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A critical review of literature on financial literacy and profitability of private enterprises in Uganda; A case study of Equity bank Kabale branch

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Abstract: *The practice of efficiently and effectively managing an organization's finances in a way that will support management in achieving its goals is known as financial management. Because of this, it is crucial for managing the company's present assets and liabilities, which means that the organization is immediately impacted by its profitability. Therefore, using Equity Bank Kabale Branch as a case study, the study attempted to explore the impact of financial management methods on the profitability of private firms. The study had significant value for the chosen firm, Equity Bank Kabale Branch, and other financial institutions seeking to build profitable financial management procedures and discover more avenues for enhancing the profitability of private enterprises. The ideal outcome of sound financial management is significant earnings. Other academics who were interested in the issue being studied found the study beneficial because it provided a framework for future research on the topic. According to the study's findings, putting in place an effective cash management system guaranteed improved control over financial risk and raised the possibility of making money.*

LITERATURE REVIEW

2.0 Introduction

The opinions expressed by other scholars regarding the research project "Financial literacy and profitability of Private Enterprises" were included in this chapter. In order to guarantee the promising discussions, the researcher addressed the aims in their arrangement pattern under this arrangement.

2.1 Theoretical Review.

Theoretical stances that support the connection between financial literacy and private enterprise profitability were covered in this part. Various hypotheses have been proposed to account for the link between the variables under investigation.

2.1.1 Goal Setting Theory

The authors of this motivation theory are Hollenbeck and Klein (1987). It is based on the reasoning that well-defined, astute, and quantifiable goals do, in fact, influence organizational outcomes. According to this notion, an organization's ability to complete tasks and create goals is always correlated. The hypothesis goes on to say that more precise, quantifiable, realistic, yet difficult goals combined with efficient feedback lead to improved task performance.

According to Locke and Latham (2011), a person's personal objectives will probably influence how successfully they accomplish related tasks. More specifically, definite, difficult goals outperform ambiguous, simple, or do-your-best goals in terms of performance. Objective setting theory presupposes that for people to be effective, they must be able to complete the task, be dedicated to the objective, and receive feedback. As a result, by connecting this theory to the profitability of private businesses, it is possible to attain and improve these businesses' performance. The primary source of employment motivation is the willingness to work toward achieving goals once they have been set and are measurable, attainable, and clear, regardless of how difficult they may seem. Effective communication of the findings across departments also plays a significant role in this process.

2.2 The impact of debt management literacy on the profitability of private enterprises in Kabale Municipality

Gathergood (2012) defined Debt management as the capacity to make thoughtful and deliberate decisions about taking on debt, using basic mathematical understanding to apply interest compounding to decisions about daily finances.

A person or organization with debt management literacy possesses the abilities, know-how, and data related to debts and other financial matters. For instance, they comprehend the computations needed to determine the interest due on loans, the principal amounts, and the legitimate and reasonable sources of such debts (Casagrande, 2016). According to Barnard, Peters, and Muller (2010), in general, home debt refers to an obligation or responsibility that results from using credit, borrowing money, or purchasing goods and services with the promise to pay back the balance at a later time or at a predetermined future date.

Researchers have examined the relationship between debt management and the financial performance of businesses, and their findings show that there is a positive correlation between the two. People with low financial literacy typically struggle to manage their personal and business debts, make wise business decisions, and ultimately fail to achieve business success due to poor performance. Conversely, people with high financial literacy typically perform well in the stock and exchange market, manage their

finances easily, and take on less expensive debts that require lower interest rates, which helps their businesses grow (Lusardi and Mitchell, 2015).

Addaney et al., (2016) have noticed and come to the conclusion that bad performance in small businesses can be caused by inappropriate debt management. Granted that the most of research has concentrated on large-scale businesses in established and developing nations, with the exception of less developed ones, small-scale businesses have recently come to be recognized as having a significant influence in national economies. Their primary contributions have been to the creation of jobs for the world's growing population, rising household incomes, and the elimination of poverty in the majority of developing economies, as seen by the degree to which these businesses are now incorporated into development programs (Coleman & Cohn, 2001).

A study conducted by Yunos, Nazaruddin, Ghapar, Ahmad, and Zakaria (2015, aiming to determine the connection between working capital management and profitability came to the conclusion that a company's debt management practices actually had an impact on its profitability. In order to evaluate various listed firms on the Vietnam Stock Exchange, this study looked at data from the two years between 2006 and 2008, primarily focused on the cash operation cycle and its embedded aspects to quantify debt management. It concluded that the two factors have a significant negative association. The report went on to say that the cash operating and conversion cycle of the company has an inverse relationship with earnings. It further demonstrated that, when evaluating various debt management strategies in light of aggressive financing and investment, the firm's profitability rises when the debtor's cash conversion cycle and inventory durations decrease.

2.3 The effect of book keeping literacy on the profitability of private enterprises

Chelimo and Sopia (2014) defined book keeping is the procedure for organizing all of the tractions into a logical, methodical, and chronological order. These transactions consist of purchases, sales revenue, and payments that the business has to make. The bookkeeper of a company is primarily responsible for maintaining this function since common techniques are used, such as double entry and single entry principles. We always adhere to the double entry principle when a single transaction impacts two or more accounts in our records. In order to check for errors in a traction, especially when the debit side of the accounts differs from the total credit side of the same account, this typically adheres to the debit credit entry principle.

Nunoo and Andoh (2012) demonstrates how, in the majority of private businesses, several firm factors such as the size of the business, the frequency of transactions, and the industry-specific growth rate have an impact on this idea.

Chelimo and Sopia (2014) explains that all businesses, no matter how small, need to have written records that owners and managers can use as a guide for actions, routine decision-making, general procedure development, and upholding working relationships with other organizations or individuals that aid in the organization's faster growth.

Basic accounting skills, such as those in budgeting, keeping accurate receipts, sales records, and customer records, are considered necessary for an organization to function competently and expand efficiently when conducting business activities. These skills also include recording and analyzing daily business transactions (Sabri, 2017; Chamwanda, 2015).

On contrary, Fatoki (2014) believe that despite the fact that bookkeeping makes business processes easier, like filing tax returns, comparing a company's performance to other ventures, and setting up necessary financial controls to avert early and subsequent business failure, the majority of ventures fail to maintain accurate records because they lack accounting expertise.

Numerous academics have expressed interest in conducting an empirical study to determine how bookkeeping literacy impacts business and enterprise performance (Siekei, Wagoki, & Kalio, 2013; Bongomin et al., 2016; Wilhelmsson, 2017).

In the empirical conducted by Siekei et al., (2013) A case study of the Equity Group Foundation program on small and medium-sized businesses in Kenya was used to examine the impact of financial literacy on medium-sized businesses. The results showed that financial literacy has a significant impact on streamlining performance because it gives employees and management the ability to manage assets, revenue, and expenses more skillfully. This improves performance because it allows them to better track and reconcile business inventions and transactions from the transaction process.

Siekei et al., (2013) discovered that businesses maintaining accurate books of accounts are in a position to determine the success of their endeavors with accuracy, and that it is simple to gauge their financial growth by looking at their transactional stands. He goes on to note in his research that businesses that keep accurate books of accounts typically see growth in the market and higher profitability as a result of sound financial planning.

Okello (2016) in his study's conclusions, which examined the impact of bookkeeping on the expansion of small and medium-sized businesses using Chukka County, Kenya, as a case study. The study discovered that while the cost of outsourcing accounting services is significant, the majority of these businesses fail to maintain their books of accounts effectively, and those that do tend to keep incomplete ones due to a lack of accounting expertise. As a result, there is a gap in the methods available for evaluating and measuring these businesses' financial performance using accounting data.

As a result, this makes it challenging for managers, entrepreneurs, and business owners to determine how much they have earned and spent in order to compute and determine the profits made for a specific time period. Thus, he came to the conclusion that having financial expertise in bookkeeping is important for an entrepreneur to be able to grow their business in terms of earnings by learning more and managing their operations effectively. Revenues eventually improve performance.

2.4 The role of budgeting literacy on the profitability of private enterprises

Various academics have emerged to carry out empirical research on the impact of budgeting processes and literacy on a firm's performance (Qi, 2010; Mohammed and Ali, 2013; Gonçalves, 2014; Onduso, 2013)

An empirical study conducted by Sugioko (2010) on how the budgeting process affects the profitability of private businesses in China, primarily to determine whether the budgeting process improves the performance of Chinese small and medium-sized businesses in a statistically significant way. According to the report, their performance is positively impacted by their budgeting method. It also showed that more formalized budgeting procedures boost sales revenue and have an impact on these businesses' budgetary performance, proving that difficult but attainable budget goals encourage staff to meet budgetary requirements while clear and attainable budget goals help the company achieve its objectives. The study also discovered that a company's profit increase is more likely to occur when budgetary management is exercised.

Gonçalves (2014)'s study on the impact of the participatory budgeting process on spending came to the conclusion that, because it is a complex process influenced by a variety of factors, it is difficult to determine the exact impact of participatory budgeting on employee performance because it tends to be negligible at some points.

In the study conducted by Mohammed and Ali (2013) determined that there is a positive correlation (r = 0.514) between budgeting and business performance, suggesting that efficient budgeting increases performance by 0.514. This finding was made in an effort to determine the relationship between budgeting and the performance of remittance companies in Somalia. This demonstrates a statistically significant positive correlation between the variables.

Also, in the study conducted by Faith (2013), more formal budgeting planning results in faster growth in sales for these specific parastatals, according to research on how the budgeting process affects the financial performance of manufacturing parastatals in Kenya. These measures result in increased profits and better managerial performance.

The study conducted by Onduso (2013) An empirical investigation conducted in Nairobi County to examine the impact of budgets on companies' financial performance found that the return on assets serves as the primary metric for measuring a company's financial performance, and that this factor significantly influences the use of budgets on managerial financial performance.

In an empirical study by Adomako and Danso (2014) to investigate the impact of budgeting on non-financial entities' performance in Ghana. In order to determine the significance of budgets as a financial management tool among these organizations, primary data were gathered from 89 non-bank institutions using a questionnaire instrument. A qualitative study approach was used for this investigation. Regression analysis was used to determine the degree to which budgeting has a cause and effect on performance, and a step-by-step procedure was used to generate the models. The study discovered that budgeting affects performance because the majority of respondents agreed with the findings, which show that efficient budgeting boosts profits (3.99), improves return on investment for shareholders (3.83), and expedites market expansion, which raises a company's sales (3.61).

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