

**ENTREPRENEURIAL SKILLS AND FINANCIAL PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES IN NAKAWA DIVISION, UGANDA**

BY

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19/U/GMBA/18874/PD

**A DISSERTATION SUBMITTED TO THE DIRECTORATE OF RESEARCH
AND GRADUATE TRAINING IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION DEGREE
OF KYAMBOGO UNIVERSITY**

OCTOBER, 2024

DECLARATION

I, **Mulinda Alone**, do hereby certify that this dissertation is my own creation and has never been submitted for any award in any University or Institution of higher learning.

SignatureDate:

APPROVAL

This is to certify that this dissertation has been carried out under our direction and is ready for submission for examination with our approval as University Supervisors.

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DEDICATION

This dissertation is dedicated to my family in honor of their patience and the contribution they provided to me throughout my study. I would not have made it without their endless love and support. May the Almighty Father in Heaven continue to abundantly bless them.

ACKNOWLEDGEMENTS

I want to express my thankfulness to the Heavenly Father for giving me the knowledge, bravery, and health that have been essential in enabling me to carry out this mission.

Special thanks to Dr. Namono Rehema and Dr. Ayebale Dan for the inspiration and motivation to me leading to my start and finishing up of this academic undertaking.

I also wish to express my sincere appreciation to my workplace (Kyambogo University) for allowing me to see my research supervisors whenever I needed a break.

As well, I want to say thank you my workmate and friends especially Nalweyiso Resty, Nambazira Catharine, Waswa Frank and Isiage Emma for their never-ending efforts and direction, which were focused at enhancing this work consistently. Finally, I want to thank all of my participants for helping me by contributing the pertinent data.

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ABSTRACT

The purpose of this study was to examine the effect of entrepreneurial skills on financial performance of small and medium enterprises in Nakawa Division. The study was premised on three specific objectives including; to establish the effect of innovation skills on financial performance of SMEs; to determine the effect of managerial skills on financial performance of SMEs, and to establish the effect of interpersonal skill on financial performance of SMEs in Nakawa Division in Uganda. The study was underpinned by the Social Learning Theory (SLT) to explain entrepreneurial skills and financial performance of SMEs. The study adopted a cross sectional-quantitative research design with a target population of 255 and a sample 175 SMEs which were chosen using stratified simple random selection and the sample size estimated using the Krejcie and Morgan (1970) Table. Data were gathered for the study using a closed-ended questionnaire. By employing factor analysis and the Cronbach Alpha test, the validity and reliability of the data were examined. Descriptive and inferential statistics were used to examine the acquired data in SPSS. The correlation results showed a meaningful connection between innovation skills, managerial skills, interpersonal skills and financial performance of SMES. Regression analysis results showed a favorable and statistically significant effect between innovation skills, managerial skills and interpersonal skills on financial performance of SMEs. The study concluded that improving the innovative, interpersonal and managerial skills of entrepreneurs promotes financial performance of SMEs. The study was limited to SMEs in Nakawa Division and therefore future studies can replicate the finding of this study to other settings or even conduct a national study on entrepreneurship and financial performance of SMEs.

Keywords: Entrepreneurial Skills, Financial performance of SMEs

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The SMEs are considered the engine of economic growth in various economies. However, the difficulty of initiating, maintaining and sustaining a venture has constantly changed the behavior of individuals to invest into small businesses. With the business environment becoming more dynamic. Venturing into small and medium enterprises globally is becoming highly competitive where only a few individuals with unique traits, knowledge and skills staying in business. (Eton *et al.*, 2017). This study focused on the relationship between entrepreneurial skills and the financial performance of small and medium-sized enterprises (SMEs) in Nakawa Division. This chapter presents the background, statement of the problem, purpose, objectives, scope, significance and conceptual framework of the study.

1.1 Background to the Study

World over, Small and Medium Enterprises (SMEs) play a fundamental part in the development of economies of various states especially developing countries. They contribute 90% of the businesses, employ over 50% of the employable groups worldwide and account for over 40% of the Gross Domestic Products (GDP) of developing economies (World Bank, 2020). However, the difficulty of initiating, maintaining and sustaining a venture has constantly changed the behavior of individuals to invest into small businesses. With the business environment becoming more dynamic. Venturing into small and medium enterprises globally is becoming highly competitive where only a few individuals with unique traits, knowledge and skills staying in business. (Eton *et al.*, 2017).

In Uganda, the performance of SMEs are considered the engine of economic growth making up 70% of Uganda's economy and accounting for over 20% enterprises are the firms that employ between 5-49 people and own total assets between UGX 10 Million but not exceeding 100 Million. On the other hand, medium enterprises are firms that employ between 50 and 100 employees and own a total asset more than 100 Million yet not more than 360 Million. SMEs are experiencing difficulties in maintaining their success and dealing with threats from the external environment.

Drawing insights from the Albert Bandura's Social Learning Theory (SLT) developed in 1961 which is an eminent psychological theory that explains the contribution of desired behavioral change amongst individuals (Pratt *et al.*, 2010). The theory further stipulates that behavioral change amongst individuals is often reinforced by the social environment (Crain, 2021). The theory has gained recognition because it can be applied across various fields and most importantly personal development. The theory postulates that people learn from the social surrounding through observation, imitation and modeling which will drive behavioral change of an individual (McLeod, 2011). Relating to the field of entrepreneurship, the theory suggests that individuals require entrepreneurship education so as to develop competence in terms of gaining skills and knowledge through observational learning. This influences individual's motivation and capability to undertake entrepreneurship activities (McLeod, 2011). Consequently, the theory indicates that observational learning enables individual entrepreneurs to generate entrepreneurship skills required to operate, manage and sustain businesses that largely contribute to the overall financial performance of Small and Medium Enterprises.

Although Social Learning Theory suggests that observable learning contributes to entrepreneurship skills necessary for driving financial performance of firms, Africa is considered one of the continents where business owners especially for small and medium enterprises have a

shortage of entrepreneurial skills which is anticipated to be causing low financial performance (World Bank, 2020). Individuals across the continent experience difficulty in searching, analyzing and exploiting business opportunities which has hindered innovation and creativity (Ikupolati *et al.*, 2017). Entrepreneurs in small and medium enterprises are experiencing multiple difficulties which require a number of entrepreneurial skills to deal with them.

Ikupolati *et al.* (2017) and Ricketts (2005) consider entrepreneurship skills as the abilities and capacities of entrepreneurs to initiate, manage and successfully sustain a business venture within a given environment. An entrepreneur is an individual who establishes and takes charge of a small business rather than working as an employee. He is the one who assumes the risks of a venture (Eton *et al.*, 2017; Negara, 2005). Entrepreneurship skills play a pivotal role in navigating businesses from the dynamic environment which is becoming highly unpredictable (Sousa, 2018). The call for entrepreneurship skills among entrepreneurs in developing countries such as Uganda is gaining popularity over the years. Studies urge entrepreneurs to acquire entrepreneurship skills as one of the means to solve business challenges in the real-world life (Mohammed & Obeleagunzelibe, 2014; Ricketts, 2005). In the 19th century, it is believed that the corporations especially the manufacturing firms started considering adopting innovative thinking in modifying products as well as developing new ideas in daily operations which blazed the emergence of entrepreneurship (Cooney, 2012).

Suparno and Saptono (2018) stress that entrepreneurship has widely gained recognition due to the emergency of service sector in various economies, development of new technologies especially computers and improvement in communication. These developments require individuals to possess a variety of skills that enable them seize business opportunities and start small and medium businesses. Hurriyati *et al.* (2016) assert that rapid increase in small and medium businesses, there

is a need for these business owners to have entrepreneurship skills. Similarly, Coats and Schumpeter (2006), entrepreneurs consider managing business for not only profit but also as a measure of their success in life. Entrepreneurs should possess personal and inter-personal characteristics which involve Leadership and Motivation.

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 (Association of Chartered Certified Accountants (ACCA, 2017). The financial performance of SMEs in Uganda can be measured in terms of profitability and the customer satisfaction (Eton *et al.*, 2017). Profitability is constructed by subtracting the variable production costs from the overall income earned within a specific time period. Profitability views business financial performance from the perspective of reaching financial goals as planned by the company. (Conceicao *et al.*, 2014).

SMEs ought not to only battle to survive, but increase their revenues and keep a lead in the competition (Muthalib *et al.*, 2014). The profitability indicators that have gained widespread acceptance for their inherent worth in the management of SMEs include; 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 financial performance include return on assets, return on equity, and operating profit margin (Kinyua, 2014).

In the context of SMEs in Nakawa Division, whereas, the Division is confined with over 40 percent of SMEs in KCCA, the shortage of entrepreneurial skills may make it so challenging to achieving profitability and managing competitive pressures (Nakawa Division MSMEs register, 2017). These SMEs cut across all sectors such as manufacturing, trade and service subsectors. Prior studies postulate that entrepreneurial skills should be acquired by business owners for firm's

success. However, it is clear that little has been done in the context of Uganda especially Nakawa Division. For instance, In Nakawa Division, a key SME hub in Kampala, SMEs face similar financial challenges. The Nakawa Division MSME Report (2019) found that over 40% of SMEs reported negative profit margins, with many businesses struggling to maintain solvency.

The Uganda National SME Survey (2020) highlighted that 60% of SMEs have difficulty accessing credit, which limits their ability to invest in growth opportunities. Additionally, a report by the Bank of Uganda (2021) noted that most SMEs lack proper financial literacy, resulting in poor cash flow management, inability to track expenses, and failure to budget effectively. Furthermore, the Global Entrepreneurship Monitor (GEM) Uganda Report (2021) revealed that only 25% of SMEs in Uganda engage in innovation, a critical factor for improving competitiveness and financial sustainability. These anomalies indicate a pressing need for interventions that focus on improving financial performance and thus fostering entrepreneurial skills may be critical factor. This study, therefore, investigated role of entrepreneurial skills in improving financial performance.

1.2 Statement of the problem

In Uganda, SMEs contribution is overwhelming and cannot be undermined as it contributes over 8 million employment opportunities and over 5% of the Uganda's GDP (Sebikari, 2019). However, the financial performance of SMEs continues to be a growing concern. For instance, Bank of Uganda Report (2021) shows that only 30% of the established SMEs in a given financial year live to witness their next birthday after establishment. In Support, the Nakawa Division MSME Report (2022) highlighted that over 40% of SMEs reported negative profit margins, with many businesses struggling to maintain solvency. Furthermore, the Global Entrepreneurship Monitor (GEM) Uganda Report (2021) revealed that SMEs in Uganda occupy only 25% of market share which limits their competitiveness for financial sustainability. Whereas, Nakawa Division is the dock for

majority of SMEs, over 70% of the firms closed down operations in the financial year 2019 (Nakawa Division report, 2020). These anomalies indicate a pressing need for interventions that focus on improving financial performance of SMEs in Uganda and fostering entrepreneurial skills has been highlighted by prior studies as a key factor in achieving the results. However, these studies are limited in the context of Uganda. This study, therefore, investigated role of entrepreneurial skills in improving financial performance.

1.3 Purpose of the study

The purpose of this study was to examine the effect of entrepreneurial skills on financial performance of Small and Medium Enterprises in Nakawa Division.

1.4 Objectives of the Study

- i.** To establish the effect of entrepreneur's innovation skills on financial performance of Small and Medium Enterprises in Nakawa Division.
- ii.** To examine the effect of entrepreneur's managerial skills on financial performance of Small and Medium Enterprises in Nakawa Division.
- iii.** To investigate the effect of entrepreneur's interpersonal skills on the financial performance of Small and Medium Enterprises s in Nakawa Division.

1.5 Hypotheses of the Study.

H₁: Entrepreneur's innovation skills have a significant effect on financial performance of Small and Medium Enterprises in Nakawa Division.

H₂: Entrepreneur's managerial skills have a significant effect on financial performance of Small and Medium Enterprises s in Nakawa Division.

H₃ Entrepreneur's interpersonal skills have a significant effect on financial performance of Small and Medium Enterprises in Nakawa Division.

1.6 Scope of the Study

1.6.1 Content scope

Small and medium-sized enterprises (SMEs) play a crucial role in the economic development of many countries, including Uganda (World Bank 2020). These enterprises drive job creation, foster innovation, and contribute significantly to the country's GDP. However, despite their importance, many SMEs in Uganda face challenges related to sustainability and financial performance, often leading to high failure rates (Uganda Investment Authority 2020). Entrepreneurial skills are increasingly recognized as critical factors in enhancing the financial performance and survival of SMEs. Skills such as innovation, managerial, and interpersonal skills enable entrepreneurs to navigate market complexities and exploit new opportunities effectively. (eton et al.,2017).

1.6.2 Time scope

The research was centered between periods 2017-2022 that have seen Uganda register a rapid development of SME across the entire country and most especially Kampala. However, in the same periods, a significant growing number of SMEs failing in Uganda has been witnessed (Private Sector Foundation of Uganda Report 2017).

1.6.3 Geographical scope

The study was conducted in Nakawa Division which is one of the divisions in Kampala Capital City Authority and confined with the majority of SMEs. However, the area was considered because there has been an alarming collapse of a number of SMEs in KCCA as compared to other divisions.

1.7 Significance of the Study

This study would be of significance to various parties as discussed below;

Owners of SMEs; the findings of the study could be relevant to the owners of SMEs to understand the relevance of enhancing their entrepreneurial skills by specifically focusing on innovation, managerial and interpersonal skills to enhance the financial performance of SMEs in Uganda.

Policy makers; policy makers in various authorities such as KCCA can profit from the research's conclusions by understanding why entrepreneurs in SMEs need extended seminars, trainings and entrepreneurial education aimed at raising the skill level of entrepreneurs in Uganda which could enhance market share, profits and sales volume in the long run as SMEs strive for survival in the competitive business environment.

Future researchers; the future researchers and academicians could also benefit from the current study since it may act as a reference point to future research in related areas of study. The researchers can be able to identify the research gaps not addressed and tailor their studies to address those gaps while seeking for solution to the problems faced by SMEs in Uganda.

1.8 Conceptual framework

The conceptual framework below illustrates the hypothesized relationship between SMEs' Financial performance and entrepreneurial skills.

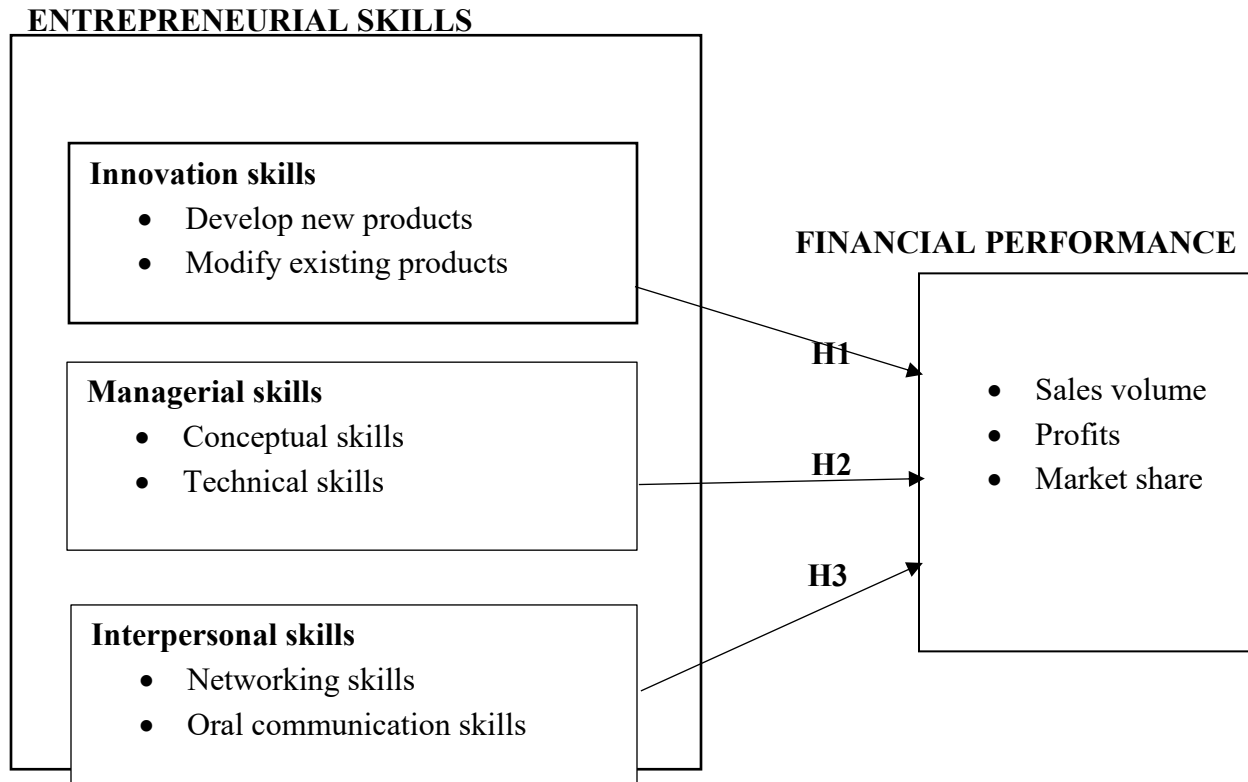


Figure 1. 1: Conceptual framework

Adapted from literature review (Sousa, 2018; Pospecu et al., 2020; Ikupolati et al., 2017; Alroaia & Baharun, 2017).

The above conceptual framework hypothesizes that financial performance of SMEs may be determined by the abilities an entrepreneur must have in order to start, manage, and operate a firm. The independent variable for this study is entrepreneurial skills and the dependent variable is financial performance of SMEs. Entrepreneurial skills in this study was conceptualized as innovation, managerial and interpersonal skills as adapted from (Kirner *et al.*, 2009; Carter &

Tamayo, 2017). Firm financial performance was measured based on return on investment, return on equity, and profit margin (Venanzi, 2011).

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter includes of selected theories that guided the study and related authoritative works from selected authors.

2.1 Theoretical Review

The theoretical underpinning for this study was derived from the insights of Albert Bandura's Social Learning Theory (SLT) developed in 1961. This is one of the eminent psychological theory that provides insights into understanding the contribution to the desirable behavioral change (Pratt *et al.*, 2010). It is considered one of the most influential theory of learning and development because of its grounding principles of attention, memory and motivation. The theory further stipulates that behavioral change amongst individuals is often reinforced by the social environment (Crain, 2021). The theory has gained recognition because it can be applied across various fields and most importantly personal development.

The theory postulates that people learn from the social surrounding through observation, imitation and modeling which will drive behavioral change of an individual (McLeod, 2011). The theory is highly regarded in the field of entrepreneurship because it provides puts emphasis on entrepreneurship education which highly influences individual's motivation and capability to undertake entrepreneurship activities (McLeod, 2011). In addition, the theory indicates that observational learning enables individuals/entrepreneurs to generate knowledge and skills required in operating, managing and sustaining business.

The theory was found to be relevant to this study because entrepreneurs consider enhancing their financial performance, there is a need for them to focus on developing skills that are largely influenced by the social surrounding (Miller & Morris, 2016). In this regards, observational learning plays a fundamental role in reinforcing entrepreneurs' motivation and capability to acquire the skills that are necessary in ensuring successful business. Observing the changes in the environment and how such changes have been accommodated by other individuals and organizations will influence entrepreneur's behavior about the business (Pratt *et al.*, 2010). For instance, technological changes will require entrepreneurs to adopt innovative skills so as to fit into the new wave. Similarly, entrepreneurs have to learn how to improve their communication skills, managerial skills and interpersonal skills through observing their social surroundings. In that approach, it is anticipated that the enhancement of such skills is likely to influence financial performance in the organization.

2.2 Conceptual review

2.2.1 Innovation skills and financial performance

Studies that have been conducted on entrepreneurship skills as a driver of financial performance of both small and large firms across the globe have highlighted the pivotal role of entrepreneurship skills. The scholarly emphasis is that firm owners and management of SMEs should consider enhancing their entrepreneurship skills so as to successful operate in today's dynamic business environment. Aun *et al.* (2017) urges entrepreneurs to develop innovation skills which facilitates the development of unique business strategies that create a competitive advantage for the business.

Innovation skills enable the entrepreneur and managers of SMEs to think outside the box by thinking of modifications that can be introduced into the product so as to create the uniqueness that may become a key success factor. Shabbir *et al.* (2016) further stipulates that innovation skills

are highly required by entrepreneurs because such skills are required to manage the unpredictable business environment. Innovation skills enable the entrepreneur to exploit the business opportunities through developing new products which widens the product line of the firm and thus fitting into a number of opportunities in the business environment.

Considering innovation skills as individual's ability to think and develop new business ideas such as developing new products, there is a need for entrepreneurs to appreciate the fundamental capacity one will have in managing change. Innovation skills enable the entrepreneurs to manage the ever-changing consumer demands especially in today's uncertain environment. Consumers demands have become largely unpredictable which requires businesses to be prepared at any time to accommodate various demands through modifying the existing products or develop new products that fit into the new demands (Kerzner, 2009).

Similarly, Ebiringa (2011) asserts that with Small and Medium Enterprises (SME) becoming very vital for the success of global economies, focus should be aimed at developing the innovation skills of business owners so that they can be able to integrate the new technologies into their daily activities. The swift modifications in the technological business environment require entrepreneurs to appreciate the changes and utilize the new technologies to develop new products that fit into the modern world. There is a need for the business owners to most importantly acquire innovation skills so as to gain competitive advantage. Schumpeter and Swedberg (2021) also urges that innovation skills will help an individual to create new ideas that enable them to penetrate into new market areas, capture market and register financial growth.

Schmelter et al. (2010) carried out an investigation regarding the effect of entrepreneurial skills about SMEs' expansion in Cameroon, the study established that business success heavily relies on

various entrepreneurial skills especially innovation and communication skills. The study further emphasized that innovation skills enable the business to develop a sustainable competitive advantage which sometimes may be helpful for surviving in tougher situations that the business goes through. Similarly, Coric, Katavic and Kopecki (2011) noted that innovation skills are necessary for pro-activeness of entrepreneurs in relation to competitors. One way a business can stay ahead of its competitors is through enhancing innovation skills, this is because it enables the business to identify business opportunities and exploit them successfully.

Alroaia and Baharun (2017) stipulated that the entrepreneur needs to possess a category of innovative skills that range from behavioral, cognitive and problem solving. The study notes that the company's ability to succeed financially hinges on innovative skills that enable the individual or business owner to manage challenges within the business environment. Similarly, Sousa (2018) asserts that innovation skills are fundamental for business development because it helps business owners and management to understand the specifications of the product while customizing the products to meet special needs of consumers.

2.2.2 Managerial skills and financial performance of SMEs

Generally, businesses especially small and large companies require well equipped, competent and capable individuals to operate them successful. Managerial skills are essential for daily management of the business and is one of the key skills required of an entrepreneur (O'Hara & Ye, 2011). According to Marus et al. (2017), entrepreneurs ought to possess managerial skills so as to handle the turbulent times of any business. These skills enable entrepreneurs to analyze business opportunities and complement other skills of innovation, communication and manage business relations. Managerial skills enable the entrepreneurs to plan, organize, and assume responsibility in business management. Afolabi and Macheke (2012) note that managerial skills are very

essential for the success of SMEs because it enables entrepreneurs to organize resources, handle employees and develop strategies for the business.

In the study by Wamoto, Ayuma and Kimani (2016), it was established that a large component of business success is largely attributed to the level of entrepreneurial skills possessed by business owner and management. Kerosi and Kayisime (2013) assert that despite having limited ability to develop entrepreneurship skills, SMEs largely require owners and managers to be in possession of managerial skills if they are to reap business rewards. In an empirical study by Ikupolati *et al.* (2017) that investigated entrepreneurs' managerial skills as a determinant for Growth of SMEs in Nigeria established that managerial skills of an entrepreneur play a pivotal role in the growth of SMEs.

Similarly, Popescu *et al.* (2020) also carried out research on the role of managerial skills in the sustainable development of SMEs in Romania. The study conceptualized managerial skills in terms of self-awareness and emotional intelligence and it became a reality that managerial skills play a significant role towards sustainable growth of SMEs. Entrepreneurs have a fundamental duty to ensure success of the business, motivate employees to achieve a collective goal. As a result, they ought to possess a set of skills among which one of the most important is managerial skills (Cappelli & Tavis, 2016).

Managerial skills of entrepreneurs are reported to be very important in emerging economies because of the key role it plays in enabling SMEs adopt and implement new technologies (Beaudry & Francois, 2010). According to Sousa (2018) management skills enable the business to develop potential strategies that enables the business fit into the changing environment. SMEs require strategic goals that provide direction which are always the work of business owners and

management. This requires possession of management skills which includes the ability to make strategic decisions on company's policies, plan and set strategic goals for the business.

According to Gentry (2008) managerial skills take a vital part in enhancing the ability of the firm owners or managers to manage risks, develop practical methods of business and prepare the business to take up emerging business opportunities. Akintoye (2008) also asserts that managerial skills are necessary for SME financial performance and development because business owners with managerial abilities act as the brain of the business and able to provide strategic directions to the business. Managerial skills are the totality of skills that range from providing effective leadership, manage workers, strategically think and lift the business from its current position to the expected levels that meet the business vision and mission.

2.2.3 Interpersonal skills and financial performance of SMEs

There are several empirical research that has been conducted to understand the connection between entrepreneur's interpersonal skills and financial performance of firms (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; Kinyua, 2014).

Kinyua (2014) in his study in Nakuru Town, Kenya identified that a successful entrepreneur should work closely with people. Such close contacts enable the business to build a great relationship with his or her teams, customers, shareholders and investors. He therefore concludes that interpersonal skills influence financial performance of the firms. This is in continuum with the works of Macheke (2012), who carried out a survey about Entrepreneurial and Business Skills and Training Needs in SMEs in the Plastic Manufacturing Industry in the Eastern Cape Province. This survey

was carried out on 74 firms and the findings indicated that an important connection exists between entrepreneurial training on business and interpersonal skills and the financial performance of SMEs.

According to Benson (2014), interpersonal skill is different from other skills such as communication which has an inherent relationship based on process-oriented skill. This is in line with Duffy *et al.* (2004) who ascertained that interpersonal skill is determined by the effect that the communication has on another person. Cooney (2012) during the analysis of entrepreneurial abilities for growth-oriented businesses discovered 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 *et al.* (2004) carried out an empirical study to assess the relationship between interpersonal skills and innovation. The research's findings suggested that interpersonal skills are important to an entrepreneur and businesses because they enable the firm to have access to resources, share risks and obtain access to new technologies (Johnson, & Schaltegger, 2020) 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 on 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 research revealed a substantial connection 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 Literature gap

Whereas, several studies such as Mohammed and Obeleagu-nzelibe (2014), Wamoto *et al.* (2016), Ebiringa (2011) and Schmelter *et al.* (2010) have established a significant contribution of entrepreneurial skills on firms financial performance, much of these studies have focused on different contexts most especially in European, Asian and West African countries. In fact, very limited studies have focused in the context of Ugandan Small and Medium firms. This research consequently concentrated on addressing the contextual gap by establishing evidence from the Ugandan SMEs.

Similarly, there was a gap between public perception and scholarly knowledge where the public including Small business owners think that the major determinant of business success is financing. However, despite continuous financial support to SMEs from different partners both within and outside Uganda, the financial performance of SMEs continues to raise questions. It's upon this that this study considered contributing empirical knowledge on the effect of entrepreneurial skills such as innovation skills, managerial skills and interpersonal skills on financial performance of SMEs in Uganda.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the methods applied to answer the research objectives. It also explains the logical flow of the research approach that was used by the study which include; the research design, study population, sample size and sample selection techniques, the data collection methods, data collection instruments, validity and reliability management of the research instruments, the data collection procedures, data analysis and ethical consideration.

3.2 Research Design

This study adopted a cross sectional survey research design. This design was well-suited to this study because it involved collecting data at a single point in time from a sample that represents the target population. The design involved assessing the current state of entrepreneurial skills and financial performance in SMEs within Nakawa Division. This allowed the collection of data on variables simultaneously from multiple SMEs, making it a time-efficient way to capture insights without requiring prolonged observation periods. The cross-sectional survey design was effective for comparing different SMEs across sectors (e.g., manufacturing, trade, and services) to determine how varying levels of entrepreneurial skills relate to differences in financial.

3.3 Study Population

The study population constituted of 255 SMEs located in Nakawa Division which have been operational for the last five years. The SMEs under study were in the five categories of manufacturing, service, trade, wholesale and retail businesses.

3.4 Sample Size Determination

The study used Krejcie and Morgan (1970) Table of sample size determination where a sample size of 175 SMEs across various industries were chosen to take part in the study. This sample size was expected to be representative of the study population and facilitated an efficient procedure of conducting the study.

3.5 Unit of inquiry

In this study, the unit of inquiry was the SMEs' Managers, Owners or Accountants, because they had the required information about the operation of the firms. The responses obtained from the unit of inquiry was later aggregated to the unit of analysis level which were SMEs.

3.6 Sampling technique and procedure

The study used purposive to draw the final sample of 175 from each category of firms as indicated in Table 3.1.

Table 3.1: Table Showing Sample

Departments	Population Size	Sample size
Trade	104	72
Manufacturing	64	43
Service	87	60
Total	255	175

Source: Nakawa SME Register, KCCA Report (2022)

3.7 Data Collection Instruments

This study adopted one method of data collection based on the nature of the data required to address the study objectives. In order to gather quantitative data, the study used a survey method

where structured closed-ended questionnaires were physically and electronically distributed to respondents that constitute the sample for the study.

3.7.1 Questionnaire

This is a method of data collection whose major purpose is to collect data which can easily be quantified from a large population in a short time (Hox & Boeije, 2004). This method was more appropriate because data was collected from a large sample and with a requirement to maintain the respondents' privacy. The study through this method developed a study questionnaire that was structured to enable the respondents to complete it through self-administration. The researcher electronically distributed questionnaires to all the sampled SMEs with the aid of research assistants. The questionnaires were to be completed by either the owners or representative of the Management team of SMEs.

3.8 Validity and Reliability

This helped to rectify the inadequacies in the instruments before administering them hence, ensuring reliability and validity.

3.8.1 Validity of the Questionnaire.

The study ensured face and content validity by seeking the advice and judgment from 04 experts including 02 supervisors and 02 practitioners working in the SMEs who rated the face validity of the instruments. Content validity measured the extent to which the contents of the instruments corresponded to the contents of the theoretical concepts (Knap & Mueller, 2010). In determining the content Validity, the instrument was equally subjected to expert judgments and the CVI was computed using the formula; $CVI = (\text{number of items declared valid}) / (\text{total number of items})$ of an instrument, and the CVI above 0.7 was considered valid.

Using the formula, the study established a Content Validity Index of 0.843 which was above the threshold thus implying that the constructs were valid for data collection.

$$CVI = \frac{\text{Number of items rated relevant by all judges (27)}}{\text{Total number of items in the instrument (32)}}$$

3.8.2 Reliability

The consistency of the measurement items was established using Cronbach's Alpha Co-efficient to determine the reliability of the instruments where all constructs whose Cronbach's alpha coefficient was above 0.7 were considered reliable as supported by Amin (2005).

Table 3.2. Reliability tests

Variables	Cronbach's Alpha	N of Items
Innovation skill	0.70	5
Managerial skill	0.70	5
Interpersonal skill	0.84	6
Financial performance	0.93	11

From the results in the table, the Cronbach's Alpha coefficients for each construct met the threshold of 0.7 or above which implies that the research instrument was reliable.

3.9 Data Collection Procedure

After completion of the research proposal under the guidance of the supervisors, and after satisfying all the proposal requirements, the researcher obtained an introductory letter from the University that was presented to the SMEs seeking for permission to collect data. After permission was granted by SMEs and authoritative bodies like KCCA and Nakawa division offices, the researcher proceeded to the field to collect data collection using the questionnaire instrument.

3.10 Measurement of Variables

The measurement of variables was done using the already established item scales which were anchored on a five-point Likert scale ranging from 1 as strongly disagree to 5 as strongly agree based on already established items.

3.10.1 Entrepreneurial Skills

Entrepreneurial skills were measured by a 19- Item Scale, which taps Managerial skills adopted from (Ikupolati et al., 2017), Innovation skills (Sousa, 2018) and interpersonal skills adopted from (Popescu, 2020).

3.10.2 SMEs Financial performance

SMEs financial performance was measured by 19 Item scales as measured with the dimensions of profitability and market shares as adopted from (Anddy & Neely 2002; Piercy, 1997), and sales volume (Paolo & Taticchi, 2010).

3.11 Data Analysis

The study relied on the quantitative data, quantitative data collected using the self-administered structured questionnaires was coded, managed using EpiData tool for accuracy. The researcher transferred the data into SPSS version 23.0 for quantitative analysis. The study performed various statistical analysis such as frequencies, percentages to analyze background information of the respondents from SMEs. Descriptive statistics such as mean and standard deviation were run to analyze the extent to which SME owners agree or disagree to rationally chosen items that measure their level of financial performance as attributed to entrepreneurial skills. Finally, the study used inferential statistics such as correlations to test for the relationship between study variables and

regression analysis was used for the purpose of determining how entrepreneurial skills contribute to the financial performance of SMEs in Nakawa Division.

3.12 Ethical Consideration

The study maintained ethical requirements across the entire study for instance, the research instruments ensured anonymity with no respondents required to indicate his or her name during data collection. The respondents' consent was sought for before being involved in the participation of data collection as a means of assuring respondent's confidentiality. Secondly, the study sought for authorization from the responsible authorities such as Kyambogo University, KCCA and Nakawa Division. The guaranteed safety of respondents from social, physical and psychological distress during data collection

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the analysis and interpretation of the findings as per the study objectives which included; to examine the effect of innovation skills on financial performance of SMEs, to examine the effect of managerial skills on financial performance of SMEs and to assess the effect of interpersonal skills on financial performance of SMEs.

4.1 Response Rate

Out of the 175 questionnaires administered, 154 questionnaires were fully filled and returned for analysis. This accounted for 88% response rate which was considered appropriate for this study. According to Lindner and Wingenbach (2002), a response rate above 50% is very good and therefore the response rate for this study was sufficient to infer the findings.

4.2 Demographics Characteristics of the Respondents

The section presents the respondent's characteristics. The descriptive analysis was performed for the respondent's demographic characteristics to get insights into the nature of the responses. The demographic characteristics were analyzed for gender, age, and education level.

Table 4.1: Demographic characteristics of respondents

		Frequency	Percent
Gender of respondent	Male	68	44.2
	Female	86	55.8
	Total	154	100.0
Age bracket	Below 20 years	8	5.2
	20-30 years	81	52.6
	31-40 years	50	32.5
	Over 40 years	15	9.7
	Total	154	100.0
Highest education level	Primary	5	3.2
	Secondary	23	14.9
	Certificate	21	13.6
	Diploma	17	11.0
	Bachelors	69	44.8
	Master's	19	12.3
	Total	154	100.0

Source: Survey data (2022)

The demographic data provides insight into the composition of the respondents in terms of gender, age, and education levels as observed in Table 4.1 above. Nearly all of the respondents 86 (55.8%) were female as opposed to their male counterpart who were 68 (44.2%). This gender distribution may influence how entrepreneurship skills and financial performance are perceived and practiced. For instance, female entrepreneurs may face different challenges and opportunities compared to male entrepreneurs, which could reflect in how they adopt entrepreneurial skills or manage their businesses

Regarding respondents age bracket, majority of the participants 81 (52.6%) were between the age of (20-30) years, 50 (32.5%) were between (31-40) years, and 15 (9.7%) were over 40 years while only (5.2%) of the respondents were below 20 years. The high percentage of younger respondents (20-30 years) suggests that a significant portion of SMEs in the study might be operated by younger entrepreneurs, who may be in the early stages of their business ventures. Younger entrepreneurs may exhibit more willingness to innovate and adopt entrepreneurial skills quickly, which could positively impact financial performance

In addition, only 5 (3.2%) of the respondents had attained primary level as their highest level of education, those ones who had completed secondary level as their highest level of education were 23 (14.9%), certificate holders were 21 (13.6%), diploma holders were 17 (11.0%). Majority of respondents 69 (44.8%) had completed Bachelors while 19 (12.3%) of the respondents had attained masters as the highest level of education. The relatively high percentage of respondents with Bachelor's and Master's degrees suggests that a significant number of SME owners or key personnel have formal education, which could positively impact the adoption of entrepreneurial skills. Higher education levels are often associated with greater access to knowledge, resources, and networking opportunities, all of which contribute to better business management and financial performance.

4.2.1 Characteristics of the SMEs

The study analyzed the SMEs categorization based on ownership structure, sector, size, and age as discussed below in Table 4.2.

Table 4.2:SMEs Characteristics

	Description	Frequency	Percent
Category of SMEs	Sole proprietorship	91	59
	Partnership	24	15.6
	Private Limited company	29	18.8
	Cooperative society	1	.6
	Joint venture	9	5.8
	Others	3	1.9
	Total	154	100.0
Sector of SMEs	Retail	32	20.8
	Wholesale	57	37.0
	Service	11	7.1
	Production/Manufacturing	54	35.1
	Total	154	100
Size of SMEs	1-5 employees	123	79.9
	6-49 employees	20	13.0
	50-100 employees	11	7.1
	Total	154	100.0
Age of SMEs	Less than 5 years	96	62.3
	6-10 years	39	25.3
	11-15 years	15	9.7
	16-20years	2	1.3
	More than 20 years	2	1.3
	Total	154	100.0

Source: Survey data (2022)

Based on findings, SMEs were categorized based on ownership structure, sector, size, and age of the enterprise. These factors are crucial for understanding the nature of SMEs in the study and their financial performance. With regard to the characteristics of the SMEs, Sole proprietorships account for the majority, with 59% of SMEs. Private Limited companies make up 18.8%, followed by Partnerships at 15.6%. The dominance of sole proprietorships suggests that many SMEs are owned and operated by individuals, which could influence decision-making processes and financial performance. Sole proprietors often rely heavily on personal skills and resources, which could limit their scalability compared to private limited companies that may have access to more capital and diversified management.

On the side of the sector to which the SMEs belonged, wholesales sector is the largest, representing 37% of SMEs, followed by production/manufacturing at 35.1%, and retail at 20.8%.

The significant presence of the wholesale and production/manufacturing sectors suggests that a substantial portion of SMEs is involved in the supply chain and goods production, which could reflect positively on financial performance due to the higher potential for growth and scalability in these industries.

In regard to the size of the SMEs, the majority of SMEs are very small, with 79.9% having 1-5 employees, followed by 13% with 6-49 employees, and only 7.1% with 50-100 employees. The predominance of micro-enterprises (1-5 employees) suggests that most SMEs operate on a small scale with limited resources, which may impact their financial performance due to constraints in capacity and scalability.

Concerning the age of the SMEs, a large proportion of SMEs (62.3%) have been in operation for 5 years, while 25.3% are between 6-10 years old. The data suggests that many SMEs are relatively

young, which could explain potential challenges in financial performance due to lack of experience and market stability. Newer businesses are often still in the growth phase, facing challenges such as market competition, resource acquisition, and business development.

4.3 Descriptive Characteristics for Study Variables

The study performed descriptive statistics, such as the mean and standard deviation. Mean provided a central tendency, showing the typical response of the sample. This helped the researcher to understand the overall level or magnitude of the variable in the sample. Standard deviation indicated the amount of variation or dispersion in the responses. This helped assess the reliability of the data.

4.3.1 Descriptive statistics on innovation skills

The study performed descriptive statistics on items of measurement of innovation skills among SMEs which helped to understand the typical response of the sample and the overall level or magnitude of the variable in the sample.

Table 4.3: Descriptive characteristics on innovation skills

Items N=154	Mean	Std. Deviation
In this business, individual ability is focused on developing new products	3.60	1.28
In this business, recruited employees are trained to improve their innovativeness	3.99	1.09
The business goal is directed towards innovativeness and business development	4.17	.94
This business success is attributed to the innovative skills of the employees	4.02	1.04
The innovative skills of employees support the business in managing environmental changes	3.76	1.04

Source: Survey data (2022)

The study revealed that SMEs focused on developing new products with a mean of 3.60 and S.D of 1.28. Respondents indicated that training newly recruited employees is a means of enhancing innovation with the Mean of 3.99 and S.D of 1.09. The findings also revealed that respondents agreed that the SMEs goals are directed towards innovativeness and business development with a mean of 4.17 and S.D of 0.941. As regards business success, a mean of 4.02 and S.D of 1.03 was recorded in response to the fact that innovation skills of employees greatly contributes to business success. The mean of 3.76 and S.D of 1.03 was obtained on respondent’s perception of whether the innovation skills of employees support the business in managing environmental changes.

4.3.2 Descriptive Statistics for Managerial Skills

The study performed descriptive statistics on items of measurement of managerial skills among SMEs which helped to understand typical response of the sample and the overall level or magnitude of the variable in the sample.

Table 4.4: Descriptive Statistics on Managerial Skills

Items N=154	Mean	Std. Deviation
All our employees are encouraged to contribute in making business decisions	3.48	1.21
The business offers its workers training on business management skills	3.71	1.13
In this business, the individual ability to develop effective plans and strategies contributes to business success	4.03	.93
In this business, all employees are able to deal with business-related problems	3.47	1.17
In this business, individuals have the ability to grab new opportunities for business growth	3.81	1.05

Source: Survey data (2022)

From the results, the study revealed that most respondents in the survey concurred that they are encouraged to contribute to decision making represented by a mean of 3.48 and S.D of 1.21. As to offering their workers trainings on business management skills, a mean of 3.71 and S.D of 1.13 was registered which implies that the SMEs carry out training to boost employee skills. The study also showed that on average, an individual's ability to develop effective plans was a contribution to SMEs' success with a mean of 4.03 and S.D of 0.925. The findings also revealed that on average, employees in their businesses are able to deal with business related problems. The mean of 3.8 and S.D of 1.046 showed that participants concurred that individuals in their firms have the ability to grab new opportunities for business growth.

4.3.3 Descriptive Statistics for Interpersonal Skills

The study performed descriptive statistics on items of measurement of interpersonal skills among SMEs which helped to understand typical response of the sample and the overall level or magnitude of the variable in the sample.

Table 4.5: Descriptive statistics on Interpersonal Skills

Items N=154	Mean	Std. Deviation
In this business, employees have relational skills	4.03	.921
In this business, employees can freely network internally and externally	3.93	1.067
In this business, workers have empathy to our customers and fellow workers	4.14	.943
In this business, there is trust between workers and our customers	4.16	1.011
In this business, a customer is treated as a king	4.43	.983
In this business, employees have effective communication	4.31	.811

Source: survey data (2022)

As regards interpersonal/ relational skills, the study revealed that employees had interpersonal skills with a mean of 4.03 and S.D of 0.92. The findings also showed that SMEs' employees are able to freely network internally and externally with a mean of 3.93 and S.D of 1.06. Concerning the workers' empathy to customers and fellow workers, results revealed that on average employees are empathetic to both the customers and their fellow workers hence a mean of 4.14 and S.D of 0.94 was registered. Findings also revealed that there is trust between workers and their customers with the Mean (4.16) and S.D (1.011).

4.3.4 Descriptive Statistics for Financial Performance of SMEs

The study performed descriptive statistics on items of measurement of financial performance among SMEs which helped to understand the typical response of the sample and the overall level or magnitude of the variable in the sample.

Table 4.6: Descriptive statistics on financial performance of SMEs

Items N=154	Mean	Std. Deviation
The number of people who buy our products/services has increased over time.	3.96	1.003
The demand for our product in the market has kept on increasing over time	3.90	.998
Our business receives more orders for sales from new clients daily	3.55	1.048
There has been an increase in client base over the past three years	3.91	1.050
The business sells more goods/services than our competitors	3.49	1.074
The business has established customers that purchase daily and monthly	3.96	.870
The daily and monthly sales of this business have kept increasing over time	3.81	.955
The level of demand for our products and services has increased	3.83	.969
The sales of the business grow at an increasing rate per month.	3.51	1.037
The business attains profits on the owners' equity invested	3.77	.927
The overall profit margins of the business have increased over time	3.75	1.026
Grand mean	3.77	

Source: Survey data (2022)

Results from Table 4.6 revealed that respondents perceived the financial performance of SMEs to be growing as indicated by a mean score on various items. Statistics indicate that the number of customers that buy products has been increasing over time, mean score of 3.96 and S.D of 1.00 was registered. The study observed that the respondents perceived the demand for their products in the market to have increased with the Mean of 3.90, S.D = .99. The respondents also perceived their businesses to be receiving more customer orders for sales from new clients which were represented by a mean score of 3.55 and S.D of 1.04. In regards to the clients' base of the SMEs to increase over the past three years, most of the participants agreed with a mean of 3.91 and S.D of 1.05. The study also showed that the targeted SMEs sold more goods than their competitors with the Mean of 3.49 and S.D of 1.07. The study revealed that SMEs had established customers that purchased on daily and monthly basis with the Mean of 3.96 and S.D of 0.87. Turning to the side of sales, the majority of respondents reported that their sales kept on increasing over time mean of 3.81 and S.D of 0.95. The result showed that the levels of demand for products of SMEs were increasing with mean of 3.83 and S.D of 0.96. Additionally, respondents reported that their sales were growing at an increasing rate mean of 3.51 and S.D of 1.03 were registered, yet on the other side, respondents agreed on average that their firms earned profits mean of 3.77 and S.D of 0.92 was registered and lastly respondents revealed that their overall profits margins increased, mean of 3.75 and S.D of 1.03 was got about the overall profits margins for the SMEs to increase.

4.4 Correlation Analysis

The study performed a correlation analysis to establish the relationship between entrepreneurial skills and financial performance of SMEs.

Table 4.7: Correlation results on Relationship between Variables

Variable	N=154	1	2	3	4
Financial performance (1)	Pearson Correlation	1			
Innovation skill (2)	Pearson Correlation	.41**	1		
Managerial skill (3)	Pearson Correlation	.49**	.46**	1	
Interpersonal skill (4)	Pearson Correlation	.49**	.36**	.44**	1

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

Source: survey data (2022)

Correlation results revealed that there is a significant association between entrepreneurship skills and financial performance of SMEs. It was revealed that each construct of entrepreneurship skill which included innovation skills, managerial skills and interpersonal skills all had a significant relationship with financial performance. For instance, the result showed a positive significant relationship between innovation skills and financial performance ($r=0.41$, $P<0.05$). Similarly, ($r=0.49$, $P<0.05$) shows that there was a statistically significant positive relationship between managerial skills and financial performance of SMEs. The findings also revealed that interpersonal skills have a significant positive relationship with financial performance ($r=0.49$, $P<0.05$).

4.5 Regression Analysis

The study performed a linear regression analysis to establish the causal effect of Entrepreneurial Skills on the Financial performance of SMEs. Specifically, the study sought to establish the effect of innovation skills, managerial skills and interpersonal skills on financial performance of SMEs.

4.5.1 Innovation Skills and Financial Performance of SMEs

Table 4.8: The regression Results on the Innovation Skills and Financial performance of SME

Coefficients		Unstandardized Coefficients		Standardized	T	Sig.
		B	Std. Error	Coefficients		
Model						
1	(Constant)	2.06	.30		6.74	.000
	Innovation skill	.43	.07	.415	5.62	.000

Model Summary
R=0.41
R-Square= 0.172
Adjusted R-Square = 0.167
F-value = 31.671
N=154
Dependent Variable: Financial performance

Source: Primary data 2022

As observed in the table 4.8, the findings show that model is a good fit for the data (F-statistic=21.671, $P < 0.05$). The Adjusted R^2 of 0.167 shows that innovative skills made a significant positive contribution of 16.7% to the total variance in financial performance of SMEs while 83.3% is contributed by other factors. The β of 0.43 shows that an increase in innovation skills by one unit, is each associated with an increase in financial performance of SME by 0.43 units. This is true only when other factors are held constant. Therefore, based on this statistical evidence, hypothesis that stated that innovation skills have a significant effect on financial performance of SMEs is fully accepted.

4.5.2 Managerial Skills and Financial performance of SMEs

The second objective sought to establish the effect managerial skills have on financial performance of SMEs, a linear regression was performed.

Table 4.9: The Regression Results on the Effect of Managerial Skills on Financial performance of SMEs

		Coefficients				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.822	.282		6.463	.000
	Managerial skill	.525	.075	.495	7.628	.000

Model Summary

R=0.49

R-Square= 0.245

Adjusted R-Square = 0.240

F-value =49.352

N=154

Dependent Variable: Financial performance

Source: Primary data 2022

As observed in the table 4.9, the finding show that model is a good fit for the data (F-statistic = 49.352, $P < 0.05$). The finding show that managerial skills made a significant positive contribution of 24% to the total variance in financial performance of SMEs while 76% is contributed by other factors. The β of 0.0.525 shows that an increase in managerial skills by one unit, is each associated with an increase in financial performance of SME by 0.525 units. This is true only when other factors are held constant. Therefore, based on this statistical evidence, hypothesis that stated that managerial skills have a significant effect on financial performance of SMEs is fully accepted.

4.5.3 Interpersonal Skills and Financial performance of SMEs

The third objective sought to establish the effect of Interpersonal skills on financial performance of SMEs, a linear regression was performed.

Table 4.10: Regression Results for Interpersonal Skills and Financial Performance of SMEs

		Coefficients				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.586	.317		5.001	.000
	Interpersonal skills	.524	.075	.492	6.972	.000

Model Summary

R=0.49

R-Square= 0.242

Adjusted R-Square = 0.237

F-value = 48.605

N=154

Dependent Variable: Financial performance

Source: Primary data 2022

According to the finding in table 4.10, the model is a good fit for the data (F-statistic =48.605, $P < 0.05$). The Adjusted R^2 of 0.237 shows that interpersonal skills made a significant positive contribution of 23.7% to the total variances in financial performance of SMEs while 76.3% is contributed by other factors. The β of 0.524 shows that an increase in interpersonal skills by one unit, is each associated with an increase in financial performance of SME by 0.524 units. This is true only when other factors are held constant. Therefore, based on this statistical evidence, hypothesis that stated that interpersonal skills have a significant effect on financial performance of SMEs is fully accepted.

4.5.3 Entrepreneurship Skills and Financial performance of SMEs

The multiple regression model was performed to establish the joint effect entrepreneurship skills dimensions of Interpersonal skills, Innovation Skills, Managerial Skills on financial performance of SMEs. Table 4.11 below shows the results.

Table 4.11: Multiple regression model on Entrepreneurship Skills and Financial performance of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667 ^a	.445	.424	.52339

a. Predictors: (Constant), Interpersonal skills, Innovation Skills, Managerial Skills

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17.141	3	5.714	20.857	.000 ^b
	Residual	21.367	78	.274		
	Total	38.508	81			

a. Dependent Variable: FP

b. Predictors: (Constant), Interpersonal skills, Innovation Skills, Managerial Skills

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.900	.382		2.359	.021
	Innovation Skills	.139	.083	.158	1.677	.098
	Managerial Skills	.209	.085	.239	2.474	.016
	Interpersonal skills	.386	.081	.448	4.780	.000

a. Dependent Variable: Financial Performance

The findings from this multiple regression analysis examine how Interpersonal Skills, Innovation Skills, and Managerial Skills affect Financial Performance. The F-statistic = 20.857 and the corresponding p-value = 0.000 show that the model is statistically significant, indicating that the three skills (Interpersonal, Innovation, and Managerial) together significantly impact financial performance. The R Square = 0.445 which indicates that the model explains 44.5% of the variance

in financial performance, meaning that the three predictors together account for nearly half of the variability in financial performance. The Adjusted R Square = 0.424 which is slightly lower than R Square suggests that 42.4% of the variance in financial performance can be explained by the model when adjusted for the number of predictors. The coefficient; Innovation Skills ($B = 0.139$, $p = 0.098$) shows that although a positive relationship exists, innovation skills do not significantly contribute to financial performance in this model with $P > 0.05$. The coefficient for Managerial Skills ($B = 0.209$, $p = 0.016$) implies that Managerial skills significantly impact financial performance ($p < 0.05$). A unit increase in managerial skills would result in a 0.209 unit increase in financial performance, showing that managerial capabilities are a strong contributor to firm success. Lastly, the coefficient of interpersonal Skills ($B = 0.386$, $p = 0.000$) suggest that interpersonal skills have the largest and most statistically significant impact on financial performance ($p < 0.001$). For every unit increase in interpersonal skills, financial performance improves by 0.386 units, making this the most influential factor among the three.

Therefore, the regression model reveals that Interpersonal Skills and Managerial Skills significantly affect financial performance, with Interpersonal Skills having the strongest influence. Firms should focus on enhancing interpersonal relationships and managerial capabilities to boost financial outcomes. Innovation Skills, while positively correlated with financial performance, do not show a statistically significant impact in this model, suggesting that they may play a lesser role in this context.

CHAPTER FIVE

DISCUSSION OF RESULTS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The chapter gives a detailed discussion of results based on the study objectives and hypotheses. This chapter presents discussions, conclusions and recommendations for action and further study.

5.1 Summary of Findings

The study investigated the effect of entrepreneurial skills on financial performance of Small and Medium Enterprises using empirical evidence from Nakawa Division, Uganda. The specific study objectives were to establish the effect of entrepreneur's innovation skills, entrepreneur's managerial skills and entrepreneur's interpersonal skills on the financial performance of Small and Medium Enterprises in Nakawa Division. The study hypotheses were tested using a linear regression analysis to establish direct linear effect of entrepreneurial skills on financial performance. From the findings, it was revealed that entrepreneurial skills have a significant effect on financial performance of SMEs. Similarly, it was showed that managerial skills also have a significant contribution on financial performance of SMEs. Findings revealed a significant effect of interpersonal skills on financial performance of SMEs.

5.2 Discussion of the Findings

5.2.1 Innovation Skills and Financial performance of SMEs

The study findings revealed a statistically significant effect of innovation skills on financial performance of SMEs. It showed that SMEs which focused on acquiring, enhancing and building on innovation skills have a high potential of enhancing their financial performance. The findings support the grounding principles of the Social Learning Theory (SLT) that stipulates that behavioral change contributes to personal development. Due to the fact that SMEs operate in a

dynamic environment, social learning often take place to understand the dynamic. SMEs may opt to undertake entrepreneurship education as a driver for innovation skills.

The study findings also agree with Aun *et al.* (2017), who urge entrepreneurs to focus on developing innovation skill which plays a pivotal role in enabling entrepreneurs develop unique business strategies necessary for gaining competitiveness. The findings also concurs with Shabbir *et al.* (2016), who established that innovation skill is required because it enables the entrepreneur to manage the unpredictable business environment and support them to exploit the business opportunities through developing new products which widens the product line of the firm and thus fitting into a number of opportunities in the business environment. Similarly, findings agree with Kerzner (2009), who revealed that innovation skills amongst SME owners, managers and employees enable the firm to prepare for the unavoidable dynamics challenging situation in the business environment.

5.3 Managerial Skills and Financial performance of SMEs

Entrepreneurs are regarded as individuals who initiate a business idea, implement by starting a business, manage and sustain it for a long period of time with an aim of making a profit (Eton *et al.*, 2017). In this case, management is inseparable from entrepreneurship and for SMEs to thrive, managerial skills therefore becomes necessary. The study results indicated that managerial skills have a significant positive contribution on financial performance of small and medium enterprises. Firms whose owners and managers have the ability to plan, organize, lead and motivate the team of employees working is likely to have a significant increase in financial performance.

This study findings concur with Wamoto, Ayuma and Kimani (2016) who assert that business success is largely attributed to entrepreneur's management abilities. Macheke (2012) also noted

that managerial skills are very essential for business success since it enables business owners to mobilize resources, handle employees well and develop effective strategies to move the business forward and achieve the business goal. Similarly, the study findings provide empirical evidence that supports the Kerosi and Kayisime (2013), who asserted that for a business to manage daily challenges, SME owners and managers should have possession of managerial skills. In the same line the study results agree with Ikupolati *et al.* (2017), who established that managerial skills enhance SME financial performance and as a result, an effort should be taken to enhance managerial skills amongst owners, managers and other employees working in the firms.

5.4 Interpersonal Skills and Financial performance of SMEs

Entrepreneurs often require support from various stakeholders in the business environment. These include; customers who are users of the products and services, suppliers who offer materials and other required items to the business, financial institutions which finance business activities in form of loans and others like investors, government. However, to win trust of all these stakeholders, relationship management becomes very vital. Entrepreneurs need to pay keen interest on their interpersonal skill because it is very vital in winning stakeholders trust. No business can thrive without stakeholders' support. This study findings revealed that interpersonal skills enhance SMEs' financial performance. Firms that opt to build strong, close and beneficial relationship with stakeholders are likely to thrive in the business world (Kinyua, 2014).

Interpersonal skills in this study have a significant positive effect on financial performance which concurs with the results of previous studies of Kinyua (2014), Johnson *et al.* (2015), Mohammed and Obeleagu-nzelibe (2014) who established that interpersonal skills are very vital in driving business success because they support the business get access to supplies, win customers' loyalty and have quick access to financial resources. The study findings also concur with Cooney (2012)

who asserted that interpersonal skill is very critical for business success. The findings also agrees with Benson (2014) who established that interpersonal skills in respect to communication has an effect on financial performance of a firm.

The study findings agree with the grounding principles of the Social Learning Theory (SLT) which postulates that individuals ought to maintain close relationship with the surrounding environment. Observational learning as suggested by the theory can only take place when an individual maintains a close look into what takes place in the environment which cannot be possible without relationship abilities. Miller and Morris (2016) indicate that interpersonal skills are enhanced by the social surrounding and play a fundamental role in improving business success.

5.4 Conclusion

Basing findings, the study concludes that entrepreneurial skills affect financial performance of SMEs and therefore, SMEs that focus on enhancing innovation skills aimed at developing capability of modifying existing products, develop new products and strategies stand a high chance of enhancing financial performance. The study also concludes that managerial skills play a pivotal role in enhancing SME financial performance, when SME owners and managers enhance on their managerial abilities such as strategy development, human resource management and diversity management, such firms stand a high likelihood of registering growth in Financial performance. The study finally concludes that interpersonal skills affect financial performance because they are vital in creating strong relationships between the firm and the stakeholders most especially customers who have a direct contribution on SME financial performance.

5.5 Recommendations

The study findings revealed that entrepreneurship skills enhance SMEs financial performance, SMEs in possession of such skills are likely to have an increase in financial performance. Therefore, this study recommends the following.

SMEs should immediately organize and schedule practical training sessions for all key staff, focusing on developing entrepreneurial skills such as innovation, financial management, and leadership. These training programs should be industry-specific, allowing employees to directly apply the skills learned to their daily business activities. The management should ensure that these training sessions are not just theoretical but involve case studies, simulations, and real-world problem-solving to maximize impact.

SMEs should establish and enforce flexible organizational structures that promote idea-sharing, empower staff to take initiative, and foster an open climate for innovation. This can be done by setting up cross-functional teams, regular brainstorming sessions, and rewarding innovative contributions. By doing so, SMEs can unlock creative potential within the workforce, directly boosting financial performance through new products, services, or operational efficiencies.

Government agencies, NGOs, and private sector support bodies should urgently prioritize entrepreneurship education programs aimed at building the managerial competencies of SME owners and managers. These programs should be practical and targeted, focusing on critical areas such as strategic planning, financial literacy, resource management, and market expansion. For wider accessibility, agencies should collaborate with local training centres and use digital platforms to reach a broader audience, especially those in remote areas.

SME owners and managers should be guided and supported in developing robust business models and resource management plans that align with their growth objectives. This includes mentorship programs and access to business development services, which can help them structure their business operations more effectively and allocate resources for maximum profitability.

SMEs should actively promote the development of interpersonal skills within their teams. This can be achieved by introducing structured communication workshops and setting up mentorship programs where senior employees guide and support the development of soft skills in junior staff. Effective communication among employees, customers, and stakeholders can significantly improve collaboration, customer satisfaction, and overall business performance.

5.6 Limitations and Areas of Further Research

The study was conducted on SMEs around Nakawa division and may not be generalised on other locations outside Kampala, further scholars should replicate other studies using other locations in Uganda context outside Kampala such as rural setting.

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APPENDICES

APPENDIX I: Questionnaire

Dear Respondent,

I am Mulinda Alone, a student of Kyambogo University pursuing *Master of Business Administration (MBA)*. As a requirement for graduation, I am conducting a study Titled “*Entrepreneurial skills and financial performance of SMEs in Nakawa Division*”. The purpose of this letter is to request you to take some few minutes and fill this questionnaire. The information provided will be treated with utmost confidentiality and used for academic purposes. In case you need more information regarding the same subject, please reach me at: **mulindaalone@gmail.com**

Your participation will be highly appreciated

Thank you

SECTION A: DEMOGRAPHIC INFORMATION

Indicate your response to the items below by ticking in the boxes

a) What is your Gender:

Male

Female

b) What is your age bracket?

Below 20 years

20-30 years

31-40 years

Over 40 years

c) What is your highest level of education attained?

Primary

Secondary

Certificate

Diploma

1st Degree

Masters

d) For how long has this business been in existence?

1 Less than 5 years 2 6-10 years 3 11-15 years 4 16-20 5 More than 20 years

e).What is your position in this in this enterprise?

1 Owner 2 Manager 3 others (specify).....

f). which of the following describes your enterprise?

1 Sole proprietorship 2 Partnership 3 Private limited company 4 Cooperative society
 5 Joint venture 6 Others (please specify)

g). How many employees does this enterprise have?

1 1-5 2 6- 49 3 50-100 4 100 and above

h). In which sector does this enterprise operate?

1 Production/manufacturing
 2 Retail 3 Wholesale 4 Service

SECTION B: ENTREPRENEURIAL SKILLS

Read each statement and answer by ticking in the suitable category that best fits your opinion.

1 = strongly dis-agree, 2 = Dis-agree, 3= neutral, 4 = Agree, 5 = Strongly-agree

Code	Innovative Skills	SD	D	N	A	SA
IN1	Individual innovativeness and creativity are often encouraged in this business					
IN2	In this business, individual ability is focused on developing new products					
IN3	In this business, the ability of employees is directed towards modifying existing products to make them better for customers					
IN4	In this business, recruited employees are trained to improve their innovativeness					

IN5	The business goal is directed towards innovativeness and business development					
IN6	This business's success is attributed to the innovative skills of the employees					
IN7	The innovative skills of employees support the business in managing environmental changes					
Managerial Skills						
MS1	I have been encouraged to learn and develop business management skill					
MS2	All our employees are encouraged to contribute in making business decisions					
MS3	The business offers its workers training on business management					
MS4	In this business, the individual's ability to develop effective plans and strategies contributes to business success					
MS5	In this business, all employees are able deal with business related problems					
MS6	In this business, individuals have the ability to grab new opportunities for business growth					
Interpersonal Skills						
IPS1	In this business, employees have relational skills					
IPS2	In this business, employees are able to freely network internally and externally					
IPS3	In this business, workers have empathy to our customers and fellow workers					
IPS4	In this business, there is trust between workers and our customers					
IPS5	In this business, a customer is treated as a king					
IPS6	In this business, employees have effective communication					

Section C: FINANCIAL PERFORMANCE OF SMES

Please, tick each statement as it most suitably applies to your opinion.

1 = strongly dis-agree, 2 = Dis-agree, 3= neutral, 4 = Agree, 5 = Strongly-agree

Code	FINANCIAL PERFORMANCE	SD	D	N	A	SA
MS1	Market Share					
MS2	The number of people who buy our products/services has increased over time.					
MS3	The demand for our product in the market has kept on increasing over time					
MS4	Our business has added new business lines to the current business					
MS5	We sell more products/ services than our competitors in the market					
MS6	Our business receives more orders for sales from new clients daily					
MS7	There has been an increase in client base over the past three years					
	Sales Volume					
SV8	The business sells more goods/services than our competitors					
SV9	The business has established new distribution and marketing channels					
SV10	The business has established customers that purchase daily and monthly					
SV11	The daily and monthly sales of this business have kept increasing over time					
SV12	The business has loyal customers who buy its products and services					
SV13	The level of demand for our products and services has increased					
SV14	The sales of the business grow at an increasing rate per month.					
	Profitability					
PT15	The business attains profits on the owners' equity invested					
PT16	The business attains reasonable profits on each product sold to customers					
PT17	The business gets revenues from all types of goods/services sold to customers					
PT18	Our business attains maximum returns from the sale of its assets					
PT19	The overall profit margins of the business have increased over time					

APPENDIX II: Factor Analysis results

Component Matrix^a	
Innovation skills	Component
	1
In this business, individual ability is focused on developing new products	.534
In this business, recruited employees are trained to improve their innovativeness	.719
The business goal is directed towards innovativeness and business development	.729
This business success is attributed to the innovative skills of the employees	.706
The innovative skills of employees support the business in managing environmental changes	.687
Managerial skills	Component
	1
All our employees are encouraged to contribute in making business decisions	.652
The business offers its workers training on business management skills	.541
In this business, the individual ability to develop effective plans and strategies contributes to business success	.532
In this business, all employees are able to deal with business related problems	.722
In this business, individuals have the ability to grab new opportunities for business growth	.792
Interpersonal skills	Component
	1
In this business, employees have relational skills	.656
In this business, employees are able to freely network internally and externally	.706

In this business, workers have empathy to our customers and fellow workers	.805
In this business, there is trust between workers and our customers	.798
In this business, a customer is treated as a king	.731
In this business, employees have effective communication	.784
Financial performance	Component
	1
The number of people who buy our products/services has increased over time.	.747
The demand for our product in the market has kept on increasing over time	.753
Our business receives more orders for sales from new clients daily	.696
There has been an increase in client base over the past three years	.832
The business sells more goods/services than our competitors	.712
The business has established customers that purchase daily and monthly	.709
The daily and monthly sales of this business has kept increasing over time	.835
The level of demand for our products and services has increased	.864
The sales of the business grow at an increasing rate per month.	.762
The business attains profits on the owners' equity invested	.642
The overall profit margins of the business has increased over time	.822
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	