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EFFECT OF FINANCIAL PLANNING ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN KOGI STATE, NIGERIA

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Abstract

Small and medium scale enterprises are widely recognised as drivers of economic development through employment creation, income generation, innovation and poverty reduction, yet a substantial proportion fail within their first years of operation. This study examined the effect of financial planning on the growth of small and medium scale enterprises in Kogi State, Nigeria, decomposing financial planning into four practices: budgeting, cash flow management, financial forecasting and investment planning. A quantitative cross sectional survey design was adopted. The population comprised 5,421 registered enterprise operators across selected Local Government Areas, from which a sample of 341 was determined using the Krejcie and Morgan table; 250 valid responses were obtained and analysed. Data were examined using descriptive statistics, Pearson correlation and multiple regression. All four practices correlated positively and significantly with business expansion, the strongest being investment planning ($r = 0.681$, $p < 0.01$) and budgeting ($r = 0.648$, $p < 0.01$). The regression model was significant, $F(4, 245) = 82.19$, $p < 0.001$, and explained 57.3 percent of the variation in business expansion. Each practice contributed independently: investment planning ($\beta = 0.342$, $p < 0.001$), cash flow management ($\beta = 0.291$, $p < 0.001$), budgeting ($\beta = 0.247$, $p < 0.001$) and financial forecasting ($\beta = 0.149$, $p = 0.012$). Variance inflation factors between 1.37 and 1.53 confirmed the absence of problematic collinearity. The ordering of effects is informative: the forward looking allocation of capital matters more to growth than the projection of future conditions, which suggests that enterprises benefit less from predicting their environment than from committing resources deliberately within it. The study concludes that financial planning is a material determinant of enterprise growth and recommends that operators prioritise disciplined investment appraisal and working capital control, supported by targeted financial management training.

Keywords: financial planning; small and medium scale enterprises; SME growth; budgeting; cash flow management; investment planning; Kogi State

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1. Introduction

Small and medium scale enterprises occupy a central position in the Nigerian economy. They generate the greater part of non agricultural employment, supply income to households outside the formal wage sector, and introduce commercial innovation into local markets (Small and Medium Enterprises Development Agency of Nigeria and National Bureau of Statistics, 2021). Their contribution is structural: where large scale formal employment is limited, the rate at which small firms expand determines the rate at which the labour market absorbs new entrants.

A high proportion of these enterprises nevertheless fail to survive their early years, and the explanations advanced are frequently external, citing access to credit, infrastructure and macroeconomic instability. These constraints are real. They do not, however, account for the variation observed among firms operating in the same market under the same conditions, where some expand while others contract. That variation points towards practices internal to the enterprise, of which financial planning is among the most consequential.

Financial planning denotes the systematic process by which an enterprise determines its financial objectives and the means of achieving them. This study decomposes it into four practices. **Budgeting** is the allocation of expected resources across planned activities and the subsequent comparison of outturn against plan. **Cash flow management** is the administration of the timing of receipts and payments so that obligations can be met as they fall due. **Financial forecasting** is the projection of future revenue, cost and financing requirements. **Investment planning** is the appraisal and selection of commitments of capital to productive assets.

The four are related but make different demands and operate on different horizons. Cash flow management is immediate and defensive, protecting the firm against the liquidity failures that close otherwise profitable businesses. Investment planning is forward looking and expansionary, determining the productive capacity available in future periods. Budgeting mediates between them, and forecasting supplies the information on which both rest. Because they differ in this way, there is no reason to expect them to contribute equally to growth, and establishing their relative contribution is the analytical purpose of this study.

The objective is therefore to examine the effect of financial planning on the growth of small and medium scale enterprises in Kogi State. Growth is operationalised through business expansion, capturing increases in scale of operation, capacity and market reach. The specific objectives are to:

(i) determine the effect of budgeting on the growth of small and medium scale enterprises;

(j) examine the effect of cash flow management on enterprise growth;

(k) assess the effect of financial forecasting on enterprise growth; and

(l) evaluate the effect of investment planning on enterprise growth.

2. Literature Review

2.1 Financial Planning Practices

Financial planning in small enterprises differs from the equivalent function in large firms in ways that bear on how it should be studied. It is rarely discharged by a dedicated finance function; it is performed by the owner alongside operational responsibilities, often without formal accounting records, and under conditions where the enterprise and household finances are not fully separated. These features mean that the question is not whether a firm has a financial planning department but whether the owner performs the underlying activities with sufficient discipline.

Evidence from Nigeria and comparable settings supports the association between these practices and enterprise performance. Adegbie and Alawode (2020) found that financial management practices contributed significantly to the performance of small and medium poultry enterprises, Kwarbai et al. (2020) reported comparable results across a broader enterprise sample, and Mohammed, Abu Talib and Kohar (2020) reached similar conclusions in a related developing economy context. Badamasi, Abubakar and Gbolagade (2024) and Ikpor and Lishilinimye (2025) extended the finding to enterprise sustainability rather than performance alone.

On the individual practices, Egwu, Orugun and Adelakun (2021) examined cash flow management and enterprise performance and found that liquidity administration was a recurrent point of failure among Nigerian enterprises, while Egwe and Odom (2025) reported that entrepreneurial budgeting practices were associated with improved financial performance. Tumba et al. (2022) and Adeyombo et al. (2024) examined financial literacy, which conditions the capacity of owners to perform any of these practices competently.

2.2 Enterprise Growth

Enterprise growth is measured in this study through business expansion, which captures increases in operational scale, productive capacity and market reach. Adeosun, Ann and Owolabi (2024) examined the motivations of owners to scale their enterprises and found that growth intention is widespread but that realisation depends on organisational practice rather than

aspiration. This distinction matters for the present study, since financial planning is one of the practices through which intention becomes realisation.

2.3 Theoretical Framework

The study is anchored on the Resource Based View, which explains differences in enterprise performance by reference to the resources and capabilities a firm controls and deploys (Barney, 1991; Galadanchi, 2024). Resources in this account include finance, physical assets, knowledge, experience, business relationships and managerial competence. The theory holds that resources generate sustained advantage where they are valuable, rare, difficult to imitate and supported by organisational arrangements capable of exploiting them.

Applied here, the theory suggests that financial planning should be understood as a capability rather than as a resource. Capital is a resource, and one widely available to competitors on similar terms; the capacity to allocate it well is a managerial competence that is unevenly distributed and costly to imitate because it is embedded in the experience and judgement of the owner. On this reading, two enterprises with identical access to finance may diverge in growth because one possesses the capability to deploy it and the other does not.

The framework generates a directional expectation that the analysis tests. If financial planning confers advantage through allocation rather than through information, then the practices that govern the deployment of capital, namely investment planning and cash flow management, should carry greater weight than the practice that principally generates information, namely forecasting. Section 5 examines whether the estimates bear this out.

The Resource Based View is not without criticism. It has been charged with tautology, since resources are frequently identified as valuable by reference to the performance they are invoked to explain, and with insufficient attention to the external environment. Babajide et al. (2023) and others have accordingly argued for its combination with perspectives that treat the institutional and financial context explicitly.

3. Methodology

3.1 Design, Population and Sample

A quantitative cross sectional survey design was adopted. The study was conducted in selected Local Government Areas of Kogi State, Nigeria. The population comprised 5,421 registered enterprise owners and managers in the selected areas. A sample of 341 respondents was determined using the Krejcie and Morgan (1970) table, which specifies the sample required for a given population at 95 percent confidence and a 5 percent margin of error. Of the questionnaires distributed, 250 were correctly completed and returned and form the basis of the analysis, a response rate of 73.3 percent.

3.2 Instrument and Measurement

Data were collected using a structured questionnaire measured on five point agreement scales. The four financial planning practices were each measured through multiple item scales, and business expansion was measured through owner assessment of increases in operational scale, capacity and market reach.

3.3 Model Specification

Business expansion is specified as a function of the four financial planning practices:

$$BEX = f(BUD, CFM, FFC, INP) \quad (1)$$

The estimable form is

$$BEX_i = \beta_0 + \beta_1 BUD_i + \beta_2 CFM_i + \beta_3 FFC_i + \beta_4 INP_i + \varepsilon_i \quad (2)$$

where *BEX* denotes business expansion, *BUD* budgeting, *CFM* cash flow management, *FFC* financial forecasting and *INP* investment planning for respondent i; β_0 is the constant and ε_i the error term. Because the four practices are estimated jointly, each coefficient represents the effect of that practice holding the other three constant, which is the property that permits their relative contributions to be compared.

The significance of the model as a whole is assessed through the F ratio

$$F = (SS_{reg} / k) / (SS_{res} / (n - k - 1)) \quad (3)$$

where SS_{reg} and SS_{res} are the regression and residual sums of squares, k the number of predictors and n the sample size. Collinearity was assessed through variance inflation factors.

4. Results

4.1 Descriptive Statistics

Table 1 reports descriptive statistics. Investment planning recorded the highest mean at 4.12, followed by budgeting at 4.05, cash flow management at 3.94, business expansion at 3.88 and financial forecasting at 3.81. The grand mean of 3.96 indicates

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that respondents generally report engaging in financial planning practices, though the ordering is instructive: forecasting, the most technically demanding of the four, records both the lowest mean and the widest dispersion at 0.77.

Table 1: Descriptive statistics of study variables

Variable	Mean	Standard deviation
Investment planning (INP)	4.12	0.68
Budgeting (BUD)	4.05	0.72
Cash flow management (CFM)	3.94	0.74
Business expansion (BEX)	3.88	0.70
Financial forecasting (FFC)	3.81	0.77
Grand mean	**3.96**	**0.72**

Note. N = 250. All constructs measured on five point scales. Source: field survey (2026).

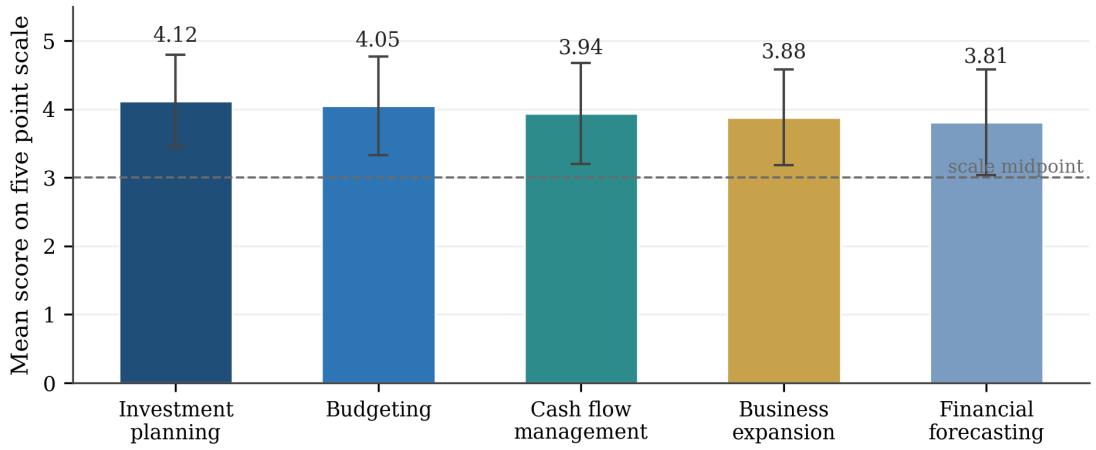


Figure 1: Mean scores with standard deviation bars for the five study constructs. Financial forecasting records the lowest mean and widest dispersion, indicating that it is the least consistently practised of the four planning activities.

4.2 Correlation Analysis

Table 2 reports the correlation matrix. All four financial planning practices correlate positively and significantly with business expansion at the one percent level. Investment planning records the strongest association (r = 0.681), followed by budgeting (r = 0.648), cash flow management (r = 0.612) and financial forecasting (r = 0.536). Inter predictor correlations range from 0.442 to 0.521, which is moderate and indicates that the four practices are related but distinguishable.

Table 2: Correlation matrix of study variables

Variable	BUD	CFM	FFC	INP	BEX
Budgeting (BUD)	1.000				
Cash flow management (CFM)	0.521**	1.000			
Financial forecasting (FFC)	0.468**	0.442**	1.000		
Investment planning (INP)	0.497**	0.515**	0.456**	1.000	
Business expansion (BEX)	0.612**	0.648**	0.536**	0.681**	1.000

*Note. ** correlation significant at the 0.01 level, two tailed. N = 250. Source: field survey (2026).*

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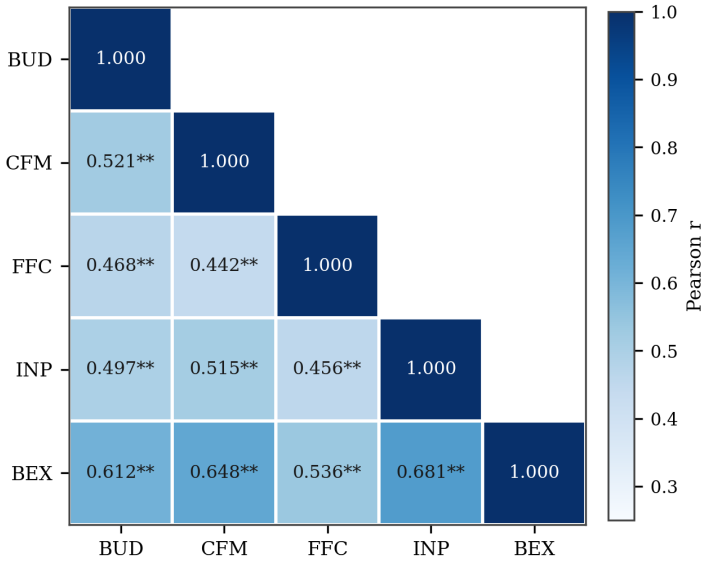


Figure 2: Correlation matrix of study variables. Investment planning shows the strongest bivariate association with business expansion, and financial forecasting the weakest.

4.3 Analysis of Variance

Table 3 reports the analysis of variance for the regression model. The model is significant, $F(4, 245) = 82.19$, $p < 0.001$, confirming that the four financial planning practices jointly explain a significant proportion of the variation in business expansion. The regression sum of squares of 49.421 against a total of 86.250 gives a coefficient of determination of 0.573, so that 57.3 percent of the variance in business expansion is accounted for by the model.

Table 3: Analysis of variance for the regression model

Source	Sum of squares	df	Mean square	*F*	Sig.
Regression	49.421	4	12.355	82.19	<0.001
Residual	36.829	245	0.150		
Total	**86.250**	**249**			

Note. Dependent variable: business expansion. Source: field survey (2026).

4.4 Regression Results

Table 4 reports the regression coefficients. All four practices exert positive and significant effects on business expansion, and all variance inflation factors lie between 1.37 and 1.53, well below the conventional threshold of 10, confirming that collinearity does not compromise the estimates.

Table 4: Multiple regression results

Variable	*B*	Std. error	Beta (β)	*t*	Sig.	VIF
Constant	0.421	0.173	–	2.434	0.016	–
Investment planning (INP)	0.327	0.059	0.342	5.542	<0.001	1.49
Cash flow management (CFM)	0.286	0.061	0.291	4.689	<0.001	1.53
Budgeting (BUD)	0.238	0.057	0.247	4.175	<0.001	1.48
Financial forecasting (FFC)	0.142	0.056	0.149	2.536	0.012	1.37

Note. Dependent variable: business expansion. N = 250. Source: field survey (2026).

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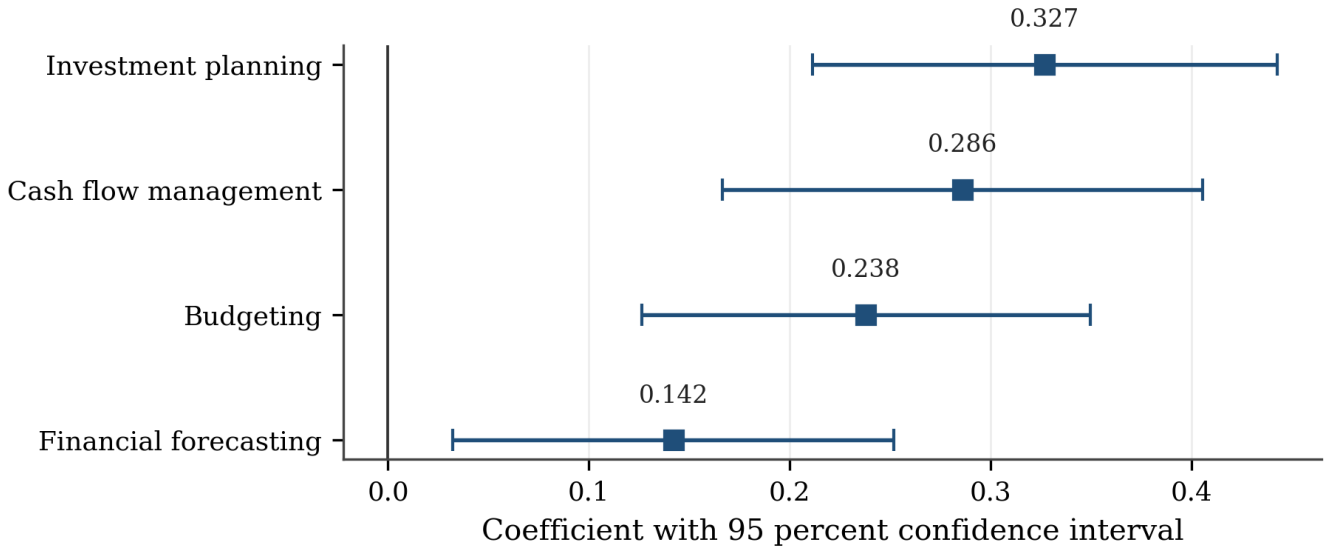


Figure 3: Unstandardised regression coefficients with 95 percent confidence intervals. No interval contains zero, and the ordering places investment planning first and financial forecasting last.

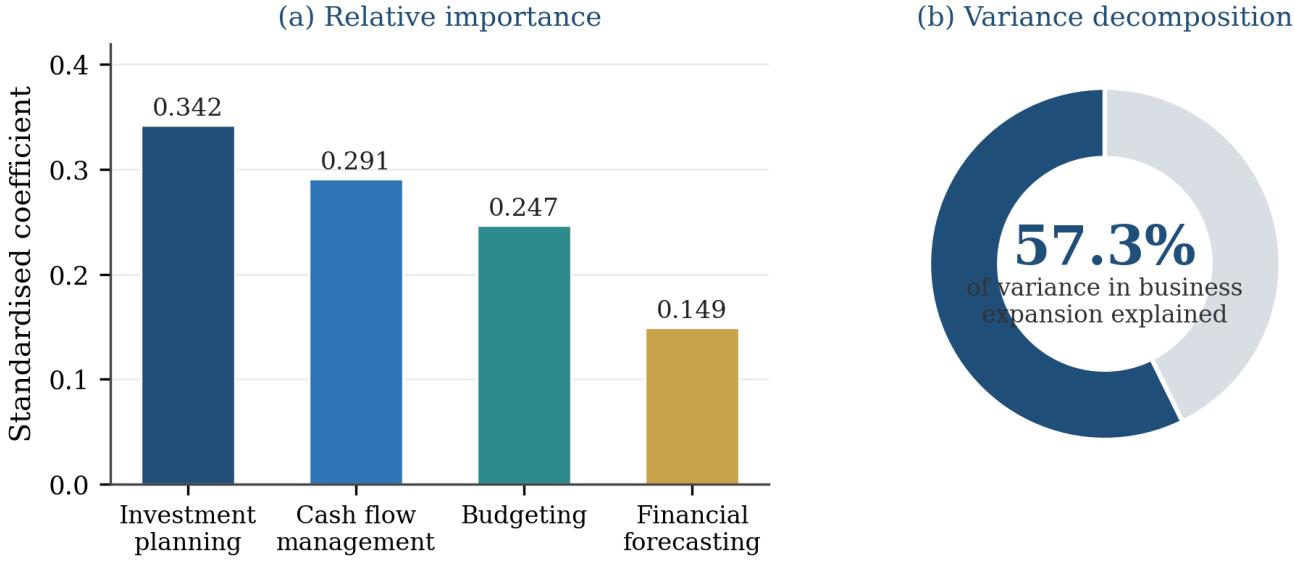


Figure 4: Relative importance and variance decomposition. Panel (a) ranks the four practices by standardised coefficient; panel (b) shows the share of variance in business expansion explained by the model as a whole.

5. Discussion of Findings

5.1 Allocation Outweighs Prediction

The four practices all contribute significantly, but they do not contribute equally, and the ordering is the principal finding of this study. Investment planning carries the largest standardised coefficient at 0.342, followed by cash flow management at 0.291, budgeting at 0.247 and financial forecasting at 0.149. The strongest effect is more than twice the weakest.

This ordering bears directly on the expectation derived from the Resource Based View in Section 2.3. Three of the four practices govern the deployment of resources: investment planning determines where capital is committed, cash flow management determines whether the enterprise remains solvent while that commitment matures, and budgeting disciplines both. The fourth, forecasting, principally generates information about future conditions. The practices concerned with allocation occupy the first three positions and the practice concerned with prediction occupies the last.

The interpretation this suggests is that enterprises in this setting benefit less from anticipating their environment than from acting deliberately within it. The suggestion is plausible on independent grounds. Forecasting requires a stable enough environment for projection to be informative, and Nigerian small enterprises have operated through a period of currency depreciation, fuel price reform and inflation in which the value of any forecast degrades rapidly. Under such conditions the return to accurate prediction falls while the return to disciplined allocation and liquidity protection does not. The descriptive results support this reading indirectly: forecasting recorded both the lowest mean and the widest dispersion, indicating that

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owners themselves practise it least consistently.

5.2 Investment Planning and the Capacity to Expand

Investment planning recorded the strongest effect on both the correlational and regression evidence. The finding is consistent with the dependent variable: business expansion is, almost by definition, the outcome of capital committed to productive capacity, so the practice that governs such commitment should bear most directly on it.

The mechanism is nevertheless worth stating, because it is not simply that firms which invest grow. Investment planning is the appraisal that precedes commitment, and its contribution lies in distinguishing commitments that will generate returns from those that will not. Enterprises that appraise systematically avoid the two characteristic failures of small firm investment, namely premature expansion into capacity that demand does not support, and deferred investment that leaves the firm unable to serve demand when it arrives. The result accords with Adeosun, Ann and Owolabi (2024), who found that growth intention among enterprise owners is widespread but that realisation depends on organisational practice.

5.3 Cash Flow Management as the Defensive Capability

Cash flow management recorded the second largest effect. Its contribution is of a different character from that of investment planning: it protects rather than creates. Profitable enterprises close when they cannot meet obligations as they fall due, and the enterprise that cannot sustain its working capital position cannot hold the investments through which expansion is realised. On this reading cash flow management is a precondition for the effectiveness of investment planning rather than an independent route to growth.

Egwu, Orugun and Adelakun (2021) identified liquidity administration as a recurrent point of failure among Nigerian enterprises, and the present finding quantifies its contribution. The practical significance is that liquidity discipline is not merely prudential housekeeping but is associated with measurable differences in growth outcomes.

5.4 Budgeting and Forecasting

Budgeting recorded a significant effect of 0.247, consistent with Egwe and Odom (2025), who reported that entrepreneurial budgeting practices improved financial performance. Budgeting operates by converting intention into allocation and by making divergence from plan visible early enough to be corrected. Its position in the middle of the ordering is consistent with its mediating role: it is the instrument through which the information forecasting supplies is translated into the commitments investment planning governs.

Financial forecasting recorded the smallest effect at 0.149, though it remained statistically significant at the five percent level. The finding should not be read as an argument against forecasting. A significant positive coefficient indicates that enterprises which project future conditions grow faster than those which do not, holding the other practices constant. What the result indicates is a question of priority rather than of validity: where an owner can develop only one or two planning capabilities, the evidence favours appraisal and liquidity control over projection.

5.5 Explanatory Power and Practical Implications

The four practices jointly explain 57.3 percent of the variation in business expansion. For a model of small enterprise growth, where market conditions, sectoral position, owner characteristics and access to finance all contribute, this is a substantial share. It indicates that financial planning is not a marginal administrative refinement but a first order determinant of whether an enterprise expands.

This carries an implication for enterprise support policy. Interventions directed at small enterprises in Nigeria concentrate heavily on access to finance, on the assumption that capital availability is the binding constraint. The present evidence does not dispute that capital matters, but it indicates that the capability to deploy capital accounts for a majority of the observed variation in growth among firms already operating. Finance extended to an enterprise without the capability to appraise its use is unlikely to produce expansion, which is consistent with the mixed results reported for credit interventions in comparable settings. Pairing credit with financial management training is therefore likely to raise the return to the credit itself.

5.6 Limitations

Several limitations qualify these findings. Both the financial planning practices and business expansion were measured perceptually through owner assessment on a single instrument, which raises the possibility of common method variance and may inflate the observed associations; turnover, employment or asset data drawn from records would provide a stronger test. The design is cross sectional, so the direction of causation cannot be established, and it is possible that growing enterprises adopt more formal financial practices as they grow rather than growing because of them. Of 341 questionnaires distributed, 250 were returned, so a quarter of the intended sample is unobserved and non response may be related to planning practice, since enterprises with weak records may have been less willing to respond. The study was conducted in selected Local Government Areas of a single state, which limits generalisation. Finally, business expansion captures one dimension of growth, leaving profitability and survival unexamined.

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6. Conclusion and Recommendations

This study examined the effect of financial planning on the growth of small and medium scale enterprises in Kogi State, Nigeria. All four practices examined exerted positive and significant effects on business expansion, and together they explained 57.3 percent of the variation in that outcome. The ordering placed investment planning first, cash flow management second, budgeting third and financial forecasting fourth.

The study concludes that financial planning is a material determinant of enterprise growth, and that its contribution runs principally through the disciplined allocation of resources rather than through the projection of future conditions. Enterprises that appraise investments systematically, protect their liquidity and allocate against a budget expand more than those that do not, and they do so by a margin large enough to matter for policy. Capital is necessary for growth; the capability to deploy it appears to be what distinguishes enterprises that grow from those that do not.

The following recommendations are made.

1. **Prioritise investment appraisal.** Enterprise owners should subject major commitments to explicit appraisal against expected returns and realistic cost assumptions before committing capital, since this is the practice with the largest measured effect on expansion.

2. **Institute basic cash flow discipline.** Operators should maintain a simple record of expected receipts and payments and manage the timing of obligations against it, since liquidity failure terminates otherwise viable enterprises.

3. **Adopt and review a working budget.** Even a simple budget, compared against outturn at regular intervals, converts intention into allocation and reveals divergence early enough for correction.

4. **Pair credit interventions with financial management training.** Government agencies and development partners should combine access to finance with practical training in appraisal and working capital control, since the present evidence indicates that capability conditions the return to capital.

5. **Keep forecasting proportionate.** Forecasting should be practised at a level of sophistication the environment supports, with effort directed towards scenario awareness rather than point prediction under volatile conditions.

6. **Extend measurement beyond expansion.** Support agencies should monitor profitability and survival alongside expansion, since these dimensions of growth may respond differently to the practices examined here.

Conflict of Interest

The authors declare no conflict of interest relating to the research, authorship or publication of this article.

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Authors Contributions

Oshadami Babatunde Julius: conceptualisation, research design, data collection, data analysis and drafting of the original manuscript. **Peter Ugbedeojo Nelson:** supervision, methodology validation, analytical review, review and editing, final approval of the manuscript.

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