**FINANCIAL MANAGEMENT PRACTICE AND PERFORMANCE OF SMEs IN NIGERIA (A CASE STUDY OF SELECTED SMEs IN EKET LGA)**

**Abstract**

The survey research design was adopted to determine whether the financial management practices of small firms in Nigeria impacted on their profitability, growth and survival. Five independent variables (accounting systems, financial management information, working capital management, budgeting practices and managerial planning) were used in the evaluation which was restricted to six small firms. Results indicate that two financial information variables (accounting system and financial management information) alone dominate the risk perception of fund providers. As a result, small firms find it difficult to source adequate funds for business operations. The study also reveals that the five independent variables have significant impact on the survival, growth and profitability of small firms. SME firms are therefore advised to employ the services of qualified accountants in order to upgrade their financial management practices to enhance their overall performance.

**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background to the study**

Small firms play vital roles in the process of industrialization, sustainable economic growth (Ariyo, 2005); encouragement of entrepreneurship, employment generation (Ogujiuba et al, 2004); reduction of poverty and contribution to the Gross Domestic Products (GDP) of many countries (Taiwo, Ayodeji and Yusuf 2012; Audretch, 2010; Paul, 2009; Rogers, 2002). They perform such vital roles through innovation and the production of various goods and services which empower the process of economic development. For small firms to carry out such important tasks, they need credit facilities in terms of short and long-term loans. The process of sourcing such funds as well as the effective utilization and efficient management of the funds constitute major challenges for the accountants of SMEs. The challenges require the involvement of well trained/professional accountants which SMEs lack the resources to attract. The role of the accountants in SMEs is often broader than the conventional definition of the accounting function. Apart from the basic accounting functions of providing the accounting information, auditing, tax matters, the SMEs accountant is responsible for providing general leadership in all aspects of financial decision making like working capital management, budgeting and financial planning. It has been noted that the failure to effectively discharge these broad financial management functions have contributed largely to global financial crisis (Osisioma, 2010). Similarly careless or poor financial management practice has been identified as one of the reasons for small business failures (McMahon and Holmes, 1991; Berryman, 1983). As revealed long ago by Potts (1977:2) the clearest and most startling distinction between successful and failed small businesses lie in their approach to the generation and utilization of accounting information. Over the years, there has been a significant increase in government efforts to promote the financing of businesses by initiating policies which help small and medium scale businesses to source funds for business operations. Nigerian banks can access loanable funds from government and international financing institutions like the World Bank which uses the Central Bank of Nigeria (CBN) as the arrow head for on-lending to small businesses (Terungwa, 2012; Olorunshola, 2003; Anyanwu, 2002). In spite of the various sources of fund made available to them, accessibility to both short-term and long-term credits from banks has not been easy for SMEs because of the poor risk perception which fund providers have of small firms. The poor risk perception can be reduced if quantitative and qualitative financial information details of firms can be ascertained, adequate collaterals provided and effective banking relationships established (Okafor and Onebunne, 2010). Qualitative and quantitative financial details provide required information about the quality of a firm in terms of size, profitability and leverage levels (Merve and Niskanen, 2010); as well as asset base and sales volume (Okafor, 2007). Researchers argue that firms that excel in such variables enjoy easier access to credit at lower interest rate and lower collateral requirements (Okafor, 2007; Cole and Wolken, 1995; Ennew and Binks, 1995). Fund providers could be reluctant to provide loans even if they are available, where there is absence or incomplete financial information to convince the lender of the financial position of the firm. Therefore, the emerging tasks of the accountant in small firms is not only to provide routine accounting services, but to assist the firms in accessing adequate finances at affordable cost, and to awake the consciousness of the owner manager to the need to adopt proper financial management practices to enhance the growth and profitability of a firm Small and medium enterprise (SMEs) are considered backbone of economic growth in all countries (Rajesh, Surash and Deshmukh, 2008). Small and medium enterprises play an important role in Nigeria’s economic growth, as they constitute 97.2% of the companies in Nigeria (Ministry of Trade and Investment, 2011). It is unfortunate that SMEs performances have fallen short of expectations in Nigeria (Osotimehin, 2012). The country is still characterised with alarming unemployment rate of 19.7% in 2010 (CIA, 2010), as well as, high level of poverty for more than half of the population still live below the poverty line (Abu and Abdullah, 2010). This shows that Small and Medium- Scale Enterprises are not very effective in this part of the world. Most SMEs die shortly after their establishment and few that survive die following the ageing or physical incapacitation or death of their owners. The failure rate of small business stands around 50 percent in Africa (Adelakun, 2008; Ebiringa, 2011). Huyghebaert and Gucht (2004) have noted that 50% of new entrepreneurial ventures disappear within the first five years after their establishment in USA and probably that of Nigeria is higher. It should be noted that most business failures result in heavy personal loss for the entrepreneur (Bannock, 1980; Watson, 2003). The country also count losses; the loss in taxation and the business contribution to gross domestic product (GDP) as well as employment, add up to very huge losses for the country as a whole. is limited especially by market constraints. In addition to the SMEs internal limitations such as limited capital, old and poorly maintained equipment, outdated technology, lack of management skills, lack of financing resources and inexperience in the utilization of financial management practices are currently the most serious issues. Financial management plays an important role and has a large area in every activity of SMEs. Obviously, a reasonable and logical financial management practice will assist SMEs increase profitability and therefore will aid them to pass the obstacles. Financial management often led business enterprises to serious problems. According to Kwame (2010), careless financial management practices are the main cause of failure for business enterprises in Nigeria. Regardless of whether an owner manager or hired manager, if the financial decisions are wrong, profitability of the company will be adversely affected. Consequently, a business organization’s profitability could be damaged because of inefficient financial management practices. Business Enterprises’ have often failed due to the lack of knowledge of efficient financial management practices. Moreover, the uncertainty of the business environment causes business Enterprises to rely excessively on equity and maintain high liquidity and these financial characteristics affect profitability. Financial management in SMEs is noticed by many researchers. However, in many previous studies about financial management still have some limitations and more so little or no research work has been carried on financial management practices of SMEs especially in a developing country like Nigeria. It is said that, profitability is one of the most concerned goal of enterprise owners, therefore studying about relations between financial management and profitability in SMEs will have more belief in the effectiveness of financial management and to be more helpful in understanding the financial management of SMEs

**1.2 Statement of the problem**

 Most previous researchers have concentrated on examining, investigating and describing the behavior of business enterprises in practicing financial management. Their findings are mainly related to exploring and describing the behavior of business Enterprises’ towards financial management practices. Also previous research studies came from the developed economic such as the United States of America. There seems to be a lack of evidence from less developed countries like Nigeria. Second, most previous researchers focus on investigating and describing financial management practices. There has been little research examining the effect of financial management practices on profitability (McMahon, et al, 1993).

 This lack of empirical evidence from less developed economies like Nigeria and the lack of examination of the effect of financial management practices on profitability are major gaps that needs to be examined. Based on previous research findings and recognition of these gaps, a study of the effect of financial management practice on profitability should be developed and tested by using empirical data from less developed economies (Kieu, 2004). The case of Nigeria is very serious. Most Business Enterprises have not appointed financial managers to be in charge of financial management of the company. Usually, the owners or general managers with the assistance of the accountant control financial matters of the company. On the other hand, most owners or managers have no formal training in management skills, especially financial management Hence, the effect of financial management practices on the profitability of SMEs is still one of the major challenges

**1.3 Objectives of the study**

The main objective of this study is to determine the financial management practices and performance of small and medium scale enterprises (SMEs) in Eket LGA of Akwa Ibom state, Nigeria. Other specific objectives include:

1. To determine the effect of financial reporting and analysis on the profitability of small and medium scale enterprises.
2. To determine the impact of working capital management on the profitability of small and medium scale enterprises
3. To determine the effect of accounting information system on the profitability of small and medium scale enterprises.

**1.4 Research questions**

1. What is the effect of financial reporting and analysis on profitability of small and medium scale enterprises?
2. What is the impact of working capital management on profitability of small and medium scale enterprises?
3. What is the effect of accounting information system on the profitability of small and medium scale enterprises?

**1.5 Hypotheses of the study**

The following hypothesis stated in null form would be tested in this research work:

H01: financial reporting and analysis do not have effect on profitability of SMEs

H02: working capital management do not have impact on profitability of SMEs

H03: Accounting information system do not have effect on profitability of SMEs

**1.6 Justification of the study**

In terms of financial management practices, most previous researchers have focused on examining, investigating and describing the behaviour of SMEs in practising financial management. The specific areas of financial management practices including financial reporting and analysis, working capital management, fixed asset management and capital structure management have long attracted the attention of researchers (McMahon, et al. 1993).

Their findings are mainly related to exploring and describing the behaviour of SMEs towards financial management practices. Although they provided such descriptive statistical data and empirical evidence on SME financial management practices, it appears that there still are some gaps in the literature, which need to be addressed.

Firstly, most empirical evidence comes from the developed economies such as the United States of America (USA), the United Kingdom (UK), Canada and Australia (McMahon et al. 1993). There seems to be a lack of evidence from emerging economies, especially from transiting economies such as Nigeria

Secondly, most previous researchers focus on investigating and describing financial management practices whereas there has been little research examining the impact of financial management practices on the profitability of Smes (McMahon et al. 1993).

These are major gaps and it is difficult to convince business financial management practitioners of the need for changes in practices until evidence of the effects of financial management practices on the profitability of SME is provided and the relationship between the two variables are discovered. Based on previous research findings and recognition of these gaps, a study of the impact of financial management on SME profitability is justified and a model of the impacts of financial management practices and its effect on profitability should be developed and tested by using the empirical data from emerging economies However, such studies in Nigeria are scanty and more over, literature available in developed nations see (MacMahon, 1998, Nguyen, 2001, Peel et al., 1996) looked at individual constructs of financial management majorly like working capital management. Moreover, the present study looks at a multiplicative effect of various constructs of financial management on business performance of SMEs such as financial report and analysis and accounting information system. Therefore, this study is important not because it fills the gap, but also it sets out to address this gap knowledge.

**1.7 Scope of the study**

This study will be conducted by sampling the opinion of respondents from some selected small and medium scale enterprises in Eket, Akwa Ibom state. The small and medium scale enterprises selected will be based on random sampling. The period covered would be from July 2014 to December 2014. For the purpose of this study, the financial management practices that would be examined are: financial reporting and analysis, accounting information system and working capital management.

**1.8 Plan of the study**

The report of this study will be organized into five (5) different chapters. Chapter one will deal with the introduction of the study; Chapter two will discuss the Review of relevant literature to the study; Chapter three will focus on the research methodology to be adopted; Chapter four of the study will be dedicated to the Presentation and analysis of data; and finally, Chapter five presenting the summary, conclusion, and recommendations.

**CHAPTER TWO**

**LITERATURE REVIEW**

**2.1 Nature of small and medium scale enterprises**

 Globally, there is no common or generally acceptable definition of small and medium Enterprises. There has been no universally accepted definition of small and medium Enterprises (SMEs) All countries of the world defined their definition differently and these definitions vary from country to country but the meeting point has always been the characteristics of the definition with the number of employees, capital size, turnover and legal requirement or a combination of these features.

 In recent years, as part of the economic reforms in Nigeria, these has been a switch of emphasis from the grandiose capital intensive, large scale industrial projects to small/medium scale enterprises with immense potentials for developing domestic capacity for rapid substantial industrial development (Dasonayaka, 2009). Determining the scale of operations and structure of small and medium scale enterprises is crucial. Among the notable indicators are independent management (independent of any other party, except from the owners) mostly dominated by sale proprietorships, partnerships and private limited company. But Nigerians favor “one man” business for lack of trust. Most small/medium scale enterprises are located in the interiors of the nation. Flexibility of administration is another important feature of small/medium scale enterprise. This has greatly enhanced their productivity and profitability because administrative bottlenecks are totally absent. Adaptability to customers needs enhances competitiveness (Olatunji, 2000; Aremu and Adeyemi, 2011). Other considerations include organizational manpower, limit on capital investment, annual turnover, management structure, as well as the assessment of size of particular enterprises. Olatunji, 1995, Safriyu, 2012 explains the relativity of such descriptions.

CHAPTER 351 (1) of CAMA 1990 describes the small company as “a private company having a share capital; the amount of its turnover for the year in question should be a maximum of N2 million, or such amount as may be fixed by the commission; the net assets value is not more than N1 million; none of its members is alien, government or government corporation; the directors should hold at least 5% of its equity shares capital. The National Economic Reconstruction Fund (1989) defined small enterprises are those with fixed assets other than land but inclusive of the cost new investment not exceeding N10 million. The central bank of Nigeria (2014), defined a small scale enterprises “as one whose capital does not exceed N5 million (including land and working capital) or whose turnover is not more than N25 million annually.

In the bid to increase its share of world’s industrial production (about 25%) by the year 2000 and (about 40%) by the year 2010 as recent world industrial statistics show, developing economies are increasingly focusing small and medium scale businesses (Okafor, 1999; Akwaese, 1987). It has been discovered that lots of small and medium scale enterprises shut down before they can achieve their goals a result of poor management arising from inadequate, weak and undependable accounting and financial information (Olatunji (2000; Safriyu, 2012).

**2.2 Small medium enterprise and profitability**

Profitability is the primary goal of all business ventures, without profitability the business will not survive in the long run. Profitability is measured with an income statement (or profit and loss statement). This is essentially a listing of income and expenses during a period of time (Usually a year) for the entire business. Profitability can be interpreted as a ratio, which expresses the rate of the profit amount benchmarked against some point of reference (%). As decision tools, profitability ratios can be used to assess the financial health of the business (IIdiko and Tamas, 2009). Profitability can be defined as either accounting profit or economic profit. Accounting profit (or net income) is the difference between the revenues and expenses of the company in a given period presented by the income statement. Accounting profit can give a view of the viability of the business. Although one year of losses may not permanently harm the business, consecutive years of losses (or net income insufficient to cover living expenditure) may jeopardize the viability of a business. The concept of Economic profit based on the following logical consequences: in addition to deducting business expenses, opportunity costs are also deducted when computing economic profit. Profitability is one of the most important objectives of financial management because one goal of financial management is to maximize the owner’s wealth (McMahon, 1995). Growth, profitability, cash flow for short-term are important for the survival of enterprises, while all these may at times be critical goals for organizations, the drive for profitability may be most important in smaller owner – operated firms.

Three most important ratios of profitability are return on sales (ROS) return on assets (ROA) and return on equity (ROE)

Return on sales: is computed by dividing profits by total operating revenue.

Return on assets: is the ratio of income to average total assets

Return on equity: is defined as net income divided by average stockholders’ equity.

**2.3 The context of financial management**

According to Paramasiron and Subramanian (2009), financial management is an integral part of overall management. It is concerned with the duties of the financial managers in the business firm. Financial management deals with procurement of funds end their effective utilization in the business. Financial management is only concerned with the effective funds management in business. Most authors and researchers approach the specific areas of financial management in different ways depending upon their emphasis. Walker and Petty as cited by Kieu (2004) defined the main areas of financial management including financial planning (cash planning, fixed asset planning, profit planning), investment decision – making, writing capital management (cash, receivable and inventory management) and sources of financial (short term and long term financing, intermediate financing and going public). A study made in Malaysia by Mohd, et al (2010) identified the components of financial management as financial planning and control, financial accounting, financial analysis, management accounting, capital budgeting and working capital management. Chung and Chuang (2010) classified financial management practice into the following five specific areas: capital structure management, working capital management, financial reporting and analysis, capital budgeting and accounting information system. Generally, from the above and other literatures, it is possible to identify three major areas of financial management practice for the purpose of this study

 **i Financial Accounting, Reporting and Analysis:** These include the nature and purpose of financial records, bookkeeping, cost accounting, and use of computers in financial record keeping, the nature, frequency and purpose of financial reporting, auditing, analysis and interpretation of financial performance.

 **ii Working Capital Management:** This involves managing the level and financing of the firm’s investment in current assets, which includes cash, marketable securities, accounts receivable and inventory. It is a strategy focusing on maintaining efficient levels of both components of working capital, current assets and current liabilities, in respect to each other.

**iii Accounting information system :**  Its the nature and purpose of financial records, bookkeeping, cost accounting, and use of computers in financial record keeping and financial management (Kieu 2004)

**2.4 Relationship between financial management and profitability**

Profitability of the concern purely depends on the effectiveness and proper utilization of funds by the business concern. Financial management helps to improve the profitability position of the concern with the help of strongly financial control devices such as budgeting control, ratio analysis and cost volume profit analysis (Paramasivan et al, 2009). Gabrielsson, Sasi and Darling (2004) revealed that the finance strategy selections and financial management capabilities are shown to influence the advancement of rapidly growing SMEs along the globalization process. As studying on small business financial management practices, Mcmahon and Holmes (1991) point out that financial management is crucial to the profitability, survival and well-being of small enterprises. Additionally, in the study about the financial management practices and profitability in SMEs, Kieu (2004) indicates that SME profitability is positively related to the efficiency of principal components of financial management practices. The more efficient financial management practices, the higher profitability. By raising the efficiency of financial management practices, SMEs can improve their profitability.

**2.5 Effect of financial management practices on profitability**

The effect of financial management practice on profitability was found to be positive. Paramasivan, et. Al (2009) argues that financial management helps to improve the profitability position of business of business organizations with the help of strong financial control devices such as budgeting control, ratio analysis and CVP analysis, Mcmahon and Holmes (1991) pointed out that financial managers are crucial to the profitability, survival and well-being of small business enterprises. In his study on small business in Vietnam, kieu (2004) found out that efficiency in financial management practices such as accounting information system, financial reporting and analysis working capital management, fixed asset management and financial planning and good performance in financial characteristics such as liquidity and business activity has a positive impact on profitability. In addition, the study conducted by chung and chuang (2010) also reveals efficiency in capital structure management, working capital management, financial reporting and analysis; capital budgeting and accounting information system has a positive impact on profitability of business organizations.

**2.6 Empirical Framework**

The effect of financial management practices on the profitability of SMEs has been in existence for quite a while, over the years a lot of research has been carried out but mostly in developed economies, few studies have been carried out in developing economies such as Nigeria. The various underlying paragraph present sample of researches that have been carried out on the topic

Relating to Accounting Information System In the survey of 69 small enterprises across the USA, Farhoodman and Hryck (1985) reported on the most important applications of computers, and it was found out that accounting was rated as the highest percentage. Similarly, Palmer (1994) interviewed 36 small independent retail owner-managers and found that 33 percent of the sample businesses used computerized accounting systems. Reviewing previous research results shows accounting and financial management applications dominated the use of computerising small and medium enterprises in the North America in 1980’s and 1990’s.

 The research conducted by Thomas and Evanson (1987) in congruence with financial re porting and analysis studied 398 small pharmacies (in Michigan, North Carolina, Nebraska, Rhode Island and Washington) to examine the extent to which financial ratios were used in a specific line of small retail business and tested for a relationship between use of financial ratios and business success. The study used regression analysis to examine the relationship between financial ratio usage and SMEs profitability. However, they could not demonstrate any significant relationship between earnings-to-sales and the number of financial ratios used by the owner in operational decision-making. When efforts were made to include the effects of other managerial practices and variations in business environments, no association between use of individual ratios and total earnings or total to sales was found.

The previous studies done on inventory management practices aspect of working capital management, D’Amboise and Gasse (1980) studied the utilization of management techniques in small shoe and plastic manufacturing industries in Canada and found 64 percent of shoe and 65.4 percent of plastic businesses employed formal inventory control systems. While Grablowsky and Rowell (1980) found that most of the respondents had in excess of 30 percent of their capital invested in inventory, the general standard of inventory management was poor. Only six percent of businesses in their survey used a quantitative technique such as economic order quantity for optimizing inventory and 54 percent had systems which were unable to provide information on inventory turnover, reorder points, ordering costs or carrying costs. Related to the methods used to determine inventory level, Grablowsky (1984) compared methods used by a sample of 94 small enterprises with those used by large enterprises and found that large enterprises used methods to determine inventory levels far more than small enterprises

**2.7 Theoretical Framework**

Thus this study employs resource-based view (Barney, 1991; Wernerfelt, 1984) since majority of the SMEs are owner managed and the owners are the providers of the resources to be used in business including finances. However, the resource based view ignores the knowledge aspect, then the study considers the extent to which knowledge and skills of owners boost performance, thus calling for the study to employ knowledge based theory. In addition, owing to dearth of studies examining multiplicative effect of various constructs of financial management practices, this study employs financial management practices as a multidimensional construct to provide a relevant trajectory for understanding financial performance of SME

**CHAPTER THREE**

**METHODOLOGY**

**3.1 Introduction**

 This chapter is concerned presents the design and methodology employed by the researcher for the purpose of conducting research. It also shows the analysis and a test of research hypothesis.

**3.2 Research design**

According to kerlinger (1986), research design is the plan, structure and strategy of investigation conceived do as to obtain answers to research questions and to control variance. The research design that will be used in this study will be cross-all chapters of research; the method is seen as having the highest level of dependence by the researcher to get useful and relevant information from staff of various Small and Medium scale enterprises.

**3.3 Sources of data**

 The data that will be collected for this study will be primary data. The primary data will be obtained from the use of structured questionnaire which will be administered to sampled respondent restrict the respondent to some responses. A list of responses will be given and the respondent picks one that best suits him with a tick ( ).

**3.4 Population of the study**

Population refers to the universe or the entire group of persons, object or event whose characteristics are being studied.(Oke, 2005) as cited in Oke, Olasunde and Jekayinfa 2005. The focus of this research work will be on all SMEs in Eket LGA of Akwa Ibom state which has been selected by the researcher for convenience sake.

**3.5 Research sample and sampling procedure**

According to adekeye(1996), a sample refers to the part or proportion of a targeted population, sampling is the process of taking any portion of a population or universe as a representative of that population or universe. The sample size (n) that would be used is 20.

**3.6 Data Type and Method of Collection**

Primary data will be the main data to be used in the analysis. The method of data collection will be by questionnaire administration. The questionnaire will be divided into CHAPTERs which comprise of questions covering personal information of respondents, years of experience and the question to be used for the analysis. Data will also be gathered from the internet and past researches

**3.7 Method of analysis**

The data collected would be analyzed using simple percentage on the tables presented and linear regression analysis (multivariate techniques) because it would investigate the relationship between financial reporting and analysis, working capital management and accounting information system and enterprise’s profitability.

The equation for the linear regression is:

Y = bo + b1X1+ b2 X2 + b3X3

Where: Y = Profitability

 Bo = Intercept

b1, b2, and b3 = Coefficient

X1 = Financial reporting and analysis

X2 = working capital management

X3 = accounting information system

**CHAPTER FOUR**

**DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

**4.1 Introduction**

This chapter consist the presentation, analysis and interpretation of result. The first section is the analysis of responses of the questionnaire through the use of tables and percentages. The next section that follows is the test of the hypotheses followed by the summary of findings.

**4.2 Analysis of Questionnaire Responses**

**Table 4.1 Gender Distribution of Respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| **Gender** | **Frequency** | **Percent** | **Cumulative Percent** |
| Male | 32 | 64.0 | 64.0 |
| Female | 18 | 36.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

The table above displays the gender distribution of the respondents. 64% of the respondents are male and the remainder which represents 36% are female. This statistics revealed that there are more male respondents than female respondents.

**Table 4.2 Age distribution of respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| **Years** | **Frequency** | **Percent** | **Cumulative Percent** |
| 20-27 | 6 | 12.0 | 12.0 |
| 28-35 | 20 | 40.0 | 52.0 |
| 36-43 | 14 | 28.0 | 80.0 |
| 44 and above | 10 | 20.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

Table 4.2 above reveals the age distribution of the respondents. 12% of the respondents are between the ages of 20-27, 40% of them are between the ages 28 and 35, 28% of the respondents fall between 36 and 45 and lastly, 20% are above 43. This indicates that most of the respondents are middle-aged.

**Table 4.3 Marital Status of Respondents**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Cumulative Percent** |
| Single | 7 | 14.0 | 14.0 |
| Married | 33 | 66.0 | 80.0 |
| Others | 10 | 20.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

Table 4.3 reveals the marital status of the respondents. 14% of the respondents are single, 66% are married while 20% indicated others which might include divorced, separated or widowed. This indicates that a very large percentage of the respondents are married.

**Table 4.4 Highest Educational Qualification of the Respondents**

|  |  |  |  |
| --- | --- | --- | --- |
| **Qualification** | **Frequency** | **Percent** | **Cumulative Percent** |
| SSCE | 9 | 18.0 | 18.0 |
| OND/NCE | 21 | 42.0 | 60.0 |
| HND/BSc | 15 | 30.0 | 90.0 |
| MBA/MSc | 5 | 10.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

The table above displays the distribution of respondents based on the highest educational qualification obtained. 18% of the respondents have obtained SSCE, 42% of the respondents have obtained a maximum of OND/NCE, 30% have HND/BSc and 10% have MBA/MSc. This statistics reveals that the highest percentage have obtained OND/NCE.

**Table 4.5 Years of working experience**

|  |  |  |  |
| --- | --- | --- | --- |
| **Years** | **Frequency** | **Percent** | **Cumulative Percent** |
| Below 10 years | 28 | 56.0 | 56.0 |
| 11-20 Years | 16 | 32.0 | 88.0 |
| Above 20 Years | 6 | 12.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

The above table shows the distribution of the respondents based on their working experience. 56% of the respondents have obtained below ten years’ experience, 32% have obtained between eleven to twenty years and the remainder which accounts for 12% have above 20 years’ experience. This reveals that most of the respondents have below ten years of experience.

**Table 4.6 Position in the management team**

|  |  |  |  |
| --- | --- | --- | --- |
| **Level** | **Frequency** | **Percent** | **Cumulative Percent** |
| Top Level | 2 | 4.0 | 4.0 |
| Middle Level | 17 | 34.0 | 38.0 |
| Low Level | 31 | 62.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

Table 4.6 reveals the distribution of the respondents based on their position in the management team. 4% of the respondents are in the top level, 34% are in the middle level of management and 62% of them are in the low level management. This reveals that a high percentage of the respondents are in the low level of management.

**Table 4.7 There is monthly reconciliation with the bank**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 22 | 44.0 | 44.0 |
| Agree | 17 | 34.0 | 78.0 |
| Indifferent | 7 | 14.0 | 92.0 |
| Disagree | 3 | 6.0 | 98.0 |
| Strongly Disagree | 1 | 2.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

Table 4.7 above displays the opinions of the respondents on whether there is monthly reconciliation with the bank. 44% strongly agreed to this statement, 34% agreed, 14% were indifferent, 6% disagreed and 2% strongly disagreed. This indicates most of the respondents reconcile with the bank monthly.

**Table 4.8 The business reviews the levels of receivable**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 14 | 28.0 | 28.0 |
| Agree | 16 | 32.0 | 60.0 |
| Indifferent | 5 | 10.0 | 70.0 |
| Disagree | 9 | 18.0 | 88.0 |
| Strongly Disagree | 6 | 12.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

Table 4.8 above shows the responses on whether the respondents’ business reviews the levels of receivable. 28% strongly agreed to this statement, 32% agreed, 10% were indifferent, 18% disagreed and 12% strongly disagreed. This indicates that many of the respondents reviews the level of receivables.

**Table 4.9 Temporary cash surplus is invested in marketable securities**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 10 | 20.0 | 20.0 |
| Agree | 14 | 28.0 | 48.0 |
| Indifferent | 13 | 26.0 | 74.0 |
| Disagree | 9 | 18.0 | 92.0 |
| Strongly Disagree | 4 | 8.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

In table 4.9 above, 20% strongly agreed that temporary cash is invested in marketable securities, 28% agreed to this statement, 26% were indifferent, 18% disagreed and 8% strongly disagreed to this statement. This indicates that some of the respondents invest temporary cash in marketable securities and some do not.

**Table 4.10 There is physical safeguards of inventory against theft**

|  |  |  |  |
| --- | --- | --- | --- |
| **Response** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 12 | 24.0 | 24.0 |
| Agree | 26 | 52.0 | 76.0 |
| Indifferent | 9 | 18.0 | 94.0 |
| Disagree | 3 | 6.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

In table 4.10 above, 24% of the respondents strongly agreed that they have physical safeguards of inventory against theft, 52% agreed, 18% were indifferent and 6% disagreed. This statistics indicates that most of the respondents have physical safeguards of inventory against theft.

**Table 4.11 The business use Economic Order Quantity model in inventory management**

|  |  |  |  |
| --- | --- | --- | --- |
| **Response** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 14 | 28.0 | 28.0 |
| Agree | 23 | 46.0 | 74.0 |
| Indifferent | 12 | 24.0 | 98.0 |
| Disagree | 1 | 2.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

Table 4.11 reveals the opinions of the respondent on whether their business use EOQ model in inventory management. 28% strongly agreed to this, 46% agreed, 24% were indifferent and 2% disagreed. This indicates that most of the respondents use EOQ model inventory management.

**Table 4.12 The financial statements are prepared annually**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 10 | 20.0 | 20.0 |
| Agree | 22 | 44.0 | 64.0 |
| Indifferent | 12 | 24.0 | 88.0 |
| Disagree | 6 | 12.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

In table 4.12 above, 20% of the respondents strongly agreed that financial statements are prepared annually, 44% agreed to this statement, 24% were indifferent and 12% disagreed. This statistics revealed that most of the respondents prepare financial statements annually.

**Table 4.13 The accountant is in charge of preparing financial statements**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 16 | 32.0 | 32.0 |
| Agree | 20 | 40.0 | 72.0 |
| Indifferent | 8 | 16.0 | 88.0 |
| Disagree | 4 | 8.0 | 96.0 |
| Strongly Disagree | 2 | 4.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

In the table above, it was revealed that 32% of the respondents strongly agreed that the accountant is in charge of preparing financial statements, 40% agreed to this, 16% were indifferent, 8% disagreed and 4% strongly agreed. This statistics indicates that most of the respondents are of the opinion that the accountant is responsible for the preparation of financial statements.

**Table 4.14 The business follows accounting principles**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 3 | 6.0 | 6.0 |
| Agree | 31 | 62.0 | 68.0 |
| Indifferent | 14 | 28.0 | 96.0 |
| Disagree | 2 | 4.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

In table 4.14 above, 6% strongly agreed that there business follows accounting principles, 62% agreed to this statement, 28% were indifferent and 4% disagreed to this statement. This indicates that most of the respondent’s business follows accounting principles.

**Table 4.15 The financial analysis is done using ratio**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 5 | 10.0 | 10.0 |
| Agree | 24 | 48.0 | 58.0 |
| Indifferent | 13 | 26.0 | 84.0 |
| Disagree | 5 | 10.0 | 94.0 |
| Strongly Disagree | 3 | 6.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

In table 4.15 above, 10% of the respondents strongly agreed that their financial analysis is done using ratio, 48% agreed, 26% were indifferent, 10% disagreed and 6% strongly disagreed. This statistics indicates that financial analysis is done using ratio by some of the respondents and it is not by others.

**Table 4.16 The business regards the current financial reporting as adequate**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 16 | 32.0 | 32.0 |
| Agree | 18 | 36.0 | 68.0 |
| Indifferent | 12 | 24.0 | 92.0 |
| Disagree | 3 | 6.0 | 98.0 |
| Strongly Disagree | 1 | 2.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

In the table above, 32% strongly agreed that their business current financial reporting is adequate, 36% agreed to this, 24% were indifferent, 6% disagreed and 2% strongly disagreed. This indicates that most of the respondents regards the current financial reporting as adequate.

**Table 4.17 The business accounting system is formal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Response** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 14 | 28.0 | 28.0 |
| Agree | 27 | 54.0 | 82.0 |
| Indifferent | 3 | 6.0 | 88.0 |
| Disagree | 4 | 8.0 | 96.0 |
| Strongly Disagree | 2 | 4.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

Table 4.17 displays opinions on whether their business’ accounting system is formal, however, 28% of them strongly agreed, 54% agreed, 6% were indifferent, 8% disagreed and 4% strongly disagreed. This however indicates that the business accounting system of the respondent is formal.

**Table 4.19 The accountant is in charge of recording transactions**

|  |  |  |  |
| --- | --- | --- | --- |
| **Response** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 10 | 20.0 | 20.0 |
| Agree | 21 | 42.0 | 62.0 |
| Indifferent | 12 | 24.0 | 86.0 |
| Disagree | 2 | 4.0 | 90.0 |
| Strongly Disagree | 5 | 10.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

In table 4.19 above, 20% of the respondents strongly agreed that accountants are in charge of recording transactions, 42% agreed, 24% were indifferent, 4% disagreed and 10% strongly disagreed. From this statistics, the highest percentage agreed that accountants are in charge of recording transactions.

**Table 4.20 The business uses computer assisted software in recording transactions**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 18 | 36.0 | 36.0 |
| Agree | 19 | 38.0 | 74.0 |
| Indifferent | 3 | 6.0 | 80.0 |
| Disagree | 6 | 12.0 | 92.0 |
| Strongly Disagree | 4 | 8.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

Table 4.20 indicates that 36% of the respondents strongly agreed that their business uses computer assisted software in recording transactions, 38% agreed, 6% were indifferent, 12% disagreed and 8% strongly disagreed. This however indicates that most of the respondents use computer assisted software in their transactions.

**Table 4.21 Financial reporting and analysis has influenced the profitability of my business**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 12 | 24.0 | 24.0 |
| Agree | 15 | 30.0 | 54.0 |
| Indifferent | 16 | 32.0 | 86.0 |
| Disagree | 4 | 8.0 | 94.0 |
| Strongly Disagree | 3 | 6.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

In table 4.21 above, 24% strongly agreed that financial reporting and analysis has influenced the profitability of their business, 30% agreed, 32% were indifferent, 8% disagreed and 6% strongly disagreed. This indicates that most of the respondents belief that financial reporting and analysis has influenced their profitability.

**Table 4.22 Working capital management has a positive impact on my net profit after tax**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 19 | 38.0 | 38.0 |
| Agree | 20 | 40.0 | 78.0 |
| Indifferent | 5 | 10.0 | 88.0 |
| Disagree | 2 | 4.0 | 92.0 |
| Strongly Disagree | 4 | 8.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

From the above table, 38% strongly agreed that working capital management has a positive impact on their profit after tax, 40% agreed, 10% were indifferent, 4% disagreed and 8% strongly disagreed to this. This reveals that most of the respondents believe that working capital management has a positive impact on their profit after tax.

**Table 4.23 Accounting information system has reduced my cost of doing business and has increased my revenue**

|  |  |  |  |
| --- | --- | --- | --- |
| **Responses** | **Frequency** | **Percent** | **Cumulative Percent** |
| Strongly Agree | 11 | 22.0 | 22.0 |
| Agree | 19 | 38.0 | 60.0 |
| Indifferent | 13 | 26.0 | 86.0 |
| Disagree | 3 | 6.0 | 92.0 |
| Strongly Disagree | 4 | 8.0 | 100.0 |
| Total | 50 | 100.0 |  |

Source: Researcher’s Survey, 2015

Table 4.23 above indicated that 22% of the respondents strongly agreed that accounting information system has reduced their cost and increased revenue, 38% agreed to this, 26% were indifferent, 6% disagreed and 8% strongly disagreed. This however reveals that most of the respondents belief that accounting information system has reduced their cost and increased revenue.

**4.3 TEST OF HYPOTHESES**

**Ho1: Financial reporting and analysis do not have effect on profitability of SMEs**

**Model Summary**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .802(a) | .644 | .603 | .709 |

a Predictors: (Constant), The business regards the current financial reporting as adequate, The business follows accounting principles, The financial analysis is done using ratio, The financial statements are prepared annually, The accountant is in charge of preparing financial statements

 Source: SPSS Output

 **ANOVA(b)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model |   | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 40.036 | 5 | 8.007 | 15.911 | .000(a) |
|  Residual | 22.144 | 44 | .503 |   |   |
|  Total | 62.180 | 49 |   |   |   |

a Predictors: (Constant), The business regards the current financial reporting as adequate, The business follows accounting principles, The financial analysis is done using ratio, The financial statements are prepared annually, The accountant is in charge of preparing financial statements

b Dependent Variable: Financial reporting and analysis has influenced the profitability of my business

 Source: SPSS Output

 **Coefficients(a)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model |   | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
|  B | Std. Error | BetaBStd. Error |
| 1 |  |  |  |  |  |  |
| (Constant) | .636 | .439 |   | 1.450 | .154 |
|  The financial statements are prepared annually | .190 | .073 | .258 | 2.615 | .012 |
|  The accountant is in charge of preparing financial statements | .504 | .083 | .643 | 6.069 | .000 |
|  The business follows accounting principles | .032 | .080 | .037 | .400 | .691 |
|  The financial analysis is done using ratio | .033 | .078 | .042 | .424 | .674 |
|  The business regards the current financial reporting as adequate | .054 | .082 | -.066 | .661 | .512 |  |

a Dependent Variable: Financial reporting and analysis has influenced the profitability of my business

Source: SPSS Output

r= 0.802, r2 = 0.644

From the above ANOVA table the significance value is 0.000 which is below the alpha level at 5% which indicates that the regression model is significant. Hence, the null hypothesis is rejected. This means that financial reporting and analysis have effect on profitability of SME. **Interpretation of Result**

From the model summary above, the correlation coefficient (r) is 0.802 which indicates that there is a very high positive correlation between financial reporting and analysis and the profitability of SMEs. This implies that the better the financial reporting and analysis, the higher the profit might go. The r2 is 0.644 which indicates that financial reporting and analysis is accountable for 64.4% of the variations that occurs in the profitability of SMEs. The coefficients table revealed the intercept or constant (α) as 0.636. However, β1 is 0.190, β2 is 0.504, β3 is 0.032, β4 is 0.033 while β5 is 0.054. The regression equation can however be written as;

Y = 0.636 + 0.190(X1) + 0.504(X2) + 0.032(X3) + 0.033(X4) + 0.054(X5)­­

The ANOVA table summarises the overall significance of the model. The table shows that the p value is 0.000 which is lower than the alpha value at 5%. Hence, the null hypothesis is rejected. It can however be concluded that financial reporting and analysis has effect on the profitability of SMEs.

**Ho2: Working capital management do not have impact on profitability of SMEs**

 **Model Summary**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .871(a) | .759 | .731 | .610 |

a Predictors: (Constant), The business use Economic Order Quantity model in inventory management, The business reviews the levels of receivable, There is monthly reconciliation with the bank, There is physical safeguards of inventory against theft, Temporary cash surplus is invested in marketable securities

 Source: SPSS Output

 **ANOVA(b)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model |   | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 51.530 | 5 | 10.306 | 27.667 | .000(a) |
|  Residual | 16.390 | 44 | .373 |   |   |
|  Total | 67.920 | 49 |   |   |   |

a Predictors: (Constant), The business use Economic Order Quantity model in inventory management, The business reviews the levels of receivable, There is monthly reconciliation with the bank, There is physical safeguards of inventory against theft, Temporary cash surplus is invested in marketable securities

b Dependent Variable: Working capital management has a positive impact on my net profit after tax

 Source: SPSS Output

**Coefficients (a)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model |   | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
|  B | Std. Error | BetaBStd. Error |
| 1 |  |  |  |  |  |  |
| (Constant) | .930 | .332 |   | 2.802 | .008 |
|  There is monthly reconciliation with the bank | .196 | .154 | .110 | 1.274 | .209 |
|  The business reviews the levels of receivable | .093 | .101 | -.093 | .921 | .362 |
|  Temporary cash surplus is invested in marketable securities | .685 | .130 | .602 | 5.261 | .000 |
|  There is physical safeguards of inventory against theft | .488 | .118 | .365 | 4.132 | .000 |
|  The business use Economic Order Quantity model in inventory management | .241 | .142 | .168 | 1.699 | .096 |  |

a Dependent Variable: Working capital management has a positive impact on my net profit after tax

 Source: SPSS Output

r= 0.871, r2= 0.759

From the ANOVA table above, the p < 0.05; 0.000 < 0.05 hence, the null hypothesis is rejected. This means that working capital management has impact on profitability of SMEs.

**Interpretation of Result**

Multiple regression was used to establish the effect working capital management has on the profitability of SMEs. The model summary revealed that the correlation coefficient that exist between working capital management and the profitability of SMEs is 0.871. This implies that there is a very high positive correlation between working capital management and the profitability of SMEs. The r2 is 0.759 which implies that working capital management accounts for 75.9% of the variation that occurs in the profitability of SMEs. The constant or intercept as shown in the coefficient table is 0.930 which is statistically significant at this point. The β of X1 is 0.196, β2 is 0.093, β3 is 0.685, β4 is 0.488 while β5 is 0.241. The regression equation can however be expressed as;

Y = 0.930 + 0.196(X1) + 0.093(X2) + 0.685(X3) + 0.488(X4) + 0.241(X5)

 The ANOVA table shows the overall significance of the regression equation. p < 0.05 hence, the null hypothesis which states that working capital management do not have impact on profitability of SMEs is rejected. It can therefore be concluded that working capital management has impact on the profitability of SMEs.

**Ho3: Accounting information system do not have effect on profitability of SMEs**

 **Model Summary**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .925(a) | .856 | .843 | .453 |

a Predictors: (Constant), The business uses computer assisted software in recording transactions, The accounting department is properly staffed and operations efficiently, The accountant is in charge of recording transactions, The business accounting system is formal

Source: SPSS Output

 **ANOVA(b)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model |   | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 54.764 | 4 | 13.691 | 66.708 | .000(a) |
|   | Residual | 9.236 | 45 | .205 |   |   |
|   | Total | 64.000 | 49 |   |   |   |

a Predictors: (Constant), The business uses computer assisted software in recording transactions, The accounting department is properly staffed and operations efficiently, The accountant is in charge of recording transactions, The business accounting system is formal

b Dependent Variable: Accounting information system has reduced my cost of doing business and increased my revenue

Source: SPSS Output

 **Coefficients(a)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model |   | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
|  B | Std. Error | BetaBStd. Error |
| 1 |  |  |  |  |  |  |
| (Constant) | .015 | .176 |   | .084 | .933 |
|  The business accounting system is formal | .091 | .116 | .093 | .787 | .435 |
|  The accounting department is properly staffed and operations efficiently | .097 | .092 | .080 | 1.057 | .296 |
|  The accountant is in charge of recording transactions | .637 | .108 | .628 | 5.888 | .000 |
|  The business uses computer assisted software in recording transactions | .185 | .096 | .199 | 1.927 | .060 |  |

a Dependent Variable: Accounting information system has reduced my cost of doing business and increased my revenue

Source: SPSS Output

r = 0.925, r2= 0.856, p = 0.000

From the ANOVA table above, the p <0.05; 0.000 > 0.05. Hence, the null hypothesis is rejected. This means that accounting information system have effect on the profitability of SMEs.

**Interpretation of Result**

Multiple regression analysis was used to examine the impact of accounting information system on the profitability of SMEs. The model summary however revealed that the correlation coefficient is 0.925 which indicates that there is a very high positive relationship between them. The coefficient of variation is 0.856 which depicts that accounting information accounts for 85.6% of the variation that occurs in the profit of SMEs. The intercept of the line as indicated in the coefficients table is 0.015, β1 is 0.091, β2 is 0.097, β3 is 0.637 while β4 is 0.185. The regression model can be expressed as;

Y = 0.015 + 0.091(X1) + 0.097(X­2) + 0.637(X3) + 0.185(X4)

The ANOVA table indicates how significant the model is. The p value as indicated in the table is 0.000 which is lower than the alpha value of 0.05. Hence, the null hypothesis is rejected. This therefore indicates that accounting information has a strong effect on the profitability of SMEs.

**4.4 Summary of Findings**

Data were collected from primary data and were analysed with descriptive and inferential statistics. Tables and frequencies were used to analyse the responses to the questionnaire and linear regression was used to test the hypotheses.

 After testing the hypothesis with linear regression, it was revealed that there is a strong positive relationship between the financial reporting and analysis and profitability of SMEs which revealed an r of 0.729 and a variance of 0.531.

 The second test revealed that there is a strong positive relationship between working capital management and the profitability of SMEs which led to the rejection of the null hypothesis that stated that working capital management do not have impact on profitability of SMEs and hence the conclusion that working capital management has a positive impact on the profitability of SMEs.

 The third hypothesis aimed to establish whether accounting information system has impact on profitability. It was however discovered that there is a high correlation between them. The model was tested for significance and it was discovered to be significant at alpha level of 5%. Hence, it was concluded that there accounting information system has impact on the profitability of SMEs.

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**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

 This chapter consist of discourse on summary, conclusion and recommendations. Followed by this is the limitations of this research.

**5.2 Summary**

This research examined the financial management practises and the performance of SMEs in Akwa Ibom State, Nigeria. This study has five chapters in all namely; chapter one which is the introduction, chapter two which comprise the review of literature, chapter three, the research methodology, chapter four, the presentation and analysis of data and lastly the chapter which includes the summary, conclusion and recommendation.

 Data for this study was obtained through the administration of questionnaire. The data was however analysed with descriptive and inferential statistics. In the chapter one of this study, three hypotheses were however stated in line with the objectives and research questions.

 The result of the first hypothesis however revealed that there is a strong positive relationship between the financial reporting and analysis and profitability of SMEs. The second also revealed that there is a strong positive relationship between working capital management and the profitability of SMEs and the last hypothesis also gave a similar result.

**5.3 Conclusion**

The outcome of this research study was not shocking as it was as expected. The result of this study can however be used for further research and can also be used in decision making as care and precautions were in writing up this study. The findings of this study can however be summarised that;

1. Working capital management has a positive effect on the profit of SMEs.
2. Financial reporting and analysis also has a positive impact on the profitability of SMEs.
3. Accounting information system has a positive impact on the profitability of SMEs.

**5.4 Recommendations**

As indicated in this research, financial management practices has impact on the profitability of SMEs in Eket LGA. SMEs should endeavour to improve on their financial management practises as the impact of their growth on the growth of the Nigerian economy cannot be over-emphasised. Even if SMEs adopt good financial management practices, this is not enough to ensure the growth of SMEs. The federal government should ensure that good operating environment is provided to SMEs so they can perform well. Tax incentives can also be granted to them to ensure their survival. Financial institutions should grant more loan to SMEs so they can invest more into their business.

**5.5 Limitations**

This research studied SMEs in Akwa Ibom State thereby if generalizations might be inefficient or inappropriate if they are made on the SMEs in Nigeria. It might even lead to wrong generalizations if it is on Akwa Ibom state as just a very little percentage of the population was examined. The researcher encountered quite a number of ups and downs which could have made this study more useful. The researcher’s primary limitations was insufficient fund. The researcher could have obtained quality materials to include in the literature review but was financially constrained. The researcher also was faced with insufficient time which made it impossible cut across a fair percentage of the population. However, upon all these limitations, enough effort was made to ensure that the research study is of high quality and can be useful for further research and decision making.

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**Part One**

Instruction: Please tick (√ ) against the option that applies to your response.

 **Personal Information**

* 1. Male [ ] Female [ ]
	2. Qualification BSc./HND [ ] MSc./Phd [ ] Others [ ]
	3. Profession/ Occupation/ Position Accountant [ ] Auditor [ ] Manager [ ] Others[ ]
	4. How much of Financial management do you know? Much [ ] Little [ ]

**Part Two**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **S/N** | **QUESTION** | **SA** | **A** | **UD** | **D** | **SD** |
| 5. | Financial reporting and analysis do not have effect on profitability of SMEs? |  |  |  |  |  |
| 6. | working capital management do not have impact on profitability of SMEs? |  |  |  |  |  |
| 7. | Accounting information system do not have effect on profitability of SMEs? |  |  |  |  |  |
| 8. | What is the effect of accounting information system on the profitability of small and medium scale enterprises? |  |  |  |  |  |
| 9. | What is the impact of working capital management on profitability of small and medium scale enterprises? |  |  |  |  |  |
| 10. | Is there any relationship between financial management and profitability of SMEs in Eket LGA? |  |  |  |  |  |
| 11. | Is there adequate internal control system to check financial malpractice in the firm? |  |  |  |  |  |
| 12. | Does the management of the organization employs professionals to manage their finances?  |  |  |  |  |  |
| 13. | Do you think that the performance of the SMEs is dependent on efficient financial management? |  |  |  |  |  |
| 14. | Does the government has any role to play in the growth of SMEs in the study area? |  |  |  |  |  |
| 15. | In what ways can financial irregularities be checked? |  |  |  |  |  |
| 16. | Is there any relationship between financial management and profitability? |  |  |  |  |  |