



**THE NEXUS BETWEEN BUDGETING AND PROFITABILITY
OF SMALL-SCALE BUSINESSES IN NAKASERO MARKET,
CENTRAL DIVISION, KAMPALA CITY, UGANDA**

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Abstract:

The study aimed to investigate the nexus between budgeting and the profitability of small-scale businesses in Nakasero Market, Central Division, Kampala City. The study adopted a cross-sectional survey research design, utilizing both qualitative and

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quantitative approaches. A sample size of 175 respondents, comprising small-scale business owners and traders, was selected using simple random and purposive sampling techniques. Data was collected using structured questionnaires and analyzed using descriptive and inferential statistical methods, including correlation analysis. Findings of the study revealed that budgeting significantly influences profitability, with 66.9% of respondents preparing budgets before making expenditures and 76.0% indicating that budgeting helped them control unnecessary expenses. The correlation analysis showed a strong positive relationship between budgeting and profitability ($r = 0.632$, $p = 0.000$). The study recommends that the government implement financial literacy programs for small business owners, that financial institutions provide accessible training on budgeting and financial planning, and that business owners adopt digital financial management tools to improve efficiency.

JEL: D53, E44, F45, G20

Keywords: budgeting, profitability, small-scale business

1. Introduction

Effective financial management allows businesses to allocate resources efficiently, track financial performance, and mitigate financial risks (Musah, Gakpetor, & Pomaa, 2018). Small and Medium Enterprises (SMEs) contribute significantly to economic growth, employment, and poverty reduction, yet many struggle with financial mismanagement, which often leads to business failure (World Bank, 2019). In Uganda, where small businesses form a substantial part of the economy, financial literacy and management practices play a crucial role in determining their success (Abanis *et al.*, 2013). This study investigated the nexus between financial management practices and the profitability of small-scale businesses in Nakasero Market, Central Division, Kampala City.

1.1 Background of the Study

Globally, financial management practices have evolved significantly over the decades, shaping the success and failure of small-scale businesses. Historically, small businesses relied on traditional bookkeeping methods, with limited access to financial education and formal banking services. The rise of financial technology and digital banking has transformed financial management, enabling businesses to adopt more structured approaches (Musah *et al.*, 2018). In developed economies, effective financial management practices have contributed to the growth of SMEs, accounting for nearly 50% of GDP and 60-70% of employment (OECD, 2021). However, despite the availability of financial management tools, many small businesses still face financial distress due to poor financial planning and a lack of access to financial resources (Zada, Yukun, & Zada, 2021).

In Africa, SMEs play a crucial role in economic development, contributing approximately 33% of the continent's GDP and employing over 80% of the workforce (AfDB, 2020). However, many SMEs in Africa struggle with inadequate financial management practices, including poor bookkeeping, limited access to credit, and inadequate risk management strategies (Kilonzo & Ouma, 2015). Studies indicate that financial illiteracy and lack of proper financial records are major constraints to SME growth, leading to high business failure rates (Turyahebwa *et al.*, 2013). Financial institutions and governments have made efforts to improve SME financial management through financial literacy programs and access to credit facilities, yet challenges persist (Mazzarol, 2015).

In East Africa, Small and Medium-sized Enterprises (SMEs) are pivotal to economic development, contributing significantly to employment and GDP. For instance, in Kenya, SMEs constitute about 98% of all businesses and employ approximately 80% of the workforce (Mbogo, 2011). Similarly, in Tanzania, SMEs account for about 27% of the GDP and employ over 20% of the labor force (Muneer *et al.*, 2017). Despite their substantial contributions, these enterprises face significant challenges in financial management that impede their profitability and growth. A prevalent issue among East African SMEs is the lack of structured financial management practices. Many SMEs operate without formal financial planning, leading to poor cash flow management and inadequate capital budgeting (Musah *et al.*, 2018). Additionally, there is a notable deficiency in financial literacy among SME owners and managers, resulting in ineffective financial decision-making and limited access to financial resources (Abanis *et al.*, 2013).

In Uganda, SMEs constitute over 90% of the private sector and contribute approximately 20% to GDP, employing over 2.5 million people (Uganda Bureau of Statistics, 2021). However, despite their economic significance, many small businesses in Uganda struggle with profitability due to ineffective financial management practices (Abanis *et al.*, 2013). A substantial proportion of these enterprises lack formal financial management structures, leading to challenges in cash flow management and financial planning (Opio & Akello, 2023).

Nakasero Market in Kampala, small-scale businesses encounter specific financial management challenges that impede their profitability and growth. Many of these enterprises operate without formal financial records, leading to difficulties in tracking expenses and revenues accurately (FinScope Uganda, 2023). This study investigated the nexus between financial management practices and the profitability of small-scale businesses in Nakasero Market, Central Division, and Kampala City

2. Statement of the Problem

Profitability is crucial for the sustainability and growth of small-scale businesses. In Uganda, small-scale enterprises contribute significantly to the economy, accounting for over 20% of the national GDP and employing more than 90% of the non-farm private

sector workforce (UIA, 2008). Despite their economic importance, many of these businesses struggle with low profitability, which threatens their survival and growth. Studies indicate that small-scale businesses in Uganda faced challenges such as declining profit margins, inconsistent cash flow, and financial instability, leading to a high rate of business closures (Nguyen, 2001; Musah *et al.*, 2018).

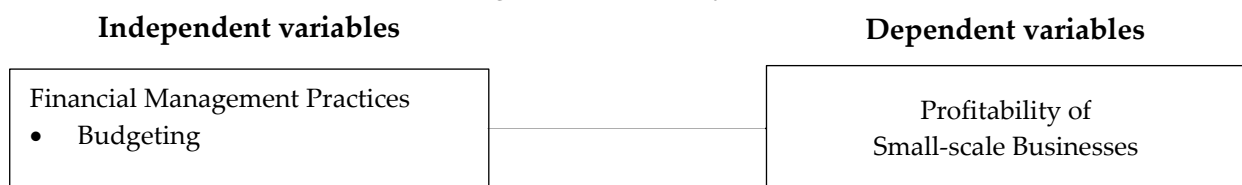
Several factors contributed to the reduced profitability of small-scale businesses, including high operational costs, limited access to credit, and competitive market pressures. Additionally, the lack of financial oversight and poor decision-making hindered effective resource utilization, further impacting profitability. Although the Government of Uganda implemented initiatives like the Public Financial Management (PFM) Reform Strategy 2018–2023 and financial literacy programs to support small businesses, profitability challenges persisted (MFPED, 2018). In Nakasero Market, Central Division, Kampala City, small-scale businesses face similar profitability issues. Many business owners reported difficulties in maintaining consistent revenues and managing expenses, leading to reduced profit margins and business growth constraints. This study sought to investigate how budgeting practices influence the profitability of small-scale businesses in Nakasero Market.

2.1 Purpose of the Study

The study was to investigate the nexus between budgeting practices and the profitability of small-scale businesses in Nakasero Market, Central Division, and Kampala City.

3. Conceptual Framework

Figure 1.1: A Conceptual Framework Illustrating the Nexus between Budgeting and Profitability of Small-Scale Businesses



Source: Author.

2. Literature Review

2.1 Financial Management Practices

Financial management practices encompass a range of strategies that businesses use to plan, control, and monitor their financial resources to achieve financial stability and growth (Mazzarol, 2015). These practices include budgeting, financial reporting, and risk management, which play a critical role in ensuring the long-term sustainability of businesses (Kilonzo & Ouma, 2015). Studies indicate that poor financial management is a major contributor to business failure, particularly among small-scale enterprises that

lack structured financial policies (Turyahebwa *et al.*, 2013). According to Abanis *et al.* (2013), financial management practices significantly impact a business's ability to generate profits, access credit, and make informed investment decisions. However, many small businesses in developing economies struggle with financial literacy, which limits their ability to implement effective financial management practices (World Bank, 2019).

2.2 Budgeting

Budgeting is a fundamental financial management tool that helps businesses plan and allocate financial resources effectively (Smith & Osei, 2019). It provides a structured approach to managing revenues and expenditures, ensuring that businesses maintain financial stability and achieve their profitability targets (Ahmed & Hassan, 2021). According to Kimani *et al.* (2020), small retail businesses in Nairobi that implemented structured budgeting practices reported improved financial performance, as budgeting enabled them to control expenses and optimize resource allocation. Similarly, Mwesigwa *et al.* (2022) found that small traders in Kampala who maintained a consistent budgeting process experienced better cash flow management, reducing financial uncertainty and enhancing profitability.

Despite the benefits of budgeting, many small-scale businesses fail to implement formal budgeting systems due to limited financial knowledge (Abanis *et al.*, 2013). Ahmed and Hassan (2021) observed that most small businesses in Nigeria do not engage in structured budgeting, leading to frequent financial crises and business failures. Additionally, Opio and Nakato (2023) found that budgeting among market vendors in Uganda is often informal, with many business owners relying on daily cash estimations rather than structured financial plans. These studies suggest that while budgeting plays a crucial role in business profitability, financial literacy and training are necessary to enhance its effectiveness.

2.3 Relationship between Budgeting and Profitability of Small-Scale Businesses

Smith and Osei (2019) examined the effect of budgeting practices on the financial performance of small enterprises in Ghana. The study employed a mixed-method approach, incorporating surveys and financial data analysis from 250 small businesses. The findings revealed that businesses with structured budgeting frameworks experienced higher profitability and financial stability due to better resource allocation. However, the study primarily focused on medium-sized enterprises, leaving a gap in understanding how micro-businesses, such as those in informal markets, utilize budgeting for profitability.

Kimani *et al.* (2020) investigated budgeting techniques among small retail businesses in Nairobi, Kenya, using a cross-sectional survey of 200 traders. The study found that most businesses relied on incremental budgeting, which was easier to implement but less effective in optimizing profits compared to zero-based budgeting. The research highlighted that businesses that revised their budgets quarterly had better

financial performance. However, it did not explore the influence of external factors, such as inflation, on budgeting effectiveness, which is crucial in unstable economies like Uganda.

According to Ahmed and Hassan (2021), a study in Nigeria revealed that most small businesses do not adopt formal budgeting due to a lack of financial management skills. The study employed in-depth interviews and financial statement analysis from 150 businesses and found that businesses with weak budgeting practices faced frequent liquidity crises, leading to business failure. However, the study's findings were limited to urban businesses with access to financial institutions, excluding informal traders who operate in cash-based economies.

Mwesigwa *et al.* (2022) assessed the role of budgeting in business sustainability among small traders in Kampala. The researchers used a case study approach, interviewing 50 market vendors, and found that businesses that maintained structured budgets had better cash flow management and profitability. The study emphasized that simple budgeting techniques, such as daily revenue tracking, improved financial discipline. However, the study did not account for external economic shocks, such as taxation changes, which could impact budgeting effectiveness.

Research by Zhao *et al.* (2023) in China explored the impact of digital budgeting tools on small business profitability. The study found that businesses that integrated mobile budgeting applications reported a 20% increase in profit margins due to real-time expense tracking. The research, however, focused on businesses with access to advanced financial technology, making its findings less applicable to cash-based enterprises in developing countries like Uganda. Additionally, the study did not examine the role of financial literacy in adopting budgeting tools.

Opio and Nakato (2023) in Uganda investigated the connection between budgeting and tax compliance among market vendors. The study utilized structured questionnaires and financial record analysis from 100 businesses and found that those with organized budget records were more likely to meet their tax obligations, thereby avoiding penalties that reduced profitability. The study concluded that proper budgeting enhances business transparency and financial discipline. However, it did not explore the direct impact of budgeting practices on overall business growth and expansion.

3. Methodology

3.1 Research Design

The study adopted a cross-sectional survey design, which is appropriate for collecting data at a single point in time to analyze patterns and relationships between variables (Creswell & Creswell, 2018). A cross-sectional design was particularly useful for examining budgeting practices and their impact on profitability in a dynamic business environment like Nakasero Market. The study employed a mixed-methods approach, integrating both quantitative and qualitative approaches. The quantitative approach

enabled the collection of numerical data on budgeting, allowing for statistical analysis (Saunders *et al.*, 2019). The qualitative approach provided deeper insights into traders' perceptions, challenges, and experiences regarding financial management through questionnaires and open-ended survey responses. The combination of these approaches ensures a comprehensive understanding of the research problem, increasing the study's validity and reliability (Bryman, 2021).

The study population consisted of 320 small-scale business owners and traders operating in Nakasero Market. These traders included vendors dealing in groceries, fresh produce, household items, clothing, and electronics. The study focused on business owners, managers, and key decision-makers within these enterprises, as they were responsible for budgeting, financial reporting, and risk management. This population was appropriate because small-scale businesses in informal markets often lack structured financial systems, making it essential to analyze their financial management practices and their impact on profitability. The sample size was determined using appropriate sampling techniques to ensure a representative and manageable number of respondents for the study.

3.2 Population and Sample Frame

The study used a sample size of 175 respondents selected from a population of 320 small-scale business owners and traders in Nakasero Market, Central Division, Kampala City. The sample size was determined using Krejcie and Morgan's (1970) sample determination table.

3.3 Data Collection and Analysis

The study utilized one primary data collection method: a structured questionnaire. The questionnaire was designed to collect quantitative data. This method was chosen to ensure a comprehensive understanding of financial management practices among small-scale businesses in Nakasero Market, Central Division, Kampala City. A structured questionnaire was used as the primary tool for data collection. The questionnaire was self-administered, where respondents were given the forms to fill out independently, with the researcher available to provide clarifications where necessary. For illiterate respondents, the researcher read out the questions and recorded responses accordingly.

Quantitative data were analysed using descriptive and inferential statistics. Descriptive statistics, including frequencies, means, and standard deviations, were used to summarize demographic characteristics and key financial management practices. Inferential statistics, such as correlation analysis was applied to determine the relationships between financial management practices and profitability. Data was processed and analyzed using Statistical Package for the Social Sciences (SPSS), ensuring accuracy and statistical validity.

4. Results and Discussion

Findings revealed that budgeting practices were crucial in ensuring effective financial planning, minimizing unnecessary expenditures, and enhancing overall business performance. Respondents were asked to indicate their level of agreement with various statements related to budgeting and its impact on business profitability. The responses were analyzed using descriptive statistics, including frequency distributions, means, and standard deviations, to provide insights into the significance of budgeting among small-scale business owners. The results are presented in Table 1.1.

Table 1.1: Budgeting Practices and Profitability of Small-Scale Businesses

Statement	SD (Freq. %)	D (Freq. %)	N (Freq. %)	A (Freq. %)	SA (Freq. %)	Mean (M)	SD
I prepare a budget before making any business expenditures.	10 (6.0%)	20 (12.0%)	25 (15.1%)	70 (42.2%)	41 (24.7%)	3.68	1.09
My business follows a strict monthly budget.	8 (4.8%)	25 (15.1%)	30 (18.1%)	65 (39.2%)	38 (22.9%)	3.59	1.05
Budgeting has helped me control unnecessary business expenses.	5 (3.0%)	15 (9.0%)	20 (12.0%)	80 (48.2%)	46 (27.8%)	3.89	0.98
I allocate funds for unforeseen business expenses.	7 (4.2%)	22 (13.3%)	28 (16.9%)	68 (41.0%)	40 (24.1%)	3.68	1.04
My budget planning includes revenue projections.	9 (5.4%)	18 (10.8%)	22 (13.3%)	75 (45.2%)	42 (25.3%)	3.74	1.07
Proper budgeting has improved my business profitability.	6 (3.6%)	17 (10.2%)	26 (15.7%)	78 (47.0%)	39 (23.5%)	3.76	1.02
I review and adjust my budget regularly based on business performance.	12 (7.2%)	24 (14.5%)	32 (19.3%)	60 (36.1%)	38 (22.9%)	3.53	1.13

Source: Primary Data, 2026.

Results in Table 1.1 showed that a higher proportion (42.2%) of respondents agreed that they prepare a budget before making any business expenditures, followed by 24.7% who strongly agreed. Additionally, 15.1% were neutral, while 12.0% disagreed, and 6.0% strongly disagreed. This was reflected by a mean of 3.68, indicating a general tendency toward agreement. A standard deviation of 1.09 suggested some variability in responses, implying that while budgeting was practiced by most respondents, a section of business owners did not consistently adhere to it. Proper budgeting was essential as it allowed businesses to manage costs effectively, allocate resources efficiently, and improve financial planning.

The findings indicated that 39.2% of respondents agreed that their businesses followed a strict monthly budget, while 22.9% strongly agreed. However, 18.1% remained neutral, 15.1% disagreed, and 4.8% strongly disagreed. The mean score of 3.59 reflected moderate agreement with this statement, while a standard deviation of 1.05 suggests slight variations in responses. This implied that while most businesses attempt to maintain a structured monthly budget, a notable proportion either did not have a

consistent approach or lacked the discipline to adhere to it. Businesses that implemented strict budgeting were better positioned to control financial leakages and enhance profitability.

A higher proportion (48.2%) of respondents agreed that budgeting helped them control unnecessary business expenses, while 27.8% strongly agreed. Meanwhile, 12.0% were neutral, 9.0% disagreed, and 3.0% strongly disagreed. The mean score of 3.89 indicated strong agreement, and a standard deviation of 0.98 suggested relatively consistent responses. The implication was that budgeting significantly contributed to financial discipline, ensuring that business owners allocated resources efficiently and minimized wasteful expenditures, thereby improving financial stability.

The results showed that 41.0% of respondents agreed that they allocated funds for unforeseen business expenses, followed by 24.1% who strongly agreed. Meanwhile, 16.9% were neutral, 13.3% disagreed, and 4.2% strongly disagreed. The mean score of 3.68 suggested a general tendency toward agreement, while a standard deviation of 1.04 reflected minor differences in responses. Allocating funds for unexpected costs was critical for business continuity, as it prevented financial shocks that disrupted operations and profitability.

A higher proportion (45.2%) of respondents agreed that their budget planning included revenue projections, followed by 25.3% who strongly agreed. Meanwhile, 13.3% were neutral, 10.8% disagreed, and 5.4% strongly disagreed. The mean score of 3.74 supported the notion that most businesses recognized the importance of forecasting revenues in their budgeting process. A standard deviation of 1.07 indicated some variability in budgeting approaches. Revenue projections helped businesses anticipate future income, plan expenditures accordingly, and ensure long-term financial sustainability.

Findings indicated that 47.0% of respondents agreed that proper budgeting improved their business profitability, followed by 23.5% who strongly agreed. However, 15.7% were neutral, 10.2% disagreed, and 3.6% strongly disagreed. The mean score of 3.76 suggested a positive perception of budgeting's role in profitability. A standard deviation of 1.02 suggested minor variations in views. Businesses that implemented structured budgeting practices better tracked their financial performance, made informed investment decisions, and enhanced profit margins.

Results showed that 36.1% of respondents agreed that they regularly reviewed and adjusted their budget based on business performance, while 22.9% strongly agreed. Meanwhile, 19.3% were neutral, 14.5% disagreed, and 7.2% strongly disagreed. The mean score of 3.53 suggested moderate agreement, while a standard deviation of 1.13 indicated notable variability in responses. Regularly revising budgets allowed businesses to adapt to changing market conditions, optimize financial planning, and enhance profitability.

4.1 Profitability of Small-Scale Businesses

This section presents the findings on the profitability of small-scale businesses in Nakasero Market. Profitability is a key indicator of business sustainability and growth, influenced by financial management practices such as budgeting, financial reporting, and risk management. Respondents were asked to indicate their level of agreement with various statements regarding their business profitability. The responses were analyzed using descriptive statistics, including frequency distributions, means, and standard deviations. The results are presented in Table 1.2.

Table 1.2: Profitability of Small-Scale Businesses

Statement	SD (Freq. %)	D (Freq. %)	N (Freq. %)	A (Freq. %)	SA (Freq. %)	Mean (M)	SD
My business profitability has improved over the last year.	7 (4.2%)	18 (10.8%)	26 (15.7%)	75 (45.2%)	40 (24.1%)	3.74	1.05
I have been able to reinvest my profits into business expansion.	9 (5.4%)	19 (11.4%)	28 (16.9%)	72 (43.4%)	38 (22.9%)	3.67	1.09
My business generates enough income to cover operational costs.	10 (6.0%)	21 (12.7%)	30 (18.1%)	68 (41.0%)	37 (22.3%)	3.61	1.11
Financial management practices have contributed to my business's profitability	5 (3.0%)	14 (8.4%)	25 (15.1%)	85 (51.2%)	37 (22.3%)	3.81	0.98

Source: Primary Data, 2026.

Results in Table 1.2 showed that a higher proportion (45.2%) of respondents agreed that their business profitability has improved over the last year, followed by 24.1% who strongly agreed. Meanwhile, 15.7% were neutral, 10.8% disagreed, and 4.2% strongly disagreed. This was reflected by a mean of 3.74, indicating general agreement with the statement. A standard deviation of 1.05 suggested slight variations in responses, implying that while many businesses have experienced profitability growth, some have faced financial challenges. The increase in profitability may be attributed to improved financial management practices such as budgeting and risk management.

A higher proportion (43.4%) of respondents agreed that they have reinvested profits into business expansion, followed by 22.9% who strongly agreed. Meanwhile, 16.9% were neutral, 11.4% disagreed, and 5.4% strongly disagreed. The mean score of 3.67 reflected moderate agreement, while a standard deviation of 1.09 suggested some variations in responses. This indicated that while many businesses use profits for growth, others struggled with reinvestment due to financial constraints. Reinvesting in business expansion was crucial for sustainability and increased market competitiveness.

The results showed that 41.0% of respondents agreed that their business generates enough income to cover operational costs, followed by 22.3% who strongly agreed. However, 18.1% were neutral, 12.7% disagreed, and 6.0% strongly disagreed. The mean score of 3.61 suggested a moderate level of agreement, while a standard deviation of 1.11

indicated some level of variation in responses. This implied that while some businesses were financially stable, others struggled to meet operational costs due to inadequate revenue or poor financial planning. Ensuring sufficient income to cover expenses was key to long-term business survival.

Results showed that 51.2% of respondents agreed that financial management practices have contributed to their business profitability, followed by 22.3% who strongly agreed. Meanwhile, 15.1% were neutral, 8.4% disagreed, and 3.0% strongly disagreed. The mean score of 3.81 suggested strong agreement with the statement. A standard deviation of 0.98 indicated relatively consistent responses. This implied that effective budgeting, financial reporting, and risk management strategies improved profitability. Businesses that adopted sound financial management practices were better positioned to optimize their earnings and reduce financial risks.

4.2 Correlation Results

Examining the nexus between financial management practices (budgeting, financial reporting, and risk management) and business profitability in Nakasero Market, Pearson’s correlation analysis was conducted. This analysis measures the strength and significance of relationships between the independent variables (budgeting, financial reporting, and risk management) and the dependent variable (profitability).

Table 1.2: Correlation Matrix with P-Values

Variables	Profitability	Budgeting	Financial Reporting	Risk Management
Profitability	1	0.632 (0.000)	0.589 (0.000)	0.554 (0.000)
Budgeting	0.632 (0.000)	1	0.573 (0.000)	0.510 (0.000)
Financial Reporting	0.589 (0.000)	0.573 (0.000)	1	0.497 (0.000)
Risk Management	0.554 (0.000)	0.510 (0.000)	0.497 (0.000)	1

Note: Values represent Pearson correlation coefficients (r) with p-values in parentheses.

Source: Primary Data, 2026

The results showed a strong positive correlation ($r = 0.632$, $p = 0.000$) between budgeting and profitability. The significant p-value ($p < 0.05$) indicated that this relationship was statistically significant. This suggests that businesses that implemented structured budgeting practices were more likely to achieve higher profitability, as budgeting helps control expenses, allocate resources efficiently, and plan for future growth.

4.3 Discussion of Findings

The study aimed to evaluate the nexus between budgeting and the profitability of small-scale businesses in Nakasero Market. The findings revealed that the majority of respondents reported preparing budgets before making business expenditures and following a strict monthly budget. Additionally, most business owners indicated that budgeting had helped them control unnecessary expenses, leading to better financial stability.

These findings suggest that structured budgeting is essential for financial discipline, as it enables businesses to track expenses, allocate resources efficiently, and avoid financial mismanagement. This aligns with the study by Smith and Osei (2019), which found that businesses with structured budgeting frameworks experienced improved financial performance and sustainability.

However, Ahmed and Hassan (2021) observed that most small businesses in Nigeria failed to implement formal budgeting due to financial literacy challenges, which often resulted in frequent liquidity crises. These findings highlight that while budgeting is beneficial, business owners must possess adequate financial knowledge to implement it effectively.

The study further established that business owners allocated funds for unforeseen business expenses and incorporated revenue projections into their budgeting processes. Those who adopted structured budgeting practices reported improved business profitability, reinforcing the role of financial planning in ensuring stable cash flows.

This is consistent with Kimani *et al.* (2020), who reported that small retail businesses in Nairobi that revised their budgets quarterly experienced higher profitability. Similarly, Mwesigwa *et al.* (2022) found that simple budgeting techniques, such as daily revenue tracking, contributed to better cash flow management among small traders in Kampala. These findings indicate that integrating financial forecasting and emergency reserves into budgeting enhances business resilience and overall profitability.

Additionally, the study found that business owners regularly reviewed and adjusted their budgets based on performance. Many respondents also reported that following a strict budget had a positive impact on their business profitability. This highlights the need for continuous financial evaluation to ensure that budgets remain relevant to the business's financial goals. Zhao *et al.* (2023) found that small businesses in China that adopted digital budgeting tools experienced an increase in profit margins due to real-time expense tracking.

However, Opio and Nakato (2023) found that budgeting among market vendors in Uganda is often informal, with many businesses lacking structured financial records, which affects tax compliance and overall financial management. The findings of this study suggest that while most businesses recognize the benefits of budgeting, their level of adherence varies, and continuous financial monitoring is necessary for long-term success.

5. Recommendations

Based on the findings of the study, the following recommendations were made:

- a) The government should develop and implement financial literacy programs tailored to small-scale business owners to enhance their budgeting and financial planning skills.

- b) The Ministry of Trade and Industry should collaborate with financial institutions to provide accessible and affordable training programs on financial management for small business owners.
- c) Business owners should prioritize maintaining accurate and up-to-date financial reports to enhance their ability to track performance and make informed decisions.
- d) Government and financial regulators should establish policies that encourage the formalization of financial reporting among small businesses, ensuring compliance with basic accounting standards.
- e) Financial institutions should provide flexible credit facilities for small businesses with structured financial records to encourage proper financial reporting and improve access to funding.
- f) Small-scale business owners should implement effective risk management strategies, such as creating emergency savings, using insurance, and setting credit limits to protect their businesses from financial shocks.

6. Conclusion

Based on the findings of the study, the following conclusions were made:

The study concluded that budgeting plays a crucial role in the profitability of small-scale businesses. Businesses that engage in structured budgeting practices, such as preparing budgets before making expenditures, following a strict financial plan, and allocating emergency funds, tend to have better financial stability and profitability.

The study further revealed that businesses that integrate revenue forecasting into their budgeting processes are better prepared to handle financial uncertainties and sustain long-term growth. However, some small-business owners still lack the financial literacy needed to implement effective budgeting practices.

6.1 Areas for Further Study

- 1) The impact of financial literacy programs on the profitability of small-scale businesses in Uganda.
- 2) The role of digital financial management tools in improving budgeting and profitability among informal businesses.
- 3) The effect of taxation policies on financial management practices among small-scale businesses.
- 4) A comparative study on financial management practices between formal and informal businesses in Uganda.

Acknowledgements

I extend my sincere appreciation to my supervisors, Mr. Brian Kato, Wabwire Joshua, Namude Juliet Nabwire of Cornerstone University, Uganda, Dr. Mulema Sabiiti, Mr. Oyo Samson, Mr. Ivan Bakaki, Mr. Christopher Wagima, Mr. Keneth Neziyima, Mr. Mugisha

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Conflict of Interest Statement

The authors declare no conflicts of interest.

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