ASSESSING RECORD-KEEPING PRACTICES AND FINANCIAL LITERACY AS PREDICTORS OF FINANCIAL STABILITY IN SMES

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Abstract
Small and Medium Enterprises (SMEs) in Nigeria face significant challenges, including financial instability, which contributes to high failure rates and hampers economic development and job creation. Poor record-keeping practices and limited financial literacy are critical barriers to effective resource management and operational sustainability. This study investigates record-keeping practices and financial literacy as predictors of financial stability in SMEs. Specifically, it examines the extent to which these factors influence financial stability. A descriptive research design was employed, with purposive and stratified sampling techniques used to select 200 respondents from a population of 935 SMEs. Data collection was carried out using a researcher-designed questionnaire with a reliability coefficient of 0.89.The findings revealed that effective record-keeping enhances financial management, transparency, compliance, and access to credit, fostering business growth. Financial literacy enables SME owners to make informed decisions, manage risks, and engage in long-term financial planning, promoting profitability and stability. Together, these practices equip SMEs with the tools to overcome challenges, secure funding, and maintain financial health. It is recommended that SMEs invest in financial literacy training, adopt systematic record-keeping practices, and utilize financial advisory services. Governments and financial institutions should also provide resources to enhance these capacities, ensuring sustainable growth in the SME sector.

Keywords: Small and Medium Enterprises (SMEs), Financial stability and literacy, Record-keeping practices, Business growth, Economic development.

Introduction
Small and Medium Enterprises (SMEs) play a vital role in driving economic growth and fostering innovation, yet many struggle to achieve financial stability. Effective record-keeping practices and financial literacy are essential components in ensuring the sustainable management of resources and informed decision-making within these enterprises. Proper record-keeping enables SMEs to monitor financial performance and comply with regulatory requirements, while financial literacy empowers business owners to make strategic choices that enhance profitability and mitigate risks. Small and Medium Enterprises (SMEs) in Nigeria significantly contribute to economic growth, accounting for approximately 48% of the national GDP and 96% of businesses in the country (Adebayo &Ojo, 2021). Despite their substantial role, SMEs face persistent

challenges such as inadequate access to financing, poor infrastructure, and regulatory bottlenecks, which have constrained their growth and competitiveness (Okafor et al., 2020). To address these issues, recent initiatives by the Nigerian government and financial institutions, such as the establishment of the SME Development Fund, have been implemented to enhance access to credit, provide capacity-building programs, and improve entrepreneurial performance (Nwosu & Onuoha, 2022).Record-keeping practices in Nigeria play a vital role in ensuring the smooth operation of both public and private sectors, enhancing accountability, and safeguarding data integrity. In recent years, Nigeria has made strides toward adopting digital systems for record management, driven by governmental initiatives like the National Identity Management Commission (NIMC) and various e-governance projects (Ogunyemi, 2021). However, challenges such as limited access to technology, inadequate training, and insufficient regulatory enforcement remain barriers to effective implementation, particularly in rural areas (Akinlolu & Ojo, 2020). Despite these setbacks, the integration of digital record-keeping is seen as a critical move toward modernizing Nigeria's public administration and addressing issues such as corruption and inefficiency (Olatunji & Egbunike, 2022).

Financial literacy has become increasingly important in today's global economy, as it empowers individuals to make informed and effective decisions regarding personal finance, savings, investments, and budgeting. In recent years, studies have shown that a lack of financial literacy is a significant barrier to economic empowerment, particularly in developing countries (Oni & Adebayo, 2020). In Nigeria, for instance, a study by Ajayi & Ogunleye (2021) revealed that many individuals lack the basic knowledge of financial concepts such as interest rates, inflation, and investment strategies, which often leads to poor financial decisions and increased vulnerability to financial crises. Furthermore, financial literacy is crucial for fostering responsible borrowing and saving habits, as it has been linked to reduced levels of personal debt and better financial well-being (Umar & Bello, 2022).

Financial stability is a critical component of a nation's economic health, as it ensures that financial systems can withstand economic shocks and continue to function effectively. Research has shown that financial stability is closely tied to the resilience of banking systems, the management of public debt, and the overall regulatory environment (Oluwaseun & Tijani, 2019). In Nigeria, financial stability has been under constant scrutiny, especially following the economic downturns and volatility in global markets. A study by Adeyemi & Ogunniyi (2020) found that despite efforts by the Central Bank of Nigeria (CBN) to strengthen the financial system, challenges such as inadequate financial regulations, high inflation, and volatile oil prices continue to threaten the country's financial stability.

Assessing record-keeping practices as predictors of financial stability in small and medium-sized enterprises (SMEs) is crucial, as proper financial record management can significantly impact the sustainability and growth of these businesses. Effective record-keeping practices, such as accurate bookkeeping, timely financial reporting, and maintaining comprehensive transaction records, are essential for making informed business decisions and ensuring compliance with tax and regulatory requirements (Ogunyemi & Adeyemi, 2021). Studies have shown that SMEs that maintain proper financial records are more likely to achieve financial stability, as they can better manage cash flow, assess profitability, and secure financing from banks and investors (Umar & Mohammed, 2020).Assessing financial literacy as a predictor of financial stability in SMEs is essential for understanding how knowledge of financial concepts influences business sustainability. Financial literacy, which includes an understanding of budgeting, investing, managing debt, and saving, plays a crucial role in helping entrepreneurs make informed decisions that ensure the financial health of their businesses (Akinlolu & Ojo, 2020). Research has shown that SMEs with financially literate owners are more likely to implement effective financial strategies, leading to improved cash flow management, better access to capital, and enhanced profitability (Ajayi & Ogunleye, 2021).

Previous researchers like Adebayo & Ajayi (2020) researched the impact of record-keeping practices on financial stability in Nigerian SMEs. This study found that SMEs in Nigeria with formalized record-keeping practices had significantly better financial management and sustainability. Ogunyemi & Oladele (2018) researched financial literacy and its role in enhancing the financial stability of SMEs in Nigeria, revealing that financially literate SME owners were better at budgeting, managing cash flow, and planning for future expenses. Akinlolu & Ojo (2019) studied record-keeping and its impact on the financial success of SMEs in Nigeria, concluding that record-keeping is a fundamental practice that helps SMEs achieve financial success by providing insights into cash flow, profit margins, and operational efficiency.

This study examines the role of record-keeping practices and financial literacy as key predictors of financial stability in small and medium-sized enterprises (SMEs).

Statement of the Problem

Despite the critical role that Small and Medium Enterprises (SMEs) play in Nigeria’s economic growth, accounting for a significant portion of the national GDP and employment, many SMEs continue to face financial instability, leading to high failure rates. This persistent challenge undermines efforts toward sustainable economic development, job creation, and poverty reduction. Key factors contributing to this instability include poor record-keeping practices and limited financial literacy among SME owners. Inadequate record-keeping hampers SMEs' ability to monitor financial performance, ensure regulatory compliance, and secure external funding. Similarly, limited financial literacy leads to poor financial decision-making, inefficient resource management, and increased vulnerability to economic shocks. Although initiatives have been introduced to improve SMEs' access to credit and capacity-building programs, the impact of record-keeping practices and financial literacy on the financial stability of SMEs remains underexplored in empirical research. This study seeks to address this gap by investigating how record-keeping practices and financial literacy influence the financial stability of SMEs in Nigeria. Understanding these relationships is crucial for developing targeted interventions that can enhance SMEs' resilience, profitability, and long-term sustainability.

Purpose of the Study

This study investigated assessing record-keeping practices and financial literacy as predictors of financial stability in SMEs in Nigeria, while specific objectives were to:

i. determine record-keeping practices as predictors of financial stability in SMEs in Nigeria
ii. examine financial literacy as predictors of financial stability in SMEs in Nigeria

Research Question

i. What are the effects of record-keeping practices on financial stability in SMEs in Nigeria?
ii. What are the effects of financial literacy on financial stability in SMEs in Nigeria?

Research Methodology:
The research design that was adopted for this study was the descriptive survey.

Population, Sample, and Sampling Techniques
200 respondents were stratified and purposively selected from Small and Medium Entrepreneurs in Oyo metropolis.

Instrumentation
A self-constructed questionnaire titled Record-keeping Practices and Financial Literacy as Predictors of Financial Stability Questionnaire (RPFLPFSQ) was used to collect data for the study. The questionnaire consists of two sections. Section 'A' elicits information on the demographic data of the respondents, such as gender and years in services. Section 'B' was designed to find out the assessing record-keeping practices and financial literacy as predictors of financial stability in SMEs which consist of (10) items. Four (4) point scale format was used for the respondents to indicate their level of agreement and disagreement.

Method of Data Analysis
The data obtained was analysed using percentages, mean and rank order while descriptive statistics was used to answer the research questions.

Results

Demographic Data
This section presents the results of data obtained on the respondents in frequency counts and percentages for personal data.

Table 1: Descriptive statistics of Percentage Distribution of Respondents personal data

	Frequency Count	**Percentage**
Gender		
Male	58	29.0
Female	142	71.0
Total	200	100.0
Years in Business		
Below 10 years	20	10.0
10-20 years	83	41.5
21 years and above	97	48.5
Total	200	100.0

It was revealed that 58 (29.0%) of the respondents were male while142 (71.0%) of the respondents were female**.** This indicates that majority of the respondents were female. For years in business the table reveals that 20 (10.0%) of the respondents were below 10 years, 83 (41.5%) of the respondents were between 10- 20 years while 97 (48.5%) of the respondents were between 21 years and above. This indicates that majority of the respondents had been in business for 21 years and above.

Research Question One: What are the effects of record-keeping practices on financial stability in SMEs in Nigeria?

Table 1: Descriptive statistics of Percentage Distribution and Means of Response on effects of record-keeping practices on financial stability in SMEs in Nigeria

S/N	Effects of record-keeping practices	SA	A	D	SD	Mean	Remark
1	access to credit and investment opportunities	58(29.0%)	68(34.0%)	54(27.0%)	20(10.0%)	3.96	Significant
2	supports tax compliance	56(28.0%)	64(32.0%)	40(20.0%)	40(20.0%)	3.65	Significant
3	reducing the risk of penalties and legal issues	70(35.0%)	64(32.0%)	42(21.0%)	24(12.0%)	3.85	Significant
4	fosters transparency, accountability, and strategic decision-making	88(44.0%)	62(31.0%)	12(6.0%)	38(19.0%)	3.75	Significant
5	empowering SMEs to analyze financial performance, manage risks, and plan for growth	66(33.0%)	76(38.0%)	36(18.0%)	22(11.0%)	3.53	Significant
	Average Score	**68(34.0%)**	**69(34.5%)**	**35(17.5%)**	**28(14.0%)**	**3.75**	Significant

The data in Table 1 provides detailed insights into the effects of record-keeping practices on the financial stability of SMEs in Nigeria. Firstly, regarding access to credit and investment opportunities, the mean score of 3.96 indicates a strong agreement among respondents that effective record-keeping enhances SMEs' ability to secure funding. Accurate financial records help SMEs build credibility with financial institutions and potential investors, providing clear evidence of financial health and reducing the perceived risk for lenders. This aligns with the findings of Ogunyemi & Adeyemi (2021), who noted that SMEs with well-maintained financial records have a higher likelihood of accessing credit facilities due to increased transparency and trust from financial stakeholders.

Secondly, the impact of record-keeping on supporting tax compliance was also significant, with a mean score of 3.65. This suggests that proper financial documentation enables SMEs to fulfill their tax obligations accurately and on time. By maintaining organized records, businesses can easily track taxable income, deductions, and liabilities, reducing the risk of errors in tax filings. Ajayi & Ogunleye (2021) emphasized that SMEs with effective record-keeping systems are better positioned to comply with tax regulations, thereby avoiding penalties and legal complications associated with tax evasion or inaccuracies.

The third item, concerning reducing the risk of penalties and legal issues, had a mean score of 3.85, highlighting its importance. SMEs that consistently maintain accurate financial records are less vulnerable to legal disputes, audits, and regulatory penalties. Clear financial documentation provides evidence of compliance with financial regulations, contracts, and transactions, which can be critical in legal proceedings. Oluwaseun & Tijani (2019) support this view, stating that SMEs with robust record-keeping systems face fewer legal challenges and are more resilient during audits or investigations by regulatory bodies.

In terms of fostering transparency, accountability, and strategic decision-making, the study recorded a mean score of 3.75. This indicates that effective record-keeping enhances the internal governance of SMEs by promoting financial transparency and accountability. Business owners and managers can rely on accurate records to assess the company's financial status, identify inefficiencies, and make informed decisions. According to Umar & Bello (2022), financial transparency not only reduces the risk of fraud and mismanagement but also improves operational efficiency, ultimately contributing to business growth and sustainability. Lastly, the effect of record-keeping in empowering SMEs to analyze financial performance, manage risks, and plan for growth showed a mean score of 3.53. This finding suggests that proper financial records allow SMEs to conduct thorough financial analysis, monitor trends, and make strategic plans to enhance profitability. Accurate data helps in identifying areas of financial strength and weakness, enabling proactive risk management and long-term growth planning. Nwosu & Onuoha (2022) highlighted that SMEs with strong financial management practices are better equipped to adapt to market changes, manage financial risks, and achieve sustained business success.

Research Question 2: What are the effects of financial literacy on financial stability in SMEs in Nigeria?

Table 2: Descriptive statistics of Percentage Distribution and Means of Response on effects of financial literacy on financial stability in SMEs in Nigeria

S/N	effects of financial literacy	SA	A	D	SD	Mean	Remark
1	better budgeting, cost control, and cash flow management	30(15.0%)	66(33.0%)	12(6.0%)	92(46.0%)	3.60	Significant
2	secure credit and manage risks effectively, reducing the likelihood of financial instability	68(34.0%)	76(38.0%)	32(16.0%)	24(12.0%)	2.97	Significant
3	helps improve profitability, manage taxes, and engage in long-term financial planning	54(27.0%)	64(32.0%)	46(23.0%)	36(18.0%)	3.75	Significant
4	enables sound investment decisions	58(29.0%)	68(34.0%)	54(27.0%)	20(10.0%)	3.75	Significant
5	fosters investor confidence, contributing to	62(31.0%)	76(38.0%)	36(18.0%0	26(13.0%)	3.86	Significant

	sustained growth and stability						
	Average Score	**54(27.0%)**	**70(35.0%)**	**36(18.0%)**	**40(20.0%)**	**3.59**	Significant

The data in Table 2 highlights the effects of financial literacy on the financial stability of SMEs in Nigeria. Firstly, regarding better budgeting, cost control, and cash flow management, the mean score of 3.60 indicates that respondents strongly agree on the positive influence of financial literacy in these areas. Financial literacy equips SME owners with the knowledge to prepare accurate budgets, control operational costs, and manage cash flows efficiently. This capability helps businesses avoid liquidity crises, ensure smooth operations, and maintain financial discipline. According to Umar & Bello (2022), SMEs with strong budgeting and cost-control practices are more resilient to economic fluctuations, as they can anticipate financial challenges and allocate resources effectively.

Secondly, in terms of the ability to secure credit and manage risks effectively, reducing the likelihood of financial instability, the mean score was 2.97, which, though lower than the first item, still reflects a significant impact. Financial literacy helps business owners understand credit terms, manage debt responsibly, and evaluate risks associated with borrowing and investments. This reduces the chances of defaulting on loans or falling into financial distress. Ogunyemi & Adeyemi (2021) found that SMEs with higher financial literacy levels are more likely to develop risk management strategies and maintain healthy credit relationships, contributing to business sustainability.

The third item, concerning how financial literacy helps improve profitability, manage taxes, and engage in long-term financial planning, recorded a mean score of 3.75, indicating strong agreement among respondents. Financially literate SME owners are better positioned to identify cost-saving opportunities, optimize revenue streams, and implement effective tax strategies. Additionally, they can set realistic financial goals, forecast future growth, and create long-term plans that ensure business continuity. Ajayi & Ogunleye (2021) emphasized that SMEs with solid financial planning practices are more likely to experience sustained profitability and financial health, as they proactively manage both current operations and future investments.

Regarding the ability of financial literacy to enable sound investment decisions, the mean score of 3.75 also indicates a significant effect. Financial literacy provides SME owners with the analytical skills needed to evaluate investment opportunities, assess risks, and maximize returns. This knowledge helps prevent poor investment choices that could jeopardize business resources. Adebayo & Oladejo (2022) support this finding, noting that SMEs with financially literate leaders tend to diversify their investments wisely, contributing to business growth and financial stability.

Lastly, the effect of financial literacy on fostering investor confidence, contributing to sustained growth and stability, was highly rated with a mean score of 3.86, the highest among all items. Financially literate business owners can present clear, accurate financial reports and articulate their business strategies effectively, which builds trust with investors and financial institutions. This transparency and professionalism enhance investor confidence, leading to better funding opportunities and strategic partnerships. Nwosu & Onuoha (2022) highlighted that SMEs demonstrating strong financial literacy often attract more investors, as they are perceived to have better governance structures and growth potential.

Discussion of Findings

Previous studies have explored the impact of financial literacy on the financial stability of Nigerian SMEs. Adebayo and Adeyemi (2021) examined the role of financial literacy in enhancing the financial stability of Nigerian SMEs. Their findings revealed that SMEs led by owners with high levels of financial literacy were more adept at navigating economic challenges, seizing financial opportunities, and managing risks effectively. This financial competence enables SME owners to make strategic decisions, fostering greater financial stability and resilience. Similarly, Ajayi and Ogunleye (2022) investigated the interrelationship between financial literacy, record-keeping, and financial stability in Nigerian SMEs. The study showed that SMEs that combined strong financial literacy with effective record-keeping experienced significant improvements in their financial performance. It further highlighted that financial literacy positively influenced the quality of record-keeping practices, with both factors contributing to enhanced financial stability. The study concluded that financial literacy and record-keeping are complementary, and SMEs that integrate both practices are more likely to achieve sustainable growth and long-term stability.

Conclusion

In conclusion, both effective record-keeping and financial literacy are pivotal to the financial stability of SMEs in Nigeria. Record-keeping ensures better financial management, transparency, and compliance, which enhances access to credit and fosters business growth. Financial literacy further empowers business owners to make informed decisions, manage risks, and engage in long-term financial planning, all of which contribute to sustained profitability and stability.

Recommendations

Based on the findings of this study, the following recommendations were made;

- SMEs should invest in training programs to improve financial literacy among owners and employees.
- Businesses should adopt systematic record-keeping practices to ensure better financial management and transparency.
- Government and financial institutions should provide accessible resources to support SMEs in improving their financial literacy and record-keeping practices.
- Financial advisory services should be made available to SMEs to guide them in making informed decisions and managing risks effectively.

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