

## Assessment of Financial Management Practices on Performance of Manufacturing Small to Medium Enterprises (SMEs) in Harare Metropolitan Province, Zimbabwe BY

Dr Collen Kajongwe (Phd)

Manicaland State University of Applied Sciences, Guthrie Road-Off Vumba Road Private Bag 7001, Fernhill, Mutare.



### Article History

Received : 16/01/2022

Accepted : 21/02/2022

Published : 23/02/2022

### Corresponding author:

Dr Collen Kajongwe (Phd)

### Abstract

The study evaluated the effect of financial management practices on performance of selected manufacturing Small to Medium Enterprises in Zimbabwe. SMEs are the fulcrum of economic growth globally contributing greatly to economic development. However the growth of SMEs financially is retarded measured on Return On Investment (ROI), Return On Equity and poor service delivery. The study adopted quantitative research approach rooted in Positivism research Philosophy. Correlational and survey research design were adopted in this study. The Population of the study comprised of 300 registered manufacturing SMEs in Harare Metropolitan Province, Zimbabwe. Using the 10% Basic rule Thumb, the sample size taken was 30 comprising of SMEs owner managers and senior employees. Probability sampling method was used to ensure that the sample being studied was representative of the population of interest. Questionnaires were data collection instruments used in this study. Data collected was presented using Tables, Numbers, Percentages, Graphs and Figures. The data attained were analysed using descriptive statistics. Quantitative data was uploaded on Statistical Package for Social Sciences (SPSS) version 21 for analysis. Analysis was done using non parametric Test and cross tabulation. Study results indicated that financial planning improves the Return On Investment (ROI) of manufacturing SMEs, accounting information systems in Zimbabwe help manufacturing SMEs increase productivity and that financial analysis helps manufacturing SMEs in Zimbabwe improve their Return On Asset (ROA). The study further recommended financial management courses to be done by SMEs entrepreneurs so as to enhance financial management skills to keep the organisations going. Longitudinal research on accounting practices and its impact SMEs performance need to be done so much that skills honed in such practices could be used to enhance performance.

**Key Words:** Financial practices, manufacturing, Performance, SMEs, Zimbabwe.

### Introduction and Background of the Study

Small to Medium Enterprises (SMEs) are widely regarded as veritable engines of economic growth around the world (International Labour Organization (ILO), 2019). SMEs are responsible for the majority of net job creation, contributing significantly to productivity and economic growth; they are the logical 'kick-start' mechanism for job creation and future prosperity in most countries (ILO, 2019) and poverty alleviation (Berry et al, 20120).

According to (Sarapaivanich, 2017), SMEs frequently face accounting and financial management issues as a result of insufficient financial reporting practices, such as poor record-keeping and inefficient use of accounting information to make sound financial decisions, as well as the low quality and unreliability of financial data. Furthermore, proper record keeping and accounting practices aid in making sound economic decisions for the success of small businesses. Accounting information that is inaccurate or poorly recorded causes SMEs to overestimate their financial situation. In the worst-case scenario, SMEs must fail and may go bankrupt. These impending issues make it difficult to raise

funds or borrow money. Financial reporting entails communicating financial information to management and other stakeholders about the performance of the business over a specified time period. It assists management, investors, and other stakeholders in making sound financial decisions. The International Accounting Standards Board requires SMEs to prepare financial statements such as a Statement of Financial Position, a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows, and notes to the Financial Statements (Dawuda & Azek, 2015).

Financial management entails the planning, organizing, directing, and controlling of financial activities such as enterprise fund procurement and utilization (Ross, Westerfield & Jaffe, 2019). A company's financial management functions include investment decisions, financial decisions, and dividend decisions (Marx, De Swardt, Beaumont-Smith, Naicker & Erasmus, 2014). While investment decisions are concerned with the purchase of fixed assets or capital budgeting, financial decisions are concerned with the acquisition of funds from various sources; dividend decisions are concerned with profits and the proportion that should be retained in a business to finance development and growth, including the proportion that may be distributed to the owners. SMEs, which are frequently owned and managed by the owners, has been found to be flexible in decision-making but lacking in internal financial expertise (Berry et al, 2016). In SMEs, the informality of bookkeeping and accounting information can complicate and lengthen decision-making (Perren and Grant, 2020). SME owners are frequently viewed as "jacks of all trades," as they are involved in all key business functions such as marketing, human resource management, operations, public relations, and financial management. While all of these functions are important, this study focuses on financial management.

According to Jayansakaran (2019), the survival and growth of SMEs are propelled by financial management practices, which are viewed as deciding factors. According to a study conducted by the International Finance Corporation (IFC, 2019), those involved in the management of SMEs are aware of the importance of accounting information and use it for a variety of purposes when it is available. Padachi (2019) defines financial management as having both internal and external aspects. Internally, it is concerned with the implementation and management of an accounting system, as well as the generation of information for decision-making purposes. Externally, it is concerned with attracting sufficient financial resources. Efficient financial management practices are critical in SMEs because they provide a historical analysis of the business's performance, which can then be used to forecast potential future performance. According to Vijayakumar (2019), optimal use of financial management practices could boost SMEs' growth and contribute to the overall improvement of the economy, as well as the achievement of the government's development and promotion strategy's objectives (Department of Trade and Industry, 2018).

There is a substantial body of literature on the use of financial management practices by large corporations (Pullen and Cooley, 2019, Lee and Filbeck, 2020). However, research on the

application of financial management by SMEs is limited, particularly in developing countries like Zimbabwe. As a result, the purpose of this research is to look into the usefulness and application of these techniques by SMEs in Zimbabwe.

### Statement of the Problem

SMEs are widely regarded as the world's most powerful engines of economic growth. Despite the fact that SMEs contribute significantly to many countries' GDP growth, they do not perform well in terms of profitability, Return On Investment (ROI), Return On Equity (ROE), and service quality. However, there is a paucity of research on the impact of financial management practices on the performance of manufacturing SMEs in Zimbabwe, which is what this study aimed to fill.

### Research objectives

1. To assess the impact of financial management practices on the performance of manufacturing SMEs in Harare Metropolitan Province Zimbabwe.

### Research Hypotheses

**H<sub>1</sub>:** Financial planning improves the Return On Investment (ROI) of manufacturing SMEs.

**H<sub>2</sub>:** Accounting information systems in Zimbabwe help to manufacture SMEs increase productivity.

**H<sub>3</sub>:** Financial analysis helps to manufacture SMEs in Zimbabwe improve their Return On Asset (ROA).

### Methodology

The study adopted a quantitative research approach rooted in Positivism research Philosophy. Correlational and survey research designs were adopted in this study. The Population of the study comprised 300 registered manufacturing SMEs in Harare Metropolitan Province, Zimbabwe. Using the 10% Basic rule Thumb, the sample size is taken was 30 comprising of SMEs owner-managers and senior employees. The probability sampling method was used to ensure that the sample being studied was representative of the population of interest. Questionnaires were data collection instruments used in this study. Data collected was presented using Tables, Numbers, Percentages, Graphs, and Figures. The data attained were analyzed using descriptive statistics. Quantitative data was uploaded on Statistical Package for Social Sciences (SPSS) version 21 for analysis. Analysis was done using a non-parametric Test and cross-tabulation.

### Theoretical Framework

The study is based on the theory of Pecking Order. According to the pecking order theory of capital structure, firms prefer a particular hierarchy for financing decisions. The highest priority should be given to internal financing (retained earnings and depreciation effects) before resorting to any form of external financing. Internal funds are not subject to flotation costs and do not require additional disclosure of proprietary financial information, which could result in tighter market discipline and a possible loss of competitive advantage. If a business must borrow money from outside sources, the preferred order of financing sources is debt, convertible securities, preferred stock, and common stock (2018, Myers). This hierarchy reflects the financial manager's motivations to retain control of the firm (since the only

common stock has a "voice" in management), minimize equity's agency costs, and avert the seemingly inevitable negative market reaction to an announcement of a new equity issue. 2019 (Hawawini and Viallet).

Two critical assumptions about financial managers are implicit in pecking order theory. The first is asymmetric information or the probability that a firm's managers are more knowledgeable about the company's current earnings and future growth prospects than outside investors. There is a strong desire to maintain the confidentiality of such information. The use of internal funds relieves managers of the obligation to disclose publicly the company's investment opportunities and the potential profits associated with them. The second premise is that managers will act in the best interests of current shareholders. The managers may even forego a positive net present value project if it requires the issuance of new equity, as this would transfer a large portion of the project's value to new shareholders at the expense of existing shareholders (Myers and Majluf, 2016).

Pecking order theory is critical for explaining changes in capital structure. By including a discussion of pecking order theory in the capital structure unit, financial managers are exposed to a breadth of theory and practice, allowing them to gain a better understanding of how critical financing decisions are made. Along with the traditional discussion of the impact of taxes, financial distress, and agency costs on capital structure decisions, Pecking order theory enables financial managers to gain insight into the impact of management motivations and market perceptions on these decisions. Additionally, incorporating pecking order theory into the fundamental discussion of capital structure provides another opportunity for critical thinking. For instance, a financial manager can demonstrate how the debt ratios of leading companies in specific industries differ from the industry averages to which the majority of companies are typically compared during cross-sectional financial analysis.

#### Review of Related Literature

1. The impact of financial management practices on performance of manufacturing SMEs in Harare Metropolitan Province Zimbabwe

Akande (2011:372) reaffirmed the importance of accounting and financial management planning for SMEs and advised small business owner-managers to invest in capacity building in these areas. According to Roodt (2015:18), financial skills are among the top skills entrepreneurs cite as necessary for business success. Financial management is a critical management skill for SME owners because it touches every aspect of the entrepreneurial venture (Watson, 2014:88). Financial management entails reducing costs, increasing profits, and planning and controlling the firm's financial assets (Bloom & Boessenkool, 2012:244). Collis and Jarvis (2012:100) examined small businesses' use of financial information in the United Kingdom and discovered that the majority of small businesses employ formal planning and control practices. Everett and Watson (2018:372) argued that without adequate funding and financial planning skills, SMEs cannot succeed.

Schwarze (2008) recommends that SMEs acquire financial management skills that aid in short-term decision-making in order to survive. Similarly, Gitman (2010) defines short-term planning for small businesses as consisting of two components: profit planning and cash flow planning. Profit forecasting entails forecasting revenue and expenses, whereas cash flow forecasting entails forecasting cash flows. Thus, there is no doubt that targeted financial education programs can assist entrepreneurs in developing and improving long-term strategic approaches to business financing, increasing their understanding of the economic and financial landscape relevant to their business, identifying and approaching financiers and investors, and comprehending and managing risks associated with various financial instruments (Kirsten, 2013).

According to the literature, AIS can effectively enhance strategic competitiveness (LangfieldSmith, 2019). Bouwens and Abernethy (2019) investigated the role of AIS in strategic managerial decisions, as well as the properties of AIS in relation to several strategic priorities. They also examined the impact of AIS on an organization's success by considering the various aspects of AIS in relation to distinct strategic directions. According to Chenhall (2016), different AIS designs hold different organizational strategic directions, resulting in improved overall organizational performance (OP). Increased resource allocation in AIS results in a more streamlined and strong organizational culture, which aids the company in dealing with changing business conditions (Al-Najjar, 2017). In fact, AIS is a system that uses an organization's financial data, combining various accounting methods and tools with various methods using IT to track interior and exterior publishable data, financial reports, and trend analysis to forecast an organization's performance (Grande, Estébanez, & Colomina, 2011).

Furthermore, AIS has the potential to help businesses improve their performance. According to a study conducted by Ismail (2009), the AIS has a vital role in facilitating company performance growth (E. Harash, 2015). Such results can be obtained and maintained if businesses are proactive in responding to environmental changes, notably the information technology revolution. According to this study, AIS improves competitiveness by enhancing corporate record-keeping oversight and improving the identification of changing business contexts. In recent years, IT has become such an integral part of the majority of businesses' operations that it is now nearly impossible to obtain a competitive advantage and maintain market dominance without it. Harash (2015) remarked in this regard that the AIS is the most widely used information system in any organization, notably for financial reporting.

D'Amboise and Gasse (2016) investigated the adoption of formal management practices in 25 Canadian SMEs and discovered that 88 percent of them employed a cost accounting system. In terms of accounting standards, DeThomas and Fredenberger (2015) reported that the standard of financial record-keeping was very high in a survey of over 360 small businesses in Georgia. A total of 92 percent of respondents had some type of record keeping in addition to cheque and deposit receipts. According to DeThomas and Fredenberger's (2015) study, 96 percent of respondents had financial statements created, with the duty for analyzing and

applying the information resting with the business itself, and only four percent relying on an outside accountant.

The financial reporting system of an entity is critical for ensuring that the SME's economic resources are used efficiently and effectively to achieve its objectives. As a result, there are unique needs in developing SMEs for financial analysis abilities that allow financial statements to be read and understood, regardless of whether they contain historical or projected information (McMahon, 2016).

According to Eloho (2016), accounting information misuse, poor record-keeping, lateness, and inaccuracy causes SME financial situations to be erroneously assessed and unwise financial decisions to be made. SMEs encounter numerous challenges in order to succeed and obtain cash or borrow money as a result of these problems. In the worst-case scenario, this industry could end up failing and going bankrupt. As a result, SMEs are unable to function effectively. As a result, SMEs should be concerned about financial reporting, which involves the creation and use of financial reports such as the statement of financial position, statement of comprehensive income, cash-flow statement, and statement of changes in equity. The relationship between Financial Reporting

Practices and the financial success of small and medium enterprises in Zimbabwe is little understood.

The importance of financial reporting and analysis was investigated by Abusomwan and Oghogho (2016), who discovered that these procedures are weak and poor among SMEs. Financial reports are used seldom, which can be linked to SMEs' inability to hire skilled managers with a functional specialty in the financial field due to their limited financial resources. Without effective and adequate financial reporting and analysis practices, SMEs lose out on opportunities such as improved ability to predict fortunes or failures, improved monitoring of financial health and progress, greater ease in financial planning and control, and better assessments of financial risks. The creation and use of financial reports such as the statement of financial position, the income statement, and the cash-flow statement are the major concerns in SME financial reporting procedures.

**Results and Discussion**

**Response Rate Analysis**

The presentation in Table 1.1 entails the response rate analysis in the research study. As indicated in Table 1, of the 30 questionnaires administered taken from the study sample 17% were not returned whilst 83% were returned

Table 1.1: Response rate analysis

Description	Number of questionnaires administered	Number of questionnaires administered and returned	Percentage of response rate (%)
SMEs owner-managers and senior employees	30	25	83

Source: Survey (2021)

A high response rate was an indication of the importance of the matter to respondents in SMEs. According to Bates (2019), a high (or “acceptable”) study response rate is important to ensure the study results are representative of the target sample and that the researcher’s research instrument is performing as intended. Bell (2019) alluded that the survey response rate lends credibility to the research and the subsequent results. A low response rate may undermine the statistical ability of the collected data and in turn, dilute the reliability of the results. However, the study response rate falls within the acceptable range for the survey response rate to claim congruent results.

**Categories of SMEs**

The results of the study as indicated in Table 6 show diverse SMEs under study. SMEs in flour mills were 24 %, SMEs in furniture manufacturing were 60% and those in detergents were 16%.

Table 1.2: Categories of SMEs

Type of SMEs	Frequency	Percent
Flour mills	6	24
Furniture	15	60
Detergents	4	16
Total	25	100

Source: Survey (2021)

Categories of SMEs shown in this study imply that SMEs have a major role in development in the Zimbabwean economy. Findings from this study show that there are more manufacturing SMEs in the area under study illustrating the potential SMEs have within the context of Zimbabwe to contribute to economic growth. Table 1.3 shows the level of education of respondents under study.

**Level of education of respondents**

Study results demonstrated the educational qualifications of respondents as highlighted in Table 1.3. Respondents who attained General Degrees without any other further academic qualifications were the majority with a 72% margin while 20% respondents had attained Masters Degree. Respondents with other qualifications had an 8% margin.

Table 1.3: Showing distribution of participants by qualifications

Qualifications	Frequency	Percentage %
General Degree	18	72
Masters Degree	5	20
Other	2	8
<b>Total</b>	25	100

Source: Field data (2021)

Study results indicated that respondents had attained diverse professional qualifications to support the claim of the study. According to Dowel and Purcell (2018) in the face of a competitive business environment globally, employee professional qualifications remain the driving edge that gives most organizations leverage in attaining relative performance. According to Akinwunmi and Adeyanju (2019), education is a priceless asset of fundamental value to the individual and society. It provides a sound basis for individuals to develop their potentialities. According to human capital theory (Mincer, 1962; Becker, 1962), education and training bring benefits in higher productivity. The theory predicts that workers bear the costs of “general” educational and vocational training as they are the sole beneficiary of this training. Numerous researchers and experts have been occupied with understanding the connection between education and performance at work. Education was found to advance center task performance by giving people explanatory and procedural information with which they can finish their tasks effectively (Ng and Feldman, 2019).

**Descriptive statistics**

This section presented study results based on research objectives. The descriptive statistical results for all of the study's constructs, including arithmetic means (M) and standard deviations, are presented in this section (SD). The standard deviation (SD) indicates how stable the response distribution around the average is. As a result, the data is easier to comprehend when the mean and SD are combined. The answer points on the scale used in the study were as follows: 1. To an extreme degree, 2. To a certain extent, to a smaller extent. Descriptive analysis is used to present the maximum value, minimum value, standard deviation, and mean of the dependent variable and independent variable. The maximum value indicates the highest value of the sample while the minimum value states the lowest value of the sample. Standard Deviation shows how data spread from its mean value and mean value shows how the data are situated. Table 8 show descriptive statistics of study variables.

**Table 1.4: Descriptive Statistics**

Descriptive Statistics	Number	Minimum	Maximum	Mean	Std. Deviation
Financial Performance	25	1.00	5.00	2.9861	1.27354
Reporting Practices	25	1.00	4.00	2.1056	1.11729
Management Practices	25	1.24	4.65	3.0674	0.93394
Analysis Practices	25	1.20	4.80	3.2764	0.64012
Valid N Listwise	25				

Source: Survey (2021)

Financial performance has a mean value of 2.9861 with a maximum of 5.00 and a minimum of 1.00 which leads to a moderate level. The standard deviation of the financial performance shows a value of 1.27 which means there is no greater spread in the data, which directs that the used data set was effective and or no more errors occurred within because the accepted theoretical threshold level of standard deviation should lie in between -3 to +3. Reporting practices vary between 1.00 to 5.00 with the mean and standard deviation values 12 of 3.11 and 1.21 respectively. The mean value is greater than 3, thus it is highly satisfactory. The standard deviation of reporting practices is also within the standard range between -3 to +3. Therefore, the data set of this variable is also free from errors.

**Test of Reliability**

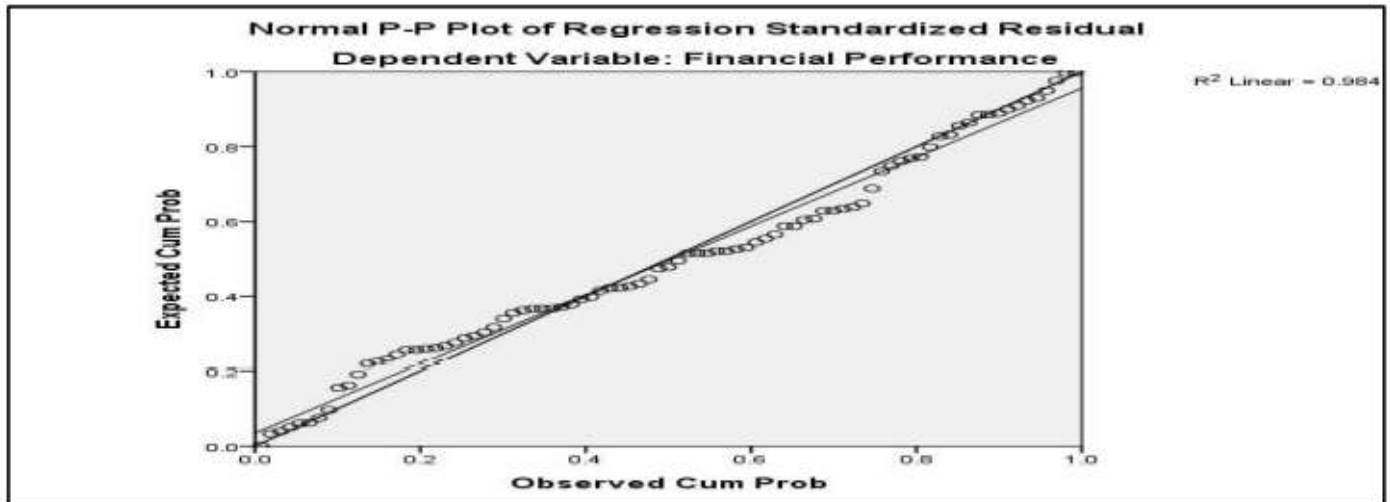
**Table 1.5: Reliability Test**

Variable	No. of Items	Cronbach's alpha
Financial Performance	2	0.954
Reporting Practices	6	0.982
Management Practices	4	0.827
Analysis Practices	4	0.512
Inventory Management Practices	5	0.760

Source: Survey (2021)

The reliability of a measure is established to test both consistency and stability of the data set. Consistency indicates how well the items measuring the concept hang together as a set. The reliability is measured through Cronbach's alpha and it is a reliability coefficient that indicates how well the items in a set are positively correlated to one another.

**Test of Normality**



**Figure 1.1: Test of Normality**

Source: Survey (2021)

To test the normality of residuals, a histogram, normal probability plot, and scatterplot can be used. In this study, residuals were used to test normality and the results were indicated by scatter plot as shown in Figure 1.1.

**The effect of financial planning practices on performance of manufacturing SMEs in Zimbabwe.**

**Table 1.6: The effect of financial planning practices on the performance of SMEs in Zimbabwe.**

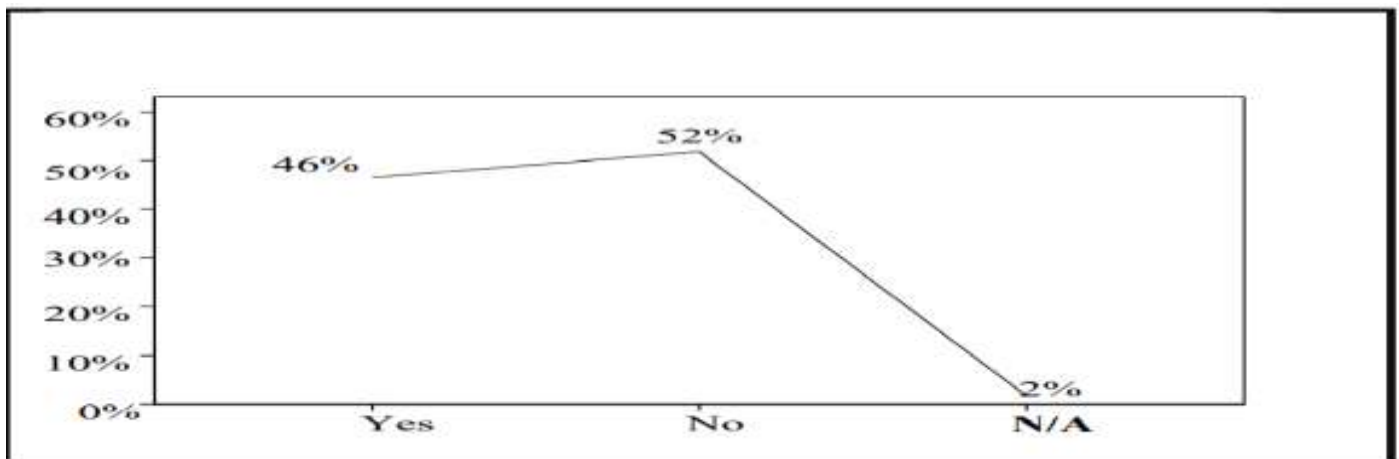
Factor	Response	Frequency	%response	Mean, $\mu$	Standard Deviation, $\sigma$
--------	----------	-----------	-----------	-------------	------------------------------

Increases Margin	Gross	Extreme extent	15	60	3.2010	0.24322
		Certain extent	5	20		
		Lesser extent	5	20		
		Total	25	100		
Increase Net Margin		Very large extent	20	80	4.5222	0.3172
		Large extent	4	16		
		Less extent	1	4		
		Total	25	100		
Increases Return On Equity		Very large extent	8	32	4.2234	1.2127
		Large extent	10	40		
		Less extent	7	28		
		Total	25	100		

Source: Survey (2021)

The study results indicate that financial planning practices increase the Gross Margin of manufacturing SMEs in Zimbabwe as indicated by Mean ( $\mu$ ) 3.2010 and Standard Deviation ( $\sigma$ ) of 0.24322. SMEs Net margins are said to be increased by the adoption of financial planning practices as shown by Mean ( $\mu$ ) 4.5222 and Standard Deviation ( $\sigma$ ) of 0.3172. Study results also verified the assertion that financial practices in SMEs increase Return On Equity as shown by Mean ( $\mu$ ) of 4.2234 and Standard Deviation ( $\sigma$ ) of 1.2127 (Refer to Table 1.6). A net margin is a result of income-less expenses of the business. It is through the statement of financial performance that the profit or loss is determined in the business. Despite respondents regarding this measure as significant towards the success of the business, it is still a concern that some respondents took it as contributing less to the financial growth of SMEs when measuring their profit or losses.

**The effect of accounting information system on the performance of manufacturing SMEs in Zimbabwe.**



**Figure 1.2: Effect of accounting information systems on performance of manufacturing SMEs in Zimbabwe**

Source: Survey (2021)

Study results shows 52% of the SMEs having stated that, they did not have a person responsible for bookkeeping in their enterprises, whilst 46% stated that they did have a person responsible for bookkeeping in their enterprises. Two percent of the SMEs were not free to provide any information on this particular question. This shows that SMEs lack the required expertise needed in the use of accounting practices. Padachi (2011) suggest that the main factors that contribute to the success or failure of small business are categorized as internal and external factors. The internal factors include managerial skills, workforce, accounting systems, and financial management practices. The accounting department is generally viewed as a service unit to support the firm’s operations by providing information on costs and performance indicators.

**The extent to which financial analysis and reporting are used to improve the performance of manufacturing SMEs in Zimbabwe.**

This section shows the extent to which financial analysis and reporting are used to improve the performance of manufacturing SMEs in Zimbabwe as indicated by Return on Assets (ROA), Return on Equity (ROE), and Return on Investments (ROI). The parameter coefficients between the explanatory and described variables clarified the relationship. The coefficients show the strength and direction of the relationships, as well as whether they are positive, weak, or negative. As seen in the findings of this research, the greater the values, the better the relationship, and the lower the coefficient is a symbol of a weak relationship. The positive sign suggests a positive relationship and the reverse is shown by the negative.

**Table 1.7: Correlation Coefficient between Variables**

Variables	ROA	ROE	ROI
Financial Analysis	1.123456	0.223432	1.262322
Financial Reporting	-1.244531	-1.426364	-0.013436

Source: Survey (2021)

The study's findings, as shown in Table 10, show that financial analysis and financial reporting has a positive effect on ROE, ROE and ROI. This proved by Bowman (2019) who asserted that the predictable higher capital ratios encourage entities to invest in safer assets, such as human capital which may affect their performance positively.

**Correlation Analysis and Hypotheses Testing**

The correlation analysis describes the correlation of each variable with other variables including the dependent variable. Therefore, the correlation matrix is advantageous to the researcher to identify initially whether there is a relationship with each variable and a relationship between each dependent variable and independent variables. The correlation value of -1 represents a complete negative relationship while +1 represents a perfect relationship between variables.

**Correlation Analysis Between Financial Reporting Practices and Financial Performance**

**Table 1.8: Correlation Analyses between financial planning and ROA**

Correlations	Financial Performance	ROA
Financial Planning	Pearson Correlation 1	.679**
	Sig.(2-tailed)	.000
N	25	25

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

Source: Survey (2021)

According to study results as shown in Table 1.8 Pearson Correlation is 0.679 suggesting that there is a significant relationship between financial planning practices and ROA of manufacturing SMEs in Zimbabwe. The probability of occurring correlation between independent and dependent variables is determined by looking at the level of significant value and it should be less than 0.005 at a 95% confidence level to be accepted advanced hypotheses. Hence correlation coefficient of this study is attained by the significance value of 0.001 at 99% of a confidential level. Therefore the founded correlation coefficient is 0.000, statistically significant. Thus, the researcher can accept the Hypothesis (H1A) is that there is a significant relationship between financial reporting practices and the financial performance of SMEs.

**H<sub>1</sub>:** Financial planning positively improves the Return On Investment (ROA) of manufacturing SMEs in Zimbabwe.

**Table 1.9: Correlation Analyses between Accounting systems and Productivity**

Correlations	Financial Performance	Productivity
Accounting Systems	Pearson Correlation 1	.527**
	Sig.(2-tailed)	.000
N	25	25



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

Source: Survey (2021)

**H<sub>2</sub>:** Accounting information systems positively improve the productivity of manufacturing SMEs in Zimbabwe.

There is a positive relationship between Accounting Systems and the productivity of manufacturing SMEs.

**Table 1.10: Correlation Analysis between Accounting systems and Productivity**

Correlations		Financial Performance	ROA
Financial Analysis	Pearson Correlation	1	.436**
	Sig.(2-tailed)		.000
	N	25	25

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

Source: Survey (2021)

**H<sub>3</sub>:** Financial analysis positively improves on Return On assets (ROA) of manufacturing SMEs in Zimbabwe.

**Conclusions and Recommendations**

The finding demonstrated that most SMEs pay more attention to the preparation and monitoring of financial statements there is a high importance on the preparation and monitoring of the cash flows of the businesses. But there is a significant portion of manufacturing SMEs in Zimbabwe, kept inadequate financial records and maintained inappropriate financial reporting practices and informal accounting systems because of this SMEs have to face many difficulties and to keep financial records properly which negatively impact on performance. Based on the study findings, the following recommendations were made:

1. Courses offered by business support organizations should be developed and tailored to suit the needs of SMEs owners in specific sectors.
2. Higher education institutions offering entrepreneurship or business-related modules should place more emphasis on financial management topics targeted at SMEs rather than large businesses.
3. For those higher education institutions offering financial management courses, the following topics, in particular, should receive more attention: the role of finance in the business; the income statement and balance sheet; cash budgets; operating budgets; and understanding interpretation of financial statements.

The study suggests that future studies should include (i) more cases and (ii) other less researched practices, such as working capital budgeting, management accounting, and financial analysis.

This would then enable results to be generalized, to provide a better and more detailed picture of which practices are followed by SMEs

**References**

1. Abanis, T., Sunday, A., Burani, A., and Eliabu, B. (2013), 'Financial management practices in small and medium enterprises In selected districts in Westem Uganda', *Research Journal of Finance and Accounting*, Vol 4, No 2, pp 29-42.
2. Abdullah, F., Hamali, J., Deen, A.A., Saban, G., and Abg Abdulrahman, A.Z. (2009), 'Developing a framework

- of success of Bumiputra entrepreneurs ', *Journal of Enterprising Communities: People and Places in the Global Economy*. Vol 3, No 1,pp 8-24.
3. Babble, E.(2007), *The Practice of Social Research*, Thomson Wadsworth, Belmont, CA. Babble, E. and Mouton, J.(2001), *The Practice of Social Research*, Oxford University Press, Cape Town.
4. Berry, J.A., Sweeting, A., Cassim, A., Kasper, A., Rajaratnam, B., and Seventer, D.E. (2002), *The Economics of SMMEs in South Africa*, <http://www.tips.org.za/506.pdf> (accessed 15 May 2007).
5. Berry, J.A., Sweeting, R.and Goto, J. (2006), *The effects of business advisers on the performance of SMEs'*, *Journal of Small Business and Enterprise Development*, Vol 13, No 1, pp 33-47.
6. Blackburn, R., Carey, P.and Tanewski, G.A. 2010, 'The role of competence, trust and professional ethics in the supply of external business advice by accountants to SMEs', *Research Report, Association of Chartered Certified Accountants* (see: <http://www.accaglobal.com>).
7. Brinckmann, J., Salomo, S. and Gemueden, H.G.(2011), 'Financial management competence founding teams and growth of new technology-based firms', *Entrepreneurship Theory and Practice*, Vol 35, No 2, pp 217-243.
8. Bruwer, J.P. (2010), 'Sustainability of South African FMCG SMME retail businesses in the Cape Peninsula', *MTEch Thesis (Internal Auditing)*, Cape Peninsula University of Technology, Bellville.
9. Harif, M., Osman, H.B.and Hoe, C.H. (2010),' *Financial management practices: an in-depth study among CEOs of small and medium enterprises (SMEs)*', *International Review of Business Research Papers*, Vol 6, No 6, pp 13-35.
10. Herrington, M.and Wood, E.(2004) *Global Entrepreneurship Monitor - SouthAfrica Executive Report 2003 Update*, Graduate School of Business, University of Cape Town, CapeTown.
11. Ismail, A.N.and Zin, M.A . (2009), 'Usage of accounting information among Malaysian Bumiputra small and medium non-manufacturing firms', *Journal of Enterprise Resource Planning Studies*, Vol

2009, 7 pp, see <http://www.ibimapublishing.com/journals/JERPS/2009/101113.pdf> (accessed 27 August 2014).

12. Padachi, K. (2010) , 'Accounting services among manufacturing SMEs: a neglected subject', <http://www.oum.ac.mu/sites/irssm/papers/Padachi-2045.pdf> (accessed 15 July 2013)