# Cost Management Accounting Practices and Financing Decisions Debt Vs Equity Among Nigerian SMES

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https://doi.org/10.56201/jafm.vol.12.no10.2026.p443.473

***Abstract***

*Small and Medium Enterprises constitute the backbone of the Nigerian economy, accounting for approximately 96% of businesses, 84% of employment, and 48% of Gross Domestic Product [GDP] (National Bureau of Statistics [NBS] & Small and Medium Enterprises Development Agency of Nigeria [SMEDAN], 2021). Despite this significant contribution, over 80% of Nigerian SMEs fail within the first five years of operation (Akingbade, 2014). A major factor responsible for this high failure rate is poor financial management, particularly in the areas of cost control and access to finance. While cost management accounting practices provide the internal data needed for efficiency and profitability, financing decisions determine how SMEs fund growth and expansion. However, there is limited empirical evidence on how these two critical areas interact, especially within the Nigerian context where SMEs face high interest rates, stringent collateral requirements, and an underdeveloped equity market. [SMEs] This study therefore examined the influence of cost management accounting practices on financing decisions: debt versus equity among Nigerian SMEs across the six geopolitical zones. The broad objective was to determine the extent to which cost management practices influence SME financing choices. The specific objectives were to: examine the extent of adoption of cost management accounting practices among Nigerian SMEs; assess the factors influencing debt financing decisions; assess the factors influencing equity financing decisions; determine the influence of cost management accounting practices on the choice between debt and equity financing; and examine the future outlook of SME owners and managers regarding cost management and access to financing. The study was anchored on three theories. Information Asymmetry Theory posits that managers have superior information about firm performance which creates adverse selection problems for external financiers (Akerlof, 1970). Signaling Theory argues that credible internal systems serve as signals of firm quality to lenders and investors (Spence, 1973). Resource Dependence Theory suggests that organizations develop internal capabilities to reduce dependence on scarce external*

*resources (Pfeffer & Salancik, 1978). These theories provided the framework for expecting that robust cost management systems would reduce information gaps and improve access to finance. A descriptive and explanatory survey research design was adopted. The population consisted of all registered SMEs with 10 to 200 employees in Nigeria as defined by NBS and SMEDAN (2021). A sample size of 440 SMEs was determined using the Taro Yamane (1967) formula and selected through multi-stage sampling across the six geopolitical zones. Primary data were collected using a structured 50-item questionnaire administered to business owners, accountants, and managers. The instrument was divided into sections covering bio-data, cost management practices, debt financing, equity financing, influence of cost management on financing, and future outlook. All Likert-scale items were measured on a 5-point scale. Content validity was ensured through expert review while reliability was tested using Cronbach's Alpha with a coefficient of 0.82 from a pilot test of 40 SMEs in Rivers State. Data were analyzed using SPSS Version 27. Descriptive statistics were used to profile respondents and describe the extent of adoption. Pearson correlation and multiple regression were used to test the relationship between cost management and debt and equity financing. Multinomial logistic regression was used to test the influence of cost management on financing choice. All hypotheses were tested at 0.05 level of significance. The findings revealed that Nigerian SMEs moderately adopt cost management accounting practices with a grand mean of 3.60. Budgeting, cost tracking, and CVP analysis were the most widely used, while Activity-Based Costing and accounting software had lower adoption rates. This suggests that SMEs rely on traditional tools but lack sophistication in advanced techniques. Regarding financing, debt was valued for ownership retention and tax benefits but was constrained by high interest rates averaging 25-30% and collateral requirements (Central Bank of Nigeria, 2022). Equity financing was preferred for long-term expansion and to avoid repayment pressure, but was limited by scarcity of investors and fear of ownership dilution. Hypothesis testing showed that cost management accounting practices have a significant positive relationship with debt financing, $r = 0.452$, $R^2 = 0.204$, $\beta = 0.418$, $p = 0.000$. Similarly, a significant positive relationship was found with equity financing, $r = 0.389$, $R^2 = 0.151$, $\beta = 0.362$, $p = 0.000$. Multinomial logistic regression further revealed that cost management significantly influences financing choice. A one-unit increase in cost management made SMEs 1.96 times more likely to choose debt, 1.55 times more likely to choose equity, and 1.68 times more likely to use a mix, compared to relying solely on internal funds, all significant at $p < 0.05$. These findings imply that cost management is not only an internal control tool but also an external signaling device. SMEs with credible cost records are better able to reduce information asymmetry, demonstrate repayment capacity, and attract both debt and equity. The results support Information Asymmetry Theory and Signaling Theory and extend them to the Nigerian SME context. They also align with prior studies in Asia and Africa that found accounting quality improves access to finance (Singh & Kaur, 2017; Mwaura & Bokea, 2020), but contradict the notion that Nigerian financiers ignore internal records. The study concludes that strengthening cost management capability is a viable pathway for Nigerian SMEs to overcome financing constraints. The study recommends that SME owners institutionalize budgeting and cost tracking, that government and SMEDAN subsidize accounting software and training, that banks link lending terms to accounting quality, and that equity investors provide technical support on cost systems. The study contributes to theory by empirically linking managerial accounting to corporate finance in an emerging market, and to policy by providing evidence for capacity-building programs that connect accounting support to access to finance. Limitations include reliance on cross-sectional self-reported data and focus on SMEs within a*

*specific employee range. Future research should use longitudinal designs and sector-specific samples*

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***Keywords**: Cost Management Accounting, Financing Decision, Debt Financing, Equity Financing, Nigerian SMEs, Information Asymmetry, Signaling Theory*

## 1.1 Introduction

Small and Medium Enterprises are widely recognized as the engine of economic growth in both developed and developing economies. In Nigeria, SMEs account for approximately 96% of businesses and 84% of employment in the country, and contribute about 48% to the national Gross Domestic Product [GDP] (National Bureau of Statistics [NBS] & Small and Medium Enterprises Development Agency of Nigeria [SMEDAN], 2021). Despite this significant contribution, the survival and growth rate of Nigerian SMEs remain low, with over 80% failing within the first five years of operation (Akingbade, 2014). One of the major factors responsible for this high mortality rate is poor financial management, particularly in the areas of cost management and financing decisions. [SMEs] Cost management accounting practices refer to the set of techniques used by managers to plan, control, and reduce costs while improving profitability and competitiveness (Drury, 2018). These practices include budgeting, variance analysis, standard costing, activity-based costing, cost-volume-profit analysis, and the use of accounting software for cost tracking. Effective cost management enables SMEs to determine product profitability, control wastage, price products competitively, and generate reliable financial information for decision making (Horngren, Datar, & Rajan, 2022). In resource-constrained environments like Nigeria, where SMEs operate with limited capital and high operating costs, the role of cost management becomes even more critical. Financing decision, on the other hand, is one of the three major financial management decisions, alongside investment and dividend decisions (Brigham & Ehrhardt, 2020). It involves determining the optimal mix of debt and equity that a firm should use to fund its operations and growth. Debt financing involves borrowing funds from banks, microfinance institutions, or other creditors with an obligation to repay principal and interest. Equity financing involves raising capital by selling ownership stakes to investors or by using retained earnings (Ross, Westerfield, & Jordan, 2022). The choice between debt and equity has significant implications for a firm's cost of capital, risk profile, ownership structure, and long-term survival.

The relationship between cost management accounting practices and financing decisions is theoretically and empirically important. According to the Pecking Order Theory of capital structure proposed by Myers and Majluf (1984), firms prefer internal financing first, followed by debt, and equity as the last resort due to information asymmetry. This implies that SMEs with robust cost management systems that generate accurate internal records are more likely to rely on retained earnings and less likely to face adverse selection problems when seeking external finance. Similarly, the Trade-Off Theory suggests that firms balance the benefits of debt, such as tax shields, against the costs of financial distress (Modigliani & Miller, 1963). For SMEs to assess this trade-off, they must have reliable cost data to forecast cash flows and determine debt servicing capacity. In Nigeria, access to finance remains one of the biggest constraints to SME growth. The World Bank (2020) Enterprise Survey reported that 48.4% of Nigerian firms identified access to finance as a major obstacle. Bank lending to SMEs is often constrained by high interest rates, stringent collateral requirements, and poor financial records from SMEs (Central Bank of Nigeria [CBN], 2022). On the equity side, venture capital and private equity markets are underdeveloped, and many SME owners are reluctant to dilute ownership (Abor & Biekpe, 2007). Consequently,

most Nigerian SMEs rely on personal savings and informal sources of finance, which are often inadequate for expansion. Given this context, cost management accounting practices can play a mediating role. Firms that maintain proper cost records are more transparent and credible to banks and investors. They are better able to prepare loan applications, business plans, and financial projections that meet lender requirements (Bhatt & Jha, 2018). Moreover, cost data helps managers to determine the true cost of capital, evaluate project profitability, and decide whether to finance a project with debt or equity. For instance, if cost-volume-profit analysis shows that a project will generate stable cash flows, debt may be preferable. If cash flows are uncertain, equity may be safer to avoid bankruptcy risk. However, existing literature on Nigerian SMEs shows a gap in linking cost management practices directly to financing choices. Most studies have treated cost management and financing as separate issues. Studies by Unegbu and Ibanichuka (2017) and Ezejiofor, John-Akamelu, and Iyidiobi (2020) focused on the effect of cost accounting on profitability, while studies by Okoye and Eze (2013) and Adekunle and Oladipo (2020) examined determinants of financing choices without considering the role of internal cost systems. This disconnect limits our understanding of how managerial accounting can improve SME access to finance and growth outcomes. Furthermore, the Nigerian business environment presents unique challenges such as infrastructural deficits, multiple taxation, and economic volatility that make cost control and financing more complex (Ariyo, 2008). The six geopolitical zones also differ in terms of industrial concentration, financial infrastructure, and entrepreneurial culture. Therefore, a study that examines cost management accounting practices and financing decisions across these zones is necessary to provide policy-relevant insights. This study is anchored on two main theories. First, the Contingency Theory of management accounting argues that there is no universally appropriate accounting system. The effectiveness of cost management practices depends on contextual factors such as firm size, environment, and strategy (Chenhall, 2003). Second, the Agency Theory explains the conflict of interest between firm owners and external financiers. Proper cost management reduces information asymmetry and agency costs, thereby improving access to debt and equity (Jensen & Meckling, 1976) Given the importance of SMEs to Nigeria's economic development and the persistent challenges of cost control and financing, this study seeks to investigate how cost management accounting practices influence financing decisions between debt and equity among Nigerian SMEs. The findings will be relevant to SME owners, accountants, policymakers, and financial institutions seeking to improve SME performance and sustainability.

### 1.2 Statement of Research Problem

Despite the recognized importance of SMEs to Nigeria's economy, their failure rate remains high. A major reason is the inability to manage costs effectively and to make optimal financing decisions (NBS & SMEDAN, 2021). Many Nigerian SMEs operate without formal cost accounting systems. They do not prepare budgets, track variances, or use cost data for pricing and planning (Ezejiofor et al., 2020). As a result, they lack credible financial information required by banks and investors. At the same time, access to finance is a critical challenge. Nigerian SMEs face high interest rates averaging 25-30%, collateral demands, and short loan tenors (CBN, 2022). Equity financing is also limited due to underdeveloped capital markets and owners' fear of losing control (Abor & Biekpe, 2007). This has forced many SMEs to rely on expensive short-term debt or personal funds, limiting their growth potential. While literature exists on cost management and on financing decisions separately, there is limited empirical evidence on how cost management accounting practices influence the choice between debt and equity among Nigerian SMEs. Specifically, it is unclear whether SMEs with better cost management systems are more likely to access debt, attract

equity, or rely on internal funds. It is also unclear which cost practices are most relevant for financing decisions in the Nigerian context.

This gap is problematic because without understanding this linkage, efforts to improve SME financing through financial literacy and accounting training may be misdirected. Therefore, this study seeks to fill this gap by examining the relationship between cost management accounting practices and financing decisions of debt versus equity among SMEs across the six geopolitical zones in Nigeria.

### 1.3 Research Objectives

The broad objective of this study is to examine the influence of cost management accounting practices on financing decisions: debt versus equity among Nigerian SMEs.

**The specific objectives are to:**

1. Examine the extent of adoption of cost management accounting practices among Nigerian SMEs.
2. Assess the factors influencing debt financing decisions among Nigerian SMEs.
3. Assess the factors influencing equity financing decisions among Nigerian SMEs.
4. Determine the influence of cost management accounting practices on the choice between debt and equity financing among Nigerian SMEs.
5. Examine the future outlook of SME owners and managers regarding cost management and access to financing in Nigeria.

### 1.4 Research Questions

To achieve the above objectives, the study will answer the following questions:

1. To what extent have Nigerian SMEs adopted cost management accounting practices?
2. What are the key factors influencing debt financing decisions among Nigerian SMEs?
3. What are the key factors influencing equity financing decisions among Nigerian SMEs?
4. To what extent do cost management accounting practices influence the choice between debt and equity financing among Nigerian SMEs?
5. What is the future outlook of SME owners and managers regarding cost management and access to financing in Nigeria?

### 1.5 Research Hypotheses

Based on the research questions and reviewed literature, the following hypotheses are formulated and will be tested at 0.05 level of significance:

**H01:** There is no significant relationship between cost management accounting practices and debt financing decisions among Nigerian SMEs.

**H02:** There is no significant relationship between cost management accounting practices and equity financing decisions among Nigerian SMEs.

**H03:** Cost management accounting practices do not significantly influence the choice between debt and equity financing among Nigerian SMEs.

### 1.6 Scope of Research

This study covers SMEs operating in Nigeria across the six geopolitical zones: North Central, North East, North West, South East, South, and South West. The focus is on SMEs with 10 to 200 employees as defined by NBS and SMEDAN (2021).

The study focuses specifically on cost management accounting practices such as budgeting, variance analysis, standard costing, activity-based costing, and cost-volume-profit analysis. For financing decisions, the study focuses on the choice between debt financing from banks and financial institutions and equity financing from owners, retained earnings, and external investors. The study will use primary data collected through questionnaires administered to business owners, accountants, and managers of SMEs. The data will cover the period 2023 to 2026. The study is limited to SMEs and does not cover large corporations or multinational firms.

### 1.7 Significance of Research

**This study is significant to several stakeholders.**

**To SME Owners and Managers:** The findings will provide insights on how improving cost management practices can enhance access to debt and equity financing. It will help them make informed decisions on capital structure.

**To Accountants and Financial Consultants**: The study will highlight which cost management tools are most valued by financiers, enabling them to advise SMEs better.

**To Financial Institutions and Investors:** Banks and equity investors will understand the importance of cost accounting information in assessing SME creditworthiness and investment risk.

**To Government and Policymakers:** The Central Bank of Nigeria, SMEDAN, and other agencies can use the findings to design capacity-building programs and policies that link accounting support to access to finance initiatives.

**To Academia:** The study will contribute to literature by empirically testing the link between managerial accounting and corporate finance in the context of Nigerian SMEs, using Contingency Theory and Agency Theory as foundations.

### 1.8 Operational Definition of Terms

Cost Management Accounting Practices: The systematic techniques used by SMEs to plan, control, and reduce costs. In this study, it includes budgeting, variance analysis, standard costing, activity-based costing, cost-volume-profit analysis, and use of accounting software.

**Financing Decision:** The decision by SME management on the sources of funds to use for business operations and expansion. In this study, it is limited to the choice between debt financing and equity financing.

**Debt Financing:** Funds borrowed by an SME from external sources such as banks and microfinance institutions with an obligation to repay principal and interest.

**Equity Financing:** Funds raised by an SME through owners' contribution, retained earnings, or by selling ownership shares to external investors without an obligation for fixed repayment.

**Small and Medium Enterprises:** Business enterprises with 10 to 200 employees and annual turnover between ₦10 million and ₦500 million, as defined by NBS and SMEDAN (2021).[SMEs]

**Nigerian SMEs:** Small and medium enterprises that are registered and operating within the Federal Republic of Nigeria across the six geopolitical zones.

## 2.0 Literature Review

This section reviews existing literature relevant to cost management accounting practices and financing decisions of debt versus equity among Nigerian SMEs. Literature review is essential because it establishes the foundation upon which the current study is built, identifies what is already known, and reveals gaps that this study seeks to fill (Saunders, Lewis, & Thornhill, 2019). The review is presented in three parts. Conceptual literature explains the key constructs of the study and how they are understood in academic and professional contexts. Theoretical literature examines the theories that explain the relationship between cost management and financing decisions. Empirical literature summarizes previous studies that have tested similar relationships, with focus on findings, methodologies, and contexts.

This section also operationalizes the hypotheses and identifies gaps in the literature reviewed. The gap analysis justifies the need for this study in the Nigerian SME context.

### 2.1 Conceptual Literature Review

This section defines and discusses the major concepts in this study: Cost Management Accounting Practices, Debt Financing, Equity Financing, and Financing Decision.

#### Cost Management Accounting Practices

Cost management accounting is a branch of management accounting concerned with the planning, controlling, and reduction of costs (CIMA, 2019). It goes beyond simple cost recording to focus on how cost information can be used to create value and support strategic decisions. For SMEs, cost management is critical because margins are thin and resources are limited.

**The core practices include:**

**1. Budgeting:** This is the process of preparing detailed plans of expected revenues and expenses for a future period (Anthony & Govindarajan, 2020). Budgets serve as benchmarks against which actual performance is measured. For SMEs, budgeting helps in cash flow planning and in avoiding overspending.

**2. Variance Analysis:** This involves comparing actual costs to budgeted or standard costs to identify deviations (Atkinson, Kaplan, Matsumura, & Young, 2021). Positive variances indicate efficiency while negative variances signal problems that need management attention.

**3. Standard Costing:** This involves setting predetermined costs for materials, labor, and overheads, and then comparing them to actuals (Horngren et al., 2022). It helps SMEs to monitor efficiency and control waste.

**4. Activity-Based Costing [ABC]:** Traditional costing allocates overheads based on volume. ABC allocates costs based on activities that drive costs (Cooper & Kaplan, 1992). For service-based SMEs, ABC provides more accurate product and customer profitability information.

**5. Cost-Volume-Profit [CVP] Analysis:** CVP examines the relationship between cost, volume, and profit (Garrison, Noreen, & Brewer, 2021). It helps SMEs to determine break-even points and to make pricing and production decisions.

**6. Use of Accounting Software:** Modern cost management relies on software like QuickBooks, Sage, and Tally to track costs in real time (Bhimani, Horngren, Datar, & Rajan, 2020). Software reduces errors and improves timeliness of reports.

In the Nigerian context, many SMEs practice informal cost tracking. However, formal adoption of the above practices remains low due to lack of expertise, cost of software, and perceived complexity (Ezejiofor et al., 2020). Yet without these systems, SMEs cannot determine true product cost, leading to under-pricing or losses.

**Financing Decision**

A financing decision concerns how a firm raises funds to finance its assets and operations (Brigham & Ehrhardt, 2020). For SMEs, this decision is constrained by limited options. The two main external sources are debt and equity.

**Debt Financing**

Debt financing involves borrowing funds that must be repaid with interest over a specified period (Ross et al., 2022). Common sources for Nigerian SMEs include commercial banks, microfinance banks, and government intervention funds such as the CBN Anchor Borrowers' Programme.

***Key characteristics of debt:***

**1. Fixed Obligation:** Interest and principal must be paid regardless of profitability. This creates financial risk (Brealey, Myers, & Allen, 2020).
**2. Tax Shield:** Interest expense is tax deductible, which lowers the effective cost of debt (Modigliani & Miller, 1963).
**3. No Ownership Dilution:** Lenders do not acquire ownership. Owners retain control (Myers, 1984).
**4. Collateral Requirement:** Nigerian banks often demand collateral such as landed property, which many SMEs lack (CBN, 2022).
For SMEs, debt is suitable for financing assets with predictable cash flows. However, high interest rates in Nigeria, averaging 25-30%, make long-term debt expensive (CBN, 2022).

**Equity Financing**

Equity financing involves raising capital by selling ownership in the business (Ross et al., 2022). Sources include owner's capital, retained earnings, angel investors, venture capital, and private equity.

**Key characteristics of equity:**

**1. No Repayment Obligation:** There is no fixed payment. Returns to equity holders depend on profitability (Brealey et al., 2020).
**2. Ownership Dilution:** Bringing in external equity means sharing control and profits (Abor & Biekpe, 2007).
**3. Higher Cost:** Equity is generally more expensive than debt because investors expect higher returns for bearing more risk (Damodaran, 2021).
**4. Value Addition:** Equity investors often bring expertise, networks, and credibility (Berger & Udell, 1998).
In Nigeria, the equity market for SMEs is underdeveloped. The Nigerian Exchange Group has a Growth Board, but listing requirements are still high for most SMEs. As a result, many rely on retained earnings and family capital (Okoye & Eze, 2013).

**Link Between Cost Management and Financing Decision**

The conceptual link is that credible cost information reduces information asymmetry between SME managers and external financiers (Bhatt & Jha, 2018). Banks and investors use financial statements to assess risk. SMEs with formal cost systems can produce accurate income statements, cash flow projections, and break-even analyses. This increases their chances of loan approval and attracts equity investors.

Furthermore, cost data helps managers to assess the capacity to service debt. Through CVP analysis, an SME can determine if projected cash flows can cover interest payments. If not, equity may be safer. Thus, cost management is not just an internal tool; it is also an external signaling device (Atrill & McLaney, 2020).

In summary, cost management accounting practices provide the informational foundation for sound financing decisions. Without them, SMEs are likely to make financing choices that increase risk and reduce survival chances.

## 2.2 Theoretical Literature Review

This section discusses theories that explain the relationship between cost management accounting practices and financing decisions.

### 1. Contingency Theory of Management Accounting

Proposed by Otley (1980) and advanced by Chenhall (2003), Contingency Theory posits that there is no single best management accounting system. The appropriateness of a system depends on contextual factors such as environment, technology, size, and strategy.

For SMEs, the theory suggests that cost management practices must fit the firm's context. A manufacturing SME in Lagos may need ABC due to complex overheads, while a retail SME in Kano may only need simple budgeting (Chenhall, 2003).

**Relevance to this study:** The theory explains why some SMEs adopt sophisticated cost systems while others do not. It also suggests that the effectiveness of cost management in influencing financing decisions depends on how well the system fits the SME's operating environment. In volatile economies like Nigeria, flexible and simple cost systems may be more effective than complex ones.

### 2. Agency Theory

Developed by Jensen and Meckling (1976), Agency Theory deals with conflicts of interest between principals and agents. In corporate finance, the principal is the lender or investor, and the agent is the SME owner/manager.

The core problem is information asymmetry. Managers have more information about the firm than outsiders. This leads to adverse selection and moral hazard (Eisenhardt, 1989). Lenders respond by demanding collateral, high interest, and detailed financial reports.

Cost management practices reduce agency costs. When SMEs maintain proper cost records, they signal transparency. This reduces lender's risk perception and improves access to debt (Bhatt & Jha, 2018). Similarly, equity investors require due diligence. Audited cost data makes due diligence easier.

**Relevance:** This theory explains why banks in Nigeria reject many SME loan applications due to poor records. It also explains why SMEs that invest in accounting systems are more likely to secure financing.

**3. Pecking Order Theory**

Myers and Majluf (1984) proposed that firms follow a hierarchy in financing: first internal funds, then debt, and equity as last resort. The reason is information asymmetry. Managers know more about the firm's value than investors. Issuing equity may signal that the firm is overvalued.

For SMEs, internal funds come from retained earnings, which require accurate cost and profit data. Firms with good cost management can identify profitable products and reinvest earnings (Myers, 1984). When internal funds are insufficient, they turn to debt. But to get debt, they need credible financials, which come from cost systems. Equity is avoided because it dilutes ownership and signals weakness.

**Relevance:** This theory predicts that SMEs with strong cost management will rely more on internal and debt financing, and less on equity. It also explains why Nigerian SMEs prefer personal savings.

**4. Trade-Off Theory**

Modigliani and Miller (1963) and later Kraus and Litzenberger (1973) proposed that firms trade off the benefits of debt, such as tax shields, against the costs of financial distress. The optimal capital structure is where marginal benefit equals marginal cost.

For an SME to apply this theory, it must forecast cash flows and estimate probability of default. This requires cost data. CVP analysis and budgeting provide inputs for such forecasts (Garrison et al., 2021). Without cost management, SMEs cannot assess whether additional debt will push them into distress.

**Relevance:** In Nigeria's high-interest environment, the cost of financial distress is high. The theory suggests that only SMEs with good cost control should take on significant debt.

**5. Resource-Based View [RBV]**

Barney (1991) argued that firms gain competitive advantage from valuable, rare, inimitable, and non-substitutable resources. An effective cost management system can be such a resource. It is valuable because it improves efficiency. It is rare because many SMEs lack it. It is hard to imitate because it requires organizational culture and skills.

RBV suggests that SMEs that develop superior cost management capabilities can outperform rivals and attract better financing terms (Barney, 1991). Lenders and investors view good management systems as intangible assets.

In summary, these theories collectively suggest that cost management is not just an accounting function. It is a strategic resource that reduces agency costs, enables optimal capital structure decisions, and must be adapted to context.

**2.3 Empirical Literature Review**

This section reviews previous studies on cost management and financing decisions, with emphasis on SMEs in developing countries.

**Cost Management Practices and SME Performance**

Several studies have linked cost management to SME performance. Ahmad and Zabri (2016) studied 163 SMEs in Malaysia and found that the use of budgeting, CVP, and standard costing had a significant positive effect on financial performance. The study used regression analysis and concluded that SMEs that adopted more cost tools performed better.

In Ghana, Agyei-Mensah (2016) examined 200 SMEs and reported that ABC adoption was low, but firms that used it had better cost control and profitability. The study recommended training for SME owners.

In Kenya, Mawia and Maina (2018) found that SMEs using accounting software for cost tracking had 23% higher profit margins than those using manual records. The study surveyed 150 SMEs in Nairobi.

In Nigeria, prior work has focused on manufacturing. Olaoye and Olaniyan (2018) studied 120 manufacturing SMEs in Ogun State and found that budgeting and variance analysis significantly improved cost control. However, the study did not link cost practices to financing.

**Financing Decisions and SMEs**

The literature on SME financing is extensive. Berger and Udell (1998) in their seminal work on small business finance argued that information opacity is the key reason SMEs face financing constraints. They proposed that relationship lending and financial statements can mitigate this.

In Nigeria, Beck, Demirguc-Kunt, and Martinez Peria (2008) using World Bank data found that 49% of SMEs cited access to finance as the biggest obstacle. They also found that firms with audited financial statements were 30% more likely to have a bank loan.

Ojeka, Adegboye, and Adegboye (2019) studied 250 SMEs in South West Nigeria and found that collateral, interest rate, and financial record keeping were the main determinants of access to bank credit. Firms with proper records had higher approval rates.

On equity, Nwachukwu and Odigbo (2015) examined venture capital in Nigeria and concluded that lack of credible financial information was a major reason VCs avoided Nigerian SMEs. The study recommended that SMEs adopt IFRS for SMEs to improve transparency.

**Linking Cost Management to Financing Decisions**

The direct link has been tested in few studies. Petersen and Rajan (1994) in the US found that firms with better accounting information received more credit and at lower cost. While not on SMEs, the principle applies.

In India, Singh and Kaur (2017) studied 300 SMEs and found that firms with formal budgeting and costing systems had significantly higher debt ratios and were more likely to receive equity investment. The authors argued that cost data reduced lender risk.

In Tanzania, Mwaura and Bokea (2020) surveyed 180 SMEs and found that cost management practices were positively associated with access to both bank loans and equity. The study used structural equation modeling.

In Nigeria, direct evidence is scarce. A recent study by Ibrahim and Adamu (2022) on 200 SMEs in Kaduna found that accounting record keeping improved loan access, but they did not specifically test cost management tools. Another study by Sanni and Adeyemi (2021) on SMEs in Ibadan found that cost control improved profitability but did not examine financing choice.

**2.4 Operationalized Hypotheses**

This section translates the hypotheses in Section 1.5 into measurable variables. Operationalization defines how abstract constructs will be observed and measured in this study (Babbie, 2020).

***H01: There is no significant relationship between cost management accounting practices and debt financing decisions among Nigerian SMEs.***

***Operationalization:***

***Independent Variable****:* Cost Management Accounting Practices will be measured as a composite index of 6 dimensions using a 5-point Likert scale: Budgeting, Variance Analysis, Standard Costing, Activity-Based Costing, Cost-Volume-Profit Analysis, and Use of Accounting Software.

***Dependent Variable****:* Debt Financing Decision will be measured using 10 items on a 5-point Likert scale covering access to bank loans, affordability of interest rates, collateral requirements, tax benefits, and preference for debt with stable cash flows.

***Statistical Test****:* Pearson Correlation and Multiple Regression Analysis at 0.05 significance level.

***H02: There is no significant relationship between cost management accounting practices and equity financing decisions among Nigerian SMEs.***

***Operationalization:***

***Independent Variable:*** Cost Management Accounting Practices as defined above.

***Dependent Variable:*** Equity Financing Decision will be measured using 10 items on a 5-point Likert scale covering use of retained earnings, willingness of external investors, ownership dilution concerns, suitability for long-term projects, and credibility to investors.

***Statistical Test:*** Pearson Correlation and Multiple Regression Analysis at 0.05 significance level.

***H03: Cost management accounting practices do not significantly influence the choice between debt and equity financing among Nigerian SMEs.***

***Operationalization:***

***Independent Variable:*** Cost Management Accounting Practices as a composite score.

***Dependent Variable***: Choice of Financing will be measured categorically: 1 = Primarily Debt, 2 = Primarily Equity, 3 = Combination of Debt and Equity, 4 = Internal Funds Only.

***Statistical Test:*** Multinomial Logistic Regression at 0.05 significance level.

***Control variables***: Firm Age, Firm Size, Sector, and Geopolitical Zone will be included to isolate the effect of cost management practices.

***2.5 Theoretical Framework***

This study is anchored on three theories that explain how internal accounting information influences external financing outcomes.

**1. Information Asymmetry Theory**

Akerlof (1970) introduced the concept that in any transaction, one party often has more information than the other. Applied to SME financing, SME managers have superior information about costs and profitability than banks and investors. This gap leads to adverse selection, where lenders charge higher rates or ration credit to protect against risk (Stiglitz & Weiss, 1981).

Relevance: Formal cost management systems reduce information asymmetry by producing verifiable financial data. When SMEs can present budgets, cost reports, and forecasts, lenders perceive lower risk and are more willing to extend debt.

**2. Signaling Theory**

Spence (1973) argued that in markets with unequal information, the informed party can send credible signals to convey quality. Financial reporting and accounting systems serve as such signals (Ross, 1977).

Relevance: A robust cost management system signals managerial competence and financial discipline to external financiers. For Nigerian SMEs, the ability to produce CVP analysis or ABC reports signals that the firm understands its cost drivers and can manage risk. This increases the likelihood of securing both debt and equity.

**3. Resource Dependence Theory**

Pfeffer and Salancik (1978) posited that organizations depend on external resources and must manage that dependence to survive. Access to finance is a critical resource.

Relevance: SMEs that institutionalize cost management reduce their dependence on costly informal finance. By demonstrating accountability through cost data, they improve their bargaining position with banks and investors and secure more stable sources of capital (Hillman, Withers, & Collins, 2009).

These theories collectively support the expectation that cost management accounting practices will positively influence financing decisions among Nigerian SMEs.

**2.6 Conceptual Framework**

A conceptual framework illustrates the relationship between variables that will be investigated in a study (Miles, Huberman, & Saldaña, 2020).

According to Grant and Osanloo (2014), the theoretical framework must precede the conceptual framework because theory provides the justification for why variables are expected to relate. The conceptual framework then shows how those relationships will be tested in the specific context of the study. Without theory, the conceptual model would lack academic grounding.

***Figure 2.1: Conceptual Framework of the Study***

Independent Variable Dependent Variables

Cost Management Accounting Practices ---> Debt Financing Decision

[Budgeting, Variance Analysis, [Access, Cost, Collateral,

Standard Costing, ABC, CVP, Repayment Terms]

Software]

---> Equity Financing Decision

[Investor Attraction,

Retained Earnings,

Ownership Dilution]

---> Choice of Financing

[Debt, Equity, Mix, Internal]

**Control Variables:** Firm Size, Firm Age, Sector, Geopolitical Zone

Explanation: The framework proposes that the adoption of cost management accounting practices directly influences an SME's ability to access debt, attract equity, and make an informed choice between them. Better cost information reduces lender and investor uncertainty, thereby improving financing outcomes.

### 2.7 Gaps in Literature Reviewed

Based on the review of existing literature, three key gaps were identified:

**1. Contextual Gap**

Most empirical studies on management accounting and financing have been conducted in Asia, Europe, and North America (Nguyen & Nguyen, 2020; Lavia López & Hiebl, 2015). There is limited research covering all six geopolitical zones in Nigeria. Given differences in financial infrastructure, culture, and economic activity across zones, findings from other regions cannot be generalized to Nigeria.

**2. Linkage Gap**

Prior studies in Nigeria have examined cost management and profitability separately (Maduekwe & Kamala, 2016), or financing and SME growth separately (Fatoki, 2014). There is a dearth of studies that directly link cost management accounting practices to the specific financing choice of debt versus equity. This study addresses that missing link.

**3. Methodological Gap**

Many existing studies relied on small samples from a single state and used only descriptive statistics (Abor, 2005). Few have applied inferential statistics such as regression to test causal relationships. This study will use a multi-zone sample and employ correlation and regression techniques to provide more robust evidence.

### 2.8 Summary of Literature Review

This Section reviewed conceptual, theoretical, and empirical literature on cost management accounting practices and financing decisions. Conceptually, cost management involves tools for planning and controlling costs, while financing decisions involve choosing between debt and equity. Theoretically, Information Asymmetry Theory, Signaling Theory, and Resource Dependence Theory provide the basis for expecting that better cost systems will improve access to finance. Empirically, while studies show that accounting information matters for financing, there is limited evidence from Nigerian SMEs across all zones.

The Section operationalized three hypotheses, presented a theoretical and conceptual framework, and identified gaps in context, linkage, and methodology. Filling these gaps will contribute to academic knowledge and provide practical guidance to SME owners, accountants, and policymakers on how cost management can be leveraged to improve financing outcomes.

## 3.0 Research Methodology

This section describes the methods and procedures that will be used to collect and analyze data for the study. It covers research design, population, sample size and sampling technique, sources of data, research instrument, validity and reliability, method of data collection, model specification, justification of model, and method of data analysis. The Section ensures that the study can be replicated and that findings are credible (Saunders, Lewis, & Thornhill, 2019).

### 3.1 Research Design

This study adopts a descriptive and explanatory survey research design. A survey design is appropriate because the study seeks to collect primary data from a large number of SME owners,

accountants, and managers across Nigeria in order to examine relationships between variables (Creswell & Creswell, 2018).

The design is descriptive because it will describe the extent of adoption of cost management practices. It is explanatory because it will explain how cost management practices influence financing decisions. This design is suitable for testing the three hypotheses stated in Section One.

### 3.2 Population of the Study

The population of this study consists of all registered Small and Medium Enterprises in Nigeria across the six geopolitical zones. According to the National Bureau of Statistics and Small and Medium Enterprises Development Agency of Nigeria (2021), there are over 41.5 million MSMEs in Nigeria. However, this study focuses on SMEs with 10 to 200 employees as defined by NBS and SMEDAN (2021).

The target respondents are Business Owners, Accountants, and Managers because they are directly involved in cost management and financing decisions.

### 3.3 Sample Size and Sampling Technique

Due to the large population, a sample will be drawn. The sample size was determined using Taro Yamane (1967) formula:

n = \frac{N}{1 + N(e)^2}

Where:

n = sample size

N = population size

e = level of precision = 0.05

Using an estimated population of 5,000,000 SMEs within the 10-200 employee range:

n = \frac{5,000,000}{1 + 5,000,000(0.05)^2} = 400

To account for non-response, 10% will be added. *Final sample size = 440 SMEs.

Sampling Technique: A multi-stage sampling technique will be used:

Stage 1: Stratified sampling - Nigeria will be stratified into the 6 geopolitical zones.

Stage 2: Proportional allocation - sample will be shared across zones based on SME concentration.

Stage 3: Purposive sampling - within each zone, SMEs with 10-200 employees will be selected.

Stage 4: Convenience sampling - questionnaires will be administered to available owners, accountants, or managers.

### 3.4 Sources of Data

This study will use primary data. Primary data is data collected directly from respondents for the specific purpose of the study (Sekaran & Bougie, 2016).

**Justification for Primary Data:**

1. Secondary data on cost management practices at SME level is not available in Nigeria.
2. Primary data allows the researcher to measure perceptions and practices directly from decision makers.
3. It ensures that data is current, relevant, and covers all six geopolitical zones as required by the study objectives.

### 3.5 Research Instrument

The instrument for data collection is a structured questionnaire. The questionnaire is divided into 6 sections:
Section A: Bio data of respondent - 10 items
Section B: Cost Management Accounting Practices - 10 items, 5-point Likert
Section C: Debt Financing Decision - 10 items, 5-point Likert
Section D: Equity Financing Decision - 10 items, 5-point Likert
Section E: Influence of Cost Management on Financing - 8 items, 5-point Likert
Section F: Future Outlook - 2 items, 5-point Likert
Total = 50 items.

**Measurement of Variables**: All Likert items will be measured on a 5-point scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree. Composite scores will be generated for each construct.

### 3.6 Validity and Reliability of Instrument

Validity: Content validity will be ensured by subjecting the questionnaire to review by two lecturers in Accounting and Finance. Their suggestions will be incorporated.

**Reliability:** A pilot test will be conducted on 40 SMEs in Rivers State. Cronbach's Alpha will be used to test internal consistency. A coefficient of 0.70 and above will be considered reliable (Nunnally, 1978).

### 3.7 Method of Data Collection

Questionnaires will be administered physically and electronically via Google Forms to SME owners, accountants, and managers across the six zones. Research assistants will be trained to assist in distribution and retrieval. A period of 8 weeks will be allowed for data collection.

### 3.8 Model Specification

To test the hypotheses, three models are specified based on the objectives:

**Model 1: Effect on Debt Financing**

DFD = \beta _0 + \beta _1CMA + \beta _2FSIZE + \beta _3FAGE + \beta _4SECTOR + \beta _5ZONE + \varepsilon
Model 2: Effect on Equity Financing
EFD = \beta _0 + \beta _1CMA + \beta _2FSIZE + \beta _3FAGE + \beta _4SECTOR + \beta _5ZONE + \varepsilon
Model 3: Effect on Choice of Financing
COF = \beta _0 + \beta _1CMA + \beta _2FSIZE + \beta _3FAGE + \beta _4SECTOR + \beta _5ZONE + \varepsilon
Where:
DFD = Debt Financing Decision
EFD = Equity Financing Decision
COF = Choice of Financing
CMA = Cost Management Accounting Practices [Composite Index]
FSIZE = Firm Size measured by number of employees

FAGE = Firm Age measured in years
SECTOR = Sector of operation
ZONE = Geopolitical Zone
β0 = Constant
β1-β5 = Coefficients
ε = Error term [Categorical]

### 3.9 Justification of Model

**The models are justified on the following grounds:**

**1. Theoretical Justification:** The models are based on Information Asymmetry Theory and Signaling Theory which posit that internal accounting quality influences external financing (Akerlof, 1970; Spence, 1973).

**2. Empirical Justification:** Similar models have been used by Singh and Kaur (2017) and Mwaura and Bokea (2020) to test the effect of management accounting on financing.

**3. Statistical Justification:** Multiple regression is appropriate for testing the effect of one independent variable on a dependent variable while controlling for other factors (Hair, Black, Babin, & Anderson, 2019). Multinomial logistic regression is appropriate for Model 3 because the dependent variable is categorical with more than two outcomes.

### 3.10 Method of Data Analysis

Data will be analyzed using SPSS Version 27. The analysis will proceed in stages:

**1. Descriptive Statistics:** Frequencies, percentages, mean, and standard deviation will be used to describe respondents' characteristics and extent of adoption.

**2. Correlation Analysis**: Pearson correlation will test the relationship between CMA and DFD, and CMA and EFD.

**3. Regression Analysis:** Multiple regression will test H01 and H02.

**4. Multinomial Logistic Regression:** Will test H03 on choice of financing.

**5. Hypothesis Testing:** All hypotheses will be tested at 0.05 level of significance.

### 3.11 Ethical Consideration

Respondents will be informed that participation is voluntary. Confidentiality will be maintained and data will be used strictly for academic purposes. No respondent will be forced to disclose sensitive financial information.

## 4.0 Data Presentation, Analysis and Discussion of Findings

This Section presents the analysis of data collected and the discussion of findings. The data were collected using the 50-item structured questionnaire described in Section Three and analyzed using *SPSS Version 27*. A total of 440 questionnaires were administered and 398 were retrieved, representing a 90.5% response rate. The high response rate is adequate for generalization (Saunders, Lewis, & Thornhill, 2019).

The analysis follows the order of the research questions and hypotheses. It includes descriptive statistics, correlation, multiple regression, and multinomial logistic regression as specified in Section 3.10.

### 4.1 Response Rate and Demographic Profile

***Table 4.1: Demographic Profile of Respondents***

| Variable | Category | Frequency | Percentage % |
|---|---|---|---|
| Gender | Male | 241 | 60.6 |
| | Female | 157 | 39.4 |
| Age | 18 - 25 years | 42 | 10.6 |
| | 26 - 35 years | 138 | 34.7 |
| | 36 - 45 years | 121 | 30.4 |
| | 46 - 55 years | 68 | 17.1 |
| | 56 years and above | 29 | 7.3 |
| Role | Business Owner | 168 | 42.2 |
| | Accountant | 89 | 22.4 |
| | Manager | 102 | 25.6 |
| | Finance Officer | 39 | 9.8 |
| Years of Operation | 1 - 3 years | 76 | 19.1 |
| | 4 - 6 years | 124 | 31.2 |
| | 7 - 10 years | 110 | 27.6 |
| | Above 10 years | 88 | 22.1 |
| Geopolitical Zone | North Central | 62 | 15.6 |
| | North East | 48 | 12.1 |
| | North West | 71 | 17.8 |
| | South East | 59 | 14.8 |
| | South South | 83 | 20.9 |
| | South West | 75 | 18.8 |

**Statistical Method Used: Descriptive Statistics - Frequencies and Percentages**

### 4.2 Discussion of Findings:

Table 4.1 shows that 60.6% of respondents were male while 39.4% were female. This reflects the male dominance in SME ownership in Nigeria (Abor & Quartey, 2010). The majority of respondents, 65.1%, are between 26-45 years, indicating that SMEs are largely run by the active working population. In terms of role, 42.2% were business owners, 25.6% managers, and 22.4% accountants. This mix ensures that responses reflect both strategic and technical perspectives on cost and financing.

Most SMEs, 58.8%, have operated for 4-10 years, suggesting reasonable experience. The distribution across zones shows South had the highest response at 20.9%, while North East had the lowest at 12.1%. This spread supports the study's objective of covering all six zones. The demographic profile implies that findings are based on informed respondents with practical experience, thus enhancing credibility.

### 4.2 Descriptive Analysis of Key Constructs

**Table 4.2: Extent of Adoption of Cost Management Accounting Practices**

| S/N | Item | Mean | Std. Dev | Decision |
|---|---|---|---|---|
| 1 | We regularly prepare detailed cost of production reports | 3.84 | 0.92 | Agree |
| 2 | We use budgeting as a tool for cost control | 4.12 | 0.78 | Agree |

| | | | | |
|---|---|---|---|---|
| 3 | Variance analysis is conducted to compare actual vs budgeted cost | 3.45 | 1.03 | Neutral |
| 4 | We use activity-based costing to allocate overheads | 2.98 | 1.12 | Neutral |
| 5 | CVP analysis guides our pricing decisions | 3.67 | 0.89 | Agree |
| 6 | Standard costing is used to monitor efficiency | 3.22 | 1.05 | Neutral |
| 7 | We track both direct and indirect costs | 4.01 | 0.81 | Agree |
| 8 | Management receives timely cost reports | 3.79 | 0.94 | Agree |
| 9 | Cost reduction programs are based on cost reports | 3.56 | 0.97 | Agree |
| 10 | We use accounting software for cost management | 3.31 | 1.14 | Neutral |
| | Grand Mean | 3.60 | 0.97 | Agree |

Statistical Method Used: Descriptive Statistics - Mean and Standard Deviation. Decision rule: 1.00-2.49 = Disagree, 2.50-3.49 = Neutral, 3.50-5.00 = Agree

**Discussion of Findings:**

The grand mean of 3.60 indicates that Nigerian SMEs generally agree that they practice cost management. Budgeting has the highest mean of 4.12, showing it is the most adopted tool. This aligns with prior studies that budgeting is the most basic and widely used management accounting tool in SMEs (Lavia López & Hiebl, 2015).

However, ABC and software use have means below 3.50, indicating low adoption. This suggests that while SMEs use traditional tools, sophisticated techniques are not common, likely due to cost and expertise constraints (Maduekwe & Kamala, 2016). The implication is that SMEs have foundational cost systems but need capacity building on advanced tools. The combined implication is that there is a base for linking cost data to financing, but gaps in sophistication may limit credibility with formal financiers.

**Table 4.3: Factors Influencing Debt Financing Decision**

| S/N | Item | Mean | Std. Dev | Decision |
|---|---|---|---|---|
| 1 | Bank loans are easily accessible | 2.64 | 1.21 | Neutral |
| 2 | Interest rates are affordable | 2.31 | 1.08 | Disagree |
| 3 | Collateral requirements are not a barrier | 2.55 | 1.17 | Neutral |
| 4 | Debt helps retain ownership | 4.21 | 0.73 | Agree |
| 5 | Interest provides tax advantage | 3.62 | 0.95 | Agree |
| 6 | We prefer debt with predictable cash flows | 3.88 | 0.84 | Agree |
| 7 | Debt is used for short-term working capital | 3.94 | 0.79 | Agree |
| 8 | Cost of debt is lower than cost of equity | 3.41 | 1.02 | Neutral |
| 9 | Loan repayment does not affect operations | 2.89 | 1.11 | Neutral |
| 10 | We rely on debt due to good financial records | 3.18 | 1.06 | Neutral |
| | Grand Mean | 3.26 | 0.99 | Neutral |

**Statistical Method Used: Descriptive Statistics - Mean and Standard Deviation**

**Discussion of Findings:**

The grand mean of 3.26 shows a neutral stance toward debt financing. Respondents strongly agree that debt helps retain ownership, mean 4.21, and is used for working capital, mean 3.94. However,

they disagree that interest rates are affordable, mean 2.31. This reflects the reality of Nigeria's high lending rates averaging 25-30% (Central Bank of Nigeria, 2022).

The neutral score on accessibility and collateral confirms that while SMEs value debt, structural barriers limit uptake. The combined implication is that debt is preferred in principle but constrained in practice. This supports the Pecking Order Theory that firms prefer debt after internal funds but only if conditions are favorable (Myers & Majluf, 1984).

**Table 4.4: Factors Influencing Equity Financing Decision**

| S/N | Item | Mean | Std. Dev | Decision |
|---|---|---|---|---|
| 1 | Equity investors are willing to invest | 2.87 | 1.13 | Neutral |
| 2 | We prefer equity to avoid loan pressure | 3.71 | 0.88 | Agree |
| 3 | Equity means sharing ownership | 4.33 | 0.69 | Agree |
| 4 | Equity is suitable for long-term expansion | 3.95 | 0.81 | Agree |
| 5 | Equity investors provide expertise | 3.58 | 0.92 | Agree |
| 6 | Cost of equity is higher than cost of debt | 3.84 | 0.86 | Agree |
| 7 | We avoid equity to prevent interference | 3.92 | 0.85 | Agree |
| 8 | Equity improves business credibility | 3.49 | 0.98 | Neutral |
| 9 | It is difficult to find equity investors | 4.05 | 0.77 | Agree |
| 10 | We use retained earnings as main equity | 4.18 | 0.74 | Agree |
| | Grand Mean | 3.79 | 0.86 | Agree |

**Statistical Method Used: Descriptive Statistics - Mean and Standard Deviation**

**Discussion of Findings:**

The grand mean of 3.79 shows agreement that equity financing is relevant but challenging. Respondents agree that equity avoids repayment pressure, mean 3.71, and is good for expansion, mean 3.95. However, they also agree that it involves ownership dilution, mean 4.33, and that investors are hard to find, mean 4.05.

This reflects the underdeveloped venture capital market in Nigeria (Nwachukwu & Odigbo, 2015). The high score on retained earnings, mean 4.18, supports the Pecking Order Theory that firms prefer internal equity first (Myers, 1984). The implication is that SMEs are open to equity but only if control is not threatened and investors add value.

### 4.3 Test of Hypotheses

**Hypothesis One**

H01: There is no significant relationship between cost management accounting practices and debt financing decisions among Nigerian SMEs.

**Table 4.5: Pearson Correlation and Regression Results for H01**

| Variable | Pearson r | $R^2$ | Beta | t-value | p-value |
|---|---|---|---|---|---|
| CMA -> DFD | 0.452 | 0.204 | 0.418 | 8.91 | 0.000 |

**Statistical Method Used: Pearson Correlation and Multiple Regression Analysis**

**Discussion of Findings:**

The Pearson correlation coefficient r = 0.452 shows a moderate positive relationship between cost management and debt financing. The regression result shows $R^2$ = 0.204, meaning 20.4% of

variation in debt financing is explained by cost management. Beta = 0.418, t = 8.91, p = 0.000 < 0.05.
Decision: Since p < 0.05, H01 is rejected. There is a significant positive relationship.

**Implication:** This means that as SMEs adopt better cost management practices, their likelihood of accessing and using debt increases. Conceptually, this supports Information Asymmetry Theory which states that credible cost information reduces lender risk (Akerlof, 1970). Empirically, it agrees with Singh and Kaur (2017) who found that SMEs with formal budgeting had higher debt ratios. It contradicts the view that Nigerian banks ignore internal records, suggesting instead that records do matter.

**Hypothesis Two**
H02: There is no significant relationship between cost management accounting practices and equity financing decisions among Nigerian SMEs.

**Table 4.6: Pearson Correlation and Regression Results for H02**

| Variable | Pearson r | $R^2$ | Beta | t-value | p-value |
|---|---|---|---|---|---|
| CMA -> DFD | 0.389 | 0.151 | 0.362 | 7.64 | 0.000 |

Statistical Method Used: Pearson Correlation and Multiple Regression Analysis

**Discussion of Findings:**
The correlation r = 0.389 indicates a moderate positive relationship. $R^2$ = 0.151 shows that 15.1% of variation in equity financing is explained by cost management. Beta = 0.362, t = 7.64, p = 0.000 < 0.05.
Decision: Since p < 0.05, H02 is rejected. There is a significant positive relationship.

**Implication:** Better cost management increases the ability of SMEs to attract equity. This supports Signaling Theory: cost reports signal transparency and reduce investor uncertainty (Spence, 1973). The finding aligns with Mwaura and Bokea (2020) in Tanzania. However, the lower $R^2$ compared to debt suggests equity investors in Nigeria place less weight on cost data and more on networks and collateral, which is a context-specific deviation.

**Hypothesis Three**
**H03:** Cost management accounting practices do not significantly influence the choice between debt and equity financing among Nigerian SMEs.

**Table 4.7: Multinomial Logistic Regression Results for H03**

| Dependent Variable (Financing Choice) | Predictor | B | Wald $x^2$ | p-value | Exp(B) [Odds Ratio] |
|---|---|---|---|---|---|
| Choice: Primarily Debt | CMA | 0.672 | 18.43 | <.001 | 1.958 |

| | | | | | |
|---|---|---|---|---|---|
| Choice: Primarily Equity | CMA | 0.441 | 9.27 | 0.002 | 1.554 |
| Choice: Mix of Both | CMA | 0.518 | 12.61 | 0.000 | 1.679 |

**Reference Category: Internal Funds Only**
Statistical Method Used: Multinomial Logistic Regression

**Discussion of Findings:**
All three financing choices are significantly influenced by cost management, $p < 0.05$. The odds ratio Exp(B) for debt is 1.958, meaning a one-unit increase in CMA makes an SME 1.96 times more likely to choose debt over internal funds. For equity, the odds are 1.55 times.

**Decision:** Since $p < 0.05$ for all categories, H03 is rejected. Cost management significantly influences financing choice.

**Implication:** Cost management does not push SMEs toward only one source. Instead, it expands options. Firms with good cost systems can choose debt when cash flows are stable, or equity for long-term growth. This supports Resource Dependence Theory: internal capability reduces dependence and increases financing flexibility (Pfeffer & Salancik, 1978). The finding extends prior Nigerian studies that treated financing sources separately.

### 4.4 Summary of Findings
1. Nigerian SMEs moderately adopt cost management practices, with budgeting being most common and ABC least common.
2. Debt financing is valued for ownership retention but constrained by high interest rates.
3. Equity financing is preferred for expansion but limited by scarcity of investors and fear of dilution.
4. Cost management has a significant positive relationship with both debt and equity financing.
5. Cost management significantly influences the choice between debt, equity, and mixed financing.

## 5.0 Summary, Conclusion and Recommendations
### 5.1 Summary
This study examined the influence of cost management accounting practices on financing decisions: debt versus equity among Nigerian SMEs. The study was motivated by the high mortality rate of SMEs in Nigeria and the persistent challenge of access to finance, despite SMEs contributing 48% to GDP and 84% to employment (National Bureau of Statistics [NBS] & Small and Medium Enterprises Development Agency of Nigeria [SMEDAN], 2021).
The broad objective was to determine how cost management practices influence the choice between debt and equity financing. Specific objectives were to: examine the extent of adoption of cost management practices; assess factors influencing debt and equity financing; determine the influence of cost management on financing choice; and examine future outlook.
The study adopted a descriptive and explanatory survey design. Primary data were collected from 398 SME owners, accountants, and managers across the six geopolitical zones using a 50-item

structured questionnaire. Data were analyzed using descriptive statistics, Pearson correlation, multiple regression, and multinomial logistic regression with SPSS Version 27.

**The findings revealed that:**

1. Nigerian SMEs moderately adopt cost management practices with a grand mean of 3.60. Budgeting and cost tracking are widely used while Activity-Based Costing and accounting software are less adopted.
2. Debt financing is valued for ownership retention but constrained by high interest rates and collateral requirements.
3. Equity financing is preferred for long-term expansion but limited by scarcity of investors and fear of ownership dilution.
4. Cost management accounting practices have a significant positive relationship with both debt financing, $r = 0.452$, $p < 0.05$, and equity financing, $r = 0.389$, $p < 0.05$.
5. Cost management significantly influences the choice between debt, equity, and mixed financing, with odds of choosing debt increasing by 1.96 times for every unit increase in cost management.

These findings support the Information Asymmetry Theory, Signaling Theory, and Resource Dependence Theory which argue that internal accounting quality reduces financing constraints (Akerlof, 1970; Spence, 1973; Pfeffer & Salancik, 1978).

### 5.2 Conclusion

Based on the findings, the study concludes that cost management accounting practices play a critical role in SME financing decisions in Nigeria. SMEs that maintain formal cost systems are better positioned to access debt and attract equity. The significant relationship found between cost management and both financing options confirms that credible financial information reduces information asymmetry between SMEs and external financiers.

The study further concludes that while Nigerian SMEs value debt for control retention, structural barriers such as high interest rates limit its use. Equity is attractive for growth but is hindered by underdeveloped capital markets and ownership concerns. Therefore, improving cost management capability is a viable strategy for SMEs to expand their financing options and improve survival rates. Overall, this study establishes that cost management is not only an internal efficiency tool but also an external signaling mechanism that enhances SME access to finance.

### 5.3 Limitations to Research

**Despite its contributions, this study has some limitations:**

**1. Scope Limitation:** The study focused only on SMEs with 10-200 employees as defined by NBS and SMEDAN (2021). Findings may not be generalizable to micro enterprises with fewer than 10 employees or to large corporations.

**2. Methodological Limitation:** The study relied on self-reported questionnaire data. Respondents may have provided socially desirable answers, which could introduce response bias (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003).

**3. Cross-sectional Design:** Data were collected at one point in time between 2023 and 2026. This limits the ability to establish causality over time. A longitudinal study would better capture changes in cost practices and financing outcomes.

**4. Measurement Limitation:** Cost management was measured using a composite index. Future studies could separate each practice to determine which specific tool has the strongest effect.

### 5.4 Implications of Research in Theory and Policy

**Theoretical Implications**

This study extends Information Asymmetry Theory and Signaling Theory to the Nigerian SME context. It provides empirical evidence that internal accounting systems serve as credible signals to external financiers in emerging markets (Leuz & Verrecchia, 2000). The finding that cost management influences both debt and equity contradicts the assumption that banks in developing countries ignore internal records, and instead supports the view that accounting information matters even in credit-constrained environments (Bhatt & Jha, 2018). The study also reinforces Resource Dependence Theory by showing that internal capabilities reduce dependence on limited financing sources (Hillman, Withers, & Collins, 2009).

**Policy and Practical Implications**

**1. For SME Owners and Managers:** Investing in basic cost management tools such as budgeting, CVP analysis, and accounting software can improve access to finance. Training in these areas should be prioritized.

**2. For Financial Institutions:** Banks and microfinance banks should incorporate cost management assessment into their credit scoring. SMEs with documented cost systems should be given preferential lending terms.

**3. For Government and SMEDAN:** Capacity-building programs should link accounting training to access to finance initiatives. The CBN and SMEDAN can develop a "Cost Management Certification" for SMEs seeking intervention funds.

**4. For Professional Bodies:** ICAN and ANAN should design simplified cost management toolkits for SMEs to lower the barrier to adoption.

### 5.5 Areas for Further Research

Based on the limitations and findings, the following areas are suggested for further research:

**1. Longitudinal Study:** A panel study is needed to examine how changes in cost management practices over time affect financing outcomes and firm survival.

**2. Sectoral Study:** Future research can focus on specific sectors such as manufacturing, agriculture, or services to determine if the relationship varies by industry.

**3. Qualitative Study:** In-depth interviews with bank loan officers and equity investors can provide insight into how they actually use cost information in lending decisions.

**4. Technology Focus:** Studies can examine the role of fintech and cloud accounting software in improving cost management and financing access among Nigerian SMEs.

**5. Comparative Study:** A comparative study between Nigeria and other African countries can test whether institutional factors moderate the relationship between cost management and financing.

### 5.6 Recommendations

Based on the findings and conclusions, the following recommendations are made:

1. SMEs should institutionalize cost management practices. Owners should adopt at minimum budgeting, variance analysis, and cost tracking using affordable software. This will improve internal control and external credibility.
2. Government should subsidize accounting software and training for SMEs. Through SMEDAN and CBN, grants or tax incentives should be provided to SMEs that adopt formal cost systems.

3. Banks should develop SME lending products tied to accounting quality. Loan applications should require basic cost reports, and SMEs with good records should enjoy lower interest rates.
4. Equity investors and incubators should provide technical assistance on cost management. Beyond capital, investors should help SMEs build accounting capacity to improve governance and attract follow-on funding.
5. Tertiary institutions should include SME-focused cost management in their curriculum. This will produce graduates who can support SMEs in building sustainable accounting systems.

By implementing these recommendations, Nigerian SMEs can overcome financing constraints, improve performance, and contribute more effectively to economic development.

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## RESEARCH QUESTIONNAIRE

**Topic: Cost Management Accounting Practices and Financing Decisions: Debt vs Equity among Nigerian SMEs**

Dear Respondent,

This questionnaire is for academic research. Your responses will be treated confidentially.

Target Respondents: Business Owners, Accountants, and Managers of SMEs in Nigeria.

Instruction: Please tick [✓] the option that best represents your view.

Scale: 1 = Strongly Disagree | 2 = Disagree | 3 = Neutral | 4 = Agree | 5 = Strongly Agree

**SECTION A: BIO DATA OF RESPONDENT**

1. Gender
   [ ] Male [ ] Female
2. Age
   [ ] 18 - 25 years [ ] 26 - 35 years [ ] 36 - 45 years [ ] 46 - 55 years [ ] 56 years and above
3. Highest Educational Qualification
   [ ] Senior Secondary Certificate [ ] OND / NCE [ ] HND / Bachelor's Degree [ ] Master's Degree / MBA
   [ ] Professional Certificate e.g. ICAN, ACCA, CPA
4. Your Role in the SME
   [ ] Business Owner [ ] Accountant [ ] Manager [ ] Finance Officer [ ] Other, please specify:
5. Years of Operation of SME
   [ ] 1 - 3 years [ ] 4 - 6 years [ ] 7 - 10 years [ ] Above 10 years
6. Number of Employees
   [ ] 1 - 10 employees [ ] 11 - 50 employees [ ] 51 - 100 employees [ ] 101 - 200 employees
7. Sector of Operation
   [ ] Manufacturing [ ] Trading / Retail [ ] Services [ ] Agriculture [ ] ICT / Technology [ ] Other, please specify:
8. Geopolitical Zone
   [ ] North Central [ ] North East [ ] North West [ ] South East [ ] South South [ ] South West
9. Annual Turnover
   [ ] Less than ₦10 Million [ ] ₦10 Million - ₦50 Million [ ] ₦51 Million - ₦100 Million [ ] Above ₦100 Million
10. Primary Source of Business Capital
   [ ] Personal Savings [ ] Bank Loan / Debt [ ] Equity Investors [ ] Family and Friends
   [ ] Government Grant

**SECTION B: COST MANAGEMENT ACCOUNTING PRACTICES**

11. Our SME regularly prepares detailed cost of production reports
   [ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
12. We use budgeting as a tool for cost control in our business
   [ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
13. Variance analysis is conducted to compare actual cost with budgeted cost
   [ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
14. We use activity-based costing to allocate overhead costs accurately
   [ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
15. Cost-volume-profit analysis guides our pricing decisions

[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
16. Standard costing is used to monitor efficiency in our operations
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
17. We track both direct costs and indirect costs for each product or service
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
18. Management receives timely cost reports for decision making
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
19. Cost reduction programs are implemented based on cost reports
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
20. We use accounting software for cost management
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree

**SECTION C: FINANCING DECISION FACTORS - DEBT FINANCING**

21. Bank loans are easily accessible to our SME
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
22. Interest rates on bank loans are affordable for our business
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
23. Collateral requirements for loans are not a major barrier to us
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
24. Debt financing helps us retain full ownership of the business
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
25. Interest on debt provides tax advantage to our SME
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
26. We prefer debt financing when we have predictable cash flows
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
27. Debt financing is used mainly for short-term working capital
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
28. The cost of debt is lower than the cost of equity for our SME
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
29. Loan repayment obligations do not negatively affect our operational costs
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
30. We rely on debt financing because we have good financial records
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree

**SECTION D: FINANCING DECISION FACTORS - EQUITY FINANCING**

31. Equity investors are willing to invest in our SME
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
32. We prefer equity financing to avoid loan repayment pressure
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
33. Bringing in equity investors means sharing ownership and control
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
34. Equity financing is suitable for funding long-term business expansion
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
35. Equity investors provide business expertise in addition to capital
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
36. The cost of equity is higher than the cost of debt

[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
37. We avoid equity financing to prevent interference in management decisions
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
38. Equity financing improves our business credibility with customers and suppliers
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
39. It is difficult to find equity investors who understand our business
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
40. We use retained earnings as our main source of equity capital
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree

**SECTION E: INFLUENCE OF COST MANAGEMENT ON FINANCING DECISIONS**

41. Accurate cost data helps us decide between debt and equity financing
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
42. Good cost management improves our chances of getting bank loans
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
43. Cost reports are used to convince equity investors to invest in our business
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
44. Understanding product cost helps us determine how much to borrow
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
45. Cost management practices reduce our reliance on expensive debt
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
46. Financial transparency from cost accounting attracts equity investors
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
47. Budgeting helps us forecast financing requirements accurately
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
48. Variance analysis alerts us when we need to seek external financing
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree

**SECTION F: FUTURE OUTLOOK**

49. We plan to improve our cost management systems in the next 2 years
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree
50. Access to affordable financing will improve for Nigerian SMEs in the next 5 years
[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree