

**BUSINESS PLANNING AND PERFORMANCE OF SMALL AND MEDIUM SCALE  
ENTERPRISES IN MUKONO MUNICIPALITY**

**BY**

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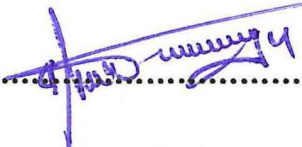
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**A RESEARCH DISSERTATION SUBMITTED TO THE GRADUATE SCHOOL  
KYMBOGO UNIVERSITY IN PARTIAL FULFILMENT FOR THE AWARD OF A  
MASTERS DEGREE IN BUSINESS ADMINISTRATION.**

**NOVEMBER, 2015**

## DECLARATION

I, Wakhakunyu Geoffrey, declare that this work is original and has never been submitted in any other Institution for the award of any Degree.

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### APPROVAL

This Dissertation entitled “Business planning factors and performance of Small and Medium scale Enterprises in Uganda. A case of Mukono Municipality” has been prepared under our guidance and is now ready for submission to the Graduate School Kyambogo University

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Date:.....1/2/2016.....

## **DEDICATION**

This piece of work is dedicated to my beloved family members who have endured during the study period. **May God bless you abundantly!**

## **LIST OF ACRONYMS**

<b>CEO</b>	Chief Executive Officer
<b>MoFPED</b>	Ministry of Finance Planning And Economic Development
<b>SME</b>	Small and Medium Enterprises
<b>SPSS</b>	Statistical Package for Social Scientists
<b>SWOT</b>	Strengths, Weaknesses, Opportunities and Threats
<b>UBOS</b>	Uganda Bureau of Statistics

### **ABSTRACT**

This study focused on assessing the impact of business planning and performance of Small and Medium Scale Enterprises in Uganda. The study was guided by the following study objectives namely; assessing the Nature of Business Planning and how it affect performance of SMEs in Mukono Municipality, analyzing the internal business planning factors that affect business performance of SMEs in Mukono Municipality and examining the External Business Planning Factors that affect business performance of SMEs in Mukono Municipality.

The study was guided by a cross sectional design conducted from a population of 45 CEOs of SMEs in Mukono Municipality.

The study found out that internal business planning factors such as setting specific objectives, availability of business plans and employees' awareness of core values affect performance of SMEs. More still, the study found out that external business planning factors including changes in government policies, environmental regulations and policies as well as political environment affect performance of SMEs. Furthermore, the study found out that external business planning has an overall impact on the performance of SMEs.

The following recommendations were therefore made; SMEs should set objectives and goals, develop simple and clear vision, mission, core values as well as strategic plans that guide their operations. More still managers of SMEs should create awareness to all stakeholders about key business planning issues that affect the performance of the business.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter describes the background of the study in terms of historical perspective, theoretical, conceptual and contextual perspectives. It also describes the research problem, the statement of the problem, purpose of the study, research objectives, research questions, scope of the study and its significance.

#### **1.1 Background to the study**

##### **1.1.1 Historical perspective**

According to Tushabomwe-Kazooba (2006), the privatization drive and the Civil and Public Service reforms that began in the early 1990s in Uganda laid a foundation for business planning which resulted in an increased number of small business enterprises. The entrepreneurs that used to set up enterprises lacked business planning skills, thus they are faced with a number of problems that resulted into higher business failure rates.

According to Balunywa et al. (2004), many Ugandans most especially youth realized the importance of business planning after the introduction of Uganda Youth Fund in 2011. It was a pre-requisite for all the youth groups to have well-designed business plans before accessing these funds from the bank. Many youth groups received training in business planning, however many associations did not put into considerations what was in their business plans after accessing the funds.

According to Gemma-Ahaibwe and Ibrahim Kasirye (2014), many small enterprises have been taught the importance of business planning. Through entrepreneurship training and business incubation, the government of Uganda has equipped SMEs with business planning skills and has emphasized its significance to the success of the business enterprises (MoFPED, 2012).

### **1.1.2 Conceptual perspective**

According to Delmar and Shane (2003), business planning can be defined as the ability of the firm to seek new and better ways to identify, acquire, and implement ideas and tasks that come in different forms (i.e. management and administrative systems, internal cultures, processes, products, services, distributing channels, and marketing methods-segments) within the organization. More still, according to Balunywa et al. (2010 pg. 85) business planning is further “concerned with the creation of new businesses within the existing business or the renewal of ongoing businesses that have become stagnant or in need of transformation”. According to Liao and Gartner (2006), a business plan written document describing the nature of the business, the sales and marketing strategy, and the financial background, and containing a projected profit and loss statement. McMahon (2001) defines SMEs as non-subsidary, independent firms which employ less than a given number of employees. According to Schumpeter conference (2012), SME performance is a combination of management and analytic processes that allows managers of an SME to achieve pre-determined goals.

According to Delmar and Shane (2003), business planning activities results into better performance outcomes. They further found out that business planning helped SMEs to attain their goals, make rapid and more effective decisions, and more quickly turn goals into operational activities. Delmar and Shane (2004) found out that business plans helped SMEs with



legitimacy, reduced the probability of failure, and also helped overcome the liability of underdeveloped social ties. In addition, there is some evidence that planning leads to persistence (Liao and Gartner, 2006; Delmar and Shane, 2003; Hornig and Karisson, 2004; Brinckmann et al., 2010). Brinckmann et al (2010) found out that business planning has a significantly greater impact on performance in established small firms than in newer firms. According to these findings, newer firms are eight years or younger and older firms are more than eight years old.

According to Brinckmann et al (2010), nascent entrepreneurs who do business planning are more persistent than those who do not plan. According to Chaston (1992), insufficient awareness of the need for a business plan was identified as one problem at the start-up phase among SMEs. In this context, business plan can also be regarded as development orientation. McMahon (2001) revealed that greater development orientation significantly linked to better business growth. In line with this, Smallbone, Leig, & North (1995) pointed out that one characteristic that distinguished the best performing enterprises from other was their commitment to change. Therefore, well-planned business activities as manifested in a business plan yields a better business performance.

According to Tushabomwe-Kazooba (2006), lack of business planning is attributed to failure of SMEs during their startup phases. Less than a third (30%) prepare a formal business plan prior to starting up and 37% do not plan at all. Most SMEs just start without plans. Small business persons end up with no set goals or targets to meet. Tushabomwe-Kazooba (2006) attributes this to the high cost charged for the preparation of a simple business plan which ranges from

USD100-200. Therefore, small business owners looking for startup capital cannot manage this amount.

### **1.1.3 Theoretical perspective.**

The study was hinged on four theories; the three sigma's theory of business model, the goal setting theory, the theory of planned behavior and the Legitimation theory. Sigma's theory states that business success is a product of sounding assumptions made during the business planning stage (Rafi et al., 2013). Goal setting theory states that business actions are goal driven, strong and sounding business goals result into competitive business actions (Rauch et al., 2004). Theory of planned behavior states that personal attitudes as well as intentions determine business behavior which is key to the success of the business enterprise (Kuratko, 2005). Legitimation theory states that business plan is a valuable tool that reflects the quality, status, quality and capability of a business entity to achieve competitive advantage of others in the same industry or market place (Honig&Karlsson, 2004).

According to Drucker (2012), business assumptions made during business planning determine the success and failure of the business. According to Kuratko (2005), goal-directed motivations are acknowledged as important elements in the formation of entrepreneurial intentions. Goals are said to lead to intentions, followed by behaviours. According to the goal setting theory, the more specific and challenging the goal, the better the task performance.

According to Ajzen (1991), behavior is dependent on both motivation (intention) and ability. In both cases, intentions lead to behavior, and specificity of these intentions play a critical role. Ajzen (1991) further states that the theory of planned behavior posits that attitudes are predictive of intentions, and that intentions form the basis of planned behavior. According to

Kuratko(2005), aspiring entrepreneurs are self-motivated individuals who take the initiative to plan and build an enterprise thereby implementing their personal goals. Locke and Latham (1990) further argue that human actions lies in goal related motivations and subsequent intentions. Intentions lead to behavior, and planning is a strong signal of these intentions. For this reason therefore, business planning is important for the performance of SMEs.

According to Delmar and Shane (2004), legitimation theory hold that Small Enterprises benefit by conforming to institutional pressures, thus business planning should positively influence their performance. Legitimation theory maintains that business plans are used for their value in conferring and signaling status, quality, prestige and capability (Honig&Karlsson, 2004). Legitimacy is a critical resource for nascent enterprises, demonstrating acceptance and validation by stakeholders, and social endorsement and support from the firm's environment (Scott, 1995). It is therefore important to do business planning in order to know where to obtain financial capital, investors and in establishing a clientele (Bhide, 2000).

#### **1.1.4 Contextual perspective**

Business planning is perceived differently in different markets and economies, what products and services might seem new to firms and customers in one market and economy may already be familiar in another (GEM 2011). According to MoFPED (2012), there is a need to understand business planning at a local and national level; this is because considerable scientific, technological, and economical differences exist in one market and economy.

According to MoFPED (2012), internationalization of business activities have created a dynamic and a highly competitive environment for SMEs, reflecting need for new approaches and orientations toward business planning and long-term investment. SMEs must engage in risky investments and business planning behaviours more than large firms to improve their business performance, as they can possess the advantages of: entrepreneurial dynamism, internal structural flexibility, and receptiveness to changing market circumstances (Brinckmann et al, 2010).

According to Delmar and Shane (2003), business planning is not something that is limited to large firms; small and medium firms can also be more productive in terms of business planning and can be driving engines for technological advancement in the market. Therefore, when compared to large firms, small and medium firms have different structures and requirements and behave differently in analysing and interacting with their environments.

### **1.2 Problem statement**

According to the GEM Report (2010), Uganda is ranked second highest in terms of business start-ups in a year. However, according to Uganda Bureau of Statistics (2013) three out of five businesses fail within the first few months of operation .The Government of Uganda has put in place several strategies to boost Small and Medium Enterprises through putting in place funds for start-up SMEs for example the introduction of Uganda Youth Fund in 2011. Despite efforts/strategies by government of Uganda to support SMEs, many of them in Mukono Municipality have suffered early death or fail within few months of operation (Mukono Municipal Business Report, 2013). According to Kongolo (2010), many SMEs suffer early death and other fail to compete favorable in the market due to poor or non-existent business planning

process .Therefore, the study is intended to examine the impact of business planning factors on the performance of SMEs in Mukono Municipality.

### **1.3 Purpose of the study**

The study aimed at examining the effect of business planning factors on performance of SMEs in Mukono Municipality.

### **1.4 Study objectives**

1. To assess the nature of business planning and how it affects performance of SMEs in Mukono Municipality.
2. To analyze the internal business planning factors that affect business performance of SMEs in Mukono Municipality
3. To examine the external business planning factors that affect business performance of SMEs in Mukono Municipality

### **1.5.Research questions**

1. To what extent does thenature of business planning amongst SMEs affect their business performance in Mukono Municipality?
2. How do the internal business planning factors does are affect business performance of SMEs in Mukono Municipality?
3. What are the external business planning factors that affect business performance of SMEs in Mukono Municipality?

### **1.6 scope of the study**

The geographical scope of study was Mukono municipality. This is because according to statistics (UBOS, 2013), Mukono district is ranked amongst the top five districts in Uganda with a highest number of SMEs. The subject scope of the study was limited to nature of business planning amongst SMEs in Mukono Municipality as well as internal and external business planning factors that affect business performance of SMEs in Mukono Municipality. The time scope was six months including data collection, analysis and writing final report.

### **1.7 Justification of the study**

Previous research studies on business planning have addressed the issue of why firms innovate and its implication in supporting higher business performance and developing a competitive advantage in a particular situation (Schumpeter 2012; Drucker 2014). A limited number of research studies have examined the links between the nature of business planning as well as the external and internal business planning factors and performance of SMEs predominantly in an emerging market context such as the emerging Mukono Municipality market. Therefore, the study has helped to compare business planning factors and performance of SMEs in Uganda.

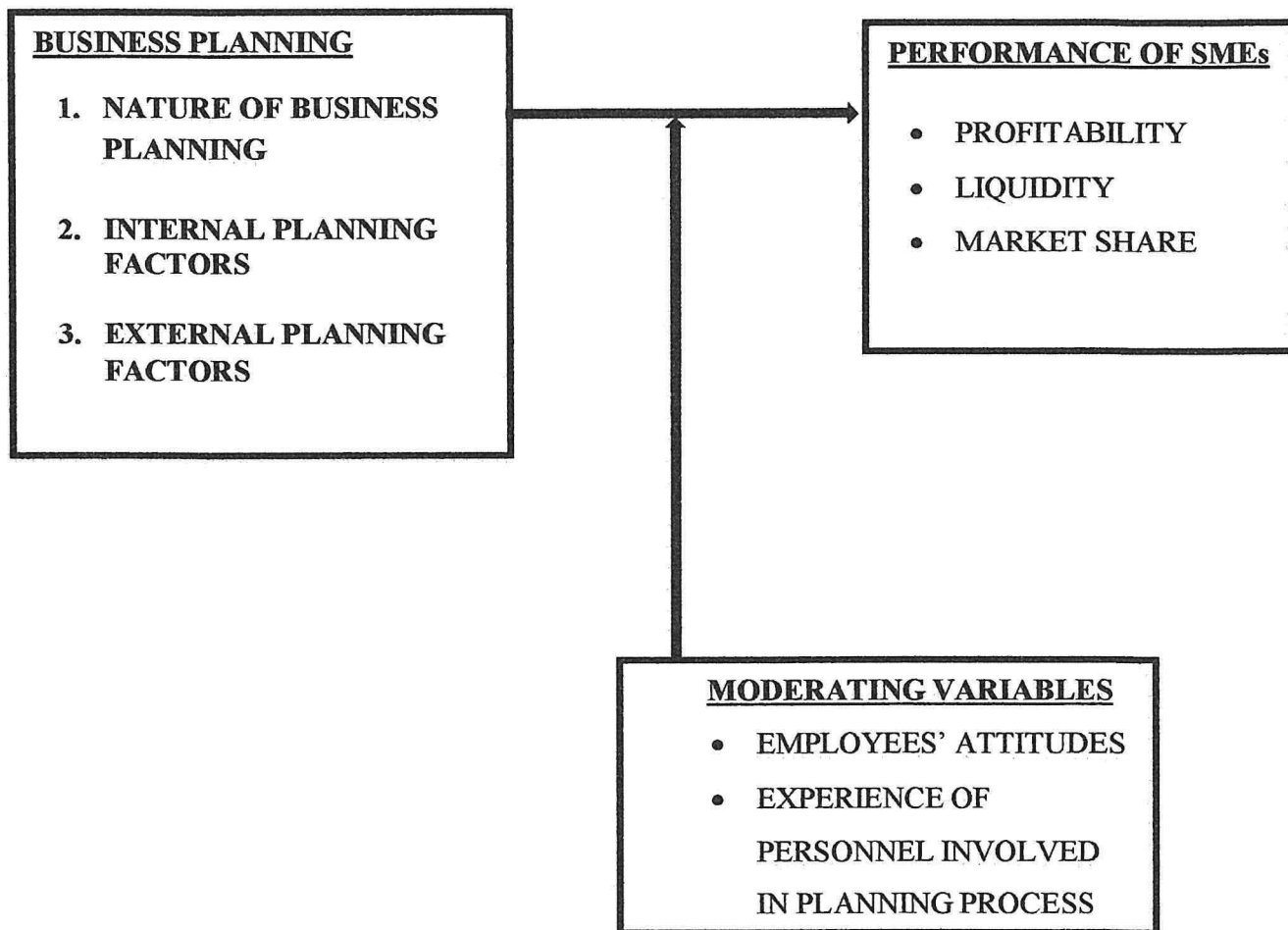
Furthermore, most of the studies have assessed the importance of business planning for SMEs with the majority conducted in developed markets and economies. The importance of business planning in the emerging Mukono Municipality market had not yet been entirely investigated for SMEs because it is a relatively new phenomenon and research studies in the area are very limited but increasing. There are had been gaps in the literature that have been limited to empirical research studies into identifying and quantifying factors influencing SMEs business planning

practices and their business performance in an emerging market context (i.e. similar to the Mukono Municipality market). Therefore, the study intended to bridge this gap.

The provided a detailed insight of the challenges affecting business planning in SMEs and provided a thorough understanding of its significance in the success of SMEs in Mukono Municipality. In addition, study findings and recommendations are indispensable to the policy makers in government and other private sector development agencies in designing appropriate strategic interventions in the Small and Medium Enterprises (SMEs) sector to improve its performance. It is also hoped that the findings of the study acted as a basis for further studies and research in the subject.

Finally, this study has offered a combination of academic contributions, for scholars and researchers, and managerial implications, for policymakers and practitioners.

### 1.8 Conceptual framework



Source: McMahon (2001): As modified by the researcher.

**Figure 1: Conceptual Framework showing the Relationship between business planning and business performance.**



The conceptual framework above presents the relationship between business planning and business performance.

According to the conceptual framework the independent variables affect the nature of the dependent variables. Extraneous variables such as knowledge, skills and experience are not part of the study but they affect the dependent variables. Dependent variables according to the conceptual framework include; profitability, volume of sales and product lines and number of new markets acquired. The conceptual framework further shows the independent variables which are the ones the researcher observes in the study in relation to the dependent variables, these include nature of business, internal and external business planning factors.

The nature of business planning includes the atmosphere through which business planning takes place that result in successful business planning process of SMEs. These factors include the size, age and involvement of stakeholders. According to Honig and Karlsson (2004), the size and existence of business as well as the involvement of stakeholders in business planning process impacts positively on the success of the business in terms of market share and increased profitability.

Internal planning factors include internally existing arrangements that facilitate business planning. These include well stated vision, mission and core values of the company/business as well as well analyzed strengths and weaknesses of the business. Kongolo (2010) argues that many SMEs suffer early death due to lack of clearly stated vision, mission and objectives that guide their operation.

External planning factors include forces outside the business entity that affect business planning as well as business success. These include financial and economic conditions, existing

operational environment as well as opportunities and threats. According to Gemma et al (2014), failure of business enterprises to carry out analysis of opportunities and threats result into an uncertain business future as well as low profits, failure to acquire a reasonable market share as well as ensuring survival in the current competitive business environment (Gemma et al, 2014).

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.0 Introduction**

This chapter presents the review of literature on the theory, nature of business planning, internal business planning factors as well as external business planning factors and performance of and performance of SMEs.

#### **2.1 Theoretical review**

The study was anchored on four theories including; the three sigma's theory of the business model, theory of goal setting, theory of planned behavior and legitimation theory.

##### **2.1.1 Three Sigma theory**

According to Drucker (2012), the three sigma's theory reveals that many businesses decline and fail because the assumptions they make during business planning that form the basis for their fundamental business decisions (about society, markets, customers, products, technology, their mission, etc.) become obsolete or invalid. Since the future is uncertain and the social environment is constantly changing, even the soundest business theories eventually become obsolete. For this reason every business and organization should periodically examine their fundamental assumptions to see if they continue to reflect the current realities they face and if not, how they should be changed. This model provides the organization and structure to identify and examine those assumptions and change them if necessary. This model is applicable to business, government and non-profit organizations. It can also be used for new businesses and startups to identify, examine, and make explicit the assumptions that underlie their business planning.

### **2.1.2 Goal setting theory**

The goal setting theory reveals that the more specific and challenging the goal is, the better the performance of the business (Kuratkon, 2005). More still, Alzen (1991) argues that attitudes are predictive of intentions and intentions form basis of planned behavior. Further still, Delmar and Shane (2004) emphasizes that business plans are important to obtain business performance.

### **2.1.3 Theory of planned behavior**

Theory of planned behavior states that personal attitudes as well as intentions determine business behavior which is key to the success of the business enterprise (Kuratko, 2005). Many entrepreneurs in Uganda fail to make a break through because of their personal attitudes and behavior. If entrepreneurs believe in success, it implies that they can constantly innovate and plan for the success of their business enterprises.

### **2.1.4 Legitimation theory**

Legitimation theory states that business plan is a valuable tool that reflect the quality, status, quality and capability of a business entity to achieve competitive advantage of others in the same industry or market place (Honig&Karlsson, 2004). SMEs that prepare business plans can easily access funding, business loan and any form of financial assistance which makes the business to make sounding break thorough ((Kongolo, 2010b).

## **2.2 Nature of business planning and performance of SMEs**

According to MoFPED (2012), business planning can be related to the ability of the firm to seek new and better ways to identify, acquire, and implement ideas and tasks that come in different

forms (i.e. management and administrative systems, internal cultures, processes, products, services, distributing channels, and marketing methods-segments) within the organization.

Business planning is “central to the role of the enterprise in modern society” (Chaston, 1992), which is considered to be a central activity that involves the entire firm and conditions its behaviour to facilitate value creation of competitive advantage and business performance (Tushabomwe-Kazooba, 2006).

Successful business planning requires “exploration competencies” that is the capability of the firm to harvest ideas and expertise from different sources (Balunywa et al, 2004). Systematic business planning can lead to the observation of different sources of business planning opportunities within and/or outside a firm, which is vital to identifying the unexpected (i.e. unforeseen opportunity), incongruity (i.e. opportunity between reality and behavior), industry and market restructures, demographics (i.e. change in population and perception), process need, and localized, embedded, and research-based knowledge (McMahon, 2001).

According to MoFPED(2012), SMEs that are young in terms of years of existence and small in size find it a challenge to develop a business plan. The size of the firm plays a major role in how successful the firm’s business planning efforts are. For example, it is both the largest (more than 50,000 employees) and smallest (less than 500 employees) firms that are most effective when it comes to business planning. Medium-sized (5,000 to 10,000 employees) firms are ‘stuck in the middle’ and at the same time are struggling with their business planning efforts.

According to Mukono Municipal Report (2013), there are a number of barriers that are affecting the process of business planning in Mukono Municipality that vary with the size and age of the enterprise as well as the different phases in the industry cycle that would vary with government policies, technologies, and markets. These influence the size and business planning of many small and medium enterprises in Mukono Municipality.

Many small and medium enterprises in Mukono Municipality consider short term planning or restructuring in the form of replacement of management, functional re-organization, and other internal organizational arrangements which are often a precursor to, or as a result of, strategic adaptations to difficult financial and economic conditions (Mukono Municipal Report, 2013). Strategic change is a complex process that involves planning by a firm and brings about long-term consequences for business growth performance (McMahon, 2001).

### **2.3. Internal business planning factors and performance of SMEs**

According to Balunywa et al. (2004), successful business planning involves clearly defining the vision, mission, measurable goals and values of the business or firm. According to Bhidé (2000), mission is a statement that describes what the company does. This can involve answering questions like: “What is our business? What will it be? What should it be?” Bhidé (2000) further argues that in order to answer the question, “What is your business?” a company should define its business in terms of three dimensions: who is being satisfied (what customer groups); what is being satisfied (what customer needs); and how customers’ needs are being satisfied (by what skills, knowledge, or distinctive competencies). More still, Bhidé (2000) states that the vision of a company lays out some desired future state; it articulates, often in bold terms, what the company would like to achieve. Brinckmann et al. (2010) argues that well-constructed goals also provide a

means by which the performance of managers can be evaluated. Most SMEs set their goal as to maximize returns; doing this requires both high profitability and sustained profit growth. Thus, most SMEs operate with goals for profitability and profit growth (Balunywa, 2004).

According to Chaston (1992), the values of a company state how managers and employees should conduct themselves, how they should do business, and what kind of organization they should build to help a company achieve its mission. Values are commonly seen as the bedrock of a Business' organizational culture: the set of values, norms, and standards that control how employees work to achieve an organization's mission and goals. Therefore, it is very critical that values guide the process of business planning (Delmar & Shane, 2003).

According to Tushabomwa-Kazooba (2006), the analysis of strengths and weaknesses is to create, affirm, or fine-tune a company-specific business model that will best align, fit, or match a business' resources and capabilities to the demands of the environment in which it operates. Therefore, for any business to achieve success or maximum performance, it should carry out a analysis of strength and weaknesses during the planning process (Tushabomwa-Kazooba, 2006).

According to Honig and Karlsson (2004) knowledge is one of the main internal factors that influence business planning. According to Kuratko (2005), merging knowledge and technology, academic and research institutions, customer feedback and observations, and external changes in the environment are strong pillars to successful business planning. Along with implicit knowledge, tacit knowledge is another key source of business planning that is an unspoken knowledge (i.e. observations, ingrained habits, inspirations, hunches, or other forms of

awareness) that are typically not written down or codified providing the firm much of its distinctive edge over competitors compared to explicit knowledge that is absorbed intellectually or delivered in trainings session (Liao & Gartner, 2006).

According to Brinckmann et al. (2010), the internal culture within the firm plays an important role to inspire business planning and give individuals plenty of space to make mistakes creating more opportunities for serendipity and valuable learning. A well-established culture and process of business planning inside the firm is a key factor influencing the rate of creation and commercialization of business planning outcomes (Bhide, 2000). Brinckmann et al. (2010) identifies four types of attitudes that are needed to exist in the firm's business planning culture in order to succeed and flourish, including risk-taking management, members' participation, creativity stimulation, and sharing responsibility. An organizational culture based on business planning must possess a certain level of importance to deal with goal commitment, exemplary behaviour, team work approach, client orientation, and continuous improvement; and without a shared business planning-oriented culture it is hard to compete (Honig & Karlsson, 2004).

According to Liao and Gartner (2006), Business planning diffusion "the process by which business planning is communicated through certain channels overtime among the members of a social system" is very essential to the performance of the business. In a normal functioning business enterprise adoption and implementation of a business plan should follow a systematic procedure. Adoption includes the entire information gathering, conceptualizing, and planning that leads to the decision to adopt business planning, whereas implementation includes the entire events, actions, and decisions that leads to putting business planning into usage and application.



Individuals might be able to identify and decide on business planning with the required changes for adoption but might not be capable of implementing business planning (Delmar & Shane, 2003). Successful business planning demands an equally deft balance among analytical rigour of control-system and the softer-side encompassing creativity, leadership, agility, learning culture, and teamwork (Chaston, 1992).

#### **2.4 External business planning factors and performance of SMEs.**

According to Kuratko (2005), changes in financial and economic conditions can occur anytime due to various rationales that are related to macroeconomic downturn (i.e. falling national gross domestic product) and environmental shocks (i.e. decline in industries) greatly affects business planning. The causes of events like the global financial and economic crisis of 2014 and the weight to be attached to it, in particular national contexts, continue to be debated (Gemma Ahaibwe et al, 2014)

Firms operating in competitive and dynamic environments are faced with numerous barriers when considering business planning (Delmar & Shane, 2003). To understand the necessity for the effective business planning environment within firms it is important to look at the barriers and obstacles to business planning (Honig & Karlsson, 2004). Delmar & Shane (2003) identify many barriers to business planning that includes: hierarchy, bureaucracy, anonymity, clean environment, and expertise. Excessive hierarchy is a barrier in a firm when decisions and ideas need to pursue vertical paths through the decision-making hierarchy (Bhide, 2000). Instead, a flat organization that is more willing to accept ideas based on value, is supportive of business planning activities (Chaston, 1992).

According to Honig and Karlsson (2004) external business planning barriers include: regulations, resources, operations, expertise outside main activities, and market access. Expertise outside the main activities of the firm is a barrier when inherited cultures are rigid to establish core expertise and perform tasks outside its main domains.

Existing operational environments (i.e. manufacturing or service) as inhibitors are often incapable of producing a radically new product and service away from the firm's core activities. Small firms can face problems of access to funding, ability to cope with legal and regulatory issues, market challenges and competition, and lack of specialist management expertise (Delmar & Shane, 2003). Further, resources are obstacles when insufficient funds are available (Bhide 2000). Honig and Karlsson (2004) argue that young business planning firms face limited internal recourse and capabilities and access to technology and consulting services. Another barrier is in creating regulations where the status quo is kept by governments and industrial agencies. Market access as a barrier exists where a firm is unable to access potential customers because of physical distances and regulations (Brinkmann et al, 2010).

## **2.5 Conclusion**

In conclusion, business planning is affected by both internal and external factors. Therefore Small and Medium Enterprises should thoroughly understand these factors in order to achieve successful business performance.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter focuses on the design, population, sampling strategies, data collection methods and instruments, data quality control, procedure and data analysis that was used in the study.

#### **3.1 Research design**

According to Mugenda and Mugenda (2003), research design refers to the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring you will effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data.

The study used a cross-sectional design which involved observation of the representative subset/respondents at one specific point in time (Cresswell, 2003). This is because the study involved a large number of respondents, so this design enabled the researcher to thoroughly examine all the information collected with a lot of precision in order to generate meaning out of it with a lot of effectiveness.

The study used both quantitative and qualitative approaches. The quantitative approach was based on variables measured with numbers and analyzed with statistical procedures (Creswell, 2003; Amin, 2005).

### **3.2 Population**

The target population is the population that the researcher uses to generalize the research of the study (Mugenda & Mugenda, 2003). The population included all the SMEs that have existed for more than five years in Mukono Municipality.

### **3.3 Sampling design**

In order to ensure representative representation of the population, a simple random approach was used. Simple random approach was applied to CEOs. This was used since it gave respondents an equal chance of participating in the study.

### **3.4 Sample size**

Using the Mukono Municipal Business Register (2014) as the sample frame and the Krejcie and Morgan (1971)'s Table of Sample Size Determination (see appendix 2), the sample size was 40 SMEs. Therefore, the sample included 40 CEOs on these SMEs found in Mukono Municipality.

According to Krejcie and Morgan (1971)'s Table of sample size determination (see appendix 2), the sample size of CEOs of SMEs was 40 who were to be randomly selected from the population of 45.

### **3.5 Data sources**

The study used primary data from the respondents using the questionnaires. Here a section of respondents (CEOs and Employees of SMEs) believed to have key information was issued with questionnaires that consist of both structured and Un-structured questions.

### **3.6 Research methods**

This research employed qualitative research approach whereby questionnaires and interview guides were used for data collection. Qualitative research is described as a systematic subjective approach used to describe and explain a person's life experiences and give them meaning. The main goal of qualitative researchers is to gain insight, explore the depth, richness, and complexity inherent in the phenomena (Creswell 2008). The quantitative methods explained the relationships between the study variables as well as presenting the study findings in a format that can easily be interpreted.

### **3.7 Data Collection Instrument.**

The study used structured questionnaire and an interview guide. The questionnaire consisted of close and open ended questions. The questionnaire was self-administered among the respondents. The researcher used a questionnaire because it allows respondents to give free and independent opinions since they feel not affected by the researchers' presence. It also helped cover a large number of respondents in a relatively short time.

### **3.8. Data quality control Validity**

The researcher used a questionnaire to collect data. Validity of this instrument was tested by first giving out the questionnaires to two experts other than those sampled; these were able to assess the different items of the questionnaires. Only items which were deemed appropriate given the objectives of the study were included.

After a content validity index will be computed using a formula where:

$$CVI = \frac{\text{Number of items rated relevant}}{\text{Total Number of items}}$$

Validity of the instrument was ensured when the validity value computed is greater than 0.5 (Hatch, 2002). The CVI was 0.7 which implies that the research instrument was capable of producing valid results.

### **Reliability**

Reliability refers to how consistent a research procedure or instrument is (Enon, 1998). Hence reliability implies stability or dependability of an instrument in order to obtain information. Reliability of the instrument was determined by carrying out test retest approach on the expert respondents that were not part of the sample and the information received was reviewed with that one made by the researcher in order to assess consistence of the findings. The reliability check showed 70% agreement on substantive content with the research instrument. This implies that the reliability of the research instrument was beyond the acceptable level, therefore it was considered reliable.

### **3.9 Measurement of Variables**

The nominal scale of 1 to 2 was used to measure such variables as gender and marital status, among others. Both open ended and closed ended questions were used to answer nature of business planning as well as internal and external business planning factors.

### **3.10 Data Analysis and presentation**

Quantitative data analysis involved use of descriptive analysis in the Statistical Package for Social Scientists (SPSS 16). Descriptive statistics entailed determination of measures of central tendency such as mean; measures of dispersion such as standard deviation, and variance. Data

was processed by editing, coding, entering, and then presented in comprehensive tables showing the responses of each category of variables. Regression analysis was used to establish the strength of the relationship between nature of business planning as well as internal and business planning factors with business performance of SMEs.

Qualitative data analysis entails working with data in the form of words, non-numerical, organizing it and discovering what its value is, and deciding what to tell other people. For the current study, data collected through interviews was analyzed by the aid of qualitative content analysis and by general system theory as the theoretical framework developed by Bertalanffy (1928). Each case was analyzed and interpreted as an individual case. The audio taped interviews were transcribed verbatim. That was followed by identifying and labeling (coding) items of data which appeared in each case and that was done in all transcripts so that all items of data in one interview were compared with data collected from other interviewees.

### **3.11. Ethical consideration**

The information gathered for the study from respondents was highly confidential. The consent of respondents was sought and respondents will be assured of confidentiality of their responses. To ensure privacy, the subjects were informed prior that indeed their names were not be required, that they had the right to leave questions unanswered for which they do not wish to offer the requisite information, and that the researcher was not put the respondent under pressure if this happens. To ensure confidentiality, the respondents were informed upfront that the information they give was solely used for academic purposes and data obtained on private matters was treated in confidence.

## **Conclusion**

The study used both quantitative and qualitative methods and regression analysis was used to examine the effect of business planning factors on performance of SMEs in Uganda.



## CHAPTER FOUR

### DATA PRESENTATION, INTERPRETATION AND ANALYSIS OF FINDINGS

#### 4.0 Introduction.

This chapter presents the findings, their analysis and interpretation. The findings, interpretations and analysis are presented in response to the study objectives. The study begins with the background information. Thereafter the findings with respect to each objective presented.

#### 4.1 Background Information.

In order to get a detailed and more concrete picture of the study sample, the study also examined the background information of the SMEs that were part of the study. This included gender, level of education, age of business, number of employees and nature of business.

**Table 1: Background information**

	Variable (N=40)	Frequency	Percent (%)	Cum.Percent(%)
Gender	Male	22	55.0	55.0
	Female	18	45.0	100.0
Level of education	Primary	4	10.0	10.0
	O Level	8	20.0	30.0
	A Level	13	32.5	62.5
	Certificate	6	15.0	77.5
	Diploma	5	12.5	90.0
	Degree	2	5.0	95.0
	Others	2	5.0	100.0
Nature of business	Trade	13	32.5	32.5
	Agribusiness	16	40.0	72.5
	Service provision	11	27.5	100.0
Age of business	<5 years	15	37.5	37.5
	>5years	25	65.5	100.0

Study findings in Table 1 reveal that 55% of the respondents were male while 45% were female. More still, study findings reveal that the level of education of respondents was as follows: 10% primary, 20% O Level, 32.5% A Level, 15% Certificate, 12.5% Diploma, 5.0% Degree and 5% others. This implies that the majority of SMEs in the sample are those that were run by people with lower qualifications (i.e. Certificate and below). Further in the sample of the study, 32.5% of the SMEs were in trade 40% Agribusiness and 27.5% service provision. This implies that the biggest percentage of SMEs is in Agribusiness followed by Trade related enterprises. More still, in the study, 65.5% of the SMEs have survived in the business for more than 5 years, this implies that they have survived in business for some time, and therefore have the capacity to provide valuable insights into the phenomenon under study.

#### **4.2 Nature of business planning**

This section shows nature of business planning amongst different SMEs in Mukono Municipality.

**Table 2: Business planning environment**

Variable (N=40)	Yes (%)	No (%)
Is the size of your business considered when planning?	82.5	17.5
Is the age of business entity considered when planning?	20.5	75.5
Does your business carryout planning?	22.5	77.5
Do you prepare business plans?	25.0	75.0

Study findings in Table 2 show that 82.5% of respondents agree that the size of business affect business planning, 75.5% reveal that the age of business entity is not considered when planning, 77.5% agree that their businesses don't carry out business planning and 75% agree that they do not prepare business plans.

**Table 3: Frequency of Business Planning**

Variable (N=40)	Frequency	Percent	Cumulative Percent
Every day	9	22.5	22.5
Every week	17	42.5	65.0
Every month	10	25.0	90.0
Every after 6 months	3	7.5	97.5
Every year	1	2.5	100.0

Study findings in Table 3 reveal that the biggest percentage of SMEs in Mukono (42.5%) plans for their businesses every week. This implies that SMEs in the sample carry out short term business planning.

**Table 4: People involved in Business Planning Process**

Variable	Frequency	Percent (%)	Cumulative percent
Relatives and CEO	9	22.5	22.5
Both employees and CEO	9	22.5	45.0
Only CEO	14	35.0	80.0
Employees	4	10.0	90.0
CEO and administrators	4	10.0	100.0
Total	40	100	100.0

Study findings in Table 4 reveal that business planning in SMEs is done by; 22.5% Relatives and CEO, 22.5% both employees and CEO, 35% only CEOs, 10% Employees and 10% CEO and administrators. This implies that most business planning is done by the CEO.

Qualitative findings reveal that SMEs rarely carry out business planning and CEOs rarely involve employees in business planning process. For example some stake holders in some SMEs said;

*It is wastage of time to allocate time which would have been used to propel the business to higher levels towards planning. Every morning you wake up you know what you are supposed to do for your business in order to grow. I think planning can just take a few minutes and does not necessarily need to involve any body apart from the CEO (said by CEO of a certain SME).*

*Everybody plans for his or her business. The owner knows what the future stands for the business not the employees. Employees are like machines which do whatever you instruct it to do. Can the machine give you any opinion on how you should operate it? It's the owner who plans for the business (said by CEO of one SME).*

The above qualitative information reveals that many SMEs are not aware of what business planning is as well as its impact towards business performance.

#### **4.3 Internal Business Planning Factors**

Findings in this section show how internal business planning factors affect the performance of SMEs in Mukono Municipality.

**Table 5: Internal Business Planning Supportive Factors**

Variable (N=40)	Yes (%)	No (%)
Does your company have a mission?	65.0	35.0
Does your company have a vision?	80.0	20.0
Does your company have core values?	57.5	42.5
Do you have well stated set of rules that govern employees' behaviour?	70.0	30.0
Do you always organise training sessions for employees in business planning and management?	27.5	72.5
Have you ever carried out analysis of strengths and weaknesses of your business?	15.0	85.0

Study findings in Table 5 show the nature internal business planning infrastructure of the SMEs in Mukono municipality.

**Table 6: Internal Business Planning Factors**

Variable (N=40)	Min	Max	Mean	Std. Dev
Existence of specific objectives	1.00	5.00	3.8250	1.03497
Extent to which objectives are measurable	1.00	5.00	3.1500	1.09895
Availability of goals that guide operations	1.00	5.00	4.1250	.96576
Existence of strategic plan	1.00	5.00	3.1000	1.27702
Awareness of employees about core values, mission and vision of the business	1.00	5.00	3.6750	1.32795
Involvement of Employees in business planning process	1.00	4.00	2.2250	0.94699

The study findings in Table 6 reveal that most SMEs had goals, measurable objectives, strategic plan as well as an awareness of employees about core values, mission and vision of the business.

However, qualitative findings reveal that some SMEs do not set objectives, have no mission, vision, core values, strategic plan and employees are not aware of these factors. For example some respondents said;

*I have never heard of anything to do with mission, vision and core values. I even don't know what they help in a business like ours here. For us what we understand most is opening very early in the morning and closing very late in the evening. Planning for our business only involves the boss and madam (Wife to the boss), for us we are just mere employees who don't at any simple time have anything to do with business planning (Said one of the employees).*

*Preparation of business plan and strategic plan?! For what? What is important for search small businesses is to understand how profits can be maximized, to know where to buy from and the season of the year. I have hired someone to write for me a business plan once in life when i wanted to secure a loan from the bank (said CEO of one SME)*

The above qualitative information reveals that many CEOs of different SMEs are not aware of the importance of business planning towards business success.

#### 4.4 External Business Planning Factors that affect the performance of SMEs

Study findings in this section show the different external planning factors that affect the business performance of SMEs in Mukono Municipality. These included increasing price of dollar against shilling, inflation, increase in lending prices, changes in government policies, political environment, environmental regulations and policies, changes in technology, changes in attitudes and behaviours of customers as well as legal requirements of running business

**Table 7: External Business Planning Factors**

Variable (N=40)	Min	Max	Mean	Std. Dev.
Increasing price of dollar against shilling	1.00	5.00	4.0000	1.13228
Inflation within the country	1.00	5.00	4.5500	0.81492
Increase in lending prices	1.00	5.00	3.9250	1.11832
Changes in government policies	1.00	5.00	3.8250	1.03497
Political environment	1.00	5.00	3.9750	1.04973
Environmental regulations and policies	1.00	5.00	3.4500	1.33877
Changes in technology	1.00	5.00	3.900	1.2770
Increase competition from competitors	1.00	5.00	4.1250	0.93883
Changing attitudes and behaviours of the customers	1.00	5.00	4.0750	0.94428
Legal requirements of running business in Mukono Municipality	1.00	5.00	4.1000	1.10477

Study findings in Table 7 show the external business factors that affect the performance of SMEs. Results show that the following are the most influential external business planning factors that affect SMEs in Mukono municipality: (1) increasing price of dollar; (2) inflation; (3) increase in competition; (4) changing attitudes and behaviours of customers as well as; (5) legal requirements of running a business.

Qualitative findings reveal that external business planning factors affect the performance of SMEs in Mukono Municipality. For example some of the respondents said;

*It is hard to plan for your business when the cost of dollar is increasing every day, this implies that cost of doing business is going to go up since everything depends on the dollar (said one of the respondents).*

*The interest rates for getting loans are very high, therefore it is very hard to grow our businesses since we depend on loans. If it wasn't that, it would have been very easy for us to plan for our businesses very well since you can easily plan for the loans that we get from banks (Said one of the CEO)*

*The Uganda of today is not the one we used to know. Taxes are high and they keep on introducing new every day, there are many new policies that affect our businesses and the competition has greatly increased. All these affect the success of our businesses and it is very hard to fore tell them. That is why it is indeed very hard to plan for our businesses (Said CEO of a certain SME).*

The qualitative findings above show that many external business planning factors affect performance of SMEs as well as the business planning process.

#### **4.5 Performance of SMES**

Findings in this section show the various factors that determine business performance of SMEs.

These include; profits, liquidity, longevity, market share, return on investment, product quality and introduction of new products.



**Table 8: Business performance indicators of SMEs**

	Minimum	Maximum	Mean	Std. Deviation
Increase in profits	1.00	5.00	4.4250	0.93060
Increase in liquidity	1.00	5.00	4.0500	1.15359
Increase in longevity	1.00	5.00	3.8500	1.18862
Increase in market share	1.00	5.00	4.0250	1.14326
Increase in ROI	1.00	5.00	3.7750	1.29075
Increase in product quality	1.00	5.00	3.8000	1.38119
Introduction of new products	1.00	5.00	3.6250	1.44449

Study findings in Table 8 show that business performance of SMEs greatly depends on increase in profits, liquidity as well as market share of the business.

#### **4.6 Relationship of business planning factors on performance of SMEs in Mukono**

In order to determine the relationship between business planning and performance of SMEs, the researcher measured internal business planning, external business planning and performance of SMEs.

##### **4.6.1 Measurement of overall SME Performance, Internal Business Planning and External Business Planning**

#### 4.6.1.1 Overall SME Performance

The overall SME performance was determined by aggregating performance variables (i.e. profits, liquidity, longevity, market share, ROI, product quality and new products introduced) and then getting their mean value.

$$\text{Overall SME performance} = \frac{\sum_{i=1}^{i=n} \text{SME Performance Factors}}{\text{Number of SME Performance Factors}}$$

#### 4.6.1.2 Internal Business Planning

The Internal Business Planning Variable was obtained by aggregating all Internal Business Planning Factors (i.e. existence of specific objectives, extent to which objectives are measurable, availability of goals that guide operations, existence of strategic plan as well as employees' awareness of core values, mission and vision) and then getting their mean value.

$$\text{Internal Business Planning} = \frac{\sum_{i=1}^{i=n} \text{Internal Business Planning Factors}}{\text{Number of Internal Business Planning Factors}}$$

#### 4.6.1.3 External Business Planning

The external business planning variable was obtained by aggregating all external business planning factors (i.e. Increasing price of dollar against shilling, Inflation within the country, Increase in lending prices, changes in government policies, political environment, environmental regulations and policies, changes in technology, increase competition from competitors, changing attitudes and behaviors of the customers, legal requirements of running business in Mukono Municipality) and then getting their mean value.

$$\text{External Business Planning} = \frac{\sum_{i=1}^{i=n} \text{External Business Planning Factors}}{\text{Number of External Business Planning Factors}}$$

#### 4.6.2 Relationship between internal business planning and performance of SMEs

Internal business planning factors were regressed against SME performance and the results are presented in Table 10 below.

**Table 9: Effect of internal business planning factors on performance of SMEs**

Internal Business Planning Factors	Performance of SMEs
Constant	3.489
Specific objectives	0.398****
Objectives are measurable	-0.030
Goals and objectives guide decision making	0.136
Availability of strategic plan	-0.190***
Employees' awareness of core values	-0.122**
Employees part of decision making	-0.226
R <sup>2</sup>	0.710****
Adjusted R <sup>2</sup>	0.658****
*P-values <0.1    **P-values <0.05    ***P-values <0.01    ****P-values <0.001	

Study findings in Table 9 above show that specific objectives significantly impacted positively towards performance of SMEs at  $p < 0.001$ . Availability of strategic plan and employees' awareness of core values negatively impacted on performance of SMEs at  $p < 0.01$  and  $p < 0.05$  respectively.

**Table 10: Effect of Overall Internal Business Planning Factors on Performance of SMEs**

Overall Internal Business Planning	Performance of SMEs
------------------------------------	---------------------

Constant	4.896
Internal Business Planning	-0.287
R <sup>2</sup>	0.043
Adjusted R <sup>2</sup>	0.017

\*P-values <0.1    \*\*P-values <0.05    \*\*\*P-values <0.01    \*\*\*\*P-values <0.001

Study findings in Table 10 show that internal business planning had no significant impact towards performance of SMEs. This is because most of the internal business planning variables are weak and some are negative.

#### 4.6.3 Relationship between External Business Planning and Performance of SMEs

External Business Planning Factors were regressed against SME performance and the results are presented in Table 12 below.

**Table 11: Effect of External business planning factors on performance of SMEs**

External Business Planning Factors	Performance of SMEs
Constant	0.208
Increasing price of dollar against shilling affects	-0.040
Inflation within the country	0.059
Increase in lending prices	0.476*
Changes in government policies	0.451**
Political environment	-0.585***
Environmental regulations and policies	0.395***
Changes in technology	0.106*
Increase competition from competitors dealing in the similar business	0.183
Changing attitudes and behaviours of the customers	0.140
Legal requirements of running business in Mukono Municipality and Uganda	- 0.058
R <sup>2</sup>	0.793****
Adjusted R <sup>2</sup>	0.658****

\*P-values <0.1    \*\*P-values <0.05    \*\*\*P-values <0.01    \*\*\*\*P-values <0.001

Findings in Table 11 above show that both changes in government policies and environmental regulations and policies have a positive significant impact on the performance of SMEs at  $p < 0.05$  and  $p < 0.01$  respectively. However, results show that the political environment has negative significant impact towards performance of SMEs at  $p < 0.01$ .

**Table 12: Effect of Overall External business planning factors on performance of SMEs**

Overall External Business Planning	Performance of SMEs
Constant	1.145
External Business Planning	0.723****
R <sup>2</sup>	0.393
Adjusted R <sup>2</sup>	0.377

\*P-values <0.1    \*\*P-values <0.05    \*\*\*P-values <0.01    \*\*\*\*P-values <0.001

Study findings in Table 12 show that external business planning has a positive significant impact on performance of SMEs

#### 4.7 Conclusions

Study findings in this chapter reveal that the SMEs have no conducive environment in place to enable them carry out effective business planning. More still, results reveal that both the internal factors and external factors affect business planning process amongst SMEs. This implies that business manager/CEOs should understand these factors in order to ensure effective business planning.

## **CHAPTER FIVE**

### **DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introductions**

This chapter presents the study discussions, conclusions and recommendations drawn from the study findings. The purpose of this study was to examine the effect of business planning factors on the performance of SMEs in Mukono Municipality. This presentation is made in line with the study research objectives.

#### **5.1.Nature of business planning and performance of SMEs**

Study findings show that the size and age of business affect business planning. According to Balunywa et al (2010), business planning is an indefinable concept that has complexity and interactive processes of demand and supply side elements of customers as well as research and development outcomes that require time and resources to maximize. Mmbengwa et al (2013) further emphasizes that business enterprises which have existed in business for quite long, have market networks, have developed customer loyalty and have accumulated enough resources to enable them understand customer needs through research and development. This implies that they are in better position to carry out business planning than young enterprises that have just joined the business industry. More still, Brinchmann et al (2010) argue that business planning can be related to the ability of the firm to seek new and better ways to identify, acquire, and implement ideas and tasks that come in different forms (i.e. management and administrative systems, internal cultures, processes, products, services, distributing channels, and marketing methods-segments) within the organization, these are hard to accomplish by young business enterprises, implying that age and size of the business are key towards successful business planning.

Study findings further show that SMEs in Mukono do not regularly carry out business planning and those that try do simple weekly planning of business operations. According to Rauch et al (2004), business planning is concerned with the creation of new businesses within the existing business or the renewal of ongoing businesses that have become stagnant or in need of transformation, this implies that business enterprises need to carry out regular business planning in order to stay competitive in the business industry. According to Rafi et al (2013), timely business planning enables the firm to build its capacity to respond properly to changes in the environment and to adapt to competition and achieve success in the market place.

Further still, study findings show that business planning mainly involves the CEO alone. This is contrary to literary findings from previous studies. According to Mmbengwa et al (2013), successful business planning requires exploration of different competencies from all stakeholders in the business, this enables the business enterprise to harvest ideas and expertise from different sources that brings about competitive advantage. More still, Nangoli et al(2013) argues that involvement of different players in business planning enables observation of different sources of business planning opportunities within and or outside a firm, which is vital to identifying the unexpected (i.e. unforeseen opportunity), incongruity (i.e. opportunity between reality and behaviour), industry and market restructures, demographics (i.e. change in population and perception), process need, and localized, embedded, and research-based knowledge. Therefore it is good for SMEs in Mukono Municipality to involve all stakeholders in order to achieve successful business planning.



## **5.2.Internal Business Planning Factors and Performance of SMEs**

Study findings reveal that most of the SMEs have a mission, vision, core values, specific objectives, goals as well as well stated set of rules that govern employ behaviour. According to Balunywa et al (2010), properly stated mission, vision and goals govern the successful process of business planning. Sounding business culture has strong roots on the vision and mission statement of the business enterprise. According to Ishengoma and Kappel (2011), business planning involves the development of detailed plans to implement policies and strategies to achieve objectives and basic company purposes. On the same breath, Kongolo (2010), view planning as a conscious, systematic process during which decisions are made about the goals and activities that an individual, group, work unit or organization will pursue in the future. It provides individuals and work units a map to follow in their future activities. This culture results into building of brand name for the companies that result into competitiveness or higher business performance (Nuwagaba & Nzewi, 2013). According to Bhide (2000), having well set rules for the business enterprise helps to inculcate discipline amongst the employees and all other stakeholders, this results into strong business to business relationships, strong business to customer relationships as well as effective management of day today activities of the business. Rules and regulations are key towards performance of business enterprises, during business planning process, stakeholders should clearly outline clear regulations as well as obligations for each personnel in the business enterprise in order to create harmony, and this brings about smooth running of the enterprise thus competitiveness (Delmar & Shane, 2003).

However, study findings reveal that the awareness of employees about the mission, vision and core values is still low. Business enterprises should create an awareness of their core values, mission and vision to all stakeholders especially the employees in order to guide business operations as well as building a strong business culture which is key towards business success



(Honig&Karlson, 2004). Awareness of goals, objectives and core values of the business enterprise enables keeping ideas alive, facilitates the generation of business planning model which brings about increased business efficiency over time (Liao & Gartner, 2006). Proper understanding of goals and objectives of the business enables firms to look beyond their own internal environment and limited resources for ideas, opportunities, and partners that help them expand their markets in order to achieve their goals and objectives (McMahon, 2001).

More still, study findings reveal that most of the SMEs do not organize training in business planning as well as analysis of their strength and weaknesses. Business planning is a complex process that requires some training in order to enable stakeholders understand the key pillars of the business planning process which are key towards business performance (Tushabomwe-Kazooba, 2006).. According to Kuratko (2005), training in business planning stimulates the entrepreneurial mindset of people, leading to a more understanding of business success by all stakeholders. Analysis of the strength and weakness of the business enterprises enables businesses to maximize their strength as well as improving on their key weak areas hence improving business performance (Schumpter Conference, 2012).

More still, study findings reveal that most SMEs in Mukono Municipality do not have a strategic plan that guides their business operations. Today's changing and competitive business and market environments inspires, the firm to rely on business planning to stand out from competitors, create customer value, and accelerate business growth performance (Gemma et al, 2014).It is crucial for a firm to plan a competitive strategy through business planning by anticipating market trends, customer needs, and competitor actions, which is considered as part of a firm's roadmap and a crucial component of its approach to success and growth (Drucker, 2014). Balunywa et al (2010) recognize business planning strategy as an important key to

improving business performance and create customer value by providing intellectual frameworks, conceptual models, and governing ideas and by allowing management to identify opportunities for bringing value to customers and for delivering that value at a profit to the market. Ishengoma and Kappel (2011) also argue that business planning is the most important component of a firm's strategy.

### **5.3.External Business Planning Factors and Performance of SMEs**

Study findings show that the increasing price of dollar against shillings and increased inflation affect the performance of SMEs in Mukono municipality. According to United Democratic Uganda (2011), Small and Medium Enterprises are highly suffocated by high interest rates and expensive imported inputs because of excessive devaluation of the Uganda shilling yet they are key in employment creation, resulting into increased unemployment rates in the country. This is in line with study findings that reveal that inflation is one of the external business planning factors that affect the performance of SMEs in Mukono Municipality. More still, according to New Vision article dated march 12, 2015 titled "*Bank of Uganda explains shilling fall against dollar*" the statement released by BOU stated that the fall of shilling against the dollar has made it very difficult for the survival of small and medium enterprises in Uganda. This is in line with study findings that show that increasing price of dollar strongly affects the performance of SMEs as well as the business planning process.

More still, study findings further reveal that the changing attitudes and behaviours of customers affect the performance of SMEs in Mukono Municipality. This is in the same line with findings by Dunn (2012) that reveals that changes in living conditions, attitudes and culture of people strongly affects their buy behaviors.

Study findings further show that the legal requirements to open up a business in Mukono Municipality are amongst one of the external business planning factors that affect business performance of SMEs. According to Balunywa et al (2010), the increasing legal requirements of opening up a business in Uganda is one of the biggest barriers towards entrepreneurship development in Uganda. In line with the same, Tushabomwe-Kazooba (2006) further argues that the business legalization procedure affects the rate at which new jobs are created by the private sector. All these are in line with the study findings that show that legal requirements affect the performance of SMEs in Mukono Municipality.

Study findings further show that the increasing competition is one of the major external business planning factors that affect the performance of SMEs in Mukono Municipality. Business planning is considered to be of importance to the growth of firms, despite their size, with great leverage in creating economic values and competitive advantages and in driving changes (Schumpeter, 2012). The competitive environment in most countries and for most firms (irrespective of size and sector) has changed as production has become more technology-driven and knowledge-based; and competition has globalised and developed into more business planning-based (Liao & Gartner, 2006). In the same line Kuratko (2005) further argue that the potential for alliance is based on personal and social networks, and the lack of market research is a limiting factor to understand both customer demands and competitor behaviours, this is in the same line with the study findings. Honig and Karlsson (2004) further reveal that SMEs are crucial in diversifying sources of national income, improving competitiveness and economic development, however proper planning is essential for them to survive increased competition in the global markets.. Therefore, Small and medium-sized enterprises in the Mukono Municipality market are no exception to other firms in other markets and countries which should be

encouraged to use business planning as a tool to improve both competitive advantage and business performance.

#### **5.4 Relationship between business planning factors and performance of SMEs.**

Study findings reveal that business specific objectives have a positive impact on the performance of SMEs. According to Liao and Gartner (2006), understanding the objectives and goals of the business entity enables all stake holders to make the business more systematic in terms of its development and this can lead to a greater proportion of the firm's efforts being directed towards the attainment of those goals and objectives established at the planning stage, that is, the business entity becomes more focused. In the same line Hornig and Karlsson (2004) further argue that setting business objectives through business planning provides a basis for measuring performance of a business enterprise.

More still, study findings show that changes in government policies and environmental regulation and policies positively impact on performance of SMEs at  $p < 0.05$  and  $p < 0.01$  respectively. According to Schumpeter (2012), environmental scanning and analysis allows the firm to be connected to its environment and guarantees the alignment between the firm and its environment. Environmental analysis reveals the market dynamics, business opportunities and challenges, customer expectations, technological advancements and the firm's internal capacities provides the basis for strategy selection which is key towards business performance.

Furthermore, study findings reveal that external business planning factors have a positive impact towards the performance of SMEs. Various empirical studies have been done to establish the relationship between external business planning factors and firm performance with varied conclusions. The initial studies include that done by Thune and House (1970). Thune and House

studied 36 companies employing the approach of examining the performance of each company both before and after formal business planning was initiated. This covered both informal and formal planners. The comparison showed that formal planners outperformed the informal planners on all the performance measures that were used. Herold (1972) in an attempt to cross-validate Thune and House (1970) study, surveyed 10 companies, comparing performance of formal and informal planners over a 7-year period. Based on the survey results, He concluded that formal planners outperform informal planners and hence, supporting the results of Thune and House (1970). Gershefski (1970) in his survey compared the growth of sales in companies over a 5-year period before strategic planning was introduced, and over a period of 5 years after planning was introduced. The results of the comparison led Gershefski to conclude that companies with formal strategic planning outperformed companies with little planning. Ansoff (1970) studied 93 firms using various variables of financial performance. In the same line Bhidé (2000), employed a meta-analytic approach using data from 26 previously published studies and concluded that external business planning factors positively influences firm's performance. More still, McMahon (2001) argued that knowledge of external business planning enables the firm to strengthen its competitive position and facilitates integration and coordination of members' behaviours.

## **5.5. Conclusions**

Basing on the preceding discussions, the following conclusions can be reached.

With regard to research question 1, results showed that the age and size of business affects the nature and extent of business planning in business enterprises as it's strongly related to the availability of business planning resources. More still, the study showed that many CEOs carry

out business planning without the knowledge of employees and other stakeholders in their businesses which greatly affects business performance.

With respect to research question 2, results showed that clear understanding of the business' mission, vision, goals and core values is essential towards the performance of SMEs. Furthermore, the study revealed that development of a business strategic plan results into successful business performance of SMEs.

With regard to research question 3, results showed that the increasing price of dollar against shilling, increase in inflation, increase in competition, changes in attitudes and behaviors of customers as well as legal requirements of opening up a business are amongst the external business planning factors that strongly affect the performance of SMEs. More still, the study revealed that changes in government policies affected the performance of SMEs.

## **5.6 Recommendations**

From the previously reached conclusions, it is recommended that;

- Business enterprises should set measurable objectives and well stated goals that guide their normal business operations in order to achieve business success.
- SMEs should develop a simple and clear vision, mission and core values in order to guide all stakeholder in planning and execution of business tasks in order to achieve business competitiveness.
- SMEs should develop a strategic plan to give them in decision making process and ensuring business success.
- Business entities should create awareness to all stakeholders about the key business planning issues that brings about effective performance of the business.

- Government and policy makers should devise means to stabilize the rate of shilling against dollar, control inflation, ease legal requirements of running businesses as well as ensuring strong and long lasting policies in order to boost SME performance in the country.

### **5.7 Recommendations for further research**

The study has dealt with assessment of business planning factors and performance of SMEs in Uganda. It is recommended that a study be conducted on the assessment of business planning and the growth of SMEs in Uganda.

### **5.8 Limitations of the study**

- Lack of cooperation from the respondents as some was reluctant to reveal their views about business planning.
- Lack of existing statistics on business planning. More still less literature is available in the area of business planning in Mukono and Uganda in general.
- Lack of enough resources to help in data collection and analysis also affected the study.
- Managers in most of the enterprises were hard to find which spent most of the researchers time in the process of data collection.
- Most of the respondents didn't understand business planning factors and their impact towards performance, so the researcher was tasked to create awareness first before proceeding to the process of data collection which was tedious and time consuming.



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## APPENDICES

### Appendix 1

#### QUESTIONNAIRE FOR A STUDY ON BUSINESS PLANNING FACTORS AND PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN UGANDA. A CASE OF MUKONO MUNICIPALITY

Dear respondent,

I am a student of Kyambogo University undertaking studies leading to the award of a Master of Business Administration (MBA) degree. The study is aimed at determining business planning factors and how they affect the performance of small and medium scale enterprises in Uganda. It is being conducted in partial fulfillment of the requirements for the award of Masters of Business Administration of Kyambogo University. The information provided will be only for academic purposes and will be treated with utmost confidentiality. Your cooperation is highly appreciated. Thank you very much for your co-operation.

#### SECTION A: Demographic variables

1. Gender of respondent:

Male ☐ Female ☐

2. Highest level of Education:

Primary ☐ Certificate ☐

O Level ☐ Diploma ☐

A Level ☐ Degree ☐

Others ☐ Specify .....

3. Age of your business

Old (Existed for >1 year) ☐ New (Existed for <1 year) ☐

4. Number of employees .....

5. Nature of business

Trade ☐

Agribusiness ☐

12. If yes, what is the significance of these business plans to the success of your business?

.....  
.....

**SECTION C: Internal Planning Factors that affect the performance of Micro and Small Businesses in Mukono Municipality – Central Division**

13. Does your business have;

	Yes	No	If yes, state it
Mission	<input type="checkbox"/>	<input type="checkbox"/>	
Vision	<input type="checkbox"/>	<input type="checkbox"/>	
Core Value	<input type="checkbox"/>	<input type="checkbox"/>	

14. Do you have well stated set of rules that govern the behaviour of your employees?

Yes ☐ No ☐

15. Do you always organise training sessions for employees in business planning and management?

Yes ☐ No ☐

16. If yes, how often?.....

17. Have you ever carried out an analysis of strengths and weaknesses of your business?

Yes ☐ No ☐

18. If yes, state any strengths and weaknesses of your business enterprise

Strength : .....

Weaknesses : .....

19. State the extent to which you agree with the following statements (Tick appropriately).

	1	2	3	4	5
My business has specific objectives					
These objectives are measurable					
My business has main goals that guide operations					
The business goal and objectives guide decision making					
My business has a strategic plan					
All employees are aware of the core values, mission and vision of the business					
Employees are part of the business planning process					

1=Strongly Disagree 2=Disagree 3=Neither Disagree nor Agree 4=Agree 5=Strongly Agree

#### **SECTION D: External business planning factors that affect the performance of Micro and Small businesses in Mukono Municipality – Central Division**

20. Does your business have opportunities and threats?

Yes ☐ No ☐

21. If yes, state any of the opportunities and threats

Opportunities:.....

Threats:.....

22. State the extent at which you agree with the following statements (Tick appropriately).

	1	2	3	4	5
The increasing price of dollar against shilling affects my business					
Inflation within the country affects my business					
The increase in lending prices affects my business					
Changes in government policies affect business performance hence business planning					
The political environment affects my business					
Environmental regulations and policies affect my business					
Changes in technology affects my business					
Increase competition from competitors dealing in the similar business affects my business					
Changing attitudes and behaviours of the customers affect my business					
Legal requirements of running business in Mukono Municipality and Uganda affect my business hence business planning					

1=Strongly Disagree 2=Disagree 3=Neither Disagree nor Agree 4=Agree 5=Strongly Agree

26. In your opinion, what are other external business planning factors that affect your business?

.....

.....

.....

.....

27. Rate how the following factors impact on business performance of your business by ticking (✓) the appropriate figure in the table to indicate your response.

KEY:

1 - STRONGLY DISAGREE

2 - DISAGREE

3 - NEITHER AGREE NOR DISAGREE

4 - AGREE

5 - STRONGLY AGREE.

		Tick(✓) appropriately				
		1	2	3	4	5
a)	Increase in profits					
b)	Increase in liquidity					
c)	Increase in longevity					
d)	Increase in market share					
e)	Increase in return on investment					
f)	Increase in product quality					
g)	Introduction of new products					

**Thank you very much for your valuable time and information!**



## Appendix 2: Interview guide

### INTERVIEW GUIDE

1. Are you a CEO or an employee of this business?

Yes ☐

No ☐

2. What is the age of your business? .....

3. Do you carry out business planning?

Yes ☐

No ☐

4. Who is involved in the planning process.....

5. Do you have a mission, vision as well as core values?

Yes ☐

No ☐

6. Do you carry out analysis of strengths, weaknesses, opportunities and strength?

Yes ☐

No ☐

7. Do you prepare business plans and strategic plans?

Yes ☐

No ☐

8. Are these documents important in any way to your company?

Yes ☐ No ☐

9. In opinion, do you think the following factors affect your business in any way? If yes, state the magnitude.

	Yes	No	1	2	3	4	5
The increasing price of dollar against shilling affects my business							
Inflation within the country affects my business							
The increase in lending prices affects my business							
Changes in government policies affect business performance hence business planning							
The political environment affects my business							
Environmental regulations and policies affect my business							
Changes in technology affects my business							
Increase competition from competitors							

dealing in the similar business affects my business							
Changing attitudes and behaviors of the customers affect my business							
Legal requirements of running business in Mukono Municipality and Uganda affect my business hence business planning							

**THANK YOU FOR YOUR COOPERATION**

**Appendix 3: Morgan, Krejcie Table 1970 used to determine sample size.**

If your population is:	Then your random sample size should be:	If your population is:	Then your random sample size should be:
10	10	440	205
15	14	460	210
20	19	480	214
25	24	500	217
30	28	550	226
35	32	600	234
40	36	650	242
45	40	700	248
50	44	750	254
55	48	800	260
60	52	850	265
65	56	900	269
70	59	950	274
75	63	1,000	278
80	66	1,100	285
85	70	1,200	291
90	73	1,300	297
95	76	1,400	302
100	80	1,500	306
110	86	1,600	310
120	92	1,700	313
130	97	1,800	317
140	103	1,900	320
150	108	2,000	322
160	113	2,200	327
170	118	2,400	331
180	123	2,600	335
190	127	2,800	338
200	132	3,000	341
210	136	3,500	346
220	140	4,000	351
230	144	4,500	354
240	148	5,000	357
250	152	6,000	361
260	155	7,000	364
270	159	8,000	367
280	162	9,000	368
290	165	10,000	370
300	169	15,000	375
320	175	20,000	377
340	181	30,000	379
360	186	40,000	380
380	191	50,000	381
400	196	75,000	382
420	201	1,000,000	384