


Influence of Financial Management Competencies on Small Medium Enterprise Creation in Awka South Local Government Area

Samuel Ogbara^{1*}, Chinedu Chukwunwa²

Department of Entrepreneurship Studies, Nnamdi Azikwe University Awka, Nigeria^{1*,2}

Article Info	ABSTRACT
<p>Corresponding Author: Samuel Ogbara E-mail: sam.ogbara@gmail.com</p>	<p>This paper examined the influence of financial management competencies on small medium enterprise creation in Awka South Local Government Area. The paper used descriptive research design with population of 1453 of owners and employees in SMEs in Anambra State. The study adopted Taro Yamane's formula to determine a sample size of 314. Direct method of data collection was in data collection. Chi-square analysis was used to test the hypothesis of the study at 5% level of significant. The study showed that financial management help SMEs to develop the ability to determine profit of a particular period, prepare sales, cash and production budget, and keep accurate financial records. The study recommended that entrepreneurs should endeavour to go for financial management as this help them to develop the ability to determine profit of a particular period.</p> <p>Keywords: Entrepreneur, Entrepreneurial Competencies, financial management, Small Medium Enterprise</p>

This is an open access article under the [CC BY-NC](https://creativecommons.org/licenses/by-nc/4.0/) license



INTRODUCTION

The reports of Nigeria Bureau of Statistics (2020) stated that SME sector is the backbone of major developed economies, as well as important contributors to employment, economic and export growth. In South Africa, SMEs account for 91% of businesses, 60% of employment and contribute 52% of total GDP. In Nigeria, SMEs contribute 48% of national GDP, account for 96% of businesses and 84% of employment. More so, according to the reports, small and medium scale enterprises (SMEs) in Nigeria have contributed about 48% of the national GDP in the last five years. With a total number of about 17.4 million, they account for about 50% of industrial jobs and nearly 90% of the manufacturing sector, in terms of number of enterprises. However, it appears many of the SMEs owners seem to lack the required entrepreneurial competencies that strengthened businesses for competitiveness both locally and globally. Sadly, it seems the owners of SMEs do not understand the efficacy of entrepreneurial competency for business sustainability.

Entrepreneurs are expected to possess entrepreneurial competencies such as financial competencies which becomes necessary so as to reduce unemployment and poverty within the society. The managerial competencies are the tactics for effective management of

human and materials inputs in order to account for maximum output in an organization. Nwachukwu (2019) described management as the coordination of all resources of an organization through the process of planning, organizing, directing and controlling in order to attaining organization objectives. Financial management is another competency that helps in managerial competencies.

Financial management competency, according to Saberi and Hamdan (2018) is a skill that enhances individual's ability to deal with task such as, unit budget preparation and control, cost containment, cost benefit analysis and productivity measure enable one to understand the financial matter of an organization. It involves where to find capital, how to secure it, how to plan cash flow, how to keep effective financial and how to foresee future financial needs. However, in handling financial management competency, marketing skills are also important because it is a skill that helps to be successful as an entrepreneur. However, these competencies are some of the skills SMEs are expected to possess to survive in a competitive business environment like Awka South Local Government Area of Nigeria.

In Awka South Local Government Area, the business environment is becoming ever more complex and technological driven, big companies like those in the manufacturing industry among others are becoming more creative and innovative to 'intimidate the little companies in SMEs' but without being competent the growth of any SME business will be truncated (Uzohuo, 2020). In view of that, to diminish the negative consequence of the challenging business environment, it is important that the owners of SMEs act proactively within the business environment.

The application of entrepreneurial competencies is expected to be one of the success factors for the creation of small and medium enterprises in Awka south Local Government Area (Nwachukwu, 2019). However, from the researcher's observations and preliminary research, it seems many of the owners of SMEs do not have positive mindset expected for the successful creation of small and medium enterprise. It also seems that some of the individuals do not possess the required entrepreneurial competencies such as managerial, financial and marketing competencies for job creation and business competitiveness. This might be one of the reasons that despite SMEs contributing more in the GDP of the economy, many of the SMEs do not last beyond five years thereby adding to the unemployment in the country (Abiodun & Ajayi, 2018). More worrisome is the seemly scarcity of studies on effect of entrepreneurial competencies on job creation in Awka South Local Government Area of Anambra State. It is in line with this that the researcher tends to examine the financial management competencies on small medium enterprise creation in Awka South Local Government Area.

METHOD

Literature Review

Entrepreneurship

Okpara (2018) defines entrepreneurship as the willingness and ability of an individual to seek out investment opportunities in an environment and be able to establish and run an enterprise successfully based on the identifiable opportunities. In addition, Nwachukwu (2019) regards entrepreneurship as a process of seeing and evaluating business opportunities, gathering the necessary resources to take advantage of them and initiate

appropriate action to ensure success. Also, entrepreneurship, according to Ademiluyi (2020) is a practical creativeness which combines resources and opportunities in new ways. It involves the application of personal qualities, finance and other resources within the environment for the attainment of business success.

Ighalo (2021) as well, perceived entrepreneurship as the process of using available capital in any form for business endeavours in an open and free-market economy for the sole purpose of doing new things within a new philosophy of values and purpose; of utility, quality and use which satisfies needs. From the perception of Udeh (2018), entrepreneurship consists of generating business ideas, identifying investment opportunities, making decisions towards exploiting the opportunities, formulating organizational objectives, conducting market research and surveys, combining service resources, establishing an enterprise, starting the business, distributing and promoting the organization's products and services; organizing the human and material resources for the attainment of the objectives of the enterprise, as well as bearing risks and uncertainties, innovations and diversifications.

Small and Medium Enterprises

Small and medium enterprises (SME) were first introduced into the development scene in the late 1940s, with the primary goal of improving trade and industrialisation in today's industrialized countries (Uzohuo, 2021). The definitions of SME are usually derived in each country, based on the role of SME in the economy, policies and programs designed by particular agencies or institutions empowered to develop SME. For instance, a small business in the developed economies of countries like Japan, Germany and United States of America (USA), may be a medium or large-scaled business in a developing economy like Nigeria. Moreover, the definition of SME also varies overtime from agencies or developing institutions to another, depending on their policy focus.

The above variation notwithstanding, SME can be defined based on certain criteria including, turnover, number of employees, profit, capital employed, available finance, market share and relative size within the industry. The definition can be based on either some quantitative or qualitative variables. Quantitative definitions mainly express the size of enterprises, mainly in monetary terms such as turnover, asset value, profit, as well as quantitative index like number of employees. As examples, the 1975 companies Act in the United Kingdom stated that an enterprise with a turnover of less than £ 1.4 million was small, those with turnover between £1.4 and £5.7million were medium, while those enterprises having turnover above £5.7 million were large (Nigeria Bureau of Statistics, 2020).

Table 1. Classification adopted by National Policy on MSMEs

Size	Employment	ASSETS (Naira, million) (excluding land and buildings)
Micro enterprises	Less than 10	Less than 10 Million
Small enterprises	10 – 49	10 Million – less than 100Million
Medium enterprises	50 – 199	100 Million – less than 1Billion

Source: National Policy on MSMEs, 2019

It also went further to classify the enterprises based on number of employees – those with fewer than 50 workers being small, between 50 and 250 workers being medium and those employing above 250 workers were described as being large. Similarly, the European

Union (EU) in 1995, defined SME as any enterprise employing less than 250 employees, and went further to break down the SME into micro (less than 10 employees, small (from 10 to 49 employees) and medium (between 50 to 249 employees).

Financial Management Competencies and Small and Medium Enterprise Creation

There is hardly any sphere of life where the knowledge of financial management competency is not required. Indeed, it may not be an exaggeration to say that everyone practices financial management. The implication of the above assertion is that we all use financial management competency techniques (budgeting, recording of financial transactions and so on) and financial management information in our daily lives. However, it is in the realm of business that financial management appears to be most popular. Frank (2021) opines that recording is the language of business as it is used in the business world to describe the transaction and communicate to interested parties after analysis and interpretation from transaction entered into by all kinds of organisations.

Adeosun (2019) states that users of financial information such as shareholders, employees, labour leaders, internal revenue services, researchers, creditors, auditors and so on, make use of financial statements prepared by company directors. Students must plan to use their resources (which are scarce) to meet their endless list of wants. This would call for budgeting and planning. Government at different levels – local, state and federal (especially in a democracy) would have to report on their stewardship to the electorates. This would warrant preparation of financial statements showing if revenue received has been utilized properly.

In view of that, Adetifa, Ajileye and Oluwasanmi (2021) define financial management competency as the art of recording, classifying and summarizing in a useful manner and in monetary terms, transactions and events which are of financial character and the subsequent interpretation. Also, Osuwa (2021) observes that financial management competency is the process by which data relating to economic activities of an organization are measured and recorded. Okoli (2019) defines financial management competency as the process of recording, classifying, selecting, measuring, interpreting, summarizing and reporting financial data of an organization to the users for objective assessment and decision making. In summary, financial management competency is a service activity and its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.

Financial management competencies provide quantitative financial information about economic entities to statement users so that they could make informed judgement and better decision (Okoli, 2019). In that regard, Azih (2019) defines financial management competencies as the capabilities of recording, classifying, summarizing, analysing and interpreting financial transactions and communicating the results thereof to interested users. It equips the recipients with saleable skills that prepare them for dual jobs. However, students of the accounting programme can either teach accounting subjects or serve as accounting officers in various public and private parastatals.

Azih (2019) further states that the technological change in the storage and retrieval of financial information in organizations has affected the demands from accounting education graduates which involves adequate knowledge of the skills in storage and provision of information to the interested users in a paperless office. Also, Ehiamezor (2018) stated that financial management competencies help business education students in:

- Management of personal finances
- Making relational economic choices
- Investing wisely both in consumable items and non-immediate consumable item; and
- Reconciling one's assets and liabilities.

Okpan (2019) identifies some financial management competencies required by SMEs owners such as ability to keep accurate financial records, ability to understand ways of recording business transactions, ability to be acquainted with new trends as regards accounting role in the business world, ability to handle the various books of accounts and ability to interpret financial reports. In the same vein, Ekwue and Udoye (2018) identify the following accounting skills relevant to Business Education graduates:

- Ability to keep and control stocks
- Ability to avoid unplanned expenditure
- Ability to determine profit of a particular period
- Ability to find out sources of capital to start business
- Ability to improve as well as develop basic skills in arithmetic
- Ability to understand ways of recording business transactions
- Ability to keep accurate financial records
- Ability to be acquainted with new trends as regards accounting role in the business world.

Theory of Entrepreneurship

Schumpeter (1991) propounded the Schumpeterian theory of entrepreneurship. The theory states that creativity or innovation is the key factor in any entrepreneur's field of specialization. He argued that knowledge can only go a long way in helping an entrepreneur to become successful. He believed development as consisting of a process which involved reformation on various equipment of productions, outputs, marketing and industrial organizations. Schumpeter (1991) perceives the entrepreneur as a person who conceives and executes "new combinations" of factors in production and, thus, plays a key role in the market and economic development processes. Schumpeter is regarded as the father of entrepreneurship and innovation because of his contribution to the entrepreneurship theory (Garba, 2020).

In relation to this study, Schumpeter saw entrepreneurship from the angle of innovation and how it has assisted man to achieve new products or services into economy. However, this is one of the objectives of entrepreneurship, which develops the SMEs owners in many ways like managerial, marketing, and financial management competencies. These skills and competencies have helped many entrepreneurs to startup their businesses and those working with organization to become innovative in overcoming business risk and making profits from their businesses and other organizations. This theory helps SMEs owners to be creative in handling managerial, marketing, and accounting skills in growing their businesses and as well create more SMEs in the state.

Empirical studies

Nwokike, Ezeabii, and Jim (2018) conducted a study in the South East States of Nigeria to determine how entrepreneurial competencies could be an indispensable tool for achieving managerial competencies in SMEs owners. A survey research design was used for

the study. The population comprised 148 SMEs operating in Enugu States of Nigeria. A self-structured questionnaire developed by the researchers and carefully validated by the experts in the Faculty of Education of Enugu State University of Science and Technology was used for data collection. Mean and Standard deviation were used to answer the two research questions that guided the study while t-test hypothesis was used to test the hypotheses at 0.05 level of significance. The result of the study showed that SMEs owners were able to acquire competencies that gave them the ability to plan, organize and manage small scale or medium scale business; source for funds for the running of a small scale business; develop skills of keeping accounting records of small-scale business; supervise and coordinate of both human and material resources; and develop broad-based investment planning and implementation skills.

Okoro (2019) examined the impact of entrepreneurial competencies on marketing and accounting skills in in Imo State. Descriptive survey design was adopted for the study. The population, also used as the sample, consisted of 388 SMEs operating in Imo State, Nigeria. The questionnaire was adequately validated by experts in Business Education and measurement and evaluation. The internal consistency of the instrument was determine using Cronbach alpha with a reliability coefficient of 0.93 was used for data collection. The mean and standard deviation were used to answer the research questions while Z-test was used to test the hypotheses at 0.05 level of significance. The result revealed that SMEs owners were able to handle marketing skills such as marketing identifying the needs of consumers; planning and developing a product or service that satisfies those wants; and determining the best possible price to promote and distribute that product or service thus identifying, anticipating, and satisfying customer requirements. The study also found that these SMEs owners were able to acquaint with new trends as regards accounting role in the business world, determine where and when to invest, and acquaint with new trends in relation to accounting concepts and convention with the financial management skills.

Research methods

The study adopted descriptive survey design. The research design establishes the structure of the study, the method and procedure used for writing and analyzing the needed data (Nwogu, 2019). The population of the study comprised owners and employees in SMEs in Anambra State. According to the researcher carried in Corporate Affairs Commission (CAC) in Awka shows that registered SMEs distributed across Anambra State as at the time of carrying out this study were about 161. Therefore, the working population of these 161 SMEs was 1453. Taro Yamane's formula was applied to get 314 arrived as sample size. Simple random sampling technique was used in selecting the sample from the population of the study. This is because the population comes from a particular Awka South Local Government Area of Anambra State while the sample size was determined using Taro Yemane's formula as sampling technique. The chi-square statistical tools were used to test the hypotheses at 5% levels of significant between the observed and expected frequency.

RESULTS AND DISCUSSION

Data Presentation And Analysis

Analysis of Questionnaire Distribution and Respondents Characteristics

The analyses of the questionnaire and respondents' characteristics are analysed below:

Table 2. Questionnaire Distributions

Number of Questionnaire	No. of Questionnaire Distributed	No. of Questionnaire Returned	No. of Questionnaire Used for the Study
313	310	308	300
100%	99.04%	98.40%	95.85%

Source: Field Survey, 2021

Table 2 showed that the study has 313(100%) of questionnaire to be distributed. At the field of study, 310(99.04%) of the questionnaire were distributed while 308(98.04%) of the questionnaire were returned after the distribution. After strict monitoring and the filling of the copies of the questionnaire, 300(95.85%) of the copies of the questionnaire that were fully and properly filled were used for the study.

Table 3. Gender Distribution of Respondents

Categories	No of Respondents	Percentage (%)
Male	158	52.67
Female	142	47.33
Total	300	100

Source: Field survey, 2021.

Table 3 shows the gender distribution of the respondents. The result revealed that 158(52.67%) were male and 142(47.33%) were female. This implies that majority of the respondents were male.

Table 4. Educational Level of Respondents

Educational Level	No of Respondent	Percentage
FSLC	10	3.33
WASC/GCE	40	13.33
OND/NCE	53	17.67
BSc/HND	67	22.33
Master's Degree	86	28.67
PhD	44	14.67
Total	300	100

Source: Field Survey, 2021

The table 4 shows that 10(3.33%) have FSLC, 40(13.33%) were WASC/GCE holders, 53(17.67%) were OND/NCE holders, 67(22.33%) have BSc. Qualifications, 86(28.67%) have Master's degree and 44(14.67%) have PhD qualifications. This implies that the highest level of education attained by the respondents is Master's Degree.

Table 5. Age Distribution of Respondents

Age Interval	Frequency	Percentage
--------------	-----------	------------

18 – 25years	95	31.67
26 – 35 years	118	39.33
36 – 45 years	55	18.33
46years & Above	32	10.67
Total	300	100

Source: Field survey, 2021.

Table 5 shows the age distribution of the respondents. The result reveals that 95(31.67%) of the respondents were between the ages of 18-25 years, 118(39.33%) were between the ages of 26 – 35 years, 55(18.33%) of the respondents were between the ages of 36 - 45 years old, and 32(10.67%) were between the ages of 46 years old and above. This implies that people selected were adults; this was purposeful, as they are expected to have requisite information and knowledge about the subject of study.

What is the effect of financial management competencies on small and medium enterprise creation in Awka South Local Government Area?

Table 6. Mean scores of the effect of financial management competencies on small and medium enterprise creation in Awka South Local Government Area

S/N	Items	SA	A	D	SD	U	T	\bar{X}	Decision
	Financial Management Competencies:	5	4	3	2	1			
1	Financial management help SMEs to develop the ability to determine profit of a particular period	131 (655)	153 (612)	13 (39)	2 (4)	1 (1)	300 (1311)	4.37	Agreed
2	SMEs are able to prepare sales, cash and production budget	104 (520)	127 (508)	32 (96)	19 (38)	18 (18)	300 (1180)	3.93	Agreed
3	SMEs are able to keep accurate financial records	85 (425)	138 (552)	51 (153)	19 (38)	7 (7)	300 (1175)	3.92	Agreed
4	SMEs are able to undertake simple audit and manage it properly	118 (590)	120 (480)	38 (114)	15 (30)	9 (9)	300 (1223)	4.08	Agreed
5	SMEs are able to interpret simple financial statements	124 (620)	139 (556)	18 (54)	14 (28)	5 (5)	300 (1263)	4.21	Agreed

Source: Field Survey, 2021.

Table 6 shows the mean scores of the effect of financial management competencies on small and medium enterprise creation in Awka South Local Government Area. The results revealed that items 1, 2, 3, 4, and 5 have mean scores of 4.37, 3.93, 3.92, 4.08, and 4.21 respectively. This showed that all the mean scores of the items 6 to 10 were above the decision point of 3.00; hence, they were agreed. The responses of the respondents indicated that financial management competencies have the ability of assisting small and medium enterprise creation in Awka South Local Government Area.

Testing of Hypothesis

H₀: Financial management competencies do not have significant effect on small and medium enterprise creation in Awka South Local Government Area

H₁: Financial management competencies have significant effect on small and medium enterprise creation in Awka South Local Government Area

Table 7. Testing Financial management competencies do not have significant effect on small and medium enterprise creation in Awka South Local Government Area

Responses	No. of Respondents	Percentage (%)
Strongly Agreed	131	43.67
Agreed	153	51
Disagree	13	4.33
Strongly Disagreed	2	0.67
Undecided	1	0.33
Total	300	100

Extracted from table 6

Using extracts from table 6 since it is in relation to research hypothesis two, research hypothesis two would be tested as thus:

Table 8. Chi-Square Table Testing Hypothesis Two

Responses	F _o	F _e	F _o - F _e	(F _o - F _e) ²	$\frac{(F_o - F_e)^2}{F_e}$
Agreed	131	60	71	5041	84.01667
Strongly Agreed	153	60	93	8649	144.15
Disagreed	13	60	-47	2209	36.81667
Strongly Disagreed	2	60	-58	3364	56.06667
Undecided	1	60	-59	3481	58.01667
Total	300				379.0667

Calculated $X^2 = 379.0667$

Expected Frequency is gotten as follows: $\frac{300}{5} = 60$

Critical value of X^2 with a degree of freedom of 4 and level of significant of 0.05 is 9.488.

Decision

The calculated chi-square of 379.0667 is far greater than the critical value of 9.488. Therefore, the null hypothesis is rejected. The alternative hypothesis is accepted. Thus,

financial management competencies have significant effect on small and medium enterprise creation in Awka South Local Government Area.

Discussion of Findings

The results of test of hypothesis two indicated that financial management competencies have significant effect on small and medium enterprise creation in Awka South Local Government Area. The responses of the respondents from the questionnaire also indicated that financial management competencies have the ability of assisting small and medium enterprise creation in Awka South Local Government Area. Financial management help SMEs to develop the ability to determine profit of a particular period, prepare sales, cash and production budget, keep accurate financial records, undertake simple audit and manage it properly, and interpret simple financial statements. These abilities of financial management competencies contribute to the creation of more small and medium enterprises. In agreement with these findings, Ehiametalor (2018) found that financial management competencies help SMEs owners to develop skills of keeping accounting records of small-scale business; supervise and coordinate of both human and material resources; and develop broad-based investment planning and implementation skills.

CONCLUSION

The study concluded that financial management help SMEs to develop the ability to determine profit of a particular period, prepare sales, cash and production budget, keep accurate financial records, undertake simple audit and manage it properly, and interpret simple financial statements. Recommendations : Entrepreneurs should endeavour to go for financial management as this help them to develop the ability to determine profit of a particular period

REFERENCES

- Abiodun, T. & Ajayi, A. (2018). Entrepreneurs' problem-solving styles: An empirical study using the Kirton adaption/innovation theory. *Journal of Small Business Management*, 31(1), 22.
- Ademiluyi, L. Y. (2020). *Entrepreneurship Education and training*. England: Ashgate Publishing Limited.
- Adeosun, E. (2019). The impact of stressors on organisational commitment of managerial and non-managerial personnel in contrasting economies: Evidences. *International Journal of Business*, 23(2), pp. 152-168.
- Adetifa, U., Ajileye, B., & Oluwasanmi, G. (2021). Gender Employment Longevity: I.T staff response to Organisational Support Programme. *International Journal of Academic Research in Business and Social Science (IJ-ARBSS)*, 4(12), 324-347.
- Azih, C. (2019). Developing the entrepreneurial skills of farmers: some myths explored. *International Journal of Entrepreneurial Behaviour & Research*, 12(1), pp. 21.
- Ehiametalor, T. (2018). Crafting a competitive advantage: tempering entrepreneurial action with positioning-based values. *Qualitative Market Research: An International Journal*, 7(3), 172-182.

- Ekwue, T. & Udoeye, M. (2018). Personal characteristics, business relationships and entrepreneurial performance: Some empirical evidence. *Journal of Small Business and Enterprise Development*, 21(2), 284-300.
- Frank, T. (2021). Examining the relationship between customer and entrepreneurial orientation on nascent firms' marketing strategy. *International Entrepreneurship and Management Journal*, 8(2), 203-222.
- Ighalo, T. (2021). Market orientation and business performance: A framework for service organizations. *European Journal of Marketing*, 36(9/10), 1154-1163.
- Nigeria Bureau of Statistics (2020). SMEs in Nigeria. Available at: www.stats.ng.com
- Nwachukwu, D. (2019). *On the principles of political economy and taxation*. London: John Murray.
- Nwogu, (2019). Research method. *International Entrepreneurship and Management Journal*, 8(2), 203-222.
- Nwokike, S., Ezeabii, A., & Jim, S. (2018). The promise of managerial competencies of entrepreneurship as a field of research. *Academy of Management Review*, 11, 448-469.
- Okoli, S. (2019). Entrepreneurial marketing: a comparative study. *The Service Industries Journal*, 33(7-8), 705-719.
- Okoro, H. (2019). Personality Traits on Entrepreneurial Intention. *Procedia-Social and Behavioral Sciences*, 229, 12-21.
- Okpara, K. (2018). Micro credit and promotion of small and medium enterprises in information sector of Ghana: Lessons from experience. *Asian Economic and Financial Review*, 4, 768-780.
- Osuwa, B. (2021). An empirical investigation of entrepreneurial marketing dimensions. *Journal of International Marketing Strategy*, 3(1), 1-18.