

**ENTREPRENEURSHIP SKILLS AND FINANCIAL PERFORMANCE OF SMALL
AND MEDIUM ENTERPRISES IN UGANDA: A CASE OF KAWEMPE DIVISION**

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DECLARATION

I declare that this dissertation is my original work and has not been presented for a degree in any other University or Institution for any other award.

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APPROVAL

This dissertation has been done under our supervision and has met the research report requirements of Kyambogo University and is now ready for submission.

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DEDICATION

I dedicate this dissertation to my wives; Mrs. Hafiswa and Mariam and my children Safik, Sumaya, Hatimah, Hakimah, Fazirah, Fahim and Swabulah

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ACRONYMS

ACCA.....Association of Chartered Certified Accountants

BOU.....Bank of Uganda

CET.....Cognitive Evaluation Theory

MSMEs.....Micro, Small and Medium Enterprises

ROA.....Return on Assets

ROE.....Return On Equity

ROI.....Return on Investment

SAQ.....Self-administered questionnaire

SMEs.....Small and Medium Enterprises

UBOS.....Uganda Bureau of Statistics

UIA.....Uganda Investment Authority

ABSTRACT

The study sought to examine the relationship between entrepreneurial skills and financial performance of SMEs in Uganda. The study specifically focused on addressing three objectives which included; to examine the relationship between entrepreneur communication skills and the financial performance of SMEs, to establish the relationship between entrepreneur innovation skills and financial performance of SMEs and to establish the relationship between entrepreneur interpersonal skills and financial performance of SMEs in Kawempe Division. The study adopted a cross sectional survey design and data was collected from a sample of 150 SMEs in Kawempe Division. Both purposive sampling and simple random sampling techniques were employed. Several methods were used to collect data both primary and secondary data and they included: the self-administered questionnaires; interviews; review of primary document and secondary literature. Data was analyzed using both descriptive statistics to describe the nature of sample and correlation analysis was used to establish the relationships between study variables. The study found out that entrepreneur's communication skills had a positive significant relationship with financial performance of SMEs ($r=0.74$). The study also found out that there was a positive significant relationship between entrepreneur's innovation skills and financial performance of SMEs ($r=0.82$) and lastly it was also found out that entrepreneur's interpersonal skills has a significant relationship with SMEs financial performance ($r=0.86$). The study therefore generated a number of conclusions. It was concluded that generally the contribution of entrepreneurship skills towards financial success of SMEs in Uganda should not be underrated. SMEs that possess skills that enable them modify existing products and develop new products would have an increase in financial performance. It was further concluded that interpersonal skills contribute most to financial performance of the SMEs as compared to other skills that were chosen for this study. The study therefore recommended that in this competitive environment firms have to develop mechanisms of gathering market information and also pass on information. The study also recommends the SMEs should improve and acquire innovation skills and lastly interpersonal skills are important to financial success of SMEs.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study investigated the relationship between Entrepreneurship Skills and Financial performance of Small and Medium Enterprises. This chapter includes the background to the study, statement of the problem, purpose of the study, objectives of the study, scope, significance, and conceptual framework.

1.1 Background to the Study

The background of this study was drawn from historical, theoretical, conceptual and contextual perspectives as discussed below.

1.1.1 Historical Background

The historical evolution of ideas about the entrepreneur is a wide-ranging subject and one that can be organized in different ways – theorist by theorist, period by period, and issue by issue and so forth. What follows is a compromise between these possibilities (Ricketts, 2005).

The concept of entrepreneurship started in the late 1700s as the modern world started developing and a major transition took place in organizations. The firms began to change in their daily activities into artificial environment for instance, work activity was changed from agrarian to shop assembly. Out of this major transition in organization activity, a new sociologically distinct individual emerged and later became known as the entrepreneur (Cooney, 2012).

It is believed that earlier economic writers began recognizing the term entrepreneur as early as 1725 for instance in the writings of Richard Cantillon and continued through Adam Smith, Jean-Baptiste Say, John Stuart Mill, and others (Dollinger, 2008).

According to Benson (2014) it is pointed out that cult of the entrepreneur initially receded in the twentieth century. The large-scale organizations established in the 19th century and the corporations developing in the newer electrical, chemical, communications and motor industries began to look more managerial and professional than heroically entrepreneurial. The entrepreneurs having blazed their pioneering trail it began to be seriously considered that professional scientists, technicians and managers would be able to maintain momentum.

In the UK, for example, the shipbuilding, coal, steel and cotton industries all but disappeared and this substantial and continuing restructuring undermined the notion that change of this degree could be brought about by managerialism alone. The growth of the service sector of the economy and the development of computer technology and communications may also have contributed to a rise in self-employment and small-scale entrepreneurship

1.1.2 Theoretical Background

Although the work of Ricardo provides a good example of the exclusion of the entrepreneur or the conflation of entrepreneur with capitalist, the same observation has been made of Smith, Senior, Marx and Mill. This Study was guided by Innovation theory advanced by Schumpeter (1942). In this theory an entrepreneur is observed as creative innovator. Schumpeter in this theory further described an innovation as the commercialization of an invention. If this is the case, then the entrepreneur and the creative talents of the entrepreneur are individual in origin and not a product or result of one particular institutional system.

The theory emphasizes that entrepreneurs, like other creative individuals, may exist in any institutional system. Just as musicians who create different lyrics and songs exist in all economic systems, so may entrepreneurs. Just as the artist creates paintings or sculptures and exists in many different economic systems, so may entrepreneurs (Cooney, 2012).

However, the efforts, activities, and results of the entrepreneur in bringing about innovations will surface differently in each different institutional system. Therefore, causative factor in change is "innovation skills," which is defined as the ability of doing things differently in the realm of economic life (Coats and Schumpeter, 2006)

The theory therefore observes entrepreneurship skills as a function of an organization where employees should have the ability to appreciate the possibilities of an innovation. It was therefore from this theory that the study borrowed its concepts of entrepreneurship skills considered in the study.

1.1.3 Conceptual Background

Mill (1996) is credited for introducing the word 'entrepreneur' into English economics. Although Schumpeter (2006) opines that he did not go much further than including 'superintendence' as a necessary input into production. Gross profits had to be sufficient to provide 'a sufficient equivalent for abstinence, indemnity for risk, and remuneration for the labour and skill required for superintendence. Abstinence reflects the usual classical association of entrepreneur with capitalist. Superintendence makes a portion of the entrepreneur's reward relatively a wage. Even innovation and invention could be seen as a type of labour. 'The labour of invention is often estimated and paid on the very same plan as that of execution. It was, however, Mill's inclusion of 'indemnity for risk' as part of profit that perhaps lay behind his preference for the word 'undertaker' rather than 'manager' and

supports the case that he saw the entrepreneurial function as something qualitatively different from capitalist or worker. Interest is the reward for abstinence 'while the difference between the interest and the gross profit remunerates the exertions and risks of the undertaker'

Entrepreneurship is not a concept that has a tightly agreed definition. In modern common usage an 'entrepreneur' is 'a person who undertakes an enterprise, especially a commercial one, often at personal financial risk (Ricketts, 2005). According to Hagedoorn (1996); Coats & Schumpeter (2006), entrepreneurs are not necessarily motivated by profit but regard it as a standard for measuring achievement or success. They tend to have both personal and interpersonal characteristics which involve Leadership and Motivation, Communication Skills, Listening, Personal Relations, Ethics, Vision, Persistence and Risk Tolerance Financial performance is the ability of the firm to generate profits, enhance its market share, improve liquidity and solvency in a period(s) under review (ACCA, 2017).

Financial performance Measurement of SMEs was measured basing on both quantitative and qualitative measures. Quantitative financial performance measures are commonly used by large corporations such as financial outcomes (ROE, ROA, ROI), production (the amount of goods sold, operating expenses ratio), marketing (number of customers), and efficiency (Tattichi et al, 2008). Qualitative financial performance measures such as discipline level, achievement of goals, perceptions of leadership on organizational financial performance, individual behavior in the organization, and relationshipiveness (Marus, 2017).

SMEs whose owners had technical knowledge, attitude towards work and managerial skills had significant association with profitability and the customer satisfaction (Heenkenda & Chandrakumara, 2016). Profitability was constructed by deducting the variable cost of production from the total revenue obtained in a particular period. Profitability sees business financial performance from the view point of financial targets achievements as planned by

the firm (Conceicao et al., 2014). SMEs should not merely struggle to survive but grow their profits and remain ahead in the race of competition (Muthalib et al., 2014). Profitability measures that are universally accepted for their value in management of SMEs are return on assets, return on equity and profit margin. These three measures the relationship between outputs (net income from operations) and outputs. A firm's input includes return on assets, return on equity, and operating profit margin (Waithaka & Njeru, 2015).

1.1.4 Contextual Background

The study context was SMEs in Kawempe Division. The SMEs have a big role in the economic development of most countries of the world and notably vital for profit generation to owners (Ebiringa, 2012). A small and medium sized enterprise is a business that employs a small number of workers. It has fewer than 50 employees, while a medium-sized enterprise was one with fewer than 250 employees (Trindade, 2014). At the same time, Small and medium-size enterprises maintain revenues, assets or a number of employees below a certain threshold.

Studies in Great Lakes region of Africa; particularly in Uganda, reveal that SMEs have the capacity to spur rapid economic growth and create employment opportunities. In Uganda, it is estimated that SMEs create about 85 percent of Uganda's employment (BOU report, 2018). However, the sector contributes only about 20 percent of the total Gross Domestic Product which is still low. It is therefore suggested that for the sector to realize higher success levels there has to be entrepreneurship skills or else the dismal financial performance and the frequent collapse of SMEs will persist.

SMEs in Kawempe occupy over 35 percent of SMEs in Kampala Capital City Authority (Kawempe MSMEs register, 2017). These SMEs operate in all sectors, that is,

manufacturing, trade and service subsectors. The SMEs range from those unregistered and to those formally registered small-scale businesses, such as supermarkets, wholesale shops and transport companies.

Although the studied literature represents entrepreneurial skills as an essential part of the firm's success, it is pertinent that less work has been done in the context of Uganda. Thus, the present study adds to the literature by identifying some important skill-related dimensions and analyzes its relationship on SMEs financial performance in Kawempe Division in Kampala Capital City

1.2 Statement of the Problem

Development of entrepreneurial skills serves as a measure for improving financial performance of startups and established SMEs (Bosire & Nzaramba, 2013). However, such study is still missing in East Africa and particularly in Uganda context. Despite the efforts made by some institutions to promote entrepreneurial skills in order to enhance their financial performance, SMEs in Kawempe Division have been reporting a steady decline in their financial performance. This has been due to low profitability margin, low rate of return on investment and low return on equity which have affected SMEs in Kawempe Division (Kawempe Division Annual Reports 2016-2018). It is upon this background that the study was set to establish between Entrepreneurship Skills and Financial performance of Small and Medium enterprises in Uganda.

1.3 Purpose of the study

The purpose of this study was to establish the relationship between entrepreneurial skills and financial performance of SMEs in Kawempe Division.

1.4 Objectives of the Study

- I. To examine the relationship between entrepreneur communication skills and the financial performance of SMEs in Kawempe Division.
- II. To establish the relationship between entrepreneur innovation skills and financial performance of SMEs in Kawempe Division.
- III. To assess the relationship between entrepreneur interpersonal skills and financial performance of SMEs in Kawempe Division

1.5 Study questions

- I. What is the relationship between entrepreneur communication skills and the financial performance of SMEs in Kawempe Division?
- II. What is the relationship between entrepreneur innovation skills and financial performance of SMEs in Kawempe Division?
- III. What is the relationship between interpersonal skills and financial performance of SMEs in Kawempe Division?

1.6. Scope of the Study

1.6.1 Content Scope

The study focused on the relationship between entrepreneurial skills and financial performance of SMEs. Entrepreneurial skills were measured under the aspects of communication, innovation and interpersonal skills. Financial performance was measured basing on profit margin, rate of return on investments and rate of return on equity (Kaplan, 2018). This was because most SMEs in Uganda do not survive to celebrate their second birth day (UBOS 2016).

1.6.2. Time Scope

The study was centered on the periods 2015-2018 as these were periods in which there was significant failure rate in SMEs in Uganda (Private Sector Foundation of Uganda Report 2017).

1.6.3. Geographical Scope

The study was carried on SMEs of Kawempe Division that is located on the North western edge of Kampala Capital City Authority. It had a number of vibrant SMEs though they were subjected to a number of challenges hence prompting the study.

1.7. Significance of the Study

This study if successfully carried out would be a point of reference for the SMEs which participated in this study. This study would benefit SMEs in the way that they would be able to enhance their skills related to communication, innovation and interpersonal skills.

It would also act as a reference point to future research in related areas of study. This study cited out areas of further research which can be borrowed to enrich knowledge so future studies.

The study would also prompt policy makers in the SMEs to formulate appropriate policies to mitigate the alarming failure of SMEs in Uganda.

1.8 Conceptual framework

A conceptual framework was developed in order to help structure the research and to identify variables for measurement (Svinicki, 2008). The conceptual framework below highlighted the perceived relationships between Entrepreneurship skills and financial performance of Small and Medium Enterprises.

INDEPENDENT VARIABLE

DEPENDENT VARIABLE

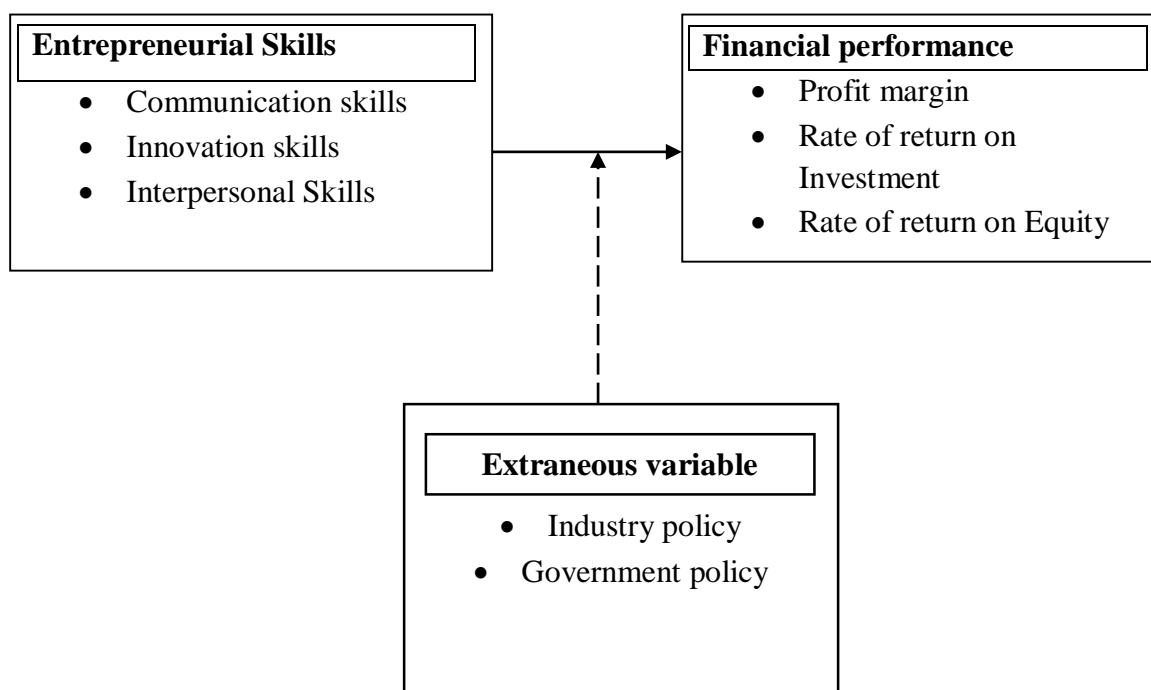


Figure 1: The conceptual framework of entrepreneurial skills and financial performance

Source: Adapted from Romijn & Albaladejo (2002);(Carter & Tamayo, 2017) and modified by the researcher

The conceptual framework above illustrates that Entrepreneurial skills are a combination of communication, innovation and interpersonal skills (Kirner, Kinkel, & Jaeger, 2009; Carter & Tamayo, 2017). Financial performance of SMEs is as a result of the skills possessed by an

entrepreneur who establishes, manages and runs the business. Firm financial performance was measured based on return on investment, return on equity, and profit margin (Li, Huang, and Tsai, 2010). The independent variable for this study was entrepreneurial skills and the dependent variable was financial performance (Carter & Tamayo, 2017).

1.9 Definition of terms

Small and Medium enterprises; A small-sized enterprise is a company with fewer than 50 employees, while a medium-sized enterprise is the one with fewer than 250 employees (Trindade, 2014)

Communication skill; Communication skill is the ability to transmit ideas to ensure a clear meaning (Dickinson, Bellack, & Gold, 2007)

Innovation skill; According to Cooney (2012) innovation skill is the ability to strive to do things better and differently

Interpersonal skill; this refers to the ability to build a great relationship with teams, customers, shareholders and investors

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter comprises selected theories that will guide the study and related authoritative works from selected authors

2.1 Theoretical Review

There are several theories that have been advanced to explain the concept of entrepreneurship skills such as; The labor theory, Cognitive Evaluation Theory, Self-determination theory and Innovation theory. In the Labor theory advanced by Smith as an outcome of his ‘natural law’ preconceptions. Smith (1940) emphasized the role of labor to the exclusion of the productive function of designing the plan according to which this labor is being applied. It should be recognized, however, that the writings of the classical economists are open to widely differing interpretations and that Adam Smith, perhaps because he offered a much less formal ‘model’ of the economy than did David Ricardo, can be seen as the originator of an approach to economic growth which implicitly ascribes a central role to the entrepreneur.

The Study however, was guided by Innovation theory advanced by Schumpeter (1942). In this theory an entrepreneur is observed as creative innovator. Schumpeter in this theory further described an innovation as the commercialization of an invention. If this is the case, then the entrepreneur and the creative talents of the entrepreneur are individual in origin and not a product or result of one particular institutional system.

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The theory therefore observes entrepreneurship skills as a function of an organization where employees should have the ability to appreciate the possibilities of an innovation. It was therefore from this theory that the study borrowed its concepts of entrepreneurship skills considered in the study.

2.2 Empirical Literature Review

2.2.1 Communication skills and Financial performance

Communication has been defined by several scholars (Kivimäki et al., 2000; Dickinson, Bellack, & Gold, 2007; Dollinger, 2008). According to Kivimäki et al. (2000) Communication is defined as the act of transmitting ideas to ensure a clear meaning. Similarly, Dickinson, Bellack, & Gold (2007) argue that it is a social skill and transferring information from sender to the receiver. He further urges that communication is essential for business growth. The relationship of communication skills to the financial performance of the firm has been studied by several scholars (Dollinger, 2003; Elfenbein, Hamilton, & Zenger, 2008; Wanjiku & Lumwagi, 2014; Miller & Shamsie, 1996; Santarelli & Vivarelli, 2007; PMI, 2008)

According to Andersen & Rasmussen (2004) there should be regularity and an excellent information network within an organization so as to ensure communication is success. The

study further ascertains that organizational workers should possess communication skills so as to enable the flow of information from internal environment to the stakeholders within the external environment of the firm.

The study by Dollinger (2003) referred to communication as the bedrock of entrepreneurship business. He urges that the success of the firm is dependent on particular skills among which the most vital was communication skills. The findings of the study indicated that communication skill enable entrepreneurs pass information to their customers through the use of words, adverts, body language, reports.

Elfenbein, Hamilton, & Zenger (2008) carried out an investigation on the relationship of interpersonal communication skills and financial performance of marketing organization and ascertained that communication skills affect financial performance by 80%. It was therefore concluded that the financial performance of an organization can be improved through development of communication capacity of workers through opening up communication flow within the organization.

In addition Wanjiku & Lumwagi (2014) also carried a study on the relationship of communication strategies on organizational financial performance in Kenya. In this study it was ascertained that communication skills play a very central role in high financial performance. This is also in line with the study carried by Wagner, Liston, & Miller (2011) who established that just the presence of communication infrastructure without communication skills would not guarantee increase in financial performance of an organization.

The study was also done by Santarelli & Vivarelli(2007) on entrepreneurial skills and growth of small and medium enterprises in Nigeria. The study collected data on 38 SMEs and found

out that entrepreneurial skills have a significant influence on the growth of SMEs in Nigeria. The study ascertained that communication skills, problem solving and leadership skills play a major contribution to the growth of SMEs.

Spanos, Prastacos, & Poulymenakou (2002) also in their study ascertained communication skills was ability to solve problems and they are very vital skills for the success of the firm. This is also in continuum with the study carried out by Prahinski & Benton (2004) who also established that entrepreneurs need sophisticated skills such as managing conflict, communication and leadership.

2.2.2 Innovation Skills and Financial performance

Several scholars also studied the influence of innovation skills on the financial performance of the firm (Veeraraghavan, 2013; Cooney 2012; Schumpeter, 1998; Van Praag & Cramer, 2001; Hamm, 2002; Whetten & Cameron, 2005; Freel, 2005)

According to Cooney (2012) innovation skills is pointed out as one of the most important requirements of an entrepreneur because it was found out to be significantly affecting financial performance. The entrepreneurs should therefore be innovators, that strive to do things better and differently. This is also supported by the study by Freel (2005) that sought to examine the pattern of innovation and skills in small firms. This study was done on a sample of 1345 SMEs of North Britain and found out that there is a relationship between innovation skills and processes in manufacturing SMEs.

Problems are viewed as “complex systems and therefore innovation has been observed as essential component of competitiveness that enables firms solve the problems” (Gunday, Ulusoy, Kilic, & Alpkan, 2011) . The latter further carried out a study on relationships of

innovation skills on firm's financial performance and ascertained that there is a positive relationship between innovation skills and firm's financial performance.

Schumpeter (1998) in his theory of innovation describes an entrepreneur as someone with foresight and innovative. Entrepreneurship is the creation of new firm that uses novelty to enter existing or new market while building healthy completion against the existing business (Stefanovic, Rankovic & Prokic, 2011; Ebiringa, 2011). Likewise, Stevenson (1993) implies that entrepreneurship generates growth, wealth, and well-being by calculated risk.

As empirical studies of (Hamm, 2002; Whetten& Cameron, 2005; Scudder 2001) have reviewed that entrepreneurial skills influence the growth and operations of SMEs, the success of entrepreneurial rely on the identification of competencies for start-ups and established businesses, as well as their survival and early-year growth.

Entrepreneurs are individuals who through innovation or innovation introduce new ideas that changes directions and the wheel of enterprise (Van Praag & Cramer, 2001). Also, Shane (2003) infers that an entrepreneur is an innovator who utilizes the opportunity to gain the benefits of the environment. Minority businesspersons according to (Krueger, 2007) are business owners of a majority population. Inducing from the above authors; this study, therefore, describes an entrepreneur as an innovator with creative abilities, who utilizes opportunities regardless of the risks involved.

2.2.3 Interpersonal Skills and Financial performance

Entrepreneurs are often encouraged to work with a team of other people so as to increase the possibility of idea commercialization (Marks and Richards, 2012). There are several empirical studies that have been done to understand the relationship between entrepreneur's interpersonal skills and financial performance of firms among which include; (Benson, 2014;

Duffy, Gordon, Whelan, Cole-Kelly, & Frankel, 2004; Pittaway, Robertson, Munir, Denyer, & Neely, 2004; Cooney, 2012; Johnson, Snowden, Mukhuty, Fletcher, & Williams, 2015 ;Macheke; 2012; Kinya, 2014)

Kinyua (2014) carried an empirical study to establish the factors affecting the financial performance of Small and Medium Enterprises in the Jua Kali Sector in Kenya. The study found out that successful entrepreneurs needs to work closely with people. Such close contacts will enable a business build a great relationship with his or her teams, customers, shareholders and investors. The study therefore concluded that interpersonal skills influences financial performance of the firms.

Macheke (2012) also carried an empirical study on entrepreneurial, business skills and Training Needs in SMEs in the Plastic Manufacturing Industry in the Eastern Cape Province where it was found out that there was a strong link between entrepreneurial training on business and interpersonal skills and the financial performance of SMEs. It was concluded that firms should develop relational skills if they are to prosper in their financial performance because relationships in business are very critical for the success.

According to Benson (2014) he indicates that interpersonal skill is different from other skills such as communication by the fact that it is inherently relationship based and process oriented skill. This is in line with Duffy, Gordon, Whelan, Cole-Kelly, & Frankel (2004) who ascertained that interpersonal skill is determined by the relationship that the communication has on another person. Cooney (2012) while analyzing entrepreneurial skills for growth oriented business found that interpersonal skills are critically important for business growth. He ascertains that interpersonal skills enable the business to have successful links with the key players in the market and thus improving the financial performance.

In addition, Pittaway, Robertson, Munir, Denyer and Neely (2004) carried out an empirical study to assess the relationship between interpersonal skills and innovation. The findings of the study indicated that relationships are important to an entrepreneur and business because they enable the firm to have access to resources, share risks and obtain access to new technologies. Johnson, Snowden, Mukhuty, Fletcher and Williams (2015) also carried out an empirical study to evaluate entrepreneurial skills required achieve better financial performance for the firm. They found out that interpersonal skills have a significant relationship with the firm's financial performance and therefore entrepreneurs require various skills inclusive of interpersonal skills to register their business success.

Mohammed and Obeleagu-nzelibe (2014) also studied entrepreneurial skills and profitability of SMEs in Nigeria. The survey was carried out in 250 respondents in Nigerian major cities through a self-administered questionnaire. Among the types of Entrepreneurial skills, they studied included; record keeping, communication, and interpersonal skills. Their findings showed that there was a significant relationship between these skills and profitability of firms Nigeria.

In conclusion therefore, it can be observed that as majority of the studies have been done to evaluate the entrepreneurship skills required for the success, the findings tend to lean towards one side that creating the capacity for relationship building, network management and managing interpersonal relationships is very vital for the business success.

2.3 Summary of the literature review and literature gap

It has been observed that several studies have established the relationship between entrepreneurship skills and financial performance. Communication skills, interpersonal skills and innovation skills have been identified as the most vital factors that influence financial performance. However, little studies have been done to determine the relationship between

entrepreneurship skills and financial performance with reference to Uganda. This therefore prompted this study to consider Kawempe as area of study.

Secondly, there is notable disagreement between the findings of various scholars where by some concluded that there was a positive significant relationship between communication skills and financial performance whereas others concluded that there was no significant relationship hence leaving a gap that this study wanted to address.

Besides, most studies are observed to have studied large firms and very few focused on establishing the relationship between entrepreneurship skills on financial performance of SMEs thus necessitating this study so as to address this gap. In addition, some studies have only considered small samples which made their conclusions to be underrated, therefore this study considered a sample of 150 SMEs which was quiet a big sample.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The purpose of this chapter is to explain fully the methodology that was used in carrying out this research. This involved the following procedures: research design, study area, target population, sample size, sampling techniques, sources of data, preparation for data collection; instruments for data collection; determining quality of data; measurement of research variables, ethical issues and consideration is provided.

3.1 Research Design

A cross-sectional survey research design was adopted for this study. This is where data is gathered from a cross section of firms at one point in time (Sekaran, 2003). Data were gathered from SMEs of Kawempe Division. Both quantitative and qualitative approaches were used. Quantitative approach was preferred because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationship. The qualitative method enabled the study to probe further so as to supplement the quantitative data.

3.2 Study Area

This study was conducted on small and medium enterprises in Kawempe Division. Data were collected from the owners of small and medium enterprises.

3.3 Study Population

The target population was SMEs of Kawempe Division which constituted 251 firms (Kawempe SMEs Register, 2017) The SMEs were categorized by sectors: Manufacturing and Retail respectively. The respondents include all owners of the SMEs.

3.4 Sample Size

The study used a sample size of 150 SMEs, using Krejcie & Morgan, (1970) framework of sample selection. The sample size was determined from a study population of 251 small and medium size enterprises in Kawempe Division.

Table 1: Population and sample distribution

Sector	Population	Sample	Sampling technique
Manufacturing	85	52	Simple random sampling
Retail	166	98	Simple random sampling
Total	251	150	

Source; Krejcie & Morgan, (1970)

3.5. Sampling Techniques

The study adopted stratified sampling technique to divide the population into different stratum of Manufacturing and retail. Afterwards individual respondents were selected using simple random sampling techniques. This was preferred because the firms that were to be included in the sample were to be given equal chance. Purposive sampling was also applied to select owners of these SMEs since they were the right respondents to give detailed information from their respective sectors (Neuman, 2000). As a result, the sample size of 150 was chosen out of target population of 251.

3.6 Sources of Data

Data was collected from two sources; both primary and secondary sources of data. Primary data was collected from respondents using questionnaire; while secondary data was obtained from report, government publications and newsletters.

3.7 Data Collection Methods

The methods of data collection adopted in this study were questionnaires and interviews.

3.7.1 Questionnaires

The main instrument used in data collection for this study was self-administered questionnaire (SAQ), consisting of closed ended questions so as to increase quality responses and limit unnecessary and un solicited responses from the participant (Sekaran and Bougie, 2010). The questionnaire helped to derive quantitative interpretation used in examining the relationship between entrepreneurship skills and financial performance of SMEs.

Questionnaires mainly be used to collect quantitative data. The questionnaires were designed according to five (5) Likert scale of strongly disagree, disagree, not sure, agree and strongly agree. They consisted of a set of items which respondents are expected to respond.

3.7.2 Interviews

Another instrument that was used to elicit information from a specific category of respondents was interview schedule. Taylor et al (1984), recommended the use of interviews since the conversation between the researcher and the respondent is likely to lead to more reliable answers than with any other research method. This instrument of data collection was used to probe respondents on the relationship between entrepreneurship skills and financial performance of SMEs.

3.8 Preparation for Data Collection

In order to collect data on variables, a questionnaire was developed in accordance with the guidelines given by Rotter (1966), Bandura (1997), Boles et al. (2000). After developing the questionnaire, pretesting of the questionnaire was conducted and the outcome was used to review the questions. This pretesting of the survey instrument was carried out in Mpigi District. This District was selected for the pre-test because it was not included in the final sample for the actual data collection. A total of 30 respondents were selected to participate in

the pre-test. The pre-test was mainly for further refinements of the questionnaire for glitches in wording of the question items, clarity of instructions, as well as different terms which were corrected. A five-point Likert Scale ranging from: '1' 'strongly disagree' to '5' 'Strongly agree'; basing on the opinions and the views of respondents' communication skills, innovation skills and interpersonal skills used in enhancing financial performance.

3.9 Data Collection Instruments

3.9.1 Questionnaire Survey

The study made use of self-administered questionnaires, reflecting closed ended questions. Questionnaires were relationshipive in getting information pertaining to the aspects of communication, innovation and interpersonal skills. The respondents were able to read and answer the questions without being influences by the interviewer.

3.9.2 Interview Guide

The interview guide was used to collect data from the key respondents including members of management, employees and Commercial officer of Kawempe Division. The aim for interviewing was to gain the insights into how Entrepreneurship skills and Financial performance of SMES are related, to back up the results of quantitative data as well.

3.10 Data collection procedure

Arrangements were made to obtain research introductory letter from the Dean, School of Management, Kyambogo University. Research assistants were identified and guided for data collection.

3.11 Measurement of Variables

The variables adopted in this study included, Entrepreneurship skills as an independent variable and financial performance as a dependent variable. However, the relationship between the variables is also assumed to be influenced by extraneous variable.

3.11.1 Entrepreneurship skills

The major variables in the study were measured using items adapted from existing studies. The variables for this study were entrepreneurial skills as an independent variable and financial performance as a dependent variable. The variable on Communication skills was measured using the following Likert Scale; ranging from 1-5 where: 1. strongly disagree 2. Disagree 3. Neither agree nor disagree 4. Agree 5. Strongly agree. The same scale was used to measure the variables on Innovation skills and Interpersonal skills

3.11.2 Financial performance

In this study, financial performance was considered as a dependent variable and was conceptualized based on profit margin, return on investment and return on equity. Specifically, the respondents were asked to record the extent to which they agree on a Likert scale of 5 to 1 (5=strongly disagree and 1=strongly agree).

3.12 Determining the Quality of Research Tools

Prior to using the questionnaire to collect data it was pre-tested. The purpose was to refine the questionnaire so that respondents have no problem in answering the question and no problem in recording the data. It enabled the assessment of questions validity and likely reliability of the data. The issues of reliability and validity were taken into account by this study. This is because the data collected had to be reliable and valid (Saunders et al 1997) if an accurate conclusion was to be drawn.

3.12.1 Validity Test

Validity in this case refers to the extent to which an item on the questionnaire measured the concepts it represented (White, 2002). Content validity was determined using content validity index so as to reveal whether the wording of the items used to measure a concept were clearly related to the concept or one of its dimensions. In addition, an expert opinion was sought on the suitability (accuracy) of the questions. A full questionnaire was prepared using the following scale:

1 = Agree; 2 = strongly agree; 3 = Neutral; 4 Disagree. 5. Strongly disagree. The formula used to calculate content validity index (CVI) was:

$$\text{CVI} = \frac{\text{Number of items declared valid}}{\text{Total number of items on questionnaire}}$$

Total number of items on questionnaire

The content validity index (CVI) test using the above formula yielded 0.70. The CVI of 0.7 was higher than the popular cut- off point of 0.6 (Amin, 2005). This meant that the items on the questionnaire were considered valid and could measure the study variables quite appropriately. In other words, the items on the questionnaire could bring out the desired responses.

3.12.2 Reliability Test

The reliability of the questionnaire arose from a pre-test of 30 SMEs of Mpigi District because the SMEs had considerable characteristics similar to those of SMEs of Kawempe Division. Reliability can be described as the extent to which any measuring procedure gives the same or similar results if the test is repeated with the same respondents (Koul, 2004). Reliability is about consistency of the research scales (White, 2002). Although there are different forms of reliability, the current study focused on internal consistency reliability.

This is the type that measures whether several items on the questionnaire that propose to measure the same general construct produce similar scores. So the internal consistency reliability was measured with Cronbach's (1964) alpha test. The method of computing reliability is:

$$\alpha = \frac{k}{k-1} \left(1 - \frac{\sum \sigma_k^2}{\sigma^2} \right)$$

Where $\sum \sigma_k^2$ = the sum of variance of the items in the test.

σ = standard deviation of the test. This was done in order to establish the internal consistency of the study variables. The reliability test is presented in Table 2 below:

Table 2: Reliability tests for variables

Reliability Statistics		
Variables	Cronbach's Alpha	N of Items
Communication skills	0.911	9
innovation skills	0.894	8
interpersonal skills	0.897	8
financial performance	0.892	8

The Table 2 shows that all variables that were chosen for the study all had Cronbach's alpha of above 0.7 which implied that they were all reliable and hence considered for further analysis.

3.13 Data Preparation, processing and analysis

Qualitative data was transcribed by typing the text from tape-recorded interviews, handwritten field notes and memos into word processing documents. Meaningful segments

were coded. Each interview was assigned code. After completing the initial coding of qualitative data, a summary and reorganization of data was done. This was followed by searching for relationships in the data, since there are no 'quick fix techniques in qualitative analysis (Pope et al 1996). As for coding and data entry quantitative data was edited and then coded. The total number of questionnaires that were distributed to respondents was 251 out of which 150 were the target number of respondents for the study. Data was directly entered into SPSS Window called the Data Editor using (version 17).

3.13.1 Methods of Analyzing Quantitative Data

The quantitative approach to data analysis involved the presentation of the findings descriptively in form of frequency tables with varying percentages. Descriptive statistics were used to describe the basic features of the data in a study and present quantitative descriptions in a manageable form. SPSS software version 23.0 was used to obtain inferential statistics, to reach conclusions that extend beyond the immediate data alone and to make inferences from the data to more general conditions (Cohen et al 1998). The following analyses were used: Pearson's Product Moment, Linear Regression

Pearson's Product Moment Coefficient was used to determine how strongly the scores of two variables are associated with each other in the following objectives: Pearson's Correlation Coefficient was used to test hypotheses that established relationship between the variables.

A simple linear regression was used in order to determine the relationship of Entrepreneurial Skills on Financial performance of SMEs. This was considered by regressing independent variable against dependent variable.

3.13.2 Analysis of Qualitative Data

The information generated from in-depth interviews was transcribed and summarized following developed themes and sub-themes related to the three specific objectives of the study. Thus, the material was subjected to thematic analysis to establish possible disparities and nuances in meaning. This enabled the researcher to compare the data across and discover connections between themes, which offered a reliable and elaborate interpretation of the research into the Entrepreneurship Skills and Financial performance of SMEs. Finally, those interview notes were coded, analyzed and incorporated in the presentation of results and interpretation.

3.14 Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities were implemented by the researcher;

First of all, the researcher sought approval from the graduate school to go and collect data. The research therefore obtained an introductory letter that was presented to the authorities and respondents for the purpose of removing doubts.

Secondly, the researcher solicited permission from the authorities of Kawempe division that allows the researcher to collect data. In addition, the researcher ensured maximum confidentiality of all the participants by coding them instead of reflecting their names.

3.15 Limitations of the Study

Response rate to questionnaires may be low because most of the potential respondents may have tight schedules. An interview guide was prepared to elicit some information for purposes of this study. Some sampling errors may occur, which can lead to wrong

generalization of the findings across the sector. However, this may be curbed by reducing on the sample size and the use of simple random sampling.

CHAPTER FOUR

PRESENTATION OF DATA, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter discusses presentation, analysis and interpretation of the study findings. The chapter begins with the descriptive statistics of the study specifically on respondent's characteristics, firm's characteristics, communication skills, innovation skills and interpersonal skills. Thereafter, the relationship between the key variables of interest, that communication skills, innovation skills, interpersonal skills and financial performance is presented.

4.1 Background information

The study collected data from a number of owners of different SMEs of Kawempe Divion and their background information is presented in Table 3 below.

Table 3: Sample characteristics

gender of respondents	Frequency	Percent
Female	64	50.8
Male	62	49.2
Total	126	100
years in business	Frequency	Percent
1-2years	8	6.3
3-5years	23	18.3
6-10years	65	51.6
11-15years	30	23.8
Total	126	100
department of work	Frequency	Percent
finance and accounting	15	11.9
Logistic	3	2.4
human resource dept	15	11.9
ICT	3	2.4
Program dept	2	1.6
Others	88	69.8
Total	126	100

Source: primary data

From the findings of the study, Table 3 above indicates that majority of the respondents were female with a percentage of 50.8 while male constituted 49.2%.

In line with the years with business, majority of the respondents had stayed in business between 6-10 years (51.6 %), this was followed by those who had spent between 11-15 years constituting of 23.8 %. Respondents that had spent 3-5 years constituted of 18.3 % and lastly 6.3 % of the sample had spent less than three years.

In regards to department to which the respondents belonged, 69.8% belonged to other departments such as marketing and also owners, finance and accounting department

constituted of 11.9 % which was also the same percentage registered by those that belonged to human resource department. Logistic and ICT department each registered 2.4 % of the sample and lastly those that belonged to program department constituted of only 1.6% of the sample as indicated below.

Table 4: Firms' characteristics

industry of business	Frequency	Percent
Manufacturing	11	8.7
Service	32	25.4
Trade	83	65.9
Total	126	100
legal status of business	Frequency	Percent
private limited company	17	13.5
public limited company	8	6.3
sole proprietor	39	31
Partnership	32	25.4
joint venture	30	23.8
Total	126	100
size of business	Frequency	Percent
1-20 employees	65	51.6
21-40 employees	48	38.1
41-60 employees	3	2.4
61-80 employees	3	2.4
81-100 employees	5	4
over 100 employees	2	1.6
Total	126	100

Source: primary data

From Table 4 above, 65.9 % of the SMEs operated in trade while 25.4% operated in service industry and only 8.7% of the firms belonged to manufacturing. Implying that majority of these firms were dealing in retail businesses.

The Table further indicates that with regards to the legal status of the firms sampled, majority of them were operating as a sole proprietor business owned and started by an individual (31%). The firms that operated as partnerships constituted of 25%. Those that operated as joint venture businesses constituted of 23.8%. The firms that operated as private limited companies constituted 13.5% and lastly only 6.3% of the firms operated as public limited company.

As per the size of the firm, respondents were required to indicate the number of employees and the table indicates that firms that had between 1-20 employees and were the majority had a percentage of 51.6%. This was followed by firms that employed between 21-40 employees which constituted of 38,1%. Firms that had between 41-60 employees and between 61-80 employees both constituted 2.4% each while only 1.6% of the firms employed above 100 employees.

4.2 Descriptive statistics of communication skills

In the current discussion on promotion of entrepreneurship in Uganda, issues of communication skills have widely featured with a lot of speculation. Table 4 below, presents evidence on how firms included in the study applied communication skills in their firms and the evidence indicated in Table 5 below.

Table 5: Reported level of communication skills among SMEs

Items	Mean	Std. Dev
We often give quick feedback to our customers	3.79	1.335
We share ideas with clients	3.65	1.254
We freely communicate new ideas to workers	3.88	1.262
We attribute our business success to communication skills	3.83	1.253
We often talk freely to our stake holders	3.71	1.232
All our workers are often trained on how to communicate to customers	3.67	1.339
Open communication is good for our business	3.49	1.506
I am naturally a good communicator	3.63	1.343
I take time to learn how to relationship communicate to customers	3.35	1.471
Grand mean	3.555	1.333

Source: primary data

As shown in Table 5 above, the findings reveal that generally, the respondents in the sampled firms of Kawempe division perceived to be possessing communication skills on all the issues studied with mean scores being slightly above average in scale of 1 to 5. It can however be seen that there are notable variations on how they perceived each issue that was studied. For instance, in terms of the extent whether there was free communication of ideas to workers within the firm, the mean score of 3.88 and standard deviation of 1.262 was registered which constituted the highest.

In regards to how often quick feedbacks were given to customers registered a mean score of 3.79 and standard deviation of 1.335. Those that perceived that there was free sharing of ideas with clients had a mean score of 3.65 and standard deviation of 1.254. Firms that

perceived their business success to be as a result of their communication skills had a mean score of 3.82 with standard deviation of 1.253.

In addition, the firms that perceived that the workers often talked freely with stakeholders had a mean score of 3.71 with standard deviation of 1.232. The findings also revealed that firm's perception of the extent to which training was extended to workers on how to communicate with customers had a mean score of 3.67 with standard deviation of 1.339.

Other issues that were considered included; open communication is good for our business (mean=3.49 and SD=1.506), whether one was naturally a good communicator (Mean=3.63 and SD=1.343) and lastly firms that perceived that employees take time to learn how to communicate with customers had a mean score of 3.35 and SD of 1.471 which constituted the least.

4.3 Descriptive statistics of innovation skills

Given that participation entrepreneurship requires creativity and innovation skills, firms were required to indicate their perception of some of the issues that were considered for the study and evidence presented in Table 6 below.

Table 6: Reported level of innovation skills among SMEs

Items	Mean	Std. Dev
I often improve on my creativity	3.76	1.242
Our business encourages creation of new ideas	3.65	1.267
Our business trains employees on how to develop new products	3.45	1.275
Our business success is attributed to our innovation skills	3.91	1.205
We combine our ideas to come up with new products	3.59	1.235
Our new innovation attracts many customers	3.85	1.187
Our business encourages creative thinking among workers	3.83	1.301
We rely on our innovation skills to modify products	3.47	1.384
Grand mean	3.69	1.262

Source: primary data

As shown in Table 6 above, the findings revealed that majority of the SMEs perceived their business success to be as a result of innovation skills with a mean score of 3.91 and standard deviation of 1.205. Firms that perceived that their employees often improve on their creativity had a mean score of 3.76 and SD of 1.242. It was also revealed in the findings that firms that perceived that they always encouraged creation of new ideas had a mean score of 3.65 with SD of 1.267.

Furthermore, the findings also revealed that firms that perceived to be always extending trainings to employees on how to develop new products registered a mean score of 3.45 and standard deviation of 1.275. It was also observed that employees in a given firm often combined ideas to come up with new products (mean=3.59 and SD=1.235). Firms also perceived their innovations to be attracting many customers (mean=3.85 and SD=1.187).

In addition, firms also perceived that their businesses encouraged creative thinking with a mean score of 3.83 and Standard Deviation of 1.301 and lastly firms that they rely on their

innovation skills to modify products had a mean score of 3.47 and standard deviation of 1.384.

4.4 Descriptive statistics of interpersonal skills

In a bid to evaluate firms' perceptions of the level to which interpersonal skills were encouraged in the firm, the respondents were required to record their perception of the issues considered in the study and evidence is presented in Table 7 below.

Table 7: Reported level of interpersonal skills among SMEs

Items	Mean	Std. Dev
I am often happy working with different people	3.68	1.294
I like doing things while worrying about others	3.63	1.318
When i am in the group i am happy to let someone take the lead	3.77	1.167
I often care for my customers	3.80	1.207
Our close relationship with customers has made have succeed	3.80	1.180
Our close relationship with suppliers enable us access resources	3.60	1.278
We attribute our business success to our interpersonal skills	3.49	1.384
Our customers often trust us	3.68	1.244
Grand mean	3.68	1.259

Source: primary data

In Table 7 it was revealed that respondents perceived to be happy working with different people within the firm (mean=3.68 and SD=1.294). It is also observed that respondents perceived that they liked doing things while worrying about others had a mean score of 3.63 and standard deviation of 1.318. The findings further indicated that those that perceived that when they are in a group they are happy to let someone take the lead registered a mean score of 3.77 and standard deviation of 1.167.

In addition, the findings also revealed that firms' employees often care for customers with mean score of 3.80 and SD of 1.207. Firms that perceived that their close relationships with customers and suppliers made them succeed had mean scores of 3.80 with standard deviation of 1.180 and mean score of 3.60 with standard deviation of 1.278 respectively. It was further revealed that firms that attributed their success to interpersonal skills had a mean score of 3.49 with standard deviation of 1.384. Lastly the firms that perceived that customers often trusted them had a mean score of 3.68 and standard deviation of 1.244.

4.5 Descriptive statistics of financial performance

Table 8 below shows how the firms generally evaluate the financial performance levels

Table 8: Reported level of financial performance among SMEs

Item	Mean	Std. Dev
Our business has managed to save costs	3.37	1.205
Our business has expanded in the last five years	3.85	1.220
Our business capital has grown over the past five years	3.62	1.186
Our cash collections have increased over the last three years	3.88	1.294
Our profits have been growing over the last five years	3.73	1.268
The business assests have increased in the last five years	3.72	1.342
Each year we register an increase in sales volume	3.38	1.308
Our production levels have increased due to market share	3.58	1.284
Grand mean	3.64	1.263

Source: primary data

According to Table 8 above, various issues were considered for the study and respondents recorded their perceptions to the extent to which they agreed or disagreed with them. For instance, in regards to the extent to which they perceived their businesses to have managed to save costs had a mean score of 3.37 with standard deviation of 1.205. Firms that perceived

their business to have expanded over the last five years had a mean score of 3.85 and standard deviation of 1.220.

In addition, the firms that considered their capital to have grown over the last five years had a mean score of 3.62 with standard deviation of 1.186. The findings also showed that firms that perceived their cash collections to have increased over the last three years registered a mean score of 3.88 and standard deviation of 1.294. With regards to whether the profits have been growing over the last five years had a mean score of 3.73 and standard deviation of 1.268

Furthermore, the findings indicated that firms that perceived their assets to have increased over the last five years had a mean score of 3.72 with standard deviation of 1.342. Firms that perceived that each year they registered an increase in sales volume registered a mean score of 3.38 and standard deviation of 1.308 and lastly the firms that perceived the production levels to have increased due to market share had a mean score of 3.58 and standard deviation of 1.284.

4.6 The relationship between communication skills, innovation skills and interpersonal skills.

In the study, correlations were utilized to establish whether relationship existing between the study variables. The correlation was specifically helpful in order to get preliminary insights into the link between financial performance and the various independent variables which included; communication skills, innovation skills and interpersonal skills. Table 9 below shows the relationships between the variables based on Pearson coefficient statistic.

Table 9: Findings on the relationship between study variables

Correlations		(1)	(2)	(3)	(4)
Communications skills (1)	Pearson Correlation	1			
Innovation skill (2)	Pearson Correlation	.812**	1		
Interpersonal skills (3)	Pearson Correlation	.739**	.872**	1	
Financial performance (4)	Pearson Correlation	.740**	.826**	.863**	1

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

Source: primary data

The evidence as presented in Table 9 above shows that there is a significant relationship between communication skills and financial performance of SMEs. This relationship is indicated by the Pearson correlation coefficient of 0.74 and significant at $P < 0.01$. This implied that any effort taken by firms to improve and acquire communication skills will have a strong likely hood of registering an increase in financial performance.

The results also reveal there was a positive significant relationship between innovation skills and financial performance of SMEs of Kawempe Division ($r = 0.826$ and $P\text{-Value} < 0.01$). This implies that firms that have workers with innovation skills are also those that on average would have high financial performance

Furthermore, the finding also revealed that there is a strong positive relationship between interpersonal skills and financial performance of SMEs. This is evidenced by the Pearson's correlation coefficient of 0.863 and $P\text{-Value} < 0.01$. This implied that firms that have workers who possess interpersonal skills are most likely to be those that register an increase in

financial performance. In addition, it is also observed in the findings that interpersonal skills contribute more to financial performance as compare to communication skills and innovation skills.

4.7 Regression results

In a bid to establish the extent to which entrepreneurship skills relate and affect financial performance, simple regression analysis was carried out by first determining the direct relationship of each construct of independent variable on financial performance. Afterwards, a multiple regression was run to establish the relationship of combined constructs on financial performance.

4.7.1 The relationship of communication skills on financial performance

In a bid to establish the relationship of communication skills on financial performance, a simple regression was run by regressing communication skills with financial performance and results are presented in Table 10 below.

Table 10: Regression results on the relationship of communication skills on financial performance

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.113	.214		5.197	.000
Communication skills	.690	.056	.740	12.264	.000

	R	R Square	Adjusted R Square	F	Sig.
	.074	0.548	0.544	150.41	0.000

a. DV: financial performance

b. Predictors: (Constant), communication skills

Results in Table showed that the model is a good fit to explain variances in financial performance due to the changes in communication represented by (F=150.41 and P value<0.01). It was further indicated that communication skills explains variances in financial performance up to 54.4% (Adjusted R²=0.544). The model also indicated that communication skills have a positive relationship on financial performance and any increase in effort to improve on communication skills would increase financial performance by 0.690.

4.7.2 The relationship of innovation skills on financial performance

In a bid to establish the relationship of innovation skills on financial performance, a simple regression was run by regressing innovation skills with financial performance and results are presented in table 11 below.

Table 11: Regression results on the relationship of innovation skills on financial performance

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.611	.192		3.180	.002
Innovation skills	.822	.050	.826	16.306	.000
<hr/>					
	R	R Square	Adjusted R Square	F	Sig.
	.0826	0.682	0.679	265.876	0.000

a. Dependent Variable: financial

performance

b. Predictors: (Constant), innovation skills

Results in Table showed that the model is a good fit to explain variances in financial performance ($F=265.876$ and $P \text{ value} < 0.01$). It was also revealed that any effort taken to improve on innovation skills would increase financial performance by 0.822. The model also indicates that the change in financial performance is explained up to 67.9% of innovation skills. This result indicated that innovation skill is a good predictor of financial performance

4.7.3 The relationship of interpersonal skills on financial performance

In a bid to establish the relationship of interpersonal skills on financial performance, a simple regression was run by regressing interpersonal skills with financial performance and results are presented in table 12 below.

Table 12: Regression results on the relationship of interpersonal skills on financial performance

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.495	.171		2.894	.004
Interpersonal skills	.855	.045	.863	19.002	.000

	R	R Square	Adjusted R Square	F	Sig.
	.863	0.744	0.742	361.077	0.000

a. Dependent Variable: financial performance

b. Predictors: (Constant), interpersonal skills

Results in Table showed that the model is a good fit to explain variances in financial performance due to the changes in interpersonal skills ($F=361.077$ and $P \text{ value} < 0.01$). It was further indicated that interpersonal skills explains variances in financial performance by up to 74.2% (Adjusted $R^2=0.742$). The model also indicated that interpersonal skills have a positive relationship on financial performance and any increase in effort to improve on it would increase financial performance by 0.855

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS, RECOMMENDATIONS AND AREAS OF FURTHER STUDIES

5.0 Introduction

This research was carried out to examine the relationship between entrepreneurship skills and financial performance of small and medium enterprises in Uganda; a case of Kawempe division and it was guided by the following objectives; to examine the relationship between communication skills and financial performance of SMEs, to establish the relationship between innovation skills and financial performance of SMEs and lastly to examine the relationship between interpersonal skills and financial performance of SMEs. This chapter therefore presents discussion of findings, conclusions, recommendations and areas of further studies

5.1 Summary of the findings

The study sought to examine the relationship between entrepreneurship skills and financial performance of SMEs in Kawempe Division. The findings of the study established that there is a positive relationship between entrepreneurship skills and financial performance. This was based on correlation results that indicated that the three constructs considered in this study that measured entrepreneurship skills each had a very strong significant relationship with financial performance. Specifically, communication skills had a very strong relationship with financial performance ($r = 0.740^{**}$). In the regression results it was found out that 54.4% variations in financial performance is explained by communication skills. It was also found out that innovation skill also had a strong positive relationship with financial performance ($r = 0.826^{**}$) and it explains the variations in 67.9% variations in financial performance. Furthermore, the results showed that interpersonal skills have a major contribution to the

firm's financial performance with findings indicating a strong positive relationship between interpersonal skills and financial performance ($r = 0.863^{**}$).

From the findings it was also observed that majority of the firms in Kawempe division perceived to be possessing the three skills that were chosen for this study with grand means on each leaning towards agreeing above the average of 3 as per the Likert scale of 1-5 with 1 being strongly disagree and 5 being strongly agree (communication skills grand mean=3.67, innovation skills grand mean=3.69 and interpersonal skills grand mean=3.68)

5.2 Discussion of findings

5.2.1 The relationship between communication skills and financial performance of SMEs

The findings indicated that there is a strong positive relationship between communication skills and financial performance ($r=0.74$ and $P\text{-value}<0.01$). The regression results also indicated that communication skills also had a strong direct relationship on financial performance. This implied that any effort taken to improve communication abilities of workers and owners of SMEs would certainly increase financial performance.

In an interview with one of the owner of one restaurant business, he noted that his business has greatly benefited from the communication skills he possesses. He talks to customers politely and sometimes sometime some customers fume at the way they are handled by employees however since that time he was able to notice that communication was so important in the business. He therefore noted that there is free communication amongst his employees and this has also benefited them so much because they find it easy to share ideas in business.

The findings are in agreement with Andersen & Rasmussen (2004) who ascertained that organization workers should possess communication skills so as to achieve organizational financial performance.

The findings of the study are also in agreement with the study by Dollinger (2003) who established that the financial performance of the firm is dependent on particular skills among which the most vital one was communication skills. Wanjiku & Lumwagi (2014) also ascertained that communication skills play a very central role in increasing firm's financial performance.

The findings also revealed that there was free communication amongst SMEs of Kawempe division with mean score of 3.88 that was above the grand mean. This implied that there should always be free sharing of information between SMEs and their stakeholders. This was also in line with the findings that were established in the study by Prahinski & Benton (2004).

5.2.2 The relationship between innovation skills and financial performance of SMEs

The findings of the study revealed that there is a strong positive relationship between innovation skills and financial performance ($r=0.826$ and $P\text{-value} < 0.01$). This indicated that innovation skills are very vital for the financial success of the firm. The findings are in agreement with Cooney (2012) who recommended that entrepreneurs should strive to do things in a better way and differently so as to win customers and thus achieve better financial performance.

The findings from an interview with one of the owners of Carpentry business identified that innovation is very critical in carpentry business. He actually noted that for the last three years they managed to create new models of chairs which boosted the sales of the business. In this interview he added that there was a time they nearly fell out of customers favour because the market seemed to have been saturated. As dealers in durable products they realized it was because they had taken long without modifying their products.

The findings are also supported by the findings of Gunday, Ulusoy, Kilic, & Alpan (2011) who established that there was a positive relationship between innovation skills and firm's financial performance. This is also in line with the study by Schumpeter (1998) who

described innovation skills as having the ability to see forward and develop new products, ideas that help one achieve his or her dream which is the case with the firms.

The findings however revealed that SMEs of Kawempe Division put little effort towards training their workers on innovation skills. This was indicated by the least mean score (3.45) that was below the grand mean of 3.69. The results also established that majority of the SMEs attributed their success to be as a result of innovation skills.

5.2.3 The relationship between interpersonal skills and financial performance of SMEs

The findings ascertained that there is a positive relationship between interpersonal skills and financial performance ($r=0.863$ and $P\text{-value}<0.01$). It indicated that interpersonal skills are the major contributors to financial performance. In this competitive environment today, it has been the debate of the day that customers are willing to draw themselves to a firm that treats them well and with respect. The findings of the study therefore revealed that SMEs do not need to underrate the central role played by acquiring workers with interpersonal skills.

This finding was also found out to be supported by findings from an interview with one of the managers of restaurant business who actually noted that treating everyone in business as a special person is really very important. He identified that on a daily basis over 150 customers visit her restaurant. When asked the reason why she thought that was possible she noted that it was because of the friendly relationships and connections she had with most of the customers.

It can be observed that the findings of this study are in agreement with the findings of Kinyua (2014) who identified that a successful entrepreneur needs to work closely with people since interpersonal skills influence financial performance.

The findings are also in line with Macheke (2012) who carried out a study on plastic manufacturing firms and established that there is a strong link between entrepreneurial training on interpersonal skills and the financial performance. Benson (2014) also indicated

that interpersonal skills are different from other skills by the fact that it had a strong positive relationship with firm's financial performance.

However, the findings of the study revealed that many SMEs did not attribute their success to interpersonal skills with a mean score of 3.49 being the least and below the grand mean of 3.68. This implied that less effort was undertaken by SMEs of Kawempe to improve on their communication skills. This was in contrary to the findings by earlier scholars discussed above.

5.3 Conclusion

Generally, the study concludes that the contribution of entrepreneurship skills towards financial success of SMEs in Uganda should not be underrated. The findings have indicated that there is a strong contribution of entrepreneurship skills. For instance, it was observed that there is a strong positive relationship between communication skills and financial performance of SMEs. This implies that to achieve financial success, communication skills amongst workers and owners of these SMEs need to be improved.

The study also concludes that there is a strong positive relationship between innovation skills and financial performance. This implied that SMEs need to possess skills that would enable them modify existing products and develop new products that suit the market conditions. Innovations skills are observed to be driving financial performance in the way that they minimize wastage of resources and also enables the firm reduce costs on production.

Last but not the least, the study concluded that interpersonal skills contribute most to financial performance of the firms as compared to other skills that were chosen for this study. This was from the findings that indicated that interpersonal skills had a strong positive relationship with financial performance. This implied that if SMEs acquired interpersonal

skills, they would have most customers visit their products and purchase them which in return would increase financial performance.

5.4 Recommendations

The study recommends that in this competitive environment firms have to develop mechanisms of gathering market information and also pass on information about their offerings to the customers. This therefore requires them to improve on the communication skills of workers. Communication skills should be considered a very important factor within these SMEs that drives financial performance. SMEs should communicate frequently and relationshipively with customers, suppliers and all other stakeholders. SMEs should understand that it is not communication is not merely the cost but rather a cost that drives financial increase.

The study also recommends that SMEs should not underrate the contribution of innovation. The SMEs should improve and acquire innovation skills. They should have the ability to develop new products and modify the existing products at a reduced cost. It has been the debate of the day that one of the causes of poor financial performance amongst the SMEs is inability to manage resources, however, this study has found out that innovation skills can solve such problems. Innovation skills would enable SMEs to produce at a lower cost and thus increasing financial performance.

The study also recommended that interpersonal skills are important to financial success of SMEs. These firms should work tirelessly to retain their customers through maintaining close friendly relationship with them. SMEs should consider customers as kings for business success. Interpersonal skills of the workers and owners of these firms should be improved since it would attract more customers which in return increase financial performance.

5.5 Areas of further study

The current study only considered three types of entrepreneurship skills and left out other types such as managerial skills, business skills and therefore future researches should consider some of the left areas in their studies.

This study was limited to only SMEs of Kawempe division leaving out other geographical areas which may have subjected to some sampling errors and therefore I urge future studies to consider other geographical areas especially those in rural areas.

Further studies should also consider expanding their sample. This study only considered 150 SMEs of Kawempe division. This small sample may have not been enough to generate concrete conclusions.

Lastly, further studies should look at the contribution of entrepreneurship skills on the general financial performance without necessarily focusing on only financial performance

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APPENDICES

APPENDIX 1: SURVEY QUESTIONNAIRE

Dear respondent,

The researcher is a student pursuing a Master of Business Administration at Kyambogo University. The study is on entrepreneurship skills and financial performance of SMEs in Uganda, a case of Kawempe Division. You have been identified as a respondent, and I therefore request you to kindly spare a few minutes of your busy schedule to fill this questionnaire. This study is purely for academic purposes. Your honest answer and sincere responses are highly appreciated and shall be treated with outmost confidentiality.

Should you require any additional information or wish to receive the findings for the study please contact me on the following contacts

Tel: 0704418889/0757656456

Email: mpimaumar@gmail.com

SECTION A

DEMOGRAPHIC FEATURES (Please tick the appropriate answer)

a) Gender

1. () Female
2. () Male

b) How long has this organization existed?

1. () 1- 2 Years
2. () 3-5 Years
3. () 6 – 10 Years
4. () 11 – 15 Years

c) Which department are you working in the organization?

1. () Finance and Accounting Department
2. () Logistic Department
3. () Human Resource Department
4. () ICT Department
5. () Program Department
6. () Others

d) In which industry does your business operate in?

1. () Manufacturing
2. () Service
3. () Trade

e) What is the legal status of your company?

1. () Private limited company
2. () Public limited company
3. () Sole proprietorship
4. () Partnership
5. () Joint venture

f) What is the size of your company?

1. () 1-20 employees
2. () 21-40 employees
3. () 41- 60 employees
4. () 61-80 employees
5. () 81-100 employees
6. () Over 100 employees

SECTION B: COMMUNICATION SKILLS

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices: 1 = Agree; 2 = strongly agree; 3 = Neutral; 4 Disagree. 5. Strongly disagree.

		1	2	3	4	5
	COMMUNICATION SKILLS					
1	We often give quick feedback to our customers					
2	We share ideas with our clients					
3	We freely communicate new ideas to all workers					
4	We attribute our business success to our communication skills					
5	We often talk freely to our stakeholders					
6	All our workers are often trained on how to communicate to customers					
7	Open communication is good for our business					
8	I am naturally a good communicator					
9	I take time to learn how to relationshipively communicate to my customers					

SECTION C: INNOVATION SKILLS

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices: 1 = Agree; 2 = strongly agree; 3 = Neutral; 4 Disagree. 5. Strongly disagree.

		1	2	3	4	5
	INNOVATION SKILLS					
1	I often improve on my creativity					
2	Our business encourages creation of new ideas					
3	Our business trains employees on how to develop new products					
4	Our business success is attributed to our innovation skills					
5	We combine our ideas to come up with new products					
6	Our new innovations attract for us many customers					
7	Our business encourages creative thinking amongst workers					
8	We rely on our innovation skills to modify our products					

SECTION D: INTERPERSONAL SKILLS

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices: 1 = Agree; 2 = strongly agree; 3 = Neutral; 4 Disagree. 5. Strongly disagree.

		1	2	3	4	5
	INTERPERSONAL SKILLS					
1	I am often happy working with different people					
2	I like doing things while worrying about others					
3	When I am in the group I am happy to let someone take the lead					
4	I often care for my customers					
5	Our close relationship with customers have made us succeed					
6	Our close relationships with suppliers enable us access resources on time					
7	We attribute our business success to our interpersonal relationships					
8	Our customers often trust us					

SECTION E: FIRM FINANCIAL PERFORMANCE ASSESSMENT

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices: 1 = Agree; 2 = strongly agree; 3 = Neutral; 4 Disagree. 5. Strongly disagree.

		1	2	3	4	5
	FIRM FINANCIAL PERFORMANCE ASSESSMENT					
1	Our business has managed to save costs					
2	Our business has expanded in the last five year					
3	Our business capital has been growing over the past 5 years					
5	Our cash collections have increased over the last three years					
6	Our profits have been growing over the last five years					
7	The business' assets have increased in the last 5 years					
8	Each year we register an increase in sales volume					
9	Our production levels have increased due to increased market share					

THANK YOU FOR YOUR COOPERATION

APPENDIX 2: INTERVIEW GUIDE

1. In your own opinion, how has your communication skills helped you in achieving success in your business
2. In your own opinion, do you think the success of your business is as a result of your innovation skills
3. To what extent do you attribute the success of your business to be as a result you're your interpersonal skills
4. In your own observation, has the financial performance of your business improved over the last three years

APPENDIX 3: LETTER OF INTRODUCTION

