Assessing the influence of financial management practices on organizational performance of small- and medium-scale enterprises

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Abstract

Purpose – Optimal application and commitment toward financial management practices enhance organizational performance. This study aims to assess the influence of financial management practices on organizational performance of small- and medium-scale enterprises.

Design/methodology/approach – Data were collected from 45 small-sized and 72 medium-sized firms. Data supported the hypothesized relationships. Construct reliability and validity were established through confirmatory factor analysis. The conceptual model and hypotheses were evaluated by using structural equation modeling.

Findings – The results indicate that working capital significantly influenced organizational performance. Capital budget management significantly influenced organizational performance. A non-significant influence of asset management on organizational performance was observed.

Research limitations/implications – The generalizability of the findings will be constrained due to the research's SMEs focus and cross-sectional data.

Practical implications – The study's findings will serve as valuable pointers for stakeholders and decision-makers of SMEs in the development of well-articulated and proactive financial management systems to ensure competitiveness, sustainability, viability and financial competences.

Originality/value – The study adds to the corpus of literature by evidencing empirically that financial management practices significantly influenced SMEs' performance.

Keywords Asset management, Working capital management, Capital budget management, Financial management practices, Organizational performance

Paper type Research paper

Introduction

Small and medium enterprises play a significant role in fostering innovation, generating employment opportunities and lowering income inequality (Awad-Warrad, 2018; Kiyabo and Isaga, 2019; Zaridis et al., 2021). SMEs constitute about 99% of businesses globally (Dzomonda and Fatoki, 2019; Mahmudova and Kovács, 2018; Zada et al., 2021). SMEs contribute to improved economies in many developing nations (Gumede, 2019; Lugongo, 2019; Otoo, 2021).
SMEs boost economic activity, which fosters national growth and development (Belás et al., 2018; Horváth and Szabó, 2019; Godke Veiga and McCahery, 2019).

In Ghana for instance, SMEs constitute about 92% of businesses (Abudu et al., 2021; Otoo, 2022; Quaye and Mensah, 2018), provide over 80% of employment (Abor and Quartey, 2010; Biney, 2018; Fraser et al., 2015) and contribute over 70% of the nation’s gross domestic product (Nketiah, 2018; Otoo, 2019; Quaye, 2014). Organizations are constantly under pressure to design, implement and swiftly modify their financial management strategies to reduce risk, improve financial performance and capacities (Erambo et al., 2016; Kimutai and Muigai, 2018; William, 2018). An improved commitment and execution of financial management practices lead to improved business performance (Coleman and Cohn, 2017; Ekanem, 2017; Raheman, 2010). Indigent financial management leads to poor financial judgment (Dwangu and Mahlangu, 2021; Kiyabo and Isaga, 2019; William, 2018).

Financial management practices improve organizational performance by influencing performance efficiency and success (Erambo, 2017; Dittenhofer, 2018). However, despite the evidence showing a favorable association between financial management practices and organizational outcomes, the mechanisms by which financial management practices influence performance are significantly underrepresented (Akpan et al., 2022; Boisjoly et al., 2020; Musah et al., 2018). Most research on financial management practices in SMEs focuses on developed economies such as the UK (Mcmahon, 2001), USA (McMahon and Holmes, 1991), Italy (Sensini, 2020), Canada (Bahri et al., 2017), Germany (Henschel, 2006), Span (Chalmers et al., 2020) and The Netherland (Maes et al., 2005).

However, with some exceptions (Abor, 2007; Adegbie and Alawode, 2020; Ahmed and Mwangi, 2022; Osei et al., 2023), scant studies on financial management practices in the West Africa SMEs. Financial management practices are essential elements of an effective SME performance (Mwangi and Biruda, 2015; Nketiah, 2018; Zaridis et al., 2021). Literature underscores the important role of financial management practices in organizational competitiveness and performance (Adegboye and Iweriebor, 2018; Brijlal et al., 2017; Nthenge and Ringera, 2017). Financial management practice is a source of competitive advantage and a valuable resource (Bismark et al., 2018; Mwashi and Miroga, 2018; Tang et al., 2019).

Drawing on these augments, the study endeavors to fill this gap by proposing a model to explore the nexus between financial management practices and organizational performance. The study contributes to the strategic financial management literature in twofold. First, the study theoretically supports the relationship between financial management practices and organizational performance. Second, the study provides empirical evidence of the financial management practices–organizational performance relationship using both financial and non-financial performance measures. Previous studies have analyzed this relationship by using perceptual non-financial or financial measures (Matsoso and Benedict, 2014; Muneer et al., 2017; Turyahebwa et al., 2013).

The findings contribute to the literature by providing theoretical arguments which justify that financial management practices positively influence both financial and non-financial performances. To set the groundwork for the study, the theoretical underpinnings of financial management practices and organizational performance are described. The conceptual model that links financial management practices to organizational performance is then used to frame the hypotheses. Structural equation modeling is used to assess the efficacy of the proposed conceptual model and hypotheses, and the results are then contrasted with those of with those of prior studies that came to similar conclusions. The study’s limitations, implication and suggestions for future investigation are provided.
Literature review

Theory and hypothesis development

The resource-based view (RBV) theory (Khan et al., 2020; Onjewu et al., 2022; Zhang et al., 2021) and system management theory (Khan et al., 2022; Samuel and Jacobsen, 1997; Yoon and Kuchinke, 2005) serve as the theoretical underpinnings in determining the association between financial management practices and organizational performance. RBV postulates that the efficient utilization of an organization’s capabilities and resources determines its performance (Sadraei et al., 2022; Shan et al., 2019; Shiri and Jafari-Sadeghi, 2022). According to RBV theory firm’s gain competitive advantage by using resources that are valuable and non-replaceable (Bhandari et al., 2020; Biancone et al., 2022; Satyanarayana et al., 2022).

The system management theory asserts that the relationships between distinct subsystems, interdependence and integration propels organizational growth and development (Saad et al., 202; Schneider and Somers, 2006; Teece, 2017). According to the systems management theory, actions and decisions taken by a division of an organization will have an effect on other divisions (Caesar et al., 2017; O’Connor, 2008; Poole, 2014).

Financial management practices

Financial management is at the heart of managing financial resources (Coleman and Cole, 2017; Deakins et al., 2018; Pinegar and Wilbricht, 2009). The future of best practice organizations lies in financial management (Mathiba, 2018; Vohra and Dhillon, 2014; Waweru and Hgugi, 2014). Financial management practices are a collection of standard procedures developed for handling financial reporting, budgeting and other operations involving firm funds (Ahmed and Mwangi, 2022; Brock, 2007; Ross et al., 2016). Financial management practices are integral part of financial resource management and financial decision-making (Dwangu and Mahlangu, 2021; Sooriyakuman et al., 2022).

Working capital management, capital budget management and asset management are outlined as components of financial management practices by several authors (Alles et al., 2021; Chohan, 2019; Tang et al., 2019). Working capital management are essential for an organization’s fiscal viability and a determinant of its profitability and success (Le, 2019; Louw et al., 2022). Capital budgeting is a major terrain of the sphere of financial management and extremely important for capital investment decisions (Farooq and Subhani, 2021; Page and Okeke, 2019). Asset management integrate quality asset information from a wide range of sources to inform decisions (Abdirad and Dossick, 2020; Fang et al., 2022).

Financial management practices ensure the financially stability and profitability position of organizations (Farooq, 2019; Orobia et al., 2017; Stephen et al., 2017). Effective financial management practices ensure the adequacy of cash flow generation (Deakins et al., 2018; Salazar et al., 2013; Wild et al., 2015).

Organizational performance

Organizational performance is an intricate and multifaceted concept (Ateke and Akani, 2018; Singh et al., 2016; Wood and Ogbonnaya, 2018). Organizational performance is the degree to which an organization succeeds in achieving its goals (Nitzl et al., 2018; Zhang et al., 2008). Several authors concurred with the above view when they posited that an organization’s performance is a function of its ability to develop strategies that align it with the changing environment’s complexity and dynamic nature (Abubakar et al., 2019, Rehman et al., 2019; Shea et al., 2012). Similarly, many scholars postulate that organizational performance is a key measure of achieving set organizational goals and objectives (Laaksonen and Peltoniemi, 2018, Schwens and Wagner, 2019; Singh et al., 2016).
Organizational performance can be measured subjectively by using non-financial indicators or objectively by using financial performance indicators to establish the attainment of organizational goals and objectives (Marzall et al., 2022; Richard et al., 2009; Singh et al., 2019). However, literature advocates the use of both financial and non-financial measures (Dryer and Reeves, 1995; Harris and Mongiello, 2001; Meinhardt et al., 2018). Capital market, financial, organizational and human resource attributes of organizational performance were examined in this study.

Financial management practices and organizational performance
Theoretical and conceptual approaches have been examined to establish a synergy between financial management practices and organizational performance (Abakah, 2019; Wolmorans, 2015; Zada et al., 2021). Financial management practices add value and are a key source of competitive advantage (Deloof, 2003; Jindrichovska, 2013; Sooryakumaran et al., 2022). Eminent scholars assert that efficient financial management practices enhance organizational performance and economic growth (Atrill, 2016; Dwangu and Mahlangu, 2022; Jarvis et al., 2013). In a similar vein, many authors contend that financial management practices guarantee effective resource utilization and business profitability (Brigham and Ehrhardt, 2016; Muthama and Warui, 2021; Singh et al., 2019). Subsequent reviews shed light on the relationship between selected financial management practices and organizational performance.

Working capital management and organizational performance
Several studies have advocated the relationship between working capital management and firm’s performance (Aldubhani et al., 2022; Gloy and LaDue, 2011; Mazlan and Choong, 2018). Working capital management is the strategic decision of managing payables, inventories and receivables (Farooq and Subhani, 2021; Tarkom, 2022). Working capital management determines a firm’s financial performance, liquidity, risk and value (Enqvist et al., 2014; Lee et al., 2022; Sniazhko, 2019; Mazlan and Choong, 2018) concurred with the above view when they accentuate that firms with optimal levels of working capital maximizes their value.

Similarly, numerous academics postulate that an ineffective working capital management practice has a direct impact on a firm’s liquidity, profitability and transparency (Farooq, 2019; Lefebvre, 2022; Louw et al., 2022). The following hypothesis is advanced:

\[ H1 \]. Working capital management has a significant influence on organizational performance.

Capital budget management and organizational performance
Many scholars have examined the connection between capital budget management and organizational performance (Balarabe, 2020; Pearce, 2019; Pratheepkanth et al., 2018). Al-Mutairi et al. (2018) opined that capital budgeting is a planning mechanism in making evaluation decisions in the allocation of resources among investment projects. Several scholars emphasize the importance of capital budgeting in managerial decisions and in determining a firm’s long-term financial performance (Alles et al., 2020; Garrison et al., 2018; Orobia et al., 2020). Along the same line, many authors argue that capital budgeting is essential for the firm’s strategic decisions in respect of cost maximization, firm expansion, asset decisions (Alleyne et al., 2018; Awinja and Fatoki, 2021; Toloo et al., 2018). The following hypothesis is advanced:

\[ H2 \]. Capital budget management has a significant influence on organizational performance.
Asset management and organizational performance
The relationship between asset management and organizational performance has drawn considerable attention, as investment in asset management has expanded (Dennis et al., 2017; Maleti et al., 2018; Nel and Jooste, 2016). Asset management is the entity responsible for all asset-related strategies, decisions and actions that are risk-based and related to the objectives of the firm (Kumar and Lin, 2020; Mehairjan, 2017; Srinivasan and Parlikad, 2017). Asset management is premised on the underlying principle of leadership value, assurance and alignment (Pragale et al., 2018; Tang et al., 2019; Woodhouse, 2019). Asset management provide a source of quality asset information to inform strategic, tactical and operational decisions (Abdirad and Dossick, 2020; Kelly and Hardy, 2018; Gavrikova et al., 2020).

Academics postulate that asset management enhance the conditions of the organizations’ assets and promote organizational effectiveness, competitiveness, sustainability and compliance (Broo and Schooling, 2020; Cecconi et al., 2017; Parida, 2016). The following hypothesis is advanced:

H3. Asset management has a significant influence on organizational performance.

Methods
Research setting and data structure
SMEs fosters innovation and economic transformation (Lugongo, 2022; Nkwabi, 2019). SME performance hinges on well-articulated financial management practices, making it distinct in addressing financial management-related issues (Hunjra et al., 2019; Nguyen, 2019). The study used a positivist methodological paradigm (Nyin et al., 2020; Park et al., 2020). The National Board for Small Scale Industries Directory (2023) was sourced in obtaining information on the SMEs. Data were obtained from 45 small-sized and 72 medium-sized firms. A structured questionnaire was used in a cross-sectional study design (Lincoln et al., 2018; Schmidt and Brown, 2019).

The study sample consisted of 1,136 respondents. SMEs were selected using a purposive sampling technique (Campbell et al., 2020; Esfehani and Albrecht, 2019). Employees served as the study’s primary informants (Coghlan et al., 2019; Hansen and Madsen, 2019). A total of 826 respondents (72.5% response rate) provided complete responses. Inference from Table 1, men constituted 57.5% (majority) of respondents. The age range of 26–35 years was represented by (37.2%) of the respondents. A total of 38.5% of SMEs were small-sized enterprises, whereas 61.5% were medium-sized enterprises.

Measures
The measures were scored using a Likert scale, with 1 denoting (“strongly disagree”) and 5 denoting (“strongly agree”). The construct standards estimate criterion proposed by Hair et al. (2022); Henseler (2021) was applied. A construct’s statements that fell short of the ideal threshold of 0.60 or higher were removed (Mehmetoglu and Venturini, 2021; Rhemtulla et al., 2020).

Financial management practices scale
Working capital management (Mazlan and Choong, 2018), capital budget management (Balarabe, 2020) and asset management (Kelly and Hardy, 2018) were adopted in measuring financial management practices. Sample items include “A robust working capital system”. The reliability each of the three dimensions of financial management dimensions was 0.89, 0.86 and 0.82, respectively. The reliability score for all 14 items was 0.82. The inter-dimensional correlations which ranged between 0.56 and 0.77 were high.
Organizational performance scale
Financial outcomes (Rowe and Morrow, 1999), organizational outcomes (Chenhall and Langfield-Smith, 2007), human resource outcomes (Dryer and Reeves, 1995) and capital market outcomes (Richard et al., 2009) were adopted in measuring organizational performance. Sample items include “In comparison to other firms over the last three years, the firm has seen a return on its investment”. The reliability for each of the four dimensions of organizational performance was 0.87, 0.85, 0.88 and 0.81, respectively. The reliability score for all 15 items was 0.83. The inter-dimensional correlations which ranged between 0.54 and 0.76 were high.

Analytic approach
A confirmatory factor analysis was conducted to ensure proper representation of the proposed constructs (Henseler and Schuberth, 2020; Schuberth et al., 2018). A two-level hierarchical linear model was developed (Hair and Sarstedt, 2021; Hwang et al., 2020). The proposed conceptual model and hypothesis were assessed by using the Statistical Packages for Social Science (SPSS) 21.0 and Analysis of Moment Structure (AMOS) 26.0 (Ringle et al., 2020, Sarstedt et al., 2020). The association between sub-dimensions and the nexus between observable indicators and their latent construct were examined (Kuppelwieser et al., 2019; Rasoolimanesh et al., 2021). Construct reliability, construct validity and convergent validity were examined (Cheah et al., 2018; Hair et al., 2022). Discriminant validity between constructs were examined (Franke Sarstedt, 2019; Radomir and Moisescu, 2019). Figure 1 depict a representation of the conceptual model.

Common method bias
Several a priori measures were applied in addressing the issue of common method bias (Delpechitre et al., 2018; Williams and McGonagle, 2016). During the pretest study, mid-point scales for each survey item were provided and ambiguous questions were clarified, and

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency (s)</th>
<th>(%) of totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>515</td>
<td>62.3</td>
</tr>
<tr>
<td>Female</td>
<td>311</td>
<td>37.6</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18–25</td>
<td>128</td>
<td>15.4</td>
</tr>
<tr>
<td>26–35</td>
<td>237</td>
<td>28.7</td>
</tr>
<tr>
<td>36–45</td>
<td>307</td>
<td>37.2</td>
</tr>
<tr>
<td>46–55</td>
<td>86</td>
<td>10.4</td>
</tr>
<tr>
<td>56–65</td>
<td>68</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior high</td>
<td>127</td>
<td>15.4</td>
</tr>
<tr>
<td>Diploma</td>
<td>146</td>
<td>17.7</td>
</tr>
<tr>
<td>HND</td>
<td>317</td>
<td>38.4</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>197</td>
<td>23.8</td>
</tr>
<tr>
<td>Master’s degree</td>
<td>39</td>
<td>4.7</td>
</tr>
<tr>
<td><strong>Size of Firm</strong></td>
<td></td>
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</tr>
<tr>
<td>Small (9–15 employees)</td>
<td>45</td>
<td>38.5</td>
</tr>
<tr>
<td>Medium (20–99 employees)</td>
<td>72</td>
<td>61.5</td>
</tr>
</tbody>
</table>

Table 1. Profile of respondents
Source: Table by author
psychological separation of constructs were ensured (Baumgartner et al., 2021; Steenkamp and Maydeu-Olivares, 2021). To lessen social desirability bias respondents' anonymity and confidentiality were assured (Minbashian et al., 2019; Kock et al., 2021). A post hoc evaluation using the Harman's one-factor test was applied (Cooper et al., 2020; Griffiths et al., 2019). The findings demonstrate that the established benchmarks were sufficient (Lin and Tsai, 2019; Rodriguez-Ardura and Meseguer-Artola, 2020). Common method bias consequences remained insignificant as warranted by these approaches.

**Results**

A two-factor CFA model representing financial management practice and organizational performance achieved a good model fit ($\chi^2$/df = 2.63, RMSEA = 0.048, SRMR = 0.042, TLI = 0.984, CFI = 0.986) (Ghasemy et al., 2020; Rigdon et al., 2019). Estimates of the coefficient ranged from 0.81 to 0.89 (Cepeda Carrion et al., 2019; Shmueli et al., 2019). The standard estimates’ range was 0.74–0.88 (Danks et al., 2020; Jorgensen et al., 2020). The range of estimates for (AVE) was 0.60–0.70, whereas (CR) was 0.74–0.88 (Liengaard et al., 2021; McNeish et al., 2018). Discriminant validity was established (Shaffer et al., 2016; Voorhees et al., 2016). Table 2 presents discriminant validity test results. Table 4 displays the results of the hypotheses test. Working capital management significantly influenced organizational performance (0.767, Figure 1. Conceptual framework

<table>
<thead>
<tr>
<th>Items</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Working capital management</td>
<td>14.18</td>
<td>5.33</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Capital budget management</td>
<td>11.66</td>
<td>4.51</td>
<td>0.278**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Asset management</td>
<td>6.88</td>
<td>2.46</td>
<td>0.607**</td>
<td>0.388**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Financial outcomes</td>
<td>5.96</td>
<td>2.35</td>
<td>0.612**</td>
<td>0.476**</td>
<td>0.778**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Organizational outcomes</td>
<td>6.35</td>
<td>2.27</td>
<td>0.518**</td>
<td>0.599**</td>
<td>0.678**</td>
<td>0.678**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Capital market outcomes</td>
<td>5.93</td>
<td>2.28</td>
<td>0.618**</td>
<td>0.689**</td>
<td>0.677**</td>
<td>0.668**</td>
<td>0.628**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>7. Human resource outcomes</td>
<td>6.44</td>
<td>2.17</td>
<td>0.629**</td>
<td>0.519**</td>
<td>0.697**</td>
<td>0.537*</td>
<td>0.569**</td>
<td>0.669**</td>
<td>1</td>
</tr>
</tbody>
</table>

**Notes:** **Correlation is significant at the 0.01 level (two-tailed); *Correlation is significant at the 0.05 level (two-tailed)

**Source:** Table by author
p < 0.05), thereby supporting H1. Capital budget management significantly influenced organizational performance (0.619, p < 0.05), thereby supporting H2. Asset management had non-significant influence on organizational performance (0.536, p > 0.05). H3 is unsupported.

Discussion

This study provides crucial empirical insights in comprehending the nexus between financial management practices and organizational performance (Coleman and Cohn, 2017; Deakins et al., 2018; Ross et al., 2016). Financial management practices ensure firm survival and success (Nkundabanyanga et al., 2017; Saini and Singhania, 2018). The findings show that working capital management significantly influenced organizational performance. Working capital management guarantees adequate cash flow to meet short-term debt obligations and operating costs (Gloy and LaDue, 2011; Okphiabhele et al., 2022; Sniazhko, 2019).

Prior studies revealed a positive relationship between working capital management and organizational performance (e.g., Altaf, 2020; Saini and Singhania, 2018; Sharma et al., 2020). The findings show that working capital management has a significant impact on profitability (Akgün and Memiş Karataş, 2020; Fernández-López et al., 2020) and liquidity (Gharaibeh and Bani, 2020; Pham et al., 2020). Thus, working capital management not only facilitates the enhancement of a firm’s profitability but also favors the necessary conditions for firm’s sustainability and growth. Capital budget management significantly influenced organizational performance. Capital budgeting is essential for a firm’s long-term viability and success (Baker et al., 2017; Li et al., 2020).

Earlier studies found a positive relationship between capital budget management and organizational performance (e.g. Ramasobana et al., 2017; Siziba and Hall, 2021; Zainuddin et al., 2021). The findings show that capital budget management has a positive impact on return on equity (Naresh et al., 2022; Nguyen, 2019) and market growth (Khurana et al., 2019; Qosasi et al., 2019). Hence, capital budget management not only facilitates firm survival and sustainability but also supports the prerequisites for cost effectiveness and competitiveness. Asset management had non-significant influence on organizational performance. A robust asset management system provides a return on investment in the form of improved asset performance (Prowença and Borbinhaa, 2018; Srinivasan and Parlikad, 2017).

Previous studies revealed a positive relationship between asset management and organizational performance (e.g. Dennis et al., 2017; Mehairjan, 2017; Pragale et al., 2018). The findings show that asset management has a significant impact on return on asset

### Table 3.

Results of the measurement and structural model test

<table>
<thead>
<tr>
<th>Model</th>
<th>χ²</th>
<th>Df</th>
<th>χ²/df</th>
<th>P</th>
<th>RMSEA</th>
<th>SRMR</th>
<th>TLI</th>
<th>CFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>First-order CFA</td>
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</tr>
<tr>
<td>Financial management practices</td>
<td>213.516</td>
<td>66</td>
<td>3.23</td>
<td>0.000</td>
<td>0.052</td>
<td>0.053</td>
<td>0.947</td>
<td>0.951</td>
</tr>
<tr>
<td>Organizational performance</td>
<td>217.603</td>
<td>68</td>
<td>3.20</td>
<td>0.000</td>
<td>0.054</td>
<td>0.051</td>
<td>0.936</td>
<td>0.943</td>
</tr>
<tr>
<td>Second-order CFA</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial management practices</td>
<td>209.404</td>
<td>66</td>
<td>3.17</td>
<td>0.000</td>
<td>0.051</td>
<td>0.049</td>
<td>0.953</td>
<td>0.962</td>
</tr>
<tr>
<td>Organizational performance</td>
<td>214.572</td>
<td>68</td>
<td>3.15</td>
<td>0.000</td>
<td>0.049</td>
<td>0.047</td>
<td>0.961</td>
<td>0.969</td>
</tr>
<tr>
<td>Measurement model–Overall model</td>
<td>207.411</td>
<td>62</td>
<td>3.35</td>
<td>0.000</td>
<td>0.052</td>
<td>0.048</td>
<td>0.972</td>
<td>0.974</td>
</tr>
<tr>
<td>Structural model–Overall model</td>
<td>126.357</td>
<td>48</td>
<td>2.63</td>
<td>0.000</td>
<td>0.048</td>
<td>0.042</td>
<td>0.984</td>
<td>0.986</td>
</tr>
</tbody>
</table>

Notes: RMSEA = root mean square of approximation; SRMR = standardized root mean residual; TLI = Tucker–Lewis index; CFI = comparative fit index; *p < 0.05

Source: Table by author

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Therefore, asset management interventions support the prerequisite for compliance and effectiveness and the improvement of the value and condition of a firm’s asset.

### Theoretical Implications
This study supports the supposition for the improvement of financial management practices and more research into the relationship between financial management practices and organizational performance. The study’s findings shed light on the ambiguity in literature.
on financial management practices and organizational performance (Muthama and Warui, 2021; Sa’eed et al., 2020; Singh et al., 2019). Working capital management significantly influenced organizational performance. The results corroborate past studies that show that working capital management impacts a firm’s profitability and desired level of liquidity (Ahmed and Mwangi, 2022; Garcia-Teruel and Solano, 2017; Tadesse, 2016).

They also concur with earlier studies that show working capital management reduces risk and uncertainty while enhancing business performance (Chowdhury et al., 2018; Jindrichovska, 2013; Le, 2019). The findings validate the supposition of researchers (Aldubhani et al. 2022; Tarkom, 2022). Capital budget management significantly influenced organizational performance. The results parallel past studies which indicate that capital budgeting improves survivability, sustainability, profitability and cost-effectiveness (Imran et al., 2019; Nguyen, 2019; Pratheepkanth et al., 2018). They also support earlier studies which indicate that capital budgeting is a crucial component of the financial management strategy which ensure that every investment decision enhances the firm’s competitive advantage (Kinyua, 2018; Pearce, 2019; Siziba and Hall, 2021).

The findings support the postulation of researchers (Alles et al., 2021; Oyelaran-Oyeyinka, 2020). Moreover, the results indicate that asset management had non-significant influence on organizational performance. The results do not parallel the findings of several authors who emphasized that asset management enables congruence between asset management systems and corporate objectives (Cavka et al., 2017; Kumar and Lin, 2020; Lu et al., 2019). They are also not consistent with the findings of earlier studies that show asset management improves the value of a firms’ asset and promotes competitiveness, sustainability and effectiveness (Khuntia et al., 2016; Mahmood et al., 2015; Rastegari and Salonen, 2015). The findings do not validate the contention of researchers (Farghaly et al., 2018; Woodhouse, 2019).

### Table 5.
Discriminant validity

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Working capital management</td>
<td>(0.786)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Capital budget management</td>
<td>0.117</td>
<td>(0.814)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Asset management</td>
<td>0.597</td>
<td>0.283</td>
<td>(0.836)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Financial outcomes</td>
<td>0.219</td>
<td>0.439</td>
<td>0.654</td>
<td>(0.817)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Organizational outcomes</td>
<td>0.275</td>
<td>0.346</td>
<td>0.513</td>
<td>0.448</td>
<td>(0.797)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Capital market outcomes</td>
<td>0.096</td>
<td>0.429</td>
<td>0.317</td>
<td>0.316</td>
<td>0.454</td>
<td>(0.871)</td>
<td></td>
</tr>
<tr>
<td>7. Human resource outcomes</td>
<td>0.227</td>
<td>0.589</td>
<td>0.371</td>
<td>0.321</td>
<td>0.603</td>
<td>0.489</td>
<td>(0.786)</td>
</tr>
</tbody>
</table>

**Note:** Values in diagonal represent the squared root estimate of average variance extracted (AVE)

**Source:** Table by author

### Table 6.
Inferences drawn on hypotheses

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Beta coefficient</th>
<th>p-value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H1. Working capital management has a significant influence on organizational performance</strong></td>
<td>0.767</td>
<td>0.003</td>
<td>Accepted</td>
</tr>
<tr>
<td><strong>H2. Capital budget management has a significant influence on organizational performance</strong></td>
<td>0.619</td>
<td>0.019</td>
<td>Accepted</td>
</tr>
<tr>
<td><strong>H3. Asset management has a significant influence on organizational performance</strong></td>
<td>0.496</td>
<td>0.318</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

**Source:** Table by author
Practical implication

Financial management practices assess a firm’s level of financial health over a specific time period (Brigham and Ehrhardt, 2016; Wild et al., 2015). Efficient financial management practices result in higher organizational performance (Davies, 2018; Sherre and Kent, 2017; Simon and Mohamed, 2017). The results show working capital management significantly influenced organizational performance. Working capital management enhance organizational competitiveness and liquidity (Chowdhury et al., 2018; Mazlan and Choong, 2018). Small- and medium-scale enterprises would therefore have a keen interest in (re)evaluating working capital strategies where robust working capital systems are implemented and there is availability of sufficient cashflows (Aldubhani et al., 2022; Knauer et al., 2013).

Working capital management determines the amount of cash flow intended to influence firm performance (Iqbal et al., 2022; Musa and Ibrahim, 2022). SMEs would have to (re)evaluating working capital strategies where a fully automated receivable management systems exit and maintenance of accurate payable records (Alkhataybeh, 2021; Rahayu et al., 2020). The results also reveal capital budget management significantly influenced organizational performance. Capital budgeting determines organizational profitability, viability and value (Balarabe, 2020). SMEs would have to (re) evaluate capital budget management strategies where periodic budget estimation are espoused (Warren and Jack, 2018; Zainuddin et al., 2021).

Capital budgeting decisions are crucial to the success or failure of any organization (Demigurc, 2017; Mushaho et al., 2015). SMEs would have to (re) evaluate capital budget management strategies where activity-based budgeting are advocated and financial analysis conducted (Khurana et al., 2019; Nguyen, 2019). Effective financial management is a cornerstone of efficient governance and sustainable development (Hammed Okikiola, 2019; Nandom et al., 2019; Yusuf, 2016). The study highlights the significance of creating a system for the improvement of financial management practices since financial management practices guarantee effective resource utilization and business profitability (Brigham and Ehrhardt, 2016; Singh et al., 2019).

Financial management practices ensure organizational competitiveness and viability (Bismark et al., 2018; Hunjra et al., 2019; William, 2018). Brijlal et al. (2017) accentuate that financially well-managed firms are operationally efficient. Consequently, SMEs would have to develop a well-articulated and proactive financial management systems to ensure competitiveness, sustainability, viability and financial competences.

Limitations and suggestions for future study

The results of this study should be considered in light of its limitations. The possibility that the results could be the result of reverse causality or a causal link cannot be completely rule out because of the cross-sectional nature of the study (Kelly et al., 218; Saunders et al., 2019). Future longitudinal study is necessary (Carroll, 2019; Kneck and Audulv, 2019). The study solely considered the subjective opinions of employees (Schein and Schein, 2019; Otoo, 2022). Objective measures are encouraged in future studies (Hulland et al., 2018; Minbashian et al., 2019). Common method bias is less likely when objective measures are used (Delpechitre et al., 2018; Lin and Tsai 2019). The current study used various financial management practices to assess its influence on organizational performance. However, to conduct an exhaustive and focused inquiry, further theoretical and practical work is required to have a comprehensive grasp of the nexus between financial management practices and organizational performance. The generalizability of the findings will be constrained due to the research’s SMEs focus. Applying the model to different fields or sectors might be beneficial.
References


Financial management practices


Further reading


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