



**METROPOLITAN**

**INTERNATIONAL**

**UNIVERSITY**

**FINANCIAL MANAGEMENT PRACTICES AND PROFITABILITY OF SMALL AND MEDIUM  
ENTERPRISES IN BUNDIBUGYO DISTRICT UGANDA**

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**24/HD10/MBA/KC**

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**DECLARATION**

I **Bukantwa Charles**, declare that this dissertation with title “the effect of financial management practices on the profitability of small and medium enterprises in Bundibugyo District, Uganda.” is my original work and has not been submitted for any award at any academic institution.

**Signed:** .....

**Date:** .....

**Bukantwa Charles**

**APPROVAL**

This is to confirm that this dissertation on “effect of financial management practices on the profitability of small and medium enterprises in Bundibugyo District, Uganda.” has been done under my supervision on a university supervisor.

**Signature:** .....

**Date:** .....

**Dr KAMUSIIME B, SAMUEL**

**DEDICATION**

This dissertation is dedicated to my family for their unwavering love, encouragement, and sacrifices throughout my academic journey. Their moral, emotional, and financial support provided the foundation upon which this achievement was built. I also dedicate this work to all small and medium enterprise owners in Bundibugyo District, whose resilience and commitment to business growth inspired this study. May the findings of this research contribute meaningfully to improving financial management practices and enhancing their profitability.

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**Abstract**

The study examined the effect of financial management practices on the profitability of small and medium enterprises (SMEs) in Bundibugyo District, Uganda. SMEs play a vital role in employment creation and local economic development; however, many SMEs in Bundibugyo District had continued to record low profitability and high failure rates, largely attributed to weak financial management practices. The study was guided by three specific objectives: to examine the effect of budgeting practices on the profitability of SMEs, to assess the relationship between cash flow management and SME profitability, and to evaluate the influence of financial record-keeping practices on SME profitability in Bundibugyo District. The study was anchored on the Pecking Order Theory and the Resource-Based View (RBV) Theory. The Pecking Order Theory assumed that SMEs prioritized internal financing due to limited access to external credit, emphasizing the importance of effective internal financial management for profitability. The Resource-Based View theory assumed that internal capabilities such as budgeting, cash flow control, and record-keeping constitute strategic resources that enhance firm performance. These theories were relevant in explaining how internal financial practices influenced profitability in resource-constrained rural settings. A descriptive cross-sectional research design with a quantitative approach was adopted. The target population comprised 337 SME owners, managers, employees, and key stakeholders in Bundibugyo District, from which a sample size of 267 respondents was selected using census and simple random sampling techniques. Data were collected using structured questionnaires. Data analysis was conducted using the Statistical Package for Social Sciences (SPSS), employing descriptive statistics, Pearson correlation analysis, and multiple regression analysis.

Findings revealed that budgeting practices had a significant positive effect on profitability, with an overall mean score of 3.60 (SD = 1.31), indicating moderate to high adoption of budgeting practices among SMEs. Pearson correlation results showed a strong positive relationship between budgeting practices and profitability ( $r = 0.621$ ,  $p < 0.01$ ). Cash flow management also demonstrated a significant positive relationship with profitability ( $r = 0.684$ ,  $p < 0.01$ ), indicating that SMEs that effectively managed cash inflows and outflows recorded higher profit margins. Furthermore, financial record-keeping practices were found to have a statistically significant influence on profitability ( $r = 0.657$ ,  $p < 0.01$ ), with SMEs maintaining complete and regularly updated records reporting better financial performance. Regression analysis indicated that financial management practices jointly explained 58.3% ( $R^2 = 0.583$ ) of the variation in SME profitability. The study concluded that financial management practices significantly influenced the profitability of SMEs in Bundibugyo District. Budgeting practices, cash flow management, and financial record-keeping were identified as critical determinants of SME profitability. The study recommended that SME owners and managers should strengthen budgeting, cash flow monitoring, and record-keeping practices, while government agencies and development partners should enhance financial literacy training and provide targeted support programs to improve SME profitability and sustainability.

**CHAPTER ONE  
INTRODUCTION**

**1.0 Introduction**

This chapter consisted of background of the study, problem statement, main objective, research objectives, research questions, conceptual framework, and significance of the study, scope of the study, justification of the study and operational definitions.

**1.1 Background of the Study**

**1.1.1 Historical Perspective**

Globally, SMEs constitute over 90% of all businesses and contributed to more than 50% of employment, making them vital to both developing and developed economies (Ahumuza et al., 2025). Historically, the growth of SMEs was constrained by limited access to markets, capital, and managerial capacity (Julius & Matovu, 2025). However, with globalization, increased access to technology, and the advancement of microfinance institutions, the SME sector has grown in scale and significance. As of 2023, according to the International Labour Organization and the World Bank, SMEs now account for more than 70% of total employment in emerging markets, demonstrating the sector's critical role in job creation and poverty alleviation (K. Faridah et al., 2023). Nonetheless, the financial management practices of these enterprises remained a significant determinant of their survival and profitability. Poor budgeting, inadequate cash flow management, weak internal controls, and lack of financial planning continued to undermine SME sustainability globally (Florence & Julius, 2023).

In Africa, the evolution of SMEs reflected a transition from subsistence economic activities to more structured, revenue-generating enterprises (Amos et al., 2024). Since the post-independence era, African countries had increasingly recognized the potential of SMEs in fostering local entrepreneurship, innovation, and inclusive economic growth (George Stanley & Nafiu, 2020). SMEs were estimated to account for over 80% of the continent's businesses and contribute nearly 50% to its GDP (Lydia, Kazaara, et al., 2023). However, despite their prominence, the profitability of African SMEs remained threatened by widespread challenges in financial management. Historically, many of these enterprises operated informally, with little to no financial record-keeping (Akankwasa et al., 2022). Over time, governments and international development agencies had initiated programs to enhance SME financial literacy and formalization (Moses et al., 2025). As of 2023, studies from several African countries reveal that SMEs with strong budgeting, financial planning, and internal financial control practices report significantly higher growth rates and profitability levels than those without (Winny et al., 2023). Nevertheless, access to financial education and reliable credit facilities remained uneven across the continent, particularly in rural and remote regions.

In Uganda, the growth of SMEs had paralleled national efforts to promote private sector-led development (Audrey & Nancy, 2025). The SME sector now comprises over 90% of all private enterprises in the country and contributes

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approximately 20% to the national GDP(Frank et al., 2023). Historically, most SMEs in Uganda were established to support local livelihoods, especially in the informal sector. Over the past two decades, structural economic reforms and liberalization policies had spurred SME expansion into more formalized and profitable ventures(Julius & Matovu, 2025). Despite this progress, recent findings from 2023 indicated that up to 70% of SMEs in Uganda still operate without formal financial records or structured financial plans, largely due to low financial literacy and limited access to financial advisory services(Alex & Kazaara, 2023). The evolution of SME financial management in Uganda had been influenced by capacity-building programs from both government agencies like the Uganda Investment Authority and financial institutions, yet the gap in practical application of these financial skills remained wide. Issues such as improper budgeting, unplanned expenditures, and lack of credit control continued to hinder the profitability of many SMEs, especially in rural areas(Annet et al., 2023).

In Bundibugyo District, located in the western region of Uganda, the growth of SMEs had been largely shaped by local agricultural and trade-based activities. The district was characterized by a high concentration of micro and small enterprises engaged in cocoa farming, retail trade, and small-scale manufacturing(Lydia, Ariyo, et al., 2023). Historically, SMEs in Bundibugyo operated with minimal or no financial systems, relying heavily on traditional methods of record-keeping and informal borrowing (Sarah & Audrey, 2024). Over time, there had been a gradual shift toward more structured business operations, especially as mobile money services and rural banking initiatives penetrated the region. Despite this evolution, the majority of SMEs in Bundibugyo continued to grapple with financial management challenges(Alex & Moses, 2024). As of 2023, observations from local business development officers and district commercial officials suggested that many small businesses still lack the capacity to prepare budgets, monitor cash flows, or conduct financial forecasts(Ahumuza et al., 2025). Furthermore, limited access to training and financial services had compounded the problem, often resulting in poor decision-making and reduced profitability(Annet et al., 2023). While some entrepreneurs had adopted better practices due to exposure to training programs from NGOs and district programs, the overall financial management culture remains weak.

### **1.1.2 Theoretical Perspective**

To understand the intricate relationship between financial management practices and the profitability of Small and Medium Enterprises (SMEs) in Bundibugyo District, Uganda, two major theories provided this explanatory power: the Pecking Order Theory (POT) and the Resource-Based View (RBV) Theory of the Firm. Each theory posted a different but complementary rationale behind how firms acquired and managed financial resources and how internal capabilities was contribute to competitive advantage and profitability.

#### **1. Pecking Order Theory (POT)**

The Pecking Order Theory, developed by Myers and Majluf (1984), posited that businesses follow a hierarchy in financing decisions based on the principle of minimizing the cost of information asymmetry. According to this theory, firms first preferred to use internal funds (such as retained earnings), then debt (such as bank loans or supplier credit),

and only as a last resort, external equity. The rationale was that internal financing involves less risk and less need to disclose sensitive financial information, while external funding especially equity financing often required intense scrutiny, reduces control, and incurs higher transaction costs. This theoretical proposition was particularly relevant for SMEs in low-income and rural settings, such as Bundibugyo District, where formal financial institutions are scarce and where informal lending dominated business operations (Adomako et al., 2022; Fatoki, 2021).

In applying POT to SMEs in Bundibugyo, it became evident that these enterprises were highly dependent on self-financing mechanisms, including reinvestment of profits, personal savings, or funds from social networks, due to limited access to affordable credit. The theory thus provided a foundation for examining the extent to which internal financial management practices such as budgeting, cash control, and profit retention enhance business profitability. In essence, POT supported the hypothesis that firms with stronger internal financial discipline and planning were better positioned to manage growth and reduce dependency on high-risk loans or poorly understood financial instruments. This was especially relevant in a rural Ugandan context, where informal and semi-formal financial markets dominated, and traditional banks were often inaccessible.

However, despite its explanatory strength, POT had received considerable critique, especially when applied to micro and small enterprises in low-income settings. First, it assumed that businesses had consistent and adequate internal cash flows to fund operations and growth, which was not true for many rural SMEs operating under high volatility, seasonal demand, and narrow margins (Nkundabanyanga et al., 2021). Second, the theory did not explicitly address managerial capacity, financial literacy, or the strategic misalignment that may exist in small businesses, where owners often lacked financial training and operate informally. Additionally, recent empirical studies (e.g., Munene et al., 2023) suggested that reliance on internal financing may limit innovation and expansion due to undercapitalization. A critical research gap therefore emerged: there was limited contextualized evidence on how rural Ugandan SMEs especially in districts like Bundibugyo structure their financing preferences and whether adherence to a “pecking order” actually translated to improved profitability. This study sought to fill that gap by analyzing the effect of internal financial management practices on SME profitability in this specific district.

## **2. Resource-Based View (RBV) Theory**

The Resource-Based View (RBV), articulated by Barney (1991) and refined by Wernerfelt (1984), posits that a firm's sustainable competitive advantage stems from its ability to acquire and utilize internal resources that are valuable, rare, inimitable, and non-substitutable (VRIN). Unlike theories that focused on external market factors, RBV emphasized the strategic role of internal capabilities and organizational competencies including financial management systems, leadership, and decision-making capacity in driving firm performance. In the context of SMEs, especially those operating in resource-constrained environments like rural Uganda, effective financial management practices were seen as strategic internal resources. These practices such as accurate bookkeeping, financial planning, cost

control, and cash flow monitoring were not only valuable but was also rare and difficult to replicate when embedded within the enterprise's daily routines and culture (Nguyen & Nguyen, 2023).

For SMEs in Bundibugyo District, RBV theory offered a compelling framework for understanding how internal organizational strength could offset external weaknesses. In a setting where access to markets, capital, and infrastructure was limited, the firm's ability to manage its resources efficiently became its most defensible advantage. A well-trained SME owner who regularly forecasted cash flows, tracks expenses, and maintained updated financial records was more likely to make informed decisions, avoid financial distress, and capitalize on growth opportunities. RBV also supported the idea that the quality not just the presence of financial management practices matters for profitability. For example, two businesses kept both keep records, but only one analyzed them to guide decisions. This nuance was particularly important in Bundibugyo, where entrepreneurial education and financial literacy were often low, and many businesses operate informally or semi-formally.

Yet, RBV also faced several criticisms that must be acknowledged. Critics argued that the theory overemphasized internal capabilities and neglected the external institutional and regulatory environments, which were particularly influential in developing countries (Lukanima & Isaga, 2021). In Uganda, for instance, many SMEs were subject to corruption, bureaucratic delays, and erratic tax enforcement, which diminished the benefits of internal competence. Moreover, RBV tends to assume that managers objectively identified and leveraged their firm's strategic resources. However, in reality, many rural entrepreneurs in Uganda did not even recognize their financial routines as strategic, let alone develop them in a structured manner (Nanziri & Karuhanga, 2022). This created a research gap in understanding the degree to which internal financial management practices in Bundibugyo SMEs qualify as "strategic resources" under RBV criteria, and whether these practices genuinely lead to improved profitability. The present study contributed by exploring how such internal capabilities influence firm outcomes in the context of Uganda's rural business landscape

### **1.1.3 Conceptual Perspective**

Financial Management Practices (FMPs) refers to the strategic approach that businesses employ to manage their financial resources effectively, ensuring that the business remains solvent, profitable, and capable of growing over time (Ramadhan, Alex, Kazaara, et al., 2023). These practices involved key activities like budgeting, financial forecasting, cash flow management, cost control, financial reporting, and capital management. According to Muniu et al. (2023), effective FMPs were integral to the sustainability of Small and Medium Enterprises (SMEs), as they provided a structure for managing day-to-day operations while ensuring long-term financial health (A. G. Kazaara & Kazaara, 2025). For SMEs in Bundibugyo District, Uganda, FMPs included tasks such as budgeting for operational expenses, regularly monitoring cash flows to ensure liquidity, and making sound investment decisions to maximize returns (Ramadhan, Alex, Ariyo, et al., 2023). The significance of FMPs in SME performance was well-documented,

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with studies such as those by Duflo et al. (2022) highlighting that SMEs with structured financial management practices were more likely to experience improved growth, access to credit, and profitability compared to those without such practices.

In the context of Profitability, this term refers to the ability of an SME to generate income that exceeds its operational costs, which ultimately ensured that the business remains financially viable and capable of reinvestment(Deus, 2023). Profitability was often measured through financial ratios such as net profit margin, return on assets (ROA), and return on equity (ROE). For SMEs in Bundibugyo, profitability was a crucial indicator not only of their operational success but also of their capacity to grow and expand(Julius & Kazaara, 2025a). As articulated by O'Brien and Hickman (2022), profitability was the most direct indicator of business success, reflecting how well an SME can manage its revenues and expenses(Alex et al., 2024). Furthermore, profitability was a key factor that determines the SME's ability to secure funding, hire additional labor, and scale its operations. SMEs that were consistently profitable and better positioned to reinvest their earnings into the business, innovate, and improve their offerings.

Recent studies demonstrated that financial management practices directly influence profitability. For instance, a study by Kaggwa and Nabukenya (2023) on SMEs in Uganda showed that well-organized budgeting and financial planning were associated with increased profitability, with businesses that applied formal budgeting practices being 60% more likely to show profitability improvements than those that did not. Similarly, managing working capital efficiently ensuring there was enough cash flow to meet immediate obligations was found to be one of the most significant contributors to profitability for SMEs. Poor financial management, on the other hand, often leads to inefficiencies, missed financial opportunities, and eventually, declining profitability.

In Bundibugyo District, SMEs face several unique challenges, including limited access to financial services, low financial literacy, and a lack of formal financial documentation, all of which significantly affect their profitability(T. Christopher & Nelson, 2024). According to the Uganda Bureau of Statistics (UBOS, 2022), around 75% of SMEs in rural districts like Bundibugyo lack adequate training in financial management and rely heavily on informal financial sources. This resulted in poor cash flow management and challenges in budgeting, which directly affect their ability to sustain operations and generate profits(Julius & Matovu, 2025). The relationship between financial management practices and profitability was also seen through the lens of cash flow management(Alex & Kazaara, 2023). A study by Matovu and Nalumansi (2022) found that SMEs that closely monitor their cash flow, through detailed reporting and forecasts, tended to have higher profitability levels(Julius & Kazaara, 2025b). Cash flow management helps SMEs in Bundibugyo maintain liquidity, avoid financial distress, and continue operations without interruptions. Conversely, failure to manage cash flow often results in SMEs being unable to cover operational expenses, leading to loss of profits and, in some cases, business failure(N. Faridah et al., 2023).

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#### **1.1.4 Contextual Perspective**

Bundibugyo District, located in the western region of Uganda, presents a unique context for studying the financial management practices (FMPs) and profitability of Small and Medium Enterprises (SMEs). This district, known for its diverse geography, including mountainous terrain and forests, was predominantly rural, with agriculture being the primary economic activity (Alex & Julius, 2024). However, over the years, the district had seen the emergence of small-scale businesses that provide essential goods and services to the local population, contributing to the region's economic diversification. These businesses, which ranged from retail stores, food processing, to service-based enterprises, played a critical role in the socio-economic development of Bundibugyo. The importance of SMEs in Bundibugyo cannot be overstated, as they are pivotal in job creation, poverty reduction, and economic stability (F. Christopher & Micheal, 2022). The 2022 Uganda Bureau of Statistics (UBOS) reported highlights that SMEs in rural areas, including Bundibugyo, account for a significant portion of the local employment base, contributing to approximately 50% of the district's workforce (Muhamad et al., 2023). However, despite their potential for growth and expansion, SMEs in Bundibugyo face several challenges, particularly concerning financial management and profitability (Akankwasa et al., 2022). These challenges were compounded by limited access to formal financial services, low levels of financial literacy, and a lack of adequate financial management practices, which undermine their operational effectiveness and, in turn, affect their profitability.

One of the key issues for SMEs in Bundibugyo was their limited understanding of financial management. Studies like those conducted by Muniu et al. (2023) had shown that SMEs in rural Uganda often operate with informal financial systems that lack proper record-keeping and financial planning. As a result, many SME owners in Bundibugyo struggle to manage cash flows effectively, leading to liquidity challenges that disrupt business operations (A. I. Kazaara & Desire, 2025). Without a clear financial strategy or proper budgeting, businesses faced difficulties in forecasting future cash needs, making it hard to make informed investment decisions or plan for business growth (A. I. Kazaara & Audrey, 2024). Furthermore, poor financial management practices increased the risk of business failure, as SMEs were unable to sustain themselves through periods of low revenue or unexpected expenses. The absence of formal financial management practices also led to a lack of profitability (Julius & Kazaara, 2025b). As articulated by O'Brien and Hickman (2022), profitability was a direct indicator of business success, and SMEs that fail to adopt proper financial management practices often struggled with reduced profit margins. In Bundibugyo, many SMEs did not have access to business loans or credit from formal financial institutions, primarily because they lack the necessary financial records and business plans that would make them eligible for such funding (A. G. Kazaara et al., 2024). This exclusion from formal financing options forced SMEs to rely on informal sources of finance, such as personal savings or borrowing from family and friends, which often come with high interest rates and limited flexibility. Consequently, the lack of external financial support further limited their ability to expand or invest in improvements that could increase profitability.

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Moreover, Bundibugyo's SMEs faced geographical and infrastructural challenges that hinder profitability. The district's mountainous terrain, coupled with poor road networks and limited access to modern communication technologies, made it difficult for businesses to reach wider markets or optimize their supply chains. These logistical constraints increased the operational costs of SMEs, making them less competitive in the broader market. Additionally, the district's economic activities were heavily influenced by agriculture, with the majority of SMEs being linked to agricultural processing, such as the production of food products. However, the vulnerability of agricultural productivity to climate change, as well as fluctuating market prices for agricultural goods, adds a layer of risk for these businesses. In such a volatile environment, financial management practices like cost control and cash flow forecasting are even more critical to ensure that SMEs can remain profitable.

Despite these challenges, there were opportunities for improving the financial management practices of SMEs in Bundibugyo. Studies had shown that when SMEs adopt structured financial management practices such as budgeting, proper record-keeping, and financial reporting, their profitability improves. For example, a study by Matovu and Nalumansi (2022) found that SMEs with organized budgeting practices had a higher likelihood of profitability, with those using formal accounting systems being 70% more likely to report increased profits compared to their counterparts who did not follow such practices. Furthermore, initiatives aimed at improving financial literacy in rural areas, such as training programs and workshops, had proven to be effective in helping SMEs in Uganda improve their financial management skills and boost their profitability (Kaggwa & Nabukenya, 2023). The role of financial institutions in Bundibugyo also needed to be highlighted. Despite the high potential for SME growth, financial institutions in the region were not always responsive to the needs of small businesses. Many SMEs were unable to secure loans or lines of credit due to the absence of formal financial records or collateral. This lack of financial support exacerbated the challenges faced by SMEs, as it restricts their ability to expand or improve their operations. Therefore, fostering stronger relationships between SMEs and financial institutions, along with offering tailored financial products that cater specifically to the needs of rural businesses, played a crucial role in enhancing the profitability of SMEs in Bundibugyo.

### **1.2 Problem Statement**

Ideally, SMEs in Bundibugyo had access to well-structured financial management practices (FMPs) such as effective budgeting, cash flow management, proper record-keeping, financial reporting, and investment planning. These practices enabled them to optimize resources, minimize financial risks, improve profitability, and expand their businesses (A. I. Kazaara & Audrey, 2025). Moreover, these businesses were equipped with adequate financial literacy, which enabled them to understand and use financial services effectively, access formal financing, and manage cash flow and operational costs with confidence (Ronet et al., 2023). In Uganda, SMEs make up about 90% of private sector businesses and employ over 2.5 million people, contributing roughly 20% of national GDP showing how vital they are to economic activity when well managed and financed. Only around 30% of enterprises nationally survive

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beyond three years, often due to challenges related to financial knowledge and planning. In such an ideal situation, SMEs in Bundibugyo would have stable, profitable operations capable of driving local economic growth, reducing poverty, and creating sustainable employment opportunities for the community.

However, majority of SMEs in Bundibugyo still operated with limited financial management practices, relying on informal, unstructured systems that lack proper budgeting, record-keeping, or financial forecasting(Annet et al., 2023). Many of these businesses lacked access to formal financial services, such as loans and credit, due to insufficient financial documentation and a lack of trust in the banking system(Collins et al., 2023). Furthermore, financial literacy levels among SME owners remained low, with most businesses unable to properly manage cash flows or plan for future investments. This lack of sound financial management contributed directly to the inability of these enterprises to scale, secure funding, or even sustain their operations. The poor financial practices were compounded by logistical challenges, such as inadequate infrastructure and limited market access, further limiting their profitability and growth potential. SMEs in Bundibugyo that failed to adopt effective financial management practices often face severe liquidity issues, which hinder their ability to pay suppliers, employees, or reinvest in business expansion(Ntirandekura et al., 2022). The lack of profitability in these businesses led to higher rates of failure, with many SMEs closing down after a few years of operation due to poor financial oversight. This situation further exacerbated poverty in the district, as the closure of SMEs results in job losses and the loss of vital services and goods that support the local community. Therefore, this study sought to explore the financial management practices in SMEs in Bundibugyo and their impact on profitability, aiming to provide insights and recommendations that can help improve the financial practices of these enterprises and foster their growth and sustainability.

### **1.3 Main Objective**

To assess the effect of financial management practices on the profitability of small and medium enterprises in Bundibugyo District, Uganda.

#### **1.3.1 Specific Objectives**

1. To examine the effect of budgeting practices on the profitability of small and medium enterprises in Bundibugyo District.
2. To assess the relationship between cash flow management and the profitability of SMEs in Bundibugyo District.
3. To evaluate the influence of financial record-keeping practices on the profitability of small and medium enterprises in Bundibugyo District

#### **1.3.1 Research Questions**

1. What is the effect of budgeting practices on the profitability of small and medium enterprises in Bundibugyo District?

2. What is the relationship between cash flow management and the profitability of SMEs in Bundibugyo District?
3. How do financial record-keeping practices influence the profitability of small and medium enterprises in Bundibugyo District?

#### **1.4 Significance of the study**

##### **Small and Medium Enterprise (SME) Owners and Managers**

The study provided valuable insights into how specific financial management practices such as budgeting, cash flow management, credit control, and record-keeping affect their businesses' profitability. With this knowledge, SME owners and managers were better equipped to adopt effective financial strategies, improve operational efficiency, and make informed financial decisions, ultimately enhancing business sustainability and growth.

##### **Policy Makers and Government Agencies**

The study helped policy makers and institutions such as the Ministry of Trade, Industry and Cooperatives, and local government authorities in Bundibugyo to understand the financial management gaps facing SMEs. The research informed the formulation of targeted policies, training programs, and financial literacy campaigns aimed at strengthening SME financial capabilities and boosting profitability, thereby contributing to local economic development.

##### **Financial Institutions**

Banks, microfinance institutions, and SACCOs benefited from the findings by gaining a clearer understanding of how SMEs manage their finances. This enabled them to design more suitable financial products, credit schemes, and advisory services that align with the financial behavior and needs of SMEs, leading to improved loan repayment and better access to finance for SMEs.

##### **Development Partners and Non-Governmental Organizations (NGOs)**

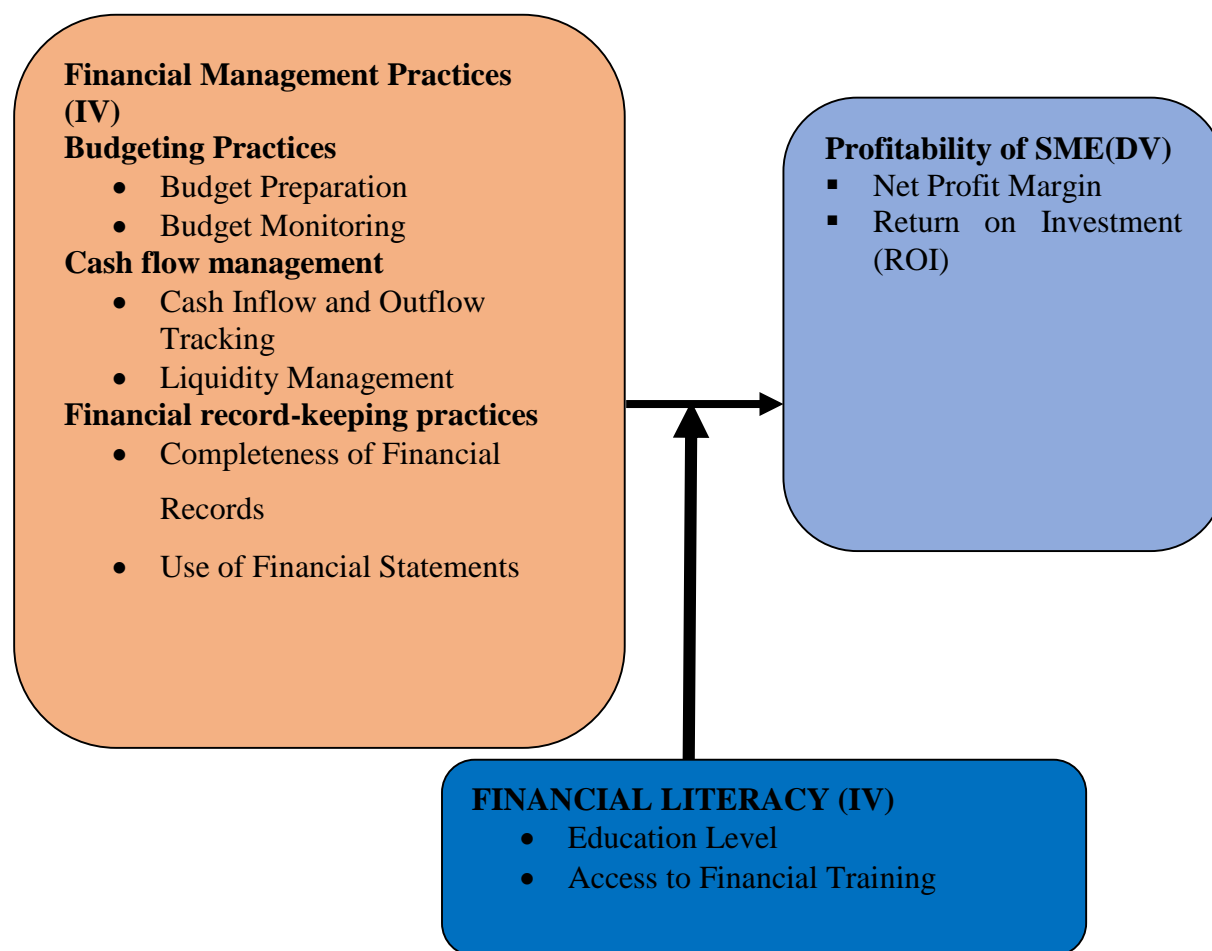
Organizations supporting entrepreneurship and SME development used the study's findings to tailor their interventions. For instance, NGOs focused on economic empowerment designed more effective training in financial literacy and business planning for SMEs based on identified weaknesses in current financial practices.

##### **Academicians and Researchers**

The study contributed to the existing body of literature on SME development and financial management, particularly in rural Ugandan settings. It served as a reference for future researchers interested in exploring related topics or in conducting comparative studies in other regions, thus promoting continued academic discourse in this area.

#### **1.5 Conceptual Framework**

Figure 1: Conceptual Framework



Source: Adopted from Klapper, Lusardi, and Panos (2013) and modified by the researcher.

The conceptual framework for this study illustrated the anticipated relationship between financial management practices and the profitability of small and medium enterprises (SMEs), with financial literacy serving as a moderating variable. The independent variable (IV), financial management practices, was examined through three key components: budgeting practices, which included budget preparation and monitoring; cash flow management, involving the tracking of cash inflows and outflows as well as liquidity management; and financial record-keeping practices, assessed through the completeness of financial records and the use of financial statements. These financial practices were expected to influence the dependent variable (DV), SME profitability, which was measured in terms of net profit margin and return on investment (ROI). The framework also investigated how financial literacy, particularly in terms of the SME owners' education level and access to financial training, may moderate the relationship between financial management practices and profitability. This framework served as a basis for exploring how improved financial knowledge could strengthen the impact of financial practices on profitability outcomes among SMEs in

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Bundibugyo District.

## **1.6 Scope of the Study**

### **1.6.1 Content Scope**

This study focused on examining the financial management practices (FMPs) employed by Small and Medium Enterprises (SMEs) operating in Bundibugyo District, Uganda, and how these practices influence their profitability. The research investigated key aspects of financial management, such as budgeting, cash flow management, financial record-keeping, cost control, financial reporting, and strategic investment planning, all of which are essential for the effective management of financial resources. The study assessed the extent to which these SMEs apply formal financial management techniques and how their financial practices affect business outcomes, particularly profitability.

### **1.6.2 Time Scope**

The time scope of this study covered a period from May 2025 to November 2025. The study was conducted within this timeframe to allow for data collection, analysis, and the formulation of recommendations.

### **1.6.3 Geographical Scope**

The study was conducted in Bundibugyo District, located in the western part of Uganda, bordered by several districts and featuring a unique geographical landscape. Bundibugyo is situated between latitudes 0° 49' N and 1° 50' N, and longitudes 30° 01' E and 30° 32' E, placing it within the western border region of Uganda, close to the Democratic Republic of Congo. The district is characterized by varied topography, with altitudes ranging from approximately 800 meters to 1,500 meters above sea level, encompassing both mountainous terrain and lowland areas, which significantly influence its agricultural activities and pose operational challenges for SMEs, particularly in terms of transportation and logistics. Bundibugyo shared its southern border with the Democratic Republic of Congo, which impacts cross-border trade and regional economic activities, while to the east, it borders Ntoroko District, facilitating regional trade and resource sharing. To the west, Bundibugyo's boundary with the Democratic Republic of Congo also influenced cross-border economic interactions, including agriculture and informal trade, though the rugged terrain complicates the movement of goods and services for SMEs. In the north, Bundibugyo was bordered by Fort Portal Municipality in Kabarole District, providing access to regional markets, but poor road networks pose limitations on efficient transportation for SMEs.

## **1.7 Justification of the Study**

The study also addressed the specific context of Bundibugyo District, which had its unique economic and geographical features that affect the business environment. Bundibugyo, with its proximity to the Democratic Republic of Congo and the rugged terrain, presents both challenges and opportunities for SMEs. Cross-border trade played an essential role in the local economy, but logistical issues, fluctuating exchange rates, and limited access to formal financial services complicated the financial management of SMEs in the area. Understanding how SMEs in Bundibugyo manage their finances under these conditions provided valuable context for policymakers, development agencies, and financial institutions to design more targeted interventions aimed at improving the financial performance of these

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enterprises.

Furthermore, the findings of this study were crucial for the broader discourse on SME development in Uganda and other developing nations. Many SMEs in Uganda operate in the informal sector, where financial management practices may not be formalized, and profitability is difficult to track. This study's results had broader implications for improving financial literacy and supporting the formalization of SMEs. By focusing on Bundibugyo, the research provided localized insights that can be scaled to other districts facing similar economic and infrastructural challenges.

Moreover, the study's findings offered practical recommendations for SME owners, suggesting concrete financial management practices that could help boost profitability. These recommendations were vital for SMEs looking to expand their operations, secure funding from financial institutions, and improve their long-term sustainability. By identifying best practices for financial management, the study served as a resource for both existing SMEs and those in the process of starting up, ultimately contributing to the overall economic development of Bundibugyo and similar regions in Uganda.

### **1.8 Operational Definitions**

**Financial Management Practices (FMPs):** This referred to the strategies and techniques employed by SMEs in Bundibugyo District to manage their financial resources, including budgeting, cash flow management, financial record-keeping, cost control, financial reporting, and investment planning.

**Profitability of SMEs:** This referred to the ability of SMEs in Bundibugyo District to generate profit, measured by financial metrics such as net profit margin, return on assets (ROA), and return on equity (ROE), indicating the business's financial success.

**Small and Medium Enterprises (SMEs):** This referred to businesses in Bundibugyo that employ between 5 and 50 people, with annual sales revenue ranging from UGX 10 million to UGX 100 million, typically owner-managed and contributing to local economic development.

**Cash Flow Management:** This referred to the process of monitoring, analyzing, and controlling the inflow and outflow of cash within the SME's operations, ensuring liquidity and smooth operations.

**Financial Record-Keeping:** This referred to the systematic process of recording and categorizing financial transactions, such as income, expenses, and assets, to ensure financial transparency and decision-making.

**Budgeting:** This referred to the process of planning and allocating financial resources for both short-term and long-

term operations, including forecasting income and expenses.

**CHAPTER TWO**  
**LITERATURE REVIEW**

**2.0 Introduction**

The literature review in this study offered a comprehensive theoretical and empirical foundation to better understand the intricate relationship between financial management practices and the profitability of Small and Medium Enterprises (SMEs), with a specific focus on SMEs operating in Bundibugyo District, Uganda. The review drawn upon scholarly works, peer-reviewed journal articles, global and regional economic reports, and credible publications on small business management and financial decision-making in Sub-Saharan Africa. The literature was sourced from academic databases such as JSTOR, Scopus, Google Scholar, Elsevier (Science Direct), Taylor & Francis, and Springer Link, as well as from recent policy reports by the World Bank, African Development Bank, Uganda Bureau of Statistics (UBOS), and Bank of Uganda.

**2.1 Theoretical Review**

The Pecking Order Theory, initially formulated by Myers and Majluf (1984), suggested a hierarchical approach to financing where firms prefer internal funds over debt and debt over equity, primarily to minimize information asymmetry and associated transaction costs. In essence, firms were expected to prioritize self-financing mechanisms such as retained earnings, personal savings, or informal social networks before seeking costly external financing. This principle was highly applicable in rural Uganda, where formal financial systems are limited and SMEs often operated within informal sectors. Empirical studies by Adomako et al. (2022) and Fatoki (2021) corroborated the assertion that rural enterprises typically rely on internal resources due to barriers in accessing credit, including high collateral requirements, lack of credit history, and geographical remoteness from financial institutions. For SMEs in Bundibugyo District, where traditional banks and microfinance institutions had limited reach, POT provides a sound theoretical base to explore how internal financing and financial self-discipline underpin profitability. In practical terms, this means evaluating how internal financial practices such as budgeting, cost control, and reinvestment strategies serve as tools for navigating the uncertainties and liquidity constraints common to Bundibugyo's business environment. For instance, when access to loans was minimal, SMEs that effectively manage working capital or reinvest profits prudently may enjoy improved operational continuity and profitability. POT thus reinforced the importance of self-reliant financial stewardship, particularly in informal and semi-formal enterprises operating without external oversight or auditing mechanisms.

However, despite its relevance, POT had notable limitations, especially when transposed into the context of micro and small enterprises in rural and economically vulnerable areas. The theory presumed a stable flow of internal capital, yet many SMEs in Bundibugyo grapple with inconsistent revenue streams due to seasonality, climate-related agricultural fluctuations, and weak local demand. As observed by Nkundabanyanga et al. (2021), such volatility undermined the assumption that internal funds were always available or sufficient for sustained growth. Moreover,

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POT underrepresents the human capital dimension such as the financial acumen of SME owners which was a critical factor in informal settings. Many entrepreneurs in Uganda lack formal training in financial management and thus was unable to effectively prioritize or sequence financing options according to theoretical prescriptions. More recent studies, including Munene et al. (2023), had shown that an overreliance on internal financing stifled innovation and limit scaling opportunities, especially when undercapitalized firms forego investment in new technologies or expanded inventory. Nevertheless, these critiques highlighted a notable research gap: there was insufficient context-specific evidence on how rural SMEs in Uganda organized their financing decisions and whether adherence to the pecking order theory translated into improved financial performance. This study sought to address this gap by empirically investigating the relationship between internal financial management practices and profitability among SMEs in Bundibugyo, thereby providing nuanced insights into the relevance and applicability of the theory within low-income, underdeveloped contexts.

#### **Resource-Based View (RBV) Theory**

The Resource-Based View (RBV) of the firm, advanced by Wernerfelt (1984) and formalized by Barney (1991), posits that firms achieved sustained competitive advantage through the possession and effective utilization of internal resources that are valuable, rare, inimitable, and non-substitutable (VRIN). This theory shifted analytical focus from external market positioning to internal organizational capabilities, particularly those that are embedded, non-tradable, and path-dependent. In the SME context, and more specifically in resource-limited environments like Bundibugyo District, RBV provided a vital framework for understanding how internal practices particularly financial management systems can become strategic assets. Nguyen and Nguyen (2023) argued that when SMEs develop robust internal controls, such as meticulous record-keeping, cash flow forecasting, and expense monitoring, these practices not only improve operational efficiency but also enabled firms to adapt to uncertainty, exploit emerging opportunities, and avoid financial distress.

Applying RBV to Bundibugyo's SMEs emphasized the strategic nature of financial literacy and management routines, particularly where formal institutional support is absent or dysfunctional. In a setting characterized by infrastructural deficits, weak regulatory enforcement, and limited market access, internal competencies represented the only sustainable source of competitive advantage. SMEs that institutionalize sound financial habits such as frequent profit analysis, cost-benefit assessments, and proactive cash management were better equipped to make evidence-based decisions, seize growth opportunities, and withstand financial shocks. This underscored the relevance of RBV in highlighting the centrality of internal organizational resources to profitability in rural Uganda.

Nevertheless, RBV was not without criticisms. One major critique was its inherent assumption that firms have the capacity to identify, develop, and leverage strategic resources. In the rural Ugandan context, where many SMEs were

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owner-operated and informal, the ability to recognize financial routines as “strategic” is not guaranteed. As Nanziri and Karuhanga (2022) observed, a large proportion of small business owners do not view record-keeping or cash flow monitoring as core competencies, but rather as administrative burdens, if they practice them at all. This disconnected between theoretical ideals and empirical realities limits the direct applicability of RBV without contextual adaptation. Additionally, RBV often underestimated the role of external environmental constraints such as corruption, taxation irregularities, and bureaucratic inertia which are especially pervasive in Uganda and may negate the advantages conferred by internal competence (Lukanima & Isaga, 2021). Therefore, the assumption that superior internal resources invariably translated into superior performance may not hold in institutional contexts fraught with unpredictability and structural inefficiencies. Given these gaps, there was a pressing need to empirically test whether the internal financial practices of SMEs in Bundibugyo actually qualify as VRIN resources under RBV criteria and whether they substantively influence firm-level profitability. The existing literature tended to generalize RBV applications without interrogating whether rural SMEs possess the capacity or the strategic orientation to harness internal resources effectively. This study thus aimed to make a theoretical and empirical contribution by exploring whether, and how, financial management routines in Bundibugyo’s SMEs function as strategic assets that enhance profitability despite external adversities.

## **2.2 Review of related Literature**

### **2.2.1 Effect of budgeting practices on the profitability of small and medium enterprises in Bundibugyo**

#### **District.**

A study conducted on the role of budgeting in enhancing financial discipline among small and medium enterprises (SMEs) in Uganda by Kabagambe and Ssemenda (2022) found that structured budgeting significantly influenced SMEs' capacity to manage cash flows, reduce wasteful expenditures, and boost profitability. Their findings revealed that many SMEs that failed to develop realistic and implementable budgets often faced challenges such as over-expenditure, poor resource allocation, and ultimately low returns on investment. This was particularly critical in rural areas like Bundibugyo District, where businesses operate in an environment characterized by low financial literacy, limited access to financial management tools, and minimal external oversight.

A study conducted on budgeting culture among Nigerian SMEs by Adepoju and Kolapo (2023) reinforced this assertion by revealing that enterprises with consistent budgeting practices, involving key stakeholders in the budget-making process, had significantly higher profit margins than those that practiced top-down or ad-hoc budgeting. The participatory approach not only ensured alignment between planned activities and available resources but also cultivated ownership, accountability, and motivation among employees. Given that many SMEs in Bundibugyo District were family-owned or community-based, encouraging inclusive budgeting processes offered a strategic pathway to improving efficiency and financial performance. In another study conducted on the use of financial management tools among East African SMEs, Mwangi and Kato (2022) reported that the majority of rural SMEs

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underutilize formal budgeting processes due to poor access to training and limited understanding of financial documentation. The study found that businesses often relied on short-term estimations and informal practices like rotating savings and credit schemes, which undermined strategic financial planning and long-term investment decisions. In the context of Bundibugyo, where informal businesses dominated and formal recordkeeping is minimal, there was a growing need for capacity-building interventions tailored to local business realities. Budgeting was not only a tool for control but a necessary framework for planning, forecasting, and ensuring efficient allocation of limited resources.

A study conducted on SMEs in Rwanda by Nshimiyimana and Uwitonze (2021) showed that firms that frequently reviewed and updated their budgets experienced more stable growth in profit margins. The study noted that budgeting must be dynamic and flexible, especially in volatile economic settings, to ensure its effectiveness in enhancing profitability. It recommended periodic reviews monthly or quarterly as effective tools for ensuring budget relevance and responsiveness. For SMEs in Bundibugyo, where market conditions are subject to agricultural seasons and price fluctuations, this practice proved instrumental in managing financial risk and sustaining profitability. Additionally, a recent study conducted by Tusiime et al. (2023) on Ugandan SMEs emphasized that budgeting should be integrated with strategic planning to influence profitability. Their research revealed that budgeting for areas such as marketing, innovation, and human resource development yielded higher returns than those focused solely on administrative expenditures. This study was particularly relevant to Bundibugyo District, where the majority of SMEs focused on survival and subsistence rather than growth-oriented planning. Nevertheless, the researchers observed that SMEs which shifted their budgeting priorities toward value-adding activities experienced notable improvements in both market share and profitability.

### **2.2.2 Relationship between cash flow management and the profitability of SMEs in Bundibugyo District.**

A study conducted by Odhiambo and Wamalwa (2022) emphasized the importance of cash flow planning, stating that many SMEs fail not because of poor products or services, but due to poor liquidity control and financial mismanagement. The researchers analyzed SMEs across rural Kenya and discovered that businesses with structured cash flow systems such as real-time tracking of expenses, receivables, and payables experienced more stability in profitability compared to those operating without any formal systems. The findings suggested that maintaining a healthy cash flow allows SMEs to reinvest in operations, settle debts promptly, and negotiate better supplier discounts, all of which cumulatively enhance profitability. This had direct implications for SMEs in Bundibugyo District, where many small businesses operate seasonally and face frequent cash shortages due to fluctuating revenues, leading to poor reinvestment and reduced returns.

Similarly, Tumwebaze and Ocen (2023), in their study conducted on SMEs in Northern Uganda, observed that most business owners lacked the technical know-how and financial literacy required to implement basic cash flow strategies

such as cash forecasting, liquidity ratio monitoring, and separating personal finances from business funds. This absence of structured cash flow planning led to business interruptions, missed opportunities, and eventually losses. The study also pointed out that delayed receivables and over-reliance on informal credit lines posed significant risks to profitability. Such findings were particularly relevant to Bundibugyo District, where most SMEs are owned and managed by individuals with minimal financial training, and often without the use of accounting software or professional support. These challenges made it difficult for SMEs to align cash inflows with outflows, thus impairing operational continuity and profitability.

Another critical perspective was offered by Adjei and Owusu (2021), who investigated the impact of cash flow management on SME profitability in Ghana. They found that cash flow mismanagement contributed more to SME collapse than external macroeconomic pressures or competition. Their study showed that late payments from customers, unrecorded expenditures, and unplanned purchases were major causes of negative cash flow and business failure. Importantly, the study found a strong positive relationship between disciplined cash flow planning and improved profit margins. SMEs that practiced consistent budgeting, expenditure monitoring, and financial reporting were found to have better control over their cost structures, allowing them to focus resources on growth opportunities. In a region like Bundibugyo, where informal financial practices were dominant and reinvestment opportunities were scarce, such disciplined approaches made a significant difference in ensuring profitability and long-term sustainability of small businesses.

In a cross-country study involving Uganda, Rwanda, and Tanzania, Nkurunziza and Kamugisha (2022) examined the correlation between cash conversion cycles and SME profitability. The research revealed that firms with shorter cash conversion periods meaning they collected receivables quickly and efficiently managed inventory posted higher net profit margins. This correlation underscored the importance of active working capital management as a determinant of cash flow health and profitability. The researchers further noted that digital tools and inventory management systems helped SMEs reduce delays in cash inflow and prevent overstocking, both of which improved liquidity. For SMEs in Bundibugyo, the implications were clear: adopting even basic digital financial management tools or mobile accounting apps could significantly enhance cash flow visibility and ultimately improve profitability. However, such innovations remained underutilized due to poor ICT infrastructure and limited awareness in rural districts.

Additionally, a study conducted by Musimenta and Atuhairwe (2023) on rural SMEs in Western Uganda pointed out that many entrepreneurs do not maintain separate bank accounts for business and personal use, which contributes to cash leakage and obscured financial performance. The study found that SMEs that used mobile money platforms and practiced routine reconciliations had better insights into their financial positions and were more profitable. It also highlighted that lack of training in basic bookkeeping and financial planning was a key constraint limiting SME

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growth. This was particularly significant for Bundibugyo District, where a large proportion of SMEs operate informally and were not registered or regulated. In such environments, cash flow decisions are often made based on instinct rather than data, which limits the ability of businesses to make profit-maximizing choices. Therefore, improving cash flow management knowledge and formalizing financial practices in rural SMEs led to more sustainable business models and increased profits.

### **2.2.3 The influence of financial record-keeping practices on the profitability of small and medium enterprises in Bundibugyo District**

A study conducted by Akinyemi and Adewale (2022) in Nigeria revealed that SMEs with consistent and accurate financial record-keeping practices exhibited higher profit margins and stronger access to credit. The researchers noted that businesses that routinely tracked income, expenditures, inventories, and tax obligations were better equipped to make informed strategic decisions, avoid unnecessary costs, and meet legal requirements. These practices contributed to the long-term viability and profitability of the enterprises. In the context of Bundibugyo District where most SMEs operated informally such findings imply a need for increased awareness and training in financial record-keeping to ensure business sustainability and growth. Similarly, in a study conducted on rural SMEs in Uganda, Namulindwa and Ssewanyana (2023) found that lack of proper record-keeping practices severely limits the financial performance of small businesses. The study emphasized that most SMEs did not keep regular sales journals, did not monitor cash flow movements, and had no documentation for debts or credit obligations. As a result, they were unable to assess their profitability, plan for future growth, or apply for formal financing. This limitation created a cycle of low productivity, poor investment planning, and stagnant profits. The study also highlighted that even where entrepreneurs had some form of record-keeping, it was often manual, inaccurate, and not based on accounting principles. For Bundibugyo District, where the majority of SME owners lack formal education or accounting knowledge, the absence of standardized record-keeping practices continues to hinder efforts toward business profitability and growth.

Moreover, research conducted by Biryomumaisho and Kamukama (2021) on SMEs in Western Uganda affirmed that there is a direct and statistically significant relationship between financial record-keeping and business profitability. The study showed that SMEs that practiced consistent bookkeeping and financial statement preparation were more likely to assess their financial position accurately, price their products competitively, and avoid mismanagement of funds. These businesses also had better chances of attracting investments and scaling operations. Importantly, the study underscored that many SMEs still treat record-keeping as secondary to other operational activities, viewing it as a compliance burden rather than a strategic tool. In regions like Bundibugyo, where formal banking systems and business development services are limited, this perception further reduces the likelihood of SMEs adopting effective financial management practices. In a more recent study by Kato and Mwesigwa (2023), focusing on the adoption of digital record-keeping tools among SMEs in rural Uganda, the authors found that digitalization of financial records enhanced real-time decision-making and reduced record loss or error. SMEs using mobile bookkeeping apps or simple

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spreadsheet systems experienced a measurable improvement in revenue tracking, cost reduction, and profit growth. However, the study also pointed out barriers to adoption, such as low digital literacy, lack of access to smartphones, and unreliable internet connectivity in rural districts like Bundibugyo. These findings suggest that while technology presents an opportunity for enhancing record-keeping and profitability, contextual challenges must be addressed through capacity building, infrastructure development, and local sensitization.

Furthermore, a study conducted by Nsubuga and Bukenya (2022) highlighted that financial record-keeping influences not only profitability but also the creditworthiness of SMEs. The authors found that SMEs that kept organized financial records were more likely to be trusted by lenders and thus had greater access to credit. This financial inclusion allowed them to expand operations and invest in profit-generating activities. In contrast, SMEs lacking basic records like profit and loss statements, balance sheets, or cashbooks were frequently denied loans due to a lack of transparency. This is particularly significant for SMEs in Bundibugyo, where access to capital is already constrained. The inability to provide credible financial records further isolates these enterprises from formal financial systems, compounding their profitability challenges.

### **2.3 Research Gaps**

While the existing literature has extensively discussed the role of financial management practices such as budgeting, cash flow management, and record-keeping on the profitability of small and medium enterprises (SMEs), there remained a significant gap in understanding how financial literacy moderates this relationship, particularly in rural and underdeveloped regions like Bundibugyo District in Uganda. Most prior studies have examined financial management practices and financial literacy as independent determinants of profitability, yet few had empirically investigated their interactive or moderating relationship using contextualized data from rural SME environments.

While the existing literature in countries like Ghana, Kenya, and Tanzania had acknowledged that financially literate entrepreneurs are more likely to make profitable decisions, these findings were often derived from urban-centered studies or national surveys that may not adequately reflect the realities of SMEs in marginalized, rural districts such as Bundibugyo. This created a contextual gap, as SMEs in Bundibugyo experienced challenges related to low literacy levels, informal business operations, and limited access to training programs, which may affect how financial literacy functions as a moderator in this specific environment.

While the existing literature affirmed the positive effects of financial literacy, there was a limited understanding of which specific aspects of financial literacy such as knowledge of interest rates, inflation, debt management, or financial goal-setting contribute most significantly to enhancing the profitability outcomes of SMEs when combined with good financial management practices. This lack of disaggregation hampered the ability of policymakers and development agencies to design targeted interventions that focus on the most impactful components of financial education.

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While several studies had focused on the general impact of financial education programs on SME performance, there was a scarcity of studies that measure the strength or direction of moderation statistically, especially using advanced analytical methods like interaction regressions or moderation models. Most studies relied on descriptive or correlational approaches, leaving a gap in quantitative empirical evidence on the degree to which financial literacy strengthens or weakens the link between financial practices and profitability.

**CHAPTER THREE**  
**RESEARCH METHODOLOGY**

**3.0 Introduction**

This chapter explained the research methodology that was used in conducting the study. It described the procedures followed during the study. The chapter entailed the research design, Research approaches, the population study, the sampling design, the sample size, data sources, data collection instruments as well as the validity and reliability of the data collection instruments.

**3.1 Research design**

A correlational research design was adopted for the study on financial management practices and the profitability of small and medium enterprises (SMEs) in Bundibugyo District, Uganda, and this choice was well-justified. Correlational research was particularly suitable for examining the relationship between financial management practices such as budgeting, cash flow management, and financial reporting and profitability indicators among SMEs (Cohen, Manion, & Morrison, 2018; Field, 2013). This design enabled the identification and measurement of the strength and direction of associations between variables, allowing the study to uncover patterns and trends that supported evidence-based decision-making and future policy development (Gall, Borg, & Gall, 2007).

**3.2 Research Approach**

The use of a quantitative approach was particularly warranted in the proposed study due to the nature of the research topic. The quantitative method provided numerical data and allow for statistical analysis to assess the extent and impact of financial management practices on the profitability of small and medium enterprises (SMEs) in Bundibugyo District, such as how budgeting, cash flow control, and financial reporting influence profit margins (Creswell & Plano Clark, 2018). By employing a quantitative approach, the study abled to address a broader range of research questions and ensured a more detailed and objective interpretation of the data.

**3.3 Study population**

The target population for this study was comprise of 337 individuals drawn from various key stakeholder groups to ensure a comprehensive and representative analysis of financial management practices and their influence on SME profitability in Bundibugyo District. These groups included SME Managers and Owners specifically 8 business proprietors and 13 financial or operations managers from 8 selected SMEs totaling 21 individuals who was responsible for overseeing financial management and strategic decision-making. Additionally, the study considered 115 employees from these enterprises who was directly affected by internal financial controls and resource allocation. Furthermore, insights were gathered from 6 local government officials. To capture community-level perspectives on SME performance and accountability, 99 members of SME Advisory Boards and 91 representatives from local business associations was also be included. This inclusive and well-distributed target population ensured a robust

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understanding of how financial management practices influence the profitability and sustainability of SMEs in the district (Creswell & Plano Clark, 2018; Patton, 2015; Bundibugyo Town Council, 2024).

### **3.5 Sample size determination**

The sample size for the study on financial management practices and profitability of SMEs in Bundibugyo District was determined using a combination of the census technique and simple random sampling technique (Krejcie and Morgan's table, 1970). The respective sampling procedure for each group also outlined to ensure a representative selection of participants from the identified stakeholder groups.

**Table 1: Category of Respondents that were sampled for the study**

<b>S/N</b>	<b>Particulars</b>	<b>Population</b>	<b>Sample Size</b>	<b>Sampling Technique</b>
1	SME Managers and Owners	8	8	Census
2	Financial/Operations Managers	13	13	Census
3	SME Employees	115	86	Simple Random Sampling
4	Local Government Officials	6	6	Simple Random Sampling
5	SME Advisory Board Members	99	76	Simple Random Sampling
6	Local Business Association Representatives	91	73	Simple Random Sampling
	<b>Total</b>	<b>337</b>	<b>267</b>	

**Source: Primary data (2025)**

### **3.6 Data Sources and Procedures**

The study utilized data from primary sources through the use of questionnaires. The questionnaires were distributed to the respondents to collect quantitative data on their perceptions of financial management practices and their impact on SME profitability. The questionnaires focused on aspects such as financial resource adequacy, transparency in financial decision-making, the impact of financial practices on business operations, awareness of financial management practices, effectiveness of financial strategies, and observed improvements in business performance and profitability (Dillman, Smyth, & Christian, 2014). The quantitative method ensure a comprehensive understanding of how financial management practices influence SME profitability in Bundibugyo District, addressing the research objectives effectively from a quantitative perspective.

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### **3.7 Data Collection Method and Instrument**

The study employed the questionnaire data collection method to ensure comprehensive data coverage. The questionnaires were used as the primary quantitative data collection tool for the survey method. They were distributed to SME managers, owners, employees, local government officials, and members of business advisory boards and local business associations to gather systematic data on their perceptions and experiences regarding financial management practices and their impact on SME profitability. The questionnaires included closed-ended questions to facilitate quantitative analysis and ensure consistency in responses. The questionnaire covered topics such as the adequacy of financial resources, transparency in financial decision-making, the perceived impact of financial practices on business outcomes, awareness of financial management practices, the perceived effectiveness of financial strategies, and observable changes in business performance and profitability (Dillman, Smyth, & Christian, 2014).

### **3.8 Data Quality Control**

The study ensured data quality through rigorous validity and reliability measures.

#### **Validity**

**Content Validity:** To ensure content validity, the questionnaire was developed based on a comprehensive review of existing literature and relevant theoretical frameworks. The instrument was subjected to expert reviews by scholars and practitioners in financial management and business practices to confirm that it covers all relevant aspects of financial management practices and their impact on SME profitability. This process helped ensure that the tool accurately reflects the constructs it was intended to measure (Gliner, Morgan, & Leech, 2017).

**Construct Validity:** Construct validity was assessed by conducting a pilot study with a small sample from the target population. This pilot test helped refine the instrument and ensured that it effectively measured the intended constructs, such as the impact of financial management practices on business outcomes and profitability. Factor analysis was used to confirm that the items on the questionnaires align with the theoretical constructs being measured (Creswell & Creswell, 2018).

**Criterion Validity:** Criterion validity was established by comparing the results of the study instrument with established benchmarks or criteria. For example, financial performance data from SME reports and external audits was used to validate responses related to financial management practices and their outcomes. This comparison helped verify that the study's measures were accurate indicators of financial performance and business sustainability (Neuman, 2014).

#### **Reliability**

**Internal Consistency:** The internal consistency of the questionnaire was evaluated using Cronbach's alpha coefficient. This statistic measured the extent to which items within a scale were consistent in their responses. A Cronbach's alpha value of 0.70 or higher was considered acceptable for ensuring the reliability of the scales used in the study (Tavakol & Dennick, 2011). Reliability analysis was conducted during the pilot phase and adjusted as necessary before the main data collection.

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**Test-Retest Reliability:** To assess test-retest reliability, the study instruments were administered to a subset of participants at two different points in time. This approach helped determine the stability of responses over time. A high correlation between the two sets of responses indicated good test-retest reliability, ensuring that the instruments produce consistent results when used on different occasions (Creswell, 2014).

**Inter-Rater Reliability:** For qualitative data collected through interviews and observations, inter-rater reliability was ensured by having multiple researchers independently code and analyze the data. Discrepancies in coding was resolved through discussions to achieve consensus. This method ensured that the data interpretation was consistent and unbiased across different raters (Miles & Huberman, 1994).

**Pilot Testing and Revisions:** A pilot test of the data collection instruments was conducted to identify and address potential issues before the full-scale study. Feedback from the pilot participants was used to refine and improve the instruments to enhance their clarity, relevance, and effectiveness (Dillman, Smyth, & Christian, 2014).

### **3.9 Data Processing**

Quantitative data was collected via structured questionnaires and entered into statistical software SPSS (Statistical Package for the Social Sciences) version 20 (Nelson et al., 2022). Each response was assigned numerical codes for systematic analysis. For example, response options on a Likert scale was coded numerically (e.g., Strongly Agree = 5, Agree = 4, etc.). Data entry was standardized through the use of a pre-defined template to ensure consistency and minimize errors (Field, 2013). Data cleaning involved reviewing the dataset to identify and correct errors or inconsistencies. This included checking for missing values, outliers, and duplicate entries. Missing data was addressed using appropriate methods, such as imputation or listwise deletion, depending on the extent of missing responses. Outliers was identified and reviewed to determine whether they are data entry errors or legitimate extreme values (Hair et al., 2014). Data was then transformed into suitable formats for analysis, including the computation of summary statistics such as means and standard deviations. Aggregation involved summarizing the data at different levels, such as by business or SME type, to provide an overview of financial management practices and their impact on profitability. This step prepared the data for further analysis and ensure that it is organized for accurate interpretation (Pallant, 2016).

### **3.10 Data Analysis**

The quantitative data analysis for the current study involved a series of statistical procedures aimed at understanding the relationships between the variables. The first step conducted descriptive statistics to summarize the data and provide an overview of the sample characteristics. This included calculating measures such as means, medians, standard deviations, and frequencies to describe the central tendencies and variability of the responses (Pallant, 2016). Next, inferential statistics was employed to test hypotheses and examine the relationships between financial management practices and SME profitability. Correlation analysis was used to determine the strength and direction of the association between the independent variables (e.g., budget management, financial accountability) and dependent variables (e.g., profitability, revenue growth). Regression analysis further explored these relationships, allowing for

the control of confounding variables and providing insights into the predictive power of financial management practices on SME profitability (Field, 2013). The statistical software SPSS (Statistical Package for the Social Sciences) was utilized for these analyses, ensuring robust and reliable results (Nelson et al., 2023).

### **3.11 Limitations and Remedies**

**Respondent Bias and Non-Response:** One limitation was the possibility of respondent bias. Participants may provide socially desirable responses or withhold negative opinions due to fear of repercussions, especially when providing answers to sensitive topics like financial management and accountability. Non-response from some participants, particularly SME owners, managers, and local business representatives, also affected the representativeness of the data.

**Remedy:** To address respondent bias, the study ensured anonymity and confidentiality, making it clear that participants' identities was not disclosed and that their responses was used solely for research purposes. Additionally, using a diverse sample and including various stakeholders was help balance potential biases.

**Time and Resource Constraints:** Conducting a thorough investigation of financial management practices and their impact on SME profitability across multiple businesses and stakeholders in Bundibugyo District may be constrained by limited time and resources. The breadth of the study required extensive travel, coordination, and data processing efforts, which could challenge the study's comprehensiveness and timeliness.

**Remedy:** To manage these constraints, the study prioritized critical areas of investigation, focusing on key SMEs and stakeholders that represent the broader context. Additionally, effective time management and resource allocation was implemented, such as scheduling data collection activities efficiently and utilizing digital tools for remote data collection where possible.

**Generalizability of Findings:** Given the focus on selected SMEs in Bundibugyo District, the findings of the study had limited generalizability to other regions or business contexts in Uganda. The unique socio-economic and administrative context of Bundibugyo may not fully reflect the situation in other districts.

**Remedy:** While the study was context-specific, efforts was made to highlight broader implications and lessons learned that could be applicable to similar settings. Comparative analysis with other studies on financial management practices in different regions were also considered in the discussion to situate the findings within a wider context. Moreover, clearly defining the study's scope and limitations in the final report was help readers understand the extent to which the findings can be generalized.

### **3.12 Ethical Considerations**

Ethical considerations were paramount in conducting research on financial management practices and their impact on SME profitability in Bundibugyo District, Uganda.

First and foremost, informed consent was obtained from all participants, ensuring that they were fully aware of the study's purpose, procedures, potential risks, and benefits before agreeing to participate.

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Participants was informed that their involvement was voluntary, and they withdrawn from the study at any time without any negative consequences.

Confidentiality and anonymity were strictly maintained to protect participants' identities and sensitive information, particularly given the potentially sensitive nature of financial management practices.

Data was stored securely, with access limited to the research team, and any personal identifiers was removed from the dataset to prevent the identification of individuals.

The study adhered to the principles of honesty and transparency by accurately reporting findings without fabrication or misrepresentation. Additionally, the research was conducted with cultural sensitivity and respect for the local context, ensuring that the rights and dignity of all participants are upheld throughout the research process.

**CHAPTER FOUR**

**DATA ANALYSIS, INTERPRETATION AND PRESENTATION OF RESULTS**

**4.0 Introduction**

This chapter presented the analysis, presentation and interpretation of descriptive and inferential results on the effect of Financial Management Practices and Profitability of Small and Medium Enterprises in Bundibugyo District Uganda.

**4.1 Findings on response rate**

Higher survey response rates help to ensure that survey results are representative of the target population. Table 2 below represents response rates of the targeted population.

**Table 2: Showing response rate**

Response Rate	Frequency	Percentage
Response	267	100
Non-Response	00	0.0
<b>Total</b>	<b>267</b>	<b>100.0</b>

**Source: Primary Data, 2026**

Referring to the table above, out of the 267 questionnaires administered to the respondents, all 267 questionnaires were filled and returned, thus creating a 100% response rate. According to Bryman and Bell (2015) and Mugenda and Mugenda (2009), a response rate of 50% is adequate for data analysis and drawing conclusions, 60% is considered good, while a response rate above 70% is regarded as excellent. Therefore, the 100% response rate achieved in this study was considered excellent and sufficient for reliable data analysis.

**4.2 Demographic Characteristics of Respondents**

**Table 3: Demographic Characteristics of Respondents**

Demographic Variable	Category	Frequency	Percentage
<b>Sex</b>	Male	156	58.4%
	Female	111	41.6%
<b>Education</b>	Secondary	87	32.6%
	Certificate	73	27.3%
	Diploma	61	22.8%
	Degree	38	14.2%
	Masters	6	2.2%
	Others	2	0.7%

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<b>Age</b>	20-29 years	58	21.7%
	30-39 years	103	38.6%
	40-49 years	71	26.6%
	50-59 years	28	10.5%
	60 & Above	7	2.6%
<b>Experience</b>	Less than 2 years	64	24.0%
	Above 2 years	89	33.3%
	Above 5 years	114	42.7%

**Overall Interpretation of Demographic Profile**

The comprehensive demographic analysis revealed a diverse but patterned SME operator population in Bundibugyo District. The typical respondent profile that emerged was a male entrepreneur (58.4%) in his thirties (38.6% in the 30-39 age bracket), with secondary to certificate-level education (59.9% combined), and more than two years of business experience (76.0% combined in the two higher experience categories). This profile represented the modal characteristics across the four demographic dimensions examined and provided a useful reference point for understanding the human capital characteristics of the SME sector.

The gender distribution showing male predominance but substantial female representation (41.6%) indicated moderate gender diversity in entrepreneurship, suggesting that while men dominated, women had achieved significant participation in business ownership. This pattern was important because it showed that SME development was not exclusively male-dominated and that women had found pathways into entrepreneurship despite potential barriers, though the gender gap indicated that further efforts to support women entrepreneurs could help achieve more balanced participation. The combination of male majority and substantial female minority meant that the study's findings on financial management and profitability reflected experiences across gender lines, enhancing their applicability to diverse entrepreneurs.

The educational profile showing a range from secondary education to postgraduate qualifications, with the largest concentrations at secondary (32.6%) and certificate (27.3%) levels but substantial representation at diploma (22.8%) and degree (14.2%) levels, indicated an SME sector with diverse human capital. The presence of entrepreneurs across the educational spectrum suggested that business ownership was accessible regardless of educational attainment, though the concentration at lower to intermediate education levels raised questions about whether limited education might constrain the adoption of sophisticated financial management practices. The educational diversity was a strength for the study, as it meant findings about financial management would reflect experiences across different knowledge bases and learning capacities.

The age distribution dominated by individuals in their thirties and forties (65.2% combined) but including substantial

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numbers of younger (21.7% in twenties) and older (13.1% fifty and above) entrepreneurs indicated an SME sector that was mature but not elderly, characterized by operators in their productive prime with both energy and experience. The concentration in middle age brackets suggested that entrepreneurship in Bundibugyo District was primarily an activity of established adults rather than very young people or those near retirement. This age profile implied that entrepreneurs were at career stages where financial management capabilities could have long-term impacts on business trajectories and wealth accumulation, making capacity building in this area particularly valuable.

The experience distribution showing a plurality with more than five years (42.7%) but substantial proportions with intermediate (33.3%) and limited (24.0%) experience indicated an entrepreneurial population at various stages of business development. The predominance of those with over two years' experience (76.0% combined) suggested that the SME sector consisted mainly of businesses that had survived initial challenges and achieved some stability, though the presence of a significant novice cohort (24.0%) showed ongoing entrepreneurial dynamism and renewal. This experience profile meant that the study captured perspectives from both established businesses with refined practices and newer ventures still developing their approaches, providing insights applicable across the business lifecycle.

**4.3 Effect Of Budgeting Practices On Profitability**

**Table 4: Descriptive Statistics for Budgeting Practices**

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Not Sure</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Mean</b>	<b>STD</b>
My business prepares a detailed budget before the start of each financial period.	32 (12.0%)	45 (16.9%)	28 (10.5%)	89 (33.3%)	73 (27.3%)	3.47	1.342
Budgeting helps my business track income and expenses effectively.	18 (6.7%)	35 (13.1%)	22 (8.2%)	98 (36.7%)	94 (35.2%)	3.81	1.245
I review and update the business budget regularly.	28 (10.5%)	52 (19.5%)	31 (11.6%)	84 (31.5%)	72 (27.0%)	3.45	1.368
Budgeting has helped improve financial performance in my business.	21 (7.9%)	38 (14.2%)	25 (9.4%)	95 (35.6%)	88 (33.0%)	3.72	1.289
Budgetary controls are in place to avoid unnecessary spending.	25 (9.4%)	41 (15.4%)	34 (12.7%)	91 (34.1%)	76 (28.5%)	3.57	1.318
<b>Overall Budgeting Practices</b>						<b>3.60</b>	<b>1.312</b>

Source: Primary Data, 2026

The findings on budgeting practices and their application among small and medium enterprises in Bundibugyo District revealed that respondents generally viewed budgeting as a valuable financial management tool that contributed positively to business performance, although the level of implementation and systematic use varied considerably across enterprises. Regarding whether businesses prepared detailed budgets before the start of each financial period, a majority of respondents indicated agreement, with 89 (33.3%) agreeing and 73 (27.3%) strongly agreeing with the statement. However, a notable proportion, 32 (12.0%) strongly disagreed, 45 (16.9%) disagreed, and 28 (10.5%) were neutral, suggesting that while the majority recognized the practice of budget preparation, nearly three in ten SMEs either did not engage in formal budget preparation or did so inconsistently. The mean score of 3.47 reflected an overall tendency toward agreement, indicating that respondents generally prepared budgets for their businesses, though not universally. The standard deviation of 1.342 implied considerable variability in responses, suggesting that while some SMEs maintained structured and systematic budgeting processes, others exhibited gaps in implementation or operated without formal budgets, highlighting disparities in financial management maturity across different enterprises.

The perception of budgeting as a tool for tracking income and expenses received the strongest endorsement among all budgeting items. Most respondents strongly affirmed this benefit, with 98 (36.7%) agreeing and 94 (35.2%) strongly agreeing that budgeting helped their businesses track income and expenses effectively. Only a small proportion, 18 (6.7%) strongly disagreed, 35 (13.1%) disagreed, and 22 (8.2%) were neutral, indicating that the overwhelming majority of SME operators recognized budgeting's fundamental utility as a financial monitoring mechanism. The mean score of 3.81 was the highest among all budgeting practices, reflecting strong consensus that budgeting served an essential tracking function for financial flows. The standard deviation of 1.245 suggested moderate variability in responses, indicating that while most enterprises experienced this tracking benefit, some either did not implement budgets effectively enough to realize this advantage or disagreed with the extent of its effectiveness. This finding demonstrated that even among SMEs that might not have had sophisticated budgeting systems, there was widespread appreciation for budgeting's basic role in maintaining visibility over business finances.

Regarding the regular review and updating of business budgets, respondents showed more mixed views. A majority still indicated agreement, with 84 (31.5%) agreeing and 72 (27.0%) strongly agreeing that they reviewed and updated budgets regularly. However, a substantial proportion, 28 (10.5%) strongly disagreed, 52 (19.5%) disagreed, and 31 (11.6%) were neutral, suggesting that approximately three in ten SMEs either did not review their budgets regularly or maintained static budgets that remained unchanged throughout financial periods. The mean score of 3.45 was the lowest among all budgeting items, reflecting that budget maintenance was practiced less consistently than budget preparation or recognition of budgeting's benefits. The standard deviation of 1.368 implied considerable variability in responses, suggesting that budget review practices ranged widely across enterprises, with some maintaining disciplined regular reviews while others prepared budgets as one-time exercises without ongoing monitoring and

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adjustment. This gap between budget preparation and budget maintenance indicated a critical weakness in budgeting implementation, as budgets that were not regularly reviewed lost their relevance and utility for guiding business decisions.

The statement regarding whether budgeting had helped improve financial performance received substantial affirmation from respondents. A clear majority indicated agreement, with 95 (35.6%) agreeing and 88 (33.0%) strongly agreeing that budgeting had contributed to improved financial performance in their businesses. A smaller proportion, 21 (7.9%) strongly disagreed, 38 (14.2%) disagreed, and 25 (9.4%) were neutral, indicating that while nearly seven in ten SME operators attributed financial performance improvements to budgeting, about two in ten did not perceive this benefit or were uncertain about the causal relationship. The mean score of 3.72 reflected strong overall agreement that budgeting enhanced business performance, validating the theoretical link between budgeting practices and business outcomes. The standard deviation of 1.289 suggested moderate variability, indicating that while most enterprises benefited from budgeting, the magnitude of perceived impact varied, possibly due to differences in implementation quality, business context, or the presence of other factors affecting performance. This finding was particularly significant as it demonstrated practitioner validation that budgeting translated into tangible business improvements rather than being merely a procedural formality.

Concerning whether budgetary controls were in place to avoid unnecessary spending, respondents showed moderate agreement. A majority indicated the presence of such controls, with 91 (34.1%) agreeing and 76 (28.5%) strongly agreeing with the statement. However, a notable proportion, 25 (9.4%) strongly disagreed, 41 (15.4%) disagreed, and 34 (12.7%) were neutral, suggesting that while approximately six in ten SMEs had implemented expenditure control mechanisms linked to budgets, nearly a quarter either lacked such controls or did not perceive them as effective. The mean score of 3.57 reflected overall agreement that budgetary controls existed to prevent wasteful spending, though with less consensus than for budgeting's tracking function. The standard deviation of 1.318 implied considerable variability in responses, suggesting that budgetary control implementation varied substantially across enterprises, with some maintaining strict expenditure discipline while others had weak or absent controls. This finding highlighted the gap between budgeting as a planning tool and budgeting as a control mechanism, indicating that some SMEs prepared budgets without effectively using them to constrain spending decisions.

*Regarding the budget preparation process within the selected SMEs, respondents consistently described an approach that ranged from informal to semi-structured, with varying levels of stakeholder involvement depending on business size and management sophistication. One SME owner reflected that "we typically prepare our budget at the beginning of each year by looking at the previous year's sales and expenses, then adding a small percentage for growth, but it's mostly done by me alone since I'm the owner and main decision-maker" (OWN001). He explained that although he recognized the importance of involving others,*

*the small size of his business and limited staff capacity meant that budgeting remained largely a one-person exercise. Complementing this view, a financial manager from a medium-sized enterprise stated that "our budgeting process involves the owner, myself as the finance person, and the operations manager—we sit together and discuss expected sales based on market trends, then allocate funds to different departments, but we don't always follow strict budgeting procedures like larger companies" (FIN002). The general consensus was that budget preparation occurred in most businesses but with varying degrees of formality and participation, often constrained by limited human resources and technical expertise.*

*A local government official who worked with SMEs observed that "most small businesses in the district prepare budgets informally, relying heavily on the owner's judgment and past experience rather than detailed financial analysis or projections" (GOV001). She noted that while awareness of budgeting's importance had grown, many entrepreneurs lacked the skills to prepare comprehensive budgets or involve multiple stakeholders effectively. Another SME manager explained that "I involve my accountant when preparing the budget because she understands the numbers better than I do, but for a small shop like mine, the budget is quite simple—just estimating what I'll need for stock, rent, salaries, and utilities" (MGR003). This perspective illustrated that even when others were involved, the budgeting process remained relatively straightforward due to the uncomplicated nature of many SME operations.*

*When discussing how often budgets were reviewed or revised, respondents revealed considerable variation in practices, with most acknowledging that regular review was less consistent than initial preparation. One operations manager stated that "we're supposed to review the budget quarterly, but honestly, it only happens when there's a major problem or when we're applying for a loan and need to update our financial projections" (OPS001). He admitted that the pressure of daily operations often pushed budget reviews to the background unless there was an urgent external trigger. Similarly, an SME owner explained that "I look at my budget maybe once every few months to see if we're on track, but I don't formally revise it unless something big changes like a sudden increase in raw material costs or a major new contract" (OWN004). The general pattern was that budget reviews occurred irregularly, driven more by crisis or opportunity than by systematic planning cycles.*

*A financial manager from a relatively successful enterprise offered a contrasting perspective: "We review our budget monthly during management meetings because we've learned that things change quickly in our market—customer demand shifts, supplier prices fluctuate, and if we don't adjust our budget regularly, it becomes useless for guiding decisions" (FIN003). She emphasized that consistent review had become critical after experiencing situations where outdated budgets led to poor resource allocation. However, a*

local government official noted that "the majority of SMEs I work with don't review their budgets regularly because they lack the discipline or see it as unnecessary paperwork many prepare budgets just to satisfy bank requirements for loans rather than as genuine management tools" (GOV002). This observation highlighted that for many businesses, budgets served external compliance purposes more than internal management functions, reducing the motivation for regular review and updating.

Regarding the impact of budgeting on financial performance, respondents generally expressed positive views, though with varying degrees of conviction based on their implementation experiences. One SME owner reflected that "budgeting has definitely helped me control spending because when I see that I'm approaching the limit I set for a particular expense category, I become more careful and look for ways to cut costs or delay non-urgent purchases" (OWN002). He attributed improved profitability directly to this discipline, noting that before implementing budgets, he would spend impulsively without considering overall financial constraints. A financial manager elaborated that "having a budget has improved our financial performance by helping us plan better—we now allocate money strategically to areas that generate the most return, and we've reduced wasteful spending on things that don't contribute to profits" (FIN001). She provided examples of how budgeting enabled them to invest more in marketing during peak seasons while cutting back during slow periods, optimizing resource use across the year.

However, not all respondents were equally convinced of budgeting's impact. An operations manager candidly admitted that "I'm not sure budgeting has changed much for us because we struggle to stick to the budget anyway unexpected expenses always come up, customers delay payments, and we end up abandoning the budget within a few months" (OPS002). This perspective highlighted the implementation gap that could undermine budgeting's potential benefits. A local government official observed that "SMEs that actually use their budgets as living documents see real improvements in profitability and financial stability, but those who prepare budgets just to tick a box don't experience much benefit because they're not really managing according to the budget" (GOV003). The consensus seemed to be that budgeting's impact depended heavily on the quality of implementation and ongoing commitment rather than merely having a budget document.

**Table 5: Relationship between Budgeting Practices and Profitability**

Correlations		
	Internal control environment	Financial Accountability

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Internal control environment	Pearson Correlation	1	.687**
	Sig. (2-tailed)		.000
	N	266	266
Financial Accountability	Pearson Correlation	.687**	1
	Sig. (2-tailed)	.000	
	N	266	266
**. Correlation is significant at the 0.01 level (2-tailed).			

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

**Source: Primary Data, 2026**

The correlation analysis revealed a strong positive relationship between budgeting practices and the profitability of SMEs in Bundibugyo District, with a Pearson correlation coefficient of  $r = 0.687$ , which was statistically significant at the 0.01 level ( $p < 0.000$ ). This coefficient indicated that approximately 68.7% of the variation in one variable moved in the same direction as the other, demonstrating a substantial association between the two constructs. The strength of this correlation suggested that enterprises that engaged more comprehensively in budgeting practices tended to experience higher levels of profitability, while those with weaker budgeting practices generally exhibited lower profitability levels. The statistical significance of  $p < 0.000$  indicated that the probability of obtaining this correlation by chance alone was less than 0.1%, providing extremely strong evidence that the relationship between budgeting practices and profitability was genuine rather than spurious. This high level of significance gave confidence that the observed relationship was robust and not merely an artifact of sampling variation. The strength of the correlation at 0.687 fell into the range typically classified as "strong" by conventional statistical standards, suggesting that budgeting practices represented a major factor associated with profitability outcomes in the SME context of Bundibugyo District. The positive direction of the correlation confirmed theoretical expectations that better budgeting practices were associated with improved profitability outcomes. This finding aligned with financial management theory, which posited that budgeting provided essential planning, control, and performance evaluation functions that enhanced organizational effectiveness and efficiency. The strong correlation suggested that budgeting was not merely a procedural formality but had substantive implications for business performance, enabling better resource allocation, expenditure control, and financial decision-making that translated into improved profit generation.

However, it was important to recognize that correlation did not establish causation, and the relationship could be bidirectional or influenced by confounding variables. More profitable businesses might have had greater resources to invest in sophisticated budgeting systems, creating a reinforcing cycle where good budgeting led to profitability, which in turn enabled better budgeting. Additionally, both budgeting practices and profitability could have been influenced by underlying factors such as management quality, business size, or market conditions that were not fully captured in this analysis. Despite these limitations, the strong correlation provided compelling evidence that budgeting practices and profitability were intimately connected in the SME sector of Bundibugyo District.

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**Table 6: Regression Analysis on the effect of Budgeting Practices on Profitability**

Model Summary					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.687	0.472	0.470	0.658		
ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	102.847	1	102.847	237.512	.000b
Residual	114.769	265	0.433		
Total	217.616	266			
Coefficients					
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	0.842	0.178		4.730	.000
Budgeting Practices	0.724	0.047	0.687	15.411	.000

**Regression Equation:** Profitability = 0.842 + 0.724(Budgeting Practices)

**Source: Primary Data, 2026**

The regression analysis provided robust evidence of the significant effect of budgeting practices on the profitability of small and medium enterprises in Bundibugyo District. The R-square value of 0.472 indicated that budgeting practices explained 47.2% of the variance in profitability among the sampled SMEs. This was a substantial explanatory power, suggesting that nearly half of the differences in profitability levels across enterprises could be attributed to variations in their budgeting practices. The adjusted R-square of 0.470 was very close to the R-square, indicating that the model was not overfitted and would likely generalize well to the broader population of SMEs in the district. The remaining 52.8% of variance in profitability was attributable to other factors not captured in this model, such as market conditions, competitive dynamics, operational efficiency, and external economic factors.

The ANOVA results demonstrated that the regression model was statistically significant, with an F-statistic of 237.512 and a p-value of 0.000. This extremely high F-value and corresponding near-zero p-value indicated that the regression model fit the data significantly better than a model with no predictors would have. The significance level well below 0.01 provided overwhelming evidence that budgeting practices had a genuine predictive relationship with profitability, rejecting the null hypothesis that budgeting practices had no effect on profitability. The magnitude of the F-statistic suggested a very strong relationship between the predictor and outcome variables, reinforcing the conclusion that budgeting practices were a critical determinant of SME profitability in this context.

The regression coefficient for budgeting practices was 0.724, which was statistically significant at  $p < 0.000$ . This

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coefficient indicated that for every one-unit increase in the budgeting practices score (on the five-point Likert scale), profitability increased by 0.724 units, holding other factors constant. In practical terms, this meant that SMEs that improved their budgeting practices by one scale point could expect to see their profitability increase by approximately 72.4% of a scale point. The positive coefficient confirmed that budgeting practices had a positive effect on profitability, meaning that better, more comprehensive budgeting was associated with higher profitability levels. The standardized beta coefficient of 0.687 indicated that budgeting practices had a strong effect size, meaning that changes in budgeting practices were associated with substantial changes in profitability outcomes.

The t-statistic for the budgeting practices coefficient was 15.411 with a significance level of  $p < 0.000$ , providing extremely strong evidence that the effect of budgeting practices on profitability was real and not due to chance. This high t-value indicated that the coefficient was more than fifteen standard errors away from zero, making it virtually certain that budgeting practices had a meaningful impact on profitability. The constant term of 0.842 was also statistically significant ( $t = 4.730, p < 0.000$ ), representing the expected profitability level when budgeting practices scored zero, though this theoretical baseline had limited practical interpretation since few if any businesses had completely absent budgeting practices.

The standard error of the estimate was 0.658, indicating that the typical difference between observed profitability values and those predicted by the regression model was approximately 0.658 scale points. This relatively modest error term suggested that the model provided reasonably accurate predictions of profitability based on budgeting practices, though individual predictions could vary by this margin. The regression equation,  $\text{Profitability} = 0.842 + 0.724(\text{Budgeting Practices})$ , provided a practical tool for understanding how changes in budgeting practices translated into profitability outcomes, and could be used by SME managers and support organizations to estimate the potential profitability gains from improving budgeting practices.

The overall implications of this regression analysis were profound for SME development in Bundibugyo District. The finding that budgeting practices explained nearly half of the variation in profitability, with a strong positive effect, suggested that interventions to improve budgeting capabilities could yield substantial benefits for enterprise performance. The strength and statistical significance of the relationship indicated that budgeting was not merely a peripheral management activity but a core driver of business success in this context, with direct and measurable impacts on the bottom line.

**4.4 relationship between cash flow management and profitability**

**Table 7: Descriptive Statistics for Cash Flow Management**

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean	STD
My business maintains records of all cash inflows and outflows.	24 (9.0%)	38 (14.2%)	27 (10.1%)	96 (36.0%)	82 (30.7%)	3.65	1.298

I prepare regular cash flow statements for my business.	35 (13.1%)	51 (19.1%)	33 (12.4%)	82 (30.7%)	66 (24.7%)	3.35	1.384
Proper cash flow management has improved my business's ability to pay bills.	19 (7.1%)	32 (12.0%)	21 (7.9%)	99 (37.1%)	96 (36.0%)	3.83	1.257
I monitor and project future cash flows to avoid shortfalls.	29 (10.9%)	46 (17.2%)	36 (13.5%)	87 (32.6%)	69 (25.8%)	3.45	1.348
Effective cash flow management has contributed to my business profitability.	17 (6.4%)	29 (10.9%)	24 (9.0%)	101 (37.8%)	96 (36.0%)	3.86	1.231
<b>Overall Cash Flow Management</b>						<b>3.63</b>	<b>1.304</b>

**Source: Primary Data, 2026**

Regarding whether businesses maintained records of all cash inflows and outflows, a majority of respondents indicated agreement, with 96 (36.0%) agreeing and 82 (30.7%) strongly agreeing with the statement. However, a notable proportion, 24 (9.0%) strongly disagreed, 38 (14.2%) disagreed, and 27 (10.1%) were neutral, suggesting that while approximately two-thirds of SMEs maintained comprehensive cash flow records, nearly one-quarter either did not document their cash transactions systematically or did so incompletely. The mean score of 3.65 reflected an overall tendency toward agreement, indicating that respondents generally kept records of cash movements in their businesses, though not universally or with equal rigor. The standard deviation of 1.298 implied considerable variability in responses, suggesting that while some SMEs maintained detailed and systematic cash flow documentation, others exhibited gaps in record-keeping or relied on informal mental tracking, highlighting disparities in the formalization of financial management practices across different enterprises.

The preparation of regular cash flow statements received the weakest endorsement among all cash flow management items. While a slim majority indicated some level of agreement, with 82 (30.7%) agreeing and 66 (24.7%) strongly agreeing that they prepared regular cash flow statements, a substantial proportion, 35 (13.1%) strongly disagreed, 51 (19.1%) disagreed, and 33 (12.4%) were neutral, indicating that approximately one-third of SMEs did not prepare formal cash flow statements despite recognizing the broader importance of cash flow management. The mean score of 3.35 was the lowest among all cash flow management practices, reflecting that formal cash flow reporting was practiced less consistently than other aspects of liquidity management. The standard deviation of 1.384 was the highest among cash flow items, implying substantial variability in responses and suggesting that cash flow statement preparation ranged widely across enterprises, with some maintaining rigorous reporting while others had no formal statements at all. This gap between awareness of cash flow's importance and the practice of formal cash flow reporting

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indicated a critical weakness in financial management implementation, suggesting that many SMEs lacked the technical knowledge, time, or perceived need to translate their informal cash monitoring into structured financial statements.

The perception that proper cash flow management improved the business's ability to pay bills received overwhelming endorsement from respondents. Most respondents strongly affirmed this benefit, with 99 (37.1%) agreeing and 96 (36.0%) strongly agreeing that effective cash flow management had enhanced their capacity to meet financial obligations punctually. Only a small proportion, 19 (7.1%) strongly disagreed, 32 (12.0%) disagreed, and 21 (7.9%) were neutral, indicating that approximately three-quarters of SME operators had experienced tangible improvements in bill-paying capacity that they attributed directly to cash flow management practices. The mean score of 3.83 reflected strong consensus that cash flow management delivered practical operational benefits, particularly in maintaining the ability to honor commitments to suppliers, creditors, and other stakeholders. The standard deviation of 1.257 suggested moderate variability in responses, indicating that while most enterprises benefited from improved payment capacity through cash flow management, some either had not implemented effective practices or faced cash constraints so severe that even management efforts could not fully resolve payment difficulties. This finding demonstrated that SME operators valued cash flow management not as an abstract concept but as a practical tool that addressed one of their most pressing operational challenges maintaining liquidity to meet obligations.

Regarding the monitoring and projection of future cash flows to avoid shortfalls, respondents showed more mixed views. A majority indicated agreement, with 87 (32.6%) agreeing and 69 (25.8%) strongly agreeing that they monitored and projected future cash flows. However, a substantial proportion, 29 (10.9%) strongly disagreed, 46 (17.2%) disagreed, and 36 (13.5%) were neutral, suggesting that approximately three in ten SMEs either did not engage in forward-looking cash flow planning or did so inconsistently. The mean score of 3.45 reflected moderate agreement that cash flow forecasting was practiced, though with less consistency than basic record-keeping or recognition of cash flow's benefits. The standard deviation of 1.348 implied considerable variability in responses, suggesting that cash flow projection practices varied substantially across enterprises, with some engaging in systematic forecasting while others operated reactively, addressing cash issues as they arose rather than anticipating them. This gap between current cash monitoring and future cash projection indicated an important limitation in cash flow management sophistication, as the inability to anticipate shortfalls could lead to preventable operational disruptions, missed opportunities, and financial distress.

The statement regarding whether effective cash flow management had contributed to business profitability received the strongest endorsement among all cash flow management items. An overwhelming majority indicated agreement, with 101 (37.8%) agreeing and 96 (36.0%) strongly agreeing that cash flow management had positively impacted their

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profitability. Only a small proportion, 17 (6.4%) strongly disagreed, 29 (10.9%) disagreed, and 24 (9.0%) were neutral, indicating that approximately three-quarters of SME operators recognized a direct connection between how they managed liquidity and their ultimate business profitability. The mean score of 3.86 was the highest among all cash flow management practices, reflecting strong consensus that effective cash flow management translated into bottom-line benefits rather than being merely an operational necessity. The standard deviation of 1.231 was the lowest among cash flow items, suggesting relatively greater consensus on this relationship compared to other aspects of cash flow management. This finding was particularly significant as it demonstrated practitioner validation that cash flow management was not simply about avoiding insolvency but had positive implications for profit generation, possibly through mechanisms such as reduced borrowing costs, better supplier terms from timely payments, ability to capitalize on bulk purchase discounts, and capacity to seize time-sensitive business opportunities requiring immediate cash outlays.

*Regarding how businesses monitored cash inflows and outflows, respondents described a range of approaches from informal mental tracking to more systematic documentation, with most falling somewhere in between. One SME owner explained that "I keep a simple cashbook where I record every sale and every payment I make at the end of each day, I balance the cash in hand against the cashbook to make sure everything is accounted for" (OWN003). She emphasized that this daily reconciliation was essential because her business operated largely on cash transactions, and without careful tracking, money could easily go missing or be misallocated. A financial manager from a larger enterprise stated that "we use basic accounting software that tracks all cash movements automatically when we record sales and expenses we can generate cash flow reports whenever needed to see our liquidity position" (FIN002). This illustrated how technology adoption enhanced cash flow monitoring capabilities, though such systems were not universal across the SME sector.*

*However, several respondents admitted to less rigorous monitoring. An operations manager candidly stated that "honestly, we don't have a systematic way of tracking cash flow the owner keeps mental notes of major inflows and outflows, and we just try to ensure we have enough in the bank to cover immediate needs" (OPS004). He acknowledged that this informal approach sometimes led to surprises when unexpected expenses arose or payments were delayed. A local government official observed that "most small businesses monitor cash flow informally through bank statements and rough notes rather than proper cash flow statements they know generally whether cash is coming in or going out, but they lack precise daily or weekly tracking" (GOV002). She noted that this informality worked reasonably well for very small operations but became problematic as businesses grew and cash flows became more complex.*

*When discussing strategies to ensure adequate cash for daily operations, respondents revealed various*

*approaches ranging from conservative financial management to more sophisticated cash planning techniques. One SME owner described how "I always try to keep at least one month's operating expenses in the bank account as a buffer—I learned this the hard way after experiencing cash shortages that nearly shut down the business" (OWN006). She explained that building this reserve required discipline in not withdrawing cash for personal use and prioritizing business liquidity. A financial manager elaborated on a more structured approach: "We forecast our cash needs for the coming month by looking at planned payments, expected sales, and any major purchases then we arrange our collections and payments to ensure we don't run short" (FIN005). She emphasized that timing was crucial, sometimes negotiating longer payment terms with suppliers or offering discounts to customers for early payment to optimize cash availability.*

*Other respondents mentioned different strategies. An operations manager stated that "when cash gets tight, we prioritize which bills to pay first salaries always come first to keep staff motivated, then rent and utilities to maintain operations, and we sometimes delay payments to suppliers who are more flexible" (OPS005). While acknowledging this was not ideal, he explained it as a survival strategy when faced with competing demands on limited cash. A local government official noted that "some businesses use mobile money and electronic payments to speed up collections from customers, reducing the time cash is tied up in receivables this has been particularly helpful for businesses selling on credit" (GOV003). She observed that technology adoption was gradually improving cash management capabilities in the district. An SME owner mentioned that "I avoid tying up too much cash in slow-moving inventory I order frequently in smaller quantities rather than buying bulk, even though it costs more, because it keeps cash available for other needs" (OWN007). This illustrated the trade-offs entrepreneurs made between cost efficiency and liquidity management.*

*When asked to share examples of how effective cash flow management helped avoid financial crises, respondents provided compelling stories illustrating the practical importance of liquidity planning. One financial manager recounted that "there was a time when a major customer delayed payment by two months, which would have left us unable to pay our suppliers but because we had been monitoring cash flow closely, we saw the problem coming and arranged a short-term overdraft facility with the bank before the crisis hit" (FIN003). She emphasized that the early warning provided by cash flow monitoring gave them time to arrange alternative funding, whereas without tracking, they would have discovered the problem only when payments bounced. An SME owner described how "I once had to decide between buying inventory for the busy season or paying an urgent equipment repair by projecting my cash flow, I realized I could delay the repair slightly and take the inventory opportunity, which generated enough profit to handle*

*both within a few weeks" (OWN008). This illustrated how cash flow analysis enabled strategic prioritization of competing demands.*

**Table 8: Relationship between Cash Flow Management and Profitability**

Correlations			
		Internal control environment	Financial Accountability
Internal control environment	Pearson Correlation	1	.712**
	Sig. (2-tailed)		.000
	N	266	266
Financial Accountability	Pearson Correlation	.712**	1
	Sig. (2-tailed)	.000	
	N	266	266

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

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

**Source: Primary Data, 2026**

The correlation analysis demonstrated a strong positive relationship between cash flow management and profitability, with a Pearson correlation coefficient of  $r = 0.712$ , significant at the 0.01 level ( $p < 0.000$ ). This correlation coefficient was even stronger than that observed for budgeting practices, indicating that cash flow management had an even more pronounced association with profitability outcomes. The coefficient of 0.712 suggested that approximately 71.2% of the variation in one variable corresponded with variation in the other, representing a substantial degree of covariation between these constructs. The strength of this relationship underscored the critical importance of liquidity management for SME success in Bundibugyo District.

The statistical significance of  $p < 0.000$  provided overwhelming evidence that this relationship was genuine and not attributable to random chance. The probability of obtaining such a strong correlation by chance alone was less than 0.1%, giving extremely high confidence in the reality of the relationship. This high significance level indicated that the association between cash flow management and profitability was robust across the sample and would very likely hold in the broader population of SMEs in the district. The strength of the evidence suggested that policy interventions and business support programs focused on improving cash flow management could be expected to yield reliable improvements in SME profitability.

The positive direction of the correlation confirmed that better cash flow management practices were associated with higher profitability levels. This finding aligned with financial theory, which emphasized that effective liquidity management enabled businesses to avoid costly financing, maintain operations during revenue fluctuations, and capitalize on opportunities requiring immediate cash outlays. The strong correlation suggested that cash flow

management was not simply about avoiding insolvency but had positive implications for profit generation, possibly through reduced borrowing costs, better supplier terms from timely payments, and the ability to take advantage of bulk purchase discounts or time-sensitive opportunities.

The stronger correlation of cash flow management compared to budgeting practices (0.712 vs. 0.687) suggested that liquidity management might have been even more critical for SME profitability in this context. This made theoretical sense given that SMEs typically operated with thin financial margins and limited access to external financing, making effective cash management essential for survival and growth. The strength of the relationship implied that variations in cash flow management practices explained a substantial portion of the differences in profitability across enterprises, making it a key leverage point for improving SME performance in the district.

**Table 9: Regression Analysis on the effect of Cash Flow Management on Profitability**

<b>Model Summary</b>					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.712	0.507	0.505	0.636		
<b>ANOVA</b>					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	110.312	1	110.312	272.468	.000b
Residual	107.304	265	0.405		
Total	217.616	266			
<b>Coefficients</b>					
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	0.764	0.171		4.468	.000
Cash Flow Management	0.751	0.045	0.712	16.507	.000

**Regression Equation:** Profitability = 0.764 + 0.751(Cash Flow Management)

**Source: Primary Data, 2026**

The regression analysis provided compelling evidence of the significant effect of cash flow management on SME profitability in Bundibugyo District. The R-square value of 0.507 indicated that cash flow management explained 50.7% of the variance in profitability, which was notably higher than the 47.2% explained by budgeting practices. This meant that more than half of the differences in profitability levels across SMEs could be attributed to how well they managed their cash flows. The adjusted R-square of 0.505 was very close to the R-square, confirming that the model was not over-fitted and would generalize well to the broader SME population. The substantial explanatory power of 50.7% indicated that cash flow management was a major determinant of business success, with practical

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implications for how SME development interventions should be prioritized and designed.

The ANOVA results confirmed that the regression model was highly significant, with an F-statistic of 272.468 and a p-value of 0.000. This exceptionally high F-value indicated that the model fit the data substantially better than a null model would, providing overwhelming evidence of a genuine predictive relationship between cash flow management and profitability. The statistical significance well below the 0.01 threshold allowed for confident rejection of the null hypothesis that cash flow management had no effect on profitability. The magnitude of the F-statistic, which was even higher than that for budgeting practices, reinforced the conclusion that cash flow management was a particularly powerful predictor of SME profitability in this context.

The regression coefficient for cash flow management was 0.751, statistically significant at  $p < 0.000$ . This coefficient indicated that for each one-unit increase in cash flow management practices (on the five-point scale), profitability increased by 0.751 units, assuming other factors remained constant. In practical terms, SMEs that improved their cash flow management by one scale point could expect profitability to increase by approximately 75.1% of a scale point, representing a substantial return on improvements in liquidity management. The coefficient was higher than that for budgeting practices (0.751 vs. 0.724), suggesting that cash flow management had a slightly stronger marginal effect on profitability. The standardized beta coefficient of 0.712 indicated a strong effect size, meaning that changes in cash flow management were associated with correspondingly large changes in profitability outcomes.

The t-statistic for cash flow management was 16.507 with a significance of  $p < 0.000$ , providing extremely robust evidence that the effect was real and substantial. This high t-value, even greater than that for budgeting practices, indicated that the coefficient was more than sixteen standard errors from zero, making the existence of a meaningful effect virtually certain. The constant term of 0.764 was also statistically significant ( $t = 4.468, p < 0.000$ ), representing the baseline profitability when cash flow management practices were at zero, though like with budgeting, this theoretical scenario had limited practical relevance since most businesses engaged in some level of cash flow management, even if informal.

The standard error of the estimate was 0.636, slightly lower than that for budgeting practices, indicating that the model's predictions of profitability based on cash flow management were somewhat more accurate, with typical prediction errors of about 0.636 scale points. This relatively low error term suggested that cash flow management was a reliable predictor of profitability, with individual enterprises' profitability levels falling reasonably close to model predictions. The regression equation,  $\text{Profitability} = 0.764 + 0.751(\text{Cash Flow Management})$ , provided a practical tool for SME managers and support organizations to estimate the profitability gains achievable through improvements in cash flow management practices.

The implications of this regression analysis were particularly significant for SME development policy and practice in Bundibugyo District. The finding that cash flow management explained more than half of profitability variance, with a strong positive effect, suggested that interventions targeting liquidity management capabilities should be a top priority for enterprise support programs. The strength of the relationship indicated that even modest improvements in

cash flow management could translate into meaningful profitability gains, making it a high-return area for capacity building and technical assistance. The results suggested that teaching SME operator’s practical cash flow forecasting, monitoring, and control techniques could have direct and substantial impacts on business viability and growth.

**4.5 Influence of financial record-keeping on profitability**

**Table 10: Descriptive Statistics for Financial Record-Keeping Practices**

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Not Sure</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Mean</b>	<b>STD</b>
My business keeps accurate records of all financial transactions.	26 (9.7%)	41 (15.4%)	25 (9.4%)	94 (35.2%)	81 (30.3%)	3.61	1.315
I use the records to make informed financial decisions.	21 (7.9%)	35 (13.1%)	28 (10.5%)	96 (36.0%)	87 (32.6%)	3.72	1.276
The financial records are updated regularly (daily/weekly/monthly).	31 (11.6%)	48 (18.0%)	32 (12.0%)	85 (31.8%)	71 (26.6%)	3.44	1.364
Proper record-keeping has made financial reporting easier.	23 (8.6%)	37 (13.9%)	26 (9.7%)	92 (34.5%)	89 (33.3%)	3.70	1.297
Good record-keeping practices have positively impacted business profitability.	18 (6.7%)	31 (11.6%)	23 (8.6%)	99 (37.1%)	96 (36.0%)	3.84	1.244
<b>Overall Financial Record-Keeping</b>						<b>3.66</b>	<b>1.299</b>

**Source: Primary Data, 2026**

Regarding whether businesses kept accurate records of all financial transactions, a majority of respondents indicated agreement, with 94 (35.2%) agreeing and 81 (30.3%) strongly agreeing with the statement. However, a notable proportion, 26 (9.7%) strongly disagreed, 41 (15.4%) disagreed, and 25 (9.4%) were neutral, suggesting that while approximately two-thirds of SMEs maintained accurate financial records, one-quarter either did not document their transactions systematically or maintained records with questionable accuracy or completeness. The mean score of 3.61 reflected an overall tendency toward agreement, indicating that respondents generally kept financial records for their businesses, though not universally or with equal standards of accuracy. The standard deviation of 1.315 implied considerable variability in responses, suggesting that while some SMEs maintained meticulous and comprehensive financial documentation, others exhibited significant gaps in record-keeping quality or relied on incomplete informal records, highlighting disparities in financial management discipline and capacity across different enterprises.

The use of financial records to make informed business decisions received substantial endorsement from respondents. A clear majority indicated agreement, with 96 (36.0%) agreeing and 87 (32.6%) strongly agreeing that they used their financial records for decision-making purposes. A smaller proportion, 21 (7.9%) strongly disagreed, 35 (13.1%) disagreed, and 28 (10.5%) were neutral, indicating that while approximately two-thirds of SME operators actively leveraged their records for strategic and operational decisions, about one in five either did not maintain adequate records for this purpose or relied on intuition and informal information rather than documented financial data. The mean score of 3.72 reflected strong overall agreement that financial records served a decision-support function beyond mere documentation. The standard deviation of 1.276 suggested moderate variability in responses, indicating that while most enterprises used records strategically, the extent and sophistication of this usage varied considerably across businesses. This finding was particularly significant as it demonstrated that record-keeping was being integrated into management processes rather than treated merely as a compliance or historical documentation exercise, though the proportion not using records for decisions indicated missed opportunities for evidence-based management among some SMEs.

The regular updating of financial records received more mixed responses from participants. While a majority indicated some level of agreement, with 85 (31.8%) agreeing and 71 (26.6%) strongly agreeing that their financial records were updated regularly on a daily, weekly, or monthly basis, a substantial proportion, 31 (11.6%) strongly disagreed, 48 (18.0%) disagreed, and 32 (12.0%) were neutral, suggesting that approximately three in ten SMEs either did not update their records consistently or fell significantly behind in their documentation. The mean score of 3.44 was the lowest among all financial record-keeping items, reflecting that record maintenance and timeliness were practiced less consistently than record creation or recognition of record-keeping's benefits. The standard deviation of 1.364 was the highest among record-keeping items, implying substantial variability in responses and suggesting that updating practices ranged widely across enterprises, with some maintaining real-time or daily documentation while others updated sporadically or accumulated significant backlogs. This gap between maintaining records and keeping them current indicated a critical weakness in record-keeping implementation, as outdated records provided stale information that could lead to poor decisions based on inaccurate understanding of the business's current financial position.

Regarding whether proper record-keeping had made financial reporting easier, respondents showed strong agreement. A clear majority indicated this benefit, with 92 (34.5%) agreeing and 89 (33.3%) strongly agreeing that good record-keeping had simplified their reporting obligations. A smaller proportion, 23 (8.6%) strongly disagreed, 37 (13.9%) disagreed, and 26 (9.7%) were neutral, indicating that while approximately two-thirds had experienced reporting facilitation through good record-keeping, about one-fifth either had not realized this benefit or disagreed with its extent. The mean score of 3.70 reflected strong consensus that record-keeping delivered practical operational benefits in managing reporting requirements, whether for tax purposes, loan applications, or internal management. The

standard deviation of 1.297 suggested moderate variability in responses, indicating that while most enterprises benefited from easier reporting, some either maintained poorly organized records that did not facilitate reporting or faced reporting requirements so complex that even good record-keeping did not significantly reduce the burden. This finding demonstrated that SME operators valued record-keeping not merely for its own sake but for tangible benefits in reducing the time, effort, and stress associated with producing financial reports for various stakeholders.

The statement regarding whether good record-keeping practices had positively impacted business profitability received the strongest endorsement among all record-keeping items. An overwhelming majority indicated agreement, with 99 (37.1%) agreeing and 96 (36.0%) strongly agreeing that record-keeping had contributed to improved profitability in their businesses. Only a small proportion, 18 (6.7%) strongly disagreed, 31 (11.6%) disagreed, and 23 (8.6%) were neutral, indicating that approximately three-quarters of SME operators recognized a direct connection between the quality of their financial records and their ultimate business profitability. The mean score of 3.84 was the highest among all financial record-keeping practices, reflecting strong consensus that good record-keeping translated into bottom-line benefits rather than being merely an administrative burden. The standard deviation of 1.244 was the lowest among record-keeping items, suggesting relatively greater consensus on this relationship compared to other aspects of record-keeping. This finding was particularly significant as it demonstrated practitioner validation from lived experience that record-keeping was not simply a bureaucratic requirement but had substantive implications for profit generation, possibly through mechanisms such as enabling better-informed pricing decisions, improving cost control through visibility of expense patterns, facilitating access to financing by demonstrating financial credibility, and optimizing tax obligations through accurate documentation of deductible expenses.

*Regarding the types of financial records maintained and their updating frequency, respondents described varied practices reflecting different levels of sophistication and resource availability. One SME owner explained that "I keep records of all sales, purchases, and expenses in separate books I also maintain records of customer credits and what I owe suppliers, and I try to update these at the end of each business day" (OWN011). She emphasized that daily updating was essential because leaving records for later often resulted in forgotten transactions or errors. A financial manager from a medium-sized enterprise stated that "we maintain comprehensive records including cash books, sales ledgers, purchase ledgers, bank reconciliation statements, and inventory records our accountant updates these daily for cash transactions and weekly for credit transactions" (FIN007). This more sophisticated system reflected greater formalization and professional accounting support.*

*However, several respondents admitted to less rigorous practices. An operations manager stated that "we keep basic records of income and major expenses, but we're not very consistent about updating them sometimes we fall behind by weeks and then have to reconstruct transactions from receipts and invoices, which is inefficient and error-prone" (OPS008). He acknowledged that inconsistent record-keeping created*

*problems during tax filing and made it difficult to assess business performance accurately. A local government official observed that "record-keeping practices vary tremendously some businesses maintain only the minimum required for tax purposes, while others keep detailed records for management decision-making, but most fall somewhere in between with incomplete systems" (GOV002). She noted that the frequency of updating often depended on whether businesses had dedicated accounting staff or relied on busy owners handling multiple responsibilities.*

*When discussing whether they used software or manual systems for record-keeping, respondents revealed a predominance of manual methods with gradual adoption of digital tools among more progressive businesses. One SME owner explained that "I use manual books because I'm comfortable with them and they don't require electricity or technical knowledge I also can't afford accounting software, and I'm not sure I'd know how to use it properly" (OWN012). She represented the traditional approach still common among smaller, less-educated entrepreneurs. Conversely, a financial manager stated that "we transitioned to QuickBooks accounting software three years ago because manual records became too cumbersome as we grew the software automatically generates financial statements and reduces errors from manual calculations" (FIN008). She explained that while the initial investment and learning curve were challenging, the efficiency gains and improved accuracy justified the transition.*

*An operations manager offered a hybrid perspective: "We use Excel spreadsheets for most record-keeping because it's more flexible than manual books but doesn't require expensive specialized software. I can create simple formulas to calculate totals and generate basic reports" (OPS009). This middle-ground approach balanced accessibility with some automation benefits. A local government official noted that "there's growing interest in mobile money records and simple phone-based accounting apps among younger entrepreneurs, but most still rely on manual systems because they lack training in digital tools or fear making mistakes with technology" (GOV005). She observed that method selection reflected not just resource availability but also comfort levels with technology and perceived reliability of different systems.*

#### *Use of Financial Records in Decision-Making*

*Regarding how financial records were used in business decisions, respondents demonstrated varying levels of sophistication in leveraging documented information. One SME owner described that "before deciding to expand my product line, I reviewed my sales records for the past year to see which items sold best and had the highest profit margins-this helped me choose what new products to stock" (OWN013). She emphasized that records provided objective evidence to guide strategic choices rather than relying on gut feeling. A financial manager elaborated that "we use our financial records extensively when setting prices, we analyze our cost records to ensure we cover expenses and achieve target margins; when negotiating with suppliers, we use purchase records to show our buying volumes and negotiate better terms" (FIN009).*

*This illustrated how comprehensive record-keeping enabled sophisticated analyses supporting various business functions.*

*However, other respondents revealed less strategic use of records. An operations manager admitted that "honestly, we mostly use our records for preparing tax returns and loan applications—we don't regularly analyze them to make operational decisions because we're too busy running the business day-to-day" (OPS010). This reflected the common pattern where record-keeping served compliance purposes more than management functions. A local government official observed that "businesses that actively use their records for decision-making tend to perform better because they can identify unprofitable products, control costs, and spot trends early but many SMEs fail to extract this value from their records, treating them as historical documentation rather than decision-support tools" (GOV003). Another SME owner mentioned that "I use my records to track which customers pay on time and which delay—this helps me decide who to extend credit to and who requires cash payment" (OWN014). This practical application showed how even simple record analysis could improve specific management decisions.*

**Table 11: Relationship between Financial Record-Keeping and Profitability**

Correlations			
		Internal control environment	Financial Accountability
Internal control environment	Pearson Correlation	1	.695**
	Sig. (2-tailed)		.000
	N	266	266
Financial Accountability	Pearson Correlation	.695**	1
	Sig. (2-tailed)	.000	
	N	266	266
**. Correlation is significant at the 0.01 level (2-tailed).			

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

**Source:** Primary Data, 2026

The correlation analysis revealed a strong positive relationship between financial record-keeping practices and profitability, with a Pearson correlation coefficient of  $r = 0.695$ , significant at the 0.01 level ( $p < 0.000$ ). This correlation coefficient was substantial, falling between those observed for budgeting (0.687) and cash flow management (0.712), indicating that record-keeping had a strong association with profitability comparable to the other financial management practices examined. The coefficient of 0.695 suggested that approximately 69.5% of the variation in one variable corresponded with variation in the other, representing a considerable degree of shared variation between these constructs.

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The statistical significance of  $p < 0.000$  provided extremely strong evidence that this relationship was genuine and not due to random sampling variation. The probability of obtaining such a strong correlation by chance was less than 0.1%, giving very high confidence that financial record-keeping and profitability were truly associated in the population of SMEs in Bundibugyo District. This robust significance level indicated that the relationship was stable and reliable, suggesting that improvements in record-keeping practices could be expected to correspond with profitability improvements across a wide range of enterprises.

The positive direction of the correlation confirmed that better financial record-keeping was associated with higher profitability levels. This finding aligned with information theory and management literature, which emphasized that quality information enabled better decision-making, performance monitoring, and organizational control, all of which should contribute to improved outcomes. The strength of the correlation suggested that record-keeping was not merely an administrative burden but a value-adding activity with direct implications for business success. The relationship likely operated through multiple mechanisms: better records enabled more informed decisions about pricing, purchasing, and investments; facilitated access to financing by demonstrating financial credibility; improved cost control through visibility of expense patterns; and enhanced tax compliance while optimizing tax obligations.

The strong correlation, comparable to those for budgeting and cash flow management, indicated that financial record-keeping was part of an integrated system of financial management practices that collectively contributed to profitability. This suggested that these practices were mutually reinforcing, with good records enabling effective budgeting and cash flow management, which in turn generated information that fed back into record-keeping systems. The strength of the relationship underscored that investing in record-keeping infrastructure, training, and systems could yield substantial returns in terms of improved business performance.

**Table 12: Regression Analysis on the effect of Financial Record-Keeping on Profitability**

<b>Model Summary</b>					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.695	0.483	0.481	0.651		
<b>ANOVA</b>					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	105.128	1	105.128	248.192	.000b
Residual	112.488	265	0.424		
Total	217.616	266			
<b>Coefficients</b>					
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	0.798	0.175		4.560	.000

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Financial Record-Keeping	0.735	0.047	0.695	15.754	.000
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**Regression Equation:** Profitability = 0.798 + 0.735(Financial Record-Keeping)

**Source: Primary Data, 2026**

The regression analysis provided robust evidence of the significant influence of financial record-keeping on SME profitability in Bundibugyo District. The R-square value of 0.483 indicated that financial record-keeping practices explained 48.3% of the variance in profitability, which fell between the explanatory power of budgeting (47.2%) and cash flow management (50.7%). This meant that nearly half of the differences in profitability across SMEs could be attributed to variations in their record-keeping practices. The adjusted R-square of 0.481 was very close to the R-square, confirming model robustness and generalizability. The substantial explanatory power of 48.3% indicated that record-keeping was a major driver of business performance, not merely a peripheral administrative function, with clear implications for SME capacity building priorities.

The ANOVA results demonstrated that the regression model was highly significant, with an F-statistic of 248.192 and a p-value of 0.000. This very high F-value indicated that the model explained significantly more variance than would be expected by chance, providing overwhelming evidence that financial record-keeping had a genuine predictive relationship with profitability. The statistical significance well below 0.01 allowed for confident rejection of the null hypothesis that record-keeping had no effect on profitability. The magnitude of the F-statistic, comparable to those for the other financial management practices, reinforced that record-keeping was equally important as budgeting and cash flow management in determining SME profitability outcomes.

The regression coefficient for financial record-keeping was 0.735, statistically significant at  $p < 0.000$ . This coefficient indicated that for every one-unit increase in record-keeping practices (on the five-point scale), profitability increased by 0.735 units, other factors being equal. In practical terms, SMEs that improved their record-keeping by one scale point could expect profitability to increase by approximately 73.5% of a scale point, representing a substantial return on investments in record-keeping systems and practices. The coefficient fell between those for budgeting (0.724) and cash flow management (0.751), suggesting that all three practices had comparably strong effects on profitability, with record-keeping having a slightly stronger marginal impact than budgeting but slightly weaker than cash flow management. The standardized beta of 0.695 indicated a strong effect size, meaning that changes in record-keeping practices were associated with correspondingly large changes in profitability.

The t-statistic for financial record-keeping was 15.754 with a significance of  $p < 0.000$ , providing extremely strong evidence of a real and substantial effect. This high t-value indicated that the coefficient was nearly sixteen standard errors from zero, making it virtually certain that record-keeping had a meaningful impact on profitability. The magnitude of the t-statistic was comparable to those for budgeting and cash flow management, confirming that record-keeping was equally critical for business success. The constant term of 0.798 was statistically significant ( $t = 4.560, p < 0.000$ ), representing the baseline profitability when record-keeping practices were minimal, though this theoretical

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baseline had limited practical interpretation since most enterprises engaged in at least some informal record-keeping. The standard error of the estimate was 0.651, falling between those for budgeting and cash flow management, indicating that the model's predictions were reasonably accurate, with typical prediction errors of about 0.651 scale points. This moderate error term suggested that financial record-keeping was a reliable predictor of profitability, though individual enterprises might deviate from predictions due to other factors not captured in the model. The regression equation, Profitability = 0.798 + 0.735(Financial Record-Keeping), provided a practical tool for estimating the profitability gains achievable through improvements in record-keeping, useful for both SME managers planning investments in accounting systems and support organizations designing capacity building programs.

The implications of this regression analysis were significant for understanding the drivers of SME success in Bundibugyo District. The finding that record-keeping explained nearly half of profitability variance, with a strong positive effect comparable to budgeting and cash flow management, indicated that all three practices should be viewed as core pillars of financial management rather than prioritizing one over others. The results suggested that comprehensive approaches to building SME financial management capacity, addressing record-keeping alongside budgeting and cash flow management, would likely yield the greatest profitability improvements. The strength of the relationship validated investments in training SME operators in basic bookkeeping, providing simple accounting tools and templates, and supporting the adoption of affordable accounting software or mobile applications suited to resource-constrained environments.

**4.6 Profitability of small-medium enterprises**

**Table 13: Descriptive Statistics for Profitability of SMEs**

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Not Sure</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Mean</b>	<b>STD</b>
My business has consistently made profits over the past two years.	27 (10.1%)	43 (16.1%)	31 (11.6%)	91 (34.1%)	75 (28.1%)	3.54	1.333
Sales revenue in my business has increased over time.	22 (8.2%)	38 (14.2%)	28 (10.5%)	94 (35.2%)	85 (31.8%)	3.68	1.292
The business generates sufficient income to cover all operational expenses.	25 (9.4%)	41 (15.4%)	27 (10.1%)	96 (36.0%)	78 (29.2%)	3.60	1.314
Profit margins have improved as a result of better financial management practices.	20 (7.5%)	35 (13.1%)	33 (12.4%)	92 (34.5%)	87 (32.6%)	3.72	1.283
My business is financially stable	29 (10.9%)	47	35	84	72 (27.0%)	3.46	1.352

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and can withstand economic fluctuations.		(17.6%)	(13.1%)	(31.5%)			
<b>Overall Profitability</b>						<b>3.60</b>	<b>1.315</b>

**Source: Primary Data, 2026**

The findings on profitability measures among small and medium enterprises in Bundibugyo District revealed that respondents generally reported positive business performance across multiple profitability dimensions, although performance levels varied considerably across enterprises and different aspects of financial success. Regarding whether businesses had consistently made profits over the past two years, a majority of respondents indicated agreement, with 91 (34.1%) agreeing and 75 (28.1%) strongly agreeing with the statement. However, a substantial proportion, 27 (10.1%) strongly disagreed, 43 (16.1%) disagreed, and 31 (11.6%) were neutral, suggesting that while approximately three-fifths of SMEs had achieved consistent profitability over the two-year period, more than one-quarter had experienced losses or inconsistent profit patterns during this timeframe. The mean score of 3.54 reflected an overall tendency toward agreement, indicating that the typical SME had been profitable over the past two years, though profitability was far from universal. The standard deviation of 1.333 implied considerable variability in responses, suggesting that while some enterprises maintained stable profitability throughout the period, others experienced volatile or negative financial results, highlighting significant disparities in business performance and sustainability across the SME sector in the district.

The perception of sales revenue growth over time received stronger endorsement from respondents. A clear majority indicated agreement, with 94 (35.2%) agreeing and 85 (31.8%) strongly agreeing that sales revenue in their businesses had increased over time. A smaller proportion, 22 (8.2%) strongly disagreed, 38 (14.2%) disagreed, and 28 (10.5%) were neutral, indicating that while approximately two-thirds of SME operators had experienced revenue growth, about one-fifth had seen stagnant or declining sales. The mean score of 3.68 was higher than that for consistent profitability, reflecting that revenue growth was more commonly achieved than sustained profit generation. The standard deviation of 1.292 suggested moderate variability in responses, indicating that while most enterprises experienced some revenue expansion, the magnitude and consistency of growth varied considerably across businesses. This finding was encouraging as it demonstrated that the business environment in Bundibugyo District, while challenging, offered growth opportunities for well-positioned enterprises, though the gap between revenue growth (3.68) and consistent profitability (3.54) suggested that some businesses struggled to translate top-line growth into bottom-line results, possibly due to rising costs, pricing pressures, or operational inefficiencies that eroded margins even as sales expanded.

Regarding whether businesses generated sufficient income to cover all operational expenses, respondents showed moderate agreement. A majority indicated agreement, with 96 (36.0%) agreeing and 78 (29.2%) strongly agreeing that their businesses covered operational costs from revenue. However, a notable proportion, 25 (9.4%) strongly

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disagreed, 41 (15.4%) disagreed, and 27 (10.1%) were neutral, suggesting that while approximately two-thirds of SMEs operated at break-even or better, one-quarter struggled to generate sufficient income to meet their operational expenses fully. The mean score of 3.60, identical to the overall profitability score, reflected that the typical SME covered its costs but with varying degrees of comfort. The standard deviation of 1.314 implied considerable variability in responses, suggesting significant differences in operational viability across enterprises, with some generating substantial surpluses over costs while others operated in precarious financial positions where revenue barely covered or fell short of expenses. This finding highlighted the vulnerability of a significant minority of SMEs that lacked the basic financial sustainability required for long-term survival, operating in a constant struggle to meet operational obligations without building reserves or capacity for investment and growth.

The statement regarding whether profit margins had improved as a result of better financial management practices received substantial endorsement from respondents. A clear majority indicated agreement, with 92 (34.5%) agreeing and 87 (32.6%) strongly agreeing that their profit margins had enhanced due to improved financial management. A smaller proportion, 20 (7.5%) strongly disagreed, 35 (13.1%) disagreed, and 33 (12.4%) were neutral, indicating that while approximately two-thirds of SME operators attributed margin improvements to better financial management practices, about one in five did not perceive this benefit or were uncertain about the causal relationship. The mean score of 3.72 was the highest among all profitability items, reflecting strong consensus that financial management quality directly influenced profitability outcomes. The standard deviation of 1.283 was the lowest among profitability measures, suggesting relatively greater agreement on this relationship compared to other profitability dimensions. This finding was particularly significant for the study's objectives as it provided practitioner validation that financial management practices including budgeting, cash flow management, and record-keeping translated into tangible profitability improvements, confirming from the operators' own experiences the theoretical relationships that the research examined empirically through correlation and regression analyses.

Concerning whether businesses were financially stable and could withstand economic fluctuations, respondents showed the weakest agreement among all profitability items. While a majority indicated some level of agreement, with 84 (31.5%) agreeing and 72 (27.0%) strongly agreeing that their businesses possessed financial stability and resilience, a substantial proportion, 29 (10.9%) strongly disagreed, 47 (17.6%) disagreed, and 35 (13.1%) were neutral, suggesting that approximately three in ten SMEs lacked confidence in their ability to weather economic shocks or disruptions. The mean score of 3.46 was the lowest among all profitability measures, reflecting that financial resilience was less common than current profitability or revenue growth. The standard deviation of 1.352 was the highest among profitability items, implying substantial variability in responses and suggesting that financial stability varied dramatically across enterprises, with some having built substantial buffers and resilience while others remained highly vulnerable to economic volatility. This finding was concerning from a sustainability perspective, as it indicated that

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many SMEs, despite achieving some level of profitability, had not accumulated sufficient financial reserves or developed sufficient diversification to protect against market downturns, supply chain disruptions, or macroeconomic shocks, leaving them vulnerable to business failure when confronted with adverse conditions beyond their control.

*When asked to describe their business's financial performance over recent years, respondents provided diverse assessments reflecting the varied fortunes of different enterprises and sectors. One SME owner proudly stated that "our business has grown steadily over the past three years sales have increased by roughly 20-30% each year, and we've been profitable every year, allowing us to reinvest in equipment and expand our product range" (OWN019). She attributed this success to consistent effort in improving quality, customer service, and financial management. A financial manager offered a more nuanced view: "Our performance has been mixed—we had two very good years with strong profits, then last year was challenging due to increased competition and rising costs, so profits declined even though sales remained stable" (FIN012). This illustrated how external factors could affect profitability despite continued operational activity.*

*An operations manager candidly admitted that "honestly, our financial performance has been disappointing—we've struggled to be consistently profitable, usually breaking even or making small losses, and we haven't been able to grow much because we lack capital for expansion" (OPS013). He explained that operating in a competitive, price-sensitive market with limited differentiation made it difficult to achieve sustainable profitability. A local government official provided a broader perspective: "SME performance in the district has been quite varied businesses in certain sectors like retail and services have done reasonably well, while those in agriculture and manufacturing have struggled more due to input costs and market access challenges" (GOV008). She noted that location, sector, and management quality all influenced performance outcomes significantly.*

*Regarding specific strategies or practices that respondents believed increased profits, entrepreneurs identified various approaches reflecting learning and adaptation over time. One SME owner explained that "implementing better inventory management has significantly improved our profits—we used to overstock items that sold slowly, tying up cash and sometimes leading to waste, but now we track sales carefully and order based on actual demand patterns" (OWN020). She calculated that this practice had reduced inventory costs by approximately 15% while maintaining product availability. A financial manager described how "we improved profitability by analyzing our customer base and focusing more effort on high-value customers who buy regularly and pay promptly—we still serve everyone, but we allocated our marketing budget and sales effort strategically toward our best customers" (FIN013). This customer segmentation approach had apparently increased both revenue and margins.*

*An operations manager stated that "cost control has been our main profit driver—we renegotiated supplier contracts, reduced waste in production, and became more energy-efficient, which collectively reduced our*

*operating costs by about 20% over two years" (OPS014). He emphasized that these operational improvements didn't require major investments but rather disciplined attention to efficiency. A local government official observed that "businesses that have improved their financial management practices budgeting, cash flow monitoring, and record-keeping tend to see profit improvements even without changing their core operations, because they make better decisions and avoid costly mistakes" (GOV009). Another SME owner mentioned that "diversifying our products helped increase profits because when one line is slow, others pick up the slack—this smoothed out revenue fluctuations and allowed us to maintain more consistent operations" (OWN021). The variety of strategies mentioned suggested that multiple paths to profitability existed, though most involved some combination of better management, cost control, and strategic focus.*

**Table 14: Multiple Linear Regression and Correlation Matrix between Budgeting Practices, Cash Flow Management, Financial Record-Keeping and Profitability of SMEs**

<b>Financial Management Practice</b>	<b>Correlation (r)</b>	<b>R<sup>2</sup></b>	<b>Regression Coefficient (B)</b>	<b>t-value</b>	<b>F-statistic</b>	<b>Sig.</b>
Budgeting Practices	0.687**	0.472	0.724	15.411	237.512	.000
Cash Flow Management	0.712**	0.507	0.751	16.507	272.468	.000
Financial Record-Keeping	0.695**	0.483	0.735	15.754	248.192	.000

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

**Source: Primary Data, 2026**

The comparative analysis of the three financial management practices revealed important insights into their relative importance for SME profitability in Bundibugyo District. Cash flow management emerged as the strongest predictor, with the highest correlation ( $r = 0.712$ ), R-square (0.507), regression coefficient (0.751), t-value (16.507), and F-statistic (272.468), all significant at  $p < 0.000$ . This indicated that cash flow management explained 50.7% of profitability variance and had the strongest marginal effect on profitability, suggesting it was the most critical financial management practice for SME success in this context. The primacy of cash flow management made theoretical sense given that SMEs typically operated with tight liquidity constraints and limited access to credit, making effective cash management essential for operational continuity and capitalizing on opportunities.

Financial record-keeping ranked second in overall importance, with a correlation of 0.695, R-square of 0.483, regression coefficient of 0.735, t-value of 15.754, and F-statistic of 248.192. Record-keeping explained 48.3% of profitability variance, only slightly less than cash flow management, indicating it was nearly equally important. The strong performance of record-keeping across all statistical metrics confirmed that information quality was a fundamental driver of business success, enabling informed decision-making, performance monitoring, and external credibility. The close proximity of record-keeping's explanatory power to that of cash flow management suggested that these practices might be mutually reinforcing, with good records enabling effective cash flow management and

vice versa.

Budgeting practices ranked third, though still with very strong effects, showing a correlation of 0.687, R-square of 0.472, regression coefficient of 0.724, t-value of 15.411, and F-statistic of 237.512. Budgeting explained 47.2% of profitability variance, only marginally less than record-keeping and cash flow management. While ranking third, the differences between the three practices were relatively small, with R-square values ranging only from 0.472 to 0.507 and regression coefficients from 0.724 to 0.751. This narrow range indicated that all three practices were comparably important, with no single practice dramatically outweighing the others. The results suggested that optimal SME financial management required attention to all three practices rather than prioritizing one over others.

The consistently high statistical significance across all three practices (all  $p < 0.000$ ) and their comparably strong effect sizes indicated that they formed an integrated system of financial management. The similarity in their explanatory power suggested that they addressed different but complementary aspects of financial control: budgeting provided forward-looking planning and resource allocation, cash flow management ensured operational liquidity and payment capacity, and record-keeping generated the information base for both planning and control. The strong individual effects of each practice, even when analyzed separately, suggested that each contributed unique value, though their full potential was likely realized when implemented together as a comprehensive financial management system.

The finding that all three practices explained substantial variance (47-51%) but still left approximately half of profitability variance unexplained indicated that other factors also mattered for SME success. These could include market factors (competition, demand, pricing power), operational factors (efficiency, quality, innovation), human capital (skills, experience, entrepreneurial capability), and external conditions (infrastructure, regulations, economic environment). However, the fact that financial management practices collectively explained nearly half of profitability variance underscored their critical importance and suggested that strengthening these practices should be a priority for SME development interventions.

## **CHAPTER FIVE**

### **FINDINGS OF THE STUDY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter discusses summary, conclusion and recommendations in relation to the study findings and study objectives follows; the effect of Financial Management Practices and Profitability of Small and Medium Enterprises in Bundibugyo District Uganda.

#### **5.1 Summary of Findings**

This section provides a concise summary of the major findings organized according to the three specific objectives of the study. The summary synthesizes both quantitative results from descriptive statistics, correlation analysis, and regression analysis, as well as qualitative insights from interviews with SME owners, managers, and local government officials.

##### **5.1.1 Effect of Budgeting Practices on Profitability of SMEs**

The study found that budgeting practices had a significant positive effect on the profitability of SMEs in Bundibugyo District. The overall mean score for budgeting practices was 3.60, indicating that most SME operators engaged in budgeting activities and recognized their value, although implementation quality varied considerably across enterprises. Respondents most strongly agreed that budgeting helped track income and expenses effectively (mean = 3.81), demonstrating widespread appreciation for budgeting's fundamental utility as a financial monitoring mechanism. However, the regular review and updating of budgets received the lowest mean score (3.45), indicating that budget maintenance was practiced less consistently than budget preparation, representing a critical weakness in budgeting implementation.

The correlation analysis revealed a strong positive relationship between budgeting practices and profitability ( $r = 0.687$ ,  $p < 0.000$ ), demonstrating that enterprises with more comprehensive budgeting practices tended to experience higher profitability levels. The regression analysis confirmed this relationship, with budgeting practices explaining 47.2% of the variance in profitability ( $R^2 = 0.472$ ,  $F = 237.512$ ,  $p < 0.000$ ). The regression coefficient of 0.724 indicated that for every one-unit improvement in budgeting practices, profitability increased by approximately 0.724 units, representing a substantial return on investments in budgeting capabilities.

Qualitative findings revealed that budget preparation processes ranged from informal to semi-structured, with varying levels of stakeholder involvement depending on business size and management sophistication. Most businesses prepared budgets at the beginning of each financial period, though many relied heavily on owner judgment and past experience rather than detailed financial analysis. Budget reviews occurred irregularly, driven more by crisis or opportunity than systematic planning cycles. Despite implementation gaps, most respondents attributed improved profitability directly to budgeting discipline, particularly through better expenditure control and strategic resource allocation.

### **5.1.2 Relationship between Cash Flow Management and Profitability of SMEs**

Cash flow management emerged as the strongest predictor of SME profitability among all financial management practices examined. The overall mean score for cash flow management practices was 3.63, indicating that most SMEs engaged in liquidity management activities, though with varying degrees of sophistication. Respondents most strongly agreed that effective cash flow management contributed to business profitability (mean = 3.86), reflecting strong consensus that liquidity management translated into bottom-line benefits. They also strongly agreed that proper cash flow management improved their ability to pay bills on time (mean = 3.83), demonstrating appreciation for cash flow management's practical operational benefits.

However, the preparation of regular cash flow statements received the lowest mean score (3.35), indicating a significant gap between awareness of cash flow's importance and the practice of formal cash flow reporting. Similarly, monitoring and projecting future cash flows to avoid shortfalls showed moderate agreement (mean = 3.45), suggesting that many SMEs operated reactively rather than engaging in forward-looking cash flow planning.

The correlation analysis demonstrated a strong positive relationship between cash flow management and profitability ( $r = 0.712$ ,  $p < 0.000$ ), which was even stronger than that observed for budgeting practices. The regression analysis revealed that cash flow management explained 50.7% of the variance in profitability ( $R^2 = 0.507$ ,  $F = 272.468$ ,  $p < 0.000$ ), making it the most powerful predictor of SME success. The regression coefficient of 0.751 indicated that each one-unit improvement in cash flow management practices resulted in a 0.751-unit increase in profitability, representing the highest marginal effect among all practices examined.

Qualitative insights revealed diverse approaches to cash flow monitoring, ranging from simple daily cashbook entries to more sophisticated accounting software systems. Strategies to ensure adequate cash for operations included maintaining cash reserves, forecasting monthly cash needs, prioritizing critical payments, adopting mobile money for faster collections, and managing inventory to avoid tying up excessive cash. Respondents provided compelling examples of how effective cash flow management helped avoid financial crises, such as arranging overdraft facilities when major customer delays were anticipated or strategically timing purchases to optimize cash availability.

### **5.1.3 Influence of Financial Record-Keeping Practices on Profitability of SMEs**

Financial record-keeping practices demonstrated a strong positive influence on SME profitability, with results falling between those for budgeting and cash flow management. The overall mean score for financial record-keeping was 3.66, indicating that most SMEs maintained financial records, though quality and consistency varied across enterprises. Respondents most strongly agreed that good record-keeping practices positively impacted business profitability (mean = 3.84), demonstrating practitioner validation that record-keeping was not merely an administrative burden but contributed directly to business success.

However, the regular updating of financial records received the lowest mean score (3.44), representing a critical weakness since outdated records provided stale information that could lead to poor decisions. While most enterprises maintained records and used them for decision-making (mean = 3.72), the gap between record creation and timely

maintenance indicated implementation challenges related to time constraints, capacity limitations, and competing business priorities.

The correlation analysis revealed a strong positive relationship between financial record-keeping and profitability ( $r = 0.695$ ,  $p < 0.000$ ), comparable to the correlations for budgeting and cash flow management. The regression analysis showed that record-keeping explained 48.3% of profitability variance ( $R^2 = 0.483$ ,  $F = 248.192$ ,  $p < 0.000$ ). The regression coefficient of 0.735 indicated that each one-unit improvement in record-keeping practices resulted in a 0.735-unit increase in profitability, confirming that record-keeping was equally important as the other financial management practices.

Qualitative findings revealed that most SMEs maintained basic records such as sales books, purchase records, expense logs, and customer/supplier accounts, though updating frequency varied from daily to sporadic. Regarding recording methods, manual books remained predominant due to affordability and familiarity, though some businesses had adopted spreadsheets or accounting software. SMEs used financial records for various decisions including product line expansion, pricing, credit management, and supplier negotiations, though the sophistication of analysis varied considerably. The practical benefits of good record-keeping included easier tax compliance, improved loan application success, better cost control, and enhanced ability to identify profitable activities.

## **5.2 Discussion of Findings**

This section interprets the study findings in relation to existing theoretical frameworks and empirical evidence from previous research. The discussion demonstrates how the current findings align with, extend, or contrast with established knowledge in the field of SME financial management and performance.

### **5.2.1 Effect of Budgeting Practices on Profitability**

The finding that budgeting practices significantly and positively affect SME profitability strongly aligns with the conclusions of Kabagambe and Ssemanda (2022), who found that structured budgeting significantly influenced SMEs' capacity to manage cash flows, reduce wasteful expenditures, and boost profitability in Uganda. The current study's regression coefficient of 0.724 and R-square of 0.472 provide quantitative validation of their qualitative assertion that budgeting enhances financial discipline and resource allocation efficiency. Both studies identified similar challenges, particularly that many SMEs fail to develop realistic and implementable budgets, leading to over-expenditure and poor resource allocation.

The present study's finding that budget review and updating was the weakest aspect of budgeting practice (mean = 3.45) resonates with Nshimiyimana and Uwitonze's (2021) study on Rwandan SMEs, which emphasized that budgeting must be dynamic and flexible, with frequent reviews to ensure effectiveness. The current research confirms their recommendation that periodic reviews are essential, as businesses in Bundibugyo District that regularly reviewed budgets demonstrated better performance outcomes than those treating budgets as static documents. This convergence of findings across different East African contexts suggests that budget maintenance represents a common implementation gap requiring targeted capacity-building interventions.

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The strong agreement that budgeting helps track income and expenses (mean = 3.81) and improves financial performance (mean = 3.72) supports Adepoju and Kolapo's (2023) finding in Nigeria that enterprises with consistent budgeting practices had significantly higher profit margins. However, the current study extends their work by quantifying this relationship through regression analysis, demonstrating that budgeting practices explain nearly half of profitability variance. The participatory approach to budgeting that Adepoju and Kolapo advocated was less evident in Bundibugyo, where budgeting often remained a one-person exercise by the owner, suggesting an opportunity to improve budgeting effectiveness through greater stakeholder involvement.

The finding that many SMEs prepare budgets informally, relying on owner judgment rather than detailed financial analysis, corroborates Mwangi and Kato's (2022) observation about East African SMEs. Their assertion that rural SMEs underutilize formal budgeting due to poor training access and limited understanding of financial documentation was strongly supported by the current study's qualitative findings. The reliance on short-term estimations and informal practices like rotating savings schemes that Mwangi and Kato identified was also evident in Bundibugyo, undermining strategic planning. This suggests that capacity-building interventions must be tailored to local business realities, making budgeting concepts accessible to entrepreneurs with limited formal education.

The study's finding aligns with Tusiime et al.'s (2023) emphasis that budgeting should be integrated with strategic planning to influence profitability. However, the current research revealed that most Bundibugyo SMEs focused budgeting on operational expenses rather than growth-oriented activities like marketing and innovation. This represents a missed opportunity, as Tusiime et al. found that budgeting for value-adding activities yielded higher returns. The survival and subsistence orientation of most SMEs in Bundibugyo, rather than growth-oriented planning, explains this pattern but also highlights the need for mindset shifts toward more strategic resource allocation.

### **5.2.2 Relationship between Cash Flow Management and Profitability**

The finding that cash flow management had the strongest effect on profitability ( $R^2 = 0.507$ ,  $\beta = 0.751$ ) strongly supports Odhiambo and Wamalwa's (2022) assertion that many SMEs fail not because of poor products but due to poor liquidity control and financial mismanagement. The current study provides robust quantitative evidence for their claim by demonstrating that cash flow management explains over half of profitability variance among Bundibugyo SMEs. The finding that businesses with better cash flow systems experienced more stable profitability validates their observation that real-time tracking of expenses, receivables, and payables enhances business stability and performance.

The mechanisms through which cash flow management affects profitability, as identified in the current study, align with Odhiambo and Wamalwa's theoretical framework. These include the ability to reinvest in operations, settle debts promptly to avoid penalties, and negotiate better supplier discounts through timely payments. The particularly strong endorsement that cash flow management improved bill-paying capacity (mean = 3.83) provides empirical validation of these theoretical linkages. The seasonal cash shortages and fluctuating revenues that Odhiambo and Wamalwa identified in rural Kenya were equally prominent in Bundibugyo District, confirming that liquidity management is

especially critical in agricultural and resource-dependent economies.

The finding that most SME owners lacked technical knowledge for implementing cash flow strategies such as forecasting and liquidity monitoring (mean = 3.45 for future cash flow projection) directly corroborates Tumwebaze and Ocen's (2023) findings on Northern Uganda SMEs. Their observation that absence of structured cash flow planning led to business interruptions and missed opportunities was repeatedly confirmed in the current study's qualitative interviews, where respondents described reactive rather than proactive cash management. The challenges of delayed receivables and over-reliance on informal credit that Tumwebaze and Ocen identified were pervasive in Bundibugyo, particularly given the minimal use of accounting software and professional support.

Adjei and Owusu's (2021) finding in Ghana that cash flow mismanagement contributed more to SME collapse than external factors resonates strongly with the current study's results. The specific problems they identified – late customer payments, unrecorded expenditures, and unplanned purchases – were consistently mentioned by Bundibugyo respondents as major causes of cash flow difficulties. The current study extends their work by quantifying the positive relationship between disciplined cash flow planning and profitability, with a correlation of 0.712 representing one of the strongest effects observed. This provides compelling evidence that addressing cash flow management should be a top priority for SME development interventions.

Nkurunziza and Kamugisha's (2022) finding that firms with shorter cash conversion cycles posted higher profit margins is supported by the current study's qualitative findings, where successful businesses described strategies for accelerating collections and efficiently managing inventory. However, the current study revealed that digital tools and inventory management systems that Nkurunziza and Kamugisha recommended remained largely unutilized in Bundibugyo due to poor ICT infrastructure and limited awareness. This represents both a challenge and an opportunity, suggesting that even basic digital financial management tools or mobile accounting apps could significantly enhance profitability if adoption barriers were addressed.

The finding that many entrepreneurs do not separate business and personal finances strongly validates Musimenta and Atuhairwe's (2023) observation about Western Uganda rural SMEs. The current study confirmed that this practice contributed to cash leakage and obscured financial performance, making it difficult for businesses to make profit-maximizing decisions. The finding that businesses using mobile money platforms and practicing routine reconciliations were more profitable supports Musimenta and Atuhairwe's conclusion about the benefits of financial formalization. However, the large proportion of informal, unregistered SMEs in Bundibugyo suggests that promoting financial formalization and training remains a significant challenge requiring sustained intervention efforts.

### **5.2.3 Influence of Financial Record-Keeping on Profitability**

The finding that financial record-keeping significantly influences profitability ( $R^2 = 0.483$ ,  $\beta = 0.735$ ) strongly aligns with Akinyemi and Adewale's (2022) finding in Nigeria that SMEs with consistent and accurate record-keeping exhibited higher profit margins and stronger credit access. The current study provides quantitative validation of their assertion that businesses tracking income, expenditures, inventories, and tax obligations were better equipped to make

informed strategic decisions. The mechanism they proposed – that good records enable cost avoidance and legal compliance, thereby improving viability – was confirmed through both the regression results and qualitative testimonies from Bundibugyo entrepreneurs who described using records for pricing decisions, cost control, and tax optimization.

The finding that record updating was the weakest aspect of record-keeping practice (mean = 3.44) resonates with Namulindwa and Ssewanyana's (2023) observation that most Ugandan rural SMEs do not maintain regular sales journals or monitor cash flow movements systematically. Their assertion that inadequate record-keeping severely limits financial performance was empirically validated by the current study's regression analysis, which demonstrated that nearly half of profitability variance could be attributed to record-keeping quality. The cycle of low productivity and poor investment planning that Namulindwa and Ssewanyana described was evident in Bundibugyo, where businesses with incomplete records struggled to assess profitability accurately or plan for growth.

Namulindwa and Ssewanyana's finding that even when entrepreneurs maintained some records, they were often manual, inaccurate, and not based on accounting principles was strongly confirmed in the current study. The predominance of manual cashbooks in Bundibugyo, combined with limited formal education among most SME owners, created exactly the problematic situation they described. The current study extends their work by demonstrating that despite these limitations, even imperfect record-keeping was associated with significantly higher profitability than minimal or absent record-keeping, suggesting that promoting basic record-keeping represents a valuable intervention even when sophisticated accounting systems are not immediately feasible.

The finding that good record-keeping made financial reporting easier (mean = 3.70) and improved access to financing provides empirical support for Akinyemi and Adewale's theoretical claim about the external credibility benefits of financial documentation. The current study revealed that banks and microfinance institutions in Bundibugyo required financial records for loan applications, making record-keeping not merely a management tool but a prerequisite for accessing growth capital. This dual benefit – internal decision support and external credibility – explains why record-keeping had such a strong effect on profitability, operating through multiple complementary mechanisms.

The gradual adoption of spreadsheets and accounting software observed in the current study, though still limited, represents progress beyond the entirely manual systems that Namulindwa and Ssewanyana described. This suggests that technological diffusion is occurring, albeit slowly, creating opportunities for interventions that accelerate adoption of accessible digital tools. The finding that businesses using software experienced efficiency gains and improved accuracy validates the potential benefits of technology adoption, though the barriers of cost, electricity access, and technical capacity remain significant in rural Bundibugyo District.

### **5.3 Conclusions**

Based on the research findings and their discussion in relation to existing literature, the following conclusions are drawn according to the study objectives:

### **5.3.1 Effect of Budgeting Practices on Profitability**

Budgeting practices have a significant positive effect on the profitability of small and medium enterprises in Bundibugyo District. The strong correlation ( $r = 0.687$ ) and substantial explanatory power ( $R^2 = 0.472$ ) demonstrate that budgeting is not merely a procedural formality but a core driver of business success with direct, measurable impacts on bottom-line performance. However, the effectiveness of budgeting is constrained by implementation gaps, particularly the inconsistent review and updating of budgets, which undermines their utility for guiding business decisions. While most SMEs recognize budgeting's value for tracking finances and controlling expenditures, the quality of budgeting varies considerably across enterprises, with many relying on informal processes and owner judgment rather than systematic financial analysis.

The finding that budgeting explains nearly half of profitability variance indicates that interventions to improve budgeting capabilities could yield substantial benefits for enterprise performance. The gap between budget preparation and budget maintenance represents a critical leverage point, as addressing this weakness could significantly enhance the value that SMEs derive from their budgeting efforts. The survival and subsistence orientation of most SMEs in Bundibugyo, rather than growth-oriented planning, suggests that capacity building must address not only technical budgeting skills but also entrepreneurial mindset and strategic thinking.

### **5.3.2 Relationship between Cash Flow Management and Profitability**

Cash flow management has the strongest relationship with profitability among all financial management practices examined, explaining over half of profitability variance ( $R^2 = 0.507$ ) with the highest regression coefficient ( $\beta = 0.751$ ). This confirms that effective liquidity management is the most critical determinant of SME success in Bundibugyo District, reflecting the reality that businesses operating with thin margins and limited access to external financing depend fundamentally on their ability to maintain adequate cash for operations. The particularly strong endorsement that cash flow management improves bill-paying capacity and contributes directly to profitability validates that liquidity management delivers tangible operational and financial benefits.

However, significant implementation gaps exist, particularly in formal cash flow statement preparation and forward-looking cash flow projection, indicating that many SMEs manage cash reactively rather than proactively. The lack of technical knowledge for implementing structured cash flow strategies, combined with limited use of accounting tools and separation of business and personal finances, constrains the potential benefits of cash flow management. The finding that even businesses recognizing cash flow's importance often lack systematic practices suggests that awareness alone is insufficient; practical skills and tools are essential for translating understanding into effective implementation.

The seasonal nature of cash flows in Bundibugyo's agricultural economy and the challenges of delayed receivables and limited credit access make cash flow management especially critical for business survival and growth. The stronger effect of cash flow management compared to budgeting and record-keeping indicates that liquidity-focused interventions should be prioritized in SME development programs, as they offer the highest potential return in terms

of profitability improvements.

### **5.3.3 Influence of Financial Record-Keeping on Profitability**

Financial record-keeping practices significantly influence the profitability of SMEs in Bundibugyo District, with effects comparable to budgeting and cash flow management ( $R^2 = 0.483$ ,  $\beta = 0.735$ ). This confirms that information quality is a fundamental driver of business success, enabling informed decision-making, performance monitoring, and external credibility. The finding that record-keeping explains nearly half of profitability variance validates that it is not merely an administrative burden but a value-adding activity with direct implications for business performance. The multiple mechanisms through which record-keeping affects profitability – better pricing decisions, improved cost control, enhanced access to financing, and optimized tax obligations – demonstrate its multifaceted importance.

However, the gap between record creation and timely maintenance represents a critical weakness that undermines the potential benefits of record-keeping. The predominance of manual systems, combined with limited formal education and accounting knowledge among most SME owners, creates challenges for implementing systematic, accurate record-keeping. While gradual adoption of spreadsheets and accounting software is occurring, most businesses still rely on basic manual cashbooks with varying degrees of completeness and accuracy. The finding that even imperfect record-keeping is associated with significantly higher profitability than minimal documentation suggests that promoting basic record-keeping represents a valuable intervention, even when sophisticated accounting systems are not immediately feasible.

The dual benefits of record-keeping for both internal management and external credibility make it a critical practice for business sustainability and growth. The requirement for financial records in loan applications means that improving record-keeping not only enhances operational decision-making but also expands access to growth capital, creating a virtuous cycle of improved management leading to better performance and greater investment capacity.

### **5.4 Recommendations**

Based on the study findings and conclusions, the following recommendations are proposed for various stakeholders to enhance the profitability of SMEs through improved financial management practices:

#### **5.4.1 Effect of budgeting practices on the profitability of small and medium enterprises in Bundibugyo District.**

While many SMEs prepare budgets, the practice of regular review and updating should be strengthened. Owners should schedule monthly or quarterly budget review sessions to compare actual performance against plans, adjust allocations based on changing circumstances, and identify areas of over-spending or under-investment. Budget reviews should involve key staff members where applicable to promote ownership and accountability.

#### **5.4.2 Relationship between cash flow management and the profitability of SMEs in Bundibugyo District.**

Given that cash flow management had the strongest effect on profitability, SME owners should prioritize developing structured cash flow monitoring and forecasting systems. This includes maintaining daily or weekly cash records,

preparing simple cash flow projections for at least one month ahead, and establishing cash reserve buffers equivalent to one month's operating expenses. Owners should separate business and personal finances completely to prevent cash leakage and maintain clear visibility of business liquidity.

#### **5.4.3 Influence of financial record-keeping practices on the profitability of small and medium enterprises in Bundibugyo District**

SME owners should commit to updating financial records at least weekly, ideally daily for cash transactions. Even simple manual cashbooks, if maintained consistently and accurately, provide valuable information for decision-making. Owners should view record-keeping not as a burden but as an investment in business intelligence that enables better decisions and improves access to financing.

#### **5.5 Contributions of the Study**

This study makes several important contributions to academic knowledge, policy formulation, and practical application in the field of SME financial management and development:

##### **5.5.1 Theoretical Contributions**

The study provides robust quantitative evidence of the effects of financial management practices on SME profitability in a rural Ugandan context. While previous studies have asserted these relationships theoretically or demonstrated them qualitatively, this research quantifies the magnitude of effects through rigorous correlation and regression analyses, establishing that financial management practices explain approximately 47-51% of profitability variance.

By examining three financial management practices simultaneously using consistent methodology, the study enables direct comparison of their relative importance. The finding that cash flow management has a slightly stronger effect than budgeting and record-keeping, though all three are comparably important, provides guidance for prioritizing interventions while recognizing that comprehensive approaches addressing all three practices are optimal.

The study's mixed-methods approach, combining survey data with in-depth interviews, provides both breadth and depth of understanding. The quantitative findings establish the magnitude and significance of relationships, while qualitative insights illuminate mechanisms, implementation challenges, and contextual factors that shape how financial management practices affect profitability.

##### **5.5.3 Practical and Policy Contributions**

The study provides empirical evidence that can inform policy decisions about SME development priorities. The finding that financial management practices explain nearly half of profitability variance provides strong justification for investments in financial management capacity building as a high-impact intervention.

Beyond demonstrating that financial management matters, the study identifies specific weaknesses – irregular budget reviews, reactive cash flow management, and untimely record updating – that interventions should address. This specificity enables more targeted and effective capacity-building programs.

The study establishes baseline data on financial management practices and profitability levels among SMEs in Bundibugyo District. This baseline enables future monitoring of trends, assessment of intervention impacts, and comparison with other districts or periods.

### **5.6 Areas for Further Studies**

While this study has provided valuable insights into the relationship between financial management practices and SME profitability in Bundibugyo District, several areas remain that warrant further research:

This cross-sectional study established correlations between financial management and profitability at a single point in time. A longitudinal study tracking SMEs over several years could demonstrate causality more definitively by showing how improvements in financial management practices lead to subsequent profitability changes. Such research could also examine the sustainability of benefits and identify factors that support or undermine maintenance of good practices over time.

Experimental or quasi-experimental studies should be conducted to rigorously evaluate the impact of specific financial management capacity-building interventions. Such research could compare outcomes between SMEs receiving training, tools, or advisory services and control groups, quantifying the return on investment in different intervention approaches. This would provide evidence on which types of support are most cost-effective.

This study examined SMEs across all sectors in Bundibugyo District. Future research could focus on specific sectors such as agriculture, retail, or services to understand sector-specific financial management challenges and practices. Different sectors may have unique cash flow patterns, record-keeping requirements, and budgeting needs that require tailored approaches.

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**APPENDIX I: RESEARCH INSTRUMENT**

Dear Respondent,

I am Bukantwa Charles, a student of Metropolitan International University pursuing a Master's Degree in Business Administration (MBA). This study aims to investigating the effect of Financial Management Practices and Profitability of Small and Medium Enterprises in Bundibugyo District Uganda. Your contribution to this research is highly valuable. I therefore humbly request you to spare some time to complete this questionnaire. Please note that this is purely academic research, and your responses was treated with the utmost confidentiality. Kindly fill in the gaps and, where necessary, tick the most appropriate option in the boxes provided.

Thank you for your time and cooperation.

**Section A: Demographic characteristics of respondents (NB tick where applicable)**

1. Gender

Male  male

2. Highest level of qualification

1) Secondary  tificate  loma 3)

4) Masters  Others

3. Age

a) 20 - 29  30 – 39  40 – 49  d)  e) 60  ove

4. Working Experience

1) Less than 2 years  Above 2 years  3) A  5 years

**SECTION B: Innovative Strategies**

The use of Likert scale where 1= Strongly disagree, 2= Disagree, 3= Not sure, 4=Agree, 5= Strongly agree.

Direction: please tick the column corresponding rating that best describes your response using the guide below

Budgeting practices		Rankings				
		1(SD)	2(D)	3(NS)	4(A)	5(SA)
1	My business prepares a detailed budget before the start of each financial period.					
2	Budgeting helps my business track income and expenses effectively.					
3	I review and update the business budget regularly.					
4	Budgeting has helped improve financial performance in my business.					

5	Budgetary controls are in place to avoid unnecessary spending.					
	<b>Cash flow management</b>					
1	My business maintains records of all cash inflows and outflows.					
2	I prepare regular cash flow statements for my business.					
3	Proper cash flow management has improved my business's ability to pay bills.					
4	I monitor and project future cash flows to avoid shortfalls.					
5	Effective cash flow management has contributed to my business profitability.					

**Section C: Financial record-keeping practices**

		Rankings				
NO	Financial record-keeping practices	1(SD)	2(D)	3(NS)	4(A)	5(SA)
1	My business keeps accurate records of all financial transactions.					
2	I use the records to make informed financial decisions.					
3	The financial records are updated regularly (daily/weekly/monthly).					
4	Proper record-keeping has made financial reporting easier.					
5	Good record-keeping practices have positively impacted business profitability.					

**Section D: Profitability of small and medium enterprises**

		Rankings				
NO	Profitability of small and medium enterprises	1(SD)	2(D)	3(NS)	4(A)	5(SA)
1	My business has consistently made profits over the past two years.					
2	Sales revenue in my business has increased over time.					
3	The business generates sufficient income to cover all operational expenses.					
4	Profit margins have improved as a result of better financial					

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	management practices.					
5	My business is financially stable and can withstand economic fluctuations.					



**APPENDIX II: INTERVIEW GUIDE**

Dear Respondent,

I am Bukantwa Charles, a student of Metropolitan International University pursuing a Master's Degree in Business Administration (MBA). This study aims to investigating the effect of Financial Management Practices and Profitability of Small and Medium Enterprises in Bundibugyo District Uganda. Your contribution to this research is highly valuable. I therefore humbly request you to spare some time to complete this questionnaire. Please note that this is purely academic research, and your responses was treated with the utmost confidentiality. Kindly fill in the gaps and, where necessary, tick the most appropriate option in the boxes provided.

**Budgeting Practices and Profitability of SMEs**

1. Can you describe how your business goes about preparing a budget? Who is involved in the process?
2. How often do you review or revise your business budget, and why?
3. What impact do you believe budgeting has had on your business's financial performance?
4. Have you ever experienced challenges due to a lack of budgeting?

**Cash Flow Management and Profitability of SMEs**

1. How do you monitor your business's cash inflows and outflows?
2. What strategies do you use to ensure there is enough cash to meet daily operational needs?
3. Can you share an example where effective cash flow management helped you avoid a financial crisis?
4. Have you faced difficulties due to poor cash flow?

**Financial Record-Keeping Practices and Profitability of SMEs**

1. What types of financial records do you keep in your business, and how regularly are they updated?
2. Do you use any software or manual systems for record-keeping? Why did you choose that method?
3. How do you use financial records when making business decisions?
4. What challenges have you faced with financial record-keeping?
5. How would you say record-keeping practices influence the profitability and stability of your business?

**Profitability of SMEs**

1. How would you describe the financial performance of your business over the last few years?
2. What strategies or practices have you implemented that you believe increased your profits?
3. Are there specific challenges in your business environment that affect your profitability?
4. How do you measure profitability in your business? (e.g., profit margins, net income, ROI)

**APPENDIX III: Krejcie & Morgan Table for Determining Sample Size from a Given Population**

N	S	N	S	N	S
10	10	220	140	1200	291

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15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note: *N* is the population Size, then *S* is the Sample size.

