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Research Article

The Impact of Financial Management Practices on Business Performance of Small and Medium Enterprises in Northern Province

Logeswary Sooriyakumaran[1], Sujani Thrikawala[2] and Pathirawasam Chandrapala[3]

[1]Department of Accountancy, Sri Lanka Institute of Advanced Technological Education, Sri Lanka,
logeswary@sliate.ac.lk

[2]Waikato Institute of Technology, New Zealand
sujanithrikawala@gmail.com

[3]Department of commerce and Financial Management, University of Kelaniya, Sri Lanka
pathi@kln.ac.lk

Abstract

This study aims to find out the Financial Management Practices (FMP: maintaining accounting records, financial reporting preparation and analysis, accounting information systems, working capital management, investment decisions, and financing) among Small and Medium Enterprises (SMEs) and also investigate the impact of those practices on their business performance in the Northern Province of Sri Lanka, which is registered under divisional secretarial divisions using stratified proportionate random sampling techniques with a structural model. This study adopts the modern financial management theory of equity and pecking order and finds that financial management practices have a significant (positive) impact on the business performance of SMEs, excluding investment decisions at 61 percent. Finally, the research recommends that proper FMP in SMEs, even with the maximum effort, shows success in performance better than others. This means that SMEs should be established with well-organized practices that force related authorities to monitor the financial management system on a regular basis. Donors should provide capacity-building training and transfer funds in accordance with the development of SMEs in the said region.

Keywords: Financial management practices, small and medium enterprises, business performance, modern financial management theory, structure model

Introduction

Manzoor et.al., (2019) declared that Small Medium Enterprises (SMEs) play an essential role in the sustainable development of developed or developing countries to achieve inclusive economic growth. They generate employment opportunities, contribute to the gross domestic product (GDP), and thereby have an impact on other economic activities (World Bank, 2019).

According to Kengatharan (2020), SMEs employ three million people in Sri Lanka and account for more than 90% of all enterprises. SME's assist the community to recover from the adversity of the Northern Province's (NP) civil war, particularly in places that have been experiencing a delayed recovery in the post-2009 period. Following the end of a thirty-year civil war, it will require proportionally more care to ensure that economic progress is distributed equally across the country. The Central Bank (2010) believes that this can be accomplished through the expansion of SMEs.

The government intends to boost the NP's GDP, which will contribute 3.3 percent to the national GDP, by enhancing entrepreneurial skills and supporting SMEs (Mahintha Cintana, 2010). It grew by 4.2 percent in 2016 and 4.7 percent in 2019 (Economic and Social Statistics of Sri Lanka, 2018, as cited in Kengatharan, 2020; Central Bank, 2020). It demonstrates the Northern Province's capability, which has the resources to contribute to national economic development through well-balanced SMEs that face several problems.

Salazar, Soto, and Mosquedo (2012) and Rathnasiri (2015) indicated that the leading cause of poor business performance among SMEs is a lack of financial management practices (FMP). Since 2010, FMP and the performance of SMEs have attracted a considerable amount of attention from researchers (Kengatharan & Yogendrarajah, 2017; Somathilake & Pathirawasam, 2020).

According to the Central Bank of Sri Lanka's (CBSL) Statistics Department, the NP (4.1 percent) has the lowest provincial gross domestic product (PGDP) among the nine provinces. According to researchers (Kengatharan & Yogendrarajah, 2017; Kalaipriya, 2021; Kengatharan, 2020), a lack of adequate financial management procedures is behind SMEs poor business performance in the region. Due to the poor business performance of SMEs in NP (Vijayakumar, 2012; Thevrajah, 2015), researchers wanted to identify whether financial management practices are impacting business performance. If it happens, SMEs need to be improved and concentrate on the practices of financial management.

And also, there was a knowledge gap regarding the relationship between FMP and BP of their entities by owner, a theoretical gap to identify suitable modern financial management theories for developing countries, and moreover an empirical gap in the region (Kengatharan & Yogendrarajah, 2017; Kalaipriya, 2021; Kengatharan, 2020).

This research tried to fill the gaps by using the data collection method and interconnecting with the owners. It focuses on Sri Lanka's Northern Province, which has 99 percent of SMEs of all business entities

(Department of Census and Statistics, 2013/14, as cited in Vaikunthavasan, Velnampy & Sivarajah, 2019). Hence, there is a need to investigate the SME sector in order to improve the NP by utilizing the sector as a whole.

To achieve this, the researcher conducted a survey focusing on SMEs that are registered with the Divisional Secretary (DS) offices of the five districts of the Northern Province of Sri Lanka. The research problem of this study sought to identify the financial management practices conducted by SMEs and to what extent those practices impact the performance of SMEs in the Northern Province of Sri Lanka.

The main objective of the study is to identify the financial management practices that SMEs adopted for their businesses and how much they impacted on their business performance. Further, researchers aim to answer the following main question: Whether these financial management practices significantly impact the performance of SMEs in the Northern Province of Sri Lanka. Under the main research question, the following sub-questions have arisen:

- What are the financial management practices adopted by SMEs in the Northern Province of Sri Lanka?
- How do financial management practices impact on the performance of SMEs in the Northern Province of Sri Lanka?

In this research, FMP such as maintaining accounting records (MAR), financial reporting preparation and analysis (FRPA), accounting information systems (AIS), working capital management (WCM), investment decisions (ID), and financing (FIN) were examined.

The reminder of the paper is structured as follows: The theoretical basis of the research is reported in Section 2, along with a review of the literature. Additionally, it describes how the hypotheses have developed upon consideration of both theoretical and empirical data. Section 3 provides the research methodology. Section 4 reports the empirical results and discussions. Finally, the conclusion and policy implications are provided in Section 5, with limitations.

Literature review

This section contains the theoretical and empirical review of financial management practices and performance of SMEs.

Theoretical Literature review

Sahlman pointed that modern financial management theories attempt to connect the axioms behind these ideas to small businesses' financial management (1990 as cited in Whonderr, 2009). The maxims of modern financial management theory that logically follow if a perfect market existed would make the job of a corporate enterprise's finance management relatively easy, leaving the manager with simply the decision of where to spend the money (Whonderr, 2009). Emery et al. (1991, as cited in Charles Wundengba, 2020) gave examples of modern financial management theories formulated on the principles of a set of fundamental tenets that form the basis for financial theory and decision-making in finance. In the example of modern financial management theory, they are agency theory, pecking order theory, and equity theory. As per Charles (2020) concept, the financial

management of SMEs in developing countries prefers this theory.

There is no doubt that small business financial management differs from that of large entities. This means that they have a lot of different ways to do things, so it is very unlikely that their daily work will be the same. Hence, this research would relate the principles behind these concepts to small businesses' financial management. This research is being done because we don't know enough about equity theories and what they mean for a conceptual framework for accounting standards for smaller entities' financial reporting. The study is based on equity theory and pecking order theory.

Empirical Literature review

Financial Management practices (FMP) are connected with activities outfitted for the board of directors to achieve the association's destinations. Due to the significance of finance related management practices in the SME segment, they have attracted the attention of specialists (McMohan,1 999, as cited in Rathnasiri, 2015).

Performance denotes how far an organization goes to create and obtain the corresponding value of its institutions (Golda, 2013; Khan, Khalique & Nor, 2014). Murphy, Trailer and Hill (1996) pointed out that the financial related perspectives of performance have been utilized to a more prominent degree in order to measure business performance not only in SMEs but also in bigger firms as they show the achievement of the financial targets of the firm.

According to Wolmarans and Meintjes, (2015), FMP is critical to the success of any SME. There were many findings from the literature; finally, they suggested that optimum application and commitment towards FMP result in an increased firm's performance.

Amoako (2013) pointed out that keeping legitimate books of accounts and sound bookkeeping have been emphasized to guarantee SMEs' appropriate financial management. He did the study in Ghana and further, he mentioned that for the improvement, sustainability, and success of FMP, an organization should maintain its accounting records properly. Karunananda and Jayamaha (2011) expressed their concern that poor record-keeping and inefficient use of accounting information are the main problems in the financial management of SMEs in Sri Lanka.

Further, Abanis et al. (2013) carried out a study to determine the extent of FMP in SMEs in a selected district in Western Uganda. The goal of the research was to ascertain how much financial management SMEs used in relation to the following areas: working capital management, investment, financing, financial reporting and analysis, and accounting information systems. The study found that the extent of financial management practices was low among SMEs.

Moreover, Rathnasiri (2015) analysed the financial management practices of an accounting information system, financial reporting and analysis, working capital management, and fixed asset management practices under the heading of accounting and financial management tools and

techniques. In his research, he ignored maintaining accounting records, financing, and investment tools. Also, he concluded that SMEs in Sri Lanka were in the start-up stage or maturity stage based on the number of operative years, but there was no factor determining the varying adoption of financial management tools and techniques.

In the meantime, Kengatharan and Yogendrarajah (2017) conducted a study to find out the financial management practices among small and medium-sized enterprises in the Jaffna district and also examine the impact of financial management practices on the performance of SMEs. Working capital management, investment evaluation, capital structure management, financial reporting and analysis, and accounting information systems have all served as indicators of FMP in this work. The results of this research revealed that there was a significant difference in the application of FMP between the sizes of businesses.

Swarnapali and Rathnayaka (2016) did the research work in Anuradapura district on FMP of accounting information systems, working capital management, and financial reporting analysis on the performance of SMEs. They identified that only working capital management positively and significantly influenced the performance of SMEs. Other variables did not have an impact on the performance.

In the Colombo district, Tharindi and Rathnayaka (2016) did research work on the FMP variables of financial audit, accounting information system, investment decision, and working capital management and found that the variables positively impacted on performance.

Sooryasena and Palihena (2020) conducted a study on financial reporting and analysis practices, working capital management practices, and fixed asset management practices with performance within Kurunegala Divisional Secretariat and revealed that they have a significant positive impact on the financial performance of SMEs.

In the North Central province, Somathilake and Pathirawasam (2020) did research work and concluded that out of five FMPs (working capital management practices, investment appraisal practices, capital structure management practices, financial reporting and analysis practices, and accounting information systems), only working capital management and capital structure management practices significantly impact on performance.

Zada, Yukun and Zada (2021) did a study to identify the effect of FMP of working capital management, financial reporting, accounting information system, investment decision and financing on performance of selected SMEs in Pakistan. His findings reveals that all FMP are positively associated with financial performance.

Financial literature suggests that optimum application and commitment towards financial management practices increase firms' performance. Financially well-managed firms are operationally efficient (Butt, Hunjra & Rehman, 2010). Inefficiencies in financial management practices result in poor financial performance and eventually lead to the failure of SMEs (Kilonzo & Dennis, 2015).

The above findings contradict Uduwaka and Dedunu's (2019) and Muguchia 's (2018) findings. They examined the effects of financial management practices on the financial performances of SMEs in Gampaha district Sri Lanka and Nairobi and revealed that there was not any significant positive impact among them.

The above contradicts with the research conclusion regarding the various variables of FMP and leads to further study in Sri Lanka to identify the relationship and impact between FMP and business performance (BP) of SMEs.

In the meantime, Sooriyakumaran (2020) drafted a conceptual framework for the FMP, which includes maintaining accounting records, financial reporting preparation and analysis, accounting information systems, working capital management, investment decisions, and financing with the performance of SMEs in the Northern Province, Sri Lanka. And further, Sooriyakumaran, Sujani, and Pathirawasam (2022) developed a working paper regarding the research work's conceptual work and hypothesis development, and they expect to do the research and identify the results in the Northern Province of Sri Lanka. This research is an extension of their research.

Therefore, in this research, researchers would identify the impact between FMP and the BP of SMEs in all districts of the NP by doing this study to strengthen the previous work.

Based on the research by Somathilake and Pathirawasam (2020), Kengatharan and Yogendrarajah (2017), Madurapperuma et al. (2016), Eloho (2016, as cited in Jagoda et al., 2018), Abanis et al. (2013) and Butt et al. (2010) they tested the hypotheses of financial management practices' impact on the performance of SMEs and got different results. And the conceptual map (figure 1) is formulated by modern financial management theory and empirical evidence.

From the theoretical and empirical evidences, research hypothesis was developed as follows.

H1: Financial management practices significantly impact on business performance of SMEs in the Northern Province of Sri Lanka.

And sub hypotheses were developed based on independent variables to identify the impact of each of them individually.

H1a: Maintaining accounting records significantly impact on SMEs' performance in the Northern Province of Sri Lanka.

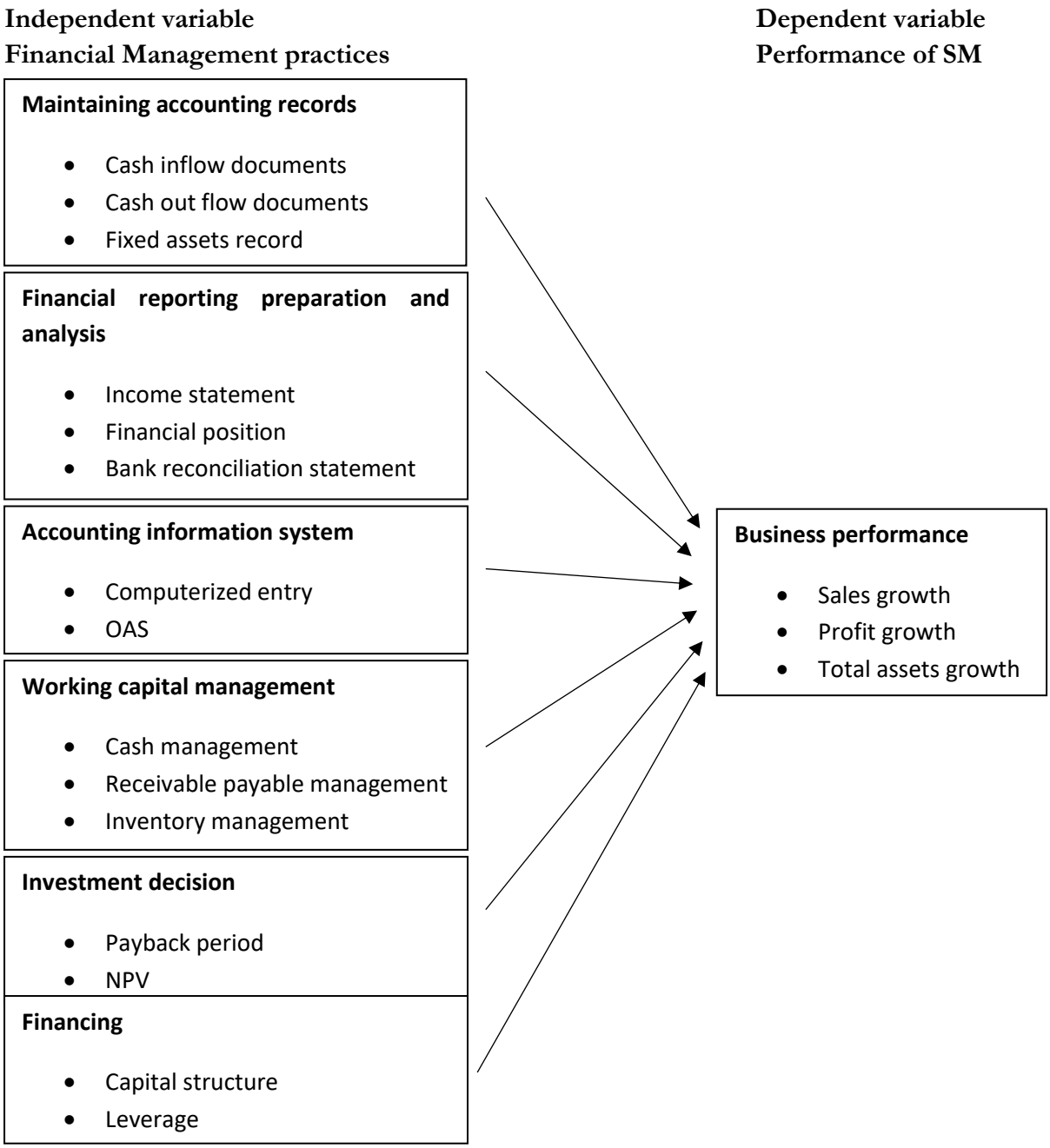
H1b: Financial reporting preparation and analysis significantly impact on SMEs' performance in the Northern Province of Sri Lanka.

H1c: Accounting information systems significantly impact on the performance of SMEs in the Northern Province of Sri Lanka.

H1d: Working capital management significantly impact on the performance of SMEs in the Northern Province of Sri Lanka.

H1e: Investment decisions significantly impact on the performance of SMEs in the Northern Province of Sri Lanka.

H1f: Financing significantly impacts on the performance of SMEs in the Northern Province of Sri Lanka.



Research Methodology

The sample size of the study was determined to satisfy the rules of thumb for using structural equation modeling within AMOS (1967, as cited in Adam, 2021) and Slovene's (1960, as cited in Adam, 2021) formulas from a targeted population of 24 316 SMEs (registered SMEs at DSs of NP up to 2018) and owners or responsible persons of financial management practices of SMEs.

A proportionate stratified random sample method was used to collect the data of SMEs that practice the minimum requirements of financial management accounting and audit practitioners and represent the all-DS divisions of NP (Table 1).

Table 1: Total population and sample amount of SMEs

District	DS division	Target SMEs	Sample SMEs	Total	% of total sample
Jaffna	Delft	40	1		
	Island South	134	2		
	Island North	231	4		
	Karainagar	110	2		
	Jaffna	2278	40		
	Nallur	1217	22		
	Sandilipay/Valikamam Southwest	1406	25		
	Chankanai/Valikamam West	1047	19		
	Uduvil/Valikamam South	1835	32		
	Tellippalai/Valikamam North	973	17		
	Kopayvalikamam East	1093	19		
	Chavakachcheri/Thenmaradchi	861	15		
	Karaveddy/Vadamaradchchi Southwest	716	13		
	Pointpedro/Vadamaradchchi North	913	16		
	Maruthankeny/Vadamaradchchi East	229	4	231	54%
Mannar	Mannar	872	15		
	Madhu	141	2		
	Manthai West	217	4		
	Nanaddan	263	5		
	Musali	172	3	29	7%
Vavuniya	Vavuniya	2558	45		
	Vavuniy South	338	6		
	Vengalacheddikulam	506	9		
	Vavuniya North	288	5	65	15%
Mullaitivu	Maritimepattu	1106	20		
	Thunukai	284	5		
	Manthai East	171	3		
	Oddusuddan	459	8		
	Puthukudiyiruppu	506	9	45	10%
Kilinochi	Karachchi	2093	37		
	Pachchilaipallai	347	6		
	Kandawalai	469	8		
	Poonakary	443	8	59	14%
Total		24316	430	430	100%

Source: Compiled by the author.

In the operationalisation table 2, measurements and questions were designed with the support of certain sample questionnaires from research work as well as expert and practitioner consultation. Finally, researchers concluded the questionnaire with the support of factor analysis from the data of the pilot study to carry out the research work.

Table 2: Total population and sample amount of SMEs

Concept	Variables	Measurement	Indicators	Questions No
Financial management practices (FMP)	Maintaining Accounting Records (MAR)	Knowledge and practice of accounting records	Level of accounting records maintains	1-07
	Financial Reporting Preparation and Analysis (FRPA)	Follow the general format and calculation	Level of decision making by using analysis	08-16
	Accounting Information System (AIS)	Increase the customer satisfaction	Usage of IT for the day-to-day activities	17-21
	Working Capital Management (WCM)	Creditors debtor's management	Maintain the liquidity level	22-30
	Investment Decision (ID)	Method of investment measurement	Level of calculation and decision making	31-34
	Financing (Fin)	Capital structure	Level of liability	35-38
Performance of SMEs (Per)	Sales Growth (SG)	Increasing the sales	Influencing on customers	01-02
	Profit Growth (PG)	Increasing the profit	Amount of profit	03-04
	Total assets growth (TAG)	Increasing the assets	Level of assets	05-06

Source: Compiled by the author

In this study, the quantitative data collection method was used to collect data. The survey questionnaire was built using 5-point Likert scales (Table 2) and survey tools that have previously been validated and further modified based on feedback from stakeholders. Excel, SPSS, and Structured Equation Modeling (SEM) Analysis of Moment Structures (AMOS) software are used to analyse the data for the final conceptual model.

The approaches to the data analysis in the research were based on descriptive and inferential statistics. The data were tested for goodness of fit using factor analysis, for reliability using Cronbach's alpha, and for validity using confirmatory factor analysis (CFA). Also, the proposed hypotheses were examined and the model fit assessed using SEM (Sekaran and Bougie, 2016).

Results and discussions

Data screening was processed to ensure the data was clean and ready for exploratory factor analysis (EFA). For this purpose step-by-step process was used to identify missing data and unengaged responses, test the outliers for continuous variables by using Mahapilas, skewness, and kurtosis. (Gaskin, 2016). Descriptive statistics were utilised to assess the characteristics of the overall sample and confirm there were no issues. After that, according to Hair et al., (2006) suggestion, several assumptions regarding the utilisation of multivariate statistical tools, namely normality, homoscedasticity, linearity, and multicollinearity, were made before performing any multivariate analysis. After testing all assumptions of multivariate analysis, it was confirmed that there were no issues regarding the entered data.

In this study, the reliability of the constructs was tested by using exploratory factor analysis (EFA) to explore the factor structure. A reliability test was carried out for the final constructs by using Cronbach alpha's (C-α) to measure the reliability of all the constructs and identify those that were within the accepted values of above 0.6 in table 3 (Henseler, Ringle, & Sarstedt, 2015; Hoque & Awang, 2016). According to the study findings of Taber (2018), a Cronbach's alpha value of 0.70 and above is a sufficient measure of the reliability or internal consistency of an instrument.

Table 3: Reliability test of variables

Variables	Cronbach's Alpha	KMO Measure of Sampling Adequacy	Bartlett's Test of Sphericity		
			Approx. chi-Square	Df	Sig
MAR	0.910	0.904	1846.3	21	0.00
FRPA	0.909	0.905	4310.9	36	0.00
AIS	0.885	0.882	1373.5	10	0.00
WCM	0.892	0.898	3128.3	36	0.00
ID	0.810	0.808	1218.8	6	0.00
Fin	0.856	0.850	1035.4	6	0.00
BP	0.893	0.891	1282.4	15	0.00
All	0.917	0.914	1846.3	21	0.00

Source: Survey Data 2020

Table 3 shows the final results of Cronbach's alpha test of the construct. Internal consistency reliability was conducted using Cronbach's alpha on four hundred and ten participants. Cronbach's alpha coefficient values of ≥ 0.9 – excellent, 0.8 ≤ alpha < 0.9-good (Glen, 2014; Pallant, 2011, as cited in Daud et al., 2018), and ≥ 0.7 – acceptable (Ursachi, Horodnic & Zait, 2015). Then confirmatory factor analysis (CFA) was employed to assess the constructs' validity and test the model fit.

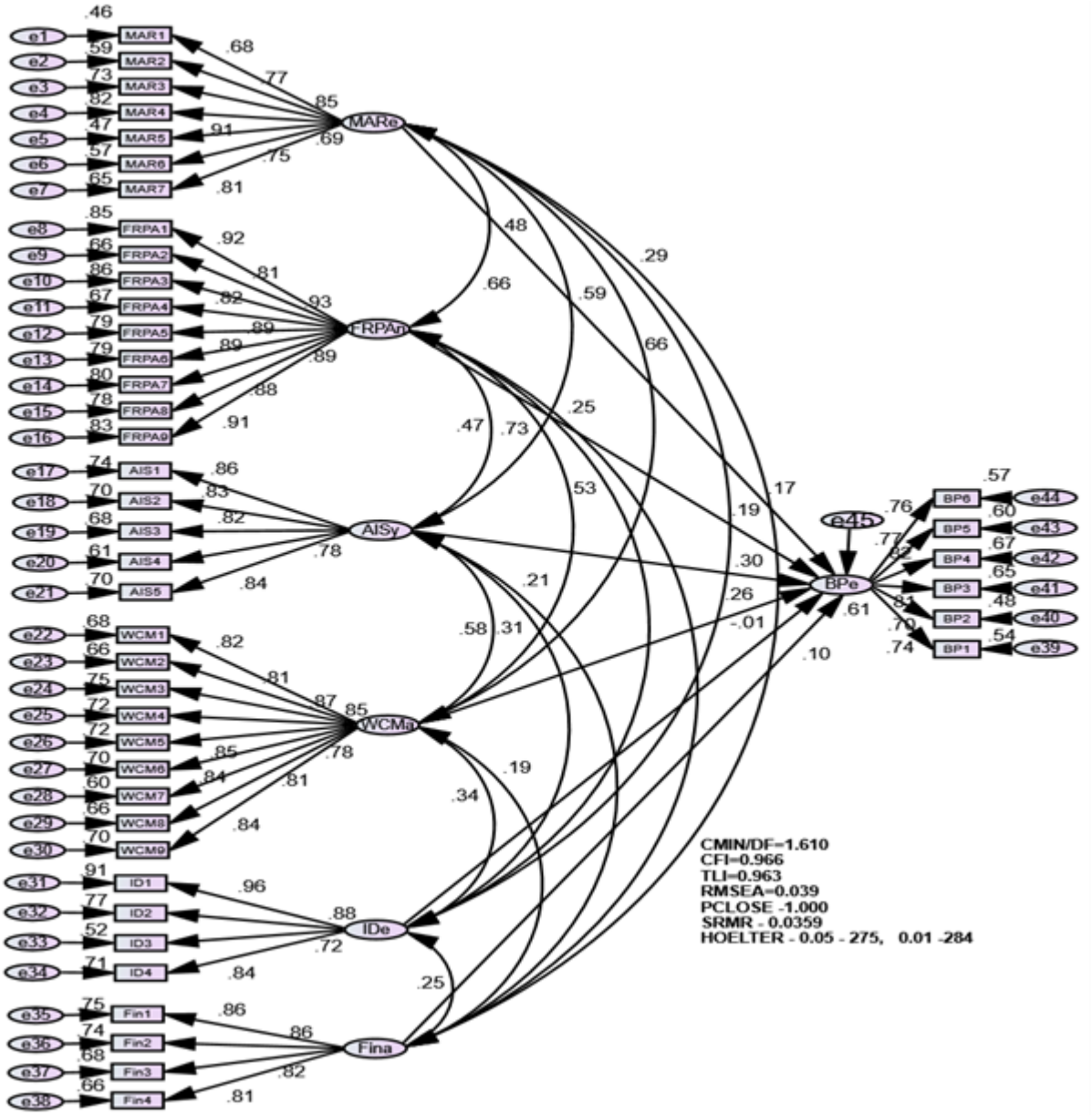


Figure 2 standardized estimates of Structure model

The next step included the structural equation modeling (SEM) technique to test the hypothesis relationships among the exogenous (independent) and endogenous (dependent) variables (Figure 2). This two-step approach assures that only the constructs retained from the survey that have good measures (validity and reliability) are used in the structural model (Hair et al., 2010). Figure 2 indicates that the model fit indices also provide a reasonable model fit for the structural model (Awang 2015; Hair et al., 2010). It means all estimates of latent variables are above 0.6. Running the multiple group analysis resulted in the models' estimates and critical ratios being reported with a p value in Table 4. Hence, the result for the structure model could be used to analyse the hypothesis test for H1.

Table 4 Standardized Regression Weights of structure model

			Estimate	S.E.	C.R.	p
BP	<	ID	-0.007	0.040	-0.173	0.863
BP	<	AIS	0.360	0.062	5.831	0.000***
BP	<	MAR	0.232	0.090	2.586	0.010*
BP	<	WCM	0.281	0.072	3.905	0.000***
BP	<	FRPA	0.151	0.053	2.871	0.004**
BP	<	FIN	0.088	0.036	2.473	0.013**
BP	<	FMP	0.612	0.603	11.632	0.000***

*** p<0.001 **p<0.010 *p<0.050

Table 4 shows the regression weight among variables. When WCM goes up by 1 standard deviation, BP goes up by 0.281 standard deviations under the estimate of standardized regression weight. Dividing the regression weight estimate by the estimate of its standard error gives z =.281/.072 = 3.903. In other words, the regression weight estimate was 3.905, and the standard error was higher than zero. The probability of getting a critical ratio as large as 3.905 (> 1.96) in absolute value was less than 0.001. As the p value is less than the significant alpha value of 0.01, the alternative hypothesis that WCM has a significant impact on BP is accepted. This suggestion is similar to a number of previous research papers (Kengatharan & Yogendrarajah, 2017; Swarnapali & Rathnayaka, 2016; Tharindi & Rathnayaka, 2016; Sooryasena & Palihena, 2020; Semasinghe, Mahasena & Dayaratna Banda, 2017).

Similarly, as the p value is less than the significant alpha value of 0.01, the alternative hypotheses that MAR, FRPA, AIS, and FIN significantly influence BP are accepted. Muazu and Alhassan (2014) investigated the impact of record keeping on the performance of SMEs and discovered a significant positive influence (0.05) among them. This is also consistent with the findings of a number of previous research studies (Charles Ezeagba, 2017; Belal, 2013).

The number of earlier works is consistent with the findings of FRPA, which significantly impact on BP (Kilonzo & Dennis, 2015; Sooryasena & Palihena, 2020). But this finding is denied by Swarnapali and Rathnayaka (2016) and Somathilake and Pathirawasam (2020). It means that even though there are specific standards for SMEs in Sri Lanka (SLFRS for SMEs, 2012), there is no legal restriction on the preparation and analysis of the financial reports of SMEs. Hence, the level of financial management practices among SMEs may be different. The findings of AIS significant impact on BP are similar to previous work (Turyahebwa et al., 2013; Kilonzo & Dennis, 2015). However, the findings contradicted with the conclusions of Swarnapali and Rathnayaka (2016) and Somathilake and Pathirawasam (2020). They supported the opinion of Muhindo, Kapute & Zhou, (2014) that lower-profit SMEs do not apply the AIS.

In this finding of ID impact on BP, the CR value is lower than 1.96, i.e., -0.173. Hence, the parameter coefficient value is statistically not significant at any level (P value = 0.863).

It is revealed that one of the financial management practices of the SMEs in the Northern Province, ID, has no influence on business performance. In the same way, Kengatharan and Yogendrarajah (2017) revealed that there was no significant impact of investment appraisal on the performance of SMEs (P value of 0.256) in the Jaffna district. But in the Colombo district, Tharindi and Rathnayaka (2016) examined the same variables and exposed the positive relationship at 59.93 percent. Although the payback period and net present value methods can be used to select SMEs for investment, they are not used properly in this sample. Because they don't have the proper investment alternative knowledge and awareness (which was pointed out by Rathyrani on 24th December 2021, when interviewed regarding the findings by the researcher), knowledge of comparison, and diversification of investment (Velnamby January 10, 2022). And further, they don't follow modernized or sophisticated methods (NPV, IRR) in investment decisions (Velnamby January 10, 2022). In the meantime, Mayuran (January 8, 2022) has suggested that there is a need to improve their investment decisions in business performance, and owners or managers of SMEs should use discounted cash flow techniques to evaluate their investments and projects before committing the resources. This suggestion is consistent with Musah, Gakpetor and Pomaa (2018) who did the research in Accra. But in NP, entrepreneurs only concentrate on covering up expenses, not diversification of investment (Nimalathasan, January 6, 2022).

When an interview was conducted with Velnamby (January 10, 2022) and Mayuran (January 08 2022) regarding the findings of the significant influence of FIN on BP, they indicated that the financing methods for SMEs concentrated on getting the return on their capital and not surviving in business. They mainly concentrate on debt capital from financial institutions or project work. This is also consistent with the findings of Thevaruban (2009) and Kengatharan and Yogendrarajah (2017). From these findings and the opinions of experts, it is revealed that in NP, the capital structure of SMEs, mostly depends on external debt, and they show positive performance during the debt period to cover the expenses and return. But the proportionate rate of own capital organisations is evidence of how SMEs survive (Velnampy, 2022; Mayuran, 2022). Even though FIN significantly impacts on BP, they have to concentrate on the participation of their own capital and debt capital in their financing. This will only help to improve the survival of entities.

The regression weight for FMP in the prediction of BP with a CR value of 11.632 (> 1.96) is significantly different from zero at the 0.01 level (two-tailed). This indicated that FMP were significantly impacting on the BP of SMEs in the NP of Sri Lanka. And it implies that if there was an increase in the FMP, then it would have a positive influence on the BP of SMEs, otherwise, it would have a negative influence on them. The coefficient (adjusted R2) of determination for the financial management practices is 0.612, whereas this result implies that 61 percent of the total variance in performance could be explained by all six financial management practices. According to the model, the remaining 49 percent of the variability is not explained. Similarly, Ali and Isak (2019), Daniel and Japhet (2017), Kengatharan and Yogendrarajah (2017), and Benard (2019).

This suggestion contradicts that of Addo (2017), who obtained a negative correlation between the financial management practices and the performance of SMEs in Kenya. In the meantime, Swarnapali and Rathnayaka (2016) and Nthenge and Ringera (2017) found a moderately positive relationship between them.

As discussed above, one hypothesis (i.e., ID) out of six sub-hypotheses was statistically not significant and, thereby, it was rejected (Table 5). Consequently, the structural model was re-specified by removing one not significant path to get a parsimonious model that adequately fits the data. The revised structural model is shown in Figure 3, and the results are presented in Table 6.

Table 5: Standardized Regression Estimates of the Hypotheses Tested

No	Hypotheses	Path Coefficient (β value)	p	Accepted/ Rejected
H1	Financial management practices are significantly impacting on the business performance.	0.612	0.000	Accepted
H1a	Maintaining accounting records are significantly impacting the on-business performance	0.232	0.010	Accepted
H1b	Financial reporting preparation and analysis are significantly impacting the on-business performance	0.151	0.004	Accepted
H1c	Accounting information system are significantly impacting the on-business performance	0.360	0.000	Accepted
H1d	Working capital management are significantly impacting the on-business performance	0.281	0.000	Accepted
H1e	Investment decision are significantly impacting the on-business performance	-0.007	0.863	Rejected
H1f	Financing is significantly impacting the on business performance	0.088	0.013	Accepted

In testing the revised structural model, the results shown in Table 6 indicated that all the hypotheses were statistically significant. The final revised model is shown in figure 3 with all related model fits.

Table 6: Revised structural model and hypotheses test

Relationship among constructs			Hypoth.	Estimate	C.R.	P
BPe	<	MARe	H1a	0.224	2.950	0.003
BPe	<	FRPAn	H1b	0.148	2.928	0.003
BPe	<	AISy	H1c	0.360	5.829	***
BPe	<	WCMa	H1d	0.283	4.054	***
BPe	<	Fina	H1f	0.087	2.465	0.014
BP	<	FMP	H1	0.812	11.642	***

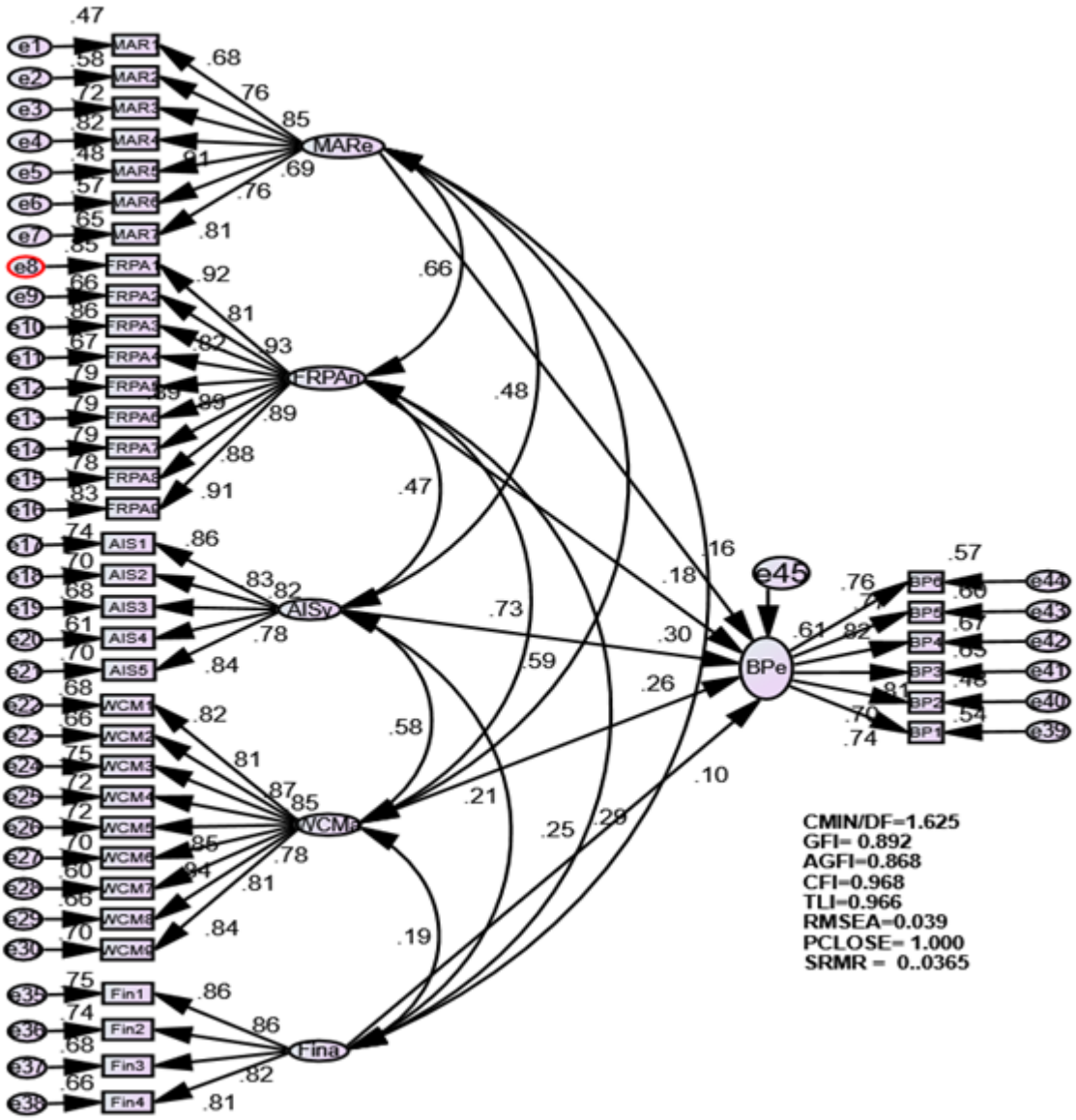


Figure 3 Revised standardized estimates of Structure model

Conclusions and Policy Implications

According to the opinion of Meredith (1986, cited in Abanis et al., 2013), financial management is one of several functional areas of management, but it is the core to the success of any small or medium-sized business. In this study, researchers identified the six variables influencing the financial management practices of SMEs in the Northern Province with the support of theoretical and empirical studies and examined the impact of FMP and BP. It is concluded that SMEs in the Northern Provinces have to ensure good financial management practices to improve business performance.

Therefore, this study concludes that there is recognition of the importance of using financial management practices to boost performance. But they are yet to be fully combined in their operations. This could be due to difficulties encountered in adopting financial management practices, such as financial constraints, a lack of expertise, insufficient policies, and a low level of awareness of these practices. This study recommends that the government and other regulatory bodies have created favourable policies on the implementation of financial management practices in SMEs based on this research conclusion.

The study also suggests that the government and other policymakers have created incentives to encourage more SMEs to implement financial management practices. This point is supported by Nimalathasan (2022) and Mayuran (2022) during an interview conducted on January 06 and 08,2022, They recommended having an awareness workshop by ICASL with the collaboration of theorists and practitioners, providing rewards to SMEs who carry out the proper FMP by the inland revenue department, and giving priority for the allocation of projects to the better performing SMEs through the evidence of proper FMP by chambers of commerce or government authorities. Additionally, there should be the creation of avenues through which the SMEs may be able to help each other enhance their financial management capabilities. Further studies with other variables will be welcomed to broaden the scope of this current study and provide more empirical evidence on the other factors that affect the business performance of SMEs in Sri Lanka.

Furthermore, there are many predictors on which the performance of SMEs depends. Other factors predicted 39.8 percent of the outcomes in this study. Therefore, further research can be carried out to identify the impact of other variables on the business performance of SMEs in NP. This work has covered the present state of the SMEs in the Northern Province of Sri Lanka. It is better to conduct a survey in the future using data collected from all other provinces in Sri Lanka. Further recommends that a study be carried out to investigate the challenges facing the successful implementation of financial management practices.

When researcher identify the limitation of this study, the definition of SME adopted by the Department of Industry and Commerce in its National Policy Framework for SME Development is adopted (Source: National Policy Framework for SME Development, page 4), which is in line with the Central Bank

of Sri Lanka's (no. 1 2017 circular) definition of SMEs. Hence, samples are put into three groups based on how well we know how many people work for them (less than or equal to 10 micro, 11–50 small, and 51–200 medium). Then, due to the unavailability of a comprehensive database of SMEs in Sri Lanka, the researchers concentrated on the Divisional Secretariat's database. Due to this limitation, the researcher could only study the types of SMEs in Sri Lanka that are registered under the DS office. Out of nine provinces in Sri Lanka, only Northern Province was selected due to the significance of the province and the lack of research conducted in the war-conflicted area in this field. The time period covered for the study is up to December 31st, 2018; in which trading business entities were registered under SMEs at DSs for this research work relevant to the research period. This study is limited to the six financial management practices (MAR, FRPA, WCM, AIS, ID, and FIN). Therefore, this limitation might restrict the generalization of empirical results.

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Dr. (Ms) Logeswary Sooriyakumaran *is a Lecturer in the Department of Accountancy, Advanced Technological Institute, Jaffna under Sri Lanka Institute of Advanced Technological Education (SLIATE). Her research interests include financial accounting, financial management, human resource management and marketing. Her publications have appeared in journals such as Merit Research Journal of Accounting, Auditing, Economics And Finance, International Journal of Engineering Science and Computing, International Journal of Economics and Management Studies, International Journal of Research and Innovation in Social Science , International Journal of Accounting & Business Finance, International Journal of Research and Analytical Reviews, FGS Research Students' Colloquium 2020 University of Kelaniya.*

Dr. Sujani Thrikawala, *Centre for Business & Technology, Waikato Institute of Technology, Hamilton Studies, New Zealand. Her research interests include Corporate Governance, Microfinance, Corporate Finance, Small Business Management, Institutional Performance. Her publications have appeared in journals such as World Journal of Social Sciences , International Proceedings of Economics Development & Research, Asian Journal of Finance and Accounting, International Review of Financial Analysis, International Proceedings of Economics Development and Research , Journal of Economic studies, International Journal of Gender Studies in Developing Societies, Journal of Business and Technology, International Journal of Research and Innovation in Social Science, Corporate Governance: Principles, Practices and Challenges, Nova Science, Journal of Evolutionary Economics, International Journal of Gender Studies in Developing Societies.*

Prof. Pathirawasam Chandrapala, *Department of Commerce & Financial Management, Faculty of Commerce & Management, University of Kelaniya. His research interests include Capital Market, Financial Management, Financial Accounting and Small Business Finance. His publications have appeared in journals such as Journal of Competitiveness, Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis, International Journal of Research in Commerce and Management, Innovation and Knowledge Management: A Global Competitive Advantage, E+ M Economia Management, Economics, Management & Financial Markets, Journal of Modern Accounting and Auditing, International Journal of Scientific Research and Management.*

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Appendix I: List of Abbreviations

Variable	Definition
AIS	Accounting Information System
BP	Business Performance
CBSL	Central Bank of Sri Lanka
DS	Divisional Secretariat
DSI	Department of Small Industries
FIN	Finance
FRPA	Financial Reporting Preparation and Analysis
GDP	Gross Domestic Product
ID	Investment Decision
MAR	Maintaining Accounting Records
MIC	Ministry of Industry and Commerce
NP	Northern Province
OECD	Organisation for Economic Cooperation and Development
PGDP	Provincial Gross Domestic Product