

Financial performance of smes in mauritius



**ASSIGN
BUSTER**

CHAPTER 1

RESEARCH BACKGROUND

The contribution of Small and Medium Enterprises (SMEs) around the globe is unquestionable and especially in developing countries, where development in this sector is seen as a key strategy for economic growth, job generation and poverty reduction. In light of the significant contribution of SMEs to the global economy, and to Mauritius in particular, the researcher would like to explore and describe the financial knowledge which manufacturing SMEs in Mauritius use to measure their financial performance.

In Mauritius SME has been redefined, where previously the volume of investment in equipment which was one million up to Rs 10 million which was taken into account, is now classified as a small enterprises and with less than 50 and 200 employees for small and medium scale respectively.

According to SMEDA Act 2009 in Mauritius, an “ enterprise” means any form of trade or manufacture, craft by hand or foot, cultivation of fruits, vegetables or flowers, livestock breeding, or activity approved as such by the Authority. A small enterprise is an enterprise having an annual turnover of not more than Rs 10 million while a medium enterprise is an enterprise having an annual turnover of more than Rs 10 million but not more than Rs 50 million.

Small and medium sized firms dominate both developed and developing economies in terms of employment and number of companies, yet their full potential remains untapped. These trends need to be changed. The ability of

smaller firms to create jobs is clearly a major attraction for governments in the short term. SMEs must be encouraged and supported to flourish. This is important so that economic objectives (economic growth and development, favorable balance of trade and payment and employment) and social objectives (poverty alleviation and improving standards of living) can be realized. Mauritius must respond to the needs of SMEs as they form an important component of the economy.

SMEs are of great importance to the Mauritian economy since it can be a mechanism to stimulate economic growth, thereby employment creation, in the country. This study attempted to establish whether a poor financial management impact on the performance of Small and Medium Enterprises in Mauritius. It furthermore also attempted to establish whether there are other internal factors over and above the one identified, which exert an influence on the performance of SMEs in the manufacturing sector of Mauritius.

Financial knowledge forms an important part of the business management field and financial measurement is also crucial for the survival of businesses. Are manufacturing SMEs in Mauritius using the available tools (*i. e.* financial ratio analyses and bankruptcy prediction models) that have been used for years?

Successful financial performance in SMEs has a positive association with the capacity to manage financial issues effectively. There is evidence of a positive association between financially related activities such as planning, maintenance of financial records, obtaining external finance and professional finance advice, and the successful performance of an SME.

Many authors find that obstacles to access to finance by SMEs is the main cause of their failure, but it appears that not enough studies on how these businesses measure and manage their financial performance have been undertaken. The study undertaken here deals specifically with financial performance measurements for SMEs which are also part of the general performance management of organizations, and whether these businesses are using the available tools mentioned above. It must be noted that financial measures alone are not enough to measure companies' performance since a number of non-financial performance measures also play an important role in their overall performance. However, this study will focus on financial measures only.

RESEARCH PROBLEM

The problem to be investigated in this study is the financial performance measures currently used by manufacturing SMEs in Mauritius. The study will mainly explore the financial tools these SMEs use to measure their financial performance. The main objective of any company is the creation of wealth for its stakeholders (although this mostly applies to shareholders). This means that progress needs to be measured. This progress is measured mainly by means of financial performance measurement since such measurement shows the cash flow, debts, profit, *etc* . of the company. Measurement is done by means of financial ratio analysis and interpretation. Analysis assists in identifying on the one hand the major strengths and opportunities of a business enterprise and on the other hand, weaknesses and threats facing the enterprise. An analysis indicates the level of

efficiency, *i. e.* liquidity (cash holdings against obligations), debt management and adequate capital structure.

RESEARCH SIGNIFICANCE/RATIONALE

The reason why this study has been undertaken is to evaluate the current financial knowledge of the respondent SMEs, and by means of the study findings and recommendations made, make an impact on small businesses regarding their performance measurement as a whole and financial performance in particular. The researcher also hopes that the study will contribute to filling the gap in the literature regarding financial performance measurement in SMEs particularly Mauritius.

RESEARCH AIM OF THE STUDY

The aim of the study is to explore and describe the financial measures that manufacturing SMEs in Mauritius use to measure their financial performance

RESEARCH OBJECTIVES OF THE STUDY

The objectives of the study are:

- To identify financial tools currently used by Mauritian Manufacturing SME's in measuring their financial performance;
- To recommend necessary improvements on financial performance measures used by Mauritian Manufacturing SMEs; and.
- To recommend necessary training interventions that would be needed for Mauritian manufacturing SMEs to successfully measure financial performance.

RESEARCH TITLE

Evaluating the financial performance of Small and Medium Enterprises in Mauritius

RESEARCH METHODOLOGY

There are two types of research: quantitative and qualitative. The purpose of quantitative research is to evaluate objective data consisting of numbers while qualitative research deals with subjective data that are produced by the minds of respondents or interviewees. This study is based on a mixed qualitative-quantitative method.

Population, units of analysis, and units of observation

The units of analysis are the members or elements of the population, and are in this case manufacturing Small and Medium Enterprises in Mauritius. The units of observation are the people who were interviewed, which were the managers or owners of the manufacturing SMEs.

Sample selection

A list of manufacturing SMEs in Mauritius, registered between 2005 and 2010 would be chosen from the SMEDA. The reason for this choice is that, these businesses (if still running), have been around long enough to provide useful and recent information for the study. Judgment (purposive) sampling (a non-probability form of sampling) will be used to select a sample.

Data collection

Semi-structured interviews will be used to collect data at the premises of the participant SMEs, using an interviewer-administered questionnaire. The questions would be divided into sections, typically, and within each section, the opening question would be followed by some probing.

Data analysis

Information from the interviewed SMEs will be gathered, analyzed and interpreted. The tools and methods described in the study to assess the financial position of companies will be compared to those of the SMEs interviewed. Data analysis is textual and used frequencies. Given the information sought, thematic content analysis appeared to be the most appropriate analysis technique.

RESEARCH VALIDITY AND RELIABILITY

Internal validity describes the degree to which changes in the dependant variable are indeed due to changes in the independent variable rather than to something else, and is concerned with experimental research. This study is an empirical study, therefore will be concerned with external validity only. External validity is twofold:

Population validity which refers to the degree to which the findings obtained for a sample may be generalized to the total population to which the research hypothesis applies. As far as this study is concerned, population validity cannot be guaranteed, since the study cannot be generalized to the whole population of manufacturing SMEs, because of the case study approach and method of sampling.

The ecological validity of the obtained results refers to the degree to which they may be generalized to all circumstances that are implied by the research hypothesis. Because this study is a field study (interviews conducted at SMEs premises), the ecological validity may not be threatened.

RESEARCH ETHICAL CONSIDERATION

Only participants who freely consented to being part of the study were included. No harm or offence was caused to any participant. Others' data or ideas without due acknowledgement and permissions were not used. Finally, the researcher endeavored to be honest and objective in the presentation of the research results and findings. Businesses or business owners' names have not been disclosed anywhere in the study in order to preserve their anonymity.

RESEARCH CONTRIBUTION/VALUE OF THE STUDY

The study may benefit managers and entrepreneurs in the SME sector in that they might reconsider their current financial performance measurement tools, should their SMEs be struggling to survive. They may be willing to try the tools and methods explored in the study and may feel the need for training for the purposes of improvement of their businesses with regard to general and financial performance measurement. It may also serve as an important exposition of the role of SMEs in the economy.

RESEARCH STRUCTURE

INTRODUCTION

Chapter One deals with the background to the study: problem statement; rationale or significance; objectives of the study; research methodology *i. e.* research design, population and sample; contribution of the study; limitations/expected problems; and chapter outline.

LITERATURE REVIEW

Chapter Two deals with the following:

- SMEs and their role in the Mauritian economy;
- Financial management and performance;
- Financial statement reliability;
- Business failure;
- Financial ratio analysis and measures; and
- Bankruptcy prediction models.

RESEARCH METHODOLOGY

Chapter Three covers the research design, description of the population, sampling procedure, sample size, data collection and data analysis.

FINDINGS, ANALYSIS AND INTERPRETATION

In Chapter Four the data collected and results are analyzed and interpreted using thematic content analysis

CONCLUSIONS AND RECOMMENDATIONS

Based on the findings and interpretation of data collected, Chapter Five draws the conclusions of the research study and discusses their implications for future research. And recommendations are then given

1