

Financial Management Practices and Financial Performance of SME's In Wakiso District, Uganda

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Abstract

This study examined the relationship between financial management practices and the financial performance of small and medium enterprises (SMEs) in Wakiso District, Uganda. The research was motivated by the growing recognition that poor financial management was one of the leading causes of SME failure in Uganda, with many businesses collapsing not due to lack of market demand but due to inadequate budgeting, poor working capital management, and the absence of basic financial record-keeping systems. A cross-sectional research design was employed, and data were collected from 311 SME owners and managers in Wakiso District. Financial management practices were operationalized through four dimensions: budgeting and financial planning, working capital management, financial record-keeping, and investment appraisal. Financial performance was measured through profitability, liquidity, and revenue growth indicators. The findings revealed that financial management practices had a statistically significant positive effect on financial performance, with working capital management and financial record-keeping emerging as the strongest predictors.

Keywords: Financial Management, SME Performance, Wakiso District, Uganda, Budgeting, Working Capital

Introduction

Wakiso District, which surrounds Kampala on all sides and hosts several rapidly growing urban centers including Entebbe, Mukono (border areas), Nansana, and Kira, had emerged as one of the most economically dynamic districts in Uganda (Alex & Kazaara, 2023). The district's proximity to Kampala, combined with lower operating costs and a growing middle-class consumer base, had attracted a large and diverse population of SMEs spanning retail trade, manufacturing, construction, hospitality, and services (Ahumuza et al., 2025). By 2022, Wakiso District was estimated to host over 45,000 registered businesses, of which a significant proportion met the definition of SMEs under the Uganda Micro, Small and Medium Enterprises (MSMEs) Policy of 2015 (Julius & Matovu, 2025).

Financial management referred to the process of planning, organizing, directing, and controlling an organization's financial activities with the objective of maximizing owner wealth and ensuring long-term financial sustainability (Racheal et al., 2023). For SMEs, financial management encompassed a broad range of activities, including day-to-day cash management, preparation of financial budgets, maintenance of financial records, management of receivables and payables, and evaluation of investment opportunities (David et al., 2023). Effective financial management had been consistently identified as a critical success factor for SME survival and growth in both developed and developing country contexts (Julius & Matovu, 2025).

Despite its recognized importance, financial management among SMEs in Wakiso District had been characterized by significant weaknesses (Ramadhan et al., 2023). A baseline survey conducted by the Wakiso District Local

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Government in 2020 found that fewer than 25% of SMEs maintained formal financial records, fewer than 15% prepared annual financial budgets, and the majority operated without any formalized working capital management systems(Winny et al., 2023). These deficiencies had been linked to high rates of SME failure, cash flow crises, and inability to access formal credit—since lenders required reliable financial records as a condition of lending.

The present study sought to provide empirical evidence on the specific financial management practices that were most strongly associated with financial performance outcomes for SMEs in Wakiso District, with a view to informing both SME capacity-building programs and lending institution requirements.

Theoretical and conceptual framework

Agency Theory

Agency theory, developed by Jensen and Meckling (1976), posited that principal-agent relationships such as those between SME owners and their managers or between SMEs and their creditors created incentive misalignments that could undermine financial performance. In the SME context, where owners often also served as managers, agency costs were typically low(Turyatemba et al., 2022). However, as SMEs grew and began to employ professional managers, the introduction of monitoring and governance mechanisms, including formalized financial reporting, became important for maintaining accountability and financial performance(Christopher et al., 2022).

Stewardship Theory

Stewardship theory, as articulated by Donaldson and Davis (1991), argued that managers were inherently motivated to act in the best interests of their organizations and that organizational performance was maximized when managers were given autonomy and appropriate tools to exercise their judgment. For SME financial management, stewardship theory suggested that when SME owners invested in financial management capacity—including financial literacy training, accounting software, and professional advisory services—the resulting improvement in financial management quality would translate into better financial performance outcomes.

Conceptual Framework

The conceptual framework for this study posited that financial management practices (budgeting and financial planning, working capital management, financial record-keeping, and investment appraisal) were the independent variables, while financial performance (profitability, liquidity, and revenue growth) was the dependent variable. The framework also acknowledged the potential moderating effects of firm size, business age, and sector on the financial management-performance relationship.

Literature review

Numerous studies had investigated the relationship between financial management practices and SME performance across different contexts. Nkundabanyanga et al. (2014) found in Uganda that management skills, including financial management, were significantly associated with SME survival. The study highlighted that SMEs whose owners had formal financial management training were significantly more likely to maintain profitable operations over time. Abor and Quartey (2010) reviewed the SME development literature for Ghana and South Africa and concluded that financial

management capacity was among the most critical determinants of SME financial performance in both countries (Ramadhan et al., 2023).

Regarding specific financial management dimensions, Afrifa (2016) found in a study of UK SMEs that efficient working capital management specifically the optimization of accounts receivable, accounts payable, and inventory management significantly enhanced SME profitability (Winny et al., 2023). The study demonstrated that for every additional day that receivable collection periods were shortened, SME profitability increased measurably. Mbroh and Attom (2011) found in Ghana that SMEs that maintained proper financial records were significantly more likely to access formal credit, manage costs effectively, and generate sustainable profits (Alex & Kazaara, 2023).

Budgeting and financial planning had similarly been identified as significant predictors of SME financial performance. Agyei-Mensah (2010) found in Ghana that SMEs with formal budgeting processes performed significantly better on profitability metrics than those operating without budgets. The study attributed this performance differential to the discipline that budgeting imposed on SME resource allocation, expense management, and strategic planning (Alex & Kazaara, 2023). Investment appraisal practices, while less commonly studied in the SME context due to the typically informal nature of SME investment decisions, had been found to improve capital allocation efficiency and long-term financial performance when adopted.

Methodology

The study adopted a cross-sectional survey design. The target population comprised all SMEs operating in Wakiso District's major trading centers, including Nansana, Kasangati, Entebbe Municipality, and Kira. Using a systematic random sampling approach, 311 SMEs were selected from the district's business registry (Julius et al., 2024). Data collection was carried out through structured questionnaires and follow-up interviews with a sub-sample of 40 SME owners for qualitative depth. The questionnaire was validated through a pilot test on 25 SMEs in Mukono District, and Cronbach's alpha values for all constructs exceeded the 0.70 threshold, confirming reliability (Alex & Julius, 2024).

Financial management practices were measured using adapted scales from Nguyen (2001) and Nkundabanyanga et al. (2014), rated on a five-point Likert scale. Financial performance was measured through respondents' self-reported assessments of profitability trends, liquidity position, and revenue growth over the preceding 24 months, supplemented by financial records where available. Data were analyzed using SPSS version 26, employing descriptive statistics, Pearson correlation, and multiple regression analysis (Nelson et al., 2022).

Findings and discussion

Financial Management Practice Levels

The study assessed the extent to which Wakiso District SMEs practiced the four dimensions of financial management. The descriptive statistics are presented in Table 1.

Table 1: Financial Management Practice Levels – Descriptive Statistics

Dimension	Statement	Mean	Std Dev	Interpretation
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Budgeting	Prepares annual financial budget	2.68	1.24	Low
Budgeting	Compares actual spending to budget monthly	2.41	1.31	Low
Budgeting	Uses budget to guide major decisions	2.89	1.19	Moderate
Working Capital	Manages debtors collection systematically	3.12	1.14	Moderate
Working Capital	Negotiates favorable supplier credit terms	3.34	1.08	Moderate
Working Capital	Maintains adequate cash reserves	3.01	1.22	Moderate
Record-Keeping	Maintains daily cash books	3.44	1.07	Moderate-High
Record-Keeping	Prepares monthly income statements	2.54	1.28	Low-Moderate
Record-Keeping	Files tax returns based on records	3.21	1.17	Moderate
Investment Appraisal	Evaluates major investments before committing	2.78	1.21	Moderate
Investment Appraisal	Compares investment alternatives formally	2.34	1.27	Low

Source: Primary Data, 2026

The financial management practice levels presented in Table 1 revealed a mixed picture of financial management quality among Wakiso District SMEs. Working capital management indicators generally recorded the highest mean scores, with supplier credit negotiation (3.34), debtor management (3.12), and cash reserve maintenance (3.01) all at moderate levels. This finding suggested that the immediate operational necessity of managing cash flows had driven

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SME operators to develop at least rudimentary working capital management systems, even in the absence of formal financial management training.

Record-keeping practices showed considerable variation, with daily cash book maintenance recording a relatively high mean (3.44) while monthly income statement preparation was considerably lower (2.54). This pattern suggested that many SMEs maintained basic cash records but did not systematically compile these into formal financial statements that could support strategic decision-making or external reporting. Budgeting practices were the weakest dimension, with annual budget preparation (2.68) and monthly budget comparison (2.41) both recording low means, indicating that formal budgeting was not a common practice among Wakiso SMEs. Investment appraisal practices were similarly weak, with formal investment evaluation scoring 2.78 and formal comparison of alternatives scoring only 2.34.

Financial Performance Levels

Table 2: Financial Performance Indicators – Descriptive Statistics

Performance Dimension	Indicator	Mean	Std Dev	Level
Profitability	Net profit margin improved in last 2 years	3.12	1.18	Moderate
Profitability	Return on investment meets expectations	2.97	1.24	Moderate
Liquidity	Able to meet short-term obligations on time	3.21	1.14	Moderate
Liquidity	Maintains adequate working capital	3.08	1.19	Moderate
Revenue Growth	Revenue grew by more than 10% last year	3.34	1.12	Moderate
Revenue Growth	Customer base expanded significantly	3.41	1.09	Moderate-High

Source: Primary Data, 2026

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The financial performance indicators in Table 2 suggested that Wakiso District SMEs had experienced moderate financial performance over the preceding 24-month period. Revenue growth indicators recorded the highest means, with customer base expansion (3.41) and revenue growth exceeding 10% (3.34) both at moderate-to-high levels(Nelson et al., 2023). This finding reflected the growing consumer market in Wakiso District, driven by population growth, urbanization, and rising household incomes. Liquidity measures were also at moderate levels, suggesting that most SMEs were able to meet their short-term obligations, though not always comfortably. Profitability indicators recorded slightly lower means, suggesting that while revenues were growing, cost pressures and pricing challenges were limiting the conversion of revenue growth into profit improvements.

Correlation Analysis

Table 3: Correlation Matrix – Financial Management Practices and Financial Performance

Variable	Fin. Performance	Budgeting	Working Capital	Record-Keeping	Inv. Appraisal
Financial Performance	1.000				
Budgeting & Planning	0.524**	1.000			
Working Capital Mgmt	0.638**	0.487**	1.000		
Financial Record-Keeping	0.612**	0.521**	0.534**	1.000	
Investment Appraisal	0.478**	0.412**	0.398**	0.441**	1.000

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

Source: Primary Data, 2026

The Pearson correlation matrix in Table 3 revealed that all four financial management dimensions had significant positive correlations with financial performance. Working capital management registered the strongest correlation ($r = 0.638, p < 0.01$), affirming that the day-to-day management of cash, debtors, creditors, and inventory was the most critical financial management activity for determining financial outcomes among Wakiso District SMEs. Financial record-keeping was the second strongest correlate ($r = 0.612, p < 0.01$), supporting the argument that SMEs that maintained systematic financial records were better positioned to monitor costs, identify profitability leaks, and make evidence-based management decisions.

Budgeting and financial planning showed a moderate positive correlation with financial performance ($r = 0.524, p < 0.01$), while investment appraisal had the weakest but still significant correlation ($r = 0.478, p < 0.01$). The relatively weaker investment appraisal correlation was partly attributable to the low levels of investment appraisal practice

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among Wakiso SMEs, which limited the variance in this variable. Nonetheless, the positive correlation confirmed that even rudimentary investment evaluation practices contributed positively to financial performance.

Multiple Regression Analysis

Table 4: Multiple Regression – Financial Management Practices on Financial Performance

Predictor	Beta (β)	Std Error	t-value	p-value	Significant?
Constant	0.623	0.187	3.331	0.001	
Budgeting & Planning	0.189	0.053	3.566	0.000	Yes
Working Capital Mgmt	0.298	0.051	5.843	0.000	Yes
Financial Record-Keeping	0.271	0.052	5.212	0.000	Yes
Investment Appraisal	0.163	0.049	3.327	0.001	Yes
R ²	0.561				
Adjusted R ²	0.555				
F-statistic	97.23			0.000	

Source: Primary Data, 2026

The regression results in Table 4 confirmed that the four financial management dimensions collectively explained 56.1% of the variance in financial performance ($R^2 = 0.561$, $F = 97.23$, $p < 0.001$). This significant model fit confirmed that financial management practices were among the most powerful determinants of financial performance for Wakiso District SMEs. Working capital management emerged as the strongest individual predictor ($\beta = 0.298$, $t = 5.843$, $p < 0.001$), followed by financial record-keeping ($\beta = 0.271$, $t = 5.212$, $p < 0.001$), budgeting and planning ($\beta = 0.189$, $t = 3.566$, $p < 0.001$), and investment appraisal ($\beta = 0.163$, $t = 3.327$, $p = 0.001$).

The dominant effect of working capital management was particularly noteworthy given the operational nature of SME businesses in Wakiso District, where most businesses were engaged in trade and services requiring active management of cash, inventory, and customer credit. The significant effect of financial record-keeping reinforced the importance of encouraging SMEs to invest in basic accounting systems whether manual or software-based as a foundation for improved financial management and performance. The positive effect of budgeting, even though budgeting levels were low, pointed to the untapped performance potential that could be unlocked by improving budgeting practices among Wakiso SMEs.

Qualitative Insights

In-depth interviews with SME owners provided valuable qualitative context for the quantitative findings. Several respondents acknowledged that inadequate working capital management had at various points threatened the survival

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of their businesses, particularly during periods of delayed customer payments or unexpected expense increases. One trader from Nansana trading center noted that the introduction of mobile money payment options had significantly improved his cash flow management by enabling same-day collection from customers and reducing the debtors' default problem that had previously disrupted operations.

Several respondents indicated that they had started using basic accounting software or bookkeeping apps on their smartphones following training from SACCO officers and NGO-sponsored business development programs, and that these tools had improved their awareness of profitability and cost management. However, many lamented the continued absence of professional financial advisory services that were affordable for SMEs, noting that the cost of certified public accountants was beyond their budget, leaving them to manage complex financial matters without adequate professional support.

Conclusions and Recommendations

The study concluded that financial management practices had a significant and positive effect on the financial performance of SMEs in Wakiso District. Working capital management and financial record-keeping were the most potent predictors of financial performance, collectively accounting for a substantial portion of the explained variance. Budgeting and investment appraisal, while weaker predictors, also made statistically significant contributions, underscoring the multi-dimensional nature of effective financial management.

The study recommended several interventions. First, the Uganda Revenue Authority and Wakiso District Local Government were recommended to integrate mandatory basic financial record-keeping training into the business registration process, ensuring that all newly registered SMEs had at least foundational financial management skills. Second, commercial banks and MFIs were recommended to provide financial literacy programs to existing SME clients as part of their loan management support, given the strong link between record-keeping and credit access. Third, the government, through the Uganda Development Bank and the Private Sector Foundation Uganda, was recommended to subsidize access to affordable accounting software and bookkeeping tools for SMEs.

Fourth, SME associations in Wakiso District were recommended to establish peer financial management support groups, where more financially sophisticated SME members could mentor others on budgeting, working capital management, and basic investment appraisal. Fifth, further research was recommended to examine the long-term causal effects of financial management training interventions on SME financial performance, using longitudinal and experimental research designs.

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