

**IMPACT OF DIGITAL TECHNOLOGIES ON THE FINANCIAL
MANAGEMENT PRACTICES OF SMALL BUSINESSES IN LAGOS
METROPOLIS**

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ABSTRACT

This study investigates the impact of digital technologies on the financial management practices of small businesses in Lagos metropolis. A mixed-methods approach was used, combining both quantitative and qualitative methods. The results show that digital technologies have improved financial management practices, increased efficiency, and enhanced customer experience. However, small businesses also face challenges when adopting digital technologies, such as technical issues, training needs, and cost. The study recommends that small businesses should invest in digital technologies and provide training to employees to maximize the benefits. Policymakers and industry associations should also provide support and resources to small businesses to help them adopt digital technologies. The study contributes to the understanding of the impact of digital technologies on small businesses and provides insights for practitioners and policymakers.

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1.0 INTRODUCTION

The field of entrepreneurial finance has undergone significant transformations in recent years, driven by technological advancements, shifting investor behaviors, and the emergence of innovative financial instruments (Babula & Wosko, 2020). The COVID-19 pandemic and post pandemic has further accelerated these changes, forcing small businesses to adapt to new norms in financial management (Ghosh et al., 2020). As a result, small business owners must navigate an increasingly complex financial environment, characterized by evolving funding options, digitalization, and heightened uncertainty (Kuckertz et al., 2020).

In this context, effective financial management has become crucial for small businesses to survive and thrive. However, research suggests that many small businesses lack the financial expertise and resources to adapt to these new norms (Mamun et al., 2020). Therefore, this study aims to investigate the challenges and opportunities faced by small businesses in adapting to the new norms of entrepreneurial finance, with a focus on financial management strategies and practices.

The new norms of entrepreneurial finance have introduced a range of innovative funding options, such as crowdfunding, peer-to-peer lending, and venture capital investments (Mitra & Mateti, 2020). However, these options also present new challenges, including increased competition for funding, higher expectations from investors, and the need for greater transparency and accountability (Brown et al., 2020).

Moreover, the digitalization of financial services has transformed the way small businesses manage their finances, with the adoption of cloud-based accounting software, mobile payment systems, and digital invoicing tools (Goyal & Goyal, 2020). While these technologies offer improved efficiency and convenience, they also require significant investments in technology infrastructure and employee training (Khan et al., 2020).

The COVID-19 pandemic and post pandemic have highlighted the importance of financial resilience and adaptability for small businesses (Shah et al., 2020). The pandemic has disrupted supply chains, reduced consumer spending, and forced businesses to adopt remote work arrangements, underscoring the need for effective financial management strategies to mitigate these risks (Rai et al., 2020).

The rapid evolution of entrepreneurial finance, accelerated by the COVID-19 pandemic and post pandemic, has created significant challenges for small businesses in managing their finances effectively (Ghosh et al., 2020). Despite the growing importance of financial management in ensuring business resilience and competitiveness, many small businesses lack the expertise and resources to adapt to the new norms of entrepreneurial finance (Mamun et al., 2020).

The following objectives are formulated to guide the study:

1. To identify the financial management strategies and practices adopted by small businesses to mitigate risks and ensure business continuity in the face of uncertainty.
2. To examine the role of digitalization and financial technologies in improving financial efficiency and decision-making among small businesses.
3. To analyze financial management practices of small businesses and their ability to adapt to the new norms of entrepreneurial finance.
4. To investigate the challenges faced by small businesses in adapting to the new norms of entrepreneurial finance, including innovative funding options, digitalization, and financial technologies.

2.0 LITERATURE REVIEW:

The landscape of entrepreneurial finance has undergone significant transformations in recent years, driven by technological advancements, shifting investor behaviors, and the emergence of innovative financial instruments (Babula & Wosko, 2020). This literature review aims to

synthesize existing research on small business financial management, entrepreneurial finance, and the impact of digitalization and financial technologies on financial management practices. Effective financial management is crucial for small businesses to survive and thrive (Mamun et al., 2020). However, research suggests that many small businesses lack the financial expertise and resources to manage their finances effectively (Ghosh et al., 2020). A study by Shah et al. (2020) found that small businesses face significant challenges in managing cash flows, accessing funding, and mitigating risks.

The rise of innovative funding options, such as crowdfunding and peer-to-peer lending, has transformed the entrepreneurial finance landscape (Mitra & Mateti, 2020). Research by Brown et al. (2020) found that crowdfunding platforms provide access to funding for small businesses, while also offering opportunities for marketing and customer engagement.

Digitalization and financial technologies have revolutionized financial management practices among small businesses (Goyal & Goyal, 2020). Cloud-based accounting software, mobile payment systems, and digital invoicing tools have improved financial efficiency and decision-making (Khan et al., 2020). A study by Rai et al. (2020) found that digitalization has enabled small businesses to access new funding options, improve cash flow management, and enhance financial resilience.

The importance of digitalization and financial technologies in ensuring business continuity and financial resilience among small businesses. A study by Shah et al. (2020) found that small businesses that adopted digitalization and financial technologies were better equipped to mitigate the financial impacts of the pandemic.

Innovative funding options, such as crowdfunding and peer-to-peer lending, have also been identified as key factors in improving access to finance for small businesses. A study by Mitra and Mateti (2020) found that crowdfunding can provide an alternative source of funding for small businesses, particularly those with limited access to traditional funding sources.

CHALLENGES FACED BY SMALL BUSINESSES IN ADAPTING THE NEW NORMS OF ENTREPRENEURIAL FINANCE.

Small businesses face numerous challenges in adapting to the new norms of entrepreneurial finance, including:

1. Limited Access to Funding: Small businesses often struggle to access funding due to stringent lending criteria and limited financial resources (Saka et al, 2019; Mitra & Mateti, 2020).

2. Lack of Financial Expertise: Small businesses may lack the necessary financial expertise to navigate complex funding options and manage finances effectively (Goyal & Goyal, 2020).

3. Digitalization and Technological Challenges: Small businesses may face challenges in adopting digitalization and financial technologies, such as cloud-based accounting software and mobile payment systems (Khan et al., 2020).

4. Regulatory Compliance: Small businesses must comply with evolving regulatory requirements, such as data protection and anti-money laundering regulations (Brown et al., 2020).

5. Risk Management: Small businesses must manage risks associated with innovative funding options, such as crowdfunding and peer-to-peer lending (Shah et al., 2020). Specifically, small businesses face difficulties in:

1. Navigating the complex and rapidly changing funding landscape, including innovative funding options such as crowdfunding and peer-to-peer lending (Mitra & Mateti, 2020).

2. Leveraging digitalization and financial technologies to improve financial efficiency and decision-making (Goyal & Goyal, 2020).

3. Developing effective financial management strategies to mitigate risks and ensure business continuity in the face of uncertainty (Shah et al., 2020).

These challenges give rise to the need for research that investigates the digital technologies on the financial management practices of small businesses in Lagos metropolis in the context of the new norms of entrepreneurial finance.

THEORETICAL FRAMEWORK

The study's theoretical review was based on the following theories:

1. Resource-Based View (RBV) Theory: This theory posits that firms' resources and capabilities are the primary drivers of their competitive advantage (Wernerfelt, 1984). In the context of small businesses, digital technologies can be seen as a valuable resource that can enhance financial management practices. By leveraging digital technologies, small businesses can:

- Improve financial data management by streamline financial data collection, processing, and data analysis, enabling better decision-making.
- Enhance financial planning and forecasting, that enables digital tools to facilitate more accurate financial planning and forecasting to help small businesses to make informed decisions about investments, funding, and resource allocation
- Increase financial control and transparency that enables digital technologies to provide real-time financial insight. This will enable small businesses to monitor their financial performance, identify areas for improvement, and make data-driven decisions.

2. Dynamic Capabilities Theory: This is another well-known theory that can help explain how small businesses can adapt to new innovations. The theory suggests that firms' ability to adapt and change their resources and capabilities is crucial for their survival and success in dynamic environments (Teece et al., 1997). In the context of small businesses, digital capabilities can be seen as a key driver of improved financial management practices. By developing digital capabilities. Small businesses can:

- Developing digital literacy will enable small businesses develop the skills and knowledge needed to effectively use digital technologies for financial management such as accounting software, financial analytical tools, and online payment system.
- Implement digital financial processes. Small businesses can automate financial processes, such as invoicing, payment processing, and expense tracking, reducing manual errors and increasing inefficiency.
- Leveraging digital financial analytics will enable small businesses use digital analytics tools to gain insight into their financial performance, identify trends and make data-driven decisions.

3.0 METHODOLOGY

This study employed a mixed-methods approach, combining both quantitative and qualitative methods to achieve a comprehensive understanding of financial management practices of small businesses. A survey questionnaire was designed and distributed to a sample of small business owners to collect data on their financial management practices, challenges and strategies. Descriptive statistics and inferential statistics were used to analyze the survey data, including frequency distributions, means, and regression analysis. A content analysis of financial reports, news articles, and social media posts will be conducted to identify trends and patterns in financial management practices. A sample of 100 small business owners were selected using a stratified random sampling technique. The data collection tools were Survey Questionnaire and Content Analysis Template. The data analysis was done using SPSS

4.0 RESULTS

Quantitative Findings:

Financial Management Practices: The survey results show that 70% of small businesses have implemented cost-cutting measures, 60% have reduced staff, and 50% have sought additional funding during the pandemic.

Financial Challenges: The top financial challenges faced by small businesses during the pandemic are reduced cash flow (80%), reduced sales (75%), and increased expenses (70%).

Funding Sources: The most common funding sources used by small businesses during the pandemic are personal savings (60%), government loans (50%), and crowdfunding (40%).

Qualitative Findings:

Content Analysis: The content analysis reveals that small businesses have been proactive in seeking funding, reducing costs, and adapting to the new business environment.

HYPOTHESIS TESTING

Hypothesis 1: Small businesses that adopt innovative funding options, such as crowdfunding and peer-to-peer lending, experiences improved financial resilience and competitiveness compared to those that rely on traditional funding sources.

Hypothesis 2: The adoption of digitalization and financial technologies, such as cloud-based accounting software and mobile payment systems, will positively impact financial efficiency and decision-making among small businesses.

Hypothesis 3: Small businesses that implement effective financial management strategies and practices, such as cash flow management and risk assessment, will be better equipped to mitigate risks and ensure business continuity in the face of uncertainty.

Hypothesis 4: The adoption of digitalization and financial technologies among small businesses, leading to improved financial management practices and increased access to innovative funding options.

Based on the research hypotheses the following are test results

Test Results: The results of the regression analysis show a significant positive relationship between the adoption of innovative funding options and financial resilience ($\beta = 0.35, p < 0.01$).

The results also show a significant positive relationship between the adoption of innovative funding options and competitiveness ($\beta = 0.28, p < 0.05$). Therefore, Hypothesis 1 is supported.

1. Small businesses that adopted innovative funding options, such as crowdfunding and peer-to-peer lending, experienced improved financial resilience and competitiveness compared to those that relied on traditional funding sources.

Test Results: The results of the regression analysis show a significant positive relationship between the adoption of digitalization and financial technologies and financial efficiency ($\beta = 0.42, p < 0.001$). Additionally, the results show a significant positive relationship between the adoption of digitalization and financial technologies and decision-making ($\beta = 0.35, p < 0.01$). Therefore, Hypothesis 2 is supported.

2. The adoption of digitalization and financial technologies, such as cloud-based accounting software and mobile payment systems, positively impacted financial efficiency and decision-making among small businesses.

Test Results: The results of the regression analysis show a significant positive relationship between the implementation of effective financial management strategies and practices and risk mitigation ($\beta = 0.50, p < 0.001$). The results also indicated a significant positive relationship between the implementation of effective financial management strategies and practices and business continuity ($\beta = 0.45, p < 0.01$). Therefore, Hypothesis 3 is supported.

3. Small businesses that implemented effective financial management strategies and practices, such as cash flow management and risk assessment, were better equipped to mitigate risks and ensure business continuity in the face of uncertainty.

Test Results: The results of the regression analysis show a significant positive relationship between the COVID-19 pandemic and post pandemic on the adoption of digitalization and

financial technologies ($\beta = 0.38, p < 0.01$). The results also revealed a significant positive relationship between the COVID-19 pandemic and improved financial management practices ($\beta = 0.32, p < 0.05$). Therefore, Hypothesis 4 is supported.

4. The adoption of digitalization and financial technologies among small businesses, leading to improved financial management practices and increased access to innovative funding options.

The study found that small businesses that adopted innovative funding options, digitalization, and financial technologies, and implemented effective financial management strategies, were better equipped to navigate the challenges and ensure business continuity.

Discussions:

The research results are consistent with past research works that have highlighted the importance of innovative funding options, digitalization, and financial technologies in enhancing financial resilience and competitiveness among small businesses (Ghosh et al., 2020; Goyal & Goyal, 2020).

The finding that small businesses that adopted innovative funding options experienced improved financial resilience and competitiveness is in line with previous studies that have shown that crowdfunding and peer-to-peer lending can provide alternative funding sources for small businesses (Mitra & Mateti, 2020; Lawal & Oduwale, (2024)

The result that digitalization and financial technologies positively impacted financial efficiency and decision-making among small businesses is consistent with previous research that has highlighted the importance of digitalization in improving financial management practices among small businesses (Khan et al., 2020; Lawal & Oduwale, (2023)

The finding that effective financial management strategies and practices are crucial for mitigating risks and ensuring business continuity is in line with previous studies that have

emphasized the importance of financial management practices in ensuring small business survival (Mamun et al., 2020, Lawal, & Akanbi (2020)

The result that the adoption of digitalization and financial technologies among small businesses is consistent with previous research that has highlighted the impact of the pandemic on small business adoption of digital technologies (Shah et al., 2020).

However, the study's findings also highlight some differences with past research works. For example, while previous studies have highlighted the importance of government support for small businesses during times of uncertainty (Brown et al., 2020), this study found that small businesses that adopted innovative funding options and digitalization were better equipped to navigate the challenges.

In a nutshell the study's results contribute to the existing body of knowledge on small business financial management practices and highlight the importance of innovative funding options, digitalization, and financial technologies in enhancing financial resilience and competitiveness among small businesses.

CONCLUSION

The study concludes that small businesses that adopt innovative funding options, digitalization, and financial technologies, and implement effective financial management strategies, are better equipped to navigate the challenges and ensure business continuity that accelerates the adoption of improvement among small businesses, leading to financial management practices and increased access to innovative funding options.

RECOMMENDATIONS

The following are recommendations for small businesses, policymakers and industry stakeholders on effective financial management strategies and practices:

1. Encourage small businesses to diversify their revenue streams and implement contingency plans to reduce financial risks. Equally, they should adopt financial monitoring and reporting

to enable them to proactively track cash flow and expenses. These steps combined will help small businesses mitigate risk and ensure business continuity in the face of uncertainty in the business environment.

2. Small businesses should invest in user-friendly financial management software and provide training for effective use of these tools which will enhance financial efficiency. Additionally, integrating e-commerce platforms and digital payment solutions can streamline transactions, enhance customer reach, and enhance decision-making
3. Promote continuous learning through workshops focused on modern financial practices to keep small businesses competitive and responsive to the business environment. Encouraging networking opportunities will allow owners to share best practices for financial adaptation in changing conditions.
4. Advocate for improved access to diverse funding options and educate small businesses about financial technologies to help overcome challenges. Engaging in policy advocacy can minimize bureaucratic barriers and support the adoption of digitization and innovative financial solutions.

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