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ENTREPRENEURIAL PERFORMANCE AND SMALL BUSINESS ENTERPRISES IN UGANDA

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Abstract

Globally, many scholars view entrepreneurship as important to small business enterprises (SMEs) in general because it is critical to development. Small business development is of key concern in Uganda, because SMEs dominate the Ugandan economy. However, the entrepreneurial performance is very low; it is therefore in the interest of the country to increase performance of these enterprises. This paper develops a conceptual model to test how to increase entrepreneurial performance among small business enterprises in Uganda: log =logα+βlogE +φlogE + logK+ε E p n c θ . Data was collected by means of personal interviews, approximately 2000 face-to-face interviews with the entrepreneurs. Results indicated that entrepreneurship capital, entrepreneurial knowledge and entrepreneurial capacity have significant implications for entrepreneurial performance.

Keywords: Uganda, Small Businesses, Entrepreneurship, Entrepreneurship Capital, Entrepreneurial Performance, Entrepreneurial Capacity and Knowledge.

Introduction

Within the Ugandan government, there has also been a realisation and acknowledgement that Small and Medium Enterprises (SME) have a role to play in any economy. Numerous authors have recognized entrepreneurship as important to small business enterprises (Ligthelm, 2008:367; Kongolo, 2010: 2291; Sebikari, 2014b:12). Kongolo (2010:2289) suggested that both small business and entrepreneurship form the hub of economic development by absorbing productive resources at all levels of the economy. Beyond what has been said, Rafi, Arzu, Khan, ul Haq & Kashif (2013:320) indicate that starting new businesses is the most form of entrepreneurship. According to Walter, Balunywa, Rosa, Sserwanga, Barabas, Namatovu (2004) entrepreneurship focuses on the startup of new firms and ventures. In order for SMEs to thrive and perform to their full potential, various factors have to operate in harmony. Entrepreneurship capital, entrepreneurial knowledge and capacity factors can be major determinants of entrepreneurial performance. Adding further point, the realisation that a sufficient level entrepreneurial activity enhances performance and development has caused many governments to pay special attention to entrepreneurship (International Labour Organisation, 2011). Entrepreneurial knowledge and capacity factors such as the resource configuration for the enterprise, government policy, human capital, business structure, processes, core competencies can determine whether the business can perform or not in a competitive business environment. The enterprise also has to deal with certain entrepreneurship capital factors in the general environment that could either hinder or support performance of the enterprise. Such factors include: resource availability, business start-ups, access to markets, regulation, competitive forces, buying power of the consumers.

Problem Statement

Ugandan large corporations have not created enough jobs to absorb more citizens into the workforce and the government itself as an employer has limited capacity and cannot create employment opportunities for all (Ministry of Finance, Planning and Economic Development, 2012). Scholars have suggested that low entrepreneurial capacity and the cost of accessing initial capital remains high in Uganda (Balunywa et al. 2010:10). The creation of small business enterprises may help to stimulate the economy (Liang & Dunn, 2010:1; Osotimehin, Jegede, Akinlabi & Olajide, 2012:174). The number of small business enterprises has been increasing over the years in Uganda (Nuwagaba & Nzewi, 2013:26); entrepreneurial performance has followed a converse trend. According to Ishengoma & Kappel (2011:353) poor performance and low investment in Uganda is attributed to the unfavourable business environment.

Research Questions

The question of how to increase entrepreneurial performance among small business enterprises in Uganda need to be investigated?

Research objectives

To answer the research question, the paper focuses on the following main objectives:

- To investigate the three fundamental factors affecting entrepreneurial performance among small business enterprises in Uganda (entrepreneurship capital, entrepreneurial knowledge and capacity); and
- To contribute to the limited literature on small business enterprises in Uganda.

Hypothesis

The following hypotheses have been framed:

H1 : A high level of entrepreneurial knowledge is critical to entrepreneurial performance;

H2 : Higher entrepreneurial capacity achieve a higher level of entrepreneurial performance;

H3 : Entrepreneurship capital enhances the level of entrepreneurial performance.

Importance

Although, there have been many related studies in this area, to our knowledge an econometric understanding of the relation between entrepreneurship capital, entrepreneurial knowledge, capacity and performance in Uganda have not been conducted so far, Hence, the empirical findings will contribute to the literature existing on emerging economies in Africa.

Literature Review

Small business enterprises in Uganda

According the census of business establishments in the year 2010/2011showed a growth of 185 percent since 2001/2002 The businesses were in the following sectors; Manufacturing, Tourism/ Hotels, Fisheries, Agro-industry, Floriculture/ Horticulture and Health (Uganda Bureau of Statistics, 2012). The findings are in agreement with (Sebikari, 2014b:14) who found that Uganda's economic success is its small and medium sized enterprises. Within the country, small business enterprises create wealth, employment opportunities, poverty alleviation and stimulate wider prosperity (Mugisha, Wamono & Kikabi, 2012:10). Therefore, provide a means of survival and unlock entrepreneurial potentials (Matovu, 2006; Guha-Khasonobis & Kanbur, 2006). For that reason, the contribution of SMEs globally is huge and extremely important because they create employment and promote entrepreneurial skills (Stefanovic, Milosevic & Miletic, 2009). Below is summary of characteristics of small businesses in Uganda: they promote entrepreneurial spirit; have limited resources; more flexible thus quick to respond to customer demands and controllable.

Entrepreneurial Performance E_p

According to Van Vuuren (1997:3) entrepreneurial performance is the achieving of set entrepreneurial goals. In addition, Ladzani & Van Vuuren (2002:156) argues entrepreneurial performance utilizes the available opportunities to grow the business idea. However, entrepreneurial performance can be measured subjectively and objectively; absolute performance is used to measure objective values using quantitative data while subjective values uses qualitative data by asking perceptive views about performance. Moving the argument along, Performance measurement uses multi–dimensional set of performance measures that include both financial and non-financial, which quantify what has been achieved as well as predict the future (Alhyari et al. 2013). The entrepreneurial performance model will ensure that enterprise's set objectives are attainable and actions taken in future to improve or enhance performance. we propose the conceptual model for this paper, which is used to investigate how

entrepreneurial knowledge, capacity and entrepreneurship capital contribute to increasing entrepreneurial performance.

A conceptual model for Entrepreneurship performance

A conceptual model was developed to test how to increase entrepreneurial performance among small business enterprises in Uganda:

log =logα+βlogE +φlogE + logK+ε E p n c θ

Where α, β, φ and θ are constants;

E_p = entrepreneurial performance;

E n = entrepreneurial knowledge;

E c = entrepreneurial capacity;

K = entrepreneurship capital; and ε represents a white noise error term.

E p Measures entrepreneurial performance; E n , E c and K measure factors of entrepreneurial performance.

- This equation assumes:
  E +E +K= n c p E This implies that if any three factors are known, then the remaining variable (entrepreneurial performance) can be derived.
- Assuming ceteris paribus conditions with respect to all other factors:
  K E E ppp n c inE inE inE in in in % Δ % Δ % Δ = = % Δ % Δ % Δ
- log E p is the natural logarithm of E p
- If logs are taken both sides: logα >0 since E p can be expected to increase with an increase in E n , E c and K .
- logK meaning that when K increases, E p increases at a decreasing rate
- It is required that the degrees of freedom (factor): η− K −1 > 0. The higher the degrees of freedom, the better. E p =entrepreneurial performance: computed as both financial and non-financial measures (return on investment, market share, profitability, sales growth).

Numerous other studies support this argument (Rauch, wiklund, Lumplin, Frese, 2004:9). E n =entrepreneurial knowledge: Computed as the entrepreneurial information combined with entrepreneur's experience (human capital) that is applied in decision making and action. According to D'Souza & Kemelgor (2009:70) argues that limited information affects decision making skills that impact performance.

E c =entrepreneurial capacity: computed as core competencies, business structure and processes to attain level of achievement. Mmbengwa et al. (2013:2996) argues that entrepreneurial capacity is set of competencies that are essential for an opportunity to be achieved.

K =entrepreneurship capital: Computed as the number of business startups, access to market, competitive forces and resource availability. Resource availability will enable the entrepreneur to achieve performance by creating valve.

ε = a white noise error term: represent all those factors that affect entrepreneurial performance but are not taken into account.

The error term has a zero factor mean E(ε) = 0 for all factors; The error term has constant variance Var(ε); The error term is normally distributed; There exists a probability distribution P(ε) which confirms to the normal distribution. Further support is from Gujarati (2004:10) who established error term may represent all those factors that are not taken into account explicitly.

Research Methodology

A mixed method using quantitative and qualitative approach (personal interviews) was employed. The primary data was collected from small business owners/entrepreneurs in and around Uganda. A questionnaire was designed and distributed to entrepreneurs. Interviews were conducted with respondents randomly. Interviews were conducted from Jan 2012 – June 2014, approximately 2000 face-to-face interviews with the entrepreneurs in an attempt to ascertain "how entrepreneurial knowledge, entrepreneurial capacity and entrepreneurship capital are good for entrepreneurial performance?" were carried out. Each interview lasted for 30 minutes. Pre-testing the research instrument was done through a pilot study covering 100 entrepreneurs. There were four sections: demographic characteristics; entrepreneurship capital; entrepreneurial knowledge and capacity.

Demographics reported gender, age, type of business and location of the business. The Likert scale of (1) strongly disagrees to (4) strongly agree was used because they are convenient, more applicable and easy to interpret (Cooper & Schindler, 2011:299). "Natural" option was omitted. Secondary sources includes data from GEM Uganda Executive Report (2010), the report on census of business establishment by Uganda Bureau of Statistics (UBOS) 2010/2011 provided information on the nature of small businesses in Uganda. The databases searched were based on level appropriateness to the topics reviewed. Factor analysis was used in determining the accuracy and measuring instrument. According to Cooper & Schindler (2011:530) factor analysis looks for patterns among variables to discover if an underlying combination of the original variables (a factor) can summarize the original set and reduce variables to a manageable size. In addition, (Kumara & Sahasranam, 2009:15; Lu & Yang, 2010:290; Cooper & Schindler, 2011:550) emphasizes that factor analysis is most and powerful interdependency technique used in multivariate technique. A statistician was used to ensure validity and reliability. According to Kumara & Sahasranam (2009:14) reliability is the degree to which an instrument measures the same way each time it's used.

Discussion Of The Findings

Table 1: entrepreneurial knowledge is contributing to entrepreneurial performance

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
strongly disagree	40	2.0	2.0	2.0
disagree	20	1.0	1.0	3.0
agree	100	5.0	5.0	8.0
strongly agree	1840	92.0	100.0	100.0
Total	**2000**	**100.0**	**100.0**	

From table 1 above, 92% (N=1840) of the respondents strongly agreed that entrepreneurial knowledge is contributing to entrepreneurial performance; 5% (N=100) agreed; 1% (N=400) strongly disagreed and 5% (N=80) disagreed. This is supported by Fatoki and Asah (2011:173)

study that argues knowledge of the business positively impact on the performance of small business enterprises. Accordingly the null hypothesis H1 is accepted.

Table 2: Entrepreneurial capacity is contributing to entrepreneurial performance

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	80	4.0	4.0	4.0
disagree	400	20.0	20.0	24.0
agree	1180	59.0	59.0	83.0
strongly agree	340	17.0	100.0	100.0
Total	**2000**	**100.0**	**100.0**	

From Table 2 above, 59% (N=1180) of the respondents agreed that entrepreneurial capacity is contributing to entrepreneurial performance; 20% (N=340) strongly agreed; 17% (N=400) disagreed and 4% (N=80) strongly disagreed. Accordingly, the null hypothesis H2 is accepted.

Table 3: Entrepreneurial capital is contributing to entrepreneurial performance

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	100	5.0	5.0	5.0
disagree	160	8.0	13.0	13.0
agree	440	22.0	22.0	35.0
strongly agree	1300	65.0	100.0	100.0
Total	**2000**	**100.0**	**100.0**	

From Table 3 above, 22% (N=440) of the respondents agreed that entrepreneurship capital is contributing to entrepreneurial performance; 65% (N=1300) strongly agreed; 8% (N=160) disagreed and 5% (N=100) strongly disagreed. Accordingly, null hypothesis H3 is accepted. In addition, factor analysis was done to establish the correlation among the contributing factors:

- Factor 1 - entrepreneurial knowledge;
- Factor 2 - entrepreneurial capacity; and
- Factor 3 - entrepreneurship capital.

The findings regarding the factor analysis are provided in (Table 4) below;

Table 4: Factor correlation for the rotated factors

Factor	Factor1	Factor2	Factor3
Factor1	0.89	0.68	0.70
Factor2	0.60	0.79	0.65
Factor3	0.64	0.66	0.84
Eigen value	1.5617	1.52221	1.6181
Percent of variance	52.057	50.737	53.967

Table 4 shows the rotated factors. According to Cooper & Schindler (2011:545) factor analysis is a computational technique used to examine more patterns of relationships among selected variables/factors. For factor 1, the Eigen value (Eν) is (.89^2+.60^2+.64^2); Percent of variance (Pν) = [(Eigen value/Number of factors) *100]. For factor 2 and 3 calculated as shown in the table respectively. Eigen values of all three factors are above 1.5 indicating that the

variance explained by each factor is sufficient. The findings regarding the relationship between entrepreneurial capital, knowledge, capacity and performance are provided in (table 5) below;

Table 5: Relationship between entrepreneurial capital, knowledge, capacity and performance

		entrepreneurial capital	**entrepreneurial knowledge & capacity**	**performance entrepreneurial capital**
entrepreneurial capital	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	2000		
entrepreneurial knowledge & capacity	Pearson Correlation	1.000**	1	
	Sig. (2-tailed)	.000		
	N	2000	2000	
performance entrepreneurial capital	Pearson Correlation	.672**	.672**	1
	Sig. (2-tailed)	.000	.000	
	N	2000	2000	2000

**. Correlation is significant at the 0.01 level (2-tailed).

Findings in table 7 show that there a strong positive relationship between entrepreneurial capital, knowledge, capacity and performance shown by person correlation coefficient r=.672**, p=0.00. Therefore, this implies that as entrepreneurship capital, entrepreneurial knowledge and capacity increases, entrepreneurial performance will improve. Therefore, accordingly the null hypotheses H1,H2,H3 are accepted. Findings reveal that the factors contributing to performance can be improved to make SMEs more effective and efficient in achieving set business goals. This is supported by Sebikari (2014b:14) who stated that fostering entrepreneurship and small business development leads to appropriate levels of entrepreneurial activities in Uganda.

Conclusions

Entrepreneurship is imperative for small business enterprises (Sebikari, 2014a:50; Wennekers & Amoros, 2011:7; Nangoli, Turinawe, Kituyi, Kusemererwa & Jaaza, 2013:284). There is no doubt that small business enterprises contribute tremendously to Uganda's development. This implies failure to create an entrepreneurial environment may mean an economic penalty (Edmiston, 2007; Zoltan, 2007:109). Thus, it is necessary for the government to provide support to entrepreneurs in order to succeed in their respective endeavors (Hanlon & Saunder, 2007). Evidence from this paper suggests that increasing entrepreneurial performance creates the majority of the business startups. It can be concluded that entrepreneurship capital, entrepreneurial knowledge and capacity has positive relationship with the entrepreneurial performance. However, further research is needed to assess the conceptual model for entrepreneurship performance.

Recommendations

From the findings the following recommendations were made: Promoting entrepreneurial capacity among potential entrepreneurs is critical; Small business development through support and advice are important; and Create an enabling business environment and foster entrepreneurship (Sebikari, 2014a:53)

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