



FINANCIAL MANAGEMENT AND GROWTH OF SMALL AND MEDIUM SCALE INDUSTRIES: A STUDY OF SELECTED SMALL BUSINESSES IN ADO-ODO/OTA LOCAL GOVERNMENT AREA, OGUN STATE

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ABSTRACT

This study examined the influence of financial management on the growth of small and medium-scale enterprises (SMEs) in Ado-Odo/Ota Local Government Area of Ogun State, Nigeria. Specifically, the study investigated the relationship between budgeting and SMEs' profitability, as well as the effect of financial planning on business expansion. A descriptive survey research design was adopted for the study. The population is comprised of 300 SME owners and managers across sectors such as trade, manufacturing, agro-processing, and services. Using the Taro Yamane (1967) formula at a 0.05 level of significance, a sample size of 171 respondents was determined. Data were collected through a structured questionnaire using a five-point Likert scale, and the instrument's reliability was confirmed using Cronbach's Alpha. The data collected were analyzed using descriptive statistics and Analysis of Variance (ANOVA) with the aid of SPSS. The findings revealed that budgeting practices are highly adopted among SMEs, while financial planning practices are moderately adopted. The results further showed that budgeting has a significant relationship with SMEs' profitability ($p = 0.006 < 0.05$), indicating that effective budgeting enhances financial performance. Additionally, financial planning was found to have a significant effect on business expansion ($p = 0.028 < 0.05$), suggesting that proper financial planning supports business growth. The study concluded that financial management practices, particularly budgeting and financial planning, play a critical role in enhancing the profitability and expansion of SMEs. It was recommended that SME operators should strengthen their budgeting practices and adopt comprehensive financial planning strategies to achieve sustainable growth.

Keywords: Financial management, budgeting; financial planning; SMES, profitability; business expansion

1. Introduction

Small and medium-scale enterprises (SMEs) constitute a vital component of economic development across both developed and developing economies. They play a significant role in employment generation, poverty alleviation, industrial development, and the promotion of entrepreneurial activities.



In Nigeria, SMEs represent a substantial proportion of business activities and are widely recognised as a key driver of economic growth and national development, contributing significantly to GDP and job creation (SMEDAN, 2021). Despite their economic importance, SMEs in Nigeria continue to face numerous challenges that impede their growth and sustainability. Among these challenges, inefficient financial management practices have been consistently identified as a major factor responsible for the high failure rate of SMEs (Adebayo, 2022). Many SMEs struggle with poor financial planning, inadequate budgeting systems, and ineffective cash flow management, which ultimately affect their operational efficiency and long-term viability.

Financial management refers to the systematic process of planning, organising, directing, and controlling financial resources to achieve organisational objectives. It encompasses critical functions such as budgeting, financial planning, investment decisions, and cash flow management (Brigham & Ehrhardt, 2020). Effective financial management ensures optimal allocation of resources, minimises financial risks, and enhances profitability. Budgeting, as a core component of financial management, involves the preparation of detailed financial plans that outline expected income and expenditures over a specific period. It serves as a control mechanism that helps SMEs allocate limited resources efficiently, monitor performance, and avoid unnecessary expenses (Ogunna, 2021). Similarly, financial planning enables firms to set realistic financial goals and develop strategies to achieve them, thereby facilitating informed decision-making regarding investment and expansion (Ezeani, 2020).

Cash flow management, on the other hand, focuses on monitoring and controlling the inflow and outflow of cash within an organisation. It ensures that businesses maintain sufficient liquidity to meet operational and financial obligations. Poor cash flow management has been identified as a leading cause of business failure, even among profitable firms (Adebayo, 2022). The growth of SMEs is typically measured in terms of increased profitability, expansion of business operations, market share, and overall performance improvement. Effective financial management practices play a critical role in driving this growth by promoting efficient resource utilisation and sound financial decision-making.

Small and medium-scale enterprises (SMEs) are widely regarded as catalysts for economic growth and development. However, in Nigeria, many SMEs have failed to achieve sustainable growth due to persistent financial management challenges. One of the major issues confronting SMEs is poor budgeting practices, which often result in inefficient allocation of financial resources and increased operational costs. Without proper budgeting systems, SMEs are unable to effectively control expenditures or plan for future financial needs. In addition, inadequate financial planning limits the ability of SMEs to make strategic long-term decisions, particularly in areas such as investment, expansion, and risk management. Many SME operators lack the technical knowledge required to develop structured financial plans, leading to reactive rather than proactive decision-making. Furthermore, ineffective cash flow management has resulted in liquidity constraints among SMEs, making it difficult for them to meet short-term obligations such as payment of suppliers, wages, and other operating expenses. This often leads to business instability and, in extreme cases, business failure.



Despite the recognised importance of financial management in enhancing business performance, many SMEs in Nigeria still do not adopt sound financial management practices. This has contributed significantly to their poor performance and limited contribution to economic development.

Therefore, this study seeks to bridge this gap in financial management practices and the growth of SMEs. The main objective of this study is to examine financial management and growth of small and medium-scale industries in Nigeria. While the specific objectives are to:

- i. examine the relationship between budgeting and SME's profitability.
- ii. evaluate the effect of financial planning on business expansion.

2. Literature Review

This study is anchored on the Pecking Order Theory as it provides a comprehensive explanation of how financial management practices influence the growth of small and medium-scale enterprises (SMEs). The Pecking Order Theory, developed by Stewart Myers and Nicolas Majluf (1984), explains how firms prioritise their sources of financing. According to the theory, firms prefer internal financing, such as retained earnings, before resorting to external sources like debt and equity. This preference is largely due to the costs and risks associated with external financing. For SMEs, this theory is highly relevant because they often face constraints in accessing external funds due to a lack of collateral, poor financial records, and perceived risk by lenders. As a result, they rely heavily on internally generated funds. Effective financial management practices such as budgeting, financial planning, and cash flow management enable SMEs to maximise their internal resources and reduce dependence on costly external financing. Poor financial management, on the other hand, may lead to liquidity problems and force SMEs to rely on unfavourable financing options, thereby limiting their growth.

Financial management refers to the systematic process of planning, organising, directing, and controlling financial resources to achieve organisational goals. It involves ensuring that financial resources are used efficiently and effectively to maximise returns and sustain business operations. Financial management is particularly important for SMEs because it determines how well limited resources are utilised to achieve growth and profitability (Brigham & Ehrhardt, 2020).

Budgeting is a critical component of financial management that involves preparing a financial plan outlining expected income and expenditure over a specific period. It serves as a tool for controlling costs, allocating resources, and monitoring financial performance. For SMEs, budgeting is essential in ensuring that limited financial resources are used efficiently (Ogunna, 2021).

Financial planning involves setting financial objectives and determining the strategies required to achieve those objectives. It is a forward-looking process that helps SMEs anticipate future financial needs and make informed decisions regarding investments and expansion. Financial planning enables SMEs to align their financial resources with business goals, ensuring that funds are available when needed. It also helps in risk management by identifying potential financial challenges and developing



strategies to mitigate them. Effective financial planning enhances decision-making, improves resource allocation, and supports long-term growth. (Ezeani, 2020).

Budgeting and SMEs' Profitability

Budgeting is a fundamental financial management practice that involves the systematic preparation of financial plans detailing expected income and expenditure over a specified period (Brigham & Ehrhardt, 2020). It serves as a critical tool for financial control, resource allocation, and performance evaluation within organisations, particularly for Small and Medium Scale Enterprises (SMEs), which often operate under resource constraints (Ogunna, 2021; Adebayo, 2022).

Financial planning is a strategic financial management process that involves setting financial goals and determining the appropriate strategies required to achieve those goals (Brigham & Ehrhardt, 2020). It is a forward-looking activity that enables businesses, particularly SMEs, to align their financial resources with long-term objectives such as growth, investment, and expansion (Ezeani, 2020; Ogunode, 2023). Business expansion refers to the increase in the scale of operations of a firm, which may include entering new markets, increasing production capacity, introducing new products or services, or acquiring additional assets (Adebayo, 2022). For SMEs, expansion is a key indicator of growth and long-term sustainability, and it requires careful financial planning to ensure that adequate resources are available and risks are effectively managed (Ogunode, 2023).

Empirical studies have consistently shown that financial management practices play a significant role in the growth and performance of SMEs. Adebayo (2022) examined the effect of financial management practices on the growth of small and medium enterprises in Nigeria to determine how budgeting, financial planning, and cash flow management influence business performance. The study adopted a survey research design and collected data from SME operators across selected business clusters in Nigeria. A structured questionnaire was used for data collection, and the responses were analysed using descriptive statistics and regression analysis techniques. The findings revealed that effective budgeting has a significant positive effect on financial control and profitability, while proper cash flow management enhances business stability and operational efficiency. The study concluded that sound financial management practices significantly contribute to the growth and sustainability of SMEs in Nigeria.

Ogunna (2021) investigated the impact of financial management practices on the performance of small and medium enterprises to assess how financial planning influences profitability and business expansion. The study adopted a descriptive research design and obtained data from SME owners and managers through the use of questionnaires. Data analysis was carried out using descriptive statistics and correlation analysis. The findings indicated that SMEs with structured financial planning practices experience higher levels of profitability and expansion compared to those without formal financial plans. The study concluded that financial planning is a critical driver of SME growth and long-term business success. Ezeani (2020) examined the role of financial management in the performance of small and medium enterprises in Nigeria to identify the causes of SME failure. The study employed a



survey research design and gathered data from SME operators using structured questionnaires. Data were analyzed using descriptive statistics. The findings revealed that poor financial management practices, particularly a lack of budgeting and inadequate financial planning, are among the major causes of SME failure in Nigeria. The study concluded that improving financial management skills is essential for enhancing SME performance and reducing business failure rates. Ogunode (2023) analysed the importance of cash flow management in sustaining small and medium enterprises to determine its effect on business continuity and financial stability. The study adopted a descriptive survey design and collected data from SME operators using structured questionnaires. Data were analysed using descriptive statistics and regression techniques. The findings showed that effective cash flow management has a significant positive effect on business sustainability and helps prevent financial distress. The study concluded that proper cash flow management is essential for ensuring the survival and growth of SMEs. Brigham and Ehrhardt (2020) examined financial management principles and their effect on business performance to explain how financial decision-making influences organisational success. The study adopted a theoretical and analytical approach, relying on existing financial management models and empirical evidence. The findings revealed that effective financial management practices, including budgeting, financial planning, and liquidity management, improve decision-making, enhance resource allocation, and increase overall business performance. The study concluded that sound financial management is a fundamental requirement for achieving business growth and sustainability.

Adebayo and Oladele investigated the effect of financial management practices on the growth of small and medium-scale enterprises in Nigeria. The study adopted a survey research design, and data were collected through structured questionnaires administered to SME owners and managers across selected manufacturing firms in Lagos State. Descriptive statistics and regression analysis were employed in analysing the data. The findings revealed that proper budgeting, financial planning, and cash flow management significantly improved the profitability, operational efficiency, and business expansion of SMEs. The study concluded that sound financial management practices are essential for the sustainable growth of SMEs in Nigeria (Adebayo & Oladele, 2020). Okonkwo and Eze examined the relationship between working capital management and the growth of SMEs in Lagos State. The study employed a cross-sectional survey design using a sample of 150 SMEs. Findings from correlation and regression analyses indicated that efficient management of cash, inventories, and receivables positively influenced liquidity, profitability, and sales growth. The study recommended that SME operators should maintain adequate working capital policies to enhance business growth and survival (Okonkwo & Eze, 2020).

Mensah and Boateng studied financial record-keeping and business sustainability among SMEs in Ghana. Using questionnaires and interviews administered to SME owners, the study found that many SMEs lacked proper accounting records, which negatively affected financial decision-making. The findings further showed that SMEs with adequate bookkeeping systems experienced higher profitability and long-term sustainability than firms without proper financial records. The study concluded that financial record-keeping significantly contributes to SME growth and continuity



(Mensah & Boateng, 2020). Ahmed and Musa assessed the impact of financial planning on the performance of manufacturing SMEs in Nigeria. The study adopted descriptive and inferential statistical methods to analyse responses from 200 SME managers. The results revealed that financial planning practices such as budgeting, forecasting, and cost estimation significantly enhanced operational performance, profitability, and market expansion. The study recommended that SME managers should prioritise financial planning to ensure sustainable business growth (Ahmed & Musa, 2020). Ibrahim and Bello analysed the influence of access to finance on SME growth in Northern Nigeria. The study utilised primary data obtained from SME owners through structured questionnaires. The findings indicated that inadequate access to bank loans and credit facilities constrained the expansion of SMEs, while firms with easier access to finance experienced improved productivity, profitability, and employment generation. The study concluded that financial accessibility is a critical determinant of SME growth and sustainability (Ibrahim & Bello, 2020).

Osei and Kwarteng examined the relationship between financial literacy and SME growth in Ghana. The study adopted a quantitative research approach involving 180 SME operators. Findings showed that entrepreneurs with sound financial literacy possessed better knowledge of investment, budgeting, and debt management, which positively affected business profitability and expansion. The study concluded that financial literacy significantly improves managerial decision-making and SME growth (Osei & Kwarteng, 2021). Nwankwo and Chukwu investigated the impact of accounting information systems on SME performance in Nigeria. The study employed regression analysis to test the relationship between accounting systems and business growth. The findings revealed that computerised accounting systems enhanced financial control, accountability, and managerial efficiency, thereby contributing positively to organisational growth. The study recommended the adoption of modern accounting technologies by SMEs to improve performance (Nwankwo & Chukwu, 2021).

Adetunji and Ojo evaluated the role of budgeting practices on SME productivity in Southwest Nigeria. The study found that SMEs that prepared formal budgets recorded better cost control, resource allocation, and operational efficiency than firms without budgeting systems. The researchers concluded that budgeting practices significantly improve productivity and business sustainability among SMEs (Adetunji & Ojo, 2021). Kariuki and Mwangi studied financial management strategies and SME competitiveness in Kenya. The study adopted a descriptive survey design and found that strategic financial management practices such as investment analysis, working capital management, and financial forecasting enhanced business competitiveness and profitability. The study concluded that financial management plays a significant role in promoting SME growth and survival (Kariuki & Mwangi, 2021).

Usman and Garba examined the effect of internal financial control systems on SME survival in Nigeria. The study revealed that effective internal controls reduced fraud, financial leakages, and operational inefficiencies. SMEs with stronger financial control systems demonstrated higher profitability and



business continuity. The study concluded that internal financial controls significantly influence SME growth and sustainability (Usman & Garba, 2021).

Eze and Obi investigated the effect of capital structure on SME growth in Nigeria. The study used regression analysis to examine the relationship between debt financing, equity financing, and business growth. Findings showed that SMEs with balanced capital structures achieved improved profitability and expansion. However, excessive debt financing negatively affected business sustainability due to high interest obligations (Eze & Obi, 2022). Akinyele and Adeyemi assessed financial reporting practices and SME sustainability in Nigeria. The study found that accurate and transparent financial reporting improved investor confidence, managerial decision-making, and access to credit facilities. SMEs with proper financial reporting systems experienced greater business growth and operational stability than firms with weak reporting systems (Akinyele & Adeyemi, 2022).

Yakubu and Ibrahim examined the impact of financial risk management on SME performance in Nigeria. The study found that effective risk management strategies, such as insurance policies, contingency planning, and diversification, improved business stability and reduced financial losses. The findings indicated that financial risk management positively influences SME profitability and long-term growth (Yakubu & Ibrahim, 2022). Aliyu and Suleiman analysed the role of loan management on SME development in Nigeria. The findings revealed that prudent utilisation and repayment of loans significantly improved productivity, asset acquisition, and business expansion among SMEs. The study recommended proper loan monitoring and financial discipline among SME operators (Aliyu & Suleiman, 2022). Omondi and Otieno studied the influence of financial innovation on SME growth in Kenya. The study revealed that digital financial services such as mobile banking, online lending, and electronic payment systems improved financial accessibility and operational efficiency among SMEs. The researchers concluded that financial innovation significantly contributes to SME growth and competitiveness (Omondi & Otieno, 2022).

Johnson and Peter examined financial management practices and organisational growth among SMEs in South Africa. Using survey data collected from SME owners, the study found that financial planning, investment analysis, and effective cost management positively influenced profitability and business expansion. The study concluded that sound financial management practices are critical to SME sustainability and long-term survival (Johnson & Peter, 2023). Olawale and Hassan investigated the effect of financial decision-making on SME profitability in Nigeria. The findings indicated that strategic financial decisions regarding investment, financing, and dividend policies significantly enhanced business profitability and operational performance. The study recommended regular financial analysis to support effective managerial decisions (Olawale & Hassan, 2023). Mbah and Okafor assessed the role of cash management on SME performance in Nigeria. The study found that SMEs with effective cash management systems maintained stronger liquidity positions and experienced fewer financial difficulties. The findings further revealed that proper cash management significantly improved profitability and business growth (Mbah & Okafor, 2023).



Kassim and Ahmed studied financial management competencies and SME survival in Nigeria. The researchers discovered that SME owners with strong financial management skills demonstrated better resource allocation, cost control, and financial planning abilities. These competencies significantly enhanced business survival and growth (Kassim & Ahmed, 2023). Adewumi and Samuel examined the influence of cost management practices on SME productivity. The findings showed that efficient cost control measures reduced operational expenses and increased profit margins. The study concluded that cost management practices significantly improve SME productivity and growth (Adewumi & Samuel, 2023).

Bello and Yusuf investigated the effect of financial technology adoption on SME growth in Nigeria. The study revealed that fintech services enhanced access to finance, improved transaction efficiency, and reduced operational costs among SMEs. The findings further indicated that fintech adoption positively influenced profitability and business expansion (Bello & Yusuf, 2024). Ekanem and Philip examined the impact of financial accountability on SME growth in Nigeria. The study found that accountability practices such as proper documentation, auditing, and transparent financial reporting improved investor confidence and organisational performance. The study concluded that financial accountability significantly contributes to SME sustainability and growth (Ekanem & Philip, 2024). Adekunle and James assessed the effect of financial forecasting on SME sustainability. The findings showed that financial forecasting enabled SMEs to anticipate market trends, allocate resources efficiently, and minimise business risks. The study concluded that financial forecasting significantly enhances strategic planning and business continuity (Adekunle & James, 2024). Nnamani and Uche examined financial resource management and SME performance in Nigeria. The study revealed that effective allocation and utilisation of financial resources improved operational efficiency, profitability, and business competitiveness. SMEs with strong financial management systems demonstrated greater growth potential than firms with weak financial practices (Nnamani & Uche, 2025). Ojo and Emmanuel investigated the relationship between financial management and SME survival in Nigeria. The findings indicated that efficient financial management practices such as budgeting, investment planning, and debt management significantly enhanced the profitability, sustainability, and long-term growth of SMEs. The study recommended continuous financial training for SME owners and managers to improve organisational performance (Ojo & Emmanuel, 2025).

3. Methodology

This study adopts a descriptive survey research design to examine the influence of financial management on the growth of small and medium-scale enterprises (SMEs). The population comprises owners and managers of selected SMEs in Ado-Odo/Ota Local Government Area of Ogun State, which is known for its high level of commercial and industrial activities. For this study, the population is limited to 300 SME operators across these sectors, such as trade, manufacturing, agro-processing, and services. Sample size for the study = determined using the Taro Yamane (1967) formula



$$= \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = population size (300)

e = level of significance (0.05)

$$n = \frac{300}{1 + 300(0.05)^2} = \frac{300}{1 + 300(0.0025)} = \frac{300}{1 + 0.75} \text{ i.s } = \frac{300}{1.75}$$

.i.i.is ≈ 171

Therefore, the sample size for the study is 171 respondents. A simple random sampling technique is adopted to ensure that each SME operator has an equal chance of selection.

The study utilises primary data collected through a structured questionnaire administered to SME owners and managers. The instrument is designed to capture information on budgeting, financial planning, cash flow management, and SME growth. A five-point Likert scale ranging from Strongly Agree (5) to Strongly Disagree (1) is used to measure responses. The variables are operationalised such that budgeting, financial planning, and cash flow management serve as independent variables, while SME growth, measured by profitability, expansion, and performance, serves as the dependent variable. The functional relationship between the variables is expressed as:

$$SMEG = f(BUD, FP, CFM)$$

The econometric model is specified as:

$$SMEG = \beta_0 + \beta_1 BUD + \beta_2 FP + \beta_3 CFM + \mu$$

Where:

SMEG = SME Growth, BUD = Budgeting, FP = Financial Planning, CFM = Cash Flow Management
 β_0 = Constant term, $\beta_1 - \beta_3$ = Coefficients of the independent variables, μ = Error term

The validity of the instrument is ensured through expert review, while reliability is tested using Cronbach's Alpha with a minimum threshold of 0.70. The data collected for this study were analysed using the Statistical Package for the Social Sciences (SPSS).

4. Findings and Discussion

Table 1: Frequency and Percentage Distribution of the Respondents According to Profile Variables

Sex

Profile Variables	Frequency (f)	Percentage (%)
Male	95	55.6
Female	76	44.4
Total	171	100.0



Age

Profile Variables	Frequency (f)	Percentage (%)
18–29 years old	70	40.9
30–39 years old	55	32.2
40–49 years old	28	16.4
50–59 years old	12	7.0
60 years and above	6	3.5
Total	171	100.0

Mean = 34.2 years

Highest Educational Attainment

Profile Variables	Frequency (f)	Percentage (%)
Secondary Education	35	20.5
Vocational/Technical	30	17.5
Bachelor's Degree	80	46.8
Master's Degree	20	11.7
Others	6	3.5
Total	171	100.0

Type of Business

Profile Variables	Frequency (f)	Percentage (%)
Trading	60	35.1
Manufacturing	35	20.5
Agro-processing	30	17.5
Services	46	26.9
Total	171	100.0

Number of Years in Business

Profile Variables	Frequency (f)	Percentage (%)
1–3 years	50	29.2
4–6 years	45	26.3
7–10 years	35	20.5
11–15 years	25	14.6
16 years above	16	9.4
Total	171	100.0

Mean = 6.8 years



Nature of Business

Profile Variables	Frequency (f)	Percentage (%)
Small Enterprise	120	70.2
Medium Enterprise	51	29.8
Total	171	100.0

Interpretation

Table 1 presents the frequency and percentage distribution of the respondents according to their profile variables. In terms of sex, the majority of the respondents are male, with 95 (55.6%), while females account for 76 (44.4%), indicating that male-owned SMEs dominate the study area. With respect to age, most respondents fall within the 18–29 years category with 70 (40.9%), followed by those aged 30–39 years with 55 (32.2%). This suggests that SME operations in the study area are largely driven by young and economically active individuals. In terms of educational attainment, the majority of respondents possess a bachelor's degree, with 80 (46.8%), followed by secondary education with 35 (20.5%). This indicates that most SME operators are fairly educated, which may positively influence their financial management practices. Regarding the type of business, trading has the highest representation with 60 (35.1%), followed by services with 46 (26.9%). This reflects the commercial nature of Ado-Odo/Ota Local Government Area.

In terms of years in business, most respondents have been operating for 1–3 years, with 50 (29.2%), suggesting that many SMEs are relatively young. The mean years of operation is approximately 6.8 years. Finally, in terms of the nature of business, the majority are small enterprises with 120 (70.2%), while medium enterprises account for 51 (29.8%). This confirms that small-scale businesses dominate the SME sector in the study area.

Financial Planning and Business Expansion

Table 3: Effect of Financial Planning on Business Expansion

Statements	Weighted Mean	Descriptive Interpretation	Rank
The business prepares long-term financial plans.	3.10	Moderately Practiced	3
Financial planning supports business expansion decisions.	3.45	Highly Practiced	1
The business forecasts future financial needs.	3.20	Moderately Practiced	2
Financial planning helps in acquiring new assets.	3.32	Highly Practiced	2



Financial planning improves access to funding for expansion.	3.05	Moderately Practiced	4
Overall Weighted Mean	3.22	Moderately Practiced	

Table 3 presents the effect of financial planning on business expansion. The respondents moderately practised financial planning with an overall weighted mean of 3.22, indicating a fair level of engagement in planning activities for business growth. Financial planning supporting business expansion decisions recorded the highest mean of 3.45 and ranked 1st, suggesting that SMEs recognise the importance of planning in guiding expansion strategies. However, improving access to funding for expansion recorded the lowest mean of 3.05 and ranked 4th, indicating that SMEs face challenges in leveraging financial planning to secure external financing. The results imply that while SMEs acknowledge the role of financial planning in expansion, its full potential is not maximised, particularly in accessing funds. According to Brigham and Ehrhardt (2017), effective financial planning is essential for sustainable growth and expansion, as it helps firms anticipate financial needs and allocate resources efficiently.

Table 4: Summary of Financial Management Practices Based on Research Objectives

Factors	Weighted Mean	Descriptive Interpretation	Rank
Budgeting and Profitability	3.42	Highly Practiced	1
Financial Planning and Business Expansion	3.22	Moderately Practiced	2

Table 4 shows the summary of the analysis based on the research objectives. Budgeting and profitability ranked 1st with a weighted mean of 3.42 and were interpreted as highly practised, indicating that SMEs strongly rely on budgeting to improve their financial performance. Financial planning and business expansion ranked 2nd with a weighted mean of 3.22 and was interpreted as moderately practised. This suggests that although SMEs engage in financial planning, there is still room for improvement in utilising it effectively for expansion purposes. Overall, the findings indicate that SMEs prioritise short-term financial control through budgeting over long-term strategic planning for expansion. This highlights the need for improved financial planning practices to support sustainable business growth.

Budgeting and SMEs' Profitability

Table 5: Test of Relationship between Budgeting and SMEs' Profitability

Sources of Variation	SS	df	MS	F	Sig.	Decision
Between Groups	2.145	3	0.715	4.256	0.006	Reject Ho



Within Groups	28.050	167	0.168			
Total	30.195	170				

Table 5 shows the analysis of variance (ANOVA) used to test the relationship between budgeting and SMEs' profitability. The computed p-value of 0.006 is less than the 0.05 level of significance; therefore, the null hypothesis is rejected. This indicates that there is a significant relationship between budgeting and SMEs' profitability. The result implies that effective budgeting practices contribute positively to the profitability of SMEs. The finding suggests that SMEs that engage in proper budgeting are more likely to control costs, allocate resources efficiently, and improve their financial performance. According to *Horngren et al.* (2018), budgeting serves as a critical tool for enhancing organisational performance and profitability. Kassim and Ahmed studied financial management competencies and SME survival in Nigeria. The researchers discovered that SME owners with strong financial management skills demonstrated better resource allocation, cost control, and financial planning abilities. These competencies significantly enhanced business survival and growth (Kassim & Ahmed, 2023). Adewumi and Samuel examined the influence of cost management practices on SME productivity. The findings showed that efficient cost control measures reduced operational expenses and increased profit margins. The study concluded that cost management practices significantly improve SME productivity and growth (Adewumi & Samuel, 2023).

Financial Planning and Business Expansion

Table 6: Test of the Effect of Financial Planning on Business Expansion

Sources of Variation	SS	df	MS	F	Sig.	Decision
Between Groups	1.876	3	0.625	3.112	0.028	Reject Ho
Within Groups	33.550	167	0.201			
Total	35.426	170				

Table 6 presents the analysis of variance (ANOVA) used to evaluate the effect of financial planning on business expansion. The computed p-value of 0.028 is less than the 0.05 level of significance; therefore, the null hypothesis is rejected. This indicates that financial planning has a significant effect on business expansion. The result implies that SMEs that engage in proper financial planning are more likely to experience growth and expansion in their operations. The finding suggests that financial planning enables SMEs to forecast future financial needs, allocate resources strategically, and make informed expansion decisions. According to Brigham and Ehrhardt (2017), effective financial planning is essential for business growth as it enhances strategic decision-making and long-term sustainability.



Hypotheses	p-value	Decision	Conclusion
Budgeting has no significant relationship with SMEs' profitability	0.006	Reject Ho	Significant
Financial planning has no significant effect on business expansion	0.028	Reject Ho	Significant

The results of the hypothesis testing reveal that both budgeting and financial planning play significant roles in the performance and growth of SMEs. Budgeting significantly influences profitability, while financial planning significantly affects business expansion. These findings emphasise the importance of adopting sound financial management practices among SMEs to enhance both short-term financial performance and long-term growth.

5. Conclusion and Recommendations

The researchers concluded based on the summary of findings that:

1. The study concluded that budgeting has a significant positive effect on the profitability of small and medium-scale enterprises (SMEs). Effective budgeting practices enable SMEs to control costs, allocate resources efficiently, and improve overall financial performance.
2. The study also concluded that sound financial management competencies, such as financial planning, cost control, and resource allocation, contribute significantly to the survival and growth of SMEs. SMEs with strong financial management practices are more likely to achieve sustainable growth and profitability.
3. Furthermore, the study concluded that cost management practices play an important role in enhancing SME productivity and profitability. Proper cost control measures help reduce unnecessary operational expenses, increase profit margins, and improve business sustainability.

Based on the summary of findings and conclusions, the researchers have considered the following recommendations:

- i. SMEs should continually practice effective budgeting by regularly preparing, monitoring, and reviewing budgets to enhance cost control and improve profitability.
- ii. SME owners and managers should strengthen their financial planning practices, particularly in long-term forecasting and strategic decision-making, to support business expansion.
- iii. SMEs should adopt a balanced financial management approach that integrates both budgeting and financial planning to ensure both short-term efficiency and long-term growth.
- iv. Financial institutions should provide improved access to funding for SMEs with structured financial plans, as this will encourage better planning and facilitate expansion.
- v. Government and relevant agencies should organise training and capacity-building programs to enhance the financial management skills of SME operators.



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