditional industrial segments, basically for the creation of products and services for local consumers (MTCI,2008). The majority of business owners' primary goal is to create employment and income to meet their personal needs. The majority of MSMEs' business activities are also marked by the adaptation to outdated technology and a focus on local and lower-income market segments.

The importance of the SMEs sector and its input to the rural and urban economies was recognized by the Zambian government as early as 1981. Similarly, through the Small Industries

Development Organization (SIDO) Act of 1981, the government acknowledged sectoral issues and worked to grow the sector's input to the national economy by responding to the sector's core issues. The Fourth National Development Plan (1988–1993) attempted to help the industry once more, with specific goals aimed at revitalizing it (MTCI,2008).

Rather than individual ownership, this plan emphasized collective entrepreneurship. The government's allocation of resources to SMEs was reportedly insufficient, and the roles of public institutions, which were set to be the main sources of support for small businesses, were unclear (MTCI,2008). Furthermore, these organizations have faced significant financial, organizational constraints, poor infrastructure, and technology since their inception.

## **1.2 Problem Statement**

Although SMEs are prized as major contributors to the creation of employment, economic development, and growth, their motivation and ability to embrace sustainable practices and capitalize on green business opportunities can be hampered by resource constraints, talent shortages, and knowledge gaps due to their small size. Environmentally sustainable improvements in SMEs are sometimes hampered by a lack of understanding of commercially appealing prospects, as well as perceived technical difficulties, hassles, and expenses. Furthermore, SMEs are frequently prevented from taking advantage of win-win opportunities due to a lack of appropriate skills and knowledge, while constraints due to lack of resources often lead SMEs to be more risk-averse and not willing to engage in innovative technologies than larger enterprises. (Hapompwe, *et, al*, 2021).

However, the sector's contribution to the Zambian economy does not appear to have made the expected impact, as evidenced by a large number of unemployed youths on the streets. Many new entrepreneurial ventures in Zambia have been seen to fail in less than five years of their existence, while many others appear to remain stagnant for years.

The question that arises is how do SMEs measure their performance? Muneer, *et, al*, (2017), opined that the failure of SMEs in itself is not an appropriate measure of SME performance, but that the dimension of business success is better seen through the lens of financial performance.

This study, therefore, will seek to examine some of the reasons for underperformance and causes of failure for SMEs in Zambia by examining the financial management practices in selected

SMEs in Kalingalinga and how this aspect impacts the SMEs' performance. The study will also discuss the internal and external factors on sectorial development.

### **1.3 Research Aim, Question, and Objectives**

#### **1.3.1 Research Aim**

The goal of this work is to examine and assess the financial management practices of SMEs in Kalingalinga, Zambia and examine how they impact on SME growth and profitability and make suggestions and recommendations based on the findings.

#### **1.3.2 Research Question**

*How does financial management practices contribute to the growth of SMEs in developing countries? a perspective of SMEs in Kalingalinga Zambia*

#### **1.3.3 Objectives**

The major objectives of this study can be summarized in terms of the impact of financial management on SME growth, looked at from the perspective of Zambian SMEs in the Kalingalinga area of Lusaka. The research's explicit objectives include determining the types of financial records kept, examining the cash flow and credit management processes of SMEs in Kalingalinga. The other aspect is to examine how SMEs manage their inventory, accounts receivables, and payables, as well as the challenges they face in terms of financial management.

### **1.4 Explanatory and Dependent variables**

The independent variable is Financial Management (FM), while the dependent variable is Small and Medium Enterprise (SME) growth.

### **1.5 Research Contributions**

This work is significant in many ways. The first is to provide solutions to issues that are preventing SMEs in Zambia from operating and developing smoothly. It is hoped that the study will aid entrepreneurial start-up SMEs and those already operating in the sector in acquiring financial management skills, as this is important for business success and sustainability. Entrepreneurs who possess financial management skills will be able to plan, forecast, control, and obtain funding through the presentation of well-organized financial data, as well as manage their businesses. The work is also expected to aid future research and supplement existing knowledge about SMEs.

## **1.6 Overview of Research Design**

### **1.6.1 Research Approach and Method**

This study used a mixed methodology strategy that included both quantitative and qualitative research methods to achieve the research goals and answer the research questions. This method helps researchers better understand working practices, including new ways of working (Garcia and Gluesing, 2013), and explain factors through numerical data analysis. According to Yilmaz (2013), a quantitative approach is best for evaluating hypotheses that include variables. The advantage of this strategy is that it helps improve the validity and reliability of the study.

### **1.6.2 Methods of Data Collection and Analysis**

The study utilized quantitative and qualitative methods to collect data through self-managed structured questionnaires and semi-structured interviews. Choosing both qualitative and quantitative methods helps researchers collect both non-numerical and numerical data. This is important for this study, which focuses on the impact of FM practices on SME performance. The qualitative approach helps researchers gain a deeper understanding of the work practices of small business owners / managers and also helps explain variables through the analysis of numerical data. Secondary data was collected from public sources; journals, government regulatory and monitoring agencies, international organizations, and online resources. Statistical and descriptive analysis is done for quantitative and qualitative data.

## **1.7 Dissertation Structure**

The Dissertation will be structured as a document of five chapters:

With its introduction, problem description, research objectives, research questions, and study justification, chapter one focuses on the overarching concept of the research topic. The literature review section of Chapter 2 focuses on studies of literature already published; books, journals, and online publications, as well as the theoretical and conceptual framework that underpins existing theoretical viewpoints on the impact of FM on SME growth. Chapter three talks about the methods employed for this study to collect and analyze data, and the presentation of the data to be able to draw inferences that serve to make valid conclusions and recommendations. Chapter four serves as the presentation of details of findings, based on research responses following research objectives and hypothesis. Chapter Five is the final chapter, which is a summary and conclusion based on previous chapters.

## **1.8 Summary**

This chapter contains a description of the problem, the background of the investigation, the investigation objectives and questions of the investigation, and the importance of the investigation. This chapter describes concepts used in treatises and other measurements. The next chapter provides a literature review of previous studies on the same topic performed by different researchers.

## **Chapter Two: Literature Review**

### **2.1 Introduction**

In this section of this chapter, relevant resources that are directly or indirectly related to the topics of FM practice and SME performance are reviewed. This was achieved through the study of existing studies by other researchers. This chapter also discusses the link between FM practices and SME performance and provides a theoretical, conceptual, and empirical evidence of the impact of FM practices on SME performance. Research gaps are identified and summarized at the end of the chapter

### **2.2 Theoretical Framework**

Some hypotheses attempt to explain the link between FM practices and the performance of SMEs. Pecking Order Theory, Prospect Theory, Contingency Theory, and Modern Portfolio Theory are some of the most well-known theories.

#### **The Pecking Order Theory (POT)**

In reaction to the expertise asymmetry among inner stakeholders and outside companies of the organization, Myers and Majluf (1984) set up Pecking Order Theory (POT). To keep away from the charges related to uneven information, mainly unfavorable selection, enterprise leaders undertake a financial coverage that favors inner investment over outside financing. The following hierarchy is thought with the aid of using this theory: self-financing, non-volatile debt issuance, volatile debt issuance, and, as a closing resort, fairness issuance. Such conduct avoids a drop with inside the inventory price, limits dividend distribution to growth coins flow, and decreases the price of capital with the aid of using restricting mortgage get entry to as lots as feasible

Small businesses don't aim for the greatest financial structure; instead, they value internal over external financing, as well as debt over equity. They may seek to borrow if investment capital exceeds internal cash flow, but they will face transaction fees in their credit arrangement (Ang (1991). Although internal funds costs are negligible, new share issuance expenses are greater, while debt costs are in the middle. Managers of SMEs aim to maximize their wealth while preserving control over external actor decision-making. As a result, they'll prioritize internal sources for financing, and if those funds aren't available, they'll borrow instead of increasing their capital.

### **The Prospect Theory**

This theory was developed by Kahneman and Tversky (1979). They stated that financial decision matters of organizations are wedged between alternatives that involve risks, due to uncertainties concerning the outcomes. The theoretical model is descriptive as it tries to describe real-life choices, as opposed to optimal decisions. The theory, therefore, speculates that the entrepreneur will consider above all, the risks involved before making any major financial decisions. Therefore, based on this theory, proprietors make decisions with a certain degree of knowledge, this entails financial management know-how, which will help the proprietors of SMEs to be able to effectually manage their finance and business. This implies that with financial management know-how, SME owners may minimize risks that may occur and consequently improve business performance.

### **The Contingency Theory**

Pike (1986), explored the contingency theory by examining various factors that explain financial management concepts. According to Henry (2006), various contextual factors affect or determine how organizations operate. These are such factors as the technological and environmental space. Chenhall (2003), supporting the view held by Henry, stated that these factors are capable of affecting the organization's structure and exert influence on the design of the financial system. He further stated that operational efficiency will only be achieved by having an equilibrium between the corporate set-up and the financial system operations.

This theory focuses primarily on three components of business that are linked to operations, namely the financial system's design aspects. As a result, the regular investment result history, specialized capability degree, and capital planning control strategy are all included. The theory assumes that firms have different accounting systems and so have distinct financial results, whereas the contextual elements indicate how accounting systems vary with organizations. This could be explained by a variety of related elements that border businesses. Consequently, resource allocations to financial management methods should consider the context (Pike 1986).

The outcome from this theory for this study is that certain financial management strategies may not work effectively for all companies. This is because of the disparities in environments in which organizations operate, as well as external variables. The implication is that SMEs are not

subject to traditional financial management methods. Proper financial management strategies should therefore should not be chosen prior to assessing the specific business context to verify that they are appropriate for accomplishing the desired goal. Only when there is a balance between the corporate sett-up and the financial system's activities will they be a beneficial impact on SME financial performance.

### **The Modern Portfolio Theory**

Presented by Harry Markowitz and developed between the 1950s and 1970s, this modern portfolio of financial management choice theory is considered an important achievement in financial modeling mathematics. This idea helps to understand how financial management techniques are implemented in a company, especially in the area of financial risk management decisions. Theory estimates the difference between the overall risk of a portfolio and the risk of individual portfolio components (Amenc and Le Sourd, 2003)

As a general rule, portfolios are considered efficient only if the accessible assets offer high returns or minimal risk. To reduce the occurrence of negative returns, it is necessary to assess the level of risk and return. This allows you to choose from a variety of assets to minimize the risk of loss (Brealey and Myers, 2003). The anticipated rate of return can be found by dividing the projected output by the number of resources employed, considering the associated risks. (Markowitz,1952).

The application of this theory to this research is that businesses, including SMEs, should not only invest widely in a variety of financial instruments but also evaluate the numerous risks involved. As a result, financial risk management is crucial for assuring diversification if financial management practices fail. As a result, the theory serves as a guideline for improving SMEs' financial management practices' reliability and stability.

#### **2.2.1 Key definitions and Concepts**

##### **The concept of Small and Medium Enterprises (SMEs)**

Ward (2005) argues that there is no general classification of SME due to differences in the definition and location of SME. In Canada, SMEs are defined as companies with not more than 500 workers. SMEs, on the other hand, are defined by the World Bank as companies with less than 500 employees.

UNIDO defines SMEs in developing countries as businesses with less than 50 employees. The numerous little shops in cities, such as hairdresser salons and chop bars, are examples of small businesses with between 5 and 19 employees. Manufacturing and exporting companies are examples of medium enterprises, which employ 20 to 99 people. Their definition requirements differ from country to country. In Tanzania, a small enterprise is defined as an organization with 5 to 49 workers or a capital investment of 5 million Tshs. to 200 million Tshs.200 million, whereas a medium enterprise is defined as an organization with 50 to 99 workers or a capital investment of 200 million Tshs. to 800 million Tshs.

In Nigeria, SMEs are defined by the amount of the firm's investment, which is capped at a maximum investment base of Naira 200 million, which does not exclude land and working capital, without a limit on the number of employees. (Oladimeji *et, al*, 2017). The Zambian definition of SMEs, on the other hand, is guided by specific characteristics such as fixed total investments, sales turnover, staff count, and the legal status of the company.

Many countries value SMEs because they generate jobs, pay taxes, are ground-breaking, and play an important role in the country's imports and exports on the global market. According to Beck and Knut (2004), SMEs activity and economic growth are due to the fairly large share of the SME sector in most developing countries and the important international resources flowing into the group's SME sector from the World Bank and others. As SMEs become more competitive and entrepreneurial, many experts believe that government's direct support will help increase economic growth and development. Also, because SMEs are labor-intensive and make better use of scarce resources with little capital, the expansion of SMEs drives employment more than large companies (Beck and Knut, 2004). According to Hallberg (2000), SMEs dominate the business and development of emerging countries. According to Young (1994), SMEs are important not only as a source of employment, but also as a source of efficiency, growth and decentralization of the economy.

In Zambia, SMEs play a crucial function in manufacturing, employment, and sales development. They account for ninety-seven percentage of all firms inside the country, 70 percentage of GDP, and 88 percentage of overall employment (MCTI,2020). SMEs have a crucial function in society due to the fact they hire a significant percent of the maximum inclined workers. Raising the competitiveness of those small businesses could assist to decrease the unemployment price amongst the youth employed. This could additionally assist to improve development closer to the

UN Sustainable Development Goals of doing away with social exclusion and growing manufacturing capacity. (OECD,2017).

Finally, SMEs are critical in the elimination of poverty since they contribute to most governments' poverty reduction strategies, particularly in developing nations where poverty is the most severe. Their role cannot be underestimated because they hire poor and low-income employees and are frequently the major source of employment in rural areas (OECD,2017).

### **The concept of Financial Management**

Financial management is an essential management functional area for corporate performance. The achievement of a company's financial objectives, so much depends on sound financial management policy and good corporate governance. Financial management involves the mobilization and use of financial resources; that is raising funds to finance the enterprise's assets and activities, effective allocation of funds among competing uses, in order to achieve the enterprise's goals (Muneer, *et, al*, 2017). Financial management, therefore looks at all money management aspects of management, not only the sources and uses of money in businesses, but also the financial consequences of investing, production, marketing, and employees' decisions, and the company's overall performance (Meredith (2006),

Financial management practices (FM), whether for a small or large company encompasses planning, accounting, analysis, management accounting, capital budgeting, inventory management, and other services. The important aspect of training in entrepreneurial and business skills, which anchor on good business practices, financial management, and corporate governance, is included in the set of financial management services. Financial Management aids in the gathering and analysis of the market and financial data, as well as the creation of sound business proposals for attracting investment and obtaining business financing from lending institutions (Hapompwe, *et, al*, 2021).

One of the most important factors in SME success is financial management (Vohra and Dhillon, 2014). The financial viability of a small business is the intended result of a financial management approach. Estimating costs, managing costs, selling, maximizing profits, increasing market share, and ensuring the long-term survival of a company are all goals of a financial management transaction (Vohra and Dhillon, 2014).

According to Vohra and Dhillon (2014), SMEs' failure to embrace financial management techniques can be attributed to a lack of awareness of how to evaluate financial management data and use financial statements. Developing and improving long-term strategic planning to business financing, improving their knowledge of the economic and financial environment relevant to their business, identifying and approaching finance and investor providers, and understanding and managing risks for various financial instruments are all things that tailored financial education programs can help with (Kirsten, 2013).

Some aspects of financial management practices include the following:

### **Book Keeping Practices**

According to Adofo (2011), as an art of accounting operations, proper bookkeeping serves several objectives, thus firms should be attentive to its efficacy and efficiency. Practical bookkeeping guarantees that all business transactions are permanently recorded, and that a proper record of debtors and creditors is maintained at all times for management control and safeguarding of company assets.

### **Credit and Cashflow Management**

In today's business world, credit sales are an unavoidable necessity. Without selling products on credit, no business can survive. Accounts receivables are the credit that a company extends to its customers in the course of business. This credit can be to other businesses or ultimate customers. Credit policy effectiveness can have a significant impact on a company's overall performance (Appah, 2011).

### **Working Capital Management**

Prior studies concentrated on certain aspects of working capital management. Burns and Walker (2001) looked into every facet of working capital management. The following characteristics of working capital were examined in a study of working capital policy for small US manufacturers: Without properly handling other aspects of business efficiency, working capital policy, management of working capital components such as cash, receivables, payables, inventory management, and linkages between working capital management practices and profitability are all neglected.

Using a sample of 113 SMEs, Wanjohi (2009) examined the working capital practices of SMEs in Kenya. Working capital management was found to be poor among SMEs, as most of them had no formal working capital routines establishment. Agyei-Mensah (2010) also looked at SMEs' working capital practices in Ghana's Ashanti region. Based on a randomly sampled population of 800 selected enterprises, the study discovered that the sector has weak working skills. In a study by Harif *et al.* (2010), it was revealed that a shortage of working capital is the most common financial management issue, accounting for 93.6 percent of the total of SMEs' in Malaysia.

### **Cash Management**

In a Cooley and Pullen study (1979), cash management was defined as the process of planning and regulating cash flow. The three main factors were cash forecasts, excess cash investments, and cash management measures. They investigated the cash management practices of 122 SMEs in the oil marketing industry and found that 73% of them hold cash. In contrast to the studies of Grablowsky and Rowell (1978) and Cooley and Pullen (1979), the study of Murphy (1979) found that active cash management is rare in small UK small enterprises and there was little willingness to invest any surplus cash on short-term basis.

### **Accounts Receivables and Inventory Management**

Other research has concentrated on financial management concerns such as accounts receivable and inventory management. Grablowsky (1976) and Rablowsky and Lowell (1980) concluded that accounts receivable management techniques were mostly of poor quality. About 95% of enterprises that made credit sales sold to anybody interested in buying. Only 30% of respondents said they used a credit reporting agency regularly. Only 52 percent charged a late fee and most had no credit-checking procedures or rules in place. For 34% of organizations, there was no formal mechanism in place for dealing with past-due receivables. Bad debts amounted to 1.75 percent of sales on average, with some companies reporting as much as 10%. Murphy (1978) discovered that even the smallest enterprises in the United Kingdom have a high level of credit control system awareness and use.

D'Amboise and Gasse (1980) looked at the use of management techniques in Canada's small shoe and plastic manufacturing industries, finding that 64% of shoe companies and 65.4 percent of plastic manufacturing companies used formal inventory control systems. Despite the fact that

most respondents had more than 30% of their capital invested in inventory, Grablowsky and Rowell (1980) discovered that inventory management was frequently insufficient.

## **2.2.2 Major Theories and Models**

### **Institutional Theory**

In a management accounting study, the formal and informal methods and strategies used to regulate the behavior of individuals in a company are explored (Damavanthi, et, al, 2017). Formal controls include organizational structure, reward systems, budgeting, standard operating standards and procedures, strategic planning systems, and operational controls (Krenn, 2016). Leadership style, culture, beliefs, and customs are examples of informal controls (Krenn, 2016). Management control is looked at from a variety of angles, including social, organizational, and information management (Krenn, 2016). Management controls are viewed as a process that influences employees of an organization to implement organizational strategies from a sociological perspective, whereas management controls are viewed as a means by which an organization achieves determined goals with minimal resources by regulating organizational members from an organizational performance perspective (Damavanthi *et al.*, 2017). From the standpoint of information management, management controls are viewed as an information system that connects the organization's managers and employees (Krenn, 2016).

Informal controls include leadership styles, cultures, values and customs (Krenn, 2016). Business management has been studied from a variety of perspectives, including social, organizational, and information management approaches (Krenn, 2016). From a sociological point of view, management control is seen as a process that influences an organization's employees to implement an organizational strategy, and from an organizational performance point of view, management control is a minimal resource for an organization through regulation. It is considered a means of achieving a particular goal. Members of the organization (Damavanthi et al., 2017). From an information management perspective, management control is considered an information system that connects the managers and employees of an organization.

### **.2.2.3 Relationships Between Concepts being Studied**

SMEs ' growth and sustainability, continue to be dependent on sound Financial Management processes (Cornwall, 2005). Much of the empirical evidence available points to the fact that Financial Management is a game-changer in any business, regardless of firm size, a close relationship exists between the FM process, SME growth, and profitability. FM is perceived to be a driver of SME success and growth.

## **2.3 Empirical Studies**

Many empirical studies on the effects or importance of financial management on businesses have been undertaken, particularly in industrialized countries. Financial management is the planning, arranging, directing, and managing of financial activities such as the acquisition and use of funds by businesses (Westerfield and Jaffe, 2009).

The importance that SMEs have both in the developed and developing economies has drawn considerable interest in recent times. Adoption of financial management practices by SMEs, will not only enable the owners to manage their businesses adequately but also help them to mitigate any financial risk exposure that will likely threaten the business (Asiedu, 2006).

The positive impacts that FM practices have on SMEs are widely buttressed by the theoretical literature available, such as the Pecking Order Theory and Contingent Theory. The theories explain how FM practices may be incorporated into SMEs to ensure maximum gains and sustained growth. However, one drawback is that these theories tend not to have simplicity in their application, as most studies conducted tend to have inconsistencies in their findings in several ways (Asiedu, 2006).

In particular, there is no consistency in the financial management procedures used by SMEs, as they tend to vary depending on the company. Mazzarol et al. (2015) discovered that SMEs had a wide range of formal and informal management approaches. Furthermore, whereas some researchers have found a strong positive association between the factors, others have found moderate to inconsequential relationships. Financial management methods like Accounting Information Systems, Investing, Financing, and Working Capital Management, according to Saah (2015), have a beneficial impact on SME returns.

Rathnasiri (2015) found that FM procedures differ according to the type of SME, but the relationship between them was not well defined. According to Bare (2016), there is no substantial link between financial accounting standards adoption and SMEs' financial performance. Similarly, Farhatali (2017) was unable to determine the relationship between the study variables thoroughly.

Cornwall (2005) investigated the influence of financial management methods in SMEs and found that many entrepreneurs confront major issues such as capital misappropriation, inadequate cost control, and poor cashflow management. SMEs that are not adequately managed from a financial management viewpoint, according to Anokye (2017), will not be able to survive in the medium to long term. Most SMEs lacked the financial management abilities required to operate efficiently and reach acceptable levels in terms of profitability and growth, according to a study done in KwaZulu-Natal by Rajaram and O'Neill (2009). Other research in Ghana (Gakpetor and Pooma, 2018) indicated that most SMEs' owners and managers had low levels of literacy and low entrepreneurial skills, this was an impediment to the growth and sustainability of their enterprises. Furthermore, Afrifa (2013), in his study, discovered that managers with more education and experience were better suited to financial management. Furthermore, according to Nketsiah (2015), 80 percent of SMEs have weak financial management capabilities, and as a result, they preserve handwritten records rather than electronic ones.

Schwarze (2008) emphasized that for SMEs to survive, they must first master financial management skills that let them make short-term decisions. Cash management techniques among SMEs were found to be insufficient in Grabowsky's research. Grablowsky and Lowell (2008) used a questionnaire survey to learn about the cash management methods of 66 small firms in a variety of industries in Norfolk, Virginia. 67 percent of participants stated they did not undertake cash flow forecasting, according to the research. When asked how they determined how much cash to keep on hand, just about 10% of businesses stated they utilized a quantitative method. Furthermore, 71% of businesses in the Virginia poll stated that they have never had a short-term cash excess in the past. Only 23% of those asked said they had a long-term surplus. Almost a third of respondents questioned stated they had invested their extra cash in profits securities or accounts.

## **2.4 Gaps in the Literature**

Despite the abundance of literature on the importance and contributions of SMEs to national economies and job creation, a review of past studies reveals that little research has been done with a specific focus on the FM practices of SMEs in developing countries in general and the Zambian context in particular, as most studies have focused on developed countries. However, in underdeveloped nations, literature is scarce on the subject.

The implication is that, although FM methods have the potential to develop and grow the SME sector, the picture in Kalingalinga, the research area, shows modest growth and stagnation. The limited literature provided does not suffice to explain the relationship between the factors. As a result, there is a knowledge vacuum on which this study is based, namely, determining the impact of FM methods on SME growth and assisting future research on the topic. The majority of these studies continue to focus on large corporations, and those that do address SMEs primarily discuss the financial issues they face.

Given the lack of previous surveys concentrating on SMEs' financial management practices in Zambia, this study aims to identify current SMEs' practices and make recommendations on how to improve the successful implementation of financial management practices in SMEs.

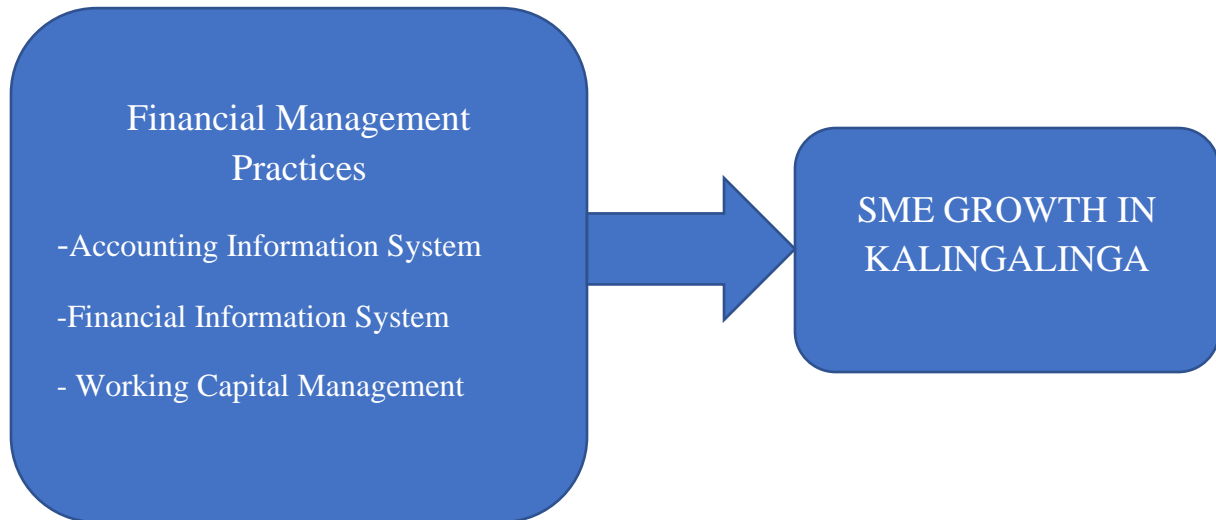
## **2.5 Conceptual Framework**

Mugenda (2008), defined a conceptual framework as a short account of the phenomenon being studied, along with a graphical or visual depiction of the study's primary factors. A conceptual framework, according to Young (2009), is a sketch representation that depicts the link between the variables. The study's conceptual framework is to determine the link between financial management methods and SMEs' performance. The dependent variable is SMEs' growth, while the independent variable is financial management techniques.

**Table 1: The Conceptual Framework:**

**Independent Variables**

**Dependent Variable**



**2.5.1 Depended Variable(s)**

The dependent variable in this study is SME growth.

**2.5.2 Independent/Explanatory Variables**

The independent variables are the Financial Management Practices

- (1) Accounting and Information Systems
- (2) Financial Information Systems
- (3) Working Capital Management

**2.6 Chapter Summary**

Chapter 2 included a critical analysis of the existing literature and empirical evidence in the field, as well as a summary of the knowledge gaps and conceptual framework, all of which were derived from the literature study. The reader is guided through the research methods used in this study in the next chapter.

## **Chapter Three: Research Methodology**

### **3.1 Introduction**

The methodology of the investigation is described in this part. The study's numerous data collection procedures are discussed in this section, including the theoretical framework. The main instrument used to collect data was a questionnaire. Because the variables and units were explained in terms of the analysis of the corresponding data acquired with interpretations to provide further explanations, the study used both quantitative and qualitative methodologies (Creswell *et al.*2014).

### **3.2 Theoretical Framework of Methodology**

A descriptive research design was used in this study. This strategy seeks to describe or define a subject by collecting data and charting the frequencies of study variables, in general by creation of a profile of a set of problems, persons, or occurrences (Cooper and Schindler, 2006). It focuses on describing the characteristics of a single person or a group of people. The study problem in this case was to look into the impact of FM systems on the growth of SMEs in Kalingalinga. Before collecting data, descriptive research specifies the questions to be asked, the people who will be surveyed, and the method of analysis to be used. This method is suitable for this research because the author wanted to gather full information through descriptions, and it may also be used to discover variables and hypothetical structures.

#### **3.2.1 Research paradigm/philosophy**

Guba and Lincoln (1994) defined a paradigm as "a primary belief system or world view that leads the study." The research paradigm or philosophy is a means for scientists to translate concepts into knowledge in the framework of research. The four basic movements in research philosophy are positivism, interpretivism, pragmatism, and realistic research philosophies, which are distinguished and analyzed in the works of numerous authors (Ukauskas,2018). However, in today's research, Positivism and Interpretivism are the most extensively employed research paradigms.

The scientific research paradigm defines scientific research philosophy. According to Cohen *et al.* (2007), the scientific research paradigm is a comprehensive structure that includes perceptions, beliefs, and awareness of many notions and measures utilized in scientific research.

The three paradigms (positivist, constructivist, and critical) differ in ontology, epistemology, and methodology, and are usually included in scholarly paradigm classification (Fazlıoğulları,2012).

Positivism, according to Thompson (1995), is a method based on universal laws that emphasizes objectivity and neutrality. Researchers utilize this method to put their hypotheses and assumptions to the test. Quantitative analysis is based on the positivist philosophy. The positivist method produces a thought and sets a premise before beginning analysis, however this is not always the case. The downside of using this method, according to Bryman (2001), is that the social context in which the study is conducted is considered as real, while frequent contextual connotations are ignored.

The Interpretive science paradigm, also known as Interpretivism, seeks to comprehend the cosmos through a subjective perspective. Relevance takes precedence over rigor in this strategy. An interpretive technique generates a conclusion based on how well the analysis integrates and works with the researchers' perspectives (Ponelis, 2015). Its primary method is to collect data (both qualitative and quantitative) and draw conclusions from it, allowing the researcher to test their hypothesis and reply to the research questions.

### **3.2.2 Research Approach**

#### **Inductive and Deductive Approach**

Deductive reasoning, according to Dudovskiy (2016), is concerned with "creating a hypothesis" based on current theory and then designing a research method to test the hypothesis. An inductive technique, on the other hand, is looking for patterns and themes in observations and developing explanations/ hypotheses for those patterns or themes through a sequence of assumptions (Dudovskiy, 2016).

This study takes a deductive as well as an inductive approach. The benefit of this method is that it allows the researcher to clarify the causal associations between concepts and variables and to generalize the research results to the entire population (Dudovskiy 2016), while also assisting the researcher in understanding the non-numeric sentiments associated with the research, such as human experiences, norms, and feelings, by collecting qualitative data. The deductive technique is most commonly utilized in quantitative research, while the inductive approach is most commonly used in qualitative research.

### **3.2.3 Time horizon**

This is defined as the period taken to complete the research. This research is a cross-sectional report, with a focus on the effect of FM on SME performance. A longitudinal study was not suitable in this case due to time and financial resource constraints.

The research evolved over four months from December 2021 to March 2022, the set submission deadline for the project.

### **3.2.4 Research strategy**

According to Saunders *et al.* (2009), a research strategy is a scheme of action by the researcher to answer the research question. The research questions dictate the method of investigation. Experiments, interviews, case studies, ethnography, and documentary studies are just a few of the testing methods available.

The problems raised by the research question in this report were discussed using a mixed approach analysis technique. Saunders *et al.* (2009), defined this strategy as a mixture of quantitative and qualitative techniques and procedures of collecting data.

According to Bell (2005), case studies can be used to identify key issues that should be investigated further before conducting a survey. Primary data was gathered by administering questionnaires and interviews. while secondary data was gathered from published sources and government institutions and agencies. The mixed strategy of gathering data adopted for this research, helped the researcher to collect relevant data that give confidence to the most important issues of the subject being addressed.

## **3.3 Empirical Aspects of Methodology**

### **Multiple Regression Model**

According to Kline (2011), multiple regression models can be used to reveal statistical associations between variables and to predict the behavior of variables, the model can therefore be applied in this study of the association between SME's financial practices and corporate growth. The association between the dependent variable and many independent variables is summarized in the model.

### **3.3.1 Population**

The targeted population for this research is the Small and Medium-Sized Enterprises (SMEs), sprawled across the Kalingalinga region of Lusaka Zambia. There is no updated list of registered SMEs for Kalingalinga. The last baseline survey of SMEs was conducted in 2010 by the World Bank. A population number of 555 MSMEs were recorded as registered. This is the number that constitutes the basis for the population of the current research.

### **3.3.1 Sampling frame and sample size**

When surveying a huge population that cannot be controlled within the study's time range, Saunders, *et al* (2012) and Veal (2010) all agree that sample size is critical. Veal (2010), for example, indicated that a sample size of 20-30% is appropriate for a population of one hundred or more people. According to the most recent World Bank Baseline study, Lusaka has 555 registered SMEs. The sample size was computed at 20% and used.

Therefore 20% of 555 = 110 SMEs.

### **3.3.2 Data collection**

The study used primary data to investigate the impact of FM methods on SME growth. Primary data was gathered through self-administered questionnaires. Both open-ended and closed-ended questions were used in the questionnaire. Closed-ended questions received more organized responses, allowing for more specific advice. To assess the rating of various traits, closed-ended questions were employed, which helped to limit the number of similar responses and produce more varied results. The open-ended questions elicited the evidence that the closed-ended questions could have missed.

### **3.3.3 Data processing and analysis**

The data were systematically coded in a system-readable language per SPSS variables. In preparation for interpretation, the data was coded for variables, analyzed, and descriptively presented using SPSS software, allowing the reader to follow the details in order (Richards, 2003). Participants were also subjected to a qualitative analysis, which entailed examining, categorizing, and interpreting key thematic expressive areas presented by respondents (Scott, 2010)

### **3.4 Reliability, validity, and generalisability of research findings**

Carmines and Zeller (1979) define reliability as "a measure of a construct is valid if it accurately measures the construct," while Golafshani (2003) defines research reliability as "the extent to which results are not only an acceptable image of a total population but also stable over time," implying that the research instrument is reliable if the results of a survey can be repeated using a similar technique. The validity, on the other hand, assesses if the test results are accurate or whether the research calculates what it is supposed to calculate accurately (Golafshani, 2003). This study concentrated on SMEs in Kalingalinga, and through the adopted mechanisms of a deductive and inductive approach to the research, the results could be generalized to both the formal and informal sectors.

### **3.5 Ethical and access issues**

The researcher is ultimately responsible for safeguarding the privacy of those who participate in the study. This right to privacy was extended to everyone who took part in the study, regardless of age, religion, or race. Ethical issues were strictly observed in this research. Such issues as privacy of the participants, their rights, and informed consent to participate freely were observed. Furthermore, data security was strictly maintained to ensure confidentiality and the respondents were explained before participating, the purpose of the research, and its significance.

#### **3.5.1 Accessibility**

All information gathered for this study was treated with the utmost confidentiality. The research's findings were not exaggerated, and it was written honestly and transparently. The research findings can only be distributed in a limited way due to the confidentiality of the case study company's financial statements. The research participants' identities were protected by obtaining their full consent before conducting interviews or asking them to complete questionnaires.

#### **3.5.2 Research Ethics**

Information gathered for this research was treated with a high degree of confidentiality. The research has been written transparently and honestly. Before conducting the interviews and distributing questionnaires to the participants, the researchers explained the objectives, aims, and benefits of the research. The goal of this activity is to keep participants safe and guarantee that the process follows recognized professional and ethical guidelines, as well as to protect their

rights. (Marusic, and Ana, 2015). Another important step taken by the researcher was to get the informed consent of the respondents on the application of information and data collected (Nicholls, and Ormston, 2013). The researcher also acknowledged all the work by other authors cited.

### **3.6 Chapter Summary**

This chapter looked at the thesis's analysis methods as well as the research approach's rationale. The sampling and data collection processes were also examined in the chapter. The chapter concludes by looking at the legal and access issues that were considered during the research phase. The methods mentioned in the methodology are used to process data and interpret results in the following chapter.

## Chapter Four: Findings Analysis and Presentation

### 4.1 Introduction

This chapter describes the results of the research, which looked at the impact of FM techniques on the growth of SMEs in developing countries from the perspective of SMEs in Kalingalinga, Zambia. The conceptual and theoretical frameworks have aided in the direction of this study to achieve the research goal. The study area chosen is Kalingalinga, which has a high concentration of SMEs. The sample is drawn from the area's registered SMEs. The study's findings are applied to the entire population. This chapter discusses the findings of the qualitative and quantitative study designs. Primary data for this study comes from self-administered questionnaires sent to respondent SMEs, as well as secondary data gleaned from existing and trustworthy sources.

### 4.2 Demographic Data

The demographic characteristics of the participants were recorded and analyzed using the measures of gender, age, education, and work experience. The Statistical Package for Social Sciences (SPSS) was used to code and analyze the data.

#### Demographic Characteristics of the Respondent Variables

##### Schedule:1

		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	65	59.1	59.1	59.1
	Female	45	40.9	40.9	100.0
	Total	110	100.0	100.0	

##### Source: Field Survey

Males make up the majority of respondents, accounting for 59.1% of the population, while females make up 40.9 percent. Because the sample was taken at random, it may be assumed that there were more male SMEs entrepreneurs than female SMEs entrepreneurs.

## Schedule:2

		Age in years			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 to 30 years	30	27.3	27.3	27.3
	31 to 40 years	50	45.5	45.5	72.7
	41 to 50 years	10	9.1	9.1	81.8
	Over 51 years	20	18.2	18.2	100.0
	Total	110	100.0	100.0	

### Source: Field Survey

Most of the respondents (45.5%) were in the ages of 31 and 40, with 27.3 percent between the ages of 20 and 30. Then there was 18.2 percent of respondents who were 51 years old or older, and 9.1 percent who were between the ages of 41 and 50. As a result, the majority of SME owners are young.

## Schedule:3

		Education Level			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary	65	59.1	59.1	59.1
	College	30	27.3	27.3	86.4
	University	15	13.6	13.6	100.0
	Total	110	100.0	100.0	

### Source: Field Survey

Secondary education was the most prevalent, accounting for 59.1 percent of the total, followed by college education (27.3 percent), and finally university education (15 percent). The overall conclusion is that most respondents were well educated, and were capable of engaging in financial management activities.

**Schedule:4**

**Work Experience in years**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 to 2 years	45	40.9	40.9	40.9
	3 to 4 years	35	31.8	31.8	72.7
	Above 5 years	30	27.3	27.3	100.0
	Total	110	100.0	100.0	

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**Source: Field Survey**

The majority of the responders (40.9%) had two years of job experience. Following that, 31.8 percent of respondents had 3 to 4 years of job experience, and 27.3 percent had more than 5 years of work experience. As a result, the majority of respondents have limited expertise with financial management methods in SMEs.

**Business Profiles.**

**Schedule:5**

**Years in Operation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 to 3 years	45	40.9	40.9	40.9
	3 to 5 years	40	36.4	36.4	77.3
	Above 5 years	25	22.7	22.7	100.0
	Total	110	100.0	100.0	

**Source: Field Survey**

The responders were asked to provide information on how long their company has been operating. Most of the enterprises (45%) had been in existence for 1 to 3 years, while 40% for 3 to 5 years and 25% for over 5 years. This suggests that the majority of SMEs have been operational for less than 5 years and so may have little financial management experience.

**Schedule:6**

**Business Ownership**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sole Proprietorship	60	54.5	54.5	54.5
	Family Bysiness	30	27.3	27.3	81.8
	Partnership	20	18.2	18.2	100.0
	Total	110	100.0	100.0	

**Source: Field Survey**

Most of the SMEs are sole proprietor owned (54.5%), followed by the family-owned businesses at 27.3 5 and the rest at 18.2%.

**Schedule:7**

**Customers**

Cumulative

## Sources: Field Surveys

The majority of the SMEs are single branches, making up 81.8%, two to three branches account for 13.8%, and over three branches 4.5%. The reason for this is that most SMEs are sole and family owned. Only a few, about 18.2 % fall into the Partnership and other categories.

## Working Capital Management

### Cash Management Practices

#### Schedule:9

##### Do you sell goods and services on cash

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Cash only	41	37.3	37.3	37.3
	cash and credit	69	62.7	62.7	100.0
	Total	110	100.0	100.0	

Source: Field Survey

From the study, it has been established that most SMEs sell their products by credit and cash (62.7%). Only 37% according to the study, sell their products in cash.

#### Schedule:10

##### Do you give receipts to customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	29	26.4	26.4	26.4
	Yes	81	73.6	73.6	100.0
	Total	110	100.0	100.0	

Source: Field Survey

SME sales are both on cash and credit, 62.7% and 37.3% respectively and in most cases, receipts are issued to customers, a good FM practice.

**Schedule:11****Do you reconcile cash on daily basis**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	83	75.5	75.5	75.5
	Yes	27	24.5	24.5	100.0
	Total	110	100.0	100.0	

**Source: Field Survey**

The majority of the SMEs (75.5%), do not carry out cash reconciliations daily. This poses a risk of exposure of the business to cash pilferage, which will go unnoticed for longer periods. Only 24.5% perform cash reconciliations on daily basis, a good financial management practice.

**Schedule:12****Do you make cashflow projections**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	97	88.2	88.2	88.2
	Yes	13	11.8	11.8	100.0
	Total	110	100.0	100.0	

**Source: Field Survey**

Cashflow projections are rare in most SMEs, with only 11.9% of the SMEs making these projections. 88.2% according to this study do not carry out this procedure. Cashflow projections allow smooth planning of inflows and outflows of resources into the business and therefore act as a risk mitigation measure against disruption in operations due to lack of foresight.

**Schedule:13****Do you maintain cash operating limit**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	82	74.5	74.5	74.5
	Yes	28	25.5	25.5	100.0
	Total	110	100.0	100.0	

**Source: Field Survey**

**Schedule:14****Do you have full time cashier**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	71	64.5	64.5	64.5
	Yes	39	35.5	35.5	100.0
	Total	110	100.0	100.0	

**Source: Field Survey**

There is an apparent lack of proper financial management practices, cash receipts (Sch 11 ) are not reconciled regularly; 97% of the SMEs do not make cashflow projections (Sch 12 ), while 82% of SMEs have no operating cash limit (Sch 13). Above all most of the SMEs, 64.5% (Sch 14 ) do not employ a full-time cashier.

**Schedule:15****Aging Schedule**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	96	62.7	87.3	87.3
	Yes	14	9.2	12.7	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Most SMEs do not maintain a debtor aging schedule (87.3%). This makes debtor management haphazard and would lead to major losses.

**Schedule:16**

**Do you have a credit policy**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	91	59.5	82.7	82.7
	Yes	19	12.4	17.3	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Most SMEs do not have a clear credit management policy. This would result in giving credit to uncreditworthy customers and eventually bad and irrecoverable debts.

**Schedule:17**

**Do you use computer software to manage receivable**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NO	98	64.1	89.1	89.1
	Yes	12	7.8	10.9	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

The use of computer software in the management of receivables would enhance efficiency and maintenance of proper details. 89% of SMEs do not have computerized systems.

**Schedule:18**

**Do you maintain an inventory register**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	82	53.6	74.5	74.5
	Yes	28	18.3	25.5	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Only 25.5% of SMEs maintain an inventory register. Proper financial management includes the maintenance of inventory registers for proper stock control.

**Schedule:19**

**Do you maintain periodic summaries of inventory usage**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	80	52.3	72.7	72.7
	Yes	30	19.6	27.3	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

**Schedule:20**

**Do you periodically count inventory**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	45	29.4	40.9	40.9
	Yes	65	42.5	59.1	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

A total of 59.1% of the SMEs do periodical inventory count, while 40.9 % do not. Periodic inventory count is an important element in financial management processes. This helps the business to identify obsolete and redundant stock, which would be increasing the inventory holding costs.

**Schedule:21**

**Do you have security protocols against theft of inventory**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	34	22.2	30.9	30.9
	Yes	76	49.7	69.1	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

The majority of the SMEs have security protocols to protect inventory from them and pilferage, which can be a big cost to the business.

**Schedule:22**

**Do you use computer software to manage inventory**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	100	65.4	90.9	90.9
	Yes	10	6.5	9.1	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Inventory management and control are very important and the use of a computerised system is critical in this process. This will allow the business to monitor the inventory levels to avoid stock-out situations and overstocking, which can all become costly to the business.

**Schedule:23**

### Has your business invested in long-term assets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	106	69.3	96.4	96.4
	Yes	4	2.6	3.6	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

Source: Field Survey

### Schedule:24

#### Has your business invested in shoert-term assets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	23	15.0	20.9	20.9
	Yes	87	56.9	79.1	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

Source: Field Survey

The investments by most SMEs were mainly in short-term ventures at 79.1 %, with only 3.6% in long-term assets. This may be an indication of a lack of surplus cash for investments, as can be seen from schedule 27 that most SMEs depended on their own funds.

### Schedule:25

#### Does your business evaluate investments periodically

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	99	64.7	90.0	90.0
	Yes	11	7.2	10.0	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Lack of periodical evaluations of investments (90%), is not healthy for the investment climate. Evaluations would enable the business to assess whether to extend or call off the investment.

**Schedule:26**

**Does your business seek professional advice before investing**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	90	58.8	81.8	81.8
	Yes	20	13.1	18.2	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Most SME owners do not seek professional advice when making investments. This lack of consultation may lead the businesses to invest in loss-making ventures.

**Schedule:27****Does your business depend only on internally generated funds**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	24	15.7	21.8	21.8
	Yes	86	56.2	78.2	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey****Schedule:28****Does your business only depend on external sources of funding**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	93	60.8	84.5	84.5
	Yes	17	11.1	15.5	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey****Schedule:29****Does your business depend on both internal and external funding**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	81	52.9	73.6	73.6
	Yes	29	19.0	26.4	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

The main source of funding is internally generated, 78.2% (Sch 27), while the internal and external combined account only for 26.4%, (Sch 30).

## Accounting Information Systems

### Schedule:30

#### Does your business have a formal accounting system

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	82	53.6	74.5	74.5
	Yes	28	18.3	25.5	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

#### Source: Field Survey

It is established from the study that most SMEs (74.5%) do not have any formal accounting system. Only 25.5% have established formal accounting systems. The assumption here is that most of these firms do not practice sound financial management practices.

### Schedule:32

#### Is an accountant in charge of recording all transactions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	105	68.6	95.5	95.5
	1	5	3.3	4.5	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

#### Source: Field Survey

Most SMEs in the study are family and sole proprietors, a total of 81.8% (Sch 6), and those spoken to consider employing a qualified accountant to do the financial records as an extra cost to the business. The recordings are by self and some family members in most cases. This implies a lack of familiarity with financial management practices and their overall benefit to the business.

**Schedule:33****Does your business use a computer software to record transactions**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	87	56.9	79.1	79.1
	Yes	23	15.0	20.9	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Most SMEs (79.1%) in the study depends on manual systems for recording their daily business transactions, citing the cost of computer hardware and software being prohibitive.

**Financial Information systems****Schedule:34****Does the business prepare Financial Statements**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	82	53.6	74.5	74.5
	Yes	28	18.3	25.5	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Only 25.5% of SMEs in the study prepare annual and quarterly financial statements. 74.5%, the majority do not at all prepare any financial statements. This may imply a lack of financial management knowledge and skills.

**Schedule:35****Does business engage services of qualified accountant**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	105	68.6	95.5	95.5
	1	5	3.3	4.5	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Most owners in the study find the engagement of a qualified accountant an extra and unnecessary cost and only 4.5% of the respondents have employed a qualified accountant. Most of the financial records are prepared by owners or some family members, with little or no knowledge of financial management.

**Schedule:36****Does business engage services of external auditor**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	87	56.9	79.1	79.1
	Yes	23	15.0	20.9	100.0
	Total	110	71.9	100.0	
Missing	System	43	28.1		
Total		153	100.0		

**Source: Field Survey**

Only, 20.9% of the SMEs in the study engage the services of an external auditor to audit their books and make an opinion on the accounts. Most SMEs 79,1 % do not find this a requirement.

**Working Capital Management**

The study has revealed that in most of the SMEs in the study, there are no systems in place that establish the practice of sound financial management practices. From accounts receivables, payables, cash management, inventory control, and management, the incidences of the non-practice of FM processes are visible. This fact can be looked at from the aspect of the number of firms, which in the first years are higher and decline in the latter years and failure by the

businesses to acquire more business funds from outside sources, due to lack of the production of financial statement and sound business plans. Therefore, it is found that good FM practices will positively impact on SME growth.

#### **4.6 Chapter summary**

The research findings were described in full in Chapter 4. The data were analyzed using the statistical tool SPSS, which revealed that Financial Management (FM) techniques had varying degrees of impact on the performance and growth of SMEs. Unawareness of financial management methods among many SME operators and owners was one of the primary factors influencing their performance. The study also found that many SMEs did not engage qualified accounts employees to run the daily financial operations, instead relied on untrained and unskilled family members and close relatives to do so. In many situations, this was proven to be a primary cause of SME failure or stagnation.

## **Chapter Five: Conclusions and Recommendations**

### **5.1 Introduction**

The significance of SMEs in the country's economic development, as evidenced by the creation of jobs, reductions in poverty levels, and tax contributions to the national treasury, underscores the importance of doing this research. Though the importance of a vibrant SME sector to the economies of developing countries like Zambia cannot be overstated, it is surprising how little work has been done by Zambian academics to highlight the sector's challenges, which include a lack of skills, particularly financial and entrepreneurial skills, insufficient financial resources, a lack of proper trading space, and inadequate ICT infrastructure. As a result, this chapter outlines the conclusions of findings commonly generated from Chapter 4. This chapter also examines the findings' ramifications and makes recommendations for future use. In Chapter 5, the study's weaknesses are also discussed.

### **5.2 Conclusions**

This study's findings emphasize the importance of financial management strategies for small business success. Financial management is a crucial element in SMEs' success in Zambia, according to the study's findings. SMEs are critical to Zambia's economic growth. FM inefficiencies are the cause of SME failures and poor financial performance. Because a high proportion of SMEs failure has significant economic effects, Zambian SMEs must implement effective financial management techniques. A company's ability to adapt to the different issues it meets in its operating environment is enhanced by the adoption of financial management strategies. As a result, SMEs must implement solid financial management systems.

SME growth is dependent on innovation, and efforts should not be spared to keep SMEs at the forefront of innovation for them to stay competitive through utilizing ICT to improve financial management procedures. Customer retention and a sustainable growth rate will improve once consumers' ever-changing wants are addressed. SMEs should be encouraged to develop

partnerships to enjoy the full benefits of technology because of their high technology involvement.

SMEs should be encouraged to hire personnel with the requisite qualifications to keep up with their growth. Commercial banks should provide flexible and simple-to-understand loan packages that are suited to the demands of their consumers. SMEs should be motivated to spread their product lines and abandon the well-practiced system of not venturing out into new fields.

To reduce losses caused as a result of nonpayment, SMEs should be urged to strengthen and implement rules relating to debtors, such as how to collect receivables and when to write off bad debts. Similarly, SME owners can aim to enhance inventory management by establishing minimum and maximum re-order levels to avoid running out of product or tying up too much capital in stock, both of which have an impact on working capital.

### **5.2.1 Cash Management**

According to the findings, 62.5 percent of businesses sell both cash and credit services/goods, 73.6 percent provide cash receipts to clients, and 11 percent make cash flow estimates (Schs 9-13). According to Schedule 14, 24.5 percent of businesses perform daily cash reconciliation, 2.5 percent have a cash operating limit, and 35.5 percent employ a full-time cashier.

### **5.2.3 Accounts Receivables**

According to the report, the majority of businesses (62.7 percent) do not sell goods or services on both cash and credit. 37.3 percent of firms sell goods and services for cash. The majority of businesses (87.3 percent) do not plan an aging schedule, according to the survey. As indicated in schedules 15-17, just 17.3 percent of organizations have a credit policy, while 10.9 percent utilize computer-assisted tools to manage receivables.

### **5.2.4 Inventory Management**

Few of the SMEs (25.5 percent) maintain an inventory register, generate periodically, reports of stock consumption, and periodically conduct inventory counts, according to the research. Only 69.1% of organizations have physical inventory protection against theft, and only 59.1% employ computer-assisted software to manage inventory, as shown in schedules 18-21.

### **5.2.5 Accounting Information System**

According to the findings, the majority of SMEs (81.1%) do not have well-established formal accounting procedures in place and do not have a functioning accounts department to handle day-to-day financial matters. 95.5 percent of SMEs do not have a competent accountant on staff and rely on self-recording and family members to keep track of financial activities. Many more (71%) do not use computer-based solutions to keep track of their business transactions. This could be since 81.1 percent of SMEs are sole proprietorships. This situation has contributed to SMEs' inadequate financial reporting, which has hampered their capacity to obtain business financing from financial institutions.

### **5.2.6 Financial Information system**

According to the report, 25.5 percent of SMEs create financial statements, but only 4.5 percent of those businesses hire a certified accountant, and 20.9 percent of those businesses hire external auditors to prepare the financial statements. According to the report, 25.5 percent of organizations prepare quarterly and annual financial statements.

## **5.3 Practical/managerial implications of findings/Recommendations**

This study's findings highlight the obstacles that SMEs confront, including shortcomings in financial management methods, managerial skills, sufficient infrastructure (ICT and buildings), and access to appropriate markets and funding for growth. Globalization and developments in information and communications technology have altered the business environment, increasing competition for SMEs from both local and foreign businesses. This necessitates high-level innovation and strategic competencies within SMEs for them to improve their resilience and long-term competitiveness.

As a result, the government should provide capacity building in SMEs through line ministries responsible for SMEs, by providing entrepreneurial training that will improve the managerial skills of SMEs owners, build infrastructure in terms of proper trading places and ICT, and facilitate access to markets. Another challenge that SMEs encounter is access to low-cost sources of business credit. By establishing microfinance institutions that will cater to SMEs' financial needs at lower interest rates than commercial banks, the government, through its line ministries, should create a conducive environment for SMEs to obtain funding that will allow them to

operate at a reasonable cost of capital. This is crucial since SMEs are having difficulty obtaining bank loans, forcing them to rely primarily on internal cash.

## **5.4 Limitations of the study and directions for future research**

### **5.4.1 Study Limitations**

The majority of research engagements have certain limitations. The limitations encountered throughout this work included a lack of information on the topic under research and the lack of real-time statistics on SMEs in Zambia, the most recent of which was the baseline survey from 1990. Another restriction was the reluctance of some SME owners to submit important information about their company's profile and financial performance, despite assurances from the writer that the material provided would be handled with care and confidentiality, as well as assurances of the study's advantages to the SME sector. Another constraint is time, as the study was time-limited, and it was difficult to do a longitudinal study, as well as financial resources. These restrictions, however, had no bearing on the research's validity.

### **5.4.2 Directions for future research**

Through innovation, job creation, poverty reduction, and equitable sharing of the country's resources, the SME sector is critical to the country's economic progress. However, it is remarkable that professors and other scholars in Zambia have paid little attention to this vital area. This current research is expected to pique interest in future studies, particularly in the field of FM and their impact on SME growth.

## **5.5 Chapter summary**

Financial Management (FM) practices are an essential component in the development of SME businesses, according to the study's findings. According to the findings, many SMEs that do not implement financial management principles into their operations have either failed or stagnated in their growth. The advantages of adopting Financial Management methods in business for the firm's survival or growth cannot be overstated.

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## Impact of Financial Management on Growth of SMEs in Kalingalinga

### 1. Demographic Characteristics

Variable	Category	Frequency
Gender	Male	70
	Female	40
Age in years	20-30	20
	31-40	30
	41-50	25
	Above 50	35
Education level	Secondary	55
	Tertiary	45
	University	10
Work Experience	1 – 2 years	
	2 – 4 years	
	5 And above	

### 2. Business Profile

Variable	Values	Frequency
Duration of operation	1 – 3 years	
	4– 5 years	
	6 and over	
Business Ownership	Sole proprietorship	
	Partnership	
	Family	
	Limited Liability	

Customers	Individuals Institutions Organizations	
Branches	1-2 2-3 7 and above	
Average Number of Employees	1 -5 8 – 10 11 and above	

### 3. Cash Management

Number of Responses [N=110]	Yes	No
Do you sell goods and services in cash?		
Do you give cash receipts to customers?		
Do you make cash flow projections?		
Do you carry out daily cash reconciliations?		
Do you maintain a cash operating limit?		
Do you have a full-time cashier?		

### 4. Accounts Receivable Management

Number of Responses [N=110]	Yes	No
Do you sell goods and services in cash?		
Do you prepare an aging schedule?		
Do you have a credit policy?		
Do you use computer-assisted software to manage receivables?		

#### 4. Inventory Management

<b>Number of Responses [N=110]</b>	<b>Yes</b>	<b>No</b>
Do you maintain an inventory Register?		
Do you maintain periodic summaries of inventory usage?		
Do you carry out periodic counts of inventory?		
Do you have physical security of inventory against theft?		
Do you use computer-assisted software in managing inventory?		

#### 5. Investment and Financing

<b>Number of Responses [N=110]</b>	<b>Yes</b>	<b>No</b>
Has your business invested in long-term assets?		
Has your business invested in short-term assets?		
Does your business seek professional advice before investing?		
Does your business evaluate its investments periodically?		
Do you depend on an internally generated source of funds?		
Do you depend on borrowed funds only?		
Do you depend on internally generated and borrowed funds?		