The Effect of Financial Management Practices on Performance of SMEs in Sri Lanka

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Abstract
Small and Medium Enterprises (SMEs) play an important role in every developing country contributing to the growth of the economy in many ways. The aim of this study is to identify the effect of financial management practices on performance of SMEs in Sri Lanka: Special Reference to North Central Province (NCP). Working capital management practices, Investment appraisal practices, Capital structure management practices, financial reporting & analysis practices and Accounting information system practices were identified as independent variables and Performance of SMEs was identified as the dependent variable of this study. All SMEs (nearly 2000 SMEs) operating in NCP during the year 2019 was identified as the population of this study. Out of that, 322 SMEs were selected as the sample based on disproportionate stratified random sampling method and final sample was 245 manufacturing, service and trade SMEs operating in NCP. Data was collected through a structured questionnaire distributed among SMEs functioning in NCP. Descriptive statistics and inferential statistics like Pearson correlation analysis and multiple regression analysis were used to analyze data using the SPSS package. Results of the study revealed that there is a positive effect of financial management practices on performance of SMEs. Among financial management practices, working capital management practices and capital structure management practices have a significant positive effect on SMEs performance.

Keywords: Capital structure, Financial Management, Performance, Small and Medium Enterprises, Sri Lanka, Working capital.

Introduction
Small and Medium Scale Enterprises (SMEs) which have been recognized as a strategically vital sector in the economy of Sri Lanka contribute in generating high economic growth, employment generation, improving innovation capabilities and regional development, (Gamage, 2014). In the move towards an accelerated economic growth, the SMEs need to be strengthened to be globally competitive, (National Policy Framwork for SME Development (NPF), 2019). SMEs are supposed to play an important role in any economy as they are capable of generating employments, promoting the growth of GDP, embarking on innovations and stimulating of other economic activities, (Rathnasiri, 2015). It is estimated that this sector provides 45 percent of the employment in the country. The SME sector includes Micro, Small and Medium scale industries and consists of around one million establishments providing employment to around 2.25 million people in the country, (NPF, 2016). The development of SME sector is paramount important for any country irrespective of their level of development, since this sector has great potential to generate maximum socioeconomic benefits to the country with a minimum level of investment, (Rathnasiri, 2015). SMEs are seen as a driving force for the promotion of an economy and they contribute immensely to the economic development of any country. Over the years, SMEs are considered as a major source of employment, poverty alleviation, income generation and regional development, (White Paper, 2002). (Butt, et al., 2010), recognized that the financial management system is necessary to ensure that the SMEs economic resources are used effectively and efficiently in search of its goals. Efficient financial management practices are essential for SMEs to reach growth stage of the firm as it has a major effect on performance, (Yogendararajah, et al., 2017). According to (Karunanda & Jayamaha, 2011), expressed that poor record-
keeping, inefficient use of accounting information to support their financial decision making and the low quality and reliability of financial data are part of the main problems in financial management concerns of SMEs. They found that SMEs who are complying with financial management practices are performing well than the SMEs, who are not complying with financial management practices. Although the SMEs role in the economy is substantial, many of them are plaque by management problems. These management problems include financial management, human resource management, marketing management, operations management, strategic management, etc. Financial management is a process of planning, organizing, monitoring and controlling money to achieve organizational goal efficiently and effectively. It is a basic function needed to be practiced in every organization for their success. The finance manager of any firm has the responsibility of carefully selecting the best investment alternatives in order to achieve reasonable and stable returns. The finance manager has to concentrate on safety, liquidity and profitability while investing capital. This is also to be done with the aim of wealth maximization, (Singh, 2007). Therefore, it is utmost important to examine the financial management practices and performance of SMEs in Sri Lanka as SMEs are contributing much to economic growth of the country. So, present study tries to identify the effect of financial management practices on the performance of SMEs in Sri Lanka: Special reference to North Central Province.

**Problem Statement**

SMEs play an important role in both developed and developing countries. There are many studies have been done to examine the relationship between financial management practices and performance in foreign context. (Butt, et al., 2010), investigated the relationship between financial management practices focusing on capital structure decision, dividend policy, investment appraisal techniques, working capital management and financial performance assessment in Pakistani corporate sector and found that there is a positive and significant relationship between financial management practices and organizational performance in Pakistani corporate sector. (Abanis, et al., 2013), examined financial management practices in SMEs in Western Uganda collecting data from 335 respondents and found that practices of financial management is low among SMEs. In addition to that (Kahando, et al., 2017), indicated that financial management practices had a strong positive relationship on the growth of SMEs in Kenya considering sample of 50 respondents. Further, concluded that financial management practices have an influence on the growth of SMEs hence the need for owner/managers to embrace appropriate management practices to grow their businesses that help economic development and create more employment opportunities. (Nthenge & Ringera, 2017), found that there is a moderate positive relationship between financial management practices and financial performance considering working capital management, investment decisions and financing decisions as variables to measure financial management practices focusing on SMEs in Nairobi, Kenya. But, in Sri Lankan context, there are few studies have been done to examine the relationship between financial management practices and performance of SMEs. According to (Karunanda & Jayamaha, 2011), investigated financial practices and performance of SMEs in Sri Lanka considering 100 SMEs established in Gampaha, Colombo and Kurunegala district. Findings revealed that SMEs who are complying with financial practices are performing well than the SMEs, who are not complying with financial practices. (Rathnasiri, 2015), Investigated the availability of differences in the adoption of financial management tools and techniques among Sri Lankan SMEs considering sample of sixty manufacturing SMEs which are operating their businesses in western province in Sri Lanka. Finally, concluded that SMEs should highly regard financial management and consider financial management practices as one of the tools to improve and increase the profitability. In addition to that (Rauf, 2016), considered financial management practices in SMEs with the objective of evaluating the impact of working capital management, financial planning and control and total quality management system on financial management practices in the sixty SME in Ampara district of Sri Lanka. Further results indicated that working capital management and total quality management indicate positive significant relationship from regression tools while financial planning and control have a negative no significant relationship on financial management practices. (Yogendrarajah, et al., 2017), examined the impact of financial management practices on performance of sixty SMEs in Jaffna district and revealed that there is a significant difference in the application of financial management practices between small and medium enterprises. Therefore, to fill this research gap present study mainly focuses on SMEs established in North Central Province in Sri Lanka considering “Does financial management practices effect on performance of SMEs in Sri Lanka: Special reference to North Central Province (NCP)”
Research Questions
Based on the problem statement, following research questions were developed.

- What is the effect of working capital management practices on performance of SMEs in NCP?
- What is the effect of investment appraisal practices on performance of SMEs in NCP?
- What is the effect of capital structure management practices on performance of SMEs in NCP?
- What is the effect of financial reporting and analysis practices on performance of SMEs in NCP?
- What is the effect of accounting information system practices on performance of SMEs in NCP?

Objectives of the Study
Objectives of this research divided into two categories as general objective and specific objectives.

General Objective
- The main objective of this study is to identify the effect of financial management practices on performance of SMEs in NCP

Specific Objectives
Based on research questions following specific objectives were developed.

- To determine effect of working capital management practices on performance of SMEs
- To identify the effect of investment appraisal practices on performance of SMEs
- To examine the effect of capital structure management practices on performance of SMEs
- To identify the effect of financial reporting and analysis practices on performance of SMEs
- To determine the effect of accounting information system practices on performance of SMEs

Literature Review
The empirical review consists with empirical evidences gathered through literature review relating to variables of this study.

Working Capital Management Practices
An efficient working capital management is a vital component of success and survival of a business in terms of both profitability and liquidity. Working capital is usually defined as the funds invested in current assets. Current assets are the assets the firm expected to be able to convert to cash in the normal course of business within the next 12 months. Thus, current assets comprise cash, debtors or accounts receivable and stock or inventory. Liquidity is a measure of the ease of conversion of an asset into cash, (Beal & Michelle, 2005). Management must also decide how to manage the firm’s current assets, such as cash, inventory, and account receivables, and its current liabilities. The mismanagement of working capital can cause a firm to default on its debts and go into bankruptcy, even though, over the long term, the firm may be profitable, (Parrino, et al., 2009). (Wembe, 2015), Suggested that firm performance gets affected by working capital management. According to (Semasinghe , et al., 2017), found that there is a strong significant relationship between working capital management and profitability, liquidity, solvency and financial health. (Rahman, et al., 2015), examined the relationship between working capital management and profitability of 10 sample companies listed in the Chittagong Stock Exchange (CSE) of Bangladesh, and revealed that company operating profit was positively correlated with efficient management of working capital. (Nyamao, et al., 2012), concluded that working capital management practices have an influence on the performance, hence there was need for managers to embrace efficient working capital management practices as a strategy to improve their performance and survive in the uncertain business environment and they also established a positive relationship between working capital management practices and performance. (Wanjiku, 2013), found that there is a significant positive relationship between WCM components Accounts Payable Period (APP), Inventory Conversion Period (ICP) and Average Collection Period (ACP) and performance of SMEs in Kenya. (Nyakundi, et al., 2016), revealed that SMEs performance was positively related to efficient cash management, efficient receivable management and efficient inventory management. Further, concluded that working capital management practices have an influence on the firm performance of SMEs. Therefore, there is need for SMEs owners / managers to embrace efficient working capital management practices as a strategy to improve their performance in order to survive in the turbulent business environment. (Padachi, 2006), found that working capital has a positive impact on its performance. (Kosgey & Njiru, 2016), found that there is a positive significant relationship between cash management and financial performance of the
SMEs. Stated that Poor Working Capital Management (WCM) has been cited as the major causes of SME business failures and startups in the sector long lived shelf life. (Fasesin, et al., 2017), revealed that cash management practices and trade credit management practices have an insignificant positive influence on Small Scale Enterprises performance, while inventory management practices has insignificant influence on Small Scale Enterprises performance. According to (Forghani, et al., 2013), showed that there is a positive and significant relation between working capital management and return on equity, working capital management and return on assets, between working capital management and ratio of market value to book value of the company. (Azam & Haider, 2011), showed significant impact on firms’ performance and it is concluded that managers can increase performance by reducing their inventory size, cash conversion cycle and net trading cycle. (Nastiti, et al., 2019), tested the effect of working capital management on firms’ performance and the effect of this relationship on sustainable growth. The results demonstrated that working capital significantly affects firms’ performance. And suggested that firms need to manage their working capital to increase their profits and eventually to achieve sustainable growth. Based on above literature first hypothesis was developed.

**H 1: Working capital management practices have a significant effect on performance of SMEs.**

**Investment Appraisal Practices**

The capital budgeting process breaks down into three steps as identifying potential investments, analyzing the sets of investment opportunities and selecting those that create shareholder value, implementing and monitoring the selected investments, (Graham, et al., 2014). Investment is the outlay of capital made with a view to gaining future benefits. Large initial outlay, relatively long horizon, difficult to reverse, risk are four common characteristics of investment decisions, (Beal & Michelle, 2005). Capital budgeting decisions affect the assets side of the balance sheet and are concerned with a firm’s long term investment. These decisions are most important decisions. Over the long run, they have a large impact on the firm’s success or failure, (Parrino, et al., 2009). (Ejoh, et al., 2016), revealed that there is a significant relationship between capital investment appraisal techniques and firms’ sustainable growth and value creation and sound financial management is critical to the survival and long-term success of firms. According to (Wambua & Koori, 2018) found that accounting rate of return, payback period, net present value and internal rate of return significantly affect performance among SMEs in Kenya. Besides, results indicated that payback period is the most important predictor for performance. (Mushaho, et al., 2015), examined the effect of capital budgeting investment decisions on the organizational performance. The population size considered 70 employees working in finance and accounting units and senior manager. From the analysis, the trend showed that the capital budgeting has been commonly used in improving the performance of various organizations. Based on above literature second hypothesis was developed.

**H 2: Investment appraisal practices have a significant effect on performance of SMEs.**

**Capital Structure Management Practices**

According to (Palacios, et al., 2016), found that internal financing sources influence significantly and positively to the performance. Business raise money either externally form creditors or shareholders or internally by retaining and reinvesting profits, (Graham, et al., 2014). (Badar & Saeed, 2013), examined the impact of firm’s capital structure components and leverage on firm’s performance. The results showed that there is a significant positive impact of long term debts on firms. (Adesina, et al., 2015), found that capital structure has a significant positive relationship with the performance of Nigeria quoted banks considering ten Nigerian banks quoted on the Nigerian Stock exchange (NSE) and period of eight years from 2005 to 2012. According to (Mwangi, et al., 2014), revealed that financial leverage had a statistically significant negative association with performance. According to (Salim & Yadav, 2012) investigated the relationship between capital structure and firm performance. It also reported that total debt has a significant negative relationship with the performance of the firm. A good combination of sources of finance is expected to boost the profitability of an organization, but if not properly mixed, could have a negative effect on the profitability of the organization, (Foyeke, et al., 2016). (Birru, 2016), found that financial performance, which is measured by both ROA, is significantly and negatively associated with capital structure. According to (Kajananthan & Nimalthasan, 2013) showed that gross profit, net profit, return on equity, return on assets, are not significantly correlated with debt equity ratio and gross profit margin and return on equity are significantly correlated with debt assets ratio as the measure of capital structure and capital structure has

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significant impact on gross profit and return equity. (Ahmad, et al., 2012), found that only short-term debt and total debt have significant relationship with ROA while ROE has significant on each of debt level. However, the analysis with lagged values shows that none of lagged values for short-term debt, total debt and long-term debt has significant relationship with performance. (Pouraghajan, et al., 2012), found there is a significant negative relationship between debt ratio and performance of companies. Capital structure is a financial tool that helps to determine ‘how do firms choose their capital structure?’ a firms capital structure is then the composition or structure of its liabilities, (Nirajini & Priya, 2013). Also, further revealed that there is positive relationship between capital structure and performance. And also capital structure is significantly impact on performance of the firm showed that debt asset ratio, debt equity ratio and long term debt correlated with gross profit margin (GPM), net profit margin (NPM), Return on Capital Employed (ROCE), Return on Asset (ROA) & Return on Equity (ROE). (Muhammad, et al., 2014), empirically investigated the impact of capital structure on firm performance. Further, revealed that there is a positive relationship between debt to equity and firm performance variables. So, based on above researches third hypothesis was developed as,

**H 3: Capital structure management practices have a significant effect on performance of SMEs.**

**Financial Reporting and Analysis Practices**

Most of SMEs have maintained the informal accounting systems and lack of comprehensive set of financial reports. SMEs in Sri Lanka must cope with the uncertainty of the business environment, therefore up to date financial information for decision making is paramount important, (Rathnasiri, 2015). According to (Amoako, 2013), investigated the record keeping strategies utilized by SMEs in Ghana and found that majority of SMEs fail to maintain complete accounting records as they think there is no need to keep accounting records and that it exposes their financial position and recommended that training programs must be organized to sensitize owners/managers on the need to maintain proper books of accounts. (Mumbo, 2013), investigated the effects of financial management statements on performance and sustainable growth of SME’s. The findings revealed that performance of SME’s is significantly pegged on decisions based on the statements since, entrepreneurs who registered high profit levels, appreciated the positive and significant contribution of profit loss, incomplete records and the Balance sheet. (Kofi, et al., 2014), confirmed that there is poor financial record keeping and financial reporting practices among small scale enterprises and recommends that training programmes should be organized for small scale enterprises to help them appreciate the importance of financial reporting and inculcate the practice in them. (Maseko & Manyani, 2011), revealed that the majority of SMEs do not keep complete accounting records because of lack of accounting knowledge and as a result there is inefficient use of accounting information in financial performance measurement. (Cheluget & Morogo, 2017), revealed a positive influence of budgeting and financial reporting on project performance. (Olukayode, et al., 2017), recommended that management should ensure they adopt best practices in financial reporting disclosure because there is a direct relationship between transparency of financial reporting and performance of the organization. (McMahon, 2002), argued that improved financial reporting should be realistically viewed as simply part of a broader competence in financial management which, taken together with other functional capabilities, is likely to lead to more effective and efficient management of SMEs and significantly improve their prospects. Financial Analysis is the process of assessing the financial position of a company by analyzing its stability, viability and profitability. One of the primary objectives of financial analysis is to recognize changes in financial trends, to help measure the progress made by an enterprise and identify a relationship to draw a logical conclusion on the performance of the company. Another major aspect of a financial analysis is comparing the performance of the company with its competitors, (Sultan, 2014). According to (Ojeka, et al., 2015) there is a significant relationship between financial reporting disclosures and financial performance. (Al-Dmour, et al., 2018), showed that the components of the quality of financial reporting are significantly influence the non-financial business performance and the variations of the quality of financial reporting were significantly found to be related to their size and experience and not to their type of business, which they belong to. Based on above literature fourth hypothesis was developed as,

**H 4: Financial reporting and analysis practices have a significant effect on performance of SMEs.**

**Accounting Information System**
According to (Al-Dalaien & Khan, 2018), accounting information system is an information system which includes accounting terms, records, instruction manuals, flow charts programs, and reports to fit the particular needs of the business. It is designed to record accounting transaction and events of a business and account for them in a way that complies with its policies and procedures. It is a set of records, procedures, and equipment that routinely deals with the events affecting the financial performance and position of the organization. They found that there is a significant impact of accounting information system on the performance. According to (Muhindo, et al., 2014) revealed that most small scale businesses do not apply accounting information systems which result into low profits. In addition to that, the findings showed that there is a positive relationship between accounting information systems and profitability level of small scale businesses. (Lydia, 2016), concluded that accounting information systems had a significant effect on performance and could improve the status of the company when properly utilized. (Malait, et al., 2017), stated that accounting systems is a system that records and process data of transaction and events into meaningful information for use in planning, controlling and operation of business. And found that there was statistically significant relationship between accounting systems and the performance. (Budiarto, 2014), investigated the effect of AIS alignments on non-financial performance in SMEs and found that AIS alignment has a significant effect on non-financial performance. (Ironkwe & Otti, 2016), showed that relevance of accounting information was statistically significant in determining the profitability and quality of service delivery of banks in Nigeria. Accounting information system (AIS) is considered as an important organizational mechanism that is critical for the effectiveness of decision making and control in organizations. Findings proofed that using an AIS has a significant impact on organizational performance generally and on all its dimensions including cost reduction, improving quality and effective decision making, (Trabulsli, 2018). Accounting information system is a combination of people, equipment, policies, and procedures that work together to collect data and transform it into useful information. It is a system, an assemblage of various facilities and personnel, providing information to support managerial decision-making process. It is an entity, composed of various interdependent subsystems, working together to provide timely, reliable, and accurate information for decision making. Found that there is a significant impact of AIS on the financial performance in the companies, (Beg, 2018). There is a positive relationship between the AIS and performance in Iraqi SMEs, (Harash, 2017). Based on above literature fifth hypothesis was developed as,

**H 5: Accounting information system has a significant effect on performance of SMEs.**

**Conceptualization**

![Conceptual Framework](source)

**Fig 1: Conceptual Framework**

*Source: Developed by Researchers (2019)*

According to the figure 1, it explains that financial management practices are the independent variable of this study and performance is the dependent variable of this study. Working capital management practices, investment appraisal practices, capital structure management practices, accounting information system,
financial reporting and analysis practices were identified as independent variables to measure financial management practices.

**Operationalization**

*Table 1: Operationalization of Variables*

| Variables                                      | Measures                                                                 | Symbols |
|------------------------------------------------|--------------------------------------------------------------------------|---------|
| **Independent Variables : Financial Management Practices** |                                                                          |         |
| Working capital management practices           | • Cash management practices                                              | WCM     |
|                                                | • Receivable management practices                                       |         |
|                                                | • Inventory management practices                                        |         |
| Investment appraisal practices                 | • Adequately invests in fixed assets.                                   | IAP     |
|                                                | • Uses capital budgeting techniques for assess investments              |         |
|                                                | • Adequately reviews the investment projects periodically              |         |
|                                                | • Follows guidelines for analyzing investment opportunities            |         |
|                                                | • Consider about past experiences when making investment decisions    |         |
|                                                | • Consider about time value of money when making investment decisions |         |
| Capital structure management practices          | • Uses internally generated cash sources for financing purpose          | CSP     |
|                                                | • Uses borrowed funds for financing purpose                            |         |
|                                                | • Business has easy access to bank loans                               |         |
|                                                | • Business utilizes the debt facilities from outside persons           |         |
|                                                | • Business considers about capital structure when acquiring outside funds|         |
|                                                | • Business has internal policies for deciding capital structure        |         |
| Financial reporting and analysis practices      | • Business keeps records on cash flows                                  | FRA     |
|                                                | • Business prepares financial statements                               |         |
|                                                | • Business prepares financial statements complying with accounting standards|         |
|                                                | • Business make sale forecast and analyses                             |         |
|                                                | • Business analyses the trend of business cost                         |         |
|                                                | • Business analyses the trend of business profit                       |         |
|                                                | • Business uses financial ratios in financial analysis.                |         |
| Accounting information system                  | • Business uses ICT facilities for storing financial information       | AIS     |
|                                                | • Business updates accounting information system with new business transactions|       |
|                                                | • Business prepare and maintain books like cash book, debtor’s book, creditor’s book…etc. |         |
|                                                | • Business accounting information system provides useful information for decision making |         |
| **Dependent Variable**                         |                                                                         |         |
Performance extent to which the company achieves each of following performance criteria

- Growth in sales
- Growth in profit
- Number of new products introduced
- Customer satisfaction
- Customer loyalty
- Increase number of customers
- Quality against competitors
- Price advantages provide for customers against competitors
- Employee retention

Source: Developed by Researchers (2019)

Population and Sample
Determining the population of SMEs in Sri Lanka is imprecise. All the existing data sources lack accuracy and incomplete. Various government and semi-government institutions engaged in compiling SME related databases, but they are incomplete and not up dated. Thus, there is no centralized database available representing wide spectrum of areas of SMEs. Therefore, considering the availability of data, the researcher intends to select the target population of SMEs which are operating in NCP. So, all SMEs operating in north central province were identified as the population of this study. According to (Wijewardena, 2018) identified approximately 2000 SMEs in the NCP region. Based on that current study assumes there are nearly 2000 SMEs operating in NCP.

According to (Department of Census & Statistics, 2013/2014) Number of persons engaged was proved to be the most reliable and consistent variable in defining SMEs of the country. Further, the industrial and construction sector (Manufacturing), trade sector and the services sector were identified different edges for each of those sectors to define small and medium enterprises. Accordingly, the researcher uses the following criteria for identifying small and medium enterprises.

Table 2: SME Identification Basis

| Sector       | SME Group | Number of persons engaged |
|--------------|-----------|---------------------------|
| Manufacturing| Small     | 5 to 24                   |
|              | Medium    | 25 to 199                 |
| Trade        | Small     | 4 to 14                   |
|              | Medium    | 15 to 34                  |
| Services     | Small     | 5 to 15                   |
|              | Medium    | 16 to 74                  |

Source: Department of Census & Statistics (2013/2014)

Current study focuses on 322 SMEs as the sample which are operating their businesses in the manufacturing, trade and service sector. There are approximately 2000 SMEs are operating in NCP and out of that 322 SMEs were selected as the sample of the study based on sample size selection table (Sekaran & Bougie, 2013) and (Saunders, et al., 2009).

Data Collection
Data were collected through a structured questionnaire send to the selected 322 manufacturing, trade and service SMEs using disproportionate stratified random sampling method. Questionnaire was distributed for SMEs only if they fulfill the criteria (number of persons engaged) for identifying as small and medium enterprises.

Data Analysis
Response Rate
Sample size of the study was 322 SMEs operate in North Central Province during the year 2019. 322 questionnaires were distributed among manufacturing, service and trade type of SMEs located in NCP. However, due to the non-responsiveness and incompleteness 48 and 29 questionnaires were excluded respectively from the analysis. Therefore, the sample for the study was adjusted to 245. Accordingly, 76.1% of response rate was recorded for the present study.

Reliability Test
According to table 3 reliability test results at final data analyzing stage on each variables are higher than 0.7. Thus, internal consistency reliability of the measures used in this study can be considered to be acceptable for financial management practices measures and SMEs performance measures.

Table 3: Reliability Test

| Variables                                | Cronbach’s Alpha | Number of Questions |
|------------------------------------------|------------------|---------------------|
| Working Capital Management Practices     | 0.919            | 18                  |
| Investment Appraisal Practices           | 0.705            | 6                   |
| Capital Structure Management Practices   | 0.737            | 6                   |
| Financial Reporting and Analysis Practices | 0.756         | 7                   |
| Accounting Information System Practices  | 0.945            | 4                   |
| Performance of SMEs                      | 0.867            | 9                   |

Source: SPSS Output (2019)

Descriptive Analysis
The descriptive statistics calculated on the variables are presented in the table 3.

Table 4: Result of Descriptive Analysis

|       | Minimum Statistic | Maximum Statistic | Mean Statistic | Std. Deviation Statistic | Kurtosis Statistic | Std. Error |
|-------|-------------------|-------------------|----------------|--------------------------|--------------------|------------|
| P     | 2.89              | 5.00              | 4.268          | .503                     | -.537              | .310       |
| WIC   | 2.94              | 5.00              | 4.409          | .520                     | -.168              | .310       |
| IAP   | 2.83              | 5.00              | 3.990          | .582                     | -.765              | .310       |
| CSP   | 2.00              | 5.00              | 3.861          | .714                     | -.988              | .310       |
| FRA   | 2.14              | 5.00              | 3.892          | .680                     | -.664              | .310       |
| AIS   | 1.00              | 5.00              | 3.634          | 1.099                    | -.118              | .310       |

Source: SPSS output (2019)

According to the output given by SPSS relating to the descriptive statistics, profitability of SMEs is high because Mean value of the performance is 4.268, which is exceeds the median value. The Standard Deviation (SD) was 0.5 which showed an average dispersion. Profitability of SMEs represents a normal distribution because the Z value of kurtosis is (-0.537/0.310) -1.73, it is in between the acceptable range of positive 1.96 and negative 1.96. So, it is significant at 0.05 level of significance.

Correlation Analysis
The correlation table 5 depicts correlation of each independent variable with dependent variable.

Table 5: Result of Correlation Analysis
| Correlations | P | WIC | IAP | CSP | FRA | AIS |
|--------------|---|-----|-----|-----|-----|-----|
| **P** Pearson Correlation | 1 | | | | | |
| Sig. (2-tailed) | | | | | | |
| **WIC** Pearson Correlation | .503** | 1 | | | | |
| Sig. (2-tailed) | .000 | | | | | |
| **IAP** Pearson Correlation | .442** | .581** | 1 | | | |
| Sig. (2-tailed) | .000 | .000 | | | | |
| **CSP** Pearson Correlation | .449** | .485** | .574** | 1 | | |
| Sig. (2-tailed) | .000 | .000 | .000 | | | |
| **FRA** Pearson Correlation | .394** | .493** | .569** | .533** | 1 | |
| Sig. (2-tailed) | .000 | .000 | .000 | .000 | | |
| **AIS** Pearson Correlation | .393** | .397** | .532** | .504** | .681** | 1 |
| Sig. (2-tailed) | .000 | .000 | .000 | .000 | .000 | |

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

Source: SPSS output (2019)

According to the table 4.4 all variables like working capital management practices, investment appraisal practices, capital structure management practices, financial reporting and analysis practices and accounting information are positively and significantly correlated with performance at 0.01 levels of significant.

**Multiple Regression Analysis**

**Table 6: Regression Results**

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
|-------|-----------------------------|---------------------------|---|------|
|       | B | Std. Error | Beta |       |     |
| 1     | (Constant) | 1.921 | .243 | 7.922 | .000 |
|       | WIC | .301 | .066 | .311 | 4.581 | .000 |
|       | IAP | .075 | .065 | .087 | 1.149 | .252 |
|       | CSP | .126 | .049 | .179 | 2.557 | .011 |
|       | FRA | .005 | .059 | .007 | .089 | .929 |
|       | AIS | .059 | .034 | .129 | 1.724 | .086 |
|       | R | .574 | | | | |
|       | R Square | .329 | | | | |
|       | F | 23.430 | | | | |
|       | Sig | .000b | | | | |

Source: SPSS output (2019)

According to the R squared value is 0.329 and it implies that the 32.9 percent of variation in SMEs performance is explained by the selected financial management practices in this study. The F value in the ANOVA table tests whether the overall regression model is a good fit for the data. F value is 23.43 and
significant value is 0.000 which is lower than 0.05 levels of significance. So, it implies that regression model fits to the data.

According to table 6, regression results shows that there is a 0.301 regression coefficient value with 0.000 level of significance between working capital management practices and performance. It is lower than 0.01 levels of significance. So, there is a positive significant impact of working capital management practices on SMEs performance. The result is similar to (Semasinghe, et al., 2017), (Wanjiku, 2013), (Kosgey & Njiru, 2016), (Forghani, et al., 2013), (Nastiti, et al., 2019) and (Azam & Haider, 2011) findings.

Regression results show that investment appraisal practices have a positive impact on performance, but it is not significant. The findings compatible with (Gupta, 2016), (Rossi, 2015), (Puwananthiren, 2016) and (Velnampy, 2014). Regression coefficient results imply that there is a 0.126 positive impact of capital structure management practices on SMEs performance. Significant value shows 0.01 at 0.05 levels of significance. So, it can be concluded that there is a significant positive impact of capital structure management practices on SMEs performance. This finding is similar with findings of (Palacios, et al., 2016), (Adesina, et al., 2015), (Foyeke, et al., 2016), (Kajananthan & Nimalthasan, 2013), (Nirajini & Priya, 2013) and (Muhammad, et al., 2014).

According to regression results it revealed that there is a positive impact of financial reporting and analysis practices on performance (B=0.005). But significant value 0.929 is higher than acceptable level of significance 0.05. So, it can be concluded that there is no significant effect of financial reporting & analysis practices on SMEs performance. Findings compatible with previous research findings like (Amoako, 2013), (Madurapperuma, et al., 2016), (Kofi, et al., 2014), (Maseko & Manyani, 2011) and (Cheluget & Morogo, 2017).

Regression results show that there is a positive impact of accounting information system practices and performance (B=0.059). But significant value 0.086 shows that significant level is higher than 0.05 acceptable significant level. So, it revealed that there is no significant impact of accounting information system on performance. This finding is supported by the past studies like (Smirat, 2013), (Grande, et al., 2011), (Esmeray, 2016), (Muhindo, et al., 2014) and (Harash, 2017).

**Testing Research Hypotheses**

**Table 7: Results of Testing Hypothesis**

| Hypothesis                                                                 | Regression Result                      | Accepted/ Rejected |
|---------------------------------------------------------------------------|----------------------------------------|--------------------|
| H1 Working capital management practices have a significant effect on SMEs  | B= 0.301 \hspace{1cm} Sig = 0.000     | Accepted           |
| H2 Investment appraisal practices have a significant effect on SMEs       | B= 0.075 \hspace{1cm} Sig= 0.252      | Rejected           |
| H3 Capital structure management practices have a significant effect on SMEs | B= 0.126 \hspace{1cm} Sig= 0.011      | Accepted           |
| H4 Financial reporting and analysis practices have a significant effect on SMEs | B= 0.005 \hspace{1cm} Sig= 0.929     | Rejected           |
| H5 Accounting information system has a significant effect on performance of SMEs | B= 0.059 \hspace{1cm} Sig= 0.086     | Rejected           |

Source: Developed by Researchers (2019)

According to regression results all hypotheses were rejected except hypothesis one and hypothesis three.

**Conclusion**

The study was carried to identify the effect of financial management practices on performance of SMEs by introducing the background to the study at the very first. The major objective of this study is to identify the
The main objective of this study is to identify the effect of financial management practices on performance of SMEs in NCP. According to the regression result, it can be identified that there is a positive effect of financial management practices on financial performance of SMEs in NCP. In addition to the major objective there are five specific objectives. The first objective is to determine the effect of working capital management practices on performance of SMEs. According to regression results there is a significant positive effect of working capital management practices on performance of SMEs in NCP. Second objective is to identify the effect of investment appraisal practices on performance of SMEs. According to regression results it represents that there is no significant effect of investment appraisal practices on performance of SMEs in NCP. Third objectives is to examine the effect of capital structure management practices on performance of SMEs. Regression results indicate that there is a significant positive effect of capital structure practices and performance of SMEs in NCP. Fourth objective of this study is to identify the effect of financial reporting & analysis practices on performance of SMEs. Regression results are unable to ensure the fourth objective of the study. Fifth objective is to determine the effect of accounting information system practices on performance of SMEs. Regression results imply that there is no significant effect of accounting information system and SMEs performance.

**Recommendations & Suggestions for Future Researches**

Sri Lankan SMEs should keep more attention on working capital management practices when they are engaging in day to day operating activities. SMEs should properly practice cash management practices, inventory management practices and receivable management practices, because they have significant as well as positive effect on SMEs performance. So, SMEs owners, managers, cash officers, accountants should pay their attention on proper practicing of working capital management practices. Capital structure management practices have a significant positive effect on profitability of SMEs. It implies that if there are sound capital structure management practices, SMEs will be able to increase their profitability. So, SMEs owners, managers and other parties engaging in financial management activities should pay their attention on establishing and practicing proper capital structure management practices in the business. This study considered only five financial management practices such as working capital management practices, Investment appraisal practices, Capital structure management practices, Financial reporting & analysis practices and Accounting information Practices. But, prospective researchers can consider about other financial management practices that were not considered in this study. This study identified to what extent financial management practices effect on performance of SMEs in Sri Lanka, mainly focusing on the “performance”. Therefore, further research can be carried out to identify the impact of financial management practices on efficiency or business growth or the Survival of SMEs in Sri Lanka.

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