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Financial Management Practices and Small-Scale Businesses' Profitability, from the Viewpoint of Kabale Municipality, Uganda

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Abstract
Purpose: The study's goal was to investigate how financial management practices impact small businesses' profitability.
Research methodology: Descriptive and correlational research designs were used in the study. The study used a multi-regression analysis to estimate how financial management practices impact profitability.
Results: The research showed that financial management strategies had a big effect on profitability. Management of working capital and cash has a substantial correlation with profitability, according to the evidence. The study suggests that in order to see improvements in their profitability levels, small businesses should establish strong financial management methods. Owners of small businesses must pay close attention to the dynamics of their working capital and cash management because these factors have a significant impact on their profitability levels. To balance operating costs and profitability, small firms should think about cost-cutting measures.
Limitations: This study was only conducted within Kabale Municipality and future studies should be conducted in the entire region.
Contribution: The study identified a trio of factors – operational expenses, microeconomic factors, and individual characteristics that constrain profitability.
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1. Introduction

Better business strategies are required to change commercial enterprises into ones that can thrive in the current competitive global market settings because the business environment is constantly evolving. This justifies restoring financial management procedures that would handle the pressure that enterprises are under. However, many organizations find it difficult to obtain sufficient cash flows and profitable working capital (Kloko & Bayunitri, 2020; Siaw, 2014; Endri et al., 2020a). Most economies around the world are believed to be growing as a result of small-scale businesses (Drbie & Kassahun, 2013). The financial results of small-scale businesses are significantly impacted by Financial Management Practices (FMPs), such as working capital management (WCM), budgeting controls, financial forecast and cash management, and analysis (Mbawuni, Mbawuni, & Nimako, 2016). Having said that, poor financial management techniques are the reason for business failures, leading to a lack of finances as a result of poor management, insufficient budget allocation, and high operational costs.

Any business's main goal when it is first established is to maximize profit. Businesses should be able to predict or determine their level of profitability over a given time period. Any business's ability to be profitable will always serve as a barometer of its performance, and without it, no enterprise can stay in operation (Muthama & Warui, 2021; Popa & Ciobanu, 2014; Shahnia et al., 2020). Changes in the way organizations function as a result of trends in the global market have forced companies to implement effective FMP in order to compete on a global scale, maintain productivity gains, and stay profitable (Khalid & Muturi, 2021; Yunis, Tarhini, & Kassar, 2018). Small businesses are crucial to the development and growth of an economy (OECD, 2017). However, because of the state of the cash flows, they have trouble raising money both internally and externally, and this has a significant impact on profitability (Mazzarol[a], Reboud, & Clark, 2015). Small-scale businesses have had to adapt their business methods to suit client demand since they were unable to secure a dependable source of financing to support their operations and keep them profitable (Getahun, 2016).

According to Agyei-Mensah (2010) revealed that an increase in the cost of capital would lead to the payment of high-interest rates on the loans they acquire, and credit rationing due to a lack of collateral. One of the reasons small businesses fail is the adoption of negligent financial management techniques, which results in a decline in earnings. A company's success is directly impacted by its profitability due to inadequate FMPs (Getahun, 2016). According to Oladipo and Okafor (2013), the majority of organizations are implementing new financial management systems to enhance their operations; however, there are still instances of shoddy financial techniques or systems and practices that lower profitability, and small businesses in the region. Despite the fact that many of these enterprises continue to lose money every year, business owners and firms continue to make large investments in hopes of receiving greater returns (Ndayanale, 2013).

1.1 Statement of the problem

Many businesses in western Uganda have suffered from poor performance and particularly profitability. The few studies that have attempted to explain this phenomenon have offered generic positions on business performance (Turyahebwa, Arthur, & Derick, 2013; Turyahebwa, Sunday, Aluonzi, Yahaya, & Sumil, 2013). About 46% of businesses in western Uganda survive on loans, 73% of which apply for loans to boost their working capital (National Small Business Survey Uganda, 2015). Apparently, there is empirical-based research to associate the profitability challenges among SMEs in Kabale Municipality with financial management practices.

1.2 Objectives of the study

1. To identify the factors influencing small-scale enterprises' profitability in Kabale Municipality
2. To ascertain the effects of financial management practices on profitability among small-scale enterprises in Kabale Municipality,
3. To evaluate the relationships between financial management practices and profitability among business firms in Kabale Municipality.

2. Literature Review

2.1 Financial Management practices

Financial management practices (FMP) are described by Jennifer and Dennis (2015) as the management of finances and how these monies are used to accomplish organizational goals and maximize shareholder value. By figuring out how to raise the market value of goods and services, FMP plays a vital role in supporting the diversification of various products and services and illuminating the best course for the firm’s future expansion. Working capital management (WCM) and cash management are two examples of FMP. WCM, according to Musah (2017), is important for making wise financial management decisions that have a big impact on a small business' profitability. Capital structure is the appropriate combination of debt and equity that enables the funding of corporate operations (Mandipa & Sibindi, 2022; Mazzarol[a] et al., 2015). Companies should make the best financial decisions for their businesses in order to improve their financial performance. They should also implement financial management strategies that will help their businesses develop in terms of market share and profitability (Muguchia, 2018; Olayinka, 2022). In a similar vein, (Marus

Eton, Fabian, Siraje, Benard, & Edward, 2020) argue that it is important for companies to align their operations with the finest financial management techniques and train their staff in the internal control procedures that guarantee conformity to the rules and regulation of accounting.

According to Yohanes, Debela, and Shibru (2018), a small-scale business may grow as a result of an excellent financial management technique. For small businesses to be successful, it's important to make sure they have an adequate and consistent flow of financial resources to carry out their operations. A small business's financial status can be understood by managers thanks to established financial management techniques, which can aid in predicting future financial trends and needs (Emmanuel & Mulyungi, 2018). The adaptation of the best financial management methods, which have an impact on a small business enterprise's financial stability, is a difficulty that modern business organizations must overcome. According to Lakew and Rao (2009) and Melgarejo, Rodríguez, and Torres (2022); small-scale enterprises frequently face enormous hurdles as a result of ineffective FMPs and an unpredictably harsh working environment. According to Muneer, Ahmad, and Ali (2017), small businesses use ineffective accounting and financial management systems that are very dissimilar from those used by major corporations.

When customers are dissatisfied with the services being provided and may switch to another service provider as a result, an ineffective and inadequate cash management technique puts the business operations in a risky scenario that affects profitability (Festus, 2011). Financial managers track their business enterprise using efficient and effective financial management practices as a foundation, (Maduekwe & Kamala, 2016). Managements need to know how much working capital needs to be kept on hand for everyday operations and should keep an efficient and effective policy on the working capital (Sarkar & Sarkar, 2013). The cash policies established should aim at managing and directing cash and should therefore be strictly enforced by managers of business companies (Kakeeto, Micheal, Pastor, & Osunsan, 2017).

Cash management is a crucial activity since it highlights all of the payments and incomes made within a specific period (Bobitan & MIOC, 2011). The best cash management strategy recognizes that possessing too much cash can be expensive, especially when interest is being paid on it. Mbroh (2012) makes the case that having an effective cash management system promotes firm sustainability and profitability while also preventing bankruptcy. Management of financial flows is important, particularly when access to cash is perceived as being expensive and challenging. These could be in a moment when the economy has entered a recession and most firms are at risk since most customers are having trouble paying their debts. According to (Marus Eton, Gilbert, Fabian, Benard, & Dennis, 2019), business owners should think about hiring professionals that can forecast business performance using a variety of statistical models.

2.2 Profitability

Tauringana and Afrifa (2013), profitability refers to a firm’s capacity for generating financial benefit and profit. According to Oladipupo and Okafor (2013), the difference between revenue obtained during a specific financial period and enterprise running expenses during a time of business operations determines a firm's net profit. Any business venture's growth, success, and sustainability are all dependent on profitability (Onwumere, Ibe, & Ugbam, 2012). Profit is a key goal of financial management, which also aims to maximize wealth (Malik et al., 2011). In the current business environment, a small business that is not making money or profits cannot exist (M Eton, Mwosi, Mutesigensi, & Ebong, 2018; Ifeduni & Charlse, 2018). The profitability of an organization helps to understand its development and effective growth plan, which in turn determines its place in the market (Almwalla, 2012). A company must turn a profit in order to survive, yet expansion is thought to be the key to profitability and long-term business success, (Abuzayed, 2012). The ability of an enterprise to consistently turn a profit even when it experiences temporary financial challenges determines its growth and success. Oladipupo and Okafor (2013) establish that if the company hopes to meet its profitability goal, it is crucial to evaluate the variables that could increase corporate profitability.

According to Kumar and Nagpal (2011), effective cash flow management would reduce unnecessary expenses and possibly boost profitability. According to Syafri (2012), a commercial enterprise's assets and the caliber of the loans it obtains will unquestionably have an impact on its profitability. The ability of an enterprise to create money from stock, assets, and sales returns over time is referred to as profitability. According to Margaretha and Supartika (2016), production levels and company size are significant predictors of profitability. Profitability may be seen as a crucial antecedent to company success does not experience the tradeoffs described by this approach (Perényi & Yukhanaev, 2016). Lack of funding to cover operational costs and capital expenditures, fund mismanagement, and poor fund management can all significantly impact an enterprise's profitability (Pais & Gama, 2015). Inadequate capital, bad financial management, a lack of capacity to keep up with anticipated business development, and poor business forecasting are a few factors that have an impact on profitability (López Salazar, Contreras Soto, & Espinosa Mosqueda, 2012). Returns on assets and Liquidity invested by a business firm have a major impact on the profitability of any enterprise (Mbaaya, 2013).

Managerial decisions on investment were shown to be crucial in impacting profitability in Popa and Ciobanu (2014). Asare and Angmor (2015) examined the effect of debt finance on profitability using trade, long-term loan credit and short-term loans and the results show that the association between return on assets and profit margin ratio and short-term loans is significantly unfavorable. When compared to existing loans, new loans tend to limit startup businesses' profitability (Banerjee, 2014). This study makes a connection between financial limitations and growth, however, it doesn't include any quantitative information on corporate activity. Small-scale businesses are anticipated to experience slower growth rates when several factors work against their profitability. Fitzsimmons, Steffens, and Douglas (2005) do not discover any proof of a link between profitability and growth. The authors demonstrated that growth rates reflect a non-linear connection because they are erratic over time. Margaretha and Supartika (2016) investigate the variables determining profitability and discover that productivity and industry affiliation have a favorable impact on profitability. Although the authors urge company managers to develop business plans that prioritize productivity, they do not demonstrate how these two factors impact profitability. According to industry affiliation, companies that engage in foreign trade are more profitable (Prijadi & Desiana, 2017). However, companies with the best working capital show a distinct drive toward profitability. Small businesses with cash flow are more profitable than big wholesale and retail businesses (Mijić, Nuševa, & Jakšić, 2018). According to Nyambane and Ouma (2017), businesses should set up liquidity management plans to lower the risk of failure and boost profitability. This administrative process can support a short cash conversion cycle.

2.3 Financial Management Practices and Profitability

Working capital management (WCM), according to Arshad and Gondal (2013), is seen as a factor that affects profitability. Therefore, it's crucial to recognize that WCM contributes significantly to raising corporate profitability. Small-scale businesses are ensured by WCM procedures to be able to run continuously with sufficient flow of cash to cover their obligations and operational expenses as the fall is due. The profitability of small-scale businesses has a good link with WCM, particularly trade cash management and credit management (Mushaho, Mbabazize, & Shukla, 2015). Due to the favorable influence, it has on their businesses' profitability, small business owners should pay close attention to financial management procedures (Yensu, Yiadom, & Awatey, 2016). WCM is a crucial tool for measuring profitability, and when used with appropriate control, it would assess the performance of small business profitability (Chowdhury, Alam, Sultana, & Hamid, 2018). Effective WCM lays the groundwork for supplying the firm with enough liquidity for its everyday operations as the decline due leads to the creation of profits (Wignaraja & O'Neil, 1999). In order to add value for their shareholders, business managers need to have effective WCM approaches. These techniques would also strengthen the linkages between profitability and working capital metrics in a challenging business climate. According to Emmanuel and Mulyungi (2018), the organization's profitability would increase if it had a thorough financial plan.

Business managers need to have accurate and fast financial reporting and enough working capital to generate profits in the industry in order to secure the long-term viability of an enterprise (Yohanes et al., 2018). Financial management procedures are essential to the health, existence, and profitability of commercial enterprises (Lakew & Rao, 2009). For the purpose of increasing profitability, it is essential to harmonize cash management procedures such as cash payment and cash reception (Uwuigbe, Jafaru, & Ajayi, 2012). Many managers overlook the flow of cash, which is a mistake because these managers conflate corporate profits with other businesses' cash flows (allAfrica.com, 2013). Businesses that take a liberal and flexible approach to borrowing are more likely to see an increase in sales and profits, but there is also a danger of bad debt (Oranefo & Egbunike, 2022; Vijayakumar, 2011).

Employing a stringent credit policy could lead to an increase in security and liquidity, which would lower profitability (Richard, Dadson, & Peter, 2013). The capacity to manage sales on credit may result in the establishment of trust between the company and its suppliers, resulting in a long-term commercial partnership and higher profit (Mbawuni et al., 2016). Based on a company operations technique, efficient credit management has significant implications (Enow & Kamala, 2016). It is known that effective credit, cash, and debtor management have a favorable impact on profitability (Nzitunga, 2019). Small business owners should use the best WCM practices when profitability is highest (Afrifa & Padachi, 2016; Musah, Gakpetor, & Pomaa, 2018).

According to Ali and Isak (2019), FMP has significantly improved the financial performance of enterprises. The business's ability to manage working capital and make investment decisions keeps becoming better. According to M Eton et al. (2018) and Matei and Onofrei (2021), business organizations should invest more time and money into giving themselves and their staff members the fundamental financial management knowledge and skills they need to embrace business sustainability. Small businesses should participate in financial management training to hone their financial skills and enhance their day-to-day operations (Bismark, Kofi, Kofi, & Eric, 2018). The capacity to pump the proper amount of capital into a business and it efficiently can assist in the expansion and profitability of the enterprise. According to Nyambane and Ouma (2017), using cash balances would be perfect while investing the excess cash in a better method that raises income levels, even as commercial enterprises work to meet their current responsibilities.

3. Research Methodology

The research design for the study was descriptive and correlational. When a study wants to describe a certain phenomenon's nature and characteristics, a descriptive research design is used. The limitations impacting the profitability of small-scale enterprises in Kabale municipality were amply highlighted by the descriptive design. Simpler explanations of the data are supported by descriptive statistics, which also does a good job of organizing and summarizing the data (Cooper & Schindler, 2013). The working capital and profitability links as well as the relationships between cash management and profitability were tested in the study using a correlation approach. A Quantitative method was employed in the investigation.

390 small-scale business enterprises were the focus of the study, which was carried out in Kabale Municipality and targeted 36,000 small-scale businesses (UNBS, 2018). The sectors taken into account for the study were trade, service, horticulture, construction, and urban agriculture. A variety of sample strategies were used, including stratified sampling, simple random, and purposive sampling. The trade and service sector was chosen using stratified sampling techniques, which divided the study population into strata to provide a proportionate representation of the sample (Saunders, Lewis, & Thornhill, 2015). In the horticulture and urban agriculture sector, a simple random selection technique was employed to select the small business firms within Kabale municipality, purposive sampling was utilized to determine the sample size for the construction sector.

Using (Yamane, 1967) the sample size was established

$$n = \frac{N}{1 + Ne^2} = \frac{15{,}600}{1 + 0.05 \times 0.05 \times 15600} \approx 390$$

Where n is the necessary study sample size

N= Total Population
e= Level of precision

We used both primary and secondary data collection techniques. A closed-ended questionnaire was structured as the major method of data collection. The use of questionnaires enables the researcher to get more data faster and more efficiently (Christensen, Johnson, & Turner, 2010). The items in this instrument came from a review of the literature. Background, FMP, profitability, and factors affecting profitability were the four aspects of the instrument. While the fundamental section's items were built on interval scales, specifically a five-point Likert scale, the background section's items were built on ordinal and scales nominal.

There were nine components in the section on profitability, which were represented by gross sales, refunds, cost of goods, and administrative costs. The cash balance, inventory level, credit terms, and short-term financing possibilities were used to highlight the eight components in the working capital section. There were 10 elements in the section on cash management, which included predictions, payments for expenses, payments to lenders and suppliers, and payments for cash shortfalls and surpluses. The project was made feasible by using this form of data collection, which also cut down on the time and expense of managing and analyzing the data. The study gathered quantitative data to achieve the predetermined goals (Creswell, 2014; Stoudt, 2014).

In order to assess the linear relationship between FMP and profitability, multiple regression analysis was performed in the study. According to Creswell (2014), using multiple regression techniques can estimate the relationship between a single dependent variable and a number of independent predictor variables. The study used a multiple regression model to estimate the parameters and create a fitted multiple regression model.

Table 1. Reliability Statistics

Variable	**Cronbach's Alpha**	**Cronbach's Alpha Based on Standardized Items**	**No of Items**
Profitability	.844	.842	9
Working capital	.771	.776	8
Cash management	.805	.811	10

Source: Field data, 2020

The instruments were pretested and for all of the variables, the instrument showed Cronbach's alpha coefficients over 0.7. According to Warrens (2014), the most popular coefficient for estimating reliability test results for a questionnaire and establishing internal consistency is Cronbach's alpha. This shows that the study's instrument was internally stable and that the findings are sufficient to draw conclusions and allow for generalization.

4. Results and discussion

4.1 Background characteristics

Since 52.8% of participants were men and 47.2% were women, there were no appreciable disparities in participation based on gender in terms of background factors. The government of Uganda has taken strong steps to socially and economically empower women, as seen by the prevalence of women in business. Adults (52.8%) made up the majority of the study's business owners, followed by young people (36.2%). Adults were the least likely to participate because they were reluctant to participate in the study. Otherwise, adult entrepreneurs run a large number of businesses in Kabale. 88.3% of respondents did not graduate from a university, according to the distribution based on the greatest degree of education. This can cast doubt on their capacity to put sound financial management procedures in place. 81.0% of the participants, the majority of whom are in service enterprises (33.1%) and horticulture (26.4%), had operated their businesses for less than 10 years and were still in operation despite having little to no formal education.

4.2 Factors affecting profitability

The researcher brought forward a variety of variables that are thought to influence the profitability of businesses in Kabale municipality. It is shown in Figure 1 as a summary.

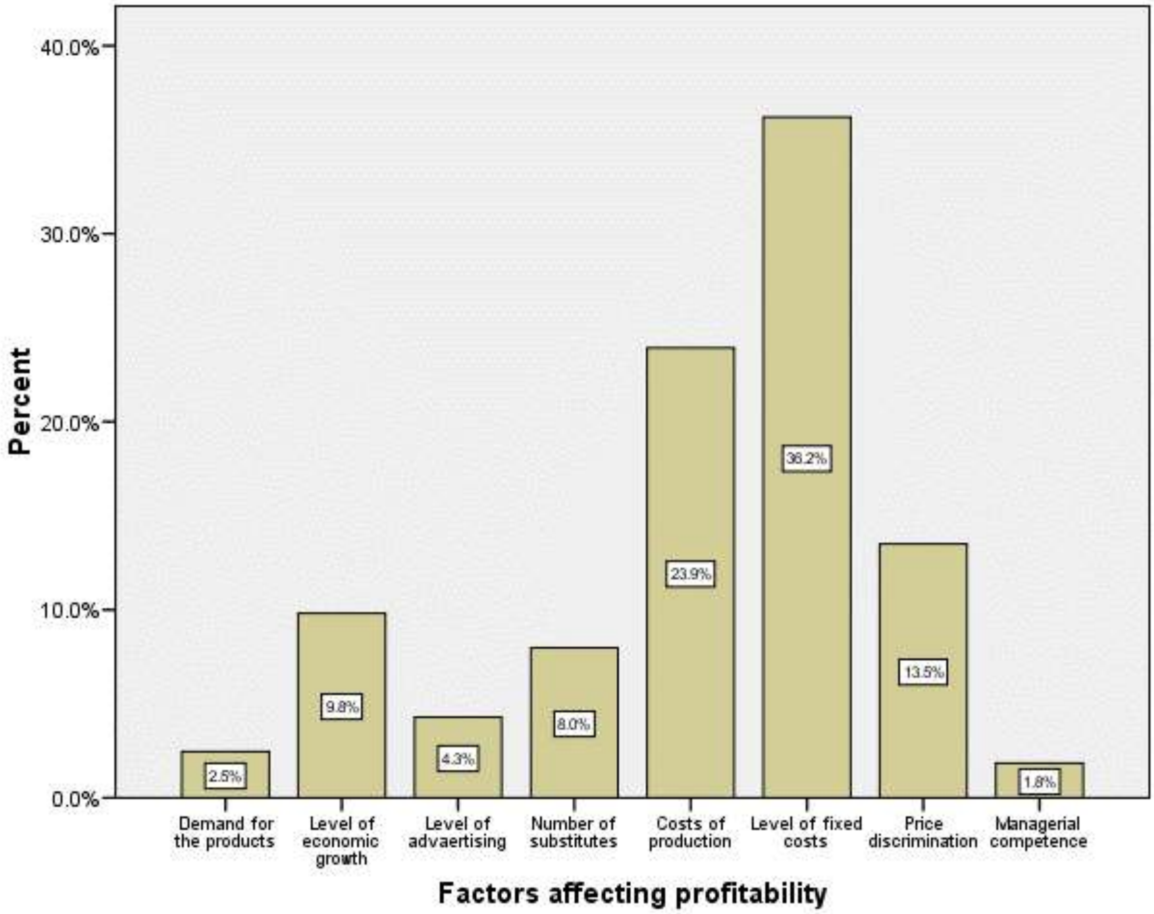

Figure 1. Factors affecting profitability

Three categories of characteristics influencing small-scale businesses in Kabale are revealed by our findings. Operational costs are the first category. These elements, where 36.2% stated a level of fixed costs and 23.9% indicated production costs, seemed to be the most important ones determining profitability. The second group of determinants falls under the microeconomic category and includes things like price discrimination (13.5%), economic growth (9.8%), and the number of replacements (8.0%). Marketing tactics (2.5%), managerial skills (1.8%), and other business-specific traits are included in the third category. Overall, the study found that operating costs in Kabale municipality's small firms have the biggest impact on profitability levels.

4.3 Financial management practices and profitability

Multiple regression was utilized by the researcher to determine how FMP affected profitability. When a number of predictors make up the independent variable and it is necessary to establish how each independent variable affects the dependent, a multiple regression model is utilized. WC and CM were considered financial management techniques in this study. These products underwent profitability testing. The predictor variables in the multiple regression model were working capital and cash management, while the predicted variable was profitability.

Table 2. Regression coefficients

Model	**Unstandardized Coefficients**	**Standardized Coefficients**

	B	Std. Error	Beta	T	Sig.
(Constant)	0.202	0.258		0.781	0.436
Working Capital	0.830	0.077	0.724	10.794	0.000
Cash Management	0.100	0.087	0.077	1.144	0.254
R	0.777				
R Square	0.604				
Adjusted R Square	0.599				
Std. Error of the Estimate	0.452				
Regression sum of squares	49.944				
Residual sum of squares	32.713				
Total	82.657				

Predictors: (Constant), Cash Management, Working Capital
Dependent Variable: Profitability

The study found that FMPs explain roughly 60.4% of the changes in profitability (R Square =.604). Financial management considerably influences the profitability of small-scale businesses in Kabale, if the sample is sufficiently representative. Beta coefficients were used to demonstrate the effects of financial management methods on an individual basis. Specifically, (B =.830; sig =.000.05) demonstrates that a change in working capital of one unit is probably responsible for variances in the profitability of 83.0%. WCM has a considerable impact on profitability, according to the significant value, which is less than 0.05. Similar to the previous example, (B =.100; sig. =.254 >.05) demonstrates that a one-unit change in cash management is likely to result in a 25.4% change in profitability.

Cash management, however, is not statistically significant in accounting for differences in profitability, according to the significant value, which is above 0.05. Profitability appears to play a significant role in explaining variations in profitability in Kabale, as indicated by the regression of the sum of squares (49.944) which is bigger than the residual sum of squares (32.713). The study used correlation tests to look for links between FMPs and profitability. The correlation coefficient, which ranges from 0.0 to 1.0, is used in correlation measures to gauge the strength between two numerical variables. The relationship's trajectory could be either good or negative. Positive relationships imply that both variables will vary in the same direction, whilst negative associations imply that the two variables will vary in the opposite way.

Table 3. Correlations

Variable list		Profitability	Working Capital	Cash Management
Profitability	Pearson Correlation	1	.775(**)	.562(**)
	Sig. (2-tailed)		.000	.000
Working Capital	Pearson Correlation	.775(**)	1	.671(**)
	Sig. (2-tailed)	.000		.000
Cash Management	Pearson Correlation	.562(**)	.671(**)	1
	Sig. (2-tailed)	.000	.000	

** Correlation is significant at the 0.01 level (2-tailed).
a. Listwise N = 163

WCM and profitability were found to be strongly correlated in this study (r =.775; p-value =.000) according to the correlation table. This suggests that a change in working capital is linked to a significant and favorable change in profitability. Similar to this, the study found a substantial correlation between profitability and cash management (r =.562; p-value =.000). This suggests that a change in cash management is related to a moderately positive change in profitability. Listwise exclusion cases were employed to account for the missing values. As a result, there were 163 fewer ordered pairs.

4.4 Discussion

The study identified the variables influencing small businesses' profitability in Kabale Municipality. There is evidence that three elements—operational costs, microeconomic factors, and managerial factors—have an impact on small businesses. The existence of a multiplicity of factors that affect the operations of small-scale businesses is consistent with Nuriyah et al. (2018). The majority of operational costs were fixed and manufacturing costs. The results are consistent with Kumar and Nagpal (2011) theory on operational costs, which holds that businesses that apply cost-control measures including standard costing and cash management systems reduce their costs while raising profits. According to this theory, businesses in Kabale that apply cost management measures are likely to observe inverse connections between operating expenses and profit margins. This is consistent with Nwonye and Ugwuegbe (2019) who found that managers who invest in projects with negative Net Present Value (NPV) compared to distributing free cash flow to shareholders. Additionally, according to Pais and Gama (2015), businesses that lack the finances to cover their operating expenses suffer severe consequences on their profitability. The relevance of this practice of small business success is increased by the consistency of these investigations with the most recent discoveries.

The study investigated how FMPs affected business enterprise profitability. Profitability is significantly impacted by FMPs, according to the evidence. Considering that our sample is hypothetically typical of all small businesses in Kabale municipality, 60.4% of the companies are probably going to experience rising profitability as a result of sound FMPs. The results support the assertions made by Emmanuel and Mulyungi (2018), Yohanes et al. (2018), Endri et al. (2020b), and Mohammed and Suleiman (2022) that companies with thorough financial plans and prudent financial management techniques increase their profitability. They claim that financial plans help to manage financial transactions properly, but they should be carried out by qualified financial managers.

However, it's important to note that the majority of small businesses in Kabale Municipality may not be able to hire experienced financial managers due to the nature of their operations. This opinion is in line with that of (allAfrica.com, 2013), which claims that the majority of small business managers conflate earnings and cash flow. The analysis attests to the fact that cash flow is frequently neglected by corporate management. They don't successfully balance a flexible credit strategy with profitability, which raises the danger of bad loans.

Profitability and financial management strategies were compared in the study. Actually, Prijadi and Desiana (2017) who construct a relationship between involvement in foreign commerce and profitability are supported by the findings, which demonstrated a considerably strong relationship between financial practices and profitability. Similar findings by Mijić et al. (2018) demonstrate a favorable correlation between profitability and liquidity. The findings contradict Asare and Angmor (2015) assertion that there is a negative correlation between return on assets and profit margin ratio and that financial management methods are favorably related to profitability. The findings of this study also contradict those of Fitzsimmons et al. (2005), who found no connection between small business growth and profitability. They made their case on the grounds that firms' growth rates fluctuate over time and don't follow a straight line.

4.5 Practical Implications

The small businesses in Kabale municipality were considered to be a representative sample for this study. The findings are adequate for generalizability to businesses in Kabale Municipality. The conceptualizations of FMP in terms of working capital and cash management add to the existing literature on financial management practices. Therefore, in order to see improvements in their profitability levels, small businesses should maintain strong FMPs. However, small businesses in particular need to pay close attention to their working capital dynamics because these dynamics have a significant impact on their profitability levels. There is enough literature in Uganda, both published and unpublished that documents a number of businesses that have lost their assets to financial institutions as seized collateral. While the appetite for loaned money is to boost working capital, many business owners have used the same lavishly thereby sinking their business ventures. With the persuasive adverts for quick loans that on the surface appear to offer friendly terms but are shrewdly packaged, many businesses have fallen prey. Similarly to this, proprietors of small businesses should practice sound cash management because it influences improvements in their profitability levels. Owners of small businesses should make an effort to employ qualified financial managers who can offer technical forecasts of their profitability and financial performance. Most small businesses lack the professional expertise needed for financial management techniques like budget control, working capital management, cash management, financial forecasting and analysis.

5. Conclusion

The study looked at small businesses' financial management procedures and profitability in the Ugandan municipality of Kabale. According to the report, effective financial management methods have a major impact on profitability. As a result, small-scale businesses in western Uganda are more profitable when financial management practices are used. Evidence points to various seasoned financial management strategies, particularly those that deal with working capital and cash flow because they all seem to have a positive correlation with profitability. However, the obstacles to greater profitability go beyond methods of financial management.

This study identified a trio of factors—operational expenses, microeconomic factors, and individual characteristics—that constrain profitability. The researchers find the gap between operational costs and firm profitability to be particularly noteworthy. Business owners should think about cost-cutting strategies to balance profitability and operating expenses as they try to implement more financial management practices in their organizations (financial forecasts, budget controls, and analysis). In conclusion, management of operating costs is more important for boosting profitability than attempts to improve people’s qualities. As a result, it is strongly advised to hire specialists and experts in financial management, however, this is still rare in Kabale municipality and western Uganda as a whole.

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