

**THE IMPACT OF FINANCIAL MANAGEMENT PRACTICES ON THE GROWTH
AND DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN MUKONO
MUNICIPALITY**

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DECLARATION

I WAGOGO EDWIN SAMUEL declare that the information in this dissertation is based on my knowledge and also knowledge from other researchers or scholars works and research that I have carried out during my time at the university. Therefore, I declare that this dissertation is not a duplicate of other students work. I have personally carried out the research as required of me and all the information in this dissertation is based on my research and the knowledge, I gathered from other researchers works.

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APPROVAL

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ABSTRACT

This study examines the economic factors affecting the growth of Small and medium Enterprises (SMES) in Mukono municipality. SMES play a crucial role in driving economic development, job creation, and poverty reduction in the country. To gain a comprehensive understanding of the factors influencing SME growth this research examines the impact of financial practices on the growth and development of SMEs in Mukono. The research involved data collection from a diverse sample of SMES in Mukono in various sectors like retail, services, manufacturing and agriculture and the financial practices used by the SMEs owners. The analysis of this data provides valuable insights into the financial practices used by the smes owner and how they affect the growth and development of the businesses. From a sample size of 100 respondents 50 responded and about 56% of smes owner in Mukono are male and 44% are females showing a fairly balanced gender representation among SME owners in Mukono.

An overwhelming 98% of respondents reported that they maintain regular financial records for their business mostly using cash books, sales ledgers, purchase ledgers payroll records and financial statements. This study examines the relation between the financial practices used in SMEs and how they influence the growth and development of SMEs in Mukono municipality.

The Drivers of the growth and development of the Smes identified by the respondents show 72% of the respondents identified the financial management practices as a major factor that strongly affects the business growth and 64% also identified market expansion as another key driver followed by 34% employee skills development and 32% with product innovation.

The evaluation of the financial management practices shows that 60% majority of the respondents agreed that financial management practices were well organized and effective in the growth and development of their businesses.

Therefore the findings indicate that financial management practices, particularly record keeping and cash flow management are critical to the growth and development of SMES in Mukono municipality. The lack of access of external financing remains a major obstacle for many SMEs largely due to high interest rates and collateral requirements. Therefore SMEs that regularly monitor their financial and implement effective financial management practices tend to experience better growth.

CHAPTER ONE

1.0 Introduction

Effective financial management has a significant impact on the financial growth and development of small and medium enterprises. This study looks at the key and major financial management practices used in SMEs in Mukono municipality such as record keeping, financial planning, budgeting and cash flow management and how they influence and affect the financial growth and development of SMEs.

Chapter one briefly talks about the background of the study, the statement of the problem, objectives of the study, research questions, significance of the study, scope of study and limitation of the research topic.

1.1 Background

It has long been acknowledged that small enterprises (SEs) play a dynamic role in developing nations as the engines that enable those nations to meet their growth objectives. These businesses have been recognized as the key to achieving these nations' ambitions for rapid industrialization and other forms of development. The primary indicators of a small business are the number of employees and the amount of money invested. Tushabomwe-Kazooba (2006) further elaborated that many SMEs operate from shared facilities, are typically family owned and managed and rely heavily on labour. Financial management, an essential practiced throughout history. Evidence from Sumerian records indicates that credit was systematically used for agricultural and other purposes in Mesopotamia around 3000B.C. (crane 1995). Additionally Hammurabi's Code contains numerous provisions concerning the regulation of credit I Babylon around 1800 B.C . The practice of accounting, which is fundamental to financial management, can also be traced back to biblical times. It was present during Joseph's tenure in Egypt, where it as noted "nothing was disbursed from the treasury without a written order".

A key Feature of a thriving economy is a dynamic and flourishing SME sector. Small and medium enterprises are essential to a country's progress as they improve socioeconomic development in various ways as they also create job opportunities for both rural and urban population and foster sustainability and innovation in the community

Fayah (2008) propounds that most of the current multi million dollar enterprises have their origin in SMEs. SMEs in developed and less developed countries as in other countries are still facing a number of difficulties and obstacles that are complicating their operations development .

According to Pandey (1985) ‘Financial management is a managerial activity which is concerned with the planning and control of the firm’s financial resources. Since financial management practices are what determine a company's financial performance and health, financial management practices are crucial to the success and expansion of small and medium-sized businesses. Almost every decision made by management has an impact on finances, so it is the financial accountant's job to demonstrate the likely financial effects of potential solutions and countermeasures.

According to Nsubuga (1994), small businesses are defined as those that employ fewer than five people and possess capital assets of less than \$10,000. For these enterprises to succeed, they need effective planning and financial management skills to boost productivity and contribute to economic growth. Financial management is considered very vital for the development of SMEs. It is very important for businesses to carefully evaluate how much funding they need and where to obtain it to ensure adequate working capital for rising production demands.

When we talk about growth, we're talking about a gradual increase in some quantity. Quantity can take two forms: it can be abstract (like growing money) or physical (like a system getting more complex). It can also refer to the growth mode, which are numerical models that indicate the rate of increase of a given amount over time. The general goal of company development is to create and execute growth opportunities through a variety of tasks and procedures.

In Uganda SMEs encompass various sectors like food processing textiles manufacturing and small scale farming agriculture these businesses play a vital role in the economy. Poor financial management practices plague a lot of small and medium-sized businesses, which has a big impact on their development and expansion. Poor bookkeeping and financial management are prevalent in small business entities, which leads to a high number of business failures and collapses after a few years of operation.

1.2 Problem Statement

Every Business needs proper financial management and is very key for the success of all businesses, Nevertheless many SMEs face various financial hurdles and end up collapsing and closing after a few

years of operation because poor financial management practices . Because of poor financial management, the businesses will face problems like lack of business plans, lack of capital, and lack of financial records like financial statements which will affect the financial stability and position of the business. The entrepreneurs cannot access financial institutions because of lack of business record and do not follow the cash flows in the running of the businesses. This study examined and provides insights on how proper financial management practices affect and influence financial growth and development of SMEs.

1.3 Objectives of the study

This research study aims to examine the impact of financial management practices on the financial growth and development of SMEs in Mukono municipality.

The specific objectives include;

- To establish the various financial management practices like book keeping, , financial planning and budgeting that ae being used in by SMEs owners in Mukono.
- To establish the influence of key financial practices on the growth and development of SMEs in Mukono.
- To establish the relationship between financial management practices and development of SMEs in Mukono.
- To identify the major challenges faced by the SME owners Mukono municipality.

1.4 Research Questions

The following are the questions to be drafted and used for collection of and investigation;

1. what are the various financial management practices being used by the SMEs in Mukono?
2. What are the key hurdles faced by SMEs Owners in Mukono?
3. What is the relationship between financial management practices and the financial development of SMEs in Mukono?

1.5 Significance of the Research study

The study focused on the financial management practices used in SMEs Mukono in terms of financing practices , record keeping and cash flow management, financial planning and budgeting and how they influence the growth and development of SMEs in Mukono. This will aid entrepreneurs in instituting

sound financial management practices that will help improve their financial literacy and provide key areas to focus on in financial management to aid the proper growth and development of their businesses.

1.6 Scope and Limitation of the study

The geographical scope was Mukono Town. Mukono Town is a municipality in Mukono District, focusing on areas like Goma division and Mukono Central .

The study focused on the financial management practise related to the growth and development of SMEs. It aimed to examine different financial management activities ,including record keeping and cash flow management of SMEs in Mukono.

The Research study was done from 20th May to 26th August 2024.

1.7 Conceptual Framework

The conceptual framework for this study illustrates the relationship between financial management practices and the growth and development of small and medium enterprises (SMEs) in Mukono Municipality. The framework is structured to show how key financial management practices—such as record-keeping, cash flow management, and budgeting—directly influence SME growth indicators like profitability, market share, and business expansion.

Independent Variables

Financial Management practices

1. Record-Keeping: Systematic documentation of financial transactions, which is essential for tracking income, expenses, and ensuring legal compliance.
2. Cash Flow Management: The process of monitoring, analysing, and optimizing cash inflows and outflows to maintain adequate liquidity.
3. Budgeting: The practice of planning and controlling financial resources to meet business objectives.

Dependent Variables

Growth indicators

1. **Growth in Revenue:** An increase in the income generated from business activities over time.
2. **Business Expansion:** The ability of SMEs to increase their operations, market presence, or product offerings.
3. **Profitability:** The degree to which an SME's financial management practices result in surplus revenue after all expenses have been paid.

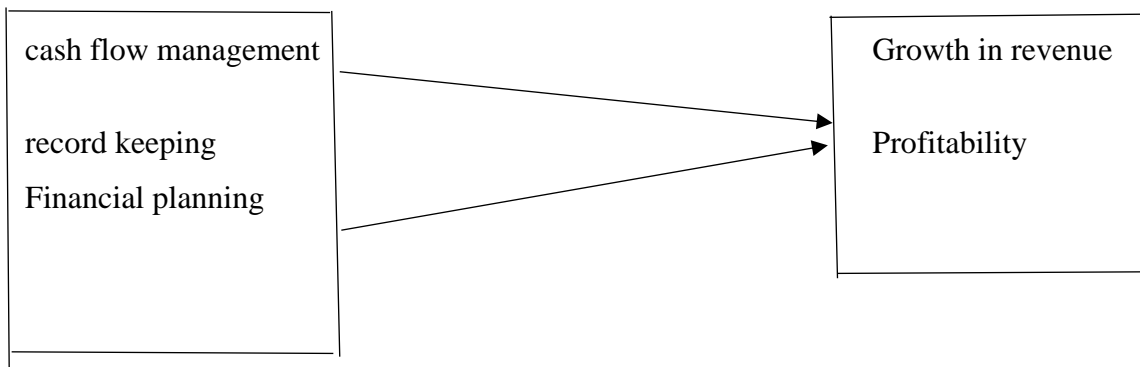
Intervening Variables

1. **Access to Financing:** Availability of financial resources from banks, investors, or other sources.
2. **Business Environment:** The external factors, such as economic conditions, regulations, and competition, that influence SME operations.

The conceptual framework posits that effective financial management practices lead to improved financial performance, which, in turn, fosters the growth and development of SMEs. It also suggests that the relationship between financial management practices and SME growth can be influenced by external factors like access to financing and the business environment.

Independent variables

Dependent variables



Chapter Two

Literature Review

2.0 Introduction

This chapter provides an extensive review of the existing literature on the impact of financial management practices on the growth and development of small and medium enterprises (SMEs). It encompasses theoretical frameworks, financial management practices, record-keeping, cash flow management, challenges faced by SMEs, and the relationship between financial management and SME growth. The aim is to establish a robust understanding of how financial management influences SME development and to identify gaps in the current literature.

2.1 Theoretical Framework

2.1.1 Financial Management Theory

Financial management theory revolves around the strategic planning, organizing, directing, and controlling of financial undertakings in an organization. It involves managing the company's financial resources to achieve its objectives. Pandey (1985) describes financial management as a crucial managerial activity that includes financial planning, control, and decision-making processes. The theory underscores three main objectives:

1. **Profit Maximization:** Ensuring the highest possible profit levels.
2. **Liquidity Management:** Maintaining adequate cash flow to meet obligations.
3. **Wealth Maximization:** Increasing the market value of the shareholders' equity.

Effective financial management requires balancing these objectives to sustain business operations and drive growth. The principle is that sound financial decisions regarding investments, financing, and dividends significantly influence a firm's growth trajectory.

2.1.2 Business Growth Theory

Business growth theory explores the expansion of a firm's operations, market share, and overall profitability. Sørensen (2012) defines growth in terms of both tangible increases (e.g., revenue, assets) and intangible developments (e.g., market presence, organizational complexity). The theory identifies several growth strategies:

1. **Market Penetration:** Increasing market share within existing markets.

2. **Product Development:** Introducing new products to existing markets.
3. **Market Development:** Entering new markets with existing products.
4. **Diversification:** Expanding into new markets with new products.

The theory posits that sustainable growth requires strategic planning and resource management to adapt to changing market conditions and leverage competitive advantages.

2.1.3 Resource-Based View (RBV)

The Resource-Based View (RBV) of the firm, proposed by Barney (1991), suggests that a company's unique resources and capabilities are critical to achieving competitive advantage and growth. According to RBV, resources must be valuable, rare, inimitable, and non-substitutable (VRIN). In the context of SMEs, effective financial management practices are considered valuable resources that can enhance growth by optimizing financial performance and mitigating risks.

2.2 Financial Management Practices in SMEs

Financial management practices are essential for the viability and expansion of SMEs. These practices include financial planning, budgeting, accounting, financial reporting, and risk management.

2.2.1 Financial Planning and Budgeting

Financial planning involves setting financial goals, developing strategies to achieve them, and creating plans to implement those strategies. Budgeting, a critical component of financial planning, involves forecasting income and expenses, allocating resources, and monitoring financial performance. Terry (2009) argues that effective financial planning and budgeting enable SMEs to anticipate financial needs, manage resources efficiently, and avoid financial crises.

Benefits of Financial Planning and Budgeting:

- **Predictive Insight:** Provides foresight into future financial conditions.
- **Resource Allocation:** Ensures efficient use of resources to meet business objectives.
- **Risk Management:** Identifies potential financial risks and prepares mitigation strategies.
- **Performance Measurement:** Sets benchmarks for evaluating financial performance.

2.2.2 Accounting and Financial Reporting

Accounting and financial reporting provide a systematic way to record, analyze, and communicate financial information. Accurate accounting records are essential for tracking business performance, assessing financial health, and making informed decisions. Financial reports, such as balance sheets,

income statements, and cash flow statements, offer insights into a company's financial position and performance over time. Tushabomwe-Kazooba (2006) emphasizes that reliable financial reporting enhances transparency and accountability, which are crucial for attracting investors and accessing credit.

Key Components of Financial Reporting:

- **Balance Sheet:** Provides a snapshot of the company's assets, liabilities, and equity at a specific point in time.
- **Income Statement:** Summarizes revenues, expenses, and profits over a period.
- **Cash Flow Statement:** Details the inflows and outflows of cash, highlighting operational, investing, and financing activities.

2.2.3 Risk Management and Insurance

Risk management involves identifying, assessing, and mitigating financial risks that could impact an SME's operations and growth. Common financial risks include credit risk, liquidity risk, and market risk. Effective risk management strategies, such as diversification, hedging, and insurance, can help SMEs protect their assets and ensure business continuity. Pandey (1985) highlights the importance of integrating risk management into financial management practices to enhance resilience and stability.

Effective Risk Management Practices:

- **Risk Assessment:** Identifying and evaluating potential risks.
- **Risk Mitigation:** Implementing strategies to minimize impact.
- **Insurance:** Transferring risk to an insurance provider to cover potential losses.
- **Continuous Monitoring:** Regularly reviewing and updating risk management practices.

2.3 Record Keeping

Record keeping is the systematic documentation of all financial transactions within an enterprise. Proper record keeping is essential for tracking income and expenses, monitoring financial performance, and ensuring compliance with legal and regulatory requirements.

2.3.1 Importance of Record Keeping

Accurate and up-to-date financial records provide a clear picture of a business's financial health, enabling owners to make informed decisions. Records such as invoices, receipts, and bank statements

help in preparing financial statements, filing taxes, and securing financing. Tushabomwe-Kazooba (2006) notes that poor record keeping is a common issue among SMEs in Uganda, leading to financial mismanagement and business failure.

Benefits of Effective Record Keeping:

- **Financial Transparency:** Enhances visibility into financial performance.
- **Informed Decision-Making:** Provides data for strategic planning and decision-making.
- **Legal Compliance:** Ensures adherence to regulatory requirements.
- **Financial Tracking:** Monitors cash flow, expenses, and profitability.

2.3.2 Record Keeping Practices

Effective record-keeping practices include maintaining detailed and organized records, using accounting software, and conducting regular audits. Kayanula and Quartey (2000) suggest that SMEs should adopt standardized record-keeping systems to ensure consistency and accuracy. Training in record-keeping skills can also improve the financial management capabilities of SME owners.

Best Practices for Record Keeping:

- **Documentation:** Keep all financial documents such as receipts, invoices, and bank statements.
- **Organization:** Maintain an organized filing system for easy retrieval.
- **Technology Use:** Utilize accounting software to automate record-keeping processes.
- **Regular Audits:** Conduct periodic audits to ensure accuracy and compliance.

2.4 Cash Flow Management

Cash flow management involves monitoring, analyzing, and optimizing the flow of cash into and out of a business. Effective cash flow management ensures that a business can meet its short-term obligations, invest in growth opportunities, and avoid liquidity crises.

2.4.1 Importance of Cash Flow Management

Cash flow is the lifeblood of any business, and managing it effectively is crucial for survival and growth. Positive cash flow allows businesses to pay their bills, invest in new opportunities, and build financial reserves. Conversely, negative cash flow can lead to insolvency and business failure. Nsubuga (1994) asserts that poor cash flow management is a leading cause of SME failures, highlighting the need for robust cash flow management practices.

Impact of Cash Flow Management:

- **Liquidity Maintenance:** Ensures sufficient funds to meet short-term obligations.
- **Operational Continuity:** Prevents disruptions in business operations.
- **Investment Capacity:** Provides funds for growth and expansion opportunities.
- **Financial Stability:** Enhances overall financial health and stability.

2.4.2 Cash Flow Management Strategies

Effective cash flow management strategies include forecasting cash flow, accelerating receivables, extending payables, and maintaining cash reserves. SMEs can use cash flow statements to track cash inflows and outflows, identify trends, and make adjustments as needed. Implementing efficient invoicing and collection processes can also improve cash flow. Sørensen (2012) recommends that SMEs regularly review their cash flow statements to ensure they have sufficient liquidity to meet their obligations.

Strategies for Managing Cash Flow:

- **Cash Flow Forecasting:** Project future cash inflows and outflows to anticipate financial needs.
- **Receivables Management:** Speed up the collection of receivables to improve cash inflow.
- **Payables Management:** Negotiate longer payment terms with suppliers to manage outflows.
- **Maintaining Reserves:** Keep a cash reserve for unexpected expenses or opportunities.

2.5 Challenges Faced by SMEs

SMEs face numerous challenges that hinder their growth and development. These challenges include access to finance, financial management skills, and the economic environment.

2.5.1 Access to Finance

Access to finance is a significant challenge for many SMEs, particularly in developing countries. SMEs often struggle to obtain financing due to lack of collateral, poor credit history, or inadequate financial records. Tushabomwe-Kazooba (2003) notes that financial institutions are reluctant to lend to SMEs because they perceive them as high-risk borrowers. This lack of access to finance limits the ability of SMEs to invest in growth opportunities and expand their operations.

Barriers to Accessing Finance:

- **Collateral Requirements:** Lack of sufficient assets to secure loans.
- **Credit History:** Poor or no credit history making it difficult to obtain financing.
- **High-Interest Rates:** Unaffordable borrowing costs for many SMEs.
- **Financial Records:** Inadequate documentation to support loan applications.

2.5.2 Financial Management Skills

A significant number of SME owners lack the necessary financial management skills to effectively manage their businesses. This skill gap leads to poor decision-making, inefficiencies, and financial mismanagement. Kayanula and Quartey (2000) emphasize the need for training and capacity-building programs to enhance the financial management skills of SME owners. Such programs can improve their ability to plan, budget, and manage financial resources effectively.

Areas Needing Skill Development:

- **Budgeting and Planning:** Developing accurate financial plans and budgets.
- **Accounting Practices:** Maintaining precise and consistent financial records.
- **Cash Flow Management:** Implementing strategies to manage cash effectively.
- **Risk Management:** Identifying and mitigating financial risks.

2.5.3 Economic Environment

The economic environment, including factors such as inflation, currency instability, and regulatory changes, can significantly impact the operations and growth of SMEs. Economic instability creates uncertainty and increases the risks associated with business investments. Mbaguta (2002) highlights that SMEs in Uganda are particularly vulnerable to economic fluctuations, which can disrupt their operations and hinder their growth.

Economic Challenges:

- **Inflation:** Erodes purchasing power and increases costs.
- **Currency Instability:** Affects pricing and international trade.
- **Regulatory Changes:** Compliance costs and adaptation challenges.
- **Economic Fluctuations:** Impact demand and business stability.

2.6 Relationship Between Financial Management and SME Growth

Several studies have explored the relationship between financial management practices and the growth of SMEs. Sound financial management practices have been linked to improved business performance, increased profitability, and sustainable growth.

2.6.1 Impact of Financial Management on Growth

Effective financial management practices enable SMEs to optimize resource allocation, manage risks, and make informed decisions. Proper financial planning, budgeting, and cash flow management contribute to financial stability and growth. Fayah (2008) argues that SMEs with strong financial management practices are better positioned to seize growth opportunities, adapt to market changes, and achieve long-term success.

Positive Outcomes of Financial Management:

- **Resource Optimization:** Ensures efficient use of financial and operational resources.
- **Risk Mitigation:** Reduces financial vulnerabilities and enhances stability.
- **Informed Decision-Making:** Facilitates strategic planning and adaptability.
- **Growth Opportunities:** Enhances ability to invest in and capitalize on new opportunities.

2.6.2 Case Studies and Empirical Evidence

Empirical studies provide evidence of the positive impact of financial management on SME growth. For instance, a study by Tushabomwe-Kazooba (2006) found that SMEs in Uganda that implemented sound financial management practices experienced higher growth rates compared to those with poor financial management. Another study by Sørensen (2012) demonstrated that effective cash flow management was associated with increased profitability and business expansion among SMEs in Denmark.

Examples from Empirical Studies:

- **Tushabomwe-Kazooba (2006):** SMEs with robust financial practices showed superior growth in Uganda.
- **Sørensen (2012):** Effective cash flow management led to higher profitability and expansion in Danish SMEs.
- **Kayanula and Quartey (2000):** Training in financial management correlated with better business performance in Ghanaian SMEs.

2.7 Conclusion

This chapter has provided a detailed review of the literature on financial management practices and their impact on the growth and development of SMEs. The review has highlighted the importance of financial planning, budgeting, accounting, and risk management in fostering SME growth. It has also identified the critical role of record-keeping and cash flow management in ensuring financial stability and business success. Additionally, the chapter has discussed the challenges faced by SMEs, including access to finance, financial management skills, and economic instability. Empirical evidence supports the positive relationship between sound financial management practices and SME growth. The next chapter will detail the research methodology used in this study to investigate the impact of financial management practices on SME growth in Mukono Municipality.

Chapter Three

Research Methodology

3.0 Introduction

This Chapter describes the research methodology employed to examine how financial management practices affect the growth and development of SMEs in Mukono Municipality. It includes details on the research design, the population of the study, sampling methods data collection techniques, data analysis procedures and ethical considerations.

3.1 Research Design

The study employs a descriptive research design to examine the relationship between financial management practices and SME growth. A descriptive design is chosen because it allows for a comprehensive analysis of the current practices, challenges, and outcomes associated with financial management in SMEs.

3.2 Study Population

The target population for this study includes small and medium enterprises (SMEs) operating within Mukono Municipality. According to the 2014 Population Census Final Results, Mukono Municipality had a population of 599,817, with a projected population of 601,516 by mid-2015 (Mukono District Local Government, 2024). The study will focus on SMEs across different sectors such as manufacturing, retail, services, and agriculture, that have been in operation for at least three years to ensure that established financial management practices are reflected in the data.

The target population for this study includes small and medium enterprises operating within Mukono Municipality. These SMEs vary across different sectors, including manufacturing, retail, services, and agriculture. The study focuses on SMEs that have been in operation for at least three years to ensure that the data collected reflects established financial management practices.

Based on national data and local urban trends, a reasonable assumption might be that **around 10% of the population is involved in operating SMEs.**

Given the 2015 projected population of **601,516** residents in Mukono Municipality, we can estimate the number of SMEs as follows:

Estimated SME Population = 10% of 601,516 = $0.10 \times 601,516 \approx 60,152$
Estimated SME Population = 10% of 601,516 = 0.10 times 601,516

Estimated SME Population = 10% of 601,516 = $0.10 \times 601,516 \approx 60,152$

Thus, there could be an estimated **60,152 SMEs** operating in Mukono Municipality.

3.3 Sample Size and Sampling Techniques

3.3.1 Sampling Techniques

A stratified random sampling technique will be used to select the sample from the target population. The SMEs will be categorized based on their sector, and a random sample will be drawn from each category to ensure that the sample is representative of the entire SME population in Mukono Municipality.

3.3.2 Sample Size

Using Slovin's formula for a finite population:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

- N = 60,152 (estimated number of SMEs)
- e = margin of error (let's assume 10% or 0.1 to ensure a manageable sample size)

$$n = \frac{60,152}{1 + 60,152(0.1)^2}$$

$$n = \frac{60,152}{1 + 601.5260,152}$$

$$n = \frac{60,152}{602.5260,152} \approx 99.8 \approx 100$$

This suggests that a sample size of approximately **100 respondents** would be adequate to represent the SMEs in Mukono Municipality with a 10% margin of error.

3.4 Data Collection Methods

The study will utilize both primary and secondary data collection methods:

- Primary Data:** Structured questionnaires and interviews will be administered to SME owners, managers, and financial officers to gather data on financial management practices and their impact on business growth.
- Secondary Data:** Financial reports, business records, and relevant literature will be reviewed to supplement the primary data.

3.5 Data Analysis

Data collected will be analyzed using both qualitative and quantitative methods:

- i. **Quantitative Analysis:** Statistical tools, such as SPSS, will be used to analyze numerical data, including frequency distributions, correlation, and regression analysis, to establish the relationship between financial management practices and SME growth.
- ii. **Qualitative Analysis:** Thematic analysis will be used to analyze qualitative data from interviews, identifying patterns, and themes related to financial management practices and their impact on SME development.

3.6 Ethical Considerations

The study will adhere to ethical standards by ensuring confidentiality, informed consent, and the voluntary participation of all respondents. Data will be collected anonymously, and participants will be assured that their information will be used solely for academic purposes.

3.7 Limitations of the Study

The study acknowledges potential limitations, such as the possibility of biased responses from SME owners or managers who may wish to present their financial management practices in a favorable light. Additionally, the study's findings may be limited by the availability and accuracy of financial records kept by SMEs.

Chapter Four

Data Presentation, Analysis, and Interpretation

4.0 Introduction

This chapter provides an analysis of the data gathered from SMEs in mukono municipality, utilizing responses from the online questionnaires. The analysis concentrates on the influence of financial management practices on the growth and development of these enterprises. The data is examined in relation to the research objectives and the primary questions outlined in the Questionnaire

4.1 Response Rate

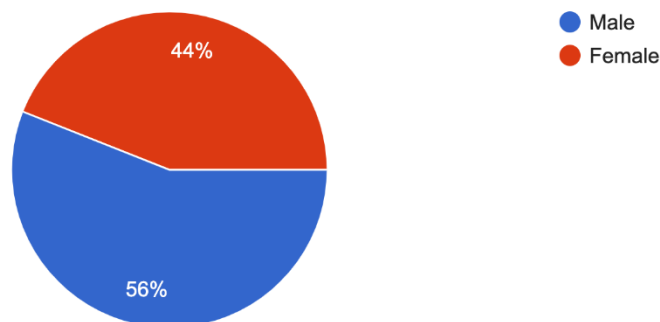
A total of 100 online questionnaires were distributed to SME owners, managers, and financial officers in Mukono Municipality. Out of these, 50 responses were received, resulting in a 50% response rate. The responses provide a sufficient base for analyzing the impact of financial management practices on SME growth in Mukono Municipality.

4.2 Demographic Characteristics of Respondents

4.2.1 Gender of Respondents

Out of the 50 respondents, 56% were male and 44% were female. This suggests that there is a fairly balanced gender representation among SME owners and managers in Mukono Municipality

Gender
50 responses

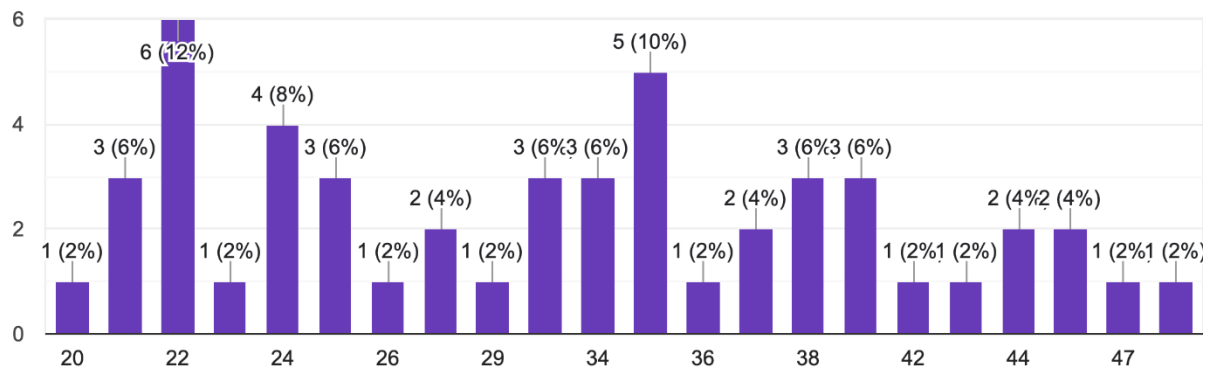


4.2.2 Age of Respondents

The ages of respondents ranged from 20 to 47 years, with the majority (60%) being between 30 and 44 years. This indicates that most SMEs are managed by individuals in their prime working years

Age

50 responses

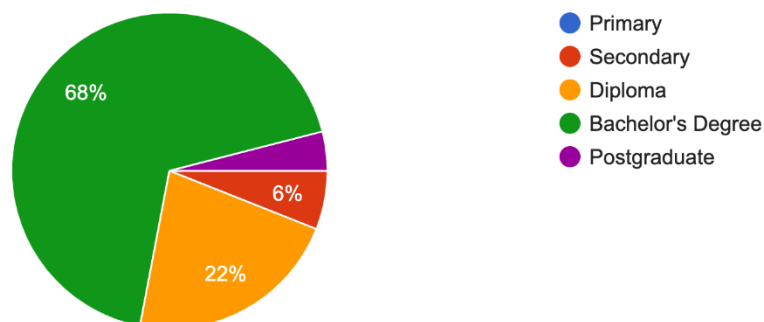


4.2.3 Educational Level

A significant proportion of the respondents (68%) hold a bachelor's degree, while 22% have a diploma, and 6% have completed secondary education. Only 4% have postgraduate qualifications, indicating that most SME managers and owners have formal education

Educational Level

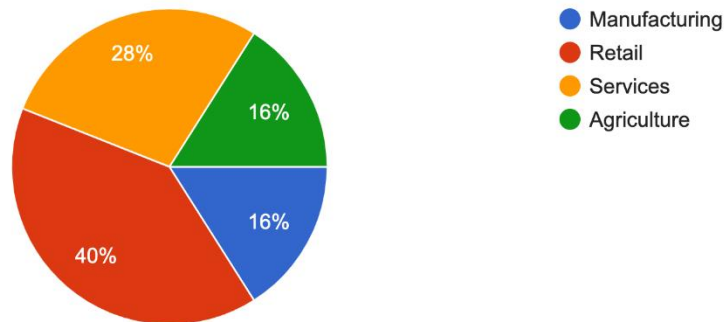
50 responses



4.2.4 Business Sectors

The majority of respondents (40%) were engaged in the services sector, followed by retail (28%), agriculture (16%), and manufacturing (16%). This shows a diverse representation of business sectors in Mukono Municipality

Business sector
50 responses



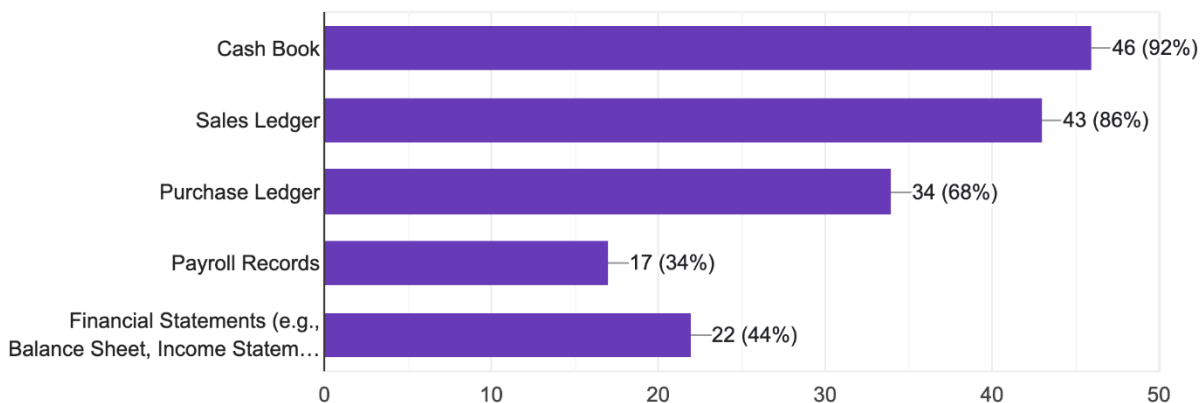
4.3 Financial Management Practices in SMEs

4.3.1 Maintenance of Financial Records

An overwhelming 98% of respondents reported that they maintain regular financial records for their businesses. The most commonly maintained records were cash books (92%), sales ledgers (86%), purchase ledgers (68%), payroll records (34%), and financial statements such as balance sheets and income statements (44%)

What type of financial records does your business maintain? (Check all that apply)

50 responses

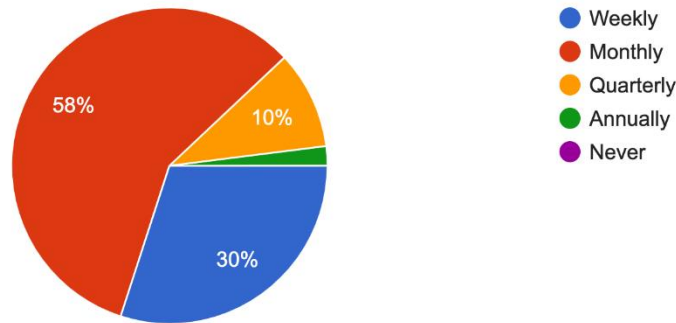


4.3.2 Frequency of Financial Statement Review

Regarding the frequency of financial statement reviews, 58% of respondents review their financial statements monthly, while 30% review them quarterly. Only 10% of respondents review them weekly

How often do you review your financial statements?

50 responses

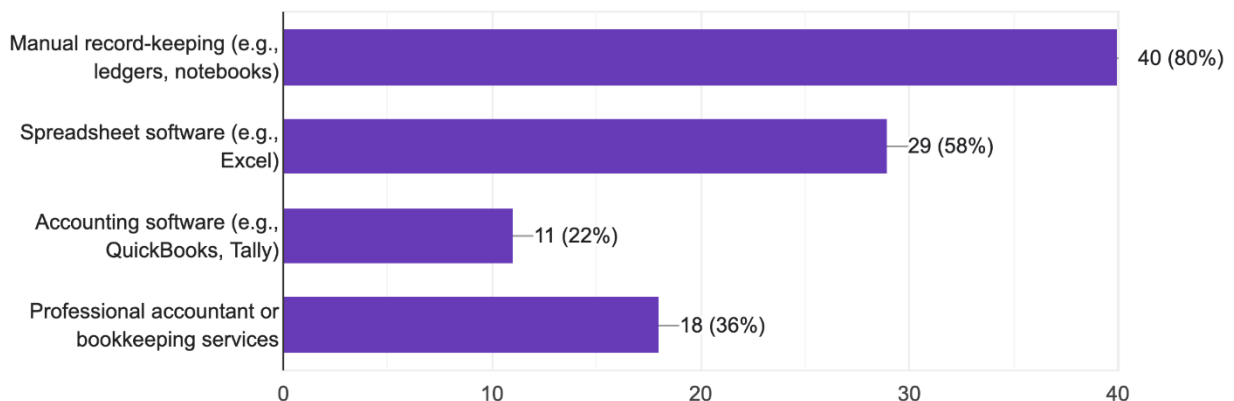


4.3.3 Cash Flow Management Systems

All respondents indicated that they had a system in place for managing cash flow. Manual record-keeping was the most common method (80%), followed by the use of spreadsheet software (58%) and accounting software such as QuickBooks (22%). Professional bookkeeping services were used by 36% of the respondents

If yes, which system do you have in place for managing cash flow? (check all that apply)

50 responses

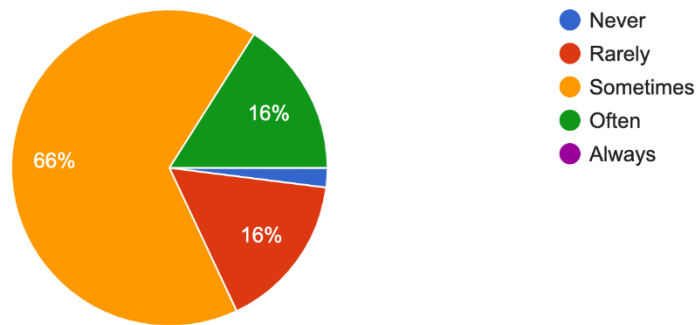


4.3.4 Frequency of Cash Flow Problems

The majority (66%) of respondents stated that they sometimes experience cash flow problems, while 16% rarely face such issues. Another 16% frequently experience cash flow challenges

How frequently do you experience cash flow problems in your business?

50 responses



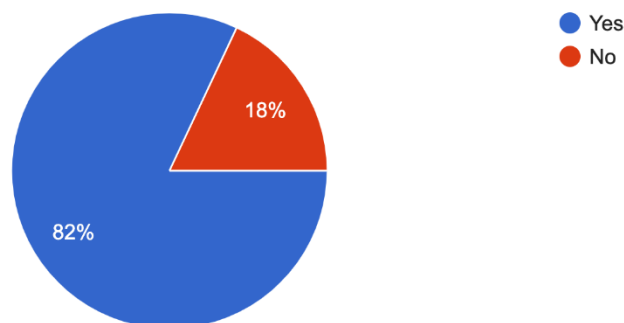
4.4 Access to Finance

4.4.1 Application for External Financing

Only 18% of respondents had applied for external financing, such as loans or grants, for their businesses. The low rate of external financing applications highlights potential barriers to accessing credit for SMEs.

Have you ever applied for external financing (e.g., loans, grants) for your business?

50 responses



4.4.2 Challenges in Accessing External Financing

Among the challenges faced in accessing external financing, high-interest rates were cited by 90% of respondents, followed by lack of collateral (50%), complex application procedures (28%), and insufficient financial records (16%)(Investigating The Impac...).

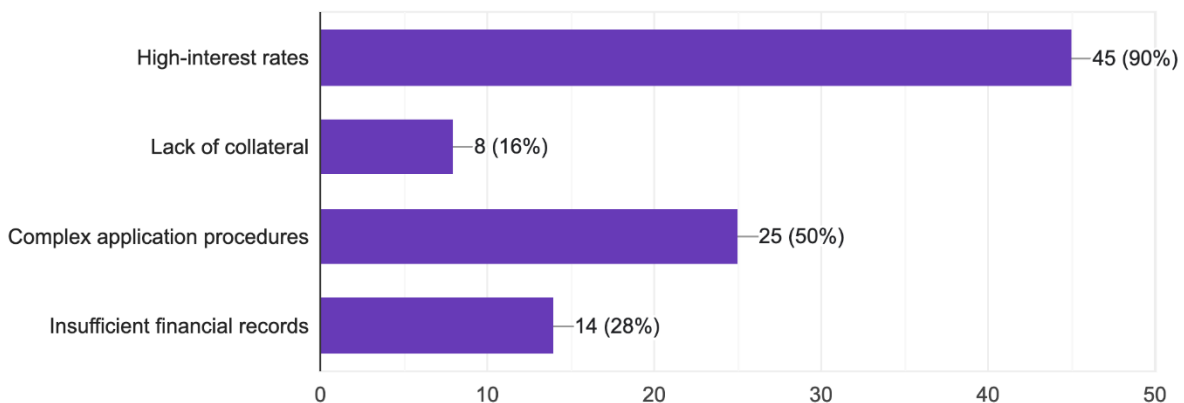
4.5 Business Growth and Development

4.5.1 Overall Business Growth

In terms of business growth, 58% of respondents rated their growth as "good," 30% rated it as "fair," and 10% rated their growth as "excellent." No respondent rated their business growth as "poor" or "very poor"

What challenges have you faced in accessing external financing? (Check all that apply)

50 responses

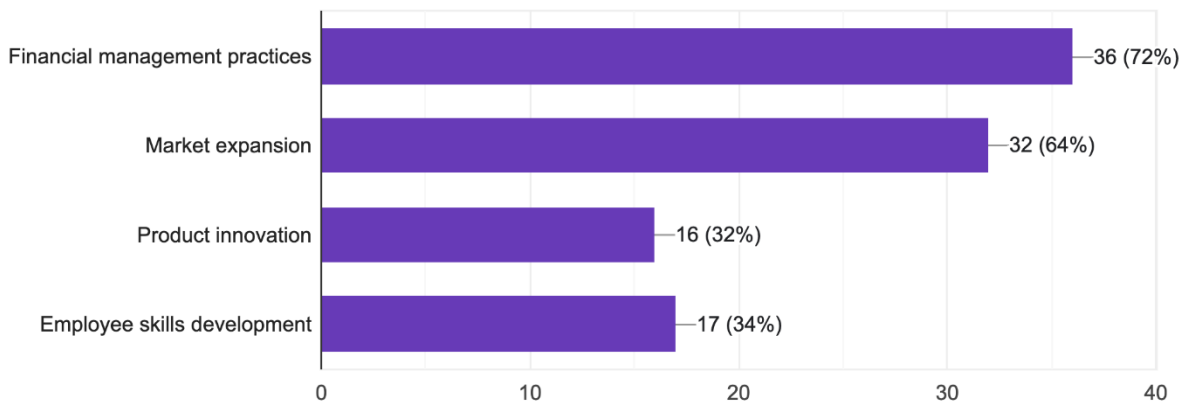


4.5.2 Drivers of Growth

Respondents identified several drivers of business growth, with financial management practices being the most common (72%). Market expansion was also a key driver (64%), followed by employee skills development (34%) and product innovation (32%)

What do you consider to be the main drivers of growth in your business?(Check all that apply)

50 responses



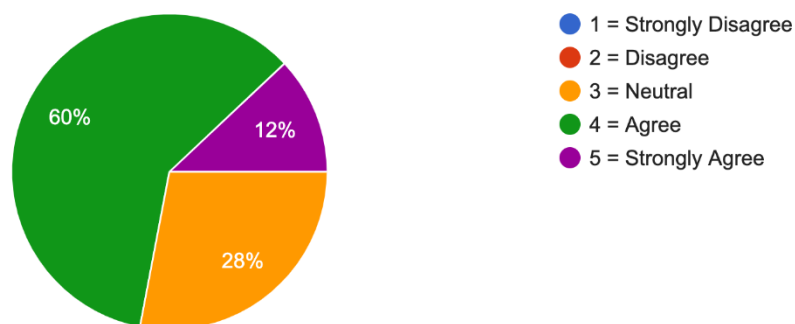
4.6 Evaluation of Financial Management Practices

4.6.1 Effectiveness of Financial Management Practices

A majority of respondents (60%) agreed that their financial management practices were well-organized and effective, while 28% strongly agreed. Only 12% were neutral

Our business's financial management practices are well-organized and effective.

50 responses

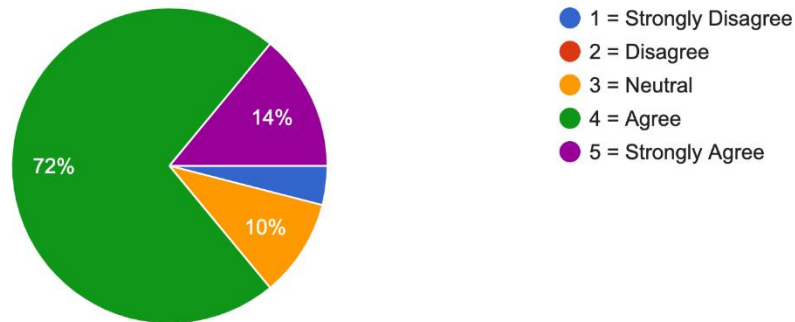


4.6.2 Monitoring Cash Flow

A large percentage (72%) of respondents agreed that they regularly monitor their cash flow to ensure business sustainability, while 10% disagreed with this statement

We regularly monitor our cash flow to ensure business sustainability.

50 responses

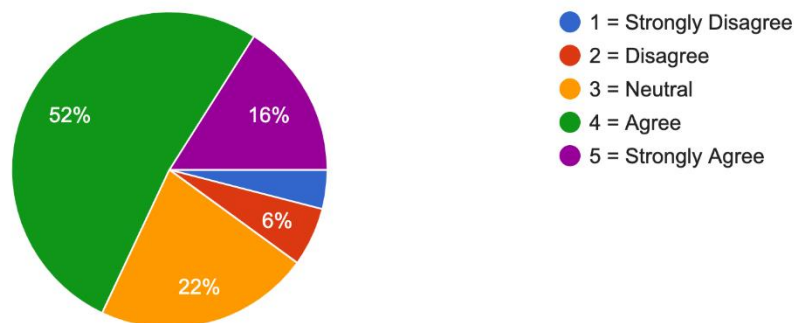


4.6.3 Contribution of External Financing to Business Growth

Regarding external financing, 52% of respondents agreed that access to external financing had significantly contributed to their business growth, while 16% disagreed

Access to external financing has significantly contributed to our business growth.

50 responses



4.7 Interpretation of Findings

The findings indicate that financial management practices, particularly record-keeping and cash flow management, are critical to the growth of SMEs in Mukono Municipality. The lack of access to external financing remains a major obstacle for many SMEs, largely due to high-interest rates and collateral requirements. However, SMEs that regularly monitor their financials and implement effective financial management practices tend to experience better growth.

Chapter Five

Summary, Conclusion, and Recommendations

5.0 Introduction

This chapter summarizes the research findings, draws conclusions based on the study's objectives, and offers recommendations to enhance financial management practices among SMES in Mukono municipality. Additionally, it identifies potential areas for future research.

5.1 Summary of Findings

The study aimed to investigate the impact of financial management practices on the growth and development of SMEs in Mukono Municipality. Key findings are summarized as follows:

- **Financial Management Practices:** 98% of SMEs maintain financial records, with cash books and sales ledgers being the most commonly used. However, manual record-keeping remains the dominant method.
- **Business Growth:** Most SMEs (58%) reported "good" growth over the past three years, and financial management practices were cited as the main drivers of this growth.
- **Access to Finance:** Only 18% of SMEs had applied for external financing, with high-interest rates and lack of collateral being the main barriers.

5.2 Conclusion

The study concludes that financial management practices, such as regular record-keeping, cash flow management, and financial statement reviews, significantly contribute to the growth and development of SMEs in Mukono Municipality. However, access to external financing remains a challenge for most SMEs due to high costs and collateral requirements.

5.3 Recommendations

Based on the findings, the following recommendations are made:

1. **Training in Financial Management:** SME owners should receive training in financial management to improve their skills in record-keeping, budgeting, and cash flow management.
2. **Improved Access to Financing:** Financial institutions should develop SME-friendly financial products that offer lower interest rates and flexible collateral requirements.
3. **Use of Technology:** SMEs should be encouraged to adopt digital financial management tools to improve efficiency in record-keeping and cash flow monitoring.

5.4 Areas for Future Research

Future research could explore the long-term impact of financial management practices on SME sustainability and investigate innovative ways to improve access to finance for SMEs in Uganda.

APPENDICES

APPENDIX 1: Questionnaire

The Impact of Financial Management Practices on the Growth and Development of SMEs in Mukono Municipality

Section A Bio Data

1 GENDER

GENDER	Male	female
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1 AGE... Below 25 years

25-34 years	
35-44years	
45-54 years	
55 years	

2 EDUCATION LEVEL .

Primary	
Secondary	
Diploma	
Bachelors degree	
Post graduate	

3 POSITIONS IN BUSINESS

Owner	
Manager	
Accountant	
Other please specify	

1. BUSINESS SECTOR.

Manufacturing	
Retail	
Services	
Agriculture	
Other please specify	

6 Number of employees

Less than 5	5-10	11-20	21-50	More than 50

SECTION B . FINANCIAL MANAGEMENT PRACTICES

7.Does your business maintain regular financial records?

YES	NO

8. What type of financial records does your business maintain?

Check all that apply

Cash book	Sale ledger	Purchase ledger	Payroll records	Financial statements e.g balance sheet, income statement

9. How often do you review your financial statements?

weekly	monthly	quarterly	annually	Never

SECTION C . CASH FLOW MANAGEMENT

10. Do you have a system in place for managing cash flow?

YES	NO

11. How often do you experience cash flow problems in your business?

Never	Rarely	Sometimes	Often	Always

SECTION D : ACCESS TO FINANCE

11. Have you ever applied for external financing (e.g., loans, grants) for your business?

YES	NO

12. What challenges have you faced in accessing external financing?

Check all that apply

High interest rates	
Lack of collateral	
Complex application procedures	
Insufficient financial records	

Section E: Growth and Development

14. How would you rate the overall growth of your business in the last three years?

Very poor	
Poor	
Fair	
Good	
Excellent	

15. What do you consider to be the main drivers of growth in your business? (Check all that apply)

Financial management practices	
Market expansion	

Product innovation	
Employee skills development	
Others	

Section F: Likert Scale Questions

Please indicate your level of agreement with the following statements regarding your business's financial management practices and growth. Use the following scale:

- 1 = Strongly Disagree
- 2 = Disagree
- 3 = Neutral
- 4 = Agree
- 5 = Strongly Agree

Our business financial management practices are well organized and effective	1 Strongly disagree	2 disagree	3 neutral	4 agree	5 strongly agree
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We regularly monitor our cash flow to ensure business sustainability					
Access to external financing has significantly contributed to our business growth					
Our business has experienced significant growth in the past three years due to proper financial management					
Financial management training for our staff is essential for our business success.					

APPENDIX 2: DATA COLLECTION LETTER

SCHOOL OF BUSINESS

19th Aug, 2024

TO WHOM IT MAY CONCERN

Name: **WAGOGO EDWIN SAMUEL**

Reg. No S21B05/009

A bachelor's student who is seeking permission from your office to collect data for her dissertation titled

THE IMPACT OF FINANCIAL MANAGEMENT PRACTICES ON THE GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN MUKONO MUNICIPALITY.

We shall be grateful if you could render assistance to her in collecting the necessary data for her dissertation

The Uganda Christian University School of Business thanks you in advance



Mukisa Simon Peter

Research coordinator