# Managers' Extent of Utilization of Financial Reporting and Analysis Practices For the Success of Small and Medium Scale Enterprises in Delta State

**ARHUEREMU, M. Veronica**
**Department of Office Technology and Management,**
**Delta State Polytechnic, Ogwashi-Uku**
**+2348148092055**
**iwuruvera20@gmail.com**

## Abstract

The study determined managers' extent of utilization of financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State. Descriptive survey research design was adopted. The population of the study comprised 4970 SME managers in Delta State. The sample for the study consisted of 357 SME managers drawn from the population. This number was arrived at using the sample size determination from Table of Krejcie and Morgan (1970). A structured and validated questionnaire containing 10 items on a five-point rating with reliability co-efficient of 0.73 obtained with Cronbach alpha formula was used for data collection. The researcher administered the instrument with the help of three research assistants to the respondents. Mean and standard deviation were used to answer the research question and determine the homogeneity or otherwise of the respondents while t-test was used to test the null hypothesis. The findings of the study revealed that managers slightly utilized financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State. There is no significant difference in the mean ratings of managers on the extent they utilized financial reporting and analysis practices for the success of SMEs in Delta State based on years of business existence. The study concluded that SME managers in Delta State will not able to verify levels of success of their investment because of their inability to utilized financial reporting and analysis practices to measure the true financial performance and growth of their businesses. It was recommended that Institute of Chartered Accountants of Nigeria (ICAN) and Association of National accountants of Nigeria (ANAN) should embark on massive financial reporting and analysis practices training for SME managers to help them utilized relevant financial reporting and analysis documents to help them determine the success of their businesses in Delta State.

**Keywords: Small and medium scale enterprises, SME managers, SME success, Financial reporting and Analysis practices**

## Introduction

There is no universal definition of small and medium enterprises (SMEs) due to the numerous perceptions and benchmarks used by scholars on what should constitute a SME. This is because different countries have different criteria depending on the developmental status of their economies and the size of their population (Al-Tlt, Omri & Euchi, 2019). In Nigeria, the Small and Medium Enterprises Development Agency of Nigeria (2016) defined SMEs using dual criteria of number of employees and assets base with three classifications as follows: (a) Micro Enterprises: These are enterprises whose total assets (excluding land and

buildings) are less than N5m with a workforce not exceeding 10 employees; (b) Small Enterprises: These are enterprises whose total assets (excluding land and building) are above N5m but not exceeding N50m with a total workforce above 10 but not exceeding 49 employees; (c) Medium Enterprises: These are enterprises whose total assets (excluding land and building) are above N50m, but not exceeding N500m with a total workforce of between 50 and 199 employees.

One of the enterprising solutions to the reduction of poverty in less developing nations is the establishment of SMEs. Onyesom (2019) submitted that SMEs are business outlets that contributors to economic development through their critical role in providing job opportunities, reducing poverty level, nurturing the culture of entrepreneurship and enhancing the general standard of living of the individuals and society. Okello (2022) averred that SMEs usually require small offices with minimal paper preparations with few business resources and employees to stay in business. In the context of this study, small and medium scale enterprises are flexibility business ventures, operating in small capacities within any economy and providing jobs and income to families. Small and medium scale enterprises are important stakeholders of Nigeria's private economy. The Small and Medium Enterprises Development Agency of Nigeria (2016) submitted that SMEs contribute 48 percent of national GDP, account for 96 percent of businesses, 84 percent of employment, account for about 50 percent of industrial jobs and nearly 90 percent of the manufacturing sector, in terms of number of enterprises.

That is why the business operations of SMEs in Delta State cut across wholesale trade, retail trade, food vendors, hair dressing, barbering salons, clothing and tailoring shops, carpentry and furniture shop, logistic services, beauty and body spa business as well as restaurant business among others. They open business operations quite early and close late in urban and semi-urban areas. Small and medium scale enterprises are usually under the control and leadership of managers. Managers of small and medium scale enterprises are individuals with entrepreneurial mindset to do business. They act as business administrators who are responsible for the managerial role of small and medium scale enterprise, with the chief responsibility of implementing business strategies that can increase operational efficiency of their enterprises (Chavez, 2016). Accordingly, Staniewski and Awruk (2016) posited that SMEs managers are individuals with specialized managerial skills who are after the productivity and effective performance of enterprises under their control in the marketplace. Managers of small and medium enterprises are entrepreneurs who are sensitive to their

environment to see opportunities or challenges and turn them around to make a difference toward economic and social benefits (Rauf, 2016).

The creative idea and innovation of setting up a small and medium enterprise emanates from an entrepreneur who, in the context of this study, is a SME manager. The extent to which SME managers are able to display their managerial function goes a long way in determining the success of their SMEs in the midst of cut-throat competition in the business environment of Delta State. SMEs success is very important because it reflects the productive performance of SME managers over a period of time. The concept of SMEs success is perhaps subjective as some researchers advocate the use of financial measures like increased profit, positive sales turnover and high return on investment (Kotane & Kuzmina-Merlino, 2017), while some others support the relevance of non-financial measures like corporate image, brand reputation and customer base to define success of small and medium scale enterprises (Ahmad & Jamil, 2020). Alsaaty and Makhlouf (2020) defined SMEs success as the ability of an enterprise to sustain business activities and financial performance beyond 5 years and longer. SMEs success is the maintenance of a business venture in the marketplace with economic and financial progress over a period of time (Rodrigues, Franco, Silva & Oliveira, 2021).

In the context of this study, the ability of SMEs to record better financial position and remain competitive in the ever changing business environment without liquidation is SMEs success. Analytically, the success of SMEs can be numerically ascertained from their financial reporting and analysis practices. Financial reporting and analysis are accounting practices that show the enterprise's level of financial strength in terms of its liquidity and profitability ratio. According to Boame, Solace and Issaka (2014), financial reporting and analysis is a standard accounting practice that uses financial statements to disclose a firm's financial information and performance over a particular period, usually on an annual or quarterly basis. Financial reporting and analysis is a method of reviewing and analyzing the accounting books of a business enterprise in order to gauge its past, present or projected future performance (Rathnasiri, 2014).

It is through financial reports and analysis practices that potential investors and commercial banks will decide if can invest or loan money to SMEs. Abdille (2016) averred that financial reporting and analysis practices are vital accounting tools that informs business stakeholders especially the external providers of capital on how the business is performing in the business environment. Hence, Katisme (2016) averred that following financial reporting and analysis practices entails the keeping of income statement, balance sheet and statement of

cash flow. Statement of cash flow describes the inflow and the outflows of cash. The income statement reports revenue and expenses during a certain period of time. The balance sheet report the total assets, liabilities and owner's equity during a certain period of time. Correspondingly, Akumfi, Yeboah, Otoo and Mensah (2019) submitted that financial reporting practices include bank reconciliation statement, statement of retained earnings, profitability ratio, efficiency ratio and liquidity ratio among others.

As managers are at the helm of the management of SMEs, their decisions to utilize financial reporting and analysis practices could be influenced by their years of business existence. Years of business existence refers to the number of years that a SME has been operational in the marketplace. In this study, years of business existence are categorized within two brackets; 0-9 years and above 9 years). This categorization is based on the premise that most SMEs fall within the first nine years of existence and it takes 10 years and more to build successful business firms in Nigeria (Lagos Business School, 2021). It is assumed that SME managers with less than 10 years of business existence do not have the industry experience to utilize financial reporting and analysis practices for SMEs success and unlike their counterparts with 10 years and more of business existence in the business environment. However, this assertion needs to be supported by empirical evidence in Delta State. Set against this context, this study sought to determine managers' extent of utilization of financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State.

**Statement of the Problem**

Small and medium scale enterprises are primary vehicles for individuals to provide the economy with continuous ideas of innovation that can generate economic growth and employment. Most of the SMEs in Nigeria and Delta State in particular are involved in processing and manufacturing of food items, consumer and household goods and textiles and related products. They also engaged in palm oil, soft drinks, processed products, noodles, biscuits and mineral water businesses. Despite the importance of SMEs to the economic transformation of individuals and the nation at large, SME managers in the Delta State are finding it quite difficult to sustain their businesses in the competitive business environment.

From literature gathered, there is a report that 80 percent of SMEs in Nigeria collapse within the first five years of operation and their survival rate is close to zero within the first nine years (Lagos Business School, 2021). The problem of the study is that SME managers in Delta State will not be able to ascertain the real value of capital invested, total expenditure and income generated in their businesses, if they failed to utilize financial reporting and

analysis practices in running their business enterprises in the competitive marketplace. This notwithstanding, very little attention has been paid by researchers on managers' extent of utilization of financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State. This is the gap, this study sought to fill.

**Purpose of the Study**

The purpose of this study was to determine managers' extent of utilization of financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State. Specifically, the study sought to ascertain the extent:

1. Managers' extent of utilization of financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State.

**Research Question**

The following research question guided the study:

1. To what extent do managers utilized financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State?

**Hypothesis**

1. There is no significant difference in the mean ratings of SME managers in Delta State on the extent they utilized financial reporting and analysis practices for the success of small and medium scale enterprises based on years of business existence (0-9 years and 10 years and above)

**Method**

The study adopted descriptive survey research design. Descriptive survey research design makes it possible for the researcher to sample SMEs managers' opinions on financial reporting and analysis practices utilize for SMEs success. The population of the study comprised 4970 managers of the small and medium enterprises in Delta State as at April 2024. This information was obtained at the Ministry of Commerce and Industry, Asaba. The sample for the study consisted of 357 managers of SMEs drawn from the population. This number was arrived at using the sample size determination from Table of Krejcie and Morgan (1970).

However, for the purpose of this study, Delta State was divided into three strata according to senatorial districts. The SMEs were stratified according to senatorial districts and the samples were obtained from each of the three strata using proportionate stratified random sampling technique. The proportionate stratified random sampling technique was chosen because it ensured fair representation of each sample relative to the population. Thus, a proportion of 0.072 was derived by dividing the sample with the population (357÷4970)

and the proportion was used to multiply each of the stratum's population to select a sample of 128 SME managers from Delta North Senatorial District, 146 from Delta Central Senatorial District and 83 from Delta South Senatorial District

A structured and validated questionnaire containing 10 items on a five-point rating scale of Very Highly Utilized (VHU), Highly Utilized (HU), Moderately Utilized (MU), Slightly Utilized (SU) and Not Utilized (NU) was used for data collection. The reliability of the instrument was determined through a trial testing. Copies of the instrument were administered to 15 managers of SMEs in Edo State who were not part of the research population. Cronbach alpha was used to measure the internal consistency which yielded reliability co-efficient of 0.73. Copies of the questionnaire were administered to the respondents by the researcher and three research assistants who were graduates residing within the locations of the study. Out of 357 copies of the questionnaire administered, 321 (90%) were successfully completed and collected from the respondents. Thus, data analysis was based on the 321 copies that were successfully completed and collected.

Mean and standard deviation were used to answer the research question and determine the homogeneity or otherwise of the respondents' views. Decisions on the research question were based on the grand mean in relations to the real limits of numbers. Therefore, items with mean ratings of 1.00 - 1.49 are rated Not Utilized, those with 1.50 - 2.49 are Slightly Utilized, items with mean ratings of 2.50 - 3.49 are rated Moderately Utilized, those with 3.50 - 4.49 are rated Highly Utilized and items with mean ratings of 4.50 - 5.00 are rated Very Highly Utilized. Inferential statistics of t-test was used to test the null hypotheses at 0.05 level of significance. The null hypothesis was accepted where the p-value is greater than the alpha level of 0.05 ($p > 0.05$), at an appropriate degree of freedom; otherwise, the null hypothesis was rejected. Data collected was analysed using SPSS version 23.0.

## Results

### Research Question 1

To what extent do managers utilized financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State?

**Table 1**

**Respondents' mean ratings on extent they utilized financial reporting and analysis practices for the success of SMEs in Delta State**

| S/N | Extent of utilization of these financial reporting and analysis practices | $\overline{X}$ | SD | Remarks |
|---|---|---|---|---|
| 1 | Trading account (records the gross profit made from sales) | 3.96 | .64 | Highly Utilized |
| 2 | Profit and loss account (records the net income or loss after expenses) | 4.57 | .90 | Very Highly Utilized |
| 3 | Balance sheet (records all the assets, liabilities and owner's capital in the business) | 2.31 | .72 | Slightly Utilized |
| 4 | Statement of cash flow (records all the cash coming and going out of the business) | 4.00 | .57 | Highly Utilized |
| 5 | Statement of retained earnings (records the opening balance and closing balance of owner's capital in the business) | 2.08 | .83 | Slightly Utilized |
| 6 | Bank reconciliation statement (records summary of the bank balance and book balance of the business) | 1.93 | .69 | Slightly Utilized |
| 7 | Profitability ratio (records the percentage of profits remaining after taxes and all costs) | 1.87 | .93 | Slightly Utilized |
| 8 | Liquidity ratio (records amount of money used to meet the short-term debt of the business) | 1.20 | .55 | Not Utilized |
| 9 | Efficiency ratio (records the amount of credit debts collected in the business) | 1.14 | .86 | Not Utilized |
| 10 | Leverage ratio (records amount of money used to meet the long-term debt of the business) | 1.17 | .61 | Not Utilized |

Data in Table 1 show that one out of the 10 listed financial reporting and analysis practices with mean rating of 4.57 was very highly utilized by respondents while two practices were highly adopted with mean rating of 3.96 and 4.00. Four practices were slightly utilized with mean ratings ranging from 1.87 to 2.31 while three practices were not utilized with mean ratings ranging from 1.14 to 1.20. The cluster mean of 2.42 indicates that managers slightly utilized financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State. The standard deviations for the items are within the same range which shows that the respondents are homogeneous in their opinions.

**Hypothesis 1**

There will be no significant difference in the mean ratings of SME managers in Delta State on the extent they utilized financial reporting and analysis practices for the success of small and medium scale enterprises based on years of business existence (0-9 years and 10 years and above)

**Table 2: Summary of t-test analysis of mean ratings of respondents on the extent they utilized financial reporting and analysis practices for the success of SMEs in Delta State based on years of business existence**

| Variable | N | $\overline{x}$ | SD | df | t-value | p-value | Decision |
|---|---|---|---|---|---|---|---|
| 0 – 9 years | 208 | 41.68 | 6.59 | 319 | 1.06 | 0.82 | Not Significant |
| 10 years and above | 113 | 35.92 | 5.03 | | | | |

Table 2 shows that there is no significant difference in the mean ratings of managers on the extent they utilized financial reporting and analysis practices for the success of SMEs in Delta State based on years of business existence. This is shown by the p-value of 0.82, which is greater than the significance level of 0.05. The null hypothesis of no significant difference between the two groups is therefore accepted

**Discussion of Findings**

The findings of the study revealed that managers slightly utilized financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State. This finding supports, Uddin, Biswas, Ali and Khatun (2017) which reported that income statement, cash flow statement, balance sheet, and other financial reporting and analysis practices are utilized at a low extent by SME managers. The researcher is of the opinion that SME managers in Delta State do not know the importance of using financial reporting and analysis practices in determining the profitability of their business operations in the marketplace. This study reported that financial reporting and analysis practices such as liquidity ratio, efficiency ratio, leverage ratio, profitability ratio, statement of retained earnings, bank reconciliation statement and balance sheet were not highly utilized by managers of SMEs in Delta State. The finding of this study corresponds with Katisme (2016) who discovered that SME managers utilized financial reporting and analysis to a low extent. A possible explanation for managers' slight utilization of financial reporting and analysis practices for the success of small and medium scale enterprises in Delta State could be

attributed to their inability to employ professional accountants to determine the liquidity ratio, efficiency ratio, leverage ratio and profitability ratio of their businesses.

The study further revealed that there is no significant difference in the mean ratings of managers on the extent they utilized financial reporting and analysis practices for the success of SMEs in Delta State based on years of business existence. This finding means that SME managers, irrespective of their years of business existence share the same position regarding their extent of utilization of financial reporting and analysis practices for the success of SMEs in Delta State. This is in agreement with Okoli and Okeke (2018) which revealed that SME managers, irrespective of their years of business existence did not significantly differ in their mean ratings on the extent they utilized financial reporting and analysis practices in their businesses. The researcher believed that SME managers in Delta State are ignorant of the value of utilizing financial reporting and analysis practices and have negative perception that it is waste of time and resources to set up finance and accounting unit with qualified staff to take care of financial reporting and analysis practices considering the scale of their operations in the business environment. This assertion is validated by the findings of Obeki and Bila (2018) which revealed that majority of SME managers do not have in-depth educational knowledge of accounting to determine the liquidity ratio, efficiency ratio, leverage ratio and profitability ratio of their business firms.

**Conclusion**

Financial reporting and analysis practices are specialized accounting records that contain necessary accounting information needed by SME managers to make sound financial decisions that can determine the sustainability of their enterprise. It is argued that most SMEs are operating on a small scale but this does not mean that their managers should neglect the importance of financial reporting and analysis practices for the success of their businesses in the competitive business environment. Based on the findings of the study, it is concluded that SME managers in Delta State will not able to verify levels of success of their investment because of their inability to utilized financial reporting and analysis practices to measure the true financial performance and growth of their businesses.

**Recommendations**

Based on the findings of the study and conclusion drawn, the following recommendations are made:

1. Institute of Chartered Accountants of Nigeria (ICAN) and Association of National accountants of Nigeria (ANAN) should embark on massive financial reporting and analysis practices training for SME managers to help them utilized relevant financial

reporting and analysis documents to help them determine the success of their businesses in Delta State.

2. Managers of SMEs should hire professional accountants to help them keep financial reporting and analysis practices in order to ascertain the true financial performance and success their business enterprises.
3. Managers of SMEs should undertake technical seminars and workshops to improve their awareness and knowledge of financial reporting and analysis practices. This would encourage them to make use of financial reporting and analysis practices in their business to have a better view of the success of their businesses in Delta State.

**References**

Abdille, O.B. (2016). *The extent of adoption of financial accounting standards and its effect on financial performance of small and medium enterprises in Nairobi County, Kenya*. Unpublished masters' thesis, Department of Finance and Accounting, School of Business University of Nairobi

Ahmad, N.N., & Jamil, N.N. (2020). Measuring the financial and nonfinancial performance of micro-enterprise in Pahang, Malaysia. *International Journal of Academic Research in Business and Social Sciences, 10*(10), 706-717.

Akumfi, C.A., Yeboah, S.K., Otoo, B., & Mensah, J. (2019). *The use of computerize base accounting software by SMEs in Kumasi on financial reporting and performance.* Unpublished bachelor dissertation, College of Humanities and Social Sciences, Kwame Nkrumah University of Science and Technology

Alsaaty, F., & Makhlouf, H. (2020). The rise and fall of small business enterprises. *Open Journal of Business and Management*, *8*, 1908-1916.

Al-Tlt, A., Omri, A., & Euchi, J. (2019). Critical success factors of small and medium sized enterprises in Saudi Arabia: Insights from sustainability perspective. *Administrative Sciences,* 9*,* 1-12.

Boame, I., Solace, K., & Issaka, S. (2014). Adoption of accounting practices and its effects on SMEs: The financial perspective of sachet water producers in the Northern Region of Ghana. *Research Journal of Finance and Accounting, 5*(17), 166-179

Chavez, J. (2016). *The personality characteristics of an entrepreneur and their effects on the performance of a new business venture*. Unpublished Bachelor's Thesis, Metropolia University of Applied Sciences, Helsinki.

Katisme, N. (2016). *Accounting practices and performance of small and medium enterprises: A case of Mukono central division*. Unpublished masters' thesis, Faculty of Business and Administration, Uganda Christian University, Uganda

Kotane, I., & Kuzmina-Merlino, I. (2017). Analysis of small and medium sized enterprises' business performance evaluation practice at transportation and storage services sector in Latvia. *Procedia Engineering, 178*, 182-191

Krejcie, R.V., & Morgan, D.W. (1970). Determining sample size for research activities. *Educational and Psychological Measurement,* 30, 607–610.

Lagos Business School (2021). Why SMEs fail and its impact on national development. https://www.lbs.edu.ng/lbsinsight/why-smes-fail-and-its-impact-on-national-development/

Obeki, S.O., & Bila, B. (2018). Income statement preparation by small and medium enterprises. *Accounting & Taxation Review, 2*(2), 43 – 56

Okello, A. (2022). The effect of record-keeping on financial performance of small and medium scale enterprises in Lira City, Uganda. *International Journal of Research and Innovation in Applied Science*, *7*(5), 44 – 53

Okoli, C.I., & Okeke, S.I. (2018). Extent owners of small and medium scale enterprises adopt suitable financial management practices for business success in Anambra State, Nigeria. *International Journal of Scientific and Research Publications, 8*(6), 154 – 158

Onyesom, M. (2019). *Assessment of application of working capital management practices by small and medium enterprises for improved performance in Delta State*. Unpublished Doctoral Dissertation, Department of Technology and Vocational Education, Nnamdi Azikiwe University, Awka

Rathnasiri, U.A.H.A. (2014). Financial reporting practices of small and medium enterprises (SMES) In Sri Lanka. *South East Asia Journal of Contemporary Business, Economics and Law, 4*, 15- 23

Rauf, A.L. (2016). Financial management practices in small and medium sized enterprises: Empirical evidence from the district of Ampara in Sri Lanka. *International Journal of Economics, Business and Management Studies, 3*(3), 117–126.

Rodrigues, M., Franco, M., Silva, R., & Oliveira, C. (2021). Success factors of SMEs: Empirical study guided by dynamic capabilities and resources-based view. *Sustainability 2021,* 13, 12301

Small and Medium Enterprises Development Agency of Nigeria (2016). *The national policy on micro, small and medium enterprises.* Abuja: SMEDAN.

Staniewski, M and Awruk, K. (2016). Start-up intentions of potential entrepreneurs– the contribution of hope to success. *Economic research-Ekonomskaistraživanja, 29*(1), 233-249

Uddin R, Biswas, T, Ali, J., & Khatun, M.S. (2017). Accounting practices of small and medium enterprises in Rangpur, Bangladesh. *Journal of Business and Financial Affairs, 6*(4), 1 – 7