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FINANCIAL MANAGEMENT PRACTICES AND THE ECONOMIC SUSTAINABILITY OF SMALL AND MEDIUM ENTERPRISES

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Abstract. *Small and medium enterprises (SMEs) represent a crucial element of today's economy, significantly contributing to employment creation, wealth creation, innovation, and local economic development. Nevertheless, the sustainable economic performance of such firms is often hindered by poor financial management, lack of proper cash flow management, ineffective working capital management, poor financial information, and limited availability of external financing. This paper explores the relationship between financial management and the economic sustainability of SMEs using an organized review of the existing literature on the subject matter. Special focus is placed on financial planning and budgeting, cash flow management, working capital management, financial information systems, capital structure, financial risk management, and investment appraisal. The analysis emphasizes that financial management should be considered not only as an accounting tool but as a strategic skill of the organization, which defines its ability to ensure its liquidity, profitability, funding of growth activities, coping with economic crises, and sustainable performance. Research demonstrates that better financial management positively affects the decision making process and performance. Recent studies also suggest that the link between the investment in working capital and profitability might be nonlinear, implying that SMEs have to aim for optimal liquidity. The study recommends an integrated model where financial planning, working capital effectiveness, information quality, financing, investment appraisal, and risk management together determine the economic sustainability of SMEs.*

Keywords. *Financial management practices; small and medium enterprises; SME sustainability; working capital; financial planning; cash-flow management; financial performance; financial resilience.*

Annotatsiya. *Kichik va o'rta korxonalar (KO'K) zamonaviy iqtisodiyotning muhim elementi bo'lib, ular ish o'rinlarini yaratish, boylik hosil qilish, innovatsiyalar va mahalliy iqtisodiy rivojlanishga katta hissa qo'shadilar. Shunga qaramay, bunday firmalarning barqaror iqtisodiy samaradorligi ko'pincha moliyaviy boshqaruvning*



sustligi, pul oqimlarini to'g'ri boshqarmaslik, aylanma mablag'larni samarasiz boshqarish, moliyaviy axborot sifati pastligi va tashqi moliyalashtirish manbalarining cheklanganligi tufayli to'sqinlik qiladi. Ushbu maqolada moliyaviy boshqaruv va KO'Kning iqtisodiy barqarorligi o'rtasidagi bog'liqlik mavjud adabiyotlarni tizimli sharhlash asosida o'rganiladi. Asosiy e'tibor moliyaviy rejalashtirish va byudjetlashtirish, pul oqimlarini boshqarish, aylanma mablag'larni boshqarish, moliyaviy axborot tizimlari, kapital tarkibi, moliyaviy risklarni boshqarish va investitsiyalarni baholashga qaratilgan. Tahlil shuni ko'rsatadiki, moliyaviy boshqaruv faqat buxgalteriya vositasi sifatida emas, balki tashkilotning strategik mahorati sifatida qaralishi kerak, chunki u likvidlikni, rentabellikni, o'sish faoliyatini moliyalashtirishni, iqtisodiy inqirozlarni yengishni va barqaror natijadorlikni ta'minlash qobiliyatini belgilaydi. Tadqiqotlar shuni ko'rsatadiki, moliyaviy boshqaruvning yaxshilanishi qaror qabul qilish jarayoniga va natijadorlikka ijobiy ta'sir ko'rsatadi. So'nggi tadqiqotlar, shuningdek, aylanma mablag'larga investitsiya va rentabellik o'rtasidagi bog'liqlik chiziqli bo'lmasligi mumkinligini ta'kidlaydi, bu KO'Klarning optimal likvidlikka erishishga intilishi kerakligini bildiradi. Tadqiqot moliyaviy rejalashtirish, aylanma mablag'lar samaradorligi, axborot sifati, moliyalashtirish, investitsiyalarni baholash va risklarni boshqarish birgalikda KO'Klarning iqtisodiy barqarorligini belgilaydigan integratsiyalashgan modelni tavsiya qiladi.

Kalit so'zlar: moliyaviy boshqaruv amaliyotlari; kichik va o'rta korxonalar; KO'K barqarorligi; aylanma mablag'lar; moliyaviy rejalashtirish; pul oqimlarini boshqarish; moliyaviy natijadorlik; moliyaviy chidamlilik.

Аннотация. Малые и средние предприятия (МСП) представляют собой важнейший элемент современной экономики, внося значительный вклад в создание рабочих мест, прирост благосостояния, инновации и местное экономическое развитие. Тем не менее, устойчивая экономическая эффективность таких фирм часто сдерживается неудовлетворительным финансовым менеджментом, отсутствием надлежащего управления денежными потоками, неэффективным управлением оборотным капиталом, низким качеством финансовой информации и ограниченной доступностью внешнего финансирования. В данной статье исследуется взаимосвязь между финансовым менеджментом и экономической устойчивостью МСП на основе систематизированного обзора существующей литературы по данной теме. Особое внимание уделяется финансовому планированию и бюджетированию, управлению денежными потоками, управлению оборотным капиталом, системам финансовой информации, структуре капитала, управлению финансовыми рисками и оценке инвестиций. Анализ подчеркивает, что финансовый менеджмент следует рассматривать не только как учетный инструмент, но и как стратегический навык организации, определяющий ее способность обеспечивать ликвидность, рентабельность, финансирование деятельности по росту, преодоление экономических кризисов и устойчивую результативность. Исследования показывают, что улучшение финансового менеджмента положительно влияет на процесс принятия решений и



результативность. Недавние исследования также указывают на то, что связь между инвестициями в оборотный капитал и рентабельностью может быть нелинейной, что предполагает необходимость для МСП стремиться к оптимальной ликвидности. В исследовании рекомендуется комплексная модель, в которой финансовое планирование, эффективность использования оборотного капитала, качество информации, финансирование, оценка инвестиций и управление рисками совместно определяют экономическую устойчивость МСП.

Ключевые слова: *практики финансового менеджмента; малые и средние предприятия; устойчивость МСП; оборотный капитал; финансовое планирование; управление денежными потоками; финансовая результативность; финансовая устойчивость.*

INTRODUCTION

Small and medium enterprises (SMEs) are one of the most critical aspects of today's economic systems. They contribute to wealth creation at the household level, creation of jobs, competition, innovation, entrepreneurship, and development of economies. According to the World Bank, SMEs represent a huge source of employment and economic activity on a global scale. Due to their importance, managers and policymakers have serious worries regarding the financial viability of SMEs.

Despite their importance to the economy, SMEs are faced with serious financial difficulties. Small enterprises have fewer financial resources, have less negotiation power with their suppliers and banks, have a less diversified revenue stream and, therefore, are more prone to fluctuations in their operating costs and demand in comparison with large enterprises. This way, financial management has a special meaning for the stability and viability of the companies.

Financial sustainability does not merely rely on the volume of business resources available. Instead, it relies on the effectiveness of the business's planning, management, and controlling of business resources. The business may access loans and investment, yet it is still vulnerable to financial difficulties. This situation may occur in the event of having poor budgeting practices, unnecessary stockpiling of inventory, poor collection of payments, inadequate cash-flow predictions, and unsuitable debt structure. In addition to that, the significance of the above-mentioned problems cannot be underestimated in the face of inflation, higher prices for borrowing money, supply-chain problems, advances in technology, and overall uncertainty. According to the information provided by OECD, the rising inflation and stricter rules for lending increase the problems that SMEs might be facing when it comes to financing, therefore incurring higher costs of borrowing money (OECD, 2024).

Working-capital management proves to be extremely vital since SMEs rely heavily on the internally generated funds and short-term loans that support day-to-day operations. Late payments from the clients, excess stocks, and poorly managed terms from suppliers can create immediate liquidity challenges even if the company has shown an accounting profit.



The aim of this paper is to explore the effects of financial management techniques on the economic sustainability of SMEs. The paper highlights the importance of financial planning, cash-flow management, working-capital management, accounting information, capital structure, investment evaluation, and risk management. Additionally, it proposes an integrated framework that connects these techniques with liquidity, profitability, efficiency, resilience, and long-term growth.

LITERATURE REVIEW

Financial management refers to the planning, acquisition, allocation, application, and supervision of financial assets in a company. In SMEs, financial decisions are often closely associated with owner-managers because they may run the business without having special finance departments. Thus, the practical implementation of financial management skills is vital.

Musah, Gakpetor, and Pomaa (2018) examined financial management through working-capital management, capital-structure management, accounting information and reporting, and capital budgeting and fixed-asset management. Their empirical study of SMEs in Accra reported relationships between these financial-management practices and profitability and growth. Similar evidence from Sri Lanka indicates significant associations between financial management practices and SME performance, particularly fixed-asset management, working-capital management, and accounting information systems.

Financial planning and budgeting provide a foundation for resource allocation. A budget enables managers to estimate revenues, costs, cash requirements, financing needs, and investment requirements. Cash budgets are especially important because accounting profitability does not necessarily correspond to cash availability. A business can be profitable and still experience cash flow problems due to customers not paying their bills.

The management of working capital includes cash, receivables, payables, and inventories. García-Teruel and Martínez-Solano (2007) conducted a study on Spanish small and medium-sized enterprises and illustrated how reducing inventories, receivables, and the cash conversion cycle can increase profitability. However, recent research indicates that it is necessary to keep working capital investments at an optimal level and that an excessive reduction might also be detrimental. It should be emphasized that the goal of managing working capital should not be just to minimize it.

Accounting information is of vital importance as well. Financial statements contain information regarding profitability, liquidity, cash flows, and assets and liabilities, which will be useful for small and medium-sized enterprises not only when it comes to tax and reporting issues but also planning, monitoring their performance, and making financial decisions.

Capital structure also affects sustainability. Debt can finance growth, but excessive debt creates fixed repayment obligations and increases financial risk. SMEs therefore need to evaluate interest rates, repayment schedules, collateral requirements, debt-service capacity, maturity structure, and currency exposure.



Finally, investment appraisal and financial-risk management help protect scarce SME resources. Investment decisions should consider expected cash flows, costs, risks, and alternative uses of capital, while risk management should address liquidity, credit, interest-rate, foreign-exchange, and market risks.

RESEARCH METHODOLOGY

This article follows the literature-review qualitative analysis approach. The study did not seek to obtain any primary data through survey research but instead, aims to process and synthesize existing theoretical and empirical knowledge regarding financial management practices and SME economic sustainability. The reviewed literature was grouped into six thematic areas: planning and budgeting, cash-flow management, financing, financial and accounting information, capital structure and funding decisions, and investment and financial-risk management.

Economic sustainability refers to the ability of an SME to perform its activities, achieve reasonable profitability, fulfil its financial obligations, withstanding various economic shocks and business development. The analysis is based on the premise that financial management practices affect economic sustainability through the quality of financial decisions concerning liquidity, profitability, effectiveness and financial stability. Thus, the mechanism can be represented through the following path: Financial Management Practices → Quality of Financial Decisions → Liquidity, Profitability, Effectiveness and Financial Resilience → Economic Sustainability. The study is founded on articles published in scholarly and reputable worldwide publications such as OECD and the World Bank. No primary survey results are reported, which is why no fictitious regression coefficients, statistics or other empirical results are provided in the paper.

RESULTS AND DISCUSSION

Financial planning is said to provide the ground for the rest of the practices in finance management. Businesses that don't have a system for making plans will rely on their reactions to circumstances rather than will have the business resources used effectively in accordance with long-term targets. Financial planning is essential for optimizing the allocation of resources, readiness for crises, and strategic decisions connected with growth.

Management of cash flow is one of the most straightforward ways of linking financial management to sustainability. It is important for a small or medium enterprise to make cash flow forecasts regularly, keep track of profit and losses, study the turnover of inventories, find out the seasonal needs of customers, ensure a certain amount of cash balance, and compare it to the actual cash flows. Rapid growth may create liquidity problems since sometimes the business needs to pay for inventory, manpower, and fixed assets before customers pay the invoices.

Managing working capital efficiently is directly related to successful operation of a company. Poor management of receivables results in greater time needed to receive cash after the sale, while overaccumulating the inventory prevents the company from using the acquired funds efficiently. At the same time, overly aggressive reductions in inventory or credit availability may negatively affect sales. García-Teruel and Martínez-Solano (2007) found that shorter cash-conversion cycles were associated



with higher SME profitability. Recent evidence also supports an optimal rather than unlimited level of working-capital investment.

Access to finance is important, but finance alone does not guarantee sustainability. SMEs with weak accounting records, poor cash-flow forecasting, or inadequate investment appraisal may use borrowed funds inefficiently. Strong internal financial capability can also improve an enterprise's ability to demonstrate creditworthiness to financial institutions.

Capital-structure decisions should balance the benefits of external financing against repayment obligations and financial risk. Borrowing to purchase productive equipment that generates additional cash flow can be economically justified, while borrowing to cover persistent operating losses without restructuring the business model may increase vulnerability.

Investment appraisal converts financial resources into productive capacity. SMEs should evaluate proposed investments using techniques such as payback period, accounting rate of return, net present value, internal rate of return, and profitability index. Even simplified investment appraisal can prevent scarce capital from being committed to low-return assets.

Financial risk management is also essential because SMEs generally have fewer reserves and less capacity to diversify risk than large firms. Managers should identify major risks, estimate their effects, determine acceptable exposure levels, implement mitigation measures, and monitor risks continuously.

Integrated Framework for SME Economic Sustainability. The integrated approach to the management of financial matters for SMEs is confirmed by the observations made. Firstly, financial planning and budget-making lead to better distribution of resources; secondly, cash-flow management lends assurance of liquidity; thirdly, effective working-capital management permits the company to function efficiently; fourthly, accounting information contributes to quality decision-making; fifthly, capital structure management minimizes financial risks; sixthly, investment appraisal guarantees positive growth; seventhly, risk management enhances the resilience of the company.

Economic sustainability should be estimated considering such indicators as profitability, liquidity, operational efficiency, solvency, growth, resilience, and investment capacity. It is easy to understand that a company that is profitable can be considered unsustainable if it suffers from a shortage of cash repeatedly. On the other hand, a company can be liquid, but, at the same time, it can be unsustainable as well due to the lack of profitability rendered by assets.

The integral approach can be represented in the following way: Financial Planning + Cash Flow Management + Working Capital Management + Accounting Information + Capital Structure + Investment Appraisal + Risk Management → Higher Quality of Financial Decisions → Improved Profitability and Liquidity.

Managerial and Policy Implications. SME executives must implement basic financial management systems regardless of the size of their business. Every small and medium-sized enterprise (SME) must keep accurate financial records and make regular cash flow forecasts. Debtors must be probed constantly through clear payment rules



and customer credit policies. Inventory must be controlled based on demand and turnover. Borrowing must be assessed based on the repaying capacity and the purpose of spending. Investment decisions must be made based on the expected profits and risks, and backup plans must be created to deal with declining sales, growing input prices, increasing interest rates as well as disruptions in supply chains.

Policies are equally relevant. SME development schemes must connect financing with literacy schemes, accounting, digital financial solutions as well as managerial training. Evidence presented by OECD suggests the importance of diversity in finance sources as well as policies aimed at ensuring resilience among SMEs in the environment of changing financial conditions (OECD, 2024). Financial institutions can offer consultancy solutions, digital accounting tools, and cash flow monitoring services along with lending.

These steps are especially needed in developing nations where SMEs contribute to significant business volume and jobs while facing significant financial restrictions.

CONCLUSION

This article focuses on the given subject of the link between the financial management practices and the economic sustainability of SMEs. The process shows that financial management is a multifaceted organizational ability that involves financial planning, budgeting, cash-flow management, management of working capital, accounting data, financing choices, investment assessment, and managing financial risk.

The ultimate conclusion is that having access to financial resources alone is not a guarantee of SME sustainability. Financial resources need to be converted into economic results through proper managerial actions. Working capital management is integral because it affects liquidity, efficiency, and profitability.

Research on SMEs gives evidence that effective management of inventory and accounts receivable together with managing cash conversion cycle positively influences profitability, whilst the latest studies prove that it is a need to have optimal working capital rather than excessive one.

Financial planning and budgeting are crucial processes to achieve this objective, as they allow SMEs to forecast financial needs and plan the spending and allocation of resources in the right way. Accounting information makes these processes more effective and improves managerial decisions.

For policymakers, the findings suggest that SME-development strategies should integrate access to finance with financial-literacy programs, accounting support, digital financial tools, and managerial training. Future empirical research could test the proposed framework using firm-level panel data, particularly in emerging economies, and examine whether financial-management capabilities moderate the relationship between access to finance and SME survival, profitability, employment growth, and resilience.

Overall, the economic sustainability of SMEs depends not simply on how much financial capital they possess, but on how effectively they plan, allocate, monitor, and protect that capital.



Table 1. Financial Management Practices and Their Contribution to SME Sustainability

Practice	Primary objective	Sustainability effect
Financial planning	Forecast revenues, costs and financing needs	Improves preparedness and resource allocation
Budgeting	Control planned expenditure	Reduces unnecessary costs
Cash-flow management	Maintain adequate liquidity	Reduces insolvency risk
Receivables management	Accelerate cash collection	Improves liquidity
Inventory management	Avoid excessive stock	Releases tied-up capital
Payables management	Optimize supplier payments	Supports liquidity
Accounting information	Improve financial visibility	Strengthens decision-making
Capital structure	Balance debt and equity	Controls financial risk
Investment appraisal	Select productive investments	Supports long-term growth
Risk management	Reduce exposure to shocks	Improves resilience

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