

# **Effect of Financial Management Practices on Financial Performance of Small and Medium Enterprises In Rwanda: A Case of six Selected SACCOs in Musanze District (2018-2020)**

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## **Abstract**

Worldwide, the management practices have been marked as having a critical significant contribution to the financial performance of institutions including Small and Medium Enterprises. This study intends to focus on the evaluation on Financial Management Practices and Financial performance of SMEs in Rwanda. This study aimed to Analyze whether Financial Management Practices have effects on the Small and Medium Enterprises especially on the six selected SACCOs in Musanze District. The design of this study was a quantitative descriptive in nature. The target population of the study was 30% of all staff and employees from all Musanze districts SACCOs and a sample size of 60 respondents were selected using universal census approach and data were analyzed using statistical package for social sciences (SPSS) version 20. Findings study therefore confirms that there is strong positive effect of working capital management on performance and that that there is a significant positive effect of investment decision on SACCOs performance. The findings concluded that there is a significant effect from financial management practices to the financial performance.

**Keywords:** Financing decision; Investment decision; SACCO; Risk management and Working capital management

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## **1. Introduction**

Small and Medium (SMEs) are now recognized worldwide as key sources of dynamism, innovation and flexibility. SMEs are responsible for most net job creation, making an important contribution to productivity and economic growth; they are the logical 'kick-start' mechanism for job creation and future prosperity in the country and alleviation of poverty [1-2]. The failure rate of SMEs is very high during the first two years of the new start-up [3]. SMEs fail because of lack of education and training, shortage of management practices skills, lack of access to finance and lack of financial management competences [4]. A shortage of financial management practices as a root cause of business failure is not a new phenomenon [5]. Such kind of shortage being typical of SMEs, in contrast to large and multi-national business enterprises where specialists are employed and modern technology is used to provide up-to-date data and information [2]. SMEs, often owned and managed by the same person, have been found to be flexible in decision-making in terms of investment, financing and capital working management but lacking in expertise in that practices [6]. The informality of bookkeeping and the accounting information in SMMEs can complicate and prolong decision making [7]. Financial management has both internal and external aspects. Internally, it is concerned with (i) implementing and managing an accounting system and (ii) generating information for decision-making purposes. Externally, it is concerned with the ability to attract adequate financial resources. Efficient financial management practices are vital in SMMEs: they provide a historical analysis of the performance of the business, which can then be used to project potential future performance [8]. Optimal utilization of financial management practices could enhance the growth of SMEs and contribute to improving the South African economy in general and to the realization of the objectives identified in the development and promotion strategy of the government [9]. In Rwanda, the number of SMEs has been increasing continuously contributing significantly in increasing the number of employment opportunities. This has improved significantly the performance and development of the region which was initially largely dependent only on agricultural produce [10]. The sector is however threatened by challenges in the financial aspect of the SMEs. SMEs are facing different constraints especially the labor intensive firms in Africa and compounded within Rwanda's context due to different endogenous and systemic factors. However, Rwanda's situation is unique with its relative economic reforms and political stability. Rwanda Revenue Authority Report [11], demonstrated that around 33% of SMEs have stopped operations. Through this research, an attempt is made to deduce the universality of financial management practices adopted by SMEs in Musanze District, and evaluate whether financial practices are significantly affecting the financial performance of the six selected SACCOs.

## **2. Methods**

An exploratory quantitative descriptive design was used in this study to find out whether the Financial Management Practices have effects on the Small and Medium Enterprises especially on the six selected SACCOs in Musanze District. Data were collected using a self-administered questionnaire to interview 60 members from 30% of all staff and employees from all Musanze districts SACCOs and a sample size of 60 respondents were selected using universal census approach and data were analyzed using statistical package for social sciences (SPSS) version 20. Statistical analysis using inferential statistics was used considering p-value 0.05 as the level of significance and 95% Confidence Interval (95% CI).

### 3. Results Discussion

In Rwanda, financial management practices are key aspects that SMEs management team need to implement to have their financial performances are improved. Those financial management practices are but not limited to working capital management, investment decision, financing decision and risk management, et c... The researcher gave the respondents various statement regarding financial management practices in terms of working capital management, investment decision, financing decision and risk management with Financial performance in terms of profitability, bad debt recovery, return on assets, return on equity and operating cash flow as financial performance indicators.

**Table 1:** Respondents' responses on the Effect of working capital management as financial management practice on financial performance of the SACCOs in Musanze District. (n=60)

Effect of working capital management on performance of the SACCOs	Mean	SD	Interpretation
Working capital management affects positively the SACCO's Profitability	4.211	0.2123	Agree
Working capital management affects positively the SACCO's Bad debt recovery.	4.067	0.1287	Agree
Working capital management affects positively the SACCO's Return on Assets	4.945	0.1321	Agree
Working capital management affects positively the SACCO's Return on Equity	4.740	0.1981	Agree
Working capital management affects positively SACCO's Operating cash flow	4.102	0.1118	Agree

**Source: Primary data, 2021**

From above Table 1 It was also noted that all the respondents agreed with the statements regarding Working capital management affects positively the SACCO's Profitability( Mean=4.211 and SD=0.2123) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, Working capital management affects positively the SACCO's Bad debt recovery (Mean =4.067 and SD= 0.1287) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, Working capital management affects positively the SACCO's Return on Assets( Mean=4.945 and SD= 0.1321) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, Working capital management affects positively the SACCO's Return on Equity (Mean =4.740 and SD= 0.1981) this shows that there is very high mean and strong evidence of the existence of the fact and heterogeneity of responses, Working capital management affects positively SACCO's Operating cash flow( =4.102 and SD= 0.1118) this shows that there is very high mean and strong evidence of the existence of the fact and heterogeneity of responses.

Analysis from this table then shows that there is effect of working capital management on performance of the SACCOs in Musanze District. This is in conformity with research by Viyakumar, A. [9], in his study entitled: "Working Capital Management" in his findings the majority of respondents said that proper working capital management play a great role in the firm performance.

Basing on the table above, It was clearly noted that all the statement provided to respondents were accepted and agreed with by respondents as all Mean are between 4.3-5 as follows: Investment decision affects positively the

SACCO's Profitability( Mean=4.911 and SD=0.1067) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, Investment decision affects positively the SACCO's Bad debt recovery (Mean =4.761 and SD= 0.1318) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, Investment decision affects positively the SACCO's Return on Assets( Mean=4.341 and SD= 0.1673) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, Investment decision affects positively the SACCO's Return on Equity (Mean =4.956 and SD= 0.1211) this shows that there is very high mean and strong evidence of the existence of the fact and heterogeneity of responses, Investment decision affects positively SACCO's Operating cash flow( =4.645 and SD= 0.1081) this shows that there is very high mean and strong evidence of the existence of the fact and heterogeneity of responses. Analysis from the table above then goes to confirm that there is effect of investment decision on performance of the SACCOs in Musanze District and this argues with study by **Zoltan, J [12]** entitled: "An Examination of the Relationship Between Professional Investment Recommendation & stock Prices in European Stock Market, the findings went to say that effective investment decision contributes to financial performance for the SMEs.

**Table 2:** Respondents' responses on the Effect of investment decision as financial management practice on financial performance of the SACCOs in Musanze District. (n=60)

Effect of investment decision on performance of the SACCOs	Mean	SD	Interpretation
Investment decision affects positively the SACCO's Profitability	4.911	0.1067	Agree
Investment decision affects positively the SACCO's Bad debt recovery.	4.761	0.1318	Agree
Investment decision affects positively the SACCO's Return on Assets	4.341	0.1673	Agree
Investment decision affects positively the SACCO's Return on Equity	4.956	0.1211	Agree
Investment decision affects positively SACCO's Operating cash flow	4.645	0.1081	Agree

**Source: Primary data, 2021**

**Table 3:** Respondents' responses on Effect of financing decision as financial management practice on financial performance of the SACCOs. (n=60)

Effect of Financing decision on performance of the SACCOs	Mean	SD	Interpretation
Financing decision affects positively the SACCO's Profitability	4.775	0.4215	Agree
Financing decision affects positively the SACCO's Bad debt recovery.	4.653	0.6308	Agree
Financing decision affects positively the SACCO's Return on Assets	4.489	0.5050	Agree
Financing decision affects positively the SACCO's Return on Equity	4.591	0.4965	Agree
Financing decision affects positively SACCO's Operating cash flow	4.612	0.4922	Agree

**Source: primary data, 2021**

Analysis from the above table, ( =4.775 and SD=0.4215) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, financing decision has been contributing to profitability(Mean =4.653and SD= 0.6308) this shows that there is very high mean and strong evidence of the

existence of the fact and heterogeneity of responses, Financing decision has been contributing to Bad debt recovery (Mean =4.653 and SD=0.6308) this shows that there is very high mean and strong evidence of the existence of the fact and heterogeneity of responses, Financing decision has been contributing to Return on Assets (Mean=4.489 and SD= 0.5050) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses and the Financing decision has influence on Return on Equity (Mean=4.591 and SD= 0.4965) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses. Lastly, it has been agreed by respondents that Financing decision plays a great role in contributing to Operating cash flow.

**Table 4:** Respondents' responses on the Effect of Risk management as financial management practice on performance of the SACCOs in Musanze District. (n=60)

Effect of Risk management on performance of the SACCOs	Mean	SD	Interpretation
Risk management affects positively the SACCO's Profitability	4.002	0.1444	Agree
Risk management affects positively the SACCO's Bad debt recovery.	4.103	0.1723	Agree
Risk management affects positively the SACCO's Return on Assets	4.999	0.1212	Agree
Risk management affects positively the SACCO's Return on Equity	4.911	0.1081	Agree
Risk management affects positively SACCO's Operating cash flow	4.807	0.1115	Agree

**Source: Primary data, 2021**

Analysis from the table above, respondents have agreed with the statements as per Means interpretations and all Mean are between 4.3-5 as follows: Risk management affects positively the SACCO's Profitability (Mean=4.002 and SD=0.1444) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, Risk management affects positively the SACCO's Bad debt recovery (Mean =4.103 and SD= 0.1723) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, Risk management affects positively the SACCO's Return on Assets (Mean=4.999 and SD= 0.1212) this shows that there is very high mean and strong evidence of the existence of the fact and homogeneity of responses, Risk management affects positively the SACCO's Return on Equity (Mean =4.911 and SD= 0.1081) this shows that there is very high mean and strong evidence of the existence of the fact and heterogeneity of responses, Risk management affects positively SACCO's Operating cash flow (Mean=4.807 and SD=0.1115) this shows that there is very high mean and strong evidence of the existence of the fact and heterogeneity of responses.

#### **Relationship between Financial management practices and financial performance.**

This section aims to establish and show how strongly the two variables, which are Financial management practices and financial performance are related to each other and how is the degree of association of these variables.

**Table 5:** Correlation Matrix showing the relationship between Financial management practices and performance.

		Financial management practices	Performance
Financial management practices	Pearson Correlation	1	.995**
	Sig. (2-tailed)		.000
	N	60	60
Performance	Pearson Correlation	.995**	1
	Sig. (2-tailed)	.000	
	N	60	60

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

From the table above, Pearson correlation coefficient, ( $r=0.995$ ) shows that there was a very high positive and significant relationship ( $\text{sig}=0.000$ ) between Financial management practices and performance. This positive relationship indicates that a directional change in the independent variable (Financial management practices and performance) lead to the same directional change in the dependent variable (performance).

**Coefficients showing the influence of Financial management practices and financial performance.**

The table below will show and identify how independent variables influence depend variables.

**Table 6:** Multiple Regression analysis showing the influence of Financial management practices and financial performance.

Model	Un-standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Constant	4.421	0.89		0.648	0.000
Working capital management	3.199	0.361	0.381	0.375	0.000
Investment decision	3.175	0.348	0.67	0.355	0.000
Financing decision	2.554	0.651	0.426	0.276	0.000
Risk management	2.363	0.647	0.432	0.234	0.001

a. **Dependent Variable:** Performance

b. **Constant(Predictors)** Working capital management, Investment decision, Financing decision, Risk management

From the regression findings, the substitution of the equation ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$ ) becomes:

$$Y = 4.421 + 3.199 X_1 + 3.175 X_2 + 2.554 X_3 + 2.363 X_4$$

Where Y is the dependent variable (Performance), X<sub>1</sub> is working capital management, X<sub>2</sub> is investment decision, X<sub>3</sub> is Financing decision and X<sub>4</sub> is the Risk management.

According to the equation, taking all factors (Working capital management, Investment decision, Financing decision, Risk management) constant at zero, influence of financial

management practices on the performance of Musanze district SACCOs will be 4.421. The data findings also show that a unit increase in working capital management, variable will lead to a 3.199 increase in financial management practices on the performance of SACCO; a unit increase in investment decision will lead to a 3.175 increase in financial management practices on the performance of SACCOs; a unit increase in Financing decision will lead to a 2.554 increase in financial management practices on the performance of SACCOs and a unit increase in Risk management will lead to a 2.363 increase in financial management practices on the performance of SACCOs. This means that the most significant factor is working capital management.

#### **4. Conclusion**

The purpose of the study was to examine effect of management practices on firm performance of small and medium enterprise(s) in Musanze District. Based on research findings, the study concludes that working capital management is positive and significantly correlated with performance of SACCOs in Musanze district. The SACCOs adopted working capital management system including Preparation of cash flow forecasts to identify future surpluses and deficits, ensuring there is sufficient cash flow to meet daily needs, maintains proper records for all and receivables and payables, maintains inventory records which are updated regularly. The study also concludes that the financial management practices is positive and significantly correlated with performance of Musanz edistrict SACCOs. Similarly, regarding the objective II, investment decision, the study concludes that there is strong positive effect of investment decision on performance. Furthermore, the study reveals that Financing decision and risk management have the greatest contribution to the performance of SACCOs. Finally, the study findings concluded that there is a great effect from financial management practices to the performance.

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