

Evaluation of Constraints of Small and Medium Enterprises in Uganda: A Case Study of Kabale Municipality South Western Uganda

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ABSTRACT

This study was conducted to identify the business constraints affecting the performance of small and medium enterprises in Uganda, through a case study of Kabale Municipality. The aim of the study was to identify the constraints of small medium enterprises in Uganda, and to examine how business constraints affect the performance of SMEs. Using a mixed method design, both qualitative and quantitative methods were used. Data was collected from 270 small and medium enterprise owners in Kabale Municipality, the District Community Development Officer, the District Commercial Officer, Community Development Officers and LC1 chairpersons, using a researcher made questionnaire. Data was analysed using the SPSS package, and descriptive statistical measures. The study revealed that 93% of the respondents find it hard to access funding which constrains their performance, 87% of the respondents were negatively affected by policy, 73% were negatively affected by their business locations, 81% of business performance is affected by political stability, 69% by uncertainty and risk, 91% performance is affected by skill and education, 84% business performance is affected by technology and infrastructure.

Keywords: constraints, small and medium businesses, Uganda

INTRODUCTION

Small scale enterprises have been accepted worldwide as an instrument of economic growth and development [1]. Uganda Investment Authority (UIA) reports that the Uganda SME sector employs over 2.5 million people which constitute about 90% of employees in the private sector. The government of Uganda has made tremendous efforts to establish policies and programs that enhance the capacity of small and medium scale enterprises. This has been evident with examples like: Rural Farmers' Scheme, "Bona Bagagawale" scheme, Loans on Personality basis, "Entandikwa" Scheme, Family Youth Livelihood and Women Entrepreneurship Enterprise Schemes, wealth creation schemes among others. However, despite the government's effort and policies to support enhancing the capacity of small and medium scale enterprises, their performance has not met the expectation [2]. This study aims assessing the business constraints affecting performance of small scale business in Uganda, more so on SMEs in Kabale Municipality.

RESEARCH METHODOLOGY

Research Design

To achieve the study objectives a mixed research design was used. That is, both quantitative and qualitative methods of data collection were used.

Area of Study

The study was carried out in Kabale Municipality among enterprise owners who are engaged in SMEs. To avoid creating bias, rotary random sampling was used to select this area.

The Total Population

Kabale Municipality has 831 people that own small and medium enterprises which are engaged in a number of different activities which include; Bakery and confectionery, Grain/cereal utilization, metal casting and fabrication, handcrafts, beverages and food processing, grain milling, tailoring, tie and dye, textiles and garments, leather products, woodworks, pottery and clay molding, sand works, Herbs,

shop keeping, mining and quarry, knitting, printing and publishing, hair salons, crude 'waragi' distillation, building contracts, blacksmith, charcoal burning, bricks and tile making, technical services, transport, petrol station operations, motor repair garages, recording studios, saw milling, TV, Radio, and Electronic Repair workshops. Kabale Municipality is the center of trade activities and most activities are located in the central division. There also several SACCOs, Banking and financial institutions which provide support in terms of funding to the above small scale business activities to boost their performance [2].

The Study Population

The study population comprised of two main categories of respondents. Eligible respondents who were small and medium enterprise owners as the major group and authorities (municipality employees in charge of SMEs) as the minor group). Owners of businesses were selected on the basis of being the best people to describe the business constraints affecting their performance. The authorities who were used as key informants include 1 District Community Development Officer (DCDO), 5 LC1 Chairpersons (Upper Bugongi, Lower Bugongi, Kijuguta for Northern Division and Nyabikoni, Central Cell for Central Division), 2 Commercial Officers, 6 Officers from Revenue Collection office (3 from each division) and 2 Community Development Officer (CDO). These were influential and experienced persons who deemed suitable to provide qualitative information about the current situation of Business constraints affecting small and medium enterprises in the municipality as a whole given the nature of their work.

Sample Size

Slovens' formula of sampling was used to calculate the sample size to eliminate bias or error of confidence since the behavior of the study population is not known by the Researcher. It is a bias free selection method for sample size.

Sample formula; $n = \frac{N}{1 + N(e)^2}$

Where n = desired sample size

N= size of the population

e= Limit of error tolerance which was assured to be 5% (0.05); confidence limit.

Therefore, if the researcher computed in the above formula, the number of respondents would be obtained as follows;

N = 831

e = 5% or 0.05

$n = \frac{831}{1 + 831(0.05)^2}$

$n = 270.02437$

n = 270 rounding off to the nearest whole number.

Sampling Technique

The purposive sampling methods were used to select authorities (key informants) because they are believed to have valid information about SMES in the municipality and systematic sampling was also used to select respondents that own small and medium enterprises and to ensure fair representation of Small Micro Entrepreneurs was used.

Data Collection Methods

Questionnaires and interview guide were used as instruments of data collection. Interviews were done /conducted as a method of data collection from the Municipality authorities who were influential and experienced with knowledge of Small and Medium Enterprises in Kabale Municipality to register their views about the performance of the SMES.

Questionnaires

These were administered to owners of small and medium enterprises and they were meant to find out their knowledge, opinions and attitudes on the area of study. The questionnaires were semi structured in nature containing both open and closed ended questions. The instrument was preferred because it was time saving as one spends little time in moving from one respondent to another during data collection unlike in interview method. Besides, with questionnaires, the respondents could freely answer sensitive and true questions and the respondent is given enough time providing accurate and detailed information [3].

Validity and Reliability of the Instruments

The researcher tested for validity and reliability of the non-standardized questionnaires. Content validity index was measured by ensuring that the questions or items in questionnaire conform to the study's conceptualization. The items were taken from the related literature. Supervisors and other senior people who are experts in the field of the study evaluated the relevance, wording and clarity of questions or items in the instruments. All questions which were relevant were ticked and considered while those which were not relevant were crossed and eliminated. The researcher then counted the ticked questions and divided them by the total number of questions in the questionnaire and each answer from every member was added together using the formula below. The answer obtained was above 70% (0.7) and they were considered valid.

$$\begin{aligned} \text{CVI (V)} &= \text{Number of valid questions (n)} \\ &\text{Total number of questions (N)} \\ &= (78 / 82) \\ &= 0.95 (95\%) \end{aligned}$$

Reliability or Pilot Test

In order to test the reliability of the tool, pilot test was used where questionnaires were taken to the field and distributed to SME owners in Kisoro Municipality, Kisoro District to test their internal consistence. It was found out that they were consistent.

Data Analysis

Qualitative and quantitative method of data analysis was used. The Statistical

Package for Social Scientists (SPSS) was used for analysis as this package enables a large number of variables to be tested simultaneously. Quantitative data was summarized using percentages and Chi-square which were useful in describing and analysing data. Qualitative data were analysed using Interpretational and General Content Analysis.

Ethical Consideration

The study necessitated the use of human participants as well as the acquisition of some confidential district data and other authorities' information. Thus in this research ethical considerations were identified and prioritized. The researchers ensured that consent and confidentiality are safeguarded during the entire duration of study. An introductory letter from KIU institution review Board (IRB) and seeking permission from institutional heads like Town Clerk and L.CS was a must. Rules of Confidentiality through anonymous self-administered questionnaires and using numbers instead of names and titles for the key informants, informed consent by allowing participants to first sign an informed consent form, voluntariness through self-will to participate without coercion, Risk/benefit ratio and respect of persons through prior education and information giving about the main purpose of and importance of their participation was followed during execution of the study.

RESULTS
Table 1: Equipment as a business constraint

Division	Raw materials			Technology			Infrastructure		
Inadequate	Cost	Poor	Production	High	Expensive	Causes	Affected		
fluctuation		quality	timeliness	output	to	delay	growth		
Maintain									
Central	Count	15	76	35	65	51	35	59	41
% of		5.5%	28%	13%	24%	19%	13%	22%	15%
Total									
Count		4	19	5	30	35	27	39	38
Northern	% of	1.5%	7%	2%	11%	13%	10%	14.5%	14%
Total									
Count		19	95	40	95	86	62	98	79
Total	% of	7%	35%	15%	35%	32%	23%	36.5%	29%
Total									
Cumulative count		154			243			177	
Cumulative %		57%			90%			65.5%	

Source: Primary data

Using the Principle Component Analysis technique on a data set with a large number of variables, the amount of explained variation can be compressed to just a few components. From the above data, three components were derived at to be crucial to the study in determining whether Equipment as a constraint affects the performance of SMEs. These components were raw materials used, technology used Infrastructure.

Raw Materials - 57% of the respondents believed that raw materials which are used in the process of production of goods and services can be a constraint to SMEs affecting their performance in comparison to the remaining 43%. Out of the 57%, 7% said the raw materials used during production are inadequate to meet the demand for the products, 35% said there is a high fluctuation in the cost of materials causing a product price increase, and 15% of these respondents said the quality of the raw materials used has affected the quality of the product produced and in turn affecting the performance of the

business. In an interview with the Community Development Officer (CDO) in Central Division, Kabale Municipality had this to say: Technology - 90% of the respondents said that the technology used may be a constraint to the business in comparison to the remaining 10% who thought technology could not be a business constraint. Out of the 90% that agreed to technology as one of the factors affecting performance of SMEs, 35% of them believed that the use of machines makes the production process quick and fast helping them be able to meet their customer demand and wants easily, 32% mentioned that the use of improved technology leads to a high level of product output that are of a high quality, and 23% of these respondents said that the use of machinery is expensive and that machines breakdown very easily. This is in line with an interview with the LC1 chairperson of Upper Bugongi, Northern Division and this is what he had to say: Infrastructure-65.5% of the respondents believed that infrastructure is one of the factors

affecting the performance of small and medium enterprises in the Municipality compared to 34.5% who did not believe the later. Out of the 65.5%, 36.5% believed that the poor road network had delayed the transportation of materials used during production and 29% feel that the poor infrastructure of the municipality affected the growth of their business. From the findings data presented above, the Researcher found Equipment to be a constraint to small and medium enterprises and that technology was considered to be the most factor affecting the performance of

small and medium enterprises as it constituted 90% (243 out of 270 respondents) of the respondents that agreed to it, followed by infrastructure that constituted 65.5% (177 out of 270 respondents) of the respondents and raw materials was found to be the least constraint constituting 57% (154 out of 270 respondents) of the respondents. This shows that technology and infrastructure in Kabale Municipality are poor affecting the performance and growth of small and medium enterprises in the region.

Table 2: People as a business constraint

Division	Education and skill			Culture			Motivation		
Education level	Expensive	Employee	Prohibits	Employee	gender	Low	Goal		
Activities	to hire	turnover	certain	behavior		wages	clarity		
Central	Count	78	51	38	49	19	73	113	22
% of		29%	19%	14.2%	18%	7%	27%	42%	8%
Total	Count	30	37	14	22	14	49	89	11
Northern	% of	11%	13.8%	5%	8%	5%	18%	33%	4%
Total	Count	108	88	52	71	33	122	202	33
Total	% of	40%	32.8%	19.2%	26%	13%	45%	75%	12%
Total									
Cumulative count			248			226			235
Cumulative %			92%			84%			87%

Source: Primary data

Using the Principle Component Analysis technique on the data set, the above data, three components were derived at to be crucial to the study in determining whether People as a constraint affect the performance of SMEs. These components were Education and skills, Culture of employees and employee motivation. Education and Skill - 92% of

the respondents believed that people involved in the activities of small and medium scale businesses are likely to be a constraint to these SMEs affecting their performance in comparison to the remaining 8%. Out of the 92%, 40% said there employees have not attained a high level of education and lack the required skills. 32.8% of these

respondents said it is expensive to employ people who are skilled as well as educated and, 19.2% of these respondents said the employees that are skilled and well educated tend to leave the business seeking higher paying jobs thus affecting the performance of the business.

Lack of skilled people limits the business growth. Mental models held by people can cause behavior that becomes a constraint. A skilled worker is any worker who has special skill, training, knowledge, and usually acquired ability in their work. Education is one of the factors that positively impact the performance of firms by providing managerial skills and knowledge. So the higher the level of education attained by entrepreneurs and employees the higher the level of skill acquired which boosts business performance. Culture - 84% of the respondents said that culture of a person or society can be a constraint to the business in comparison to the remaining 16% who believed that culture cannot affect the performance of small and medium enterprises. Out of the 84% that agreed to culture being one of the factors affecting performance of SMEs, 26% said their culture and religion prohibits them from engaging in some business activities, 13% reported that employee behavior towards customers and fellow workers affects the level of performance of small and medium enterprises and 45% of the respondents said it is hard for them to employ women because they feel women are naturally weak.

Motivation- 87% of the respondents believed that motivation is one of the factors affecting the performance of

small and medium enterprises in the Municipality compared to 87% who did not believe the later. Out of the 87%, 75% believed that the wages paid are not attractive for them to be able to hire educated employees and 12% feel that performance of small and medium enterprises is poor because their employees are not aware of what the business intends to achieve. From the data presented above, the People were found to be a constraint to small and medium enterprises. Education and skill of employees was considered to be the most factor affecting the performance of small and medium enterprises as it constituted 92% (248 out of 270 respondents) of the respondents that agreed to it, followed by motivation that constituted 87% (235 out of 270 respondents) of the respondents and culture was found to be the least constraint constituting 84% (226 out of 270 respondents) of the respondents. All the three components tested, that is, Education and skill, culture and motivation have a high value of respondents implying that People is a factor that needs to be looked at as one that may hinder the performance of small and medium enterprises in Kabale Municipality if not looked into for a solution. Education and skill of the employees in small and medium enterprises according to the study was found to be very poor and this can negatively affect the performance of these SMEs. SME owners (entrepreneurs) should employ skilled and educated people that can easily adapt to the constantly changing business environments.

Table 3: Response on Policy Constraint

Division	Management Policy			Government Policy			Monetary policy			
Delayed		Low	Favorable	Low	High	Expensive	inflation	High		
decisions		supply	to	demand	tax rate	transport		interest		
environme								rate		
Nt										
Central	Count	70	51	27	49	78	24	49	51	46
% of Total		26%	19%	10%	18%	29%	9%	18%	19%	17%
Count		30	11	19	14	49	16	32	35	11
Northern	% of Total	11%	4%	7%	5%	18%	6%	12%	13%	4%
Count		100	62	46	63	127	40	81	86	57
Total	% of Total	37%	23%	17%	23%	47%	15%	30%	32%	21%
Cumulative count			208			230			224	
Cumulative %			77%			85%			83%	

Source: Primary data

Using the Principle Component Analysis technique on a data set, three components were derived at to be crucial to the study in determining whether Policy as a constraint affects the performance of SMEs. These components were Management policy, Government policy and Monetary (Economic or financial) policy. Management Policy - 77% of the respondents believed that policy governing the activities of the small and medium enterprises affect their performance either positively or negatively compared to 23% who feel that management policy does not affect the performance of SMEs. Out of the 77% in favor of management policy affecting business performance, 37% of the respondents said management policy of the business delays the decision making

process which in turn affects performance especially in the production line, 23% of these respondents said that the goods and services produced are of low quantity and are not enough to meet customer demand thus affecting customer satisfaction affecting business performance on the market and, only 17% of these respondents said their management policy is favorable for the environment which may affect the business negatively or positively especially in regard to their customers Government Policy- 85% of the respondents said that the government policy may be a constraint to the business in comparison to the remaining 15% who thought government policy does not in any way affect the performance of small and medium

enterprises. Out of the 85% that agreed to government policy as one of the factors affecting performance of SMEs, 23% said the government discourages their product from being sold on the market so the product demand is very low, 47% of the respondents said the taxes levied on them are of a high rate which discourage the growth potential of small and medium enterprises, whereas, 15% of the respondents said transportation of materials and salable has been made difficult due to high tax rates levied on business owners that are stipulated in the government policy affecting their performance especially with importing and exporting of products.

Fiscal Policy- Fiscal policy can as well be termed as economic or financial policy. 83% of the respondents believed that fiscal policy is one of the factors affecting the performance of small and medium enterprises in the Municipality compared to remaining 17% who did not believe the later. Out of the 83%, 30% of the respondents said Inflation of money causes a change in supply and demand for products affecting the business either negatively or positively, 32% of the respondents said the cost of borrowing is too high to enable the business access financing which can constrain the business' financial position affecting its performance. 21% of the respondents said that availability of enough money in

supply due to employment increases customer consumption and when there is a high rate of unemployment, consumption is also low affecting the business performance either positively or negatively.

From the data presented above, Policy to be a constraint affecting performance of small and medium enterprises and that government policy was considered to be the most factor affecting the performance of small and medium enterprises as it constituted 85% (230 out of 270 respondents) of the respondents that agreed to it, followed by fiscal policy that constituted 83% (224 out of 270 respondents) of the respondents and management policy was found to be the least constraint constituting 77% (208 out of 270 respondents) of the respondents. This shows that when government changes the policy governing enterprises it also forces enterprises to change the way they operate which can affect their performance either negatively or positively. Fiscal policy on the other hand affects the output of the products and in the long run affects. New decisions made by management that contradict the already existing ones can have either a negative or positive effect on performance. This implies that policy as a constraint needs to be addressed to improve the performance of small and medium enterprises in Kabale Municipality.

Table 4: Loan accessibility as a business constraint

Division		Flexibility		Loan size			Collateral	
Inflexible			Unfavorable	High	Inadequate	Low amount	Collateral	Fear of
collection			repayment	interest	information	borrowed	size	confiscatin
procedure			period	on loan				g property
Central	Count	46	43	62	68	76	65	62
% of		17%	16%	23%	25%	28%	24%	23%
Total								
Count		32	30	32	38	46	60	51
Northern	% of	12%	11%	12%	14%	17%	22%	19%
Total								
Count		78	73	94	106	122	125	113
Total	% of	29%	27%	35%	39%	45%	46%	42%
Total								
Cumulative count			245			228		238
Cumulative %			91%			84%		88%

Source: Primary data

Using the Principle Component Analysis technique on a data set with a large number of variables, the amount of explained variation can be compressed to just a few components. From the above data, three components were derived at to be crucial to the study in determining whether loan accessibility affects the performance of SMEs. These components were loan flexibility, Loan size and the collateral required to access a loan.

Flexibility - 91% of the respondents believed that flexibility during loan accessibility is an important factor that affects the performance of small and medium enterprises in Kabale municipality in comparison to 9% who do not believe so. Of the 91%, 29% of the respondents said inflexibility of the loan collection procedure does not them enable them make profit for their business leading to poor performance, 27% said the loan repayment period is unfavorable to allow them make profits thus affecting their performance and

35% said the interest rate charged on their loans was an affordable negatively affecting the performance of these small and medium scale enterprises.

Loan Size - 84% of the respondents said the size of the loan being offered to business owners is one of the constraints that affect the performance of SMEs whereas the remaining 16% felt that loan size did not affect the performance of small and medium enterprises in any way. Of the 84%, 39% said the information they had received from their MFI/Banks on the loans borrowed was in-adequate and the remaining 45% of the respondents were not contented with the maximum amount of money the MFI/Bank had offered to lend them.

Collateral - 88% of the respondents said collateral is one of the elements that determine loan accessibility as a constraint affecting business performance whereas 12% did not agree to the later. Out of the 88%, 46% said their lending institutions were strict with collateral before loan disbursement

and 42% said the lender would warn them before confiscating their property. The results of the three components showed that flexibility was the most important component in explaining Loan Accessibility constituting 91% (245 out of

270), followed by collateral security, constituting 88% (238 out of 270) while loan size was the least and constituted 84% (228 out of 270) of total observed on Loan Accessibility as a constraint to business performance.

Table 5: Taxes as a business constraint

Division		Timeliness	Satisfaction	Pay income	Tax debt		
Feedback not given on time performance		URA is not concerned about	Penalized for delay in payment	Taxpayers do not benefit from taxes paid	Taxable income not fully disclosed on failure to pay tax		
Central	Count	32	27	62	119	149	135
% of Total		12%	10%	23%	44%	55%	50%
Count		11	19	39	65	95	81
Norther N	% of Total	4%	7%	14.3%	24%	35%	30%
Count		43	46	101	184	244	216
Total	% of Total	16%	17%	37.3%	68%	90%	80%
Cumulative count			190		184	244	216
Cumulative %			70.3%		68%	90%	80%

Source: Primary data

Using the Principle Component Analysis technique on the data, four components were derived at to be crucial to determining whether Taxes levied on SMEs affect their performance. These components were Timeliness of the tax, satisfaction got from paying tax, Pay income (Taxable income) and Tax Debt. Timeliness; 70.3% of the study respondents timeliness in taxes levied of businesses is one of the factors that affect performance of small and medium enterprises compared to the remaining 29.7%. Of the 70.3% respondents that said timeliness of taxes levied affects business performance, 16% said they did not get timely feedback when they complained

to their Tax Assessors, 17% felt that the Tax body (URA) was not concerned about their performance and 37.3% said they did not pay their taxes on time and were penalized by URA thus negatively affecting their performance. Satisfaction; 68% of the respondents believe URA did not help them as tax payers to benefit from tax payment whereas the remaining 32% believe they can benefit from tax payment. This has caused business persons being reluctant towards payment of taxes hence affecting their performance in the long run when penalized by URA. Pay Income- Pay income is the amount of money that is levied on a tax payer. 90% of the respondents said they

disclose all the incomes they earn for tax purposes compared to the remaining 10% who do not disclose all their income. When Tax Assessors discover that the income disclosed is less than the amount one earns from business, an interest is charged on this person inform of a penalty. This has contributed to a high percentage of respondents disclosing all their income earned to evade this penalty. Tax Debt-80% of the respondents had an outstanding debt with tax authorities and fear that the Tax authorities want to close their businesses and 20% do not have a tax debt and have no fear of business closure. This is because some businesses are subjected to tax which may be high for the business to be able to pay on time and make maximum profit at the

Results in table 1 above (Equipment as a business constraint) revealed that equipment is one of the constraints affecting small and medium enterprises in Kabale Municipality. This is in line with [4] theory of constraints on which this study was based. Eliyahu mentioned Equipment as one of the three constraints affecting business operations together with People and Policy. In this study, Equipment was found out to be a constraint affecting SMEs through the use of its components which were determined using Principal component analysis technique. The components of equipment were found to be, raw materials used by the business, technology used by the business and infrastructure. Using these components to determine equipment as a business constrain, the study revealed that, technology used was seen to be supported by majority (90%) of the respondent as a constraint that affects the business. This is in a way that, the use of improved technology causes production to be timely, fast and bring about high output affecting the business performance positively but on the other hand it is costly and expensive in terms of hiring skilled labour and maintenance cost. If these are not managed then it will lead to poor performance. Infrastructure and raw materials that are used in the process of production were also found to constrain the SMEs constituting 65.5%

same time. This negatively affects the performance of the business also discouraging its continuity and survival. The four factors above explain taxes levied on businesses as a factor that affects its performance negatively or positively. Timeliness explaining 70.3% of tax effect on business performance was the highest, followed by Pay Income constituting 90%, then Tax Debt explaining 80% of the effect of tax levied on performance and lastly, Satisfaction explaining 68% of tax effect on performance of small and medium enterprises in Kabale Municipality.t. This confirms that the four components are measures of tax effect and affect the performance of SMEs if not attended to threatening its survival.

DISCUSSION

and 57% respectively. If the infrastructure (road network, electricity, water and schools among others) of a country is good then this will bring about improved performance in SMEs by making it easy to transport raw materials, encouraging trade outside and inside the municipality and making production easy among others. On the other hand, if the infrastructure of the country is poor then it will discourage innovation and investment leading to poor performance of SMEs. Also if the raw materials used during the process of production it will yield high returns boosting the performance of business and if the raw material used yields low returns it negatively affects the performance of SMEs. Therefore, equipment used by SMEs is a constraint that determines their performance. This is in line with; Manufacturers Association of Nigeria as cited in [5] in its assessment observed that inadequate supplies of equipment cause stagnation, low quality of products, and poor performance among others. Results in table 2 above (People as a business constraint) revealed that People are one of the constraints affecting small and medium enterprises in Kabale Municipality. This is in line with [4] theory of constraints on which this study was based. In this study, People were found to be a constraint affecting SMEs through the use of its

components which were determined using Principal component analysis technique. The components of People constraint were found to be, education and skills attained by individuals, culture of the people and the level at which people are motivated. Using these components to determine people as a business constrain, the study revealed that, education and skill of a person were seen to be supported by majority (92%) of the respondent as a constraint that affects the business. This is in a way that, if the business makes use of labour that is skilled and educated it improves the performance of the business and if the labour is unskilled it might affect the business thus constraining its performance. Also skilled and educated labour was perceived to be expensive to hire and hard to maintain in a way that the rates of labour turnover was high as people would go to seek high paying jobs. This constrains the business thus affecting its performance. Culture and motivation were also found to constrain the SMEs constituting 84% and 87% respectively. If the culture of people may be a constraint to business as some activities are considered as taboos in the culture where people belong and motivation on the other hand also constrains a business in a way that if a person is highly motivated they will put their best to what they do and in turn yield to the good performance of the business and the reverse is true for a demotivated person. Therefore, people are a constraint that determines their performance. This is in line with; [6] who stated that, individual skilled workers are more valued to a given company than individual non-skilled workers because skilled workers tend to be more difficult to replace. As a result, skilled workers tend to demand more in the way of financial compensation because of their efforts. According to Greenspan, corporate managers are willing to bid up pay packages to acquire skilled workers as they identify the lack of skilled labor as one of today's greatest problems.

Results in table 3 above (Policy as a business constraint) revealed that policy is one of the constraints affecting small and medium enterprises in Kabale

Municipality. This is in line with [4] theory of constraints on which this study was based. The components used in determining policy as a constraint to business were, management policy, government policy and fiscal policy. Government policy was found to be the greatest policy(85%) constraining business operations in a way that if government sets policies governing business operations that encourage innovativeness and investment it will boost the performance of business and if the policy discourages innovativeness and investment then business operations are also discourages. Fiscal policy also affects the businesses in the area in a way that if the level of employment is high then customers are willing to spend money and in a way boost business performance and if the rate of unemployment is high, money in circulation is also low and thus affecting the business operations. Management policies past by management can also affect the operations of the business either positively or negatively. Therefore, policy governing SMEs is a constraint that determines their performance. This is in line with; [7] who stated that nationalization, expropriation, fundamental change in government policy and in government affects the performance of SMEs. For instance, where government encourages private initiative, foreign investment and non-oil export will indeed yield various incentives that can enhance the performance of SME through the creation of a conducive environment. Results in table 4 above (loan accessibility as a business constraint) revealed that the loans from the MFIs and Banks to SMEs were unfavorable. Specifically, owners of SMEs were not satisfied with the maximum loan amounts, flexibility in collection procedures, favorable repayment schedules, high interest rates as well as adequacy of the information provided in relation to the loans. It was found out that the maximum loan amounts were not adequate enough for the borrowers to meet their due financial needs. That Banks are strict with their collection procedures and that the interest rates are still high. What has to be considered also is that whereas

these SMEs are driven by the credit terms as the basis for choosing the MFIs, it is important to consider the reliability and ethical practices. This is because while on the surface it may appear to be

providing favorable loan terms, there may be other indirect costs that may never be in the knowhow abilities of the SME owners.

CONCLUSION

Basing on the findings, it can be concluded that Business Constraints like equipment, people, policy, loans accessibility and taxes affect the performance of SMEs. SMEs have a challenge which hinder their business operation and hence affects the net profits obtained. More so, Eliyahu Goldratt in his theory of constraints only highlighted three constraints that affect the performance of business as

Equipment, People and policy and they were found to be constraints that affect the performance of businesses in Uganda. However, in this study the results revealed there are other constraints that affect the performance of small and medium enterprises and these include; loan accessibility, business location, political stability, uncertainty and risk and motivation.

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