



# **Financial Management Competence and SME Performance: Insights from Mbarara City, Uganda**

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## **Authors' contributions**

*This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.*

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## **ABSTRACT**

Small and Medium-Sized Enterprises (SMEs) are essential to Uganda's economic growth, yet many face early closures due to poor financial management. This study explored the influence of financial management competence on the financial performance of selected SMEs in Mbarara City, Uganda, anchored in the Resource-Based View (RBV) Theory. A quantitative approach using correlational and descriptive research designs was employed, involving 172 SME owners from a target population of 300, with purposive, stratified, proportionate, and simple random sampling techniques. Data were collected via self-administered and researcher-administered questionnaires and analyzed using SPSS version 28. The research instruments were pre-tested for validity and

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reliability, and null hypotheses were evaluated at a 0.05 significance level. The correlation between financial management competence and SME performance was weak but positive ( $r = 0.377$ ) and statistically significant ( $p < 0.01$ ). This correlation suggests that while there is a positive relationship between financial management competence and SME performance, this relationship is modest. In other words, improvements in financial management competence are associated with slight improvements in performance, but other factors may also play a role. The weak positive correlation implies that while financial management competence is important, other factors may also contribute to SME financial performance, warranting further research into additional determinants. Regression analysis indicated that financial management competence significantly contributed to improved SME performance ( $t = 5.083$ ,  $p = 0.000$ ,  $p < 0.05$ ). Based on these findings, it is recommended that SME owners invest in strengthening their financial management skills to enhance business performance and reduce early closures. The originality of this study lies in its focus on Mbarara City by highlighting contextual financial challenges and opportunities unique to this city, providing valuable insights into the role of financial management in SMEs, particularly in Uganda's developing economy.

**Keywords:** *Small and medium-sized enterprises; economic growth; financial management; business sustainability.*

## 1. INTRODUCTION

Financial management competence is crucial for the financial success of small and medium-sized enterprises (SMEs), as it enables effective resource allocation, cash flow optimization, and informed decision-making. This, in turn, enhances profitability and business sustainability. Inadequate financial management skills, however, can lead to poor financial decisions, misallocation of resources, and increased vulnerability to financial distress, often culminating in business failure. Research has shown that managerial competencies, particularly financial acumen, are significant contributors to SME performance (Sualeh et al., 2020). Financial competence equips SME managers with the skills needed to mobilize and allocate resources effectively, which is essential for improving business performance (Khalifé & Montmorillon, 2018). Thus, strengthening financial management competence is vital for SMEs aiming to improve financial outcomes and secure long-term success.

For SMEs to maintain liquidity, profitability, and long-term sustainability, mastering financial management is indispensable (Muriithi & Mwangi, 2019; Njeru & Kimani, 2020). Financial management competencies, including budgeting, financial reporting, and investment decision-making, are essential for achieving these objectives (Owolabi & Ogundipe, 2020). Studies emphasize that financial management competencies are key drivers of financial performance, which is often assessed through profitability, return on assets, and revenue

growth (Makori et al., 2021; Ogundipe & Ogundipe, 2022).

In developed economies, SMEs are central to economic growth but face challenges requiring robust financial management skills (European Commission, 2020). European SMEs have been grappling with rising input and borrowing costs, which have led to a decline in their contribution to value-added economic output since 2019, with projections showing further decreases through 2024 (OECD, 2022). The COVID-19 pandemic further exacerbated this situation, with nearly half of SMEs reporting sales declines in 2021, while only 21% experienced gains (McKinsey & Company, 2021). These difficulties prompted 23% of SMEs to reduce investment plans, highlighting the need for more robust financial planning and risk management strategies (World Economic Forum, 2022).

Moreover, a digitalization gap has emerged as a significant challenge for SMEs. While fewer than 20% of European SMEs are highly digitalized, approximately 50% of large corporations have achieved this status (Accenture, 2020). This gap underscores the critical need for SMEs to invest in digital competencies to stay competitive (Bauer & Gegenhuber, 2020). Despite these challenges, German SMEs (Mittelstand) have historically maintained strong financial positions through high equity ratios and reduced reliance on bank liabilities (Deutsche Bundesbank, 2020). However, the rapid advancement of digital technologies presents new challenges, requiring SMEs to adapt by integrating information and

communication technologies into their operations (Kollmann & Sperlich, 2022).

In developing countries, SMEs face substantial barriers to growth, largely due to inadequate financial management systems and financial literacy among owners and managers (Nzewi et al., 2022). For instance, in Nigeria, a lack of essential financial management skills hinders business sustainability, emphasizing the need for targeted training programs (Ogundipe & Ogundipe, 2022). Similarly, Turkish SMEs struggle with insufficient managerial skills, lack of trained personnel, and limited access to financial resources, all of which contribute to poor financial management systems (Güngör et al., 2020). Addressing these issues requires the development of strong financial management competencies to ensure liquidity, profitability, and long-term success (Gichuhi et al., 2022).

SMEs in Uganda are pivotal to the country's economic development, playing a significant role in employment generation and contributing to GDP growth. Despite their importance, many SMEs face challenges in sustaining their operations due to limited access to credit, inadequate financial management skills, and regulatory hurdles (Uganda Bureau of Statistics, 2022). In Mbarara City, these challenges are further compounded by poor record-keeping, mismanagement of cash flow, and a lack of strategic financial planning, all of which impede profitability and hinder business expansion (Nangoli et al., 2023). These financial management gaps prompted this study, which aims to assess the impact of financial management competencies on SME performance, with the goal of providing insights that can improve financial decision-making and enhance business resilience in the region.

The significance of this study lies in its ability to address the critical gap in financial management competencies among SMEs in Mbarara City, Uganda. By examining how financial management practices influence the financial performance of these enterprises, the study offers valuable insights into improving business sustainability and profitability. The findings have the potential to inform policymakers, business owners, and development organizations about the specific financial challenges faced by SMEs, enabling the design of targeted interventions and training programs. Ultimately, this research aims to contribute to strengthening the financial resilience of SMEs, supporting their growth, and

enhancing their contribution to Uganda's broader economic development.

## 1.1 Research Question

How does financial management competence influence the financial performance of SMEs in Mbarara City, Uganda?

## 1.2 Null Hypothesis (H<sub>0</sub>)

There is no significant relationship between financial management competence and the financial performance of SMEs in Mbarara City, Uganda.

## 2. UNDERPINNING THEORY

This study was anchored on the Resource-Based View (RBV), a strategic management theory developed by Barney in 1991. The RBV emphasizes that a firm's internal resources are crucial for achieving and sustaining a competitive advantage. Building on Edith Penrose's earlier work, which suggested that firm growth is driven by unique resources, RBV asserts that competitive advantage arises when a firm possesses resources that are valuable, rare, inimitable, and non-substitutable (VRIN). By leveraging these internal strengths, firms can outperform competitors, focusing on their resources rather than merely responding to external market conditions.

In the context of small and medium-sized enterprises (SMEs), financial management competencies are considered strategic resources within the RBV framework. Effective financial management allows SMEs to allocate resources efficiently, optimize cash flow, and make informed decisions, thereby enhancing financial performance. Firms with superior financial management skills can better navigate financial risks, secure funding, and invest in growth opportunities, which ultimately leads to improved profitability and sustainability. As not all SMEs possess advanced financial management capabilities, these competencies become a key differentiator, aligning with the RBV perspective that internal resources significantly influence firm performance (Barney, 1991; Crook et al., 2008).

Recent studies support the relevance of RBV in explaining SME performance. Research has shown that firms with strong internal capabilities, including financial expertise, are more likely to achieve long-term success compared to those

relying solely on external market conditions (Sirmon et al., 2011). For SMEs, financial management skills are especially critical due to limited access to external financing, making the effective use of internal resources essential (Teece, 2018). The strategic management of financial resources ensures SMEs can sustain operations, expand, and compete effectively in dynamic environments. Thus, the RBV provides a robust theoretical framework for understanding how financial management competencies contribute to superior financial performance, demonstrating that SMEs with strong internal capabilities have a competitive edge over their peers.

### 3. EMPIRICAL REVIEW

Numerous studies have explored the impact of financial competencies on the financial performance of small and medium-sized enterprises (SMEs), emphasizing the crucial role of financial management practices in determining business success. Gichuhi et al. (2022) examined the effect of financial literacy and management competencies on SMEs in Kenya and found a strong positive relationship, indicating that SMEs with proficient financial management practices achieved better profitability and long-term sustainability. In a similar study, Ogundipe and Ogundipe (2022) analyzed SMEs in Nigeria and demonstrated that effective financial planning and budgeting significantly enhanced financial performance, especially for businesses with trained financial managers. This aligns with the findings of Nzewi et al. (2022) in Nigeria, which highlighted that financial literacy and robust financial management practices helped SMEs boost revenue and reduce financial instability, stressing the importance of skilled financial leadership.

In Turkey, Güngör et al. (2020) explored the financial management challenges faced by SMEs, revealing that a lack of financial management knowledge led to poor cash flow management, which, in turn, hindered financial performance. The study argued that SMEs with low financial competencies were more vulnerable to economic shocks and faced challenges in scaling operations. Bauer and Gegenhuber (2020) also echoed this concern, noting that SMEs undergoing digital transformation in Europe encountered complex financial decisions that required enhanced financial management skills. Their research indicated that SMEs with skilled financial managers were better equipped

to navigate these challenges and improve their financial outcomes through digitalization.

Case studies from South Africa, such as those presented by Pretorius (2020), further support these findings, showing that SMEs with higher financial literacy were more adept at using financial strategies to overcome economic difficulties. Conversely, SMEs lacking financial competencies struggled with inconsistent cash flows and poor investment decisions. Similarly, Kollmann and Sperlich (2022) found that SMEs in European countries, particularly Germany, that were equipped with competent financial managers were more successful in handling economic downturns, achieving stronger financial outcomes compared to those without such competencies.

Empirical evidence from Southeast Asia also underscores the importance of financial management skills in driving SME success. Nguyen et al. (2021) studied SMEs in Vietnam and found that firms whose owners demonstrated strong financial management practices, particularly in budgeting, cost control, and financial reporting, experienced higher profitability and market expansion. The study concluded that SMEs investing in financial training for managers had more stable growth trajectories than those that did not.

In Latin America, Garcia et al. (2021) examined SMEs in Brazil and discovered that financial management competencies, especially in cash flow management and financial planning, were linked to higher revenue growth and more effective capital utilization. Their study noted that SMEs possessing these skills were better able to withstand external shocks, such as market fluctuations and demand volatility. McKinsey & Company (2021) also corroborated these findings in a global study, highlighting that SMEs with strong financial competencies were better positioned to manage financial crises and continue growing despite economic challenges.

Diala and Ihuoma (2023) in Nigeria further supported these conclusions, revealing that SMEs that adopted advanced financial management techniques, such as forecasting and risk management, saw significant improvements in financial performance. Their study emphasized the importance of not only possessing financial competencies but also applying them effectively to overcome

operational challenges and optimize financial outcomes.

These empirical studies collectively demonstrate the critical connection between financial management competencies and the financial performance of SMEs. Whether through enhanced profitability, revenue growth, or resilience in the face of financial crises, SMEs with stronger financial competencies tend to perform better. As evidenced by case studies across Africa, Asia, Europe, and Latin America, SMEs that invest in developing financial management skills are more likely to experience sustainable growth and operational success (Garcia et al. 2021; Nguyen et al. 2021).

### 3.1 Research Gaps

The present study on the influence of financial management competencies on the financial performance of SMEs in Mbarara City addresses several critical research gaps that have previously been underexplored or insufficiently examined in the existing literature. While much of the existing research highlights the importance of financial management competencies in enhancing SME performance, much of this work focuses on developed economies, leaving a notable gap in understanding the specific challenges and outcomes for SMEs in emerging economies such as Uganda.

One key gap this study addresses is the lack of detailed research on financial literacy and management practices in Ugandan SMEs, particularly those operating in Mbarara City. Although studies in countries like Kenya, Nigeria, and Brazil have explored the relationship between financial competencies and SME profitability, few have directly examined how these competencies manifest within the Ugandan context, where business conditions and challenges may differ significantly.

## 4. METHODOLOGY

### 4.1 Research Design

A quantitative research approach was chosen to ensure precision, objectivity, and reliability in exploring the relationship between financial management competence and SME financial performance. This approach facilitates the systematic collection and statistical analysis of numerical data, enabling hypothesis testing and the identification of patterns. Structured

questionnaires were administered to a large sample of SMEs in Mbarara City, ensuring consistency across responses and minimizing researcher bias. The structured data collection process allows for the generalization of findings to the broader SME population (Creswell & Creswell, 2017). Statistical techniques, such as regression analysis and correlation tests, were employed to strengthen the empirical foundation of the study, revealing clear relationships between financial literacy training and key performance indicators. This data-driven approach provides objective conclusions that can inform policy-making and decision-making (Saunders et al., 2019). By offering quantifiable evidence on the impact of financial literacy, the research supports the development of targeted interventions to enhance the financial management competence and sustainability of SMEs (Sekaran & Bougie, 2016).

This study utilized both correlational and descriptive research designs to effectively analyze the relationship between financial management competencies and SME performance in Mbarara City, Uganda. The descriptive design provided a comprehensive and systematic overview of SME competencies and performance indicators, facilitating an objective assessment of their characteristics and trends. In parallel, the correlational design enabled an examination of the relationships between variables, helping to identify the extent to which financial management competence influences SME performance. The combination of these approaches ensured both a thorough understanding of SME characteristics and robust statistical analysis, leading to well-supported conclusions that can inform policy and decision-making (Saunders et al., 2019; Creswell & Creswell, 2017; Sekaran & Bougie, 2016).

The target population for this study consisted of 300 SME entrepreneurs in Mbarara City, Uganda, who had participated in financial literacy training within the past five years. This selection was based on the assumption that these individuals possess relevant knowledge and experience, making them well-suited to provide insights into the impact of financial competencies on business performance. Cooper and Schindler (2021) define a target population as a specific subset within a larger population that shares common characteristics, making financially trained SME entrepreneurs the ideal participants for investigating the relationship between financial literacy and financial performance. The

inclusion criteria focused on SMEs whose owners or managers had completed financial literacy training within the past five years, ensuring that participants retained up-to-date financial knowledge applicable to their business operations. Additionally, SMEs from various sectors were included to ensure diverse representation and enhance the generalizability of the findings.

The exclusion criteria focused on excluding businesses whose owners lacked formal financial literacy training or those that had received training more than five years ago. This was done to ensure the study captured relevant and reliable data, as the impact of financial training may have diminished over time for those with outdated knowledge. By applying these criteria, the study aimed to maintain the robustness and relevance of the findings, ensuring they accurately reflect the current influence of financial management competence on SME performance across various sectors (Saunders et al., 2019; Sekaran & Bougie, 2016).

#### 4.2 Sampling

A sample size of 172 respondents was selected from a target population of 300 Entrepreneurs using Slovene's formula developed by Yamane, 1967 was used for the study. This is as indicated below;

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

Where;

n= sample size

N= target population

e= margin of error (5%)

$$n = \frac{300}{(1+300(0.05)^2)}$$

n=172

The study employed a combination of purposive, stratified random proportionate, and simple

random sampling techniques to ensure a comprehensive and reliable selection of SMEs in Mbarara City. Purposive sampling was initially used to target SMEs whose entrepreneurs had undergone financial literacy training, ensuring that only the most relevant participants were included in the study (Creswell, 2017). Subsequently, stratified random proportionate sampling categorized the SMEs into distinct sectors such as retail, manufacturing, and services, ensuring proportional representation from each industry. This approach allowed for a more accurate reflection of sector-specific variations in the impact of financial literacy on SME performance (Saunders et al., 2019). Finally, simple random sampling was applied within each sector to eliminate selection bias, providing all eligible SMEs with an equal opportunity to participate, which enhanced the objectivity and reliability of the findings (Sekaran & Bougie, 2016). This multi-stage sampling method effectively combined targeted selection and randomness, strengthening the validity of the study and enabling a more nuanced analysis of how financial management competencies affect SME performance.

#### 4.3 Data Collection Instruments

The study utilized both researcher-administered and self-administered structured questionnaires to ensure comprehensive and accurate data collection from SME entrepreneurs with varying literacy levels. Researcher-administered questionnaires (RAQs) were employed for participants with lower literacy skills, allowing for question clarification and reducing the likelihood of misinterpretation, which improved the accuracy and reliability of responses (Mugenda & Mugenda, 2003). For more literate respondents, self-administered questionnaires (SAQs) were used, providing greater flexibility and minimizing researcher bias. This approach allowed participants to complete the questionnaires at their own pace using the drop-and-pick-later method (Bryman, 2016). The structured

**Table 1. Target population**

Types of SMEs	Population
Trade, commerce and manufacturing	145
Hotels and hospitality businesses	72
Financial intermediation and insurance	40
Construction and Real Estates	28
ICT service providers	15
<b>TOTAL</b>	<b>300</b>

Source: Mbarara City Development Policy and Performance Portal, (2024)

**Table 2. Sample size**

Category of SMEs	Target Population	Sample Size
Trade, commerce and manufacturing	145	83
Hotels and hospitality businesses	72	41
Financial intermediation and insurance	40	23
Construction and Real Estates	28	16
ICT service providers	15	9
<b>TOTAL</b>	<b>300</b>	<b>172</b>

Source: Field Survey, (2024)

questionnaires featured closed-ended questions based on a 4-point Likert scale, ensuring a standardized approach to assessing attitudes, opinions, and perceptions. This design enhanced the consistency, objectivity, and comparability of the findings (Creswell, 2017). Overall, this mixed approach strengthened the reliability of the data by ensuring a systematic and inclusive collection process across a diverse participant group.

#### 4.4 Piloting

The study conducted a pilot test to refine the research instruments and ensure the accuracy and reliability of the data collection process. A sample of 10% (17) SME entrepreneurs from Mbarara City participated in the pilot study, providing the researcher with an opportunity to evaluate the feasibility of the instruments and identify potential issues in question wording, structure, or clarity. The pilot study revealed areas where questions could be misunderstood or biased, allowing for adjustments to improve clarity and relevance (Heale & Twycross, 2019). Additionally, the pilot study helped determine the time required to complete the questionnaires and assessed their overall flow, contributing to refinements in the design. It also evaluated the reliability and consistency of the tools, ensuring that the final instruments could produce valid and dependable data (Mugenda & Mugenda, 2003).

The validity and reliability of the research instruments were essential to ensuring accurate and trustworthy data collection. To confirm the instruments' validity, the researcher focused on ensuring they accurately measured the relationship between financial competence and SME performance in Mbarara City. Content validity was particularly emphasized to ensure

the instruments covered all relevant aspects of financial literacy and SME performance, in line with the work of Saunders and Tosey (2020) and Vogt et al. (2017). Expert reviews were conducted to confirm the clarity, relevance, and alignment of the questions with the study's objectives.

Cronbach's alpha was used to assess the internal consistency and reliability of the research instruments, a critical step to ensure the data collected was both dependable and consistent. Nunnally (1978) suggests that a Cronbach's alpha value of 0.7 or higher indicates acceptable reliability. The results showed that the Cronbach's alpha values exceeded this threshold, with financial management competencies scoring 0.986. These findings confirm that the research instruments were well-designed and capable of reliably measuring the intended constructs, enhancing the credibility of the study's conclusions.

#### 4.5 Data Analysis

The data analysis employed both descriptive and inferential statistics to provide a thorough understanding of the data and examine the relationships between financial management competence and SME performance. Descriptive statistics were used to summarize the data, offering a clear presentation of central tendencies and variability. Inferential statistics, including correlation and simple regression analysis, were then applied to test the null hypothesis at a 0.05 significance level, identifying statistically significant relationships. Simple regression analysis, in particular, allowed for the quantification of the impact of financial management competence on performance

**Table 3. Cronbach's alpha**

Variables	No. Of Items	Alpha Value
Financial Management	6	0.986

Source: Primary Data 2024

indicators. The results were presented in well-organized tables, enhancing clarity and facilitating interpretation. This combined analytical approach ensured that the findings were both robust and reliable, leading to valid conclusions and informed decision-making.

## 5. RESULT AND DISCUSSION

### 5.1 Response Rate

The study achieved a high response rate of 92%, surpassing the 50% threshold suggested by Baruch and Holtom (2015), ensuring a robust dataset for analysis.

### 5.2 Demographic Profile of Respondents

The collected demographic data offered insights into the characteristics of the study population, covering gender, age, education, experience, and training.

#### 5.2.1 Gender profile of respondents

The study analysed the gender distribution of respondents, with the collected data presented in Table 4.

Table 4 presents the gender distribution of the study's respondents, comprising 159 participants. The sample included 80 males (50.3%) and 79 females (49.7%), reflecting an almost equal representation of both genders, with only a slight difference of one participant favoring males. This balanced distribution aligns with findings by Musah et al. (2022), who reported a similar gender composition in their study on financial literacy among SME owners in Ghana, with 51.4% male and 48.6% female

participants. Such an equitable gender representation enhances the study's ability to provide comprehensive and unbiased insights into the financial behaviors and performance of male and female entrepreneurs, helping to identify potential gender-specific challenges and strengths in SME financial management.

#### 5.2.2 Age profile of respondents

The study explored the age profile of the respondents. A summary of the results is presented in Table 5.

The Table 5 presents the age distribution of the 159 respondents, categorized into three age groups. The youngest group, aged 18–30 years, comprises 37 participants (23.3%). The two older groups, 31–40 years and above 40 years, are equally represented, with 61 respondents each, accounting for 38.4% of the sample per category. This distribution indicates that the majority of respondents (76.8%) are over 30 years old, with an even split between those in their 30s and those above 40. Additionally, 61.6% of participants are 40 years old or younger. The diverse age representation, with a slight skew towards more mature respondents, may reflect the demographic profile of SME owners and managers in Mbarara City, Uganda. These findings align with Ombi et al. (2021), who examined SMEs in Malaysia and found that most SME owners were aged 31–50, with only 22% under 30. This similarity suggests that the age profile of SME operators in Mbarara City aligns with broader trends in emerging economies, where business ownership and management are often undertaken by individuals with greater life and work experience. The consistency in age distribution across different regions highlights

**Table 4. Gender profile of respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	80	50.3	50.3	50.3
	Female	79	49.7	49.7	100.0
	Total	159	100.0	100.0	

Source: Field Survey (2025)

**Table 5. Age profile of respondents**

Range of Years	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	18-30 years	37	23.3	23.3	23.3
	31-40 years	61	38.4	38.4	61.6
	above 40 years	61	38.4	38.4	100.0
	Total	159	100.0	100.0	

Source: Field Survey (2024)

the global nature of this trend, potentially influenced by the time, resources, and experience required to establish and sustain a small or medium-sized enterprise.

### 5.2.3 Level of education of the respondents

The study aimed to assess the educational background of the respondents, with a summary of the findings presented in Table 6.

Table 6 presents the educational background of the 159 respondents in the study. The largest proportion, 47.8% (76 respondents), hold a bachelor's degree, followed by diploma holders at 24.5% (39 respondents). Certificate holders account for 17.6% (28 respondents), while postgraduate degree holders make up the smallest group at 10.1% (16 respondents). This distribution reflects a relatively well-educated sample, with most participants having attained higher education. The findings suggest that SME owners or managers in the study area generally possess formal educational qualifications, which may influence their financial literacy and business management practices.

These results align with Adomako et al. (2022), who examined SMEs in Ghana and found a similar educational distribution among entrepreneurs, reporting that around 45% held bachelor's degrees and 15% had postgraduate qualifications. This parallel indicates that the educational profile of SME operators in Mbarara City mirrors broader trends in developing economies, where a significant portion of business owners have tertiary education. The prominence of higher education among SME

owners in both contexts highlights the growing role of formal education in entrepreneurship. It also suggests that many SME operators have the academic foundation to enhance their financial literacy and managerial competencies, potentially impacting the performance and sustainability of their enterprises in competitive markets.

### 5.2.4 Years of experience in business of the respondents

The study aimed to explore the respondents' years of business experience, with a summary of the findings provided in Table 7.

Table 7 illustrates the distribution of respondents' years of business experience, with the sample of 159 participants categorized into three groups. The largest group, accounting for 40.9% (65 respondents), consists of individuals with 5-9 years of experience, followed by those with 4 or fewer years of experience at 35.2% (56 respondents). The smallest group, comprising 23.9% (38 respondents), consists of individuals with 10 or more years of experience. The cumulative percentage indicates that 76.1% of respondents have less than 10 years of business experience, reflecting a balanced mix of experience levels, with a slight concentration in the early to mid-stages of business careers.

This distribution suggests that most SME owners in the study are relatively early in their careers, which may influence their decision-making, financial management, and overall business performance due to varying levels of expertise. The justification for this observation lies in the fact that greater business experience often leads

**Table 6. Level of education of the respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Postgraduate	16	10.1	10.1	10.1
	Bachelor's degree	76	47.8	47.8	57.9
	Diploma	39	24.5	24.5	82.4
	Certificate	28	17.6	17.6	100.0
	Total	159	100.0	100.0	

Source: Field Survey (2025)

**Table 7. Years of experience in business of the respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4 Years and Below	56	35.2	35.2	35.2
	5-9 Years	65	40.9	40.9	76.1
	10 Years and above	38	23.9	23.9	100.0
	Total	159	100.0	100.0	

Source: Field Survey (2025)

to a more refined understanding of financial management, market dynamics, and strategic decision-making. As SME owners accumulate experience, they generally become more adept at navigating challenges, optimizing resources, and making informed decisions, all of which are crucial for business performance. Conversely, those with less experience may encounter difficulties in these areas, which could result in less effective management and potentially lower performance levels. Research has shown that experience is key to improving the ability to manage risks and uncertainties, common challenges in the SME sector, thereby contributing to long-term business success (Acs & Szerb, 2020).

### 5.2.5 Years of financial literacy training of the respondents

Table 8 illustrates the distribution of respondents based on the number of years they have received financial literacy training. Of the 159 participants, the majority (51.6%, or 82 respondents) have had 4 years or less of training in financial literacy. The second largest group, accounting for 38.4% (61 respondents), have received between 5 to 9 years of training. Only a small percentage, 10.1% (16 respondents), reported having 10 or more years of financial literacy education. The cumulative data reveals that 89.9% of the respondents have less than 10 years of financial literacy training, indicating that the majority of participants possess relatively limited formal financial education. This distribution reflects varying levels of financial knowledge within the sample, with a predominant trend towards shorter durations of financial training.

These findings suggest that a limited duration of financial literacy training could potentially affect the financial management and decision-making skills of SME owners. Previous research supports this notion, highlighting that extended financial education is associated with improved financial behavior and more informed decision-making (Mandell & Klein, 2009).

### 5.3 Descriptive Statistics on Financial Management and Performance of SMEs

The study sought to explore the impact of financial management competence on the financial performance of SMEs. To assess the responses, a Likert scale was used, with values ranging from 1 to 4: 1 indicating "Strongly Disagree" (SD), 2 representing "Disagree" (D), 3 signifying "Agree" (A), and 4 denoting "Strongly Agree" (SA).

The results presented in Table 9 indicate that respondents generally agreed on the positive impact of financial training, particularly in enhancing their budgeting abilities. The mean score for the first statement was 3.31, with a standard deviation of 0.667, suggesting that the training effectively improved SMEs' budgeting skills, enabling them to manage finances more efficiently. This aligns with findings from Mutsonziwa and Maposa (2019), who investigated the impact of financial literacy training on SMEs in South Africa. Their study found that SMEs participating in such training were better able to develop and adhere to formal budgets, leading to improved financial decision-making and performance. Similarly, Kukoyi and Adegboye (2023) observed that Nigerian SMEs benefitted from financial literacy programs that enhanced their budgeting practices, enabling better alignment of expenditures with strategic goals.

For the second statement, the mean score of 3.32 and a standard deviation of 0.640 suggest that respondents moderately agreed that financial literacy training had strengthened their ability to forecast their business's financial future. This reflects improved financial forecasting skills, with relatively consistent responses across participants. These results are in line with the research by Wise (2020), which showed that financial literacy training helped SMEs develop a clearer understanding of financial forecasting, enabling more accurate predictions of future financial outcomes. Furthermore,

**Table 8. Years of financial literacy training of the respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4 years and below	82	51.6	51.6	51.6
	5-9 years	61	38.4	38.4	89.9
	10 years and above	16	10.1	10.1	100.0
	Total	159	100.0	100.0	

Source: Field data (2024)

**Table 9. Financial Management Competence and Financial Performance of SMEs**

<b>Statement</b>	<b>N</b>	<b>Mean</b>	<b>SD</b>
Financial literacy training has improved the budgeting ability of my business	159	3.31	.667
Financial literacy training has enabled me to make correct predictions on the financial future of my business	159	3.32	.640
Financial literacy training has enabled me to review my business expenses regularly and effectively	159	3.42	.639
Financial literacy training has enabled me to keep updated financial records of my business activities	159	3.38	.643
Financial literacy training has improved my ability to make informed decisions about business investment opportunities	159	3.36	.609
Financial literacy training has improved my ability to better manage business debts	159	3.42	.696
Valid N (listwise)	159	<b>3.36</b>	<b>0.649</b>

*Source: Field Survey, 2025*

**Table 10. Financial performance of selected SMEs**

<b>Statement</b>	<b>N</b>	<b>Mean</b>	<b>SD</b>
Small and Medium Enterprises generate high profits	159	3.38	.745
Small and Medium Enterprises generate adequate revenue from their operations	159	3.34	.745
SMEs that have acquired financial literacy training are financially stable	159	3.33	.846
SMEs that have undergone financial literacy training manage their cash well	159	3.43	.716
SMEs that have undergone financial training manage their debts at low levels	159	3.45	.690
Valid N (listwise)	159	<b>3.39</b>	<b>0.748</b>

*Source: Field Survey, 2025*

the Organisation for Economic Co-operation and Development (OECD, 2021) also emphasized that enhancing the financial literacy of SME owners and managers could greatly improve financial planning and forecasting abilities.

The third statement revealed that respondents generally agreed that financial literacy training had enhanced their ability to regularly and effectively review business expenses, as indicated by a mean score of 3.42 and a standard deviation of 0.639. This suggests that the training contributed to better financial monitoring and control practices, with little variation in responses. These findings align with the research of Drexler, Fischer, and Schoar (2014), who reported that simplified financial literacy training improved business practices, such as regular record-keeping and financial management, among small entrepreneurs in the Dominican Republic. This study reflects similar improvements in expense management following financial literacy training.

Respondents also agreed that the training had assisted them in maintaining up-to-date financial records, with a mean score of 3.38 and a standard deviation of 0.643. This result highlights the training's positive impact on record-keeping and financial documentation practices among SMEs. Behrman et al. (2021) corroborate these findings, demonstrating that financial literacy training can significantly improve the ability of small business owners to maintain accurate and current financial records. Accurate record-keeping is a vital aspect of sound financial management, and training that enhances this skill has been shown to provide significant benefits to SMEs. Rosencrantz and Wijanto (2019) further support these results, noting similar improvements in financial documentation among small businesses that participated in financial literacy education.

The respondents also indicated that the training had improved their decision-making capabilities regarding business investments, with a mean score of 3.36 and a standard deviation of 0.609. This suggests that the training enhanced the SMEs' ability to make informed decisions regarding investment opportunities, with relatively consistent responses across participants. This aligns with studies by Adomako et al. (2019) and Hussain et al. (2020), who found that higher financial literacy enables SMEs to better assess investment opportunities and make more informed financial decisions.

Additionally, respondents reported that financial literacy training had enhanced their ability to manage business debts, with a mean score of 3.42 and a standard deviation of 0.696. While there was slightly more variation in responses compared to other statements, the data suggests that the training helped SMEs improve their control over financial obligations. These results are consistent with previous research on financial literacy and debt management, which has shown that improved financial literacy leads to more effective debt management and sustainable financial practices (Bhuiyan & Ivlevs, 2019; Sucuahi, 2021).

Overall, the mean score for all six statements was 3.36, with a standard deviation of 0.649, indicating that respondents generally agreed that financial literacy training had a positive impact on the financial management and performance of their SMEs. The relatively low standard deviation suggests that there was a high degree of consensus among participants regarding the beneficial effects of the training.

### 5.3.1 Financial performance of SMEs

The study aimed to assess respondents' perceptions regarding the financial performance of selected SMEs in Mbarara City.

The findings presented in Table 10 demonstrate that respondents generally agreed with the statement that Small and Medium Enterprises (SMEs) generate high profits, as reflected in a mean score of 3.38 and a standard deviation of 0.745. This finding is consistent with Karlan and Valdivia (2021), who reported a positive relationship between financial literacy and profitability among micro-entrepreneurs in Peru, highlighting the role of financial knowledge in enhancing business performance.

Regarding the statement that "SMEs generate adequate revenue from their operations," respondents expressed agreement, with a mean score of 3.34 and a standard deviation of 0.745. This aligns with McKenzie and Woodruff (2023), whose meta-analysis of business training interventions in developing countries established that SMEs with strong financial management skills tend to achieve higher revenue levels.

The statement that "SMEs that have acquired financial literacy training are financially stable" received a mean score of 3.33 and a standard deviation of 0.846, indicating agreement among respondents. These findings are supported by

Eniola and Entebang (2022), who demonstrated that financial literacy training enhances the financial stability of SMEs in Nigeria by equipping business owners with skills to maintain financial resilience.

A strong agreement was observed on the statement that SMEs that have undergone financial literacy training manage their cash effectively, with a mean score of 3.43 and a standard deviation of 0.716. This is in line with the study by Drexler et al. (2024), which revealed that financial literacy training significantly improves cash management practices among small business owners in the Dominican Republic.

The highest level of agreement was recorded for the statement that "SMEs that have undergone financial training manage their debts at low levels," with a mean score of 3.45 and a standard deviation of 0.690. This corresponds with the findings of Lusardi and Mitchell (2023), who reported that financial literacy training contributes to improved debt management among small business owners in the United States, reinforcing the importance of financial education in fostering responsible debt practices.

Overall, these findings suggest that financial literacy training plays a crucial role in strengthening the financial performance, stability, and management practices of SMEs, supporting existing literature on the subject.

#### 5.4 Correlation Analysis

The study utilised correlational analysis to assess the association between financial management competence and SME financial performance, offering a precise measurement of their relationship. This approach evaluated how financial management skills, including budgeting, cash flow management, and debt control, corresponded with financial indicators such as profitability and revenue growth. While correlation does not establish causation, it effectively identifies trends in financial literacy and business performance. Pearson's correlation coefficient provided statistical clarity, demonstrating whether SMEs with stronger financial management capabilities exhibited greater financial stability. This methodology aligns with previous research (Karlan & Valdivia, 2021; Lusardi & Mitchell, 2023) that examined similar financial literacy effects, ensuring consistency and reinforcing the study's empirical credibility.

The correlation coefficients among the factors identified in the analysis are provided in the correlation matrix presented in Table 11.

The study found a weak yet positive correlation ( $r = 0.377$ ,  $p < 0.01$ ,  $p < 0.05$ ) between financial management competence and SME performance, indicating a statistically significant relationship. This suggests that improved financial management competence contributes to better business performance, though its influence is not dominant. While sound financial practices support SME growth, other factors also play a crucial role in shaping overall performance.

#### 5.5 Regression Analysis

The study employed regression analysis to evaluate the impact of financial management competencies on SME performance, determining the extent to which financial literacy influences business outcomes. Unlike correlation, regression analysis establishes predictive relationships by assessing how variations in financial management competencies affect profitability, revenue growth, and stability. This method provided a more comprehensive understanding of causality, enabling the identification of key financial practices that significantly contribute to SME success. By controlling for other variables, the analysis ensured that observed effects were not due to extraneous factors, enhancing the study's reliability. This approach aligns with previous research (Karlan & Valdivia, 2021; Lusardi & Mitchell, 2023) that examined the role of financial literacy in business performance, reinforcing the study's empirical robustness.

The study examined the goodness of fit of the model using ANOVA and results presented in the ANOVA Table 12.

The regression analysis yielded an F value of 25.837 ( $df = 1$ ,  $p = 0.000$ ), confirming that the model is statistically significant, as the p-value falls below the 0.05 threshold. This indicates that Financial Management Competence (FMC) is a meaningful predictor of SME financial performance, explaining a portion of its variance as shown in Table 12. A simple linear regression was conducted to test the hypothesis, with significance determined by the p-value. Since the p-value was below 0.05, the hypothesis was accepted, affirming that financial management competence has a significant influence on SME financial performance. The coefficients table further details the strength and direction

**Table 11. Correlation matrix**

		FMC	PSME
<b>FMC</b>	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	159	
<b>FPSME</b>	Pearson Correlation	.377**	1
	Sig. (2-tailed)	.000	
	N	158	158

Source: Field Survey, 2025

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

Key: FPSME-Financial Performance of Small and Medium-Sized Enterprises; FM-Financial Management Competence

**Table 12. ANOVA on financial management competence and financial performance of SMEs**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.409	1	8.409	25.837	.000 <sup>b</sup>
	Residual	50.774	156	.325		
	Total	59.183	157			

Source: Field Survey, 2025 a. Dependent Variable: FPSME; b. Predictor: (Constant), FMC

**Table 13. Coefficients for financial management competence and financial performance of SMEs**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.883	.298		6.316	.000
	FMC	.445	.088	.377	5.083	.000

of this relationship, reinforcing the study's findings, as shown in Table 13.

Table 13 presents the coefficients from a linear regression model assessing the impact of financial management competence on the financial performance of SMEs. The intercept is 1.883 (SE = 0.298), statistically significant (t = 6.316, p = 0.000). The unstandardized coefficient (B) for FMC is 0.445, indicating that a one-unit increase in financial management competence leads to a 0.445-unit increase in SME financial performance, holding other factors constant. This effect is statistically significant (t = 5.083, p = 0.000, p < 0.05). The standardized coefficient (Beta = 0.377) confirms FMC's influence on SME financial performance. The low p-value (0.000) led to the rejection of the null hypothesis, reinforcing the significant impact of FMC. The regression equation derived is  $Y = 1.883 + 0.445X_1 + \epsilon$  where Y represents SME financial performance,  $X_1$  denotes FMC, and  $\epsilon$  is the error term.

## 6. CONCLUSION

The study establishes that financial management competence significantly influences the financial

performance of SMEs. Businesses that demonstrate strong financial management skills; such as effective budgeting, prudent cash flow management, and strategic debt control, tend to experience improved profitability and overall financial stability. The findings highlight that SMEs with enhanced financial literacy and well-structured financial practices are more likely to sustain growth and withstand economic challenges. Given the statistical significance of this relationship, the study underscores the necessity of equipping SME owners with comprehensive financial management training. Strengthening these competencies can lead to more informed decision-making, better resource allocation, and improved financial resilience, ultimately contributing to the long-term sustainability and competitiveness of SMEs.

## 7. RECOMMENDATIONS

Enhancing the financial performance of SMEs requires targeted strategies that prioritise the development of financial management competence. Structured financial literacy training for SME owners and managers is crucial in equipping them with essential skills in budgeting, cash flow management, and debt control.

Training programmes should incorporate practical financial planning tools and real-world case studies to ensure that business owners can effectively apply financial principles in their daily operations.

Access to financial advisory services is also critical in supporting SMEs to make informed financial decisions. Establishing financial mentorship programmes, where experienced financial professionals provide guidance on financial strategy, can contribute to long-term business sustainability. The adoption of digital financial tools, such as accounting software and mobile banking platforms, should be encouraged to enhance financial record-keeping and improve transparency in business transactions.

Strengthening collaboration between SMEs and financial institutions can facilitate better access to financial resources. Banks and microfinance institutions should design SME-friendly loan products that integrate financial management support as part of the lending process. Partnerships with business development service providers can also assist SMEs in adopting best financial management practices, fostering long-term growth and stability.

Policy initiatives should focus on creating a supportive environment for SME financial sustainability. Governments and regulatory bodies should consider tax incentives and financial support schemes for SMEs that complete certified financial training programmes. Making financial education a prerequisite for SME funding could ensure that businesses develop the necessary competencies to manage their financial resources effectively. Implementing these strategies would enable SMEs to enhance financial decision-making, improve profitability, and achieve long-term success.

## 8. LIMITATIONS OF THE STUDY

A major limitation of this study is its reliance on correlational and regression analyses, which identify relationships between financial management competence and SME financial performance but do not establish causation. Various external factors, including market dynamics, competition, and regulatory policies, may also influence SME performance, yet these variables were not comprehensively addressed in the analysis. Additionally, the study depends on self-reported financial data, which may introduce biases or inaccuracies due to subjective reporting or recall errors. The sample

size and geographic scope further constrain the generalisability of the findings, as financial management practices and economic conditions differ across regions.

## 9. SUGGESTIONS FOR FUTURE STUDIES

Future research should investigate the long-term causal relationship between financial management competence and SME performance through longitudinal or experimental study designs. Such approaches would offer a more comprehensive understanding of how financial literacy interventions contribute to business growth and sustainability over an extended period. Additionally, future studies could explore the influence of external factors; such as market conditions, access to finance, and regulatory environments; on the financial performance of SMEs. This would provide valuable insights into the broader context in which financial management practices operate and guide more effective support strategies for SMEs.

## DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc) and text-to-image generators have been used during writing or editing of this manuscript.

## ETHICAL APPROVAL AND CONSENT

The data collection process was conducted in strict adherence to ethical standards and structured procedures to ensure the protection of participants' rights and compliance with established research guidelines. Ethical approval was obtained from the Research Ethics Committee, confirming the study's adherence to ethical protocols, including informed consent, confidentiality, and research integrity (Saunders et al., 2019). An introductory letter from the postgraduate office of Kampala International University served to enhance the study's credibility, fostering trust and transparency with respondents regarding the study's purpose and affiliation (Creswell & Creswell, 2017). Coordination with the Mbarara City Clerk facilitated smooth logistical arrangements, ensuring that SMEs were adequately informed and prepared to participate. Each questionnaire included a permission document that reinforced informed consent by clearly outlining the study's objectives, participant roles, voluntary participation, and data confidentiality (Sekaran &

Bougie, 2016). This comprehensive approach, incorporating ethical approvals, institutional support, and clear communication with participants, ensured a professional, ethical, and transparent data collection process.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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