THE IMPACT OF FINANCIAL PLANNING AND CONTROL ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SCALE BUSINESSES IN THE BADULLA DISTRICT

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INTRODUCTION

Finance has been regarded as one of the leading solutions to causing an effective form of business and efficiently harnessing business prospects to aid business growth. Controlling financial resources without a plan can even lead to business bankruptcy. For instance, financial planning involves analyzing the financial flows of a firm as a whole, forecasting the consequences of various investments, financing, and dividend decisions, and weighing the effects of various alternatives (Mwaura, 2013). Despite the widespread use of annual budgets in financial planning and control in most businesses worldwide, studies have paid little attention to the potential connection between such planning and performance. Most research has been on the disparities between strategic planning and performance (Donkor et al., 2018; Baker & Leidecke, 2001). The control part of planning in small and medium-sized enterprises (SMEs) and its potential effects on performance appear to have received little consideration. This highlights a significant shortcoming in earlier planning and performance research considering SMEs. It is essential for managers of small-scale businesses because they are the ones who seek funding, and the opportunity cost of funding is typically on the higher side for them. In reviewing the literature, some previous studies have highlighted that many SME businesses go bankrupt soon after starting as they encounter various financial difficulties. For example, hefty credit costs and high bank charges are among them (Jeewanthia & Bhavan, 2020). Moreover, according to Gibson and Cassar (2005), these smaller companies' management has little to no knowledge of the subject, and those with less education are less likely to have plans. As a result, the current study will contribute to filling the empirical gap by examining the impact of financial planning and control on the financial performance of SMEs in Badulla District in Sri Lanka.

METHODOLOGY

The population consisted of 4927 registered SMEs in the Badulla district (Local government institutes, 2016). The study used a random sampling method to determine the sample size of 200 SMEs in the same district (to cover 15 Divisional Secretariat Divisions). The questionnaire was developed based on existing literature and previous quantitative studies to collect primary data from selected respondents. As shown in Figure 1, the detailed evaluation of the literature applied in the previous studies offers helpful direction for developing a conceptual framework that makes it simpler to carry out this investigation successfully. Financial planning and controlling were used as a proxy of the independent variable, including

risk management, cash budgeting, and cash control. In contrast, the dependent variables are returns on assets (ROA) and returns on equity (ROE) as financial performance indicators.
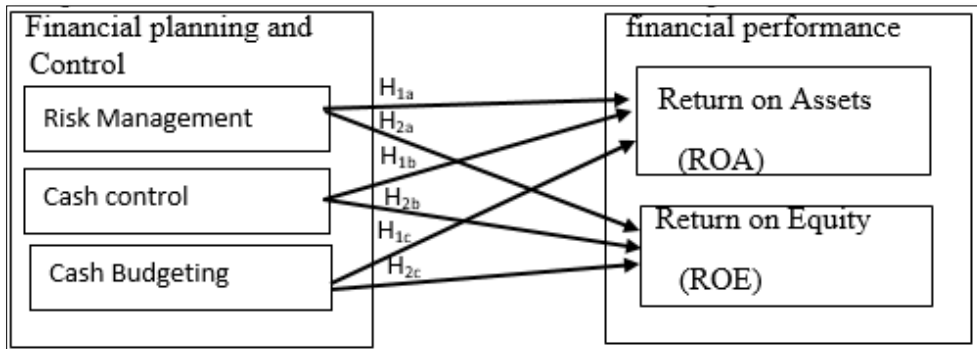

Figure 1 Conceptual Framewoork

In order to examine the impact of financial planning and control on the financial performance of SMEs in the Badulla district, the researcher used descriptive statistics, correlation analysis, and multiple regression analysis. The study used equations 1 and 2 of multiple regression models to test the main arguments.

$ROA = \alpha + RM + CC + CB + \varepsilon$ …….(1)

$ROE = \alpha + RM + CC + CB + \varepsilon$ …….(2)

Where;

RM – Risk Management
CC – Cash Control
CB – Cash Budgeting
ROA – Return on Assets
ROE – Return on Equity

RESULTS AND DISCUSSION

In order to determine the inter-item correlation in each of the questionnaire variables, the study conducted a reliability test and the Table 1 shows the results of reliability test.

Table 1 Results of Reliability Test

Variables	No of Items	Cronbach's Alpha
RM	6	0.785
CB	6	0.827
CC	6	0.897
ROA	6	0.868
ROE	5	0.796

As all the Cronbach's Alpha values are between 0.7 and 1 and it indicates that all the questions which are used to measure both independent and dependent variables were internally consistent.

Table 2 Descriptive Statistics

Variable	Min.	Max.	Variance	Mean	SD
RM	2.000	5.000	0.188	4.533	0.433
CB	2.500	5.000	0.202	4.461	0.449
CC	2.000	5.000	0.279	4.447	0.527
ROA	2.330	5.000	0.200	4.497	0.447
ROE	2.400	5.000	0.218	4.498	0.466

The descriptive statistics Table 2 shows the behaviour of the data set with the mean values of each variable, the standard deviation of each variable, and the minimum and maximum percentage of used data.

Table 3 Correlation Results

	RM	CB	CC	ROA	ROE
RM	1				
CB	.610**	1			
CC	.544**	.601**	1		
ROA	.589**	.537**	.565**	1	
ROE	.635**	.575**	.618**	0.000	1

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

Table 3 shows a significant positive correlation between risk management, cash budgeting, and cash control with ROA. The same results were reported with risk management, cash budgeting, and cash control as a significant positive relationship with ROE.

Table 4 Model Summary

Model	R	R^2	Adjusted R^2	Std. Error
ROA	0.667	0.446	0.437	0.335
ROE	0.722	0.522	0.514	0.335

According to Table 4, the model's R^2, or the coefficient of determination, is reported as 0.446. It indicated that risk management, cash budgeting, and cash control were found to explain 44.6% of the variation in the dependent variable ROA in the consideration. Similarly, all the independent variables contained in financial planning and controlling were explained for 52.2% of the variation in the dependent variable ROE.

Table 5 Regression Coefficients

Model	Unstandardized Coefficients			t	Sig.
	Variable	B	Std. Error		
ROA	(Constant)	1.135	0.274	4.145	0.000
	RM	0.347	0.072	4.820	0.000
	CB	0.159	0.073	2.181	0.030
	CC	0.243	0.059	4.136	0.000
ROE	(Constant)	0.720	0.265	2.713	0.007
	RM	0.387	0.070	5.546	0.000
	CB	0.165	0.071	2.339	0.020
	CC	0.289	0.057	5.091	0.000

According to Table 5, while other variables remain constant, the risk management would be increased by 0.347 units when ROA increased by one unit. Correspondingly, cash budgeting and control both implied a positive relationship with ROA. The results of each independent variable indicated a significant positive impact on the dependent variable (where P<0.000). The same results were obtained at the financial performance measurement of ROE, as shown in Table 5. Following the multiple regression analysis findings, the models below can be articulated.

ROA = 1.135+ 0.347(RM) + 0.153(CB) + 0.243(CC)
ROE = 0.72+ 0.387(RM) + 0.165(CB) + 0.289(CC)

Ultimately the findings of the study proved that there is a significant positive impact of financial planning and control on the financial planning of SMEs in the Badulla district. When comparing the previous findings at the consideration, the same results can be found at large (Olalere & Omar, 2016; Olamide, 2015). Results show that risk management has a positive impact on ROA. Additionally, cash budgeting and cash control have a positive impact on ROA. This outcome has also been supported by previous research (Olugbenga et al., 2020; Abbas & Abu, 2019; Atieno, 2013; Kwame et al., 2013). More precisely, at risk management, Adebayo and Onyeiwu (2018) and Rosilyn (2007) also showed a significant impact on ROE. In addition to that, the significant positive impact obtained with cash budgeting and cash controls was similarly proved by Regina (2012) and Sivakumar (2015).

CONCLUSIONS AND IMPLICATIONS

This study examined the impact of financial planning and control on the financial performance of SMEs in the Badulla district. To achieve this objective, data regarding the dependent and independent variables were collected from primary data sources (through the questionnaires) from selected 200 SMEs in the Badulla district. Risk management, cash budgeting, and cash control are independent variables, and ROA and ROE are the study's dependent variables. The study also used a quantitative approach to analyze data. The regression was conducted using ANOVA analysis and coefficients as the primary analysis tools to test the developed hypothesis. Discoveries from the study determined that a positively significant relationship exists between financial planning and the financial performance of small-scale business firms in the Badulla district; also, the study revealed that risk management, cash budgeting, and cash control significant effect on the financial performance of small scale business firms in Badulla district. Based on these findings, the study concludes that efficient and effective financial planning will result in the financial success of small-scale business firms in the Badulla district. Hence, it is expedient that the management of business firms should develop a risk policy to ascertain a good risk appetite for business firms and consequently reduce the financial losses of small-scale business firms in the Badulla district. Furthermore, the management of business firms should prepare a financial plan to avoid unnecessary expenditures and improve the financial performance of small-scale business firms. Finally, cash allocation, disbursement, and cash management generally should be accorded an increased focus. This will ensure the long-term liquidity and effective financial performance of the firm. Additionally, to serve future needs, it is suggested to include respondents from all business types and in various sectors such as banks and financial institutions, government institutions, and companies to replicate the studies more precisely at large.

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