A Study of Financial Health in Small Business by using Structural Equations Modelling

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"Small Business, Financial Health, Structural Equation Modelling (SEM), Financial Literacy, Cash Flow Management, Access to Financing, External Economic Conditions, Business Sustainability, Financial Resilience."

ABSTRACT
This research aims to investigate the small business finance based on five-hypotheses by using "Structural Equation Modelling (SEM)" as a statistical tool for analysing multifaceted causal links of business performances. Small business is vital component in economies around the world, although they are exposed to great risks such as fluctuating cash flows, financing difficulties, and other economic vulnerabilities that pose threat to their financial health. The primary objectives of this study are to analyse factors within a small business that affect its financial viability, choice of and access to financing, and the extent and role of financial literacy and cash flow management; and to assess the influence of macroeconomic factors on business performance. Subsequently, adopting SEM, this study examines not only the direct associations among these factors but also the intermediary effects on financial health. The data for this study is going to be gathered from 300 small business owners in diverse industries through the administration of a survey which is going to measure aspects such as, financial literacy, cash flow management, and financing. Understanding the detailed mechanisms that underlay the link between financial literacy and financial health and other factors of interest will be made possible by the results of SEM analysis and these findings will be useful to the businesspeople, the government and the financial institutions. In this context, the purpose of the study is to provide ideas useful to improve the financial stability and sustainability to achieve the tactical and strategic growth of small businesses.

Introduction

In the recent past, small businesses have emerged as the wheel of every economy globally owing to innovation, employment, and stability. Nevertheless, significance cannot be underestimated, and many small business owners encounter essential issues, especially in terms of financial management [1]. So, it is a strategic fundamental to define financial health as an important parameter to prevent or achieve business sustainability, growth and success, as well as to decision-making, capital, and strategic plans. They also add up to lead to such various problems as liquidity crunch, higher debts, and at last business failures [2]. For this reason, it is crucial to identify the key elements that affect the financial condition of the small business to help the owners, policy makers, and other interested parties to improve performance and sustainability standards within the identified sector. SMEs, often driven by limited financial capital, experience financial conditions that set them apart from their larger counterparts. Some of the challenges include; limited access to capital, low levels of financial management literacy, poor cash flow management and sensitivity to external forces[4]. Therefore, understanding the working or performance measures of small businesses mean looking at a variety of distinct ways that are internal and outside the entities that impact the money-related statuses of the businesses positively or negatively hence analysis of these factors involves what is referred to as "Structural Equation Modeling (SEM)" [5]. This makes it easier for researchers to evaluate the total impact of different variables on an outcome besides factoring the measurement errors [7]. Thus, it will be especially useful to compare the efficiency of business plans in the organization's members as several factors influence and depend on each other simultaneously in the case of small businesses' financial states. In this way, more complex models of factors influencing the state of financing and financial health in SMEs will be constructed, for example, considering such aspects: budgeting and financial management, strategies and tactics in external markets, etc.

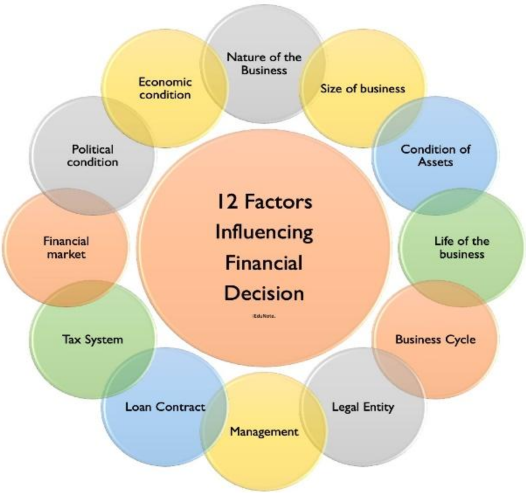

Figure 1: Factors influencing the financial decision
Source: [2]

The purpose of this scholarly research is to examine the financial vulnerability of small business ventures using SEM to comprehend the critical factors that facilitate the excellence of the financial standings and growth of the firms. The research will pay attention to some aspects regarding business management, financing opportunities, financial literacy levels, and markets to determine their contribution to business financial health [10]. It is expected that through approach outlined in this paper using SEM, a range of direct and indirect antecedent variables that determine financial success or failure in small businesses will be identified to inform the policy makers, business owners and financial advisors. For that reason, one of the important contributions of this research is that the approach followed in this study may help to offer an overall assessment of the small business financial situation, instead of a single financial ratio analysis. While earlier it was analyzed based on mere profitability, liquidity, or solvency, SEM makes it possible to see the financial health of a business in more detail. This approach does not only take into account the correlation between several forms of finance but also includes the behavioral, managerial, and environmental factors which have impact on the financial results [8].

This study's results will have great significance for managing small businesses. They can provide details of intervention on enhancing the make better decision on financial, on how to obtain funds as well as on how to minimize for risks. In turn, policy makers will be able to devise improved mechanisms of support of the SMEs, including those of educational, credit and regulatory nature, in an effort to enhance the overall financial standing of the sector [12]. In general, this work aims at filling the existing gap between research and practice so that this research offers practical implications for improving the financial situation for small businesses for improving their performance in current and future uncertain business environment is critical [11]. Moreover, by employing the possibilities of Structural Equation Modeling, the presented study is designed to reveal the major factors that affect financial health and may prove helpful in enhancing the capacity for development and survival of contemporary small businessesn[14].

Problem statement

The small businesses are seen crucial players in most economies since they offer employment, innovation and stability in chaotic economic times. Thus, "SMEs make up over 90% of total business and contribute more than 60%" of total employment on a global level (World Bank, 2020) [15]. Nonetheless most small business experiences several aspects of financial problems hence high failure rate especially in the initial years of operation. Consequently, Bas Banerjee, a business finance website, it emerged that small businesses in 2023 hit the deadpool at an estimated 20% in two years, 45% in five years, and 65% in ten years. These statistics reveal the reason why most small business owners fail to efficiently manage their money, which is usually the reason for failure in their businesses [16]. The main financial matters affecting small businesses include limited access to capital, poor financial handling, high leveraged ratio, low profitability and working capital problems. For example, studies show that half of the small businesses failed mainly due to cash flow issues according to U.S. Bank (2021). Poor financial management, poor knowledge on aspects to do with finance, and poor finances are some of the major causes for such problems [13]. Moreover, restrictive measures of financing by small businesses can be another reason for the difficulty in the ability to evaluate the financial stability of the company as well as complex economic circumstances depending on the financial decisions.

Figure: Ways to stop poor financial management

Source: [2]

Liquidity analysis, profitability, and solvency ratios represent the conventional financial techniques applicable to the assessment of small business performance [17]. These tools do not show the rich interconnectivity achieved between different factors that determines financial performance like management, market, financing and events beyond the firm's control [18]. This gap points to the fact that there is the need to grasp the quantitative side of small business FinHealth beyond the current measures, which are solely individualistic rather than multi-factorial. Conventionally, estimating the relative measure of financial health and the link between multiple variables that may influence has long remained a challenging endeavour; however, "Structural Equation Modeling (SEM)" presents a more sophisticated approach to the same issue. Semiosis can offer an integrated picture of the relations between potential antecedents and financial outcomes in SMEs, that can explain success or failure[19]. However, even though it has such advantage, SEM has not been much applied in research about the financial situation of SBSs and in measuring both direct and mediated effects of internal and external factors. Therefore, there is a gap in the current research where SEM can be used to identify the detailed determinants of financial health in small businesses for better understanding its factors realties.

The reason for this study is thus to using SEM to fit the associations between key factor that affects the financial performance of small business. Consequently, the research will seek to identify the relationship between business management practices, financial literacy, financing, and market characteristics and driver of small business financial performance. In so doing, the findings of this study will be of value to small business owners, providers of financial advice, and policy makers because it will provide useful information which will help make sound financial decisions that will enhance sustainability of the small businesses.

Special attention should be paid to the signs of poor financial health in the case of small businesses, as it is one of the crucial areas to analyze, and the issue of small business financial health is and complex, both endogenous and exogenous factors [22]. Though the conventional practices of financial analysis fail to grasp all the aspects of such factors, which made it necessary to use such a sophisticated model as the SEM. This study shall seek to accomplish that deficit; presenting a more detailed picture as to how factors related to the small business's state combine to affect the fortunes of the business.

Research Background

Various factors affecting small businesses are challenging the financial stability of these enterprises that are an essential component of world economies. Small businesses play a decisive role in creating employment, innovation, and the general economy, but a lot of them are financially unsustainable and have a high tendency to fail [20]. According to the findings, small businesses often suffer massive financial problems; approximately 20% of them fail within the initial two years and 45% fail within five years [21]. Lack of funds is always mentioned among the primary reasons of these failures and there is evident shortage of cash, unreliable access to financing and bad financial management that is present among many of the collapsed firms. Although an aspect of strategic significance in small businesses, financial health is generally not well defined, while diagnostic tools aimed at identifying potential common fatal flaws are rare.

Figure: Cash flow problems

Source: [4]

According to the research done, one of the most effective strategies for managing cash flow in small businesses is put into review. According to a survey conducted by U.S. Bank (2021), it found out that poor cash management leads to the failure of 60% of Business ventures. This is usually compounded by the fact that the cash flows in such organizations are received in a most unpredictable time pattern, some of the clients may delay their payments or even default, and expenses occur irregularly and at unexpected times hence the cash flow management becomes a nightmare to handle [25]. For example, a small business may generate a lot of sales in one quarter, yet the money earned is insufficient to meet various costs in the next quarter or pay for long-term business initiatives. This means that without a good plan in the micromanagement of cash flow, the company might reach insolvency, even though it has a profitable operation at the short-term period.

Small businesses is another major problems that stem from the fact that most establishments lack adequate capital. A relevant survey conducted by the "National Small Business Association", (2022) revealed that 46% of small businesses in the United States find it hard to obtain capital because of high-interest charges, low credit status, or inadequate collaterals. Small businesses are usually faced with the biggest problems emanating from inadequate financing, which does not help them expand, invest on machinery or employees, or even cope with fluctuations in the economic cycles [24]. Bank loan funding is not very available for a small business due to the perceived risk and thus many small businesses rely on whatever they can afford to invest or family/ friends loans which are not sustainable for the business. Another factor is financial literacy followed by financial health of small business houses. Most owners have little or no financial training, and that is why many are unable to work on a budget, analyze balance sheets, or work on any figures. Sample surveys conducted by the “Small Business Administration (SBA)” indicate that firms owned by managers with high level of financial literacy are likely to yield higher returns because they are in a better position to evaluate the capital investment decisions, cost control, and risk analysis. However, the lack of financial competence tends to lead to poor capital utilisation, weak financial management, and lost opportunities[27]. For instance, businesspeople might not recognize tax loss, manage credit properly or for future financial development. The activities of a small business are also influenced by external factors like miscalculations in the economy or market, and unfavourable events like global pandemic and lockdowns. Indeed, as with many other economic variables, small businesses are usually more affected by changes in economic conditions than are large units due to their restrictive cash flow resources [28]. For instance, small businesses during the pandemic were devastated with 31% of them crying of severe financial difficulty because many had to close down or source for little revenues. While big firms possess sizeable buffer stock to absorb such hitches, small businesses do not and are thus most vulnerable to financial failure given external shocks.

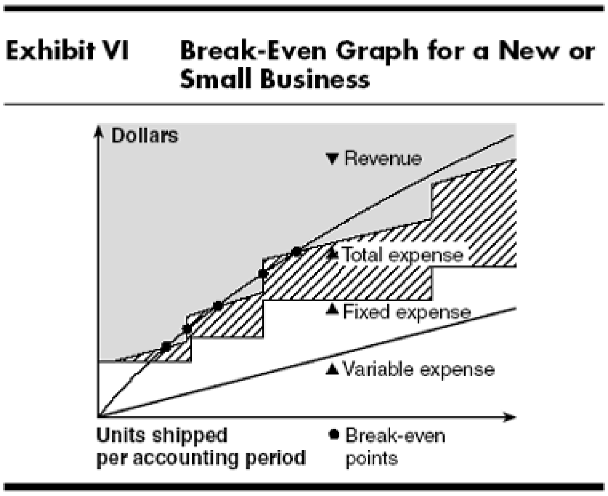

Figure: BEP for Small Business

Source: [8]

Technical scores for financial health include liquidity ratios, profitability measures, solvency analysis and so on which are inadequate tools to measure small business financial health that is bound to be low dimensional but can be high-dimensional. These tools are mainly used to develop analyses related to individual fiscal performance which gives no attention to how the management practices are related to the management systems or how other factors that are found in an external environment are related to each other [30]. For instance, while profitability and liquidity ratios may show that business affairs are in order, these indicators do not consider the general business choices or the state of the economy into which the business is set as a basis for a sustainable growth. Also, these traditional instruments do not account for the impact of mediated variable, for instance financial literacy, managerial action, and credit status. To fill these deficits, current research has started advancing towards better methodologies that are capable of testing the integrated and frequently and non-linear models that exist in relation to factors of financial health. SEM is one such technique that can enable the researcher to consider direct as well as indirect links between several variables thus offering a much better way of analysing the financial health of the firm [29]. SEM can model the interactions of financial management, financing constraints, environmental economic conditions and other factors that can enhance or hinder the financial performance of SSSs, in a single system.

The use of SEM has increasingly grown in diverse fields because it is capable of capturing multi-fold relationships with the consideration of measurement error. Thus, when employing SEM, these various variables can be developed into models that reveal the ways in which they all impact on financial health. For example, the SEM could be employed to establish the relationship between financial management and financial literacy of business with reference to financial performance [32]. Furthermore, SEM can measure mediating effects that shape the relationship between the variables, such as on an entity's financial health due to financing access or economic situation to have a much better view of the actual facts. However, SEM still has a very low level of application in research on the state of small business finances. Most of the prior studies focused on conventional modelling approaches to financial ratios, which do not incorporate the process of financial decision making in SMBs [31]. There is, therefore, a clear gap that requires future research to estimate the financial performance of SMEs using SEM while capturing internal and external factors. In so doing, this study could give rise to insights that the small business owners, policymakers, and the financial institutions could use in order to create strategies that improve the worth, stability, and sustainability of small businesses.

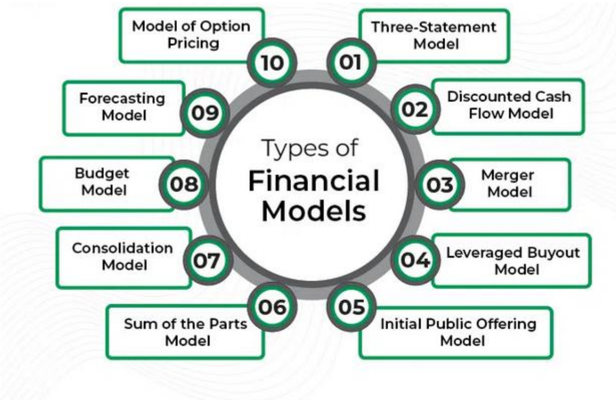

Figure: Financial Models

Source: [8]

This paper has explored the various financial pressures that affect the small business, including cash flow, access of capital, inadequate financial management and susceptibility to exogenous factors. However, using the traditional financial analysis tools which give good indications, the relationships between these factors are not captured well [34]. This goes a long way to show that there is need to adopt methods of higher order for data analysis such as SEM that can provide a comprehensive perspective on what could be pushing the financial fortunes of small businesses. Through SEM, this study seeks to establish which variables actually relate to financial success or failure and provide practical suggestions on how such a status can be enhanced or averted among the small business organizations.

Research Objectives

- To Assess the Impact of Financial Literacy on Small Business Financial Health
- To Examine the Role of Access to Financing in Business Sustainability
- To Model the Complex Relationships Using Structural Equation Modeling (SEM)
- To Provide Recommendations for Improving Financial Health in Small Businesses

Literature Review

The Relative Financial Health in Small Firms

The financial position of small businesses is now the subject of increasing attention due to the increasing importance of such enterprises in the world economy. However, small businesses are vulnerable because they encountered certain peculiarities that make it difficult to remain financially secure, and experience high failure rates in the initial years of operation [33]. In reviewing these issues, the literature discusses several factors that affect the finance of small business: liquidity, funding, knowledge, and business environment. Also, the development of other statistical methods like “Structural Equation Modeling (SEM)” give a better perspective on how these factors and others influence the small business results. The following section of this work evaluates existing literature on these factors and their correlations with the financial well-being of small businesses.

Cash Flow and Financial Stability

It should however be noted the management of cash flow is considered by most, a key ingredient in small business operations. In a survey conducted by the U.S. Bank about the reasons that lead to the failure of small business, 60% of the business were cited to have failed due to poor cash management. Lack of cash flow arises due to inconsistent cash inflows, delayed customer receipts and other overheads and can master a business in no time. When one cannot control cash flow, it results in poor financial control and makes owners use their money or high-interest bearing loans, which worsens the situation. Increasingly, cash flow is an indispensable requirement for small business because it has to finance daily operations, growth, and potential contingencies[36]. Another risk of not having a good handle on daily cash inflows and outflows is that businesses are unable to predict correctly their liabilities and find themselves with poor cash flow. In this context, the ratios like Gross current ratio and Gross quick ratio are four typically used for measuring the short-term solvency of the businesses.

These original measures, however, do not present a complete picture of cash flow management and there is a clear need for more sophisticated tools to cover this need. Some of the investigations stress that cash flow forecasting is critical to business planning and performance, but others show that small business owners frequently cannot create sound cash flow plans due to their financial illiteracy [37]. They are also better placed to estimate cash balances, manage cash risks, and hence solve cash deficiencies. Hence, the relationship between financial literacy and certain aspects of personal finance controls, includingcash flow management, is analyzed in the subsequent sections of the given review.

Access to Financing

Availability of capital is another factor that defines small business determined that access to financing is one of the principal factors impacting small business financial performance. There is no doubt that access to capital is critical for any business expansion and survival through loans or grants, or through venture capital or equity financing. Nonetheless, a new study shows that there are major challenges that small businesses encounter in their effort to secure financing, such as poor credit history, lack of adequate collateral, and high cost of funding. This is courtesy of the “National Small Business Association (2022)” where it revealed that a 46.7% of business struggle most with the availability of capital. These impediments can limit small business bids to engage in capital expenditure, meaning that novel tools like technology, talent, and infrastructure may be beyond their reach, and thus the capacity to explore new markets and compete effectively [38].

A number of small business use friends, relatives or personal savings, and informal institutions for financing rather than relying on financial institutions. Although such other sources of finance could be got easily, they are rather risky and cannot guarantee constant sources of finance necessary for continued business operations. In addition, those firms which finance themselves with the help of informal sources are in greater danger of experiencing cash flow issues, usually they do not have lines of credit or access to long-term funding [40]. The literature also notes the growing importance of assorted funds via such systems as crowdfunding, peer to peer and ventures capital to support small business growth. Some of these new structuring of financing have come to be in the recent past, mainly due to credit crunch which small firms experience often. Self- funded platforms are able to offer small businesses with necessary funds as well as a way to gauge consumers’ interest in specific products. However, the advantage of the other models of financing depends on the marketing factor of the idea or product intending to seek funding from the investors or backers [39].

Financial Literacy and Decision-Making

A review of prior work shows financial literacy to be central to the financial wellbeing of SMEs. Being financially literate leads to better decisions making about finances such as budgets, forecasts, investment and risk management. But data show that most small business owners are not formally trained in financial matters, thereby resulting to poor financial decisions, and misallocation of resources. The Small Business Administration has it that only 40% of small business owners have sufficient financial knowledge, most finding it difficult to analyze financial statements, compute financial rates, and prepare budgets SBA, 2020). financial illiteracy leads to risky decisions such as appropriate management of debts, setting wrong prices for a product or forgetting to save for the future. Overall, small businesses owned by individuals with better level of financial literacy had a likelihood of being growth and profitability. These owners were also in a better position to weather hard economic times and were not very sensitive to external economic cycles. Financial literacy therefore plays a critical role as a facilitator of positive changes in decisions that affect organisational financial performance. The correlation between financial literacy and financial well-being can obviously be linked not only with the ability to measure and analyze financial indicators but with the efficiency of practical usage of the received information as well. For example, innovative people who understand accounting have the capability of doing a good cash flow prediction, the right estimation of expenses, and a reasonable projection of the company's finance in the long run. On the other hand, the firms with poor financial literacy are found to be those that got exposed to financial risks they cannot necessarily predict and/or cover in future.

Methodology

"Structural Equation Modeling (SEM)" is used as the primary research method in this study in order to analyze the financial position of the clients. SEM is a highly contiguous statistical method that can operate different observed and unobserved variables in an effective systemic manner. This method is most applicable when studying the small business and its financial health, as we are concerned with aspects such as cash flow, financial knowledge and access to funds, and conditions external to the business. Many classical economical measures including regression-tests are unsuitable for capturing these relationships or the indirect impact that affects business. In contrast, SEM overcome this issue by estimating not only the measurement and structural aspects of the relationship while giving a holistic view of the factors that affect small business financial health.

This research is going to employ the cross-sectional survey research that will allow the author to gather the primary data from the small business owners of various industries. The financial variables found in the survey includes Indicator of more comprehensive assessment of business monetary situation, flow of money which refers to the management of funds, the level of financial awareness, availability of funds and the environment date outside the business. A total of "300 small business" will be selected from random through an online survey and the selected businesses will include both urban and rural businesses. To achieve these objectives, data shall be gathered through "closed-ended Likert-type questions" that will reveal participants and companies' perceptions and reported behaviours in terms of financial practices in addition to the company's spot and operational financial data like profit margins, and liquidity ratios. SEM will then be applied to examine the paths between these variables, main direct paths (for instance, financial literacy on cash flow management) and mediational paths (for instance, the method through which financial literacy affects financial health; through cash flow management). This model will also analyse how these relationships are moderated by external economic environment that may affect small businesses. MLE method will be used to estimate the SEM model and confirmatory fit indices include "χ^2, RMSEA, CFI and TLI" will be used to evaluate the model fit. With these fit indices it is be possible to test whether the model of the relationships between the variables actually fits the data, and therefore the hypothesis realized. Therefore, through employing SEM of the research model of this study, it is expected to reveal more comprehensive and realistic picture on the state of SMBs financial performance and factors that the impact upon it: direct and indirect. Lastly, all results will be useful for further development of action plans for enhancing small business efficiency and sustainability in terms of their financial management.

Analysis

Business solvency is a multifaceted issue, which depends on such factors as cash flow, financial education, access to funds, both internal and external financing, state of the external environment, etc. Assimilating from the research questions through the analysis by 'Structural Equation Modeling (SEM)', this study seeks to establish the extent and the impact of the identified factors on the financial performance of the small firms. This is because use of SEM takes into account both first order relations and second order relations besides factoring measurement errors and broad spectrum aspects of these variables. The paper will also show the regression of the major factors and how they interact in impacting the financial performance of the SMEs.

Variables and Hypotheses

In the proposed SEM model, the following key variables are considered:

1. Financing – (working capital efficiency) this translates to the ability of any small business to handle its cash recepts and disbursements.
2. Financial Knowledge (FL) – a measure of the degree of familiarity business managers have with finance related issues in the businesses, such as finance management, financial investment, and understanding of financial statements.
3. The three fundamental pillars of SBEs' finance access capability are as follows: Financial Resources Acquisiteness- This is power to seek for financial capital in form of credit or through grants or in any other way.
4. "External Economic Environment Factors (EEC)" – This in a nutshell means the adverse business conditions such as the business environment, market conditions, inflationary trends and business cycles.
5. Profitability – one of the measures of FH that denotes the competencies of an organizational entity in relation to income generation in as much as costs that the entity has incurred.

"Hypotheses:"

- **"H1:** Financial literacy (FL) positively affects cash flow management (CFM).
- **H2:** Cash flow management (CFM) positively affects financial health (FH).
- **H3:** Access to financing (AF) positively affects financial health (FH).
- **H4:** External economic conditions (EEC) negatively affect financial health (FH).
- **H5:** Financial literacy (FL) indirectly affects financial health (FH) through cash flow management (CFM)."

The samples for this study will be composed of 300 small business organizations spread across different industries. In this case, samples of businesses will be selected by a form of ratio scale whereby the businesses will be differs concerning the size of business, industries, and the area of business either urban or rural areas.

The survey will include Likert-scale questions (1 to 5) measuring each of the following factors:

• Financial Literacy (FL): Business owner's knowledge about finances, accounts and investments (For example, "I am comfortable to prepare a budget for the year" with ranging response options from strongly disagree to strongly agree where 1 is strongly disagree and 5 is strongly agree).

• "Cash Flow Management (CFM)": Avoidance of overspending and tracking of income and expenses (for example "I always keep record of money I spend in my business" on the Likert scale of 1 = Never to 5 = Always).

• "Access to Financing (AF)": Funding from external sources (for example funding from loans or credit lines) (from Never = 1 to Always = 5).

• "External Economic Conditions (EEC)": Market forces beyond the firm's control (for example "Economic fluctuations harm my business" rated on a scale of 1= I disagree quite strongly to 5= I agree strongly).

• "Financial Health (FH)": Business financial performance through profitability ,liquidity and solvency (for instance "MY business has steady profit increases" on a scale of 1 (SD) to 5 (SA).

It shall assess the measurement and structural variables to form the SEM model. Basically the measurement model defines the links between survey items and "FL, CFM, AF, EEC, and FH while, the structural model depicts the assumed relationships between FL, CFM, AF, EEC, and FH." Below is a representation of the hypothesized model:

Measurement Model

In more detail, the measurement model identifies how observed variables are related to their theoretical, corresponding constructs. For example:

$$FL = \lambda_1 \cdot (FL_1) + \lambda_2 \cdot (FL_2) + \lambda_3 \cdot (FL_3) + \epsilon_1$$

• FL1, FL2, FL3 are other mode observed variables representing financial literacy.• Σ\sumΣ – the variance, and

• ϵ1\epsilon _1ϵ1 is the error term for the financial literacy LVM.\lambda_1, \lambda_2, \lambda_3λ1,λ2,λ3 are the factor loadings, and

• ϵ1\epsilon_1ϵ1 is the error term for the financial literacy latent variable. "Consequently, cash flow management (CFM), access to financing (AF), and external economic conditions (EEC) will also possess their own measurement models."

Model Estimation and Fit Evaluation

The parameters of the SEM model will be estimated by MLE because of its efficiency and effectiveness of drawing parameters from sample observations. To assess the goodness of fit of the model, the following fit indices will be used:

1. Chi-square (χ^2): The result present in chi-square is a sign that there is a poor relationship between the model and the data that has been collected, although chi-square tends to be sensitive to large samples.

2. Root Mean Square Error of Approximation (RMSEA): According to the result obtained, any RMSEA value less than 0.06 is an indication of a good fit.

3. Comparative Fit Index (CFI): In CFI above 0.90 is regarded as desirable for the purpose of this study.

4. "Standardized Root Mean Square Residual (SRMR)": Those equal to or less than 0.08 indicates a good fit in the model.

The estimated results will be interpreted in terms of the path coefficients (β-values), which stand for the coefficients of the relationships between the corresponding hypothesized variables, and which are incorporated into the model upon its estimation. For instance, if the β-value is positive and significant for "CFM → FH, then a proper management of cash flow affects financial health condition. If the FL CFM is important", it means that more financial literacy results in efficient management of cash flows hence an enhanced financial health. Furthermore, the moderating role of cash flow management in the relationship between financial literacy and financial health will be tested, using mediating analysis.
If this effect is significant, it will possible to conclude that enhancing financial literacy has a lasting positive effects on business financial health in the aspects of both direct financial performance and cash flow management. Expected Findings and Implication These are the assumptions that the results of the SEM analysis advanced in this paper will bring out. For example, if both H1 and H2 are supported, it would illustrate that when financial literate was enhanced, then the cash flow management would also be enhanced and would be essential in the achievement of the financial health. Also, if H3 (Access to financing) is a strong predictor of FH of the small business, the finding would imply that efforts to improve small business access to financing could help improve its FH. The use of SEM while making analysis on the financial health of small business especially presented in this paper gives a full picture of how aspects of the financial health of a business interrelate to influence the over financial position. This approach provides insights into the effects on the financial fortunes of small businesses as the direct and indirect effect models are also presented.

Conclusion

This paper seeks to present an efficiency checklist of these factors through the use of "Structural Equation Modeling (SEM)" for an efficient explanation of the relationship between cash flow management, financial literacy, external economic conditions, and funding mechanisms in the small business context. This aspect implies that the SEM approach can encompass both direct and indirect relations in its analysis providing a more detailed view of how all these factors interact and play a role in the financial performance of most small-sized firms. Understanding these relationships is the aim of this study in a way that reveals how financial literacy influences cash flow management, and, therefore, organizational performance. Furthermore, it is expected that the findings will underscore the significance of financing opportunism and exacerbating the negative influence of extraneous economic factors on business viability. By doing so, the study will present an understanding of its the implications for small business owners, policy makers, and financial institutions to enhance the financial experiences. As a result of the study, intervention strategies that could include increasing efforts relating to financial education initiatives, providing better mechanisms that support funding, and developing ways of managing external market shock will provide real-life solutions towards the sustainable growth of small businesses. Finally, the findings of this study will help to enhance the financial stability of SMEs–key players in economic development.

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