

**UNIVERSITY
OF
LUSAKA**

School of Postgraduate Studies

**AN ANALYSIS OF THE RELATIONSHIP BETWEEN FINANCIAL PLANNING AND MSME
PROFITABILITY.**

**A RESEARCH SUBMITTED IN PARTIAL FULFILMENT FOR THE REQUIREMENT OF THE
AWARD OF THE MASTER'S DEGREE IN BUSINESS ADMINISTRATION AND FINANCE**

BY

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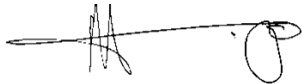
MBAFIN22112596

JANUARY 2025

DECLARATION

I hereby declare this dissertation my original work except where indicated by special reference in the text and as such it has not been submitted for any other degree, diploma or academic qualification. I further declare that the research has not been presented to any other College/University for examination either in Zambia or outside Zambia.

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ACKNOWLEDGEMENTS

I would like to thank my supervisor, Dr. Jason Mwanza for his insightful guidance throughout the course of the thesis. I would like to thank my family for their emotional support throughout the course of study. Lastly, my sincere thanks go to all the respondents that participated and made this thesis possible.

ABSTRACT

This paper examines how financial planning affects Zambian MSMEs' profitability. The major objectives of the study were to determine how much financial planning affects MSMEs' profitability, how much awareness there is of financial planning among MSMEs, what advantages financial planning offers MSMEs, and how difficult financial planning is for MSMEs.

Using a mixed-approaches research design, collection and analysis of data utilised both quantitative and qualitative methodologies. While quantitative data was analysed using descriptive and inferential statistics, qualitative data was analysed using a thematic approach. There were 290 MSMEs in the study's sample.

Cash flow statements and budgets, which are used for financial planning, showed to be significant predictors of MSMEs' profitability. However, it is important to note that a number of factors will determine how much these variables impact MSMEs' profitability. A number of challenges that MSMEs face have when it comes to financial planning were highlighted, including the requirement for specialized knowledge and the applicability of financial planning in the current changing business climate, to name a few.

Since financial planning has been shown to help achieve seamless operations and aid in important financial decision making, the study advised MSMEs to actively pursue it. The report also recommended that quasi-governmental organizations actively participate in promoting financial planning knowledge.

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LIST OF ACRONYMS

MSMEs	Micro, Small and Medium Enterprises
PACRA	Patents and Companies Registration Agency
GDP	Gross Domestic Product
EBIT	Earnings Before Interest and Tax
EVA	Economic Value Added
ROE	Return On Equity
OPM	Operating Profit Margin
ILO	International Labour Organization
BOZ	Bank of Zambia
ZICA	Zambia Institute of Chartered Accountants
ZRA	Zambia Revenue Authority

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Khan (2005) described financial planning as the analysis of financial intricacies of a business, predicting the results of investments, financing and dividend decisions. Financial Planning involves putting in place the necessary plans such as strategic, operational and financial plans. Strategic planning is referred to as a process in which an organization's top management spell out their vision for the future by way of identifying the organization's goals and objectives. Operational plans provide specific guidance to assist firms realize their overall vision. On the other hand, Brigham (1992) stated that a financial plan involves forecasting of financial statements, funds necessary to support the plan and monitoring performance after the execution of the plan and looking for variations from the plan and taking corrective action were necessary.

1.2 Concept of Financial Planning

According to Arnold & Chapman (2004), financial planning is an ever-ongoing process that seeks to direct and allocate the resources of an organization in line with its objectives. The result of financial planning takes many different forms such as budgets. Financial planning seeks to understand past performance, then transforming that understanding into future targets that are in line with its strategy. Hilton & Gordon (1988) defines financial planning as the adaptation of the broad objectives, strategies and other plans of an organization into financial terms.

1.3 Profitability

Profitability measures the ability of an organization to generate a profit from its business operations by utilizing its factors of production: labor, land and capital. Therefore, the ability of a business establishing the profitability levels is called profitability analysis which basically focuses on the relationship between revenues and expenses (Serrasqueiro, 2023). According to Gruber, (2007), profitability can be measured in two ways, repayment method and financial performance analysis. Repayment capacity method looks at the ability of the firm to repay its debt as when they fall due. It measures the capacity of the business to service additional debt without any major implications. There are usually two repayment capacity methods which are capital lease coverage ratio and the capital replacement and term debt repayment margin (Gruber, 2007). On the other hand, financial performance analysis tools

include all the financial statements (balance sheet, income statements). However, it is important to note that financial statements do not showcase all the available information related to the financial operations of a firm, but rather reveal useful information, which highlights profitability and financial soundness. Therefore, financial statements are an important tool to financial performance analysis. Metcalf and Titard, (1976) note that the financial performance analysis helps to identify financial strengths and weaknesses of a firm through the establishment of relationships between the items of the balance sheet and profit and loss account.

1.4 Background of MSMEs

It is imperative to note that MSMEs continue to offer a significant contribution globally to the provision of goods and services. The big corporations would find it difficult to meet the demand for goods and services in an ever-increasing customer base, therefore these shortfalls provide the necessary opportunities for SMEs to thrive if they optimize their efforts. Generally, there is no single definition of MSMEs that is widely accepted as it varies from place to place usually depending on who is defining it and from where they are defining it (Hamdar, Najjar & Karamah, 2017). The definition of MSMEs varies differently from country to country for instance; in Canada, a business with fewer than 500 employees is classified as an SME. A company is considered a small business if it has fewer than 100 employees in the goods-producing sector or fewer than 50 employees in the service sector. In Germany, a business is classified as an SME if it has a limit of 250 employees, while, in Belgium an SME must have a limit of 100 employees. In New Zealand a small business has 19 employees or fewer. In the US small businesses will not have more than 100 employees, while medium-sized businesses are limited to 500 employees. In China SMEs have been defined based on different matrices like the number of people employed, sales volume, and value of assets (Zheng, O'Neill & Morrison, 2009; Cunningham & Rowley, 2007). Another Asian country Malaysia through the National SME Development Council (NSDC) approved the use of common definitions for SMEs in specific sectors such as manufacturing, agriculture and services sectors. This was done in order to ensure that large organizations did not benefit from SME support schemes. To encourage investment, an increase the financial ceilings were introduced so that those businesses willing to invest do not get penalized as this encouraged more people to start new businesses which resulted in an increased number of SMEs.

In the Zambian context, as per revised National Micro Small and Medium Enterprise development policy (2023), MSMEs are defined based on the Zambia Institute of Policy Analysis and Research (ZIPAR) 2023 Report which characterized MSMEs into 3 distinct groups (Micro enterprise, Small enterprise and

Medium enterprise) on the basis of 4 main variables which are Annual Turnover, Total fixed Investments, Number of employees and Legal status.

1 Micro enterprise

A micro enterprise is therefore defined as any business enterprise whose annual revenue is up to K1,000,000, with the exception of Mining and Quarry whose limit is K5,000,000, employing up to 10 people and whose total investment, except fixed assets (land and building) is as indicated below:

Sector	Lower Limit (K)	Upper Limit (K)
Agriculture	1	250,000
Mining and Quarrying	1	5,000,000
Manufacturing and Other	1	400,000
Services and Trade	1	250,000
Construction	1	400,000

2. Small Enterprise

A small enterprise is a business with yearly sales of K1,000,001 but not more than K10,000,000, with the exception of Mining and Quarry, whose limit is K10,500,000, must be employing between 11 and 50 people and the total investment, without fixed assets (land and building) is as indicated below.

Sector	Lower Limit (K)	Upper Limit (K)
Agriculture	250,001	5,250,000
Mining and Quarrying	5,000,001	10,500,000
Manufacturing and Other	400,001	8,400,000
Services and Trade	250,001	5,250,000
Construction	400,001	8,400,000

3. Medium Enterprise

A medium enterprise is any business where sales are between K10, 000, 001 and K50, 000, 000, must hire between 51 to 100 people and the total investment, without fixed assets (land and building) is as indicated below:

Sector	Lower Limit (K)	Upper Limit (K)
Agriculture	5,250,001	25,000,000
Mining and Quarrying	10,500,001	50,000,000
Manufacturing and Other	8,400,001	40,000,000
Services and Trade	5,250,001	25,000,000
Construction	8.400,001	40,000,000

1.5 Importance of MSMEs

Now onto the bigger picture, MSMEs remain a key element in any nation's economy around the world, and this is being echoed globally. Based on the opinion of Ouma-Mugabe et al. (2021), most enterprises in the world are considered to be small and medium enterprises. They have proved to play an important role in the development of the world because they promote job creation. Small-Micro Enterprises contribute more than 50% of productive economic activities. About 90% of all business enterprises in the world are SMEs (World Bank, 2020). SMEs, therefore, said to contribute more than 40% of the gross domestic product (GDP) in developing countries (World Bank, 2020). Various studies depict that SMEs contribute greatly to the economic development of countries, especially for developing nations. Subhan et al. (2013), have noted that SMEs are a major contributor to innovation, employment generation, and poverty reduction. Many scholars still prefer to emphasize the importance of MSMEs and recognize the economies that ground them.

For instance, Hall (2002) and Mephokee, (2004) in their studies reported that the role of SMEs is becoming increasingly vital to the global economy particularly within the last few decades. The most

important, however, are those for which they are considered as a critical force not only in terms of economic development but also for their importance for continued growth in almost all economies (Garikai, 2011). It is worth mentioning that SMEs are a major source of employment, foreign exchange earnings through exports, and play a vital part in poverty alleviation (Mephokee, 2004; Savi, 2019). SMEs comprise about 99.7 % and 99 % of all employers in the US and EU alone, respectively (Zhou, 2024).

The critical role of SMEs differs by region in the African setting. For example, in Kenya, 74 % of the population is employed by SMEs and they constitute not less than 18% of GDP (Ngugi, 2012). In Zambia, small and medium enterprise development ministry reports SMEs account for 97% of all businesses, contributing 70% to gross domestic product (GDP) and 88% of employment (DeVere, 2022). Based on the above, it is clear why the Zambian government has placed high priority on the development of SMEs to help foster economic growth in Zambia. However, despite the notable impact that SMEs play, various research has shown that SMEs face several challenges to thrive. This is highlighted by the fact that close to one million small enterprises are established each year, at least 40% of them close within one year and 80% of them will be out of business within 5 years and 96% will be closed by their 10th year (Gerber, 2001; Khawaja, 2006; Hussain et al., 2010; Cant and Wiid, 2013)

1.6 Problem Statement

The study aims to explore the extent to which financial planning affects the profitability of the MSMEs. Sustainable growth of MSMEs provides significant material and economic benefits for economies with a positive impact. Therefore, the significance of sustainable growth of MSMEs cannot be overstated as they play a pivotal role in helping developing countries combating economic obstacles, such as unemployment, low GDP to name a few. While most of the Literature reviewed indicates that there is a varying degree of use of financial planning of SMEs as, Nenzhelele (2017) pointed out that most of the SMEs in developing countries work on an ad-hoc fashion without any standardized business processes proper planning systems with financial planning nonexistent in most cases.

According to O'Carroll, (2021) in her findings, MSMEs in Zambia had limited knowledge about how to prepare financial plans. According to Xiang & Worthington, (2015), 60% of SMEs are unable to make profit in the first few years of operation due to the absence of financial planning. A further study has shown that among the greatest challenge faced by MSMEs in Zambia is financial planning strategies and establishment of financial plans (Goma, 2020). What has proved difficult is the fact that the financial planning tasks necessary for effective financial management of MSMEs in Zambia are not readily

available to MSMEs', therefore, the effect is that MSME owners are inadequately prepared to perform the necessary financial planning activities required for business profitability in Zambia (O'Carroll, 2021)

Financial Planning has proven to be a significant factor in the profitability of MSMEs (Micro, Small and Medium Enterprises) and the significant importance of MSMEs in the context of economic development has soared high (O'Carroll, 2021). However, many face obstacles in terms of profitability owing to inappropriate financial planning. Hence, it is in the light of this understanding, that this study will attempt to offer valuable insights for the Zambian MSMEs through empirical research biased towards financial planning and its effects on profitability of SMEs. The answer to this problem will hold significant bearing in developing strategies for both new and existing MSMEs.

1.7 Study objectives

The following are the study objectives that will guide the study:

1.7.1 General objective

To assess the impact of financial planning on the profitability of MSMEs.

1.7.2 Specific objectives

1. To determine the relationship between financial planning and the profitability of MSMEs.
2. To determine financial planning awareness among MSMEs.
3. To highlight the benefits of financial planning to MSMEs
4. To identify the challenges MSMEs encounter in financial planning.

1.8 Research Questions

To what extent does financial planning have on the profitability of MSMEs?

What is the level of awareness regarding financial planning among MSMEs?

What are the benefits that financial planning offers to MSMEs?

What are the challenges faced by MSMEs in financial planning?

1.9 Scope of the study

This study focused on MSMEs that are located within Lusaka Central Business District only and was restricted around the subject of Financial Planning. This was strategically chosen because the majority of MSMEs are located within Lusaka central business district. Secondly, since the researcher is a

resident of Lusaka, accessibility to the participants was easier. Although the scope being within the confines of Lusaka, its findings remain relevant to various parts as well.

1.10 Significance of the study

This study will seek to provide a useful point of reference to MSMEs by providing an in-depth understanding of financial planning, hence assisting in making informed decisions on financial planning for better financial success. It will also be a point of reference for future researchers since it will add to the existing body of knowledge. It will provide a platform for the development of financial planning activities to make MSMEs put in place financial planning methods for government and quasi-government agencies.

1.11 Limitations of the study

The study was mainly restricted by the element of time as the researcher employed full-time, that will have to multi-task conducting the research while keeping up with the demands of work.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This chapter provides all the relevant literature on the subject of financial planning. This chapter describes the necessary aspects in line with the study and the relation to the impact of financial planning on SME profitability. The reviewed literature was based on research objectives and questions and other relevant information related to the research study.

2.2 Theoretical Framework

In modern times, financial theory has largely evolved and led to the building of numerous frameworks and models. The research work would be guided by the theories of financial management that are based on the principles identified as 'a set of fundamental tenets that underline financial theory and decision-making in the finance arena' and are discussed below:

2.2.1 Agency Theory

Agency theory holds that the residual owners of an organization do not participate in the day-to-day running of an organization; hence they appoint managers, who are referred to as agents, and are supposed to conduct the affairs of the firm for and on behalf of the owners who are referred to as the principals, aiming for the maximization of returns on behalf of these principals. This theoretical framework rests on the concept of 'twofold transactions,' which posits that every financial transaction requires the involvement of two entities, each of which is assumed to be acting in its own self-interest. The theory has some disadvantages; in particular, it contains elements of information asymmetry, since the agents generally have more knowledge about the financial performance of the company because they are the ones who manage the daily operations, unlike the principals who are not actively involved all the time. Another problem with Agency theory is the problem of moral hazard. This happens when agents use information asymmetry to their advantage at the principal's expense (Ang, 2000). Financial planning when done helps alleviate the effects of the stated problems for instance in the case of information asymmetry, both parties will have access to most financial information therefore agents cannot do not have the information advantage to make use. As Binks (1992) pointed out, it is important to note that the theory provides a great deal of useful knowledge and insights about financial planning for MSMEs and explains the best approaches to the practice and perception of MSME financial

management. It also allows academic and practitioners to pursue strategies that could help sustain the growth of MSMEs.

2.2.2 Finance Gap Theory

Bolton (1971) developed the theory of the Finance gap, and he believed that small enterprises tend to have two important sets of challenges, namely, component-knowledge gap and supply. This, in turn, illuminates the need for the knowledge of Small Enterprises regarding the financing opportunities available, thereby drawing their attention towards the various sources of financing available. It further goes on to state that once the opportunities are determined, MSMEs then stumble at satisfying the necessary loan requirements. This leaves MSMEs with only one way of raising capital which is through personal savings, friends and family members. The Finance Gap theory is therefore used in this study by highlighting how financial planning comes at play in assisting MSMEs getting hold of finances, which remain a key ingredient in achieving profitability. This is done by providing requisite information on a business's financial needs and be a casing point to would be investors.

2.2.3 Trans theoretical Model of Financial Planning and Change

The Trans theoretical Model was developed by Prochaska and DiClemente in 1982 primarily to study a variety of health-related behaviors such as smoking, alcohol use, cocaine use, exercise, sun protection, stress, weight control, psychotherapy and safe sex (Prochaska, DiClemente, & Norcross 1992).

However, it was not until after a decade that the theory was linked to financial planning by Kerkmann (1998). He first proposed using the Trans theoretical model in financial counseling after it was originally founded. Since then, numerous studies have used the Trans theoretical model to investigate behavior changes associated with respect to financial practices (Lown, 2007; Shockey & Seiling 2004; Xiao et al., 2001; Xiao et al., 2004).

To measure the impact of financial planning on motivation for a change in behavior, researchers have created a definition and criteria for financial success. This has been done through the modelling and measuring of the financial planning impact on consumer behavior (Lyons 2005; Lyons et al. 2006). Researchers must know if financial planning does change the financial practices of consumers. In the real world, though, things are a lot less clear-cut and there are many other factors that can affect financial behavior, so it can be a challenge for researchers to separate out the effects of financial planning.

Muske & Winter (2004) raised the point that while there is some evidence that financial planning behavior could be a good predictor of actual financial behavior, there is still a need for more research to develop a solid predictor of real change in behavior. A second challenge for researchers is identifying relevant outcomes that are congruent with a monetizable burden to the target audience. If an unsuitable measure is chosen, the effect that financial planning has on financial performance may be overstated or understated. This is so especially when working with low-to-moderate income populations. Over the last decade the vast majority of financial planning programs targeting low revenue SMEs have been centered on cost cutting, providing them help in trying to minimize their operating costs.

However, using the life cycle theory, Scholz and Seshadri (2007) show that low-income SMEs are already behaving optimally, given their financial constraints. Therefore, if financial planning ignores what theory suggests, the outcome may be false because the targets get might be infeasible. At the end of it all, financial planning itself rarely changes a firm's financial circumstances as they are faced with limited financial resources regardless of how much financial planning training they receive, may not be able to meet their financial goals. However, this is not to suggest that efforts to foster financial planning must stop even if they are unable to put it into immediate practice. Therefore, as such, care must guide how these factors are linked to theory.

2.3 Financial Planning

Planning is said to be a prerequisite before any activity takes place. As such, planning has been placed with utmost importance especially in the business sense. Financial planning enables businesses to create control systems which become useful tools in assisting business owners or managers to objectively put in place activities that can offer substantial benefits to an organization. It is imperative that an understanding of the several elements involved in financial planning are (Verstina, Akimova, Kisel, Chibisova, & Lukinov, 2015). Some of these elements include tax management, debt management, insurance management, investment management, pension management, and asset planning. Therefore, activities like debt to capital ratios, and any other variable that will affect capital structure, financing, and financial flexibility can be accounted for in financial planning (Bandopadhyaya, Callahan, & Shin, 2012). Chatterjee & Goetz, (2019) noted that financial planning shows the planner's financial behavior. They further highlighted that SMEs who put in place financial planning activities were calmer and orderly in handling their finances, thus more incentivized to explore financial innovations to meet sufficient funds. Planning is therefore at the heart of innovation activities that create feasibility of new ideas (Alosani et al., 2020). Financial planning requires greater attention and flexibility in order to

attain financial innovation (Hunter et al., 2012). The importance of financial innovation for SMEs is that it can assist in seeing narrow opportunities and prevent stagnation in performance. Mitchell (2002) describes planning as a process to develop a strategy to achieve desired objectives, to solve problems, and to facilitate action". As the result of rapid technological changes, globalization and climate, businesses need to be managed through pragmatic, meaningful and strategic management which will assist in attaining organizational goals, which all start with planning at the beginning of it all. Lyles, et al (1993) urge that it's the process of planning that is important not the plan itself. Herter (1995) states that the process of planning both on an informal level and a formal level, firms can progress from conceptualization to reality. According to Arora (2015) planning is the process of selecting objectives and setting a course of action to achieve them. It is about forecasting ahead and putting in place mechanisms that will make your objectives a success. It's only through planning that an organization is able to assess its current status quo, its vision and how it will get there. Benefits of financial planning become a reality if the whole organization is in tandem with both its short- and long-term objectives (Otley, 2015). Beaver (2008) argues that SMEs that neglect financial planning may find it difficult to attain their full performance and growth potentials placing their survival at risk. Wang et al (2007) did highlight that SMEs that prescribed to financial planning showed better performance than those that did it. They went on further to suggest 3 financial plans (Short-term, medium-term and long-term) that are available to SMEs to assist in constructing concrete plans.

2.3.1 Short-term Financial Plan

As the name suggests, these are usually short in nature and are prepared usually for a maximum of one year. Because of its short life span, this plan is focused on the working capital needs of an organization. These plans state everything to do with the firm's liquidity and as such are very important to the short-term survival of the business. Mudit (2011) notes that firms will make decisions based on short-term sources of financing for their operations. Generally, short-term financial plans are designed to meet budget goals with one fiscal year and a major advantage of these is that firms can operate with a high degree of certainty in the plans as compared to long-term plans. Another advantage is that short-term plans can be easily amended as business requirements change as well.

2.3.2 Medium-term Financial Plan

These plans have a planning horizon of between 2 to 5 years and are usually for the purposes of research and development, asset maintenance, new product development and so on. Medium-term plans are a bridge between short-term plans and long-term plans. The major purpose of these plans is to optimize the value that existing assets bring to the organization, and should they not offer the perceived value, it is through medium-term plans that a company can decide to replace these non-performing assets. However, Davoren, (2009) argues that firms do not usually conduct medium-term plans as they can be easily classed under long-term plans. This is so because most firms find the task of coming up with these plans too excessive and might just be one way of increasing red tape. They would rather just have the two extreme sides, one being short-term plans and Long-term plans only.

2.3.3 Long-term Financial Plans

This focuses on the long-term financial objectives of the company. The planning horizon is anything beyond 5 years. Key activities of long-term financial plans are capital structure, expansion, asset acquisition to mention a few. Long-term financial plans often look at the future growth prospects and financial position of the company. Grozdanovska et al (2017) notes that due to the timeframe involved, levels of uncertainty are high, and decisions are usually based on projections and assumptions, depending on factors like economic outlook, sales projections and forecasts, interest rates and others. The purpose of long-term plans is to set financial yardsticks that when achieved provide a basis for attaining the long-term financial objectives of the business. According to Houston (2000), long-term plans are made for major strategic decisions with huge impact on the direction that the business will take.

2.4 Financial Performance

In order to understand the financial performance of a business, various financial measures are used to assist businesses critically, analyze their activities to assess its financial standing and at the same time provide information that act as a basis for management decisions. What makes this financial information important is the fact that it is not possible to control or predict all of the factors that influence the final outcome of any business decision. Nor is it possible to have available all of the information that would be ideal. Therefore, this information improves decision making by virtue of using available information which translates into effective financial planning and analysis. With the foregoing, Crane (2010) notes that the recommended financial analysis measures can be grouped into five distinct categories, namely:

profitability, solvency, liquidity, repayment capacity and financial efficiency. These are further discussed in detail below.

2.4.1 Profitability

Profitability is simply the extent to which a firm is able to produce profits from the full employment of land, capital and labour. When a business records a profit, it simply means that it had more revenue compared to its expenses. In order to get a detailed picture of the financial performance, the use of financial performance tools is imperative. (Gruber, 2007) stated that in the analysis of the financial performance of a firm, financial statements (balance sheet, income statements) are mainly used but it is important to note that they do not avail all the required information in relation with the financial operations of a firm, but produce some extremely important information, which are mainly profitability and financial soundness. It's from such arguments that one might want to conclude that the use of financial statements aids in conducting detailed financial performance analysis.

Profitability has been studied at various levels with different indicators used such as current ratio, liquid ratio, receivables turnover ratio to mention a few (Singh and Pandey, 2008). Akintoye (2008) also agreed and went on further to highlight other indicators such as earnings before interests and taxes (EBIT). Rayan (2008) further highlighted more profitability indicators being economic value added (EVA), return on equity (ROE), operating profit margin (OPM) and earnings per share. However, for smaller organizations, such indicators are more difficult to use and as such much simpler indicators can be used to analyze companies' performance and these basically use models that are premised on the correlation between net profit (Sales minus costs) and cash-flow (Matis et al., 2010).

2.4.2 Budgets

Budgeting plays a crucial role in smoothing the operations of any given businesses. A budget acts as an important financial tool for decision making that affects a company's financial performance more so for MSMEs (Sandberg, 2014). A budget details estimates of future transactions. Budgets take different forms and the most widely used is Pro Forma.

Zor et al (2019) notes that one of the major benefits that budgeting has to MSMEs is that it's a tool that assists them to forecast sales, cash inflows and outflows as well as costs thereby providing empirical data that is critical in reaching key business decisions regarding the operations. For example, it can be used through evaluating the performance of the firm by comparing actual results with budgeted ones and assessing the favorable outcomes and taking necessary corrective outcomes for negative

outcomes. Budgeting forecasts future needs and establishing more diversified patterns by way of planning, evaluation and communication. (Hilary & Hui, 2009).

Bhimani (2012) added that budgeting enhances managerial financial effectiveness and increases information sharing between management at different levels within the organization thereby playing a critical role in achieving financial stability and objectives. As a result of effective financial planning and decision-making, a company's viability enhances, especially for MSMEs as this provides the platform for better assessment of profitability and potential returns (Pinches, 1982). Further, budgeting assists MSMEs in clearly defining future ideas and visions by making empirical decisions based on current financial circumstances and helps in reducing costs (Grünig & Kühn, 2009). A study by Van Sang & Hong (2021) established that utilizing financial performance tools like budgets as a company's development yardstick is one of the most frequently exercised tools and it is based on the concept of profitability which is an important measurable goal of a firm. However, it is imperative to note that there are plenty of financial performance indicators that can be used as a standard for firm evaluation like, sales income, profitability ratio to mention a few. Antonius et al (2024) concluded that budgeting helped participants understand the role that good financial management plays in assisting the overall success of the organization. Therefore, they went on to state that the interaction of financial planning has proved effective in strengthening financial management in the company.

2.4.3 Financial Statements

The importance of financial statements on the profitability of MSMEs can be highlighted in two main elements (Hamdan, 2013): First: a communication tool: as a communication tool, financial statements can be used a link between the organization and various external stakeholders such as suppliers, customers and banks which impacts the firm's ability to portray itself as an attractive venture weather to potential clients who will increase the revenue base or banks who will be able to provide funding. Second: a means of assessing performance: financial statements provide an assessment of the performance of management and the efficient allocation of resources. They are also used in assessing the financial position of the institution as well as the progress made in achieving the financial objectives of the business.

2.4.4 Cash flow statements

Cash flow statements continue to be a great tool for financial management. This is so because the information contained in cash flow statements provides management with short run financial planning

and cash control. Motlagh (2013) highlighted some of the important uses that Cash-flow Statements provide towards the profitability of firm: 1) The cash flow statements show surplus or shortage of cash well in advance. This provides MSMEs with ample time to arrange for surplus cash where shortages are foreseen. In the short term, this provides assistance to firms to operate smoothly culminating in achieving profitability in the long term. 2) Cash-flow statements greatly assist in making decisions that require an outflow of cash from the business as well as providing information about the ability of the business to generate cash. 3) Cash flow statements can be used to compare budgets against the actual application of funds and find any wastage. This exercise helps in refining the financial planning process in future.

2.5 Empirical literature

Various studies have been conducted to determine the linkages between financial planning and MSMEs. For instance, Miller and Rojas (2004), conducted a study on financing constraints that MSMEs face in developing countries discovered that SMEs face difficulties to achieve profitability as a result of irrational financial decisions which usually happen due to inaccurate accounting information which in turn leads to inefficient financial management information. A study by Bakhtiari et al (2020) identified effective financial management practices as a core fundamental of MSMEs success, but on the contrary did notice that MSMEs usually do not have formal financial management structure in place and as a result struggle. Bakhtiari (2020) suggested MSMEs led by owners with conventional approach performed poorly financially because financial management education was missing. It was recommended in that study that a professional accounting system should be introduced for consistent growth and maximization of wealth for MSMEs because a professional financial manager would be able to manage the firm's financial affairs effectively and capitalize the resources in a rational way.

According to Brealey et al. (2019) financial planning is of utmost importance, because financing and investment decisions should not be treated in isolation as they should align with other business functions within the organization, assisting managers to be decisive even amidst uncertainties. It with the foregoing why financial planning is necessary not only for large corporations, but is crucial for MSMEs, because they are more vulnerable to economic changes and market fluctuations than large corporations. Landier & Thesmar, (2009) in their study did show some evidence that MSMEs usually use short-term resources which indicates that they generally do not use some tools for long-term financing. Therefore, financial planning necessitates the control of MSMEs to allow the use of resources

in such a way that managers adapt their businesses to market uncertainties more easily. (McMahon & Holmes, 1999).

Abbas and Abu (2019) in their study in Nigeria examined the linkages between the use of financial control mechanisms and the profitability performance of manufacturing firms with emphasis on assessing financial control mechanisms that affects the profitability of Nigerian manufacturing firms and in its findings suggested some alternatives to increasing the effectiveness of financial control mechanisms for enhancing profitability of manufacturing firms in Nigeria. They used a survey method (cross-sectional) where 5 employees were selected at random across 25 firms that participated in the study. Primary data was collected through a questionnaire and the data gathered was analyzed descriptively and inferentially using one-sample t-test and Pearson's Product Moment Correlation. The findings from the study highlighted a significant positive relationship between financial control mechanisms and firms' profitability performance. It was concluded that financial control approaches should be strengthened through the adoption of adequate control system in manufacturing firms.

Financial planning represents a blueprint of what needs to be done in the future for a firm to remain relevant and continue as a going concern. It is important to note that there will be variations of plans in scope, formality and sophistication depending on the size of the firm. Chandra, (2007) notes that firms need to focus on common elements such as economic assumptions, sales forecasts, mode of financing and pro forma statements. On the other hand, Delmar and Shane (2004), cited the importance of maximizing resources and facilitating rapid decision making in financial planning. However, this study had one major limitation that it focused on startups as opposed to established MSMEs. Sarason (2003), in their study on the configuration theory, tried to establish the extent to which financial planning impacts the overall performance of businesses. The findings did find a relatively strong positive link between financial planning and the performance of businesses. However, their conclusion was that the relationship between financial planning and MSME performance is moderated by the stage at which the organization is at, and it shows benefits in the early stages of the firm.

A study by Regina (2012) examined the practices of financial management among small firms in Nigeria. The study adopted a questionnaire for data collection and inferential analysis in particular chi square was used in analyzing the study's data. The findings did demonstrate that accounting systems together with financial management information increased the risk perception of investors which results in small firms finding it difficult to access adequate funds for the business. It was concluded that in order to effectively manage MSMEs, firms should enhance their practices and performance by way of employing the services of a qualified certified accountant.

MSMEs are said to be the backbone of any economy and the structure of most MSMEs usually has the owner in most instances handling managerial functions on all levels. However, a study by Fourie (2006) highlighted that most MSME owners lack the necessary knowledge and expertise to effectively carry out Financial Planning. This in the long run creates difficulties on how to go about Financial Planning thus owners are usually inclined to ignore Financial Planning as a whole. Crane (2010) stated that financial planning is the process of formulating financial policies with regard to financing, working capital decisions, dividend policy and investment. The success of firms is premised on a firm's ability to fully embrace financial planning in its entirety. Many argue that financial planning provides support to a business plan by way of aligning financial goals (Mwangi, 2014). Planning is at the heart of any endeavor and its success thereof. Beaver, (2008) noted that MSMEs may not attain their potential should they neglect financial planning. Wang et al (2007) concurred stating that SMEs with financial planning activities in place had better performance compared to those that did not. It is therefore imperative that SMEs put in place plans on how they wish to see their firms perform financially.

A study by Omoboga and Okibo (2016) assessed how financial planning affects small manufacturing businesses in Kenya. The researchers wanted to understand three cash management practices (processing, budgeting, and control) and how they impact the growth of these companies. They adopted a descriptive survey research design and questionnaire was used to collect data. The descriptive and inferential techniques were used for data analysis and the findings from the study reflected that there was a significant relationship between cash control, cash budgeting and cash processing on the growth of small manufacturing firms. Based on this premise, the study recommended that SMEs should seek to manage their credit periods by matching that with their cash inflow and outflow and ensure there is effective control of payables.

Berry (2011) in their study to determine financial planning and control systems among SMEs in the Tshwane Metropolis found out that 52.4% of the respondents indicated that they used some form of financial planning with the majority highlighting budgets as their preferred financial planning tool. However, the findings were not consistent with the respondents' understanding of financial planning thus making the results questionable. Another study by Mutanda (2014), indicated serious problems associated with financial planning literacy as 62% of the respondents were not fully aware of what constitutes financial planning and only about 20% knew how to draw up financial plans.

Another study by Gruber (2007), suggests that financial planning interferes with efforts towards more efficient activities. The reason behind this assertion is that financial planning gives a false illusion of control and offers potentially less useful predictions due to the inability to gather and analyze data about

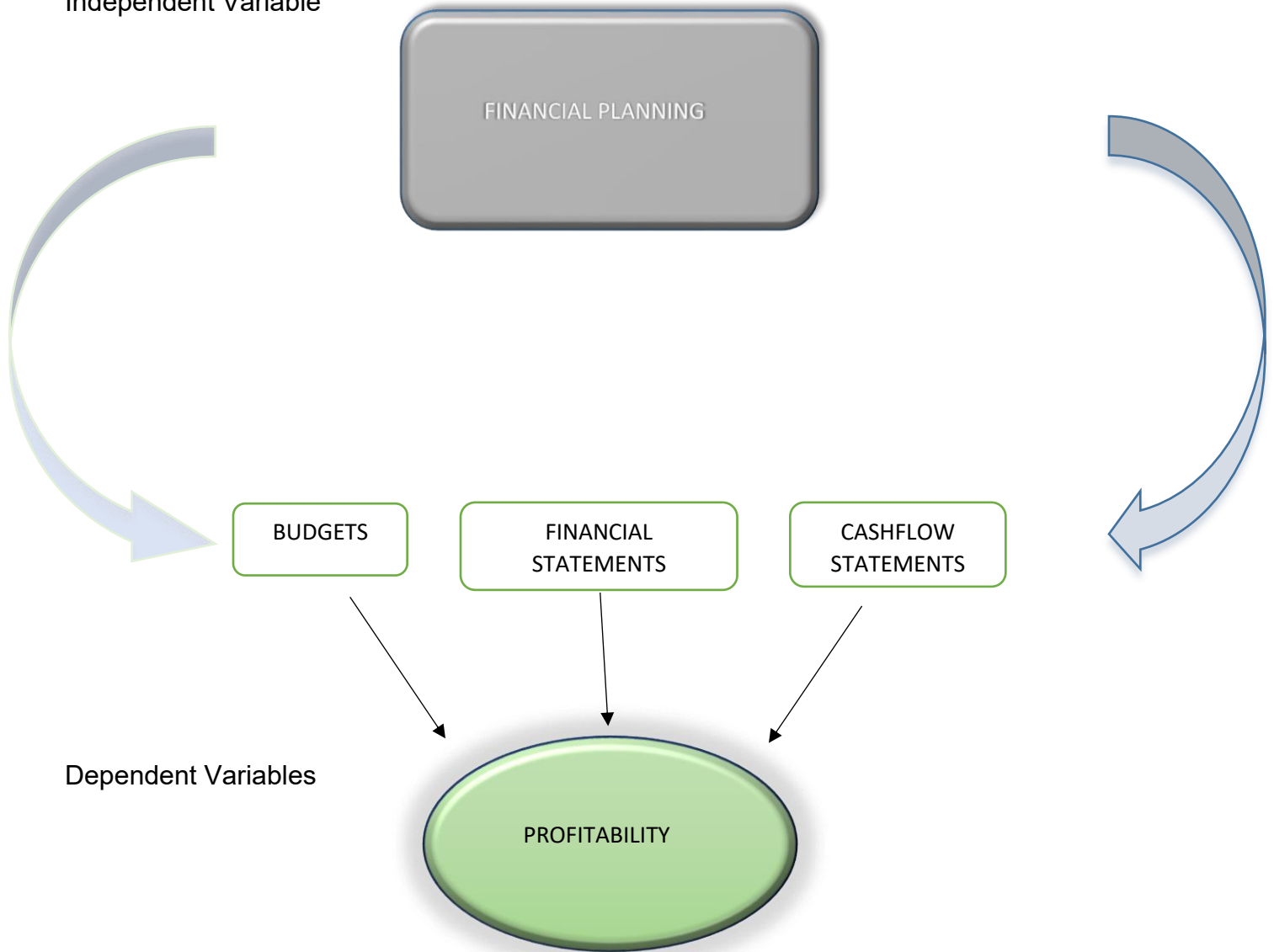
the future. Other research has shown that financial planning may be either unrelated to SME success, or it is primarily beneficial in showing organizational support rather than aiding SME success (Honig and Karlsson, 2009).

A study by Lakew and Rao, (2018) on the impact of financial management planning on business profitability as well as the impact of financial characteristics on firm profitability. Primary and secondary data was collected from 37 businesses in the Ethiopian town of Jimma and was analyzed inferentially. The study found that financial management approaches such as accounting reporting and analysis, financial planning and control, working capital management, fixed asset management, and financial characteristics such as debt ratio and current ratio have a significant impact on profitability. They recommend that business executives need to improve their financial management system and financial characteristics.

In conclusion, most empirical research ends up inconclusive with regard to the general impact of financial planning in organizations (Chiliya et al, 2015). Various studies have shown that MSMEs that indulge in financial planning are more persistent and grow than those that do not engage (Liao and Gartner, 2006; Delmar and Shane, 2004). However, other studies have shown no relationship between financial planning and MSME performance beyond the survival stage as Brush et al (2009) highlighted. From the literature reviewed on the effects of financial planning on MSME performance, the studies have not addressed the direct effect of financial planning on MSME financial performance. Thus, a gap in knowledge exists in the literature on the relationship between financial planning and the profitability of the MSMEs.

2.6 Conceptual framework

Independent Variable



Source: Researcher, (2024)

As above, financial planning activities like budget controls and liquidity management (Financial Statements & Cash flow Statements) promote business effectiveness and efficiency resulting in profitability. Businesses seek to attain efficiency, which is a level of performance where a firm uses the least amount of input to achieve the highest amount of output. When these two are harmonized, the running of the business becomes smooth and provides strategic direction. Once efficiency is attained, the most can be realized from the business resources.

CHAPTER THREE

METHODOLOGY

3.0 Overview

This chapter summarizes the methodology used for this study. It describes how the study was carried out, underlines the research design, the study population, the study sample size, the sampling procedure, the research instruments and data collection procedure, data analysis and validation as well as ethical consideration.

3.1 Research Design

For the purposes of this study, a mixed approach was used which basically utilize quantitative and qualitative methods for collecting and analyzing data in order to achieve more meaningful conclusions on the subject matter (Tashakkori and Teddlie 2003; Creswell 2005). For qualitative data, the researcher used open ended questions in a questionnaire that allowed the respondents to comprehensively provide feedback in detail. For quantitative data, a 5-point Likert scale was utilized. A sequential explanatory design was used in order to thoroughly determine the existence of the relationship of the two variables. The justification for using the stated method is that neither quantitative nor qualitative methods could suffice when used separately to comprehensively uncover details of the study.

3.1 Target Population

A population is described as the entire population under consideration of the study (Waihenya, 2010). According to the Financial Scoping Survey Report by the Bank of Zambia and ILO for 2022, Zambia had 110,508 tax paying MSMEs with Lusaka Province recording 43.5% of the total MSMEs translating to 48,071 SMEs. Of the 48 071 only 4.4% were formal and registered with the Patents and Companies Registration Agency (PACRA) which translates to 2,115.12. As such, 2,115 MSMEs will be considered as the Target population for the study.

3.2 Sampling Method and Sample Size

The sampling method that was utilized for the study was convenience sampling due to the fact that it will made it easy for the researcher to collect data from available respondents at the point of data collection. The sample size for the study was calculated by using the Yamane (1967) formula at 95% confidence interval with a 5% margin of error.

$$\text{Sample Size (n)} = \frac{N}{1+N(e)^2}$$

Where:

N= total population (2115)

n= sample size

e= 5% margin error

$$\begin{aligned} \text{Therefore: Sample Size (n)} &= \frac{N}{1+N(e)^2} \\ &= \frac{2115}{1+2115(0.05)^2} \\ &= \frac{2115}{1+2115(0.0025)} \\ &= \frac{2115}{7.2875} \\ &= 290 \end{aligned}$$

As per above computations, the sample size for the study was determined as a minimum of 290 respondents. However, only 273 respondents participated, representing a 94% response rate which is sufficient.

3.3 Data Collection

The study has been conducted with the use of semi-structured questionnaires as a data collection tool, which features both open and close-ended questions. The questionnaire was self-completion in nature, meaning it enabled the respondents to complete it on their own. To ensure that the questionnaires were filled in properly, follow-up was done. The idea behind the use of the questionnaire is that it saves time and is economical to administer, and the researcher is able to acquire a wider range of data about the study as questionnaires seek to collect data on a wider perceptive (Yin, 1989).

3.4 Analysis of data

Quantitative data from the study was analyzed using inferential statistics to establish the relationship among the variables. Qualitative data was analyzed using thematic analysis. The nature and strengths of the relationships between the independent variable's budgets, financial statements, and cash flow statements and the dependent variable MSME profitability were explored using regression analysis. The study

utilized, MSME Profitability as the dependent variable, was measured by the levels of profits realized. The study used the levels of profits accrued by the MSMEs within the study financial year to measure the Profitability. During analysis, MSME profitability was interpreted using mean and standard deviation. The independent variables were measured using mean and standard deviation within a range of five points. The data collected was averaged on a scale of 5 points. Then the resultant values were considered in drawing of the conclusions.

The regression model used was:

$$\log \frac{P_i}{1 - P_i} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_p X_p$$

In this equation:

Where $P_i = P(Y_i = 1) = 1 - P(Y_i = 0)$,

- $P(Y_i = 1)$, $P(Y_i = 0)$ represents the total probability of is the probability of success and failure of an observation (MSME Profitability).
- (β_0) = log-odds when all variables are 0
- $(\beta_1, \beta_2, \beta_p)$ are the regression coefficients associated with each predictor variable (Preparation of financial statements, Budgets and Cash flow statements).
- X_1, X_2, \dots, X_p (Preparation of financial statements, Budgets and Cash flow statements) are the predictor variables used in the analysis.

Logistic regression differs from linear regression in that it will regress against the logit of dependent variable, not the dependent variable itself (Joseph, 2009). For the dependent variable coefficients in logit are the effects of the predictor on log of odds.

3.5 Ethical Considerations

The study adhered to ethical guidelines by ensuring that respondents' confidentiality was maintained and that they remained anonymous. This was accomplished by not requiring their names. Additionally, consent was obtained before involving the respondents in the study, with all the necessary information provided about the study's purpose and intent. The respondents were also reminded that their involvement in the study was voluntary, allowing them the option to withdraw at any time if they chose to do so.

3.6 Data Validity

For the sake of data validity, methodological triangulation was employed. This approach yields reliable results as it incorporates multiple methods. According to Risjord et al. (2001), Boyd (2001) described cross-method studies as those that integrate both quantitative and qualitative data collection techniques.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

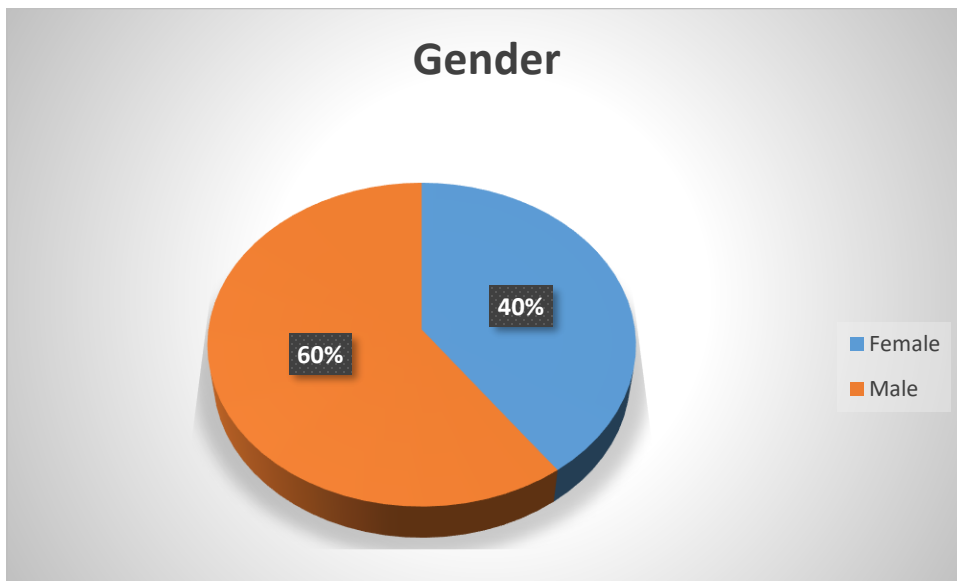
This chapter covers how data is presented, interpreted, and analyzed. It provides demographic details about the respondents, outlines the data collection process, describes the analysis methods used, and explains the overall strategy adopted for this study.

4.2 Data Presentation

4.2.1 Gender

The study collected data on gender distribution and the findings are shown in figure 4.1 below.

Figure 4.1 Gender



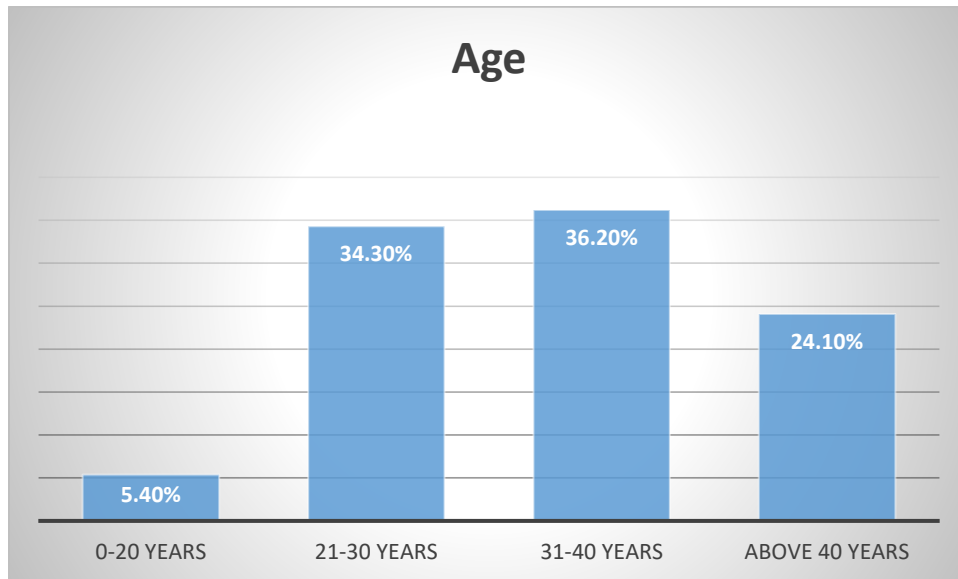
Source: Field Data (2024)

Figure 4.1 illustrates the gender distribution of the respondents. It shows that 60% of the respondents were male, while 40% were female, indicating a gender imbalance in favor of males.

4.2.2 Age

The data collected reviewed the age distribution of the MSMEs in Lusaka and the findings are shown in figure 4.2 below.

Figure 4.2 Age



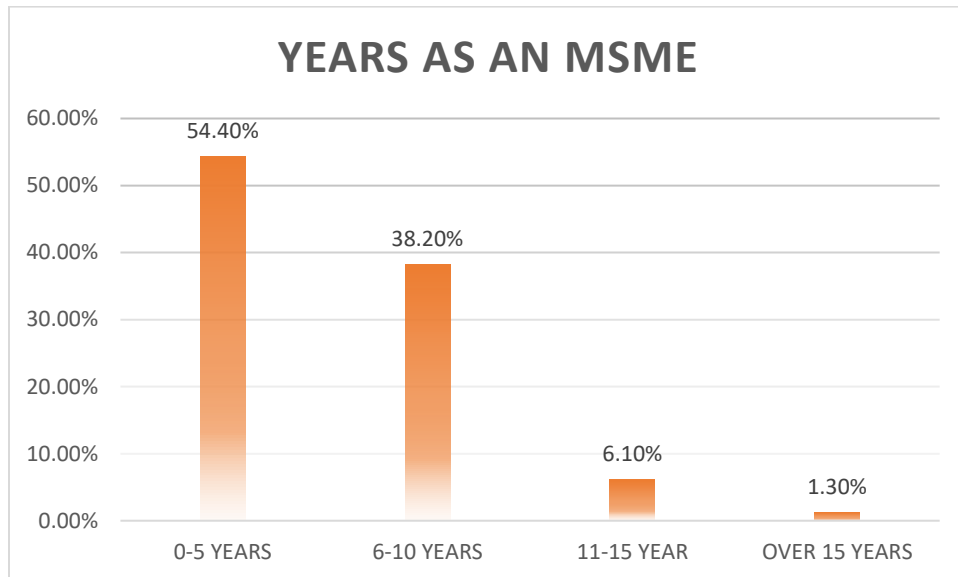
Source: Field Data (2024)

According to the study data, the majority of the respondents were aged between 31 and 40 years, making up 36.20% of the total. This was closely followed by those aged 21 to 30 years at 34.3%. Only 24.1% of respondents were over 41 years old, while the least represented group was those under 20 years, accounting for just 5.4%.

4.2.3 Years as an MSME

The data collected on the number of years' respondents have spent as an SME is summarized below.

Figure 4.3 Years as an MSME



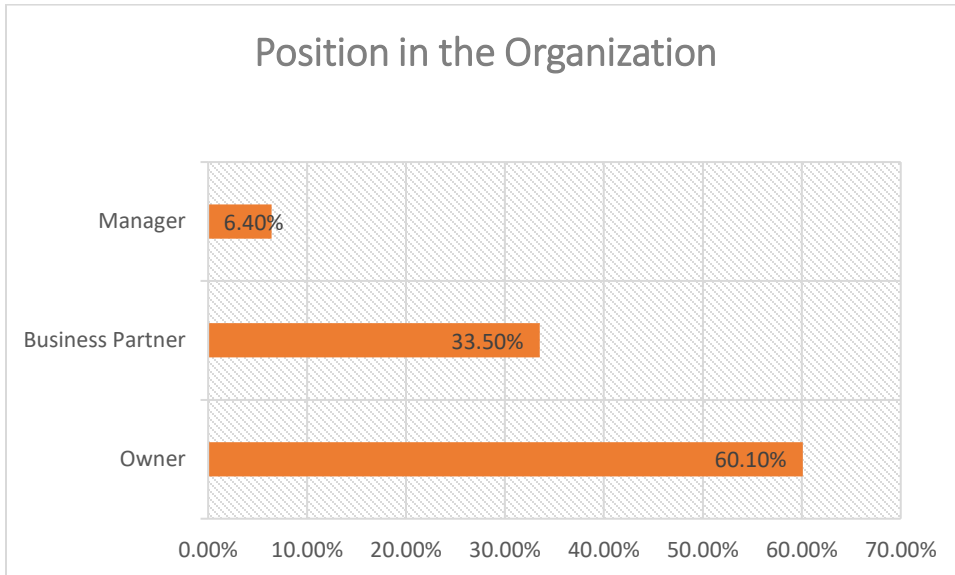
Source: Field Data (2024)

The results presented in Figure 4.3 show that majority of the respondents have been in business as MSMEs for a period of 0-5 years, accounting for 54.4%. Second are those who have been in business for 6-10 years, making up 38.2%. A smaller portion, 6.1%, have been MSMEs for 11-15 years, while the least only 1.3% of respondents have been in the MSME sector for over 15 years.

4.2.4 Position in the organization

The characterization of the position held by respondents is summarized in Figure 4.4.

Figure 4.4 Position in the organization.



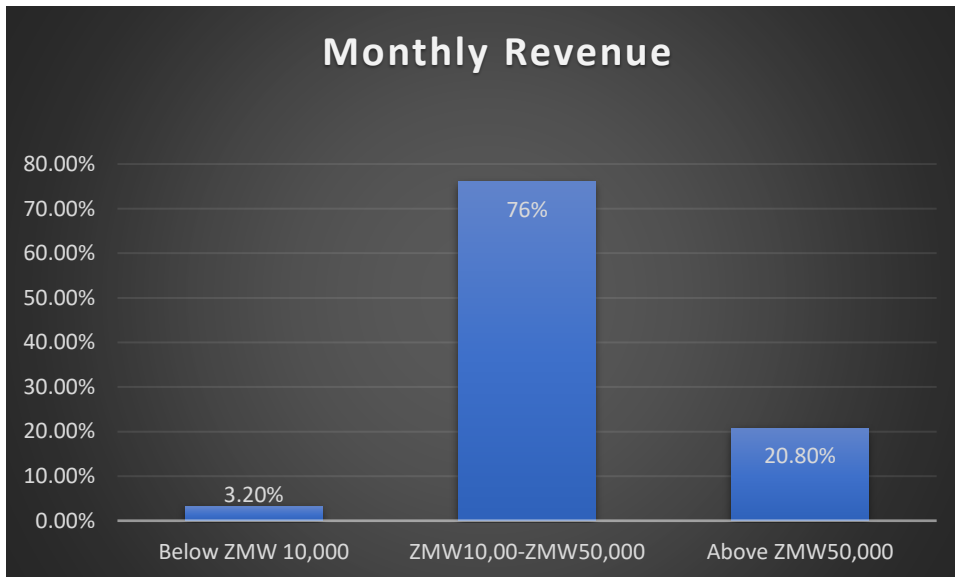
Source: Field Data (2024)

The findings in figure 4.4 indicate that most of the respondents in this study were the business owners with 60.1% of the total. About 6.4% of the respondents held managerial positions, while 33.5% were business partners.

4.2.5 Average monthly revenue

The data collected shows the average monthly revenue. The results are shown in figure 4.5.

Figure 4.5 Average monthly revenue



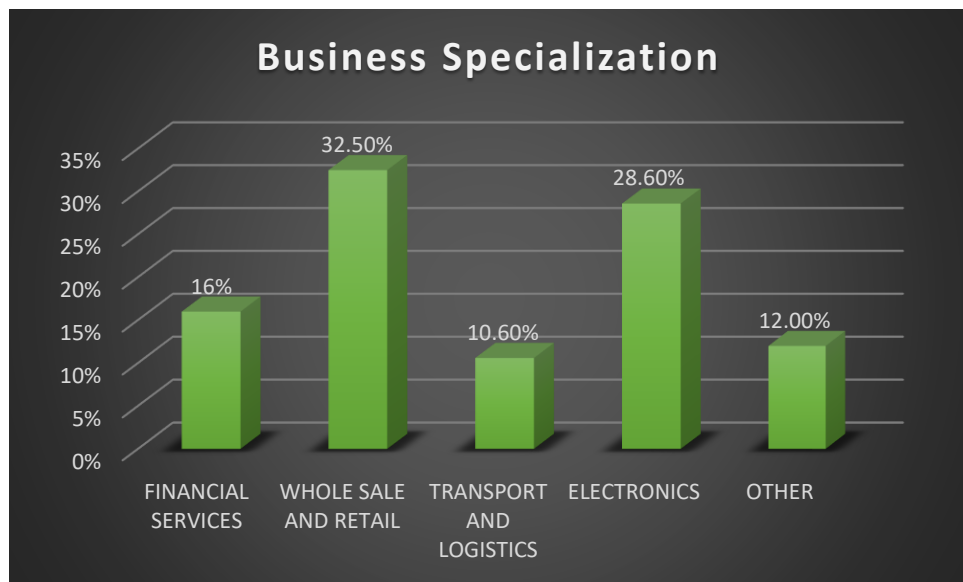
Source: Field Data (2024)

The data in Figure 4.5 shows that 76% of the respondents recorded revenue between K10,000-K50,000 monthly, 20.8% record revenue more than K50,000 and only 3.2% have revenue below K10,000.

4.2.6 Business Specialization

The study collected data from different types of enterprises who had businesses in Lusaka Town. The findings are shown in figure 4.6.

Figure 4.6 Business Specialization



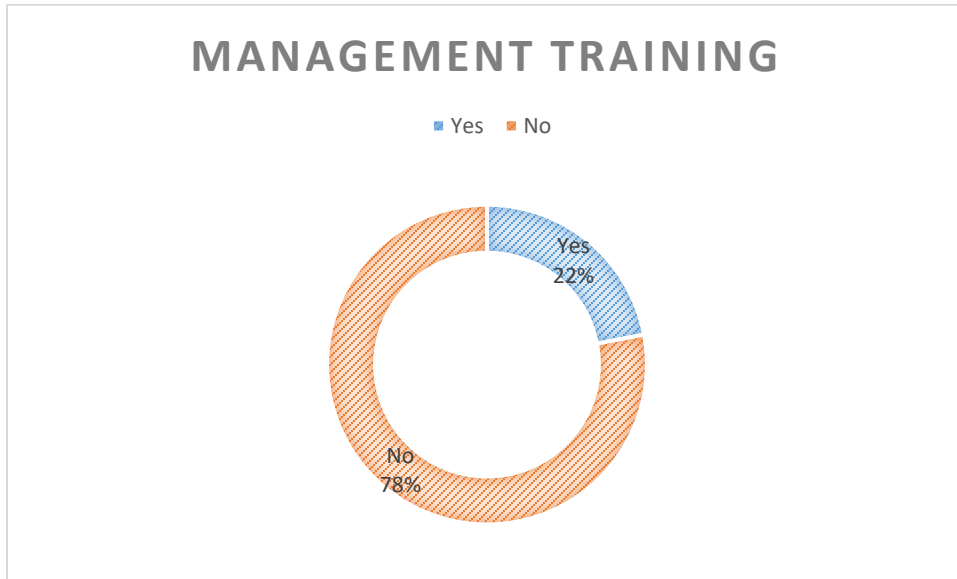
Source: Field Data (2024)

The information presented in figure 4.6 shows the types of enterprises from which the study collect data from. According to the findings, the majority of the enterprises were wholesale and retail stores, with 32.5%, followed closely by small and medium-sized enterprises (SMEs) dealing in electronics at 28.6%. Enterprises dealing in financial services made up 16%, while those involved in transport represented 10.6%. The remaining 12% consisted of other types of business enterprises.

4.2.7 Management Training

The study collected data to find out if the respondents had any form of management training. The findings are summarized below.

Figure 4.7



Source: Field Data (2024)

According to the study data, 78% of the respondents did not have any form of management training whereas 22% had some form management training.

4.2.8 Profitability

The respondents were requested to indicate their firm's profitability. According to the scale, variables with a mean between 4.2 and 5.0 were classified as Above K500,000, those which had a mean from 3.4 to 4.2 represented K100,000-K500,000, while those with a mean of 2.6 to 3.4 indicated K50,000-K100,000. Variables with a mean between 1.80 and 2.60 were between K10,000-K50,000, and those with a mean from 1 to 1.80 were classified as below K10,000.

Table 4.1 Profitability

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	273	1.00	5.00	3.5238	.92771
Valid N (listwise)	273				

From the results shown, MSMEs had profitability between 100,000 to 500,000 as highlighted by a mean of 3.5283.

4.2.9 Financial Planning

The study collected data on how financial planning activities impact the profitability of MSMEs, using a Likert scale for measurement. The analysis was done through descriptive statistics such as mean and standard deviation. According to the scale, variables with a mean between 4.2 and 5.0 were classed as having a 'very great extent' of impact, those whose mean ranged between 3.4 to 4.2 were considered to have a 'great extent', while those with a mean of 2.6 to 3.4 represented a 'moderate extent'. Those variables with means in the range of 1.80 to 2.60 were put as having a 'low extent', and lastly those with means from 1 to 1.80 were said to have 'no impact at all'. The standard deviation was used to show the degree of dispersion and the level of consensus among the responses.

Table 4.2 Financial planning

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Preparation of Financial statements	273	1.00	5.00	3.1465	1.37218
Budgets	273	1.00	5.00	3.0586	1.38938
Cash flow Statements	273	1.00	5.00	3.1062	1.40105
Valid N (list wise)	273				

The information presented in table 4.2 shows the extent to which financial planning practices influence the profitability of MSMEs in Lusaka Town. As per findings, the respondents moderately agree on all three criteria of the preparation of financial statements, budget estimations, and cash flow statements, with means ranging from 2.6 to 3.4.

4.2.10 Absence of Financial Planning

The researcher asked respondents who said that they did not have financial planning activities in place to give further information as to why and the data analysis discovered 6 common themes and these included: (1) Time, (2) Unnecessary, (3) Expertise, (4) Technology, (5) Not ready and (6) Overload.

Table 4.3 Absence of Financial Planning

Category	Description	Stats	Percentage
Time	Financial planning is said to be a time-consuming process.	12	21.05
Unnecessary	Respondents felt that financial planning was such an unnecessary task because their business operations are conducted successfully even without financial planning.	18	31.58
Expertise	Referring to the fact that respondents felt that financial planning requires specific expertise in order to successfully do.	12	21.05
Small Enterprise	Describes the stage at which MSME is currently operating at is not big enough to actively adopt financial planning activities.	10	17.54
Overload	Highlights the fact that financial planning creates work overload.	5	8.77

As indicated in the aforementioned table, a significant proportion (31.58%) of participants perceived that engaging in financial planning activities was unnecessary and required specialized knowledge to implement. One participant remarked, “I track my finances in one document no need to prepare different reports.” Additionally, 21.05% of the respondents expressed the view that financial planning is a time-intensive process. About 17.54% attributed the reason to the fact that their businesses were not at an advanced stage to fully incorporate financial planning activities in their operations, while the remaining 8.77% stated that financial planning increases workload and some incorporate technology (software’s) eliminates the need for financial planning.

4.2.11 Financial Planning awareness

According to the scale, those variables which had a mean is within 4.2-5.0 represented ‘Strongly agree’, those which had a mean was 3.4-4.2 represented ‘Agree’ while those which had a mean of 2.6-3.4 represented ‘Neutral’, those between 1.80-2.60 represented ‘Disagree’ and 1-1.80 represented ‘Strongly disagree’.

Table 4.4 Financial Planning awareness

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Most MSMEs are aware of financial planning	273	1.00	5.00	2.6044	1.22965
There is sufficient information with regard to financial planning.	273	1.00	5.00	2.4103	1.30052
Valid N (list wise)	273				

Overall, the data show that respondents were neutral regarding the fact that MSMEs were aware of Financial Planning with an average M = 2.6044. On the other hand, MSMEs disagreed with the assumption that there is sufficient information in relation to financial planning.

4.2.12 Financial Planning impact

This study collected data about the influence of financial planning on SME operation by using the Likert scale, and it was analyzed through descriptive statistics like mean and standard deviation. According to the scale, those variables which had a mean is within 4.2-5.0 represented 'very great extent', those which had a mean was 3.4-4.2 represented 'great extent' while those which had a mean of 2.6-3.4 represented 'moderate extent, those between 1.80-2.60 represented 'low extent' and 1-1.80 represented 'not at all'.

Table 4.5 Financial Planning impact

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Improved Efficiency the business	273	1.00	5.00	3.0330	1.34315
Access to credit	273	1.00	5.00	3.5055	1.42489
Increased ability to attract shareholders	273	1.00	5.00	3.5421	1.39822
Increased returns through increased efficiency	273	1.00	5.00	2.8974	1.29070
Valid N (list wise)	273				

From the table above, results show that financial planning impacted access to credit and increased ability to attract shareholders to a great extent with means ranging 2.6-3.4. Improved Efficiency the business and Increased returns through increased efficiency were impacted to a moderate extent.

4.2.13 Financial planning utilization

According to the scale, those variables which had a mean is within 4.2-5.0 represented 'Strongly agree', those which had a mean was 3.4-4.2 represented 'Agree' while those which had a mean of 2.6-3.4 represented 'Neutral', those between 1.80-2.60 represented 'Disagree' and 1-1.80 represented 'Strongly disagree'.

Table 4.6 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial planning assesses the financial resources that will be required to implement activities to achieve performance goals	273	1.00	5.00	2.9377	1.43735
Financial planning in allocating resources based on organization priorities and constraints.	273	1.00	5.00	3.0000	1.32009
Financial planning ensures that funding is available as and when needed.	273	1.00	5.00	3.0037	1.42069
Financial planning allocates resources in accordance with organization objectives.	273	1.00	5.00	2.8681	1.40803
Financial planning facilitates the monitoring of efficient use of resources and of progress towards reaching the set performance goals	273	1.00	5.00	2.6813	1.36564
Valid N (list wise)	273				

The findings show that overall, the respondents were neutral with the perceived utilization of financial planning with an average mean range of 2.6-3.4.

4.2.14 Financial Planning Benefits

The study discovered the following benefits of financial planning from the respondents and data analysis showcased 6 common themes and these included: (1) Performance yardstick, (2) Efficiency, (3) Cost effective, (4) Capital raising, (5) Cash flow Management and (6) Decision making.

Table 4.7 Financial Planning Benefits

Category	Description	Stats	Percentage
Performance yardstick	Financial planning can be used as a performance tool as it sets measurable targets.	58	27
Efficiency	Respondents believe that financial planning leads to the efficient use of limited resources, ultimately boosting profitability.	36	17
Cost effective	Referring to the fact that financial planning enables cost tracking of consumption therefore assisting in reducing unnecessary costs.	30	14
Capital raising	Increases the appeal of the entity to potential shareholders as shows competence in handling business operations.	32	15
Cash flow Management	Improves business cash flow management by tracking all cash ingoing and outgoings.	36	17
Decision making	Highlights the fact that financial planning improves decision-making because	24	11

	decisions are made from an informed point of view		
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The above table shows that the majority, 27% of the respondents, found that financial planning assists in assessing the performance of their organization. Second, 17% of the respondents attributed financial planning to improve business cash flow management and improved the efficiency of their operations. 15% said that financial planning helped their organization by acting as a tool when looking to raise funds whereas 14% noted that financial planning was a cost reduction tool that assisted in identifying and reducing costs and finally the remaining 11% attributed financial planning in assisting in decision making.

4.2.15 Financial Planning Challenges

The study collected information on the challenges of financial planning. The results are shown in table 4.8.

Table 4.8 Financial planning

Category	Description	Stats	Percentage
Time consuming	Financial planning being considered as a Very time-consuming exercise.	48	22
Practicality	Respondents felt that financial planning has a challenge of being suitable for a dynamic business environment.	26	12
Need for expertise	Refers to the fact that in order to fully grasp the benefits of financial planning one needs to acquire certain requisite skills and knowledge to comprehensively undertake it.	64	30
Costly	The cost factor to incorporate experts and software creates a stumbling block.	46	21
Difficulty	Refers to the fact that financial planning can be such a difficult undertaking	32	15

According to the table above, one of the biggest challenges facing financial planning is the need for specialized knowledge, as reported by 30% of respondents. This is followed closely by the finding that financial planning is a laborious process, as cited by 22% of the participants. In addition, 21% of the respondents list the financial implications as a hindrance to efficient financial planning, while 15% find the process of financial planning to be very challenging. Lastly (12%) of the respondents did note that it's practicality of not being in tandem with developing business trends.

4.3 Inferential Statistics

In order to perform the necessary tests and regression analysis, it is imperative that we first test for normality distribution only then can be certain what tests and type of regression to perform.

4.3.1. Assumption of Normality.

The data will assume normality if the **Sig.** value of both the Kolmogorov-Smirnov and the Shapiro-Wilk Test is greater than 0.05, the data is normal. If it is below 0.05, the data significantly deviates from a normal distribution (Drezner et al 2010).

Table 4.9 Tests of Normality

Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Profitability	.168	273	.000	.894	273	.000

a. Lilliefors Significance Correction

From the data in table 4.9, both the Kolmogorov-Smirnov and Shapiro-Wilk have a significance of 0.00 which is less than 0.05, therefore we can conclude that our data is not normally distributed hence will require the use of Ordinal Regression Analysis.

4.3.2 Assumptions results of Ordinal Regression Analysis Tests.

It is important to assess and ensure that the necessary assumptions are met before performing an Ordinal Regression Analysis and these are listed below:

4.3.2.1 Dependent variable must be ordinal

4.3.2.2 One or more independent variables are continuous, ordinal or categorical

4.3.2.3 No Multicollinearity

Multicollinearity explains the inter relationship between the variables. Multicollinearity is said to be present when the independent variables are highly related. There are conditions that must be satisfied to prove the existence of Multicollinearity.

If there is a high correlation among the independent variables, the tolerance value < 0.1

VIF (Variance Inflation Factor) > 5

Condition index > 15

Table 4.10 Coefficients

Model		Collinearity Statistics	
		Tolerance	VIF
1	Preparation of Financial statements	.989	1.011
	Cash flow Statements	.997	1.003
	Budgets	.988	1.012

a. Dependent Variable: Profitability

Table 4.11 Collinearity Diagnostics

Dimension	Eigenvalue	Condition Index	Variance Proportions			
			(Constant)	Preparation of Financial statements	Cash flow Statements	Budgets
1	3.637	1.000	.01	.01	.01	.01
2	.164	4.709	.00	.12	.67	.23
3	.148	4.954	.00	.57	.01	.52
4	.051	8.444	.99	.30	.31	.24

a. Dependent Variable: Profitability

Taking a look at the coefficient statistics in table 4.10, the tolerance value is greater than 0.1, and the VIF (Variance Inflation Factor) values are below 5 and from table 4.11 the condition index is below 15 which fits the notion that Multicollinearity does not exist.

4.3.4 Proportional odds

Proportional odds show that each independent variable has an identical effect at each cumulative split of the ordinal dependent variable.

4.4 Ordinal Regression Analysis

Table 4.12 Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	251.043			
Final	145.486	105.557	11	.000

Table 4.12 shows how the baseline of the dependent variable (MSME Profitability) significantly improves the fitness of the data. As seen, the statistically significant chi-square statistic is .000 which

qualifies ($p < .005$) therefore, indicates that the Final model gives a significant improvement over the baseline intercept-only model. In a nutshell, this translates that the model provides better predictions.

Table 4.13 Goodness-of-Fit

	Chi-Square	Df	Sig.
Pearson	211.774	212	.491
Deviance	192.871	212	.823

Table 4.14 Pseudo R-Square

Cox and Snell	.656
Nagelkerke	.684
McFadden	.335

Link function: Logit.

According to the regression performed, the McFadden value shows that there has been a 33.5% improvement in the prediction of the outcome based on the predictors in comparison to the null model.

Table 4.15 Parameter Estimates

		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[Profitability = 1.00]	-5.437	1.158	22.044	1	.000	-7.707	-3.168
	[Profitability = 2.00]	-2.369	.573	17.108	1	.000	-3.492	-1.247
	[Profitability = 3.00]	-1.009	.507	3.955	1	.004	-2.003	-.015
	[Profitability = 4.00]	.586	.499	1.378	1	.004	-.392	1.564
Location	[Budgets=1.00]	-8.787	2.432	13.051	1	.000	-13.554	-4.020
	[Budgets=2.00]	2.585	2.121	1.485	1	.223	-1.572	6.743
	[Budgets=3.00]	-.656	.656	1.001	1	.317	-1.942	.629
	[Budgets=4.00]	.760	.342	4.934	1	.004	-1.431	-.089
	[Budgets=5.00]	0 ^a	.	.	0	.	.	.
	[FinacialStatements =1.00]	0 ^a	.	.	0	.	.	.
	[FinacialStatements =2.00]	-.943	.417	5.115	1	.024	-1.760	-.126
	[FinacialStatements =3.00]	-.620	.649	.912	1	.340	-1.892	.652
	[FinacialStatements =4.00]	-.391	.504	.603	1	.437	-1.378	.596
	[FinacialStatements =5.00]	0 ^a	.	.	0	.	.	.
	[CashflowStatemen ts=1.00]	.256	1.888	.018	1	.892	-3.444	3.956
	[CashflowStatemen ts=2.00]	-1.825	1.023	3.180	1	.005	-3.830	.181
	[CashflowStatemen ts=3.00]	-.743	.660	1.268	1	.260	-2.037	.550

[CashflowStatements=4.00]	.929	.366	6.446	1	.001	-1.645	-.212
[CashflowStatements=5.00]	0 ^a	.	.	0	.	.	.

Table 4.16 Test of Parallel Lines

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	145.486			
General	117.181 ^a	28.305 ^b	33	.700

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.

An Ordinal Logistic Regression analysis was conducted to investigate the relationship between MSME profitability and financial planning measured by three independent variables: Financial statements, Budgets, and Cash Flow Statements. The model fit was statistically significant (105.55, $p < 0.05$), which indicated the model was effective at distinguishing between levels of SME profitability and the predictors. The goodness of fit, we see both the Pearson chi-square test and the deviance test were both non-significant. These results suggest a good model fit. The Pseudo R-square values (McFadden = .335) suggest a relationship between the independent variables and MSME profitability. In terms of individual predictors, when a 1 unit increase in budgeting, there is a 7.6 increase in the odds of MSME profitability when budgets are done at a great extent taking all other variables constant. There is also

an 8.7 decrease in the odds of MSME profitability in relation to a 1 unit increase in budgeting when not done at all. A 1-unit increase in the use of cash flow statements to a great extent has 9.2 odds of MSME profitability. However, the other variables were not found to be significant predictors of MSME profitability. In conclusion, the results of ordinal logistic regression analysis indicate that only budgeting and cash flow statements are significant predictors of MSME profitability to a large extent.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.0. Introduction

This section discusses the findings and draws conclusions from them and ends with recommendations based on the research findings. Research was carried out to assess the impact of financial planning on SMEs profitability. The study had three independent variables: Budgets, Financial Statements and Cash Flow Statements which were put against the dependent variable, SME Profitability. A total of 273 questionnaires were distributed to respondents. Descriptive statistics brought evidence to suggest that there are low levels of financial planning among SMEs in Lusaka. Inferential statistics was done through regression analysis to understand the relationship between variables.

5.1 To determine the relationship between financial planning and the profitability of MSMEs.

Using an *Ordinal Logistic Regression* analysis to establish the extent to which MSME profitability is influenced by financial planning three independent variables were used (Financial statements, Budgets and Cash Flow Statements). The results of the model in Table 4.12 were statistically significant with the model fit p value of .000 ($p < 0.05$), affirming that the model was sufficient in establishing the levels of MSME profitability and the predictors. The Pseudo R-square values (McFadden = .335) suggest a relationship between the independent variables and MSME profitability. As for individual predictors, preparation of financial statements was an insignificant significant predictor of MSME Profitability across the entire scale. The study further established that only budgeting and cash flow statements are significant predictors for profitability to a great extent. The study findings highlighted that when a 1 unit increase in budgeting, there is a 7.6 increase in the odds of MSME profitability when budgets are made at a great extent taking all other variables constant. There is also an 8.7 decrease in the odds of MSME profitability in relation to a 1 unit increase in budgeting when not done at all. A 1-unit increase in the use of cash flow statements to a great extent has 9.2 odds of MSME profitability. In a nutshell, budgeting and cash flow statements have a significance as a predictor of MSME profitability i.e. these two variables do impact the extent to which MSMEs are profitable.

5.2. To determine financial planning awareness among MSMEs.

According to the study results, MSMEs showed indifference when it came to the awareness levels of Financial Planning among themselves. This simply means that there was a split of opinion among MSMEs as some felt that they didn't know enough about financial planning while others felt confident in their understanding of financial planning. On the other hand, the majority of them did seem not to be

sure if there was sufficient information around with regard to financial planning. The findings resonate with study by Alliance for Financial Inclusion (2020) who found that there was inadequate readily available information with regards to financial planning which makes it difficult for MSMEs to have an understanding of financial planning therefore end up doing business informally. Their study concluded that in order to make MSMEs flourish, financial education needs to be a focus, particularly on the financial challenges that MSMEs face in that regard.

Another study by Masurel & Smit (2000) in Vietnam, highlighted that most enterprises which had formal financial planning systems in place appeared to be more profitable than those without. They further concluded that smaller firms were less likely to have formal plans. Going by this evidence, it is imperative that deliberate sensitization programs are put in place in order to increase awareness levels of financial planning.

5.3. To understand financial planning benefits to MSMEs

The study findings showcased various benefits that MSMEs received as a direct result of financial planning such as assisting in accessing the performance of their organization. The other benefits established include that financial planning helped MSMEs in improving business cash flow management by way of identifying problems before they occur - such as the need to raise finance or cash flow difficulties, financial planning improved the efficiency of their operations as well as benefiting organizations by way of acting as tool when looking to raise funds whereas some MSMEs noted that it was a cost reduction tool that assisted in identifying and reducing costs and lastly financial planning assisted in decision making. A study by Mohammed (2008) also highlighted some of these benefits of financial planning, stating that MSMEs that incorporated some financial planning techniques like business plans had a more cordial relationship with financial institutions as they were more receptive in dealing with MSMEs that did have financial planning in place bettering the chances of the SME borrowing funds.

5.4. To identify financial planning challenges faced by MSMEs.

The study findings did establish challenging aspects of financial planning and the key themes that came out were that it is a time consuming undertaking (25%) as many MSMEs run the business on their own thus felt that financial planning would take way much needed time for other critical business operations, while the practicality of financial plans not being in tandem with developing business trends was another challenge highlighted at 24% as some financial planning models can not apply in today's business

environment that ever changing. Further, the study attributed the cost factor due to the fact that in order to comprehensively undertake financial planning, the use of experts (Accountants) is required and acquiring such expertise is not a cheap undertaking. These findings are comparable to those of Tong iddi Issa (2010), whose study revealed that of the major hindrances in MSME growth, inadequate financial planning knowledge was at the top, followed by high consulting fees charged by experts.

However, it is imperative to highlight the various reasons why MSMEs must seek to overcome some of these challenges as Lwiki, Mungenda and Wachira (2013) noted that MSME failure can be attributed to various factors but a sheer lack of financial planning tops them all. Many MSMEs that do not engage in financial planning risk reduced growth, therefore it is important the MSMEs do their utmost best to incorporate financial planning activities in their operation.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.0 INTRODUCTION

This chapter concludes the research study by summarizing the key findings, extracting conclusions and highlighting necessary recommendations on financial planning.

6.1 Summary

The study found that majority of MSMEs operating in Lusaka Town were managed by more males than females. These findings highlight the continued narrative of business enterprises being dominated by males. It is therefore imperative there be a continued rallying call for more female engagement in business operations. The study findings discovered that MSMEs do have some form of financial planning practice in their operations but usually did not have a significant effect on the operations.

The study established that from the many financial practices available to businesses, MSMEs in Lusaka practiced the preparation of financial statements, budgets and cash flow statements to a great extent. This simply means that they largely infused the use of three variables in their operations. However, the study also found reasons why some MSMEs do not engage in financial planning with some highlighting that financial planning activities were just unnecessary, had little impact on business operations and needed expertise to carry out. Some of the other reasons attributed to the lack of financial planning included that it is a time-consuming exercise, and it increased workload.

The results show that financial planning impacted access to credit, improved efficiency of the business and increased ability to attract shareholders as those MSMEs that implemented Financial Planning showed that it improved their chances of access credit as financing institution find it less risky to borrow funds to MSMEs that shows competence in handling business operations. Secondly, the study highlighted that financial planning improved the efficiency of the business as it ensured that the efficient use of scarce resources thus giving the firm a competitive advantage and ultimately increased profitability. Lastly, it was noted that MSMEs engaging in financial planning increased their ability to attract shareholders as this increases the attractiveness of the entity to potential shareholders.

6.2 Conclusion

The study concludes that the majority of MSMEs do not have formal management training, thereby managing their business through experience and trial and error. This resonates with a major challenge that most MSMEs noted that they didn't know how to go about it, and it seemed difficult to undertake hence challenges in incorporating financial planning activities in their operations.

The study also noted that the latest financial planning information is not readily available for those MSMEs that would like to unearth its benefits thereby abandoning the quest for information as many have noted that there is a distinct lack of data on financial planning. Literature on financial planning is either outdated or is not in tandem the present day's dynamic business world, therefore only those that have an idea of financial planning manage to engage in it.

Further, the study highlights that financial planning makes it possible for shareholder attractiveness, makes credit accessible, reduced losses by keeping track of spending information through tools like cash flow statements, thereby improving business management by virtue of tracking all cash incomings and outgoings and can be a usable tool as a framework used to guide the activities of the businesses.

Based on the responses from the study, it is evident that MSMEs in Lusaka, Zambia facing many different challenges with regard to financial planning. These challenges as revealed by the study include Time consuming, practicality, need for expertise, costly and lastly difficulty in conducting financial planning. It is therefore imperative that MSMEs see the perceived benefits in order for them to directly try and overcome these challenges. Without noting the available benefits, MSMEs do not have an incentive to put in place measures to overcome some of these challenges, therefore financial planning is abandoned.

Lastly, MSMEs remain a significant cog in the economies of most nations as they are a conduit of job and wealth creation in any given nation. Therefore, MSMEs form the backbone of many developed and developing economies despite the fact that they are rarely acknowledged as such as Meyer (2017) highlighted. It is therefore imperative that the success of MSMEs is prioritized by both private and public and financial planning goes a long way in assisting with the efficient running of business operations and must be encouraged. The study highlighted benefits that are available for MSMEs such as being used as a tool to measure financial performance, promote efficiency, assist in capital raising, acting as a cash flow Management tool and lastly assisting in the prudent decision-making process.

6.3 Recommendations

Based on the study findings, the following recommendations have been made:

It is imperative that MSMEs seek to put Information Technology in place in their operations, which will make it easy for activities such as financial planning to take place cause integration Information technology offers the opportunities for software's that assist.

It is important that the managers and key decision makers of these MSMEs should increase the understanding of financial planning by investing in education. The rationale behind this is that doing so will equip them with the technical knowhow on how to go about it without the need to employ experts, thereby reducing the costs of undertaking financial planning.

Financial planning has delivered tangible benefits to those that have applied it and failure to utilize financial planning has seen many MSMEs face difficulties in surviving supported by various literature. It is therefore encouraged that MSMEs employ financial planning as part of their management tools as this will enhance decision making.

The government to promote financial planning by engaging MSMEs through initiatives with various stakeholders such as ZICA, ZRA, BoZ, Ministry of Small and Medium Enterprise Development to mention but a few. The purpose of such an undertaking would be to increase awareness levels among MSMEs by emphasizing the numerous benefits of financial planning thereby encouraging MSMEs to put financial planning into practice.

6.4 Study limitations

The study identified the following limitations:

The study focused on assessing the relationship of financial planning practices on the profitability MSMEs using three predictors (Preparation of Financial statements, Budgets and Cash flow statements). However, there are other indicators which the study never assessed such as ratio analysis, payroll systems, to mention a few which can be accounted for during financial planning.

The study experienced time and cost constraints by the researcher which limited the ability to fully delve into the research problem.

6.5 Suggestions for further study

The study findings emanate from MSME operating in different industries which may or may not produce different results and outcome. Therefore, it would be interesting to examine whether the difference in industry affiliation has an impact on the degree of financial planning.

Further studies can be conducted using different approaches and see if the results obtained can be comparable.

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APPENDICES

Appendix 1: Timeline

STAGE	ACTIVITY	DURATION	BEGIN	END	RESULT
Planning	•Prepare proposal	1 Month	July 1, 2024	August 1, 2024	Complete Research Proposal

Literature Review	<ul style="list-style-type: none"> •Prepare literature review 	2 weeks	August 1, 2023	August 15, 2023	Draft review for report
Collection of Data	<ul style="list-style-type: none"> •Develop data collection tool. •Collect data 	1 Month	September 1, 2024	September 30, 2024	Draft methodology final report
Analysis of Data	<ul style="list-style-type: none"> •Analyzing data. •Draw conclusions 	1 Month	October 01, 2024	November 08, 2024	Notes and output analysis
Finalizing	<ul style="list-style-type: none"> •Final research draft. •Final editing 	3 Weeks	November 11, 2024	December 1, 2024	Complete Research for submission

Appendix 2: Consent Form

An Empirical study on the relationship between Financial Planning and SME Profitability.

I..... agree to participate name in the research project, conducted by Mr. Terry Netsai Manyongo who has discussed the research project with me.

I consent to be part of the research project as a participant and the following has been explained to me:

- Voluntary participation
- Withdrawal is free and at any time without any implications
- Any risks that can occur such as inconvenience, discomfort or harm as a result of my participation in the research project
- Expectations and requirements
- I am able to request a copy of the research findings and reports
- Right to confidentiality will be upheld.

- Publication of results from this study on the condition that my identity will not be revealed.

Name:

Signature:

Date:

Appendix 3: Questionnaire

SECTION A: BACKGROUND INFORMATION

1. Sex

Male [] Female []

2. What is your Age?

0-20 Years 21-30 Years 31-40 Years Above 41 Years

3. For how long have you been an SME?

0-5Years 6-10 Years 11-15 Years Over 15 years

4. Indicate your title in the organization in the space provided

Business Owner Business Partner Manager Financial manager

5. What is your average monthly income?

Below K10, 000 K10,000-K50,000 Above K50, 000

6. Do you have any formal management training?

Yes No

7. If your answer is yes above, kindly specify.....

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SECTION B: FINANCIAL PLANNING

8. Please rate your profitability on a scale of 1-5 by ticking on the appropriate box with 1=Less than 10,000, 2= 10,000-50,000, 3= 50,000-100,000, 4= 100,000-500,000 and 5=Above 500,000.

	Above 500,00	100,000- 500,000	50,000- 100,000	10,000- 50,000	Less than 10,000
Profitability					

9. Indicate the extent to which your firm undertakes the following financial planning activities.

	Very great extent	Great extent	Moderate extent	Less extent	No at all
Preparation of Financial statements					
Budgets					
Cash flow Statements					

10. If your answer in 8 is no, please state why

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.....

11. If your answer in 8 is yes, what other financial planning activities are carried out within your company?

.....

.....

.....

.....

12. Please, tick what suits your own experience on the following statements below:

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
There is sufficient information with regard to financial planning.					
Most SMEs are aware of financial planning.					

13. In your own opinion, to what extent would you rate the positive impact of financial planning on profitability through the following factors?

	Very great extent	Great extent	Moderate extent	Less extent	No at all
Access to credit					
Improved Efficiency the business					
Increased returns					

through increased efficiency					
Increased ability to attract shareholders					

14. Please tick the statement corresponding to your organization situation

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Financial planning in allocating resources based on organization priorities and constraints.					
Financial planning assesses the financial resources that will be required to implement					

activities to achieve performance goals.					
Financial planning allocates resources in accordance with organization objectives.					
Financial planning ensures that funding is available as and when needed.					
Financial planning facilitates the monitoring of efficient use of resources and of progress towards reaching the set performance goals					

15. Please, briefly explain how financial planning practices have benefited your financial performance.

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.....

16. What are some of the challenges you have faced with regard to financial planning?

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.....
.....
.....

Thank you.

Appendix 4: Plagiarism Report

7%
SIMILARITY OVERALL
22.30%
POTENTIALLY AI SCANNED ON: 12 JAN 2025, 5:19 PM
IDENTICAL
0.18%
CHANGED TEXT
6.82%
REFERENCES
2.18%
LIKELY AI
16.85%
HIGHLY LIKELY AI
5.45%

AI Detector Results

Highlighted sentences with the lowest perplexity, most likely generated by AI.

Similarity report

Your text is highlighted according to the matched content in the results above.

Report #24402443

School of Postgraduate Studies AN ANALYSIS OF THE RELATIONSHIP BETWEEN FINANCIAL PLANNING AND MSME PROFITABILITY. MASTER OF BUSINESS ADMINISTRATION IN FINANCE TERRY NETSAI MANYONGO MBAFIN22112596