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**Systematic Review on Financial Management Practices in Small and  
Medium Scale Enterprises (SMEs)**

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**ABSTRACT**

Small and Medium Scale Enterprises (SMEs) play a crucial role in employment generation, innovation, economic growth across both developed and developing economies. Despite their significance, many SMEs face persistent challenges related to financial sustainability, largely due to weak financial management practices. This systematic review examines existing scholarly literature on financial management practices in SMEs with a focus on budgeting, accounting and record-keeping, working capital management, financial planning, cash flow management and access to finance. The review reveals that effective financial management practices are positively associated with improved profitability, liquidity, and long-term survival of SMEs, while poor financial controls and limited financial literacy significantly contribute to business failure. It also highlights contextual variations influenced by firm size, sector, owner-manager characteristics and institutional environments. The study revealed that strengthening financial management capabilities through training, digital adoption, and supportive policy frameworks is essential for enhancing SME performance and sustainability. In this article, systematic review on financial management practices in small and medium scale enterprises (SMEs) has been discussed.

**Keywords:** *Financial Management Practices, Small and Medium Scale Enterprises (SMEs), Financial Planning, Working Capital Management.*

**INTRODUCTION**

Small and Medium Scale Enterprises (SMEs) play a pivotal role in global economic development by contributing significantly to employment creation, innovation, and gross domestic product (GDP) across both developed and developing economies. SMEs are recognized for their agility, resilience, and capacity to stimulate economic diversification and inclusive growth. Despite their importance, SMEs often face substantial challenges that threaten their sustainability and growth, particularly in the domain of financial management. Financial management encompasses the strategic planning, organizing, directing, and controlling of financial activities such as procurement and utilization of funds. Effective financial management practices are critical for SMEs to secure financial stability, optimize resource allocation, enhance profitability, and make informed decisions that promote long-term viability. Given the relatively limited financial resources and managerial expertise typical of SMEs, robust financial practices are integral to navigating market uncertainties and competitive pressures. The extant literature indicates that SMEs frequently encounter problems including



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inadequate access to formal financing, poor financial record-keeping, limited budgeting and forecasting capacities, and weak internal controls. These financial constraints impede performance, constrain investment opportunities, and may lead to business failure. Moreover, variations in financial management practices across different sectors and geographic contexts suggest both contextual and operational complexities that merit systematic investigation. A systematic review of financial management practices in SMEs synthesizes empirical evidence to identify key practices, challenges, and outcomes associated with financial decision-making in these enterprises. Unlike traditional literature reviews, a systematic review utilizes clearly defined protocols and rigorous methodologies to minimize bias, ensure comprehensiveness, and facilitate replicability. This approach enables the aggregation of findings from diverse studies to produce a coherent understanding of the state of knowledge in the field.

**SYSTEMATIC REVIEW ON FINANCIAL MANAGEMENT PRACTICES IN SMALL AND MEDIUM SCALE ENTERPRISES (SMEs)**

Dongming, X. et al. (2023). A large proportion of small and medium-sized enterprises (SMEs) cease operations before their fifth anniversary, notwithstanding their considerable contributions to socioeconomic and political advancement across all sectors. A significant number of entrepreneurs exhibit insufficient understanding of the financial strategies necessary to ensure the sustained operation and expansion of their business. This qualitative multiple-case study aimed to comprehensively comprehend the financial solutions that small and medium-sized enterprise (SME) owner-managers may utilize to enhance the sustainability of their business operations. This analysis was based on Porter's competitive strategy model and the theoretical framework of entrepreneurship. Qualitative data were collected from many sources, including semi-structured interviews, academic publications, and observational field notes. The study's sample comprised six owner-managers of small and medium-sized enterprises (SMEs) with less than 100 employees, operating in the accounting, consulting services, and education sectors. Five topics emerged from the data analysis, elucidating the financial strategy tactics employed by small and medium-sized enterprise (SME) owner-managers. Themes encompassed adherence to strategic financial practices, acquisition of fundamental finance and business knowledge, establishment of a robust financial reporting system, articulation of challenges faced by SMEs, and cultivation of entrepreneurial resilience. The study's findings indicate that owner-managers of small and medium-sized enterprises (SMEs) should adopt a dynamic approach to their financial strategy processes. Owner-managers of small and medium-sized enterprises (SMEs) could ensure the sustainability of their firms through the implementation of this strategy. By promoting employment opportunities, equitable wealth distribution, technical advancements, grassroots initiatives, and an overall enhancement of gross domestic product, this could subsequently contribute to the improvement of societal well-being.

Awino, D. et al. (2023). The study aimed to determine the effect of financial inclusion on the financial performance of small and medium-sized enterprises in Mombasa County. This study considered service delivery, financial quality, financial utilization, and financial accessibility as the



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primary criteria. Mobile banking, microfinance, SACCOs, and internet banking have proliferated in Mombasa County due to initiatives aimed at enhancing service delivery and promoting financial accessibility, quality, and utilization. Nonetheless, tiny enterprises persist in functioning behind anticipated levels. An empirical investigation of these problems was necessary to comprehend how financial inclusion might enhance the financial performance of small and medium-sized enterprises. The theoretical foundation of the study comprised the Grameen theory, credit rationing theory, and financial intermediation theory. The study employed a descriptive research design targeting a population of 3,000 SME owners in Mombasa County. A sample of 300 SME owners, constituting 10% of the overall group, was selected for the study. The majority of the data was gathered using questionnaires that underwent validation and reliability testing prior to the completion of the whole scale. The collected data was subjected to diagnostic testing to verify its collinearity, linearity, and relevance. The data was subsequently analyzed employing descriptive and inferential statistics through the Social Package for Social Sciences. The study established; a weak positive relationship between financial access and financial performance of SMEs in Mombasa County, the effect of financial access was attributed to accessibility of commercial banks and mobile banking that are more convenient to SME owners; a weak positive relationship between financial quality and financial performance of SMEs in Mombasa, the impact of financial quality was ascribed to adaptability in credit reimbursement period and protection of advance in order to limit defaulting; a weak positive relationship between financial use and financial performance of SMEs in Mombasa, the effect of financial use was ascribed to appropriate usage of assets for organizations and infusing of individual budgets to help business and a positive relationship between service delivery and financial performance of SMEs in Mombasa, the influence of financial use was attributed to good preparation of financial institutions and their intermediaries to serve the SMEs and special service line to help SMEs overcome challenges. The study's results demonstrate that financial inclusion significantly influences the financial performance of small and medium-sized enterprises in Mombasa County. The report recommends instructing small and medium-sized enterprises (SMEs) on the utilization of mobile banking applications. Many of these organizations were discovered to have obtained loans from various applications and defaulted on repayments, thus impacting their credit scores. SME proprietors must be instructed on the necessity of documenting their transactions to monitor all income and expenditures. This study suggests conducting further research on SMEs once the economy has completely recovered to ascertain the potential for a stronger link. Additionally, while the study was performed in Mombasa County, the financial centre of the region, further research is required in other counties, such as Kilifi and Kwale, to compare the results and evaluate their comparability.

Nkwinika, E. & Akinola, S. (2023). The report examines the importance of financial management in SMEs, emphasizing future trends, best practices, and challenges. Financial management is a crucial determinant of SMEs' competitiveness, sustainability, and growth. The initial section of the essay delineates the definition of SMEs and underscores the significance of financial management to their performance. To ensure successful business operations, it underscores the necessity for SME owners



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to understand financial principles, make informed decisions, and prioritize financial planning. Real-world case studies reveal effective financial management strategies employed by SMEs. We analyze governmental policies and support for SME financial management, emphasizing programs, tax incentives, and financial advisory services. These governmental programs are crucial in equipping SMEs with the resources and support necessary for good financial management. The evaluation also examines prospective advancements, encompassing rising technologies (AI, blockchain, IoT), regulatory modifications, and their possible impacts on the economic management of SMEs. The discussion addresses the opportunities and challenges in financial forecasting, highlighting the application of predictive modeling and data analytics to enhance precision. This evaluation assessment underscores the necessity of financial control for SMEs while also emphasizing financial literacy, technological adoption, and compliance with regulatory adjustments. Small and medium-sized enterprises can attain enduring financial equilibrium and thrive in dynamic business settings by implementing best practices and obtaining support from authorities. Robust economic management remains crucial for the long-term growth and profitability of SMEs as they progress in digital technology.

Garcia-Martinez, L.J., Kraus, S. & Breier, M. et al. (2023). Small and medium-sized enterprises (SMEs) have gained prominence in recent years, particularly since 2007, with the objective of promoting growth. This study aims to analyze the relationship between growth and SMEs, along with the many elements influencing this connection. A comprehensive literature review was undertaken for this purpose. The analysis found seven criteria influencing the financial success of SMEs: size, age, internationalization, network, innovation, public institutions, and capital structure. These factors substantially impact the expansion of smaller enterprises, hence affecting their total success. Moreover, the seven aspects may influence each other, hence enhancing growth prospects. We advocate for additional research to address this deficiency in the literature.

Rahim, F.A. et al. (2023). Environmental sustainability has emerged as a goal for small and medium-sized forest enterprises (SMFEs) in response to the swiftly changing global economic environment. Despite the significance of SMFE performance for all developing nations, researchers have found that inadequate financial management practices contribute to a global failure rate of approximately 90% for SMFE firms. Literature indicates that the implementation of financial management strategies supports corporate growth. This study addresses a knowledge deficiency in the literature by investigating the impact of financial management methods on the growth of small and medium-sized enterprises (SMEs). The principal areas of investigation were computerized accounting systems, financial investments, financial management, and financial analysis. Data was gathered by soliciting responses from 265 proprietors of small and medium-sized enterprises, financial managers, and other financial personnel through questionnaires. Data indicates that superior financial performance and accelerated development stem from enhanced accounting methods, investment decisions, financing strategies, financial reporting, and financial management. The results indicate a significant positive link among financial management, financial analysis, computerized accounting systems, and



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financial investments, which is crucial for performance and has important implications for owners, administrators, and authorities. This study provides recommendations for further research and enhances prior assessments of some beneficial factors.

Francis, O. et al. (2023). Small and medium-sized enterprises (SMEs) are widely recognized for their vital contribution to economic growth and the preservation of macroeconomic balance in nations worldwide. The proliferation of SMEs has been the focal point of scholarly discourse during the past decade. A range of factors, including innovation and financial management strategies, has facilitated the comprehensive analysis of SMEs' performance. This study seeks to examine how prudent financial management strategies may influence the innovative performance of SMEs, considering the contentious debates in the literature about financial management practices and their impact on innovation in SMEs. This conceptual paper employs an exploratory strategy, featuring a comprehensive literature evaluation aligned with the research aim and specific study objectives. The findings of the exploratory literature review indicated that financial management practices significantly influence the creative performance of SMEs. This illustrates that for SMEs to foresee and capitalize on innovative opportunities leading to enhanced performance, they must execute working capital management, investment appraisal and analysis, financial information system management, financing, and capital structure management.

Chisiri, T. & Manzini, S. (2022). An analysis of the influence of financial management strategies on the sustained development of small and medium-sized enterprises (SMEs). The objective of the study was to ascertain the influence of financial management practices on the quantity of SMEs in Zimbabwe. The problem statement indicated the absence of corporate expansion within SMEs. One of the study's aims was to ascertain how financial management practices influence the potential of SMEs for sustainable growth. The sample for the study comprised 101 SMEs from the catering sector, selected via a random sampling method. Data analysis was conducted utilizing SPSS version 2.2. The results revealed that the four financial management methodologies most commonly utilized by SMEs were capital budgeting, working capital management, capital structure, and financial reporting analysis. The primary problems faced by SMEs in implementing effective financial management practices were inadequate management skills, non-registration, and insufficient financial literacy. The study's findings indicate that the majority of SMEs' challenges were localized. The report's growth strategy indicated that the government was the primary source of funding and financial literacy training for SMEs. It was advised that SMEs implement equitable financial management practices.

Sooriyakumaran, L. et al. (2022). The study aimed to examine the elements of financial management practices in SMEs and assess their impact on business success. This working paper was created through expert consultation and a literature analysis. We analyzed the correlation between financial management practices (FMP) and business performance (BP) by literature research and expert consultation. The literature identified six indicators of financial management practices: working capital management (WCM), financial reporting preparation and analysis (FRPA), accounting



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information system (AIS), keeping accounting records (MAR), investment decision (ID), and financing (FIN). Furthermore, business performance constitutes a dependent variable. The literature indicates links between FMP and BP in SMEs. This encompasses both positive and negative correlations, along with cases when no discernible impacts are observed on the contributing variables of SMEs. This study provided a conceptual model to examine the link between FMP and BP by testing six hypotheses. This paper proposes doing an empirical inquiry utilizing exploratory and confirmatory factor analysis to develop precise and reliable techniques for evaluating the FMP in the context of SMEs. This study aims to examine the impact of FMP on BP inside SMEs and to assess the moderating influence of demographic factors, including gender, the educational qualifications of financial management practitioners, and the age of SMEs, through a proposed route model.

Cele, S. et al. (2022). Small and medium-sized enterprises (SMEs) in South Africa are essential to the nation's sustainability, as they create employment opportunities and contribute to the GDP. A primary factor contributing to South Africa's elevated SME failure rate is the inadequate management skills of owners and managers. The study aimed to investigate the perceptions of owners and managers of Durban SMEs regarding the implementation of management accounting principles (MAPs) and the factors affecting their utilization. The research also investigated the challenges faced by SMEs. The study utilized a quantitative methodology through a self-administered questionnaire distributed via email to SMEs. Management accounting procedures were largely utilized to facilitate planning and assess business performance. Insufficient education, training, and experience in management accounting were determinants affecting the utilization of MAPs. Small and medium-sized enterprises faced significant challenges related to financial and human resource constraints. Proprietors and administrators of small and medium-sized enterprises concurred with the proposal to undertake management accounting training. The research recommended management accounting training for managers and proprietors of small and medium-sized enterprises (SMEs). Government ministries and academic institutions should guarantee the availability of training specifically designed for SMEs. The study provides new insights into the perspectives of SME owners and managers regarding the utilization of MAPs, the factors affecting their adoption, and other challenges encountered. It further substantiates the argument for the imperative of training SMEs in management accounting.

Millers, M. & Gaile-Sarkane, E. (2021). Owners and founders operate a substantial proportion of small and medium-sized enterprises. This study aimed to delineate the spectrum of management strategies employed by owner-managed SMEs. Comprehending this heterogeneity will elucidate the challenges encountered by SMEs and propose potential solutions to improve their sustainability and management. This study employed a corporate self-assessment grounded in a tailored governance model to examine 205 owner-managed SMEs with over nine employees. In conjunction with a visual analysis, statistical analysis software was employed to scrutinize the data. Employing cluster analysis, analogous companies were categorized. The findings indicated significant variance in the management styles and operational outcomes of the firms. This study demonstrated that



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supplementary methodologies, such as visual analysis, must be utilized alongside statistical analysis, which is inadequate for assessing this diversity.

Clementine, U. (2021). The financial performance of organizations, especially small and medium-sized enterprises, is greatly impacted by management practices worldwide. The primary objective of this study is to evaluate the financial performance and financial management techniques of Rwandan SMEs. This study aimed to investigate the potential effects of financial management methods on small and medium-sized enterprises, specifically focusing on six selected SACCOs in the Musanze District. The design of this investigation was quantitative and descriptive. The study's target audience comprised 30% of all staff and employees from Musanze district SACCOs. A sample of 60 respondents was selected utilizing the universal census method, and data analysis was conducted using SPSS version 20. The study's findings indicate that working capital management significantly enhances performance, while investment decisions also positively influence the performance of SACCOs. The findings indicated that financial performance is substantially influenced by financial management practices.

Folajinmi, A.F. & Peter, A.O. (2020). Any developing nation, particularly one struggling to diversify from petroleum-based revenue and generate employment, must not underestimate the significance of the agricultural sector and small and medium-sized enterprises (SMEs), which collectively constitute a substantial catalyst for economic advancement. This study examines the impact of pertinent financial management strategies, with the distinctiveness and volatility of the business environment, on the success of SMEs in the poultry sector. The research employed a survey methodology. Excluding farm attendants and other non-managerial personnel, the research population comprised 200 farm managers and poultry producers from 162 farms registered with the Poultry Association of Nigeria—Ogun State Chapter. The sample size of 150 was calculated via the Cochran algorithm. Stratified, proportionate, and simple random sampling methods were employed in a multi-stage sampling procedure to select the owners/managers of these chicken farms. The reliability was assessed using the Cronbach's alpha coefficient derived from pilot study responses, while the validity of the instrument was validated through review and evaluation by research supervisors and field experts. Responses were transformed into quantitative data for descriptive and empirical analysis utilizing instrument codes. The data indicates that the profitability of the chicken firm is substantially enhanced by various financial management practices, including working capital management, capital structure management, and the annual budgeting process.

Adda, G. (2020). The advocating for effective financial management practices & the growth of small and medium-sized enterprises (SMEs) can significantly impact a nation's long-term advancement towards an improved and more humane standard of living. Small and medium-sized enterprises are crucial for addressing the challenges of poverty, inequality, and employment generation. Numerous SMEs have various challenges, including the adoption of optimal financial management methods, insufficient managerial skills, and a scarcity of capital. This study analyzes the financial management practices and competencies of SMEs in relation to their growth. The research collected data from



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owners or managers of SMEs through a questionnaire. Descriptive statistics were employed to present the data results. The correlation between SMEs' financial management strategies and business growth was analyzed through a multiple regression model. The results indicate a moderate correlation between the financial management practices of SMEs and their growth. Targeted financial education programs are recommended based on the findings to aid managers and owners of SMEs in developing and executing optimal financial management practices.

Chilala, N. & Odek, A.W. (2019). The economic significance of poultry contributes to the swiftly growing industry that manufactures animal feed and provides employment for a substantial workforce. The researcher has identified a divergence between sustainable growth and the financial management methods of small and medium poultry firms. The future of poultry farming is ambiguous. Current data suggests that financial management methods adversely affect Zambian small and medium-sized enterprises, hindering the poultry industry's capacity for continued expansion. Notwithstanding the sluggish growth rate, small and medium-sized poultry enterprises have been experiencing expansion. Consequently, the researcher must ascertain financial management methods and their impact on small and medium-sized enterprises, respectively. The researcher will delineate the study's fundamental concepts and identify the deficiencies in financial management methods. Outlined will be superior. We examined the study's limitations and its achievements regarding sustainable growth techniques. The discoveries will augment the body of information for other researchers. Researchers will employ the findings to build theories and models of sustainable growth that connect the impacts of financial management techniques to small and medium-sized poultry enterprises.

Goswami, P. (2019). In both developed and developing nations, capital is essential for the sustenance and expansion of micro, small, and medium-sized firms. At the governmental level, financial assistance facilitates corporate expansion and growth, hence fostering social and economic development. In financial decision-making, micro, small, and medium-sized firms (MSMEs) exhibit distinct behaviors compared to large corporations; the study is based on secondary data, and a literature assessment on the financial issues encountered by MSMEs has been completed. Insufficient financial management is the primary reason for the closure of most businesses. The MSME sector encounters numerous problems; however, it substantially contributes to the economy. Micro, small, and medium-sized enterprises frequently encounter challenges such as insufficient access to financial services, a limited comprehension of the financial sector, and the perception among financial institutions that MSMEs possess lower creditworthiness. Despite government encouragement of entrepreneurship, business owners face financial difficulties due to their unawareness of beneficial programs.

Chen, J. & Wang, T. (2018). The study investigates the short-term financial management of small and medium-sized enterprises, noted for their intimate connection with the banking system and restricted access to financial resources. Consequently, a primary challenge influencing their survival and expansion is the allocation of resources. Employing generalized two-step moments approaches,



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we examined a sample of 1,220 enterprises across a decade to assess the endogeneity and multicollinearity issues of independent variables. Data indicates that the majority of enterprises exhibit elevated average profitability and necessitate significant capital investment. Recommends that small business proprietors allocate the majority of their resources to continuous operations, hence enhancing performance.

Bismark, O. et al. (2018). The primary aim of the study was to ascertain the influence of financial management strategies on the growth of small and medium-sized firms in Ghana's Birim Central Municipality. The study aimed to identify the bookkeeping methods employed by SMEs, analyze their management of credit and cash flow, evaluate their inventory management concerning working capital and accounts receivable, and investigate the financial management challenges encountered by SMEs in Birim Central Municipality. The study's results indicated that the majority of respondents sporadically managed their finances. Supplementary data indicates that the majority of respondents fully concurred with the significance of financial management strategies. The analysis revealed that the majority of respondents employed the cash book and sales day book more frequently than alternative bookkeeping methods. Nevertheless, the majority of respondents were discovered to be deficient in training regarding financial resource management.

Musah, A. et al. (2018). The procedures for managing working capital, capital structure, accounting information, financial reporting practices, and the application of capital budgeting methodologies alongside fixed asset management. The performance of SMEs was evaluated concerning growth and profitability as measured by return on assets. The study's data was collected through a questionnaire administered to a sample of 100 SMEs in Accra. Descriptive statistics and Pearson correlation analysis were employed to examine the data. The results of the descriptive statistics indicated that working capital management practices received the highest mean score. This was succeeded by capital structure management, accounting information and financial reporting practices, the application of capital budgeting techniques, and fixed asset management in that sequence. The Pearson correlation study indicated a positive correlation between our financial management practices and the profitability and growth of SMEs. The results underscore the imperative for SMEs to improve their financial management practices to augment their growth and profitability. Although it positively influences SMEs' performance, this aspect of financial management received the lowest evaluation; therefore, it is recommended that the application of capital budgeting techniques be improved. Prior to allocating organizational resources to initiatives or investments, managers of SMEs must evaluate them utilizing discounted cash flow methodologies. To enhance their financial reporting practices, SMEs are encouraged to adopt IFRS for SMEs.

## **CONCLUSION**

This systematic review examined the existing literature on financial management practices in Small and Medium Scale Enterprises (SMEs) to understand their role in enhancing business sustainability, profitability, and long-term growth. The review reveals that sound financial management practices—



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such as budgeting, financial planning, working capital management, accounting and record-keeping, cash flow management, and financial control—are critical determinants of SME performance across both developed and developing economies. The review further highlights that SMEs adopting structured financial planning and modern financial tools tend to exhibit better operational efficiency, improved liquidity management, and enhanced resilience during economic uncertainties. The integration of digital financial technologies and management information systems has emerged as a positive trend, enabling SMEs to improve transparency, accuracy, and timeliness in financial reporting. However, the adoption of such technologies remains uneven due to cost constraints and skill gaps. From a policy perspective, the review underscores the need for targeted interventions by governments, financial institutions, and support agencies to strengthen financial management capabilities within SMEs. Capacity-building programs focusing on financial literacy, simplified accounting frameworks, access to affordable financial advisory services, and the promotion of digital finance can significantly enhance SME financial practices. Additionally, supportive regulatory environments and improved access to credit are essential to encourage formal financial management systems. In conclusion, effective financial management practices are not merely administrative functions but strategic tools that significantly influence the survival and competitiveness of SMEs. Strengthening these practices can lead to improved financial performance, better risk management, and sustainable growth. Future research should focus on longitudinal and sector-specific studies to assess the evolving impact of financial management innovations on SME performance, particularly in the context of digitalization and global economic volatility.

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