

Influence of Management Approaches on the Financial Outcomes of Small and Medium Enterprises (SMEs) in Rwanda

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Abstract

This research examines how different management practices influence the financial performance of small and medium enterprises (SMEs) in Rwanda between 2018 and 2023. Representing 98% of the nation's businesses and employing about 41% of the workforce, SMEs play a crucial role in Rwanda's economy, impacting GDP and efforts to reduce poverty. The study used a mixed-methods approach to provide a comprehensive analysis; quantitative data was collected through financial records and performance metrics from the selected SMEs, while qualitative data was collected from structured interviews with SME owners and managers. A sample of 150 SMEs from three main sectors was selected—retail, manufacturing, and services—located in notable regions such as Kigali, Huye, and Musanze. The critical management practices evaluated include budget management, strategic goal formulation, and resource distribution. For example, SMEs that implemented strict budget management and frequently reviewed and adjusted their expenses based on cash flow forecasts experienced a 15% rise in profit margins over the five years.

On the other hand, SMEs needing more organized budget management faced stagnant or declining profits, with 30% of these enterprises encountering cash flow problems due to excessive spending. Establishing strategic goals was found to be vital for performance results. SMEs that set clear, quantifiable objectives and aligned their resources accordingly saw a 20% boost in customer retention rates compared to those without a strategic plan. Furthermore, effective resource distribution, including focused investments in staff development and technology enhancements, led to productivity improvements, with manufacturing SMEs noting a 25% increase in output. The study concludes that management practices, exceptionally structured budget management, and strategic goal setting are crucial for improving the financial performance of SMEs in Rwanda's competitive landscape. It highlights the significance of Rwanda's business associations and policymakers in providing

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management training initiatives and resources for SME owners. Such efforts could enhance SME resilience, ultimately supporting economic growth and job creation.

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