



Financial Management Practices and the Sustainability of Small and Medium Enterprises in Lagos State, Nigeria

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ABSTRACT

This paper develops an evidence-informed framework for investigating how budgeting, bookkeeping, cash-flow forecasting, account separation, owner financial literacy and digital transaction reconciliation may relate to the sustainability of small and medium enterprises (SMEs) in Lagos State, Nigeria. A critical comparison of published Nigerian empirical studies is used to establish the research gap: although individual studies associate financial literacy, accounting arrangements or digital readiness with selected business outcomes, consistent measures of near-term liquidity and business continuity, together with joint adjustment for firm characteristics and access to finance, remain insufficiently addressed. National institutional reports (PwC, EFInA and the World Bank) are used for contextual evidence, not as Lagos-specific estimates. The manuscript is an evidence-informed conceptual study with a fully specified prospective mixed-methods protocol; it reports no original survey, interview or hypothesis-test results. A proposed stratified survey and interviews would operationalize financial management practices and assess four preregistered hypotheses using multivariable, ordinal and logistic regression, subject to piloting and a final power calculation. The framework distinguishes access to finance from its effective management and discusses measurement validity, sampling bias and reverse causality. Policy implications prioritize verifiable records, cash planning and evaluations of practical financial-capability support.

Keywords: Lagos State; small and medium enterprises; financial management; bookkeeping; cash-flow forecasting; financial literacy; financial sustainability; research protocol.

1. INTRODUCTION

SMEs in Lagos operate amid unpredictable receivables, inventory purchases, energy costs, inflation and competition for household and business cash. An enterprise can generate accounting profit yet fail to meet wages, rent, supplier obligations or debt service when cash inflows arrive late. Financial sustainability must therefore be differentiated from sales growth, access to lending and adoption of financial technology.

PwC Nigeria (2024), drawing on the 2021 NBS/SMEDAN survey, cites MSMEs' national contributions of 46.32% of GDP and 87.9% of employment under the survey definitions. EFInA's 2023 nationwide household survey estimated formal financial inclusion at 64%, versus a revised 56% for 2020 (EFInA, 2024). Neither indicator provides a Lagos SME-specific measurement of financial management or enterprise survival. More recent EFInA 2026 results describe an increase in adult formal inclusion to 73%, but inclusion remains conceptually different from enterprise creditworthiness or operating liquidity (EFInA, 2026).

The research problem is not merely whether enterprises have funds, but whether financial capability translates into disciplined management, better liquidity and continuity after accounting for external constraints. Financially successful firms may also be more able to purchase accounting software and hire skilled personnel, generating reverse-causality concerns. This paper synthesizes relevant published findings, defines testable constructs and proposes a research protocol; it does not report completed field research.



2. RESEARCH AIM, QUESTIONS AND HYPOTHESES

The aim is to examine the association between financial management practices and SME financial sustainability in Lagos State, while distinguishing managerial capability from external access to finance. Four questions guide the proposed empirical phase: (i) how prevalent are budgeting, formal records and cash-flow forecasts; (ii) are these practices associated with improved near-term liquidity and timely payments; (iii) is financial literacy associated with practices rather than only reported performance; and (iv) does the association between digital records and record completeness depend on regular reconciliation?

H1: More consistent bookkeeping and budget review are associated with higher operating liquidity, net of firm characteristics. H2: More frequent cash-flow forecasting is associated with lower odds of late recurring payments. H3: Financial literacy is positively associated with formal financial management practice intensity. H4: Digital transaction capture is positively associated with record completeness, with a stronger association among firms that reconcile digital records at least monthly. These are proposed hypotheses, not accepted findings.

3. CRITICAL LITERATURE REVIEW AND RESEARCH GAP

3.1 Financial literacy, bookkeeping and sustainability

Babajide et al. (2023) surveyed 300 small-business owners in Lagos and Ogun States and analyzed relations among financial literacy, capabilities and sustainability using structural equation modeling. They reported positive relationships for financial literacy and financial capabilities, although their multidimensional sustainability construct spans financial, social and environmental domains. This supports financial capability as an important candidate predictor, but does not identify the short-term payment delays or cash gaps central to the present study. Adekoya and Ojediran (2024) surveyed registered Lagos firms and found relationships between outsourcing accounting functions and quality of financial reporting. Financial reporting quality is a narrower outcome than cash availability or business continuity. Together, these studies point to the need to distinguish knowledge, actual management practices and firm outcomes.

3.2 Digital practices: adoption is not reconciliation

Ajape, Okpala and Salawu (2024) studied 387 Lagos SME owners and managers, reporting that perceived usefulness and technological literacy shaped the uptake of technology-based accounting systems, while costs and complexity impeded adoption. Their sustainability outcome concerned resource-efficiency practices, which cannot be equated with liquidity. Adeola, Olalekan and Saliu (2026) studied digital transformation and sustainability in Lagos, emphasizing infrastructure and organizational readiness; the abstract reports weaker or less stable effects for digital skills and external support. These studies are compatible with, but do not establish, the idea that capturing transactions is beneficial only when supported by regular checking, reliable categorization and decision-making.

3.3 Comparative synthesis and precise gap

Table 1. Empirical studies compared with the proposed contribution

Study / place	Design and main reported relationship	Unresolved issue for this paper
Babajide et al. (2023); Lagos and Ogun	Survey (n=300); financial literacy/capability associated with broad sustainability	Not Lagos-only; short-run payment timeliness not isolated
Adekoya & Ojediran (2024); Lagos	Survey of registered enterprises; accounting outsourcing related to reporting quality	Reporting quality is not direct liquidity or survival
Ajape et al. (2024); Lagos	Survey (n=387); accounting-system adoption influenced by literacy,	Environmental commitments differ from operating cash



	usability and cost	outcomes
Adeola et al. (2026); Lagos	E-survey (reported n=372); digital readiness and infrastructure linked to sustainability	Digital integration not disaggregated into recording versus reconciliation

The contribution is an explicitly operationalized capability–practice–liquidity–continuity framework, not a claim of causal discovery. An original Lagos dataset would be needed to estimate the relative importance of bookkeeping, budget review, cash forecasting and digital reconciliation simultaneously, while assessing size, sector, firm age, credit use, registration and shocks. Existing studies use different samples, outcomes and definitions, preventing pooled prevalence claims or direct coefficient comparison.

4. CONCEPTUAL AND ANALYTICAL FRAMEWORK

Owner financial capability (knowledge of interest, price margins, inflation and accounting basics) may influence whether the firm separates accounts, prepares a written budget, updates records, forecasts cash and reconciles digital payments. These practices can improve visibility into the timing and size of obligations. Improved visibility may support timely payment and continuity, conditional on adequate underlying revenue and credit access. External finance, sector, size, years of operation, registration, supply shocks and manager education may confound or moderate these pathways. A cross-sectional test would estimate associations, not causal effects.

Table 2. Capability–practice–outcome pathways (proposed, not estimated)

Predictor	Mechanism to be examined	Outcome / alternative explanation
Budget review and bookkeeping	Makes obligations and costs visible before spending	Fewer cash shortfalls; profitable firms may also afford records
Cash-flow forecasting	Aligns receipts, inventory and recurring payments by date	Fewer late payments; customer delays may dominate
Personal–business account separation	Limits unrecorded owner withdrawals and improves traceability	More complete records; formal status may drive both
Digital capture plus reconciliation	Turns transaction trails into verified records	Better completeness; devices alone may be insufficient
Financial knowledge	Supports margin, credit-price and liquidity decisions	More use of formal practices; education may confound

5. PROPOSED MIXED-METHODS RESEARCH METHODOLOGY

5.1 Design, target population and sampling frame

The empirical component is a prospective cross-sectional explanatory study with a structured owner/manager survey, complemented by approximately 20–25 semi-structured interviews selected for maximum variation. The population is operating micro, small and medium firms in Lagos State across trade, manufacturing, food services and other services. Registered-enterprise lists, market/business-association directories and mapped commercial clusters would be assessed and combined to build an area-based sampling frame; no single complete frame is assumed. Eligibility would require an active enterprise with a knowledgeable owner or finance manager and a minimum of six months of operations for six-month retrospective outcomes. Startups younger than six months would be documented but analyzed separately for relevant outcomes. Formal registration, employment band and sector would be recorded rather than assumed.

Proposed multistage sampling: select LGAs or commercial clusters to represent metropolitan and peri-urban locations; enumerate eligible enterprises in sampled clusters; stratify by major sector and size; and select firms systematically or randomly within each stratum where lists are feasible. Maintain a registration/response log, note out-of-scope and nonresponse cases and collect field-frame coverage measures. Any convenience



recruitment must be flagged as nonprobability sampling and excluded from probability-representative claims. Sampling weights would require observed selection probabilities and nonresponse adjustment; a complete Lagos-wide probability frame is not presently available.

5.2 Sample size and pilot

The initial target is approximately 400 usable questionnaires, consistent with the original draft, not an accomplished sample. The familiar single-proportion illustration $n = (1.96^2 \times 0.5 \times 0.5)/(0.05^2) \approx 384$ assumes simple random sampling and addresses prevalence precision only; it is not a statistical power calculation for four multivariable hypotheses. Before fieldwork, an outcome-specific power and events-per-parameter assessment must use expected payment-delay prevalence, planned covariate count, anticipated effect sizes, cluster design effect and response rate. If insufficient for interactions, the sample must be increased or secondary subgroup analyses curtailed. A cognitive pretest with approximately 8–12 owners and a pilot with about 30 firms are proposed; neither has yet occurred.

5.3 Questionnaire and variable operationalization

Questions would use bounded six-month recall, frequencies with explicit anchors and short objective financial-literacy items. The preferred respondent is the owner or person responsible for cash decisions. When voluntarily available, transaction books, payment receipts or account summaries may be cross-checked without collecting unnecessary identifiers. Currency values should be requested in ranges if exact sums create nonresponse; all indices and scoring rules should be finalized before analysis.

Table 3. Operational definitions and intended data source

Construct	Operational indicator (prespecified proposal)	Scale / quality check
Financial literacy	0–8 correct answers on interest, inflation, margin and liquidity scenarios	Count score; item difficulty and expert review
Bookkeeping consistency	Sales and expense records updated at least weekly over prior 3 months	Binary plus frequency; optional record check
Budget review	Written budget prepared and compared with actuals at least monthly	Ordinal frequency; require example
Cash-flow forecasting	Forecast of dated receipts/payments for next 4+ weeks, updated at least monthly	Binary/ordinal; distinguish plan from memory
Digital record completeness	Share of selected categories entered and verified within 30 days	0–100% or bounded ordinal, if feasible
Digital reconciliation	Compares POS/mobile/bank statements with sales ledger $\geq$ monthly	Binary; verify procedure description
Operating liquidity	No inability to meet routine obligations when due in prior 6 months	Binary and count of cash shortfalls
Payment timeliness	Any rent, wages, utility or supplier payment overdue due to lack of cash in 6 months	Binary with separate applicability codes
Business continuity	Operating at survey and interruptions ≥ 7 days for financial reasons	Binary/number of interruptions; cross-sectional survivor bias
Controls	Employees, sector, firm age, registration, borrowing, input-cost shock, owner education	Categorical/continuous; prespecified coding

5.4 Validity, reliability and ethics

An expert panel (accounting, enterprise finance and survey-method specialists) would review face and content validity, including clarity of translated or locally adapted items. Conduct cognitive interviewing and the pilot before data collection. Report item distributions and missingness; assess internal consistency for genuine reflective scales using alpha and preferably omega, while avoiding alpha for heterogeneous formative indices



or single indicators. Use test–retest checks on a small stable subsample if practicable. Resolve respondent ambiguities through a written codebook, double-entry or automated range checks, and an auditable revision log.

Before collection, seek any required institutional ethics/IRB approval and obtain informed, voluntary consent. Avoid collecting bank details, identifying customer names or raw transaction information not essential to the stated variables. Store encrypted, access-restricted data; remove identifiers from analytic exports; report only aggregate counts for small cells; give participants the right to skip questions and withdraw in accordance with the approved protocol. Interview recordings should require separate consent. None of these procedures is represented as completed.

5.5 Hypothesis-specific analysis plan

Table 4. Proposed analysis and cautions for each hypothesis

Hypothesis	Primary model and outcome	Controls and verification
H1: records/budgets ↔ liquidity	Logistic model: no cash shortfall in 6 months (yes/no), predictors bookkeeping + budget-review frequency	Firm age, sector, staff, borrowing, registration, cost shocks; adjusted OR, 95% CI
H2: forecast ↔ late payments	Logistic model: any cash-caused late payment in 6 months (yes/no), predictor forecast frequency	As H1; sensitivity excluding firms without relevant obligations
H3: literacy ↔ practice	Ordered logit or count/Poisson-type model for prespecified practice-intensity score	Owner education, age, firm characteristics; proportional-odds test if applicable
H4: digital × reconciliation	Ordinal/linear or beta-compatible model for record completeness; digital capture, reconciliation and interaction	Prespecify scale; compare marginal effects; check sparse groups

Report descriptives and cross-tabulations before modeling. Check multicollinearity, nonlinearity of continuous predictors and influential observations; use cluster-robust uncertainty at the cluster/LGA level where adequate clusters exist. Present adjusted effects with 95% confidence intervals and a clearly labeled exploratory status for multiple secondary comparisons. State missing-data proportions by variable; compare complete-case estimates with appropriately specified multiple-imputation models if missing-at-random assumptions are plausible. Examine sector and firm-size heterogeneity only when adequately powered. Exclude firms without an applicable payment from payment-delay denominators. Semi-structured interviews will be coded using an explicit codebook, with illustrative quotations anonymized and triangulated rather than counted as representative evidence.

6. EXISTING EVIDENCE AND INTERPRETATION

The studies reviewed in Section 3 provide evidence that aspects of financial literacy, financial reporting and digital capacity are associated with selected business outcomes in Lagos and nearby states. They cannot be combined to estimate the percentage of Lagos firms that maintain weekly books or the effect of bookkeeping on six-month liquidity; the constructs, sampling and endpoints differ. EFINA adult inclusion statistics describe individual access to providers, not the adoption of records by business owners. Likewise, PwC’s national MSME survey documents financial stresses but does not directly test the hypotheses posed here.

Three mechanisms warrant tests. First, a weekly projection may make supplier–customer timing mismatches visible before a cash shortfall. Second, dated costing and record review may help managers detect deteriorating margins. Third, transaction reconciliation can translate digital payment data into information usable for pricing and financing. However, firms with better profitability, higher managerial education or greater staff capacity may be more likely to adopt all these practices. Consequently, a positive cross-sectional association would not prove that training or technology caused greater survival.



7. CONTRIBUTIONS, POLICY IMPLICATIONS AND LIMITATIONS

The proposed contribution is measurement clarity and a protocol that separates financial knowledge, actual financial practices and business outcomes. Business-support programs should combine loan-readiness advice with short-cycle cash budgets, accounts separation, invoice tracking and demonstrations of low-cost reconciliation. Financial service providers can make exportable monthly statements accessible to firms without specialist accountants. Intervention evaluations should assess actual changes in verified records, missed obligations and liquidity—not simply attendance or the number of digital accounts opened.

Limitations are substantial: there are no primary observations in this manuscript; published empirical reports use different designs and do not permit pooled effect estimates; a proposed survey would face selection, recall and common-method bias, survival bias and reverse causality; and a single-period design cannot establish impact. A later panel, quasi-experiment or randomized business-support trial would better address causation. The protocol should be implemented only after securing sampling access, ethical clearance and adequate power.

8. CONCLUSION

Evidence on Nigerian SMEs makes a credible case for testing whether the quality of financial management or rather than access to finance alone helps Lagos enterprises manage cash and maintain continuity. This revised manuscript clarifies its research gap, strengthens engagement with empirical studies, and sets out replicable variables and hypothesis-specific methods without inventing data or presenting proposed tests as findings. The proposition remains to be tested through appropriately sampled Lagos observations.

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