

**Effects Of Financial Management Practices On The Business Performance Of Small And Medium Enterprises
In Kampala District**

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Abstract

The study sought to assess the effect of financial management practices on performance of small and medium enterprises in Kampala district, Uganda. It was guided by three specific objectives, which included; to determine the effect of financial reporting on performance of small and medium enterprises in Kampala district, to establish the effect of working capital management on performance of small and medium enterprises in Kampala district and to establish the effect of budgeting on performance of small and medium enterprises in Kampala district. This research employed survey and descriptive research design to describe the variables. Descriptive surveys were used to discover causal relationships (descriptive correlation) to provide precise quantitative description and to observe behavior. The data gathered was collected, coded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS). Quantitative data analysis was employed in this research study. The findings revealed that financial reporting among SMEs was rated satisfactory, and this is indicated by the overall mean of 3.5, implying that the owners of SMEs; working Capital Management was rated satisfactory with the overall mean of 3.69, as well budgeting among SMEs was rated satisfactory, and this was indicated by the overall mean of 3.44 and profitability was moderate, and this is indicated by the overall mean of 3.4 among SMEs. Moreover, financial reporting significantly affects performance of SMEs this led to a significant effect of Financial reporting on performance of SMEs; working capital management significantly affects the performance of thus Working capital management had a significant effect on performance of small and medium scale enterprise and finally, budgeting significantly affects performance of SMEs therefore, budgeting has a significant effect on performance of small and medium scale enterprise in Kampala district. The researcher concluded that effective financial reporting is an important factor in determining the level of performance of SMEs since financial reporting is based on cash conversion cycle and still considered as an important factor in enhancing the performance of SMEs, in order to increase the financial performance, SMEs in Kampala District have tried to maintain an optimal balance between each of the working capital components such as cash receivables, inventory and payables and finally, as a way of increasing on the level of performance, small and medium enterprises in Kampala District have always considered budgeting as an important factor when obtaining bank credit as banks commonly require a projection of future operations and cash flows to support loans, this has also led to the improvement in performance due to checking of progress towards the objectives of the enterprise. The researcher recommended that; small and medium business owners should develop a good system to monitor finance payments, record and track all the finance payments so that there is effectiveness in payment of cash and ensure to cover loopholes in the system to enhance financial performance. Small and medium enterprise business owners and managers should develop an effective working capital management

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system for example alternative ways of collecting funds from which makes finance collection easy and flexible to boost performance.

Keywords: Financial, Management Practices, Business Performance, Small And Medium Enterprises

Background to the study

SMEs dominate the global business scene, ninety percent (90%) of businesses worldwide are SMEs, accounting for approximately 60% of private sector employment (Turyatamba et al., 2022).

A major argument in favor of small and medium-sized enterprises (SMEs) in developing countries and Uganda in particular is their growing strategic role in economic growth and development based on their contribution to wealth creation, employment and income generation (Benard, 2023). . Small and Medium Enterprises (SMEs) are increasingly seen by both the Ugandan government and private sector institutions as the primary vehicles for job creation and income generation through self-employment, and therefore tools for poverty alleviation. However, it is sad to note that African SMEs have historically lacked access to finance and this is likely to be exacerbated by the effects of the financial and economic crisis on the continent (Paul & Kazaara, 2023).

Financial Accountability (FA), as defined by legislation, is a legal requirement for schools to manage funds and implement financial accountability processes in accordance with the Education Development Program (EDP) Financial Management and Accounting Handbooks (Polycarp et al., 2023). (Abiodun & Christopher, 2024) describes financial accountability as examining whether officials and agencies follow laws, regulations, rules and procedures in transparent

allocation, expenditure and reporting of financial resources.

According to (Nicholas & Alex, 2024), financial practices refer to the set of common methods or standard operating procedures developed to carry out SME performance, budgeting, accounting and other activities related to corporate finance (Ntirandekura, Ainebyoona et al. , 2022). Each serves to support business policies, establish accountability, and provide step-by-step instructions for completing a task or activity (Alex & Kazaara, 2023).

SME performance refers to the extent to which an SME generates significant positive cash flows or profits that grow significantly faster (Christopher et al., 2022). There are several indicators of SME performance such as profitability, sales performance, increase in the number of customers, increase in the number of employees employed and so on. Profitability is one of the important performance measures to consider because it is unlikely that a firm's performance could be sustained without profits being available for reinvestment in the firm (Julius, 2024). Performance in this perspective was assessed in terms of productivity, firm growth, productivity and market share. This also means that economic success requires high performing firms (Paul & Kazaara, 2023).

Performance is the process of measuring the results of corporate policies and operations in monetary terms (Ntirandekura, Friday, et al., 2022). It is a subjective

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measure of the extent to which financial goals have been met (Moses et al., 2023). It is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar companies in the same industry (Damasus et al., 2023) argues that financial performance analysis reflects a firm's financial position, the level of competitiveness in the same industry and thorough knowledge of cost and profit centers within the company.

Profitability measures the extent to which a business generates profit from the factors of production. It indicates how effectively management can achieve profit using all available resources, i.e. production factors (Winny et al., 2023). The most useful measures of corporate profitability are return on assets (ROA) and return on equity (ROE). Return on assets (ROA), which is net income for the year divided by total assets. (Polycarp et al., 2023) defines a firm's ability to use its assets to generate profit. Return on invested capital is often a more indicative measure of financial performance than profit as a percentage of sales. Return on equity (ROE), which is an internal measure of shareholder value performance (Ivan et al., 2023). ROE refers to how much profit a company has earned compared to the total amount of equity capital invested or found on the balance sheet. ROE is what shareholders see as a return on their investment. Financial efficiency means quick release of cash from

Problem Statement.

SMEs in Uganda are the driving force of the Ugandan economy; however the poor performance of SMEs has long remained unexplained (Ntirandekura, Ainebyoona, et al., 2022) and has been partly attributed to the inadequacy of financial management practices, which have been largely ignored among SMEs (Nguyen, 2017). A study conducted by

inventory and through debt collection, creating repayment resources that increase creditworthiness (Ivan et al., 2023). Asset turnover, inventory turnover are measures of financial efficiency (Racheal et al., 2023). Liquidity measures the ability of a business to meet financial obligations as they fall due without disrupting the normal, ongoing operations of the business (Abiodun & Christopher, 2024). Common and acid test ratios are basic measures of liquidity.

However, for the purposes of this study, financial performance is conceptualized in terms of profitability and is measured using return on assets and return on equity (Racheal et al., 2023).

Several research works have been conducted on financial management practices and performance in the global arena, including East African countries (EAC). However, few studies in Uganda have specifically focused on the link between financial management practices and SME performance (Paul & Kazaara, 2023). Studies conducted so far do not provide a comprehensive and holistic view of the problem of private financial organizations in Kampala District, Uganda in the financial sector. Not much literature addresses specific issues such as SME performance, working capital management and budgeting (Annet et al., 2023). They deal more with the symptoms and specifically provide actionable remedies to the problem that should be addressed.

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(Musimenta et al., 2017) found that SMEs are not achieving the desired expectations and if this situation is not addressed, the contribution of SMEs to Uganda's economy is likely to be compromised. Therefore, the study is set to address this proven gap. Approximately 80 to 90% of SMEs fail within 5 to 10 years. SME performance measures such as profitability, sales growth, market share, etc. have been identified as critical elements of SME profitability and efficiency in Uganda. SMEs contribute positively to economic growth and development, although failure rates are also high (Polycarp et al., 2023). The results of several surveys also indicate that small and medium-sized enterprises (SMEs) face difficulties in accessing the right technologies, financing, skills and expertise, information and technical know-how, and land to carry out their day-to-day activities. In addition, financial management practices such as budgeting, working capital management and SME performance have been ignored for a very long time (Ntirandekura, Friday, et al., 2022). For example, these SMEs usually receive short-term loans and if the owners and managers of these firms do not know how to use the funds effectively, the operations of the firm are crippled, eventually leading to the failure of the firm (Ntirandekura & Christopher, 2022). In most cases, the human resources employed by the company are not sufficiently equipped with the right skills to manage the business. Today, the world has become a very small village due to internet connectivity, but most small and medium enterprises are unable to get internet because it is very expensive (Ntirandekura & Alex, 2022). The aforementioned challenges make it very difficult for SMEs to develop their potential to contribute to the country's economic growth. Despite the Ugandan government's efforts to improve the financial performance of small and medium enterprises, many small and medium enterprises (SMEs) have failed to achieve above average results in terms of profitability (Annet et al., 2023). Small and medium-sized enterprises are constantly experiencing a downward trend in profit (Ntirandekura & Alex, 2022) and a high rate of insolvency (Nancy & Prudence, 2024). The poor performance of SMEs can be attributed to the quality of financial information and inventory management. This performance trend prompted the researcher to conduct a study to find out to what extent the quality of financial information and inventory management affect the financial performance of SMEs.

Specific Objectives

1. To determine the effect of budgeting on the performance of small and medium scale enterprise in Kampala district.
2. To examine the effect of working capital management on the performance of small and medium scale enterprise in Kampala district.
3. To assess the effect of financial reporting on the performance of small and medium scale enterprise in Kampala district.

Methodology

The study adopted a descriptive survey design. Descriptive research was used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation (Maiga et al., 2021). The technique was appropriate as it involved a careful in-depth study and analysis on the effect of financial

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management practices on performance of small and medium enterprises in Kampala district. The population of study consist of all element that are of interest of researcher. It is therefore the totality of objects or individuals having one or more characteristics in common that are in interest of the researcher for the purpose of collecting data (Rasheed et al., 2022). The study considered businesses which have been in existence for the last six years. The researcher believe that the target population has the relevant knowledge and information necessary for this study. In each enterprise only one person was selected to fill the questionnaire therefore, the unit of inquiry was individuals running the business who are either the staff or managers (Jallow et al., 2021).

A sample of 201 respondents was chosen from the employee using the Slovene method of calculating the sample size. The sample was restricted to information required and the purpose of the study.

This strategy was utilized to choose 10 educated respondents who take part in the meetings. As per (Abiodun & Christopher, 2024), purposive inspecting procedure is a sort of non-likelihood testing that is best when one necessity to concentrate on a specific social space with proficient specialists inside (Lu et al., 2013).

The variables were measured on a 5-point Likert scale (5 strongly Agree, 4 Agree, 3 Not sure, 2 Disagree and 1 strongly Disagree). The 5-point Likert scale is the most appropriate way to formulate the different questions for measuring different items from different variables. The questionnaires were administered to top level, middle level and lower level staff (Nafiu et al., 2013).

A questionnaire was the major method to be used for data collection. The questionnaires were preferred for this study because it enables the researcher reach a larger number of respondents within a short time, thus making it easier to collect relevant information (Nafiu, 2012). The questionnaires were used as the instrument for data collection from most of the sample population. The instrument was used because of its suitability in in researching respondents in a large sample and to enable respondents to give information free of influence. At least 201 questionnaire drafts were prepared and administered (Nafiu et al., 2013).

This herpes on examination of quantitative information. Quantitative information from surveys was arranged involving the Factual Bundle for Sociologies (SPSS) technique. Both Succeed and SPSS have a comparable vibe, with pull-down menus, a large group of inherent factual capabilities and a bookkeeping sheet design for simple information passage. SPSS has quicker and simpler essential capability access, it has a more extensive assortment of diagrams and outlines and it is simpler to track down measurable tests (Nelson et al., 2022). The investigation depends on both expressive and inferential measurements. Quantitative information from the surveys was processed into recurrence counts and rate. The graphic insights include utilization of recurrence tables, mean, and standard deviation. The scientist took on a numerous relapse examination in dissecting the impact between the review factors (Nafiu & Ph, 2012). The speculations were tried utilizing Pearson Relationship Coefficient. Notwithstanding recurrence conveyance tables, mean, standard deviation and different proportions of focal propensity was utilized in information examination with their translation being centered on the level of agreement found from frequencies and level of consistency reasoned from mean and standard deviation

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(Olanrewaju et al., 2021). The higher the recurrence of reaction on unambiguous things being scrutinized for a specific free factor, the more the reliant variable is dependent on it. The frequency and percentage distribution were used to determine the demographic characteristics of the respondents. The mean and standard deviations was applied for the extent of financial management practices and performance of small-scale enterprises. And regression analysis was used to determine the significant effect between the variables (Olanrewaju & Abiodun, 2021).

The information that was gathered through surveys was organized and examined involving the Measurable Bundle for the Sociologies (SPSS) programming bundle these incorporates mean and standard deviations. Unmistakable insights were utilized to dissect information. Moreover, portrayals were made in light of the consequences of the tables (Nelson et al., 2022).

Investigation of the information gathered during this exploration enrolled factual techniques. To start with, the segment normal for respondents were broke down by the utilization of frequencies and rates (Nafiu, 2012). The first, second, and third targets which required the assurance of the means and the standard deviation on the financial management practices ID, credit observing and advance evaluation. There was further work of relapsing procedure to decide the impacts that is of credit risk management of SMEs.

RESULTS

Descriptive Statistics of Financial Reporting.

Table 1 Descriptive Statistics of Financial Reporting

Items on Financial Reporting	Mean	Std. Dev	Interpretation
You have clear policies and procedures to release cash	4.06	.836	High
There is proper adherence to policies, rules, and regulations of cash management	3.90	1.031	High

There are clear controls to prevent and detect fraud and errors	3.58	1.155	High
There are optimal cash balances all time	3.54	1.241	High
Cash management in my firm enables the business to have increased sales	2.5	1.235	Low
Average Mean	3.50	1.099	High

Source: Primary Data, 2023

Results in Table 1 indicate that financial reporting among SMEs in Kampala District, Uganda was rated satisfactory, and this is indicated by the overall mean of 3.5, implying that the owners of SMEs in Kampala District, Uganda fairly manage their cash well. Respondents were asked whether they have clear policies and procedures to release cash and most of them were in total agreement with the question as they were asked to answer depending on their level of agreement ranging from strongly disagree to strongly agree and the computed mean value is 4.06 which is within the second mean range and tending to the rank 4 (Agree) meaning that they have clear policies and procedures to release cash satisfactorily because it is within the mean range of 3.40 (Nelson et al., 2023).

Respondents were also asked whether there is proper adherence to policies, rules, and regulations of cash management and majority of them agreed with the question and the response was satisfactory and this is indicated by the computed mean value (mean=3.9) since it is within the mean range of 3.4-4.2, implying that Financial Reporting had satisfactorily enabled firms to have a proper adherence to policies, rules, and regulations of cash management. Respondents were also asked whether there are clear controls to prevent and detect fraud and errors and the majority agreed with the question and the rate was satisfactory and this is indicated by the mean computed (mean=3.58) since it is within the mean range of 3.4-4.2. Hence, it can be said that financial reporting had satisfactorily enabled firms to get there are clear controls to prevent and detect fraud and errors. Respondents were also asked that there are optimal cash balances all time and the majority agreed and the response was satisfactory (mean=3.54). However, there is always a no balance between cash

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receipts and payments, and this is clearly indicated by the mean value (mean=2.5) since it is not in agreement with the question and mean value computed falls in the range between 1.81-2.60 and in accordance with the mean interpretation scale given in table 3.8, it tends to the second lowest rank 2 (disagree) which makes the response unsatisfactory. Hence meaning that these respondents were either unaware of the questions or did not agree to the indications of the statement thus rendering it unsatisfactory.

Descriptive Statistics of Working Capital Management***Table 2 Descriptive Statistics of Working Capital Management***

Items on working capital management	Mean	Std. Dev.	Interpretation
Cash management enables the business to have sufficient stocks as per customers' demands	3.95	1.227	High
The cash management in this business enables the business to have increased sales.	3.89	1.079	High
Inventory management in this business is efficient and effective	3.50	1.348	High
The receivables of this business are properly managed	2.55	1.102	High

There is proper management of accounts payable in this business.	3.47	1.074	High
Average Mean	3.69	1.166	High

Source: Primary Data, 2023

Results in Table 2, show that Working Capital Management among SMEs in Kampala District, Uganda was rated satisfactory, and this is indicated by the overall mean of 3.69, implying that the owners of SMEs in Kampala District should manage their working capital well. Respondents were asked whether all cash management enables the business to have sufficient stocks as per customers' demands and most of them were in total agreement with the question and the computed mean value (mean=3.95) is within the range of 3.4-4.2, meaning that receivables were properly managed, and the response rate was satisfactory. Respondents were also asked whether cash management in the firm enables the business to have increased sales and the response given was satisfactory with respect to the mean value computed (mean=3.89) and interpreted as agreed by the majority of the respondents. Results still shows that inventory management in the business is efficient and effective (mean=3.5) However, this clearly interprets that majority of the respondents agreed that the Working Capital Management among SMEs in Kampala District, Uganda was satisfactory since the mean values are all in the range of 3.4-4.2 which is the second highest rank 4 (Agree).

Descriptive Statistics of Budgeting

Table 3 Descriptive Statistics of Budgeting

Items on budgeting	Mean	Std. Dev.	Interpretation
There is a cash budget to control receipts and payments in your business	4.17	.666	High

There is clear projection of cash inflows and cash needed in your business	4.05	.912	High
There are weekly cash projections in your business	3.97	.680	High
Your cash projections are mainly done monthly	3.67	.915	High
There are clear short term cash requirements made in your business. (weekly)	2.50	1.150	Low
Average Mean	3.44	0.864	High

Source: Primary Data, 2023

Results in table 3 indicate that budgeting among SMEs in Kampala District, Uganda was rated satisfactory, and this was indicated by the overall mean of 3.44, implying that the owners of SMEs in Kampala District, Uganda fairly manage their inventory well.

With respect to Table 3; results indicate that budgeting was rated high, and this was indicated by the average mean (mean=3.44), implying that budgeting is fairly done well by the SMEs in Kampala District. Results also indicate that there is a cash budget to control receipts and payments in your business (mean=4.17), there are clear projection of cash inflows and cash needs in your business (mean=4.05), there are weekly cash projections in your business (mean=3.97), your cash projections are mainly done monthly (mean=3.67).

All those responses were satisfactory, and the respective means computed were in the range of 3.4-4.2 which tend to the second highest rank 4 (Agree). Respondents were also asked whether there are clear short-term cash requirements made in your business (E.g. weekly), however respondents disagreed and this implies that SMEs in Kampala District had not

considered there is clear short-term cash requirements made in their business. (E.g. weekly) (mean=2.5), and this is because these respective means computed are in the range of 1.8-2.6.

Descriptive Statistics on Performance of Small and Medium Enterprises***Table 4 Showing descriptive Statistics of Performance Small and Medium Enterprises***

Profitability	Mean	Std. Dev.	Interpretation
You expect your profits to remain high in future	3.83	.984	High
There is a high return on investment	3.57	1.214	High
Your business assets give you enough profits	3.54	1.211	High
Your business net profit margins are high	2.55	1.162	Low
Your business revenue always exceeds the expenditure	2.50	1.150	Low
Average Mean for Profitability	3.2	1.144	High
Growth			

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Selling new and high-quality products has attracted large number of customers from different parts of Uganda	4.13	.632	High
Your company's sales volume always increase year after year	3.78	.675	High
Your company always sell large quantities of goods to its customers	3.61	1.056	High
Average Mean Growth	3.84		High
Market Share	Mean	Std. Dev.	
You frequently segment the existing customer groups basing on newly discovered needs and buying patterns	3.71	1.222	High
You have always maintained a good customer focus	3.56	1.326	High

Your services always provide high degree of convenience to customers	2.99	1.174	Not sure
You have always responded to customers' changing needs	2.43	1.075	Low
Average Mean	3.17	1.199	High
Overall Mean	3.4	1.171	High

Source: Primary Data, 2023

Results in table 4 shows that the profitability is moderate, and this is indicated by the overall mean of 3.4, which implies that SMEs in Kampala District have resources which can make them financially perform moderately.

With respect to profitability, results in table 4.3 indicate that this construct was rated moderate and is fairly satisfactory and this was indicated by the average mean of 3.2. Still results indicate that the owner expects profits to remain high in future (mean=3.83) which shows that respondents rated this item high; respondents were also asked whether there is a high return on investment and results show that respondents rated high (mean=3.57) meaning that there has been a gain in profits on the capital employed by the business; the results also indicate that the business assets give enough profits to the owner (mean=3.54). However, businesses did not expect a high net profit margins (mean=2.55) and the business revenue doesn't always exceed the expenditure (mean=2.5). Hence, this implies that SMEs in Kampala District have financially performed moderately in terms of profitability.

Results in Table 4.9, respondents were asked whether selling new and high quality products has attracted large number of customers from different parts of Uganda and majority of the respondents were in total agreement with the question and the mean value (mean=4.13) is within the range of

3.4-4.2, meaning that selling new and high quality products attracts large number of customers from different parts of Uganda and the response rate is satisfactory. Respondents were also asked whether the company's sales volume always increase year after year and the response given was satisfactory with respect to the mean value computed (mean=3.78)

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and interpreted as agreed by the majority of the respondents. Results still show that the company always sell large quantities of goods to its customers (mean=3.61).

However, this clearly states that majority of the respondents agreed that the growth among SMEs in Kampala District was satisfactory since the mean values are all in the range of 3.4-4.2 which is the second highest rank 4 (Agree).

With respect to Market Share, results in table 4.9 indicate that this construct was rated fairly satisfactory and this was indicated by the average mean of 3.17. Still results indicate that the owner frequently segments the existing customer groups basing on newly discovered needs and buying patterns (mean=3.71); You have always maintained a good customer focus (mean=3.56).

However, owners of the business don't always provide services of high degree of convenience to customers (mean=2.99) and whether you have always responded to customers' changing needs wasn't high (mean=2.43).

Table 5 The Effect of Financial reporting on the Performance of SMEs in Kampala district.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.392 ^a	.153	.147	.56807	.153	25.355	1	140	.000

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	8.182	1	8.182	25.355	.000 ^b
Residual	45.179	200	.323		
Total	53.361	201			
Model	Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.

	B	Std. Error			
1 (Constant)	2.240	.312		7.187	.000
Financial reporting				5.035	
	.402	.080	.392		.000

Source: Primary Data, 2023

Table 5 revealed that financial reporting significantly affects performance of SMEs in Kampala district ($R^2=0.153$, $p=0.000$). This is because financial reporting can significantly explain a change of up to 15.3% in performance. This implies that when SMEs make use of adherence to policies, rules, and regulations of cash management and development, and promotional ventures, they can penetrate the market and financially become viable.

H1₁: Financial reporting has a significant effect on performance of SMEs in Kampala district.

The decision rule was that: if $p \leq 0.05$, the null hypothesis would be rejected, and alternative hypothesis accepted (Racheal et al., 2023).

For that reason, the finding in table 4.10 shows that the null hypothesis that there is no significant effect of financial reporting on the performance of SMEs in Kampala district was rejected, and the alternative hypothesis that there is a significant effect was upheld. Furthermore, the study revealed that the regression model was a good fit for predicting the effect of financial reporting on performance ($F=25.355$, $p=0.000$).

Similarly, the study revealed that an improvement in financial reporting such as the use of advanced technology or regular employee training would significantly cause an improvement in performance by 39.2% ($Beta=0.392$, $p=0.000$).

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The Effect Working capital management on Performance of SMEs in Kampala district

The second objective of this study was to determine the effect working capital management on the performance of SMEs in Kampala district. Table 4.10 gives the summary of the findings.

Table 6 The Effect Working capital management on the Performance of SMEs in Kampala district

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.484 ^a	.234	.229	.54033	.234	42.773	1	140	.000
Model			Sum of Squares		df	Mean Square		F	Sig.
1 Regression			12.488		1	12.488		42.773	.000 ^b
Residual									
Total			40.873		200	.292			

	53.361	201			
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)		.208		11.863	.000
Working capital management	2.465			6.540	
	.383	.059	.484		.000

Source: Primary Data, 2023.

Table 6 revealed that working capital management significantly affects the performance of SMEs in Kampala district ($R^2=0.234$, $p=0.000$). This is because working capital management can significantly explain a change of up to 23.4% in performance. This implies that when SMEs have adequate finances to train its employees and constantly improve their working capital management processes, then they can improve in their performance.

H1₂: Working capital management has a significant effect on performance of small and medium scale enterprise in Kampala district.

The decision rule was that: if $p \leq 0.05$, the null hypothesis was rejected, and alternative hypothesis would be accepted.

For that reason, the finding in table 6 shows that the null hypothesis that there is no significant effect of working capital management on the performance of SMEs in Kampala district was rejected, and the alternative hypothesis that there is

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a significant effect was upheld. Furthermore, the study revealed that the regression model was a good fit for predicting the effect of working capital management on performance ($F=42.773$, $p=0.000$) (Ivan et al., 2023).

In the same way, the study revealed that an improvement in working capital management such as enhancement of the regular feedback to management about cash receipts and expenditure would significantly cause an improvement in performance by 48.4% ($\text{Beta}=0.484$, $p=0.000$).

The Effect of Budgeting on the Performance of SMEs in Kampala district

The third objective of this study was to establish the effect of budgeting on the performance of SMEs in Kampala district. Table 7 gives the summary of the findings.

Table 7 The Effect of Budgeting on the Performance of SMEs in Kampala district

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.535 ^a	.286	.281	.52160	.286	56.129	1	140	.000

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.271	1	15.271	56.129	.000 ^b
Residual	38.090	200	.272		
Total	53.361	201			

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant) budgeting	1.845	.263		7.006	.000
				7.492	
	.505	.067	.535		.000

Primary Data, 2023

Table 7 revealed that budgeting significantly affects performance of SMEs in Kampala district ($R^2=0.286$, $p=0.000$). This is because corporate strategy can significantly explain a change of up to 28.6% in performance. This implies that when SMEs invest in profitable business ventures, proper management of resources and harnessing of employee skills, it becomes much easier for them to realize performance in terms of increase in sales volume and subsequent increase in profit margin.

H1₃: Budgeting has a significant effect on performance of small and medium scale enterprise in Kampala district.

The decision rule was that: if $p \leq 0.05$, the null hypothesis was rejected, and alternative hypothesis would be accepted.

For that reason, the finding in table 7 shows that the null hypothesis that there is no significant effect of budgeting on the performance of SMEs in Kampala district was rejected, and the alternative hypothesis that there is a significant effect

was upheld. Furthermore, the study revealed that the regression model was a good fit for predicting the effect of budgeting on performance ($F=56.129$, $p=0.000$).

Similarly, the study revealed that an improvement in budgeting through profitable business ventures, proper management of resources and harnessing of employee skills, would cause an improvement in performance by 53.5% ($\text{Beta}=0.535$, $p=0.000$).

Multiple Regression

Table 8 Multiple Regression Analysis for the Effect of Financial management practices on performance of SMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.665 ^a	.442	.430	.46457	.442	36.415	3	138	.000
Model			Sum of Squares		df	Mean Square		F	Sig.
Regression			23.578		3	7.859		36.415	.000 ^b
Residual									
Total									

	29.783	198	.216		
	53.361	201			
Model	Unstandardized Coefficients		Standardized Coefficients Beta		Sig.
	B	Std. Error		t	
(Constant)	.588	.322			.070
Financial reporting					
Working capital management	.291	.067	.283	1.824	.000
Budgeting				4.338	
				4.366	
				4.756	
	.243	.056	.307		.000
	.322	.068	.341		.000

Source: Primary Data, 2023

The results presented in table 8 shows that all the financial management practices employed in this study together significantly affects performance by a variance of 0.442 ($R^2=0.442$, $p=0.000$). This implies that a combination of financial reporting, working capital management and budgeting influences performance by 0.442 while 0.558 of the

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variances in performance is accounted for by other variables beyond the scope of this study. Additionally, the study revealed that the regression model was a good fit for predicting the effect of financial management practices on performance ($F=36.415$, $p=0.000$).

For sustained financial performance; the board, management and staff of SMEs should always ensure that the responsible persons effect reasonable financial reporting, working capital management and budgeting influences performance while considering competition and making appropriate changes to adopt to the industry competition.

The SMEs' management and responsible persons should also educate customers on credit issues through customer promotions. There is a need for other studies to examine the influence of loan product design and customer retention on financial performance in SMEs sector of Uganda.

Furthermore, the study in table 8 revealed that budgeting was the highest predictor of performance. This is because a unit change in budgeting would significantly cause an improvement of 34.1% in performance ($\text{Beta}=0.341$, $p=0.000$). The second highest predictor of performance was working capital management. This is because a unit change in working capital management accounted for 30.7% improvement in performance ($\text{Beta}=0.307$, $p=0.000$). Lastly, the least predictor of performance was financial reporting. This is because a unit change in financial reporting accounted for 28.3% improvement in performance ($\text{Beta}=0.283$, $p=0.000$). This therefore implies that SMEs in Kampala district should ensure that they make more emphasis on the application of budgeting and working capital management in order to penetrate the market and continue soaring in the growth of SMES arena of Uganda.

Conclusions

Effect of financial reporting on performance of SMEs

According to the findings financial reporting has a significant effect on performance of small-scale businesses in Kampala district. Hence concluding that an effective financial reporting is an important factor in determining the level of performance of SMEs since financial reporting is based on cash conversion cycle and still considered as an important factor in enhancing the performance of SMEs, because it shows how efficient a firm is in its stock up as per customer's demands, increased sales, payment of bills on time, investment of excess cash, collection of payments and getting preferential treatment from suppliers.

Effect of working capital management on performance of SMEs

According to the findings working capital management has a significant effect on performance of small and medium businesses in Kampala district. Hence concluding that small scale enterprises in Kampala district have tried to effectively maintain an optimal balance between current assets and current liabilities in a manner that eliminates the risk of inability to meet short term obligations and avoid excessive investment in assets as a way of improving their performance levels, therefore in order to increase the financial performance, small scale businesses in Kampala District have tried to maintain an optimal balance between each of the working capital components such as cash receivables, inventory and payables.

Effect of budgeting on performance of SMEs

According to the findings Budgeting has a significant effect on performance of small and medium enterprises in Kampala district Uganda. Hence concluding that as a way of increasing on the level of performance, small scale enterprises in Kampala district have always considered budgeting as an important factor when obtaining bank credit as banks commonly require a projection of future operations and cash flows to support loans, this has also led to the improvement in performance due to checking of progress towards the objectives of the enterprise.

Recommendations

Small and medium enterprise owners should develop a good system to monitor finance payments, record and track all the finance payments so that there is effectiveness in payment of cash and ensure to cover loopholes in the system to enhance financial performance.

The top management in organizations should ensure that there is adherence to financial reporting standards as set out by the IIA. The accountants should have up to date standards and employ the while performing their function.

Small scale business owners and managers should develop an effective working capital management system for example alternatives ways of collecting funds from which makes finance collection easy and flexible to boost financial performance. All this can be achieved through monitoring working capital closely plus maintaining adequate safety of stock by putting in place adequate protection against unauthorized access, or destruction of its inventory.

For SMEs in Kampala District, it is an important source of competitive advantage to the business; and the success and failure of a business firm depends on the efficiency of working capital management. Therefore, the researcher recommends that SMEs should maximize the availability of capital in order to meet its obligations. The available capital enables the businesses to have sufficient stocks as per customers' demands so as to increase sales; and pay bills on time. The researcher also recommends SMEs to invest adequately any excess capital.

The researcher also recommends that SMEs should monitor their receivables closely and advises SMEs to maintain an optimal level of debtors lest they suffer from costs associated with bad debts, and managing credit among others. The researcher also recommends that firms should employ policies that enable businesses to shorten credit collection period, low levels of bad debts, and a sound credit policy in order to improve the profitability of SMEs. The management should review and follow up receivables, and a limit should be made in the amount of credit allowed for a single customer.

The study also recommends that SMEs to pay bills on time to earn trust from suppliers. The management should make proper review and follow up of payables and establish internal controls for cash disbursement to ensure that cash is disbursed only upon proper authorization of management. The researcher also suggests that reducing supplier financing, by making quick payment, result in substantial price deduction.

Small scale business owners should develop an effective budgeting system and make sure they always have a finance plan that enables them to have minimum finance balances at all times, this help them to control finances and hence

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increase in the financial performance of their businesses. The budgetary control of the SMEs should be facilitated through planning, capacity building, prioritization, close monitoring and evaluation, feedback reporting and stakeholders should get involved in budgetary control in enhancing the overall activities.

And can be achieved through maintaining an optimal level of budgeting, as holding too small inventory can cause lost sales or delayed services while holding too much stock causes additional costs, obsolescence and storage costs, foregone interest, insurance and damage.

The management of SME's should ensure that all departments make budgets for their activities and strictly adhere to those budgets to avoid misuse of finances in the SME's. This would improve the financial performance of the SME's through ensuring that funds are spent on the activities for which they were budgeted

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