FINANCIAL MANAGEMENT PRACTICES ON GROWTH OF BUSINESS ENTERPRISES IN MBINGA DISTRICT, TANZANIA

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Abstract. *A robust financial management system forms the foundation for business growth and long-term survival. However, there is limited information on the financial management practices that contribute to business growth in the Mbinga district. This study examined financial management and working capital management practices. A semi quasi-experimental research design was employed, utilizing questionnaires distributed to a sample of 62 business owners. Descriptive statistics were analyzed using the SPSS package. The results indicated that 41.9% of business enterprises employed working capital management practices, while 24% used capital structure management practices. Financial management practices were found to enhance management efficiency with a mean score of 3.74, increase the availability of capital with a mean score of 3.61, and improve operational margins with a mean score of 3.56. The study concluded that financial management practices are crucial for business growth and recommended their implementation. The study also found that capital structure management practices were applied to a lesser extent, although businesses showed an understanding of balancing debt and equity for financial sustainability. These findings suggest that the effective implementation of financial management practices is crucial for the growth and performance of businesses in the district. The study concludes that the integration of sound financial management practices contributes to better financial decision-making, risk mitigation, and resource optimization, leading to business expansion and sustainability. From a policy perspective, the study recommends that regulators and stakeholders encourage firms to leverage debt financing due to its associated tax benefits and advantages for financial sustainability. Theoretically, the findings underscore the relevance of agency theory in understanding the dynamics between managers and shareholders, and the principle of optimal capital structure in maximizing firm value. These insights provide a foundation for future research and practical interventions aimed at improving financial management practices in similar contexts.*

Keywords: *Financial management practices, small and medium enterprises, working capital, business growth.*

JEL Classification: F 38; G32

Formulas: 1, fig.: 6, tabl.: 1, bibl.: 78

Introduction. A comprehensive theoretical framework for financial management practices incorporates a range of theories and models to inform decision-making processes. Key theories include modern portfolio theory, signalling model, pecking order theory and agency theory. Essential financial management practices such as capital budgeting, capital structure management and working capital management play significant roles in shaping financial management, performance and decisions - making (Rathbone & van Rooyen, 2021; Kinyua & Mungai, 2018). These frameworks integrate assumptions and qualitative factors alongside quantitative information (Nuryanah & Islam, 2015). Furthermore, financial disclosure management in organizations underscores the motivations, strategies, and monitoring mechanisms essential for effective financial practices (Cyr, 2022).

Accordingly, finance is the cornerstone of any business, and every entrepreneur aspires to master it. Efficient financial management is essential for every organization, influencing all business operations (Ahmed & Mwangi, 2021; Zada, 2019). Globally, the practice of financial management is shaped by the business environment (Prift & Aranitas, 2022). Historically, entrepreneurs focused on generating profit and expanding their ventures (Ahmed & Mwangi, 2021). However, in recent years, a business's survival increasingly depends on the growth of its stakeholders (Jayashree, 2016). Brown and Thompson (2021) highlight the importance of practical financial planning, budgeting, and control for business growth. Effective financial management practices enhance organizational performance by optimizing resource allocation and improving financial decision-making to mitigate risks (Smith, 2020; Akinsulire, 2022).

Consequently, the significance of financial management has grown with the advent of new technologies such as artificial intelligence (Chen, 2023; Singh, 2023; Kahneman & Tversky, 2021) and strategic financial policies can shape market perception (Johnson & Lee, 2020). As a result, finance managers are being trained and equipped with the latest techniques and methods for application in financial activities (Daud *et al.*, 2021). Smith (2020), Akinsulire (2022), and Pandey (2004) assert that financial management involves making informed financial decisions using analytical tools. Meanwhile, Chen (2023) and Gitman (2011) discuss financial management in terms of the interplay between time, money and risk.

Financial management practices in business enterprises differ from those in larger firms due to their unique cash flow cycles, challenges in managing working capital, and difficulties in securing external financing through debt or equity (Ahmed and Mwangi, 2021; Mazzarol, 2015). Nonetheless, Muneer *et al*. (2017) highlight that most business enterprises suffer from inadequate financial management and accounting systems. This inadequacy negatively impacts business performance, growth, and sound financial management (Lopez, 2022; Uwonda, 2013). Despite these challenges, effective financial management is crucial for successful business planning and the implementation of effective policies and strategies (Zada, 2021; Johnson and Lee, 2020). Conversely, poor financial management is often cited as the primary cause of business enterprise failure (Singh, 2023; Muchira, 2012; Arinaitwe, 2006). Consequently, this study explored the impact of financial management practices on the growth of business enterprises in the Mbinga district.

Literature Review. Ouma (2015) found that 45% used funds generated internally for business financing while 35% had invested in long-term assets, 82% maintained a cash limit and 75% of the companies sold their products in cash. Observations by Ahmed and Mwangi (2021) and Yiadom (2016) confirmed that the working capital and capital budgeting management were contributing to the variance of profitability measured by profit margin and return on sales. Moreover, Daud*et al.* (2021) observed that digital technology employed in working capital management had a positive and significant effect on the profitability of business enterprises contrary to capital budgeting management.

Key financial management practices comprise capital structure management, working capital management, financial reporting and analysis, capital budgeting management, and accounting information systems (Ramzi *et al*., 2023). These practices are crucial for enhancing business performance and accountability, especially in small and nmedium enterprises (Kamaruddin & Auzair, 2022). Capital budgeting management is essential for assessing significant projects or investments, determining their feasibility based on the firm's strategic objectives and long-term profitability (Ramzi *et al*., 2023). Effective capital structure management ensures a company can meet its financial obligations while maximizing shareholder returns (Kinyua & Mungai, 2018). Furthermore, working capital management is vital for maintaining liquidity, operational efficiency and growth (Zada *et al*., 2021).

Observation by Prift and Aranitas (2022) and Musah *et al.* (2018) on working capital management practices, capital structure management, accounting information and financial reporting practices, and the use of capital budgeting techniques and fixed assets management had positive relationships with the profitability of SMEs. Ahmed and Mwangi (2021) and Farhatali (2017) witnessed that company managers believed that inventory and cash management influenced their business' profitability and had detrimental effects on the financial performance of a firm. Observation of management accounting practices had a positive influence on the performance of manufacturing firms (Gyamfi *et al*., 2020).

Despite extensive research on financial management practices, gaps remain in understanding how these practices influence various types of organizations, particularly in different economic contexts. For instance, there is limited empirical evidence on the specific impacts of these practices on the accountability of social enterprises (Kamaruddin & Auzair, 2022). Additionally, there is a need to explore the effectiveness of financial management practices in micro and small enterprises in developing economies, where financial infrastructure and access to resources can significantly differ from developed economies (Zada *et al*., 2021). These gaps highlight the necessity for research to develop tailored financial management strategies that can address unique organizational and contextual challenges. However, little information is available on the contribution of financial management practices to the growth of business enterprises in Mbinga district as presented in Figure 1. Thus, investigation on the contribution of financial management practices to the growth of business enterprises in the Mbinga District.

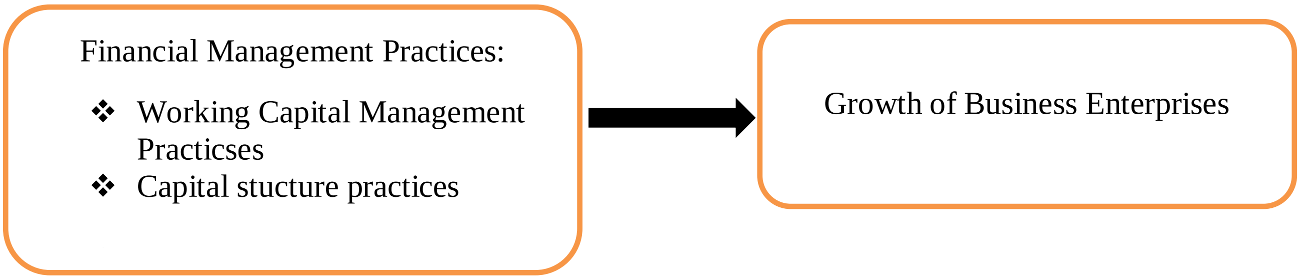

Figure 1. Conceptual Framework

Source: Muguchia (2018)

Aims. This study examined financial management and working capital management practices.

Methodology. This study was conducted in the Mbinga district. The study area was chosen based on the availability of objects of interest so as to achieve the intended objective.

Research Approach. The study utilized both quantitative and qualitative research approaches to harness the strengths of each paradigm. The quantitative approach is essential for identifying patterns, relationships, and general trends in financial management practices, including the effectiveness of capital budgeting, capital structure management, and working capital management (Ramzi *et al.*, 2023). Conversely, the qualitative approach is valuable for exploring the nuanced impacts of these practices, providing depth and richness to the understanding of the findings (Kamaruddin & Auzair, 2022; Boncz, 2015).

Research design. The present study utilized a quasi-experimental research design, aiming to establish causality despite the absence of random assignment of subjects to treatment and control groups. This approach is particularly beneficial in real-world contexts where randomization is either impractical or unethical, using a sample of business entrepreneurs.

Population of the Study. The study focused on business enterprises with formal structures implementing financial management practices. This specificity helps other researchers grasp the study's scope and relevance, aiding in replication and validation. By defining the conditions, characteristics, and demographics, the study provides clarity on factors that might affect the results. The respondents included business owners, accountants, and managers within these enterprises.

Sample Size and Sampling Techniques. A sample is a set of respondents or units selected from a larger population for the purpose of a survey. Sample size (n) refers to the number of respondents or units included in the study. The sample was selected using a random sampling procedure for respondents. Formula (Jamal, 2021) provided a simplified formula for calculating sample size as follows:

$$n = \frac{N}{1 + Ne^2} \qquad (1)$$

where, N= number (73) of purposively identified sampling frame of entrepreneurs, e = precision level (error detection) 5%, n = sample size.

$$n = \frac{73}{1 + (73 \times 0.05^2)}$$

$n = 62$

Sampling techniques. The sampling technique involved the method and procedure of selecting participants or respondents for a specific investigation. This study utilized both stratified purposive and random sampling methods to probabilistically select respondents who best suited the study's needs (Krysik and Finn, 2010; Neuman, 2014; Saunders et al., 2009). Stratified sampling increases precision by ensuring that various subgroups within the population are properly represented, with each stratum proportionately stratified to reduce the risk of bias that could arise from over- or underrepresentation of certain subgroups (Thompson, 2012).

Data collection tools. The present study employed primary data that entails first-hand data not published or documentedcollected using interview schedule questionnaires. The questionnaires contained closed-ended questions in gathering the primary data of the study. Questionnaires are preferred since they are easy to administer and time-saving (Mugenda 2003). They are widely used in various fields such as market research and social sciences for several reasons including standardization, scalability, cost-effectiveness, anonymity and flexibility (Glewwe & Todd, 2022; Dorneles & Mathias, 2022; Musaeva, 2022; Kircher, 2022; and Dorneles & Mathias, 2022). This allowed respondents to give their responses in a free environment and helped the researcher get the information required for the study.

Data Analysis. Descriptive data analysis was employed to enable the researcher to summarize the quantitative data collected in the study, thereby enhancing the discussion of the descriptive statistics. This method allows for the quantification, analysis, and organization of data, enabling the researcher to address the research questions (Jayashree, 2016). The descriptive approach visualizes findings to improve decision-making processes and outcomes (Pateiro *et al.*, 2022; Irzavika & Sunanzkat, 2018). Additionally, it aids in monitoring indicators and trends, facilitating strategic decisions based on reliable and unbiased findings (Young, 2022; Ferreira, 2020). These findings are presented in tables and charts generated using statistical software packages.

Results and Discussion. *Demographic Information of the Respondents.* Demographic information of respondents, including gender, age, education level, and marital status, was considered significant. Findings (Table 1) revealed that 58.1% were male while 41.9% were female. The findings indicate that both men and women possessed saving and investment skills, which enabled them to own business enterprises. The results suggest that both genders can adopt financial management practices to enhance financial freedom (Muneer *et al.*, 2017).

Study findings (Table 1) showed that 48.4% of respondents were between 30 and 39 years old, followed by 29% aged 20 to 29 years while 1.6% were aged in the 50 to 59 years range. These findings suggest that younger and middle-aged adults are more actively involved in planning, saving, and financial management due to their propensity for risk-taking, in contrast to older adults who experience cognitive declines

(Muguchia, 2018; Zagorsky and Joy, 2020; Friedman and Huettel, 2020; Duckworth and Weir, 2020; and Dunn and Ferrara, 2021). Regarding education levels (Table 1), 38.3% of respondents had completed higher education, and 31.7% had attained secondary education. This indicates that formal education among business practitioners enhances effective financial management practices, especially within economic marginalized groups (Makena, 2011; Hsu *et al*., 2018; Kaiser and Menkhoff, 2020; Collins *et al*., 2020; Urban *et al*., 2020; and Mayer and Puller, 2021).

Additionally, the findings (Table 1) showed that 77.4% of participants were married, 19.4% were single, and 3.2% were divorced. These results suggest that changes in marital status are associated with alterations in savings habit, budgeting, financial management behaviors, and long-term commitments, ultimately enhancing financial management practices (Van Rooij and Bonetti, 2020; Kingsbury and Shanahan, 2020; Carstensen and Shoven, 2020; Doudna and Porter, 2020).

Table 1. Demographic Characteristics

Variables	Categories	Frequency (n=62)	Percentage (%)
Sex	Male	36	58.1
	Female	26	41.9
Age	20 – 29	18	29.0
	30 – 39	30	48.4
	40 – 49	13	21.0
	50 - 59	1	1.6
Education level	No formal education	0	0
	Primary	18	30
	Secondary	20	31.7
	High education level	24	38.3
Marital status	Single	12	19.4
	Married	48	77.4
	Widow	0	0
	Divorce	2	3.2

Income level of participants. Respondents were required to indicate the average annual turnover (income level) from their businesses. Results (Figure 2) showed that 37.1% of businesses had an annual turnover ranging from TZS 10,000,000 to TZS 39,000,000, followed by 17.7% with turnovers between TZS 40,000,000 and TZS 69,000,000, and 12.9% with turnovers from TZS 70,000,000 to TZS 99,000,000. These results suggest that income variability and disparity among participants lead to a prioritization of savings over investments during periods of income uncertainty. Present findings concur with observations by Smith and Johnson (2022) and Thompson and Green (2021), which indicate that individuals with a regular income pattern and better financial literacy tend to be proactive in their savings and investments, contrary to those with an irregular income pattern (the minority) (Musah *et al*., 2018; Martinez & Gonzalez, 2018; Lee & Park, 2020).

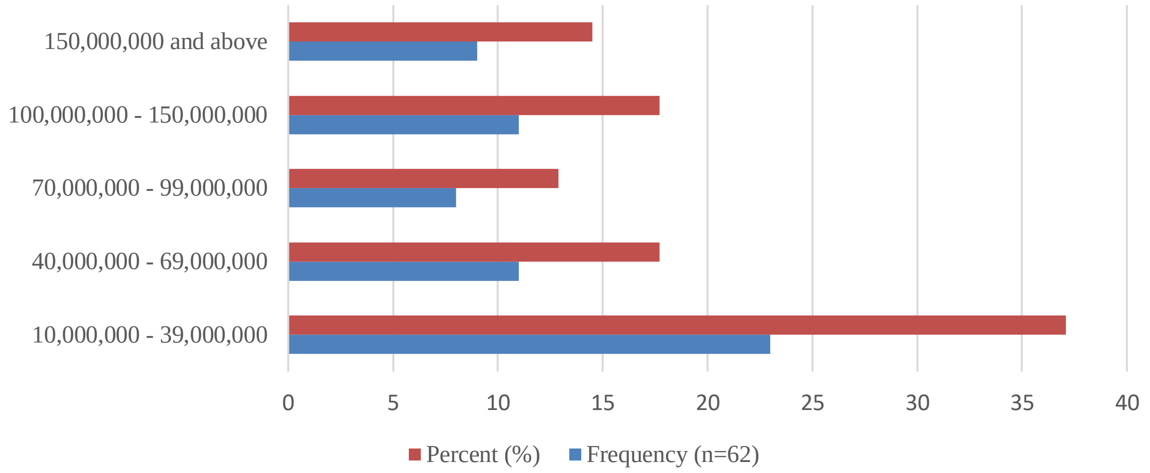

Figure 2. Annual income turnover (income level) of participants

Financial management practices performed by business enterprises. Respondents were asked to provide financial management practices performed in their firms that contributed to the growth of their businesses. The results (Figure 3) showed that 41.9% of business enterprises practiced working capital management, followed by 24.2% who practiced capital financing, while 10% practiced financial record keeping. Results suggest that many enterprises focused on balancing liquidity, profitability, accounts receivables and payables to ensure business survival, while fewer of them capitalized on recording keeping for informed decision-making and transparency. The present results are in line with observations by Simon *et al.* (2021), Látečková (2022), Mostiero (2022), and Das (2023) that business enterprises navigate challenges, optimize resources, and ensure growth sustainability.

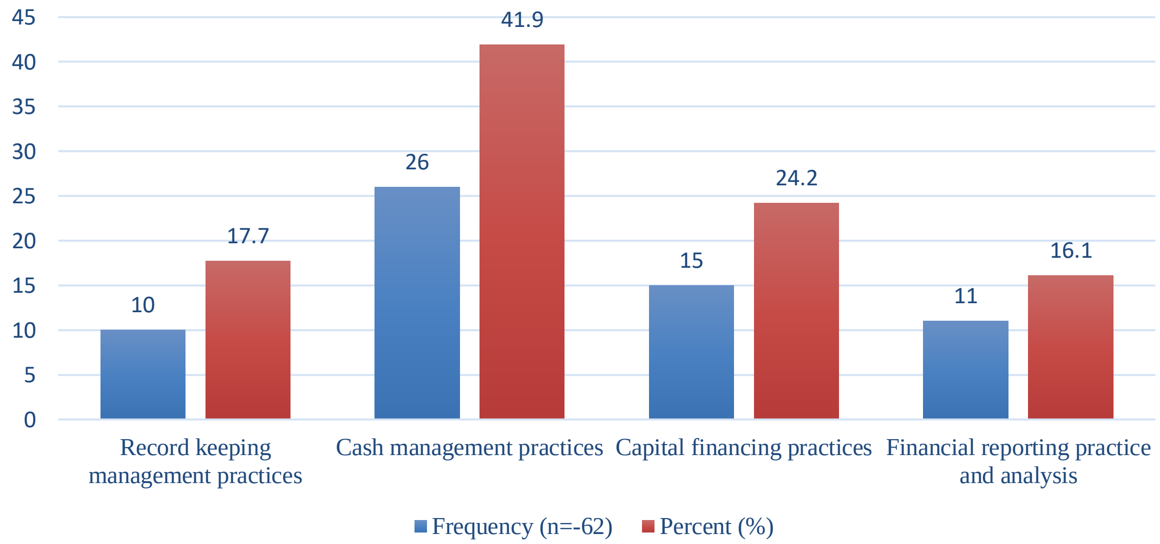

Figure 3. Financial management practices employed

Contributions of financial management practices to the growth of business enterprises. A series of questions were posed to respondents about how financial management practices contributed to the growth of their business enterprises.

Respondents indicated the extent to which these practices had supported their business growth. The mean, an essential statistical tool for analyzing and interpreting financial data for resource allocation planning, budgeting, and profitability returns, was employed in the analysis. The findings (Figure 4) demonstrated that a mean score of 3.74 for financial management practices helped businesses enhance management efficiency. Additionally, these practices improved the availability of capital (mean score 3.61) and operational margins (mean score 3.56), thereby reinforced financial risk management. The study concluded that mean scores in financial management practices provide comprehensive insights for informed decision-making, contributing to business growth and sustainability. These results align with the observations of Bajpai (2023) and Ramzi *et al*. (2023), who noted that business mean scores are instrumental in facilitating comparisons, budget preparation, investment returns, and mitigating financial risks.

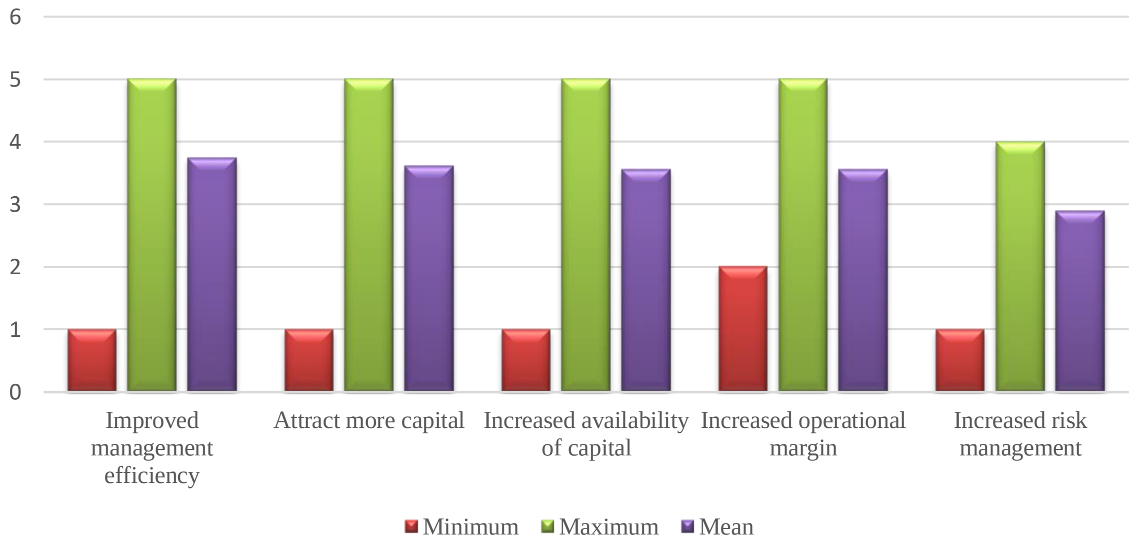

Figure 4. Contribution of financial management practices on business growth

Contribution of working capital management towardthegrowth of business enterprises. Respondents were asked to rate the extent to which various working capital management practices were implemented in their businesses. The results (Figure 5) indicated that business enterprises extensively practiced cash accounting and record-keeping, with a mean score of 4.02. Additionally, the preparation of cash budgets scored a mean of 3.89, and maintaining proper records for all payables had a mean score of 3.65. These findings suggest that businesses possess skills in managing working capital through effective record-keeping, budgeting, and managing payables. The results align with the observations of Zada (2021), Anton and Nucu (2021), Sawarni *et al*. (2022), and Tong (2022), who noted that efficient working capital management enhances profitability, while insufficient or excessive working capital can negatively impact profitability.

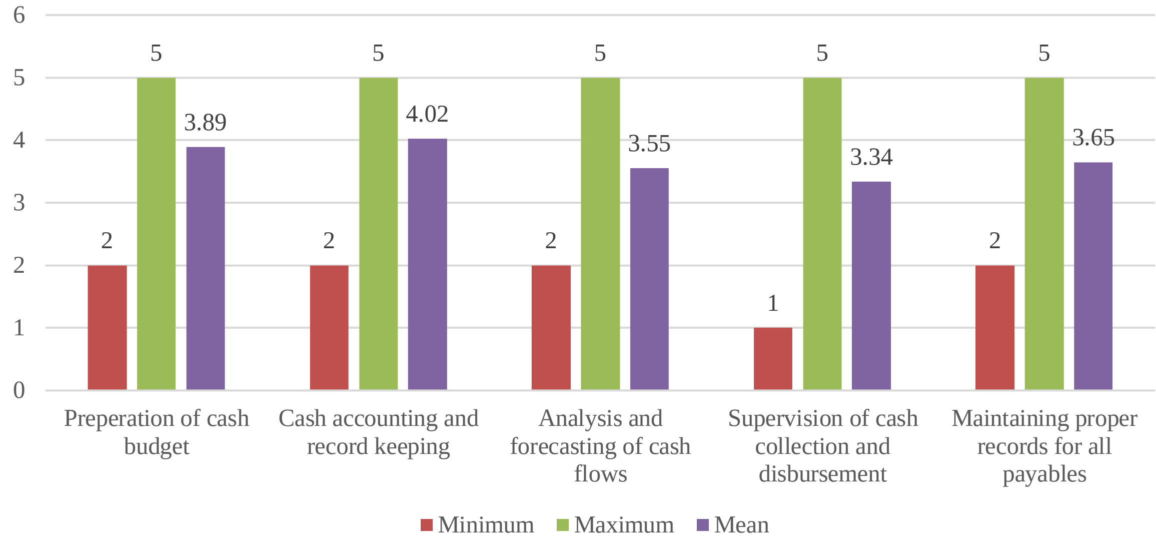

Figure 5. Working capital management practices

Contribution of capital structure management practices toward the growth of business enterprises. Participants were asked to evaluate how extensively they use various capital structure management practices within their firms. According to the responses depicted in Figure 6, the average score for using and reviewing viable sources of financing was 3.65. This was followed by short-term financing sources, which had an average score of 3.34, while long-term financing sources received a score of 2.94. The overall mean score for the use of capital structure practices was 3.26, indicating that businesses generally apply these management practices to a significant degree. The findings suggest that business enterprises are knowledgeable about financing through both retained earnings and external sources. These results align with observations by Parvin *et al.* (2020) and Anton and Nucu (2021), who noted that balancing debt and equity enhances financial sustainability.

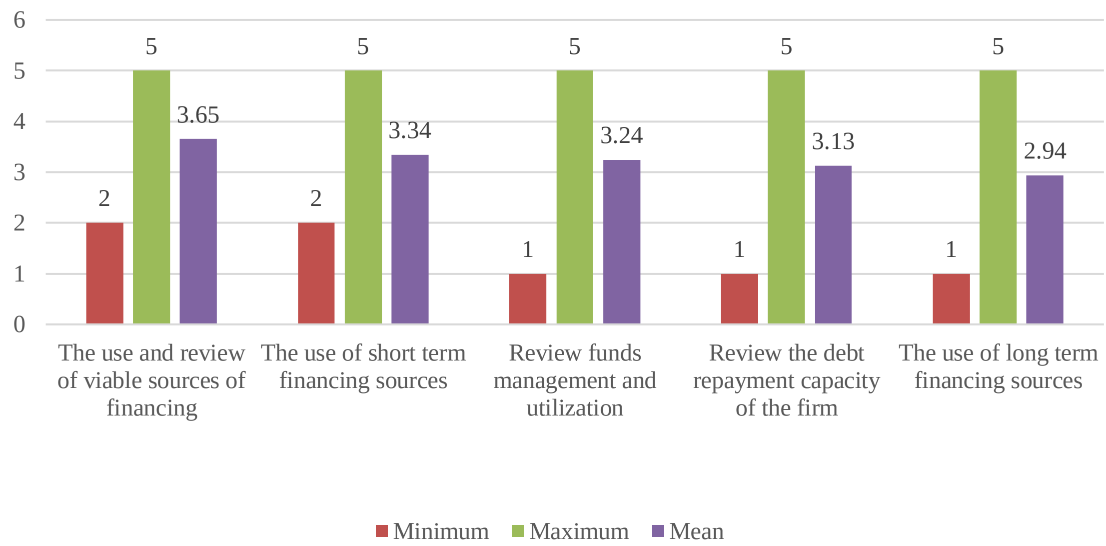

Figure 6. Capital structure management practices

Conclusions. The findings on the impact of financial management practices demonstrated that they significantly enhanced management efficiency, increased the availability of capital, and improved operating margins. Additionally, these practices contributed moderately to better risk management. Furthermore, the study revealed that working capital management practices, particularly cash accounting and record-keeping, were widely adopted, with the highest mean scores of 3.69. These findings indicated that enterprises effectively managed their daily operations. Consequently, the study concluded that financial management practices positively influenced the growth and performance of business firms.

The study's outcomes have policy implications, suggesting that regulations and oversight should encourage firms to favor debt over equity due to tax benefits and incentives for sustainable practices and financial inclusion. Additionally, the study has theoretical implications for agency theory, which examines the conflict between managers and shareholders, the principle of least cost, and the optimal capital structure to maximize firm value.

Author contributions. The authors contributed equally.

Disclosure statement. The authors do not have any conflict of interest.

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