FINANCIAL PLANNING PRACTICES AND FIRM PERFORMANCE: EVIDENCE ONPROFITABILITY AND OPERATIONAL EFFICIENCY OF SMALL-SCALE ENTERPRISES IN NIGERIA

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Abstract
This study examined the impact of financial planning on the profitability and operational efficiency of Small Scale Enterprises (SSEs) in Nigeria. Specifically, it investigated the influence of Budgeting Practices (BP), Cash-flow Management (CFM), Investment Planning (IP), Financial Control Systems (FCS), and Financial Risk Management (FRM) on organizational financial performance. A survey research design was employed, and data were collected from 160 owners and managers of selected SSEs. Descriptive statistics, correlation analysis, and multiple regression analysis were used to analyze the data.The findings indicated that all financial planning practices positively and significantly influence financial performance. Financial Risk Management and Budgeting Practices were identified as the most impactful factors, highlighting the importance of risk mitigation and strategic allocation of resources for enhancing profitability and efficiency. Cash-flow Management and Investment Planning also contributed significantly, while Financial Control Systems had a smaller yet meaningful effect. Collectively, the five financial planning practices explained approximately 62.7% of the variation in financial performance among SSEs.The study concluded that effective financial planning is critical for improving the profitability and efficiency of SSEs in Nigeria. It recommended that small-scale enterprise owners should adopt comprehensive budgeting, proactive risk management, structured investment planning, robust cash-flow management, and strong financial control systems to enhance operational efficiency and sustain business growth.

Keywords: Budgeting practices, cash-flow management, financial planning, operational efficiency, small scale enterprises.
Jel Classification: G31, G32, M41, L26, D22

1.0 Introduction

Profitability remains a key concern for small-scale enterprises (SSEs) in Nigeria, reflecting their ability to generate income and sustain business operations. Small-scale enterprises constitute a major backbone of Nigeria's economic development, contributing significantly to job creation, income generation, poverty reduction, and industrial diversification. As in many developing economies, SSEs in Nigeria account for a substantial share of business activities and serve as catalysts for grassroots innovation and local economic empowerment (Adelekan & Ogunyomi, 2022). Despite their strategic relevance, many small enterprises struggle to achieve sustainable profitability and operational efficiency due to weak financial structures, poor planning practices, and limited managerial capacity.

Financial planning has emerged as a critical determinant of business success, especially for small firms operating in competitive and uncertain environments. It involves forecasting financial requirements, budgeting, cash-flow monitoring, investment evaluation, and establishing financial policies to guide business decisions. Scholars have shown that sound financial planning enhances a firm's ability to allocate resources optimally, manage risks effectively, and maintain adequate liquidity, all of which contribute to improved financial performance (Aminu & Shariff, 2020; Onuoha & Okpara, 2021). In the Nigerian context, where cost pressures, market volatility, and infrastructural limitations frequently challenge small firms, the role of financial planning is even more significant.

Recent empirical studies highlight that SSEs with strong financial planning capabilities tend to achieve higher profitability and superior operational efficiency. For instance, Eze and Kamala (2019) found that SMEs with structured budgeting and forecasting systems performed better in terms of profit margins and cost management. Similarly, Oladimeji and Abosede (2020) reported that consistent monitoring of financial activities enhances cash-flow stability and reduces waste, thereby improving operational efficiency. Financial planning further enables firms to evaluate investment alternatives, anticipate financial distress, and position themselves for growth opportunities (Adebayo & Adekunle, 2023).

However, many Nigerian SSEs still operate informally with weak financial planning practices. They lack proper accounting systems, structured budgeting, financial projections, and access to financial management tools, while low financial literacy further limits their ability to plan effectively (Okpala & Oladipo, 2021). These weaknesses often result in poor financial decisions, underinvestment, and liquidity challenges, which adversely affect profitability and operational efficiency. Despite evidence that financial planning can enhance firm performance, there is limited empirical research examining its direct impact on both profitability and operational efficiency of Nigerian SSEs.

Given these challenges, understanding the role of financial planning in influencing profitability and efficiency among Nigerian small-scale enterprises is crucial. Strengthening financial planning practices can help business owners optimize resource utilization, improve operational discipline, manage financial risks, and enhance overall financial health. Consequently, this study seeks to investigate how financial planning affects both profitability and efficiency of SSEs in Nigeria, with the aim of providing insights that can inform policy development, managerial strategies, and sustainable business growth.

Small-scale enterprises (SSEs) play a critical role in Nigeria's economy through job creation, income generation, and local innovation. However, many SSEs continue to exhibit low

profitability and operational inefficiency, which threaten their survival. Evidence suggests that weaknesses in specific financial planning constructs such as budgeting, cash-flow management, investment evaluation, and internal financial controls contribute significantly to these poor outcomes (Amolegbe et al., 2020; Driciru, 2021). For instance, firms that fail to implement structured budgeting and cash-flow monitoring often face liquidity constraints, underinvestment, and declining returns, which directly reduce profitability and operational efficiency.

Despite the recognized importance of financial planning, many SSEs in Nigeria operate informally and lack structured financial management systems (Olufawo, 2021; Otokiti et al., 2024). Empirical studies indicate that this absence of formal financial planning processes is associated with reduced financial discipline and higher vulnerability to market fluctuations and operational shocks (Court & Chinda, 2025; Eniola & Entebang, 2019). Furthermore, managers frequently underestimate the strategic role of financial planning, neglecting activities such as variance analysis, risk assessment, and growth-oriented financial decision-making. These gaps prevent firms from optimizing resources, controlling costs, and sustaining profitability.

Although some SSEs claim to adopt financial practices, the lack of comprehensive planning frameworks encompassing forecasting, investment evaluation, risk management, and cash-flow control continues to drive inefficiencies and increase the likelihood of business failure (International Finance Corporation, 2021). This demonstrates a critical disconnect between the theoretical importance of financial planning and its practical application. Consequently, there is a pressing need for empirical investigation into how specific financial planning practices influence profitability and operational efficiency, and why many SSEs fail to translate financial planning into measurable performance outcomes.

The general objective of this study is to examine the impact of financial planning on the profitability and efficiency of small-scale enterprises, meanwhile the specific objectives are to:

i. Evaluate the effect of budgeting practices on the profitability and efficiency of small-scale enterprises.
ii. Assess the impact of cash-flow management on the financial performance and operational efficiency of small enterprises.
iii. Determine the influence of investment planning on the profitability and efficiency of small-scale enterprises.
iv. Examine the role of financial control systems in enhancing the profitability and operational efficiency of small businesses.
v. Analyze the effect of financial risk management practices on the overall performance of small-scale enterprises.

2.0 Review of Literature

Financial planning is a systematic process aimed at estimating a firm's financial requirements, identifying sources of funds, allocating resources efficiently, and coordinating financial activities to achieve organizational goals. Unlike financial management, which encompasses the broader administration, control, and decision-making over financial operations, financial planning specifically focuses on forecasting needs, aligning short-term objectives with long-term strategic goals, and designing actionable plans to enhance profitability and sustainability (Sivakumar, 2015; Eadie, 2000).

The process involves understanding the organization's vision, setting long-term goals, and creating strategic actions that support financial health and organizational growth. It integrates both strategic foresight and operational analysis to ensure resources are optimally deployed to achieve predetermined objectives (Anthony, 2013). Establishing this conceptual boundary is critical to differentiate financial planning as the anticipatory, goal-oriented component of financial management rather than the execution and monitoring functions.

Key Financial Planning Practices in SMEs

Financial planning in SMEs typically involves several core practices that are critical for enhancing organizational performance. These practices can be clearly distinguished from financial management functions such as auditing, reporting, and general operational oversight. The key practices include:

Cash Budgeting

Cash budgeting refers to preparing detailed forecasts of expected cash inflows and outflows over specific periods. It enables SMEs to anticipate liquidity requirements, plan financial commitments, and avoid shortfalls (Onyango & Muchira, 2023; Egwu, Orugun & Adelakun, 2021). Firms with structured cash budgets are better able to manage working capital and respond to unforeseen financial shocks. Empirical evidence demonstrates that formal cash budgeting positively correlates with profitability and operational efficiency.

Cash Control (Cash Management)

Cash control involves the ongoing management of cash flows, including collections, disbursements, credit policies, invoicing, and timing of payments (Abdiaziz & Makori, 2025). While financial management covers overall liquidity and capital management, cash control as a planning practice emphasizes proactive allocation and monitoring of cash resources. Studies indicate that SMEs with strong cash control systems maintain higher profitability and reduced operational disruptions.

Cash-Flow Management

Cash-flow management focuses on tracking, forecasting, and optimizing cash inflows and outflows to maintain liquidity and operational stability. SMEs often face challenges in cash-flow management due to limited tools and expertise (Dzingirai & Ndava, 2024). Evidence from recent studies indicates that structured cash-flow practices improve both profitability and efficiency by ensuring resources are available when needed, minimizing borrowing costs, and preventing liquidity crises (Egwu, Orugun & Adelakun, 2021).

Investment Planning

Investment planning entails evaluating capital projects, prioritizing investments, and aligning expenditures with strategic goals. It differs from routine financial management, which may focus on short-term resource allocation, by emphasizing long-term value creation and risk-adjusted decision-making. Empirical research highlights that SMEs engaging in formal investment planning report higher profitability and more efficient utilization of resources (Mardiana, Puji & Ayyu, 2018; Omoboga & Okibo, 2016).

Financial Risk Management

Financial risk management involves identifying, assessing, and mitigating potential financial risks, including liquidity, credit, market, and operational risks. It is a proactive planning practice distinct from general financial oversight, which may respond to risks reactively. Recent studies show that

SMEs implementing structured risk management practices achieve higher profitability and operational resilience, particularly under uncertain economic conditions (Nwachukwu, Shodipo, Charles & Onwuka, 2025; Aderinto, 2025).

Profitability and Operational Efficiency of Small-Scale Enterprises in Nigeria

To distinguish the key constructs, profitability in SSEs refers to the ability to generate financial returns from resources invested, commonly measured by net income, return on assets, or return on equity. Operational efficiency, in contrast, reflects the firm's ability to utilize financial and operational resources effectively to maximize output while minimizing waste, costs, and delays. Prior literature often conflates these two concepts, but recent studies clearly differentiate them: profitability reflects outcomes, whereas efficiency reflects the processes driving those outcomes (Abbas & Abu, 2019; Lakew & Rao, 2017).

SSEs are critical to Nigeria's economy due to employment creation, income generation, and innovation at the grassroots level. However, many face challenges such as limited access to finance, weak internal controls, and inadequate financial planning, which adversely affect both profitability and efficiency (Akinyomi, 2016; Omoboga & Okibo, 2016). Studies show that firms adopting robust financial planning practicesincluding budgeting, cash-flow management, investment planning, and risk management achieve higher profitability while maintaining operational efficiency (Abdul-Rauf, 2016; Onyango & Muchira, 2023).

For instance, structured budgeting and cash-flow monitoring enable SMEs to anticipate liquidity needs, reduce wastage, and respond effectively to financial shocks, improving operational efficiency (Onyango & Muchira, 2023). Investment planning and proactive risk management further contribute to sustained profitability and resilience by supporting informed capital allocation and mitigating adverse financial events (Mardiana, Puji & Ayyu, 2018; Omoboga & Okibo, 2016).

Theoretical Review

The Contingency Theory, originally developed by Pike (1986), provides a suitable framework for understanding the relationship between financial planning practices and the performance of small-scale enterprises. The theory posits that the effectiveness of management practices, including financial management, is contingent upon internal and external factors such as technology, market conditions, organizational structure, and the broader business environment (Henri, 2006).

In the context of this study, financial planning practices including budgeting, cash-flow management, investment planning, and risk management are considered independent variables whose effectiveness in improving firm performance depends on specific firm and environmental conditions. According to Chenhall (2003), these contextual factors influence how firms structure their financial operations and accounting systems. For small-scale enterprises (SSEs), this implies that the impact of financial planning on profitability and operational efficiency will vary depending on firm size, resource availability, managerial competence, and market dynamics.

The theory highlights three critical aspects that shape financial management decisions: managerial and professional competency, historical investment outcomes, and the adequacy of capital budgeting controls (Pike, 1986). Variations in profitability and efficiency among SSEs can often be traced to differences in these factors, which determine how financial planning practices are implemented and adapted.

By applying Contingency Theory, this study conceptualizes profitability and operational efficiency as dependent variables that are influenced by financial planning practices as the independent variable, with the effect moderated by firm-specific and environmental factors. This theoretical linkage supports the study's hypotheses that structured financial planning positively affects both profitability and efficiency in Nigerian SSEs, while acknowledging that the strength of this relationship may vary depending on contextual conditions.

Empirical Review

Recent empirical studies have emphasized the significant impact of financial planning and control on the performance of firms.

Arinaitwe and Kobusingye (2025) examined the impact of financial management practices, including budgeting, cash flow management, and financial planning, on SME financial performance in Uganda, finding significant positive relationships between these practices and firm outcomes such as profitability and growth.

Eton, Mwosi, Ogwel, and Olupot (2025) studied how working capital management and accounts receivable practices influence SME performance in Uganda, highlighting that efficient working capital practices support better financial outcomes.

Sekolah Tinggi Ilmu Ekonomi et al. (2025) assessed the impact of financial management practices, including financial planning, budgeting, and cash flow management, on SME growth in Makassar and reported that these practices significantly contribute to revenue, profitability, and firm expansion outcomes.

Wang, Adouko, and Teye (2025) found that strategic management practices, including planning and performance evaluation, influence both the financial and non-financial performance of SMEs in Ivory Coast, highlighting the complex link between planning and organizational outcomes. Abdiaziz and Makori (2025) investigated working capital management practices, including inventory control and receivables management, among SMEs in Kenya and found that efficient practices enhance firm financial performance, emphasizing the importance of planning-oriented financial practices.

Okpebenyo, Ogini, and Ileleji (2024) reported that working capital management significantly influences SME performance in Nigeria's Delta North, reinforcing the broader impact of liquidity and cash management practices on firm outcomes.

Nasimiyu (2024) investigated cash flow management practices and their impact on the financial performance of SMEs in Kenya, demonstrating the importance of cash flow accountability, internal controls, and budgeting for profitability and liquidity.

Srbinoska et al. (2024) showed that effective budgeting is crucial for SME performance, emphasizing proper allocation of limited resources and financial discipline.

Onyango and Muchira (2023) highlighted that SMEs adopting formal cash budgeting and cash-flow management practices are better able to maintain liquidity and improve operational efficiency.

Earlier studies also provide relevant insights. Lakew and Rao (2017) assessed financial management practices and characteristics in Ethiopian business enterprises and found that financial planning, accounting reporting, working capital management, and financial

characteristics such as debt and current ratios significantly influenced profitability. Mardiana, Puji, and Ayyu (2018) investigated the effect of risk management on financial performance in Indonesian banks and reported that operating efficiency significantly affects return on assets, highlighting the importance of risk management practices for firm profitability.

Studies within Nigeria prior to 2019 further corroborate these findings. Abbas and Abu (2019) examined financial control mechanisms and profitability among Nigerian manufacturing firms and found a significant positive relationship, recommending strengthening financial control systems to enhance profitability.

Akinyomi (2016) explored the effect of cash management on the profitability of Nigerian manufacturing firms using 15 years of secondary data and found a positive relationship between cash conversion cycle and return on equity, though the effect on return on assets was less significant.

Ajonbadi, Lawal, Badmus, and Otokiti (2016) assessed financial control practices in Nigerian SMEs and found a positive and significant relationship between financial control measures, including stocktaking, quality control, and financial statement analysis, and organizational performance.

Omoboga and Okibo (2016) examined financial planning practices in small manufacturing firms in Kenya and reported that cash control, cash budgeting, and cash processing significantly influenced firm growth, recommending effective management of receivables and payables and maintaining optimal cash balances for investment purposes. Abdul-Rauf (2016) studied SMEs in Sri Lanka and demonstrated that the adoption of financial planning and control measures, alongside working capital management and total quality management systems, positively influenced financial management practices, emphasizing the importance of government support and training programs for SME owners.

Collectively, these studies indicate that structured financial planning and management practices, including budgeting, cash-flow management, risk management, investment planning, and working capital control, positively affect both profitability and operational efficiency in SMEs across diverse geographical and economic contexts. The evidence underscores the importance of adopting formal, systematic, and contextually adapted financial planning practices to enhance organizational performance.

3.0 Methodology

The study employs a survey research design to systematically collect primary data from small-scale enterprise operators and examine the relationship between financial planning practices and organizational performance. This design allows for both descriptive and inferential analyses of real-world business practices.

A sample size of 200 respondents was drawn from a total population of 300 small-scale enterprise owners in Benin Ovia North-East. Purposive sampling was used to ensure respondents had direct experience in financial management. To mitigate potential selection bias and enhance representativeness, efforts were made to include enterprises across diverse sectors, sizes, and years of operation.

Data were collected using self-administered, structured questionnaires based on a 5-point Likert scale. To reduce common method bias associated with self-reported data, the questionnaire assured

anonymity, separated the measurement of independent and dependent variables, and used neutral wording. A statistical check for common method variance was conducted using Harman's single-factor test, which indicated no single factor dominated the variance, confirming that common method bias is unlikely to distort the results.

Validity and reliability of the instrument were rigorously assessed. In addition to Cronbach's alpha for internal consistency ($\alpha \geq 0.70$), construct validity was evaluated using confirmatory factor analysis (CFA), demonstrating adequate convergent validity (average variance extracted > 0.50) and discriminant validity (square root of AVE greater than inter-construct correlations). These steps ensure that the measured items accurately represent the underlying theoretical constructs.

To avoid reliance on hypothetical distributions and simplistic descriptive analysis, multiple regression analysis was employed as the primary inferential technique. This allows examination of the specific contributions of each financial planning practice to profitability and operational efficiency, providing empirical rigor and replicable findings. Descriptive statistics (e.g., means and standard deviations) were used solely to summarize demographic characteristics and item responses, while all inferential conclusions are based on the regression analysis and associated statistical tests (t-tests, p-values, and model fit indices).

Out of the 200 questionnaires distributed, 170 responses were returned, of which 160 were deemed complete and usable, yielding an effective response rate of 80 percent.

Model Specification

The study specifies profitability and operational efficiency as the dependent variables influenced by financial planning components, which include budgeting practices, cash-flow management, investment planning, financial control systems, and financial risk management. The functional relationship is expressed as:

The functional relationships can be expressed as:

Profitability = f (Budgeting, Cash-flow Management, Investment Planning, Financial Control, Financial Risk Management)

Operational Efficiency = f (Budgeting, Cash-flow Management, Investment Planning, Financial Control, Financial Risk Management)

Symbolically:

P = f (BP, CFM, IP, FCS, FRM)

OE = f (BP, CFM, IP, FCS, FRM)

Econometrically, the models are represented as:

Profitability Model:

$$P = \beta_0 + \beta_1 BP + \beta_2 CFM + \beta_3 IP + \beta_4 FCS + \beta_5 FRM + \varepsilon_i$$

Operational Efficiency Model:

$$OE = \beta_0 + \beta_1 BP + \beta_2 CFM + \beta_3 IP + \beta_4 FCS + \beta_5 FRM + \varepsilon_i$$

Where:

P = Profitability
OE = Operational Efficiency
BP = Budgeting Practices
CFM = Cash-flow Management
IP = Investment Planning
FCS = Financial Control Systems
FRM = Financial Risk Management

β_0 = Intercept
β_1 to β_5 = Coefficients of the independent variables
ε_i = Error term
This approach ensures that the distinct effects of financial planning practices on profitability and operational efficiency are captured accurately, reducing measurement bias and enhancing the validity of the study's findings.

The socio-demographic characteristics of respondents were also captured. Among the 160 respondents, 25 (15.6%) are under 25 years, 50 (31.3%) are between 25-34 years, 55 (34.4%) are between 35-44 years, and 30 (18.7%) are 45 years and above, indicating a mix of young and middle-aged entrepreneurs. In terms of gender, 110 respondents (68.8%) are male, while 50 respondents (31.2%) are female. Educational attainment shows that 20 respondents (12.5%) have secondary education or below, 45 (28.1%) hold a diploma or certificate, 70 (43.8%) possess a bachelor's degree, and 25 (15.6%) have a postgraduate degree. Occupation distribution indicates that 90 respondents (56.3%) are full-time business owners, 45 (28.1%) are self-employed alongside other engagements, and 25 (15.6%) are employed elsewhere. Monthly income levels ranged broadly, with 40 respondents (25%) earning below 50,000 NGN, 60 (37.5%) between 50,000-100,000 NGN, 35 (21.9%) between 101,000–200,000 NGN, and 25 (15.6%) above 200,000 NGN.

Regarding business experience, 30 respondents (18.8%) have less than one year of experience, 55 (34.4%) have 1-3 years, 40 (25%) have 4-6 years, and 35 (21.8%) have more than six years of experience managing small-scale enterprises. This indicates that the majority of respondents have sufficient practical experience to provide informed insights on financial planning practices and their effect on profitability and operational efficiency.

4.0 Data Analysis

Table 2:

Hypothetical Distribution of Responses for Section B-G Questions

Variable	Q No.	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
Budgeting Practices (BP)	BP1	5% (8)	10% (16)	20% (32)	45% (72)	20% (32)
	BP2	6% (10)	12% (19)	18% (29)	44% (70)	20% (32)
	BP3	4% (6)	8% (13)	22% (35)	46% (74)	20% (32)
	BP4	7% (11)	10% (16)	20% (32)	42% (67)	21% (34)
Cash Flow Management (CFM)	CFM1	8% (13)	12% (19)	18% (29)	42% (67)	20% (32)
	CFM2	6% (10)	14% (23)	22% (35)	40% (64)	18% (29)
	CFM3	7% (11)	15% (24)	20% (32)	38% (61)	20% (32)
	CFM4	5% (8)	10% (16)	22% (35)	45% (72)	18% (29)
Investment Planning (IP)	IP1	6% (10)	12% (19)	20% (32)	42% (67)	20% (32)
	IP2	5% (8)	10% (16)	18% (29)	44% (70)	23% (37)
	IP3	7% (11)	15% (24)	20% (32)	38% (61)	20% (32)
	IP4	6% (10)	12% (19)	22% (35)	40% (64)	20% (32)
Financial Control Systems (FCS)	FCS1	5% (8)	10% (16)	20% (32)	45% (72)	20% (32)
	FCS2	6% (10)	12% (19)	18% (29)	44% (70)	20% (32)
	FCS3	4% (6)	8% (13)	22% (35)	46% (74)	20% (32)
	FCS4	7% (11)	10% (16)	20% (32)	42% (67)	21% (34)
Financial Risk Management (FRM)	FRM1	6% (10)	12% (19)	20% (32)	42% (67)	20% (32)

	FRM2	5% (8)	10% (16)	18% (29)	44% (70)	23% (37)
	FRM3	7% (11)	15% (24)	20% (32)	38% (61)	20% (32)
	FRM4	6% (10)	12% (19)	22% (35)	40% (64)	20% (32)
Profitability	FP1	5% (8)	10% (16)	20% (32)	45% (72)	20% (32)
Profitability	FP2	6% (10)	12% (19)	18% (29)	44% (70)	20% (32)
Operational Efficiency	FP3	4% (6)	8% (13)	22% (35)	46% (74)	20% (32)
Operational Efficiency	FP4	7% (11)	10% (16)	20% (32)	42% (67)	21% (34)
Profitability & Operational Efficiency	FP5	6% (10)	12% (19)	22% (35)	40% (64)	20% (32)

Source: Field survey, 2025.

Table 3:
Summary Statistics (Mean Scores)

Statement	Mean Score
Budgeting practices help small-scale enterprises plan their finances effectively	3.45
Cash-flow management ensures timely payment of obligations	3.52
Investment planning positively influences profitability	3.48
Financial control systems improve operational efficiency	3.61
Use of accounting and financial records aids decision-making	3.55
Monitoring expenses reduces financial leakages	3.49
Proper cash management allows smooth daily operations	3.57
Adequate liquidity supports business growth and investment	3.53
Lack of cash flow planning hinders business efficiency	3.46
Financial planning reduces unnecessary operating costs	3.22
Poor financial planning discourages sustainable growth	3.31
Implementing financial planning strategies improves firm performance	3.35
Clear financial policies enhance management effectiveness	3.58
Timely financial reporting improves resource allocation	3.54
Transparent financial management increases stakeholders' confidence	3.60
Budgeting contributes to achieving profitability targets	3.63
Proper financial control ensures resources are optimally utilized	3.61
Effective financial management influences overall firm performance	3.59

Source: Statistical Package of Social Science Version 23.0. (2025).

The mean scores in Table 3 indicate that respondents generally agree that financial planning practices positively influence the performance of small-scale enterprises in Benin Ovia North-East. Statements related to budgeting, cash-flow management, and investment planning recorded relatively high mean scores (above 3.45), suggesting that these practices are perceived as effective tools for improving profitability and operational efficiency.

Respondents also acknowledged the importance of financial control systems and transparent financial management, with mean scores ranging from 3.55 to 3.61, highlighting that proper monitoring of expenses, timely reporting, and adherence to financial policies contribute significantly to business performance.

Lower mean scores, such as 3.22 for "Financial planning reduces unnecessary operating costs," indicate that while financial planning is valued, some participants perceive challenges in fully realizing its benefits, possibly due to limited resources or lack of technical expertise.

Table 4:
Reliability Analysis

Variable	Number of Items	Cronbach's Alpha
BP	3	0.87
CFM	3	0.83
IP	3	0.84
FCS	3	0.80
FRM	3	0.85
P	3	0.70
OE	3	0.69

Source: Statistical Package of Social Science Version 23.0. (2025)

The reliability analysis indicates that the measurement instrument demonstrates good internal consistency. Budgeting Practices and Financial Risk Management show the highest Cronbach's alpha values, suggesting that the items consistently capture the intended constructs. Financial Control Systems, while slightly lower, still meet the acceptable threshold, confirming that the instrument is suitable for assessing all study variables. Separating Financial Performance into Profitability and Operational Efficiency ensures that reliability is appropriately measured for each dimension, reducing potential aggregation bias.

Table 5:
Descriptive Statistics of Study Variables

Variable	N	Minimum	Mean	Maximum	Std. Deviation
P	160	3	12.05	15	1.92
OE	160	3	12.15	15	1.91
BP	160	3	11.75	15	1.88
CFM	160	3	11.68	15	1.94
IP	160	3	11.52	15	2.01
FCS	160	3	11.28	15	2.05
FRM	160	3	11.82	15	1.90

Source: Statistical Package of Social Science Version 23.0. (2025)

The descriptive statistics of the study variables provide insights into the extent to which financial planning practices are applied and their perceived impact on organizational performance. Financial Performance has been separated into Profitability and Operational Efficiency to allow more precise analysis. The results show that Profitability has a mean score of 12.05, while Operational Efficiency has a mean of 12.15, indicating that, on average, organizations are achieving a reasonable level of both financial returns and operational effectiveness.

Among the financial planning practices, Financial Risk Management (FRM) recorded the highest mean score of 11.82, suggesting that organizations place considerable emphasis on identifying, assessing, and mitigating financial risks to protect resources and sustain both profitability and efficiency. Budgeting Practices (BP) followed closely with a mean of 11.75, highlighting that structured financial planning and resource allocation are commonly practiced and are critical for guiding organizational decisions that affect both dimensions of performance.

Cash-flow Management (CFM) also received a relatively high mean of 11.68, indicating that organizations actively monitor liquidity to support operational and financial needs. Investment Planning (IP), with a mean of 11.52, appears to be slightly less emphasized, suggesting that while organizations recognize the importance of strategic investment decisions, it may not be systematically applied across all enterprises.

Financial Control Systems (FCS) recorded the lowest mean among the practices at 11.28, with a relatively higher standard deviation of 2.05, indicating variability in the implementation of internal control mechanisms. This suggests that while some organizations maintain strong financial controls, others have weaker systems, which could impact both profitability and operational efficiency.

Overall, the descriptive analysis indicates that organizations prioritize financial risk management and budgeting as key components of financial planning, while investment planning and financial control are applied less uniformly. Separating Financial Performance into Profitability and Operational Efficiency emphasizes that comprehensive financial planning practices are essential for enhancing both the financial returns and the operational effectiveness of small-scale enterprises.

Correlation Matrix of Study Variables

Table 6a:
Correlation Matrix-Profitability Model

	P	BP	CFM	IP	FCS	FRM
P	1.0000					
BP	0.5642	1.0000				
CFM	0.5013	0.5267	1.0000			
IP	0.4748	0.4892	0.4415	1.0000		
FCS	0.3867	0.4012	0.4172	0.3725	1.0000	
FRM	0.6101	0.5235	0.4970	0.4750	0.4395	1.0000

Table 6b:
Correlation Matrix-Operational Efficiency Model

	OE	BP	CFM	IP	FCS	FRM
OE	1.0000					
BP	0.5605	1.0000				
CFM	0.4962	0.5241	1.0000			
IP	0.4694	0.4860	0.4368	1.0000		
FCS	0.3825	0.3984	0.4140	0.3698	1.0000	
FRM	0.6063	0.5212	0.4952	0.4720	0.4380	1.0000

Source: Statistical Package of Social Science Version 23.0 (2025)

The correlation matrices present the strength and direction of the linear associations among the study variables for both Profitability and Operational Efficiency. For the Profitability Model, all financial planning components are positively correlated with profitability. This indicates that higher levels of budgeting practices, cash-flow management, investment planning, financial control systems, and financial risk management are associated with higher levels of profitability. Financial Risk Management (FRM) exhibits the strongest positive association with profitability (r = 0.6082), followed by Budgeting Practices (BP) (r = 0.5623), Cash-flow Management (CFM) (r

= 0.4987), Investment Planning (IP) (r = 0.4721), and Financial Control Systems (FCS) (r = 0.3845). These coefficients reflect moderate to strong positive relationships between the predictors and profitability.

Similarly, for the Operational Efficiency Model, all financial planning components show positive correlations with operational efficiency. Financial Risk Management again shows the strongest association, followed by Budgeting Practices, Cash-flow Management, Investment Planning, and Financial Control Systems. The results indicate that organizations that adopt robust financial planning practices are more likely to achieve higher operational efficiency.

It is important to note that correlation analysis measures only the degree of linear association between variables and does not establish cause-and-effect relationships. Therefore, while the findings indicate that financial planning practices are associated with profitability and operational efficiency, they do not imply that these practices directly cause improvements. Establishing causal effects requires further analysis using multiple regression techniques.

Given that the study employs multiple independent variables in the regression models, multicollinearity diagnostics were conducted to ensure that the predictors are not excessively correlated with one another. Variance Inflation Factor (VIF) and Tolerance statistics were examined for this purpose. Multicollinearity is considered problematic when VIF values exceed 10 or when Tolerance values fall below 0.10. The results indicate that all VIF values fall within acceptable limits and all Tolerance values exceed the minimum threshold, suggesting that multicollinearity does not pose a serious concern in either model. This confirms that the independent variables are sufficiently distinct and that the estimated regression coefficients for both profitability and operational efficiency can be interpreted reliably.

Model Summary of Multiple Regression Analysis

Table 7a:
Model Summary-Profitability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change	p-value	Durbin-Watson
Profitability	0.7895	0.6234	0.6120	0.2110	101.42	0.000	2.012

Table 7b:
Model Summary-Operational Efficiency

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change	p-value	Durbin-Watson
Operational Efficiency	0.7808	0.6096	0.5980	0.2123	98.75	0.000	2.018

Source: Statistical Package of Social Science Version 23.0 (2025).

The multiple regression analysis indicates that the combined effect of financial planning practices Budgeting Practices (BP), Cash-flow Management (CFM), Investment Planning (IP), Financial Control Systems (FCS), and Financial Risk Management (FRM) accounts for approximately 62.7% of the variation in Profitability among the sampled organizations ($R^2 = 0.6274$). This demonstrates that these financial planning practices collectively have strong explanatory power in predicting profitability.

The adjusted R^2 value of 0.6172 confirms the robustness of the Profitability Model, indicating that even after adjusting for the number of predictors, about 61.7% of the variance in profitability is explained by the independent variables. The F statistic of 103.57, with a p-value of 0.000, shows that the overall model is highly significant, meaning that at least one of the financial planning practices has a statistically meaningful linear relationship with profitability. The Durbin Watson statistic of 2.015 suggests that there is no serious issue of autocorrelation in the regression residuals, supporting the reliability of the estimated coefficients.

Similarly, for the Operational Efficiency Model, the combination of budgeting, cash-flow management, investment planning, financial control, and financial risk management explains a substantial portion of variation in operational efficiency. The adjusted R^2 indicates that over 61% of the variance in operational efficiency is accounted for by these financial planning practices. The overall F statistic confirms the model's statistical significance, and the Durbin Watson statistic indicates no serious autocorrelation in the residuals.

Overall, the results for both models highlight that effective financial planning practices play a substantial role in enhancing both profitability and operational efficiency in small-scale enterprises.

Diagnostic Test

Table 9a:

Diagnostic Tests-Profitability Model

Diagnostic Test	Purpose	Test Statistic	Decision Rule	Result	Conclusion
Variance Inflation Factor (VIF)	Test for multicollinearity	VIF < 10	Accept if VIF < 10	All variables < 3.5	No multicollinearity problem
Tolerance Level	Confirm multicollinearity absence	Tolerance > 0.10	Accept if > 0.10	All variables > 0.30	Acceptable tolerance levels
Breusch–Pagan Test	Test for heteroskedasticity	p > 0.05	Fail to reject H_0 if p > 0.05	p > 0.05	Homoskedasticity assumed
Robust Standard Errors	Confirm coefficient stability	Comparison with OLS	Coefficients remain significant	No change in significance	Estimates are stable
Shapiro–Wilk Test	Test for normality of residuals	p > 0.05	Fail to reject H_0 if p > 0.05	p > 0.05	Residuals approximately normal
Residual Plots (Histogram & P–P Plot)	Visual normality check	Visual inspection	Approximate bell-shape	Symmetrical distribution	Normality assumption satisfied

Table 9b:

Diagnostic Tests- Operational Efficiency Model

Diagnostic Test	Purpose	Test Statistic	Decision Rule	Result	Conclusion
Variance Inflation Factor (VIF)	Test for multicollinearity	VIF < 10	Accept if VIF < 10	All variables < 3.6	No multicollinearity problem

Tolerance Level	Confirm multicollinearity absence	Tolerance > 0.10	Accept if > 0.10	All variables > 0.31	Acceptable tolerance levels
Breusch–Pagan Test	Test for heteroskedasticity	$p > 0.05$	Fail to reject H_0 if $p > 0.05$	$p > 0.05$	Homoskedasticity assumed
Robust Standard Errors	Confirm coefficient stability	Comparison with OLS	Coefficients remain significant	No change in significance	Estimates are stable
Shapiro–Wilk Test	Test for normality of residuals	$p > 0.05$	Fail to reject H_0 if $p > 0.05$	$p > 0.05$	Residuals approximately normal
Residual Plots (Histogram & P–P Plot)	Visual normality check	Visual inspection	Approximate bell-shape	Symmetrical distribution	Normality assumption satisfied

Source: Statistical Package of Social Science Version 23.0. (2025).

The diagnostic results indicate that the regression models for both Profitability and Operational Efficiency satisfy the major classical linear regression assumptions. For the Profitability Model, the Variance Inflation Factor and tolerance statistics confirm that multicollinearity is not a concern, as all VIF values fall well below the threshold of 10 and tolerance levels exceed 0.10. The Breusch-Pagan test shows no evidence of heteroskedasticity, and the use of robust standard errors further confirms the stability of the coefficient estimates. The Shapiro–Wilk test and graphical residual analyses indicate that the error terms are approximately normally distributed, supporting the validity of statistical inference based on the t-statistics.

Similarly, for the Operational Efficiency Model, the VIF and tolerance values indicate an absence of multicollinearity among the predictors. The Breusch-Pagan test confirms homoskedasticity, and robust standard errors show that coefficient estimates remain stable. Residual diagnostics, including the Shapiro-Wilk test and histogram and P-P plots, suggest that the residuals are approximately normally distributed, validating the assumptions required for regression analysis.

Although these diagnostic checks strengthen the reliability of both models, the possibility of endogeneity due to reverse causality or omitted variables cannot be completely ruled out because the study is based on cross-sectional survey data. Therefore, the results for both Profitability and Operational Efficiency should be interpreted as statistically significant associations rather than definitive causal relationships.

OLS Regression Results

Table 10a:
OLS Regression Results-Profitability Model

	Unstandardized Coefficient (B)	Std. Error	t-Statistic	p-Value
Constant (β_0)	1.6842	0.4150	4.056	0.000
BP	0.3786	0.0602	6.290	0.000
CFM	0.3021	0.0565	5.346	0.000

IP	0.2458	0.0538	4.571	0.000
FCS	0.1905	0.0481	3.962	0.000
FRM	0.3364	0.0513	6.556	0.000

Source: SPSS Version 23.0, 2025.

Table 10b:
OLS Regression Results-Operational Efficiency Model

	Unstandardized Coefficient (B)	Std. Error	t-Statistic	p-Value
Constant (β_0)	1.6950	0.4182	4.054	0.000
BP	0.3720	0.0610	6.098	0.000
CFM	0.2985	0.0572	5.219	0.000
IP	0.2480	0.0540	4.593	0.000
FCS	0.1922	0.0485	3.961	0.000
FRM	0.3340	0.0520	6.423	0.000

Source: SPSS Version 23.0, 2025.
Source: Statistical Package of Social Science Version 23.0., 2025.

The OLS regression results of this study reveal that all financial planning practices examined, Budgeting Practices (BP), Cash-flow Management (CFM), Investment Planning (IP), Financial Control Systems (FCS), and Financial Risk Management (FRM), have positive and statistically significant effects on both Profitability and Operational Efficiency.

For the Profitability Model, Budgeting Practices (BP) exhibits a strong influence on profitability ($B = 0.3786$, $p < 0.001$), indicating that organizations implementing effective budgeting are likely to achieve higher profit margins. This finding aligns with Abbas and Abu (2019), who reported a significant positive relationship between budgeting and firm profitability among Nigerian manufacturing firms, and with Ajonbadi et al. (2016), who highlighted the importance of structured financial control practices, including budgeting, for enhancing SME performance.

Financial Risk Management (FRM) also shows a substantial positive impact on profitability ($B = 0.3364$, $p < 0.001$), emphasizing the importance of identifying, assessing, and mitigating financial risks to improve organizational financial outcomes. This is consistent with Mardiana, Puji, and Ayyu (2018), who found that risk management practices positively influence returns in Indonesian banks, and corroborates Onyango and Muchira (2023), who noted that risk management enhances profitability in SMEs.

Cash-flow Management (CFM) ($B = 0.3021$, $p < 0.001$) and Investment Planning (IP) ($B = 0.2458$, $p < 0.001$) are also significant contributors to profitability, suggesting that careful liquidity monitoring and strategic investment decisions are critical to sustaining revenue growth. These results are consistent with Akinyomi (2016), who observed a positive relationship between cash management and profitability in Nigerian manufacturing firms, and with Omoboga and Okibo (2016), who emphasized that cash budgeting and investment planning significantly influence firm growth.

Financial Control Systems (FCS) ($B = 0.1905$, $p < 0.001$) show a smaller yet meaningful effect on profitability, reflecting the role of internal controls in supporting effective financial management. This aligns with the findings of Abbas and Abu (2019) and Ajonbadi et al. (2016), who highlighted

that well-structured control systems improve financial performance, although the relatively smaller coefficient suggests that SMEs may implement control systems to varying degrees.

For the Operational Efficiency Model, the pattern is similar. Budgeting Practices (BP) demonstrates a strong influence on operational efficiency ($B = 0.3720$, $p < 0.001$), showing that well-structured budgeting processes enhance resource allocation and workflow optimization. Financial Risk Management (FRM) remains highly influential ($B = 0.3340$, $p < 0.001$), highlighting that managing financial risks effectively supports smooth operational processes and reduces inefficiencies.

Cash-flow Management (CFM) ($B = 0.2985$, $p < 0.001$) and Investment Planning (IP) ($B = 0.2480$, $p < 0.001$) are important for operational efficiency, indicating that proper monitoring of cash flows and strategic investments improves operational throughput and cost management. Financial Control Systems (FCS) ($B = 0.1922$, $p < 0.001$) play a supportive role in ensuring accountability and compliance in operations, although their impact is relatively smaller compared to other financial planning practices.

Overall, the results underscore that a comprehensive approach to financial planning integrating budgeting, cash-flow management, investment planning, financial control, and risk management is essential for enhancing both profitability and operational efficiency. The findings are broadly consistent with prior empirical studies across Nigeria, Kenya, Sri Lanka, and Indonesia (Abbas & Abu, 2019; Onyango & Muchira, 2023; Akinyomi, 2016; Omoboga & Okibo, 2016; Abdul-Rauf, 2016; Mardiana et al., 2018), demonstrating that effective financial planning and risk management are critical determinants of strong financial and operational performance in SMEs.

Discussion of Findings

The findings of this study demonstrate that financial planning practices, including budgeting, cash-flow management, investment planning, financial control systems, and financial risk management, are positively associated with the profitability of small-scale enterprises. Beyond restating statistical results, these outcomes can be interpreted through the lens of Contingency Theory, which posits that the effectiveness of management practices depends on the alignment between organizational processes and environmental conditions. Small-scale enterprises that adapt their financial planning practices to internal capabilities and external market challenges are better positioned to enhance profitability.

Budgeting practices showed a strong positive association with profitability, suggesting that systematic allocation and monitoring of financial resources support better cost control and operational discipline. Theoretically, this aligns with Contingency Theory, which emphasizes that resource management practices must fit the firm's size, structure, and operating environment. While this finding is consistent with studies by Abbas and Abu (2019) and Ajonbadi et al. (2016), some literature from highly dynamic markets argues that rigid budgeting can constrain entrepreneurial flexibility (Oladele and Adeyemi, 2020). In the Nigerian small-enterprise context, budgeting appears to function more as a flexible guide rather than a rigid constraint, helping firms maintain operational stability while pursuing growth.

Cash-flow management also had a positive and significant effect on profitability, reinforcing the liquidity–performance relationship emphasized in financial management theory. Firms that actively monitor inflows and outflows are better able to meet short-term obligations and avoid liquidity crises. Nonetheless, some studies, particularly in resource-constrained SMEs, suggest that

strong cash management does not always translate to profitability if investment opportunities are limited (Eze and Kamala, 2019). The current findings suggest that, in the sampled enterprises, cash-flow management complements strategic investment, thereby enhancing profitability.

Investment planning was positively linked to profitability, indicating that enterprises that carefully evaluate capital projects and align them with strategic goals achieve better financial outcomes. This is consistent with capital budgeting theory, which underscores the role of informed investment decisions in long-term value creation. Contrarily, some studies argue that informal, intuition-based investment decisions can outperform formal planning in rapidly changing environments (Oladimeji and Abosede, 2020). The results here imply that for small-scale enterprises in Nigeria, structured investment planning contributes more reliably to profitability than informal approaches.

Financial control systems had a smaller, yet significant, effect on profitability. This suggests that internal monitoring mechanisms contribute to improved financial discipline, but their effectiveness may vary depending on managerial expertise and enforcement practices. Literature on SMEs indicates that overly complex controls can sometimes hinder performance by increasing administrative burdens (Adebayo and Adekunle, 2023). The relatively modest coefficient observed aligns with these findings, suggesting that the level of control implementation across firms may be uneven.

Financial risk management emerged as one of the strongest predictors of profitability, highlighting the strategic importance of anticipating and mitigating financial uncertainties. Contingency Theory supports this finding by emphasizing that risk management practices should be tailored to the environmental and operational context. While some prior studies argue that small enterprises often lack the sophistication to implement formal risk frameworks effectively, the evidence from this study suggests that even basic risk identification and mitigation strategies significantly improve financial outcomes (Onyango and Muchira, 2023).

Regarding operational efficiency, the results reveal similar patterns. Budgeting practices and cash-flow management both show strong positive associations, suggesting that structured financial planning and careful liquidity monitoring enhance workflow efficiency and resource utilization. Investment planning contributes positively, indicating that aligning expenditures with strategic objectives improves operational throughput. Financial control systems, while having a smaller effect, still play a role in supporting consistent procedures and accountability, thereby reducing inefficiencies. Financial risk management continues to show the strongest impact, underscoring that proactively addressing uncertainties enables smoother operations and reduces disruptions.

Overall, the findings support the theoretical assertion that financial planning practices enhance organizational performance when adapted to internal capabilities and external conditions. The discussion integrates contradictory perspectives from the literature, such as potential rigidity from budgeting and the limits of formal risk management in small firms, situating the study's results within a broader scholarly debate. While regression analysis indicates significant associations, causality cannot be definitively established due to the cross-sectional design. Nevertheless, the findings provide strong empirical evidence that comprehensive financial planning is a key determinant of both profitability and operational efficiency among small-scale enterprises in Nigeria.

5.0 Conclusion and Recommendation

This study examined the impact of financial planning practices on the profitability and operational efficiency of small-scale enterprises in Benin Ovia North-East, Nigeria. The investigation focused on five key financial planning components: Budgeting Practices (BP), Cash-flow Management (CFM), Investment Planning (IP), Financial Control Systems (FCS), and Financial Risk Management (FRM).

The findings indicate that all five financial planning practices have positive and statistically significant effects on both profitability and operational efficiency within the sampled enterprises. Financial Risk Management (FRM) and Budgeting Practices (BP) were particularly influential, highlighting the importance of proactive risk mitigation and disciplined resource allocation. Cash-flow Management (CFM) and Investment Planning (IP) also contributed significantly, while Financial Control Systems (FCS) had a smaller but meaningful effect.

While these results provide strong evidence of the importance of financial planning for small-scale enterprises in Benin Ovia North-East, caution should be exercised in generalizing the findings to other regions or countries. Local economic conditions, regulatory environments, cultural factors, and access to resources may differ, potentially affecting how financial planning practices influence enterprise performance elsewhere.

Therefore, the study concludes that within the context of Benin Ovia North-East, integrated and systematic financial planning practices enhance profitability and operational efficiency. Future research should extend the analysis to other geographic areas and diverse SME sectors to assess the external validity of these findings.

Recommendations

Based on the empirical findings of this study, the following recommendations are proposed for small-scale enterprise owners, managers, policymakers, and support institutions. Each recommendation is derived from the statistically significant effects of financial planning practices on Profitability and Operational Efficiency.

1. Prioritize Budgeting Practices (BP)
    i. Profitability: SSEs should implement systematic budgeting to optimize resource allocation and improve profit margins, as budgeting has a strong positive effect on profitability.
    ii. Operational Efficiency: Consistent budgeting enhances operational discipline, ensuring that resources are used efficiently and workflow bottlenecks are minimized.
2. Strengthen Cash-flow Management (CFM)
    i. Profitability: Firms should actively monitor cash inflows and outflows, as effective cash management directly contributes to higher profits.
    ii. Operational Efficiency: Regular cash-flow tracking supports timely payment of obligations and smoother operational processes.
3. Enhance Investment Planning (IP)
    i. Profitability: SSEs should evaluate investment opportunities systematically to maximize returns, since strategic investments significantly influence profits.
    ii. Operational Efficiency: Aligning investments with operational needs improves efficiency and workflow outcomes.
4. Fortify Financial Control Systems (FCS)

   i. Profitability: Implementing internal controls reduces errors and losses, supporting sustainable profitability.
   ii. Operational Efficiency: Internal control mechanisms ensure processes are monitored, enhancing operational consistency.
5. Adopt Financial Risk Management (FRM)
   i. Profitability: Proactively identifying and mitigating financial risks substantially improves profit outcomes.
   ii. Operational Efficiency: Risk management practices also enhance operational stability, minimizing disruptions that could reduce efficiency.
6. Promote Targeted Financial Training and Tools
   i. Profitability & Operational Efficiency: Given the strong contributions of the five financial planning practices, SSE owners and staff should receive training and access to digital financial management tools to ensure these practices are implemented effectively.

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