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ARTICLE INFO	Bitila Shosha, Skender Uku, Armela Anamali and Romeo Mano (2026). Financial management determinants of revenue and employment in Albanian SMES: An empirical analysis. *Investment Management and Financial Innovations*, *23*(1), 108-123. doi: 10.21511/imfi.23(1).2026.09
DOI	http://dx.doi.org/10.21511/imfi.23(1).2026.09
RELEASED ON	Monday, 26 January 2026
RECEIVED ON	Tuesday, 02 September 2025
ACCEPTED ON	Tuesday, 13 January 2026
LICENSE	This work is licensed under a Creative Commons Attribution 4.0 International License
JOURNAL	"Investment Management and Financial Innovations"
ISSN PRINT	1810-4967
ISSN ONLINE	1812-9358
PUBLISHER	LLC “Consulting Publishing Company “Business Perspectives”
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

NUMBER OF REFERENCES	NUMBER OF FIGURES	NUMBER OF TABLES
85	0	9

BUSINESS PERSPECTIVES

LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sumy, 40022, Ukraine

www.businessperspectives.org

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FINANCIAL MANAGEMENT DETERMINANTS OF REVENUE AND EMPLOYMENT IN ALBANIAN SMEs: AN EMPIRICAL ANALYSIS

Abstract

Small and medium-sized enterprises (SMEs) are crucial to Albania's economic growth and employment generation; however, their performance is hindered by weaknesses in financial management. The purpose of this study is to examine how specific financial practices determine firm-level outcomes in terms of revenue and employment. A quantitative methodology was applied, using survey data from 86 SMEs processed through correlation analysis, ANOVA, and linear regression models. The results show that business financing exerts the strongest positive effect on employment (B = 10.098), followed by accounting information systems (B = 7.3), while cash management has a negative impact (B = −5.408). Regarding revenue, business financing again demonstrates a significant positive influence (B = 1.306), with client management also contributing positively (B = 0.284). A univariate regression confirms a strong positive relationship between revenue and employment, with revenue influencing employment at a coefficient of 7.178. These findings highlight that structured financing and accounting systems are critical drivers of SME performance, while efficiency gains in cash management may reduce workforce size. The study concludes that strengthening financial governance is essential for enhancing the sustainability and competitiveness of Albanian SMEs.

Keywords liquidity, financing, accounting, investment, resilience, efficiency, correlation, regression

JEL Classification G32, M41, L25, C10

Type of the article: Research Article

Received on: 2nd of September, 2025
Accepted on: 13th of January, 2026
Published on: 26th of January, 2026

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Conflict of interest statement:
Author(s) reported no conflict of interest

INTRODUCTION

Small and medium-sized enterprises (SMEs) represent the largest share of the Albanian business sector and play an irreplaceable role in generating employment and driving economic growth. However, their capacity to ensure sustainability and long-term development is often limited by weaknesses in financial management. The scientific problem addressed here concerns the mismatch between the strategic importance of SMEs and their restricted ability to secure stable performance through effective financial governance. Heavy reliance on cash-based transactions, limited access to financing, and underdeveloped accounting and reporting systems expose these firms to uncertainty and reduced efficiency. Financial management emerges as a multidimensional construct that encompasses liquidity, financing, investment, client relations, and accounting practices. While international scholarship highlights the positive impact of structured financing and advanced accounting systems on firm performance, Albanian SMEs continue to face constraints in applying such practices. This creates the scientific need to clarify how specific financial dimensions translate into measurable outcomes such as revenue growth and employment capacity. Within this framework, the study is situated in a broader analytical problem: identifying the causal mechanisms through which financial management practices affect the resilience

http://dx.doi.org/10.21511/imfi.23(1).2026.09

and competitiveness of SMEs in Albania. By focusing on structural and functional weaknesses in financial governance, the research aims to contribute to a deeper understanding of the determinants of firm-level performance in a developing economy. Moreover, the problem acquires particular relevance in the context of Albania's ongoing economic transition and integration into wider European markets. SMEs are expected to adapt to increasingly complex financial environments, where efficiency, transparency, and access to diversified funding sources are prerequisites for competitiveness. The inability to meet these requirements risks widening the gap between Albanian enterprises and their regional counterparts, making the scientific investigation of financial management practices essential for both academic inquiry and policy formulation.

1. LITERATURE REVIEW AND HYPOTHESES

The financial management of small and medium-sized enterprises (SMEs) has emerged as a central theme in contemporary scholarship, reflecting its decisive role in ensuring business survival, competitiveness, and sustainable growth. Beyond the importance of human resources and technology, financial practices are increasingly regarded as a critical determinant of stability and resilience in dynamic markets. As Atrill and McLaney (2019) and Nthenge and Ringera (2017) emphasize, effective financial management provides the foundation for strategic decision-making, while the adoption of modern techniques has allowed firms to enhance efficiency and adapt to rapidly changing environments. Within this context, research has progressively shifted toward examining the multidimensional nature of financial management, analyzing how its interrelated components shape the performance and long-term development of SMEs (Gitman et al., 2015; Van Auken, 2005; OECD, 2020). In Albania, SMEs represent the majority of registered businesses and contribute significantly to GDP and job creation, yet they remain vulnerable to financial instability, informality, and limited access to capital. These challenges are compounded by weak financial reporting practices, underutilized accounting systems, and a reliance on cash-based operations. The COVID-19 pandemic and subsequent global disruptions further exposed these structural weaknesses, reinforcing the need for targeted research into the internal financial mechanisms that shape SME performance (OECD, 2024; World Bank, 2019; Shosha et al., 2022).

One of the most extensively discussed aspects is working capital and cash flow management. Empirical evidence consistently confirms its influence on profitability, solvency, and liquidity (Deloof, 2003; Lazaridis & Tryfonidis, 2006; Riri, 2019; Han, 2021). Weaknesses in forecasting and planning undermine the ability of SMEs to meet short-term obligations, whereas structured working capital practices improve financial stability and overall performance (Somathilake & Pathirawasam, 2020; Tharmini & Lakshan, 2021; Jupe et al., 2022). This relationship becomes particularly salient in volatile contexts, where effective financial planning enhances survival prospects (Sharma & Kumar, 2011).

Closely related to liquidity management is the effective governance of customer relations. SMEs frequently encounter challenges in client acquisition, service delivery, and payment collection. Scholars argue that long-term financial stability requires the institutionalization of structured policies and reporting mechanisms in customer management. Becker et al. (2009) underscore the role of strong client relationships in ensuring stability in resource-constrained environments, while Jayachandran et al. (2005) highlight the contribution of advanced customer relationship management (CRM) systems to financial outcomes and customer loyalty. Nevertheless, empirical findings also suggest a tension between customer orientation (CO) and entrepreneurial orientation (EO). SMEs that overemphasize CO may achieve short-term returns but risk hindering long-term growth. Balancing both orientations is thus considered a precondition for sustainable expansion and innovation (Eggers et al., 2013; Zhou et al., 2005).

Inventory management constitutes another pillar of financial performance, with direct implications for liquidity and profitability. Efficient practices reduce costs associated with storage, depreciation,

and insurance, while optimizing working capital. Empirical studies demonstrate that SMEs that maintain balanced inventory levels and shorter receivable periods report stronger performance and greater resilience to market fluctuations (Abdulrasheed et al., 2011; Jindrichovska, 2013; Raheman & Nasr, 2007; Chen et al., 2005).

The literature also highlights investment management as a determinant of long-term competitiveness. A balanced approach to short-term and long-term assets supports liquidity on the one hand and resilience on the other. However, evidence suggests that SMEs often lack structured planning capacity and adequate access to capital markets, which constrains their ability to invest effectively (Kilonzo & Dennis, 2015; Sommer, 2024). Inadequate financial planning and weak investment strategies negatively affect both survival and competitiveness (Fatoki, 2014; Palacín-Sánchez et al., 2022), whereas firms employing modern techniques for evaluating long-term investments record significantly higher financial performance (Wijewardena & De Zoysa, 2001; Pandey, 2010).

The question of financing remains central within SME research. Traditional sources such as owner equity and bank loans continue to dominate, yet the increasing bureaucratic and cost-related barriers have heightened attention to alternative mechanisms. The emergence of FinTech has transformed this debate by facilitating access to capital, reducing transaction costs, and increasing transparency. Empirical studies show that peer-to-peer lending, equity crowdfunding, and other digital solutions have become vital mechanisms for SMEs to diversify their funding sources and reduce dependency on traditional banking institutions (Utami & Sitanggang, 2021; Gomber et al., 2018; OECD, 2020; Zetzsche et al., 2020; Chen et al., 2019).

Finally, accounting information systems and financial reporting are increasingly recognized as essential tools for enhancing transparency, governance, and decision-making. The acceleration of globalization and digitalization has prompted SMEs to adopt advanced technologies such as ERP systems, cloud accounting, and automated reporting. These systems improve accuracy, efficiency, and stakeholder trust (Collis & Jarvis, 2002; Granlund, 2011; Dai & Vasarhelyi, 2017). More recently, artificial intelligence has further transformed accounting practices, automating financial analysis and reducing human error (Nkwinika & Akinola, 2023; Olamide, 2024). Nonetheless, barriers such as high costs, limited expertise, and resistance to change persist, particularly in developing contexts, thereby constraining the potential benefits of technological adoption (Chouki et al., 2020).

Taken together, the literature portrays financial management as a multidimensional construct encompassing liquidity, customer and inventory governance, investment strategies, financing, and reporting practices. Each dimension contributes not only to immediate operational efficiency but also to long-term sustainability and competitiveness. The convergence of evidence underscores that the effective integration of these practices, combined with technological innovation, is indispensable for strengthening SME resilience in an increasingly uncertain and dynamic global economy.

While global research has extensively examined financial management in SMEs, its application and impact within the Albanian business environment remain insufficiently explored. This study seeks to fill that gap by evaluating how core financial practices affect employment levels and business revenue among Albanian SMEs. Accordingly, three hypotheses are proposed to test the statistical relationships between these financial dimensions and firm performance. Drawing on these theoretical insights, the study evaluates whether key financial management practices ranging from liquidity and client governance to financing and accounting systems exert measurable effects on SME performance in terms of employment and revenue. Accordingly, the following null hypotheses are formulated in line with the econometric models applied:

$H_{i\text{-}0}$: *The determining factors (Cash Mgmt., Credit Sales Mgmt., Inventory Mgmt., Long-term Assets Mgmt., Business Financing, AIS, and Financial Rep.) included in the model do not have a statistically significant effect on Employment Headcount in Albanian SMEs.*

$H_{ii\text{-}0}$: *The determining factors (Cash Mgmt., Credit*

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Sales Mgmt., Inventory Mgmt., Long-term Assets Mgmt., Business Financing, AIS, and Financial Rep.) included in the model do not have a statistically significant effect on Revenue in Albanian SMEs.

Hiii-0: The variables of Revenue and Employment Headcount do not significantly influence one another in SME businesses.

2. METHODOLOGY

This study employs a mixed-methods approach, integrating quantitative and qualitative data to ensure a more comprehensive and in-depth understanding of the phenomenon under examination. The sources used span a wide range of literature, including peer-reviewed articles published in national and international journals, as well as empirical studies and theoretical contributions addressing various aspects of financial management in small and medium-sized enterprises. This has enabled a thorough and balanced analysis of the topic, grounded in reliable, up-to-date, and scientifically valuable literature within the field of financial management. Through this systematic inquiry, we aim to establish a solid theoretical foundation that will support the subsequent analyses and findings of the paper. Regarding the econometric methodology applied, a causal approach has been adopted, combining descriptive and inferential statistical methods to analyze and interpret the relationships between financial management variables and SME performance. Quantitative data were processed using SPSS software, version 20, which facilitates frequency analysis, means, standard deviations, and the application of inferential tests such as Pearson correlation, t-tests, and linear regression analysis. This approach enables the identification of statistically significant and direct effects between financial management practices and performance indicators (Field, 2013; Pallant, 2020). During the methodology design phase, sampling options were also discussed, leading to the selection of a specific sector within the field of financial management in SMEs for the purposes of this study. The survey was distributed randomly to 120 businesses across the country that possessed a verified official email address. According to INSTAT (2024), the total number of active SMEs in Albania in 2023 was 7,462. Based on the Raosoft sample size calculator, a sample of 120 businesses yields a margin of error of 5.65%, allowing for statistical inference with a 95% confidence level. Nevertheless, only 86 businesses responded to the survey, due to technical limitations or other unspecified factors. Consequently, the reduced response rate increased the margin of error to 10.51%, as calculated using the same statistical tool. The independent variables included in the model are not exhaustive of the broader situation; however, they offer a starting point for future research directions within the field. At its core, financial management revolves around money-it drives the business cycle, informs investment planning, shapes capital structure, and warrants a dedicated focus within financial reporting. This ensured that the data collected were relevant and well-targeted to the intended context, making them more useful for subsequent analysis and findings.

3. RESULTS

This section tests hypotheses and integrates both quantitative and qualitative data in a synthesized manner. The analysis of results was conducted using statistical software supported by statistical tests such as the t-test, correlation analysis, ANOVA, and multinomial regression analysis. In detail, the study focuses on identifying the determining factors of revenue and employment levels in SMEs. Table 1 indicates strong and moderate positive correlations among most of the determining factors included in the study, except for "*Cash Management*," which shows weaker associations with the majority of other factors, and the relationships between "*Credit Sales Management*" and "*Inventory Management*," as well as between "*AIS*" and "*Business Financing*".

Based on the correlation coefficients and their statistical significance, these indicators reflect structural deficiencies in the financial management of SMEs in Albania. Such deviations may signal underlying vulnerabilities that heighten the risk of business failure (Hamza et al., 2015) or reveal tendencies toward informal economic practices (Doko & Shkurti, 2025).

To assess the hypotheses, the study uses the three-year average of these two indicators, based on the strong correlation between them in Table 2. The use of multi-year financial averages, rather than single-year data, is justified by the need to accurately reflect the actual performance of the enterprise, minimizing the impact of seasonal

Table 1. Correlative bivariate relationships between the variables included in the study

Variables	PC	Cash Mgmt.	Credit Sales Mgmt.	Inventory Mgmt.	Long-term Assets Mgmt.	Business Financing	AIS	Financial Rep.
Cash Mgmt.	PC	1						
	Sig. (2–t)							
Credit Sales Mgmt.	PC	–.387**	1					
	Sig. (2–t)	.000						
Inventory Mgmt.	PC	.231*	.100	1				
	Sig. (2–t)	.033	.358					
Long-term Assets Mgmt.	PC	.005	.295**	.347**	1			
	Sig. (2–t)	.966	.006	.001				
Business Financing	PC	–0.167	.235*	.305**	.288**	1		
	Sig. (2–t)	.124	.029	.004	.007			
Accounting Info. System (AIS)	PC	.111	.354**	**.503****	**.451****	.133	1	
	Sig. (2–t)	.307	.001	**.000**	**.000**	.224		
Financial Reporting	PC	.003	.344**	.392**	**.581****	.313**	**.523****	1
	Sig. (2–t)	.980	.001	.000	**.000**	.003	**.000**	

Note: * Correlation is significant at the 0.05 level (2-tailed). ** Correlation is significant at the 0.01 level (2-tailed).

fluctuations, extraordinary events, or short-term economic cycles that may distort annual results. Financial statements summarize the position of a business within a specific period, which makes them insufficient for providing a stable view of operational efficiency and sustainability (Kaplan & Norton, 2001; Waruhiu, 2014). Therefore, the use of multi-year averages enables a more balanced and meaningful analysis for decision-making or comparison across businesses.

Tables 3 and 4 present the results for the linear regression model with "Employment Headcount" as the dependent variable. The ANOVA estimates indicate a model with high significance in the F-test (F = 9.049), confirming that three variables show sufficient statistical significance to be included in the multivariate linear regression model.

From the model's coefficient table, we conclude that Cash Management has a negative impact on the number of employees in a business. Specifically, an increase in the perceived quality of cash management is associated with a decrease in employment levels. The 95% confidence interval for the regression coefficient of this variable remains entirely in the negative range (–8.595 < Cash Management < –2.22). The strongest positive effect is observed in the perception of Business Financing (B = 10.098), although it is accompanied by a relatively high

Table 2. Bivariate correlations between dependent variables in the last three years

Variables	PC	Empl. headcount 2021	Empl. headcount 2022	Empl. headcount 2023	Revenue 2021	Revenue 2022	Revenue 2023
Employment headcount 2021	PC	1					
	Sig. (2–t)						
Employment headcount 2022	PC	.953**	1				
	Sig. (2–t)	.000					
Employment headcount 2023	PC	.907**	.988**	1			
	Sig. (2–t)	.000	.000				
Revenue 2021	PC	.541**	.502**	.468**	1		
	Sig. (2–t)	.000	.000	.000			
Revenue 2022	PC	.512**	.515**	.488**	.946**	1	
	Sig. (2–t)	.000	.000	.000	.000		
Revenue 2023	PC	.505**	.513**	.496**	.951**	.988**	1
	Sig. (2–t)	.000	.000	.000	.000	.000	

Note: ** Correlation is significant at the 0.01 level (2-tailed).

http://dx.doi.org/10.21511/imfi.23(1).2026.09

Table 3. ANOVA for linear regression with dependent variable "Employment Headcount"

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
3	Regression	12995.382	3	4331.794	9.049	.000[d]
	Residual	39255.42	82	478.725		
	Total	52250.802	85			

Note: a. Dependent Variable: Empl. Headcountd. Predictors: (Constant),Cash Management, Accounting Information System, Business Financing.

Table 4. Linear regression coefficients with the dependent variable "Employment Headcount"

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			L.B.	U.B.
3	(Constant)	12.194	8.617		1.415	.161	–4.949	29.336
	Cash Management	–5.408	1.602	–.331	–3.375	.001	–8.595	–2.22
	Accounting Information System	7.3	2.471	.288	2.954	.004	2.384	12.216
	Business Financing	10.098	4.954	.200	2.038	.045	.244	19.953

Note: a. Dependent Variable: Empl. Headcount.

standard error compared to the other two independent variables (Std. Error = 4.954). Despite this, the confidence interval for Business Financing remains within positive bounds (0.244 < Business Financing < 19.953). A more stable positive effect is shown by the Accounting Information System variable (B = 7.3), which has a lower standard error (Std. Error = 2.471) than Business Financing. Its regression coefficient is concentrated within a narrower and entirely positive confidence interval (2.384 < Accounting Information System < 12.216).

Using the classical method of hypothesis testing through the significance of linear regression coefficients, and given that these coefficients differ significantly from zero, we reject the null hypothesis and accept the alternative one: "The determining factors *(Cash Mgmt., Credit Sales Mgmt., Inventory Mgmt., Long-term Assets Mgmt., Business Financing, AIS, and Financial Rep.)* have a statistically significant impact on Employment Headcount". The predictive equation of the linear regression model, based on the highest ANOVA significance level, takes the following form:

$$\begin{aligned} &\text{"}Employment\ Headcount\text{"} \\ &= 12.194 - 5.408 \cdot (Cash\ Mgmt.) \\ &+ 7.3 \cdot (AIS) + 10.098 \cdot (Bus.\ Financing) + \varepsilon, \end{aligned} \quad (1)$$

where ε represents the model error.

Tables 5 and 6 present the results of the linear regression model with "Revenue" as the dependent variable. The ANOVA evaluation indicates a model with maximum significance in the F-test *(F = 13.451)*, identifying two variables with sufficient significance to be included in the multivariate linear regression model.

Based on the model's coefficient table (Table 6), we conclude that *Business Financing* has a positive impact on Revenue *(B = 1.306)*, meaning that the use of external financial resources alongside equity capital is associated with an increase in the logarithmic values of annual declared turnover. The 95% confidence interval for this regression coefficient remains entirely within positive values *(0.637 < Business Financing < 1.975)*, and the standard error of the point estimate is *(Std. Error = 0.336)*.

The influence of *client management perception* on the business's annual declared turnover is also positive *(B = 0.284)*, with a standard error nearly three times smaller than that of *Business Financing (Std. Error = 0.117)*. The low standard error allows the 95% confidence interval for the regression coefficient to remain entirely within positive values *(0.052 < Credit Sales Management < 0.516)*. A similar positive relationship is identified in the study by Yazdanfar and Öhman (2015), where empirical data confirm that trade credit measured in terms of ac-

Table 5. ANOVA for the linear regression with the dependent variable "Revenue"

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	59.102	2	29.551	13.451	.000[c]
	Residual	182.351	83	2.197		
	Total	241.453	85			

Note: a. Dependent Variable: Revenue, c. Predictors: (Constant), Business Financing, Client Management.

Table 6. Coefficients of the linear regression with the dependent variable "Revenue"

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			L.B.	U.B.
3	(Constant)	15.259	0.294		51.917	.000	14.674	15.844
	Business financing	1.306	0.336	.381	3.882	.000	.637	1.975
	Client Management	.284	.117	.239	2.431	.017	.052	.516

Note: a. Dependent Variable: Revenue.

counts receivable has a significant and positive effect on sales growth among SMEs.

The predictive equation of the linear regression model, reflecting the maximum ANOVA significance, takes the following form:

$$\begin{aligned} &\text{“}Revenue\text{”} = 15.259 \\ &+1.306 \cdot (Business\ financing) \\ &+0.284 \cdot (Credit\ Sales\ Mgmt.) + \varepsilon, \end{aligned} \quad (2)$$

where ε is the model error.

Firm performance is considered a combination of employment growth and sales growth (Costantiello et al., 2021). So, in this study, the econometric relationship is of particular interest between the two dependent variables, "*Employment Headcount*" and "*Revenue*", which reflect their respective average values across the three-year period examined. To test the consistency of this relationship when both factors are represented by their average values, a univariate linear regression model has been constructed between them.

Table 7 of the ANOVA shows a model with maximum significance in the evaluation of the Fisher test (F = 26.246). Table 8 of the univariate linear regression coefficients indicates that the level of statistical relationship (correlation) between the two variables is within the bounds of a strong relation-

Table 7. ANOVA for the univariate linear regression between "Revenue" and "Employment Headcount"

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12439.209	1	12439.209	26.246	.000[b]
	Residual	39811.593	84	473.948		
	Total	52250.802	85			

Note: a.Dependent Variable: Empl. Headcount. b.Predictors: (Constant), Revenue.

Table 8. Linear regression between "Employment Headcount" and "Revenue"

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			L.B.	U.B.
1	(Constant)	–101.376	23.268		–4.357	.000	–147.648	–55.105
	Revenue	7.178	1.401	.488	5.123	.000	4.391	9.964

Note: a. Dependent Variable: Empl. Headcount.

http://dx.doi.org/10.21511/imfi.23(1).2026.09

ship (Beta = 0.488 ≈ 0.5) and statistically significant (Sig. = 0.00). The linear regression coefficient *(B = 7.178)* represents the central value of a 95% confidence interval clearly positioned within the positive range *(4.391 < B < 9.964)*, leading to the conclusion that annual declared revenue has a reliably positive effect on the business's employment headcount. The predictive equation of the univariate linear regression model, based on the maximum ANOVA significance level, is formulated:

$$\text{“}Employment\ Headcount\text{”} = 7.178 \cdot \text{“}Revenue\text{”} - 101.376 + \varepsilon, \quad (3)$$

where ε is the model error.

Considering the significant coefficient of the univariate linear regression differs from zero, we reject the null hypothesis and accept the alternative: *"The variables Revenue and Employment Headcount exert a positive influence on one another in SME businesses."*

Overall, the empirical analysis offers a coherent picture of how financial management practices shape SME performance, as reflected in both employment levels and revenue outcomes. The significance patterns observed across the multivariate and univariate models provide a solid basis for evaluating the study's hypotheses, demonstrating that the relationships tested are not only statistically meaningful but also consistent with the theoretical expectations outlined earlier. In light of these findings, the results of the hypothesis testing are summarized as follows:

$H_{i\text{-}0}$: *Rejected*

Cash Management, Accounting Information Systems, and Business Financing exhibit statistically significant effects on Employment Headcount (p < 0.05), indicating that financial management practices meaningfully influence SME employment levels.

$H_{ii\text{-}0}$: *Rejected*

Business Financing and Client Management show statistically significant positive effects on Revenue (p < 0.05), confirming that financial management practices contribute to turnover performance.

$H_{iii\text{-}0}$: *Rejected*

The univariate regression demonstrates a strong and statistically significant relationship between Revenue and Employment Headcount (p < 0.001), indicating that increases in revenue are associated with higher employment levels.

4. DISCUSSION

Due to their size, SMEs often lack the capacity to learn from past mistakes (Oluoch, 2016), which makes it important for them to establish efficient and reliable financial management practices. Over the years, many studies on SME financial management have produced results that remain consistent with early-established links between determining factors and performance indicators. This article aims to explore these links within a sample of SMEs in Albania, by analyzing respondents' perceptions of several financial management aspects (defined as determining factors) and their relationship with two main growth indicators: *Revenue* and *Employment Headcount*.

Small and medium-sized enterprises (SMEs) represent a key pillar of economic development, yet the financial management challenges they face often hinder their sustainability and growth. Limited access to structured analysis, along with difficulties in interpreting both accounting and non-accounting information, makes financial management complex. Financial institutions impose strict criteria for financing, which further highlights the obstacles SMEs encounter when seeking to expand. Under these conditions, limited resources, particularly self-financed liquidity, impose a more conservative and survival-oriented operating model. This situation directly affects both operational and investment activities, positioning financial management as a factor that shapes not only day-to-day functionality but also long-term potential. As Amoa-Gyarteng (2023) notes, SMEs are compelled to operate within existing capacities, adhering to payment cycles and carefully managing obligations. From the analysis of correlations between determining factors, the authors identified varied results: some correlations point to inconsistencies and underlying challenges, while others align with best practices

described in the existing literature, providing a valuable foundation for further recommendations.

The strong positive relationship between *AIS* and *Financial Reporting* ($PC_{AIS\ \&\ Fin.Rep.} = .523^{**}$) indicates that a functional accounting information system is closely linked to financial reporting practices. This positive association has also been confirmed in other studies (Itang, 2021; Monteiro et al., 2021; Olamide, 2024). A similar interpretation applies to the strong positive correlation between *AIS and Inventory Management* ($PC_{AIS\ \&\ Inventory\ Mgmt.} = .503^{**}$). According to respondents' perceptions, increased usability of the accounting information system corresponds with improved inventory management, and vice versa. This positive relationship between variables is also reflected in the studies reviewed in the article by Koundal et al. (2024). This has happened due to the fiscalization process.

A strong positive relationship, with a slightly lower coefficient value, is observed between *AIS* and Long-term Assets Management ($PC_{Long\text{-}term\ Assets\ Mgmt\ \&\ AIS} = .581^{**}$). The management of long-term assets requires that information on purchases, depreciation, usage, and investment recovery be reflected accurately and transparently in financial statements (Aluya et al., 2024; Murwaningsari, 2021). At the same time, high-quality financial reporting supports the analysis of long-term investment performance, providing data for informed decision-making, capital planning, and development strategies.

Moderate but significant correlations, accompanied by the following coefficients ($PC_{Client\ Mgmt\ \&\ AIS} = .354^{**}$, $PC_{Business\ Financing\ \&\ Fin.Rep.} = .313^{**}$, $PC_{Fin.Rep.\ \&\ Inventory\ Mgmt.} = .392^{**}$), indicate that financial reporting and accounting systems are not merely support functions but play an important role in decision-making related to clients (Al-Hattami, 2024), inventory (Aremu & Omojola, 2021), and financing (Palacín-Sánchez et al., 2022). Better client and inventory management corresponds with increased use of AIS and financial reporting practices. In their study, Palacín-Sánchez et al. (2022) found that the quality of financial reporting directly influences the use of bank and trade credit.

The results that highlight challenges faced by SMEs in the sample studied are the correlations involving *Cash Management and other factors*. The insignificant relationships between *Cash Management* and both *AIS* and *Financial Reporting* may suggest that:

- Cash management is focused at an operational level rather than on credit acquisition or capital investment planning (reinforced by the lack of statistical significance between Cash Management and Long-term Assets Management). One reason may be a lack of investment alternatives (Vangjel & Mamo, 2022).
- SMEs complete AIS and financial reports primarily for legal compliance (Mamo & Çela, 2024), without using the information for operational optimization or decision-making.
- Cash may be managed from activities not captured by the accounting information system or financial reporting, indicating a degree of informality. Informality is partly driven by the financial system's limited incentives (Aliaj & Vangjel, 2023) and lack of tailored services for underserved businesses.

This tendency is further emphasized by the negative correlation with *Credit Sales Management* ($PC_{Cash\ Mgmt.\ \&\ Credit\ Sales\ Mgmt} = -.387^{**}$), where the emphasis on maintaining operational liquidity may negatively affect client management, as well as by the weak positive correlation with *Inventory Management* ($PC_{Cash\ Mgmt.\ \&\ Inventory\ Mgmt.} = .231^{*}$), which suggests that maintaining a stable inventory requires a minimum level of active liquidity. This argument is also supported by the study of Prathap & Keerthi Kumar (2023), which notes that SMEs in developing environments tend to prioritize short-term financial survival over investment or growth planning. The lack of statistical correlation between Client Management and Inventory Management may be interpreted as a result of functional disconnection between the two components of the operational chain in SMEs. This outcome suggests that the businesses included in the sample do not apply mechanisms that analytically link client demand with supply and inventory planning. A key reason for this is the presence of informality, which often characterizes SMEs in developing economies. The literature on SMEs operating in informal environments (OECD, 2020;

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Ohnsorge & Yu, 2022) notes that this segment of businesses does not use financial reporting for decision-making, but rather for minimal compliance with tax obligations. SMEs tend to operate through undocumented processes, where decisions are based on personal experience rather than structured accounting or logistical systems. As observed in the study by Mat et al. (2023), many small businesses manage inventory through intuitive practices and lack systems to analyze client demand, which significantly limits cross-functional coordination.

The statistically insignificant relationship between the accounting information system (AIS) and business financing indicates that the SMEs included in the study do not use AIS as a tool for accessing finance. This reveals a gap between technical accounting practices and financial strategies, which may be explained by limited financial literacy and the presence of informality in operational structures (Taruvinga & Sakarombe, 2024). Additionally, SMEs often seek financing through personal relationships, institutional support, or short-term credit, without using the accounting system as a supporting tool (Fasano & La Rocca, 2024). On the other hand, the positive relationship between *Financial Reporting* and *Business Financing* ($PC_{\text{Financial Rep. \& Business Financing}} = .313^{**}$) suggests that financial reporting is important for businesses that rely on external sources of financing. This moderate association aligns with the findings of Minnis & Sutherland (2017) regarding bank lending and indirectly with trade credit practices (Palacín-Sánchez et al., 2022).

In this study, the dependent variable "SME performance" is examined through the indicators "Revenue" and "Employment headcount." Both indicators are part of the standard definition used for classifying and assessing SME performance (Berisha & Pula, 2015; Mahmudova & Katonáné Kovács, 2018; Katsinis et al., 2023) and are among the most commonly used in empirical research (Delmar, 1997; Taraku & Taraku, 2024).

The results of the linear regression model in table 4 show that Cash Management has a negative and statistically significant impact on employment levels in the SMEs included in the study, suggesting that improvements in cash management practices are associated with operational optimization and the reduction of excess positions, as also confirmed by Kautsar & Muslichah (2022), Salas-Molina et al. (2023), Elshani & Ismaili (2015), and Kumi (2014). However, returning to the correlational relationships (Table 1), it is worth noting that Cash Management did not correlate with any of the formal aspects of accounting and financial reporting, which suggests that improvements in cash management may occur outside official structures. This behavior may be interpreted as a conscious effort by businesses to maintain operational flexibility and avoid exposure to fiscal obligations or strict reporting requirements, particularly in a context where informality remains present (Fortuzi et al., 2021; Taraku & Fortuzi, 2024). This dynamic helps explain why cash management optimization is linked to reduced employment levels but not to improvements in the formal financial information system. In conclusion, the findings indicate a tendency among SMEs to prioritize internal efficiency while bypassing formal control instruments, which may represent a strategy to balance operational needs with regulatory constraints. The strongest positive impact is associated with perceptions of Business Financing. This suggests that perceptions of access to external financing are positively linked to employment growth in SMEs, highlighting the potential role of external finance as a catalyst for operational expansion and job creation (Brixiová et al., 2020). A more stable positive effect is observed for the Accounting Information System. Businesses that, in their perception, make intensive use of accounting information systems tend to be characterized by a higher number of employees. These findings align with empirical studies that emphasize the positive impact of accounting information systems on organizational performance and SME capacity growth (Abdullah et al., 2023), which are often accompanied by increases in staffing and operational structure. The literature review increasingly confirms that the use of AIS contributes to improved business performance (Tandilino & Haliah, 2024; Mediaty et al., 2025).

Revenue serves as one of the most critical indicators of a firm's performance, reflecting its ability to generate income through core operations. As the largest component of financial results, revenue provides a direct measure of market demand, op-

erational efficiency, and competitive positioning (Binjaku & Fortuzi, 2025). The regression analysis confirms that Business Financing plays a positive role in influencing SME revenue. Specifically, firms that combine external financial resources with equity capital tend to report higher revenue levels. This relationship is statistically significant and consistent, reinforcing the importance of diversified financing strategies in enhancing business performance. In the growth of SMEs, particularly in developing countries, the financial sector plays a key role as the primary provider of liquidity in contexts of limited equity capital. Research findings by Rusu & Roman (2022) show that the basis on which SME financing decisions are made plays a significant role in enhancing performance. The analysis also shows that positive perceptions of client management are associated with higher business revenues. This suggests that structured approaches to managing credit sales and customer relationships can contribute meaningfully to financial performance. These findings align with prior research, which highlights the role of trade credit in supporting sales growth among SMEs.

The analysis indicates a consistent and positive relationship between a business's annual turnover and its employment levels. As revenue increases, firms tend to expand their workforce, reflecting the reinforcing link between financial growth and job creation. This finding aligns with the study by Grozinger (2023), which similarly confirms that higher revenue is a reliable predictor of increased employment within SMEs.

CONCLUSIONS

The study aimed to evaluate how key financial management practices shape SME performance in Albania, with a focus on revenue and employment. By examining the financial mechanisms that influence firm outcomes, the research provides the analytical basis for the conclusions that follow.

The findings reveal that SMEs face significant challenges in financial management, which hinder the integration of strategic functions such as financial reporting, AIS, cash management, and long-term investment planning. While certain positive relationships indicate alignment with advanced practices, the absence of statistical links and the presence of informality suggest a predominant orientation toward operational survival rather than long-term development. This underscores the need to strengthen accounting capacities, implement structured planning, and make effective use of financial information in decision-making processes.

More structured cash management practices are associated with a reduction in the number of employees in SMEs, reflecting a shift toward operational efficiency rather than expansion of staff structures. This optimization often occurs outside formal accounting systems, particularly in environments where informality is prevalent.

The perception of combining financing sources and the increased intensity of accounting information system usage is closely linked to growth in employee numbers, highlighting the role of formalized strategies in expanding the operational capacity of SMEs.

There is a strong and statistically significant relationship between annual declared turnover and employment levels, demonstrating that revenue growth leads to an expansion of staff structures within SMEs.

AUTHOR CONTRIBUTIONS

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http://dx.doi.org/10.21511/imfi.23(1).2026.09

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APPENDIX A

Table A1. Variables, respective questions in the questionnaire, and answers with binary values

Variable	Description	Questions (Indicators)*
Cash Management (Cash Mgmt.)	**Cash Management** reflects how effectively a business plans and controls its cash operations-covering payment handling, sales accounting, forecasting, reconciliation, and reserve practices	- Does the business keep regular accounting for cash sales? - Is the business capable of managing all its payments? - Does the business forecast its cash flow over the long term? - Does the business perform daily cash reconciliation? - Does the business maintain a predetermined cash reserve? - Does the business forecast its cash flow over the short term?
Credit Sales Management (Credit SalesMgmt.)	**Credit Sales Management** reflects how systematically SMEs handle customer credit through practices like credit sales, maturity scheduling, policy setting, client screening, and software usage.	- Does the business sell goods/services on credit? - Does the business keep regular accounting for credit sales? - Does the business have a formal credit sales policy? - Does the business use dedicated software or computer programs for managing accounts receivable (clients)?
Inventory Management (Inventory Mgmt.)	**Inventory Management** represents the extent to which SMEs implement structured inventory practices, including maintaining records, periodic reviews, physical verification, theft prevention, and digital inventory systems.	- Does the business maintain an inventory register? - Does the business prepare periodic inventory summaries? - Does the business conduct regular physical inventory checks? - Does the business have physical protection in place to prevent inventory theft? - Does the business use computer-assisted software for inventory management?
Long-term Asset Management (Long-term AssetMgmt.)	**Long-term Asset Management** aims to create a clear indicator of the business's strategic and financial commitment to managing long-term assets by evaluating investment decisions, financing sources, technological orientation, and the assessment of investment effectiveness.	- Has the business invested in long-term assets? - Have you used debt to finance the purchase of long-term assets? - Do you consider technological advancements in your long-term asset investments? - Does the business evaluate its investments?
Business Financing	**Business Financing** captures how SMEs finance their activities, distinguishing between reliance solely on internally generated funds plus capital and the use of both internal capital and borrowed financing.	Business financing relies on: - Only from funds generated internally and my equity (0) - From business-generated funds plus equity and borrowed capital (1)
Accounting Information System (AIS)	**Accounting Information System (AIS)** captures the degree to which SMEs integrate formal accounting structures and data utilization into their operations. It includes maintaining a formal system, employing software-assisted transaction recording, and using accounting data for both internal control and future business planning. These indicators reflect the firm's capacity for financial oversight, strategic foresight, and digital integration.	- Does the business have a formal accounting system? - Do you use accounting data from the AIS to conduct regular audits? - Do you use accounting data from the AIS to plan future business activities? - Does the business use computer-assisted software for recording transactions?
Financial Reporting	**Financial Reporting** refers to the extent to which SMEs engage in the formal preparation and external validation of financial information. It includes the production of financial statements, utilization of certified accounting services, recognition of financial reporting strategic value, and the involvement of external auditors.	- Does the business prepare financial statements? - Does the business engage the services of a certified accountant? - Do you consider the preparation of financial statements to be useful? - Does the business engage external auditors?

*Note:** The questionnaire consists of binary responses – Yes (1) or No (0). A greater number of affirmative responses across the indicators are associated with a more favorable assessment of financial management practices within SMEs.