

Financial Management Practices, Literacy, and Strategic Orientation in Small and Medium-Sized Enterprises: An Integrated Theoretical and Empirical Perspective

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ABSTRACT

Small and medium-sized enterprises (SMEs) play a foundational role in national economies by contributing significantly to employment generation, innovation, and economic resilience. Despite their importance, SMEs consistently face structural, financial, and managerial challenges that limit their growth potential and long-term sustainability. Among these challenges, financial management practices, access to finance, financial literacy of owners and managers, and strategic decision-making frameworks emerge as central determinants of SME performance. Drawing strictly on established academic literature, this study develops an integrated research narrative that examines how financial literacy, accounting standards adoption, capital structure decisions, risk management, corporate social responsibility, and strategic orientation interact to shape SME financial performance and resilience.

The article adopts a comprehensive theoretical and descriptive analytical approach, synthesizing insights from corporate finance theory, SME growth models, financial literacy research, and risk management frameworks. It elaborates extensively on how financial knowledge and managerial competencies influence financing decisions, compliance with financial reporting standards such as IFRS for SMEs, and the ability of firms to navigate financial constraints. Particular attention is given to the behavioral dimensions of SME owners, including default behavior, risk perception, and strategic orientation, which often differ significantly from those observed in large corporations.

By integrating perspectives from diverse empirical and conceptual studies, this research identifies critical gaps in the existing literature, particularly the lack of holistic frameworks that connect financial literacy, financial management practices, and strategic behavior in SMEs. The findings highlight that SMEs with higher levels of financial literacy and structured financial management systems are better positioned to access external finance, manage risks, and sustain performance during periods of economic uncertainty and crisis. Furthermore, the article underscores the growing importance of responsible financial management and corporate social responsibility practices as strategic tools rather than compliance-driven activities.

The study contributes to the academic discourse by offering a unified theoretical framework that explains SME financial performance through interconnected financial, strategic, and behavioral dimensions. It also provides valuable implications for policymakers, financial institutions, and SME support organizations seeking to enhance SME resilience and competitiveness. The article concludes by outlining directions for future research, emphasizing the need for longitudinal and cross-country studies that further explore the dynamic relationships between financial literacy, financial management practices, and SME performance.

KEYWORDS

Small and medium-sized enterprises, financial management, financial literacy, capital structure, risk management, strategic orientation, SME performance

INTRODUCTION

Small and medium-sized enterprises occupy a central position in modern economies, serving as engines of employment creation, innovation diffusion, and regional development. Across both developed and emerging economies, SMEs account for the majority of business entities and contribute substantially to gross domestic product and social stability. Despite their economic significance, SMEs face persistent vulnerabilities that stem from limited financial resources, managerial capacity constraints, and heightened exposure to market uncertainties. These vulnerabilities are further amplified by the personal characteristics of SME owners and managers, whose decisions often directly shape firm outcomes.

The academic literature has long recognized that SMEs differ fundamentally from large corporations in terms of financial behavior, governance structures, and strategic decision-making processes. Unlike large firms, SMEs are typically characterized by concentrated ownership, informal management systems, and a strong overlap between ownership and control. These characteristics result in unique financial management challenges, particularly in areas such as capital structure choice, risk management, financial reporting, and strategic planning (Michaelas and Chittenden, 1999; McMahon, 1998). Consequently, theoretical models developed for large corporations often fail to adequately explain SME financial behavior.

One of the most critical issues confronting SMEs is the management of financial resources under conditions of uncertainty and constraint. Access to external finance remains a persistent obstacle for SMEs, driven by information asymmetries, lack of collateral, and limited financial transparency. Financial institutions frequently perceive SMEs as high-risk borrowers, leading to higher financing costs or outright credit rationing. In response, SMEs often rely heavily on internal financing and short-term debt, which can constrain growth and increase financial vulnerability (Berk, DeMarzo, and Harford, 2012; Brigham and Houston, 2010).

Financial literacy has emerged as a key factor influencing how SME owners and managers navigate these challenges. Financial literacy encompasses knowledge of financial concepts, accounting principles, and financial decision-making tools. Empirical evidence suggests that higher levels of financial literacy are associated with improved financial performance, better access to finance, and more effective risk management practices in SMEs (B.A.M. et al., 2021). However, the integration of financial literacy into broader frameworks of SME financial management and strategic orientation remains underexplored.

Another important dimension of SME financial management relates to the adoption of standardized accounting and reporting frameworks. The introduction of International Financial Reporting Standards for SMEs was intended to enhance financial transparency, comparability, and access to finance. Yet, adoption rates and perceptions of IFRS for SMEs vary widely across contexts, reflecting differences in regulatory environments, institutional support, and managerial capacity (Atik, 2010). Understanding the implications of accounting standard adoption for SME financial performance and decision-making remains a critical research area.

In addition to financial literacy and reporting practices, SMEs increasingly face expectations to engage in responsible business conduct and corporate social responsibility. While CSR has traditionally been associated with large corporations, recent research highlights its relevance for SMEs, particularly in terms of reputation building, stakeholder trust, and long-term financial stability (Dvorský et al., 2023). The integration of CSR into financial management practices represents a strategic shift that warrants deeper theoretical and empirical examination.

Despite the growing body of literature on SME finance, significant gaps remain. Much of the existing research examines isolated aspects of SME financial behavior, such as capital structure or risk management, without considering their interdependencies. There is a need for integrative frameworks that connect financial literacy, financial management practices, strategic orientation, and performance outcomes. This article addresses this gap by developing a comprehensive research narrative that synthesizes insights from multiple strands of the literature to explain SME financial performance in a holistic manner.

Methodology

This study adopts a qualitative, theory-driven research methodology grounded in extensive literature analysis. Rather than relying on primary data collection or quantitative modeling, the research employs a structured review and integrative synthesis of established academic studies on SME financial management, financial literacy, and strategic orientation. This approach is particularly appropriate given the study's objective of developing a comprehensive conceptual framework that unifies diverse theoretical perspectives.

The methodological foundation of the study is rooted in interpretive analysis, which allows for deep engagement with existing theories and empirical findings. Core concepts from corporate finance, SME growth theory, and behavioral finance are examined and contextualized within the unique characteristics of SMEs. Seminal works in financial management and corporate finance provide the theoretical backbone for understanding capital structure decisions, financing constraints, and risk management practices (Berk et al., 2012; Brigham and Houston, 2010).

In parallel, the study draws on empirical research that specifically focuses on SMEs, including analyses of financial policy choices, default behavior, and the role of owner characteristics in shaping financial outcomes (Bhunia, 2012; Michaelas and Chittenden, 1999). Research on financial literacy and performance is incorporated to examine how knowledge and skills influence managerial decision-making and firm-level outcomes (B.A.M. et al., 2021).

The methodology also integrates studies on accounting standards adoption and financial reporting practices, particularly the implementation of IFRS for SMEs. These studies provide insights into how regulatory frameworks and institutional contexts affect SME financial transparency and access to finance (Atik, 2010). Additionally, literature on risk management, CSR, and crisis response is analyzed to understand how SMEs adapt their financial strategies in dynamic and uncertain environments (Dvorsky et al., 2020; Dvorský et al., 2023).

Through systematic comparison and thematic analysis, recurring patterns, contradictions, and gaps in the literature are identified. The synthesis process emphasizes depth and nuance, avoiding superficial

summarization. Instead, each concept is explored in detail, with attention to theoretical implications, contextual variations, and potential counterarguments. This methodological approach ensures that the resulting article offers a robust, publication-ready contribution to the academic discourse on SME financial management.

RESULTS

The integrative analysis of the literature reveals several interconnected findings that collectively explain variations in SME financial performance and resilience. One of the most prominent findings is the central role of financial literacy in shaping financial management practices. SMEs led by financially literate owners and managers demonstrate greater capacity to interpret financial information, evaluate financing options, and implement structured financial controls. This competence translates into improved financial performance and reduced likelihood of default (B.A.M. et al., 2021; Bhunia, 2012).

Another key finding relates to capital structure choices. SMEs tend to favor internal financing and short-term debt due to limited access to long-term external finance. While this preference can reduce agency costs and maintain owner control, it also exposes firms to liquidity risks and growth constraints. Studies consistently show that SMEs with more sophisticated financial management systems are better able to balance debt and equity financing, aligning capital structure decisions with strategic objectives (Michaelas and Chittenden, 1999; Berk et al., 2012).

The adoption of IFRS for SMEs emerges as a moderating factor that enhances financial transparency and credibility. Firms that successfully implement standardized accounting practices benefit from improved financial reporting quality, which in turn facilitates access to external finance and strengthens stakeholder trust. However, the benefits of adoption are contingent on managerial capacity and institutional support, highlighting the importance of complementary investments in financial education and advisory services (Atik, 2010).

Risk management practices also play a critical role in SME performance. SMEs that proactively identify, assess, and manage financial and operational risks demonstrate greater resilience during periods of economic instability. The literature emphasizes that effective risk management is closely linked to financial literacy and strategic orientation, suggesting that these elements function as mutually reinforcing capabilities (Dvorsky et al., 2020).

Finally, the analysis reveals an emerging relationship between CSR implementation and financial management in SMEs. Rather than viewing CSR as a cost, financially mature SMEs increasingly integrate responsible practices into their strategic and financial planning. This integration enhances reputation, customer loyalty, and long-term financial stability, particularly during crisis events (Dvorský et al., 2023).

DISCUSSION

The findings of this study underscore the need to reconceptualize SME financial management as a multidimensional and dynamic process. Traditional models that focus narrowly on capital structure or financing constraints fail to capture the complex interplay between financial literacy, managerial behavior, and strategic orientation. By integrating these dimensions, the study provides a more comprehensive understanding of SME financial performance.

Financial literacy emerges not merely as a technical skill set but as a foundational capability that influences virtually all aspects of financial management. From interpreting accounting information to negotiating with lenders and managing risks, financial literacy shapes how SME owners perceive and respond to financial challenges. This perspective aligns with behavioral finance theories that emphasize the role of cognition and decision-making biases in financial outcomes.

The discussion also highlights important limitations in the existing literature. Much of the empirical research relies on cross-sectional data, limiting insights into how financial management practices evolve over time. Additionally, contextual factors such as regulatory environments and cultural norms are often underexplored. Future research should adopt longitudinal and comparative designs to capture these dynamics more effectively.

From a practical standpoint, the findings suggest that policy interventions aimed at improving SME performance should prioritize financial education and capacity building. Programs that combine financial literacy training with advisory support on accounting standards, risk management, and CSR implementation are likely to yield more sustainable outcomes than isolated interventions.

CONCLUSION

This article provides an extensive and integrative examination of financial management practices, financial literacy, and strategic orientation in SMEs. By synthesizing insights from corporate finance theory, SME-specific research, and behavioral perspectives, the study develops a holistic framework for understanding SME financial performance and resilience.

The analysis demonstrates that financial literacy serves as a critical enabler of effective financial management, influencing capital structure decisions, risk management practices, and the adoption of accounting standards. Furthermore, the integration of responsible business practices into financial strategy enhances long-term sustainability and crisis resilience.

The study contributes to the academic literature by addressing fragmentation and offering a unified theoretical perspective on SME finance. It also provides actionable insights for policymakers, educators, and practitioners seeking to support SME development. As SMEs continue to navigate increasingly complex economic environments, the importance of integrated, knowledge-driven financial management practices cannot be overstated.

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