

**THE IMPACT OF FINANCIAL MANAGEMENT ON THE GROWTH OF SMALL  
AND MEDIUM ENTERPRISE: A CASE STUDY ANGATEL MICRO FINANCE  
SOROTI DISTRICT**

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**UGANDA CHRISTIAN  
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## DECLARATION

I, Atai Sandra affirm that this is my authentic creation and it has not been previously presented to any educational institution for any academic recognition.

Signature .....  ..... Date <sup>th</sup> 3 10/2024 .....

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**STUDENT**

**APPROVAL**

This dissertation, titled "The Impact of financial management on the growth of small and medium enterprises:A Case Study Angantel microfinance in Soroti District," has been completed under our guidance and is now ready for submission.

Signature.....

Date.....

MR; KISENYI VINCENT

SUPERVISOR

## **DEDICATION**

This report is dedicated to my parents for their unwavering patience, substantial contribution, and unwavering support they offered to me during my academic journey. I owe my success to their unwavering affection and assistance.

May the omnipotent Father in heaven perpetually bestow plentiful blessings upon them!

## ACKNOWLEDGEMENT

I would want to convey my heartfelt appreciation to the Divine Being for answering my supplications and bestowing upon me the fortitude, vitality, authority, and capability to successfully complete this endeavor. Jeremiah 33:3 provided me with the strength to overcome the challenges and fluctuations in my studies. The divine message states, "Call to Me and I will respond, and I will reveal to you remarkable and incomprehensible knowledge that you are unaware of."

I would like to express my gratitude to my mother, Mrs. Aguti Jennifer , and my father MR Egadu Goerge William, for their exceptional support, affection, nurturing, and words of motivation during the duration of this course. I shall forever be grateful to you in the name of Jesus.

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I would like to express my gratitude to the business proprietors in Angental microfinance in Soroti District for their cooperation during the data collection phase.

"To God be the Glory"

## ABSTRACT

This study aimed to investigate the factors influencing the management of Small and Medium Enterprises (SMEs) in Soroti District, Eastern Province, Uganda, using a cross-sectional survey research design. The research employed a quantitative approach to ensure reliability and objectivity in testing theories and generalizing findings. The study focused on 80 SMEs selected from a total of 100 registered businesses, including secretarial bureaus, restaurants, stationery shops, bars, boutiques, salons, and retail shops.

A stratified sampling method was utilized to ensure representation from various business categories, reducing data collection and analysis costs. Data was gathered through questionnaires distributed to SME owners or managers, with both primary data from these questionnaires and secondary data from reports, research works, and online resources being used.

The validity of the research instrument was confirmed through expert reviews and the calculation of the Content Validity Index (CVI), aiming for a CVI of 0.7 and above. Reliability was assessed using Cronbach's coefficient alpha, with a pilot study conducted to refine the instrument.

Data collection involved distributing questionnaires after obtaining approval from Uganda Christian University and relevant authorities. The questionnaires were systematically collected, sorted, and coded for analysis. Quantitative data was analyzed using SPSS version 20, employing descriptive statistics and Pearson Correlation to examine relationships between variables.

Ethical considerations included obtaining consent from respondents and citing all sources used. Anticipated limitations involved potential funding constraints, respondent reluctance, and delays in data collection. Strategies were implemented to address these limitations, including seeking financial support and issuing additional questionnaires.

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## CHAPTER ONE INTRODUCTION

### 1.1 Background of the Study

There was an overwhelming consensus among policy thinkers, economists, and business analysts that SMEs were fundamental components in the pursuit of economic progress. A strong SME sector contributed to the economy in terms of creating new jobs, raising volumes of output, promoting exports, and advancing innovation and entrepreneurial competency. The dynamic involvement of SMEs in this respect, especially in developing nations, placed them in a position where they became vital drivers for the realization of goals on economic growth. It was also estimated that SMEs employed 22% of the adult population in developing countries. According to UNIDO, SMEs account for over 90% of private businesses and contribute over 50% to the employment and Gross Domestic Product in most African nations. A study by Abar and Quartey, 2010 showed that 91% of formal business entities in Uganda are SMEs that contribute between 52% and 57% to the GDP and provide about 61% of the employment.

A dynamic and thriving SME sector was a good pointer to a growing economy. SMEs contributed to the national development through employment opportunities for rural and urban laborer forces and brought sustainability and innovation throughout the economy. Fayad, 2008, was of the view that most of the multi-million dollar enterprises of today began as SMEs. However, SMEs both in the developed and less developed countries-LDCs- had still remained faced with many challenges and impediments which affected the operations and development.

According to Pandey, 1985, the subject of financial management was, therefore considered a managerial activity. It basically referred to planning and controlling the financial resources of business enterprise. It was probably about the management of its financial resources including accounting, financial reporting, budgeting, accounts receivable management, and even risk management or insurance management for a business. Pizzey, 1987 further reaffirmed this fact that financial management was one of the leading determinants of SMEs success, "since practically all management decisions involve a financial implication and thus the need for the

financial accountant to assess the possible financial consequences of alternative courses of action".

Small businesses were defined by Nsubuga (1994) as those employing less than five people and having capital assets valued at \$10,000. He insisted that only a well-planned and consistent financial management system would boost productivity for small businesses. Financial management played a very important role in the development of SMEs because decisions on how much funding to acquire and from whom involve determining the amount of working capital required to sustain increased production levels. Major financial decision making was at the core of defining the nature of business as well as mitigating leverage risks to ensure optimal resource utilization key for sustainable growth in small businesses. Therefore, the most important question that concerned a financial management system became how its financial functions and decisions affected the ability of small firms to grow.

Bolo, 1996, pointed out that for African small businesses to increase productivity there was a need for better financial management. He noted that the performance was a function of the quality of various inputs to the business process and, in this respect, he stressed financial management skills to ensure productivity within the small African enterprises. The small enterprises were developing, but the owners did not possess appropriate skills in financial management that would have enhanced their growth. Most of these businesses had weak bookkeeping and financial management, hence their failure to scale up operations. This context framed the challenges facing the growth of SMEs.

## **1.2 Statement of the Problem**

Effective financial management was supposed to determine the success of a business venture, whether big or small. Despite this fact, many small businesses collapsed within their first years of operation due to poor financial management. Angantel Microfinance had tried effective financial management techniques like overseeing cash receipts and expenditures, record-keeping, and managing funds. With such measures in place, the institute still faced some financial constraints like underfunding and financial threats resulting from falling prices and profits. Such a scenario prompted the researcher to investigate the impact of financial management on the growth of SMEs while considering other factors constant.

### **1.3 Purpose of the Study**

This study seeks to explore the relationship that exists between financial management and the growth of SMEs in Soroti.

### **1.4 Objectives of the Study**

#### **1.4.1 Research Objectives**

- i) To ascertain the impacts of capital budgeting techniques on the growth of small and medium enterprises in the study context.
- ii) To find out the influences of budgetary control on the growth of small and medium enterprises in the study context.
- iii) To understand the influence of record keeping on the growth of small and medium enterprises in the study context.

### **1.5 Research Questions**

- i) To what extent did capital budgeting techniques influence the growth of small and medium enterprises in Soroti District?
- ii) To what extent did budgetary control influence the growth of small and medium enterprises in Soroti District?
- iii) To what extent did record keeping influence the growth of small and medium enterprises in Soroti District?

### **1.6 Scope of the Study**

#### **1.6.1 Scope of Content**

The study investigated the relationship between financial management and the growth of SMEs.

#### **1.6.2 Geographical Scope**

Because of the limitation in time and finance, the study was confined to Soroti District with a special emphasis on Angantel Microfinance.

### **1.6.3 Time Scope**

The study was conducted within three months from February to April.

### **1.7 Significance of the Study**

The study also helped entrepreneurs to gain insight into sound financial management decisions that enabled them to enhance the growth of their businesses. Such information assisted managers in managing cash flow to meet their various financial obligations and take advantage of opportunities. Policymakers could have utilized the findings to generate revenue for the government through increased tax collection. The research also enriched the researcher's knowledge regarding financial management and the growth of SMEs.

### **1.8 Justification of the Study**

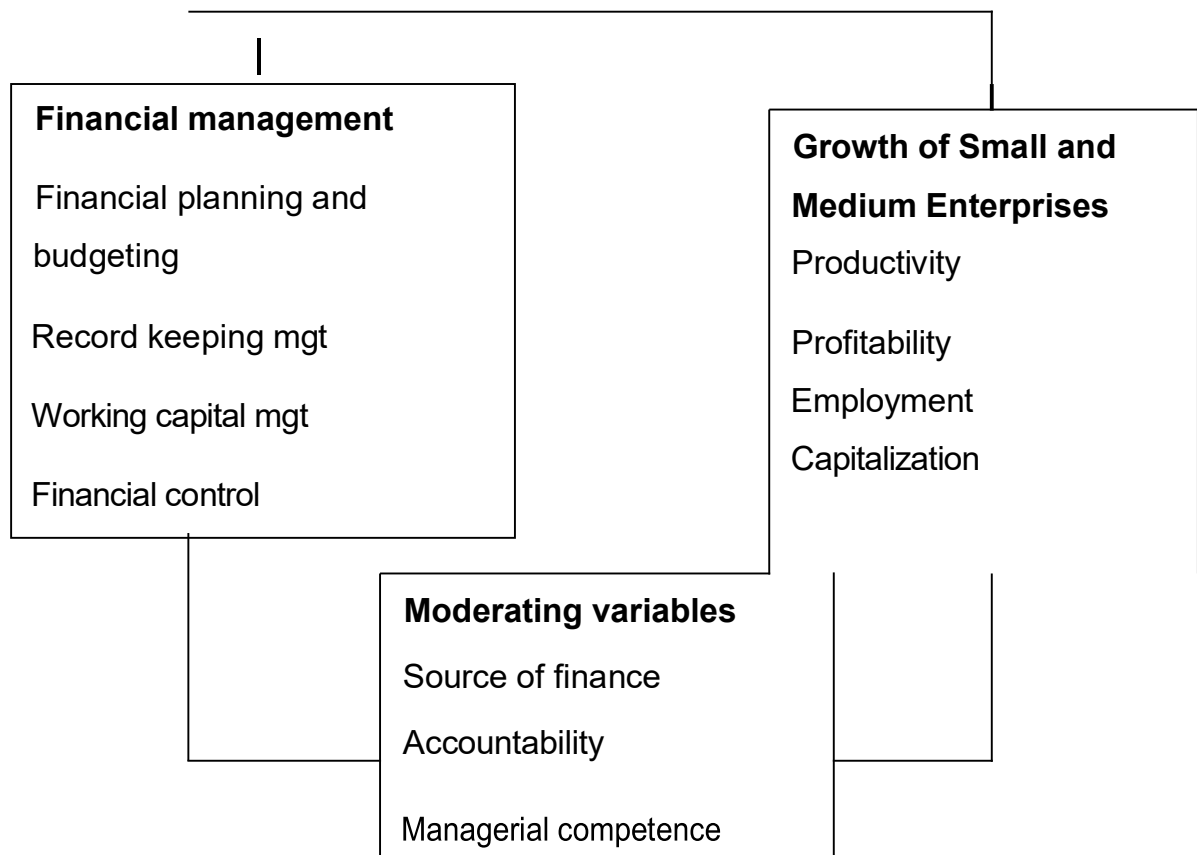
Such determination by Uganda to be self-sufficient and among the biggest economies in the world by 2040 needed its industrialization and economic growth; SMEs being at the heart of this process. Such a dream couldn't be realized if these businesses had weak financial management principles and continued incurring losses.

### **1.9 Conceptual Framework**

Financial management was the independent variable while the growth of SMEs was the dependent variable as shown on the framework below.

Independent variable

Dependent Variable



Source: Researcher's conceptual, 2014

## CHAPTER TWO LITERATURE REVIEW

### 2.0 Introduction

This chapter presents concepts and findings from related studies to the research, such as what constitutes financial management, its functions, the performance, and challenges of SMEs, and the impact that financial management has on the growth of SMEs. The entire chapter is a review of the existing literature so as to fully understand the subject in discussion.

### 2.1 Definition of Small and Medium Enterprises (SMEs)

Definitions of SMEs also varied between countries, reflecting in part differences in economic structures and stages of development. As pointed out by Storey (1994), no single definition of an SME was widely accepted since firms differ in terms of

capitalization, sales, and levels of employment. Size-based definitions-as for instance, based on number of employees, turnover, profitability-can be inconsistent across sectors.

SME definitions might be broadly categorized as "economic" and "statistical" definitions. The economic definition considered a firm to be small if it was characterized by small market share, personal management of owners in absence of any formal management structure, and operated independently. In contrast, the statistical definitions related to quantifying the SME sector in terms of its contribution to GDP, employment, and exports, and looked at the trend of its economic contribution over time and different countries (UNIDO, 2007). Yet, these definitions were also fraught with a number of shortcomings. For example, a personally managed small business may not satisfy the statistical criteria of a small manufacturing enterprise that has a maximum of 200 employees Eyre, 1982.

### **Financial Management Activities of Small and Medium Enterprises**

Financial management activities were crucial for the survival and development of SMEs. Some of the key activities were :

**Working Capital Management:** Block and Hirt (2001) present that there was the need to manage current assets and secure the proper financing; the ideal working capital management will be determining the optimal amounts of cash, accounts receivable, and inventory. Poor management of working capital would lead to the failure of the business despite it turning profits.

**Cost Calculations:** The majority of SMEs had no idea about their operational costs. The cost calculation, according to Greenfield, 1994, on salaries, rent, interest on loans, and utilities helped determine the level of profitability hence making informed business decisions.

**Determining Prices of Products:** According to Najak, 1994, the price of the product must cover all costs and be sufficiently profitable. Knowledge of market conditions and demand, as well as break-even cost of production, enabled the SMEs to set prices more profitably competitive.

**Record Keeping:** The success of good financial management was based on good record keeping to realize accurate determination of income and expenses aimed at

determining cash flow. According to Sugden, 1986, some of the benefits accrued to keeping financial records include cost reduction, analysis of profit, tax obligations, and investigation of fraud.

Statement Preparation: The financial statements that comprise the statement of financial position, cash flow statements, and statements of comprehensive income were paramount in understanding past performances and predicting the future outcome of the business concern as witnessed by Kennedy, 1987.

## **2.2 Growth of Small Businesses**

Murphy, 1996 described business growth as an increase in turnover derived from increased product line, product features, and new markets. Growth was one of the characteristics of business success, followed by increased profitability, staffing, and status in the business community.

The factors that influenced growth included productivity, profitability, employment, and capitalization. According to Bolo (1996), the increased changes of these variables would suggest positive growth, and negative responses insinuated stagnation or decline.

Productivity: According to Mail (1986), productivity is taken as the "ratio of outputs to inputs" showing efficiency in the use of resources. According to Ondiege (1991), productivity was affected by capital, credit, technical skills infrastructure, and demand.

Profitability: Kempner's 1971 model suggested that profitability was an integral ingredient for the survival and growth of any type of business. Profitability could be measured by relating either gross or net profit to sales, though the most common way was relating PBIT to total revenue Pandey, 2007.

Employment: Ekimwere 2004 and Balunyo 2004 cited creation of employment through SMEs as a means of poverty eradication and economic development in Uganda. They were also a major source of employment, highly contributing to the GDP and the manufacturing sector.

### **Major Problems Faced by SMEs**

SMEs faced an uneven share of problems: lack of finance, management, and competition. Dickerson, 1997 encapsulated them into stages: experimentation, exploitation, maturity, and decline. Ondiege, 1997 identified shortage of working capital as one of the major problems, enhanced further by poor management and marketing.

In addition, SMEs had restricted access to credit; their primary startup capital source was personal savings, family and friends. This type of capital resulted in only limited business growth opportunities. Ssewanyana, (1996), reported that some SME owners invested profits into social functions instead of re-investing them into the business and therefore could not achieve any business success in the long term.

### **Solutions to SME Challenges**

Various scholars provided recommendations that would enhance SME financial management and development. Bolo (1996) recommended that small business owners who invest their savings in their businesses treat such as borrowings to their respective businesses in order to increase equity ratios of their respective firms, hence reduce risks. Herman Kasenkende (2001) reiterated the need for integrated financial solution for SMEs on aspects such as cash flow management, budgeting, and financial planning.

In sum, SMEs' growth largely depended on good practices of financial management regarding working capital management, cost calculation, pricing, record-keeping, and preparation of financial statements. Addressing the challenges faced by SMEs required a mix of better financial management practices, access to credit, and strategic planning.

### **2.3 Relationship between Financial Management and the Growth of Small and Medium Enterprises**

According to Eyre, 1982, the survival or failure of a private enterprise was essentially linked with its financial success. The finance function should ensure there is adequacy of funds to meet both capital investment expenditure as well as working capital to cover revenue expenses such as wages, salaries, material, and administrative costs. To succeed they had to be involved in financial planning and financial management skills which would determine the success drastically. They

had to examine the prevailing financial operations, ensuring availability of fund accessibility and use this to train them to enhance the performance.

According to Pandey 1982, the SMEs depended on financial management decisions being critical to their success. He suggested that proper and efficient departments of financial management needed to be established, and this could be done directly under the control of the board of directors. Such a department would have for its head either a committee or an officer who is in control of this and who delegates routine work of finance to lower-level managers. Boil 1995 added that the discretionary policies for small business owners who were substantially constrained by external financing policies could match the firm's growth rate with its financial ability. For this, stringent control of financial activities was crucial as these could impress bankers and other financiers and, therefore make access to external financing easier.

Brigham 1996 pointed out that rapid growth in the sales of a firm increased the demand for additional financing. He observed that proper financial management was, therefore very significant in ascertaining the long-term assets that the firm should acquire to create the capacity to produce the goods and services required. Also in determining the working capital requirements as well as establishing sources in which funds must be derived to enable operational efficiency that enables a business to grow sustainably.

The things that would stand out from Candle's 1962 definition of business growth as meaning geographical expansion, volume growth, integration, and diversification. Such growth activities demanded the acquisition of best available financing and good underpinning in financial management to accrue returns for investments made.

The literature was also very clear that there was a significant relationship between financial management and the growth of small and medium enterprises. In this regard, the SMEs required appropriate financial management practices to achieve growth and continuity through providing the needed framework for acquiring and managing the funds required for growth and operations efficiently.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction.**

This chapter presented the methodology used in conducting the research. It described how the study was conducted, including the study design, setting, population, and sample size. It also outlined the sampling procedure, definition of variables, research instruments, data analysis and management, ethical considerations, and the anticipated limitations of the study.

#### **3.1 Research Design.**

A cross-sectional survey research design was employed in the study, where data was collected at a single point in time without repetition from a representative population. This design was chosen to gather information based on data collected for a specific point in time, thereby replacing assumptions with actual data on the studied variables. A quantitative research approach was used, as it is reliable and objective, allowing for the use of statistics to generalize findings and test theories (Bhawna & Gobind, 2015).

#### **3.2 Study Population**

The study was conducted in various SMEs located in Soroti District, Eastern Province. The population included 100 registered SMEs in Soroti District, such as secretarial bureaus, restaurants, stationery shops, bars, boutiques, salons, and retail shops. The study population comprised 80 selected SMEs, where the owners or managers of the enterprises represented each selected business.

#### **3.3 Sample Size**

According to Creswell (2012), a sample is a subgroup representative of the target population from whom findings can be generalized. The sample size was determined using Yamane's (1970) formula:

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

“n” is sample size, “N” is population, “e” is error (0.05) or level of confidence 95%

“N” (population) = 100 registered SMEs

$$n = \frac{120}{1 + 100(0.05)^2}$$

$$n = \frac{120}{1.25}$$

$$n = 100$$

n = 80 registered SMEs in Soroti District, Eastern Province.

Therefore, from the sample size calculation above, the sample size will be 80 registered SMEs in Soroti district Eastern Province.

**Table 1: Population and Sample Size**

Category of Respondents	Population	Sample Size
Secretarial Bureaus	15	12
Retail Shops	20	16
Stationeries	17	14
Microlenders	8	6
Restaurants	10	8
Boutiques	10	8
Salons	15	12
Bars	5	4
<b>Total</b>	<b>100</b>	<b>80</b>

### 3.4 Sampling Method

Stratified sampling was used, where samples were selected from SMEs grouped under segmented businesses and those dealing in assorted merchandise. This method was chosen for its convenience and ability to represent each element in the population, thus reducing the costs of data collection and analysis (Lewis & Ritchie, 2003).

### 3.5 Source of Data.

Both primary and secondary sources of data were used.

### **3.5.1 Primary Data Sources.**

Primary data was obtained using questionnaires distributed to selected respondents to gather their opinions, specifically for the study's purposes.

### **3.5.2 Secondary Data Sources.**

Secondary data was collected from reports, previous research works, textbooks, and online resources. Scholarly books and articles served as the main sources for historical research.

## **3.6 Data Collection Methods.**

Data was collected using questionnaires. This method involved systematically gathering information from a sample of SME owners in Soroti District. The questionnaire survey provided high generalizability and represented a large population effectively.

### **3.6 Data Collection Instrument.**

#### **3.6.1 Questionnaire Survey.**

The questionnaire, designed by the researcher, included both open-ended questions for detailed responses and closed-ended questions for specific answers (Podgórecki, 2023; Ikart, 2019). This approach allowed respondents to provide detailed opinions and select the most suitable answers.

## **3.7 Validity and Reliability of Data Collection Instruments**

### **3.7.1 Validity**

Validity was assessed to ensure that the questions captured the intended data. Expert reviews were conducted to evaluate the appropriateness of the questions. The Content Validity Index (CVI) was calculated to determine the instrument's

validity: CVI =  $\frac{\text{Relevant items by all judges as suitable}}{\text{Total number of items judged}}$   
CVI = Total number of items judged / Relevant items by all judges as suitable  
A CVI of 0.7 and above was considered acceptable.

### **3.7.2 Reliability**

Reliability was assessed using Cronbach's coefficient alpha. A pilot study with 5 respondents was conducted, and reliability results were computed using the Statistical Package for the Social Sciences (SPSS) version 20.

### **3.8 Procedure of Data Collection**

After receiving approval from Uganda Christian University, the researcher was provided with a letter of introduction to Angantel Microfinance in Soroti District. This letter facilitated permission to conduct the study. Respondents were presented with a consent letter, and questionnaires were distributed. Respondents were given time to return the completed questionnaires, which were then collected, sorted, and coded.

### **3.9 Data Analysis**

#### **3.9.1 Quantitative Data Analysis**

Data analysis was conducted using SPSS version 20, which handled correlations and regressions effectively. Quantitative data was analyzed using descriptive statistics and Pearson Correlation to examine relationships between independent and dependent variables.

### **3.10 Ethical Issues**

An official letter from the Faculty of Business Administration introduced the researcher to the case study. Approval and permission from authorities were obtained, and consent was secured from respondents before data collection. All sources used in the study were cited appropriately.

### **3.11 Anticipated Limitations of the Study**

Funding limitations were anticipated, which could affect research expenses such as respondent incentives, printing fees, and transport costs. Self-initiatives and financial assistance from family were planned to address these issues. Some respondents might be reluctant to provide information due to confidentiality concerns; however, the researcher's reputable institution and introductory letter were expected to mitigate these concerns. Delays in returning questionnaires could impact the study's timeline, but issuing additional questionnaires aimed to cover any gaps.

## CHAPTER FOUR

### PRESENTATIONS, ANALYSIS AND INTERPRETATION OF THE FINDING

#### 4.1 Field study findings

The chapter presents findings on "financial management practices and growth of SMEs" a case study of Soroti. This chapter starts with showing the response rate, followed by the findings of the respondents' background information and finally the descriptive presentation and analysis of the study findings in relation to the specific objectives.

##### 4.1.1 Survey response rate

The response rate according to the survey was 88% which represents a very high response rate adequate enough for the presentation. According to Dvir, et al. 2018, a high response rate implies that the survey was entirely complete and presumed to give a more accurate survey result.

**Table 1: Response Rate**

Respondents	Questionnaires issued	Questionnaires returned	Response rate (%)
Retail shops	40	35	35
Wholesale trading	20	17	17
Super markets	5	3	3
Cottage Industry	35	33	33
<b>Total</b>	<b>100</b>	<b>88</b>	<b>88</b>

Source: Primary data

Survey findings in the table above show that out of the 100 questionnaires issued to the respondents, only 88 were returned representing an 88% response rate. This shows that the response to the study of the targeted population was high. The table also shows the composition of the demographic characteristics of the respondents in relation to their gender, age group, level of education, years spent in business and the type of business engaged in.

#### 4.2 Demographic findings of the study were as follows

The demographic findings are represented by gender, age group, level of education, years spent in business and the type of SME engaged in Soroti. Frequencies and percentages were used to show the variations in the respondent's characteristics.

**Table 2: Demographic Information about the Respondents**

Item	Description	Frequency	Percentage (%)
Gender	Male	44	50
	Female	44	50
	<b>Total</b>	<b>88</b>	<b>100.0</b>
Age	20-30years	28	32
	31-39years	33	38
	40-49years	15	17
	50-59years	5	5
	Above 50 years	7	8
	<b>Total</b>	<b>88</b>	<b>100.0</b>
Level of education	Non-formal	14	16
	Primary level	16	18
	Secondary level	36	41
	Post-secondary level	22	25
	<b>Total</b>	<b>88</b>	<b>100.0</b>

Findings in the table above show that there was an equal representation of both genders in the surveyed businesses. Both male and female comprised 44(50%) respectively. The demographics imply that there is an equal participation ratio in

terms of gender when it comes to being involved in small and medium enterprises within the study area.

Findings in the table above show that majority of the respondents were in the age group of 31-39 years 33(38%), followed by age group 20-30 years with 28(32%), age group 40-49 years had a score of 15(17%), age group above 51 years had a score of 7(8%) and least were those in the age group of 40-50 years with 5(5%). The age group composition shows that the SMEs in the study area mostly involved in by youth entrepreneurs. These have obtained capital to start their own small businesses in order to earn a living within Soroti town.

Findings in the table above show that majority of the respondents were in the secondary education level with a score of 36(41%), followed by post-secondary level with a score of 22(25%) and then those with primary level with a response of 16(18%) and those with non-informal education level with a score of 14(16%). The findings indicate that at least majority of the respondents involved in SMEs had either considerable level of education or experience that was adequate to enable them run their business or even provide answer the survey questionnaires.

Findings in the table above show that majority of the respondents had spent between 7-10 years with a score of 31(35%), followed by those who have spent 4-6 years with 25(28%), 1-3 years with a score of 19(22%) and those who have spent 11 years and above with a score of 13(15%). The findings indicate that there is a progressive growth of these businesses as majority had stayed for more than 7 years an indication of steady progress and capitalization of these businesses from small business to medium range. The extended time also shows that it takes quite some considerable years to gain enough profit returns after putting in capital in these small and medium businesses.

#### **4.3 Findings on effects of capital budgeting techniques on the growth of SMEs in the study context**

The findings were rated basing on a Likert scale of 1: Strongly Disagree (SD), 2: Disagree, 3 = Not sure (NS), 4 = Agree (A) and 5 = Strongly Agree (SA).

**Table 3: Table showing findings on capital budgeting techniques on the growth of SMEs in the study context**

<b>Capital budgeting techniques on the growth of small and medium enterprises</b>	<b>Mean</b>	<b>Std. Deviation</b>
1. Zero based budgeting techniques contribute to the growth and expansion of SMEs.	2.56	1.221
2. Activity -based budgeting facilitates allocation of resources based on anticipated activities and operations.	4.09	0.672
3. Organizations develop rolling budgets and allocate budget preparation responsibilities to allow flexibility in response to changing conditions.	4.01	0.686
4. There is consistent revising of the original budget to meet the arising issues using traditional budgeting to view the growth status of SMEs	4.01	0.686
5. Capital budgeting techniques influence decision making in SMEs with regard to growth initiatives.	4.06	0.554
<b>Total</b>	<b>18.73</b>	<b>3.819</b>

Source: Primary data

Findings on the views on nature of capital budgeting techniques applied on the growth of SMEs in the study context showed that majority disagree that zero based budgeting techniques contributes to the growth and expansion of SMEs, followed by those who were not sure, strongly disagree, strongly agree and agreed with the least score. The average mean value was 2.56 and the standard deviation was 1.221.

In the same way, finding as to whether activity - based budgeting facilitates allocation of resources based on anticipated activities and operations in the study context showed that majority agree, followed by those who strongly agree, not sure, disagree and strongly disagree respectively. The average mean value was 4.09 and the standard deviation was 0.672.

Findings as to whether these organizations develop rolling budgets and allocate budget preparation responsibilities to allow flexibility in response to changing conditions showed that majority agree, followed by those who strongly agree, not sure, disagree and strongly disagree respectively. The average mean value was 4.01 and the standard deviation was 0.686.

Similarly, findings as to whether there is consistent revising of the original budget to meet the arising issues using traditional budgeting to view the growth status of SMEs in the study context showed that majority agree, followed by those who strongly agree, not sure, disagree and strongly disagree. The average mean value was 4.01 and the standard deviation was 0.686.

Also, findings as to whether capital budgeting techniques influence decision making in SMEs with regard to growth initiatives in the study context showed that majority agree, followed by those who strongly agree, not sure, disagree and least were those who strongly disagree. The average mean value was 4.06 and the standard deviation was 0.554.

In summary, the findings show that most of the respondents agree having applied one or more of the techniques in the table above, in so doing provide a conformation that SMEs in the study context most often have the techniques at their disposal and usually apply them to run their Small and Medium Enterprises.

#### 4.4 Findings on the impact of budgetary control on the growth of SMEs in the study context

The findings were rated basing on a Likert scale of 1: Strongly Disagree (SD), 2: Disagree, 3 = Not sure (NS), 4 = Agree (A) and 5 = Strongly Agree (SA).

**Table 4: Table showing findings on the influence of budgetary control on the growth of SMEs in the study context**

<b>Capital budgeting techniques on the growth of small and medium enterprises</b>	<b>Mean</b>	<b>Std. Deviation</b>
6. Variance analysis is primarily crucial for the growth of SMEs as it involves comparing actual financial performance against budgeted figures.	3.32	0.578
7. Budget monitoring is one of the most important factors that lead to the growth of SMEs.	4.07	0.740
8. Performance evaluation facilitates the growth of SMEs by enabling SMEs to monitor their success.	4.06	0.793
9. SMEs that practice budgetary control have a higher growth rate than SMEs that do not practice budgetary control techniques.	4.02	0.643
<b>Total</b>	<b>15.47</b>	<b>2.754</b>

Source: Primary data

Findings on the impact of budgetary control on the growth of SMEs in the study context showed that majority were not sure that variance analysis is primarily crucial for the growth of SMEs as it involves comparing actual financial performance against budgeted figures, followed by those who agree, disagree, strongly agree and least were those who strongly disagree respectively. The average mean value was 3.32 and the standard deviation was 0.578.

Relatedly, findings as to whether budget monitoring is one of the most important factors that lead to growth of SMEs in the study context showed that majority agree, followed by those who strongly agree, not sure, disagree and strongly disagree. The average mean value was 4.07 and the standard deviation was 0.740.

Findings as to whether performance evaluation facilitates the growth of SMEs by enabling SMEs to monitor their success showed that majority agree, followed by those who strongly agree, not sure, strongly disagree and disagree respectively. The average mean value was 4.06 and the standard deviation was 0.793.

In the same line, findings as to whether SMEs that practice budgetary control have a higher growth rate than SMEs that do not practice budgetary control techniques showed that majority agree, followed by those who strongly agree, not sure, disagree and strongly disagree. The average mean value was 4.02 and the standard deviation was 0.643.

In summary, most of the respondents agree that budgetary control has a substantial impact on the growth of SMEs in the study context. Given that most SMEs owners are found of making estimated budgetary predictions in purchase and trends in business progress. For that matter they are engaged in monitoring, performance evaluation, putting in place budgetary controls and least carrying out analysis of variations in sales, prices, cost of purchasing equipment and raw material costs with the aim of promoting and pushing for greater growth of their businesses.

#### **4.5 Findings on the influence of record keeping and growth and development of SMEs in the study context.**

The findings were rated basing on a Likert scale of 1: Strongly Disagree (SD), 2: Disagree, 3 = Not sure (NS), 4 = Agree (A) and 5 = Strongly Agree (SA).

**Table 5: Table showing findings on the influence of record keeping and growth and development of SMEs in the study context**

<b>C Record keeping and growth and development of small businesses.</b>	<b>Mean</b>	<b>Std. Deviation</b>
10. Recording business transactions daily in the books of account leads to growth of SMEs.	4.08	0.675
11. Recording the amount owned to suppliers and other creditors on a daily basis helps to keep track of income.	4.04	0.824
12. Records that are accurate and up to date record lead to growth of SMEs.	4.02	0.467
13. Use of single entry in the books of account helps the accountant to be able to track the expenses and income in the businesses.	4.0	0.857
14. Use of double entry in the books of account facilitates the growth of SMEs since both the transactions are recorded.	3.99	0.702
<b>Total</b>	<b>20.13</b>	<b>3.525</b>

Source: Primary data

Findings on the influence of record keeping, growth and development of SMEs in the study context showed that majority agree that recording business transactions daily in the books of account leads to growth of SMEs, followed by those who were not sure, strongly agree, disagree and least were those who strongly disagree. The average mean value was 4.08 and the standard deviation was 0.675.

Relatedly, findings as to whether recording the amount owned to suppliers and other creditors on a daily basis helps to keep track of income showed that majority agree, followed by respondents who were not sure, strongly agree, disagree and least were

those who strongly disagree. The average mean value was 4.04 and the standard deviation was 0.824.

Findings as to whether records that are accurate and up to date record lead to growth of SMEs showed that majority agree, followed by those who strongly agree, not sure, disagree and none was for strongly disagree. The average mean value was 4.02 and the standard deviation was 0.467.

Findings as to whether the use of single entry in the books of account helps SMEs accountant to be able to track the expenses and income in their businesses showed that majority agree, followed by those who were not sure, disagree, strongly agree and least were those who strongly disagree. The average mean value was 4.00 and the standard deviation was 0.857.

Finally, findings as to whether the use of double entry in the books of account facilitates the growth of SMEs given that both the transactions are recorded showed that majority agree, followed by respondents who were not sure, strongly agree, disagree and least were those who strongly disagree. The average mean value was 3.99 and the standard deviation was 0.702.

In conclusion, the survey shows that to a large extent record keeping plays a fundamental influencing part in supporting growth and development of SMEs in the study context, because these SMEs need records on daily transactions of sales, procurement to the store, payment to the creditors and received money from the debtors, for that case it is necessary to keep good recording of all transactions so that by the end of year the owner can evaluate which sales made the highest gains or which items they may need to replace because they are out of stock.

#### 4.6 Correlation between financial management practices and the level of growth of SMEs in the study context.

The table below presents the correlation between financial management practices and the level of growth of SMEs.

Table 6: Correlation between the application of financial management practices and identifying the level of growth attained by SMEs in the study context

	Activity-based budgeting facilitates allocation of resources based on anticipated activities and operations.	Budget monitoring is one of the most important factors that led to the growth of SMES.	Records that are accurate and up to date record led to growth SMES. of
Activity-based budgeting facilitates allocation of resources based on anticipated activities and operations.	1	.175	.077
Budget monitoring is one of the most important factors that led to the growth of SMES.	.175	1	.002
Records that are accurate and up-to-date record led to growth of SMES.	.077	.002	1

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

The correlation analysis table above shows the correlation between the application of financial management practices and growth of SMEs in the study context is largely very weak with a 0.077 significant value estimate regarded as being a weak positive relationship. Given that correlation coefficient is deemed significant when the value of ( $\alpha = 0.05$ ). The results of the correlation clearly show that majority of SMEs do not necessary follow all the financial management practices when conducting business transaction and for that case other factors like political environment or general macro-economic trend by be other factors relied upon as influencers to the growth and development of their businesses.

## **CHAPTER FIVE**

### **DISCUSSIONS OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents the discussions of the findings, conclusions derived from the findings and the recommendations on the financial management and the growth and development of small and medium enterprises basing on the findings of the study.

#### **5.1 Discussions of the Findings**

The study established a number of findings and the summary of the findings is outlined below;

##### **5.1.1 Capital budgeting techniques on the growth of small and medium enterprises**

The study established that different capital budgeting techniques in financial management impact the growth and development of small and medium enterprises. Accordingly, capital budgeting techniques helps small scale businessmen and women to allocate their limited resources efficiently. By comparing the potential returns of various projects, businesses can prioritize those that align with their growth objectives, ensuring that funds and efforts are focused on the most promising opportunities. This was in line with Chai, (2011), who evaluated the capital budgeting techniques for their relationship with the firm's financial performance that was to say Return on assets and findings showed that was highly related to the measure compared to other techniques. Therefore because of the inconclusive results got from the different scholars and researchers, it shows that capital budgeting encourages SMEs owners to think strategically and consider the long-term impact of their investment choices. It ensures that investments are in line with the company's overarching growth strategy, helping SMEs stay committed to their long-term goals. Capital budgeting techniques aim to maximize profits by identifying investments with the highest potential returns.

### **5.1.2 To determine the impact of budgetary control on the growth of small and medium enterprise in the study context**

The study established that there is a relationship between budgetary control and the growth and development of small businesses. Budgetary control helps SMEs avoid overextending their financial resources. This financial prudence contributes to stability and resilience, vital for sustainable growth. This is because if there is monitoring money coming into and going out of the business, the businessmen and women are able to plan for the businesses, they are able to know the profitability of the businesses and are able to cater for contingencies. When they monitor, they are able to know what to add or what not to stock especially if its purchase is low and keeps on holding cash. When they carry out budgeting, they are able to monitor cash flow. This was in line with the same study conducted by Pimpong, and Laryea, (2016) that wrote a paper in the International Journal of Academic Research and Reflections about budgeting and its impact on financial performance of non-bank financial institutions in Ghana. Their findings revealed that, there was a positive relationship between budgeting and firm performance. The further portrayed that, the firms made use of established budget processes to a greater extent and that budgeting coordination has a positive relationship on firm performance. The budget tells when certain amounts of money to carry out activities will be needed, enables monitoring of income and expenditure and identifies any problems. Budgetary control techniques assist SMEs in making funding decisions. Whether it involves seeking external financing, reinvesting profits, or utilizing internal funds, these techniques guide businesses in determining the most cost-effective and growth-oriented funding sources.

### **5.1.3 To find out the influence of record keeping on the growth on small and medium enterprises**

The study found out that record keeping influences the growth and development of small and medium enterprises. This includes recording business transactions and it enables the businessmen and women to be able to track the income and expenditures of the business. By recording the amount owed to suppliers and other creditors is also record keeping system, the businesswoman or man is able to establish the amount of cash against credit sales and the level and status of accounts receivable. When there are accurate and up-to-date records one is able

to track of the finances in the business and preventing loss of money. This was in line with a study conducted by Ayuk-Etang et al. (2016) in Nigeria, it was found that SMEs that maintained accurate and up-to-date records experienced higher growth rates and financial performance compared to those with poor record-keeping practices. The study emphasized the importance of record keeping in providing reliable financial information, facilitating decision-making, and ensuring effective financial management. Record keeping has to be done in the proper way either using the single entry and double entry.

## **5.2 Recommendations of the study**

The study makes the following important recommendations in relation to the observations made during the study;

Businessmen and women should maintain clear records of all financial transactions involving personal capital. This documentation not only aids in financial transparency but also facilitates accurate analysis of the effects of capital budgeting techniques on SME growth.

Businessmen and women need to carry out record keeping for the growth and development of small businesses. This is including recording business transactions to be able to track the income and expenditures of the business.

SMES should implement a robust budgeting process. Budgets help SMEs systematically monitor and control their cash flow, enabling them to align financial resources with growth objectives.

## **5.3. Areas for further research**

The study only investigated the impact of financial management and the growth of small and medium enterprises. However, there are many more areas which may be studied and these include: Entrepreneurship skills and the performance of small scale businesses owned by women, business challenges affecting performance of small and medium entrepreneurial initiatives in Uganda and the contribution of entrepreneurial personality to the performance of small and medium business among others.

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## **APPENDIX 1:**

### **QUESTIONNAIRE FOR THE RESPONDENTS QUESTIONNAIRE FOR THE RESPONDENTS.**

Introduction

Dear Respondent

My names is Sandra, a student of Uganda Christian University pursuing a Bachelor's degree in Business Administration. It is a requirement that I undertake a research project. My research topic is "Financial Management Practices and growth of small and medium enterprises. The purpose of this study and its findings is purely academic. I kindly request you to spare some of your precious time to answer the following questions. The activity will take about 10 minutes and I would appreciate your honest opinions. Be assured that your responses will be completely anonymous and therefore any information you provide will be treated with strict confidentiality. This questionnaire has sections A, B, C, D and E. I kindly request you to respond to all questions.

Thank you.

## SECTION A: BACKGROUND INFORMATION

### 1. Your Gender

Male	Female

### 2. Your age group:

20-30 years	31-39 years	40-49 years	40-50 years	above 51 years

### 3. Your level of education:

Non - Informal	Primary	Secondary Level	Post-secondary Level

### 4. Number of years in t he business

1 – 3 years	4 – 6 years	7 – 10 years	1 1 years and above

### 5.Type of business

Retail shop	Whole sale shop	Cottage Industry	Super Markets

**SECTION B: Response on the Research Variables**

Indicate the extent to which you agree with the following observations on a scale of 1- Strongly disagree; 2- Disagree; 3- Not sure; 4- Agree; 5- Strongly agree.

Question Items	SD			A	SA
	1	2	3	4	5
<b>capital budgeting techniques on the growth of small and medium enterprises</b>					
1 .zero based budgeting techniques contribute to the growth and expansion of SMES.					
2. Activity-based budgeting facilitates allocation of resources based on anticipated activities and operations.					
3. Organizations develop rolling budgets and allocate budget preparation responsibilities to allow flexibility in response to changing conditions.					
4. There is consistent revising of the original budget to meet the arising issues using traditional budgeting to view the growth status of SMES					
5.Capital budgeting techniques influence decision making in SMES with regard to growth initiatives					
<b>Budgetary control on the growth of small and medium enterprise</b>					

6. Variance analysis are primarily crucial for the growth of SMES as it involves comparing actual financial performance against budgeted figures					
7. Budget monitoring is one of the most important factors that led to the growth of SMES.					
8. Performance evaluation facilitates the growth of SMES by enabling SMES to monitor their success					
9. SMES that practice budgetary control have a higher growth rate than SMES that don't practice budgetary control techniques.					
<b>Record Keeping and Growth and Development of Small Businesses</b>					
10. Recording business transactions daily in the books of account leads to growth of SMES					
11. Recording the amount owned to suppliers and other creditors on a daily basis helps to keep track of income					
12. Records that are accurate and up-to-date record led to growth of SMES.					
13. Use of single entry in the books of account helps the accountant to be able to track the expenses and income in the businesses					
14. Use of double entry in the books of account facilitates the growth of SMES since both the transactions are recorded					

## Appendix 11: Introductory letter

### SCHOOL OF BUSINESS

19<sup>th</sup> Aug, 2024

#### TO WHOM IT MAY CONCERN

Name: **ATAI SANDRA**

Reg. No J23B05/011

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

**The impact of financial management on the growth of small and medium enterprises. A case study Angantel Microfinance Soroti District.**

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