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Original Article

The Impact of Financial Management Practices on the Performance of Small and Medium Enterprises: A Case of Monduli District

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ABSTRACT

Despite the significance of small and medium enterprises (SMEs) in the manufacturing sector and economic growth, many of these SMEs struggle to achieve sustainable growth and profitability due to inadequate financial management practices. Therefore, this study assessed the impact of financial management practices on the performance of manufacturing small and medium enterprises in Monduli District. Financial management practices, including working capital management practices, financial reporting and analysis practices, accounting records practices, capital budgeting practices, and performance of SMEs are variables of this study. The study used a correlational research design and a quantitative approach. The study used a simple random sampling technique to select 96 SMEs to be included as a sample size. The study used closed-ended questionnaires for data collection in the Likert scale format. The study used descriptive analysis, including tables and bar charts. Also, multiple regression analysis was used to analyze the impact of working capital management practices, financial reporting and analysis practices, accounting records practices, and capital budgeting practices on the performance of manufacturing SMEs. Findings showed that capital budgeting practices, financial reporting and analysis practices, accounting records practices, and working capital management practices are statistically 0 significant at (t=6.349, p (0.000) <0.05, n=96), (t=3.434, p (0.001) <0.05, n=96), (t=2.041, p (0.044) <0.05, n=96) and p (t=3.179, p (0.002) <0.05, n=96) respectively. These results imply that working capital management practices and capital budgeting practices show a higher positive contribution to the performance of SMEs, while financial reporting and analysis practices and accounting records practices show a lower positive contribution to the performance of SMEs. Therefore, the research concludes that budgeting practices, financial reporting and analysis practices, accounting records practices, and working capital management practices improve the performance of SMEs. It is recommended that manufacturing SMEs prioritize effective, structured, and comprehensive financial management practices to improve their overall performance.

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INTRODUCTION

SMEs play a major role in most economies worldwide. They make up the vast majority of enterprises globally and play a significant role in the creation of jobs and the advancement of the international economy (Bayraktar, & Algan, 2019). They represent about 90% of businesses and contribute more than 50% of employment and 70% of the Gross Domestic Product (GDP) worldwide. In developed countries, SMEs contribute about 60-70% of employment and 55% of GDP, while in emerging economies, SMEs contribute up to 40% of GDP (The World Bank, 2023). According to the World Economic Forum, in Africa, SMEs are the lifeblood of Africa's economy (Forbes, 2023). They are responsible for more than 80% of the continent's employment and 50% of the GDP. In Tanzania, more than 95% of businesses are small enterprises, according to the Tanzania Chamber of Commerce, Industry, and Agriculture (TCCIA). SMEs contribute about 1/3 (25% to 35%) of the country's GDP and are responsible for generating up to 40% of total employment (TanzaniaInvest, 2023; The Citizen, 2022).

Despite these contributions of SMEs to countries' economies, SMEs often face various challenges, including inadequate skills in financial management practices (Adjei-Boateng, 2023). Financial management practices encompass a range of activities, including budgeting, financial planning, cash flow management, investment decision-making, financial reporting, working capital management practices, accounting records practices, and accounting information systems (Farouq, 2016; Gawali, & Gadekar, 2017; Adda, 2020; Zada *et al*., 2021; Zada *et al*., 2021; Mutai, & Miroga, 2023). Working capital management practice as one of the financial practices is a crucial financial practice that plays a significant role in the performance of manufacturing SMEs (Mbaye, 2023). It involves managing a company's short-term assets and liabilities to ensure the smooth functioning of day-to-day operations. One of the primary impacts of effective working capital management is improved liquidity, i.e., a company's ability to meet its short-term obligations (Ismail, 2017).

Consequently, improved liquidity reduces the risk of financial distress and bankruptcy, enhancing the overall performance of the SME (Yazdanfar, & Öhman, 2020). Also, working capital management has a direct impact on profitability by reducing costs through optimizing the levels of inventory, accounts receivable, and accounts payable (Nguyen *et al*., 2020). The direct impact of working capital management is supported by results from

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Abimbola, & Kolawole (2017), and Sunday *et al*. (2023), who showed that working capital management has a significant impact on the performance of SMEs. Another financial management practices which have a significant impact on the performance of manufacturing SMEs is financial reporting and analysis practices. By preparing financial statements such as income statements, balance sheets, and cash flow statements, SMEs can assess their profitability, liquidity, and solvency (Asaduzzaman, 2016; Revsine *et al*., 2021). Also, by analyzing key ratios such as liquidity ratios, profitability ratios, and efficiency ratios, SMEs can identify areas for improvement and take appropriate actions (Hussein *et al*., 2023). Studies by Jayawardane, & Gamlath (2020), and Sooriyakumaran, & Vannarajah (2023) showed that financial reporting and analysis practices contribute to the better performance of SMEs. These practices provide SMEs with valuable insights into their financial health, enabling them to track and monitor their performance, comply with regulatory requirements, and make informed decisions.

Moreover, another practice of financial management is accounting records practices, which provide SMEs with a clear picture of their financial position, including their revenues, expenses, assets, and liabilities (Nyathi *et al*., 2018). By maintaining accurate accounting records practices, SMEs can make informed financial decisions and manage their finances effectively. This, in turn, can lead to cost savings, increased profitability, and improved cash flow (Madurapperuma, & Manawadu, 2016). Results by King-Aidoo (2020) showed that a low level of accounting record-keeping led to low performance among SMEs. Furthermore, one of the key impacts of capital budgeting on SMEs is the allocation of financial resources. SMEs often have limited financial resources, and capital budgeting helps them prioritize and allocate these resources efficiently (Woschke *et al*., 2017; Alles *et al*., 2021). By evaluating investment opportunities and selecting projects with the highest potential return, SMEs can ensure that their limited funds are invested in the most profitable ventures. The results by Alles *et al*. (2021) revealed that budgeting practices positively influence manufacturing SME's financial performance.

Although in the manufacturing sector, SMEs contribute significantly to employment generation, innovation, and overall economic growth (Abisuga-Oyekunle *et al*., 2020; Surya *et al*., 2021). Many manufacturing SMEs struggle to adopt effective financial management practices, often due to limited resources, inadequate training, and a lack of experience (SIDO, & MITI, 2018). As a result, they face financial difficulties such as delayed payments, high levels of debt, limited access to capital, and low financial performance. Gawali, & Gadekar (2017), and Mang'ana *et al*. (2023) indicated that lack of proper financial management practice is one of the issues that quickly led to the collapse of many SMEs, as it reduces the chance to access and manage financing.

While some studies have found a positive relationship between financial management practices and SMEs' performance, others have found no significant relationship or even a negative relationship (Jagoda *et al*., 2017; Abimbola, & Kolawole, 2017; Nthenge, & Ringera, 2017; Okafor, & Daferighe, 2019; Aamir, & Iqbal, 2019; Sensini, 2020; Kimiti, 2020; Mang'ana *et al*. 2023). These studies' inconsistency in findings suggests that there is a need to study the relationship between financial management practices and SMEs' performance. There are insufficient reviews available specifically on financial management practices in manufacturing SMEs, as most of the reviews (such as Sathyamoorthi *et al*., 2020; Mutai, & Miroga, 2023; Sleimi, 2020) studied more about financial management practices in the banking sector. Therefore, this study assessed the impact of financial management practices on the performance of manufacturing small and medium enterprises.

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LITERATURE REVIEW

Theoretical Theories

Pecking Order Theory

Pecking Order Theory was first suggested by Donaldson in 1961, and it was modified by Stewart C. Myers in 1984 (Chew, & Stewart, 2022). The pecking order theory posits that firms have a preferred hierarchy of financing sources. According to this theory, firms prioritize internal financing, followed by debt financing, and finally, equity financing (Singh *et al*., 2021). The pecking order theory suggests that SMEs should prioritize internal financing, such as retained earnings and cash flow from operations, to fund their financial needs. This is because these SMEs often face challenges in accessing external financing due to factors such as limited collateral, high interest rates, and a lack of credit history (Oktaviyanti, & Sumartik, 2023). This theory is relevant for manufacturing SMEs, as they often face constraints in accessing external financing. Thus, financial management practices, such as working capital management practices, play a crucial role in determining the financial health and performance of SMEs. Working capital management practices involve managing the company's current assets and liabilities to ensure efficient utilization of resources (Bhattacharya, 2021). SMEs might prefer to manage their working capital efficiently to maximize internal funds, which aligns with the Pecking Order Theory's preference for internal financing. Also, if internal funds are not sufficient, SMEs might look towards short-term debt to finance their working capital needs (Baños-Caballero *et al*., 2016). This is consistent with the Pecking Order Theory, which suggests that debt is preferable to equity due to lower costs and fewer ownership dilution issues (Frank *et al*., 2020). Moreover, issuing new equity is often not favourable for SMEs because it could lead to ownership dilution and is generally more expensive due to higher flotation costs relative to larger firms. This reluctance to issue new equity unless absolutely necessary is also in line with the Pecking Order Theory (Toniolo, & Pederzini, 2020).

Resource Based Theory

The resource-based theory was developed by Jay Barney. He first introduced this theory in his 1991 article titled "Firm Resources and Sustained Competitive Advantage" published in the Journal of Management (Barney, 2001). The resource-based theory is a management framework that focuses on the internal resources and capabilities of a firm as sources of competitive advantage. These internal resources can include tangible assets like capital, as well as intangible assets like knowledge, skills, and relationships (Kamasak, 2017). It suggests that a firm's unique resources and capabilities can enable it to achieve a sustainable competitive advantage and superior performance (Wan *et al*., 2011). The resource-based theory highlights the importance of effective accounting practices, financial reporting, and analysis in enabling manufacturing SMEs to identify and leverage valuable resources and capabilities (Gardi *et al*., 2021). By utilizing accounting records, SMEs can access essential financial information that informs strategic resource allocation and enhances competitive positioning (Erdogan *et al*., 2015). Through financial statement analysis, SMEs can pinpoint strengths and weaknesses, optimize resource allocation, and assess both tangible and intangible assets, such as machinery, patents, and human capital (El Nemar *et al*., 2022). This approach aids in identifying inefficiencies, cost-saving opportunities, and performance improvement areas, ultimately enhancing financial management practices and credibility with potential investors and partners. Furthermore, by integrating resource-based considerations into capital budgeting decisions, SMEs can prioritize investments that align with and amplify their existing resources, leading to better utilization and improved performance (Ezeagba, 2017).

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Empirical Review

Mang'ana *et al*. (2023) highlighted that effective financial management practices, particularly working capital and financing management, positively influence both financial and organizational performance among agricultural SMEs in Tanzania. However, aspects like capital budgeting and accounting practices did not show a significant effect. Similarly, Nyabakora (2020) examined Tanzanian firms and concluded that while certain working capital proxies negatively affected profitability, the Cash Conversion Cycle positively contributed to business profitability. Sunday *et al*. (2023) reinforced the importance of effective working capital management in Ugandan SMEs, showing that it accounted for 34% of performance variation, with a strong impact from cash management practices. In Nigeria, Iyalla, & Ibrahim (2023) found that specific working capital management strategies, such as inventory turnover and cash conversion cycles, positively affected financial performance, emphasizing the importance of managing accounts receivable and payable effectively. Conversely, Mbaye (2023) reported an inverse relationship between working capital and profitability among Senegalese SMEs, indicating management issues with the cash conversion cycle. The variety of findings across different countries illustrates that while certain working capital practices can enhance performance, others can hinder profitability if not managed appropriately.

The studies on financial reporting practices indicate their crucial role in SME performance as well. In Sri Lanka, for example, Sooriyakumaran, & Vannarajah (2023) found that proper financial reporting significantly impacts SME success. Jayawardane, & Gamlath (2020) found that enhanced reporting, investment analysis, and cash management accounted for a significant portion of the performance variation in SMEs. Farouq (2016) also indicated that diverse financial management methods, including reporting and analysis, affect business efficiency in Nigeria. However, a narrower focus on financial accounting emerged as critical for long-term sustainability in Etim *et al*. (2020) and Yogendrarajah *et al*. (2017), both of which noted that these practices varied widely among SMEs. Lastly, the influence of accounting records and capital budgeting practices on manufacturing SMEs' performance underscores the importance of structured financial management. Lukumay, & Wako (2018) highlighted that good accounting practices lead to improved financial performance among Tanzanian SMEs. Similarly, Okafor, & Daferighe (2019) confirmed a strong positive link between effective accounting practices and SME performance in Ghana. Studies on capital budgeting, like those by Sebastian (2018), Abongo (2018), Mwavu (2018), and Namahoro *et al*. (2019) emphasized how structured budgeting approaches can significantly enhance financial performance, illustrating the broader importance of financial discipline in supporting the growth and sustainability of SMEs across diverse sectors.

Hypothesis

The research hypotheses of the study include;

- *Ho: Working capital management practices have no impact on the performance of manufacturing small and medium enterprises,*

H_1: Working capital management practices have an impact on the performance of manufacturing small and medium enterprises.

- *Ho: Financial reporting and analysis practices have no impact on the performance of manufacturing small and medium enterprises,*

H_1: Financial reporting and analysis practices have no impact on the performance of manufacturing small and medium enterprises.

- *Ho: Accounting records practices have no impact on the performance of manufacturing small and medium enterprises,*

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H_1: Accounting record practices have an impact on the performance of manufacturing small and medium enterprises,

- *Ho: Capital budgeting practices have no impact on the performance of manufacturing small and medium enterprises.*

H_1: Capital budgeting practices have no impact on the performance of manufacturing small and medium enterprises.

RESEARCH METHODOLOGY

Research Design, Population, Sample Size, and Data Sources

The correlational research design was used. This research was conducted in Monduli District, where Manufacturing SMEs were studied. The sample size for this study was 96 SMEs from the study population of 240 SMEs. A simple random sampling technique was used to select SMEs. The study used quantitative data from the primary sources of data. The study used a closed-ended, structured questionnaire for data collection. The study applied Descriptive and multiple regression analyses.

Variables and Measurement

Table 1 indicates independent and dependent variables along with their measurements.

Table 1: Measurement of Variables

Variables				Measurement
Independent Variables	Financial Management Practices	Working capital management practices	• Cash Management • Receivable Management • Inventory Management	Five-Likert Scale 1-Strongly Disagree; 2-Disagree; 3-Neutral; 4-Agree; and 5-Strongly Agree
		Financial reporting and analysis practices	• Income Statement • Balance Sheet • Cash Flow Report	
		Accounting records practices	• Bookkeeping • Financial Statement • Internal control • Ledger Maintenance	
		Capital budgeting practices	• Budget Planning • Budget Control • Budget Coordination • Budget Communication • Budgetary Evaluation Process	

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	Variables		Measurement
Dependent Variable	Performance of Manufacturing SMEs	• Profitability	Five-Likert Scale 1-Strongly Disagree; 2-Disagree; 3-Neutral; 4-Agree; and 5-Strongly Agree

Source: Researcher (2025)

Specification of the Model

The study adopts the regression model from Hanson (2010) which is given by;

$Y = \beta_0 + \beta_1 \times_1 + \beta_2 \times_2 + \beta_3 \times_3 + \beta_4 \times_4 + e$

Where;

Y = Dependent variable

β_0 = Constant

$\beta_1, \beta_2, \beta_3$, and β_4 = Coefficients of independent variables

X_1, X_2, X_3, and X_4 = Independent variables

e = Error term

Therefore, the multiple regression model of this study is given by;

Performance of Manufacturing SMEs = Constant + β_1(Working capital management practices) + β_2 (Financial reporting and analysis practices) + β_3(Accounting records practices) + β_4(Capital Budgeting Practices) + Error term

Where; $\beta_1, \beta_2, \beta_3$, and β_4 = Coefficient of Working capital management practices, Financial reporting and analysis practices, Accounting records practices and Capital budgeting practices.

FINDINGS

Demographic Information of the Respondents

The summarized results of the demographic information are presented in Table 2.

Table 2: Demographic Information of the Respondents (n=96)

Demographic	Category	Frequency	Percentages (%)
Gender	Male	63	65.6
	Female	33	34.4
	Total	**96**	**100**
Education Level	Primary	6	6.2
	Secondary	57	59.4
	Tertiary	33	34.4
	Total	**96**	**100**
Working Experience	< 5 years	10	10.4
	5-10 years	39	40.6
	More than 10 years	47	49
	Total	**96**	**100**
Number of employees	1-4 Employees	-	-
	5-49 Employees	37	38.5
	40-59 Employees	59	61.5
	60 Employees +	-	-
	Total	**96**	**100**

Source: (Field data, 2025)

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The study examined the respondents' gender. The gender attribute aided in the understanding of the gender distribution in the target population. Results in Table 2 show that most of the respondents, 65.6% (63) were males and 34.4% (33) were females. Results showed that males were more prevalent than females. These findings imply that the study was dominated by more males than females. Also, Table 2 shows the respondents' education level. Results revealed that 59.4% (57) of the respondents attained a secondary education level, 34.4% (33) attained a tertiary education level, and 6.2% (6) attained a primary education level. Therefore, findings reveal that respondents who attained the secondary education level extensively dominated the study. The level of education was an important attribute to ensure the study got accurate responses from the respondents.

Moreover, the results in Table 2 show the working experience. Findings indicate that 49% (47) of the respondents claimed that they had working experience of more than 10 years, 40.6% (39) of the respondents indicated that they had working experience between 5-10 years, and 10.4% (10) of the respondents claimed that they had working experience of less than 5 years. Results revealed that the majority of the respondents in the study had working experience spanning more than 10 years. The findings suggest that a significant portion of the respondents in the study have extensive working experience, with nearly half of them having more than 10 years of experience. This indicates that the respondents likely have a wealth of knowledge and expertise in their respective fields, which may have influenced their responses to the study. Additionally, the fact that the majority of respondents had some level of working experience suggests that they were able to provide valuable insights and perspectives based on their professional backgrounds. Furthermore, the results in Table 2 show the number of employees in SMEs. Results show that 61.5% (59) of SMEs had 40-59 employees, while 38.5% (37) had 5-49 employees. The majority of the respondents showed that most SMEs during the study had 40-59 employees.

Correlation Analysis

The correlation test was applied to determine the extent of the relationship and statistical significance between the independent and dependent variables. Results in Table 3 show that working capital management practices are statistically significant at p-value = 0.000 with R = 0.621, financial reporting and analysis practices are statistically significant at p-value = 0.000 with R = 0. 449; accounting records practices are statistically significant at p-value = 0.000 with R = 0.501, and capital budgeting practices are statistically significant at p-value = 0.000 with R = 0.684. These results reveal that working capital management practices, accounting records practices, and capital budgeting practices have a moderate positive correlation with the performance of SMEs. These results also reveal that financial reporting and analysis practices have a weak positive correlation with the performance of SMEs.

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Table 3: Correlation Matrix

		Working Capital Management Practices	Financial Reporting and Analysis Practices	Accounting Records Practices	Capital Budgeting Practices	Performance of SMEs
Working Capital Management Practices	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	96				
Financial Reporting and Analysis Practices	Pearson Correlation	.390**	1			
	Sig. (2-tailed)	.000				
	N	96	96			
Accounting Records Practices	Pearson Correlation	.894**	.304**	1		
	Sig. (2-tailed)	.000	.003			
	N	96	96	96		
Capital Budgeting Practices	Pearson Correlation	.585**	.204*	.556**	1	
	Sig. (2-tailed)	.000	.046	.000		
	N	96	96	96	96	
Performance of SME Practices	Pearson Correlation	.621**	.449**	.501**	.684**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	96	96	96	96	96

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

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

Multiple Regression Results

Results in Table 4 indicate the overall Pearson correlation coefficient (R) of 0.785 for all independent variables. This level of R indicates that the independent variables and the dependent variable have a strong positive relationship.

Moreover, the results in Table 4 depict that the R-square (determination coefficient) whereby working capital management practices, financial reporting and analysis practices, accounting records practices, and capital budgeting practices explain about (0.616) 61.6% of the proportional change (variation) 0in the performance of SMEs. The rest of the variation, 0.384 (38.4%), is explained by other factors not studied in this research. The R-squared percentage (61.6%) indicates that the model is effective in explaining fluctuations in the dependent variable caused by fluctuations in the independent variables.

In addition, the Durbin-Watson test was used to see if there was any autocorrelation in Table 4. The observations (residuals) should be independent, which is one of the regression assumptions. When observations are made over a while, they are very likely connected. Durbin-Watson statistics should be between 1.5 and 2.5 when there is no autocorrelation (related to subsequent observations). Because the statistic value of the Durbin-Watson test (i.e. 2.070) from Table 4 is

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within the specified range, it indicates that there is no autocorrelation and so the data is fit.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.785[a]	.616	.599	.34790	2.070

a. Predictors: (Constant), Capital Budgeting Practices, Financial Reporting and Analysis Practices, Accounting Records Practices, Working Capital Management Practices

b. Dependent Variable: Performance of SMEs

Moreover, the goodness of the model was tested by using ANOVA as shown in the Table 5. Since the p-value (0.000) is less than 0.05, then the null hypothesis (There is no goodness of fit) is rejected. Hence, results reveal that the goodness of fit is significant at (F= 36.460, P<0.05, n=96). Statistically, the results reveal that the model is good for predicting the performance of SMEs.

Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.651	4	4.413	36.460	.000[b]
	Residual	11.014	91	.121		
	Total	28.666	95			

a. Dependent Variable: Performance of SMEs

b. Predictors: (Constant), Capital Budgeting Practices, Financial Reporting Practices and Analysis, Accounting Records Practices, Working Capital Management Practices

Furthermore, results in Table 6 point out that capital budgeting practices, financial reporting and analysis practices, accounting records practices, and working capital management practices are statistically significant at (t=6.349, p(0.000)<0.05, n=96), (t=3.434, p(0.001)<0.05, n=96), (t=2.041, p(0.044)<0.05, n=96) and p(t=3.179, p(0.002)<0.05, n=96) respectively.

Moreover, results in Table 6 likewise express Unstandardized Coefficients whereby capital budgeting practices show a higher positive contribution to the performance of SMEs at B = 0.579, followed by working capital management at B = 0.526, accounting records practices at B = 0.309, and financial reporting and analysis practices at B = 0.194. These results reveal that every change (increase) of one unit in capital budgeting practices, financial reporting and analysis practices, accounting records practices, and working capital management practices resulting in a change (increase) in the performance of SMEs by 0.579, 0.526, 0.309, and 0.194 respectively. By applying Unstandardized Coefficients from Table 4.6, the model becomes;

Performance of SMEs = 0.061 + 0.579 (capital budgeting practices) + 0.194 (financial reporting and analysis practices) + 0.309 (accounting records practices) + 0.526 (working capital management practices)

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Table 6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.061	.184		.333	.740
	Working capital management practices	.526	.166	.494	3.179	.002
	Financial reporting and analysis practices	.194	.057	.244	3.434	.001
	Accounting Records Practices	.309	.151	.299	2.041	.044
	Capital Budgeting Practices	.579	.091	.511	6.349	.000

a. Dependent Variable: Performance of SMEs

DISCUSSION

The study on working capital management practices revealed that effective management of cash flow, inventory, and accounts receivable positively influences the performance of manufacturing small and medium enterprises (SMEs). Participants emphasized that controlling cash inflows and outflows is crucial for business success, aligning with findings from Mang'ana *et al*. (2023), which highlighted a significant positive effect of working capital practices on financial performance in agro-enterprises. Contrarily, Iyalla, & brahim (2023) presented evidence that a longer accounts payable term negatively impacts financial performance. However, the overall consensus among the study respondents upheld the importance of diligent cash management as a key to reducing financial risks and enhancing operational stability.

The impact of financial reporting and analysis practices on manufacturing SMEs was also found to be positive, confirming that thorough financial reporting aids businesses in making informed decisions and ultimately improves efficiency and profitability. The study found a strong agreement among respondents regarding the value of accurate and timely income statements, aligning with Sooriyakumaran, & Vannarajah (2023), who indicated the significant effects of financial reporting on performance. Additionally, the analysis of balance sheets was deemed essential for evaluating business viability. However, unlike the findings of Etim *et al*. (2020), which suggested a lack of correlation between financial reporting and MSME sustainability, this study reinforced the idea that effective financial analysis is crucial for enhancing SME performance and addressing financial risks proactively.

The investigation into accounting record practices indicated that maintaining accurate and organized financial records significantly benefits performance outcomes for manufacturing SMEs. Respondents agreed that timely financial statements are vital for making informed decisions and effectively managing costs, which in turn enhances profitability. This observation was consistent with research by Lukumay, & Wako (2018) and Eke *et al*. (2023) that pointed to the direct implications of sound accounting practices on financial outcomes. In contrast, the findings diverged from Madurapperuma, & Manawadu (2016), who noted challenges SMEs face in maintaining accurate records due to a lack of accounting knowledge, thus underscoring the need for education in this area.

Finally, the examination of capital budgeting practices revealed that these practices significantly improve the performance of manufacturing SMEs. Effective capital budgeting allows for informed investment decisions and efficient resource allocation, contributing positively to profitability and organizational growth. Most respondents supported the idea that well-defined budgeting processes and clear communication about financial

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goals lead to overall better decision-making. All findings correlate with earlier research by Tamaș *et al*. (2020) and Nyambutora, & Omwenga (2023), validating the essential role of budgetary practices in enhancing financial performance within SMEs. Thus, the interplay of working capital management, financial reporting, accounting record-keeping, and capital budgeting emerges as pivotal in driving the success of manufacturing SMEs.

CONCLUSION AND RECOMMENDATIONS

The study concluded that working capital management practices have a positive impact on the performance of manufacturing small and medium enterprises. This suggests that SMEs can control and monitor cash inflows and outflows and maintain proper cash management, which ultimately contributes to the success of their business. Also, SMEs timely collect accounts receivable and apply efficient inventory management practices for the financial health and profitability of their business. Also, the study concludes that financial reporting and analysis practices have a positive impact on the performance of manufacturing small and medium enterprises. The preparation of accurate and detailed income statements, financial analysis of the balance sheet, regular analysis and reporting of cash flow, and financial reporting and analysis practices have a significant impact on the performance of manufacturing small and medium enterprises.

Moreover, the study concludes that accounting record practices have a positive impact on the performance of manufacturing small and medium enterprises. This reveals that accurate and timely financial statements help the performance of the business. Furthermore, the study concludes that capital budgeting has a positive impact on the performance of manufacturing SMEs. This suggests that effective budget control, budget coordination, budget communication, and budgetary evaluation processes lead to improved decision-making in SMEs and the overall performance of SMEs.

Recommendations

Based on the study's findings, it is recommended that manufacturing SMEs prioritize effective working capital management practices to improve their overall performance. This can involve optimizing cash flow, efficiently managing accounts payable and accounts receivable, and controlling inventory levels.

Also, it is recommended that SMEs regularly review their financial reports to assess their performance and identify areas for improvement.

Moreover, it is recommended that SMEs update their accounting record practices regularly to ensure that they have access to real-time financial information. This can enable them to make informed decisions and react quickly to changing market conditions.

Furthermore, the study recommends that manufacturing SMEs should establish a structured and comprehensive capital budgeting practices process that aligns with their strategic goals and financial objectives.

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