# THE ROLE OF FINANCIAL MANAGEMENT PRACTICES ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRICES IN UGANDA

## CASE STUDY: KIKUUBO BUSINESS LANE IN KAMPALA DISTRICT

**SUBMITTED**

**BY**

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## DEDICATION

I dedicate this research to my mother Rose Ssengendo and my husband Mr Galiwango Derrick for all their assistance in my studies especially being objective whenever I was based with any challenge. I also dedicate it to my daughter Namubiru Eleanor Malaika for all the motivation I get from her.

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I would like to thank the Almighty God who has made it possible for me to successfully complete this research project.

I also like to thank the respondents who supported me during field study by providing all the information necessary for the completeness of the research.

I extend my sincere gratitude to my supervisor, Mr. Segawa Edward for his continued and tireless effort and guidance he offered during the preparation of this dissertation, without which this study could not have been a success.

I am grateful to my family and friends for the support and encouragement.

May God bless and reward you all abundantly.

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## ACRONYMS

SMEs ……………………..Small and Medium Enterprises

PSFU………………………Private Sector Foundation Uganda

ICPAU……………………..Institute of Certified Public Accountants of Uganda

ACCA………………………Association of Chartered Certified Accountants

ATM……………………….Automated Teller Machine

**ABSTRACT**

The study to establish the role of financial management practices on the small and medium enterprises in Kikuubo ,Kampala which is characterized by small and medium businesses with the objective of providing evidence in relation to the dimensions of cash management , accounting practices and risk management by the small and medium enterprises in relation to their performance.

The study used both quantitative and qualitative research techniques as well as different methods of data collection to obtain the required data for the research. Among the tools were the questionnaires to indicate when in agreement or when they disagreed with the questions asked.

The study found out that most of the participants were male (62.2%) and female of (37.8%) with the majority having attained diplomas (39.4%) and having been in business for at least five years (40.9%). The study also revealed a relation between cash management, accounting practices and risk management as to having a positive effect on the performance of SMEs with (65%) , (53.5%),and (80%) respectively. The study also made some recommendations in relation to the findings to ensure that businesses improve their performance when proper financial management is done.

# CHAPTER ONE

# GENERAL INTRODUCTION

## 1.1 Introduction to the study

Cooley and Edwards, (2013) emphasize that the importance of financial management to any business entity, big or small, cannot be over-emphasized. In any case, profits are viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all relevant accounting information to ensure reliability in its measurement. Joworski, (2011) also noted that if a business is to succeed, management has to have knowledge about financial management. According to Turyahebwa et al, (2013), financial management practices among SMEs are defined in terms of observed variables which include; cash management practices, inventory management, financing, risk management, investing, and accounting system and financial reporting and analysis.

The current state of affairs of SMEs' financial performance might also stem from inadequacies in the theories applied. For example, contingency theory has been widely used in studies predicting performance and effectiveness of enterprises and the theory argues that the most appropriate structure for an enterprise is one that greatly fits a given operating contingency, such as technology or environment (Burns and Stalker, 1961). More so Knowledge-based theory as advanced by Grant (1996) identifies knowledge as an important resource which SMEs owners and managers can use to boost their performance. Empirically, Degryse et al (2010) used pecking order theory and Alfo (2006) used agency theory in explain SMEs' performance, but the results do not assure that SMEs are predicted to improve performance. Failure to provide solutions to performance-related problems of SMEs, financial management practices will continue to hurt the Ugandan economy. This acts as a base for this current study.

## 1.1 Background of the study

Businesses need finance to meet their requirements; whether the business concerns are big or small, they need finance to fulfill their business activities. Financial management is one of the important parts of overall management, which is directly related to various functional departments like personnel, marketing and production, and the basic objectives of financial management are profit maximization and wealth maximization (Subramanian and Paramasuvan, 2009). Financial management of SMEs came to limelight in Uganda in early 2000s. Most small and medium enterprise owners in Uganda consider financial management as an issue relevant only to large companies (Wanjohi et al, 2010). Financial management for SMEs has only become popular in Uganda in the early 2000 and to date there is scanty research on financial management practices for SMEs (Ernst and Young, 2011).

Pandey (2010) defines financial management as the managerial activity which is concerned with the planning and controlling of a firm's financial resources. According Subramanian and Paramasuvan, (2009); financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations. Financial Management is an essential part of the economic and non-economic activities which help an organization to decide about the efficient procurement and utilization of finance in a cost effective manner (Subramanian and Paramasuvan, 2009). Nguyen (2001) stressed that financial management is made of fixed assets management, capital structure management cash management, financial planning, working capital management, financial reporting and accounting system.

However, according to Meredith (2003), financial management is concerned with all areas of management, which involve finance not only the sources, and uses of finance in the enterprises but also the financial implications of investment, production, marketing or personnel decisions and the total performance of the enterprise. Wonder, (2009) noted that financial management is a critical element of the management of a business as a whole, within this function the management of its assets is perhaps the most important. In the long term, the purchase of assets directs the course that the business will take during the life of these assets, but the business will never see the long term if it cannot plan an appropriate policy to effectively manage its working capital.

Performance of business refers to the ability of business to meet the required standards, increased market share sales turnover, improved facilities, ensuring profitability, and total cost reduction; once this is achieved, a business is believed to be performing effectively and efficiently (Fitzgerald et al 2006). Typically, these criteria are represented as component parts of an internal system and cover the institution's ability to; control financial expenses, satisfy staff, deliver timely interventions and respond to target group reactions to interventions. Fitzgerald et al, (2006) in a similar way note that business enterprises must improve production if they are to effectively compete in this era of rapid economic and technical change. Improved productivity requires both capital investment as well as a work force that has the flexibility to acquire new skills for newly created jobs resulting from structural changes in the economy (Fitzgerald et al, 2006).

Small and medium Enterprises (SMEs) are seen as a driving force for the promotion of an economy and they contribute immensely to the economic development of any country (Abor et al., 2010). In Uganda the SMEs sector contributes 20% to Gross Domestic Product and it provides employment to over 1.5 million people which accounts for 90% of total non-farming private sector workers (UIA, 2008). The benefits of the small and medium enterprises in Ugandan economy cannot be overemphasized. Small and medium enterprises play significant role in employment and income generation, producing import substituting products, mitigating rural-urban drift and mobilization of local resources (Ernst and Young, 2011). Despite the significant contribution of small and medium enterprises to the Ugandan economy, the potentials of the SMEs have not been exploited fully and this is a concern of all stakeholders in the economy (Ekanem, 2010).

A number of initiatives have been undertaken by the government of Uganda aimed at improving and promoting the business environment, reduce the cost of compliance with business regulations, the reforms have not improved the situation as the performance of SMEs in Uganda is still below the expectation and this possess a threat to the Ugandan economy since SMEs are great contributors to the GDP (Ernst and Young, 2011). Some suggestions are advanced for the SMEs under-performance such as poor access to finances and generally lack of strategic resources consistent (Louis and Opondo, 2003). SMEs managed by owners with little knowledge in business management could suffer from this predicament. Barney's (1991) argument that firms could underperform due to inadequate resources and this could therefore be extended to SMEs financial performance. Moreover, Degryse et al, (2011) explain performance trends in small and medium enterprises and identified efficient working capital as a major predictor of SMEs profitability and overall performance. Erasmus, (2010) stress that the financing management practices determines the level of performance of SMEs.

### 1.1.1 Background of the case study

The case study is of kikuubo business lane with multiple businesses dealing in consumer products and fast moving goods .It is also characterized by dynamic business men who change businesses as the seasons change.

## 1.2 Statement of the problem

Ankunda, (2010) emphasize that the internal setup of many SMEs is insufficient in terms of systems and structures that provide prudent financial management. This is partly why most SMEs have problems in attracting financial assistance in terms of credit and sustainably manage their business since internal management systems are poorly set up. Briggs, (2009) noted that majority of the SMEs do not prepare formal books of accounts, do not embrace information technology and are faced with challenges in accessing finance. SMEs in Uganda simply operate in a rudimentary way as noted by (UNCTAD, 2002). The environment in which SMEs operate in for example, customers do not ask for receipts whenever they purchase goods, similarly the suppliers do not ask for invoices either, private contracts are rarely documented and requirements for audited accounts are not enforced thus making it difficult for SMEs owners to record the initial transactions which eventually keeps SMEs with poor financial management practices (Ernst and Young, 2011).

The internal management practices of SMEs has to change if they are to turn out better in terms of profits, attract financial assistance and create bigger supply and demand networks. Financial literacy must be promoted in SMEs and firms should have capacity to undertake financial and accounting tracking, budget tracking, risk management and control and in addition management of the SMES must have their skills built in areas of book keeping , recording routine transactions within the appropriate accounts, records keeping and risk analysis (Ankunda, 2010). Nuwagaba, (2013.) affirm that in Uganda, good financial records are a major weakness as many business activities are conducted without proper documentation. Therefore basing on these weaknesses, the study will be carried out in order to ascertain the role played by financial management practices in areas of cash management, accounting and risk management that can be used to ensure performance and growth of SMEs in Uganda.

1.3 Objectives of the study

### 1.3.1 Broad objective

To examine the effect of financial management practices on the performance of SMEs in Uganda

### 1.3.2 Specific objectives

1. To assess the relationship between Cash management and performance of SMEs in Uganda
2. To examine the relationship between Risk management and performance of SMEs in Uganda
3. To determine the relationship between Accounting practices and performance of SMEs in Uganda

## 1.4 Research questions

1) What is the relationship between Cash management and performance of SMEs in Uganda?
2) What is the relationship between Risk management and performance of SMEs in Uganda?
3) What is the relationship between Accounting practices and performance of SMEs in Uganda?

## 1.5 Scope of the study

### 1.5.1 Geographical scope

The study will be carried out on SMES in Kikuubo Business Lane and Nakawa market located in Kampala Central Business District.

### 1.5.2 Content scope

The independent variable will be financial management and performance of SMEs will be the dependent variable. In the study more emphasis will be put on financial management with dimensions of Risk management, accounting practices and cash management in respect to performance of SMEs in line with profitability, effectiveness and efficiency and turnover.

### 1.5.3 Time scope

The study considered information relating to the period of two years that is 2013-2015 in order to capture previous and latest statistics and trends to ensure reliability and validity for the presented findings to capture the information about financial management of SMEs.

## 1.6 Significance of the study

The study will benefit the owners and management of the chosen SMEs on a side of financial management with emphasis on Risk management, accounting practices and cash management areas to ensure that these enterprises can actually be profitable and be able to perform better.

The research will also benefit new business people or entrepreneurs with the essential knowledge of financial management especially in areas of accounting, inventory management and cash management.

The researcher himself will be in position to generate more knowledge in the field of financial management using this study as an opportunity and more so

## 1.7 Justification of the study

Despite the increasing importance attached to small scale economic activities across the globe there appears to have little reported improvement in the financial management skills of small business owners and their employees (Kasekende and Opondo, 2003).

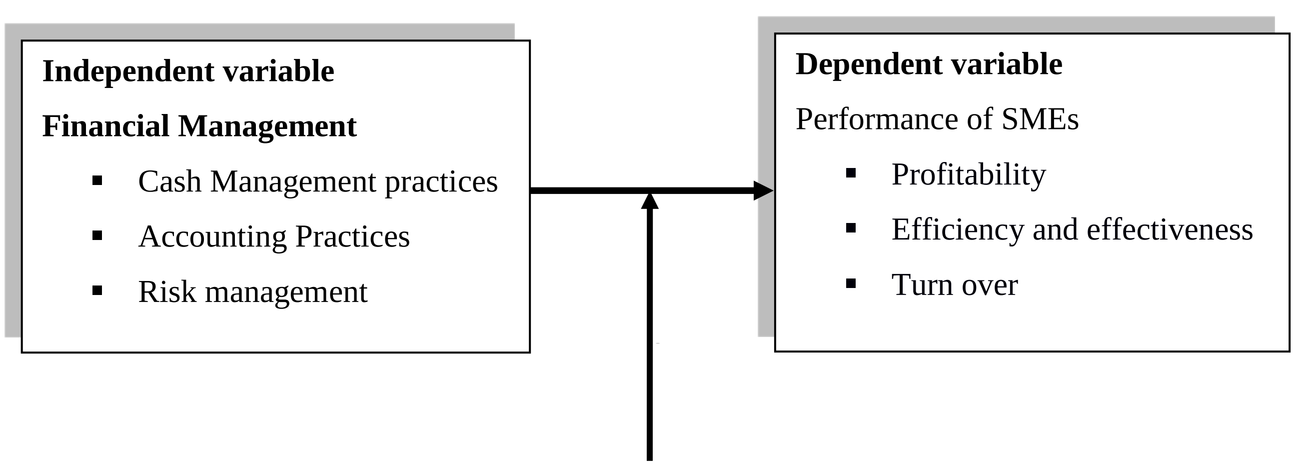
The research therefore will be carried in the area of cash management practices, accounting management practices and inventory management practices which are some of the areas to addressed so as to establish and develop better practices that SMEs can use so that they can be in position to perform better in as far as financial management is concerned.

The research will also be aimed at helping to change the way SMEs manage their financial resources so as to improve their performance in terms of turnover, profitability and efficiency and effectiveness of their operations.

## 1.7 Conceptual framework

Financial Management is an essential part of the economic and non-economic activities which help an organization to decide about the efficient procurement and utilization of finance in a cost effective manner (Subramanian and Paramasuvan, 2009). Turyahebwa et al, (2013), financial management practices among SMEs are defined in terms of observed variables which include; cash management practices, inventory management, financing, risk management, investing, and accounting system and financial reporting and analysis.  Performance of business focuses on the ability of business to meet the required standards, increased market share sales turnover, improved facilities, ensuring profitability, and total cost reduction; once this is achieved, a business is believed to be performing effectively and efficiently (Fitzgerald et al 2006). However this relationship is affected by government policies, economic factors and organizational policies

**Figure 1 Conceptual frame work**



**Mediating variable**

- Government policies
- Economic factors
- Organization policies

**Source, Turyahebwa et al, (2013) and Fitzgerd et al, (2006)**

**1.8 Definition of key terms.**

**SME:** a business that maintains its revenues or number of employees below a given standard.

**Financial management**: the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations.

**Performance**: the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost and speed.

**Cash management:** corporate process of collecting, managing and investing cash

**Risk management:** forecasting and evaluation of financial risks together with the identification of procedures to avoid or minimize their impact

**Accounting practices:** the routine manner in which day to day financial activities of a business entity are gathered and recorded.

**Profitability:** a business' ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time.

**Turnover**: The amount of money that a business gets from its sales during a particular period.

**Efficiency**: A level of performance that describes a process that uses the lowest amount of inputs to create the greatest amount of outputs.

**Effectiveness**: The degrees to which objectives are achieved and the extent to which targeted problems are solved.

## Conclusion

This chapter emphasized the background and problem statement with consideration focused on the objectives, justification and significance of the study in relation to the conceptual framework.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

This chapter presents a review of literature on financial management as the independent variable and performance of SMEs as the dependent variable. The reviewed literature will include the works of various authors. The researcher will use the available sources and try to integrate it with her own experience as well as the basic knowledge he has on the subject. The literature will be collected basing on the research objectives which are; accounting practices of SMEs, cash management and inventory management.

## 2.1 Overview on financial management

Cooley and Edwards,(2013) states that the importance of financial management to any business entity, big or small, cannot be over-emphasized. In any case, profits are viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all relevant accounting information to ensure reliability in its measurement. Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centered on financial performance (Cooley and Edwards, 2013).

Joworski, (2011) also notes that if you want to succeed in business, you need to know about financial management. No matter how skilled you are at creating a product, providing a service, or marketing your wares, the money you earn will slip between your fingers if you do not know how to efficiently collect it, keep track of it, save it and spend or invest it wisely (Joworski, 2011). Poor financial management is one of the leading reasons that businesses fail, in many cases, failure could have been avoided if the owners had applied sound financial management principles to all their dealings and decisions (Joworski, 2011). Berry et al, (2002) note that small businesses have not developed their financial management practices to a great extent and that owner-managers should be made aware of the importance and the benefits that can accrue from improved financial management practices.

### 2.1.1Cash management practices of SMEs

Norman and Thomas, (2006), state that cash has become a curse for many small businesses. Lack of this valuable asset has driven countless small companies into bankruptcy; unfortunately many more firms will become failure statistics because their owners have neglected the principle of cash management that can spell the difference between success and failure (Norman and Thomas, 2006). Cash management involves forecasting, collecting, disbursing, investing and planning for the cash needs of company cash to operate smoothly (Norman and Thomas 2006).

The goal of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, at the same time, to have sufficient cash (1) to take trade discounts, (2) to maintain its credit ratings, and (3) to meet unexpected cash needs (Eugene, 1999). Managing cash flow and conversion cycle is a critical component of overall financial management for all firms, especially those with capital constraint and more reliant on short-term sources of finance (Deakins et al, 2001). According to Pandey (2010), cash management is concerned with management of: (1) cash flows into and out of the firm, (2) cash flows within the firm and (3) cash balances held by the firm at a point of time by financing deficit and investing surplus cash. Therefore, cash management involves collection, concentration, and disbursement of cash including measuring the level of liquidity, managing cash balances and short-term investments.

### 2.1.2 Accounting practices

Accounting is an information and measurement system that identifies records and communicates relevant, reliable and comparable information about an organization's business activities (John et al, 2007). Longernecker et al, (2003) note that managers must have accurate, meaningful, and timely information if they are to make good decisions. This is particularly true of financial information about a firm's operations because an adequate accounting system is a primary factor in small business failures (Longernecker al, 2003).

Owner-managers of small firms sometimes believe that they have less need for financial information because of their personal involvement in day-to-day operations, but they are only deceiving themselves (Longernecker al, 2003). Eugene and Joel, (2001) in a similar way state that the accounting function links all financial areas of the firm through its use of the denominator of money by keeping all records and producing financial statements and reports needed by the business. Lack of good accounting function could have a serious impact on functional efficiency and company profitability (Eugene and Joel, 2001).

Tushabomwe,(2006), emphasizes the importance of proper record keeping in that it enables a small business to have accurate information on which to base decisions such as projecting sales and purchases or determining the break-even point and making a wide range of other financial analysis. However, the persistent lack of proper records has seen the closure of some businesses, thereby making it a significant issue for business success, inadequate inventory control.

### 2.1.3 Risk management practices

SMEs are frequently confronted with major challenges compared to larger enterprises, SMEs profit less often from economies of scale and fewer have access to a wide resource base (Burgstaller and

Wagner, 2015). Due to the usually low equity ratio of SMEs, they are relatively vulnerable to external events compared to larger enterprises (Altman et al, 2010). This illustrates that not only larger enterprises face various risks, but also SMEs, whose survival is more easily threatened due to their smaller set of both financial and non-financial resources.

Risk management may help SME managers to identify significant risks that could jeopardize the success or existence of the company in time to efficiently cope with them (Brustbauer, 2014). Misjudging or failing to recognize risks can have disastrous consequences, ranging from customer loss to damaging liability, environmental damage and possibly even bankruptcy (Mutezo, 2013). However, many SMEs do not or not adequately apply risk management practices, mostly because they cannot afford to rededicate resources due to their constraints (Marcelino-Sádaba et al, 2014).

### 2.2 Overview on performance of SMEs

Performance of business refers to the ability of business to meet the required standards, increased market share, improved facilities, ensuring profitability, and total cost reduction; once this is achieved, a business is believed to be performing effectively and efficiently (Fitzgerald et al 2006). Performance refers to an on-going process that involves managing the criteria for which an institution, agency or project can be held accountable (Duranti and Thibodeau, 2001). Typically, these criteria are represented as component parts of an internal system and cover the institution's ability to; control financial expenses, satisfy staff, deliver timely interventions and respond to target group reactions to interventions. Performance of business focuses on the ability of business to meet the required standards, increased market share sales turnover, improved facilities, ensuring profitability, and total cost reduction; once this is achieved, a business is believed to be performing effectively and efficiently (Fitzgerald et al 2006).

#### 2.2.1 Profitability as a measure of performance of SME's

There are two important concepts that figure in an organizations decision that is economic profits and accounting profits (Heilman and Kennedy-Phillips, 2011). In accounting sense profitability is the surplus of revenue over and above all point out costs including both manufacturing and overhead expenses. On the other hand, profitability accounting to economists takes into account the implicit or imputed cost; the implicit cost is the opportunity cost. Opportunity cost is defined as the payment that would be necessary to draw forth the factors of production from their most remunerative alternative employment. That is opportunity cost is income foregone which a businessman could expect from the second best alternative use of his resources. Profitability is stated as the ability to provide a reasonable and adequate return on capital employed in existing business, new areas and internal control operations so as to fulfill the objectives of the organization (Shiva and Suar, 2010). Primary objectives of every business are solvency and profitability (Muthiah and Huang 2006).

### 2.2.2 Efficiency and effectiveness as a measure of performance of SME's

According to Pinprayong and Siengthai (2012) there is a difference between business efficiency and organizational efficiency. Business efficiency reveals the performance of input and output ratio, while organizational efficiency reflects the improvement of internal processes of the organization, such as organizational structure, culture and community. Excellent organizational efficiency could improve entities performance in terms of management, productivity, quality and profitability.

Effectiveness oriented companies are concerned with output, sales, quality, creation of value added, innovation, cost reduction. It measures the degree to which a business achieves its goals or the way outputs interact with the economic and social environment. Usually effectiveness determines the policy objectives of the organization or the degree to which an organization realizes its own goals (Zheng, 2010). Meyer and Herscovitch (2001) analyzed organizational effectiveness through organizational commitment. Commitment in the workplace may take various forms, such as relationship between leader and staff, employee’s identification with the organization, involvement in the decision making process, psychological attachment felt by an individual.

### 2.2.3 Turnover as a measure of performance of SME’s

Sales turnover is one of the largest and most value-relevant items in firms’ financial statements and considered a key value driver of shareholder value (Srivastava 2014). Prior research documents that the stock market reaction on the earnings announcement date is significantly related to contemporaneous and past revenue surprises (Jegadeesh and Livnat 2006) and the market awards a distinct equity premium to firms meeting revenue forecasts (Rees and Sivaramakrishan 2007). Due to its importance, managers often voluntarily disclose projected revenue performance along with earnings guidance (Wasley and Wu 2006). The frequency of issuing analysts sales turnover forecasts has also increased dramatically over time (Ertimur et al, 2011). In some cases investors even place a higher valuation weight on sales than on earnings. For instance, Rees and Sivaramakrishan (2007) find that the equity premium to firms meeting earnings forecasts disappears when revenue forecasts are not met. For Internet firms with losses or negative cash flows, the market views revenues and revenue growth as highly important and analysts tend to follow the price-to-sales ratio (Callen et al. 2008).

## 2.3 Actual review of literature

### 2.3.1 Relationship between cash management and performance of SMEs

Norman and Thomas, (2006), state that cash has become a curse for many small businesses. Lack of this valuable asset has driven countless small companies into bankruptcy; unfortunately many more firms will become failure statistics because their owners have neglected the principle of cash management that can spell the difference between success and failure (Norman and Thomas, 2006).

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Managing cash flow and conversion cycle is a critical component of overall financial management for all firms, especially those with capital constraint and more reliant on short-term sources of finance (Walker and Petty, 1978; Deakins et al, 2001). According to Pandey (2010), cash management is concerned with management of: (1) cash flows into and out of the firm, (2) cash flows within the firm and (3) cash balances held by the firm at a point of time by financing deficit and investing surplus cash. Therefore, cash management involves collection, concentration, and disbursement of cash including measuring the level of liquidity, managing cash balances and short-term investments. The author also emphasizes that cash management is not a matter of choice; it is something that must be undertaken by any business (Pandey, 2010).

Subramanian and Paramasuvan, (2009) in the same way recognize that the present day's cash management plays a big role in the area of finance because proper cash management is not essential for effective utilization of resources but also helps to meet the short-term liquidity position of the concern. Kakuru, (2000) asserts that, sales generate cash, which has to be disbursed out. The surplus cash has to be invested while the deficit has to be covered through borrowing. Thus cash management seeks to accomplish the deficit two cycles at minimum costs and at the same time to achieve liquidity and control. However, all these depend on whether there are investment opportunities (Kakuru, 2000).

Effective cash management encompasses proper management of cash inflows and outflows, which entails (1) synchronizing cash flows, (2) using float, (3) accelerating collections, (5) collecting disbursements (Eugene, 2001). Scott, (1999) notes that executives realize that in a volatile era, there is no substitute for cash; no matter how much revenue you recognize or how many assets you have on your books, the simple and enduring truth is that the only enterprises that can survive are those that generate enough cash to keep their operations running. These firms are more likely to" give their best vendors and customers favorable terms, their employees are compensated based on their efficiencies of working capital use, their metrics for are clear and their cash policies are carefully considered (Scott, 1999).

#### 2.3.1.1 Cash Flow

Petty et al, (2012) state that small businesses depend largely on their cash flows. But if they push their slow players so hard, they risk losing customers. Hiring collection attorneys is also so expensive, and if late players are forced into bankruptcy, their small business creditors may find themselves empty-handed, waiting at the end of a long queue. Bryd and Megginson, (2009) note that, it should now be clear that the core of working capital management is monitoring cash flows. Cash is continually moving through a business; it flows in as customers pay for products or services and flows out as payment are made to other business and individuals who provide products to the firm such as employees and suppliers. The typically uneven nature of cash flows makes it imperative that they must be properly understood and managed.

Bryd and Megginson, (2009) assert that there is anything that will make or break your business/company especially when it is small, it is cash flow'. He further says that a banker once told him that of the many companies he saw go out of business, majority of them were profitable-they got into a cash crunch and forced them to close. If you pay close attention to your cash flows and think about it every single day, you will have a competitive edge over almost all your competitors and that the amount of attention you pay to cash flow can literally mean the difference between life and death of your company (Bryd and Megginson, 2009).

In a similar way, Barker (2012) is of the view that the main cash management goals will be to increase and speed up the money coming in and decrease and slow down the amount leaving the business. This will often mean carrying out an action and its counterpoint. For instance, speeding up cash coming in by reducing the trade terms offered to debtors and slowing down the speed money goes out by requesting longer terms from creditors (Barker, 2012). Money coming in can also be sped up by billing promptly and asking deposits and money out can be slowed by securing lower monthly repayments on long-term debts and reducing inventory (Barker, 2012). Companies facing low cash reserves can also consider tools such as invoice financing to plug the gap (Barker, 2012). In the same way Masonson (2009) notes that cash is the life-blood of the business, therefore should be managed properly prevent the business from running into bankruptcy.

#### 2.3.1.1.1 Calculating cash flows

When calculating cash flows, it requires the small business owner to distinguish between sales revenue and cash receipts, they are seldom the same. Revenue is recorded at the time a sale is made but does not affect cash flow at the time unless the sale is a cash sale; Cash receipts on the other hand are recorded when money actually flows into the firm, often a month or two after the sale. Similarly, it is necessary to distinguish between expenses and disbursements, expenses occur when materials or items are used and payment (disbursements) for these expense items may be made later when checks are issued (Petty et al, 2012).

#### 2.3.1.2 Cash planning and budgeting

Bryd and Megginson, (2009) define the cash budget as a primary tool for managing cash flows. By using a cash budget, an entrepreneur can predict and plan cash flows for the business. Steve et al, (2002), also note that planning is critical to business success: preparing a business plan before business commences; planning day-to-day activities of the business; and planning for the future, including establishment of future goals. Planning for the firm’s finances and profit is called budgeting. In preparation of the budgets, the manager attempts to predict the firm’s sales, cash supply and profit for a particular period in future. Preparing a cash-flow budget can: provide early warnings of potential cash shortages, identify potential cash surpluses, allowing time for an investment strategy to be devised and assist in loan applications by demonstrating that business can meet payments

. Bryd and Megginson, (2006) emphasize that small business owners may be making profits yet fail because they do not have cash to pay current expenses. A provision must be made to have adequate cash at hand to pay bills when due and payable and this calls for the three most important budget types which include; the capital budget, operating budget and cash flow budgets; these budgets are communication devices that can be used to tell people responsible for performing tasks what is expected of them (Bryd and Megginson, 2006). Steve, (2003) states that when a cash problem is inevitable, managers must either find more cash or reduce the cash payments planned. The business must also prioritize cash payments and consider the consequences of economizing. .

### 2.3.2 Relationship between accounting practices and performance of SMEs

Accounting is an information and measurement system that identifies records and communicates relevant, reliable and comparable information about an organization's business activities (John et al, 2007). Longernecker et al, (2003) note that managers must have accurate, meaningful, and timely information if they are to make good decisions. This is particularly true of financial information about a firm's operations because an adequate accounting system is a primary factor in small business failures (Longernecker al, 2003).

Owner-managers of small firms sometimes believe that they have less need for financial information because of their personal involvement in day-to-day operations, but they are only deceiving themselves (Longernecker al, 2003). Eugene and Joel, (2001) in a similar way state that the accounting function links all financial areas of the firm through its use of the denominator of money by keeping all records and producing financial statements and reports needed by the business. Lack of good accounting function could have a serious impact on functional efficiency and company profitability (Eugene and Joel, 2001).

Tushabomwe,(2006), emphasizes the importance of proper record keeping in that it enables a small business to have accurate information on which to base decisions such as projecting sales and purchases or determining the break-even point and making a wide range of other financial analysis.

However, the persistent lack of proper records has seen the closure of some businesses, thereby making it a significant issue for business success, inadequate inventory control.

It has been recognized that appropriate accounting information is important for a successful management of any business entity, whether large or small (European Commission, 2008). It is crucial, therefore, that the accounting practices of SMEs supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs. Byrd and Megginson, (2009) note that accounting is quite important in achieving success in any business especially a small one. In fact so tied up to the financial well-being that, without, one would not know what the bottom line is  or even whether it is a positive or negative amount'.

Therefore the accounting records must accurately reflect the changes occurring in the business' assets, liabilities, incomes, expenses and equity. Many business owners do not realize that their business is in trouble until it is too late, also many fail without knowing their problem or even that they have a problem and all they know is that they end up with no money and cannot pay their bills (Byrd and Megginson, 2009).

An accounting system defines the process of identifying, measuring, recording and communicating financial information about the business. So, in a sense, the bookkeeping function is a subset of the accounting system. A bookkeeper compiles the information that goes into the system. An accountant takes the data and analyses it in ways that give useful information about the business. They can advise on the system used for a particular business and prepare accurate reports certified by their credentials. While software packages are readily available to meet almost any accounting need, having an accountant at least to review the records can lend credibility to the business, especially when dealing with lending institutions and government agencies (small business notes, 2013.)

Book keeping is one aspect most small business owners would not love to play about. On the contrary, this area of finance is crucial to sustaining and expanding a business. Without it there is risk of hitting cash crisis, wasting money, scrambling for receipts, facing other financial information issues such as tax matters at close of fiscal year and also missing out on some opportunities to expand. The challenge most business owners have is the time and effort involved. (Fitzgerald et al 2006).

Longernecker et al, (2008) also say that an accounting system provides the framework for managerial control of the firm. Its effectiveness rests on a well- designed and managed record keeping system. In addition, financial statements may be used externally with bankers and investors, that is, the statement of comprehensive income, the statement of changes in equity, the statement of financial position and statement of cash flows should be kept. An accounting system structures the flow of financial information to provide a complete picture of a firm's financial activities.

**2.3.2.1 Accounting records**

Longernecker et al, (2003) identifies the major types of internal accounting records kept which include;

- **Accounts receivable records**. Records of receivables are vital not only for making decisions on credit extension but also for billing accurately and maintaining good customer relations. An analysis of these records will reveal the effectiveness of a firm's credit and collection policies.

- **Accounts payables records**. Records of liabilities show what the firm owes to suppliers, facilitate the taking of cash discounts, and allow payments to be made when due.

- **Inventory records**. Adequate records are essential for control and security of inventory items. Inventory records supply information for use in making purchases, maintaining adequate stock levels, and computing turnovers.

- **Payroll records**. Pay roll records show the total salaries paid to employees and provide a base for computing and paying payroll taxes.

- **Cash records**. Carefully maintained records showing all receipts and disbursements are necessary to safe guard cash. They provide essential information about cash flows and cash balances.

- **Fixed asset records.** Fixed assets records show the original cost of each asset and the depreciation taken to date, along with other information such as the condition of the asset.

- **Other accounting records.** These include; the insurance register (showing all policies in force), records of shareholders and records of the firm's investment in outside businesses.

Longernecker et al, (2008) emphasize that instead of having an employee or member of the owner's family keep records, a firm may have its financial records kept by a certified public accountant or a book keeping firm that caters for small businesses, and such accounting firms usually offer their services at significantly lower cost than do large firms. They also give an option of mobile bookkeepers that bring mobile office that includes computer equipment which can be fast inexpensive and convenient approach to filling certain accounting needs (Longernecker et al, 2008).

According to Ikechukwu (1993), keeping records is crucial for the successful performance of a business. A comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business (Ikechukwu, 1993). With the financial report generated from a good record keeping system, performance during one period of time (month, quarter or year) with another period can be compared. An accurate record of the business' financial performance is vehicle to monitor performance in specific areas (Ikechukwu, 1993).

It has been recognized that appropriate accounting information is important for a successful management of any business entity, whether large or small (European Commission, 2008). It is crucial, therefore, that accounting policies of SMEs supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs. If you are going to run a successful business, accurate and timely financial information is a must. They go ahead to give some of the reasons for the need of a good financial record keeping system which are; monitoring success or failure of your business, obtaining bank financing. A banker needs financial statements, obtaining other sources of capital, budgeting, preparation of the income tax returns, submitting sales taxes and distributing profits (Eric and Gabriel, 2012).

Corman et al, (2009) note that the accounting function links all financial areas of the firm through its use of the common denominator of money by keeping records and producing financial statements and reports needed by the business. Lack of good accounting function could have a serious impact on functional efficiency and business profitability. What makes a business, business-like is its focus on making money, and in the end, the only way an owner knows or can prove to others that money is being made is through keeping careful accounting records and their main importance is that it proves what your business did financially, it also shows how much your business is worth, banks, creditors, development agencies, investors require the accounting records (Jerome et al, 2009).

Jerome et al, (2009) note that there are three types of accounting, that is managerial accounting- used by managers for planning and control, tax accounting- used for calculating and reporting taxes which helps to avoid penalties for non-compliance and financial accounting-which is used by banks and outside investors, it is formal, rule based system intended primarily for absentee owners, bankers, investors and regulators. There are only two reasons to do accounting: first, to produce information that is useful for managing a business, second, to meet legal and contractual requirements. For this information to be useful, it must be accurate and relevant which can be ensured by using a computerized accounting program and also provides huge benefits at a very low cost (Jerome et al, 2009).

#### 2.3.2.2 Accounting system

Ernest and William, (1978) define an accounting system as a composite of the activities, operations and procedures, with the related records and devices necessary to accomplish the accounting function. An accounting system structures the flow of financial information to provide a complete picture of a firm's financial activities. Conceivably, a few very small firms may not require formal financial statements, most, however, need at least monthly financial statements, which can be computer-generated (Longernecker et al 2003).

Longernecker et al (2003) states that an accounting system for a small business should accomplish the following objectives: Provide an accurate, thorough picture of operating results, Permit a quick comparison of current data prior year's operating results and budgetary goals, Offer financial statements for use by management, bankers and prospective creditors, Facilitate prompt filling of reports and tax returns to regulatory and tax collecting government agencies and Reveal employee fraud, theft, waste, and record keeping.

#### 2.3.2.2.1 Computerized accounting system

Dewhurst and Paul, (1995) note that as the business grows more sophisticated, analysis of accounting information may be required more frequently and more speedily than previously provided. At the same time, the volume of transactions will be growing. Any manual system would start to groan under the strain of such demands, particularly if the speed of required change is quite rapid. This is a particular problem for the "growth" of small businesses. Sophisticated computer-based accounting systems are now within the budget of small businesses. Computers are excellent at dealing with repetitive tasks and this helps to improve service levels and help to produce more and better performance (Dewhurst and Paul, 1995).

From the above discussion, Kasekende and Opondo, (2003) therefore conclude that SMEs need to improve their financial records and accounting systems. Proper records need to be kept and maintained and the books of accounts have to be clear and should reflect a realistic picture of their operations and financial conditions. A good system and books of accounts are not only helpful to the banks; they are also crucial in managing and monitoring business as well as guiding tax authorities (Kasekende and Opondo, 2003).

### 2.3.3 Relationship between risk management and performance of SMEs

SMEs are frequently confronted with major challenges compared to larger enterprises, SMEs profit less often from economies of scale and fewer have access to a wide resource base (Burgstaller and Wagner, 2015). Due to the usually low equity ratio of SMEs, they are relatively vulnerable to external events compared to larger enterprises (Altman et al, 2010). This illustrates that not only larger enterprises face various risks, but also SMEs, whose survival is more easily threatened due to their smaller set of both financial and non-financial resources.

Risk management may help SME managers to identify significant risks that could jeopardize the success or existence of the company in time to efficiently cope with them (Brustbauer, 2014). Misjudging or failing to recognize risks can have disastrous consequences, ranging from customer loss to damaging liability, environmental damage and possibly even bankruptcy (Mutezo, 2013). However, many SMEs do not or not adequately apply risk management practices, mostly because they cannot afford to rededicate resources due to their constraints (Marcelino-Sádaba et al, 2014).

#### 2.3.3.1 Different types of risks in SMEs

Risk identification is usually a necessary prerequisite for later risk management. Therefore, its important to understand different types of risks in SMEs to date.

##### 2.3.3.1.1 Interest rate risk

SMEs are being highly dependent on external finance, and accordingly, a loan is usually the main source of financing available (Gama and Geraldes, 2012). This, however, involves the risk that interest rates on the loans may change. Mutezo (2013) suggested that SMEs might be able to reduce banks' fears concerning information asymmetries and thus banks' perception of SME risk, which might in turn also limit the likelihood of SME interest rates changing. Bruns and Fletcher (2008) showed that for SMEs whose financial position is weak but whose owners' risk appetite remains high, the probability of credit being offered decreases more than for companies with a strong financial position. In addition, Bruns and Fletcher (2008) found that SMEs with limited collateral are unlikely to be given a loan, regardless of their willingness to take risks, while for companies with high collateral the likelihood of being granted a loan is significantly higher when their willingness to take risk is low. Bruns and Fletcher (2008) suggests that strong collateral cannot compensate for the negative aspects of high risk-taking

SMEs are about twice as likely to decide on a fixed rate loan as large firms and increasing firm size or age, the probability of taking on fixed-term debt decreases steadily. Further, fixed-term loans are particularly popular among smaller, younger companies with low cash flow or high investment opportunities (Vickery, 2008). Thus, Vickery (2008) suggested that, given their preference for fixed-rate over adjustable-rate loans, SMEs are more averse to interest rate risk than larger firms.

#### 2.3.3.1.2 Raw material prices risk

Moore et al. (2000) elaborate that increasing number of SMEs are looking for ways to manage the volatility of their raw material costs. Moore et al. (2000) adds that the volatility of raw material prices on raw material and on energy has confronted SMEs with new challenges. Due to an increasingly competitive market, rising commodity prices could no longer be passed on routinely to customers. It cannot, however, be assumed that all companies are exposed to the same problem. Moore et al. (2000) argued that many large companies have invested in technologies, and so for them it is relatively easy to change to cheaper resources when prices are rising. However, many SMEs cannot afford these investments and are thus more exposed to raw material price risks.

#### 2.3.3.1.3 E-business and technological risks

Sukumar et al. (2011) identified online safety as the most dangerous risk in e-business and therefore SMEs are exposed to a variety of online threats, such as identity theft, credit card fraud, e-mail abuse and cyber-attacks and installing computer systems may also involve a major risk for SMEs. Poba-Nzaou et al. (2014) showcased, implementing mission critical software may pose a considerable risk to SMEs because software implementations require higher relative levels of resource commitment in SMEs than in large firms, making the potential impact of implementation failure relatively higher especially if SMEs opt for open source software vendors and not for large for profit software vendors.

#### 2.3.3.1.4 Supply chain risks

Thun et al. (2011) notes that SMEs must offer an increasingly wide range of products to meet their customers' needs. However, this creates higher dependence of the SMEs on their supply chains due to increased complexity. In addition, Thun et al. (2011) pointed out that SMEs are often no longer able to concentrate only on local markets, which again leads to increased complexity and higher levels of supply chain risks. Such increased complexity in an SME’s supply chain may also result in higher levels of trade debt, which in turn may pose considerable risks to SME survival: Wilson and Altanlar (2013) reported that young SMEs with unsecured debt arrears are significantly more likely to face insolvency than comparable firms without such debts.

#### 2.3.3.1.5 Growth risks

Gilmore et al. (2004), assert that only a few business leaders express a desire for steady growth: running a larger company may involve a higher risk of becoming unable to cover growing costs. Whereas firm growth is often considered a strategic goal in many large companies, Gilmore et al. (2004) suggest that some SME leaders think differently and view growth as a risk rather than a strategic goal. Furthermore, Marcelino-Sádaba et al. (2014) suggested that SME growth is mainly accomplished through projects, but that these pose major risks because SMEs often do not have the know-how and techniques required to run such growth projects effectively.

#### 2.3.3.1.6 Management and employees

Knowledge management may also constitute a challenge for SMEs. According to Gilmore et al. (2004) almost every business is exposed to loss of knowledge when experienced employees with valuable information and knowledge and/or contacts leave the organization. Thus, Gilmore et al. (2004) concluded that the loss of long-term employees and managers may be especially risky for SMEs because often no other employees or managers in the firm possess similar knowledge. Gao et al. (2013) show that knowledge about risk management may be mostly informal in SMEs, which complicates effective building of risk management capacity among SME employees.

#### 2.3.3.2.1 Risk management process in SMEs

A stringent risk management process may enable SMEs to cope with the risks presented in the previous section (Leggio, 2007). Once risks have been identified, a number of techniques and actions can be selected to address them. According to Hollman and Mohammad-Zadeh (1984), the risk management process comprises five major steps (identify risks, analyze risks, and select techniques, implement strategy, control). Poba-Nzaou et al, (2014) suggests that risk management practices in SMEs may be very informal, which in turn inhibits their being shared and thus also building risk management capacity in SMEs.

#### 2.3.3.2.2 Risk identification

According to Leggio (2007), risk management process should be carried out continuously and systematically in order to identify possible sources of loss and thus risks. Kim and Vonortas, (2014), suggest three different methods SME managers can use to identify risks of loss: (i) systematic reviews of all data on business assets, activities and staff, (2) using financial statements to identify the sources of potential financial losses and (3) using flow charts to analyze all operations or activities of the enterprise.

Marcelino-Sádaba et al. (2014) showed that risk identification may also be decisive in SME project management. Strategic project risks that may jeopardize the entire project or the survival of the SME should be removed completely, and that more operational risks should be carefully identified and analyzed. However, Gao et al. (2013) highlights, efficient risk identification in SMEs may be hindered by SME employees' limited knowledge of risk management. Thus, a precondition of effective and comprehensive risk identification in SMEs may be building risk management capacity in their employees. Sukumar et al, (2011) pinpointed the usually limited financial and human resources in SMEs and their partial inability to effectively manage all risks at the same time. It might therefore be advisable for SMEs to identify all potential risks and focus only on the most important risks and train their employees to manage these risks effectively.

#### 2.3.3.2.3 Risk analysis

Wilson and Altanlar, (2013), states that risk analysis involves measuring or estimating the potential frequency of losses and the potential impact of a risk on the company's operation. Subsequently, the risks can be ranked according to importance for the company. Sukumar, (2011) argued that this helps to establish risk management priorities and provides a starting point for selecting appropriate risk management techniques for each risk. However, while proper risk analysis may also be highly important in SME project management (Marcelino-Sádaba et al, 2014), poor employee education may cause poor risk identification and hinder proper risk analysis in SMEs (Gao et al, 2013). Marcelino-Sádaba et al. (2014) suggest a simplified process to analyze risks in SMEs which consists of two variables only probability measured as highly unlikely, unlikely, likely or highly likely and gravity measured as negligible, significant, major or catastrophic.

## 2.4 Performance of SMEs

Performance of business refers to the ability of business to meet the required standards, increased market share, improved facilities, ensuring profitability, and total cost reduction; once this is achieved, a business is believed to be performing effectively and efficiently (Fitzgerald et al 2006). Performance refers to an on-going process that involves managing the criteria for which an institution, agency or project can be held accountable (Duranti and Thibodeau, 2001). Typically, these criteria are represented as component parts of an internal system and cover the institution's ability to; control financial expenses, satisfy staff, deliver timely interventions and respond to target group reactions to interventions. Performance of business focuses on the ability of business to meet the required standards, increased market share sales turnover, improved facilities, ensuring profitability, and total cost reduction; once this is achieved, a business is believed to be performing effectively and efficiently (Fitzgerald et al 2006).

### 2.4.1 Profitability

Profitability is the surplus of revenue over and above all point out costs including both manufacturing and overhead expenses and on the other hand, profitability takes into account the implicit or imputed cost; the implicit cost is the opportunity cost (Katrina, 2012). Profitability is stated as the ability to provide a reasonable and adequate return on capital employed in existing business, new areas and internal control operations so as to fulfill the objectives of the organization (Shiva and Suar, 2010). Primary objectives of every business are solvency and profitability (Muthiah and Huang 2006).

Solvency is the ability to pay debts as they become due while profitability is the ability to generate income. Unless a business can produce satisfactory income and pay its debts as they come due, other objectives that an organization may have will never be realized, simply because the business will not survive. Profitability of a firm both to shareholders and managers is summarized in the valuation of that firm (Katrina, 2012). In deed the basic objective of measurement of profitability is to provide valuation of the firm which will be a critical assessment of its worth as investment. In effect, the value of a firm may be stated as being the present value of its future income.

### 2.4.2 Efficiency and effectiveness

Efficiency measures relationship between inputs and outputs or how successfully the inputs have been transformed into outputs (Low, 2000).  According to Pinprayong and Siengthai (2012) there is a difference between business efficiency and organizational efficiency. Business efficiency reveals the performance of input and output ratio, while organizational efficiency reflects the improvement of internal processes of the organization, such as organizational structure, culture and community.

Excellent organizational efficiency could improve SMEs performance in terms of management, productivity, quality and profitability. Effectiveness oriented companies are concerned with output, sales, quality, creation of value added, innovation, cost reduction. It measures the degree to which SMEs achieves its goals or the way outputs interact with the economic and social environment. Usually effectiveness determines the policy objectives of the SMEs (Zheng, 2010). According to Heilman and Kennedy (2011) effectiveness helps to assess the progress towards mission fulfillment and goal achievement.

### 2.4.3 Turnover

Turnover is one of the largest and most value-relevant items in firms' financial statements and considered a key value driver of shareholder value (Srivastava 2014). Prior research documents that the stock market reaction on the earnings announcement date is significantly related to contemporaneous and past revenue surprises (Jegadeesh and Livnat 2006) and the market awards a distinct equity premium to firms meeting revenue forecasts (Rees and Sivaramakrishan 2007). Due to its importance, managers often voluntarily disclose projected revenue performance along with earnings guidance (Wasley and Wu 2006). The frequency of issuing analysts sales turnover forecasts has also increased dramatically over time (Ertimur et al, 2011). In some cases investors even place a higher valuation weight on sales than on earnings. For instance, Rees and Sivaramakrishan (2007) find that the equity premium to firms meeting earnings forecasts disappears when revenue forecasts are not met. For Internet firms with losses or negative cash flows, the market views revenues and revenue growth as highly important and analysts tend to follow the price-to-sales ratio (Callen et al. 2008). Furthermore, Srivastava (2014) documents that for software companies the value-relevant information contained in earnings have declined while the value relevance of sales turnover has increased post implementation. Using a broader sample of firms, Chandra and Ro (2008) document a similar decline in the value-relevance of earnings over time but no diminishment in the value-relevance of revenue.

This latter finding is attributed to revenue's greater persistence relative to earnings and the greater difficulty in managing revenues than expenses (Ghosh et al. 2005).

Prior research documents that sales revenue plays a significant role in equity pricing (Srivastava 2014), particularly when accounting earnings is less informative about firm value. For example, Ertimur et al. (2003) found that investors react more strongly to revenue surprises when firms are in their early growth stages, and Chandra and Ro (2008) adocument that the market places greater valuation weight on the sales revenue of technology and loss firms. The ability of revenue to substitute for accounting earnings as a measure of firm performance appears to be a function of its relatively greater persistence (Armstrong et al, 2011), greater difficulty in managing revenues than costs (Ghosh et al, 2005), and the view that revenue is more readily understood by financial statement users than accounting earnings (Wagenhofer 2014).

**Conclusion**

In this chapter the researcher has reviewed literature and has established that financial management practices are a vital element for Small and Medium Enterprises (SMEs) and therefore should be taken with great consideration since it is a central element to their performance especially in as far as turnover/sales, profitability and efficiency and effectiveness is concerned in their operations.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.0 Introduction

In this chapter the researcher will describe the techniques or methods of data collection and instruments that were used in gathering data. The research is organized under different sections for easy comprehension that is research design, research study area, study population, sample size, sampling techniques, data sources, data collection instruments, data analysis and presentation, ethical issues and limitations of the study.

## 3.1 Research Design

The research will use case study. Both quantitative and qualitative research approach will be used to collect data. Kumar, (2005) says that a study is classified qualitative if the purpose of the study is primarily to describe a situation, phenomenon, problem or event.

On the other hand, the study is classified quantitative if you want to quantify the variation in a phenomenon, situation, problem or issue and here analysis is geared to ascertain the magnitude of the variation (Kumar, 2005).

Quantitatively, the ideas and opinions got from respondents will be gathered and tabulated in simple tables and percentages to make it easy to measure the relationship between Financial Management practices and Performance of SMEs.

## 3.2 Area of Study

The study was confined to the selected 80 SMEs operating in Kikuubo business lane in Kampala City central business district particularly wholesale and retail shops trading in fast-moving consumer goods. The area is chosen because of their uniqueness with many business units that enable the study to be carried out.

## 3.3 Study population

The research population is a group of individuals, objected, or items, or items from which the items are taken for measurement (Kumar, 2005). The target populations of the study will be the managers and owners of the SMEs with great focus on areas of cash management, accounting practices and risk management.

The targeted categories of SMEs were the retail and wholesale businesses that trade in fast-moving consumer goods. This is because the businesses are looked at as having a high inventory turnover of which this is carried out amidst urgent need for cash management, risk management as well as accounting practices.

The target population of this study is comprised of 80 SMEs operating in Kikuubo Business Lane in Kampala district.

## 3.4 Sampling procedures

Sampling procedure is a process of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population. Researchers have developed a number of techniques where only a small portion of the total population is sampled, and attempts to generalize the results and conclusion for the entire population. In this present study, the researcher will use Krejicie and Morgan Table (1970) to determine the sample size.

### 3.4.1 Sample size

The sample size was established using the Krejice and Morgan table. So from the table of Krejice and Morgan, the researcher established a sample size of 66 which is in the corresponding population size of 80.

### 3.4.2 Sampling techniques

The researcher will use the purposive sampling technique. Judith (2005) defines purposive sampling as a non-probability sampling technique where the units that are being investigated are based on the judgment of the researcher. Here since the study was focused on known target group, that is, the owners and the managers of the selected SMEs. The researcher chose the sample based on who they think would be appropriate for the study. This method will be used primarily because there was limited number of people that had expertise in the area being researched. The study also focused on wholesale and retail shops that trade in fast moving consumer products.

## 3.5Data collection sources.

### 3.5.1 Sources of data

Data was collected from primary sources.

**Primary sources.** Kumar, (2005) notes primary sources are the sources that give first-hand information and this depends on the resources available and the skills of the researcher. These included responses of respondents such as managers and other workers of different departments from the selected SMEs as well as personal observations by the researcher.

Information was collected using the questionnaires and observation with the respondents. Data was also directly collected from specimens that were observed such receipt records of the respondents.

### 3.5.1 Data collection instruments

#### 3.5.1.1 Questionnaire

Kumar, (2005) defines a questionnaire as a written list of questions, the answers to which are recorded by the respondents. It is a device for gathering information consisting of a list of questions or statements calling for information from the respondents. Usually the respondent writes in the spaces provided on the form as guided by the researcher.

The questionnaire was employed as a research instrument; specific research questions were formulated by the researcher and given to respondents (Key informants) to answer them. It was used in that it is flexible due to the fact that people can fill these forms at their own convenience. The questions were stated logically and systematically so as to achieve the specific research objectives of the study.

Closed ended questionnaires: Respondents' answers will be limited to a fixed set of responses. Most scales are closed ended. Other types of closed ended questions include: Scaled questions. Responses are graded on a continuum and this helped to avoid biased responses from the respondents (Judith, 2005).

## 3.6 Quality Control Methods

### 3.6.1 Data validity

Data validity was ensured through subjecting the draft tools such as the questionnaires questions to be reviewed by experts to ensure that the right questions for research study are asked. The questionnaire was reviewed by my supervisor before I was granted permission to go and collect data. The researcher will also ensure that right questions for the study guided by the objectives.

### 3.6.2 Data reliability

Judith (2005) states that data reliability is the degree of to which an assessment tool produces stable and consistent results. To ensure data reliability the researcher administered different forms of data collection instruments were administered, that is, questionnaires and here results were compared. It was established that the way the questions that were answered by respondents in the questionnaires were computed with SPSS to ensure reliability.

## 3.7 Measurement of variables

The format of a typical five-level Likert item, for example, could be: 1) Strongly disagree, 2) Disagree, 3) Not sure, 4) Agree, 5) strongly agree. Likert scaling is a bipolar scaling method, measuring either positive or negative response to a statement. This is what the researcher will use to measure the independent and dependent variables to find out whether there is positive or negative relationship between the variables.

Both qualitative and quantitative analytical techniques will be used to analyze qualitative and quantitative data respectively and here percentages will be used to analyze the data collected. The researcher also used narratives.

### 3.8 Data analysis and management

Kumar (2005) defines data analysis as process of bringing order, structure and meaning to the mass of collected data. The researcher used narratives to present qualitative data. The data that was collected using the questionnaires was quantitatively analyzed using descriptive data analysis; SPSS.

### 3.9 Ethical Considerations

A copy of the introductory letter from Uganda Martyrs University by the Faculty of Business Administration and Management will be presented before each respondent to assure them that the information got from research was purposely for academic purposes.

The researcher will talk to the respondents about the purpose of the data and the reasons for carrying out the study; this will help to ensure that right and genuine answers were got to make the research meaningful.

The researcher will maintain complete confidentiality of the information that was got from the institutions during the study.

The researcher will maintain the individual responsibility and carries out the research herself and will not employ someone to do it and this exposed her to various consequences in research.

The researcher will obtain permission from the respondents who participated in the study who are asked to kindly fill in the questionnaires and these included owners and managers.

### 3.10 Limitations of the study

The researcher will meet some challenges while conducting the research of which many will beyond her control and these included the following;

The research will be limited due to a small sample size that the researcher had chosen; the report therefore may have a high number of errors due to the small sample size that the researcher will chose to undertake which may be insufficient to come up with thorough conclusion.

In addition, there will be a limitation of giving out some information which limits the researcher from getting all the information needed to conduct a successful research.

There will also be a limitation of some people refusing to participate in the research as some say that they are tired and some actually so no reason to participate in the research because they saw no benefit out of it.

### Conclusion

To sum it up, various and useful techniques or various forms were used to make sure that information was collected, analyzed, processed and interpreted to yield meaningful information to the researcher and the SMEs.

# CHAPTER FOUR

# PRESENTATION, INTERPRETATION AND ANALYSIS OF THE FINDINGS

## 4.0 Introduction

This chapter presents field data, gives interpretation and analysis of findings made as an attempt to establish the relationship between financial management practices and performance of Small and Medium Enterprises in Kikuubo business lane in Kampala. The total number of people that participated by filling in the questionnaires were 66 respondents which presented 100% of the response of the sample size. The results obtained from the study are presented in form of tables in line with the stated objectives and research questions. The study was conducted on wholesale and retail shops which included supermarkets and these were chosen basing on the type of commodities which were sold. The focus was on the shops that deal in fast moving consumer items such as foodstuffs, sugar, tea leaves, salt, soft drinks, powdered milk, wheat flour, cooking oil among other consumables. Other consumer items include laundry products such as soap and detergents.

## 4.1 Response rate

Questionnaires amounting to a total of 66 were given to the respondents which were all filled and this indicates a response rate of 100%.

## 4.2 Background information

### 4.2.1 Respondents' gender

The researcher had an interest in knowing the gender of the respondents to find out which sex is more involved in running SMEs; the results are as below;

**Table 4.1 respondent's gender**

| Sex | Frequency | Percentage |
|---|---|---|
| Male | 41 | 62.2 |
| Female | 25 | 37.8 |
| Total | 66 | 100.0 |

*Source primary data.(2016)*

Table 4.1, indicates that there were more male respondents than the female respondents. This is shown by the male having a percentage of 62.2%, while the female are shown by a percentage of 37.8%. This therefore implies that during the research most of the shops are operated by men since there has been a great involvement of men in business since they make good managers, many business owners prefer to employ men as compared to women. Also many men who are married prefer their spouses to run the family businesses that is there were still a very big number of women involved in the research.

### 4.2.2 Respondents' level of academic qualification.

The researcher had interest in knowing the academic qualification of the people running SMEs so that she could establish whether they knew about the importance of financial management in running their businesses.

**Table 4.2 level of academic qualification.**

| Education level | Frequency | Percentage |
|---|---|---|
| Certificate | 21 | 31.8 |
| Diploma | 26 | 39.4 |
| Degree | 14 | 21.2 |
| masters and above | 5 | 7.6 |
| Total | 66 | 100.0 |

Source: primary data.(2016)

Table 4.4 shows that majority of the respondents have attained a certificate, diploma or degree represented by 31.8%, 39.4% and 21.2 respectively; this shows that they had knowledge on the topic of financial management and still owners of businesses always want to employ workers who have attained some qualifications a far as academics is concerned.

**4.2.3 Respondents number of years worked**

**Table 4.3 Number of years worked in the organization**

| Duration | Frequency | Percent |
|---|---|---|
| 0-5 years | 27 | 40.9 |
| 5-10 years | 30 | 45.5 |
| 10 years and above | 9 | 13.6 |
| Total | 66 | 100.0 |

*Source: primary data (2016)*

From table 4.5, it is seen that the majority of the respondents had run a business for a period of more than 5-10 years; this is represented by a percentage of 45.5% and those who have run their businesses for 0-5 years represented by 40.9%. This indicates that many had been in position to maintain their jobs and that the business owners had been able to sustain their businesses for a good period. This is a good indicator that financial management practice is sound as employees can be trusted by their employers to run their businesses effectively and the owners should have been practicing good financial management to see their businesses survive this long.

### 4.3 Presentation according to the study objectives

In the study, analysis was also based on study objectives and results were presented on the following statements; cash management, accounting practices and risk management. This section also presents results on performance of SMEs.

#### 4.3.1 Descriptive statistics on cash management practices

A study on the objective of cash management suggested a number of possible practices that are crucial in the management of cash in the SMEs are presented in table 4.7 below.

**Table 4.4 Descriptive statistics on cash management practices**

| Details | N | Min | Max | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Cash management is concerned with management of cash flows into and out of the firm, cash flows within a firm and cash balances | 66 | 1 | 5 | 3.89 | 1.112 |
| Cash management helps a firm to meet both short-term and long term liquidity position of the concern | 66 | 1 | 5 | 3.80 | 1.179 |
| Paying close attention to cash flows management leads to a competitive edge over competition and success of a business | 66 | 1 | 5 | 3.89 | 1.191 |
| Cash budget help entrepreneurs to predict and plan cash flows for the future | 66 | 1 | 5 | 3.84 | 1.147 |
| The business maintains a safe for custody of cash | 66 | 1 | 5 | 3.02 | 1.485 |
| All cash is banked at the end of the day | 66 | 1 | 5 | 3.67 | 1.187 |
| A cash budget is prepared to plan for inflows and outflows | 66 | 1 | 5 | 3.62 | 1.134 |
| Reconciliation of cash and sales is made often | 66 | 1 | 5 | 3.73 | 1.195 |
| Valid N (listwise) | 66 | | | | |

*Source: primary data (2016)*

Cash management is concerned with management of cash flows into and out of the firm, cash flows within a firm and cash balances

From the table 4.4 above, majority of the respondents agreed that Cash management is concerned with management of cash flows into and out of the firm, cash flows within a firm and cash balances, this is represented with a mean of 3.89. This is in agreement with Pandey (2010) who assert that cash management is concerned with management of: (1) cash flows into and out of the firm, (2) cash flows within the firm and (3) cash balances held by the firm at a point of time by financing deficit and investing surplus cash. Hence those who had a differed opinion had a standard deviation of 1.112 implying that management of cash flows is crucial for SMEs since there are no interruptions in business operation which is a good indicator of SMEs performance.

Cash management helps a firm to meet both short-term and long term liquidity position of the concern.

From table 4.7, the majority of the respondents agree that Cash management helps a firm to meet both short-term and long term liquidity position of the concern with a mean of 3.80; this is in line with Subramanian and Paramasuvan, (2009) who recognized that the present day's cash management plays a big role in the area of finance because proper cash management is not essential for effective utilization of resources but also helps to meet the short-term liquidity position of the concern. However those who had a differed opinion had a standard deviation of 1.179 meaning if cash is effectively and efficiently managed, there is no interruption in business operation which is a good indicator of SMEs performance.

**Paying close attention to cash flows management leads to a competitive edge over competition and success of a business**

Table 4.4 shows that the majority of the respondents were in agreement that Paying close attention to cash flows management leads to a competitive edge over competition and success of a business with a mean of 3.89. This is in line with Bryd and Megginson, (2009) who affirmed that pay close attention to your cash flows and think about it every single day, you will have a competitive edge over almost all your competitors and that the amount of attention you pay to cash flow can literally mean the difference between life and death of your company. The respondents who had a divergent opinion had a standard deviation of 1.191 implying that a close attention to cash flows management results into a business winning a market which is a good indicator of performance

**Cash budget help entrepreneurs to predict and plan cash flows for the future**

Table 4.4 above, indicates that respondents were in agreement that Cash budget help entrepreneurs to predict and plan cash flows for the future with a mean of 3.84. This is in agreement with Bryd and Megginson, (2009) define the cash budget as a primary tool for managing cash flows. By using a cash budget, an entrepreneur can predict and plan cash flows for the business. However the respondents in disagreement had a standard deviation of 1.147 implying that cash budget results into good predictions and planning business cash flows which is a good indicator of performance.

**The business maintains a safe for custody of cash**

From table 4.4 above respondents agreed that the business maintains a safe for custody of cash with a mean of 3.02. This is in agreement with Mukuuya (2016) through an interview who revealed that business owners have small lockers or safes in which they keep cash at hand specifically for safety purpose and in addition, In agreement is Steve (2003) who says that businesses must ensure proper control of their cash and also gives possible criteria on how to manage it. . However there was a deviation of 1.485 implying that security of cash at hand prevents cash loss which improves cash performance of SMEs hence improvement in financial performance.

**All cash is banked at the end of the day**

Table 4.4 shows that respondents were in agreement that all cash is banked at the end of the day with a mean of 3.67. This was more emphasized by Nakamate (2016) through an interview who explained that because of fear of robbery, all cash sales amount are banked for security reason since Kampala is fond of thieves. The respondents who deviated accounted for 1.187 implying that banking cash at the end of the day helps businesses to secure their money which leads to good performance of SMEs in terms of financial management.

**A cash budget is prepared to plan for inflows and outflows**

Table 4.4 above, indicates that respondents agreed that a cash budget is prepared to plan for inflows and outflows with a mean of 3.62. This is in line with Bryd and Megginson, (2009) who explained that cash budget as a primary tool for managing cash flows. Preparing a cash-flow budget can: provide early warnings of potential cash shortages, identify potential cash surpluses, allowing time for an investment strategy to be devised and assist in loan applications by demonstrating that business can meet payments. However the respondents had a disagreement with a value of 1.134 implying preparation of a cash budget help businesses to plan for their cash flows and this leads to improvement in performance of SMEs due to good financial management.

**Reconciliation of cash and sales is made often**

From table 4.4 above respondents agreed that reconciliation of cash and sales is made often with a mean of 3.73. This is in agreement with Nambejja (2016) through an interview who explained that after a month, the compare purchase and sales through reconciliation to determine whether their businesses are doing well in terms of sales turnover. However a deviation of 1.195 existed implying that some businesses which do not reconcile their cash and sales are at a risk of running out of business since they cannot have effective cash management practice.

### 4.3.2 Descriptive statistics on Accounting practices

A study on the objective of accounting practices also suggested a number of possible practices that are crucial in the management of finance in SMEs as presented below.

**Table 4.5 Descriptive statistics on Accounting practices**

| Details | N | Min | Max | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Accounting function links all financial areas of the firm and keeping all records and producing financial statements and reports needed by business | 66 | 1 | 5 | 3.62 | 1.072 |
| There is an accounting system in place | 66 | 1 | 5 | 3.67 | 1.044 |
| Books of accounts are prepared | 66 | 1 | 5 | 3.71 | 1.141 |
| Means of payment: both cash and credit | 66 | 1 | 5 | 3.76 | 1.151 |
| Financial reports are prepared from the books of accounts | 66 | 1 | 5 | 4.00 | 1.168 |
| Valid N (listwise) | 66 | | | | |

*Source: primary data (2016)*

**Accounting function links all financial areas of the firm and keeping all records and producing financial statements and reports needed by business**

As presented by the results in table 4.5 above, the respondents agreed accounting function links all financial areas of the firm and keeping all records and producing financial statements and reports needed by business having a mean of 3.62, though there was some divergent views as shown with a standard deviation of 1.072. This agreement is in line with Eugene and Joel, (2001) who stated that the accounting function links all financial areas of the firm through its use of the denominator of money by keeping all records and producing financial statements and reports needed by the business. This means that if accounting function is taken into serious consideration, SMEs performance will improve and hence their financial management.

### There is an accounting system in place

As presented by the results in table 4.5 above, the respondents agreed there is an accounting system in place with a mean of 3.67, though there was some differed views as shown with a standard deviation of 1.044. This concurs with Longernecker et al, (2003) who noted that managers must have accurate, meaningful, and timely information if they are to make good decisions. This is particularly true of financial information about a firm's operations because an adequate accounting system is a primary factor in small business failures (Longernecker al, 2003). This implies that accounting systems help SMEs in daily record keeping and this improves their performance due to good financial management practices.

### Books of accounts are prepared

As presented by the results in table 4.5 above, the respondents agreed that Books of accounts are prepared with a mean of 3.71, though there were some divergent views as shown with a standard deviation of 1.141. This is in agreement with Longernecker et al, (2008) who noted that a bookkeeper prepares and compiles the information in books of accounts and the data is analyzed in a way that gives useful information about the business. This means that preparation of book of accounts help SMEs in record keeping which is a good indicator of financial management

### Means of payment: both cash and credit

As presented by the results in table 4.5 above, the respondents agreed that Means of payment: both cash and credit with a mean of 3.76, though there were some differed views as shown with a standard deviation of 1.151. This concur with Longernecker et al, (2003) who stressed that carefully maintained records showing all receipts and disbursements are necessary to safe guard cash since they provide essential information about cash flows paid either by cash or credit and cash balances. This implies that debtors or creditors are paid at the end of the day which improves supplier customer relationship hence good financial management.

**Financial reports are prepared from the books of accounts**

As presented by the results in table 4.5 above, the respondents agreed that financial reports are prepared from the books of accounts with a mean of 4.00, though there were some divergent views as shown with a standard deviation of 1.168. This is supported by Corman et al, (2009) note that the accounting function links all financial areas of the firm through its use of the common denominator of money by keeping records and producing financial statements and reports needed by the business and is a good indicator financial management

### 4.3.3 Descriptive statistics on Risk management

A study on the objective of accounting practices also suggested a number of possible practices that are crucial in the management of finance in SMEs as presented below.

**Table 4.6 Descriptive statistics on Risk management**

| Details | N | Min | Max | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Misjudging or failing to recognize risks can have disastrous consequences, ranging from customer loss to damaging liability, environmental damage and possibly even bankruptcy | 66 | 1 | 5 | 3.87 | 1.036 |
| Guidelines in risk assessment and management are available | 66 | 1 | 5 | 3.73 | 1.074 |
| Efficient risk identification in SMEs is hindered by SME employees limited knowledge of risk management | 66 | 1 | 5 | 3.69 | 1.062 |
| Risk analysis involves measuring or estimating the potential frequency of losses and the potential impact of a risk on the company's operation. Potential risks to the business are accessed | 66 | 1 | 5 | 3.67 | 1.168 |
| Risk management process is carried out continuously and systematically in order to identify possible sources of loss and thus risks | 66 | 1 | 5 | 3.82 | 1.072 |
| Valid N (listwise) | 66 | | | | |

*Source: primary data (2016)*

**Misjudging or failing to recognize risks can have disastrous consequences, ranging from customer loss to damaging liability, environmental damage and possibly even bankruptcy**

As presented by the results in table 4.6 above, the respondents agreed that Misjudging or failing to recognize risks can have disastrous consequences, ranging from customer loss to damaging liability, environmental damage and possibly even bankruptcy having a mean of 3.87, though there was some deviations views as shown with a standard deviation of 1.036. This agreement is in line with Mutezo, (2013) who affirmed that misjudging or failing to recognize risks can have disastrous consequences, ranging from customer loss to damaging liability, environmental damage and possibly even bankruptcy. This implies that not recognizing risks leads to loss of revenue, loss of customers and absolute bankruptcy which is a bad indicator of financial management.

**Guidelines in risk assessment and management are available**

As presented by the results in table 4.6 above, the respondents agreed that guidelines in risk assessment and management are available with a mean of 3.73, though there was some differed views as shown with a standard deviation of 1.074. This concurs with Leggio, (2007) who address that a stringent risk management process may enable SMEs to cope with the risks presented in the previous section. Once risks have been identified, a number of guidelines/techniques and actions can be selected to address them. According to Hollman and Mohammad-Zadeh (1984), the risk management process comprises five major steps (identify risks, analyze risks, and select techniques, implement strategy, control). This helps to identify risks and therefore they can be avoided leading to good financial management.

**Efficient risk identification in SMEs is hindered by SME employee's limited knowledge of risk management**

As presented by the results in table 4.6 above, the respondents agreed that efficient risk identification in SMEs is hindered by SME employees limited knowledge of risk management with a mean of 3.69, though there were some divergent views as shown with a standard deviation of 1.062. This is in agreement with Gao et al, (2013) who highlighted that efficient risk identification in SMEs may be hindered by SME employees' limited knowledge of risk management. Thus, a precondition of effective and comprehensive risk identification in SMEs may be building risk management capacity in their employees. This implies that if employees do not know how to assess areas of risks, business can run bankrupt due to loss of finances hence bad indicator of financial management.

**Risk analysis involves measuring or estimating the potential frequency of losses and the potential impact of a risk on the company's operation. Potential risks to the business are accessed**

As presented by the results in table 4.6 above, the respondents agreed that Risk analysis involves measuring or estimating the potential frequency of losses and the potential impact of a risk on the company's operation. Potential risks to the business are accessed with a mean of 3.67, though there were some differed views as shown with a standard deviation of 1.168. This concurs with Wilson and Altanlar, (2013) who stated that risk analysis involves measuring or estimating the potential frequency of losses and the potential impact of a risk on the company's operation. Subsequently, the risks can be ranked according to importance for the company. This means that frequency of loss is measured according to their impact which leads to a good financial management.

**Risk management process is carried out continuously and systematically in order to identify possible sources of loss and thus risks**

As presented by the results in table 4.6 above, the respondents agreed that Risk management process is carried out continuously and systematically in order to identify possible sources of loss and thus risks with a mean of 3.82, though there were some divergent views as shown with a standard deviation of 1.072. This is supported by Leggio (2007) who stressed that risk management process should be carried out continuously and systematically in order to identify possible sources of loss and thus risks. This means that risks can be avoided due to continuous risk management process leading to good financial management.

### 4.3.4 Descriptive statistics on Performance of SMEs

A study on the objective of performance of SMEs is presented below.

**Table 4.7 Descriptive statistics on Performance of SMEs**

| Details | N | Min | Max | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Accountability helps keep truck of the sales | 66 | 1 | 5 | 3.84 | 1.147 |
| Sales forecasts are usually met | 66 | 1 | 5 | 3.69 | 1.041 |
| Sales turnover is a relevant item in the business financial statement | 66 | 1 | 5 | 3.84 | 1.021 |
| Profits earned are re-invested back into the business | 66 | 1 | 5 | 3.58 | 1.118 |
| Revenue forecasts are met | 66 | 1 | 5 | 3.62 | 1.114 |
| There is a reasonable return on capital invested | 66 | 1 | 5 | 3.62 | 1.093 |
| Expenses and debts are paid timely | 66 | 1 | 5 | 3.67 | 1.066 |
| Customer satisfaction is put into consideration | 66 | 1 | 5 | 3.51 | 1.160 |
| Sales person has the mandate to make selling decision according to set price | 66 | 1 | 5 | 3.64 | 1.131 |
| Valid N (listwise) | 66 | | | | |

**Profitability provides a company with revenue as a return on capital employed**

From the findings of the research study in table 4.7 above, it can be noted that Profitability provides a company with revenue as a return on capital employed where the majority of the respondents agreed with a mean value of 3.84. However the study revealed a divergent in opinion with a standard deviation value of 1.147. This is in line with Pandey (1996) who noted that Profitability is stated as the ability to provide a reasonable and adequate return on capital employed in existing business, new areas and internal control operations so as to fulfill the objectives of the organization. This is makes an organization achieve its main objective hence good sign of performance.

**Sales forecasts are usually met**

From the findings of the research study in table 4.8 above, it can be noted that Sales forecasts are usually met where the majority of the respondents agreed with a mean value of 3.69. However from the findings of the research study, it was also revealed a divergent in opinion with a standard deviation value of 1.041. This concurs with Ertimur et al, (2011) who noted that the frequency of issuing analysts sales turnover forecasts has also increased dramatically over time. In some cases investors even place a higher valuation weight on sales than on earnings. For instance, Rees and Sivaramakrishan (2007) find that the equity premium to firms meeting earnings forecasts disappears when revenue forecasts are not met. If sales forecasts are met, then it is a good sign of performance.

**Sales turnover is a relevant item in the business financial statement**

From the findings of the research study in table 4.7 above, it can be noted that Sales turnover is a relevant item in the business financial statement where the majority of the respondents agreed with a mean value of 3.84. However findings revealed a divergent in opinion with a standard deviation value of 1.021. This is in line with Srivastava (2014) who affirmed that turnover is one of the largest and most value-relevant items in firms' financial statements and considered a key value driver of shareholder value. This implies good performance in terms of sales.

**Profits earned are re-invested back into the business**

From the findings of the research study in table 4.7 above, it can be noted that Profits earned are re-invested back into the business where the majority of the respondents agreed with a mean value of 3.58. However findings revealed a divergent in opinion with a standard deviation value of 1.118.

This is in line with Okumu (2016) through an interview who explained that the profits earned in selling activities are invested back in business so a business can have enough capital. This helps a firm to continue with business operation hence good performance and going concern.

**Revenue forecasts are met**

From the findings of the research study in table 4.7 above, it can be noted Revenue forecasts are met where the majority of the respondents agreed with a mean value of 3.62. However from the findings study revealed a divergent in opinion with a standard deviation value of 1.114. This is in agreement with Rees and Sivaramakrishan (2007) who addressed that the market awards a distinct equity premium to firms meeting revenue forecasts. This is a good sign of financial management since SMEs meet revenue forecasts.

**There is a reasonable return on capital invested**

From the findings of the research study in table 4.7 above, it can be noted that there is a reasonable return on capital invested where the majority of the respondents agreed with mean value of 3.62. However findings of the study revealed a divergent in opinion with a standard deviation value of 1.093. This is in line with Shiva and Suar, (2010) who stressed that profitability is stated as the ability to provide a reasonable and adequate return on capital employed in existing business, new areas and internal control operations so as to fulfill the objectives of the organization. This measurement helps SMEs to determine returns on their investment hence a good performance.

**Expenses and debts are paid timely**

From the findings of the research study in table 4.7 above, it can be noted that expenses and debts are paid timely where the majority of the respondents agreed with mean value of 3.51. However from the findings of the research study, it was also revealed a divergent in opinion with a standard deviation value of 1.066. This is in line with what Okumu (2016) explained through an interview that they pay their dues in time to avoid disruption in business activities. This is a good indicator of performance.

**Customer satisfaction is put into consideration**

From the findings of the research study in table 4.7 above, it can be noted that Customer satisfaction is put into consideration where the majority of the respondents agreed with mean value of 3.51. However findings the study revealed a divergent in opinion with a standard deviation value of 1.160. This is in line with Nambejja (2016) through an interview who revealed that close attention is paid to customers in terms of service delivery which leads to customer satisfaction. This help SMEs by having many customers which impacts positively on performance.

**Sales person has the mandate to make selling decision according to set price**

From the findings of the research study in table 4.7 above, it can be noted that the Sales person has the mandate to make selling decision according to set price where the majority of the respondents agreed with mean value of 3.64. However from the findings of the research study, it was also revealed a divergent in opinion with a standard deviation value of 1.131. This is in line with Munanura (2016) through an interview who confirmed that sales personnel have the authority and mandate to make and take initiative in accordance with market price to determine prices for products and services. This helps SMEs to achieve performance improvements as flexibility is achieved.

### 4.3 Correlation analysis

In order to determine the effect that cash management, accounting practices and risk management on performance of SMEs, the researcher conducted correlational analysis and the following were the results

#### 4.3.1 Correlation analysis between cash management and performance of SMEs

**Table 4.8: Correlation results of cash management and performance of SMEs**

| | | Cash management | Performance of SMEs |
|---|---|---|---|
| Cash management | Pearson Correlation | 1 | .650** |
| | Sig. (2-tailed) | | .000 |
| | N | 66 | 66 |
| Performance of SMEs | Pearson Correlation | .650** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 66 | 66 |

**. Correlation is significant at the 0.01 level (2-tailed).
*Source: primary data (2016)*

The study sought to determine the effect of cash management on performance. This was done using the Pearson correlation co-efficiency determinant. From the table 4.8 above, correlation value ($r = 0.\ 650^{**}$ $p < 0.01$) revealed that there is a positive and a significant relationship between cash management and performance of SMEs. This means that cash management improves performance of SMEs by 0.650 which is above Pearson correlation co-efficient determinant of 0.01.

### 4.3.1 Correlation analysis between accounting practices and performance of SMEs

**Table 4.10: Correlation results of accounting practices and performance of SMEs**

| | | Accounting practices | Performance of SMEs |
|---|---|---|---|
| Accounting practices | Pearson Correlation | 1 | .535** |
| | Sig. (2-tailed) | | .000 |
| | N | 66 | 66 |
| Performance of SMEs | Pearson Correlation | .535** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 66 | 66 |

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

***Source:*** *Primary data (2016)*

The study sought to determine the effect of accounting practices on performance of SMEs. This was determined by computing Pearson correlation co-efficient determinant. From the table 4.9 above, correlation value ($r = 0.535^{**}$ $p < 0.01$) revealed that there is a positive and a significant relationship between cash management and performance of SMEs. This means that accounting practices improve performance of SMEs 0.535 which meant that cash management has an increasing effect on performance of SME since the correlation co-efficiency above 0.01 which is in line with Longernecker et al, (2003) who noted that managers must have accurate, meaningful, and timely information if they are to make good decisions. This is true of financial information about a firm's operations because an adequate accounting system is a primary factor in small business failures (Longernecker al, 2003).

### 4.3.1 Correlation analysis between risk management and performance if SMEs

**Table 4.11: Correlation results of risk management and performance if SMEs**

| | | Risk management | Performance of SMEs |
|---|---|---|---|
| Risk management | Pearson Correlation | 1 | .803** |
| | Sig. (2-tailed) | | .000 |
| | N | 66 | 66 |
| Performance of SMEs | Pearson Correlation | .803** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 66 | 66 |

**. Correlation is significant at the 0.01 level (2-tailed).
***Source:*** *Primary data (2016)*

The study sought to determine the effect of risk management on performance. This was done with the support of the Pearson correlation product moment technique. From the table 4.10 above, correlation value ($r = 0.803^{**}$ $p < 0.01$) revealed that there is a significant positive relationship between risk management and performance of SMEs. The value of 0.803 is increasing above that of Pearson co-efficiency determinant which is 0.01 which implies that when risk management is taken seriously, it will have an increasing impact on performance of SMEs which is in line with Brustbauer, (2014) who asserted that risk management may help SME managers to identify significant risks that could jeopardize the success or existence of the company in time to efficiently cope with them. Misjudging or failing to recognize risks can have disastrous consequences, ranging from customer loss to damaging liability, environmental damage and possibly even bankruptcy (Mutezo, 2013). However, many SMEs do not or not adequately apply risk management practices, mostly because they cannot afford to rededicate resources due to their constraints (Marcelino-Sádaba et al, 2014).

### 4.4 Conclusion

Analysis of primary data indicated that the independent variables through the predictor variables; cash management practices, accounting practices and risk management all had a positive effect on performance of SMEs as revealed in the findings of the study in this chapter regardless of the influence on performance, there were some minor deviations which still existed. Further explanations and summary of findings are presented in the final chapter.

# CHAPTER FIVE

# SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATION

## 5.0 Introduction

The chapter presents the summary of the main findings from the study, the conclusions and the recommendations which are based on the conclusions made by the study. The major objective of the study was to investigate the role of financial management practices on the performance of SMEs

## 5.1 Summary of major findings

The study revealed that the majority of the respondents practiced good cash management practices in their business because the majority of the responses were positive in nature. The study also revealed that the majority of the respondents practiced good cash management by preparing a budget for their cash to be spent and revenue to be earned, that they have petty cash system for control of short- term daily expenses, records for cash that is spent and that received and also cash policies to control their cash in and cash out. However, in the area of cash management many respondents were found to experience cash shortages which is a sign of bad cash management because it is not good for a business to run out of cash because the need for it can arise at any time. In addition to the results from correlation analysis indicate that cash management has a positive effect on performance of SMEs. The findings revealed that cash management practices increase performance by 65% as reflected by the correlation results ($r= 0.65$) .

According to the respondents' views, it was revealed that the majority of responses were positive though average. This means that majority of the respondents were not carrying out accounting practices which included, preparation of financial statements, keeping business records up to date, time allocated for reconciling books of accounts, use of computers in accounting records as well as having an accounting system in place. More so from the study it is evident that the SMEs are not having sound accounting practices in place to manage financial issues. The use of computers has not been taken up by many SMEs and also the preparation of financial statements is also not in place. But finding revealed that accounting practices increases performance by 53.5% reflected by the correlation results (0.535)

The findings revealed that the majority of the respondents were carrying out risk management practices and these included identify significant risks that could jeopardize the success or existence of the company in time to efficiently cope with them. Misjudging or failing to recognize risks which could lead to disastrous consequences, ranging from customer loss to damaging liability, environmental damage and possibly even bankruptcy when risk management is taken seriously, it will have an increasing effect on performance of SMEs by 80.3%. The correlation analysis conducted indicated a positive and significant ($r = 0.803$) between risk management practices and performance of SMEs. This implied that risk management affects the performance of SMEs.

## 5.2 Conclusions

Kikuubo business lane is a growing business hub in Kampala Central Business District and surely to a great extent, good financial management practices have contributed to their performance though not so many businesses have undertaken financial management and this could be one of the reasons many SMEs are failing.

The study revealed that the majority of the SMEs carried out sound cash management practices in their businesses and this means that such good practices of handling cash and stock of the business can help SMEs perform better in terms of profitability, turnover as well as efficiency and effectiveness of business operations. This is because such sufficient management minimizes loss of such crucial resources as well as making them available for their purpose. The study results imply that there is need to encourage SMEs' owners and managers to practice sound inventory and cash management to enable effective and efficient management of business to perform better. This would facilitate high turnover as well as profitability.

In addition the study also revealed that accounting practices and computer facilities have not been properly exploited areas of financial management and perhaps this is as a result of low education about these fields. Accounting practices are an important activity of managing a business effectively and efficiently to perform and should be reliably exploited to benefit the businesses. For computer facilities; the world is moving at a fast pace of technology and also the demand for goods in such businesses keeps growing though it is such facilities that can support business growth as well as managing business to perform better. These results therefore imply that there is need to improve accounting practices as well as introduce use of computers in the SMEs so as to perform better in areas of profitability, turnover as well as efficiently and effectively running the businesses.

From the discussion and findings above it was established that there is a strong relationship between financial management and the performance of Small and Medium Enterprises (SMEs). This is therefore an important function that can be used by SMEs to ensure the growth of SMEs which are the primary drivers of an economy of a country such as Uganda.

### 5.3 Recommendations

1. The study recommends that SMEs have to embrace knowledge in the area of financial management, owners and managers should undertake trainings in areas of cash management practices especially cash control policies and managing of cash records.

2. The study also recommends that owners and managers of SMEs invest in technology and this is especially the use of computers and related software as well as undertake short courses in computer training programs so as to be empowered. Computers and related software help businesses handle many tasks repetitively in an efficient and effective manner at the smallest costs. Computers software has been developed to enable SMEs owners to be able to run their businesses better given the limited knowledge they have in the areas of cash, inventory and accounting management as well as fit their financial management needs.

3. The study recommends owners as well as managers to embrace the importance of financial management trainings that always take place in the country. These include seminars, workshops, and trade fairs.

   Trainings organized by professional bodies such as ICPAU, ACCA, PSFU, Enterprise Uganda among others. Such trainings come at small costs and at times free but can help equip the owners as well as their employees with necessary skill to enable them manage business financial resources better.

4. The study also recommend owners of SMEs especially those that do not have knowledge on accounting practices and other areas of financial management to employ professional expertise to help them put in place for example an accounting system help them to prepare

their books of accounts appropriately. A periodic visiting of an accountant or audit firms can reliably equip SMEs on better financial management practices.

5. The study also recommends that ATM banking is embraced to reduce the risk of keeping cash due to late sales in times when banks are closed so as to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, at the same time, to have sufficient cash to meet unexpected cash needs.
6. The study recommends that proper risk management be embraced in the form developing a positive attitude towards things like insurance, signing of contracts as well as strict fulfilment of legal requirements.

### 5.4 Further suggestions for research

Due to the limited time and funds, it was not possible for the researcher to cover effectively all the areas of her interest in the study and therefore more research is needed the area; the role of technology in management of SMEs and sources of financial resources of SMEs. There is also need to carry out research on reasons why many SMEs do not keep financial records.

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**APPENDIX 1   QUESTIONNAIRE**

Dear respondent,

I am Nangendo Dorothy, a third year student of Uganda Martyrs University**,** pursuing a bachelor's degree in Business Administration and Management and specializing in Accounting.

As one of the partial requirements for the Award of Bachelor's Degree in Business Administration and Management of Uganda Martyrs University, I'm conducting a study entitled '**The effect of financial management practices on the performance of SMEs"** using Kikuubo business lane as case study. Therefore, I wish to request you kindly to spare some time and answer the questions below as honestly as possible by ticking in the spaces provided. The information given is purely for academic purposes and will be treated with outmost confidentially. Thank you for your cooperation.

**SECTION A: BACK GROUND INFORMATION ON THE RESPONDENT (Please tick in the appropriate Box)**

Please answer the following questions about the general business climate in your business in terms of how it operates, not how you would prefer it to be.

1. Sex: Male ☐ Female ☐

2. Level of Education:

Certificate ☐

Diplomа ☐

Degree ☐

Masters and above ☐

4. Years worked in the organization

a) 0-5 years ☐

☐

b) 6-10 years

c) 10 years and above ☐

5. Type of business run.

a) Wholesale ☐

b) Retail ☐

**SECTION B: FINANCIAL MANAGEMENT, RISK AND PERFORMANCE.**

Please indicate the extent to which you agree with each of the following statements about your organization by indicating with a tick in the box of your choice. Use the key below answering the following questions: Apply a tick where applicable using the following key.

1– Strongly disagree, 2 – disagree , 3 – Neutral, 4 – Agree and 5 – Strongly agree

**Cash management practices**

| | Details | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| C1 | Cash management is concerned with management of: cash flows into and out of the firm, cash flows within the firm and cash balances held by the firm | | | | | |
| C2 | Cash management helps a firm to meet both short-term and long term liquidity position of the concern | | | | | |
| C3 | Paying close attention to cash flows management leads to a competitive edge over competitors and success of a business | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| C4 | Cash budget as a primary tool for managing cash flows and by using a cash budget, an entrepreneur can predict and plan cash flows for the business | | | | | |
| C5 | The business maintains a safe for custody of cash. | | | | | |
| C6 | All cash is banked at the end of the day | | | | | |
| C7 | A cash budget is prepared to plan for inflows and outflows | | | | | |
| C8 | Reconciliation of cash and sales is made often | | | | | |

What benefit has your organization got through use of cash management practices?

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**Accounting practices**

1– Strongly disagree, 2 – disagree , 3 – Neutral, 4 – Agree and 5 – Strongly agree

| A1 | Details | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| A2 | Accounting function links all financial areas of the firm and keeping all records and producing financial statements and reports needed by the business. | | | | | |
| A3 | There is an accounting system in place | | | | | |
| A4 | Books of accounts are prepared. | | | | | |
| A5 | Means of payment. both cash and credit. | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| A6 | Financial reports are prepared from the books of accounts. | | | | | |

How can the accounting function be improved in the organization?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
…………………………………………………………………………………………………....

**Risk management**

1– Strongly disagree, 2 – disagree , 3 – Neutral, 4 – Agree and 5 – Strongly agree

| | Details | 1 | 2. | 3. | 4. | 5 |
|---|---|---|---|---|---|---|
| R1 | Misjudging or failing to recognize risks can have disastrous consequences, ranging from customer loss, damaging both liability and environmental and possibly bankruptcy | | | | | |
| R2 | Guidelines in risk assessment and management are available | | | | | |
| R3 | Efficient risk identification in SMEs is hindered by SME employees' limited knowledge of risk management. | | | | | |
| R4 | Risk analysis involves measuring or estimating the frequency of losses and the potential impact of a risk on the company's operation. Potential risks to the business are accessed. | | | | | |
| R5 | Risk management process is carried out continuously and systematically in order to identify possible sources of loss and thus risks | | | | | |

Does monitoring of risk management benefit your organizations?

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**SECTION E: PERFORMANCE OF SMEs**

1– Strongly disagree,   2 – disagree   , 3 – Neutral, 4 – Agree and 5 – Strongly agree

| | DETAILS | 1 | 2. | 3. | 4. | 5. |
|---|---|---|---|---|---|---|
| P1 | Accountability helps keep truck of the sales | | | | | |
| P2 | Sales forecasts are usually met. | | | | | |
| P3 | Sales turnover is a relevant item in the business financial statements. | | | | | |
| P4 | Profits earned are re invested back into the business. | | | | | |
| P5 | Revenue forecasts are met. | | | | | |
| P6 | There is a reasonable return on capital invested. | | | | | |
| P7 | Expenses and debts are timely paid. | | | | | |
| P8 | Customer satisfaction is put into consideration | | | | | |
| P9 | Sales person has the mandate to make selling decision according to set price. | | | | | |

**Thank you for sparing your precious time and God bless you.**

**APPENDIX II: KREJCIE & MORGAN TABLE FOR DETERMINING SAMPLE SIZE**

| N | S | N | S | N | S | N | S | N | S |
|---|---|---|---|---|---|---|---|---|---|
| 10 | 10 | 100 | 80 | 280 | 162 | 800 | 260 | 2800 | 338 |
| 15 | 14 | 110 | 86 | 290 | 165 | 850 | 265 | 3000 | 341 |
| 20 | 19 | 120 | 92 | 300 | 169 | 900 | 269 | 3500 | 246 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 25 | 24 | 130 | 97 | 320 | 175 | 950 | 274 | 4000 | 351 |
| 30 | 28 | 140 | 103 | 340 | 181 | 1000 | 278 | 4500 | 351 |
| 35 | 32 | 150 | 108 | 360 | 186 | 1100 | 285 | 5000 | 357 |
| 40 | 36 | 160 | 113 | 380 | 181 | 1200 | 291 | 6000 | 361 |
| 45 | 40 | 180 | 118 | 400 | 196 | 1300 | 297 | 7000 | 364 |
| 50 | 44 | 190 | 123 | 420 | 201 | 1400 | 302 | 8000 | 367 |
| 55 | 48 | 200 | 127 | 440 | 205 | 1500 | 306 | 9000 | 368 |
| 60 | 52 | 210 | 132 | 460 | 210 | 1600 | 310 | 10000 | 373 |
| 65 | 56 | 220 | 136 | 480 | 214 | 1700 | 313 | 15000 | 375 |
| 70 | 59 | 230 | 140 | 500 | 217 | 1800 | 317 | 20000 | 377 |
| 75 | 63 | 240 | 144 | 550 | 225 | 1900 | 320 | 30000 | 379 |
| 80 | 66 | 250 | 148 | 600 | 234 | 2000 | 322 | 40000 | 380 |
| 85 | 70 | 260 | 152 | 650 | 242 | 2200 | 327 | 50000 | 381 |
| 90 | 73 | 270 | 155 | 700 | 248 | 2400 | 331 | 75000 | 382 |
| 95 | 76 | 270 | 159 | 750 | 256 | 2600 | 335 | 100000 | 384 |

Note: “N” is population size

“S” is sample size.

From : Krejcie, Robert V., Morgan, Daryle W., “Determining Sample Size for Research Activities”, Educational and Psychological Measurement, 1970.