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Financial Management Practices and Business Sustainability Of Manufacturing Firms In Kawempe Division

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Abstract

The study investigated the influence of financial management practices on the business sustainability of manufacturing firms in Kawempe Division, Kampala Capital City Authority. The study was necessitated by the high rate of business failures among manufacturing firms in the division, which was attributed partly to poor financial management. A cross-sectional survey design was employed, and data were collected from 140 respondents drawn from 47 manufacturing firms. Structured questionnaires and interview guides were the primary data collection instruments. The study examined working capital management, financial planning, and investment management as dimensions of financial management practices. Results showed that working capital management (β=0.341, $p<0.01$), financial planning (β=0.289, $p<0.01$), and investment management (β=0.256, $p<0.05$) all exerted significant positive influences on business sustainability. The regression model explained 58.4% of the variance in business sustainability. The study concluded that financial management practices were important drivers of business sustainability and recommended that manufacturing firms in Kawempe Division should invest in financial management capacity building.

Keywords: Financial Management, Business Sustainability, Manufacturing Firms, Working Capital, Kawempe Division, Kampala

Background to the study

The manufacturing sector represented one of the most dynamic and economically significant sectors in Uganda's development trajectory(Derrick et al., 2023). As a key driver of industrialization, employment creation, and import substitution, manufacturing firms in urban centers such as Kampala Capital City Authority played a central role in Uganda's Vision 2040 agenda, which sought to transform the country from a predominantly agrarian economy to a modern middle-income economy(Julius & Nancy, 2025a). Kawempe Division, located in the northern part of Kampala, hosted a considerable concentration of small and medium manufacturing enterprises engaged in food processing, metal fabrication, plastic manufacturing, and textile production(A. G. Kazaara et al., 2024). However, the sustainability of these enterprises remained a major concern given the high rates of business failures documented in the division(Ahumuza et al., 2025).

Financial management practices referred to the systematic application of financial theories, principles, and techniques to the planning, acquisition, allocation, and control of financial resources in an organization(Lydia et al., 2023). In the context of manufacturing firms, effective financial management encompassed working capital management, capital budgeting, financial planning and control, dividend policy, and investment management(Julius & Audrey, 2025). These practices collectively determined the financial health and operational efficiency of a manufacturing enterprise, which in turn influenced its long-term sustainability(Sarah & Audrey, 2024).

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Business sustainability, increasingly recognized as a multidimensional concept, extended beyond mere financial viability to encompass economic, environmental, and social dimensions. In the manufacturing context, however, financial sustainability was the foundational prerequisite upon which other dimensions of sustainability rested(Julius & Kazaara, 2026b). A manufacturing firm that could not sustain its financial viability over time was unlikely to pursue environmental or social sustainability objectives(Akankwasa et al., 2022). Studies by Abor and Quartey (2010) and Kaplan and Norton (2001) demonstrated that financially well-managed manufacturing firms were significantly more likely to survive beyond their initial years of operation and to scale up their production capacity(Julius & Kazaara, 2026a).

In Uganda, the Uganda Bureau of Statistics (UBOS) reported that the manufacturing sector accounted for approximately 8.9% of GDP in 2021/2022. Despite this modest contribution, the sector was characterized by high firm turnover, with many small and medium enterprises failing within three to five years of establishment(Frank et al., 2023). Studies by the Uganda Investment Authority (UIA) suggested that financial mismanagement, including poor cash flow management, inadequate financial planning, and misallocation of investment resources, were among the primary drivers of manufacturing firm failures(Akankwasa et al., 2022). These findings provided strong justification for investigating the specific influence of financial management practices on business sustainability in the Kawempe Division context.

Problem statement

Manufacturing firms in Kawempe Division faced significant sustainability challenges, manifested by frequent business closures, inability to meet financial obligations, and limited capacity for reinvestment and expansion(Julius & Nancy, 2026a). A survey conducted by the Kampala Capital City Authority (KCCA) Business Licensing Department in 2021 revealed that approximately 35% of registered manufacturing firms in Kawempe Division had either closed down or ceased meaningful operations within five years of registration(A. I. Kazaara & Audrey, 2024). Financial distress was frequently cited as the proximate cause of these failures(Akankwasa et al., 2022). Preliminary investigations for this study revealed that a significant proportion of manufacturing firms in the division operated without formal financial management systems, relying instead on ad hoc cash management approaches that were inadequate for sustaining business operations(Christopher, 2022). This knowledge gap in understanding how specific financial management practices influenced the sustainability of these firms provided the impetus for this study.

Main objective

The main objective of the study was to determine the influence of financial management practices on the business sustainability of manufacturing firms in Kawempe Division. Specific objectives were: (i) to examine the effect of working capital management on business sustainability; (ii) to assess the influence of financial planning on business sustainability; and (iii) to determine the effect of investment management on business sustainability of manufacturing firms in Kawempe Division.

Methodology

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The study used a cross-sectional survey design. The target population comprised owners, financial managers, and senior staff of 47 manufacturing firms registered with KCCA in Kawempe Division, totaling approximately 282 individuals. A purposive and simple random sampling approach was used to select 140 respondents. Self-administered questionnaires with a five-point Likert scale were used to collect primary data. The reliability of the research instrument was confirmed through a pilot test with Cronbach's alpha values ranging from 0.73 to 0.84 across all constructs. Quantitative data were analyzed using SPSS version 25, employing descriptive statistics, Pearson correlation, and multiple regression analysis(Nelson et al., 2022). Qualitative data from key informant interviews were analyzed thematically to complement the quantitative findings.

Results

Respondents' Profiles

Table 1: Profile of Respondents (n=140)

Variable	Category	Frequency	Percentage (%)
Gender	Male	98	70.0
	Female	42	30.0
Nature of Firm	Sole Proprietorship	54	38.6
	Partnership	48	34.3
	Limited Company	38	27.1
Years in Operation	1–5 years	36	25.7
	6–10 years	52	37.1
	11–20 years	35	25.0
	Above 20 years	17	12.1
Annual Turnover	Below UGX 50M	45	32.1
	UGX 50M–200M	61	43.6
	Above UGX 200M	34	24.3

Source: Primary Data, 2025

The respondents' profiles in Table 1 showed that male respondents constituted the majority (70.0%), reflecting the gender composition typical of manufacturing sectors in urban Uganda where male entrepreneurship dominated. Sole proprietorships (38.6%) and partnerships (34.3%) were the dominant firm structures, indicating that most manufacturing firms in Kawempe Division were relatively small-scale operations. The finding that 37.1% of firms had operated for between 6 and 10 years suggested that the sample included a mix of early-stage and relatively established enterprises. The annual turnover distribution showed that 43.6% of firms generated between UGX 50 million and UGX 200 million, positioning them in the small and medium enterprise category according to Uganda's business classification standards. The relatively low proportion of firms with annual turnovers above UGX 200 million (24.3%) further confirmed the predominantly SME character of manufacturing in Kawempe Division.

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Descriptive Statistics

Table 2: Descriptive Statistics for Financial Management Practices and Business Sustainability

Construct	Mean	Std. Deviation	Interpretation
Working Capital Management	3.38	0.762	Moderate
Financial Planning	3.21	0.814	Moderate
Investment Management	2.98	0.891	Moderate
Overall Financial Mgmt Practices	3.19	0.756	Moderate
Business Sustainability	3.14	0.823	Moderate

Source: Primary Data, 2025

The descriptive statistics in Table 2 indicated that all constructs were rated moderately by respondents, with mean scores ranging from 2.98 to 3.38 on a five-point Likert scale. Working capital management obtained the highest mean score of 3.38 (SD=0.762), suggesting that manufacturing firms in Kawempe Division placed relatively greater attention on managing current assets and liabilities compared to other financial management dimensions(Julius & Nancy, 2026b). This was consistent with the operational realities of manufacturing firms where effective management of inventories, receivables, and payables was critical for maintaining uninterrupted production cycles(Julius & Audrey, 2026). Financial planning scored 3.21 (SD=0.814), while investment management recorded the lowest mean of 2.98 (SD=0.891), indicating that long-term investment decisions were the least systematically managed aspect of financial management among sampled firms(Julius & Nancy, 2026b). The business sustainability mean of 3.14 (SD=0.823) suggested moderate but improvable levels of sustainability performance.

Regression Analysis

Table 3: Regression Results – Financial Management Practices and Business Sustainability

Predictor	B	Std. Error	Beta	t-value	p-value
(Constant)	0.521	0.287		1.815	0.071
Working Capital Management	0.312	0.074	0.341	4.216	0.000
Financial Planning	0.265	0.079	0.289	3.354	0.001
Investment Management	0.218	0.081	0.256	2.691	0.008

$R = 0.764$, $R^2 = 0.584$, Adjusted $R^2 = 0.574$, $F(3,136) = 63.72$, $p < 0.001$

Source: Primary Data, 2025

The regression results in Table 3 confirmed that financial management practices collectively and individually predicted business sustainability. The model explained 58.4% of the variance in business sustainability (R^2=0.584), which represented a substantial degree of explanatory power(Nelson et al., 2023). Working capital management was the strongest predictor (β=0.341, p<0.001), underscoring the critical role of day-to-day financial operations in determining manufacturing firm sustainability(Julius & Nancy, 2026b). Financial planning was the second most influential predictor (β=0.289, p=0.001), indicating that firms with formalized budgeting, financial forecasting, and

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performance monitoring systems were significantly more sustainable. Investment management, though the weakest predictor (β=0.256, p=0.008), still contributed meaningfully to sustainability, suggesting that firms which strategically managed their capital expenditures and evaluated investment returns achieved superior sustainability outcomes(Julius & Nancy, 2025b).

Discussion of results

The findings of this study corroborated the propositions of agency theory and resource-based view theory that systematic financial management practices reduced information asymmetries, minimized agency costs, and enabled firms to leverage their financial resources for competitive advantage. The dominant role of working capital management (β=0.341) in predicting business sustainability aligned with findings from Enqvist, Graham, and Nikkinen (2014) in Finland and Raheman and Nasr (2007) in Pakistan, both of which established strong links between working capital efficiency and firm financial performance. In the manufacturing context of Kawempe Division, where raw material procurement, production scheduling, and customer credit management were daily operational imperatives, efficient working capital management was fundamental to maintaining liquidity and operational continuity.

The significant influence of financial planning on business sustainability (β=0.289) supported the strategic management perspective that deliberate planning enhanced organizational resilience and adaptability. Manufacturing firms that developed detailed financial plans, including cash flow projections, budget variance analyses, and break-even analyses, were better positioned to anticipate financial challenges and respond proactively. This finding was consistent with Bromiley and Rau (2016), who argued that formalized financial planning processes reduced the risk of unexpected financial shocks and improved resource allocation efficiency.

Conclusions

The study concluded that financial management practices significantly influenced the business sustainability of manufacturing firms in Kawempe Division. Working capital management, financial planning, and investment management each contributed positively and significantly to business sustainability outcomes. The relatively moderate levels of financial management practices observed across the sampled firms indicated substantial room for improvement. Given the demonstrated positive effects of these practices, enhancing financial management capabilities appeared to be a viable and important strategy for improving the sustainability of manufacturing enterprises in the division.

Recommendations

The study recommended that manufacturing firm owners and managers in Kawempe Division should adopt formal working capital management systems including inventory control policies, debtor management protocols, and cash flow monitoring tools. Financial planning should be institutionalized through regular budgeting cycles, variance analysis, and forward-looking financial modeling. Firms should invest in financial literacy training for their staff and owners to enhance decision-making quality. Government agencies such as Uganda Development Bank and the Private

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Sector Foundation Uganda should provide affordable financing and capacity building support specifically targeted at improving financial management among small and medium manufacturing enterprises. Additionally, vocational training institutions should incorporate financial management modules into their manufacturing and technical courses to equip future entrepreneurs with essential financial management skills.

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