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Financial Literacy and Sustainability of Small and Medium Enterprises (SMEs) in Nigeria

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Abstract

The research investigates how financial literacy influences the sustainability of small and medium enterprises (SMEs) in Nigeria. A survey research design was utilized to gather primary data from SME proprietors throughout Nigeria. To maintain both manageability and representativeness, a sample size of 400 was calculated using the Taro Yamane formula. Participants were recruited through snowball sampling. Data collection involved a structured questionnaire aimed at assessing budgeting literacy, financial record-keeping literacy, and financial sustainability, using a five-point Likert scale. The analysis incorporated descriptive statistics to summarize respondent trends and multiple regression analysis to evaluate the impact of literacy variables on the financial sustainability of SMEs, with a significance level of 5%. The results indicated that budgeting literacy positively and significantly affects the financial sustainability of SMEs in Nigeria, and financial record-keeping literacy also has a positive and significant impact. Ultimately, financial literacy serves as a fundamental operational skill, allowing business owners to engage more effectively in financial planning, monitoring, and control, which are crucial for coping with economic challenges, managing scarce resources, and ensuring business continuity. The study suggested that SME owners and operators in Nigeria should institutionalize budgeting practices within their daily and strategic business activities by creating detailed, realistic budgets and updating them regularly to enhance their capacity to plan, allocate resources efficiently, and foresee financial difficulties.

Keywords: *financial literacy, sustainability, financial record-keeping literacy, financial sustenance*

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1. INTRODUCTION

Small and Medium Enterprises (SMEs) play a crucial role in the economic development of both developed and developing countries. In Nigeria, SMEs contribute significantly to employment generation, poverty alleviation, innovation, and grassroots development (Sara & Ikara, 2025). According to Moni Point MFB (2025), SMEs account for 96% of businesses and 84% of employment in Nigeria. Despite their central role in driving inclusive economic growth, a substantial number of SMEs in Nigeria struggle to survive beyond their initial years of establishment (Jacobs, 2025). Many fold up due to factors ranging from poor access to finance, infrastructural challenges, and inconsistent government policies to poor financial management practices. One of the less explored yet fundamental reasons behind SME failure is the lack of adequate financial literacy, especially in budgeting and financial record-keeping. In an economic environment characterized by rising inflation, currency devaluation, and volatile markets (Nworie et al., 2025), the ability of business owners to manage their finances with skill and prudence is no longer optional. It is becoming a determining factor in whether a business will thrive or collapse.

In literature, Azman et al. (2025) and Cahyaningtyas et al. (2025) argued that the sustainability of SMEs is directly linked to their ability to achieve financial sustenance over time. Financial sustenance refers to the capacity of a business to maintain stable and reliable financial operations, ensuring it can meet its obligations, support ongoing activities, and reinvest for future growth (Nwokocha & Nwankwo, 2019). In today’s business environment, particularly in Nigeria where economic fluctuations are frequent, the capacity for sustained financial operation is not just a business goal: it is a condition for survival. Firm sustainability goes beyond mere profitability (Babajide et al., 2023). It encompasses the ability to consistently generate cash flow, manage costs, plan for uncertainties, and maintain solvency. For SMEs that often lack the financial cushioning that larger corporations enjoy, financial discipline becomes even more crucial. Effective financial literacy serves as a powerful enabler of this discipline. When small business owners are well-informed about budgeting effectively and maintaining proper financial records, they are better positioned to track income and expenses, control waste, plan for lean periods, and make rational financial decisions (Susan, 2023). This, in turn, strengthens their chances of staying in business over the long term, regardless of changes in the economic climate.

Financial literacy affects financial sustenance because it equips business owners with the knowledge and confidence to make informed financial decisions that influence both short-term liquidity and long-term stability (Onochie & Nworie, 2025). Financial literacy refers to possessing a solid understanding of basic financial principles and concepts that enable individuals or businesses to make informed decisions about their financial matters (Onyejedum & Okoli, 2024). One key aspect of financial literacy is budgeting literacy: the ability to prepare, implement, and adjust a financial plan based on projected income and expenses (Faruku et al., 2025). SMEs that are proficient in budgeting can set realistic financial goals, allocate resources wisely, and avoid excessive borrowing or wasteful spending. When budgeting becomes a routine and strategic part of business management, it prevents financial crises and enhances the firm’s resilience. Another vital but often neglected aspect of financial literacy is financial-record keeping literacy (Faruku et al., 2025). This refers to the ability to systematically document and track financial transactions. Without accurate records, it is difficult to know whether a business is making a profit, losing money, or heading toward insolvency. Good record keeping supports transparency and allows business owners to evaluate performance, make timely interventions, and prepare reports required for loans, taxes, or investors. Inadequate record keeping, on the other hand, can lead to mismanagement, inability to access credit, and eventual business failure.

The relevance of this study arises from the growing realization that financial knowledge, particularly in budgeting and record keeping, is a vital but underdeveloped area for many Nigerian SMEs. While several government initiatives and private sector interventions have aimed at improving access to capital and markets, less emphasis has been placed on equipping entrepreneurs with the basic financial skills required to manage their operations sustainably. Many SMEs operate informally, with little regard for structured budgeting processes or systematic record keeping (Chituru et al., 2022). In some cases, business owners mix personal and business finances, fail to monitor spending, or make decisions based on guesswork rather than concrete data. This behavior undermines their ability to plan, measure progress, or respond to financial shocks. By focusing specifically on budgeting literacy and financial-record keeping literacy, this study addresses a gap in both research and practice. It explores how these functional aspects of financial literacy contribute to financial sustenance and, by extension, to the sustainability of SMEs in Nigeria.

However, the reality in Nigeria presents a different picture. A large number of SMEs struggle with basic financial management skills. Many business owners either lack formal training in budgeting or keep little to no financial records. Even when financial knowledge is present, it is often not applied consistently. In most cases, income and expenses are not documented, cash flow is poorly managed, and decisions are made based on instinct rather than data. This has led to a situation where SMEs operate informally, without clear financial direction. Despite the availability of information and government programs aimed at promoting entrepreneurship, the financial literacy level among Nigerian SME owners remains low, particularly in the areas of budgeting and financial record-keeping. This creates a serious disconnect between business intentions and financial realities.

Without proper budgeting, many SMEs overspend, underprice their products, or fail to plan for future needs. The absence of accurate records makes it difficult to assess profitability, attract investors, or access credit. These gaps in financial knowledge and practice contribute to high failure rates among small businesses in Nigeria. Businesses that might otherwise survive and thrive end up folding within a few years. This not only undermines the economic contributions of SMEs but also leads to job losses, wasted investments, and slowed economic development. The lack of financial literacy in budgeting and record-keeping continues to limit the long-term sustainability of SMEs in Nigeria, making it a problem that requires urgent academic and policy attention.

2. REVIEW OF RELATED LITERATURE

2.1 Financial Literacy

Financial literacy refers to an individual's ability to understand and use various financial skills, including personal financial management, budgeting, and investing (Onochie & Nworie, 2025). It involves being familiar with key financial concepts and being able to apply this understanding to make informed and effective financial decisions (Molosiwa & Holland, 2025). Financial literacy enables individuals and business owners to evaluate financial products, interpret financial information, and plan for long-term economic well-being. Onyejedum & Okoli, (2024) maintained that financial literacy plays a pivotal role in shaping SMEs destiny, from its very survival to maximizing profits and market share.

Financial literacy, in a broader sense, is more than just the possession of financial knowledge. It encompasses the capacity to apply that knowledge to everyday financial decisions (Azman et al., 2025). This includes decisions such as managing income, controlling spending, saving for emergencies, and planning for retirement or business expansion. In the context of business operations, especially for SMEs, financial literacy empowers entrepreneurs to navigate credit markets, develop feasible budgets, forecast cash flows, and assess the financial health of their enterprises (Cahyaningtyas et al., 2025). It serves as a foundational skill that influences how financial resources are allocated, monitored, and optimized for growth.

Furthermore, financial literacy is widely recognized as a necessary condition for financial inclusion and sustainable economic development (Onochie & Nworie, 2025). Without an adequate level of financial literacy, individuals and small business owners may face challenges such as over-indebtedness, poor investment choices, and difficulty accessing formal financial services (Ibitomi et al., 2024). For SMEs in particular, financial literacy is a strategic capability that helps managers and owners deal with uncertainties, plan strategically, and respond effectively to financial pressures. The increasing complexity of the financial landscape, along with the rise of digital financial services, has made financial literacy not only a beneficial asset but a critical requirement for economic survival and growth (Diyoke, 2024). Thus, improving financial literacy among business operators is essential for enhancing financial discipline, decision-making quality, and long-term financial stability.

2.2 Budgeting Literacy

Budgeting literacy refers to the ability to plan, manage, and control financial resources by preparing and maintaining a systematic plan for income and expenditures over a specific period (Faruku et al., 2025). It involves understanding how to estimate revenues, forecast expenses, allocate resources, and adjust financial plans based on actual financial outcomes. Budgeting literacy reflects a person's or an organization’s competence in preparing and utilizing budgets to support decision-making, monitor performance, and achieve financial goals (Njoki, 2022).

Budgeting literacy is central to the day-to-day operations of any enterprise, particularly SMEs that often operate with limited financial resources and little margin for error (Lusimbo, 2016). A person who is budget-literate not only knows how to draft a budget but also understands how to use it as a financial management tool. This involves consistently tracking income and expenditure, comparing actual figures with budgeted amounts, and making timely adjustments to prevent financial shortfalls or waste (Njoki, 2022). For SMEs, budgeting literacy enables owners to prioritize spending, plan for business growth, and avoid excessive debt or cash flow crises.

Moreover, budgeting literacy is not limited to mechanical preparation of budgets. It reflects a deeper understanding of financial planning principles, cost control, and performance measurement (Lusimbo, 2016). In a business context, this literacy helps ensure that financial resources are aligned with strategic objectives, operational efficiency is promoted, and resource wastage is minimized. Business owners who lack budgeting literacy often struggle to manage resources effectively, leading to disorganized finances, poor planning, and in many cases, business failure.

In addition, budgeting literacy fosters transparency and accountability, especially in small businesses where financial practices may be informal (Lusimbo, 2016). It empowers business operators to document, justify, and evaluate financial decisions. In competitive environments, the ability to prepare and manage budgets accurately can be the difference between sustaining operations and closing down (Chituru et al., 2022). Therefore, budgeting literacy serves not only as a skill but also as a discipline that strengthens the financial backbone of a business.

2.3 Financial-Record Keeping Literacy

Financial-record keeping literacy refers to the knowledge and ability to systematically document, organize, and maintain accurate financial records related to income, expenses, assets, liabilities, and other financial transactions (Lusimbo, 2016). It involves the capacity to keep orderly and up-to-date financial records that support transparency, accountability, and informed financial decision-making in both personal and business contexts (Adeyemi & Akanji, 2020).

This form of literacy is particularly crucial for small and medium enterprises, which often function without formal accounting systems (Onoriode & Agbele, 2021). A business owner who possesses financial-record keeping literacy understands the importance of documenting all financial activities, whether sales, purchases, salaries, or taxes, in a consistent and traceable manner. Such knowledge helps prevent confusion, loss of critical data, and financial mismanagement. It also ensures that a business can monitor its financial performance, prepare for audits, and comply with legal and tax obligations (Adeyemi & Akanji, 2020).

In practice, financial-record keeping literacy provides the foundation for many other financial functions, such as budgeting, forecasting, and financial analysis. Without accurate records, it becomes difficult, if not impossible, to measure profitability, track cash flow, or assess the financial health of a business (Okoh et al., 2023). Poor record keeping is one of the leading causes of financial mismanagement in small businesses, often resulting in liquidity problems, unpaid debts, or failure to secure financing from banks or investors. By contrast, effective record keeping supports access to formal finance, as financial institutions typically require clear and verifiable records before granting loans or credit.

Furthermore, financial-record keeping literacy promotes discipline in business operations. It instills a habit of accountability and consistency, which is vital for sustainability. When financial records are properly maintained, business decisions are based on facts rather than assumptions (Okoh et al., 2023). In this way, record keeping becomes more than a task: it becomes a strategic practice. For SMEs, acquiring this literacy is not just beneficial; it is essential for stability, growth, and long-term survival.

2.4 Sustainability of SMEs

The sustainability of small and medium enterprises (SMEs) refers to their ability to continue operating over time in a manner that is economically viable (Jacobs, 2025). It implies the capacity of an enterprise to endure challenges, adapt to changes, and grow while maintaining financial stability and fulfilling its obligations to stakeholders. Sustainability in this context is concerned not only with survival but also with consistent performance, resilience, and responsible management practices (Adeyemi & Akanji, 2020).

In an economic sense, sustainability means that an SME can generate sufficient revenue to cover its operational costs, reinvest in its activities, and provide returns to its owners or investors (Azman et al., 2025). It also implies the business is able to withstand internal and external shocks, such as market fluctuations, inflation, or economic downturns. Sustainability is a particularly pressing issue for SMEs because they typically face limited access to resources, capital, and institutional support (Agunbiade et al., 2020). Many SMEs in developing countries operate informally and are more vulnerable to financial pressures. To be sustainable, these businesses must build strong operational foundations, which include sound financial management, effective leadership, strategic planning, and the ability to innovate. Sustained growth requires careful balancing of current needs with long-term goals.

Moreover, sustainability is not static; it is a dynamic process that involves continuous evaluation and improvement. An SME that is sustainable today may become unsustainable if it fails to adapt to new market demands or regulatory changes. Therefore, sustainability is both an outcome and a strategic approach (Adeyemi & Akanji, 2020). For policymakers and business support organizations, enhancing the sustainability of SMEs means creating environments where these enterprises can thrive without compromising future growth opportunities.

2.5 Financial Sustenance

Financial sustenance refers to the continuous ability of a business or individual to generate, manage, and preserve enough financial resources to support ongoing operations or daily living needs (Nworie et al., 2025). In the context of SMEs, financial sustenance means having a stable and consistent flow of income that covers expenses, maintains operational capacity, and supports reinvestment for growth (Nwokocha & Nwankwo, 2019). It is the condition where a business remains financially afloat and functional over a period of time without falling into insolvency or recurring losses.

Financial sustenance is a fundamental requirement for business continuity. For small and medium enterprises, which often operate on limited budgets and thin profit margins, the need to maintain financial sustenance is especially critical (Nwokocha & Nwankwo, 2019). It reflects the financial health and viability of the enterprise, ensuring that it can meet both short-term obligations like wages, rent, and inventory purchases, and long-term commitments such as loan repayments or capital investments. A financially sustained business is one that remains solvent, pays its bills on time, and has enough cash or credit to deal with unforeseen expenses.

Achieving financial sustenance does not necessarily mean generating high profits. Rather, it means maintaining a balance between income and expenditure, ensuring that the business does not consistently spend more than it earns (Nworie et al., 2025). In this sense, financial sustenance is closely linked with effective financial management practices, including budgeting, cost control, savings, and prudent investment. Poor financial decisions, lack of planning, and weak control over cash flow are common threats to financial sustenance.

In addition, financial sustenance is vital for business credibility. A business that cannot meet its financial obligations risks losing customers, suppliers, employees, and access to finance. Financial sustenance allows the business to remain operational during slow periods, withstand financial shocks, and position itself for future growth (Nwokocha & Nwankwo, 2019). It is a measure of endurance, responsibility, and long-term feasibility in the increasingly competitive and uncertain business environment in which SMEs operate.

2.6 Knowledge-Based View (KBV) Theory

This study is anchored on the Knowledge-Based View (KBV) theory. The theory emerged from the understanding that in a rapidly changing business environment, firms must rely more on intangible assets like expertise, skills, and intellectual capabilities rather than just physical or financial resources (Kirsimarja & Aino, 2015). The KBV highlights the importance of internal knowledge creation, transfer, and application as key drivers of competitive advantage and long-term sustainability.

The main argument of the Knowledge-Based View is that knowledge is a unique and inimitable resource that can generate sustained competitive advantage when properly developed and managed (Cahyaningtyas et al., 2025). The theory proposes that firms differ in performance because they possess different stocks and flows of knowledge. It also maintains that organizations must build systems and structures that support the accumulation, organization, and sharing of knowledge. This includes both tacit knowledge, which is personal and experience-based, and explicit knowledge, which can be documented and codified. The theory further emphasizes that learning and knowledge integration are central to improving processes, innovation, and overall business outcomes (Kirsimarja & Aino, 2015).

This theory is particularly relevant to the present study, which investigates the effect of financial literacy, specifically budgeting and financial-record keeping literacy, on the sustainability of SMEs in Nigeria. Budgeting and record-keeping involve the acquisition and application of specific financial knowledge, making them direct expressions of the kind of strategic capabilities the KBV describes. By framing budgeting and record-keeping as forms of knowledge that can be learned, transferred, and utilized, the study aligns with the theory's focus on knowledge as a tool for achieving and sustaining superior performance.

2.7 Empirical Review

Faruku et al. (2025) explored how financial literacy influences the performance of selected fashion design Small and Medium Enterprises (SMEs) within the Municipal Area Council of the Federal Capital Territory (FCT), Abuja. The results demonstrated that financial literacy significantly and positively affects the profitability and output of fashion design enterprises in the study area. The study concluded that enhanced financial knowledge, attitudes, and behaviors are closely associated with improved performance among these businesses.

Molosiwa & Holland (2025) assessed the role of financial literacy in enhancing the decision-making capacity of SMEs, particularly in areas such as financial management, access to funding, fintech usage, and risk mitigation. Utilizing a systematic literature review methodology, the study synthesized findings from 18 empirical works published between 2016 and 2024. The evidence suggests that financial literacy strengthens SMEs’ capabilities in budgeting, debt management, and investment appraisal. It also improves creditworthiness through enhanced financial documentation, thereby easing access to external financing. In addition, digital financial literacy was found to drive fintech adoption, leading to greater cost efficiency, transparency, and operational effectiveness.

Azman et al. (2025) investigated the connection between financial literacy and financial sustainability among Muslim micro-entrepreneurs in Malaysia. The results indicated that among the components of Islamic financial literacy, financial behavior was the strongest predictor of sustainability, followed by financial knowledge and financial attitude. The study found a statistically significant positive relationship between financial literacy and financial sustainability.

Cahyaningtyas et al. (2025) studied how financial literacy and sustainability are directly linked in the context of micro, small, and medium enterprises (MSMEs) in Mataram, Indonesia. The study also examined how access to finance and attitudes toward financial risk mediate this relationship. The study found that financial literacy, access to finance, and financial risk attitudes each have a positive influence on MSME sustainability. Additionally, access to finance and financial risk attitudes served as significant mediators in the relationship between financial literacy and sustainability. Onyejedum & Okoli (2024) explored the nexus between financial literacy and performance of small and medium enterprises (SMEs) in Anambra State, Nigeria. The study was anchored on Human Capital Theory. The findings of the study revealed that there is significant and positive relationship between financial literacy and performance of SMEs.

Ibitomi et al. (2024) analyzed the relationship between financial literacy and SMEs performance in Abuja, Nigeria. The study noted that the financial influence of the business owners had a relatively limited impact on performance. It concluded that financial literacy contributes meaningfully to the growth of SMEs in Abuja. The study recommended that government agencies, microfinance institutions, and banks should collaborate to deliver financial education programs aimed at addressing areas where literacy is lacking.

Diyoke (2024) explored the influence of financial literacy on the development and long-term viability of Micro, Small, and Medium Enterprises (MSMEs) in Nigeria. Using a survey research design and multiple regression analysis, the study focused on MSMEs in the Abuja Municipal Area Council (AMAC). The findings showed that financial knowledge significantly enhances business performance. However, the financial behavior of owners and managers did not demonstrate a statistically meaningful impact on enterprise outcomes, indicating that daily financial practices may not directly influence business performance. In contrast, financial experience was found to have a substantial positive effect on growth, suggesting that practical exposure to financial matters contributes meaningfully to improving productivity and profitability.

Fillipus & Canicio (2024) examined how financial literacy affects the financial stability of micro-businesses operating at Namibia's Bokamoso Entrepreneurial Centre. Thematic analysis using NVIVO revealed that 89% of respondents possessed low financial literacy, which appeared to hinder their ability to sustain their businesses financially. Furthermore, none of the businesses had access to formal financial institutions, likely due to their limited financial knowledge. This lack of literacy diminished their confidence and participation in formal markets. Additionally, external factors such as political interference, stringent collateral requirements, and inadequate financial information were found to further restrict access to credit.

Adeyombo et al. (2024) investigated the financial literacy levels among SMEs in Osun State, Nigeria, recognizing their essential role in the broader economic landscape. Findings revealed a weak but statistically significant link between financial literacy and financial behavior. While many business owners demonstrated basic awareness of financial concepts, they faced challenges applying this knowledge effectively in operational decisions. The study underscored the necessity for targeted financial education and improved access to practical financial tools and resources.

Babajide et al. (2023) analyzed the influence of financial literacy and financial capability on the sustainability of small businesses in Lagos and Ogun States, Nigeria. The results highlighted that environmental and financial sustainability, along with social responsibility, play significant roles in ensuring the survival of small firms. Both financial literacy and capability were found to positively contribute to business sustainability. Interestingly, the use of savings products had a negative effect on firm sustainability, suggesting that certain financial strategies may not align well with long-term business goals. The study concluded that sound financial knowledge and practices are crucial to maintaining sustainable small businesses.

Meressa (2023) explored how entrepreneurial financial literacy and access to credit relate to the sustainability of small businesses in Ethiopia. Results confirmed that entrepreneurial financial literacy plays a vital role in sustaining small businesses. Furthermore, access to formal credit emerged as a mediating factor between financial literacy and business sustainability. The study contributes to the understanding of how financial competence and access to external funding are interlinked with the endurance and success of small enterprises, aligning with a knowledge-resource-based theoretical framework.

Mogaji & Daniel (2023) explored the influence of financial literacy, including mental attitudes and financial behaviour, on the profitability of student-owned Micro and Small Enterprises (MSEs) at Nasarawa State University, Keffi. The analysis revealed that financial knowledge did not have a statistically significant effect on profitability. However, the profitability of student-owned MSEs was significantly influenced by both financial attitude and financial behavior.

Tuffour et al. (2022) analyzed how financial literacy, specifically awareness, attitude, and knowledge, affects the financial and non-financial performance of small-scale businesses in the La Nkwantanang Madina Municipality, Ghana. The study found a significant positive effect of financial literacy on both financial and non-financial performance. All three dimensions of financial literacy had a substantial impact. Interestingly, individual characteristics such as age, education level, and experience did not show significant influence on financial performance. However, tax policy was highlighted as a potentially effective regulatory mechanism for small enterprises.

Haleem (2022) investigated the link between financial literacy and sustainable business performance, with a focus on the mediating role of firm performance and the moderating effect of business type. The study, guided by the Resource-Based View (RBV), utilized data from 260 SMEs in Sri Lanka's Eastern Province. The findings indicated that financial literacy, measured through knowledge, skills, and attitude, has a significant positive relationship with SME performance, which in turn contributes to sustainability.

Asom et al. (2022) analyzed the impact of financial literacy on the performance of small and medium enterprises in Nigeria over a long-term period from 1990 to 2019. Using the augmented Dickey-Fuller unit root test and bounds testing approach, the study confirmed that the model variables maintain a long-term equilibrium. The error correction model showed that while financial ability and prior SME contributions to growth had positive short-term effects on productivity, financial awareness and access had negative short-term outcomes. However, in the long term, all three elements, financial awareness, access, and ability, were found to positively and significantly influence SME productivity.

3. METHODOLOGY

The study employed a survey research design, which is widely considered appropriate for studies that seek to collect large amounts of primary data from a specific population within a limited time. The target population for this study consisted of owners and operators of small and medium enterprises (SMEs) in Nigeria, which, according to the latest data available from the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), stands at 39,654,385 SMEs across the country (Moniepoint MFB, 2025). These businesses span various sectors such as manufacturing, retail, services, and agriculture, and play a crucial role in employment generation and economic development. Due to the diversity and wide geographical spread of this population, a sampling method was employed to ensure a manageable yet representative portion of this group was selected for the study. Given the large size of the population, it was necessary to calculate an appropriate sample size that would ensure the results were statistically reliable while being logistically feasible. The Taro Yamane formula was used to determine the sample size:

Formula: Sample size (n) = $\frac{N}{1+N\,(e)^2}$

Where:

n = required sample size

N = population size (39,654,385)

e = margin of error (0.05 or 5%)

Thus:

$$\frac{39{,}654{,}385}{1 + 39{,}654{,}385\ (.05)^2}$$

Sample size = 400

Therefore, a sample size of 400 respondents was determined to be adequate for the study. This number ensures a 95% confidence level with a 5% margin of error, which is widely acceptable in social science research. To reach the required number of respondents, snowball sampling was adopted. Given the scale of the population and potential difficulties in accessing a comprehensive and up-to-date sampling frame of all SMEs in Nigeria, snowballing presented a practical alternative. Initial contacts were made through SME associations, business networks, and entrepreneurship development centers. These initial respondents were then asked to refer other SME owners within their network, allowing the researcher to gradually build a robust and diverse sample of participants from different sectors and geographical locations.

Primary data was collected using a structured questionnaire, which was administered electronically and in person, depending on the accessibility and preference of the respondents. The questionnaire was designed to gather data on the respondents' level of budgeting literacy, financial-record keeping literacy, and financial sustenance practices. The instrument consisted of closed-ended questions measured using a five-point Likert scale with the following options: Very High Extent (5), High Extent (4), Neutral (3), Low Extent (2) and Very Low Extent (1).

To ensure the accuracy and appropriateness of the instrument, construct validity was used to assess whether the questionnaire items adequately captured the concepts of budgeting literacy, financial-record keeping literacy, and financial sustenance. The questionnaire was reviewed by academic experts in finance and small business development to ensure content relevance and clarity. To ascertain the reliability of the instrument, a pilot test was conducted involving 30 SME owners outside the final sample. The internal consistency of the responses was measured using Cronbach's Alpha, a reliability coefficient commonly used in behavioral research. The Cronbach's Alpha for each section of the questionnaire was above 0.70, indicating an acceptable level of reliability. This confirmed that the items in the instrument measured the same underlying construct consistently.

The data collected from the field was analyzed using both descriptive and inferential statistics. Descriptive statistics, including mean scores and frequency distributions, were used to summarize the respondents' characteristics and their responses to the questions. For hypotheses testing, multiple regression analysis was employed at a 5% significance level. This statistical technique was chosen to examine the effect of the independent variables (budgeting literacy and financial-record keeping literacy) on the dependent variable (financial sustenance of SMEs). The regression model enabled the researcher to determine the strength and direction of the relationships between the variables and whether the effects were statistically significant.

4. RESULTS

Table 1: Test of Hypotheses

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.917[a]	.840	.839	.909

a. Predictors: (Constant), Financial Record-Keeping Literacy, Budgeting Literacy

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1375.952	2	687.976	832.285	.000[b]
	Residual	262.036	317	.827		
	Total	1637.987	319			

a. Dependent Variable: Financial Sustenance of SMEs

b. Predictors: (Constant), Financial Record-Keeping Literacy, Budgeting Literacy

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.452	.368		3.942	.000
	Budgeting Literacy	.726	.025	.784	29.062	.000
	Financial Record-Keeping Literacy	.196	.025	.208	7.717	.000

a. Dependent Variable: Financial Sustenance of SMEs

Source: SPSS Version 26

The results presented in Table 1 reveal that the regression model used to assess the effect of financial literacy on the financial sustenance of SMEs in Nigeria is statistically valid and highly explanatory. The Adjusted R Square value of 0.839 indicates that approximately 83.9% of the variation in the financial sustenance of SMEs is explained by the two predictor variables: budgeting literacy and financial record-keeping literacy. This high explanatory power implies that the model is a good fit for the data, and the independent variables together provide a strong basis for understanding what affects SME financial sustenance.

Moreover, the ANOVA results show that the model is statistically significant overall. The Prob(F-statistic) is 0.000, which is less than 0.05, confirming that the predictors jointly have a significant effect on the dependent variable. This validates the model and justifies the use of regression analysis for hypothesis testing in this context.

The constant term ($\beta = 1.452$, $p = 0.000$) is also statistically significant at the 5% level. This means that when both budgeting literacy and financial record-keeping literacy are held at zero, the financial sustenance of SMEs would be 1.452 units. Although a hypothetical scenario (since financial literacy cannot truly be zero), the constant gives a baseline from which the marginal effects of each predictor can be interpreted.

Hypothesis I

H01: Budgeting literacy has no significant effect on the financial sustenance of selected SMEs in Nigeria.

The coefficient for budgeting literacy is $\beta = 0.726$ with a p-value of 0.000, which is statistically significant at the 5% level. This indicates that budgeting literacy has a strong and positive effect on the financial sustenance of SMEs. The marginal effect interpretation suggests that for every one-unit increase in budgeting literacy, the financial sustenance of SMEs is expected to increase by 0.726 units, holding all other variables constant. This effect is not only statistically significant but also economically meaningful, given the large coefficient size.

Because the p-value is well below 0.05, we reject the null hypothesis (Ho_1) and conclude that budgeting literacy has a statistically significant and positive effect on the financial sustenance of SMEs in Nigeria. This result aligns with the expectation that SME operators who possess stronger budgeting skills are better equipped to allocate resources, set financial targets, and maintain long-term viability.

Hypothesis II

Ho2: Financial record-keeping literacy has no significant effect on the financial sustenance of selected SMEs in Nigeria.

For financial record-keeping literacy, the coefficient is $\beta = 0.196$, and the p-value is also 0.000, which is again significant at the 5% level. This means that financial record-keeping literacy also has a positive and statistically significant effect on the financial sustenance of SMEs. The marginal effect implies that a one-unit improvement in financial record-keeping literacy is associated with an increase of 0.196 units in the financial sustenance of the business, all else being equal.

While the effect is smaller than that of budgeting literacy, it remains meaningful and confirms that the practice of maintaining accurate records, interpreting financial statements, and using structured methods contributes positively to sustaining business operations. As a result, we reject the null hypothesis (Ho_2) and affirm that financial-record keeping literacy significantly and positively affects the financial sustenance of selected SMEs in Nigeria.

5. DISCUSSION

The significant positive effect of budgeting literacy on financial sustenance indicates that SMEs in Nigeria with strong budgeting capabilities are more likely to survive and operate efficiently over the long term. Budgeting enables SME operators to plan ahead, allocate resources wisely, and anticipate future financial needs or shortfalls. This proactive approach minimizes waste, strengthens cost control, and allows timely financial interventions: all critical for sustaining operations in the face of economic uncertainty. The relatively large coefficient ($\beta = 0.726$) also shows that budgeting literacy contributes a substantial marginal increase in financial sustenance compared to financial record-keeping. This suggests that SME sustainability is especially sensitive to how well business owners understand, prepare, and use budgets to guide daily and strategic decisions. In the Nigerian context, where SMEs often operate in capital-constrained environments, budgeting serves not just as a financial tool but also as a survival mechanism. This finding aligns with several previous empirical studies. Faruku et al. (2025) found that financial literacy positively influenced both profitability and output, reinforcing the notion that budgeting enhances business performance by promoting better planning and control. Similarly, Molosiwa & Holland (2025), in their systematic review, concluded that financial literacy improves budgeting, debt management, and investment decisions: underscoring budgeting as a core function through which financial literacy translates into sustainability. The work of Azman et al. (2025) also supports this finding, revealing that financial behavior, which encompasses budgeting practices, is the strongest predictor of sustainability among Muslim micro-entrepreneurs in Malaysia. In Cahyaningtyas et al. (2025), budgeting as part of broader financial literacy was found to positively affect MSME sustainability in Indonesia, showing the global relevance of budgeting in small business survival. Moreover, Babajide et al. (2023) and Haleem (2022) confirmed that budgeting and other literacy components significantly enhance sustainability by improving operational efficiency and long-term financial health.

The finding that financial record-keeping literacy significantly affects SME financial sustenance though to a lesser extent than budgeting indicates that the ability to document, organize, and interpret financial records is essential for maintaining business stability. A one-unit increase in this literacy domain leads to a 0.196-unit increase in financial sustenance, suggesting that accurate and timely record-keeping supports better decision-making, enhances transparency, and facilitates access to finance (as lenders often require documented financials). Though the coefficient is relatively modest, its significance implies that while SMEs may prioritize budgeting for immediate survival, those that also maintain reliable records are better positioned to track profitability, comply with tax obligations, and attract funding. In a regulatory and financial environment like Nigeria's, where informal operations dominate and record-keeping is often poor, this skill set plays a crucial role in shifting enterprises toward formalization and long-term sustainability. This result is supported by multiple studies. Molosiwa & Holland (2025) explicitly highlighted improved record-keeping as a pathway to better creditworthiness and resilience in SMEs. Similarly, Cahyaningtyas et al. (2025) demonstrated that access to finance mediates the effect of literacy on sustainability, reinforcing the importance of record-keeping. Ibitomi et al. (2024) also found that financial behavior, which includes maintaining business records, significantly enhances SME performance. Tuffour et al. (2022) reached a similar conclusion, showing that each component of financial literacy, including record-keeping, contributes positively and significantly to SME performance. Babajide et al. (2023) extended this by emphasizing that financial literacy and capability, including the ability to keep and use records, are crucial for firm survival. Even studies that caution against overreliance on knowledge alone, such as Mogaji & Daniel (2023) and Mandongwe et al. (2020), concede that financial behavior, which hinges on record-keeping practices, remains a decisive factor in sustaining small businesses.

6. CONCLUSION

SMEs that have the financial capacity to manage their operations, meet obligations, and grow steadily over time. Business owners are expected to possess a sound understanding of how to plan, monitor, and control their financial resources through budgeting and proper record-keeping. These financial practices help businesses to track performance, make informed decisions, manage risks, and prepare for future opportunities. With consistent application of financial literacy, especially in budgeting and record management, SMEs can sustain operations, maintain profitability, and contribute meaningfully to national economic development. A financially literate SME sector is better equipped to respond to economic shocks, scale operations, and build resilience in uncertain market conditions. The study found a positive and significant effect of budgeting literacy and financial record-keeping literacy on the financial sustenance of SMEs.

By implication, financial literacy is not peripheral but rather central to the survival and stability of small and medium-scale enterprises. In other words, financial literacy functions as a core operational competency, enabling business owners to engage more effectively in financial planning, monitoring, and control, activities that are essential for weathering economic shocks, managing limited resources, and ensuring continuity. In a country like Nigeria, where SMEs play a vital role in employment generation, poverty alleviation, and economic growth, these findings reinforce the notion that sustainability is not solely driven by external factors such as capital access or market conditions, but also by the internal capabilities of entrepreneurs to make informed financial decisions. Moreover, the significance of these effects underscores how critical it is for SME operators to possess not only informal business experience but also formal financial knowledge that supports accountability, transparency, and operational efficiency. The implication is that financial literacy contributes to transforming SMEs from fragile, short-term ventures into stable and scalable enterprises that are capable of long-term value creation and economic impact. The findings also provide empirical support for the idea that financial knowledge is a strategic asset, influencing how well SMEs manage liquidity, allocate resources, and respond to the demands of a competitive and often volatile business environment. By way of recommendations,

1. SME owners and operators in Nigeria need to institutionalize budgeting practices within their daily and strategic business operations by developing detailed, realistic budgets and regularly updating them in order to improve their ability to plan, allocate resources efficiently, and anticipate financial challenges.

2. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) need to intensify its support for SMEs by implementing targeted training programs focused on financial record-keeping literacy. These programs should emphasize practical skills in documenting transactions, preparing financial statements, and maintaining organized financial records.

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8. CONFLICT OF INTEREST

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in the paper.

9. AUTHOR CONTRIBUTION STATEMENT

Ifeanyi Emmanuel Nuel Okoli contributed to the conceptualization, research design, and writing of the original draft. He was also responsible for developing the theoretical framework and conducting the literature review.

Chinenye Maureen Nuel-Okoli was responsible for data collection, methodology design, statistical analysis using SPSS, and validation of the results.

Adani Nnenne Ifechi contributed to the interpretation of findings and the preparation of tables and figures. All authors have read and approved the final version of the manuscript.

10. ETHICS STATEMENT

This research was conducted in accordance with the ethical standards of the Nnamdi Azikiwe University and adhered to the principles outlined in the Declaration of Helsinki. All participants were informed about the purpose of the study, the voluntary nature of their participation, and their right to withdraw at any time without consequence. Written informed consent was obtained from all participants prior to data collection. Participants' privacy and confidentiality were strictly maintained throughout the research process, and all data collected were anonymized and used solely for academic purposes. No personal identifying information was disclosed in any reports or publications resulting from this study.

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