http://www.inosr.net/inosr-humanities-and-social-sciences/
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INOSR HUMANITIES AND SOCIAL SCIENCES 8(1): 1-10, 2022.

International Network Organization for Scientific Research ISSN: 2705-1684

Performance 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 Munincipality. The objectives of the study were: to identify and explain the constraints of small medium enterprises. To assess the performance 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 key factors that influenced performance of small and medium enterprises were identified as equipment, policy, people behavior, political stability, business location, uncertainty, social cultural beliefs, and gender as well as government policy.

Keywords: performance small, medium, business, Kabale Municipality

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.

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 (Kabale Municipality Statistical Abstract, 2016).

Sample Size

Slovens' formular 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 Munincipality 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 [2].

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.

CVI (V) = Number of valid questions (n)
Total number of questions (N)
= (78 / 82)
= 0.95 (95%).

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 analyzing 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: Throughput as a measurement of performance

Division		**Net profit Margin**			**Current Asset Management**			**Capital employed**	
Customer			**Market**	**Profit**	**Product**	**Debtors**	**Raw material**	**Funding**	**Cash**
share			**share**	**generation management**	**portfolio**	**turnover**	**management**	**investments**	
Central	Count	49	32	35	46	51	38	30	89
% of Total		18%	12%	13%	17%	19%	14%	11%	33%
Count		19	30	14	14	22	24	14	38
Northern	% of Total	7%	11%	5%	5%	8%	9%	5%	14%
Count		68	62	49	60	73	62	44	127
Total	% of Total	25%	23%	18%	22%	27%	23%	16%	47%
Cumulative count			179			195		171	
Cumulative %			66%			72%		63%	

Source: Primary data

Using the Principle Component Analysis technique on the data set three components were derived at to be crucial to the study in assessing performance of SMEs using throughput technique. These components were net profit margin, current asset management and capital employed. Net Profit Margin; Net profit margin constituted 66% of the study respondents using throughput as a tool to measure performance of their business in comparison to the remaining 34%. From the 66%, 25% felt the number of customers they serve had increased over the years from business conception. 23% said their market share had increased within the last three years and 18% felt their profit levels had increased and were able to generate profits in the last two years. Current Asset Management; 72% of the respondents used current asset management to measure the performance of their business performance in comparison with the remaining 28% who did not. From the 72% using current asset management, 22% of these respondents said their

product portfolio on the market had increased. 27% said their debtors paid them well and on time and 23% had always experienced stock outs. Capital Employed: this constitutes 63% of the respondents using through put as a tool to measure performance in comparison to the remaining 37%. Of the 63%, 16% had the capacity to fund capital investments and 47% felt they had inadequate cash balances both at hand and bank for the smooth running of the business. From the findings data presented in table 4.12 above, the Researcher found throughput to be a tool that small and medium enterprises use to measure their performance. Of the components used current asset management was found to be the highest tool of throughput used to measure business performance constituting 72% (195 out of 270 respondents) of the respondents, followed by net profit margin which constituted 66% (179 out of 270respondents) and lastly capital employed that constituted 63% (171 out of 270 respondents). This shows that there is a small market base for SMEs in Kabale Municipality, there is limited capacity to fund capital investments and working capital to meet the day today requirements of SMEs is small.

Table 2: Inventory management as a tool to measure performance

Division		**Stock level**			**Sales level**			**Customer Retention**	
	Increased stock levels		**Stock reordering responsibility**	**Maximized output level**	**Increased sales level**	**Customer satisfaction**	**Profit maximization**	**Customer care**	**Social**
Level									
Central	Count	46	43	30	38	46	32	62	57
	% of Total	17%	16%	11%	14%	17%	12%	23%	21%
Northern	Count	11	24	16	35	14	19	43	35
	% of Total	4%	9%	6%	13%	5%	7%	16%	13%
Total	Count	57	67	46	73	60	51	105	92
	% of Total	21%	25%	17%	27%	22%	19%	39%	34%
Cumulative count			170			184			197
Cumulative %			63%			68%			73%

Source: Primary data

Using the Principle Component Analysis technique on the data set above, three components were derived at to be crucial to the study in assessing performance of SMEs using Inventory management technique. These components were stock level, sales level and customer retention.

Stock Level - In this component, 63% of the respondents measured their business performance using stock levels in comparison to the remaining 37%. Of the 63% respondents, 21% said they had experienced increased levels of stock during the past two years, 25% said they used to receive their stock on time when an order was placed and 17% said the quality and quantity of stock used helped with maximization of profits during production.

Sales Level - 68% of the respondents said that the level of business sales assess business performance in comparison to the remaining 32% who thought sales level could not assess business performance. Out of the 68%

stated above, 27% of them believed that there sales level had increased encouraging them to maximize their profits, 22% mentioned that they are able meet the needs demands of customers bringing about customer satisfaction and 19% said the increase in their level of sales has encouraged and enabled them to maximize their profits.

Customer Retention- 73% of the respondents believed that customer retention is a way in which business performance can be measured compared to the remaining 27%. Out of the 73% respondents stated above, 39% believed that they possess a high level of customer care by maintaining a good relationship with them helping customers derive satisfaction. 34% of these respondents said their business is involved in social responsibility which helps them reach out to potential customers increasing their market share. From the findings data presented in table 3 above, it was found out that inventory is a tool that businesses use to assess their level of performance on the market. Customer retention was found to be the most important component for assessing performance of small and medium enterprises as it constituted to 73% (197 out of 270 respondents) of the findings made above. Sales level of the business was found to be the second best constituting to 68% (184 out of 270 respondents) of the findings. Stock level was the least component constituting 63% (170 out of 270respondents) of the respondents. This shows that the three components that is, stock level, sales level and customer retention are important in assessing the level of performance of a business as it enables the business be maximize profit through increasing their sales and stock levels and increase their market base by attracting customers and making sure they are retained.

Table 3: Operation Cost as a tool to measure of performance

Division		Cost of Production			Business Expansion			Waste reduction	
Reduced cost of production			Profit maximization	Cost management	Business expansion	Increased market share	Competitive advantage	Reduction in waste levels	Raw material management & storage
Central	Count	35	38	43	51	46	32	54	65
	% of Total	13%	14%	16%	19%	17%	12%	20%	24%
Northern	Count	14	19	24	11	32	24	19	46
	% of Total	5%	7%	9%	4%	12%	9%	7%	17%
Total	Count	49	57	67	62	78	56	73	111
	% of Total	18%	21%	25%	23%	29%	21%	27%	41%
Cumulative count			173			196			184
Cumulative %			64%			73%			68%

Source: Primary data

Using the Principle Component Analysis technique on the data set above, three components were derived at to be crucial to the study in assessing performance of SMEs using Operation Cost management technique. These components were cost of production, Business expansion and waste reduction.

Cost of Production - 64% of the respondents believed that businesses can assess the level of their performance using cost of production as a component of operation cost management compared to the remaining 36%. Of the 64% respondents in favor of using cost of production management, 18% of the respondents stated their cost of production had reduced over the years increasing their profits, 21% stated that profits earned during the year were more than the costs incurred, and 25% said they were able to meet their day to day costs involved in production and remain with a surplus.

Business Expansion - 73% of the respondents assessed their business performance using business expansion which is a component of operation cost management. From the 73%, 23% of the respondents said that they had experienced an expansion in their business during the past two years, 29% said they had experienced an increase in their market share, that is to say the number of their customers increased. 21% of these respondents stated above said they attained competitive advantage over their competitors improving their market base.

Waste reduction- 68% of the respondents used the component of

waste reduction to assess the performance of their businesses in comparison to the remaining 32%. Of the 68% in favor of this component, 27% said they had managed to attain a reduction in their level of waste increasing productivity and 41% of the respondents had managed their raw materials well so that they are not put to waste which increases costs in operation and providing spacious environments were these raw materials are well kept and handled. From the data presented above, it was found out that operation cost management is a tool that businesses use to assess their level of performance on the market. Business expansion was found to be the most important component for assessing performance of small and medium enterprises as it constituted to 73% (197 out of 270 respondents) of the findings made above. Waste reduction was found to be the second best constituting to 68% (184 out of 270 respondents) of the findings. Stock level was the least component constituting 64% (173 out of 270respondents) of the respondents. This shows that the three components that is, cost production, business expansion and waste reduction are important in assessing the level of performance of a business as it enables the business be maximize profit through increasing decreasing costs in production eliminating waste leading to business expansion.

Table 4: Business Constraints and their effect on SME performance

Division & economic policy		**Financing**	**Government**	**Business location**	**Political stability**	**Uncertainty & Risk**	**Entrepreneur & Employee skill**	**Technology & Infrastructure**	**motivation**
Central	Count	154	130	113	159	127	149	165	105
	% of Total	57%	48%	42%	59%	47%	55%	61%	39%
Northern	Count	97	105	84	59	59	97	62	103
	% of Total	36%	39%	31%	22%	22%	36%	23%	38%
Total	Count	251	235	197	218	186	246	227	208
Total	**% of Total**	**93%**	**87%**	**73%**	**81%**	**69%**	**91%**	**84%**	**77%**

Source: Primary data

Finance - From the data presented in the table above, business financing was seen to be the greatest aspect (constraint) affecting the performance of small and medium enterprises in Uganda. It constituted 93% of the respondents where 251 respondents out of the 270 respondents mentioned business financing as a factor that affects the performance of small and medium enterprises either negatively or positively. Availability of finance determines the start, growth and sustainability of business in Uganda. For an entrepreneur to start up a business he needs to have funds required for the business to take off and majority of these business owners do not have enough funds to invest into the business. So they look for other sources of finance which include acquiring loans from financial which come with their own challenges. Loan accessibility in Uganda is not easy as

earlier discussed. The management of finance its self is important because it can either affect the performance of the business negatively or positively. Policy (Government and Economic) - From the data presented in the table above, Policy both government and Economic policy were seen to be the third greatest constraint affecting the performance of small and medium enterprises in Uganda today. It constituted 87% of the respondents where 235 respondents out of the 270 mentioned that policy affects the performance of small and medium enterprises either negatively or positively. Government policies are tools in the hand of government used to create an environment for the SMES to thrive. Government creates rules and frameworks in which Enterprises are able to compete against each other favorably from time to time. When government changes the rules and frameworks governing operations of small and medium enterprises, Enterprises are forced to change the way they operate. The government policy changes are capable of affecting small and medium enterprises positively promoting innovation and new Enterprises start-up or affecting them negatively discouraging innovation and the springing up of new enterprises. Government policy can also negatively affect the already existing enterprises leading to collapse and poor performance. It is the role of the government to establish policies that will boost the performance of SME in Uganda. Economic policies are the actions by government that are intended to influence the economy of a city, state, or nation. Some examples of these actions include setting tax rates, setting interest rates, inflation and government expenditures.

Location- From the data presented in the table above, business location was seen as one of the least factors affecting the performance of small and medium enterprises in Uganda. It constituted 73% of the respondents where 197 respondents out of the 270 respondents mentioned business location as a factor that affects the performance of small and medium enterprises either negatively or positively. Location of the business determines the population of customers one will have. If the business is located in an area which is not easily reached by customers or has a very low population then the number of customers the business has will be few. On the other hand performance of the business is determined by the level of competition in the area where the business is located. When locating a business in an area, an entrepreneur has to take note of some factors that may affect the business for example if it is located in an urban center it tends to have higher returns than a business in a rural area due to high population, and also the goods that one deals in can also determine the location of the business. For example, a person selling sweaters cannot locate his business in a hot area like Kasese because the returns will be low due to the hot climate there.

Political Status- From the data presented in the table above, political status of a country or area was seen to be the fifth factor which is moderate in affecting the performance of small and medium enterprises in Uganda. It constituted 81% of the respondents where 218 respondents out of the 270 respondents mentioned political status as a factor that affects the performance of small and medium enterprises either negatively or positively. When there is a change in government it can negatively or positively affect the performance of SMEs. For instance, where government encourages private initiative, foreign investment and non-oil export businesses will indeed yield various incentives that can enhance the performance of SME through the creation of conducive environment. Again, continuity and stability in government will ensure the consistent implementation of good policy which is another area through which politics affect SME performance.

Uncertainty or Risk- From the data presented in the table above, uncertainty and risk were seen the least factor affecting the performance of small and medium enterprises in Uganda. It constituted 69% of the respondents where 186 respondents out of the 270 respondents mentioned uncertainty and risk as a factor that affects the performance of small and

medium enterprises either negatively or positively. The risk and uncertainty level of a business needs to be emphasized and managed in order to boost performance. The higher the level of risk is the more the hindrances to business are and if the rate of risk is low, performance of small and medium enterprises is boosted through profit maximization and stability.

Entrepreneur and Employee Skill - From the data presented in the table above, Entrepreneur and employee skill was seen as the second to the greatest factor affecting the performance of small and medium enterprises in Uganda. It constituted 91% of the respondents where 246 respondents out of the 270 respondents mentioned entrepreneur and employee skill as a factor that affects the performance of small and medium enterprises either negatively or positively. Education is one of the factors that impact positively the performance of firms by providing managerial skills and knowledge required to boost the business. Entrepreneurs with larger stocks of human capital, in terms of education and vocational training, are better placed to adapt their enterprises to constantly changing business environments. Government needs to intensify efforts to ensure the introduction of entrepreneurship as a compulsory course at all levels of the educational system while putting all apparatus in place for effective functioning of Technical and vocational schools in the Municipality where students can be trained with various skills. To achieve this, necessary facilities must be put in place with financial start up like "entandikwa" after graduation by the government with effective monitoring to see how the Enterprises have been performing. This will not only prepare the students' mind to see the reasoning why they will not only depend on white collar jobs that may not be available but also increase SME activities that will positively affect the bottom line of the countries' economy. Technology and Infrastructure- From the data presented in the table above, technology and infrastructure were seen to one of the factors affecting the performance of small and medium enterprises in Uganda. It constituted 84% of the respondents in comparison to the remaining 16% who did not mention it as a factor affecting business performance. 197 respondents out of the 270 respondents mentioned technology and infrastructure as one of the factor that affects the performance of small and medium enterprises either negatively or positively. Infrastructure plays an important role in performance of SMEs in Kabale, Municipality which cannot be overlooked because infrastructure such as: power, good road network, steady water supply, effective communication system and markets are referred to as flavor on performance of SMEs. The absence of the fore mentioned facilities in the life of Enterprises act as a catalyst to some of the Enterprises less performance which invariably can result into winding up if urgent step is not taken on time. Also, the part taken by technology in regards to the Enterprises performance in the stiff competitive environment is inevitable. Technology changes in dynamic manner with the potentiality of impacting negatively on the firm's competitive position. The emergence of technology and its uses have changed the face of Enterprises activities in the country. Motivation- From the data presented in the table above, motivation to do business was seen as the sixth factor affecting the performance of small and medium enterprises in Uganda. It constituted 77% of the respondents in comparison to the remaining 23%. 197 respondents out of the 270 respondents mentioned motivation as one of the key factors that affect the performance of small and medium enterprises in Uganda either negatively or positively. Motivation is a force that drives a person to do something. If a person is highly motivated it encourages him or her to do their best at the job set before him or her boosting performance and if a person is de-motivated, he or she will not have the zeal to put their best at the job set before him or her affecting his performance negatively. Therefore, entrepreneurs and government need to look at ways in which business employees and owner are motivated to

boost the performance of business in the competitive market.

DISCUSSION

Findings show (throughput, inventory and operation costs as a measurement tool for performance) above results revealed that there exists a small market base for SMEs. This has affected the net profit margin as the market share has not increased for the past three years and the profit level for most SMEs has not increased in the past two years. The stock levels of most SMEs have not increased over the years due to limited capital to increase on production. The findings revealed that Business have limited capacity to fund capital investments. Being the main objective of the study, a critical analysis on how Business Constraints affect SME performance was undertaken. Findings from this in table 4.14 above revealed that existence of business constraints affect a business either negative or positively and thus affecting its performance. This implies that the more there are Business Constraints; the Lower will be the performance of SMEs and the lower the business constraint is the better the performance of the business will be. Katto [3] revealed that MFIs may largely rely on standardized credit scoring techniques (quantifying such things as the characteristics, assets, and cash flows of businesses/owners). Therefore, it can be seen that the more stringent the Business constraints are the poorer the performance of the SMEs and vice versa. Recommendations were also suggested especially the improvement in government policy will enhance better performance of SMEs.

CONCLUSION

SMEs performance was found to be moderate as majority of them scored between 60%-68%. They are not performing to their best due to the constraints affecting them which has threatened their performance on the business market and many have failed to survive with in the initial stages. This has made the performance of the sector towards contribution to the Ugandan GDP lacking. When business constraints affecting SMEs are not identified they affect the performance of these SMEs. These constraints may be within the organization or may be a force coming from the outside. If the constraints are unidentified, they tend to grow high in level causing SME performance to be low and when the constraints affecting a business are minimal, performance improves causing the SMEs to thrive thus improving national GDP.

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