

The relationship between financial management practices and financial performance of Small and Medium Enterprises (SMEs) in Sri Lanka: Evidence from Anuradhapura district

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Abstract

SMEs can be identifying as the backbone of all economies. The SME sector has become a crucial segment and a major section of the private sector in developing countries. Therefore, it is important to accelerate the growth of SMEs in order to gain sustainable development for developing countries. However, poor record- keeping, inefficient use of accounting information to support their financial decision-making and, the low quality and reliability of financial data are part of the main problems in financial management concerns of SMEs. Thus, this study aimed at examining the relationship between financial management practices and financial performance of SMEs in Anuradhapura district. Financial management practices have been measured by accounting information system, working capital management, investment decision, financial reporting and analysis. Data were collected through the self-administered questionnaire from 100 SMEs functioning in Anuradhapura district. The convenience sampling method was used to select the participants. Descriptive analysis and correlation analysis were used to analyze the data using SPSS. Cronbach's Alpha was used to check the reliability of the data. Results of correlation indicated that there is a positive and significant relationship between accounting information system, working capital management, investment decisions, financial reporting and analysis and financial performance. The outcome of the study may be useful to the practitioners to focus the financial management practices in order to enhance their financial performance.

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