




“SME resilience: Critical financial planning success factors post-COVID-19”

AUTHORS	Avika Maharaj  Mishelle Doorasamy 
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Avika Maharaj, Ph.D. Student,
University of KwaZulu-Natal, South
Africa. (Corresponding author)

Mishelle Doorasamy, Ph.D., Senior
Lecturer, School of Accounting,
Economics and Finance, Department
of Accounting, University of KwaZulu-
Natal, South Africa.



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Avika Maharaj (South Africa), Mishelle Doorasamy (South Africa)

SME RESILIENCE: CRITICAL FINANCIAL PLANNING SUCCESS FACTORS POST-COVID-19

Abstract

Small and medium-sized enterprises (SMEs) are crucial to South Africa's economy as they provide employment, contribute to development, reduce poverty, and promote entrepreneurship. However, the COVID-19 pandemic has severely impacted SMEs in the country, posing a threat to their survival. The purpose of the study was to identify the financial planning critical success factors that are essential for SME performance in a post-COVID-19 pandemic environment. The study followed a positivist paradigm, and a quantitative survey approach was employed. South African SMEs across the various sectors of business were targeted to provide a holistic view of the financial planning strategies contributing to performance. A total of 282 questionnaires were completed electronically by the SME owners using Google Forms, which were then analyzed using SPSS and Smart PLS software. The regression model for structural equation modeling revealed a strong and significant link between financial planning and SME performance. Financial planning has a strong, significant positive effect on SME performance, as indicated by the path coefficient ($\beta = 0.227$, $p = 0.002$). The importance of this study lies in its ability to provide valuable insights to businesses regarding financial planning strategies to enhance SME success in a post-COVID-19 environment.

Keywords

SME performance, sustainability, COVID-19 pandemic, critical success factors, financial planning

JEL Classification

L25, D61, M21

INTRODUCTION

The small and medium-sized enterprise (SME) sector plays a significant role in propelling economic growth and progress in the South African economy through employment, gross domestic product contribution, and taxation (Loku et al., 2021; Olarewaju & Msomi, 2021). Research conducted in the South African environment found that SMEs are not developing and being sustainable, with a failure rate of 75%, making it one of the world's highest failure rates (Bushe, 2019; Lekhanya, 2016). Moreover, there is little research on the strategies that contribute to business sustainability in the country's SME sector (Leboea, 2017; Umadia Sr & Kasztelnik, 2020). The most challenging problem that most SMEs encounter is sustaining their financial performance and, hence, surviving for an extended period of time (Lampadarios, 2017). Both a lack of understanding and failure to apply important financial planning strategies have a negative impact on business performance and success, resulting in poor decision-making for business operations and poor problem-solving abilities, which contribute to SME failure (Leboea, 2017; Umadia Sr & Kasztelnik, 2020). The most prevalent business problem is that owners lack the strategies and processes needed to make long-term financial decisions and apply financial planning strategies to survive the first few years of operation (Alexander-Joseph, 2017). Effective financial planning and management are crucial for any business to succeed, as they impact all business operations (Hendayani et al., 2022). Effective financial plan-

ning and management procedures are crucial for an enterprise's success, while inefficient ones lead to enterprise failure (Zada et al., 2021). Since the start of the COVID-19 pandemic, SMEs have had the most exposure to the dangers resulting from the pandemic (Cepel et al., 2020). Even though Alves et al. (2020) mentioned that SMEs are more susceptible to crises, the author also indicated that there is no guidance on how to handle the long-term financial challenges emerging from the COVID-19 pandemic to enhance SME performance. Hence, it is important and relevant to examine the financial planning strategies to enhance SME performance.

1. LITERATURE REVIEW AND HYPOTHESIS

The foundation of sound financial management in SMEs is financial planning, together with financial control. It provides the framework for budgeting, forecasting, and decision-making, all critical to any company's performance (Fatoki, 2014b). Financial planning, according to Wolmarans and Meintjes (2015), is the process of projecting future demands for funding, evaluating cash flow, and choosing the optimal ratio of debt-to-equity financing to support operations. SMEs can prioritize their financial demands and make the most use of their financial resources by using effective financial planning to manage resources in an efficient and effective manner (Cheche et al., 2017). Financial performance metrics include costs, sales revenue, and profitability, according to Mabhungu (2017). Rodrigues et al. (2021), for instance, assert that these are components of business performance that can be controlled. They contend, on the other hand, that costs, sales revenue, and profitability are outcome indicators that cannot be used to control performance. They promote measuring behaviors that lead to success rather than performance outputs. As a result, a performance measurement framework designed to improve a business's performance should focus on the activities and procedures that influence the enterprise's performance (Mabhungu, 2017). Biggart et al. (2010) and Mabhungu (2017) see cost control as a crucial success component. Controlling costs, particularly inventory and store charges, is one of the most significant strategies to boost a company's profitability. A budget illustrates a company's financial plans or aspects given in relation to strategic goals, and it can be used as a control foundation (Fatoki, 2014a). Applying financial budget limits might help businesses conserve monetary resources (Fatoki, 2014a; Rodrigues et al., 2021). The SME budgeting process comprises identifying, acquiring, and assessing both financial and non-financial information

about the SME's future activities (Fatoki, 2014a; Matsoso et al., 2021). A lack of financial planning hinders the execution of SME activities and restricts SMEs from increasing their profitability (Fortuna, 2021; Maziriri & Chivandi, 2020).

SMEs must also implement efficient cash flow management practices, maximize the use of available financial resources, and make well-informed judgments about potential investments and expansion opportunities. This includes creating and following budgets, assessing finances on a regular basis, and setting financial goals and objectives. One of the most important factors in the growth and success of SMEs is finance and financial management. Strong financial management techniques and financial resources can help SMEs manage cash flow, acquire resources, and make informed decisions about potential investments. To secure the sustained prosperity of their businesses, SME owners need to possess knowledge and expertise in financial management (Kirsten, 2018). Dyer (2019) indicated that a deep understanding and implementation of financial success strategies in small businesses are vital for enhancing performance. Yacus et al. (2019) indicated that to provide stability to a small business beyond the first five years, small businesses require the essential skills of financial knowledge, appropriate business skills, and financial resources. Financial management, which supplies vital financial data and supports strategic decision-making, enables SMEs to effectively manage resources, minimize risk, and optimize profitability (Ayoko, 2021; Matsoso et al., 2021). The implementation of efficient and effective accounting information systems (AIS) in small businesses can also enhance the flow of information and reduce expenses, ultimately increasing profitability (Lekhanya, 2016).

Empirical literature by Musando (2013) highlighted that financial planning had beneficial effects on the success and enhanced performance of SMEs.

Musando (2013) further elaborated that financial planning aided these SMEs in maintaining their capital, mitigating risks, improving operational efficiency, and enhancing their ability to take advantage of opportunities. Furthermore, financial planning has alleviated financial crises, facilitated access to credit, minimized losses stemming from human mistakes, offered collateral for loan security, and served as a framework for directing business activities. This finding was also concurred by Dobrovic et al. (2018), whose study revealed that financial planning indicators were highlighted as statistically significant in their analysis. Since the profit indicator is at the top, businesses have always prioritized making money. The cash flow has received a lot of attention. This finding was further concurred by Lubawa (2021) and Vu and Nga (2022) who concluded that to ensure enhanced performance and the long-term success of their businesses, it is essential for SME owners and managers to develop and implement effective financial planning strategies.

Yacus et al. (2019) indicated that a prime cause for small business closures is the absence of financial performance measures. It can be challenging for SMEs to get finance, especially if they have no or very little credit history or available collateral. This frequently makes it more difficult for them to obtain conventional forms of finance, such as bank loans or credit lines, and encourages them to look for alternative sources, like crowdsourcing, venture capital, or angel investors (Rogo et al., 2017). Msomi and Maharaj (2022) also concur indicating that SMEs face challenges in acquiring finance due to a lack of collateral/security, a lack of a cash flow statement, and a lack of owner equity.

There is little empirical research on small business issues and successes in South Africa (Bushe, 2019). Prior research has mostly focused on understanding the causes of SME failures. Whether these are failure or success factors, these studies are inadequately detailed, holistic, and consistent to qualify in explaining critical success factors for SMEs (Alfoqahaa, 2018). Previous studies on SMEs have focused on failure causes that, if avoided, can become elements of success. As a result, there is a scarcity of knowledge about success factors for SMEs. Furthermore, much previous research, particularly in the South African context, has fo-

cused on SMEs narratively rather than modeling their successful outcomes (Alfoqahaa, 2018). Dyer (2019) elaborated that, even though several studies on small business failure have been carried out in the past, it is vital to look at the established business analysis techniques that SMEs have successfully used. It is critical for all small businesses to gain the necessary insight and understanding of successful performance measures to sustain their businesses beyond the 5-year mark.

The Coronavirus (COVID-19) pandemic's impact on SMEs and entrepreneurship has been felt all around the world, with varied degrees of severity. Millions of jobs have been lost because of the COVID-19 epidemic. Furthermore, a study on COVID-19's impact on small business owners revealed that social distancing, amongst other constraints and demand swings, caused several businesses to close permanently (Neeta, 2021). Rababah et al. (2020) examined how COVID-19 impacted the overall business performance of Chinese companies that are publicly traded. It was revealed that SMEs were the most severely affected enterprises by the virus. Additionally, the findings suggest that small businesses experienced a more substantial decline in their financial performance than bigger businesses. A decline in total revenue, profitability, and investment in businesses across industries are indicators of this. Shafi et al. (2020) indicated that in terms of profit decline, over two-thirds of enterprises indicated that during 2020, their profit will decrease by more than 60% due to the COVID-19 outbreak. This was also supported by Nguyen's (2022) finding which indicated that the COVID-19 pandemic had a negative impact on the financial performance and led to a decrease in net profits of businesses. This was also concurred by Bularafa and Adamu (2021) who indicated that the lockdown restrictions arising from the COVID-19 pandemic had a significantly negative effect on the financial performance of SMEs. Studies on the effects of profitability during the pandemic by Daryanto et al. (2021) and Rahmi and Sumirat (2021) further concurred with the findings of the previous study that profitability was negatively affected.

An investigation of the financial planning strategies for SME performance is deemed necessary to enhance sustainability. This will assist small busi-

nesses with the much-needed guidance in their planning strategies to grow and expand thereby boosting job employment and boosting economic levels in the county. This study is important for SMEs because the COVID-19 pandemic significantly impacted these fragile businesses. SMEs were unable to produce revenue during the pandemic, which could be attributed to inadequate financial planning. According to the literature, little is known about how financial planning critical success factors can help SMEs improve operational efficiency and performance, which contributes to success.

The purpose of this study is to identify the critical financial planning success factors for SMEs' performance in South Africa in a post-COVID-19 pandemic environment. Considering the above review of the literature, the following hypothesis were developed for this study:

H_1 : *Financial planning critical success factors influence SME performance in South Africa after the COVID-19 pandemic.*

2. METHOD

This study used a positivist paradigm to create a quantitative survey research approach to evaluate the association between financial planning and SME performance in South Africa. The population of the study was 3,732 SMEs that were affiliated with the Durban Chamber of Commerce and Industry (DCCI), Johannesburg

Chamber of Commerce (JCCI), Centre for Social Entrepreneurship (CSE), and Productivity SA. Convenience non-probability sampling was used for the study. A sample of respondents, who were SME owners, was selected based on their convenience and availability to participate in the study. The sampling strategy targeted 348 SMEs across the various business sectors in South Africa. A total of 282 respondents completed and submitted the electronic questionnaire via Google Forms, which was sent directly to the researcher. This resulted in a response rate of 81%. The survey was designed using a closed-ended 5-point Likert scale survey. Data processing and analysis were conducted using SPSS 28.0 and Smart PLS software to facilitate a detailed statistical analysis of the association between financial planning and SME performance.

3. RESULTS AND DISCUSSION

This section discusses the characteristics of the variables as well as the first-order analysis. The characteristics, including the factor loadings, descriptive statistics, normality, and multicollinearity, are discussed in Table 1.

The significant financial planning factors with a factor loading of more than 0.60, as reflected in Table 1, are listed as follows: For financial planning: Access to current financing (ACF), Access to development financing (ADF), Access to Initial financing (AIF), Budgets to control costs (BCC), Evaluating cash flow to current liabilities (ECFCL),

Table 1. Factor loadings, descriptive statistics, normality, and multicollinearity

Variable	Indicators	Loadings	Mean	SD	kurtosis	Skewness	VIF
Finplan	ACF	0.764	4.011	1.083	0.742	-1.148	3.011
	ADF	0.814	4.035	1.055	0.945	-1.183	3.225
	AIF	0.652	4.067	1.081	1.355	-1.336	1.997
	BCC	0.822	4.138	0.910	2.487	-1.412	2.875
	ECFCL	0.784	4.103	0.979	1.383	-1.235	3.361
	ECFS	0.771	4.032	0.947	1.100	-1.047	3.230
	ECR	0.728	3.812	1.054	0.216	-0.825	1.774
	NSD	0.699	3.826	1.096	0.359	-0.936	1.635
	SIR	0.804	4.092	1.003	1.602	-1.331	2.682
	SMEperf	DPL	0.838	2.972	1.274	-0.696	0.780
DPS		0.807	3.387	1.233	-1.427	0.126	2.165
AOL		0.840	2.596	1.151	-0.910	-0.644	2.068
FIB		0.686	1.986	0.512	1.529	2.048	1.355
OFIO		0.751	2.518	1.086	-0.411	0.899	1.775

Evaluating cash flow to sales (ECFS), Evaluating Current Ratio (ECR), Negotiating supplier discounts (NSD), Strategies to increase revenue (SIR). For SME performance: SME delayed payments to landlord (DPL), SME delayed payments to suppliers (DPS), SME in arrears on outstanding liabilities (AOL), SME filed for insolvency/bankruptcy (FIB), SME overdue financial institution obligations (OFIO).

The first-order analysis is concerned with ensuring the reliability, validity, and fit-for-purpose of the second-order analysis scores, as opposed to the path analysis itself. Table 1 displays the factor loading findings, data description, and multicollinearity model measure. The factor loading ranges from 0.652 to 0.903 for indicators above the suggested threshold of ≥ 0.60 (Howard, 2016). The computation revealed that all loadings exceeded 0.600. The highest loading was attained by ISP (0.903), while the lowest loading was attributed to AIF. Fourteen (14) indicators were included in the following data analysis method. The mean, except for FIB, is greater than the scale average, and the standard deviation is ≥ 0.50 , suggesting that the instrument was well-engaged by the respondents. The variance inflation factor (VIF) statistic < 5 indicates the absence of multicollinearity for structural modeling (Becker et al., 2015).

Table 2. Scale reliability and convergence validity analysis

Latent Variable	Cronbach's α	rho_A	CR	AVE
Finplan	0.909	0.910	0.925	0.580
SMEperf	0.845	0.855	0.890	0.619

Table 2 displays the scale reliability and convergent validity data, including Cronbach's alpha, CR, and AVE. The scale reliability – Cronbach's α lies within $0.86 \leq \alpha \leq 0.909$, with the Cronbach's Alpha threshold of 0.80-0.90 is considered very good (Sarstedt et al., 2019). The Composite Reliability (CR) lies within $0.871 \leq CR \leq 0.928$. The acceptable CR threshold of ≥ 0.70 is generally considered acceptable (Hair et al., 2019). In terms of convergent validity, the AVE range is $0.626 \leq AVE \leq 0.875$, exceeding the threshold of 0.50 (Hair et al., 2019), suggesting the internal consistency of the items within each construct. Table 3 illustrates the Fornell-Larcker criterion analysis.

Table 3. Fornell-Larcker criterion

Latent Variable	Finplan	SMEperf
Finplan	0.762	
SMEperf	0.075	0.786

According to Table 3, the AVE of all latent variables is greater than the squared correlation between the latent variables and the other latent variables. The shaded diagonal values, which are the squared of the AVE, are all greater than the numbers beneath them (Fornell & Larcker, 1981). As a result, the discriminant validity test was successful for all latent variables in the study. Table 4 illustrates the cross-loadings derived from the analysis of data.

Table 4. Cross loadings

Financial success factor	Finplan	SMEperf
ACF	0.764	0.071
ADF	0.814	0.072
AIF	0.652	0.048
BCC	0.822	0.055
ECFCL	0.784	0.046
ECFS	0.771	0.040
ECR	0.728	0.030
NSD	0.699	0.090
SIR	0.804	0.061
AOL	0.095	0.840
DPL	0.023	0.838
DPS	0.023	0.807
FIB	0.082	0.686
OFIO	0.059	0.751

As illustrated in Table 4, all variables relating to financial planning, that is, ACF to SIR, have factor loadings of higher than 0,600, and these loadings are higher than all other columns for the ACF and SIR variables. In the same regard, variables for the SME performance variables in their respective columns from AOL to OFIO are more than 0,600, which is greater than the other columns in that respective row for every variable.

Table 5. Hererotrait-Monotrait ratio

Latent Variable	Finplan	SMEperf
Finplan		
SMEperf		0.095

Table 5 shows that each variable's individual correlation result is smaller than 0.85, indicating that the constructs have discriminant validity. According to Kline (2011), constructs with values

Table 6. High-order reliability and validity

	Latent Variables	Cronbach's α	rho_A	CR	AVE	1	2
1	Finplan	0.909	0.911	0.925	0.580	0.762	
2	SMEperf	0.845	0.881	0.888	0.619	0.067	0.787

less than 0.85 pass the discriminant validity test. The HTMT is the preferred measure of discriminant validity, expected to load less than 1, as in the table above. The tables provided above suggest that there are no validity issues, hence the HOC can be constructed.

The following section discusses the higher-order analysis. Table 6 reflects the high-order reliability and validity.

Following the establishment of the lower-order constructs' reliability and validity, their scores were integrated into the higher-order construct in a reflective model to determine convergent and discriminant validity, as shown in Table 6, which combined the scale reliability, convergent validity, and discriminant validity results for the High-Order Construct (HOC). The table indicates that there are no reliability or validity difficulties, so the HOC model can be constructed. The study's constructs passed the internal consistency test, as indicated by Composite Reliability and Cronbach's Alpha values over 0.70 ($0.762 \leq \alpha \leq 0.787$) (Bougie & Sekaran, 2019).

The following section discusses the structural equation model. After validating their dimensions and structural models, lower and higher-order constructions are certified as fit for purpose. The hypotheses proposed for this study were examined to determine the evaluated relationships. The results from the regression model for the structural equation modeling (SEM) are indicated below. The path coefficient from financial planning to SME performance (original sample = 0.216, p-values = 0.002, and n = 282) shows that financial planning has a significant direct positive effect on SME performance.

The model's first path investigated the association between financial planning critical success factors and SME performance in South Africa.

The result is significant and positive with a 0.227 coefficient, meaning that a 1% change in financial planning critical success factors could improve SME performance by 22.7% in South Africa. As illustrated in the findings from Table 7 the hypothesis was supported, i.e., financial planning is directly positive and statistically significant in influencing SME performance. The significant financial factors were access to current financing, access to developmental financing, access to investment financing, budgets to control costs, evaluating cash flow to current liabilities, evaluating cash flow to sales, evaluating current ratio, negotiating supplier discounts, strategies to increase revenue which contributed to the significant influence on SME performance. This finding is in line with the study's hypothesis and earlier projections, and it is critical to comprehend the overall importance of financial planning techniques in improving the performance of South African SMEs. Furthermore, it implies that improving financial planning procedures could have directly resulted in increased SME performance, which should be considered when establishing policy direction. The main findings of the above analysis demonstrate the importance of critical financial planning success factors in improving the performance of SMEs.

This result is consistent with Musando (2013), whose research highlighted that financial planning had beneficial effects on the success and enhanced performance of SMEs. Musando (2013) further elaborated that financial planning aided these SMEs in maintaining their capital, mitigating risks, improving operational efficiency, and enhancing their ability to take advantage of opportunities. Furthermore, financial planning has alleviated financial crises, facilitated access to credit, minimized losses stemming from human mistakes, offered collateral for loan securi-

Table 7. Regression path model

	Paths	β	σ	T-stat	P	Decision
H ₁	Direct effects					
	Finplan → SMEperf	0.227	0.068	3.163	0.002	Supported

ty, and served as a framework for directing business activities. This finding was also concurred by Dobrovic et al. (2018), whose study revealed that financial planning indicators were highlighted as statistically significant in their analysis. Since the profit indicator is at the top, businesses have always prioritized making money. The cash flow has received a lot of attention. This finding was further concurred by Lubawa (2021) and Vu and Nga (2022) who concluded that to ensure enhanced performance and the long-term success of their businesses, it is essential for SME owners and managers to develop

and implement effective financial planning critical success factors. However, the study's findings contradict the results of Mabhungu (2017) who suggests that the performance and success of SMEs are influenced by non-financial planning strategies. Mabhungu (2017) argues that it is essential to focus on measuring non-financial planning strategies rather than financial planning strategies to improve the overall performance of SMEs. The performance of SMEs can be enhanced by measuring and managing non-financial planning strategies that are likely to affect financial planning strategies.

CONCLUSION

The purpose of this study was to investigate the financial planning critical success factors for SME performance. SMEs struggle to identify and implement critical financial planning success factors within their business to enhance performance and success. The study revealed that there was a positively significant relationship between financial planning and SME performance. The financial planning critical success factors for enhancing SME performance that emerged from the study were access to current financing, access to development financing, access to development financing, budgets to control costs, evaluating cash flow to current liabilities, evaluating cash flow to sales, evaluating current ratio, negotiating supplier discounts, and strategies to increase revenue. Premised on the statistically significant relationship between financial planning and SME performance, it is strongly advised that SMEs engage with these financial planning critical success factors and incorporate these identified strategies in their planning sessions to enhance operational efficiency, which contributed to the enhancement of performance of the business, ensuring the long-term sustainability.

In addition, SMEs need to have crisis management strategies in place to mitigate future crises/disasters to maintain operational efficiency during these tough times. Suggested strategies to be implemented should incorporate restructuring and streamlining processes to operate on minimal cost whilst maximizing revenue, train employees to adapt to a hybrid working environment, and have contingency plans to have adequate cash available. This includes negotiating flexible repayment terms with suppliers and reaching out for governmental support through grants and funding. Implementing strategies to increase revenue should be prioritized, such as enhanced marketing for offering discounts and product special offers. Sound budgeting strategies to achieve financial objectives should be regularly strategized, implemented, monitored, and reviewed.

Future studies can investigate the development of a performance measurement framework suitable for SMEs to guide them in implementing critical financial success factors for performance. A longitudinal study could also be undertaken to examine the effectiveness of these identified critical financial success factors on SME performance. Future investigations could also be conducted on the effect of non-financial planning critical success factors on SME performance in a post-COVID-19 pandemic environment. Such findings from future studies may help SMEs effectively plan, track, and manage their operational efficiency and planning post-COVID-19 pandemic.

AUTHOR CONTRIBUTIONS

Conceptualization: Avika Maharaj, Mishelle Doorasamy.

Data curation: Avika Maharaj.

Formal Analysis: Avika Maharaj.

Investigation: Avika Maharaj.

Methodology: Avika Maharaj.

Project administration: Avika Maharaj.

Supervision: Mishelle Doorasamy.

Validation: Avika Maharaj.

Visualisation: Avika Maharaj, Mishelle Doorasamy.

Writing – original draft: Avika Maharaj.

Writing – review and editing: Mishelle Doorasamy.

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