



## Strategic Financial Management Practices and Sustainability of Small and Medium Enterprise in Osogbo Metropolis, Nigeria

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**Abstract.** The study aimed to examine the effect of strategic financial management practices on the sustainability of SMEs in Osogbo metropolis, Nigeria. The study employed a descriptive survey research design. The population of the study was 2,273 registered SMEs in Osun State. The sample size of 333 SMEs was selected using Krejcie and Morgan sample table to determine the sample size. Questionnaire used was validated and the reliability revealed coefficient value of 0.81 through the crumbach reliability test. The statistical method used was Kolmogorov-Smirnov<sup>a</sup> and Shapiro-Wilk normality test and correlational analysis to test the research hypotheses. The statistical tool used for the study was SPSS. The findings revealed the following; CB: (N= 333,  $r = -.398$ ,  $P=0.000 < 0.05$ ); FS: (N=333,  $r = -.171$ ,  $p = 0.002 < 0.05$ ); and ID: (N=333,  $r = -.334$ ,  $p = .000 < 0.05$ ); thus, all the null hypotheses are rejected. Therefore, the study concluded that strategic financial management practices have a significant effect on the sustainability of SMEs. The implication to this study was that the it contributed to knowledge by establishing the effect of strategic financial management practices on the sustainability of SMEs in Osogbo metropolis, Nigeria. It therefore recommended that government and SMEs stakeholders should maintain the approach used in sustaining the SMEs for the improvement of the state economic growth.

**Keywords:** Strategy, Financial Management, Management Practices, Sustainability and SMEs

### 1. Introduction

Myriad of studies revealed the factors impelling the sustainability of SMEs in Nigeria but diverge from considering the effect of strategic financial management practices on the sustainability of SMEs. The contributing factor of SMEs sustainability varies from one location to another in Nigeria. As a result, the study evaluates the degree at which strategic financial management practice variables such as capital budgeting, financial structure and investing decision) influence the sustainability of SMEs in Osogbo Metropolis, Osun State. Therefore, the term strategic financial management practices could be described as the process of managing the finances of a business to meet its financial goals (Nasiri, Ukko, Saunila, Rantala, & Rantanen, 2020). The study concentrated on capital budgeting, financial structure and investing decision on the sustainability of SMEs in Osogbo metropolis. Thus, the success of any business is determined by how successfully it proceeds toward its objectives. However, its success is contingent on the ever-changing external and internal circumstances. As a result, businesses should study and foresee any changes so that they can prepare ahead of time to adapt and remain

competitive. Furthermore, strategic financial management practices are required to attain both immediate and long-term goals. Many businesses were failed as a result of inadequate capital budgeting, government policies, unplanned growth, low strategic and financial projection, excessive fixed-asset investment and capital mismanagement (Alhadhrami & Nobanee 2019).

The need for researchers to evaluate the type of strategic financial management practices adopted by SMEs owners based on the viability of each strategy to gauge their efficacy and longevity of its sustainability. The strategic corollaries of focusing on operational activities while ignoring SMEs' sustainability because they might not be able to draw investors' attention and must drastically cut costs to survive. These dire circumstances are frequently caused by strategies that are not sustainable, avoided by using sustainable principles of financial management (Sternad & Kennelly, 2017). Nigeria among the developing countries in Africa is now embracing the sustainability of small and medium enterprises (SMEs). However, the strategic features have been a focal point of macroeconomics goals of Nigeria since its independence in 1960 to sustain economic growth. To accomplish these goals, the government must expend both capital and recurrent expenditures.

The nation's ability to sustain its SMEs business is a reliable sign of its overall business prospects for the future (Xesha, Iwu & Slabbert, 2014). Small businesses are crucial to the well-being, development, and prosperity of people, communities, and economies (Badenhorst-Weiss & Cilliers, 2014; Nkosi, Bounds & Goldman, 2013). Small and medium-sized enterprises (SMEs) are viewed as the driving force behind societal development in the European Union because, it contributes to the GDP, and also serve as a source of employment and training for young people (Nkosi, Bounds & Goldman, 2013). Stable strategic financial management practices is one of the strategic tool sets for the sustainability of SMEs (Bezuidenhout & Nenungwe, 2012). A small and medium-sized enterprise (SME) can only survive in a vacuum if its finance is properly managed. However, the literature depicts that strategic financial management practices are fundamental for the sustainability of SMEs. The question of how strategic financial management practices influence the sustainability of SMEs in Osogbo metropolis motivates the interest of researchers.

## 1.1 Problem Statement

Despite the good position and developmental patterns of Nigerian SMEs, its sustainability in Osogbo metropolis and other emerging states, confronted with numerous challenges. However, the strategic financial management practices in this study rest on the sustainability of SME's. Though majority of SMEs' problems are financial in nature, poor capital budgeting, policies and decision is crucial and ubiquitous to the cause of business failure. Therefore, SMEs are repeatedly suffering from major financial challenges before and after COVID'19 era in Nigeria. The redesign of new naira note is not left out of the challenges posed to the sustainability of SMEs in the state. As a result, the dearth of strategic financial management practices is paired with unpredictability of SMEs business in Nigeria, which can potentially jeopardize the enterprise's sustainability in the Osun State.

The study focused on the effect of strategic financial management practices on the sustainability of small and medium-sized businesses (SMEs) in Osogbo Metropolis. To measure the significance of strategic financial management practices on the sustainability of SMEs needs to take into account. Whereas the conventional planning approach entails carrying out previously planned operational activities without considering potential changes and increased the risk of sustainability (Alhadhrami & Nobanee, 2019). Due to the intense competition, SMEs would not have enough reserves to ensure their sustainability in the event of a crisis and might even go bankrupt. The implication is that if they had used strategic financial management approaches, the risk would have been reduced and business will be sustainable (Karadag, 2015; Almarar & Nobanee, 2019). Consequently, using sustainable financing will help small and medium-sized businesses (SMEs) avoid greater risks and difficulties, enabling efficient use of the financial resources. This motivated the researchers to examine how the strategic financial management practices influence the sustainability of SMEs in Osogbo metropolis using the following predictor variables. Capital budgeting, financial structure and investing decision on the criteria variable which is sustainability of SMEs in Osogbo metropolis. This study seeks to answer the following questions. Does capital budgeting influence the sustainability of SMEs? Does financial structure affect the sustainability of SMEs? Does investing decision enhancing the sustainability of SMEs? This study aims to explore the effect of strategic financial management practice on the sustainability of SMEs in Osogbo metropolis.

## 1.2 Research Hypotheses

**H<sub>0</sub>:1** Capital budgeting does not have significance influence on the sustainability of SMEs in Osogbo Metropolis

**H<sub>0</sub>:2** Financial structures do not have significance effect on the sustainability of SMEs in Osogbo Metropolis

**H<sub>0</sub>:3** Investing decision does not have significance impact on the sustainability of SMEs in Osogbo Metropolis

## 2. Literature Review

In recent years, there has been much interest in the sustainability of SMEs. This is because the majority of businesses frequently experience different kind of financial problems. Some of these challenge are capital budgeting, financial structure and investing decision. Numerous studies have been conducted with varying results. Anangwe and Malenya (2020) carried out a study on the Effect of financial management practices on performance of micro and small enterprises in Bungoma Town. The research method used for the study was a survey with the sample of 72 SMEs businesses. The study made use of both primary and secondary data. The statistical method used was regression analysis. According to the study, the effectiveness of Nigerian listed companies was not significantly impacted by financial management practices.

A study on the financial management practices of businesses in the Australia and Singapore regions was conducted by Mazzarol et al. (2015). Survey research design was used with the sample size of 145 SMEs businesses. Primary source of data collection were used. The study employed correlational analysis to determine the relationship among the variables. The research revealed a wide range of formal and informal financial management practices in SMEs. When the organization's financial management processes were well-organized, its financial performance improved. However, the study pinpointed the precise financial management strategies influencing the research variables. Rathnasiri (2015) studied on SMEs businesses regarding the financial management strategies used concerning various aspects of businesses, such as the level of management education, scale, judicial system, power, and location. Using non-parametric tests, it was determined whether there were any significant differences in the use of financial management tools and techniques depending on how long the company had been operating under the current management and where it was located. The study discovered that the financial performance in the

research area was not significantly impacted by financial management practices.

Similar study was carried out in Kenya by Mureithi (2014) on the face of sustainable SMEs was conducted using a descriptive research design survey with the sample size of 48 listed companies. The study uses random sampling technique. Tables and graphs methods of analysis were used to present the data analysed. The finding shows that companies must contend with the following issues: security, debt collection, an inability to control financial systems, and internal competition. This demonstrates how financial management strategies greatly impact how well businesses perform. To ascertain the extent of financial management practices used by non-listed companies and their impact on Kenyan economic growth, Ouma (2015) conducted a similar study. 41 non-listed companies was sampled using a questionnaire to elicit data from the sampled companies' managers. Thus, the companies need to programme and build their financial management practices capacity.

Aribaba, Oladele, Ahmodu and Yusuff (2019) carried out similar study on the perception of SMEs sustainability. To ascertain their position on taxation, tax incentives, and the growth of the entrepreneurial sector in Nigeria. Data collected from 140 respondents through a structured questionnaire using a 5-point Likert attitudinal scale, reflecting different preferences and levels of agreement with various questions and assertions. This cross-sectional survey research design was used. Spearman's rank correlation and ordinary least square (OLS) regression techniques were used to analyse the data. It was discovered that a greater proportion of respondents agreed that taxes serve as a deterrent to the growth of new businesses because they have seen a causally significant negative relationship. The study also confirmed that there is a positive but negligible correlation between tax incentives and the growth of the entrepreneurial sector in Nigeria. This suggests that to succeed, SMEs must take into account both current and future environmental factors both inside and outside the company.

## 3. Methodology

The strategies, procedures, and techniques used in gathering information or data for the study to derive new knowledge are known as research methods. The study employed survey research design with the population of 2,273 registered SMEs in Osun State. The sample size of 333 SMEs in Osogbo Metropolis was selected using Krejcie and Morgan sample table

to determine the sample size. Questionnaire used was validated and the reliability revealed coefficient value of 0.81 through the crumbach reliability test. The statistical method used was Kolmogorov-Smirnov<sup>a</sup>

and Shapiro-Wilk normality test and correlational analysis to test the research hypotheses. The statistical tool employed for the data analysis was SPSS to analyse the data.

#### 4. Results

##### Test of Normality

**Table 1:** The Normality Test of Strategic Financial Management Practice Variables

|                     | Kolmogorov-Smirnov <sup>a</sup> |     |      | Shapiro-Wilk |     |      |
|---------------------|---------------------------------|-----|------|--------------|-----|------|
|                     | Statistic                       | df  | Sig. | Statistic    | df  | Sig. |
| Capital budgeting   | .240                            | 333 | .000 | .809         | 333 | .000 |
| Financial structure | .313                            | 333 | .000 | .708         | 333 | .000 |
| Investing decision  | .272                            | 333 | .000 | .796         | 333 | .000 |
| SMEs Sustainability | .258                            | 333 | .000 | .793         | 333 | .000 |

##### SPSS Output (2023)

The table above shows the Kolmogorov-Smirnov<sup>a</sup> and Shapiro-Wilk normality test of the variables used to determine whether sample data drawn from the population are normally distributed. To this effect, the outcome of the normality test determines the type of statistical analysis suitable for the study. After conducting this test, the result of Kolmogorov-Smirnov<sup>a</sup> and Shapiro-Wilk normality were found to be normally distributed since its significant value is less than 0.05 therefore, the Pearson correlational analysis were found useful for the study to test the research hypotheses. Though, Pearson correlation analysis measures the linear correlation between two set of variables.

##### Hypotheses Testing

**Table 2:** Correlational Analysis of the Variables

|                     |                     | Capital budgeting | Financial structure | Investing decision | SMEs Sustainability |
|---------------------|---------------------|-------------------|---------------------|--------------------|---------------------|
| Capital budgeting   | Pearson Correlation | 1                 | -.171**             | -.334**            | -.398**             |
|                     | Sig. (2-tailed)     |                   | .002                | .000               | .000                |
|                     | N                   | 333               | 333                 | 333                | 333                 |
| Financial structure | Pearson Correlation | -.171**           | 1                   | .644**             | .444**              |
|                     | Sig. (2-tailed)     | .002              |                     | .000               | .000                |
|                     | N                   | 333               | 333                 | 333                | 333                 |
| Investing decision  | Pearson Correlation | -.334**           | .644**              | 1                  | .659**              |
|                     | Sig. (2-tailed)     | .000              | .000                |                    | .000                |
|                     | N                   | 333               | 333                 | 333                | 333                 |
| SMEs Sustainability | Pearson Correlation | -.398**           | .444**              | .659**             | 1                   |
|                     | Sig. (2-tailed)     | .000              | .000                | .000               |                     |
|                     | N                   | 333               | 333                 | 333                | 333                 |

\*\*, Correlation is significant at the 0.01 level (2-tailed).

The table above shows the coefficient value of the Pearson correlations analysis of the parameters. The outcome of this correlation portrays the correlation relationship between capital budgeting and sustainability of SMEs with the statistical value of (N= 333, r = -.398, P=0.000 < 0.05); therefore, the null hypothesis, which state that capital budgeting does not have significance influence on the sustainability of SMEs in Osogbo Metropolis is hereby rejected. The result of financial structure were correlated and revealed it significant difference with the sustainability of SMEs shows the value of (N=333, r = -.171, p = 0.002 < 0.05); hence, the null hypothesis which states that financial structures do

not have significance effect on the sustainability of SMEs in Osogbo Metropolis is hereby rejected. The finding of investing decision depict the statistical value of (N=333, r = -.334, p = .000 < 0.05); thus, the null hypothesis which states that investing decision do not have significance effect on the sustainability of SMEs in Osogbo Metropolis is hereby rejected. The result of correlational analysis implies that among the variables of strategic financial management practice used are coherent and consisted in term of significance. From the hypotheses tested on the variables of strategic financial management practice, it was concluded that strategic financial management practices are significantly influences

sustainability of SMEs in Osogbo Metropolis, Osun State. The findings against the conclusion of Aribaba, Oladele, Ahmodu and Yusuff (2019) concluded that a number of respondents confirmed the sustainability of SMEs as disincentive to entrepreneurial development with a negative significant relationship. Rathnasiri (2015) also against the study finding that financial management practices did not significantly impact financial performance of SMEs. Mureithi (2014) supported that financial management strategies are greatly impact on the sustainability of SMEs businesses.

## 5. Conclusion and Recommendations

Based on the findings, it was concluded that strategic financial management practices have a significant relationship with the sustainability of SMEs in Osogbo Metropolis, Osun State. Therefore, capital budgeting, financial structure and investing decision as a proxy of strategic financial management practices indicated a significant relationship between the predictor and criteria variables among SMEs in Osun State. The study has shown a strong significance correlation of strategic financial management practices and sustainability of SMEs in Osogbo Metropolis. These informed the rejection of the tested hypotheses. Thus, strategic financial management practice is a key technique used to enhance the sustainability of SMEs in Osogbo Metropolis.

Therefore, the study recommended that strategic financial management practices should be sustained to improve the sustainability of SMEs in Osogbo Metropolis. Government should also improve the financial support given to SMEs owners in the State. Policy-maker should understand the possible threat and dynamism in reviewing the policy guiding the SMEs. In addition, the study has underscored the importance of sustainability in SMEs businesses. Also, strategic financial management practices adopted in the State should be sustained.

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