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IMPACT OF FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF SMES IN MAIDUGURI METROPOLIS, BORNO STATE, NIGERIA

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Abstract:

Existing research on SMEs in Maiduguri has primarily focused on isolated financial decisions such as investment choices rather than adopting a holistic view. Also, studies on financial management have often neglected the unique and severe challenges faced by SMEs in conflict-affected regions like Borno State. Hence, this study addresses these gaps by examining the impact of financial management practices on the financial performance (FP) of SMEs in Maiduguri Metropolis, Borno State. The research focuses on two key financial management practices: working capital management and financing practices. The study population comprises the top 100 SMEs in the region, with a purposively selected sample of 60 respondents (2 per SME: owner and manager). Primary data were collected using structured questionnaires. Correlation and multiple regression analyses were conducted using SPSS version 25. Thus, the study employed multiple regression analysis, and diagnostic tests confirmed that all regression assumptions (normality, linearity, homoscedasticity, multicollinearity, independence of errors, and absence of outliers) were met, ensuring the validity and reliability of the findings. The results reveal that both financial management practices, working capital management (WCM) ($B = 0.623$, $p = 0.002$) and financing practice ($B = 0.188$, $p = 0.004$), have a statistically significant positive effect on the financial performance of SMEs. Correlation analysis further confirmed a strong positive

relationship between these financial management practices and financial performance. The study concludes that effective financial management practices significantly enhance the financial performance of SMEs in Maiduguri Metropolis. Thus, this study provides empirical evidence that will guide actionable improvements for SMEs in a challenging economic environment. It offers concrete recommendations by demonstrating that enhancing WCM (e.g., optimizing cash flow and inventory) and improving financing strategies are not just theoretical concepts but statistically significant drivers of FP. Also, the findings equip SME owners and managers with a clear focus for intervention and provide financial institutions and policymakers with evidence to tailor accessible financing products and support programs for SMEs in the region. The study therefore recommends that SMEs should improve WCM to enhance liquidity and financial stability, while financial institutions should offer more accessible financing options tailored to SMEs' needs.

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Keywords:

Financial Management, Financial Performance, Maiduguri, SMEs, Working Capital Management



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Introduction

Financial management practices play a pivotal role in the success and sustainability of Small and Medium-Scale Enterprises (SMEs) worldwide. Effective financial management encompasses various activities, including budgeting, financial planning, cash flow management, and investment decisions (Dave, 2018). These practices are essential for optimizing resource allocation, ensuring liquidity, and maximizing profitability. In developed economies, SMEs benefit from well-established financial systems, sophisticated financial tools, and easier access to capital. For instance, in countries like the United States and Germany, SMEs often have access to diverse financial products, robust banking infrastructure, and advanced financial technologies, which facilitate effective financial management and support business growth (Beck, Demirgüç-Kunt & Pería, 2011; Abubakar et al., 2018).

However, the scenario is markedly different in many developing regions, including Africa. SMEs in these areas often struggle with limited access to finance and formal financial services, inadequate financial systems, and economic instability. Also, in this part of the world, financial markets are typically underdeveloped, and financial institutions may be less accessible or hesitant to lend to SMEs due to perceived risks, a lack of collateral, and insufficient credit history. (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2017; Gao et al., 2024; Olawale & Garwe, 2010; Ayyagari, Beck, & Demirgüç-Kunt, 2007). Additionally, SMEs in these regions may face challenges such as poor financial literacy among entrepreneurs, lack of formal financial management training, and inadequate bookkeeping practices (Beck, Demirgüç-Kunt & Pería,

2011). These challenges often result in suboptimal financial management practices, which can adversely affect the financial performance and sustainability of SMEs. For example, SMEs with poor financial management practices often experience cash flow problems, inefficient use of resources, and increased financial risk, which can lead to business failure (Beck, Demirgüç-Kunt & Peria, 2011).

Likewise, in Borno State (i.e., the northern part of Nigeria), SMEs face specific financial management challenges that are exacerbated by the prevailing security situation and socio-economic instability, which have had a profound impact on the SME sector (Musa & Mavifem, 2021). The insurgency in the region has disrupted economic activities, damaged infrastructure, and created an environment of uncertainty for businesses, leading to limited access to financial resources and inadequate infrastructure for SMEs. Also, many businesses struggle with cash flow problems, poor record-keeping, and limited financial planning capabilities due to the unstable environment (Musa & Mavifem, 2021; Dwamena, 2022). These challenges impact the financial performance and sustainability of SMEs in Borno State, making it crucial to understand the role of financial management practices in this context.

More so, existing research has predominantly focused on specific aspects of financial management, such as working capital management, without exploring how different financial management practices interrelate. This fragmented approach limits the ability to address financial management issues comprehensively, hindering improvements in SMEs' overall performance. Previous studies have concentrated on the impact of financial and investment decisions on the financial performance of SMEs in Maiduguri (Yahaya, 2021; Musa, 2018; Saad, Mohammed, Al-Jubari, & Ahamed, (2022). Moses, Kiragu and Riro, 2018), rather than examining the broader effects of financial management practice. This study seeks to fill this gap by exploring the impact of various financial management practices on the financial performance of SMEs in Maiduguri. By examining how different financial management practices are interrelated and their collective influence on financial performance of SMEs, this research aims to provide a more holistic understanding of financial management challenges and solutions for SMEs in Maiduguri. Hence, understanding how financial management practices influence the performance of SMEs in Borno State can provide valuable insights for policymakers, development agencies, and business owners. Efforts to improve financial management practices, enhance access to finance, and support SME growth in Borno State are essential to fostering economic development and resilience amid ongoing challenges. As such, the main objective of the study is to examine the impact of financial management practice on financial performance of Small and Medium Enterprises in Maiduguri.

Literature Review

This section explains the concepts of Small and Medium Enterprises (SMEs), financial management, financial management practices, financial performance, and their relationships.

Financial Performance

According to Muhammad (2014), financial performance is the advantage an organization derives from the tasks it performs and the financial management procedures it follows. It can also be defined by the extent to which the company generates wealth and accumulates resources (Golda, 2013). This can be established by contrasting the anticipated outcomes with any observed deviations. Market performance and returns to stakeholders are the two primary

components of organizational success (Kipngetich, 2016; Abubakar et al., 2024). Performance evaluations of an entity are based on both quantitative and qualitative metrics. The objective of the quantitative indicators is to evaluate the SMEs' financial situation and overall health (Klewitz & Hensen, 2014). The primary goal of the company's financial management is to maximize its wealth.

Small and Medium Enterprises (SMEs)

SME has different definitions in different nations. SMEs are defined as businesses with fewer than ten employees by the National Bureau of Statistics (NBS). Ironically, the NBS classified businesses with up to nine employees as SMEs in their national accounts (Pieterse, 2012). Alternatively, to define SMEs, the NBS combines criteria based on the number of employees and fixed assets. Micro enterprises, then, are those that have one to five employees and fixed assets valued at no more than \$10,000 USD, excluding real estate and buildings. Nonetheless, small businesses employ six to twenty-nine people and have fixed assets of no more than \$100,000 USD, excluding real estate and buildings. However, in Nigeria, an organization is considered a micro-business if it employs fewer than 10 people, a small enterprise if it employs fewer than 50 people, and a medium-sized or large enterprise if it employs more than 50 people. Because of their modest capital investments and limited manufacturing capacity, these companies are considered small.

Financial Management Practices of SMEs

Small and medium-scale businesses need to manage their working capital more carefully than large companies do, especially since they are less likely to have access to financial knowledge. The finance literature has long acknowledged the significance of effective financial management (Agyei, 2012). Although it is just one of numerous functional areas of management, financial management is essential to every small business's success. In general, financial management refers to the management of a company's finances to meet its financial goals. Essentially, mobilizing and utilizing financial resources is the foundation of financial management (Abanis et al, 2013).

According to McMahon (2006), the primary metrics for financial management are Return on Investment, Return on Capital Employed and Return on Assets. When an SME makes a profit and gains a competitive edge, financial performance is reached. Customer satisfaction and workflow improvement are examples of non-financial measures that can be included in qualitative performance evaluations.

Financing Practice

Small companies frequently suffer from a particular financial problem of a lack of a capital base. Small businesses are usually managed by their owners, and available capital is limited, with access to equity markets constrained. In the early stages of their existence, owners find it difficult to build up revenue reserves if the owner-managers are to survive. A question concerns how small businesses determine sources of finance in such difficult circumstances. According to Brigham (1995), modern capital structure theory began in 1958, when Modigliani and Miller's (1958) seminal article on capital structure was published. Since that time, researchers have sought to explain how firms choose their capital structure. Myers (1984) asked: "How do firms choose their capital structure?" The answer is we don't know... we don't know how firms

choose which debt, equity, or hybrid securities to issue. This study was based on capital structure theory and Myers' Pecking

Order Theory (1984). According to Myers (2004), the Pecking Order Theory (POT) suggests that there is no well-defined optimal capital structure; instead, the debt ratio is the result of hierarchical financing over time. The foundation of POT is that firms have no defined debt-to-value ratio. Management prefers internal financing to external financing.

Working Capital Management

Working capital is the funds available for day-to-day SME operations (Raheman & Rizwan, 2018). Working capital management (WCM) refers to the monitoring of the capital available for working and short-term finances (Garrison, 2000). Similarly, according to Tadesse (2016), working capital management is a procedure that allows a business to meet its daily operational needs while remaining liquid. WCM relates to inventory, debtors, and cash management (Nyabwanga, 2011). SMEs' performance depends on optimal WCM. WCM regulates SMEs' liquidity and profitability. SMEs must balance current liabilities with current assets. A mismatch between current assets and current liabilities affects SMEs' growth, liquidity, and profitability (Zariyawati et al., 2009). A mismatch between current assets and current liabilities may temporarily increase SMEs' profitability, but at the risk of insolvency. Too much focus on liquidity will be at the expense of profitability. SMEs face a dilemma in achieving the desired trade-off between liquidity and profitability to maximize their value. Excessive levels of current assets may negatively affect SMEs' profitability, whereas low levels may reduce liquidity and lead to stockouts, thereby disrupting smooth operations (Abdulsaleh & Worthington, 2013).

Financing Practice and Financial Performance

Ali, Rangone and Martín-de Castro (2025) examined the moderating role of debt financing in the relationship between intellectual capital (IC) and small and medium enterprise (SME) performance in high-tech and low-tech industries. This longitudinal study uses a balanced panel sample of 7,293 (3,563 high-tech and 3,730 low-tech) SMEs in Southwestern European countries from 2013 to 2020. The data are analyzed using a fixed-effects model as the baseline estimator, with a generalized method of moments estimator for robustness checks. The results revealed that debt financing is significantly and negatively associated with SME performance. Similarly, Nassim and Benraïss (2024) examined the moderating effects of government subsidies, capital structure, and financial performance of Moroccan Agricultural Small- and Medium-Sized Enterprises. Findings revealed a significant negative relationship between debt and financial performance.

Conversely, Dhanushika (2024) examined the impact of financial management practices (FMP) on the financial performance (FP) of small and medium-sized enterprises (SMEs) in Uva Province, Sri Lanka. Data were gathered from SMEs using a self-administered questionnaire. The researcher collected primary data through self-administered questionnaires from randomly selected SMEs. The analysis employed descriptive statistics, Pearson correlation, and multiple regression, with Cronbach's Alpha confirming the reliability of the data. The study finds significant positive correlations between FMP and the FP of SMEs. Likewise, Gyimah, Owusu-Afriyie and Lussier (2024) examined the effect of microfinance products on the performance of rural businesses in developing economies. The study is survey

research that uses multiple regression models with a sample of 228 small businesses from rural communities. Two regression models were developed and tested. Findings indicate that a Positive and significant effect of micro-loans and micro-savings on performance.

Similarly, Mang'ana, Ndyetabula and Hokororo (2023) conducted a study on the financial management practices and performance of small and medium agricultural enterprises in Tanzania. A total of 427 SMEs in Tanzania's agricultural sector were surveyed and examined. The developed hypotheses were evaluated using Structural Equation Modeling (SEM) with Smart PLS 4 to determine the effect of implementing financial management practices on the performance of agri-SMEs. Findings from the empirical study show that working capital management practices and financing management practices have a significant positive influence on both financial and organizational performance of the surveyed agro enterprises.

In the same vein, Salazar-Elena and Guimón (2019) examined how companies' financial decisions and strategies, and the alignment between them, affected companies' competitiveness. The study was conducted on 202 businesses in the region of Celaya, Mexico, with data collected using a questionnaire. The results show that most micro and small enterprises made funding decisions in similar ways: they used an intensive strategy, had low market longevity, and maintained regular sales levels. This indicated a lack of competitiveness, which hampers their development and expansion. The emphasis the companies placed on certain financial decisions was not always aligned with the business strategies they were implementing. The study concluded that companies that efficiently manage their short-term assets and liabilities were more competitive and had greater market longevity.

Congruently, Njoki (2018) investigated the effects of financing decisions on the financial performance of trading MSEs at the NSE and found that a company's capital structure has a relatively strong effect on its financial performance. Although the finding did not clearly indicate a relationship between financing decisions and firms' financial performance, this study aimed to bridge this gap. As a result of the foregoing, this study hypothesizes that;

H₁: There is a significant relationship between financing practice and financial performance of some Small and Medium-Scale Enterprises in Maiduguri Metropolis

Working Capital Management and Financial Performance

Silva and Silva (2026) examined the relationship between working capital management and the profitability of EU-based SMEs over the period 2012–2022. They find an inverted U-shaped relationship, indicating an optimal level of working capital investment that maximizes corporate profitability. Results show a positive effect of low working capital investment on profitability, which turns negative when such investment exceeds its optimal level.

Likewise, Kukreja (2026) conducted a study titled "Working Capital Management (WCM) and Firm Profitability: Industry-Level Evidence from Indian Service Sector Firms." Based on balanced panel data of 42 listed Indian service firms in the industry in terms of NBFC, IT, Oil and Gas, and Healthcare industries in 2015-2024, and employing fixed effects and random effect panel estimations selected using the Hausman specification test, the research finds that WCM is a highly influential variable on firm performance, but it is achieved via receivables management and liquidity positioning and not the conventional working capital turnover indicators.

Similarly, Fernández-López et al (2026) conducted a study on rethinking the net operating working capital (NWC)-profitability relationship: Insights from industry-specific practices in the olive oil-producing industry. Using dynamic panel data methods on a sample of 811 Spanish SMEs from 2012 to 2022, the analysis reveals that sector-specific characteristics, particularly those related to inventory management, lead to markedly different effects of inventory conversion periods on profitability compared with other industries. The findings demonstrate the need to account for sector-specific factors in the study of the NWC-profitability relationship.

Congruently, Fatunnisa and Tarsono (2026) examined the role of WCM in enhancing the financial performance of PPJ, a state-owned regional enterprise in Indonesia. The study employed a descriptive quantitative approach using financial data from 2021 to 2022. Financial ratios, particularly Return on Assets (ROA), are used as primary indicators of profitability, while working capital turnover, receivable management, and inventory control are analyzed to assess operational efficiency. Findings indicate that effective WCM, particularly in controlling receivables and inventory, significantly improves the company's financial performance. A higher working capital turnover ratio positively affects profitability, as reflected in the increase in ROA.

Also, Dhanushika (2024) examined the impact of financial management practices (FMP) on the FP of small and medium-sized enterprises (SMEs) in Uva Province, Sri Lanka. Data were gathered from SMEs using a self-administered questionnaire. The researcher collected primary data through self-administered questionnaires from randomly selected SMEs. The analysis employed descriptive statistics, Pearson correlation, and multiple regression, with Cronbach's Alpha confirming the reliability of the data. The study finds significant positive correlations between FMP and the FP of SMEs. Improved practices in areas such as WCM are linked to better FP.

In the same vein, Waibe, Salihu and Akudo (2023) assessed the impact of WCM on the FP of small enterprises in Kano, Nigeria. A cross-sectional survey of small-enterprise owners or managers in Kano was conducted using a self-administered questionnaire. Variance-based structural equation modeling statistical technique called partial least squares (PLS) version 4.0. 9.5 was utilized to examine the relationship between WCM and FP. The study's findings indicate that WCM has a statistically significant positive impact on the FP of small enterprises. Specifically, the results show that small enterprises with higher WCM have better FP across sales growth, profitability, liquidity, solvency, and return on assets.

Additionally, Ngeno (2018) carried out a study on the influence of WCM on the FP of SMEs in Nairobi County and found that WCM is a significant determinant of FP among SMEs in Nairobi County and contributes to outstanding outcomes.

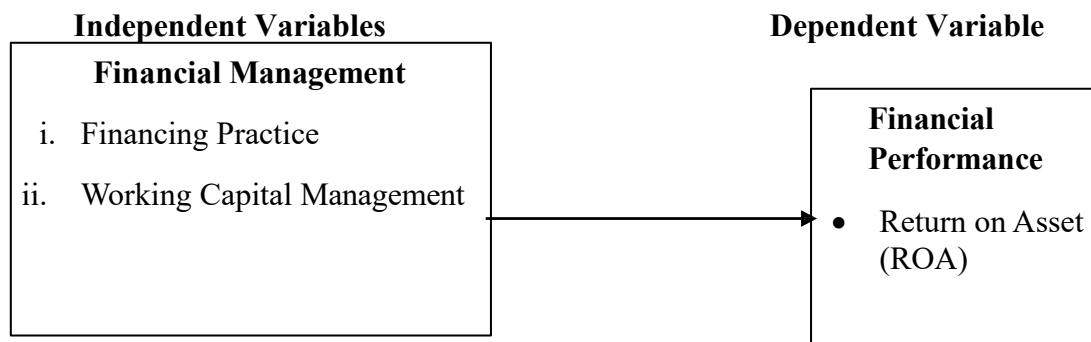
In contrast, Sánchez-Pacheco, Valls-Martínez and Zambrano-Farías (2025) examined the impact of working capital on the performance of microenterprises engaged in wholesale and retail trade in Ecuador. Secondary data from 1,634 companies registered with the Superintendency of Companies, Securities and Insurance in 2023 were used. A statistical prediction technique was employed to identify the working capital elements associated with the performance of the selected firms. The results show that the average collection period and asset turnover did not show significant effects, while higher customer turnover was negatively

associated with financial performance. As a result of the foregoing, this study hypothesizes that;

H₂: There is a significant relationship between working capital management practice and financial performance of Small and Medium-Scale Enterprises in Maiduguri Metropolis

Conceptual Framework

The conceptual framework of this study shows how the components of financial management (Financing and working capital) affect the financial performance (ROA) of some selected SMEs in Maiduguri



Source: Researcher's design (2024)

Material and Methods

Research Design

This study employs a quantitative research approach, focusing on the collection and analysis of numerical data to examine relationships between variables. A descriptive research design was adopted to explore the impact of financial management on the financial performance of SMEs in Maiduguri Metropolis, Borno State. Respondents, consisting of business owners and managers, were selected using purposive sampling. Data were gathered through a structured questionnaire with Likert-scale items. Cronbach's alpha was used to assess the questionnaire's internal consistency by measuring the average correlation among its items. A threshold value of 0.7 or higher was considered acceptable for reliability. Multiple regression analysis was applied to analyze the data.

The study population comprises the top 100 SMEs in the Maiduguri Metropolis. This group was selected based on their prominence, financial activity, and the availability of reliable information about their operations. The study specifically targeted the managers and owners of these SMEs, as they were the most knowledgeable about financial management practices. Their selection was based on their direct involvement in decision-making and financial operations within their businesses.

Table 1: Target Population

Stratum	Target Population
Service	30
Wholesale	39
Retail	10
Transport	4
Infrastructure/Construction	4
ICT	5
Tourism	3
Agriculture	5
Total	100

Source: NBS, (2023)

Table 1 provides a detailed breakdown of the target population across different industry strata within the top 100 SMEs in Maiduguri Metropolis. The Service sector, comprising 30 SMEs, represents the second-largest portion of the target population. This sector includes businesses in healthcare, education, finance, and professional services, all of which require robust financial management practices. The Wholesale sector, with 39 SMEs, which is the most significant component of the target population. This sector typically involves businesses that supply goods to retailers and other commercial entities, necessitating effective inventory, credit, and cash flow management. The Retail sector, represented by 10 SMEs, comprises businesses that sell goods directly to consumers, for which financial management is crucial to maintaining profitability, especially in a competitive market.

The Transport sector, comprising 4 SMEs, provides transportation and logistics services, including delivery. Efficient financial management in this sector is vital for managing operating costs and ensuring sustainability. The Infrastructure/Construction sector, with 4 SMEs, comprises businesses involved in construction and infrastructure development, where financial management practices are critical for large-scale project management, budgeting, and cost control. The Information and Communication Technology (ICT) sector, which also includes 5 SMEs, comprises businesses focused on technology products and services, for which effective financial management is essential for innovation and growth. The Tourism sector, represented by a 3 SME, is likely small but significant, with financial management important for managing seasonal fluctuations and maximizing profitability. The agriculture sector, also represented by a 5 SME, comprises businesses related to farming and food production, where financial management practices are crucial for resource allocation and sustainability.

This distribution highlights the diverse nature of the SME sector in Maiduguri, encompassing a wide range of industries. The comprehensive coverage of these strata in the study provides a holistic understanding of financial management practices across sectors, contributing to the robustness of the research findings. By targeting SMEs across various industries, the study

aims to capture the unique challenges and practices within each sector, leading to more accurate and generalizable conclusions.

Kothari (2004) defines sample size as the specific number of units selected from a population for a study, while sampling refers to the technique of choosing a representative subset in a fair, unbiased manner. According to Mugenda and Mugenda (2003), a sample size of 10%–30% of the target population is considered adequate for a study. Based on this guideline, the study employed a purposive sampling technique to select 30 SMEs from the top 100 SMEs in the Maiduguri Metropolis. The total sample size consisted of 60 respondents, with two respondents from each SME (one owner and one manager). Purposive sampling was used because it ensured the selection of respondents with specialized knowledge in financial management, aligned with the research objectives, addressed practical constraints (logistical challenges, security concerns, and limited resources), and ensured representation across key industry sectors.

Model Specification

The model is specified as $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$

Where Y= Financial Performance (DV)

Where X= Financial Management Practice (IV)

Where FP= Financing Practice (denoted by X1)

Where WC= Working Capital Management Practice (Denoted by X2)

β = coefficient

ε =error term

Data Analysis

Data were analyzed using both descriptive and inferential statistics. Descriptive statistics, such as frequency distributions, tables, and percentages, were used to summarize the data, while inferential statistics, including the mean and standard deviation, were used to interpret patterns. The results were presented using tables. To determine the association between variables. Multiple regression analysis was conducted using SPSS Version 25.

Table 2: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	92.953	3	30.984	259.857	.000 ^b
	Residual	15.986	56	.285		
	Total	106.939	59			

Source: FIELD WORK, 2024.

The ANOVA results indicate that the regression model is highly significant. The F-value of 259.857 is large, suggesting that the predictors (working capital management and financing practice) explain a significant portion of the variance in the dependent variable (financial performance). The p-value of 0.000 is much smaller than 0.05, indicating strong statistical significance and leading to the rejection of the null hypothesis. This means that the regression model as a whole is significantly related to financial performance, but further analysis. The Sum of Squares for Regression (92.953) indicates that the model explains a significant portion

of the total variance in financial performance, while the residual sum of squares (15.986) represents the remaining unexplained error. The Mean Square for Residual is 0.285, which is relatively small, further suggesting that the model fits the data well with minimal error. Overall, the results demonstrate that the model effectively explains variation in financial management practices.

Table: 3 Correlation Coefficient

Variables	SMEs	WC	FP
FPS	1		
FP	.621** .000	.523** .000	1
WC	.812** .000	1	.816** .000

****.** Correlation is significant at the 0.01 level (2-tailed).

The Pearson correlation results in Table 3 show that all constructs are significantly and moderately correlated with one another in SMEs. Specifically, the correlation between SMEs' financial performance and working capital is 0.812, indicating a strong positive relationship. Similarly, the financial performance of SMEs is positively correlated with financing practice (0.621), indicating a moderate to very strong positive relationship, all of which are statistically significant. The relationships between working capital and financing practice (0.523). Furthermore, the financing practice-working capital pair shows a strong positive correlation of 0.816, confirming a robust relationship. These findings suggest that the variables financial performance, financing practice, and working capital are all positively related to each other, with the strength of these relationships ranging from moderate to very strong,

Table 4: Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.818 ^a	.619	.607	.34763

Predictors: (Constant) financing practices and working capital
Source: FIELD WORK, 2024.

Multiple Regression Results

To ensure the validity of the multiple regression analysis, several key assumptions were tested. The normality of residuals was assessed using the Shapiro-Wilk test and visual inspection of Q-Q plots. The linearity assumption was evaluated through partial regression plots and the Ramsey RESET test. Homoscedasticity was examined using the Breusch-Pagan test and plots of residuals against fitted values. Multicollinearity was assessed using Variance Inflation Factor (VIF) and Tolerance values, with $VIF < 10$ and $Tolerance > 0.10$ indicating no significant multicollinearity. The independence of errors was tested using the Durbin-Watson statistic, with values close to 2 indicating no autocorrelation. Outliers were identified using Mahalanobis distance and Cook's distance; no influential cases exceeded the thresholds. All

assumptions were met, confirming the appropriateness of the multiple regression model for this study (Gujarati & Porter, 2009; Tabachnick & Fidell, 2007)."

Thus, the study employed multiple regression analysis, and diagnostic tests confirmed that all regression assumptions (normality, linearity, homoscedasticity, multicollinearity, independence of errors, and absence of outliers) were met, ensuring the validity and reliability of the findings. Hence, Table 4 reports the results of the multiple regression analysis of the variables under investigation, estimated using maximum likelihood. The adjusted R-squared is 60.7%, indicating that the constructs (working capital and financing practices) explain 60.7% of the variation in the dependent variable (SMEs' financial performance), while 39.3% is explained by other variables not considered in this study, with a statistical significance of 0.000. This result is consistent with several previous studies, including Kamunge, Njeru, and Tirimba (2014), Salazar-Elena and Guimón (2019), and Ngeno (2018), which found that financial management practices and SMEs' financial performance are positively associated.

Test of Hypothesis

H₁: There is a significant relationship between financing practice and financial performance
Table 5: Provide a summary of multiple regression for the effect of financing practice on the financial performance of SMEs in Maiduguri Metropolis, Borno State. The coefficient for financing practice (B=0.188B, p=.004 indicates a positive relationship between financing practice and financial performance, meaning that an increase in financing practice will enhance financial performance. Since the p-value is less than 0.05, the result is statistically significant. Therefore, the null hypothesis (H₂), which stated that financing practice has no significant effect on financial performance, is hereby rejected at the 0.05 level of significance. It can be concluded that financing practice has a significant effect on financial performance.

H₂: There is a significant relationship between working capital management and financial performance

Table 5: Provide a summary of simple linear regression for the effect of working capital management on the financial performance of SMEs in Maiduguri Metropolis, Borno State. The coefficient for Working capital management (B=0.623B, P=.002 indicates a positive relationship between Working capital management and financial performance, meaning that an increase in Working capital management is associated with improved financial performance. Since the p-value is less than 0.05, the result is statistically significant. Therefore, the null hypothesis (H₁), which stated that working capital management has no significant effect on financial performance, is hereby rejected at the 0.05 level of significance. It can be concluded that working capital management has a significant effect on financial performance.

Table 5: Regression Coefficients Of Hypotheses

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	5.342	.268		16.396	.000
WC	.623	.074	.506	10.316	.002
FP	.188	.012	.150	2.300	.004

a. Dependent Variable: Financial Performance

Table 5 shows that financial performance is predicted to be 5.342 when the independent variables in the model (working capital management and financing practice) are assumed to be zero. In addition to the constant 5.342, X1 (Working Capital Management) and X2 (Financing Practice) have unstandardized beta coefficients of 0.623 and 0.188, respectively. This implies that a 1-unit increase in X1 (Working Capital Management) is associated with a 0.623 improvement in Y (Financial Performance). For every one unit increase in X2 (Financing Practice), there is an increase of 0.188 in Y (Financial Performance). β_1 and β_2 indicate a positive relationship between X1 (Working Capital) and X2 (Financing Practice) and Y (Financial Performance).

Discussion of Findings

The first hypothesis assessed the impact of working capital management on the financial performance of SMEs in Maiduguri Metropolis, Borno State, based on the views of owners and managers. The results, as indicated by both descriptive and inferential statistics (multiple regression), show that working capital management affects financial performance. The model was significant, indicating that working capital has a significant effect on the financial performance of SMEs. This finding concurs with the views of Silva and Silva (2026), Fernández-López et al (2026), Kukreja (2026), Fatunnisa and Tarsono (2026), Dhanushika (2024), Waibe, Salihu and Akudo (2023), Ngeno (2018) and Nthenge and Ringera (2017), who asserted that working capital management enhances the financial performance of SMEs. Similarly, Somathilake and Pathirawasam (2020) established a positive association between working capital and financial performance; their findings revealed that effective working capital management significantly improves financial performance. However, findings by Sánchez-Pacheco, Valls-Martínez and Zambrano-Farías (2025) failed to corroborate these views.

The second finding of this study showed that financing practice has a significant effect on financial performance of SMEs in Maiduguri Metropolis, Borno State. Financing practice plays a crucial role in determining the overall profitability and sustainability of SMEs. This finding is consistent with Dhanushika (2024), Gyimah, Owusu-Afriyie and Lussier (2024) Mang'ana, Ndyetabula and Hokororo (2023), Salazar-Elena and Guimón (2019) and Njoki (2020), who stated that financing practices are a key factor influencing the financial success of small and medium enterprises. Similarly, consistent with the Pecking Order Theory (Myers, 1984), there is a significant positive relationship between financing practices, particularly the preference for internal financing over external debt, and the financial performance of Small and Medium-Scale Enterprises in Maiduguri Metropolis. SMEs that prioritize internal funds (retained

earnings) and adopt a hierarchical approach to financing are expected to demonstrate superior financial performance due to lower transaction costs, reduced information asymmetry, and enhanced financial stability. However, the findings by Ali, Rangone and Martín-de Castro (2025) and Nassim and Benraïss (2024) contradicted this view.

Conclusion and Recommendations

This study explored the factors affecting financial performance of Small and Medium Enterprises (SMEs) in Maiduguri Metropolis, Borno State, focusing on working capital and financing practices. The findings revealed that working capital plays a significant role in enhancing the financial performance of SMEs. Effective management of working capital is crucial for improving profitability and sustaining business operations. The study also showed that financing practices have a notable impact on the financial success of SMEs, with proper financing strategies being essential for long-term growth and stability. Similarly, this study, grounded in the Pecking Order Theory (Myers, 1984), provides empirical evidence that financing practices significantly influence the financial performance of SMEs in Maiduguri Metropolis, Borno State. The findings demonstrate that SMEs that adopt financing practices consistent with the POT hierarchy, prioritizing internal financing, strategically managing debt, and avoiding costly external equity, achieve superior financial performance ($\beta = 0.188$, $p = 0.004$). This theoretical integration enriches the understanding of financial management in the SME sector by offering a behavioral explanation for how financing decisions affect performance. Overall, the study emphasizes the importance of efficient working capital management and strategic financing decisions in driving the financial success of SMEs. These factors are key to ensuring the sustainability and competitiveness of SMEs in the region.

Based on the findings of the study, the following recommendations were made:

1. **Improvement of Working Capital Management:** SMEs should focus on enhancing their working capital management by efficiently managing cash flow, inventory, and receivables. Effective working capital management will improve liquidity, enabling SMEs to meet their short-term obligations and capitalize on growth opportunities. Regular assessments and adjustments to working capital practices will help SMEs maintain financial stability.
2. **Enhancement of Financing Practices:** SMEs need to improve their financial management to better balance current assets and liabilities, which will make them more attractive to banks and other financial institutions. Furthermore, SMEs should seek financial products that cater to their specific needs, such as low-interest loans with flexible repayment terms. Financial institutions are encouraged to develop more accessible financing options for SMEs, taking into account their unique challenges.
3. **Focus on Improving Financial Performance:** SMEs should continuously evaluate and improve their financial performance by setting clear financial goals, using key performance indicators (KPIs), and regularly reviewing financial statements. Adopting sound financial practices, such as budgeting, cost control, and profitability analysis, will allow SMEs to make informed decisions, optimize resource allocation and ultimately enhance their overall financial performance and sustainability.

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