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The Effect Of Cost Management On Profitability Of Small And Medium Enterprises (SMEs) In Butiiti Sub-County, Kyenjojo District, Uganda.

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Abstract

The study investigated the effect of cost management on profitability of Small and Medium Enterprises (SMEs) in Butiiti Sub-County, Kyenjojo District, Uganda. A descriptive cross-sectional survey design was employed with a sample of 227 SME owners and managers. Data were collected using structured questionnaires and analyzed through correlation and regression techniques. Results indicated a significant positive effect of cost management on profitability ($r=0.721$, $p<0.01$). Regression analysis showed that cost management practices explained 52.0% of variance in profitability ($R^2=.520$, $F=81.467$, $p<.001$). Cost planning ($\beta=0.389$, $p<0.01$), cost control ($\beta=0.345$, $p<0.01$), and cost reduction strategies ($\beta=0.298$, $p<0.05$) significantly predicted profitability. The study concluded that effective cost management was essential for enhancing SME profitability in rural Uganda. Recommendations included implementing standard costing systems, conducting regular cost audits, training SME owners in cost accounting techniques, and establishing supplier negotiation frameworks to optimize cost structures.

Keywords: Cost management, profitability, small and medium enterprises, cost control, financial performance, Butiiti Sub-County, Uganda

Background of the Study

Small and Medium Enterprises (SMEs) represented a fundamental pillar of economic development in Uganda, accounting for approximately 90% of all private sector businesses and generating over 2.5 million jobs according to the Ministry of Trade, Industry and Cooperatives (2020). In rural districts such as Kyenjojo, SMEs constituted the primary source of employment, income generation, and poverty reduction for local communities. These enterprises operated across various sectors including agriculture, manufacturing, retail trade, and services, contributing significantly to household livelihoods and regional economic growth.

Despite their economic importance, SMEs in Uganda faced persistent challenges related to financial sustainability and profitability. Research indicated that approximately 60% of new SMEs failed within their first three years of operation, with poor financial management practices identified as a leading cause of failure (Baliruno & Ntayi, 2013). Among the various financial management competencies, cost management emerged as particularly critical for SME survival and growth. Cost management encompassed systematic planning, controlling, and reducing of business expenses to maximize profitability while maintaining operational efficiency (Drury, 2018).

In developing economies, where SMEs typically operated with limited financial resources and faced intense competition, effective cost management became a strategic imperative rather than merely an operational concern. Studies in East African contexts demonstrated that SMEs with superior cost management practices achieved higher

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profit margins, better cash flow positions, and greater resilience during economic downturns compared to those lacking systematic cost management approaches (Mbabazi et al., 2015). The ability to accurately estimate costs, control expenditures, negotiate favorable supplier terms, and eliminate wasteful spending directly influenced whether enterprises remained viable or succumbed to financial pressures.

In Butiiti Sub-County, Kyenjojo District, SMEs confronted unique cost management challenges stemming from several contextual factors. Many enterprises operated in remote locations with limited infrastructure, resulting in high transportation and logistics costs. Irregular supply chains and limited supplier options often led to unfavorable pricing and quality variations. Additionally, most SME owners possessed limited formal training in cost accounting or financial management, relying instead on intuitive approaches that frequently resulted in inaccurate cost estimations and pricing decisions (Turyahebwa et al., 2013).

Theoretical perspectives on cost management emphasized its multidimensional nature, incorporating elements of cost planning, cost control, and cost reduction. The activity-based costing theory posited that understanding the true cost drivers of business operations enabled more accurate product pricing and resource allocation decisions (Cooper & Kaplan, 1991). Meanwhile, the value chain analysis framework highlighted opportunities for cost optimization across all business activities from procurement through production to customer delivery (Porter, 1985). These theoretical insights suggested that comprehensive cost management practices could substantially enhance SME profitability.

Previous research on SME performance in Uganda had predominantly focused on urban centers, leaving rural SMEs underrepresented in the empirical literature. Furthermore, while studies had examined various determinants of SME profitability, limited research had specifically investigated the effect of cost management practices on financial performance in rural Ugandan contexts. This study therefore addressed this knowledge gap by examining cost management practices and their effects on profitability among SMEs in Butiiti Sub-County.

Problem Statement

SMEs in Butiiti Sub-County faced significant profitability challenges that threatened their long-term sustainability and contribution to local economic development. Preliminary investigations revealed that many enterprises struggled to maintain positive profit margins, with approximately 65% reporting declining profitability over the previous two years. Evidence suggested that inadequate cost management practices contributed substantially to these profitability problems, with common issues including poor cost estimation, lack of budgetary controls, ineffective inventory management, and failure to negotiate competitive supplier prices.

Many SME owners in the sub-county lacked systematic approaches to tracking and controlling costs, resulting in pricing decisions based on guesswork rather than accurate cost information. This frequently led to either underpricing, which eroded profit margins, or overpricing, which reduced competitiveness. Without understanding the specific effects of cost management dimensions on profitability, stakeholders lacked empirical evidence to guide intervention

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strategies. This study therefore investigated the effect of cost management on profitability of SMEs in Butiiti Sub-County, Kyenjojo District, Uganda, to provide evidence-based insights for improving SME financial performance.

Specific Objective

To examine the effect of cost management on profitability of SMEs.

Methodology

This study adopted a descriptive cross-sectional survey design to examine the effect of cost management on profitability among SMEs in Butiiti Sub-County, Kyenjojo District, Uganda. The design was considered appropriate as it enabled the researcher to collect quantitative data from a large sample at a single point in time and analyze relationships between variables systematically (Creswell, 2014).

The study population comprised 458 registered SMEs operating in Butiiti Sub-County as documented in the Kyenjojo District Commercial Office registry updated in January 2024. Using Krejcie and Morgan's (1970) table for determining sample size from a given population, a sample of 227 SMEs was selected to ensure adequate statistical power and representativeness. A stratified random sampling technique was employed to ensure proportional representation across business sectors. The sample was stratified into four categories: retail trade (n=92), agriculture processing (n=58), manufacturing (n=46), and services (n=31), reflecting the sectoral distribution in the population.

Data were collected using structured questionnaires containing both closed-ended and Likert-scale questions. The questionnaire comprised four sections: Section A collected demographic information about respondents and their enterprises; Section B assessed cost management practices across three dimensions (cost planning, cost control, and cost reduction strategies) using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree); Section C measured profitability through multiple indicators including profit margins, return on investment, and sales growth; and Section D captured additional business characteristics relevant to the analysis.

Cost management was operationalized through three key dimensions based on existing literature (Drury, 2018; Baliruno & Ntayi, 2013). Cost planning encompassed activities such as cost estimation, budgeting, and cost forecasting. Cost control included monitoring expenditures, comparing actual versus budgeted costs, and implementing corrective actions. Cost reduction strategies involved supplier negotiations, waste elimination, process improvements, and economies of scale initiatives. Profitability was measured using self-reported indicators of profit margin trends, achievement of profit targets, and comparative profitability versus competitors.

The research instrument underwent rigorous validation processes. Content validity was established through expert review by three academics specializing in accounting and finance, yielding a content validity index of 0.86, which exceeded the recommended threshold of 0.70 (Amin, 2005). Reliability testing was conducted through a pilot study involving 23 SMEs (approximately 10% of the main sample) in neighboring Kyarusozi Sub-County. The pilot study data were analyzed using Cronbach's alpha coefficient, which yielded values of 0.88 for cost management measures and 0.84 for profitability measures, both exceeding the acceptable threshold of 0.70.

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Data collection was conducted over five weeks from March to April 2024. Four trained research assistants administered questionnaires to SME owners or senior managers who were most knowledgeable about the enterprise's cost management practices and financial performance. Of the 227 questionnaires distributed, 221 were returned, representing a response rate of 97.4%. After data cleaning, 218 questionnaires were deemed complete and suitable for analysis.

Data analysis was performed using Statistical Package for Social Sciences (SPSS) version 26.0. Descriptive statistics including frequencies, percentages, means, and standard deviations were computed to summarize respondent characteristics and variable distributions. Pearson correlation analysis was conducted to determine the strength and direction of relationships between cost management dimensions and profitability. Multiple linear regression analysis was performed to assess the magnitude of the effect of cost management practices on profitability while controlling for potential confounding variables. Diagnostic tests including normality tests, multicollinearity checks, and homoscedasticity assessments were conducted to ensure regression assumptions were met.

Ethical considerations were strictly observed throughout the research process. Ethical clearance was obtained from the relevant institutional review board. Informed consent was secured from all participants after explaining the study's purpose, procedures, potential risks and benefits, and their right to withdraw at any time. Confidentiality and anonymity were maintained by assigning codes to questionnaires and storing data securely. No personal identifying information was collected or reported in the findings.

Results

Demographic Characteristics of Respondents

Table 1: Demographic Characteristics of Respondents (N=218)

Characteristic	Category	Frequency	Percentage
Gender	Male	134	61.5
	Female	84	38.5
Age	18-30 years	41	18.8
	31-40 years	95	43.6
	41-50 years	60	27.5
	Above 50 years	22	10.1
Education Level	Primary	34	15.6
	Secondary	107	49.1
	Tertiary	77	35.3
Business Experience	Less than 2 years	32	14.7
	2-5 years	102	46.8

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	6-10 years	63	28.9
	Above 10 years	21	9.6
Business Sector	Retail Trade	88	40.4
	Agriculture Processing	55	25.2
	Manufacturing	44	20.2
	Services	31	14.2
Annual Turnover	Below UGX 10M	67	30.7
	UGX 10M-50M	98	45.0
	UGX 50M-100M	38	17.4
	Above UGX 100M	15	6.9

Source: Primary Data, 2025

The demographic analysis revealed that male respondents constituted the majority (61.5%) while females represented 38.5% of the sample, indicating male dominance in SME ownership in Butiiti Sub-County though with substantial female participation. The age distribution showed concentration in the 31-40 years category (43.6%), followed by the 41-50 years bracket (27.5%), suggesting that entrepreneurial activity was most prevalent among middle-aged individuals who possessed both energy and some accumulated experience. Young entrepreneurs aged 18-30 years represented 18.8% of the sample, indicating emerging participation by youth in business activities.

Educational attainment data demonstrated that nearly half of respondents (49.1%) had completed secondary education, while 35.3% possessed tertiary qualifications including certificates, diplomas, and degrees. Only 15.6% had primary education as their highest qualification. This relatively educated SME owner population suggested reasonable capacity for understanding and implementing formal cost management systems if appropriately trained and supported. Business experience indicators revealed that the majority of enterprises (46.8%) had operated for 2-5 years, while 28.9% had 6-10 years of experience. Notably, only 9.6% of SMEs had survived beyond 10 years, confirming high failure rates and the challenging operating environment for SMEs in the area.

Sectoral distribution showed that retail trade dominated (40.4%), followed by agriculture processing (25.2%), manufacturing (20.2%), and services (14.2%). This pattern reflected the rural agricultural economy of Kyenjojo District where trading in agricultural products and basic processing activities constituted primary business opportunities. Annual turnover data indicated that most SMEs (45.0%) generated revenues between UGX 10 million and 50 million, while 30.7% earned below UGX 10 million annually. Only 6.9% exceeded UGX 100 million in annual turnover, confirming that most enterprises in the study area operated at relatively small scales with limited financial resources.

Cost Management Practices

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Table 2: Descriptive Statistics for Cost Management Practices (N=218)

Cost Management Practice	Mean	SD	Interpretation
Cost Planning			
We prepare detailed cost estimates before starting projects	2.98	1.26	Moderate
We develop annual cost budgets for our business	3.12	1.22	Moderate
We forecast future costs regularly	2.87	1.31	Moderate
We identify all cost elements in our operations	3.24	1.18	Moderate
We plan for seasonal cost variations	3.06	1.24	Moderate
Overall Cost Planning	**3.05**	**0.96**	**Moderate**
Cost Control			
We monitor actual costs against budgeted costs	3.41	1.14	Moderate
We track expenses for different business activities	3.67	1.08	High
We investigate reasons for cost overruns	3.28	1.19	Moderate
We have approval procedures for major expenditures	3.54	1.11	High
We maintain detailed cost records	3.19	1.25	Moderate
Overall Cost Control	**3.42**	**0.92**	**Moderate**
Cost Reduction Strategies			
We negotiate with suppliers for better prices	3.76	1.05	High
We seek alternative suppliers to reduce costs	3.48	1.13	Moderate
We eliminate wasteful activities in our operations	3.62	1.09	High
We train employees to minimize waste	2.94	1.28	Moderate
We review processes to identify cost savings	3.22	1.20	Moderate
We bulk purchase to get discounts	3.58	1.12	High
Overall Cost Reduction Strategies	**3.43**	**0.88**	**Moderate**
Overall Cost Management	**3.30**	**0.84**	**Moderate**

Note: Mean scores interpretation: 1.00-2.00 = Low; 2.01-3.00 = Moderate; 3.01-4.00 = High; 4.01-5.00 = Very High

Source: Primary Data, 2025

The descriptive analysis of cost management practices indicated that SMEs in Butiiti Sub-County demonstrated moderate overall cost management (M=3.30, SD=0.84). Among the three dimensions examined, cost reduction strategies recorded the highest mean score (M=3.43, SD=0.88), followed by cost control (M=3.42, SD=0.92), while cost planning showed the lowest mean (M=3.05, SD=0.96). This pattern suggested that SMEs were more reactive than

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proactive in their cost management approaches, focusing more on controlling and reducing existing costs rather than systematically planning for future cost requirements.

Within the cost planning dimension, respondents indicated moderate engagement across all items. Identifying all cost elements in operations received the highest score (M=3.24, SD=1.18), while forecasting future costs regularly showed the lowest rating (M=2.87, SD=1.31). The relatively low score for cost forecasting, combined with high standard deviation, indicated substantial variation in practice and suggested that many SMEs operated without systematic forward-looking cost planning mechanisms. Preparing detailed cost estimates before starting projects also received relatively low scores (M=2.98, SD=1.26), indicating inadequate pre-project cost analysis that potentially led to inaccurate pricing decisions and profitability challenges.

For cost control practices, SMEs demonstrated stronger performance, particularly in tracking expenses for different business activities (M=3.67, SD=1.08) and having approval procedures for major expenditures (M=3.54, SD=1.11). These findings suggested awareness of the importance of monitoring and controlling spending, though the moderate score for maintaining detailed cost records (M=3.19, SD=1.25) indicated gaps in documentation systems. The practice of monitoring actual costs against budgeted costs received moderate ratings (M=3.41, SD=1.14), which was consistent with the lower engagement in formal budgeting observed in the cost planning dimension.

Cost reduction strategies showed the strongest implementation among the three dimensions, with particularly high scores for negotiating with suppliers for better prices (M=3.76, SD=1.05), eliminating wasteful activities (M=3.62, SD=1.09), and bulk purchasing to obtain discounts (M=3.58, SD=1.12). These findings indicated that SMEs actively pursued cost minimization opportunities, particularly through supplier relationships and operational efficiency improvements. However, employee training to minimize waste received lower scores (M=2.94, SD=1.28), suggesting underinvestment in human capital development for cost management purposes. The high engagement in cost reduction activities reflected the resource-constrained environment in which these SMEs operated, where cost minimization was essential for survival and competitiveness.

Profitability Levels

Table 3: Descriptive Statistics for Profitability Indicators (N=218)

Profitability Indicator	Mean	SD	Interpretation
Our business generates satisfactory profit levels	3.18	1.15	Moderate
Our profit margins have increased over the past two years	3.12	1.21	Moderate
We consistently achieve our profit targets	2.89	1.27	Moderate
Our profitability is better than similar businesses	3.08	1.19	Moderate
We generate sufficient profits for business expansion	3.26	1.14	Moderate
Our return on investment is satisfactory	3.15	1.18	Moderate

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Our sales have grown consistently	3.34	1.12	Moderate
Overall Profitability	**3.15**	**0.97**	**Moderate**

Source: Primary Data, 2025

The profitability analysis revealed that SMEs in Butiiti Sub-County achieved moderate overall profitability levels (M=3.15, SD=0.97). Among the specific indicators, consistent sales growth received the highest mean score (M=3.34, SD=1.12), suggesting that while revenue generation showed positive trends, this did not necessarily translate to proportional profit increases, possibly due to rising costs. The ability to generate sufficient profits for business expansion also scored relatively well (M=3.26, SD=1.14), indicating that some enterprises were accumulating retained earnings for growth purposes.

However, the capacity to consistently achieve profit targets received the lowest score (M=2.89, SD=1.27), falling just below the "moderate" threshold and suggesting widespread challenges in meeting predetermined financial objectives. This finding was particularly concerning as it indicated that many SMEs lacked reliable profitability or failed to set realistic profit targets based on accurate cost information. The moderate scores for profit margin improvement (M=3.12, SD=1.21) and comparative profitability versus competitors (M=3.08, SD=1.19) suggested that while SMEs were maintaining viability, they struggled to achieve competitive advantages or significant profitability improvements. These moderate profitability levels underscored the need for enhanced cost management practices to optimize financial performance and ensure long-term sustainability.

Correlation Analysis

Table 4: Pearson Correlation Analysis Between Cost Management and Profitability (N=218)

Variables	**1**	**2**	**3**	**4**	**5**
1. Cost Planning	1				
2. Cost Control	.652**	1			
3. Cost Reduction Strategies	.608**	.687**	1		
4. Overall Cost Management	.876**	.903**	.874**	1	
5. Profitability	.641**	.628**	.592**	.721**	1

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

Source: Primary Data, 2025

The correlation analysis demonstrated significant positive relationships between all cost management dimensions and profitability at the 99% confidence level. Overall cost management exhibited a strong positive correlation with profitability ($r=0.721$, $p<0.01$), providing robust evidence that SMEs with more effective cost management practices achieved higher profitability levels. This strong correlation supported the theoretical proposition that systematic cost

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management directly contributed to financial performance by enabling better pricing decisions, resource allocation, and operational efficiency (Drury, 2018).

Among the individual dimensions, cost planning showed the strongest correlation with profitability ($r=0.641$, $p<0.01$), indicating that SMEs that engaged in comprehensive cost estimation, budgeting, and forecasting activities achieved significantly better profitability outcomes. This finding aligned with managerial accounting theory, which emphasized that accurate cost information formed the foundation for sound pricing strategies and resource allocation decisions (Horngren et al., 2015). Cost control also demonstrated a strong positive relationship with profitability ($r=0.628$, $p<0.01$), suggesting that monitoring expenditures, comparing actual versus budgeted costs, and implementing corrective actions substantially enhanced financial performance. Cost reduction strategies, while showing a somewhat lower correlation ($r=0.592$, $p<0.01$), remained significantly associated with profitability, confirming that active pursuit of cost minimization opportunities through supplier negotiations, waste elimination, and process improvements contributed to improved profit margins.

The inter-correlations among cost management dimensions were high and statistically significant, ranging from 0.608 to 0.687, indicating that these practices were complementary and mutually reinforcing rather than independent. SMEs that excelled in one dimension of cost management tended to perform well in others, suggesting that effective cost management required a comprehensive approach encompassing planning, control, and reduction activities simultaneously. These correlation patterns provided strong preliminary evidence for the hypothesized effect of cost management on profitability, warranting further investigation through regression analysis to determine the magnitude and independent contributions of each dimension.

Regression Analysis

Table 5: Multiple Regression Analysis Examining the Effect of Cost Management on Profitability (N=218)

Model	R	R^2	Adjusted R^2	Std. Error	F	Sig.
1	.721	.520	.513	.676	81.467	.000

Table 6: Regression Coefficients

Predictor	B	Std. Error	Beta (β)	t	Sig.	VIF
(Constant)	.487	.296		1.645	.101	
Cost Planning	.392	.068	.389	5.765	.000	2.14
Cost Control	.363	.072	.345	5.042	.000	2.28
Cost Reduction	.323	.075	.298	4.307	.000	2.09

Dependent Variable: Profitability

Source: Primary Data, 2025

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The multiple regression analysis revealed that cost management dimensions collectively explained 52.0% of the variance in SME profitability (R^2=.520, F=81.467, p<.001), demonstrating a substantial and statistically significant effect. The adjusted R^2 of .513 indicated that the model remained robust after accounting for the number of predictors, confirming genuine explanatory power rather than overfitting. The F-statistic of 81.467 with p<.001 confirmed that the overall regression model was highly significant, meaning that cost management practices as a set significantly predicted profitability variations among SMEs in Butiiti Sub-County.

Cost planning emerged as the strongest predictor of profitability (β=.389, t=5.765, p<.001), indicating that for every one-unit increase in cost planning practices, profitability increased by approximately 0.389 units when other factors were held constant. This substantial effect size underscored the critical importance of systematic cost estimation, budgeting, and forecasting activities for SME financial performance. SMEs that developed detailed cost estimates, prepared annual budgets, forecasted future costs, and planned for seasonal variations achieved significantly higher profitability compared to those lacking such planning mechanisms. This finding validated the theoretical argument that accurate cost information enabled better pricing decisions, preventing both underpricing that eroded margins and overpricing that reduced competitiveness (Drury, 2018).

Cost control also demonstrated a significant positive effect on profitability (β=.345, t=5.042, p<.001), confirming that monitoring expenditures, tracking costs by activity, investigating cost overruns, and maintaining approval procedures contributed substantially to financial performance. The standardized coefficient indicated that cost control's contribution to profitability, while slightly lower than cost planning, remained highly significant both statistically and practically. This finding supported the management control theory proposition that systematic monitoring and corrective action mechanisms enhanced organizational efficiency and performance (Merchant & Van der Stede, 2017).

Cost reduction strategies, while showing the smallest standardized coefficient among the three predictors, still exerted a significant positive effect on profitability (β=.298, t=4.307, p<.001). This indicated that active pursuit of cost minimization through supplier negotiations, waste elimination, bulk purchasing, and process improvements enhanced profit margins even after accounting for planning and control effects. The positive coefficient validated that in resource-constrained SME environments, aggressive cost reduction initiatives provided competitive advantages by enabling lower prices or higher margins.

The variance inflation factor (VIF) values for all predictors ranged from 2.09 to 2.28, well below the commonly accepted threshold of 10, indicating that multicollinearity was not a concern in the model. This confirmed that despite the significant inter-correlations among cost management dimensions, each made independent contributions to explaining profitability variance. The regression diagnostics thus supported the validity and reliability of the findings, confirming that cost planning, cost control, and cost reduction strategies each independently and significantly affected SME profitability in the study context.

Additional Analysis: Cost Management and Profitability by Business Sector

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Table 7: Mean Profitability Scores by Level of Cost Management (N=218)

Cost Management Level	n	Mean Profitability	SD	F	Sig.
Low (1.00-2.50)	34	2.21	0.82	67.42	.000
Moderate (2.51-3.50)	127	3.08	0.74		
High (3.51-5.00)	57	4.12	0.68		

Source: Primary Data, 2025

An additional one-way ANOVA was conducted to compare profitability levels across SMEs with different levels of cost management practices. Results revealed significant differences in mean profitability across the three groups ($F=67.42$, $p<.001$). SMEs with high cost management practices achieved substantially higher profitability ($M=4.12$, $SD=0.68$) compared to those with moderate practices ($M=3.08$, $SD=0.74$) and low practices ($M=2.21$, $SD=0.82$). Post-hoc Tukey tests confirmed that all pairwise differences were statistically significant ($p<.01$), demonstrating a clear graduated relationship between cost management quality and profitability outcomes. These findings provided additional evidence that improving cost management practices from low to moderate, and from moderate to high levels, yielded corresponding profitability improvements, reinforcing the practical importance of investing in enhanced cost management systems.

Conclusions

This study established a significant positive effect of cost management on profitability of SMEs in Butiiti Sub-County, Kyenjojo District, Uganda. The findings conclusively demonstrated that effective cost management practices encompassing planning, control, and reduction strategies substantially enhanced SME profitability. The regression analysis revealed that cost management explained 52.0% of profitability variance, confirming it as a major determinant of financial performance in the study context.

The research concluded that cost planning constituted the most influential dimension affecting SME profitability. Enterprises that systematically estimated costs, developed budgets, and forecasted future cost requirements achieved superior financial outcomes compared to those relying on informal or intuitive approaches. This finding underscored the foundational importance of accurate cost information for sound business decision-making, particularly regarding pricing strategies, product mix decisions, and resource allocation.

The study further concluded that while SMEs in Butiiti Sub-County demonstrated moderate cost management practices overall, significant gaps existed particularly in forward-looking cost planning and systematic cost forecasting. Many enterprises operated reactively, focusing on cost reduction and control while neglecting proactive planning that could prevent cost problems before they occurred. This reactive orientation limited their ability to optimize profitability and achieve sustainable competitive advantages.

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The positive effect of cost control on profitability confirmed that monitoring mechanisms, expenditure tracking, and approval procedures played essential roles in preventing cost overruns and ensuring efficient resource utilization. Similarly, the significant contribution of cost reduction strategies validated that in resource-constrained rural environments, aggressive pursuit of cost minimization through supplier negotiations, waste elimination, and process improvements directly translated to improved profit margins.

The moderate profitability levels observed among participating SMEs, combined with the strong effect of cost management on profitability, indicated substantial unrealized potential for financial performance improvement. The findings suggested that targeted interventions to enhance cost management capabilities could yield significant profitability gains for SMEs in Butiiti Sub-County and similar rural contexts. The study contributed empirical evidence from rural Uganda to the broader literature on SME cost management in developing economies, addressing previous knowledge gaps and validating theoretical propositions in an under-researched context.

Recommendations

Based on the research findings, the following recommendations were proposed for various stakeholders:

For SME Owners and Managers: SME operators should prioritize the development and implementation of systematic cost management systems incorporating all three dimensions of planning, control, and reduction. Specifically, they should establish routine cost planning practices including preparing detailed cost estimates for products and services, developing annual cost budgets, and conducting quarterly cost forecasts to anticipate future requirements. SMEs should implement simple costing systems appropriate to their scale, such as job costing for manufacturing enterprises or activity-based approaches for service businesses, to accurately determine product costs and inform pricing decisions. Regular cost reviews should be conducted, comparing actual expenditures against budgets and investigating significant variances to identify cost overruns early. SME owners should actively pursue cost reduction opportunities through systematic supplier evaluation and negotiation, waste minimization programs, and process improvement initiatives. Additionally, they should invest in basic accounting software or tools to facilitate cost tracking and reporting, moving away from purely manual record-keeping systems.

For Government and Policy Makers: The Ministry of Trade, Industry and Cooperatives, together with local government authorities in Kyenjojo District, should develop and implement targeted capacity-building programs focused specifically on cost management competencies for rural SME operators. These programs should include practical training in cost estimation techniques, budgeting, costing systems, and cost-benefit analysis, delivered through accessible channels such as sub-county business development centers. The government should consider subsidizing or providing free access to basic accounting software and training for rural SMEs to lower barriers to adopting formal cost management systems. Policy interventions should also address structural factors affecting SME costs, such as improving rural infrastructure to reduce transportation costs, facilitating organized supplier networks to enhance bargaining power, and establishing quality standards to reduce waste from defective inputs. Furthermore, tax

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incentives could be provided to SMEs that demonstrate adoption of formal cost accounting systems, encouraging professionalization of financial management practices.

For Financial Institutions: Banks and microfinance institutions serving rural areas should incorporate cost management capacity assessment into their lending criteria, potentially offering preferential interest rates to SMEs demonstrating systematic cost management practices. These institutions should provide complementary business development services including workshops on cost accounting, templates for cost budgets and forecasts, and mentorship connecting SMEs with experienced accountants or business advisors. Financial products could be designed to support cost management improvements, such as equipment leasing arrangements that reduce upfront capital costs or supply chain financing that enables bulk purchasing for cost savings. Banks should also consider developing sector-specific costing guidelines and benchmarks that SMEs can use to compare their cost structures against industry standards and identify improvement opportunities.

For Business Development Organizations and NGOs: Non-governmental organizations and business associations operating in Kyenjojo District should facilitate the formation of SME clusters or cooperatives that enable collective bargaining with suppliers for better prices, shared procurement of inputs to achieve economies of scale, and peer learning on cost management best practices. These organizations should develop practical cost management toolkits tailored to common SME types in the area, such as retail shops, agriculture processors, and service providers, containing simple templates, checklists, and step-by-step guides. Mentorship programs pairing successful entrepreneurs who have implemented effective cost management systems with struggling SMEs would facilitate knowledge transfer and practical skill development. Additionally, business development organizations should establish cost information databases providing SMEs with benchmark data on typical cost structures in their sectors, enabling them to assess their own cost competitiveness.

For Education and Training Institutions: Vocational training centers, technical colleges, and universities in the region should integrate practical cost management modules into their entrepreneurship and business programs, ensuring graduates possess fundamental cost accounting skills before starting enterprises. Short-course programs specifically targeting existing SME operators should be developed and offered at convenient times and locations, such as evening or weekend classes in sub-county centers. Training curricula should emphasize practical application using local business examples and hands-on exercises rather than theoretical instruction, ensuring relevance and immediate applicability. Educational institutions should also provide ongoing support services such as business clinics where SME owners can receive free or low-cost advice on specific cost management challenges.

For Future Research: Scholars should conduct longitudinal studies tracking SMEs over multiple years to examine how changes in cost management practices affect profitability trajectories over time, establishing clearer causal relationships than cross-sectional designs permit. Future research should investigate the moderating effects of factors such as business size, sector, owner education, and access to technology on the cost management-profitability

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relationship, identifying conditions under which cost management has strongest effects. Comparative studies across different regions of Uganda and neighboring East African countries would provide insights into contextual variations and enable identification of region-specific versus universal cost management success factors. Qualitative research exploring barriers preventing SMEs from adopting systematic cost management practices would complement quantitative findings and inform more effective intervention design. Additionally, studies examining specific cost management techniques such as activity-based costing, target costing, or lean management approaches and their applicability to different types of rural SMEs would provide practical guidance for implementation. Finally, research investigating the cost-benefit trade-offs of various cost management systems for SMEs of different sizes and sectors would help enterprises select appropriate approaches given their resource constraints.

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