

# **EVALUATION OF BEST FINANCIAL MANAGEMENT SKILLS ENABLING BUSINESS GROWTH IN LILONGWE TOWNSHIP.**

**Case study:** Lilongwe Old Town

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## **ABSTRACT**

This study will be done to evaluate best financial management practices in Micro, Small and Medium Enterprises (MSME's) in the township of Lilongwe in Malawi. The objective of the study is to evaluate the use of best financial management skills among the MSME's that help in the growth of the businesses in Lilongwe. Financial management has been at the center of the success of many firms, and this study has been designed in such a way that it is able to identify what sets apart successful small firms and unsuccessful ones with the township of Lilongwe. It is hoped that the study will benefit both SMEs owners understudy, those not studied and various players within the finance industry with interest in SMEs, in Malawi.

A structured questionnaire will be used to collect primary data from the respondents during the study. The analysis of the findings will help the researcher to determine whether financial management is part of the overall management techniques for the SMEs in the township. More importantly the soundness of the financial management skills will be analyzed and a determination will be made as to whether they contribute to business success and growth

### **Key Words:**

Financial Management Skills

Micro Small and Medium Enterprises (MSMEs)

## **1.INTRODUCTION**

Micro small medium enterprises (MSME's) contribute to the economic growth of every country and Malawi in particular, largely benefits from such a sector regardless of its economy. Despite the presence and existence of the MSME's for decades, there are similar serious multiple challenges in their respective enterprises which is mostly contributing to snail pace of business growth in the MSME's. Among many challenges, financial management skills are regarded mostly as one of the great concerns that lead to small growth in the MSME's. As reported by (Jindrichovska, 2013) who explains that many businesses especially small ones fail not because the owner does a poor job or provides an inferior service, but because their firm does not employ best financial management skills

Goosain (2004:23) found that 70% to 80% of the small businesses started in Malawi fail each and every year. Landzani and Van Vuuren (2004:157) add that when two or more small businesses emerge, a considerable number of them fail at the infancy stage meaning they fail at the young stage and some fail within a year after start-up. According to Global Entrepreneurship Monitor (GEM) (2004:10), says that the failure of business is attributable to a lack of business management practices, especially financial management skills. In order to survive and succeed in the market place, GEM (2004:12) suggested that a good and conducive environment be develop for those small businesses. With the aim of creating an enabling environment for small businesses requires that the issues that stifle their development and growth be addressed. Initiatives like friendly regulatory environment, access to information, advice, finance and marketing and differential taxation support for managerial training are necessary to enable small businesses to survive and adapt in the changing and challenging environment. Throughout the world, small and medium enterprises (SMMEs) play a role in absorbing labour, penetrating new markets and generally enhancing an enabling environment for entrepreneurship. This is true in the sense that SMMEs tend to be more expensive in terms of labour and therefore having a higher labor-intensive and absorption capacity than big businesses (Jacqui and Macquet, 2002:11). SMMEs can be established for any business activities, in both urban and rural areas, in large and developed cities or very small village areas (Amin, 2004:371).

## **II.LITERATURE REVIEW**

Cash Management. (Hamzaet al, 2015) indicates that, the cash problems were as a result of poor managerial practices including the inability of the SMEs to keep track of their operations and to use such information in planning and management of their financial transactions to salvage the cash flow. Despite the numerous institutions providing training and advisory services, there is still a skills gap among the MSMEs sector as a whole. According to Daniels and Ngwira (1993), about 88% of Malawian MSMEs desired training in various skills but as of 1992, less than 6% have actually received it

Inventory and Sales Management Turyahebwa, (2013) shows that MSMEs do not have a set credit policy in place to control the sales to be made on credit (mean = 2.15), this means that sales are just made to customers without vetting who should be granted credit and how much credit should be granted. This is further supported by the high levels of bad debts and the findings revealed that the levels of bad debts are not reviewed (mean = 2.32). This makes recovery of the money from credit sales 10 difficult. Similarly, there is low control over write offs as far as bad debts are concerned (mean = 2.17) and this increases expenses in form of bad debts which reduces the profitability of the MSMEs and thus affecting the overall going concern

Account and Investment Management. Kaonga, (2013) also said that, there is lack of a savings culture among MSMEs in the country that can impact business negatively, the habit of living beyond their means, failure to separate business from personal transactions.

Education and Experience levels have a bearing on the adoption of financial management practices in MSMEs. Lusimbo, (2016) shows that over 50% MSMEs managers rated themselves as having no knowledge or unsatisfactory knowledge and skills on MSMEs, where large number of the respondents most educated individuals to earn a living reflected by an average percentage of 44% from School certificate, Diploma, level (32%) and Bachelor's degree (20%) this means all categories of individuals participate in operation of small scale business. Only four percent of respondents are Master s degree. Afrima, (2013) results show that there is significant difference between whether a company prioritize Working Capital Management components or not based on the educational level of managers in charge of WCM.

### **III. OBJECTIVES**

#### **A. Main objective**

- To evaluate the use of best financial management skills that enabling business growth of MSME's in Lilongwe township.

#### **B. Secondary objectives**

- To determine their financial management skills;
- To identify challenges, they face to employ financial management skills.
- To find out whether education levels have a bearing on the adoption of financial management practices.

### **IV.METHODOLOGY**

#### **Sampling Techniques Non-random /non-probability**

sampling techniques will be used to choose the MSMEs that will be used in the study. Non-random sampling techniques are used where the population is very large and it would be difficult to randomly pick a member of the sample for the study. This is also called Purposive Sampling.

#### **Sample Size**

The sample size will be based on the projected total population of the MSMEs in the study area. The sample will be well and cautiously selected to incorporate MSMEs for the aim of having precise information. The sample size will be 45 MSMEs which will be used for the study and the Questionnaires will be delivered in person by the researcher.

#### **Source of Data**

The researcher will use two sources of data namely the primary and secondary. The primary data is the first hand data from the respondents, the data that is collected for the purpose of the study (Wilson,2014:150). In this view the qualitative data collection will involve the face to face interview of the respondents

## Research Design and Approach

Research design is a detailed frame work or plan that helps to guide the research process, allowing a greater likelihood of achieving research objectives. (Wilson, 2014:115). A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure, it is also conceptual structure within which research is conducted and it constitutes the blueprint for the collection, measurement and analysis of data. (Kothari, 2004:31)

### Approach adopted

Since my research is exploratory in nature and also qualitative research is primarily exploratory research, for It is used to gain an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses for potential Quantitative research (Wyse, 2011) Qualitative Research is also used to uncover trends in thought and opinions, and dive deeper into the problem. Qualitative data collection methods vary using unstructured or semi-structured techniques. Some common methods include focus groups (group discussions), individual interviews, and participation/observations. The sample size is typically small, and respondents are selected to fulfill a given quota. Therefore, I have adopted the qualitative method to do my research

## V. DATA ANALYSIS AND INTERPREATION

**Table 1: Level of financial management skills (n=45)**

<b>Financial management Skills</b>	<b>No understanding</b>	<b>Little understanding</b>	<b>Fully understanding</b>
Prepare a projected income statement	40%	53 ,3%	6,7%
Draft business plan	42,2%	51 %	6,8%
Compile a cash budget	31 ,1%	60,0%	8,9%
Compile a financial statement	40,2%	48,9%	10,9%
Analyze a financial statement	69,5%	25,8%	4,7%

Break-even analysis	20%	57,8%	22,2%
Manage cash	6,7%	62,2%	31 ,1%
Manage stock	4,4%	64,4%	31 ,1%
Manage accounts receivable	6,7%	71 ,1%	22,2%
Usage of spread sheet for Decision making	86,0%	11 ,6%	2,3%

According to the findings the table 4.5 above, 18 participants which represent 40% who are also the business owners had no understanding of preparing a project income statement. 24 participants which represent 53.3% had little understanding of preparing a projected income statement and only 3 respondents which is 6.7% had fully understanding. this shows that most business owners don't know how to project income statement. On how to draft a business plan 19 respondents which present 42.2% had no understanding on how to draft a business while 23 participants presenting 51% had little understanding on how to draft a business plan and only 3 respondents which is 6.8% had fully understanding. In process of the study Some participants stated that they had applied for funding previously, which compelled them to submit a business plan, to learn and it has shown that none of the participants kept copies of the business plan they said that they viewed it as useless to state formally objectives, Addition to that it could also lead to failure for business owners to keep a business plan is that the nature of the small and medium business requires the owner of the business to function in different capacities on different levels of the business since most of them they are both the owner, manager, accountant even sales person, which leaves them with no real time for planning or drafting a business plan (John, 2008:11).

Table 2: Management of accounts receivable (n=45)

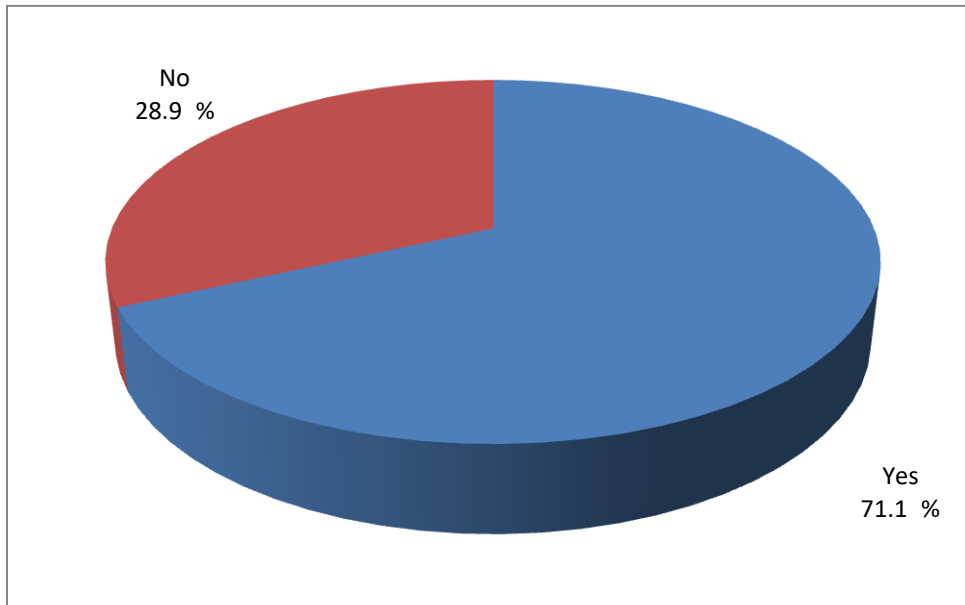
	<b>Very poor</b>	<b>Poor</b>	<b>Average</b>	<b>Good</b>	<b>Very Good</b>
Credit selection	11,1%	15,6%	64,4%	8,9%	0%

Credit limit	10,0%	20,0%	55,0%	15,0%	0%
Credit terms	25,0%	20,0%	40,0%	15,0%	0%
Collection policy	25,0%	45,0%	25,0%	5,0%	0%
Monitoring accounts receivable	30,0%	20,0%	35,0%	10,0%	5,0%
Collection of outstanding debts	44,0%	35,0%	16,0%	0%	5,0%

Credit selection and credit limit are intended to determine the participants' skills in the process of evaluation and selection of the creditworthiness of the different customers involved in the business. According to the findings 5 participants out of 45 which presents 11.1% of participants indicated that they had no knowledge of credit selection which was very poor, they said most of them they don't know much about credits over products and services, 7 out of 45 participants which is 15.6% indicated poor while 29 participants presenting 64.4% indicated average and only 4 participants which is 8.9% indicated very good, none of them indicated very good. This shows most of them they had difficulties in credit selection.

In process the Participants responded on credit limits. knowledge of setting credit limits with the aim of reducing losses and also on specifying date and the repayment terms after the credit date of agreement had been extended between the business owner and customer, 10% indicated poor and 20% of participants indicated very poor on credit limits while 55% of respondents indicated average and only 15% indicated good and none of the participants indicated very good on credit limits. is also rated on a scale of Very poor to Excellent that on credit terms 25% of participants indicated poor and 20% very poor while 40% indicated average in the sense that for every business has terms when it comes to selling of products and services, only 15% of participants indicated good and none indicated very good. Participants indicated that sometimes the terms change and not be used due to other situations in the business. Finally, in monitoring accounts in the business, 20 to 45% of participants indicated poor in collecting policy and monitoring accounts. 25% of them indicated average. it shows that most participants indicated 25 to 30% poor in collecting policy and 5% good none indicated very good in collecting policy but in monitoring

only 2 participants were able to monitor their accounts presenting 5% of the participants indicated very good.



**Figure 1: Need for financial management training (n=45)**

According to the findings. Most participants (71,1%) indicated that they would like to get and know new and best financial skills through training as indicated in Figure 4.6 The most important aspects of financial management skills in which the participants recommended that the training should mostly focus on in order to improve management of their businesses for better results are as follows:

- Management of cash
- Drafting a business
- Management of debtors
- Management of inventory
- Financing
- Preparing and analyzing income statement
- Compiling a cash budget



## **VIII. SUGGESTIONS AND AREA OF FURTHER STUDY**

The main functional areas of business involve finance, marketing, human resource supply chain, operations and research and development (sources). These functions are very important and interrelated and interact with one another during operation. In large companies, they are grouped into departments, and people with specialized skills are placed in each department. In small and medium businesses, all the functional tasks are normally performed by the owner of the business or sometimes the manager who has been employed. This study focused on the financial management function only. The fact that respondents have limited financial management skills could mean that their skills in the other functional areas are also lacking as seen in the study.

### **Impact of financial management skills**

With regards to the objective on impact of financial management skills it has shown that many small and medium enterprises did not attain financial management skills such as working capital, breakeven analysis, financing, bookkeeping. According to figure 1 of the findings indicated that most of business owners were willing to attain financial management skills training in order to improve their businesses. In conclusion small and medium enterprises are advised to attain financial management skills.

### **Challenges Small and Medium Businesses face**

With regards to the objective on evaluate challenges they face to employ financial management skills. it has shown that most business owners in Lilongwe township faced a lot of challenges in their business. Most of them were unable to make breakeven analysis, were not able to record book keeping of their products and services which caused most of the business to go down. Most business owners were also facing issues of buying products on credit card in which most of them were not accepting customers to buy their products and services on credit because they had little knowledge on how such issues works. In conclusion small and medium enterprises should attain workshop on how to manage business. Small and medium business owners are advised to attain free workshops on business management training offered by different institutions. They can choose different programs such as Business Talk on how they can convince the customers, Business Start, on how to start business with good plans. Business Build or Business Grow depending on the life cycle of their business in which they are operating.

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