FINANCIAL PLANNING ON THE PERFORMANCE OF SMALL SCALE ENTERPRISES

Case Study: COFFEE FACTORIES IN KAGONGO WARD, IBANDA DISTRICT WESTERN UGANDA

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2014-B181-10068

A DISSERTATION SUBMITTED TO FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT FOR THE AWARD OF A BACHELOR DEGREE OF ACCOUNTING AND FINANCE OF UGANDA MARTYRS UNIVERSITY

MAY 2017

DEDICATION

Dedicated to my parents Mr. and Mrs. Venari Tusime and the entire family of Mr. Leo Poda Tubamanya who have worked tirelessly to ensure that I get the much needed education and to my siblings like Arnold for making me realize the value of education. It is also dedicated to all my cousins both young and old who are struggling to make it in life through education. May God give you all the happiness that your hearts can hold.

ACKNOWLEDGEMENTS

My greatest gratitude goes to the Almighty God for seeing me through all the challenges I have gone through during my studies and especially while writing this dissertation, collecting data, and the process of analysis.

I also recognize the support of my father and the family for their financial, moral, and material support. Their advice, inspiration and motivation guided me during difficult times.

My humble and sincere gratitude goes to my supervisor, Mr. Segawa Edward for his unconditional support, kindness, understanding, and patience. Your effort, advice, and contribution towards the completion of this dissertation will forever be treasured in my life.

To my true and sincere friends, Mandera Kevin, Hellen Vicky Icumar, Winnie Masika, Tumushabe Arnold, Tumusime Crescent, Kansiime Racheal and all the others who have been instrumental in my social, spiritual and academic life.

May God bless all your efforts and reward you abundant

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ABBREVIATION

KAMMA- **Kick-Ass Business Mentorship Academy**

FPA- Financial Planning Association

CFP- Certified Financial Planner

KIU- Kampala International University

SMEs- Small Scale Enterprises

USSIA- Uganda Small Scale Industries Association

UIA- Uganda Investment Authority

GRCC- Grand Rapids Community College.

BOU- Bank of Uganda.

ROCE- Return on Capital Employed.

EPS- Earnings per Share

P/E- Price Earning.

ABSTRACT

The major aim of the study was finding the relationship between financial planning and the performance of small scale businesses. The dimensions of the dependent variable "performance of small scale businesses" were: profitability, liquidity and cost efficiency. While those for the independent variables were: budgeting, financial reporting and risk assessment and management. The study focused on examining the relationship between budgeting and the performance of small scale businesses, evaluating the relationship between financial reporting and the performance of small scale businesses and lastly assessing the relationship between risk assessment and management and the performance of small scale businesses.

The study used a case study research design of a sample of 52 respondents out of a population of 60 both employees and owners chosen by use of convenience sampling method. Primary sources of data used to collect data were; structured questionnaire and interview guide while the secondary sources of data used were audit reports and financial statements of the case study. The data collected was analyzed by using SPSS 16.0, correlations, frequency, graphs and tables were used to present the data.

The findings of the study revealed that there was a positive relationship between budgeting and performance of small scale businesses. The findings of the study also indicated a positive relationship between financial reporting and performance of small scale businesses and lastly findings showed a positive relationship between risk assessment and management on the performance of small scale businesses.

The researcher recommends that for small scale businesses to be successful without collapsing and realize profits, they should always prepare budgets for their firms, involve everyone in budgeting process and in decision making, ensure that there are safe guards for protecting the businesses' assets and finally, they should keep records for their businesses' operations.

CHAPTER ONE

1.0 INTRODUCTION

The study is about financial planning on the performance of small scale businesses. Many SMES have failed to grow or prosper yet they carry out or draw financial plans and so the study is about finding out for the reasons or factors that lead to the collapse of SMES yet they do financial planning. So this chapter covers the background of the study, the statement of the problem, broad objective of the study, specific objectives which are to be achieved from the conduct of the study, research questions which are drawn from the specific objectives, scope of the study where we have the geographical scope and content scope, significance of the study which clearly explains the beneficiaries of the study and how they benefit, justification of the study which talks about the factors or the reason that prompted the researcher to carry out the study and conceptual framework showing the dimensions of financial planning and performance of small scale enterprises and also the source of the dimensions.

1.1 Back ground of the study

Small and medium enterprises have grown and are of importance in the global economy during the last couple of decades (Hall, 2002; Mephokee, 2004). They are not only considered to be the principal driving force of economic development but they are also regarded as vital for sustained growth in almost all economies (Garikai, 2011). Further, SMEs are a major source of employment, generate significant domestic and export earnings, contribute to the general health and welfare of economies, and are a key instrument in poverty reduction (Mephokee, 2004). For instance, SMEs constitute 99.7 % and 99 % of all employers in the United States (US) and European Union (EU), respectively. In Uganda, the SMEs sector employs 74% of the labour force and contributes over 18% of the country’s gross domestic product (GDP), (Ngugi, 2012). Generally, SMEs are defined by the number of workers employed, value of assets and sales turnover (Garikai, 2011).

Financial planning involves analyzing financial flows of a firm as a whole, forecasting the consequences of various investments, financing and dividend decisions and weighting the effects of various alternatives. Financial planning is the core of financial management. The complex nature of business demands that management should place greater emphasis upon financial planning to secure and employ capital resources in the amount and proportion necessary to increase the efficiency of remaining factors of production. Financial planning is needed both in dynamic and perfect economic conditions. It helps management to avoid waste by furnishing policies and procedures which make possible a closer co-ordination between the various functions of business (Oye, 2006).

Financial planning must however be complemented by control in order to achieve the basic aim of planning. The actual results must be measured concurrently against projections. Control is the financial management function which must be exercised by executive personnel of the business enterprise to achieve the goals established by the planning function. It deals with testing the degree of management performance in the attainment of the set objectives. It is also a check to deviations from the planning function, and once the causes for the difference between the actual and expected performance have been identified, a corrective action should be initiated, (Samuel 2010).

The business financial plan commonly appears in the overall business plan for a small business. A financial plan is self-supporting documents intended to support and direct the actions of the business, Smith (2010). It explains what your business can afford, how it can afford to do it and what the expected profits will be, BOU Report (2011). Small business financial planning is a matter of spending less than you are taking in and making conscious decisions about what moneys are allocated where and to be effective in financial planning, a financial planner needs to be having cash flow forecasting and budgeting skills, (smith 2010).

A small- scale business enterprise is a business that employs a small number of workers and does not have a high volume of sales. Such enterprises are generally privately owned and

operated sole proprietorships, corporations or partnerships. Small-scale enterprises exist in almost every industry. They are in form of small manufacturing plants, privately owned restaurants, law firms, bakeries, architectural and petrol stations, dry cleaners and construction contractors, Financial Planning association report (2007).

In practice, it has become one of the most important issues in organizations with many financial executives struggling to identify the basic working capital drivers and the appropriate level of working capital to hold so as to minimize risk, effectively prepare for uncertainty and improve the overall performance of their businesses (Lamberson, 2005). The existence of efficient financial planning practices can makes a substantial difference between the success and failure of an enterprise and it is of particular importance to the managers of small scale enterprises because they are the ones who strive for finances and the opportunity cost of finances, (Kwame, 2007

Gill, Biger, and Mathur (2010) studied 88 companies of New York, the time span of the study was 3 years (2005-2007). To elaborate the relationship of profitability with financial planning, they took Accounts receivables, Accounts payables, Cash conversion cycle, Inventory, natural log of sales as a proxy of size of the firm, fixed assets ratio and debt ratio as independent variables while dependent variable was Gross Operating Profit. The regression analysis was used to find out the results. They stated that if the collection period of accounts receivable is greater, then there would be less profitability. So, they suggested that managers should try to reduce the credit period in order to improve the profitability. They also recommended that cash conversion cycle is positively related with financial performance.

Atrill (2011) said that business performance focuses on management approaches which look at a business as a whole instead of on a division level. Business performance management entails reviewing the overall business performance and determining how the business can better reach its goals. This requires the alignment of strategic and operational objectives and the business's set of activities in order to manage performance, seeks to aggregate available information, to

ensure that managers are more informed about the company's position and are able to make better decisions, (Bowen 2010). However, as observed by Atrill (2006), there is evidence that many small scale enterprises are not very good at managing their working capital despite their high investments in current assets in proportion to their total assets and this has been a major cause of their high failure rates as compared to large businesses. According to him, majority of the small scale enterprises operate without credit control department implying that both the expertise and the information required to make sound judgments concerning terms of sales may not be available. They also lack proper debt collection procedures hence they tend to experience increased risks of late payment and default by debtors who tend to increase where there is an exclusive concern for growth. In this case, small scale enterprises may not be too willing to extend credit to customers who have poor credit risks.

In a recent study by Bowen, (2009) debt collection was identified by 55% to be among the top five major challenges facing micro and small businesses.

According to the financial dictionary, financial planning is the process of determining people's or firms' financial needs or goals for the future and the means to achieve them. Financial planning involves deciding what investments and activities would be most appropriate under both personal and broader economic circumstances. Short-term financial planning involves less uncertainty than long-term financial planning because generally speaking, market trends are more easily predictable in the short term. Likewise, short-term financial plans are more easily amendable in case something goes wrong as a result of the short time frame. (Campbell R. Harvey 2012).

In Uganda Small Scale Enterprises (SSEs) are reported to contribute about 20% of Uganda's GDP .This figure may be much higher given that Uganda's GDP is constituted by mostly agricultural production. This is mainly by small holders who may not even fit in the definition of micro and small businesses. Besides, since a great component of GDP is non-monetized and largely subsistence, it is possible that the contribution of both micro and small units is much

larger than 20%. (Tulip and Bitekerezo, 2003).It is also reported by the Ministry of Planning and Economic Development (2002) that over 80% of Uganda's manufacturing output is by small enterprises. The sector also employs up to 2.6 million people in Uganda (Uganda Investment Authority, 1996).

Also according to Dr. Turyahebwa, Dr. Sunday, Dr. Burani, Dr. Byamukama, (2008), they say that the Uganda's economy has made significant recovery since 1987, and is on the way to sustainable growth and development and they have estimated that there are about 1,069,848 small-scale enterprises in Uganda, the majority of which are located in rural areas and on the outskirts of urban areas, producing goods and services consumed not only by the low-income class but also by some sections of the middle class. Small scale businesses employ few people in Uganda because they operate on a small scale. This statement is supported by Flora Richards-Gustafson, Demand Media, who said that small scale businesses employ a small number of workers and does not have a high volume of sales (Flora Richards G, 2003). The concern of many businesses today is how to remain sustainable, efficient, and competitive and self-reliant which is brought about by good financial management hence financial planning highly affects small scale businesses in Uganda especially the rural areas like in Ibanda district. The success of a business depends on the financial planning for its resources. So a problem of financial planning affects small scale businesses in Uganda as some authors also emphasize.

According to Clarence Mc Collum, primary challenge for small scale businesses is having access to capital in order to facilitate their exposure and the few small businesses that have access to capital then financial planning becomes a problem. Then according to Martin Ekechukwi says that the problem facing small scale businesses is how to find more capital for the business and after getting the funds, the problem becomes how to plan for their finances. He continues and says that one spends more on inventory and money gets tied up.

The small businesses in Ibanda district include groceries, retail shops, saloons, hotels, coffee factories to mention but a few get a ready market from the local people in Ibanda district

generally and most agricultural small scale businesses in the area get their raw materials from people around Ibanda district.

1.1.1Background of the case study

Coffee factories in Kagongo ward Ibanda district are the case study. Ibanda district was named Ibanda after its biggest hill which was called Ibadan hill but now called Kalivalio hill. During the colonial times it was called Mitooma. Ibanda District was curved out of greater Mbarara in 2005. It borders Kiruhura to the East, Kamwenge to the North, Buhweju to the West and Mbarara to the South. It comprises of Nyabuhikye, Rukiri, Kicuzi, Bisheeshe, Kijongo, Kashangura, Nsasi, Kicence and Keihangaara sub-counties. It consists of four town councils of; Ibanda, Ishongorero, Rushango and Igorora. Most of the people are engaged in crop farming.

They are many coffee factories in Kagongo ward located in one place as decided by the Government. There are more than 20 coffee factories in Kagongo ward and some are owned by people, others are owned by the government. A larger percentage of these coffee factories use the raw materials form Ibanda district and some few people from the neighboring districts also bring their coffee to Ibanda for processing. These coffee factories have led to the development of infrastructures in Ibanda district especially the Kagongo- Rwingiri road that has eased the transportation of even other. The coffee factories were the researcher's case study for this research because they are among the SMES and another thing, coffee factories in Ibanda district are collapsing at a high rate yet they plan for their finances

1.2 Statement of the Problem

Financial planning is an important factor in the success of businesses (World Bank 2010) because creating a business plan forces small business owners to thoroughly examine every aspect of their company or business (World Bank Report, 2010). The financial plan helps the owner gain a full understanding of the financial needs of the company while giving serious thought to where the money is going to come from, how it will be spent and how it is going to be paid back if borrowed (Boswell, 2008). Financial planning is done by many small scale

businesses in rural areas as stated by Julie King in March 31st 2007 but they are still performing poorly and yet they are taking all the measures to plan their finances yearly using all tools that are used to plan for finances like budgets. The district has extensive ridges and hills which form the important water sheds for the area and beyond. (According to daily monitor Monday February 3 2014 By Elly Karenzi and Colleb Mugume). The fact that the district is a land of coffee among others, it has many coffee factories like African corner coffee factory, Lauben coffee factory and many others which are located in one area of Kagongo.

Many SMES especially coffee factories in Ibanda district don't perform very well yet they draw budgets which are one ways of planning for finances in an organization. An example is Ankole coffee factories that was located in Ibanda district, Nyabuhikye sub- county. SMES carry out financial planning, they draw budgets, assess their risks and others then in end, they again collapse and don't operate successfully so the researcher is basically going to find out why SMES especially coffee factories in Ibanda district are facing poor organizational performance yet they carry out financial planning. Despite the fact that the Ibanda town council in conjunction with the community has tried to rectify this problem through providing business advice to business men through their association "Abasubuuzi Tulihanziriga" subsidizing advertisements, "Entandikwa" scheme and forming inter- group borrowing, the problem still exists probably due to poor financial planning. The study aims at establishing the relationship between financial planning and business performance of small scale business in Coffee Factories in Kagongo Ward, Ibanda District Western Uganda.

1.3 Broad Objective of the Study

To assess the relationship between financial planning and performance of small scale business in Coffee Factories in Kagongo Ward, Ibanda District Western Uganda.

1.4Objectives of the Study

i) To examine the relationship between budgeting and performance small scale businesses.

ii) To examine the relationship between financial reporting and performance of small scale businesses.

iii) To examine the relationship between risk assessment and performance of small scale businesses.

1.5 Research Questions

i) What is relationship between budgeting and performance of small scale businesses?

ii) What is the relationship between financial reporting and performance of small scale businesses?

iii) What is the relationship between risk assessment and management and performance of small scale businesses?

1.6. The scope of the study

1.6.1. Content scope

The study focused on financial planning as the independent variable and business performance of Small Scale Business as the dependent variable. It also aimed at identifying the aspects to consider when to assess the relationship between budgeting and performance small scale businesses, when to examine the relationship between financial reporting and performance of small scale businesses and when to evaluate the relationship between risk assessment and performance of small scale businesses. The study also shows how profitability, cost efficiency and liquidity determine the performance of small scale enterprises.

1.6.2 Geographical scope

The study was conducted in Ibanda town council, in Ibanda district. Ibanda district was named Ibanda after its biggest hill. During the colonial times it was called Mitooma. Ibanda District was

curved out of greater Mbarara in 2005. Ibanda district borders Kiruhura to the East, Kamwenge to the North, Buhweju to the West and Mbarara to the South. It comprises of Nyabuhikye, Rukiri, Kicuzi, Bisheeshe, Kijongo, Kashangura, Nsasi, Kicence and Keihangaara sub-counties. It consists of four town councils which are; Ibanda, Ishongorero, Rushango and Igorora. Ibanda district is made of ten wards those are: Kitwe, Kagongo, Rwingiri, kyaruhanga wards to mention but a few and my case study of coffee factories is found in Kagongo ward in the western part of Ibanda town council. More so, Kagongo ward has seven village cells and among them include Roma cell, Kitoigo cell, Rukokoma cell, Buhumuriro cell to mention but a few in this area. There are many small scale businesses that are underdeveloped and unsuccessful because of poor financial planning but the researcher concentrated on coffee factories because of their convenience for the researcher and also the willingness of staff to provide data which is helpful in the research.

1.6.3 Time scope

The study covers the relationship of financial planning on the performance of small scale business in Ibanda District for period of one year because it was a cross sectional study which was carried out once. This period is chosen because it is when Coffee factories in Ibanda District started having serious business problem of collapsing yet they carry out financial plans and so the researcher wanted to find out what makes some SMES like coffee factories in Ibanda district- Kagongo ward to fail yet they carry out financial planning.

1.7 Significance of the Study

The study benefits the people neighboring Ibanda district and also people in Ibanda district especially coffee farmers and also those with coffee factories especially in Kagongo ward. People surrounding or neighboring Ibanda especially those who grow coffee and bring it to Kagongo for further processing gets to know the factory that makes profits, the one that plans for its finances and follows its financial plan so that their money is not embezzled by the coffee

factory directors or managers after processing their coffee and then the seeds are sold to other people.

To the people around Ibanda district, some are employed as auditors, cashiers so that they can draw financial plans for different coffee factories. This study also identifies which business is profitable so other people in the coffee factory processing business and those willing to join the coffee processing business can consult them for better and successful life time of their businesses.

The study findings are going to help the management improve on its financial plans which is going to contribute to good performance of small scale business prompt settlement of claims and further investment.

The study findings are useful to future researchers to widen their understanding in matters of financial planning as a tool for good performance of small scale business. This is because it provides insight into the influence of financial planning practices on the performance of small Scale Business in Uganda. The academic argument can then be able to go further than just identifying poor financial planning practices as a cause of failure among Small Scale Business in the country but provide reasons as to why there are such financial planning problems. The researchers therefore shall use the findings of this research to advance related argument in future.

The study findings help students, companies and other interested parties who may need to understand more about financial planning and performance of small scale business.

The study findings can be used by Government to promote investment in small and medium business enterprises in the country. Since small business are identified as a main channel of development and creation of employment in Uganda, the government finds this research significant because it can dissect one of the factors that lead to the failure or low performance among small scale business in Uganda. Once the challenges facing financial planning in the

small scale business are identified, government policy makers use them to utilize that information as input.

The owners and management get a channel through which they can voice the managerial challenges they experience in their businesses with regard to financial planning. After identification of the issues, they can make appropriate decisions concerning financial planning to improve financial performance.

Finance Providers: Interested parties like finance providers to Small Scale Business come up with programs to advice and train Small Scale Business in financial planning practices in order to turn planning into a cause of success rather than for failure.

1.8. Justification of the study.

Many coffee factories in Ibanda district have collapsed yet some of them carry out financial planning, they budget for their money, assess risks and many others. The researcher observed that from 2014 and so that's why the researcher carried out this research for example Basing on the collapse of Ankole coffee factory in Ibanda district and Ankole coffee processors limited organization and yet they would draw budgets so the researcher saw there was need to conduct this research. It was in 2014 when African corner coffee factory started, it had started with a lot of competition competing with other coffee factories in the area, had many workers, enough space, had plans for their factory like site plan, had planned for their finances like they had a budget for their business but it collapsed in March 2015 so the researcher wondered and got concerned about the collapse of the business and they are many that have poor performance so the researcher picked interest in carrying out a research about financial planning on the performance of SMES using coffee factories in Ibanda district- Kagongo ward as my case study.

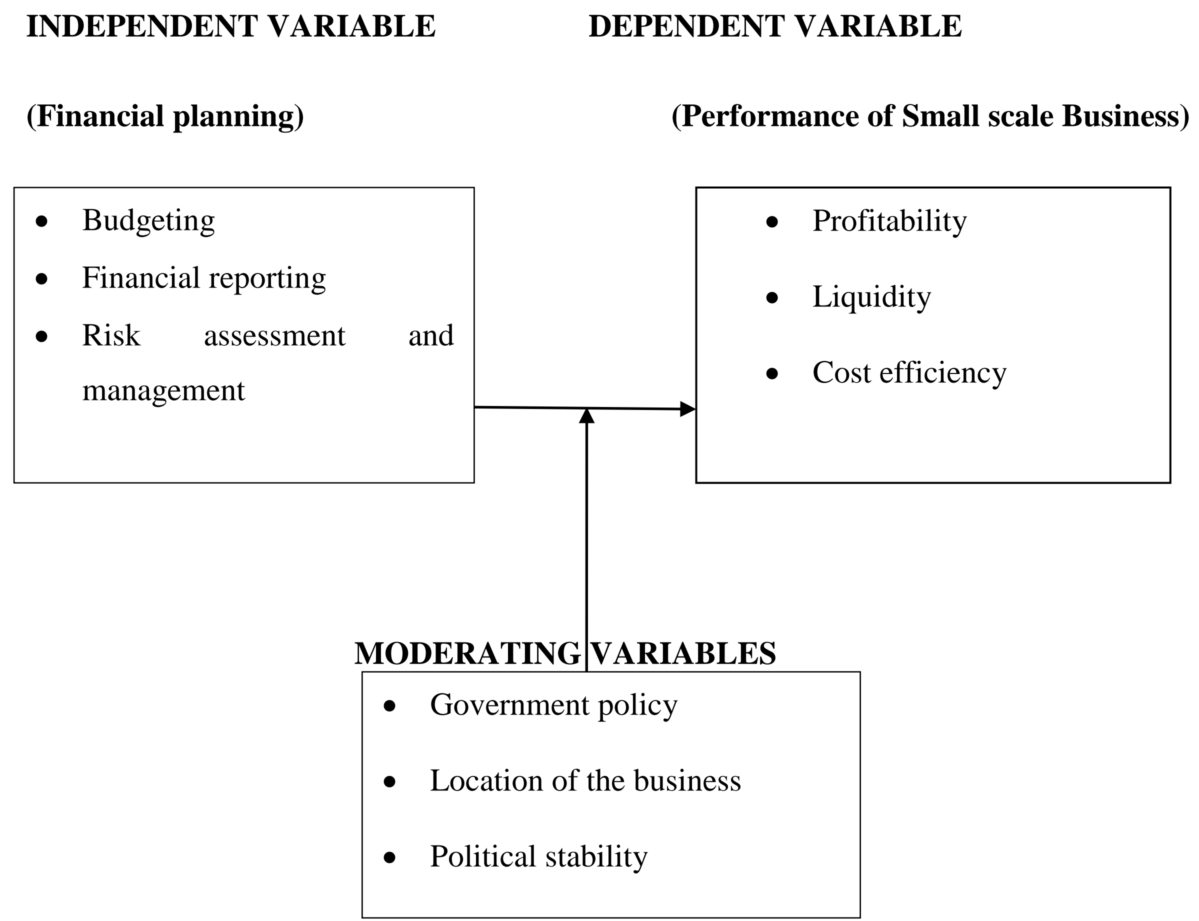
1.9 Conceptual framework.

The conceptual frame work below is about the dependent variable (small scale enterprises) and the independent variable (financial planning). The dimensions below the dependent variable

which is small scale enterprises are; Profitability, liquidity and Cost efficiency whereas the variables for the independent variable which is financial planning are; budgeting, financial reporting, and risk assessment and management. These dimensions for both the dependent and the independent variables were got from the article written by Uganda Investments Authority in 2011.

Byron and Fried lob 2014 said that one of the problems that affect the performance of SMEs is financial planning and it goes ahead and says that financial planning can be determined using budgets, financial reporting and risk assessment and management whereas the performance of small scale enterprises can be measured by liquidity, profitability and cost efficiency.

Figure 1: Conceptual Framework



Source: Uganda investments authority (2011) as modified by the Researcher

Performance measurements in the conceptual framework concur with (Keegan et al., 2009; Sink and Tuttle, 2009; Jones et al., 2003; Meyer, 2004; Ghalayini et al., 2007) who outlined nine SME financial performance indicators including cash-low, market share, overhead cost reduction, inventory performance, cost control, sales, profitability, efficiency, liquidity and product cost reduction. For purposes of this study, the performance measures used were liquidity, cost efficiency and profitability. The framework is supported by (Byron and Fried lob 2014) who asserted that inaccuracy and misuse of financial Planning causes SMEs to inaccurately assess their financial situation, and make poor financial decisions as well as leading them to face with the high failure rate and Wichmann (2013) who asserts that proper accounting is a key to business success.

The moderating factors of this study include government policy, location of the business and political stability whereby for government policy, if the government favors the start of small scale enterprises in Uganda, ways and measures may be put by the government for small scale businesses on how plan for their finances and increase the performance of small scale enterprises.

For the location of the business, this determines the performance of small scale business in a way that incase the SMES are in the urban or developed areas, there is easy access of experts in financial planning of SMES so they can plan for their finances and increase their performance.

Then political stability of a country also matters a lot. If the country is politically stable, the SMES run on a daily basis and so they can easily plan and follow their plans successfully so as to increase their performance. SMES in politically unstable economies cannot effectively follow their plans because any time they may be hindered and stop the operations for a short time.

1.10: DEFINITION OF KEY CONCEPTS OF THE STUDY.

Financial Planning: Financial Planning is the process of estimating the capital required and determining its composition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise. Performing Financial

Planning is critical to the success of any organization. It provides the Business Plan with rigor, by confirming that the objectives set are achievable from a financial point of view. It also helps the Chief Executive Officer to set financial targets for the organization, and reward staff for meeting objectives within the budget set. Financial planning is concerned with all areas of budgeting and such areas are not currently well embraced by small scale businesses in Uganda and urgent attention needs to be paid to. Some businesses basing on Meredith fail because of poor financial planning or others fail because of not following their financial plans (Meredith (2006). Financial planning is a process of setting objectives, assessing assets and resources, estimating future financial needs, and making plans to achieve monetary goals. (Smith 2010)

Budgeting: The Tennessee Board of Regents (2006) defines budgeting as the process whereby the plans of an institutions are translated into an itemized, authorized and systematic plan of operation, expressed in dollars for a given period. Budgeting at both management level and operation level looks at the future and lays down what has to be achieved. Control checks whether the plans are being realized and put into effect corrective measures, where deviation or short fall is occurring(Egan,2007)

Business: Jewel (2005) defined business as an organization or an enterprising entity engaged in commercial, industrial or professional activities. It may also refer to a commercial enterprise, professional or trade operated for the purpose of earning a profit by providing a product or service, also called business enterprise. Businesses vary in size from one person, to sole proprietorship an international corporation.

Budget Definition: A budget is a predetermined statement of managerial policy during the given period which provides a standard for comparison with the results actually achieved. This reveals that a budget is prepared for a definite future period. Budgets are most effective in the periods for which they are planned, and also, a budget is prepared before the defined period of time, not after. According to Cohen, L., Manion, L. and Morrison, K., 2013), a budget is a plan of action expressed in quantitative terms. In general the term budget is seen as representing a list

(a document) in which are placed face to face predictable revenues and expenditures of a particular economic entity, for a specified period. This approach corresponds to reality, but at a more detailed analysis. This expression reflects a methodological category specific to finance, seen as a scientific discipline.

Performance refers to the act of performing; execution, accomplishment, fulfillment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Simons, R, (2013), "The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like". Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance.

Risk management is the identification assessment and prioritization of risk followed by coordination and economic application of resources to minimize, monitor and control a probability and impact of occurrence of particular risk (Nassaver Frank and pausenberger Etherified 2004).

Risk: A risk is an event that results into loss of money and causes availabilities in business cash flow (Nassaver Frank and Pausenberger etherified 2004).The risk management has affected the financial performance of small scale businesses it leads to the collapse.

S**mall scale enterprises:** A small scale business enterprise is a business that employs a small where and to be effective in financial planning, a financial planner needs to be having cash flow forecasting and budgeting skills, (smith 2010).

Risk assessment: A Risk Assessment is a systematic method of looking at work activities, considering what could go wrong, and deciding on suitable control measures to prevent loss, damage or injury in the workplace (Margaret Rouse WhatIs.com). Assessing risk means you must examine carefully what, in the workplace, could cause harm to your employees, other

employees and other people, including customers, visitors and members of the public basing on Section 19 of the Safety, Health and Welfare at Work Act 2005

Financial reporting: Financial reporting broadly is said to be the periodic process of providing information in financial statements about the financial position and performance of a reporting entity to parties or users external to that entity to assist them in making informed decisions about allocating scarce resources. (Conceptual frame work IFRS).

Profitability: Profitability is the primary goal of all business ventures. Profitability is measured with income and expenses without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. (Don Hofstrand 2003)

1.11 Conclusion

This chapter covered the introduction, background of the study, background of the case study, statement of the problem, broad objective of the study, specific objectives of the study, research questions, the scope of the study that talked about the content scope and the geographical scope, justification of the study, conceptual framework and definitions of the key concepts of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discusses the already existing literature about financial planning and profitability or financial performance. This literature was obtained from textbooks, publications, periodicals research reports, journals, company financial documents and internet among others.

2.1 Overview in financial planning.

Financial planning is a continuous process of directing and allocating financial resources to meet strategic goals and objectives whose output is inform of budgets which help in translating the budgeted figures into forward looking target and understanding the past performance so as to align business results with the corporate strategy, (Van Dooren, W., Bouckaert, G. and Halligan, J., 2015.)

A budget is a detailed estimate (forecasted) of the future transactions which are expressed in terms of physical qualities, money or both. A budget is set in an organisation or business so as to keep management focused and surpasses it and the most widely used form of a budget is pro forma or budgeted financial statements which include sales forecasts and other estimates in support of the financial plan.

Hilton and Gordon, (2013) defines financial planning as the adaption of the broad objectives, strategies and other plans of an organisation into financial terms. Financial planning and forecasting represents a blue print of what a firm proposes to do in the future so naturally planning over such horizon tends to be fairly in aggregative terms. While there are considerable variations in the scope, degree of formality and level of sophistication in financial planning across firms, we need to focus on common elements which include Economic assumptions,

Sales forecast, Pro forma statements, Asset requirements and the mode of financing the investments

In general usage, a financial plan can be a budget, a plan for spending and saving future income. This plan allocates future income to various types of expenses, such as rent or utilities, and also reserves some income for short-term and long-term savings. A financial plan can also be an investment plan, which allocates savings to various assets or projects expected to produce future income, such as a new business or product line, shares in an existing business, or real estate (Pallant, J., 2013).

Short-term Financial Plan

This is prepared for maximum one year. This plan looks after the working capital needs of the company. Short-term financial decisions ensure the firm's liquidity and are critical to the short-term survival of the business. A company will also make decisions on short term sources of financing its activities which mainly are loans from commercial banks and direct market borrowing through commercial paper issues, (Brealey, R.A., Myers, S.C., Allen, F. and Mohanty, P., 2012)

Companies develop short-term financial plans to meet budget and investment goals within one fiscal year. These plans have a higher degree of certainty compared to long-term plans. Short-term plans often are amended as financial and investment goals change. Businesses and individuals alike use short-term plans to manage short-term cash deficits. When it becomes evident that severe cash shortages will occur, a cash-flow forecast becomes necessary. The forecast should estimate total cash collections and total cash payments during each quarter in at least three various scenarios: worst case, most likely and best case. You'll need to know the difference between the total collections and total payments to ascertain whether there is a deficit in any quarter of the year. For each cash-inflow and outflow item, you must account for all relevant increases and decreases. This includes early payment discounts from creditors, deferred expense payments and cash sales (Ward, J., 2016)

Medium-term Financial Plan

This is prepared for a period of between two to five years. This plan looks after replacement and maintenance of assets, research and development and so on. It mainly provides an intermediary between long term financial plans and the short term financial plans. The main objective is to ensure companies existing assets are bringing value for money where by the benefits of the assets exceed the costs of the same assets. It is through medium term financial planning that the firm will be able to identify assets that are no longer bringing value and make a decision to replace such assets depending on the positive cash flow position of the firm. Medium term financial planning also enables a firm to carry out research and development where it plans the costs of the research and development. Many firms do not actually carry out medium term financial planning as it's mostly categorized on long term financial planning (Brealey, R.A., Myers, S.C., Allen, F. and Mohanty, P., 2012)

Long-term Financial Plan

This is prepared for a period of more than five years. It looks after the long-term financial objectives of the company, its capital structure, expansion activities and so on. Long-term financial planning provides a strategy for the future financial growth and expansion of a company. These types of decisions have extended lead times and require a long-term view of how to implement the strategy. The strategy makes certain assumptions, based on such factors as the future economic outlook, interest and inflation rates, product sales and revenue projections, and business environment assessments based on specific regulatory and tax structures. The purpose of establishing the plan is to set financial milestones that, once achieved, result in successfully realizing long-term financial objectives. Both cash budgeting and long-term financial planning are focused on the financial health of a company. In both cases the objective is to maximize the efficient use of capital in order to create shareholder value and expand operations. Long-term plans are created for major strategic decisions made by a business such as

take over and merger activity, expansion of capacity, development of new products and overseas expansion, (Neisser, U., 2014).

Corporations use forecasting to do financial planning, which includes an assessment of their future financial needs. Forecasting is also used by outsiders to value companies and their securities. This is the aggregative perspective of the whole firm rather than looking at individual projects. Growth is a key theme behind financial forecasting, so growth should not be the underlying goal of corporation creating shareholder value is enabled through corporate growth, (Cramér, H., 2016).

2.1.1 Budgeting

Budgeting is a business concept which refers to a process of preparing a detailed statement of financial results that are expected for a given time period in the future. Cohen, L., Manion, L. and Morrison, K., (2013) describes budgeting simply as an estimation of the anticipated expenditures of an organization during a given period or for a specified purpose. Budgeting by nature is therefore time bound and is used to estimate or forecast expected expenditures. A budget is crucial because it indicates how much the business will intend to spend in the next financial period. But while this is true, budgeting can be used for much more than just estimation of expenditure. It is also used to plan for expected incomes as well. An effective budget should also show proposed methods of financing the budget objectives.

Mac Lane, S., (2013) considered budgeting as the process of converting plans into budgets. This view implies that budgeting is a process where the plans of a business are interpreted into an itemized, authorized and systematic plan of operation, expressed in monetary terms for a given period. Caldwell, J.R (2016) writes that budgeting lies at the foundation of every financial plan. Businesses often use budgets as a financial representation of their objectives and plans, and then use the budgets again to monitor and control company operations to ensure that these objectives are achieved.

Budgeting focuses on understanding how much money you have, where it goes, and then planning how to best allocate those funds. Business budgeting is very crucial for the survival of their businesses. Banham, R., (2012) indicates that using a budget allows a business to make clear objectives. However, in reality, many small business owners do not use budgets because they reason that the effort required learning how to build and use workable budgets is just too much. Berner, R.A. McGraw-Hill, 2013). The question of how budgeting relates to management still remains unanswered. The study therefore will explain how the budgeting process affects management of a business's resources.

Wright, B.E., Christensen, R.K. and Pandey, S.K., (2013) look at budgeting as the process of preparing and using budgets to achieve management objectives. This definition stretches the focus of budgeting from just budget making to the use of these budgets as a means to achieve organisational goals and objectives. It also shows the importance of budgeting as a part of the management process by which managers of small and medium enterprises can ensure that resources are obtained and used efficiently and effectively in the accomplishment of the organisational objectives.

Budgeting is a common practice done in large firms while smaller businesses use budgets in one way or the other, but in an informal manner. Blakely, E.J. and Leigh, N.G.,(2013) wrote that small enterprises may not see the need for budgetary planning process to be formal in the sense that they may regard the process as an informal process consisting of ideas loosely agreed upon between owners, managers and employees who may in fact be the same people.

Hofstede, G.H. ed., 2012 also added that many small companies operate without formal budgets, or they seldom consult the budgets they draw up. According to Hopkins, M. (2012), it is a common occurrence that small businesses, particularly businesses having 10 employees or less, tend to shy away from developing an operating budget. This leaves room for study to address the importance of budgeting in small businesses including basic principles of effective budgeting in small business.Regarding the views of the above authors, it is visible that budgeting is a strong

area of inquiry given that there are variances in the meaning, purpose and perceptions that people have towards budgeting. Therefore, it's the concern of this study to concisely address the meaning budgeting while focusing on the operations at coffee factory in Ibanda.

2.1.2 Financial Reporting

Financial planning is a very important component of corporate finance because it directly affects the liquidity, profitability and growth of a business and is important to the financial health of businesses of all sizes as the amounts invested in working capital are often high in proportion to the total assets employed, (Brigham, E.F. and Ehrhardt, M.C., 2013). This all depends on proper financial planning, receivable management and inventory management and again it involves the planning and controlling of current assets and liabilities in a manner that eliminates the risk of inability to meet short-term obligations and avoid excessive investments in these assets (Mathuva, D., 2015). This management of short-term assets is as important as the management of long-term financial assets, since it directly contributes to the maximization of a business's profitability, liquidity and total performance.

Armstrong, M. and Taylor, S. (2014), argues that every organization must establish funds management policies or guidelines to ensure that it has optimal funds balance at any time when it requires it. This can be achieved by implementing the following funds management policies. The organization must ensure that it speeds up funds inflows through efficient credit policy. For example timely preparation and delivering of customer invoices, making customers to pay their outstanding by allowing funds discounts. This will enable the firm to keep in a liquid position and carry on its operations efficiently, Stephen, B. and Shalom, P.Y, (2012).

Financial planning is important because it's difficult to predict cash flows accurately, particularly the inflow, and there is no perfect coincidence between inflow and outflows of cash. During some periods, cash outs will exceed cash inflows, because payment of taxes, dividends, or seasonal inventory build-up. At other times, cash inflow will be more than cash payments

because there may be large sales and debtors may be realized in large sums promptly Armstrong, M. and Taylor, S. (2014).

2.1.2.1 Cash planning

According to Kerzner, H., (2013), cash planning is a technique used to plan and control the use of cash or money in daily business expenditures. It involves preparation of forecasts of cash receipts and payments so as to give out an idea of the future financial requirements. Therefore the management of business enterprises has to determine the schedules of monthly disbursements and collection schedules of creditors. With efficient cash planning system, the financial needs of a business can be met with reduced possibility of the cash balances which lower profitability and cash deficits which lead to failure, Stephen, B. and Shalom, P.Y, (2012). He further notes that a cash budget is the most significant device used to plan for and control cash receipts and payments.

A cash budget is a summary statement of the firm projected time period. This information helps the financial manager to determine the future cash needs of the firm, plan for the financing of these needs and exercise control over cash and liquidity of the organization, Mathuva, D., (2015).

Although a carefully prepared funds budget is a necessary starting point for managing the firm's funds, there are other elements of a good funds management programs. The primary funds management activities are performed jointly by the firm and its main bank, but the financial manager is responsible for the effectiveness of the funds management programs, Davenport, T.H., (2013).

2.1.2.2 Investing in Profitable Business Ventures

Kerzner, H., (2013), argues that funds management is the planning, controlling and the effective utilization of funds. Money can be earned not only through manufacture and distribution but also through the management of all its assets that it employees. The best funds management policy is

through funds budgets. A company can decide on the funds that it will have available for short-term investment at a particular time depending on the nature of business and season. If a business is seasonal or trade is cyclical, fund budgets will show when the surplus funds that will be available and what length of time will elapse before they are required. Some companies will borrow money in case of deficit spending to satisfy their seasonal needs.

Financial planning is very important because cash constitutes the smallest potion of the total current assets, yet management's considerable time is devoted in managing it. In past, number of innovations has been done in financial planning techniques. An obvious aim of a firm now days is to manage its cash affairs in such a way as to cash balance at a minimum level and invest the surplus cash funds in profitable opportunities, Purce, J., (2014)

According to Abdel Megeid, N.S., (2017), the purpose of managing cash balance is to avoid having idle cash reserves or having deficits that cannot be invested preferably in short term ventures like treasury bills and other forms of commercial paper. Since investments are near cash, the liquidity of the organization is not comprised by the investment plan while profitability is also enhanced. The investment selected for this purpose according to Nyawata, O., (2013), it should meet certain criteria's.

They should be safe in that search for profitability does not increase the risks of liquidity. The instruments should have a low default risk so that interest and principle repayment will be realized, Nyawata, O., (2013). He further notes that such investments in Uganda include fixed accounts and government treasury bills. Investments can easily and quickly be converted into cash with minimum possibility of a loss.

2.1.2.3. Cash Collection (Management of Receivables).

When goods and services are sold under an agreement permitting the customer to pay for them at a later date, the amount due from the customer is recorded as accounts receivables, receivables are asset accounts representing amounts owed to the firm as a result of the credit sale of goods and services in the ordinary course of business, Weil, R.L., Schipper, K. and Francis, J., (2013).

The value of these claims is carried on to the assets side of the balance sheet under titles such as accounts receivable, trade receivables or customer receivables, Weil, R.L., Schipper, K. and Francis, J., (2013). This term can be defined as "debt owed to the firm by customers arising from sale of goods or services in ordinary course of business.

According to Needles, B.E., Powers, M. and Crosson, S.V., (2013), accounts receivables are amounts owed to the business enterprise, usually by its customers, sometimes it is broken down into trade accounts receivables; the former refers to amounts owed by customers, and the latter refers to amounts owed by employees Needles, B.E., Powers, M. and Crosson, S.V., (2013). Generally, when a concern does not receive cash payment in respect of ordinary sale of its products or services immediately in order to allow them a reasonable period of time to pay for the goods they have received. Trade credit gives rise to certain receivables or book debts expected to be collected by the firm in the near future Needles, B.E., Powers, M. and Crosson, S.V., (2013).

As observed by Enqvist, J., Graham, M. and Nikkinen, J., (2014) in his study, an increase in the level of accounts receivables in a firm increases both the net working capital and the costs of holding and managing account receivables and both lead to a decrease in the value of the firm. A study by Grant, R.M., (2016) found out that firms who pursue increase in their accounts receivables to an optimal level increase their profitability resulting from increased sales and market share. A study by Mathuva, D., (2015) emphasized that firms can create value by reducing their number of days of accounts receivable, thus confirmed the finding of Akoto, R.K., Awunyo-Vitor, D. and Angmor, P.L., (2013) who established that the length of receivables collection period has a negative effect on a firm’s performance. This study affirmed that putting in place a sound credit policy ensures proper debt collection procedures and is pivotal in improving efficiency in receivables management hence the performance of firms depends on major components of receivables so a company can conserve cash and reduce its requirements for cash balances if it can speed up its cash collections.

2.1.2.4 Collection effort

Collection effort is a procedure adopted by firms (creditor) to collect money from its debtors when such amount becomes due after the expiry of credit period, Raymond, A.E. and Adigwe, P.K., (2015). A collection policy should always emphasize promptness, regulating and systematization in collection efforts. It should have a psychological effect upon the customers, in that it will make them realize the obligation of the seller towards the obligations granted. The requirements of collection policy arises on account of the defaulters, the customers not making the payments of receivables in time as a few turnouts to be slow payers and some other non-payer, Raymond, A.E. and Adigwe, P.K., (2015).

A collection policy is formulated with a whole and sole aim of accelerating collection from bad-debt reducing losses by ensuring prompt and regular collections. Regular collection on one hand indicates collection efficiency through control of bad debts and collection costs as well as by inducing velocity to working capital turnover, Akoto, R.K., Awunyo-Vitor, D. and Angmor, P.L., (2013). On the other hand it keeps debtors alert in respect of prompt payments of their dues. A credit policy is needed to be framed in context of various considerations like short-term operations, determinations of level of authority, control procedures, Akoto, R.K., Awunyo-Vitor, D. and Angmor, P.L., (2013). Credit policy of an enterprise is reviewed and evaluated periodically and if necessary amendments made to suit the changing requirements of the business. It should be designed in such a way that it co-ordinates activities of concern departments to achieve the overall objective of the business enterprises. Poor implementation of good credit policy cannot produce optimal results

2.1.2.5 Sound Collection Policies and Procedure

Receivables management is linked with a good degree of risk as a few debtors are slow payers and some are non-payers, Gatuhu, R.N., (2013). . However efficient and effective a receivables management may be the element of risk cannot be avoided altogether but can be minimized to a great extent, it is for this reason the essence of sound collection policies and procedures arises. A

sound collection policy aims at accelerating collection form slow payer and reducing bad debts losses, Gatuhu, R.N., (2013). As a good collection polices ensures prompt and regular collection by adopting collection procedures in a clear-cut sequence, Gatuhu, R.N., (2013). .

Reducing the period it takes for payment from clients to reach the account to the company. According to Nyawata, O., (2013) (2001), a company can use a system of pre-authorized debts where an arrangement is made in advance that clients could automatically transfer funds from the client account to the company account at a specified future date. Reducing the collection float; according to Purce, J., (2014),the collection float is the total time it takes a cheque to reach the business, from the time it is put in the mail by the client to when cash is actually available for use in the company. Usually this is affected by the time the cheque spends in transit (mailing float), the time it takes the company to process the cheques internally (processing float) and the time it takes the clearing process of the banking system. This can be managed efficiently by two ways i.e. using a lock box system and billing up multiple collection centers. The main advantages of a lock box system are that the bank handles the remittance prior to deposit at a lower cost and cheques are deposited immediately upon receipt of remittances and their collection process starts soon than if the company would have processed them for internal accounting purposes prior to their deposit (Mills therefore the company will only be profitable if the benefits of its use exceed the cost of financing it.

2.1.2.6 Lock box system

Lock box banking is a service offered by organization by commercial bank that simplifies collection and processing of account receivables by having those organizations' customers' payments mailed directly to a location accessible by the bank. In general a lock box is a post office box that is accessible by the bank. A company may set up a lock box service with the bank for receiving customers' payments to P.O BOX. Then the bank collects and processes these payments directly and deposits them to the company's account, Hofstede, G.H. ed., (2012)

2.1.2.7 Factoring receivables

It's a financial as well as a management support to a client. It's a method of converting a non-productive, inactive asset (book debts) into productive assets by selling receivables to a company that specializes in their collection and administration. For a number of companies, cash a scarce resource if it takes long time to receive payments for goods and services supplied by them. Such a current asset in the business is, in fact illiquid and serves no business purpose. It's much better to sell that asset for cash which can be immediately employed in the business. A "factor" makes the conversion of receivables into cash possible, Purce, J., (2014)

2.1.2.8 Trade Credit

The efficiency of credit management is the formulation and exestuation of credit and collection policies largely depends upon the location of credit department in the organizational structure for the concern. The aspect of authority allocation can be viewed under two concepts. Sanford,(2001). Further, credit and collection policies lay direct influence on the solvency of the firm. For these reasons the credit and collection function should be placed under the direct supervision of the individuals who are responsible for the firm's financial position. To conclude "the reasonability to administer credit and collections policies may be assigned either to a financial executive or to a marketing executive or to both of them jointly depending upon the organizational structure and the objectives of the firm, Gatuhu, R.N., (2013).

According to Brigham, E.F. and Ehrhardt, M.C., (2013), Credit refers to the stipulations recognized by the firms for making money, by borrowing from banks or being supplied on credit like raw materials. In other words, credit terms literally mean the terms of payments of the receivables, Gatuhu, R.N., (2013). . A firm is required to consider various aspects of credit customers, approval of credit period, acceptance of sales discounts, provisions regarding the instruments of security for credit to be accepted are a few considerations which need due care and attention like the selection of credit customers can be made on the basis of firms, capacity to absorb the bad debt losses during a given period of time, Gatuhu, R.N., (2013) . However, a firm may opt for determining the credit terms in accordance with the established practices in the light

of its needs. The amount of funds tied up in the receivables is directly related to the limits of credit granted to customers, Gatuhu, R.N., (2013) . These limits should never be ascertained on the basis of the subjects own requirements, they should be based upon the debt paying power of customers and his ledger record of the orders and payments, Gatuhu, R.N., (2013). .

2.1.2.9 Selection of Proper Credit Terms.

The receivables management of an enterprise is required to determine the terms and conditions on the basis of which trade credit can be sanctioned to the customers are of vital importance for an enterprise, Shaw, (2012). As the nature of the credit policy of an enterprise is decided on the basis of components of credit policy, these components are credit period, cash discount and cash discount period, Gatuhu, R.N., (2013). . In practice, the credit policy of firms, vary within the range of lenient and stringent. A firm that tends to grant long period credits and its debtors include even those customers, whose financial position is doubtful, Gatuhu, R.N., (2013). A firm providing credit sales for a relatively short period of time that too on highly selective basis only to those customers who are financially strong and have proven their credit worthiness.

2.1.2.10. Credit Investigation.

A firm to maintain an effective and efficient receivables management of receivables must undertake a thorough investigation before deciding to grant credit to a customer. The investigation is required to be carried on with respect to the credit worthiness and financial soundness of the debtors, so as to prevent the receivables for falling into the category of bad debts later on at the time of collection, Stanly, (2010). Credit investigation is not only carried on beforehand, but in the case of firms practicing liberal credit policy such investigation may be required to be conducted when a debtors fails to make payments of receivables due on him even after the expiry of credit sale so as to save doubtful debts from becoming bad debts, Stanly, (2010).

2.1.2.11. Monitoring the receivables turnover

It is necessary to have effective control over receivables, prompt collection of receivables and good facilities for setting payables result into low working capital requirements. Its the rate at which business debtors pay back their debts, Mishra, (2010).

2.1.2.12. Delayed payments

According to Purce, J., (2014), cash disbursement is cash out flow or payment of money to settle obligations such as operating outflows, cash purchases, payments of payables, advance to suppliers, wages and salaries and other operating expenses, capital expenditures, contractual payments, repayment of loan and interest and tax payments and discretionary payments . In case of credit purchases, a time lag will exist for cash payment. This will depend on the credit terms offered by the suppliers.

Generally different scholars argue that cash disbursements should be delayed as much as possible without hurting corporate image of the organization or defaulting on the obligations of the organization. The principle is that cash should be paid only at moment when delay is no longer necessary and possible and non-beneficial, (Purce, J., 2014).

The way of delaying disbursements that were generally agreed upon by above scholars include, Predicting banking habits of the work force and paying out the wage bill accordingly. Wages should not be paid in advance when workers are willing to accept delayed payments, (Pringle, P. and Starr, M.F., 2013). During this period the company will be able to make profits out of that money. In the same way, payments should be checked as the bank clearance will always delay for some days. Maximizing the disbursement float through selecting geographical optimal disbursement banks which these banks should make sure that cheques drawn on them will maximize the days the cheques remain uncollected, (Xavier, N.F., 2013).

One way, in which a firm can keep its funds on hand longer, would simply be by delay payments, but this would lead to such obvious difficulties as being labeled “a dead beat”. Firms

have always lengthened the collection period for their cheques so as to delay funds out flows. Payables Centralization permits the financial manager to evaluate the payment coming, one for the entire firm and to schedule funds transfers to meet the needs of the company wide basis. Centralizing disbursements also permits more efficient monitoring of payables and float balances, (Van Den N, J. and Lee, S., Hewlett-Packard Development Company, LP, 2012).

When a firm is actively trying to use floats, it will often arrange with its bank to have the use of an overdraft system. In such a system, the firm writes cheques in excess of its actual balance and its bank automatically extends loans to cover funds shortage. The overdraft is sometime interest free so the firm can use it to carry out its operations, which can yield a return in the long run, Goldberg, S., (2013)

2.1.2.13. Inventory Management

According to Lave, J., (2012), the inventory of a firm is divided into three groups: raw materials, work in process and finished goods. To him inventory of work in process can only be reduced to a certain level by speeding up the manufacturing process but it cannot be completely avoided. The other two types of inventory however, are not unavoidable and therefore they are subject to the company's decision. It should be noted that inventory size is obviously not completely in the firm's sphere of influence but rather considerably determined by its output and by the product's manufacturing process and attributes. Thus, the average level of inventory can vary significantly between different industry sectors.

However, the conveniences and disadvantages of relatively large inventories are always similar: Large inventories allow the company to produce and purchase economically by avoiding production stoppages and taking advantage of decreased ordering costs, Rider, A.E., Templet, D.J., Daley, M.J., Shuman, C. and Smith, L.V., (2013). Furthermore, the firm can easily adapt to customers' demands and satisfy these, enhanced flexibility is the main advantage of large inventory, Rider, A.E., Templet, D.J., Daley, M.J., Shuman, C. and Smith, L.V., (2013).

The downside of large inventory is cost of handling and storage. There is also the relative cost of capital tie-up and the threat of obsolescence, Winston, W.L. and Albright, S.C., (2015). In this

regard, the decision maker’s task is to strike a balance between benefits and costs of inventory in order to find the optimal inventory size, Winston, W.L. and Albright, S.C., (2015). Although inventory management is not within the typical field of responsibility of a financial manager, the ‚economic order quantity’ (EOQ) model which is a simple concept for determining a company’s optimal inventory level and order size will be introduced, Press, (2011). An understanding of the EOQ model facilitates the comprehension of the financial planning model as well as the basic issue of Financial planning, Winston, W.L. and Albright, S.C., (2015).

2.1.3 Risk Assessment and Management

Risk assessment and risk management is a major concern for all companies, especially small and medium sized enterprises which are particularly sensitive to business risk and competition, (Smit, Y. and Watkins, J.A., 2012). In SMEs, the risk management function usually resides with the owner’s assessment of threats and opportunities pertaining to the enterprise. Although risk management principles are common to all types of enterprises, the owners manage risk perception and the attitude towards risk management influences the adequacy of the enterprise’s risk management actions deployed, (Wang, Q., (2012).

Implied in SME, risk management is the core principle that entrepreneurial or management focus should be focused at recognizing future uncertainty, deliberating risks, possible manifestations and effects, and formulating plans to address these risks and reduce or eliminate its impact on the enterprise, (Wang, Q., 2012). One of the skills required of entrepreneurs is the ability to identify and analyse risks to ensure that advantage is taken of calculated risks.

According to Trim, P.R. and Youm, H.Y., (2015), SME owner-managers should take regard of the following steps in their risk management process:

i. Establishing the SMEs risk strategy

ii. Determining the SMEs risk appetite

iii. Identification and assessment of risk

iv. Prioritizing and managing risks

The fact that a risk is beyond the control of the owner-manager does not absolve the owners or managers from the need to anticipate the risk, and reducing the impact of the risk occurrence to achieve organizational goals. Owners or managers should furthermore take cognizance of managerial risks that arise as a result of the owner-managers own actions when planning and executing business strategies, (Yeboah, A.D., 2016). Uganda's SMEs owners or managers should be educated in risk management principles, risk handling techniques available and risk control programmes that can be used but care should be taken in the application of risk management principles, as although risk principles are common to all types of enterprises, the application thereof differs substantially between small and large enterprises. However, many SMEs practice intuitive risk management when they assess the risk involved in decisions, (Yeboah, A.D., 2016).

2.2 Overview on performance of small scale Business

Performance refers to the act of performing; execution, accomplishment, fulfillment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Simons, R, (2013), the performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation but the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance.

The recommended measures for financial analysis that determine a firm's financial performance are grouped into five broad categories: liquidity, solvency, profitability, repayment capacity and financial efficiency. It is important to remember that past and present financial information are not the only factors affecting a firm's financial performance keeping in mind the fact that monitoring the "sweet 16" measures as a group is more important than focusing on only one or two measures at the exclusion of others, (Crane, 2010).

Performance measures are intended to help businesses analyses their activities from a financial standpoint and provide useful information needed to make good management decisions. The financial measures discussed don't provide answers; they need to be reviewed in relation to each activities.

It is not possible to control or predict all of the factors that influence the final outcome of any firm's decision, nor is it possible to have available all of the information that would be ideal but decision making can be improved through using available information and through effective financial planning and analysis. Crane, (2014) claims that the recommended measures for financial analysis are grouped into five broad categories: liquidity, solvency, profitability, repayment capacity and financial efficiency. These are discussed below as. He goes further to discuss them as below.

2.2.1 Profitability as a measure of performance of small scale Business

Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital (Healy, P.M. and Palepu, K.G., 2012). Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business. Four useful measures of business profitability are the rate of return on assets (ROA), the rate of return on equity (ROE), operating profit margin and net income. The ROA measures the return to all assets and is often used as an overall index of profitability, and the higher the value, the more profitable the business. The ROE measures the rate of return on the owner's equity employed in the business (Grant, R.M., 2016).

Profitability is the main factor which needs to be measured. The objective of every business is to increase the wealth of its owners. Usually, the performance of a business is measured by evaluating the Economy, Efficiency and Effectiveness of a business. A lot of information can be obtained from the management accounts to evaluate performance of a company, however limited information is available in the financial statements of a business. From the information provided in financial statements, one can evaluate liquidity, profitability and the capital structure of a company. Return on Capital Employed (ROCE) shows the efficiency of a business. A high

ROCE shows that resources of a business are used efficiently. Investors can evaluate performance of a business by the use of Earning per Share (EPS) and Price Earning Ratio (P/E Ratio). EPS shows how much profits are earned by the equity holders. P/E ratio is also known as the stock market ratio. A higher P/E ratio indicates that high growth is expected in company's market value (Brealey, et al, 2012).

According to Branch and Baker (1998) profitability is not the primary concern for credit unions. However, the WOCCU report (2010) looked at profitability of credit unions from a different perspective. It stated that credit unions sought to generate profits in order to directly benefit the owners as they (members) serve as both the owners of the credit union and the recipients of the credit union services. Kyazze (2010) pointed out that low profitability in companies was not due to governance issues but due to poor costing in order to make the loans attractive to the members, partly due to lack of know-how or relatively high operating costs.

Profitability was defined by Mugerwa, (2007), as an income earned in the excess of the input cost after a sale of service or product. Balunywa, (2010), observed that present traditional economists take profit maximization as the objective of a firm. He further said that some scholars have a different view as they think profit making as not as inclusive as that of maximizing share holders wealth. However Balunywa, (2010), in his view noted that any good performed organization should be able to realize profits.

Griffith, (2011) in agreement with Baluywa, (2005) noted that business profitability is the justification of its good performance. In deed profits of a business are the end result of operation and indication of its good performance. Kimbowa (2012) noted that organizational profitability is affected by factors such as cost of input, management of cash flows, government policy and borrowing culture. If the company relies more on loans, costs such as interest rates will not be avoided and this has a negative impact on profitability.

Nyawata, O., (2013) , (2003) provided that organizational profitability is affected by the cost of capital. In this case the cost of capital is usually increased by related dividends and interest rates from providers. Eugen,(2005) noted that default risk is one of such factors that threaten

organizational profitability. The greater the default risks the higher the interest rates lenders charge on loans and the lesser the profitability. Contrary the chances of default, the lesser the interest rate charged, the cheaper the cost of capital, the higher the profitability that will be earned on capital.

According to Limpsey (2003) organization profitability is affected by many factors and this include change in demand, change in prices of both inputs and output such as capital and labor then level of staff productivity. According to Pearce and Robinson (2002) profitability is the main goal of a business organization. No matter how it is measured or defined, profit of a long period of time is the clearest indication of firms' ability to satisfy the principle claims and desires of employees and stake holders.

2.2.2 Liquidity as a measure of performance of small scale Business

Liquidity measures the ability of the firm/business to meet financial obligations as they come due, without disrupting the owner equity, using the market value of assets and including deferred taxes in the liabilities. Three widely used financial ratios to measure solvency are the debt-to-asset ratio, the equity-to-asset ratio (sometimes referred to as percent ownership) and the debt-to-equity ratio (sometimes referred to as the leverage ratio). These three solvency ratios provide equivalent information, so the best choice is strictly a matter of personal preference, (Crane, 2010). The debt-to-asset ratio expresses total farm liabilities as a proportion of total farm assets. The higher the ratio, the lower the performance of the firm and the greater the risk involved. Four useful measures of farm profitability are the rate of return on firm assets (ROA), the rate of return on firm equity (ROE), operating profit margin and net firm income.

Liquidity is crucial for financial institutions because they are particularly vulnerable to unexpected and immediate payment demands. To stay in business, enterprises must be able to pay out legitimate withdrawals and credit requests instantly (Bald, 2007). The AMT report (2008) stated that most companies with high volatile liquidity levels not have adequate ways of managing liquidity. Deshpande (2006) observed that excess liquidity in financial institutions limits incentives to mobilize additional deposits especially poor people's deposits, which tended

to be perceived a priori as short term, unstable, and costly. At the institutional level, excess liquidity is caused by lack of suitable lending opportunities, Hull, (2009).

Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, on-going operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures. A frequent cause of liquidity problem s occurs when debt maturities are not matched with the rate at which the business' assets are converted to cash. Two recommended measures of liquidity are the current ratio and working capital. The current ratio measures the relationship between total current assets and total current liabilities and is a relative measure rather than an absolute monetary measure. The higher the ratio, the more liquid the business is considered to be. Working capital is a measure of the amount of funds available to purchase inputs and inventory items after the sale of current assets and payment of all current liabilities. Working capital is expressed in absolute monetary units; therefore, determining adequate working capital is related to the size of the business operation.

In short term liquidity is more important than profitability for a business. One of the primary measures used to find liquidity of a business is the Current Ratio. Current ratio depends on the nature of business; therefore current ratio must be compared with the industry average. Another measure of liquidity is Quick Current Ratio or Acid Test Ratio. It also measures the Liquidity but excludes inventory from the current assets. It gives a more reliable figure of liquidity as compared to current ratio. Inventory Turnover, Receivables Collection Period and Payables Payment Period are also used to measure liquidity of a business. Increase in inventory turnover is not a good sign. Similarly, an increase in Receivable Collection is a bad signal to stakeholders. Payables payment period indicates how long a company is taking to pay its debts. A longer payable period indicates that a company is facing cash shortage problems. Longer payable periods also affect the credit rating of a company negatively (Ansar, 2009).

The percent of sales method is a fairly simple method used to analyze financial performance. Basically this method assumes that the future relationship between various elements of costs to sales will be similar to their historical relationship. When using this method, a decision has to be taken about which historical cost ratios to be used. The percent of sales method, though simple, is too rigid and mechanistic as it assumes that all elements of costs and expenses bore a strictly proportional relationship to sales. The budgeted expense method, on the other hand calls for estimating the value of each item on the basis of expected developments in the future period for which the financial performance reports are prepared. This method requires greater effort on the part of management because it calls for defining likely developments (Pallant, J., 2013).

Variation method on the other hand, calls for estimating the items on the basis of percentage increase or decrease of comparing with the same item of base year. It is quite flexible throughout the future period. This method is not like budgeted method, the value estimating for an item under this method is entirely dependent on the historical data. It appears that a combination of above explained three methods works best. For certain items, which have a fairly stable relationship with sales, the percent of sales method is quite adequate. For other items, where future is likely to be very different from the past, the budgeted expense method or variation method is eminently suitable. A combination method of this kind is neither overly simplistic as the percent of sales method nor unduly onerous as the budgeted expense method or variation method (Pallant, J., 2013).

2.2.3 Cost efficiency as a measure of performance of small scale Business

According to IMF, (2012), the level of working capital is decided by management in accordance with its policy of profit planning and control. Adequate profit assists in the generation of cash. It makes it possible for management to plough back a part of earnings into the business and substantially build up internal financial resources, IMF, (2012).

Funds of creditors and owners are invested in various assets to generate sales and profit so the better management of assets, the larger amount of sales. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes the assets. A proper balance between

sales and assets generally reflects that assets are managed well; several activity ratios can be calculated to judge the collectiveness of assets utilization, (Purce, J., 2014).

2.2.4. Solvency

Solvency measures the amount of borrowed capital used by the business relative to the amount of owner's equity capital invested in the business. In other words, solvency measures provide an indication of the business' ability to repay all indebtedness if all of the assets were sold. Solvency measures also provide an indication of the business' ability to withstand risks by providing information about the business's ability to continue operating after a major financial adversity. Unlike liquidity, solvency is concerned with long-term as well as short-term assets and liabilities. Solvency measures evaluate what would happen if all assets were sold and converted into cash and all liabilities were paid. The most straightforward measure of solvency is owner equity, using the market value of assets and including deferred taxes in the liabilities. As with working capital, adequacy of equity depends on business size, making comparisons difficult without using ratios for SMEs, (Pallant, J., 2013).

Three widely used financial ratios to measure solvency are the debt-to-asset ratio, the equity-to-asset ratio (sometimes referred to as percent ownership) and the debt-to-equity ratio (sometimes referred to as the leverage ratio). These three solvency ratios provide equivalent information, so the best choice is strictly a matter of personal preference. The debt-to-asset ratio expresses total business liabilities as a proportion of total business assets. The equity-to-asset ratio expresses the proportion of total assets financed by the owner's equity. The debt-to- equity ratio reflects the capital structure of the business and the extent to which a firm's debt capital is being combined with business equity capital, (Purce 2014).

2.2.5 Repayment Capacity

According to Chang and Yeh (2012), repayment capacity measures the ability to repay debt from both business and non-business income. The only way for an unprofitable business to survive long-term is for income infusions from non-business sources to offset business losses. Two measures of repayment capacity are the term debt and capital lease coverage ratio and the capital

replacement and term debt repayment margin. The term debt and capital lease coverage ratio provides a measure of the ability of a borrower to cover all required term debt and capital lease payments. The higher the ratio is over 1:1, the greater the margin to cover the payments.

2.2.6 Financial Efficiency.

According to Paradi and Zhu (2013), financial efficiency measures the degree of efficiency in using labor, management and capital. Efficiency analysis deals with the relationships between inputs and outputs. Because inputs can be measured in both physical and financial terms, a large number of efficiency measures in addition to financial measures are usually possible. Five measures of financial efficiency are the asset turnover ratio, operating expense ratio, depreciation expense ratio, interest expense ratio and net income from operations ratio (Kakuru, 2010).

2.2.6 Available Capital and Capacity to Attract Capital

Firms need available capital and capacity to attract capital in order to operate, to enter into new ventures or to expand the firm. A properly prepared balance sheet reports the amount of cash and other liquid assets available to meet cash needs. However, most 21 firms have access to more cash than what they currently possess or realize. Nearly all firm businesses can borrow additional cash and the capacity to borrow (often called a credit reserve) is an asset. Similarly, the ability to attract investors is an asset that deserves to be recognized. The capacity to acquire additional cash allows a firm business to undertake new or expanded activities. The financial ratios, and how they compare to similar firms, provide some indication of the business' credit reserve the cost of capital, that is, the rate of interest the business must pay a lender or the return that must be paid to an investor. The higher the interest or dividend rate, the less capacity the firm has to acquire additional capital; thus, the market interest rate directly influences a business credit reserve.

2.2.7 Capacity to Assume Risk

According to Lavastre et al., (2012), the opportunity for any business to earn a profit requires assuming some risk. Although not described as a business asset, the ability and willingness to

assume risk is critical. Types of risk businesses encounter include production, marketing, financial, legal and human resource. A firm will likely differ in its capacity to assume each type of risk exposure. One way to consider a firm's capacity to assume risk is to describe it as a chain with five links. The first link is net earnings as a percent of the value of the firm production, which shows the firm's capacity to absorb losses resulting from reduction in yields or price. The second link is the working capital of the firm business. This indicates if the business has sufficient cash flow (and current assets) to cover operating losses that occur in the first link. The third link is current debt repayment capacity, which shows the firm's ability to rely on a carryover operating loan to finance operating losses. The fourth link is owner's equity, which is the business' ability to sell assets to restructure its finances. The last link is collateral, which is the legal right to the owner's equity, (Crane, 2010).

2.3 Actual Review

2.3.1 The Relationship between Budgeting and Performance of Small Scale Business

According to Privacy policy 2013, budgeting helps SMES to control their money. A budget is a way of being intentional about the way to spend and save money. This is because budgeting saves SMES the stress of suddenly having to adjust to lack of funds because they did not initially plan how to spend. It also helps SMES to decide whether they are to sacrifice short term spending like buying coffee everyday in exchange for a long term benefit like expansion of the business.

Again according to Privacy policy 2013, budgeting keeps SMES focused on their money goals. SMES like coffee factories avoid spending unnecessarily on items and services that do not contribute to attaining their financial goals like achieving or realizing profits so as to expand in the next year especially when they are working with limited resources, budgeting makes it easier to make ends meet.

Budgeting makes SMES aware of what is going on with their funds .With budgeting, SMES get clear sources and know the sources of funds, for what money is coming in, how fast it goes out, and where it is going or how to spend it so budgeting saves managers of small scale businesses

especially managers of coffee factories from wondering at the end of the month where the money went, (Riley 2012). A budget enables SMES to know what they can afford, take advantage of buying and investing opportunities, and plan how to lower their debts. It also tells managers what is important to their small scale businesses based on how they allocate their funds, how their money is working for them, and how far they are towards reaching their financial goals, (Achim,2009)

Budgeting also according to Micheal Quinn (2013) helps SMES to organize their spending or expenditure and savings hence affecting the performance of SMES. This is done by dividing their money into categories of expenditures and savings. Budgeting makes managers aware of which category of expenditure takes which portion of their money. In that way, it is easy for managers to make adjustments. Budget also serves as a reference for organizing bills, receipts, and financial statements. When all of the financial transactions are organized for tax time or creditor questions, managers save time and effort.

According to Porte Brown (2012), it formalizes the coordination of activities between departments while aligning these activities to the big picture. A budget acts as a company's strategic plan in that it provides the assignment of decision making responsibilities and enhances management's responsibility. With a solid plan in place, all decision makers work towards the same goal. In addition, budgeting improves performance evaluations by providing a common base for discussion on how well the managers met their goals and providing a talking point concerning why actual results veered from the original budget. It encourages all areas within the business to become more efficient, which rolls up to a greater efficiency company-wide. Creating an effective budget or budgeting can be a daunting task. It is more than crunching a bunch of numbers and throwing it out to the team. Participation in the budgeting process is an important part of the employee-management communication process. It leads to group acceptance of the budgeted goals. Budgets must be perceived to be fair and reasonable by employees whose performance will be compared to these goals. The process of creating the budget with the team is an opportunity to hear the team's opinions and ideas and to share the

organization's vision with them so they should be involved and it will lead to greater success in SMES' performance, (Louis Stratton, 2015).

Budgets are typically created using spreadsheet and it provides a concrete, organized, and easily understood breakdown of how much money of SMES is coming in and how much they are letting go. It's an invaluable tool to help SMES prioritize their spending and manage their money no matter how much or how little they have, (Shaw 2011).

Budgeting helps SMES in planning and monitoring their budgets which helps them to identify wasteful expenditures, adapt quickly as their financial situation changes, and achieve their financial goals. When they actually see the breakdown of their expenses, they may be surprised by what the find. This process is essential because it helps SMES to fully grasp how things can add up so creating a budget decreases their stress levels because with a budget there are no surprises because you know so no panic or wonder if they have the money, (Duke University 2012). A budget is not static, it changes as the life or operations of SMES change. This helps SMES in a way that in case they did not plan for something important at first and it is necessary for their success or SMES' success, they can still include it in the budget and look forward to achieving it successfully.

According to Greg Blue and co. (2014), budgeting ensures that the organization has appropriate staffing. This is because the budget shows clearly the employees of SMES and how much the enterprises spend on them. Having appropriate staff improves on the quality of the products produced by SMES in the area hence attracting more customers. This in the end process increases the profits of SMES.

More so budgeting according to Greg Blue and co. (2014) provides a framework for decision making. An effective budget assists managers in choosing between multiple projects. Decision that benefit SMES are made or drawn after the guide of the budget so that SMES can achieve their set goals and objectives because budgets inform the staff and the board what the financial goals are for the year ahead hence acting as excellent communication tools.

Budgets act as monitoring tools. Budgeting monitors the financial activity of SMES on a monthly or quarterly basis. Management compares actual income and expenses to their budgets to ensure that spending is in line with revenues. If expenses exceed revenues then steps can be taken to prevent financial losses including reduced spending. If income exceeds expenses then management can determine an appropriate use for the excess funds such as investing the funds or making additional capital expenditures, (Greg Heitkamp, CPA Blue & Co 2014).

Budgeting leads to identification of fraud by determining unusual gaps between planned spending and actual expenses. This helps SMES to easily identify the enterprises' draw backs so as to run as planned and in case of any fraud, measure are taken as soon as possible so that the businesses do not collapse or get into losses.

Budgets usually represent a detailed analysis of how a company expects to spend money in future time periods. Many companies create budgets on an annual basis so they can carefully outline the expected needs of each department in the business. Using an annual budget process which limits the amount of time SMES spend creating and managing capital resources. Although larger companies may have employed accountants or other professionals to create the business budget, small business owners are usually responsible to complete this function themselves.

According to Osmond Vitez (2017), Budgeting creates financial Roadmap. Budgets often allow companies to have a financial roadmap for business operations. Many SMES review previous year's budgets to determine how well they followed the guidelines and why budget variances occurred. Not all budget variances may indicate a negative business situation. If budget variances occurred due to unexpected growth in sales revenue, SMES may need to increase the budget amounts for future sales increases.

Budgeting plans for future growth. SMES often use budgets to plan for future business growth and expansion. Capital saved on regular business expenditures may be placed into a special reserve account designated for selecting new business opportunities. Budgeting for future growth opportunities ensures that SMES have capital on hand when needing to make a quick decisions

for expanding business operations. This capital may also be used during slow economic times as a safety net for paying regular business expenses, (Osmond Vitez 2017).

Budgeting expenses is extremely vital for a business. Usually, budgets are generally overestimated. This means more than what is necessary is entered into the budget. This is a good thing as the business will always have something to fall back on if something goes wrong in terms of income so as to run its operations without limits and also it enables the business to function as they have sufficient resources and assets budgeted just for this purpose. Bottom line, budgeting expenses and overestimating expenses provide the business a nest egg to fall back on, (Management 2014).

Budgeting the income is also important to small scale businesses because it increases investor confidence. Investors need to oversee a balance sheet as they require information on the predicted performance of the business for the future. Balance sheets prepared due to the budgeting process are therefore necessary as without it investors may not be willing to invest money in the small scale businesses. And a business may need financial support from outside sources at some time in the future. Therefore, budgeting is essential irrespective of the sector of business because it helps SMES to get enough money to increase their performance, (Management 2014).

The priorities of a business are also communicated through budgeting to everyone working in the company. Budgeting enables business owners to communicate and make employees understand strategy and how a budget supports these strategies. For example if the strategy of the coffee factories is to develop and launch a new product line, the owner may explain to the employees how the budget supports these strategies and the overall outcome of the product launch. This also means that the foundation for all business success is budgeting because it helps manager to plan and control finances determining business priorities and the implementation and achievement of objectives. If there are no control on the expenses and spending in SMES, there will be no purpose in planning. Without planning the small scale businesses will be aimless and they will have no objectives, (management 2014).

One of the greatest positive impacts of a sound budgeting system on an organization and its employees is that it establishes a great motivation among them by allowing them to participate in setting budgets at all levels of management. In this way, using the budget successfully not only enables the employees to pay greater attention to details but also to think before they act. It is thus a great way to determine how a firm functions and earns and also to motivate employees by periodically comparing their performance, (K. A. Fareed 2015).

Effective budgeting systems can help managers perform their major management functions effectively and efficiently. A sound budgeting system provides more accurate assessment in terms of both managerial and organizational performance. Participating in budgeting process motivates the key individuals to achieve budget level of efficiency. Thus, budgets are an integral part of running any business in a successful manner, (K. A. Fareed 2015).

A budget is an economic tool for facilitating and realizing the vision of an organization in a given fiscal year, and if a budget is to serves as an effective tool, proper linkages and management of all the stages of budgeting is necessary. Apparently public-sector' budgets have same characteristics as private-sector budgets. Olomola (2009) as cited in Patrick (2013). As Jablonsky (2015) and Yang (2010) et al as cited in Charles (2014), have argued if administered wisely budgeting drives management planning, provides best framework for judging financial performance.

Yang (2010) as cited in Patrick (2013) studied accounting systems among businesses in the developing countries, focusing on Africa deduced that budget execution and accounting processes were either manual or supported by very old and inadequately maintained software applications and hardware. He found that this had damaging effects on their functioning due to the consequent lack of reliable and timely revenue and expenditure data for budget planning, monitoring, expenditure control, and reporting negatively impacting budget management.

Budgeting has always played a key role in managing SMES both private and public, being an important control system in many companies and businesses (Watts and McNair 2012). Therefore taking the time to create a business budget may offer many potential benefits to your

company, (Arthur F. Rothberg). Different authors give evidence of the fact that budgets are the most used tool for planning and controlling within small businesses (Watts and McNair 2012). Otley sees the budget as the central stage of most organizations' systems of management control (Weil, Schipper and Francis, 2013).

Budgeting is used by businesses for different uses (Riley, 2012) as cited in Patrick (2013) for example it's used for controlling income and expenditure. It is used to establish priorities and set targets in numerical terms. Budgeting is also used to provide direction and co-ordination so that business objectives can be turned into practical reality. The overall objective of the budget is to keep control of the activity done in the company by providing a roadmap for future activities and to set a series of goals to be achieved and the means by which to achieve those goals (Achim, 2009). It is used to assign responsibilities to budget holders (managers) and allocate resources. Budgets are used to communicate targets from management to employees, and are also important motivational tools.

According to M Karue (2013) cited in Charles (2014), budgeting compels management to think about the future, which is probably the most important feature of a budgetary planning and control system. Therefore, one can say that it forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and each manager, to anticipate and give the organization purpose and direction. Weil, Schipper and Francis (2013) also adds that budgeting enables managers to create a link between the past present and future and quantify their objectives and targets.

Budgeting as cited in Charles (2014), it also enables management to plan in advance whether the business will need to secure financing, tap into a line of credit or make adjustments to the payables schedule. Budgeting allows management to plan for large expenditures more strategically, rather than being caught unprepared when these needs arise.

Achim, (2009, p.33) cited in Patrick (2013) notes that planning of any economic activity is an essential element for the success of those activities. Without planning the activity of any economic entity would detach from surrounding reality. The capacity for provision and

planning of any activities in a market economy conditions assures the survival and development of these activities. Business owners can reduce interest expense by planning financing needs well in advance. Budgeting enables better handling of your cash flow which will increase or help SMES overall financial control.

According to Patricia Lotich (2014) cited in Patrick (2013) wrote that having a formal and structured budgeting process is the foundation for good business management. There is need for small businesses to improve on their budgeting methods in order to ensure their survival, and to improve cash flow management. Similar to personal finances, discipline and planning should be the cornerstone of the business budgeting process in small business.

Warren Rutherford (2012) suggests that the importance of budgeting to small businesses especially start up business, it enables them to track progress and development of the business.Michael Quinn, (2013) writes that a budget is the most important tool a business can have because it helps a business to meet its goals, become more profitable, and assist it through tough financial times. However, many small businesses do not enjoy the benefits of budgeting. Existing literature suggests that small business owners prefer the use of experience as compared to budgeting while some do not fully consult or are unaware of how the budget functions, (Jalote, 2012).

2.3.2 The Relationship Between financial Reporting and Performance of Small Scale Business.

The objectives of financial reporting are numerous. Generally financial reporting aims to furnish information useful in making investment and credit decisions, provide information useful in assessing cash flow prospects, provide information about business resources, claims to those resources, and changes in them and provide information about management discharge of responsibility.

Financial reporting can be seen as a summary of the performance or capacity of a business in raising, handling and using money (Jalote, 2012). Financial reports (or financial statements) are formal records of a business' financial activities. They provide an overview of a business'

financial condition in both short and long term so they should be prepared often by SMES so as to run successfully, (Wikipedia, 2008). Financial reporting however goes beyond financial statements. It involves providing to users, all information; quantitative or qualitative on the enterprise to allow those users make economic decisions.

Shaw (2011) explains that if an organization properly manages its capital through making reports about their statements, they may aim at maintaining a positive balance especially on bank accounts in form of funds deposits and this may increase on the profitability position through the interest earned. Having positive funds balance enables a firm to take advantage of funds discounts from suppliers, purchases input and enables the company to carry on further investment in profitable ventures. He adds that interest rates, profit margin, advance payment by customers, credit from suppliers and prompt payment by customers determine the relationship of working capital and financial performance.

Financial reporting includes the external financial statements (balance sheet, income statement, statement of cash flows, and statement of stockholders' equity. The notes to the financial statements for SMES' earnings regarding quarterly earnings and related information, quarterly and annual reports to stockholders, financial information posted on a corporation's website can be of use to the governmental agencies, Securities and Exchange Commission (SEC) and prospectuses pertaining to the issuance of common stock and other securities (Thomas, at al 2013). This helps SMES to defend their earnings to the authorities referring to the statements they were given by SMES.

Campsey (2010) explains that while there are good reasons for holding adequate funds balances, there is an important reason for not holding excess funds balance. Since fund is a non-earning asset, excessive funds balances simply lower the total asset turnover there by reducing both the firms' rate of return on equity and value of its stock. Therefore firms are interested in financial reporting so as to establish procedures for increasing the efficiency of their funds management and the higher the level of short-term interest, the greater the opportunity cost associated with

holding excess funds. This implies those holding excess funds mean that returns are foregone hence adversely impacting on the profitability position of the firm.

Management of small scale and medium businesses should establish and strengthen the internal controls over funds and other financial resources (financial statements) to reduce on mismanagement and misappropriations. The internal controls that can be established after the help of financial reports may include among others segregation of duties, approval and authorization, physical controls, accuracy and arithmetic, supervision of lower employees, and daily banking of funds received to reduce on theft and mismanagement of funds resources (Osei, 2013). This helps SMES to realize profits and also mange its funds effectively to avoid collapse like Ankole coffee factory

Financial reporting identifies whether the SMES' profit margin is high or low. Profit margin is an accounting measure designed to gauge the financial status of the business or industry. It is the ratio of profit earned to the sales receipts or costs. Profit margin provides an indication of efficiency in that it captures the amount of surplus generated per unit of the products or service sold. In order to generate a sizeable profit margin, SMES must operate efficiently enough to recover not only the cost of the product sold, operating expenses, and costs of debt but also provide compensation for the owners in exchange for their acceptance of risk, (Frank wood, 2011)

Financial reporting helps SMES to identify trade credits to be used in their operations. A trade credit is another significant investment in working capital which can potentially be converted in positive cash flow and re-directed into value creating activities. For many small scale businesses, trade credit is an essential tool for financing growth. At any time, they can take delivery of materials, equipments and other valuables without paying cash on spot using trade credit from suppliers thus increasing on the working capital and improving on financial performance. The duration of pay period and the amounts in relation to incoming cash sources, they are the most important, (Neil kokemuller, 2007).

Financial reports identify debtors of SMES and prompt payments. A healthy business will always have a timely turnaround of accounts and steady cash flow. The accounts receivables area of any company is arguably the hub of the ongoing operation. Getting customers pay on time may not always go smoothly as they would expect. There are various techniques available to ensure prompt payment from customers. This increases cash inflow and improves on financial performance, (Purce, J., 2014)

Business can increase the cash flow for investing activities is management of prepayments and deposits by the help of financial reports. Business must bear in mind that prepayments are mitigation strategy against counter partly defaults risks. Prepayments are payments which have been made already but benefits of which are not yet taken by the customers. It can also be a form of satisfaction of a debt or installment payment before the official due date. (www.caonline.Au /blog). Management of small-scale and medium businesses must always prepare funds budgets and books of account such as income statement and the balance sheet in order to ascertain their financial performance and design ways of making improvements (Nyawata, 2013).

2.3.3 The Relationship between Risk Assessment and Performance of Small Scale Business.

According to adequately managing credit risk in financial institutions is critical for their survival and growth. When organizations have structured platforms for effective risk management, it may lead to the effectiveness of overall performance. Hull, (2012) agrees to this by confirming that financial institutions get the benefit of increased performance when they manage their risks better. The key to success lies in not entirely avoiding the risks but to properly balance the risks against the rewards from potential profits. Wenner, et al (2014), adds that failure to control risks, especially credit risk, can lead to insolvency. He explains further that financial losses may result when risks are poorly managed. However Goddard, Mc Killopand Wilson, (2008) agree with the Enterprise network report of 2000 that over the period 2003–2001, an increased reliance on fee income generating activities was associated with increased risk.

However Ralston and Wright (2011) warns that companies need to monitor carefully the risk to ensure long term survival since unlike banks; their objective is not to maximize profits but maximize services to their members some of whom may be high risk borrowers.

In a large enterprise, a risk assessment is usually conducted by the Chief Risk Officer (CRO). A risk assessments can be quantitative or a qualitative. In a quantitative risk assessment, the CRO assigns numerical values to the probability an event will occur and the impact it will have. These numerical values can then be used to calculate an event's risk factor, which in turn can be mapped to dollar amounts. Qualitative risk assessments, which are used more often, do not involve numerical probabilities or predictions of loss. The goal of a qualitative approach is simply to rank which risks pose the most danger. (Margaret Rouse, 2014)

According to Jayathilake, 2012, a risk can be broadly defined as any issue that can impact the objectives of a business entity and the potentiality that both expected and unexpected events may have an adverse impact on the capital and earnings so carrying out risk assessment procedures by SMES help them to identify the threats that hinder SMES to achieve their objectives. Similarly, risk characterized situations where the actual outcomes for a particular event or activity are likely to deviate from the estimate or forecast value. Risk also can traces in two directions which are the outcome may be better or worse than originally expected (Mwangi, 2014).

Traditionally according to Jayathilake, 2012, risks have been identified with two categories which are static risks and dynamic risks. Static risks are the ones that cause only damages without the opportunity of earning from their occurrence so if risk assessment procedures are carried out by SMES, risks that cause damages without the opportunity from earning their occurrence are identified and ways of solving them can be employed. They are always negative and have the characteristics of being unexpected because they are determined by accidental events. These risks fall perfectly under the insurance policy.

Risk assessment also identifies dynamic risks that can cause either damages or earning opportunities so as to realize profits and these are the typical entrepreneurial risks and consequences (Mowbray and Blanchard, 2011). Alternatively, risks occur within the firms and

their business environment can be divided as internal and external risk. Operational risks, financial risks and organizational and management risk are internal risks as they have their sources within the firm (Henschel, et al 2008) so carrying out risk assessment by SMES helps to identify internal risks so as to avoid them so as to achieve their goals. External risks occur in the business environment of the firm and can be economical, technological, political, legal or cultural changes (Scheve, et al 2008). Henschel et al (2008) states that the most relevant risk categories for SMEs are internal and strategic and business process risk but risk assessment procedures identify all the risks so that measures are taken.

SMES should involve in uncertainty and risk assessment. It is widely agreed that risk is more so in the business sector with compared to other sectors. Every business decisions and entrepreneurial act is connected with risk. This applies to business of small and medium scale as they also face several and often the same risks as bigger firms. In a real business environment with market perfections they need to manage those risks in order to secure their business continuity and add additional value by avoiding or reducing transactional costs (Rinsler, 2014).

In broad perspective, Mwangi (2014) categorize emergencies and crises into three categories, natural disasters, malicious activities and systematic failures of human systems. Nature does many things to us disrupting our best laid plans so to overcome that, SMES have to carry out risk assessment and management procedures.

SMEs show little separation between the entrepreneur’s strategic thinking and decision making and firm formal planning system and Morris et al. (2014) noted that SMEs are characterized with the central role of the owners and multiplicity of duties and close identity with employees. According to Smith (2008), enterprises in their startup phase often underestimate risks or even ignore them completely. Startup SMEs usually face a high degree of uncertainties and the necessity to make quick decisions (Frese et al. 2013) so they should carry out risk assessment so as to operate up to the end. Empirical studies show that the attitudes of SMEs towards risks and their risk assessment differ significant from that of large firms so also managers of SMES need to start assessing risks so as to plan better for their businesses.

Henchel et al .(2008) states that risk management is a challenge for SMEs in contrast to larger firm they often lack of the necessary resources, with regard to human capital, data base and specificity of knowledge to perform a standard and structured risk management.

Henschel et al (2008) states that lacking of expertise and knowledge in SMEs can make a huge business risk for SMEs. According to O'Hara et al (2014), SMEs identify two barriers to risk assessment such as time pressure and access to suitable guidance. He noted that given access and appropriate guidance and help, SMEs can improve risk assessment efficiently.

Sadgrove, (2015) proclaimed that few SME owners and managers are risk aware and they usually focus their risk actions on loss control programmes in areas of fire, safety, security, health, and quality assurance. These loss control programmes are overseen either by the entrepreneur or other management along with their other duties therefore increasing the chance of mismanagement as adequate time is not spent on the risk function. As no structured risk identification is undertaken by SMEs, SMEs assume unaware or unplanned risk exposure to their limited financial resources.

Bahr (2014) went on to say that in most SMEs, risks are left unmanaged until they surface and only then can SMEs spur into action to address them. Thus control measures implemented to counter risk are ineffective they are reactive and non-automated. The study identified that entrepreneurial actions are centered on avoiding risk, rather than devising risk control methods. Avoiding risk has the effect of impeding economic progress in a business as every business can flourish and expand if it is able to seize business opportunities which often present greater risks (Bahr, 2014).

Similarly, Matthews and Scott (2015) stated that most of SMEs do not have the necessary resources to employ specialists at every position in the firm. They focus on their core business and have generalists for the administration function. In contrast to larger firms, in SME one of the owners is often part of the management team. His intuition and experience are important for managing the firm (Falkner 2015).

Therefore, owner manager in SME is often more responsible for many different tasks and important decisions. In fact Sparrow et al. (2009) find that risk management practices in SMEs relate to the beliefs and attitudes of founding entrepreneurs. SMEs do not tend to use special techniques to optimize significant risks.

Information about risk management in SMEs is quite limited and still in an early phase of development and little studies has been focused to risk and risk management within the sector. Wemans et al (2013) noted that SMEs are away from adopting a positive approach towards risk management due to limitations such as inadequate infrastructure, limited managerial and technical expertise, lack of financial and intellectual resources to generate substantial technological developments and change, weak information networks to locate and recognize information and knowledge that is especially relevant to them, and low investment in research and development.

Similarly, a study of Turpin et al (2012) states that most of SMEs have no official risk strategy which is due to problems of communication with of delegating risk management competencies to employees. His study further notes that increasing competition, low of competencies to competitors, changing customer demands, wrong strategies due to lack of market data and personal absences rate are frequently and most importantly risk for European SMEs.

Matthews and Scott (2015) find that many SMEs have no explicit picture of business risk and their risk management is often not well structured nor systematic or standardized.(Henschel 2008) states that lacking of expertise and knowledge in SMEs can make a huge business risk for SMEs.

According to O'Hara et al (2005) as cited in Patrick (2013), SMEs identify two barriers to risk assessment; time pressure and access to suitable guidance. He noted that given assess in appropriate guidance and help SMEs can improve risk assessment efficiently.

(Sparrow et al. 2009) stated that the belief and attitudes of founding entrepreneurs are more influence on risk management practices in SMEs. As a result that makes decisions in terms of

their business as an entity rather than in terms of manager specific risks. Smith (2008) stated that the enterprises in their start up phase often underestimate risks or even ignore these completely.

Start up SMEs usually force high degree of uncertainty and the necessity to make quick decisions (Islam et al. 2008). Empirical studies further show that the attitudes of SMEs toward risks and their risk assessment differ significantly from that of large. Management practices in small firms relate to the beliefs and attitudes of owner/managers. SMEs do not tend to use special techniques to optimize single risks. They make decisions in terms of their business as an entity rather than in terms of managing specific risks.

Despite having performed some form of risk identification and evaluation, small business owners may simply ignore a particular risk (Sparrow et al, 2009). However in large enterprises, largely the board of directors and secondly a special risk manager (probably leading a separate risk management function) are reported to be responsible for risk management. Moreover, in more than half of the large firms, internal audit is responsible for supervising and reviewing risk.

2.4 Conclusion.

This chapter covered the introduction, the overview of financial planning, the dimensions of financial planning like budgeting in brief, the over view of performance of small scale businesses, the dimensions that measure the performance of SMES like profitability and how they measure the performance of SMES, the actual review showing the relationship between budgeting, risk assessment and financial reporting on the performance of small scale businesses.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter represents the methodological aspects that were employed in the study which included; research design, study area, target, accessible and study population; sample size, sampling procedure, reliability and validity of the research instrument, procedure of data collection, analysis and processing, ethical considerations, anticipated study problems and the approaches the researcher used to address them.

3.1 Research design

The study used cross-sectional survey research design. The cross-sectional survey research design was used because the method gathers data from a relatively large number of different categories of respondents at a particular time. According to Mugenda (2011) this design is used when the study is aimed at collecting data from the respondents without the need to make a follow up of the same respondents thus saves time to collect the necessary information when the design is used, data was collected using questionnaires and often analyzed using descriptive analysis in survey research, a questionnaire is a basic device in tapping participants attitudes and opinions.

Both quantitative and qualitative methods of data collection and analysis were adopted to explore and obtain viable data. Both closed and open form questions were used to generate responses and data for analysis of the relationship between the factors being investigated.

3.2 Area of the study

The study was conducted in Kagongo Ward in Ibanda Municipality in Ibanda District 311.7km from Kampala city westwards on Kampala -Masaka Mbarara high way (distance.com) where Coffee Factories- Small Scale Businesses have been developed as a way to alleviate poverty through financial planning on performance of small scales business.

3.3 Study population

Kamur (2013) defines a research population as a group of individuals, items objects from which the needed items are taken for measurement, the study population comprised of SMEs owners and employees of coffee factories from Kagongo Ward in Ibanda Municipality in Ibanda District who are 60 respondents according to the town clerk of Ibanda district (2017).

3.4.0 Sampling Procedures.

This population was selected because they know more about the performance of SMEs which are in Kagongo Ward in Ibanda Municipality.

3.4.1 Sample size

According to (Sekeran, 2003) a sample is a subset of a population. It comprises some selected members who are referred to as elements, sample size therefore is the total number of elements selected to represent the study population. The study selected up to 52 respondents out 60 people based on Krejcie and Morgan (1970) sample selection guidelines.

3.4.2 Sampling techniques

Dawson, Catherine (2012) defines a sample as a segment of the population which is selected to represent the all population. The study will be conducted using convenience sampling technique this is because this technique ease of research, data collection can be facilitated in short duration of time and it is cost effective.

3.5 Data sources.

The researcher used both primary and secondary sources of data where by Primary data the researcher obtained data through using interviews, and questionnaires and Secondary data the researcher obtained data from budgets, presentations reports, magazines, and text books written by various authors.

3.6 Research instruments.

The main type of instruments that were used to collect data from respondents in this study were questionnaires and interview guide. Bryman (2013) notes that questionnaires enable the researcher to gather data (qualitative and quantitative from many respondents simultaneously thereby saving time and cost of data gathering. Questionnaires also give respondents particularly the employees' freedom to express their views or opinion and also make suggestions in that they are structured with both open-ended and closed questions and Secondary data was collected from books and journals.

3.6.1 Questionnaires

These were the key tools for data collection by the researcher. The researcher and the fielded interviewers administered the questionnaires to save time and reduce on misinterpretation of some questions. The closed ended questionnaires form was advantageous in that it was easy to fill out, saved time and kept respondents on subject and relatively objective.

The Likert scale is one of the most widely and successfully used techniques to measure attitudes toward a topic by asking respondents to indicate whether they strongly agree, agree, disagree or strongly disagree with each of series of statements about the topic.

Survey questionnaires were distributed to the managers and employees of coffee factories in Kagongo Ward in Ibanda Municipality because these are the people with all the skills and knowledge about the coffee factories in Ibanda district. Data collected from these questionnaires revealed different factors about risk assessment, financial reporting and budgeting on performance of SMEs. The researchers used self administered questionnaires and were distributed to 52 respondents closed and open questions were used basing on the study and the sample size was based on Morgan and Krejice table.

Questionnaires were used because in survey research the basic instrument used is questionnaire. This instrument can easily tap attitudes and opinions of the respondents and it was easier for the researcher to collect data using a questionnaire within a reasonable time.

3.6.2 Interview guide.

Interviews consist of collecting data by asking questions. Data can be collected by listening to individuals, recording, filming their responses or a combination of methods, (Mays 2011). Structured questions were made by the researcher with the help of the supervisor about financial planning and the performance of small scale enterprises particularly coffee factories and these were given to respondents to fill. Because of time, the researcher didn't interview respondents but they answered the structured questions by filling in the appropriate answers.

3.7 Data management and processing

Coding of questionnaires

This involved assigning codes to responses to open ended questions. Similar or correlated responses were assigned similar codes. This aimed at transforming responses into the formats acceptable by statistical packages for analysis and making it quantitative. During the process of coding, cross checking and editing the data collected by Field Interviews was done to weed out any errors existing in the filled questionnaires.

Data cleaning

After entering the data, data cleaning was done to remove any errors that occurred during entry. This was done by indentifying outliers within the data entered and unique entries. The data was imported into SPSS software package for analysis. Most of the data cleaning was done after the data had been imported into Strata.

3.8 Data analysis

Data was analyzed using both quantitative and qualitative techniques as follows;

Quantitative analysis

The researcher entered and edited quantitative data using the descriptive option of SPSS (Statistical package social scientist) frequency distribution and test tables were presented .This method was preferred because it is modern, faster and simplifies the analyzing of data. This

involved transforming the options to each item in the administered instruments in to codes. The codes that were used were "1" representing strongly disagree, "2" representing disagree, "3" representing neutral or not sure, "4"representing agree and "5'' representing strongly agree.

Data analysis from questionnaires was done by categorizing responses in to frequency counts and percentages. The Pearson's correlation co-efficient method was used because it was most appropriate for determining whether there is linear relationship between independent variable (IV) and dependent variable (DV) that was quantitative data. Pearson's correlation co-efficient was most suitable since it enabled the researcher to identify whether there was a linear relationship between financial planning and performance of SMEs.

Quantitative data results were presented in form of tables and graphs to enhance proper understanding of data while qualitative results were presented in a narrative form.

Qualitative analysis

This was used to analyze all data collected using interview guides and it was done basing on existing sub themes in other words thematic analysis was used. The results were then intergraded into quantitative statistics generated from the questionnaires

3.9 Quality control methods.

Validity and reliability of the research instrument were ensured as follows;

Validity refers to the ability of an instrument to measure what it is intended to measure. Validity is concerned with the extent to which an instrument measures what one thinks it is measuring Amin (2005), the validity of the questionnaire must be above 0.7. The instrument was tested for validity to improve the validity of instruments questionnaires examined and assessed by research experts and the supervisor using content validity index (CVI). The statement or questions which did not portray the meaning were scraped off and replaced according to the advice given. Validity was calculated as follows,

CVI=Number of relevant items / number of total items *100

CVI= 18/25*100 = 0.72*100

CVI = 72 % so, the tool was valid because it was above 0.7.

Reliability

Reliability refers to the ability of the instrument to measure consistently what it is intending to measure. It was also ensured by testing the instruments for reliability values and according to Sekaran 2003, these values for each variable under the study should not be less than 0.1 for the statements in the instruments to be deemed reliable. As a result all the statements under each variable were subjected to this test and were proven to be above 0.1 using the SPSS in computing the Cronbach alpha value co-efficient. The results for reliability were as follows;

Table 3.1. Results about reliability

CONCEPT	ALPHA VALUE
Budgeting	0.122
Financial reporting	0.307
Risk assessment and management	0.783
Performance of small scale enterprises	0.146

3.10 Ethical considerations.

The researcher ensured professional conduct throughout the study to be entrusted with the information from the respondents by presenting an introductory letter to the respondents. This was done by building a rapport and clearly explaining to the target groups and individuals that the aim of the study was strictly academic as the introductory letter from the faculty was protecting the researcher.

The researcher asked for permission from the management or people responsible especially for coffee factories so as to be allowed to ask question or give out questionnaires to the respondents of the businesses and permission was granted.

As far as the questionnaires are concerned, the respondents were informed that the questions were to be used only for academic purposes and not exposed to third parties. So the respondents answered questions as needed without fear to be exposed. This is because the researcher explained to the respondents and confirmed that all the information given or collected will be kept confidential only for academic purposes so there was no permission to disclose the coffee factories' information and their operations that was collected during the study.

3.11 Limitation of the study.

Since research was time bound, the researcher was on pressure and needed to work extra hard to meet the deadline for submission. However, the researcher worked hand in hand with the supervisor and also cooperated with the respondents during data collection to ensure that the report was submitted in time.

Some respondents perceived a study as an income generating activity for the researcher and so demand for a payment in order to give the required information. For this case, the researcher gave thorough explanation and the intentions of carrying out the study that it was for academic purposes and not income generating project at all.

Information concealment: This came about by the respondents mistaking the researcher as a revenue agent from the Uganda Revenue Authority since most of the coffee factories or small scale businesses as a whole lacked the necessary documents like trade licenses and tax slips that authorize them into business. So there, the researcher showed the introductory letter got from the university talking about the student and the research to be carried out. Even displaying the researcher's identity card of the university solved this problem.

Communication barrier also hampered the research process since some respondents were not able to speak and read, write and understand English and as a result an interpreter was hired to translate the questionnaires by the researcher.

For data about the SMEs in the libraries for review was so old and scarce since its only information for 10 years ago yet there are so many changes that have taken place that made the

information inapplicable to current situations. So the researcher depended mostly on the downloads and internet sources like journals

3.12 Conclusion.

In conclusion, the chapter covered the introduction, research design to be used in the study, the area of the study, the study population, sample size of the study, sampling technique, data sources, questionnaire method, research instrument which is the questionnaire, data management and processing, data analysis, quality control methods, ethical considerations and limitations of the study.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents and the findings of the analysis based on the objectives of the study. Descriptive statistics coupled with explanations have been used to discuss the findings of the study.

4.1.0 Response rate.

In this study, the researcher took 52 questionnaires and all of them were answered so the percentage was 52/52*100=100%. The background information solicited and presented was about, gender, age and period of stay at the organization. The background information was deemed necessary because the researcher wanted to show that all SMES with different background characteristics were represented in the study implying that the findings were not only for a particular group or category of respondents.

4.2 BIO DATA

4.2.1 Age of Respondents

The table 4.1 illustrates the age bracket of the respondents and they were categorized below 20yrs, 21-25yrs and above 31yrs.

Table 4.1: Represents Respondents by Age

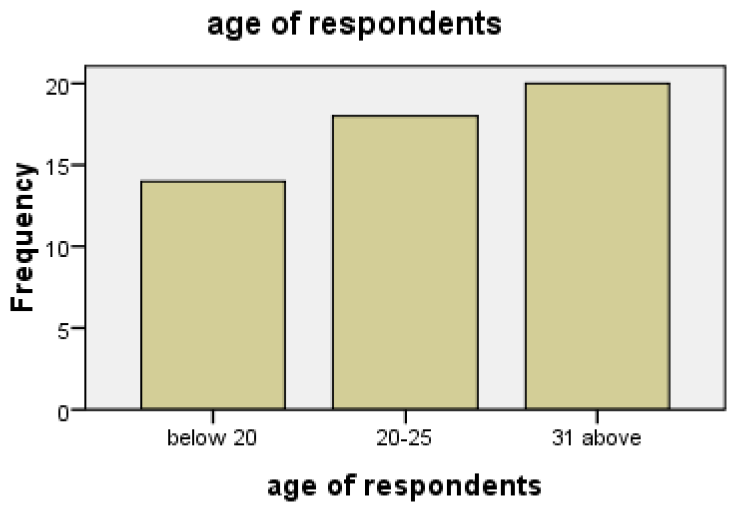
age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below 20	14	26.9	26.9	26.9
	20-25	18	34.6	34.6	61.5
	31 above	20	38.5	38.5	100.0
	Total	52	100.0	100.0	

Source: Primary Data (2017)

The study found that 38.5% of the respondents were aged above 31 years which means the highest number of the respondents were above 31 years which means they understood why they were in business because they are old. Then, 34.6 % of the respondents aged between 20-25 years which means the respondents who answered the researcher's questionnaires 34.6 % were aged 20-25 years. Lastly, 26.9% aged below 20 years as presented in table 4.1. This implies that even teenagers were also involved in research but on a small rate and they were few compared to other respondents. This was so because sometimes age doesn't matter much in business as supported by Crusby (2013) who said that with the inclusion of age, the booster the dependability on the data collected in social investigative research. The above information is supported with a bar chart as below.

Fig. 2 Represents Respondents by Age



4.2.2 Marital Status of Respondents

The table 4.2 illustrates the marital status of the respondents and they were indicated as a) single b) married.

Table 4.2: Represents Respondents by Marital Status.

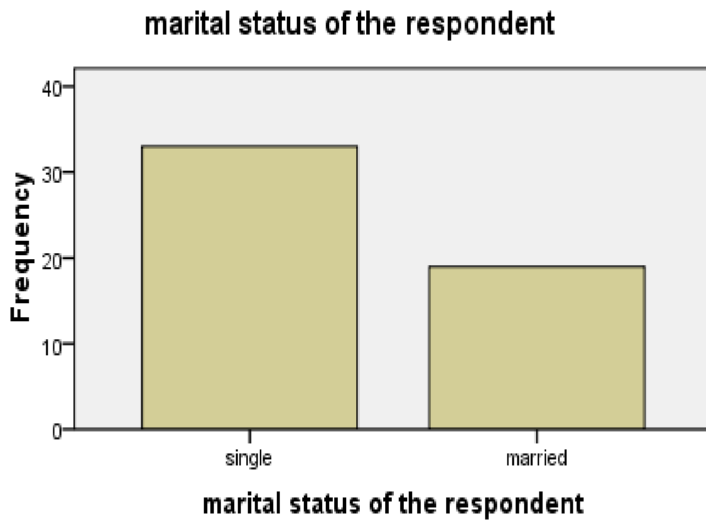
marital status of the respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	single	33	63.5	63.5	63.5
	married	19	36.5	36.5	100.0
	Total	52	100.0	100.0	

Source: Primary Data (2017)

Table 4.2 indicates that marital status of respondents, 33(63.5%) of them were single then (36.5%) of the respondents were married. The results therefore indicate that since the majority of the respondents were people of without responsibility, they were able to give the businesses more time, give valid and ideal responses on the problem of the study because all their time is for the business. The findings above are supported by a bar graph below

Fig. 3 Represents Respondents by Marital Status.



4.2.3 Experience of the respondents

Table 4.3 illustrates the period the respondents have been in business and the period was in 4 categories namely: less than 1yrs, 5yrs, 6-10yrs and 10yrs above

Table 4.3: Represents Tenure Experience of Respondents.

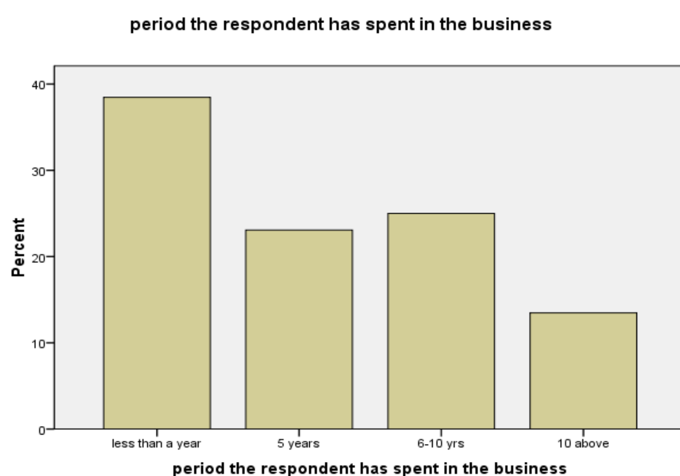
period the respondent has spent in the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than a year	20	38.5	38.5	38.5
	5 years	12	23.1	23.1	61.5
	6-10 yrs	13	25.0	25.0	86.5
	10 above	7	13.5	13.5	100.0
	Total	52	100.0	100.0	

Source: Primary Data (2017)

The study also sought to establish the years of working in business by the respondents and the researcher found that 20 (38.5%) of respondents have worked for less than a year. This is the highest percentage because the businesses had just started so they recruited every person who had qualifications without minding much about the experience. The next was 25.0% or 13 respondents had worked in business for 6-10 years then 12 (23.1%) of the respondents had worked in business for 5 years and lastly 7 (13.5%) of respondents have worked for more than 10 years. This implies that the respondents with a lot of experience had not yet been employed since businesses were new and so they were not well known by the experienced employees or . This information is supported with the bar chart below.

Fig. 4 represents experience of the respondents



4.2.4 Education Levels of Respondents

Table 4.4 illustrates the education attainment of the respondents. The education levels were in 4 categories namely: secondary, Diploma, and Degree

Table 4.4: represents education levels of respondents.

level of education of the respondent

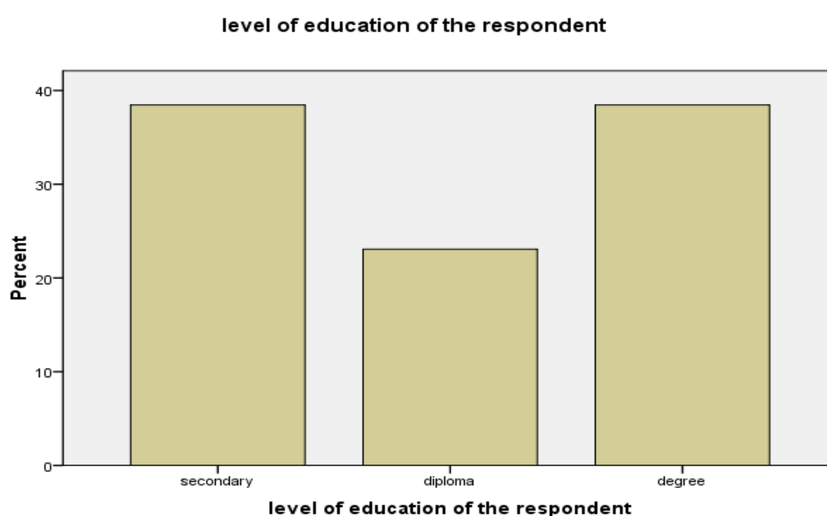
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	secondary	20	38.5	38.5	38.5
	diploma	12	23.1	23.1	61.5
	degree	20	38.5	38.5	100.0
	Total	52	100.0	100.0	

Source: Primary Data (2017)

Table 4 shows the findings of the study about the levels of education of respondents. The research carried out found that 20 (38.5%) of respondents were secondary school leavers which implies that these businesses were still new and so they wanted capable people to run the operations minus the high qualifications alone. This finding supports the statement of Campsey (2015) which states that financial planning is not about education levels but rather how one understands his business. This is seen in the analyzed data where some employed employees are secondary school holders. . Also it was found out that 20 (38.5%) of respondents were degree holders which means that even degree holders were employed by SMES so as to run the operations successfully and guide the other employees in the businesses and lastly, 12 (23.1%) of respondents were Diploma holders. In conclusion, the majority of the respondents have a size able degree of education and diploma which forms a good population which is educated and therefore it is in better position to answer questions and give technical opinion on the subject of the study. And also implies that they have the capacity to plan for their funds and they could read and write which enriched date which was collected. These findings are supported by Flora Richards G (2011) who said that the concern of many businesses today is how to remain sustainable, efficient, and competitive and self reliant which is brought about by good financial management hence financial planning which highly affects small scale businesses in Uganda

especially the rural areas like in Ibanda district. The success of business small scale businesses in the area studied depends on the degree and diploma holders being employed since they know how to plan for business's resources. The above information is supported with a bar chart below

Fig. 5 represents education levels of respondents



4.2.5 Number of Employees

Table 4.5 illustrates the number of employees in business. The number of employees were in 4 categories namely: a) 11-20, b) 21-30, c) 30 above .

Table 4.5: represents number of Employees

number of employees in the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	11-20	21	40.4	40.4	40.4
	21-30	25	48.1	48.1	88.5
	31 1bove	6	11.5	11.5	100.0
	Total	52	100.0	100.0	

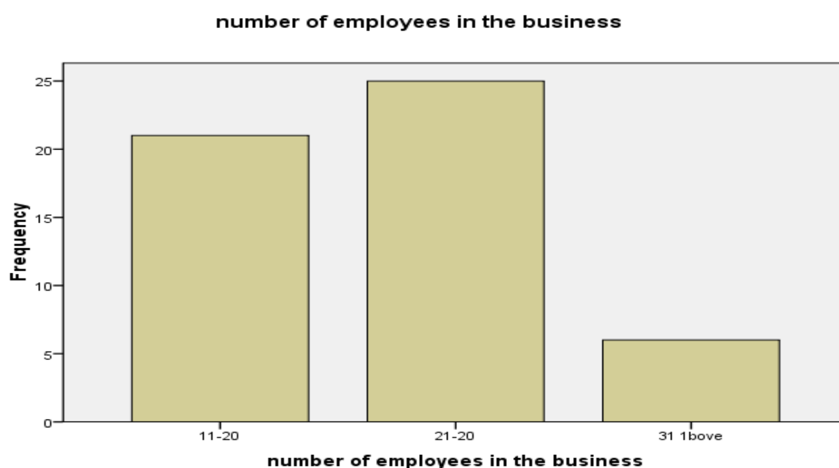
Source: Primary Data (2017)

The study sought to find out the number of employees in the business and it was found that 25(48.1%) of the respondents their businesses have between 21-30 employees, 21 (40.4%) of the respondents their businesses have between 11-20 employees and 6 (11.5%) of the respondents their businesses have 31 and above employees. This shows that the many small scale businesses employee many people so as to run their operations quickly and attend to many customers hence achieve profits and also increase the economy's growth which is in agreement with Dr. Turyahebwa, Dr Sunday, Dr. Burani and Dr. Byamukama (2011)

> *Who said that Small businesses in Uganda are the sources of employment to people and they lead to the growth development of the economy*

So Small and Medium Enterprises contribute greatly to the economies of all countries, regardless of their level of development. The above data or information is supported with a bar chart which is as follows

Fig. 6 represents number of Employees



4.3 Descriptive statistics on budgeting.

The various budgeting activities carried out by the small scale business enterprises were studied. The study collected data using Likert scale and analyzed it using descriptive statistics such as mean and standard deviation. According to the scale, those variables which had a mean close to 5.0 represented strongly agreed, 4.0 represented agree, those which had a mean close to3.0

represented neutral while those which had a mean close to 2.0 represented disagreed with the statements and those which had 1.0 represent strongly disagree. Standard deviation was used to indicate the extent of dispersion and subsequently consensus.

Table 4.6 represents statistics on budgeting

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
B.1 Every one is involved in budgeting process.	52	2.00	5.00	3.6923	1.11212
B.2 Budgeting helps us in decision making	52	4.00	5.00	4.6154	.49125
B.3 We prepare a budget for all expenses and all expected revenue	52	2.00	5.00	4.0192	.85154
B.4 We have records of cash that is received and that which is spent.	52	4.00	5.00	4.1154	.32260
B.5 There are budgeting policies to control revenue and expenditures in small scale enterprises particularly coffee factories	52	1.00	5.00	2.8846	1.30840
Valid N (list wise)	52				

Source: Primary Data (2017)

From table 4.6 the following were the findings found out from the research carried out by the researcher.

Involvement of everyone in budgeting process

The study also found that the majority respondents were neutral about everyone in the business getting involved in budgeting with a mean score of 3.6. This is supported by K. A. Fareed (2015) who stated that participating in budgeting process motivates the key individuals to achieve budget level of efficiency. Effective budgeting systems can help managers perform their major management functions effectively and efficiently because sound budgeting system provides more accurate assessment in terms of both managerial and organizational performance. Thus, budgets are an integral part of running any business in a successful manner so everyone must be involved in the budgeting process. This is also supported by management (2014) which states that the priorities of a business are also communicated through budgeting to everyone working in the company. Budgeting enables business owners to communicate and make employees understand strategy and how a budget supports these strategies. For example if the strategy of the coffee factories is to develop and launch a new product line, the owner may explain to the employees how the budget supports these strategies and the overall outcome of the product launch.

In addition with the interview guide carried out by the researcher about the involvement of everyone in the budgeting process, *Respondents were asked whether all shareholders and stakeholders understand the budgeting methods used by the small businesses and whether they can interpret the results without guidance and they said that* "*not all of the shareholders and stakeholders understand them, we understand the results but not the methods"*

Budgeting used in decision making

Also according to the findings, the study found that budgeting practices help SME in decision making with a mean score of 4.6 since the respondents agreed. This is agreement with Greg Blue and co. (2014) who stated that budgeting provides a framework for decision making. An effective budget assists managers in choosing between multiple projects. Decision that benefit SMES are made or drawn after the guide of the budget so that SMES can achieve their set goals

and objectives because budgets inform the staff and the board what the financial goals are for the year ahead hence acting as excellent communication tools.

Budget preparation for all expenses and revenue

It was also found that SMEs prepare budgets for all expenditures and revenues in their business with a mean score of 4.0 which means the majority respondents agreed, this was in agreement with Riley (2012) who said that budgeting makes SMES aware of what is going on with their funds .With budgeting, SMES get clear sources and know the sources of funds, for what money is coming in, how fast it goes out, and where it is going or how to spend it so budgeting saves managers of small scale businesses especially managers of coffee factories from wondering at the end of the month where the money went. This is further supported by Micheal Quinn (2013) who stated that budgeting helps SMES to organize their spending or expenditures and savings hence affecting the performance of SMES. This is done by dividing their money into categories of expenditures and savings. Budgeting makes managers aware of which category of expenditure takes which portion of their money. In that way it is easy for managers to make adjustments. In addition to the interview guide that the researcher used for the research, *respondents were asked how the budgeting process can be improved in the business and they said" through getting educated on how budgets are prepared, through employing skilled labour, through using easy budgeting methods to learn easily"*

Records of cash received and spent.

The study also found that SMEs have records for both cash outflow and cash inflow with a mean score of 4.1 since majority of the respondents also agreed. This is in line with Kavanagh (2011) who argues that SMEs, like all other business have their budgeting process governed by the need to have proper funding, transparency and accountability at all levels. So when some SMEs don't budget, they end up not aiming at achieving proper funding, transparency and accountability. Also according to Micheal Quinn (2013), he said that budgets also serves as a reference for

organizing bills, receipts, and financial statements. When all of the financial transactions are organized for tax time or creditor questions, managers save time and effort.

Presence of budgeting policies to control revenue and expenditure

The study also established that SMEs there is no budgeting policies to control revenue and expenditures in small scale enterprises particularly coffee factories with a mean score of 2.8. This means that the majority of the respondents disagreed with the statement. This in agreement with (IFAC 2014) that states that there is a high risk of SMEs collapsing soon after they are established and one of the causes of this phenomenon is poor budgeting processes among the SMEs. This is because when the owners of small scale businesses budget poorly, lack budgeting policies to control revenue and expenditures so the end result will be poor accountability in SMEs. In addition to the above basing on the interview carried out by the researcher, *Respondents were asked about the challenges faced when budgeting and they said "overcastting income, under casting expenditures, government policies, high taxes and inflation"*

4.4 Descriptive statistics on financial reporting.

The various financial reporting activities carried out by the small scale business enterprises were studied. The study collected data using Likert scale and analyzed it using descriptive statistics such as mean and standard deviation. According to the scale, those variables which had a mean close to 5.0 represented strongly agreed, those which had a mean close to 4.0 represented agreed, those with 3.0 represented neutral while those which had a mean close to 2.0 represented disagreed and those with 1.0 represented strongly disagree with the statements. Standard deviation was used to indicate the extent of dispersion and subsequently consensus.

Table 4.7 represents Descriptive Statistics.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
F.1 We prepare financial reports often.	52	1.00	5.00	3.7692	1.18181
F.2 The financial reports prepared guide us in decision making	52	3.00	5.00	3.9615	.71295
F.3 The financial reports prepared are used when we are accessing loans from financial institutions.	52	4.00	5.00	4.2308	.42544
F.4 Financial reports are used to assess whether the business is growing or not.	52	2.00	5.00	3.5769	1.01646
F.5 There are physical safeguards of financial reports against theft.	52	1.00	5.00	3.1154	1.27808
Valid N (list wise)	52				

Source: Primary Data (2017)

Preparation of financial reports

The study established that the majority were not sure whether SMEs prepare financial reports often with a mean score of 3.769. This was in disagreement with Sacco (2009) who said that financial reporting can be seen as a summary of the performance or capacity of a business in raising, handling and using money so they are formal records of a business' financial activities which are necessary for SMES and should be often prepared. Also reports provide an overview of a business' financial condition in both short and long term so they should be prepared often by SMES so as to run successfully, (Wikipedia, 2008). In addition to the above findings, *the*

researcher interviewed respondents and asked them the challenges they meet in preparation of financial reports and they said that "lack of appropriate skills, limited equipments to prepare reports, no knowledge"

Financial reports prepared used in decision making.

It also found that the majority were not sure whether financial reports prepared guide them in decision making with a mean score of 3.96. This is in disagreement with Jameson (2010) who stated that financial reports provide information useful in assessing cash flow prospects, provide information about business resources, claims to those resources, and changes in them and provide information about management discharge of responsibility which may be used for decision making one of the objectives of financial reporting is to furnish information useful in making investment and credit decisions. In addition to the above information, *Respondents were interviewed about the values of financial reporting to SMES and they said, "Help in decision making, getting loans"*

Financial reports are used in accessing loans.

According to the findings, the study found that financial reports prepared are used when they are accessing loans from financial institutions with a mean score 4.23 since majority of respondents agreed. This in line with the ASB in their Statement of Principles (2012) where they decided the objectives of financial reporting is to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions. In addition to the above agreement, *respondents were interviewed on the values of financial reporting to SMES and they said that "used for accessing loans, making decisions"*

Financial reports used to assess business's growth.

The study also found that the majority were not sure whether SMEs financial reports are used to assess whether the business is growing or not with a mean score of 3.58 since respondents were neutral with the statement. This is in line with the ASB in their Statement of Principles (2012)

where they decided the objectives of financial reporting is to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions. So if the company is making losses, its growth is threatened.

Physical safeguards against theft

Research also found that the maximum respondents were neutral about whether there are physical safeguards of financial reports against theft in SMEs with a mean score of 3.1. This is in line with Gatuhu (2013) who stated that the cost of producing these accounts using existing GAAP designed primarily for large companies is very high and burdensome for SMES so the cost is sometimes the result of the SME using its own managers or internal accountants to prepare the financial reports where there will be theft because managers will be in control.

4.8 Descriptive statistics on risk assessment.

The various risk assessment activities carried out by the small scale business enterprises were studied. The study collected data using Likert scale and analyzed it using descriptive statistics such as mean and standard deviation. According to the scale, those variables which had a mean close to 5.0 represented strongly agreed, those which had a mean close to 4.0 represented agreed, those with 3.0 represented neutral while those which had a mean close to 2.0 represented disagreed and those with 1.0 represented strongly disagree with the statements. Standard deviation was used to indicate the extent of dispersion and subsequently consensus. The table below shows the results from the study conducted.

Table 4.8 represents descriptive Statistics of risk assessment

	N	Minimum	Maximum	Mean	Std. Deviation
R.1 We assess our business risks.	52	1.00	5.00	3.2308	1.47682
R.2 We identify ways of minimizing the identified risks so that they don't affect the business performance.	52	1.00	5.00	3.6346	1.08517
R.3 Decisions made are based on the risks identified to be facing the business.	52	2.00	5.00	3.6346	.84084
R.4 We make decisions that carry the lowest risk to the business.	52	2.00	5.00	3.7500	1.20253
R.5 We consider risk assessment as an important tool in financial planning for the business	52	3.00	5.00	4.2885	.82454
Valid N (list wise)	52				

Source: Primary Data (2017)

Assessment of business risks

Research carried out shows that the majority of the respondents were not sure whether SMES assess their business risks as shown with the mean sore of 3.23. This is in agreement with a study of Turpin (2002) who stated that most of SMEs have no official risk strategy which is due to problems of communication with of delegating risk management competencies to employees. Also Sadgrove (2015) who said that in most SMEs, risks are left unmanaged until they surface and only then can SMEs spur into action to address them. Thus control measures implemented to counter risk are ineffective they are reactive and non-automated. In addition to the findings got,

The researcher interviewed respondents and asked them whether SMES are too risky to invest in and they said that "they may not be too risky if they have good management, they are too risky especially when new in the industry, may be risky when competing with big firms". They were asked further about *the challenges faced when assessing the business risks and these are their answers, "un known uncertainties, unpredictable economic changes"*

Ways of minimizing identified risks not to affect performance.

The researcher also wanted to identify the ways of minimizing the identified risks so that they don't affect the business performance and found that SMES respondents are not sure whether they identify ways of minimizing the identified risks so that they don't affect the business performance shown by a mean score of 3.635. This is in agreement with Sadgrove (2015) who proclaimed that few SME owners and managers carry out risk management processes yet they don't know that they are risky and they usually focus their risk actions on loss control programmes in areas of fire, safety, security, health, and quality assurance.

In addition to the above statement basing on the interview done by the researcher, *Respondents were asked whether SMES are too risky to engage in and respondents gave contradicting answers which shows that they were not sure as follows:* "*they may not be too risky if they have good management, they are too risky especially when new in the industry, may be risky when competing with big firms"*.

Decisions made are based on the risk assessment results.

The researcher also wanted to find out whether decisions made are based on risks assessments done and according to the findings, majority of the respondents indicated that they were not sure whether decisions made are based on the risks identified to be facing the business shown by a mean score of 3.6346. This was in agreement with Falkner (2015) who said that SMES should involve in uncertainty and risk assessment. It is widely agreed that risk is more so in the business sector with compared to other sectors. Every business decisions and entrepreneurial act is

connected with risk but SMES are taking for granted that's why majority of the respondents were not sure. In addition to the interview carried out, *the respondents were asked how they generally assess their risks and many did not an answer and those who answered said that, "through employing experts, through fore* telling*"*

Decisions with lower risks are taken.

Respondents also are not sure whether SMES make decisions that carry the lowest risk to the business as shown with the score mean of 3.75. This is in agreement with Mowbray and Blanchard (2011) who stated that risk assessment also identifies dynamic risks that can cause either damages or earning opportunities so as to realize profits and these are the typical entrepreneurial risks and consequences. Also basing on Sparrow et al (2009) who said that owner manager s in SME are often more responsible for many different tasks and important decisions taken in SMES, they find risk management practices in SMEs related to the beliefs and attitudes of founding entrepreneurs so SMEs do not tend to use special techniques to optimize significant risks.

Risk assessment considered as planning tool

The study also found that SMEs consider risk assessment as an important tool in financial planning for the business with a mean score of 4.229. This is in disagreement with Sparrow et al (2009) who stated that SMEs do not tend to use special techniques to optimize single risks. They make decisions in terms of their business as an entity rather than in terms of managing specific risks. Despite having performed some form of risk identification and evaluation, small business owners may simply ignore a particular risk (Sparrow et al, 2009).

Also in disagreement with Henchel et al (2008) who stated that risk management is a challenge for SMEs in contrast to larger firm they often lack of the necessary resources, with regard to human capital, data base and specificity of knowledge to perform a standard and structured risk management that's why SMES always collapse compared to big firms because they don't consider risk assessment as an important tool for planning.

4.6 Descriptive statistics on performance of small scale enterprise

The various performance measures carried out by the small scale business enterprises were studied. The study collected data using Likert scale and analyzed it using descriptive statistics such as mean and standard deviation. According to the scale, those variables which had a mean close to 5.0 represented strongly agreed, those which had a mean close to 4.0 represented agreed, those with 3.0 represented neutral while those which had a mean close to 2.0 represented disagreed and those with 1.0 represented strongly disagree with the statements. Standard deviation was used to indicate the extent of dispersion and subsequently consensus.

Table 4.9: Performance of Small Scale Enterprises.

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
P.1 We have sufficient cash to clear our debts	52	2.00	4.00	4.4423	5.84913
P.2 We are making profits every year	52	1.00	5.00	3.0192	1.42100
P.3 We make sufficient profits to reinvest into the business.	52	2.00	4.00	3.0385	.88476
P.4 We are managing all our costs to ensure they do not exceed the budget.	52	1.00	5.00	3.8077	1.28397
P.5 cash is held for speculative, transaction and precautionary motives.	52	3.00	5.00	4.5000	.70014
P.6 Managers ensure maximum mixture of debt and equity in financing the firm so as to ensure returns to business owners.	52	2.00	5.00	3.6538	.86057
P.7 revenue exceeds expenditure	52	2.00	5.00	3.7692	.83114
P.8 we understand the benefits of pursing the business venture.	52	3.00	5.00	4.3462	.71083
P.9 we pay out legitimate withdrawals and credit requests instantly.	52	2.00	5.00	3.5769	1.01646
P.10 we save money by making the products in a better way and sales of our products are in a short term.	52	2.00	5.00	3.8846	1.07838
Valid N (list wise)	52				

Source: Primary Data (2017)

Sufficient cash to clear debts

The researcher also wanted to establish the performance of SMEs. According to the findings, majority of the respondents indicated that they have sufficient cash to clear their debts before they fall due shown by a mean score of 4.44 which means the respondents agreed with the statement. This means that SMES have enough cash that can be used in the daily operations so as not to run bankrupt.

Profits are realized always.

Research found that some SMES were neutral on making profits every year which was based on the respondents' answer with a mean of 3.019. This statement is in agreement with Balunywa (2010) who said that any good performed organization should be able to realize profits. So basing on the words of Balunywa, a business that doesn't realize profits then it means that it is not successful.

Profits are realized and reinvested.

Research also found out that SMES after making sufficient profits they may reinvest without informing every employee or may not reinvest into their businesses as shown with the mean score of 3.038 which means that respondents were not sure or neutral about the statement. This statement is in agreement with Balunywa et al (2010) who said that any good performed organization should be able to realize profits. So basing on the words of Balunywa, a business that doesn't realize profits then it means that it is not successful.

Management of costs not to exceed the budget

Research also shows that respondents were neutral about the point that SMEs manage all their costs to ensure they do not exceed the budget as shown with the mean of 3.8. This was in agreement with Nyawata, O., (2013) statement which said that information of the budget helps the financial manager to determine the future cash needs of the firm, plan for the financing of

these needs and exercise control over cash and liquidity of the organization so that expenditures or budgeted amount don't exceed the revenue.

Cash being held for different motives

It also found that cash is held for speculative, transaction and precautionary motives as shown by mean score of 4.5 and this mean shows that the respondents agreed with the statement. This was in agreement or supported by Qualitative Research in Accounting & Management, Vol. 10 Iss: 2, pp.127 – 143 that brought it clearly that small business owner- managers intuitively plan, monitor and control their working capital. So through managing their working capital, they keep cash for speculative, transaction and precautionary motives.

Assurance of returns to business owners mixing debt and equity

The study also found that SMEs Managers ensure maximum mixture of debt and equity in financing the firm so as to ensure returns to business owners as shown with a mean score of 3.65 which represents respondents being neutral about the statement. This was in agreement with Robert et al. (2012) who said that a debt owed to the firm by customers arising from sale of goods or services in ordinary course of business so accounts receivables are amounts owed to the business enterprise so SMES have to balance their debts with equity so that they get high equity instead of debts in order to be successful.

Revenue exceeds expenditure

Basing on the research results, it was also found that revenue exceeds expenditure of SMEs as shown with the score mean of 3.7 which means the respondents were neutral about the statement. This is supported by Jim Riley et al (2012) who said that a **Profit** is the positive gain remaining for a business after all costs and expenses have been deducted from total .so because they were making profits, that's why they were still operating.

Benefits of pursuing business venture

Also research shows that the respondents understand the benefit of pursing the business venture with a mean of 4.34 which means they agreed. This is in agreement with Maeve Maddox (2014) who said that the act of saving money by making a product or performing an activity in a better way. Something which is done the most economical way (the quality of achieving maximum utility with minimum wasted effort).

Payments of withdrawals and credit requests

Research also established that SMEs pay out legitimate withdrawals and credit requests instantly as shown with a mean score of 3.58 which means that the respondents were neutral. This is in agreement with Shaw et al (2016) who said that the nature of the credit policy of an enterprise is decided on the basis of components of credit policy and in practice the credit policy of firms vary within the range of lenient and stringent. A firm that tends to grant long period credits, its financial position is doubtful.

Savings are out of better quality products

The study also found that they save money by making the products in a better way and the sales of their products are in a short term shown by a mean score of 3.9 which means the respondents were neutral. This is in agreement with Maeve Maddox (2014) who said that the act of saving money by making a product or performing an activity in a better way. Something done the most economical way that is the quality of achieving maximum utility with minimum wasted effort.

4.7 Correlation analysis

4.7.1 The relationship between budgeting and the performance of small scale businesses.

The researcher is interested in seeing whether the information or findings gathered about budgeting influences the performance of small scale enterprises negatively or positively.

Table 4.10: The correlation between budgeting and performance of small scale enterprises

Correlations

		BUDGETING	PERFORMANCE OF SMES
BUDGETING	Pearson Correlation	1	.278*
	Sig. (2-tailed)		.046
	N	52	52
PERFORMANCE OF SMES	Pearson Correlation	.278*	1
	Sig. (2-tailed)	.046	
	N	52	52

*. Correlation is significant at the 0.05 level (2-tailed).

The relationship between budgeting and performance of small scale enterprises is positive and insignificant. This is because it is 0.278 that is 27.8% which means that if small scale enterprises increasingly carry out budgeting processes, it increases the performance of small scale enterprises. This is supported by Horngren (2012) who said that a budget fore tells what a business will be in future. This is because a business bases on this budget for its operations. It is also supported by Nyawata, (2013) who said that a budget has information which helps the financial manager to determine the future cash needs of the firm, plan for the financing of these needs and exercise control over cash and liquidity of the organization hence which affects the performance of small scale enterprises.

4.7.2 The relationship between financial reporting and the performance of small scale enterprises.

The researcher is interested in seeing whether the information or findings gathered about financial reporting influences the performance of small scale enterprises negatively or positively.

Table 4.11: The correlation between financial reporting and the performance of small scale enterprises

Correlations

		FINANCIAL REPORTING	PERFORMANCE OF SMES
FINANCIAL REPORTING	Pearson Correlation	1	.031**
	Sig. (2-tailed)		.829
	N	52	52
PERFORMANCEOF SMES	Pearson Correlation	.031**	1
	Sig. (2-tailed)	.829	
	N	52	52

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

The relationship between financial reporting and the performance of small scale enterprises is a positive and insignificant relationship with 0.031 or 3.1% which means if small scale enterprises increase the acts of carrying out financial reporting of their operations, the performance of small scale enterprises increases. This is also supported by Sacco, (2009) who said that financial reporting can be seen as a summary of the performance or capacity of a business in rising, handling and using money so financial somehow increases the performance of small scale enterprises. Also originally the purpose of financial reporting was to evaluate management's honesty and nothing more. Jameson (2010) claims that the purpose of financial reporting is no longer just the appraisal of stewardship, that the needs of users have evolved beyond those satisfied by purely reporting on post transactions and current solvency. This means that an increase in financial reporting activities influences positively the performance of small scale enterprises positively though as Jameson has stated that it's insignificant because it is confusing.

4.7.3 The relationship between risk assessment and the performance of small scale enterprises.

The researcher is interested in seeing whether the information or findings gathered about risk assessment influences the performance of small scale enterprises negatively or positively.

Table 4.12: The correlation between risk assessment and the performance of small scale enterprises

Correlations

		RISK ASSESSMENT	PERFORMANCE OF SMES
RISK ASSESSMENT	Pearson Correlation	1	.425**
	Sig. (2-tailed)		.002
	N	52	52
PERFORMANCE OF SMES	Pearson Correlation	.425**	1
	Sig. (2-tailed)	.002	
	N	52	52

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

The relationship between risk assessment and the performance of small scale enterprises is a positive insignificant correlation with 0.425 or 42.5% but closely to being significant which means the more the small scale enterprises carry out risk assessment procedures in their operations, the higher the performance of small scale enterprises. This is supported by Margaret Rouse (2016) who said that risk assessment is the process of identifying variables that have the potential to negatively impact an organization's ability to conduct business. This statement confirms that if risk assessment is done, the performance of small scale enterprises will be high. Also according to Smith (2008), enterprises in their startup phase often underestimate risks or even ignore them completely which means they don't carry out risk assessment procedures and

that's why there is always a challenge or face a high degree of uncertainties and the necessity to make quick decisions and end up failing.

4.8 Conclusion

This chapter presented or showed the findings got from the field that was conducted from Kagongo in Ibanda district, Ibanda Municipality and the case study of these findings were the coffee factories in Ibanda.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents the summary of the various finding of the study basing on the objectives, conclusion, recommendations and areas for further studying financial planning and performance of small scale enterprises.

5.1 Summary of findings

Major emphasis was placed on three objectives that enabled the researcher to carry out the study. The objectives were to enable the researcher to find out whether there was a relationship between financial planning and performance of small scale enterprises while basing on the different measures of each variable.

Findings showed that there is a positive relationship between budgeting and the performance of small scale enterprises at 0.05 level meaning it was significant because the correlation co-efficient was 0.278 and the p-value was 0.046. This means that if small scale enterprises increasingly carry out budgeting processes, it increases the performance of small scale enterprises on a small impact because there are other factors that increase their performance like enough capital.

Again findings indicated a positive relationship between financial reporting and performance of small scale enterprises with 0.031 and a significant correlation of 0.01 which means if small scale enterprises increase the acts of carrying out financial reporting of their operations, the performance of small scale enterprises increases on a small rate. This is because SMES there are other factors that increase SMES' performance.

The findings also indicated a positive relationship between risk assessment and performance of small scale enterprises. The correlation was significant because the p-value was 0.002 greater than 0.001 thus a relationship between risk assessment and performance of small scale

enterprises. This means that the more the small scale enterprises carry out risk assessment procedures in their operations, the higher the performance of small scale enterprises though the impact is small because there are other factors minus risk assessment that increase the performance of SMES.

5.2 Conclusion

There is a relationship between budgeting and performance of small scale enterprises with a correlation significant level 0.05. Also there was a relationship between risk assessment and performance of small scale enterprises with a significant correlation level of 0.01 and lastly there is a positive relationship between financial reporting and the performance of small scale enterprises with a significant correlation of 0.01.

5.3 Recommendations

Since small scale enterprises carry out budgeting but on a small rate, the researcher recommends that they should have budgeting policies to control revenue and expenditures so that revenues exceed expenditures and get profits or achieve their goals

Small scale enterprises do not involve all the employees in decision making so the researcher recommends that those enterprises that wish to prosper should involve all the departments and individuals in decision making and budgeting. This was seen when some employees were not sure whether the enterprises carry out budgeting.

The researcher recommends that more physical safeguards of financial reports against theft should be set in small scale enterprises for them to be more successful and profitable hence increasing the GDP of the country.

The researcher recommends that more good record keepers should be employed in small scale enterprises so that all the records of the enterprises' performance are kept safely so that they can be used for comparison purposes or are used to tell the business's status.

5.4 Suggestion for further studies

This study was carried out within a short period of time so further studies need to be carried within a long period of time also further studies need to be done on financial planning and performance of small scale enterprises by using different measurements of the variables that is using sales turn over to measure performance of small scale enterprises and short financial plans to measure financial planning.

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APPENDICES

APPENDIX I

QUESTIONNAIRE

Dear respondent(s),

I am a student of Uganda Martyrs University Nkozi, pursuing a bachelor's degree in accounting and finance. As a requirement for the fulfillment for the award of Bachelor of Science in accounting and finance, I am supposed to write a dissertation on the topic, "financial planning on the performance of small scale enterprises". The results will be entirely for academic purposes and will remain confidential and respondent's privacy is guaranteed. Any additional information will be appreciated. Thank you.

SECTION A: BIO DATA

Please tick in the box for personal details.

1) Age bracket

a) Below 20 ☐ b) 20-25 ☐ c) 26-30 ☐ d) 31 and above ☐

2). Marital status

a) Single ☐ b) married ☐ c) divorced ☐ d) widow ☐

3) For how long have you been in business?

a) Less than a year ☐ b) 5 years ☐ c)6-10 years ☐ d) above 10 years. ☐

4) Which kind of business do you deal in?

a) Products ☐ b) services ☐ c) both ☐

5) Level of education

a) Primary ☐ b) secondary ☐ c) diploma ☐ d) degree ☐

6) Number of employees

a) 0 ☐ b) 1 ☐ c) 2-5 ☐ d) above 6 ☐

Tick in the appropriate box basing on this scale.

scale	**5**	**4**	**3**	**2**	**1**
particulars	Strongly agree	agree	Not sure	disagree	Strongly disagree

Objective1: **SECTION B: Budgeting.**

Details	**5**	**4**	**3**	**2**	**1**
B.1 Every one is involved in budgeting process.					
B.2 Budgeting helps us in decision making					
B.3 We prepare a budget for all expenses and all expected revenue					
B.4 We have records of cash that is received and that which is spent.					
B.5 There are budgeting policies to control revenue and expenditures in small scale enterprises particularly coffee factories					

What are some of the challenges being faced when budgeting?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

How can the budgeting process be improved in the business?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

SECTION C: Financial reporting.

Details	5	4	3	2	1
F.1 We prepare financial reports often.					
F.2 The financial reports prepared guide us in decision making					
F.3 The financial reports prepared are used when we are accessing loans from financial institutions.					
F.4 Financial reports are used to assess whether the business is growing or not.					
F.5 There are physical safeguards of financial reports against theft.					

Identify some of the challenges in the preparation of financial reports that you face?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

SECTION D: Risk assessment.

Details	5	4	3	2	1
R.1 We assess our business risks.					
R.2 We identify ways of minimizing the identified risks so that they don't affect the business performance.					
R.3 Decisions made are based on the risks identified to be facing the business.					
R.4 We make decisions that carry the lowest risk to the business.					
R.5 We consider risk assessment as an important tool in financial planning for the business					

Explain the challenges you face when assessing your business risk?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

In which ways have you overcome some of these challenges?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

SECTION E: Performance of Small scale enterprises

Details	5	4	3	2	1
P.1 We have sufficient cash to clear our debts when they fall due					
P.2 We are making profits every year					
P.3 We make sufficient profits to reinvest into the business.					
P.4 We are managing all our costs to ensure they do not exceed the budget.					
P.5 cash is held for speculative, transaction and precautionary motives.					
P.6 Managers ensure maximum mixture of debt and equity in financing the firm so as to ensure returns to business owners.					
P.7 Assets are increasing using the businesses' operations.					
P.8 The government should make laws that would guide the debt recovery and credit payment system in Uganda.					
P.9 Cash available should not be used to gauge the performance of businesses but instead use financial reports because they can monitor cash position without paying the businesses' debts					
P.10 Low liquidity results in under investment.					

APPENDIX II

INTERVIEW GUIDE

Question one: Budgeting

Are there any challenges faced while carrying out budgeting for coffee factories in Kagongo or small scale businesses? If yes, state them

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

Do all shareholders and stakeholders understand the budgeting method used by small scale businesses particularly coffee factories and can they all interpret the results without guidance of the accountants?

……
………………………………………………………………………………………………………

Question two: Financial reporting

What are the values of financial reporting to the small scale businesses particularly coffee factories to both share holders and stakeholders?

……
………………………………………………………………………………………………………

Question three: risk assessment

Are small scale enterprises particularly coffee factories most risky for an entrepreneur to engage in?

……
………………………………………………………………………………………………………

How do Coffee factories in Kagongo and small scale enterprises in general assess their risks. Which methods are used to assess risks in small scale enterprises?

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

Thank You for Participating In This Research.

APPENDIX III

KREJICE AND MORGAN (1970) TABLE

Table 3.1

Table for Determining Sample Size of a Known Population

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	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

Note: N is Population Size; S is Sample Size *Source: Krejcie & Morgan, 1970*