

Impact of Financial Management Practices on Performance of SMEs in Sri Lanka: Evidence from Anuradhapura District of Sri Lanka

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Abstract

Small and Medium Enterprises (SMEs) form the backbone of Sri Lanka's economy, driving employment, income generation and regional development. However, many SMEs particularly those in rural districts such as Anuradhapura, face significant financial challenges due to weak financial management, poor record-keeping, limited use of accounting systems and difficulties in making sound investment decisions. These factors restrict profitability, hinder efficient resource use and threaten long-term sustainability. This study investigates the impact of financial management practices on SME performance in the Anuradhapura District. It focuses on four areas: working capital management, financial reporting and analysis, accounting information systems and investment appraisal. Using a quantitative research approach, data were collected through structured questionnaires from 150 SME owners and managers. Statistical tools, including correlation and regression analysis were employed to examine how these practices influence business performance indicators such as profitability, sales growth and stability. The findings are expected to provide clear evidence on which financial management practices most strongly affect SME success in resource-constrained areas. By understanding these impacts, SME owners can adopt more effective strategies to improve operations, while policymakers and financial institutions can design targeted training programs, incentives and support systems to strengthen SMEs in rural regions. Ultimately, this research aims to promote better financial discipline and decision-making, enabling SMEs in Anuradhapura to become more competitive, resilient and capable of contributing to sustainable economic development.

Keywords: accounting information systems, financial reporting and analysis, investment appraisal, working capital management