

# **The effect of financial management practices on financial performance of small and medium enterprises: Special reference to Kurunegala Divisional Secretariat**

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## **Abstract**

According to the Central Bank of Sri Lanka, Small and Medium Enterprises (SMEs) contribute to generating high economic growth, employment generation, improving innovation capabilities and regional development of a country. But today SMEs vanish as soon as they establish. It is a major problem for the country's economy. As prior researchers have identified financial management as the lifeblood of an organization, financial management may be a crucial factor for the business organizations. Therefore, the current study attempts to identify the effect of the financial management practices on the financial performance of SMEs. The researcher has used 100 SMEs which were registered at Kurunegala Divisional Secretariat, as the sample. The sample was selected based on the simple random sampling technique and used a self-structured questionnaire to collect data. Independent variables for this study were financial reporting and analysis practices, working capital management practices and fixed asset management practices while financial performance was considered as the dependent variable. Respondents were owners or managers of the organization and they were asked to indicate their agreement or disagreement on Five Point Likert as the scaling method. The researcher has used descriptive statistics, Pearson Correlation Coefficient and regression analysis as analysis techniques. According to the research results, all independent variables have a significant impact on the financial performance of SMEs. Therefore, this study recommends improving the financial management practices in SMEs for better financial performance.

***Keywords:*** *Financial management practices, financial performance, SMEs.*