

Financial Literacy and Investment Decisions of Small and Medium Enterprises in Nigeria

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Abstract: This study investigates financial literacy and investment decisions of Small and Medium Enterprises (SMEs) in Nigeria. Specifically, it examines the relationship between financial knowledge and sales growth, financial attitude and investment outcomes, and regulatory awareness and investment choices. Using a quantitative research design, data were collected from 109 SME managers through an online structured survey. Descriptive and inferential statistical analyses, including Pearson correlation, were employed to test the hypotheses. The findings reveal a strong positive correlation between financial knowledge and sales growth ($r = 0.893$, $p < 0.01$), indicating that enhanced financial literacy significantly improves business performance. Financial attitudes, particularly continuous learning and risk-taking, positively influence investment outcomes, though risk aversion remains prevalent due to Nigeria's volatile economic environment. Additionally, awareness of financial regulations shows a significant positive relationship with investment choices ($r = 0.904$, $p < 0.01$), guiding SMEs toward more compliant and secure investments. The study recommends targeted financial literacy programs, improved access to affordable professional financial advice, and enhanced regulatory awareness initiatives to strengthen SME performance and sustainability in Nigeria.

Keywords: Financial literacy, financial knowledge, financial attitude, regulatory awareness, investment decisions, SMEs, Nigeria.

1. Introduction

Nigeria is the largest economy in Sub-Saharan Africa, with GDP growth of 3.4% in 2021 (Olurounbi, 2022). SMEs constitute 96.9% of all businesses, employ 87.9% of the workforce, and contribute 46.31% to GDP (National Bureau of Statistics, 2021). Despite their significance, many Nigerian SMEs struggle with sound investment decisions, largely due to inadequate financial literacy.

Financial literacy the understanding of financial concepts such as budgeting, investing, and risk management is critical for SME viability (Kumari, 2020). However, research on financial literacy has predominantly focused on individuals or large corporations, leaving a significant gap in understanding its specific effects on SMEs in developing economies like Nigeria (Ye & Kulathunga, 2019).

This study addresses that gap by examining how financial knowledge, financial attitudes, and regulatory awareness influence SME investment decisions. Grounded in the Theory of Planned Behavior (TPB) (Ajzen, 1991) and the Resource-Based View (RBV) (Barney, 1991), the research aims to provide actionable insights for enhancing SME performance.

1.1 Research Objectives

1. To ascertain the impact of financial knowledge on the sales growth of SMEs in Nigeria.
2. To ascertain the impact of financial attitude on the investment outcomes of SMEs in Nigeria.

3. To assess how awareness of financial regulations influences the investment choices of SMEs in Nigeria.

1.2 Hypotheses

- **H₁:** There is no significant relationship between financial knowledge and sales growth of SMEs in Nigeria.
- **H₂:** There is no significant relationship between financial regulations and investment choices of SMEs in Nigeria.

2. Literature Review

2.1 Conceptual Framework

Financial Knowledge and Business Performance: Financial literacy knowledge of financial statements, budgeting, and investment—has been shown to directly correlate with business success (Hwang & Park, 2023). However, in volatile economies like Nigeria, external factors such as inflation and regulatory changes may moderate this relationship (Hussain et al., 2018).

Financial Attitude and Investment Outcomes: A proactive financial attitude including prudent risk-taking and strategic planning—enhances investment performance (Jappelli & Padula, 2013). However, cultural factors and uncertainty avoidance may lead to conservative financial behaviors among Nigerian SMEs (Bonna & Amoah, 2019).

Regulatory Awareness and Strategic Investment: Awareness of financial regulations helps SMEs avoid legal risks and make compliant investment decisions (Turyakira, 2018). In developing

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economies, regulatory unpredictability can complicate compliance, making awareness even more critical (Blind, 2016).

2.2 Theoretical Framework

The **Theory of Planned Behavior (TPB)** (Ajzen, 1991) posits that human behavior is guided by attitudes, subjective norms, and perceived behavioral control. This framework is particularly relevant for understanding how SME owners' financial attitudes and perceived control over regulatory compliance influence their investment decisions.

2.3 Literature Gap

Previous studies (Esiebugie et al., 2018; Irikefe & Opusunju, 2021; Ibitomi et al., 2024) have established positive relationships between financial literacy and SME performance. However, they have not adequately explored the distinct roles of financial attitude and regulatory awareness in shaping investment decisions. Furthermore, geographical bias toward urban centers limits the generalizability of findings. This study addresses these gaps by examining the nuanced effects of financial literacy components across diverse Nigerian SMEs.

3. Methodology

3.1 Research Philosophy and Design

This study adopts a positivist epistemology, emphasizing observable and quantitative evidence (Omodan, 2022). A quantitative research design was employed, using a structured online survey to collect data from SME managers across Nigeria.

3.2 Sampling and Data Collection

A convenience sampling technique was used to select 150 SME owners/managers. A total of 109 valid responses were received (72.7% response rate). The survey comprised closed-ended questions using a 5-point Likert scale (Strongly Agree to Strongly Disagree), measuring financial knowledge, financial attitude, regulatory awareness, sales growth, and investment choices.

3.3 Data Analysis

Data were analyzed using SPSS version 25.0. Descriptive statistics (means, standard deviations) and inferential statistics (Pearson correlation) were employed to test the hypotheses. Reliability was assessed using Cronbach's alpha, with all variables exceeding 0.9, indicating excellent internal consistency.

3.4 Ethical Considerations

Informed consent was obtained from all participants, and confidentiality was maintained. Ethical approval was secured from the institutional review board.

4. Results

4.1 Demographic Profile

The sample comprised 51.4% male and 48.6% female respondents. Educational qualifications: 76.1% held tertiary degrees. Experience in SME management: 57.8% had less than one year, while 24.8% had over 10 years. Business sectors included services (44%), retail (34%), technology (13%), and manufacturing (9%).

4.2 Descriptive Statistics

Financial Knowledge and Sales Growth: Mean scores ranged from 4.31 to 4.63, indicating strong agreement that financial

knowledge enhances sales strategies, pricing, market opportunity identification, and inventory management.

Financial Attitude and Investment Outcomes: Mean scores ranged from 3.50 to 3.75. Commitment to continuous learning scored highest (3.75), while confidence in investment decisions during uncertainty scored lowest (3.50).

Regulatory Awareness and Investment Choices: Mean scores ranged from 3.24 to 3.50. The highest score (3.50) was for regulatory awareness helping avoid high-risk investments, while staying updated with regulatory changes scored lowest (3.24).

4.3 Hypothesis Testing

Hypothesis 1: Pearson correlation between financial knowledge and sales growth was $r = 0.893$ ($p < 0.01$), indicating a strong positive relationship. The null hypothesis was rejected.

Hypothesis 2: Pearson correlation between financial regulations and investment choices was $r = 0.904$ ($p < 0.01$), indicating a strong positive relationship. The null hypothesis was rejected.

5. Discussion

5.1 Financial Knowledge and Sales Growth

The strong correlation ($r = 0.893$) between financial knowledge and sales growth aligns with the RBV theory, which posits that unique resources like financial literacy contribute to competitive advantage (Agbim et al., 2014). This finding supports earlier studies (Fatoki, 2014; Hwang & Park, 2023) that link financial literacy to improved business performance. However, external factors such as inflation and regulatory changes may moderate this relationship in Nigeria's volatile economy (Hussain et al., 2018).

5.2 Financial Attitude and Investment Outcomes

The moderate mean scores for financial attitude suggest that while SME owners recognize the importance of continuous learning (3.75) and professional advice (3.70), they remain risk-averse (3.58). This cautious approach may reflect Nigeria's unstable economic climate (Kahneman & Tversky, 2013). Targeted risk management training could help SME owners balance caution with strategic risk-taking.

5.3 Regulatory Awareness and Investment Choices

The strong correlation ($r = 0.904$) between regulatory awareness and investment choices underscores the importance of compliance knowledge in guiding safer investments (Turyakira, 2018). However, the moderate score for staying updated with regulatory changes (3.24) suggests a gap that could be addressed through improved information dissemination and regulatory workshops.

6. Conclusion and Recommendations

6.1 Conclusion

This study confirms that financial knowledge, financial attitude, and regulatory awareness significantly influence the investment decisions and performance of SMEs in Nigeria. Financial literacy is not merely a complementary skill but a critical resource for business sustainability and growth.

6.2 Recommendations

1. **Enhance Financial Literacy Programs:** Government agencies and financial institutions should offer free or

subsidized financial literacy training focusing on cash flow management, budgeting, and strategic planning.

2. **Cultivate Positive Financial Attitudes:** Training programs should address risk management and decision-making under uncertainty, helping SME owners balance caution with opportunity.
3. **Improve Regulatory Awareness:** SMEs should be supported through regular workshops, online portals, and advisory services that simplify regulatory compliance and keep them informed of changes.
4. **Promote Professional Financial Advice:** Affordable access to financial advisors should be expanded, potentially through government subsidies or partnerships with professional bodies.
5. **Encourage Peer Learning Networks:** Industry associations and business groups can facilitate knowledge sharing among SME owners on financial management and regulatory compliance.

6.3 Limitations and Future Research

This study's limitations include reliance on self-reported data, geographical concentration, and a moderate sample size. Future research should expand the sample across Nigeria's six geopolitical zones, employ longitudinal designs to capture temporal changes, and explore the role of digital tools and FinTech in enhancing SME financial literacy and compliance.

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Results and Discussion – Summary

4.1 Analytical Approach

Data analysis employed Pearson correlation to assess linear relationships between variables (financial knowledge, financial attitude, regulatory awareness) and SME outcomes (sales growth, investment decisions). Descriptive statistics (means, standard deviations) were used to summarize respondent perceptions. While Pearson correlation effectively measures the strength and direction of relationships, it cannot establish causation or detect curvilinear patterns.

4.2 Sample and Reliability

Metric	Result
Sample Size	150 targeted; 109 valid responses (72.7% response rate)
Data Quality	All 109 responses deemed suitable for analysis
Reliability (Cronbach's α)	All variables exceeded 0.9, indicating excellent internal consistency. Highest reliability: Financial Regulations on Investment Choices ($\alpha = 0.988$)

4.3 Respondent Demographics

Characteristic	Finding
Gender	51.4% male, 48.6% female – nearly equal representation
Education	76.1% held tertiary degrees; 19.3% secondary; 4.6% primary
Experience	57.8% had <1 year; 24.8% had >10 years; 17.4% mid-level
Sector	Services (44%), Retail (34%), Technology (13%), Manufacturing (9%)
Employees	62.4% employed 10–25 people; 22.9% employed 26–35
Annual Gross Earnings	57.8% earned <₱5 million; 26.6% earned ₱5–20 million; 9.2% earned ₱21–40 million; 6% earned ₱41–60 million

4.4 Descriptive Statistics – Key Findings

4.4.1 Financial Knowledge and Sales Growth

Statement	Mean (1–5)
Financial forecasting helps sales strategies	4.63
Knowledge of profit margins improves pricing	4.41
Identifying market opportunities boosts sales	4.36
Inventory management contributes to sales	4.31

Interpretation: Strong agreement that financial knowledge positively influences sales growth across all measured dimensions.

4.4.2 Financial Attitude and Investment Outcomes

Statement	Mean (1–5)
Committed to continuous learning	3.75
Actively seek professional financial advice	3.70
Positive attitude toward calculated financial risks	3.58
Confident in investment decisions during uncertainty	3.50

Interpretation:

Moderately positive financial attitudes. Continuous learning and professional advice are valued, but risk aversion remains evident, likely due to Nigeria's economic volatility.

4.4.3 Regulatory Awareness and Investment Choices

Statement	Mean (1–5)
Awareness helps avoid high legal risks	3.50
Awareness leads to more secure investments	3.44
Consider regulatory compliance costs	3.29
Keep up-to-date with regulatory changes	3.24

Interpretation: Moderate regulatory awareness. Respondents recognize that compliance knowledge reduces legal risks, but staying updated with changes requires improvement.

4.5 Hypothesis Testing

Hypothesis	Correlation (r)	p-value	Conclusion
H ₁ : No significant relationship between financial knowledge and sales growth	0.893	<0.001	Rejected – Strong positive relationship
H ₂ : No significant relationship between financial regulations and investment choices	0.904	<0.001	Rejected – Strong positive relationship

Both correlations are statistically significant at the 0.01 level, indicating strong positive relationships.

4.6 Discussion Summary

4.6.1 Financial Knowledge and Sales Growth

Strong consensus among SME owners that financial literacy improves sales strategies, pricing, market opportunity identification, and inventory management.

Supports the Resource-Based View (RBV) : financial knowledge is a valuable resource for competitive advantage.

However, external factors (inflation, regulatory changes) may moderate this relationship in Nigeria's unstable economy.

4.6.2 Financial Attitude and Investment Outcomes

Continuous learning and professional advice are valued, but risk aversion persists.

Reflects Behavioural Finance Theory: economic uncertainty influences risk perception and decision-making.

Suggests a need for targeted support in risk management and financial planning.

4.6.3 Regulatory Awareness and Investment Choices

Regulatory knowledge reduces legal risks and guides SMEs toward compliant investments.

Moderate engagement with regulatory updates indicates an opportunity for improved information dissemination.

Aligns with literature emphasising the role of regulation in mitigating investment risks and enhancing decision-making.

4.7 Summary of Key Findings

Research Variable	Key Finding	Statistical Support
Financial Knowledge	Strong positive impact on sales growth	Mean: 4.31–4.63; r = 0.893
Financial Attitude	Moderately positive; risk aversion noted	Mean: 3.50–3.75
Regulatory Awareness		Mean: 3.24–3.50; r = 0.904

Appendixes

Appendix 1 Summary of Survey Data

My knowledge of financial forecasting helps in planning sales strategies effectively.	72	34	3	0	0
My knowledge of profit margins and cost structures has improved my pricing strategy and sales.	57	41	10	1	0
My financial knowledge enables me to identify and exploit new market opportunities, leading to increased sales.	57	41	6	3	2
Financial knowledge helps me manage inventory efficiently, which contributes to higher sales.	49	51	5	2	2
IFK-SG	235	167	24	6	4
Impact of financial attitude on the investment outcome	SA	A	N	D	SD
I maintain a positive attitude towards taking calculated financial risks to maximize investment returns	20	55	16	4	14
I am committed to continuous learning and improving my financial management skills which has enhanced investment outcomes.	29	50	15	4	11
I remain confident in my investment decisions even during periods of financial uncertainty.	14	52	27	6	10
I actively seek professional financial advice which have improved my overall investment outcomes over the years.	33	42	16	4	11
IFA-IO	96	199	74	18	46

Influence of financial regulations on investment choices						SA	A	N	D	SD
I keep up-to-date with changes in financial regulations that affect my business operations.	10	47	26	1	1					
				1	3					
I consider regulatory compliance costs when making investment decisions.	11	42	36	7	11					
My awareness of financial regulations helps me to avoid investments with high legal risks.	26	56	26	4	1					
					2					
Awareness of financial regulations has led me to explore more secure and compliant investment opportunities.	13	45	38	3	10					
	IFR-IC	60	190	126	2	4				
				5	6					
Financial Knowledge						SA	A	N	D	SD
I possess adequate financial knowledge to manage my business effectively.	33	63	8	4	1					
My understanding of financial statements helps me in making informed business decisions.	41	49	15	2	2					
I can easily interpret financial ratios and their implications for my business	24	44	31	5	5					
	FinK	33	51	18	4	3				
Sales Growth						SA	A	N	D	SD
My financial knowledge has directly contributed to my business's sales growth.	35	60	12	1	1					
Effective financial planning has led to an increase in sales revenue.	46	51	7	1	4					
Keeping accurate financial records has improved my business sales performance.	41	55	11	1	1					
	SG	41	55	10	1	2				
Financial Regulations						SA	A	N	D	SD
I am aware of the financial regulations that apply to my business.	10	47	35	9	8					
My business operations are regularly reviewed to ensure compliance with financial regulations.	9	49	36	4	9					
Understanding financial regulations has helped me avoid legal issues in my business.	12	50	34	4	9					
	FR	10	49	35	6	9				
Investment Choices						SA	A	N	D	SD
My investment decisions are usually profitable for my business	10	67	21	3	8					
I feel confident in my ability to make sound investment decisions.	14	68	17	2	8					
My investments have consistently led to positive business growth.	14	71	11	3	1					
					0					
	IC	13	69	15	3	9				