

The Relationship between Financial Management Practices and Financial Performance of SMEs in Matale District, Sri Lanka

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ABSTRACT

Purpose: The purpose of this study is to identify what is the relationship between financial Management practices (fixed asset management, working capital management, accounting information systems, financial reporting analysis), and the financial performance of small and medium-sized enterprises in Matale district, Sri Lanka.

Design/Methodology/Approach: The independent variables of this study were fixed asset management, working capital management, Accounting Information Systems, and financial reporting analysis and the dependent variable was the financial performance of SMEs, s. All SMEs (2402 SMEs) operating in the Matale district during the year 2021 were identified as the population of this study. Out of that, 120 SMEs were selected as the sample was manufacturing, service, and trade SMEs operating in the Matale district. Data was collected through a structured questionnaire distributed among SMEs functioning in the Matale district. Descriptive statistics and inferential statistics like Pearson correlation analysis and multiple regression analysis were used to analyze data using the SPSS version 26.0.

Findings: According to the regression results, there is a significant relationship ($\beta=0.262$ $p=0.000$) between financial reporting analysis and financial performance and there is a significant positive relationship ($\beta=0.300$ $p=0.000$) between working capital management practices and financial performance. Further, there is a significant positive relationship ($\beta=0.221$ $p=0.000$) between fixed asset management and financial performance. There is a significant relationship between ($\beta=-0.247$ $p=0.000$) accounting information systems and financial performance. All significant values are significant at 0.05. Therefore, according to the study, there is a significant relationship between financial information practices and the financial performance of SMEs in Matale district.

Originality: This study has discovered a new finding about the relationship between financial Management practices (fixed asset management, working capital management, accounting information systems, and financial reporting analysis), and the financial performance of small and medium-sized enterprises with respect to the Matale district of Sri Lanka.

Keywords: *Financial Management practices, Financial Performance, SME, Matale District.*