

# Financial Management Practices and Financial Performance of Small and Medium Enterprises in Ekiti State, Nigeria

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## ABSTRACT

This study examines the effect of financial management practices on the financial performance of small and medium enterprises (SMEs) in Ekiti State, Nigeria. SMEs are vital to economic growth and development, yet many in Nigeria face challenges related to poor financial planning, inadequate capital structuring, and ineffective cash flow management. Guided by stakeholder, pecking order, and contingency theories, this research investigates how annual budgeting, capital structure management, and working capital management influence SME profitability. A quantitative research design was employed, utilizing a structured questionnaire administered to 230 registered SMEs. Data were analyzed using descriptive statistics, Pearson correlation, and multiple regression analysis. The findings reveal that all three financial management practices have a significant and positive impact on financial performance, with annual budgeting identified as the strongest predictor of profitability. However, the regression model explains only 37.8% of the variance in financial performance, suggesting that other factors such as managerial expertise, market competition, and technological adoption also contribute to SME outcomes. The study highlights the need for SMEs to institutionalize formal budgeting processes, improve financial literacy, and adopt digital financial tools to enhance profitability and sustainability. It further recommends that policymakers and financial institutions provide targeted training, accessible financing options, and incentives for strong financial governance. These insights contribute to the broader discourse on SME development in emerging economies and offer practical guidance for improving business performance and resilience in the Nigerian context.

**Keywords:** financial management practices, SMEs, profitability, budgeting, capital structure, working capital, Ekiti State, Nigeria

## INTRODUCTION

Small and Medium Enterprises (SMEs) are recognized worldwide as the pillars of economic growth because they are able to create jobs, innovate, alleviate poverty, and make substantial contributions to the Gross Domestic Product (GDP). SMEs in Nigeria make up more than 90 percent of the private sector and provide an estimated 48 percent of the GDP in the country (SMEDAN, 2017). In such states as Ekiti, where large-scale industries are not very common and the economic processes are mainly SME, the efficiency and sustainability of such enterprises are not only critical but also essential to the inclusive development.

The practices of financial management (FMPs) are key factors in the sustainability of businesses, profitability, and competitiveness. Such practices are budgeting, working capital management, decision-making on capital structure, and financial reporting. Emerging empirical evidence confirms that good financial management practices positively improve the financial performance of SMEs through the maximization of resource use, better cash flow planning, less operational risk, and higher profitability (Ihenyen and Ekpoamumemi, 2024; Okoye, 2023; Badamasi et al., 2024). Although financial discipline is relevant, few operators of SMEs in Nigeria utilize formal financial principles to run their businesses (Nkwinika & Akinola, 2023). This is more deficient in the emerging states such as Ekiti, where the levels of business education and institutional facilitation of SMEs are low.

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## Statement of the Problem

The fact that SMEs in Nigeria die in large numbers complicates the SMEs as strong growth engines story. The preliminary research and anecdotal evidence in Ekiti State show that there is a common trend of business failure, stagnation, or poor performance of registered SMEs. This performance failure can be largely explained by the lack of financial planning, proper capital structure, systematic budgeting, and sophisticated working capital management systems. Most SME operators are financially illiterate, relatively unknown to the modern financial tools, or do not attach importance to financial management in their day-to-day operations. Such inefficiencies have been experienced in poor profitability, low solvency, frequent cash flow crunches, and closure of businesses within their initial five years.

Although researchers have researched the role of financial management in SMEs in such areas as Delta (Abbarika & Okoh, 2024), Bayelsa (Ihenyen & Ekpoamumemi, 2024), Katsina (Badamasi et al., 2024), and Lagos (Akano, 2024), a specific investigation on Ekiti State is missing. The exceptional sociocultural, infrastructural, and economic realities of Ekiti State provide the necessity of a contextual study that assesses how financial management practices determine SME financial performance in the state.

In Nigeria, empirical research is skewed towards metropolitan areas, which leaves a gap in the knowledge base on the dynamics of SMEs in suburban and less-commercialized states. Previous studies have focused on financial management practices in specific industries like manufacturing (Abiola & Othman, 2022), agriculture (Folajinmi & Peter, 2020), services (Okoye, 2023), and the poultry industry (Badamasi et al., 2024). Nonetheless, no literature is available that specifically addresses the studies on registered SMEs in Ekiti State that cut across various sectors such as retail, manufacturing, agriculture, and hospitality. Besides, although the principal parts of FMPs, including working capital, budgeting, and capital financing, are documented, few studies have analyzed the combination of these dimensions as a unit and integrated them into a single analytical framework in order to test their combined effect and their individual impact on the SME financial performance. The gap also stretches to the absence of evidence specific to the region that can be used to inform policy making and financial literacy targets in Ekiti State.

## Objective of the Study

The main objective of this study is to examine the effect of financial management practices on the financial performance of small and medium enterprises in Ekiti State. The specific objectives include:

- i. To determine the effect of the annual budget process on the profitability of SMEs in Ekiti State
- ii. To evaluate the influence of capital structure management on the profitability of SMEs
- iii. To examine the effect of working capital management on the profitability of SMEs in Ekiti State

## Research Hypotheses

The following null hypotheses were formulated and tested at 0.05 level of significance:

- i. Annual budget process has no significant effect on the profitability of SMEs in Ekiti State.
- ii. Capital structure management has no significant effect on the profitability of SMEs in Ekiti State.
- iii. Working capital management has no significant effect on the profitability of SMEs in Ekiti State.

These hypotheses serve to empirically validate the presumed linkages between good financial practice and financial performance as reflected in profitability and business sustainability.

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## LITERATURE REVIEW

### Conceptual Review

This section critically summarizes the key concepts and variables employed in the study, i.e., Financial Management Practices (FMPs) and Financial Performance (FP). It takes into account empirical and theoretical definitions and the scope of operations of each construct in this case.

#### Financial management practices

Financial management practices refer to the manner in which the company manages its financial resources to enhance its profits and overall competitiveness (Kotler and Armstrong 2008). Financial management practices can be defined as the strategies, systems, and methods embraced by firms, especially the small and medium-sized companies, in making informed and efficient financial decisions. Such practices are part of building business sustainability, growth, and profitability. Financial management practices in this study are operationalized in a manner of three main proxies, namely Annual Budget Process (ABP), Capital Structure Management (CSM), and Working Capital Management (WCM).

##### a. Annual Budget Process (ABP)

One of the aspects of financial planning and analysis that is most basic is budgeting. It enables companies to predict their revenues, distribution of resources, tracking of expenditure, and enhancement of future planning. Ihenyen and Ekpoamumemi (2024) discovered that detailed budgeting models have a strong impact on the financial results of SMEs, and structured budgets can help to prioritize resources and make better decisions. On the same note, Abbarika and Okoh (2024) highlighted that the SMEs in Delta State that integrated formal budgeting models had improved financial performance in terms of enhanced managerial accountability and financial management. Budgeting, therefore, becomes a key strategic instrument that provides the SMEs with the opportunity to streamline operation plans with the financial realities.

##### b. Capital Structure Management (CSM)

Capital structure is a strategy of a firm in its financial resources comprising debt and equity. Successful choices in capital structure are capable of reducing the cost of capital, increasing financial flexibility, and increasing profitability. The researchers found the positive correlation between the management of capital structure and the profitability of SMEs and emphasized that the companies where the balance between debt and equity ratio was optimized had a higher financial performance (Abiola and Othman 2022). Adeoye, Olubiyi, and Ajiteru (2023) have shown that business characteristics are relevant in determining capital structure decisions and, by implication, their growth performance in Nigerian SMEs. They established that informed capital structure strategies play a critical role in the positioning of SMEs to be in a sustainable competitiveness.

##### c. Working Capital Management (WCM)

Management of working capital will make sure that a firm can pay its short-term liabilities and the idle resources are reduced as much as possible. Inventory control, receivables and payables management, and management of cash are practices undertaken in WCM (Bamidele et al., 2025). Okoye (2023) says that working capital practices are directly related to innovative performance in SMEs. According to the data, Badamasi, Abubakar, and Gbolagade (2024) discovered that the operational performance of SMEs in the Katsina State was significantly influenced by WCM, since it improved liquidity accessibility and decreased the reliance on external funding sources. Igbojiyibo (2024) also attributed smart risk identification and mitigation in working capital cycles to better financial stability in SMEs.

### Financial Performance

Financial performance is the gauging of the effectiveness and profitability of a firm in the long term. To carry out this study, the financial performance is proxied by profitability, which is associated with the capability of a

firm to earn its money in relation to its expenses and other costs. As Abiola and Othman (2022) and Bamidele et al. (2025) mentioned, profitability is the strongest indicator of the performance of a firm, and it is essential in evaluating the feasibility of financial strategies. Akano (2024) in Lagos State showed that better financial reporting and financial literacy have a significant impact on the indicators of profitability, especially the Return on Sales (RoS) and Net Profit Margin (NPM). The case of Ghana and Nigeria has also revealed a positive correlation between the financial management practices and organizational performance of the SMEs (Otoo, 2024). In such a way, the financial performance proxy of profitability is an indicator of strategic planning, capital efficacy, and operational performance in SMEs (Sooriyakumaran et al., 2021).

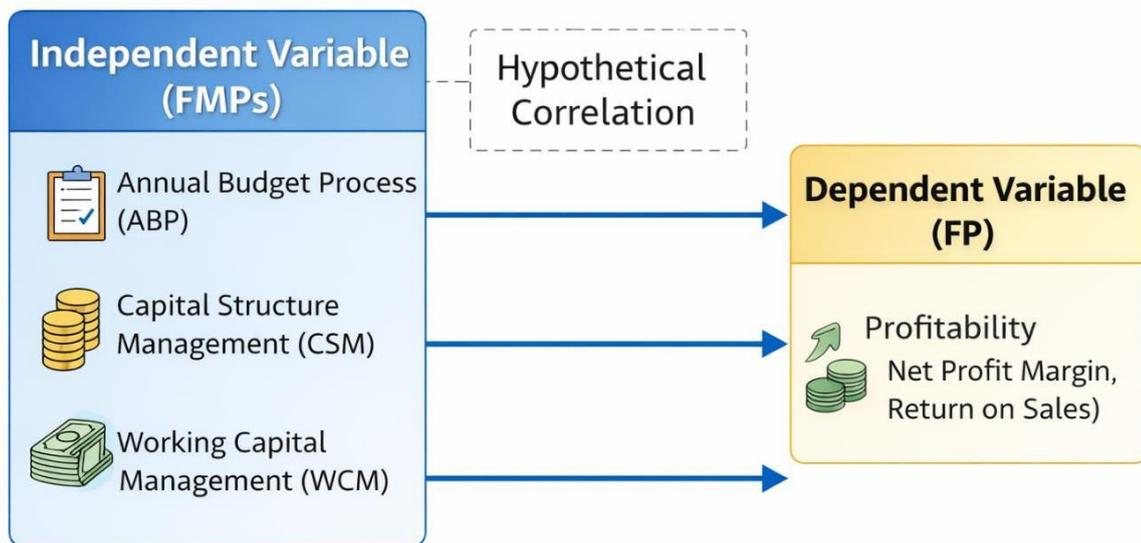
**The Nigerian concept of SMEs.**

SMEs are described as the driver of the new economies. SMEs play a major role in facilitating employment in Nigeria, the spread of innovations, and poverty alleviation (Nkwinka and Akinola, 2023). Nevertheless, due to research by Adda (2020) and Kaban (2025), financial mismanagement, absence of planning structures, and access to financial education constitute the greatest impediments to most SMEs. Such problems are more acute in the developing areas such as Ekiti State, where financial literacy and institutional support are low. Although the SMEs play an important role in the economy, most of them do not perform well or fail early because their capital planning is lacking, their record keeping is poor, and their cash flow management is poor (Appah, 2025; Chaidir et al., 2023). Financial mismanagement is not only damaging their profitability but also their capability to attract investment, scale operations, and overcome any economic shocks.

**Conceptual Framework**

Drawing on previous studies (Ihenyen and Ekpoamumemi, 2024; Okoye, 2023; Badamasi et al., 2024), this study adopts a conceptual model that posits a relationship between financial management practices and the financial performance of SMEs. In this model, the independent variables include the annual budget process, capital structure management, and working capital management. The dependent variable is financial performance, which is measured by indicators such as net profit margin and return on sales. This framework suggests that improvements in these key financial management practices are expected to enhance the profitability of SMEs.

Figure 1: Conceptual Framework



Source: Authors’ Conceptualization (2026)

**Summary of Literature Review**

In accordance with these recent investigations, the importance of proper financial management to the performance of SMEs in Nigeria and other countries is consistent (Sooriyakumaran et al., 2021; Nkwinka and

Akinola, 2023). Nevertheless, in spite of this general agreement, not a lot of research has provided localised empirical confirmation within the framework of SMEs functioning in south-western Nigeria, especially in Ekiti State. Additionally, the extant research has been either examining financial management practices individually or focusing on one aspect including working capital management or capital structure decisions hence ignoring the integrative effect of various financial management practices on profitability.

The review further shows that although annual budgeting, capital structure management, and working capital management have been well-known as one of the determinants of business success, the impact of the combined effect on SME financial performance has not been thoroughly investigated. This disparity is more noticeable in emerging economies where SMEs are constrained by financial resources, flawed institutions, and insufficient administration.

Thus, this work is based on the previous empirical research (Ihenyen and Ekpoamumemi, 2024; Akano, 2024; Badamasi et al., 2024) as it develops a conceptual framework that directs the relationship between financial practices of management (ABP, CSM, and WCM) and financial performance (measured by financial performance indicators like Net Profit Margin and Return on Sales). This model combines the concepts of the stakeholder theory (Freeman, 1984), the pecking order theory (Myers and Majluf, 1984), and the contingency theory (Chenhall, 2003), which suggests that accountability to various interest groups, financing preferences, and contextual factors are important in decision making in management respectively.

To conclude, the literature has provided a solid theoretical and empirical ground to explore the impact of financial management practices on the financial performance of SMEs. However, the contextual gap in current literature in Ekiti State is the reason to conduct this study to present empirical data that may inform policy makers, financial advisors and SME proprietors to make better financial decisions and increase business survival.

## **Theoretical review**

The present study is grounded on three complementary theories that will explain why, how and the contextual applicability of Financial Management Practices (FMPs) in improving SME financial performance. These are the Contingency Theory, Stakeholder Theory and Pecking Order Theory. The two of them offer a multi-dimensional perspective within which the financial practices of SMEs can be interpreted, particularly in a developing economy such as Ekiti State, Nigeria.

### **Stakeholder Theory (Freeman, 1984)**

Stakeholder Theory is the theory suggested by Freeman (1984) which states that the business organisations owe a fiduciary duty not just to shareholders, but also to all stakeholders; creditors, customers, employees, suppliers and the community at large. The theory demands accountability and value creation on this spectrum of diverse interests.

The stakeholder theory can be applied to the SMEs in this practice of sound financial management to ensure that the internal financial performance is not only achieved but also to ensure that the legitimacy, trust, and sustainability is upheld. SMEs are implemented in a strategic system of stakeholders, whose expectations, either directly or indirectly, may impact the results of financial performance. By adopting open budgeting, capital organisation with care, and liquidity practices, enterprises are sending a message to the stakeholders, including investors, lenders, and regulators, that they are responsible and can be relied upon (Akano, 2024; Otoo, 2024).

Therefore, stakeholder accountability, in turn, increases financial discipline and promotes the use of formal financial structures, such as annual budgeting, reporting systems, and risk management processes, by SMEs (Ihenyen & Ekpoamumemi, 2024). Thus, the stakeholder theory considers financial prudence as a strategic requirement of the SMEs that strive to maintain long-term relations and reputation capital.

### **The Pecking Order Theory (Myers and Majluf, 1984)**

According to the Pecking Order Theory, which was formulated by Myers and Majluf (1984), companies prefer prioritising the sources of finances according to a hierarchical structure determined by information asymmetry

and price. In particular, companies like internal financing (retained earnings), debt, and equity are the most favoured in that order. The hierarchy of preference is particularly clear in SMEs that can less readily access formal capital markets because of size, risk perception and informational opaqueness.

The theory can be used to explain the choices of capital structure of SMEs, especially their use of internally-generated resources. In reality, most Nigerian SMEs use personal savings and rebates back into their businesses instead of debt when they finance their operations (Abiola and Othman, 2022; Adeoye et al., 2023, Abdusalam et al., 2024). Consequently, financial management mechanisms, including cash budgeting, retained earnings policies, and investment priorities are important mechanisms of staying afloat and liquid.

According to Sooriyakumaran et al. (2021), the fact that SMEs do not want to engage in the acquisition of external liabilities unless it is necessary prompts the importance of effective mobilisation and management of internal funds. Thus, the pecking order theory provides the contextuality of financial discipline within the context of financing limitations, as it is typical of Ekiti State and its surroundings.

### **Contingency Theory (Chenhall, 2003)**

Contingency Theory assumes that the suitability of any management strategy, management structure or system such as the financial management practices is dependent on the contextual variables. These are size of the firm, industry, industry environment, regulatory environment, technology adoption and management capability (Chenhall, 2003).

Financial systems are not fixed but rather dynamic and are not universally the best in an SME environment. What is effective in one business may not succeed in another, even in the same region or even business. As an example, effective budgeting practice can lead to a higher profitability in one company because it can be an unimportant concept in another that lacks the execution ability (Okoye, 2023; Chaidir et al., 2023). In the same manner, the capital structure choice can rely on risk tolerance of the owners, the business cycles, or availability of microcredit.

This is supported by Abbarika and Okoh (2024) who demonstrate that the relationship between financial planning and SME performance differed in Delta State among various profiles of enterprises. Similarly, Adda (2020) discovered that socio-economic constraints that are specific to the localities influenced financial practices in Ghanaian and Northern Nigerian businesses.

In turn, as per the contingency theory, the use and effect of financial management practices should be evaluated in context-specific realities, which in the case of SMEs in Ekiti State are common. Due to the variety of the type of industry, financial literacy, institutional backing and economic preparedness, there is no universal approach.

### **Empirical Review**

Ihenyen and Ekpoamumemi (2024) performed research on the financial performance of SMEs in Bayelsa State and examined how detailed budgeting structures impact these enterprises. Through a quantitative method, they discovered that SMEs that had structured annual budgeting procedures showed better profitability and return on investment, as well as increases in revenues. The paper has highlighted the importance of budgeting in ensuring that there is a match between the financial objectives and operational strategies, thereby improving decision-making and resource distribution. The regression analysis confirmed that budgeting has a substantial impact on financial performance, despite the resource constraints of the regions. This paper confirms the belief that fiscal discipline, which is incorporated in sound budgets, is a great predictor of financial outcomes of SMEs. The results can be transferred to the extrapolation of the implications of budgeting to other workplaces similarly organized in Ekiti State and where financial control is loose or informal.

Badamasi et al. (2024) investigated the financial management of 291 SMEs in Katsina State through the Structural Equation Modelling (SEM). The results showed that the working capital management, budgeting processes, and risk control techniques all had direct and positive influence on financial performance indicators such as profitability and liquidity. Managerial competence and technological adaptation were also identified to

moderate these relationships in the study. Formalized financial procedures enabled the SMEs to cover short-term commitments, hold on to earnings, and prevent excess borrowing. The study supports the fact that financial practices do not just serve as record-keeping tools but as survival and growth strategic assets. The findings can be applied to the SMEs in Ekiti State, where such practices are usually informal and lacking institutions.

The study by Sooriyakumaran et al. (2021) is a working paper study that performed an analysis of SMEs in Sri Lanka with regard to the relationship between the financial management practices and the business performance. They found that accounting practices like budgeting, capital allocation, and accrual reporting had a significant correlation with better performances in financial reporting using panel linear regression. The researchers asserted the significance of the expertise of the audit committee and sound financial information in improving the quality of performance. The research offers insightful information on the role of financial literacy and decision-making frameworks in profitability and long-term sustainability. Though based in another developing nation, the results have some lessons to be learned by Nigerian SMEs, especially those in the rural regions such as Ekiti State, where people have little knowledge of and adoption of financial practices.

Abiola and Othman (2022) considered the relationship between financial management practices and profitability of listed Nigerian manufacturing firms. In the multivariate regression approach, the research study concluded that profitability was more affected by the firm's solvency, capital structure, and debt ratios compared to the level of liquidity. Companies that used debt strategically and also used internal capital were more successful when compared to those that did not. However, surprisingly, high-liquidity firms did not necessarily make high profits, which implied that surplus liquidity may impair the efficiency of investments. This paper provides a sector-specific aspect on financial performance measurement and explains that knowledge on financial structure decisions is essential in growth. Such insights can be used to the advantage of SMEs in Ekiti State since they can reconsider their dependence on retained earnings strategies and dependence on external finance.

Nkwinika and Akinola (2023) carried out research on why financial management in SMEs is important, and the research was based on best practices and their sustainability issues. They used the real-life case studies and qualitative analysis methodology to examine the role of financial planning, regulatory compliance, and government support in the performance of SMEs. It was found that the availability of digital tools, business intelligence, and organized budgeting enhanced the competitiveness and financial strength of SMEs greatly. Especially those businesses that adopted financial technology and regulatory systems have fared better in turbulent economic times. In the case of SMEs in Ekiti State, the study highlights the importance of implementing technology and effective governance systems in financial management to motivate survival, particularly in the post-pandemic recovery stages.

The study by Okoye (2023) investigated the connection between the financial management practices and the innovative performance of the Nigerian SMEs based on a conceptual framework. The research took the approach of the qualitative literature review and found four financial practices that include working capital management, investment appraisal, financing, and financial information systems as the central innovation drivers. The results indicated that innovation is not an activity of creativity alone but of financial ability and strategic control. The researchers found that successful financial management does not only lead to profitability but also flexibility of the firm in the competitive markets. This observation expands the perspective according to which financial management is associated with operational flexibility. It is particularly applicable to SMEs in Ekiti State, which are struggling to become innovative in limited resource settings.

Chaidir et al. (2023) conducted semi-structured interviews with business owners to identify the financial proficiency of the micro, small, and medium enterprises (MSMEs). The research was qualitative and found knowledge gaps, financial strategy planning, and execution gaps. Most MSMEs did not have an organized record-keeping mechanism or budgetary procedures. As a result, financial choices were commonly made on guesses as opposed to strategic estimates. The paper highlights the importance of financial education and advisory services. In the case of such a region as Ekiti State, where most of the SMEs might not be formally trained, research reveals that institutional frameworks that assist in supporting continuous learning in financial management are necessary. Better budgeting, cash flow management, and investment planning implementation would contribute to the performance greatly.

Otoo (2024) evaluated the effects of financial management practices on the performance of SMEs in Ghana and Nigeria on a cross-sectional survey design. It used the positivist paradigm of research and data collected through small operators of diverse businesses. Results indicated that capital budgeting and working capital control had a great impact on the profitability and viability of businesses. The research especially emphasized effective capital investments and cash flow forecasting. SMEs that had specific financial planning systems performed better as compared to those that did not. These understandings connect themselves with the financial aspects of Ekiti-based businesses, most of which experience liquidity constraints and fluctuating financial control systems. The paper supports the fact that financial planning skills are very important in performance results and long-term survival.

## METHODOLOGY

This study employed a quantitative research design to investigate the effect of financial management practices on the financial performance of small and medium enterprises (SMEs) in Ekiti State, Nigeria. The population of the study comprised all 928 registered SMEs in the state, as obtained from the Ekiti State Ministry of Commerce, Trade and Industry. To determine an appropriate sample size, the Taro Yamane formula was used with a 5% margin of error, yielding a sample size of 279 SMEs.

A structured questionnaire was designed based on validated items adopted from previous studies (Ihenyen & Ekpoamumemi, 2024; Okoye, 2023; Abbarika & Okoh, 2024), and was segmented into four sections to measure key variables: Annual Budget Process (ABP), Capital Structure Management (CSM), Working Capital Management (WCM), and Financial Performance (Profitability). A five-point Likert scale ranging from “Strongly Disagree” to “Strongly Agree” was used to assess responses. The questionnaire was pre-tested and validated by academic experts to ensure content validity, while reliability was confirmed using Cronbach’s alpha coefficients, all of which ranged above the acceptable threshold of 0.70.

The data collection process combined in-person distribution and online administration using Google Forms, ensuring wider reach and reducing non-response bias. Out of 279 distributed questionnaires, 241 were returned, and 230 were deemed valid for analysis, representing an 82.4% effective response rate. Data were analyzed using the Statistical Package for the Social Sciences (SPSS, version 25), beginning with descriptive statistics to summarize demographic data and respondents’ perceptions. Inferential analyses, including Pearson correlation and multiple linear regression, were conducted to test the hypotheses and examine the strength and direction of the relationship between financial management practices (independent variables: ABP, CSM, and WCM) and financial performance (dependent variable: profitability).

The regression model was specified as:  $FP = \beta_0 + \beta_1ABP + \beta_2CSM + \beta_3WCM + \varepsilon$ , where FP represents financial performance, and  $\varepsilon$  denotes the error term. All statistical tests were conducted at a 5% significance level. Ethical approval for the study was obtained from the relevant institutional review board, and informed consent was secured from all participants, who were assured of the confidentiality and anonymity of their responses.

## Data Analysis and Interpretation

### Descriptive Analysis

The descriptive analysis was conducted to provide a statistical summary of the demographic profile of respondents and their responses to the constructs of financial management practices including annual budget process (ABP), capital structure management (CSM), and working capital management (WCM) as well as financial performance (profitability). A total of 230 valid responses from SME owners and financial managers were analyzed using the Statistical Package for the Social Sciences (SPSS) Version 25.0. The analysis included frequencies, percentages, means, and standard deviations to interpret the central tendency and dispersion of the responses.

## Demographic Characteristics of Respondents

Table 1: Demographic Profile of Respondents (N = 230)

Variable	Categories	Frequency	Percentage (%)
<b>Gender</b>	Male	141	61.3
	Female	89	38.7
<b>Age Range (Years)</b>	20–29	39	17.0
	30–39	100	43.5
	40–49	63	27.4
	50+	28	12.1
<b>Education Level</b>	SSCE/Diploma	48	20.9
	Bachelor’s Degree	92	40.0
	Master’s/PhD	35	15.2
	Others	55	23.9
<b>Years of Experience</b>	Less than 5 years	71	30.9
	5–10 years	99	43.0
	Above 10 years	60	26.1

Source: Author’s Computation (2025)

## Descriptive Statistics of Research Variables

The respondents were diverse in terms of age, gender, educational background, and management experience. The majority of the respondents (43.5%) were aged between 30–39 years, while 27.4% were between 40–49 years. In terms of gender distribution, 61.3% were male, and 38.7% were female. Regarding educational qualification, 55.2% held either a bachelor's degree or higher, indicating a moderate level of formal education. Furthermore, 69.1% of the respondents had more than 5 years of experience managing SMEs, suggesting an adequate understanding of financial practices in their firms.

Table 2: Descriptive Statistics of Study Variables

Construct	No. of Items	Mean ( $\bar{x}$ )	Standard Deviation (SD)	Interpretation
Annual Budget Process (ABP)	4	3.87	0.82	Moderately High Adoption
Capital Structure Management (CSM)	4	3.64	0.90	Moderate Adoption
Working Capital Management (WCM)	4	3.91	0.76	High Adoption
Financial Performance (Profitability)	4	3.78	0.88	Moderately High Performance

Source: Author’s Computation (2025)

Responses in the study were measured using a 5-point Likert scale, ranging from Strongly Disagree (1) to Strongly Agree (5). The results show that the annual budget process had a mean score of 3.87 (SD = 0.82), indicating moderate adoption of budgeting practices among SMEs, with most firms preparing and using budgets for financial decision-making. This finding is consistent with earlier research by Ihenyen and Ekpoamumemi (2024). For capital structure management, the mean score was 3.64 (SD = 0.90), suggesting that while many SMEs are aware of financing options, they still tend to rely heavily on internal funding sources. This pattern aligns with the Pecking Order Theory and the findings of Badamasi et al. (2024). Working capital management recorded the highest mean score at 3.91 (SD = 0.76), reflecting strong attention to short-term liquidity, including inventory control, receivables and payables management, and operational cash flows, as highlighted by Okoye (2023) and Bamidele and Kareem (2020). Regarding financial performance, respondents reported a mean score of 3.78 (SD = 0.88), indicating that most SMEs perceive improvements in profitability, cash solvency, and return on sales as a result of effective financial management practices, particularly budgeting and working capital control.

The descriptive statistics suggest that while SMEs in Ekiti State moderately adopt financial management practices, working capital management is the most widely practiced. Budgeting and capital structure management are present but not yet fully institutionalized in many firms. Respondents generally agree that these practices positively influence profitability, providing a foundation for further analysis of their statistical significance.

**Pearson Correlation Analysis**

Pearson correlation analysis was conducted to examine the strength and direction of the linear relationship between the key financial management practices (ABP, CSM, WCM) and the financial performance (Profitability) of small and medium enterprises (SMEs) in Ekiti State. The analysis was performed using SPSS Version 25 at a 5% level of significance ( $\alpha = 0.05$ ). The Pearson Correlation Coefficient (r) ranges between -1 and +1. A positive value indicates a direct relationship, while a negative value denotes an inverse relationship. The closer the value is to  $\pm 1$ , the stronger the relationship between the variables.

Table 3: Pearson Correlation Matrix

Variables	ABP	CSM	WCM	FP
Annual Budget Process (ABP)	1			
Capital Structure Management (CSM)	.432**	1		
Working Capital Management (WCM)	.419**	.384**	1	
Financial Performance (FP)	.536**	.451**	.497**	1

**Note: N = 230; Significance (2-tailed); 0.01 = significant at the 1% level (2-tailed); 0.05 = significant at the 5% level (2-tailed).**

\*\* Correlation is significant at the 0.01 level.

Source: Author’s Computation (2025)

The correlation analysis reveals that there is a moderate to strong positive relationship between the annual budgeting process and financial performance ( $r = 0.536, p < 0.01$ ), indicating that SMEs with structured budgeting practices tend to be more profitable. Capital structure management also shows a moderate positive correlation with financial performance ( $r = 0.451, p < 0.01$ ), suggesting that effective management of debt and equity contributes to better financial outcomes. Similarly, working capital management is moderately and positively correlated with financial performance ( $r = 0.497, p < 0.01$ ), highlighting the importance of efficiently managing receivables, payables, and inventories for improved profitability.

Additionally, the analysis shows significant interrelationships among the financial management practices themselves, indicating that these practices function as interconnected systems that collectively influence SME financial outcomes. Overall, the results confirm that all three financial management practices are significantly associated with better financial performance, with annual budgeting having the strongest correlation, followed by working capital management and capital structure management. This suggests that SMEs that implement structured budgeting, maintain a balanced capital mix, and manage liquidity effectively are more likely to achieve favorable financial results.

### Regression Analysis

A multiple linear regression analysis was conducted to determine the combined and individual effect of financial management practices Annual Budget Process (ABP), Capital Structure Management (CSM), and Working Capital Management (WCM) on the financial performance (FP) of small and medium enterprises (SMEs) in Ekiti State.

This analysis helps to explain how changes in the independent variables predict variations in the dependent variable. The model is specified as:

$$FP = \beta_0 + \beta_1ABP + \beta_2CSM + \beta_3WCM + \epsilon$$

Where:

**FP** = Financial Performance (Profitability)

**ABP** = Annual Budget Process

**CSM** = Capital Structure Management

**WCM** = Working Capital Management

$\epsilon$  = Error term

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.615	0.378	0.369	0.64623

Source: Author’s Computation (2025)

The R-value of 0.615 indicates a strong correlation between the independent variables and financial performance. The  $R^2 = 0.378$  means that approximately 37.8% of the variation in SMEs' financial performance can be explained by the combined effect of ABP, CSM, and WCM. The regression model explained 37.8% of the variance in financial performance, indicating that over 60% of the variability is attributable to factors not included in the model. The remaining 62.2% can be attributed to other factors not captured in the model.

Table 5: ANOVA (Analysis of Variance)

Model	Sum of Squares	df	Mean Square	F	Sig. (p-value)
Regression	34.476	3	11.492	27.533	0.000
Residual	56.687	226	0.251		
<b>Total</b>	<b>91.163</b>	<b>229</b>			

**Significant at  $p < 0.05$**

Source: Author’s Computation (2025)

The F-value of 27.533 and a significance level of  $p = 0.000$  indicate that the regression model is statistically significant. This means the combined predictors (ABP, CSM, and WCM) significantly predict financial performance of SMEs.

Table 6: Coefficients of Regression

Variables	Unstandardized Coefficients (B)	Std. Error	T	Sig. value) (p-value)
(Constant)	1.221	0.277	4.409	0.000
Annual Budget Process (ABP)	0.292	0.066	4.424	0.000
Capital Structure Management (CSM)	0.203	0.060	3.383	0.001
Working Capital Management (WCM)	0.248	0.069	3.594	0.000

Source: Author’s Computation (2025)

### Significant at $p < 0.05$

The regression analysis reveals that all three financial management practices annual budgeting, capital structure management, and working capital management have a positive and statistically significant impact on the financial performance of SMEs in Ekiti State. Specifically, the annual budget process has the strongest effect, with a coefficient of 0.292 ( $p = 0.000$ ), indicating that improvements in structured budgeting are closely linked to higher profitability. Capital structure management also shows a positive influence, with a coefficient of 0.203 ( $p = 0.001$ ), suggesting that SMEs that effectively balance debt and equity can enhance their financial outcomes. Working capital management contributes significantly as well, with a coefficient of 0.248 ( $p = 0.000$ ), highlighting the importance of managing liquidity, receivables, and payables for improved performance. Overall, these results provide empirical evidence that adopting formal financial management practices significantly boosts SME profitability, with annual budgeting having the most pronounced effect, followed by working capital and capital structure management.

### Diagnostic Test: Multicollinearity

#### Purpose of the Test

Multicollinearity occurs when two or more independent variables in a regression model are highly correlated, meaning they provide redundant or overlapping information. This can distort the significance of predictors, inflate standard errors, and weaken the reliability of estimates.

To determine whether multicollinearity exists among the predictor variables Annual Budget Process (ABP), Capital Structure Management (CSM), and Working Capital Management (WCM) the Variance Inflation Factor (VIF) and Tolerance statistics were assessed.

- Tolerance is the proportion of a variable’s variance that is not explained by other independent variables.
- VIF is the reciprocal of tolerance and measures the inflation in the standard error due to multicollinearity.

#### Rules of Thumb

- **Tolerance  $< 0.10$  or VIF  $> 10$**  suggests serious multicollinearity.
- **Tolerance between 0.10 and 1.00, and VIF  $\leq 10$**  indicates no serious concern.

Table 7: Multicollinearity Statistics from Coefficients Output

Variable	Tolerance	VIF
Annual Budget Process (ABP)	0.679	1.472
Capital Structure Management (CSM)	0.714	1.400
Working Capital Management (WCM)	0.653	1.531

Source: Author’s Computation (2025)

The multicollinearity statistics indicate that all tolerance values are well above 0.10, ranging from 0.653 to 0.714, which suggests a low level of linear dependency among the independent variables. Additionally, all variance inflation factor (VIF) values are below 2.0, specifically between 1.400 and 1.531. These results confirm that multicollinearity is not a concern in the model, and each financial management practice contributes unique information to the analysis. These results meet the standard assumptions of multiple regression, meaning each predictor contributes unique information to the model and that estimates are stable and reliable.

Based on the diagnostic test for multicollinearity using Tolerance and VIF, the study concludes that the regression model does not suffer from multicollinearity. The financial management practice variables ABP, CSM, and WCM are reasonably independent and appropriate for inclusion in the same regression model. Therefore, the interpretation of coefficients and statistical inferences drawn from the regression results remain valid and trustworthy.

### Test of Hypotheses

This section presents the tests of the study's null hypotheses using the results of the multiple linear regression analysis. Each hypothesis relates to the specific components of financial management practices (FMPs) Annual Budget Process (ABP), Capital Structure Management (CSM), and Working Capital Management (WCM) and their effects on financial performance (FP) of SMEs in Ekiti State.

Each hypothesis is tested at a 5% level of significance ( $p < 0.05$ ).

#### Hypothesis One ( $H_{01}$ ):

$H_{01}$ : Annual Budget Process (ABP) has no significant effect on the financial performance of SMEs in Ekiti State.

From the regression analysis:

- Coefficient (B) for ABP = 0.292
- $t = 4.424, p = 0.000$

Decision: Since  $p < 0.05$ , we reject the null hypothesis ( $H_{01}$ ).

Conclusion: There is a significant positive effect of annual budget process on the financial performance of SMEs. This suggests that SMEs that implement structured budgeting processes tend to experience improved profitability and financial control.

#### Hypothesis Two ( $H_{02}$ ):

$H_{02}$ : Capital Structure Management (CSM) has no significant effect on the financial performance of SMEs in Ekiti State.

From the regression analysis:

- Coefficient (B) for CSM = 0.203
- $t = 3.383, p = 0.001$

Decision: Since  $p < 0.05$ , we reject the null hypothesis ( $H_{02}$ ).

Conclusion: Capital structure management significantly affects financial performance. This implies that SMEs that carefully balance equity and debt in their financing structure achieve better financial outcomes, consistent with the Pecking Order Theory.

**Hypothesis Three ( $H_{03}$ ):**

$H_{03}$ : Working Capital Management (WCM) has no significant effect on the financial performance of SMEs in Ekiti State.

From the regression analysis:

- Coefficient (B) for WCM = 0.248
- $t = 3.594, p = 0.000$

Decision: Since  $p < 0.05$ , we reject the null hypothesis ( $H_{03}$ ).

Conclusion: Working capital management has a significant positive effect on SME financial performance. Efficient management of liquidity-related activities such as receivables, payables, and inventory contributes to profitability and operational sustainability.

**Overall Model Significance**

The F-statistic = 27.533, with  $p = 0.000$ , confirms a statistically significant joint effect of the three independent variables (ABP, CSM, WCM) on the financial performance of SMEs in the study area. The Adjusted  $R^2 = 0.369$  indicates that approximately 36.9% of the variation in financial performance is explained by the model.

**Summary of Hypotheses Testing**

Null Hypothesis	p-value	Decision	Conclusion
$H_{01}$ : ABP has no significant effect on financial performance	0.000	Rejected	ABP significantly affects FP
$H_{02}$ : CSM has no significant effect on financial performance	0.001	Rejected	CSM significantly affects FP
$H_{03}$ : WCM has no significant effect on financial performance	0.000	Rejected	WCM significantly affects FP

Source: Author’s Computation (2025)

**Implication of Hypotheses Testing**

The rejection of all three null hypotheses provides strong empirical evidence that financial management practices when well-implemented significantly enhance the financial performance of SMEs. These findings underscore the importance of budgeting, controlled capital structuring, and effective liquidity management

strategies in improving profitability and competitiveness, especially in economically developing regions such as Ekiti State.

## DISCUSSION OF RESULTS

The findings of this study provide robust evidence that financial management practices specifically Annual Budget Process (ABP), Capital Structure Management (CSM), and Working Capital Management (WCM) significantly and positively influence the financial performance of Small and Medium Enterprises (SMEs) in Ekiti State, Nigeria. Among these, the annual budget process emerged as the most influential factor, underscoring the critical role of structured and formalized budgeting in driving profitability and financial sustainability. This result is consistent with the work of Ihenyen and Ekpoamumemi (2024) and Abbarika and Okoh (2024), who found that comprehensive budgeting frameworks enhance operational efficiency and serve as essential tools for performance evaluation and strategic decision-making in SMEs. These findings align with Stakeholder Theory, which posits that transparent internal systems such as budgeting foster accountability and stakeholder trust, ultimately improving business outcomes.

Capital structure management also demonstrated a significant positive effect on SME financial performance, supporting the conclusions of Abiola and Othman (2022) and Adeoye, Olubiyi, and Ajiteru (2023), who highlighted the importance of an optimized financing mix for profitability and growth. The observed preference among SMEs for internal financing over external borrowing is in line with the Pecking Order Theory (Myers & Majluf, 1984), which suggests that SMEs, due to limited access to formal credit and information asymmetries, often rely on retained earnings and personal savings. This finding emphasizes the need for SMEs in Ekiti State to engage in deliberate financial planning, balancing equity and manageable debt to enhance solvency and competitiveness.

Working capital management was also found to be a significant determinant of financial performance, echoing the empirical results of Badamasi, Abubakar, and Gbolagade (2024) and the conceptual insights of Okoye (2023). Effective management of cash flow, receivables, payables, and inventory is essential for maintaining liquidity and operational stability, as also supported by Igbojiyibo (2024). The practical implication for SMEs is the adoption of financial tools and digital solutions for cash flow forecasting, invoice monitoring, and inventory turnover analysis to strengthen short-term financial health.

However, it is important to acknowledge that the regression model explained only 37.8% of the variance in financial performance, indicating that over 60% of the variability is attributable to factors not included in the model. This limitation suggests that other influential variables such as managerial expertise, market competition, technological adoption, regulatory environment, and firm-specific resources may also play substantial roles in determining SME outcomes. Future research should consider integrating these additional factors to provide a more comprehensive understanding of SME financial performance.

The study's findings are further reinforced by international evidence. For example, Sooriyakumaran et al. (2021) in Sri Lanka and Nkwinika and Akinola (2023) in Africa found that the adoption of sound financial management practices, particularly when combined with digital tools, enhances SME resilience, profitability, and long-term sustainability. This convergence of results across different contexts highlights the universal importance of financial literacy, strategic financial planning, and the institutionalization of best practices in the SME sector.

Theoretically, the results of this study are grounded not only in Stakeholder Theory, Pecking Order Theory, and Contingency Theory, but can also be interpreted through the Resource-Based View (RBV) and Agency Theory. The RBV emphasizes the role of unique internal capabilities such as effective financial management in achieving competitive advantage, while Agency Theory underscores the importance of formal controls and accountability mechanisms in aligning interests and improving firm outcomes. Integrating these perspectives provides a more holistic understanding of how financial management practices drive SME performance in diverse and dynamic environments.

In summary, this study affirms that institutionalizing structured budgeting, optimizing capital structure, and enhancing working capital management are critical for improving the financial performance and sustainability

of SMEs in Ekiti State. At the same time, it highlights the need for broader research and policy interventions that address the multifaceted determinants of SME success.

### **Limitations**

This study is subject to several limitations. First, the sample, while statistically adequate, may not fully represent the diversity of SMEs across all sectors and business sizes in Ekiti State, which may limit the generalizability of the findings. Second, the regression model explains only 37.8% of the variance in financial performance, suggesting that other important factors such as managerial expertise, market competition, and technological adoption were not included. Third, while the study is grounded in several management theories, future research could further strengthen theoretical integration by explicitly applying frameworks such as the resource-based view and agency theory to the analysis of SME financial performance

### **CONCLUSION**

This study set out to examine the effect of financial management practices (FMPs) specifically Annual Budget Process (ABP), Capital Structure Management (CSM), and Working Capital Management (WCM) on the financial performance of Small and Medium Enterprises (SMEs) in Ekiti State, Nigeria. Using a sample of 230 SMEs and analyzing data through multiple linear regression and Pearson correlation techniques, the study has provided robust empirical insights into how key financial practices affect profitability.

The findings from the study revealed that all three financial management practices significantly and positively influence the financial performance of SMEs. Among them, the annual budget process has the strongest effect, indicating the critical importance of formal budgeting and planning in enhancing revenue and profit outcomes. The study also confirmed that capital structuring decisions, particularly those balancing internal funding with manageable debt, contribute to profitability. Similarly, effective working capital management, particularly in the areas of liquidity control and short-term assets and liabilities management, significantly improves financial health and operational efficiency.

These results align with prior empirical studies, including those by Ihenyen and Ekpoamumemi (2024), Badamasi et al. (2024), and Okoye (2023), and affirm theoretical anchors such as Pecking Order Theory, Stakeholder Theory, and Contingency Theory. The theoretical and empirical evidence confirms that structured, context-driven, and integrated financial management practices enhance SMEs' capacity to achieve sustained profitability and financial stability.

Financial management practices are more than bookkeeping tools; they are strategic levers for growth, competitiveness, and sustainability in the Nigerian SME sector. For SMEs in Ekiti State, where financial literacy levels and institutional support may be relatively low, the implications are even more significant. By institutionalizing financial management as part of their governance and strategic planning, SMEs can improve their access to finance, withstand market fluctuations, and expand more confidently.

### **RECOMMENDATIONS**

Based on the strong evidence that financial management practices significantly enhance SME performance, it is recommended that SMEs in Ekiti State adopt formal and structured budgeting as a core financial planning tool, as annual budgeting was found to be the strongest predictor of profitability. Relevant institutions should organize training and capacity-building workshops to help business owners implement effective budgeting and financial management systems.

Financial literacy programs should be institutionalized to guide SMEs in making better capital structure decisions and reducing reliance on informal financing. Government and financial institutions are encouraged to create accessible financing platforms with favorable terms for SMEs.

SMEs should also improve working capital management by adopting digital tools for inventory, receivables, and cash flow tracking. Partnerships with FinTech firms and state agencies can support the adoption of affordable financial management solutions, especially for smaller businesses.

Finally, policies that incentivize strong financial governance such as recognition schemes or tax benefits for transparent reporting should be promoted. These measures will help SMEs in Ekiti State achieve sustainable growth, improved profitability, and greater resilience to economic challenges.

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