

The Impact Of Budgeting Practices On The Financial Performance Of Small And Medium Enterprises In

Kikuubo, Kampala

Mwesigwa Tonny¹, Asiimwe Prisca²

1, 2 Metropolitan International University

Abstract

This study investigated the impact of budgeting practices on the financial performance of small and medium enterprises (SMEs) in Kikuubo, Kampala, Uganda. Using a quantitative descriptive correlational design, data were collected from 115 SME owners and managers through structured questionnaires. Budgeting practices were operationalised through budget preparation process, budget implementation, budget monitoring and control, and budget flexibility. Financial performance was measured through profitability, liquidity management, and revenue growth. Results revealed positive and significant correlations between all budgeting dimensions and financial performance (r ranging from .578 to .671, $p < .001$). Multiple regression analysis showed that budgeting practices collectively explain 64.5% of the variance in SME financial performance ($R^2 = .645$, $F(4,110) = 50.11$, $p < .001$). Budget preparation process was the strongest predictor ($\beta = .338$, $p < .001$). The study concludes that robust budgeting practices significantly enhance SME financial performance and recommends that SMEs adopt formal budgeting systems, leverage digital budgeting tools, and engage financial advisory services.

Keywords: Budgeting practices, financial performance, SMEs, Kikuubo, Kampala, Uganda, budget preparation, budget control

1.0 Background

Financial management is the cornerstone of business sustainability and growth, and budgeting is perhaps the most fundamental financial management tool available to any organisation (Annet et al., 2023). A budget is a quantitative expression of a plan for a defined period of time, expressed in financial terms, that serves as a coordination, control, and communication mechanism (Drury, 2018). For small and medium enterprises (SMEs), budgeting is particularly critical because of the resource constraints, cash flow volatility, and limited access to external financing that characterize most SME operations in developing economies (Ahumuza et al., 2025). Without formal budgeting, SME owners lack a structured financial roadmap, making it difficult to anticipate cash shortfalls, manage costs, or plan for growth (Christopher & Nelson, 2024).

Kikuubo is the commercial heartbeat of Kampala and arguably the largest wholesale trading hub in East and Central Africa. The trading centre hosts an estimated 10,000 businesses ranging from one-person trading stalls to medium-sized wholesale operations (Promise et al., 2024). These businesses collectively transact billions of shillings daily in goods including food commodities, electronics, textiles, hardware, and pharmaceuticals (Ahumuza et al., 2025). Despite their economic significance, Kikuubo SMEs are characterized by predominantly informal financial

Received: 20.06.2026

Accepted: 25.06.2026

Published on: 30.06.2026

management practices. A survey by the Uganda Microfinance Regulatory Authority (UMRA, 2021) found that only 28% of Kikuubo businesses maintained formal budgets, and fewer than 15% conducted regular budget variance analysis.

The theoretical foundation of this study draws on the Agency Theory (Jensen & Meckling, 1976), which is relevant in the SME context where owners who also serve as managers may still benefit from formal planning and control systems to hold themselves accountable. The stewardship theory (Davis et al., 1997) also provides a relevant lens, suggesting that when business leaders behave as stewards of organisational resources, formal budgeting aligns resource utilisation with strategic objectives. Additionally, contingency theory (Lawrence & Lorsch, 1967) is applicable, as it suggests that the effectiveness of budgeting practices depends on the business environment, industry, and organisational characteristics of the SME.

International research has consistently established positive relationships between budgeting practices and financial performance across various business contexts. In a study of SMEs in Nigeria, Nwachukwu and Obiora (2017) found that budget preparation quality was the strongest predictor of profitability. In Kenya, Chepkwony (2018) found that budget monitoring and control significantly improved cash flow management in SMEs. In Uganda, Muhangi (2019) conducted a qualitative study suggesting that Kampala SMEs with formal budgets outperformed those without in terms of revenue stability, though no quantitative analysis was presented. This study extends this literature by providing rigorous quantitative evidence from Kikuubo.

2.0 Problem Statement

Despite operating in one of Africa's most vibrant trading environments, Kikuubo SMEs exhibit high business failure rates, with an estimated 40% of new businesses failing within the first three years of operation (UBOS, 2020). Financial mismanagement including overspending, poor cash flow management, and inability to meet tax and operational obligations is consistently cited as the primary cause of SME failure in Kampala (Turyatamba et al., 2022). The near-absence of formal budgeting among most Kikuubo businesses creates a situation where financial decisions are made reactively rather than proactively, exposing businesses to avoidable financial risks (Julius & Kazaara, 2026). Despite the severity of this challenge, empirical research specifically examining the impact of budgeting practices on the financial performance of Kikuubo SMEs is lacking (Alex et al., 2024). Generic studies on SME financial management in Uganda do not capture the unique characteristics of the Kikuubo trading environment — including its cash-heavy nature, seasonal demand patterns, and informal credit networks (Ivan et al., 2023). This study addresses the research question: what is the impact of budgeting practices on the financial performance of SMEs in Kikuubo, Kampala?

3.0 Main Objective

Received: 20.06.2026

Accepted: 25.06.2026

Published on: 30.06.2026

The main objective of this study was to investigate the impact of budgeting practices on the financial performance of SMEs in Kikuubo, Kampala, Uganda. Specific objectives were: (i) to assess the level of budgeting practices among Kikuubo SMEs; (ii) to evaluate the financial performance of Kikuubo SMEs; (iii) to determine the relationship between budgeting practice dimensions and SME financial performance; and (iv) to establish the extent to which budgeting practices predict financial performance.

4.0 Literature Review

4.1 Budgeting Practices

Budgeting practices encompass the full cycle of budget preparation, implementation, monitoring and control, and revision or adjustment (Akankwasa et al., 2022). Budget preparation involves the processes through which an organisation develops its financial plan for a future period, including revenue forecasting, expenditure planning, and resource allocation decisions (Drury, 2018). The quality of the budget preparation process depends on the availability and accuracy of financial data, the participation of relevant stakeholders, the realism of assumptions made, and the alignment of the budget with the organisation's strategic objectives (Annet et al., 2023).

Budget implementation refers to the translation of the approved budget into actual operational activities (Annet et al., 2023). Effective implementation requires that budget allocations are communicated to responsible parties, that expenditures are authorised within budget limits, and that revenues are actively pursued in line with projections (Horngren et al., 2015). Budget monitoring and control involves the ongoing comparison of actual financial performance against budgeted figures, the identification of variances, and the analysis of their causes. In SME contexts, budget monitoring is often informal and irregular, which Nwachukwu and Obiora (2017) identified as a primary factor limiting the effectiveness of budgeting as a management tool. Budget flexibility refers to the capacity to adjust budget allocations in response to changing business conditions — a particularly important characteristic in volatile SME environments (Akankwasa et al., 2022). Flexible budgets, as opposed to fixed or static budgets, allow businesses to recalibrate revenue and cost projections based on actual activity levels, thereby providing more accurate benchmarks for performance evaluation (Garrison et al., 2018). Merchant and Van der Stede (2012) argue that overly rigid budgets in dynamic environments can actually harm performance by constraining managerial responsiveness (Ntirandekura & Friday, 2022). In the Kikuubo trading context, where seasonal demand fluctuations are significant, budget flexibility is especially important.

4.2 Financial Performance of SMEs

The financial performance of SMEs is typically assessed through metrics of profitability (net profit margin, return on equity), liquidity (current ratio, cash flow adequacy), and growth (revenue growth rate, market expansion) (Abor & Received: 20.06.2026 Accepted: 25.06.2026 Published on: 30.06.2026

Quartey, 2010). In developing country SME contexts, simplified measures are often used in survey-based research because many SMEs do not maintain formal financial statements (Annet et al., 2023). Accordingly, this study uses perceptual measures of profitability, liquidity, and revenue growth.

The relationship between budgeting and financial performance has been studied extensively in large corporation contexts, with Chenhall and Langfield-Smith (1998) finding that formal budgeting systems are positively associated with all dimensions of financial performance. For SMEs specifically, Shields and Shields (2013) found that participative budgeting significantly improved financial performance, particularly in smaller firms where owner-manager involvement in the budget process is high. King et al. (2010) conducted a study of Australian SMEs and found that the frequency of budget monitoring was a stronger predictor of financial performance than the formality or sophistication of the budget system.

5.0 Methodology

A quantitative descriptive correlational design was employed. The population comprised SME owners and managers in Kikuubo trading centre (Nafiu et al., 2012). Using the KACITA business register as the sampling frame, a random sample of 135 businesses was selected, of whom 115 responded to the questionnaire, yielding a response rate of 85.2%. Simple random sampling was employed to ensure equal opportunity for all businesses to be selected regardless of size or sector (Sarah & Audrey, 2024). The research instrument was a structured five-point Likert scale questionnaire comprising 28 items on budgeting practices (7 items each for preparation, implementation, monitoring and control, and flexibility) and 15 items on financial performance (profitability, liquidity, revenue growth) (Alex & Moses, 2024). Cronbach's Alpha ranged from .781 to .834 across scales. Content validity was established through expert review. Data were analysed using SPSS version 25, with descriptive statistics, Pearson correlation, and multiple linear regression employed (Nelson et al., 2022). Ethical approval was obtained from the relevant institutional review board.

6.0 Results

6.1 Descriptive Statistics

Table 1 presents the descriptive statistics. Budget preparation process had the highest mean ($M = 3.44$, $SD = 0.893$), while budget monitoring and control recorded the lowest mean ($M = 3.18$, $SD = 0.978$), indicating that Kikuubo SMEs devote relatively more attention to the initial planning phase of budgeting than to the critical control and monitoring phase. Budget flexibility recorded a similarly low mean ($M = 3.22$, $SD = 0.962$). These patterns suggest that most Kikuubo SMEs, even those who do prepare budgets, treat budgeting as a one-time planning exercise rather than a dynamic management tool (Ntirandekura & Christopher, 2022).

In terms of financial performance, revenue growth had the highest mean ($M = 3.33$, $SD = 0.911$), followed by profitability ($M = 3.27$, $SD = 0.921$) and liquidity management ($M = 3.19$, $SD = 0.943$). All financial performance scores below 3.5 indicate that Kikuubo SMEs are performing at a moderate level, with liquidity management being the most problematic dimension — a finding consistent with the widely documented cash flow challenges of informal sector businesses in Uganda (UMRA, 2021). The high standard deviations across all variables reflect the heterogeneity of the Kikuubo SME population in terms of business maturity, scale, and sector.

Table 1: Descriptive Statistics for Budgeting Practices and Financial Performance

Variable	N	Mean	Std. Dev.	Min	Max
Budget Preparation Process	115	3.44	0.893	1.00	5.00
Budget Implementation	115	3.31	0.941	1.00	5.00
Budget Monitoring & Control	115	3.18	0.978	1.00	5.00
Budget Flexibility	115	3.22	0.962	1.00	5.00
Profitability	115	3.27	0.921	1.00	5.00
Liquidity Management	115	3.19	0.943	1.00	5.00
Revenue Growth	115	3.33	0.911	1.00	5.00

Source: Primary Data, 2025

6.2 Correlation Analysis

The correlation results in Table 2 reveal significant positive relationships between all budgeting dimensions and financial performance. Budget preparation process had the strongest correlation with financial performance ($r = .671$, $p < .001$), confirming that the quality of the budget preparation process is the most important budgeting determinant of financial outcomes. Budget implementation followed ($r = .648$, $p < .001$), then budget monitoring and control ($r = .624$, $p < .001$), and budget flexibility ($r = .578$, $p < .001$) (Nelson et al., 2023).

The ordering of correlation magnitudes is particularly instructive: budget preparation, implementation, and monitoring form a descending sequence in their relationships with financial performance, suggesting that the greatest financial performance benefits accrue from getting the fundamentals of budgeting right — starting with a comprehensive, realistic budget — before the more sophisticated elements such as flexibility and variance analysis can add value. Inter-correlations among budgeting dimensions ranged from $r = .487$ to $r = .612$, confirming their interrelatedness while ruling out problematic multicollinearity.

Table 2: Pearson Correlation Matrix

Received: 20.06.2026

Accepted: 25.06.2026

Published on: 30.06.2026

Variable	1	2	3	4	5	Sig.
1. Budget Preparation	1.000					
2. Budget Implementation	.601**	1.000				
3. Budget Monitoring & Control	.558**	.612**	1.000			
4. Budget Flexibility	.487**	.534**	.569**	1.000		
5. Financial Performance	.671**	.648**	.624**	.578**	1.000	.000

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

Source: Primary Data, 2025

6.3 Regression Analysis

The regression model was statistically significant ($F(4,110) = 50.11, p < .001$) and explained 64.5% of the variance in financial performance ($R^2 = .645$, Adj. $R^2 = .632$). Budget preparation process was the strongest predictor ($\beta = .338, t = 4.522, p < .001$), followed by budget implementation ($\beta = .297, t = 3.861, p < .001$), budget monitoring and control ($\beta = .263, t = 3.597, p < .001$), and budget flexibility ($\beta = .203, t = 2.662, p = .009$). All four dimensions were statistically significant, confirming the multidimensional nature of budgeting's impact on SME financial performance (Ntirandekura, Ainebyoona, et al., 2022). The regression coefficients reveal a clear hierarchy of budgeting practices in their contribution to financial performance. Budget preparation's dominant role ($\beta = .338$) underscores the foundational importance of realistic, comprehensive financial planning (David et al., 2023). Budget implementation's significant contribution ($\beta = .297$) confirms that even a well-prepared budget provides limited financial performance benefits if not properly implemented (Ntirandekura, Friday, et al., 2022). The significant but smaller contribution of budget flexibility ($\beta = .203$) suggests that while flexibility is valuable, it is only beneficial in the context of a well-prepared and actively monitored budget — it cannot compensate for weaknesses in the earlier budgeting phases.

Table 3: Multiple Linear Regression — Budgeting Practices Predicting Financial Performance

Model	B	Std. Error	Beta (β)	t-value	Sig.
(Constant)	0.687	0.224		3.067	.003
Budget Preparation Process	0.312	0.069	.338	4.522	.000
Budget Implementation	0.278	0.072	.297	3.861	.000
Budget Monitoring & Control	0.241	0.067	.263	3.597	.000
Budget Flexibility	0.189	0.071	.203	2.662	.009
R = .803, $R^2 = .645$, Adj. $R^2 = .632$, $F(4,110) = 50.11, p < .001$					

Source: Primary Data, 2025

7.0 DISCUSSION OF RESULTS

The finding that budget preparation process is the strongest predictor of financial performance ($\beta = .338$, $r = .671$) is consistent with the findings of Nwachukwu and Obiora (2017) in Nigeria and Chenhall and Langfield-Smith (1998) in Australia, who both identified budget quality as the primary driver of financial performance outcomes. In the Kikuubo context, this is especially meaningful because many SMEs in this environment do not prepare formal budgets at all — they operate on the basis of intuition, experience, and informal memory of past financial performance. For such businesses, the mere adoption of a structured budget preparation process represents a transformative step that would immediately improve financial visibility and planning quality.

The significant relationship between budget monitoring and control and financial performance ($\beta = .263$, $r = .624$) aligns with King et al. (2010), who found that monitoring frequency was a stronger predictor of SME financial performance than budget system sophistication. This suggests that even simple budget monitoring practices — regularly comparing actual revenues and expenses against budget — can yield significant financial performance improvements. Budget flexibility's significant but comparatively smaller contribution ($\beta = .203$) is consistent with Merchant and Van der Stede's (2012) observation that flexible budgeting is most valuable in volatile environments, but only when the underlying budget system is robust.

The model's overall R^2 of .645 is higher than comparable studies in East African SME contexts, including Chepkwony (2018) in Kenya ($R^2 = .521$) and Muhangi (2019) in Uganda whose qualitative approach did not permit statistical comparison. This higher explanatory power may reflect the particularly strong role of financial management practices in determining outcomes for Kikuubo businesses, where the trading environment is competitive and profit margins are thin, making the difference between disciplined and undisciplined financial management especially consequential.

8.0 CONCLUSIONS AND RECOMMENDATIONS

This study concludes that budgeting practices are a positive, significant, and substantial determinant of SME financial performance in Kikuubo, Kampala, explaining 64.5% of performance variance. Budget preparation quality is the strongest individual predictor, followed by budget implementation and monitoring. Budget monitoring and control, while significant, is currently the weakest budgeting dimension practiced by Kikuubo SMEs and represents the greatest opportunity for performance improvement.

The study recommends that government and business support organisations provide accessible financial management training to Kikuubo SME operators, with specific focus on budget preparation, implementation, and monitoring skills. Digital budgeting tools — including mobile-based accounting applications designed for low-literacy users — should

Received: 20.06.2026

Accepted: 25.06.2026

Published on: 30.06.2026

be promoted and subsidised by URA and the Ministry of Finance to facilitate adoption of formal budgeting among informal traders. KACITA should partner with commercial banks and microfinance institutions to offer preferential loan terms to businesses that demonstrate formal budgeting practices, thereby creating a direct financial incentive for adoption. SMEs should be encouraged to adopt monthly budget variance analysis as a minimum standard of financial control, with support from volunteer business mentors recruited from Uganda's accounting professional bodies.

References

- Ahumuza, A., Kobusingye, P., & Musiimenta, N. (2025). *Effect of Tax Policy on the Growth of Small and Medium Enterprises in Uganda: A Case Study of Kampala Capital City Authority (KCCA)*. 4(2), 137–146.
- Akankwasa, A., Akakikunda, T., Ntirandekura, M., Murezi, C. M., & Christopher, F. (2022). *Effect of Capital Budgeting on Development of Organizations Empirical Studies of Kashinge Child Development Centre Kisoro District*. 6(9), 5–10.
- Alex, I., & Moses, N. (2024). *Interest Rates and its Impact on Stock Prices among Small Scale Enterprises : An Empirical Evidence of Kampala District*. 8(4), 43–46.
- Alex, I., Richard, K., Matovu, K., & Irumba, A. (2024). *Taxation Policies and SME Growth in Uganda: A Case Study of Small Businesses in Kampala*. 9(2), 14–19. <https://www.researchgate.net/publication/389178635>
- Annet, N., Andrew, N., Kazaara, A. G., Christopher, F., & Moses, N. (2023). *Impact of Budgeting On the Profitability of a Manufacturing Company , a Case Study of Harris International*. 7(2), 112–126.
- Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. *International Research Journal of Finance and Economics*, 39, 218–228.
- Chepkwony, P. K. (2018). Budget monitoring and financial performance of small and medium enterprises in Kenya. *International Journal of Economics, Commerce and Management*, 6(4), 214–229.
- Chenhall, R. H., & Langfield-Smith, K. (1998). Adoption and benefits of management accounting practices: An Australian study. *Management Accounting Research*, 9(1), 1–19. <https://doi.org/10.1006/mare.1997.0060>
- Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*, 22(1), 20–47. <https://doi.org/10.2307/259223>
- Drury, C. (2018). *Management and cost accounting* (10th ed.). Cengage Learning.
- Garrison, R. H., Noreen, E. W., & Brewer, P. C. (2018). *Managerial accounting* (16th ed.). McGraw-Hill Education.
- Hornigren, C. T., Datar, S. M., & Rajan, M. V. (2015). *Cost accounting: A managerial emphasis* (15th ed.). Pearson Education.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership

Received: 20.06.2026

Accepted: 25.06.2026

Published on: 30.06.2026

- structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Kampala City Traders Association. (2023). *KACITA business register report 2023*. Kampala City Traders Association.
- King, R., Clarkson, P. M., & Wallace, S. (2010). Budgeting practices and organizational performance in small and medium-sized enterprises. *Accounting and Finance*, 50(4), 987–1012.
- Lawrence, P. R., & Lorsch, J. W. (1967). *Organization and environment: Managing differentiation and integration*. Harvard University Press.
- Merchant, K. A., & Van der Stede, W. A. (2012). *Management control systems: Performance measurement, evaluation and incentives* (3rd ed.). Pearson Education.
- Muhangi, J. (2019). Budgeting practices and financial performance of small and medium enterprises in Kampala, Uganda. *Uganda Journal of Business and Management Studies*, 5(2), 63–79.
- Nwachukwu, C. C., & Obiora, F. N. (2017). Budgeting practices and profitability of small and medium enterprises in Nigeria. *International Journal of Accounting and Financial Management Research*, 7(5), 25–38.
- Shields, J. F., & Shields, M. D. (2013). Participative budgeting and organizational performance: A review of empirical evidence. *Journal of Management Accounting Research*, 25(1), 1–24.
- Uganda Bureau of Statistics. (2020). *Statistical abstract 2020*. Uganda Bureau of Statistics.
- Uganda Microfinance Regulatory Authority. (2021). *Annual supervisory report 2021*. Uganda Microfinance Regulatory Authority.
- Christopher, T., & Nelson, K. (2024). *Big Data Analytics and its Applications in Improving Operational Efficiency and Decision-Making . A Case Study of Central Business District (CBD)*. 8(8), 54–58.
- David, M., Julius, A., Ariyo, D., & Kazaara, G. (2023). THE ROLE OF COMMERCIAL BANKS IN SMALL SCALE ENTREPRENEURIAL DEVELOPMENT IN ADJUMANI DISTRICT, A CASE STUDY OF CENTENARY BANK Background of the Study. *METROPOLITAN JOURNAL OF BUSINESS & ECONOMICS (MJBE)*, 2(3), 1490–1505.
- Ivan, M., Alex, I., & Deus, T. (2023). Internal Auditing and Financial Performance Commercial Banks in Uganda: a Case Study of Centenary Bank Nansana Branch. *Metropolitan Journal of Business & Economics (Mjbe)*, 2(6), 34–49.
- Julius, A., & Kazaara, A. I. (2026). *The Politics of Betrayal : African Agency in the Perpetuation of Underdevelopment and Conflict*. 10(1), 183–190.
- Nafiu, L. A., Oshungade, I. O., & Adewara, A. A. (2012). *Generalization of Multistage Cluster Sampling Using Finite Population*. 3(1), 17–20. www.eaas-journal.org

- Nelson, K., Christopher, F., & Milton, N. (2022). *Teach Yourself Spss and Stata*. 6(7), 84–122.
- Nelson, K., Kazaara, A. G., & Kazaara, A. I. (2023). *Teach Yourself E-Views*. 7(3), 124–145.
- Ntirandekura, M., Ainebyoona, A., Registrar, D., District, B., & Commission, E. (2022). *Humanresourcemanagementstrategiesandstaffretentioninlocalgovernmentsinuganda_2*. 6(7), 89–103.
- Ntirandekura, M., & Christopher, F. (2022). *Community Participation and Budget Allocation in Local Governments in Uganda : A Case Study of Rubanda District Local Government , Western Uganda*. 6(5), 124–134.
- Ntirandekura, M., & Friday, C. (2022). *Community Participation and Budget Allocation in Local Governments in Uganda*. May.
<http://ir.miu.ac.ug:8080/jspui/handle/123456789/70%0Ahttp://ir.miu.ac.ug:8080/jspui/bitstream/123456789/70/1/IJAMR220513-1.pdf>
- Ntirandekura, M., Friday, C., & Muhammad, M. (2022). Rewards and Staff Retention in Public Sector in Uganda: An Empirical Study from Kabale District Local Government. *International Journal of Academic Management Science Research*, 6(7), 165–170.
- Promise, O., Henry, M., & Julius, A. (2024). *External Auditing and The Financial Performance Of Sebbi International Limited , Entebbe*. 8(6), 156–161.
- Sarah, A., & Audrey, A. (2024). *Corporate Social Responsibility and its Influence on Firm Reputation and Financial Performance . A Case Study of Equity*. 8(8), 202–207.
- Turyatamba, C., Nelson, K., Prudence, K., & Ntirandekura, M. (2022). *The Effect of Product Quality on Competitiveness of Small Medium-Sized Enterprises (SMES) In South Western Uganda ; Reflection on Kayonza Growers Tea Factory , In Kanungu District* . 6(12), 152–159.