MANAGEMENT COMPETENCIES AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN GULU MUNICIPALITY, UGANDA

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13/U/2722/MBA

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A RESEARCH DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE OF GULU UNIVERSITY

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DECLARATION

I, Okello Morris Kidega, declare that this research dissertation entitled "Management Competencies and Performance of SMEs in Gulu Municipality, Uganda" is my original work and that it has not been submitted to any university or institution of higher learning for any award anywhere in the World.

Signature..... Date 24.10.2016.....

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APPROVAL

This is to certify that this research dissertation entitled "Management Competencies and Performance of SMEs in Gulu Municipality, Uganda" has been developed under our supervision and it is now ready for submission to the Institute of Research and Graduate Studies, Gulu University.

Signature..... Date.....24/10/2016.....

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Signature..... Date.....04/11/2016.....

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DEDICATION

I dedicate this research work to my parents Mr. Uma Augustine and Ms. Adong Santa (RIP), my brothers Mr. Ocen Fredrick, Mr. Kidega Moses, Mr. Achoka Denis, Mr. Ocaya Emmanuel, my sisters, Ms. Adong Paska, Ms. Anena Beatrice, Ms. Lanyero Concy Ojok, Ms. Abalo Josephine, Ms. Alupo Dorine and to all my friends for their tireless support to me.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACCA	Association Of Chartered Certified Accountants
EAC	East African Community
EU	European Union
FBDS	Faculty of business and development studies
GDP	Gross domestic product
GEM	Global Entrepreneurship Monitor Report
IRGS	Institute of Research and Graduate studies
MoFPED	Ministry of Finance Planning and Economic Development
NSDS	National Service Delivery Survey
NYDN	National Youth Development Network
OECD	Organization for Economic Co-operation and Development
SCIS	Care Institute for Success
SME	Small and Medium Enterprise
SPSS	Statistical Package for Social Scientists
UACE	Uganda Advanced Certificate of Education
UBOS	Uganda bureau of statistics
UCE	Uganda Certificate of Education
Ugx	Uganda shillings
UIA	Uganda Investment Authority
UK	United Kingdom
UNBS	Uganda National Bureau of Statistics
UNCC	Uganda national chamber of commerce
USA	United States of America
USD	United States dollar

ABSTRACT

This study, Management Competencies and Performance of SMEs in Gulu Municipality, Uganda. The study was carried out in Gulu Municipality, Uganda and the purpose of the study was to analyze the relationship between Management competencies, Innovation and the Performance of SMEs in Gulu Municipality in Gulu District, Uganda. The study adopted qualitative and quantitative research approach of which the QUAN-Qual Model was considered and in this study a cross sectional research design was used; The study used questionnaire and interview and sample size of 136 SMEs was used in the study of which the study had 279 respondents from the SMEs in Gulu Municipality, Uganda; Primary data was collected using self-administered questionnaires and interview guide; Data analysis of Pearson's correlation coefficient, regression analysis was done with the help of SPSS version 16. The study reveals positive and significant relationship between Management Competencies, innovations and Performance of SMEs. Management Competencies and innovation explain about 27.6% of the variance in Performance of the SMEs in Gulu Municipality in Gulu District, Uganda. This implies that in order to achieve better performance, SMEs should improve Management Competencies and carry out innovation. In conclusion, Management Competencies and innovation contributes only 27.6% towards the performance of the SMEs in Gulu Municipality, Uganda. Therefore other factors contribute 72.4% on the performance of the SMEs in Gulu Municipality, Uganda. This study recommends that research on other predictors like market conditions, access and source of finance, Culture, access to information, infrastructure, organization learning of the enterprises, the regulatory burden, training and education and Government policies that have influence on performance need to be done to improve SMEs performance.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

In Uganda, small and medium enterprises (SMEs) are considered as seedbeds for the growth of new firms and important machineries for poverty reduction through wealth and job creation, income generation as well as drivers for innovation (Uwonda, Okello and Okello, 2013). The performance of SMEs in Gulu Municipality is of great importance and its successful operation facilitates the improvement of living standards, economic growth and development in Gulu Municipality however series of questions are being asked about its contribution in Gulu Municipality since the majority of the people in Gulu Municipality survive on less than 1 United States dollar (USD) equivalent 3500 Uganda shillings (UGX) per day despite the existence of several SMEs in Gulu Municipality. The performance of SMEs is influenced by the management competencies and innovation among other factors like access to finance, climate change, culture, entrepreneurial attitude organizational learning. This study analyzed the influence of management competencies and innovation on the performance of the SMEs in Gulu Municipality. This chapter provides the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study, the significance of the study and the conceptual frame work of the study.

1.1 Background of the Study

On a global scale SMEs are a very heterogeneous group of enterprises and cuts across several sectors and activities, ranging from the single artisan producing agricultural implements for the village market, the coffee shop at the corner, the internet cafe in a small town to a small sophisticated engineering or software firm selling in overseas markets and a medium-sized automotive parts manufacturer selling to multinational automakers in the domestic and foreign markets. The owners may or may not be poor; the firms operate in very different markets (urban, rural, local, national, regional and international) embody different levels of skills, capital, sophistication and growth orientation, and may be in the formal or the informal economy as noted by United Nations Industrial Development Organization (UNIDO, 2004).

Statistical definitions of what constitutes an SME vary quite widely from country to country and even within single countries, depending on the business sector concerned, Organization for Economic Co-operation and Development (OECD, 1997). Thus, there is no universal determinant or criteria of defining an SME. Much depends on the character of the relevant host country, and the profile of its own particular corporate sector, from which a relative measure of an SME is then typically made, sometimes on a rather arbitrary basis. Some countries just use the number of employees as the sole criteria for determining whether a business is an SME or not. Other countries use this same criterion, plus an additional criterion based on either the value of the firm's assets or the size of revenues, typically denominated in the local currency. For instance considering the European Union (EU) and the Organization for Economic Co-operation and Development (OECD), transition and developing countries set the upper limit of number of

employees in the SMEs between 200-250, with a few exceptions such as Japan (300 employees) and the United States of America (500 employees) (OECD, 2004).

Another classifying variable has been level of investments measurable in monetary terms, using both head staff count and level of capital investment, the European Union (EU) classifies SMEs as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro (EU commission, 2003). The diverse definitions criteria can sometimes be conflicting and confusing due to the overlap in what they should differently define. For instance on the basis of employment many enterprises especially in Asia and Africa due to cheap labour may employ over 200 persons whereas operating below 10 million euro. In such a case a regional definition can be more helpful than a universal one because what qualifies in one region or country such as Nepal and India may be different from what an SME is in the United Kingdom (UK), United States of America (USA) or Germany because of differences in market economies.

According to Harvard University Management competencies Dictionary (2014), Management competencies are things that an individual must demonstrate to be effective in a job, role, function, task, or duty. These things include job-relevant behavior (what a person says or does that results in good or poor performance), motivation (how a person feels about a job, organization, or geographic location), and technical knowledge (what a person demonstrates regarding facts, technologies, a profession, procedures, a job, an organization). Management competencies are identified through the study of jobs and roles. Moor, Cheng and Dainty (2002) defined management competencies as observable abilities, skills, knowledge, motivations or

traits defined in terms of the behaviors needed for successful job performance, competencies are what people need to be able to perform a job well, an ability to meet performance expectations in a role and deliver the required results. Management competencies include specific skills, knowledge, attitude, behaviors and techniques which include expertise resulting from training and experience necessary to fulfill a task.

Behaviors of managers that characterize great performance in an enterprise ensures that employees have clear goals and responsibilities, working with employees to set and communicate performance standards that are specific and measurable, supports employees in their efforts to achieve job goals, staying informed about employees' progress and performance through both formal methods like status reports and informal methods like management by walking around, providing specific performance feedback both positive and corrective as soon as possible after an event, dealing firmly and promptly with performance problems and lets people know what is expected of them and when.

Management competencies based management supports the integration of human resources planning with business planning by allowing organizations to assess the current human resource capacity based on their management competencies against the capacity needed to achieve the vision, mission and business goals of the organization. Targeted human resource strategies, plans and programs to address gaps like hiring and staffing, learning, career development, and succession management are then designed developed and implemented to close the gaps. Pearce & Robinson (1996) noted that, SMEs is said to be competent if its management demonstrates a good knowledge of the industry in terms of how to position the enterprise in the market.

Uwonda et al. (2013) revealed that managers in Gulu municipality, Northern Uganda failure to perform their duties has affected the performance of the SMEs leading to low profitability, low growth of the SMEs. Bimbona (2008) in a study on SMEs revealed that, manager's inadequate skills, knowledge and competencies to coordinate the daily operations. This is in Uganda where enterprise managers have a reputation of being less innovative and keep on selling similar products and services leading to price wars or cut throat price competition where firms reduce the price of its products to a lower rate to out compete the competitors producing the similar products or goods and services. The Study notes that about 30% of adults had ended business in less than 1 year and that the inadequacy of management competencies of many enterprises is responsible for their poor quality products and service delivery. This situation is similar in Gulu Municipality, Gulu District Uganda where a number of SMEs have stopped their operations mysteriously in the recent years. SMEs require adequate innovation to enable activities to be coordinated efficiently and effectively.

SMEs inadequacy of innovation is often considered to part a major obstacle to creativity in SMEs however previous investigations found in literature scanty work on Management competencies, innovations as key factors influencing the performance of SMEs within Gulu Municipality in Gulu District, Uganda. In Uganda, through Enterprise Uganda, Ministry of Tourism Trade and Industry in collaboration with the Private Sector Foundation Uganda have put in place several initiatives to facilitate SMEs performance and promote their expansion. According to the Global Entrepreneurship Monitor Report (2004), over one in every three adult Ugandan was engaged in some form of business. The report further posits that these businesses do not live to see their first birthday and for almost every 35% of the SMEs businesses that close, about 37% start new businesses again. As a result of these findings, the report ranked Uganda as

the second highest in terms of business startups and ranked Uganda as the country with the highest business failure rate in the world (GEM Report, 2004).

SMEs performance is a fundamental feature for SMEs survival and sustainability where performance factors such as innovation have been found to spur business expansion, technological progress, and wealth creation in both start-up and existing firms hence being a key aspect of management of an organization. SME firms that are innovative tend to achieve organizational vision, missions and goals independently (Lumplin & Dess, 1996). Whereas, those found to be poor performers, lack innovation, organizational learning, have limited access to information on market opportunities, unaffordable business development services and lack of finance, adequate technical and management support services. Keizer et al. (2002) affirmed that the effects of innovation on SMEs performance are direct and indirect where SMEs found to incorporate innovation into their strategies are able to maintain market share, competitive prices level, and tend to be flexible and durable organization. Uwonda et al. (2013) after the research they carried out in Northern Uganda of which Gulu Municipality is part of it noted that management of SMEs must be innovative in order to improve its performance in terms of cash flow management, meeting the needs of the customers, production of quality products.

According to Kasekende and Opondo (2003), despite SMEs importance and improvement in economic development in Uganda, these economic agents seem to operate in a business environment characterized by fragmented and incomplete organization structures where an awareness of the required quality business information, markets, technology, policies, regulations and finance is limited yet SMEs are perceived to perform better in innovative and

better organized environments (Okello, 2009). On the other hand, Okumu (2006) asserts that there is limited innovation among Ugandan SMEs since most of them are characterized by the copycat syndrome. Okumu (2006) postulates that SMEs in Uganda operate in an environment which lacks efficient, formal organizational systems to address performance and innovative issues. It is upon this background that the study seeks to analyze the factors influencing the performance of SMEs with major focus on management competencies and innovation as key factors.

Gulu Municipality has several SMEs currently in operation however most of them do not have high capital size as compared to SMEs based in central Uganda, most SMEs in Gulu Municipality is not experiencing high returns that is attributed to management competencies and innovations, most of Gulu Municipality SMEs are offering similar products with limited variation meaning that they are not greatly innovative to enable them serve the demanding consumers in the region, this has propelled the study on management competencies, innovations and performance of SMEs in Gulu Municipality, Uganda.

1.2 Statement of the Problem

Despite of the enormous actual and potential contribution of SMEs to Uganda's economic and overall steady growth, the majority of them are making negligible contribution as a result of achieving low growth in their businesses (Sekyewa, 2009). Poor performance inform of low growth, low profitability of SMEs in Gulu Municipality is due to lack of relevant knowledge which is a construct of Management competencies in the SMEs (Uwonda et al, 2013) and in the long run makes SMEs to drop out in business every 5 years at a rate of 25%. Though the SMEs are making positive contributions to economic growth and development in Uganda the rate of failure is also high (Kazooba, 2006). Despite efforts by government to provide support to SMEs in order to attain performance sustainability through different government programmes, there has been marginal improvement caused in the performance of SMEs (BoU, 2009). The inadequate contribution of SMEs in performance may be explained by limited innovation among SMEs leading to stagnated growth and this may be explained by the Management competencies and inadequate innovation which has deprived them of competitive scope and managerial capabilities. If this is left unchecked will continue to constrain the economy of Uganda.

Studies have been done in areas such as access to Finance, organizational learning and performance of SMEs however there is scanty study about SMEs performance with respect to the management competencies and innovations as an issue having impact on the performance of SMEs of which this calls for research to be done and it is why i have come up to study about it to enable the contributions of SMEs in Gulu Municipality to improve greatly resulting to low level of unemployment since the people would be employed in the sector due to its improvement in operations.

1.3 Purpose of the Study

The purpose of the study is to analyze the relationship between management competencies, innovation and the performance of small and medium enterprises in Gulu Municipality in Gulu, Uganda.

1.4 Objectives of the Study

This study was guided by the following objectives:

i. To explore the level of management competencies of SMEs in Gulu Municipality.

ii. To analyze the level of innovation among the SMEs in Gulu Municipality.

iii. To investigate the relationship between management competencies and innovation on the performance of SMEs in Gulu Municipality.

1.5 Research Questions

i. What is the level of management competencies within the SMEs in Gulu Municipality?

ii. What is the level of innovation among SMEs in Gulu Municipality?

iii. What is the relationship between management competencies, innovation on the SMEs performance in Gulu Municipality?

1.6 Scope of the Study

The scope of this study is discussed under the three facets of content, geographical location of the study area and time.

This study focused on management competencies, innovations and the performance of SMEs in Gulu Municipality in Gulu District, Uganda where skills, knowledge, experience that falls under the variable of management competencies, process based, SMEs products, customer care

formalities that falls under the variable of innovations, profitability, sales growth and market share of the SMEs that falls under the variable of performance of SMEs in this research is to be analyzed.

This study was carried out in Gulu Municipality in northern Uganda due to fact that number of SMEs have since cropped up although they are facing a myriad of challenges. The coordinates of Gulu Municipality are: 2°46'54.0"N 32°17'57.0"E. The distance from Gulu Municipality to Kampala, Uganda's capital and largest city, is approximately 340 kilometers (210 miles) by road. On 27 August 2014, the national population census put Gulu Municipality population at 152,276.Gulu Municipality was considered for the study because the literature provide information on the performance of the SMEs but does not focus on post conflict situation like Gulu Municipality thus the reason why the research study was done in Gulu Municipality.

The study focused on data covering the period 2010-2014 as much as the general design was cross-sectional in nature. The historical component of the study was to help build up the understanding of SME performance trend.

1.7 Significance of the Study

The findings are likely to benefit many individuals and institutions as noted below.

The study findings are likely to help the SMEs to enhance the improvement of their services and products to meet the global required standard since they would be able to deal with issues of management competencies, innovations as key factors affecting performance of SMEs within Gulu Municipality, Uganda.

The study may benefit policy makers including the government in formulating useful policies concerning management competencies, innovations and performance of SMEs within Gulu Municipality in Gulu District, Uganda.

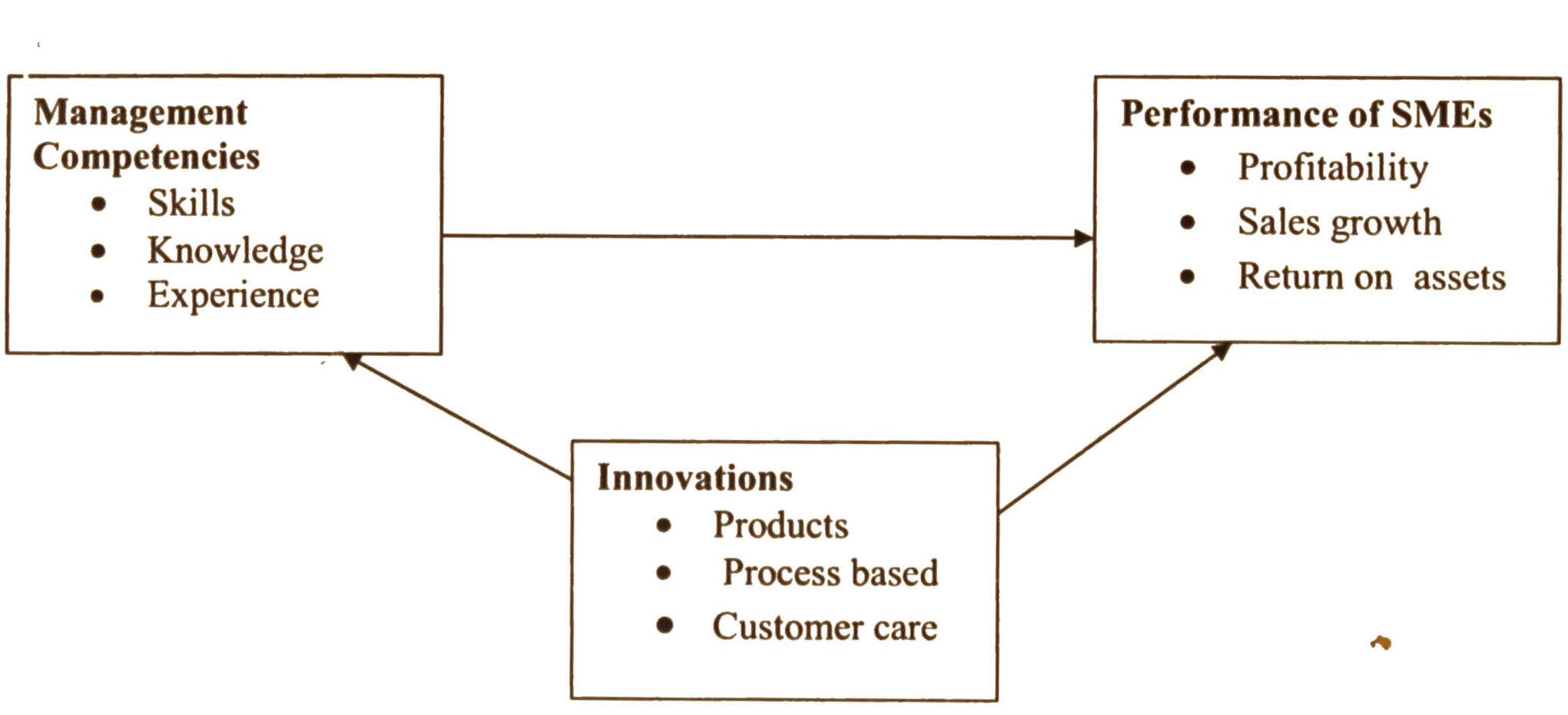
The study may also help in providing literature on management competencies, innovations performance of SMEs within Gulu Municipality in Gulu District, Uganda which other researchers and academicians may use while conducting further studies in this, or related areas of study.

Further still, the completion of this study will help the researcher attain a Master degree of Business Administration (MBA) of Gulu University since this a requirement in partial fulfillment of the requirements for the award of this degree.

1.8. The Conceptual Framework

According to Maghanga (2008), a conceptual framework can be looked at as a theoretical structure of assumptions, principles, and rules that holds together the ideas comprising a broad concept. It therefore, shows the relationship between the independent and the dependent variables. In this study, management competencies including the skills, knowledge, experience that workers will have and innovation was considered as the independent variables (Figure 1.1). The performance of the SMEs is considered as the dependent variable. The performance of SMEs is characterized by profitability, sales growth and returns on the assets owned by the various SMEs. The skills under management competencies to be analyzed includes technical skills, computer skills, communication skills, innovation is to be measured according to the following parameters: technology based, behavioral based, product based and customer care.

Figure 1.1: Conceptual Framework



Source: Adapted from Odeng Julius (2009), Vinod Kumar and Uma Kumar (2010) and Apollot Stella (2012).

In this study skills was operationalized through relevancy, invention, creativity, motivation, leadership, listening. Knowledge was operationalized by quality of products, record keeping, and uniqueness in ideas, market research, and attitude. Experience was operationalized by honoring appointments, self-motivation, and productive use of resources. Customer care operationalization is done by customer satisfaction, relationship strategy with the customers, repeat purchase, and quality of after sale services. Process innovation was operationalized by use of internet to deliver services, design of internet, and merger of flow of work. Process innovation was operationalized by readiness of commodity, reliability of the services, and access of the products to the customers. Entrepreneurial innovation operationalization was done by idea source, new product niche, autonomy in production units, pioneering technological development. Sales growth was operationalized by increase in sales, market growth, and purchasing volume. Profitability was operationalized by profit margin, return on investment, cost of storing inventory, distribution cost. Market share was operationalized by accommodation of demand variation, machine break down, poor delivery performance.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the relevant literature, the area of inquiry of this research is cross disciplinary the literature from each area of management competencies, innovation and performance of SMEs. This section constitutes the Small and medium enterprises, SMEs contribution to economies, management competencies among SMEs, management competencies and performance of SMEs, innovation concept among SMEs, measurement of innovation, innovation and SMEs performance.

2.1 Small and Medium Enterprises

The role played by SMEs in enhancing growth in market-driven economies has emerged as a consistent theme in recent literature on economic performance (Akoorie, 1998). The majority of studies done on SMEs have not agreed on a universally acceptable definitions and criteria for classifying SMEs. In Uganda the definition of SMEs is defined based on the number of employees, annual turnover, ownership, value of assets. This study adopted the definition used by the Ministry of Finance Planning and Economic Development (MoFPED, 2011) and Uganda Investment Authority (UIA, 2011). According to this definition, a small enterprise is one that employs a maximum of 50 people with an annual turnover of 360 million Uganda shillings and total assets of 360 million Uganda shillings. A medium enterprise is an enterprise employing more than 50 people, turnover of more than 360 million Ugandan Shillings and total assets of more than 360 million Ugandan Shillings.

SMEs have played a significant role in economic development, especially in developing countries (Halabi et al. 2010). They play a critical role in terms of job creation, poverty reduction, and income generation (Agyei-Mensah, 2011; Nichter and Goldmark, 2009). They constitute 90% of the enterprises worldwide and account for 50-60% of employment (UBOS, 2011). In Uganda, they contribute approximately 20% of the national GDP and over 20% of the labour force income (Ernest & Young, 2011). In the UBOS, 2011 report on the Census of Business Establishments illustrated that 30% of 458,106 enterprises were small and medium enterprises and the sector employed over 1 million people.

Studies have revealed that in Uganda there is no consistent and harmonized SMEs policy framework to guide growth and development of the SME sector (UIA, 2011). Inadequate policy frameworks hinder SMEs from benefiting from existing business incentives, support services and related infrastructural systems. They may lack managerial skills, innovations because of inadequate representation among active lobby groups like the manufacturing associations and their participation in associations.

2.2 SMEs Contributions to economies

The importance of SMEs has attracted a lot of attention internationally in past few years due to their significant contributions to the economies of both the developed and developing countries (Asiedu, 2006). In Europe, SMEs are the backbone and engine of the European economy. In the European Union, almost 85% of net new jobs from 2002-2010 were created by SMEs (European Union, 2012; European Commission, 2011; Abouzeedan, 2011; and Muhammad et al, 2010). In the United States, the effect of globalization on SMEs has received a lot of attention in

international circles in the past few years. In 2004, SMEs in the U.S.A employed about 25 million people and their gross product was about 20 percent of the gross domestic product of private industries in the U.S. (Kozlow, 2006; BEA, 2006). In Asia, SMEs are very important for employment creation and are sources of economic growth and foreign currencies.

In Indonesia, SMEs are valued for their potential to create employment, to generate foreign currencies through export, and their potential to grow into larger enterprises (Tumbunan, 2012). In India, SMEs constitute over 90% of total enterprise in most of the economy, generating the highest rate of employment growth and account for a major share of industrial production and exports (Kumar and Sardar, 2011). In Africa, SMEs are efficient and prolific job creators, the seeds of big businesses, and the fuel of national economic engines. From an economic perspective, however, SMEs are not just suppliers, but also consumers (Abor and Quartey, 2010). SMEs make up approximately 50% of the gross domestic product, it has higher production output than large companies, greater capacity to innovate, a more direct impact on cultural and social issues, and a greater role to play in the future growth of an economy (Belinda, 2011).

In the East African Community (EAC), SMEs play a great role in developing national economy by alleviating poverty and participating in the global economy. For example, in Kenya SMEs, make up well over 90% of the country's private sector. For the government, SMEs are a source of employment opportunities particularly for the low skilled workers, as well as women and young people, wealth creation, contribute to stability and generate tax revenues. They also contribute to local supply and service provision to larger corporations (EAC, 2009). In Uganda,

SMEs are viewed as the engine for growth as they contribute to reduction of poverty through job creation, paying taxes for national progress and a basis for developing new ideas, contribute to economic growth and sustainable development (Ssendaula, 2002). Uganda SMEs are vital drivers of growth, innovation and a source of government revenues that target poverty reduction (COMSEC, 2011). More so, they account for over 70 percent of the country's dominant economic force, employing more man 2.5 million people, constitute 70 to 90 percent of the private sectors and contributes over 70% to total GDP (Kakista and Baguma, 2011; Ssempijja, 2011). Reports by UIA, (2011) revealed about 24,505 SMEs, employing over 90% of the private sector workers and contribute substantially to the provision of basic goods and services. In 2011, the small-medium size enterprises contribute 14% to 18% of the total revenue to the government respectively (Mugabe, 2012). However, the rate at which Uganda's SMEs are running out of business, especially due to poor performance stands at 50% annually leaving a lot to be desired (Kampumure, 2009; and Kiningi, 2007). While Uganda ranks high in the rate of SMEs establishment and its being among the most entrepreneurial population in Africa, it is among countries where business failure is most common (Naduda, 2011, Badagawa, 2011).

Studies by Kazooba, (2006) and Keough, (2002) revealed that a common scenario is that most of the Uganda businesses never celebrate their first anniversary, over 50% of the newly established SMEs fight an uphill battle from the start but fail in five years and that less than 4% of small businesses grow to medium or large firms. Kazooba (2006) as quoted by Okuonzi (2016) reported that SMEs in Uganda are bedeviled by poor management competencies, thus turning Uganda into a graveyard of SMEs.

SMEs form part of other enterprises to contribute greatly to the economies of all other countries, regardless of their level of development. The sector made a significant contribution to the gross domestic product (GDP) of Uganda (20%), Kenya (19.5%) and Nigeria (24.5%), (Abanis, 2013). SMEs form a significant part of the Ugandan economy nevertheless they face a number of problems, including inadequate innovation among the SMEs which is often considered to be the problem that SMEs faces among others in Uganda (MoFPED, 2008).

SMEs in Uganda employ more than 2.5 million people, constitute up to 90 percent of the private sector and contribute over 70 percent to total GDP (Ankunda, 2010). According to Uganda bureau of statistics UBOS (2004), the value of goods and services generated by SMEs was United States dollar (USD) 1,363,733 million of the total USD 2,360,157 million thus a contribution of 58%. They employed 2,704,127 people, representing 56% of employment size. In addition, they are responsible for human resource and entrepreneurial development, poverty alleviation and improved quality of life, resource mobilization, business adaptability and sustainability. This state of affairs agrees with Association of Chartered Certified Accountants (ACCA), 2006 findings that around 60% of ACCA students and members work for SMEs.

2.3 Management Competencies among SMEs

Kochadai (2012) postulate a set of managerial competencies such as information seeking, systematic planning, problem solving, goal setting, communication, technical knowledge and social skills. Hellriegel (2008) stated that managerial competencies are sets of knowledge, skills, behaviors and attitudes that contribute to personal effectiveness. This is supported by Henderson (2000) who defines a competency as a combination of knowledge and skills required to

successfully perform an assignment. Its attainment is evidenced by the ability of an individual to gather data, process it into useful information, access it and arrive at an appropriate and useful decision in order to initiate the actions necessary to accomplish the assignment in an acceptable manner.

Odeng (2009) puts it that, management competency as an underlying characteristic of a person which enables him/her to deliver superior performance in a given job, role, or situation Lenssen (2006) noted that, defining the managerial competencies required for any particular job role allows managers and those responsible for their development, to grasp what is required to reach improved levels of excellence and performance by providing a common framework which articulates the skills, knowledge and attitudes relevant to successful business practice. The area of competitiveness, managerial competencies emerge as a basis for competitive edge as these are underlying characteristics of a person that have causal relationship with superior performance. Renee, Dionne, John, Crocker & Dlott (2002), states that, managerial competencies provide a basis for needs assessments to help programs identify areas for program improvement. They add that, Performance indicators operationally define each competency and that these performance indicators identify skills, behaviors, or practices that demonstrate the existence of the competency.

Rychen and Salganik (2003) argued that individuals need a wide range of managerial competencies in order to face the complex challenges of today's world, but it would be of limited practical value to produce very long lists of everything that they may need to be able to do in various contexts at some point in their lives. They went ahead and argued that; key management

competencies are not determined by arbitrary decisions about what personal qualities and cognitive skills are desirable, but by careful consideration of the psychosocial prerequisites for a successful life and a well-functioning society. However they observed that though management competencies are needed to help accomplish collective goals, the selection of key management competencies needs to some extent to be informed by an understanding of shared values.

According to Association of Chartered Certified Accountants ACCA (2006), the level of managerial skill is gauged based on the level of not only education but also natural administrative talent and practical experience possessed by an enterprise's managers in the given business area. Whereas administrative talent is measured using the managers innate managerial capacity (Aaron & Warren, 2004), the level of education is established basing on the educational qualification possessed by the manager and employees (Kayongo, 2005). The practical experience, which indicates the level of the SMEs industrial knowledge, is determined in terms of period of time spent in the business which is usually measured in terms of number of month or years spent by the SMEs in a given business (Kayongo, 2005). The SMEs is considered to be competent if its managers are educated in the relevant field of the enterprise's business and if the managers have accumulated enough practical experience in the field of operation (Myers, 1997).

According to Okello (2008) SMEs need information on finance, local markets, business management skills, appropriate technologies, business competitors and security however SMEs in Gulu municipality are lagging behind in using Information and Communication Technologies (ICTs), lack of familiarity with changing technology especially the Internet. Although the SMEs are making a fundamental contribution to Gulu municipality, Northern Uganda, they face serious

challenges including lack of trained information professionals, appropriate technology to access electronic information about service delivery to the population of Gulu municiaplity. The presence of limited skills in finance, market acquisition, business management skills, and poor internet skills is attributed to management incompetence of the SMEs in Gulu Municipality.

2.4 Management Competencies and Performance of SMEs

Balunywa (2003) stated that, traditionally, SMEs in Uganda do not have requisite managerial competencies to run certain activities / tasks in their SMEs. Such managerial competencies are a set of skills, related knowledge, traits and attitudes that allow an individual to perform a task or an activity within a specific function or job (Raynard, 2001). Senge (2002), noted that, although the competencies that are required of the members are known, there is evidence that some of the entrepreneurs that run these SMEs' are usually poorly educated, have inadequate experience, are unimaginative and lack business skills and knowledge to perform their work which in turn affects business performance. Management competencies being the knowledge, skills, experience, ability, personal characteristics and other worker-based factors, help differentiate superior performance from average performance under specific circumstances.

Martin & Staines (2008) examined the importance of management competence in SMEs success. They found out that lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail. The distinguishing feature of high growth and low growth of SMEs is education, training and experience of managers.

Lyles et al (2004) observed that, managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience positively impact on new venture performance. Other empirical studies such as Small bone and Welter (2001) and Hisrich and Drnovsek (2002) found out that, managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the performance of new SMEs.

Musoke (2007) argues that management competencies are more important than just knowledge and skills for the successful performance of complex tasks with a high level of responsibility. He adds that as far as knowledge and skills are concerned, many people are equal as can be seen from degrees, diplomas and certificates and work experience and work results. Therefore it is the employee's effort, enthusiasm, motivation and the underlying self-image that distinguishes the successful employee from the unsuccessful one.

Brophy (2002) revealed that, management competencies provide benchmarks for comparing actual performance with desired performance. This is supported by Appelbaum (2002) and O'Reilly (2004) who contend that competent employees' contribute greatly to the achievement of SMEs goals. They add that, without competence, employees' can violate the psychological contract thus hindering one's ability to be competent and perform well. SMEs need competent managers who do not simply respond to change but proactively recognize when change is necessary, understand the change management process, and foster an environment of promptness, learning, and strategic anticipation Vinod & Uma (2010). They are able to assess the change power of endurance, prepare for resistance, gain support for change, involve people in

decisions that affect them, provide clarity about behavioral expectations, create opportunities to practice new skills, use the feedback process to monitor implementation, reward and reinforce both progress and success, and align systems to support the new and desired behaviors (Vinod & Uma, 2010).

Haskel and Hawkes (2003) found out that, the top SME performers hire workers with skills, on average, an extra qualification level compared to the lower performers. They also found that higher skill levels support innovation and more sophisticated production processes and were associated with the production of higher quality products and increased performance. Green (2003) has also found a strong relationship between different levels of workforce skills and the sophistication of products.

Other research has suggested that a more highly skilled workforce can bring other benefits such as enhancing company survival. Reid (2000) suggested that a more skilled workforce was related to a greater commercial orientation and strategic awareness and propensity to innovate to retain competitive advantage. Rychen and Salganik (2003) argued that coping with today's challenges calls for better development of individuals' abilities to tackle complex mental tasks, going well beyond the basic reproduction of accumulated knowledge. Key management competencies involve a mobilization of cognitive and practical skills, creative abilities and other psychosocial resources such as attitudes, motivation and values. They added that despite the fact that management competency comprise more than just taught knowledge, competency can itself be learned within a favorable learning environment.

According to the National Youth Development Network (NYDN) journal (2004) core management competencies are the "demonstrated capacities" that form a foundation for high quality performance in the workplace, contribute to the mission of the organization. Odeng (2009) quoted McClelland article on "Testing for competence rather than for intelligence." where he summarized a number of studies that showed that aptitude tests, which had traditionally been used by psychologists to predict performance, did not in-fact predict job performance. He went ahead and set out to find an alternative to the traditional aptitude and intelligence testing, which yielded a deeper measure that he labeled "competencies." Which really differentiated performance and created success in a job? Odeng (2009) noted that it makes more sense to recruit or select employees with deeply rooted competencies rather than to train them in the short term. In addition, the more complex the job or role, the more likely it is that the very best performance is driven by the skilled and knowledgeable employees with enough experience. A competency-based approach has as its frame of reference the performance of the very best people in the job. Organizations can improve their overall performance by hiring candidates with these management competencies.

Odeng (2009) noted that SMEs can design highly targeted programs to develop the essential competencies that will help their average performers rise to the next level. Identifying deeply rooted competencies that can most accurately determine high-potential employees requires expertise and organizational commitment. It is necessary to look beyond basic skills and knowledge required to perform an adequate job and into the deeply rooted competencies that is an individual's social role, self-image, traits, and motives that can most accurately determine high-potential performers. In addition, an individual's competencies must fit, or be able to fit

through development, those required to achieve outstanding performance in a job. When organizations make the effort to apply competencies to select and develop individuals for key roles, they avoid the collateral damage recruiting costs, low morale, dissatisfied customers, missed opportunities associated with a bad hire and most importantly, they greatly increase the odds that selected individuals will perform at a very high level and help drive the success of the company.

Odeng (2009) observed that while earnings generally increase with age, labor market experience, and education, performance within a job often decreases with age, experience and education. Better educated workers need to achieve a lower level of productivity before being promoted than do less well educated workers. Hence, even if productivity were positively correlated with education we could find that the better educated within a job are, on average, less productive than the less well educated workers. Fermilab (2009) noted that employees with relevant management competencies deliver results by maximizing organizational effectiveness and sustainability. He however observed that people have the support and tools they need and that the workforce as a whole has the capacity and diversity to meet current and longer-term organizational objectives. He emphasized the alignment of people, work, and systems with the business strategy to harmonize how they work and what they do and that conscientiously assign performance goals, offer year-round performance feedback, and conduct timely performance discussions and reviews.

Fermilab (2009) also argued that, for organizations with competent employees engage people, organizations, and partners in developing goals, executing plans, and delivering results. Mobilize teams, building momentum to get things done by communicating clearly and consistently, investing time and energy to engage the whole organization. Use negotiation skills and adaptability to encourage recognition of joint concerns, collaboration, and to influence the success of outcomes. Follow and lead across boundaries to engage broad-based stakeholders, partners, and customers in a shared agenda and strategy.

According to Social Care Institute for Success (SCIS) (2006), knowledge awareness demonstrates knowledge and information relevant to the employees' role and the value that this brings to the work they do and to their personal development. This knowledge awareness is important as it determines the employee's level of performance in a given task. The important part of managerial competences is the ability to influence people and motivate them to contribute beyond expectations (Bolino & Turnley, 2003). Hence managerial competencies are public rather than private processes in the sense that they are accessible to at least one or more employees who use them to evaluate their performancc. From a sociological perspective, managerial competencies can fully be enhanced through various employee developments in businesses for the SMEs success in the long run. According to Karns (1998), promotion of employees in firms is a means of examining the managers' competencies that are essential for effective job performance and business success.

2.5 Level of Innovation among SMEs

Innovation is the way of transforming the resources of an enterprise through the creativity of people into new resources and wealth. Innovation relates to renewal or improvement, with novelty being a consequence of this improvement. For an improvement to take place, it is necessary for people to change the way they make decisions, or make choices outside of their norm. Schumpeter states that, "innovation changes the values onto which the system is based". When people change their value system, the old (economic) system will change to make room for the better one, when that happens, innovation then takes place.

Innovation is "the generation, acceptance, and implementation of new ideas, processes, products, or services." Sinha (2013), Innovation can be seen as a change in the thought process for doing something, or the useful application of inventions or discoveries. Following Schumpeter's contribution to the scholarly literature on innovation typically distinguish between invention (an idea made manifest) and innovation (ideas applied successfully in practice). In many fields, such as the arts, economics and, government policy, something better must be substantially different to be innovative. In economics the change must increase value, customer value, or producer value. The goal of innovation is positive change and making something better. Innovation and the introduction of it lead to increased productivity which is a fundamental source of increasing wealth in an economy like Uganda.

Empirical research and surveys show that innovation leads to new products and services, better quality, and lower prices (Gamal, Salah, and Elrayyes, 2011; Gupta, 2009) observation of innovation is that it is the use of knowledge (either existing or new) to create new products or services or processes that can be used for reaping benefits, either economic or otherwise. According in OECD (2005), innovation is implementation of products or production and delivery processes with new or significantly improved characteristics thereby creating new organizational methods in business practices, work place organization, or external relations. An innovation can be new to the world, but also just new to the firm under analysis.

The core reason for practicing innovation SMEs is to produce SMEs value, that value according to Gamal *et al*, can take many different forms, such as incremental improvements to existing products, the creation of entirely new products and services, or reducing costs, etc. (Gupta 2009;Gamal*et al*, 2011). The reason SMEs want to do this is because they want to survive, and to grow, and in a rapidly changing market the only way to do either is to innovate effectively. Langdon (2009) observed that throughout history of businesses, it's clear the effective innovators have a better chance of surviving, and non-innovators tend not to survive at all.

2.6 Measurement of Innovation

Just as everything that SMEs do which involves the investment of capital and time, innovation has to be measured. Gamal *et al.* (2011) observed that innovation measures tend to be index-oriented composites of the perceived components of innovation (for example EU Innovation Score Card, Massachusetts Innovation Index, and many other state and country indices) that rank regions or nations with respect to their degree of innovation (Gupta, 2009; Gamal *et al*, 2011).

2.7 Innovation and SMEs Performance

Innovation is important in the study of SMEs, it is often synonymous with the output of the process however focus on the innovation process itself, from the origination of an idea to its transformation into something useful, to its implementation and on the system within which the process of innovation unfolds. Innovation is considered a major driver of the economy since it leads to new product categories or increasing productivity, the factors that lead to innovation are also considered to be critical to policy makers. In particular, followers of innovation economics stress using public policy to spur innovation and growth. Those who are directly responsible for application of inventions are often called pioneers in their field, whether they are individuals or organizations. When pioneers are followed by many others, the dominant value system may be replaced by the better one. When this happens, innovation has occurred.

There are vast and varied conceptualizations of innovation and innovativeness suggested by scholars of different disciplines. Some have distinguished innovation from innovativeness while others have argued for the interchangeable perspective of these two terms (Bates & Khasawneh, 2005). Nevertheless, innovation is characterized by the organizational actions of adopting and executing "newness" in arbitrary manner, whereas innovativeness reflects the degree of an organization's propensity for doing innovation (Potocan & Mulej, 2009). Basadur & Gelade (2006) argued that product innovation concept serves as a better methodological approach to describing the novel characteristics of firms, which is more specific, more focused, and more indicative of company's tendency towards innovation. Sheshimski, Strom and Baumol (2007) support the notion that product innovation conceptualizes incrementally new products; moderately innovative products; and genuinely new products.

Their assertion is further reinforced by Fink & Kraus (2009) who contends that product innovation is associated with newness to the firm, product uniqueness and product superiority. To realize the newness of product, a firm would pursue innovative imitation of competitors' products, new product invention, and improvement or modification of the existing products (Katz, 2003). In addition, product innovation also requires acknowledgement of newness from customers. Kelley (2009) posits that the customer perspective of newness necessitates a change in consumer behavior to accommodate new product usage conditions. On the other hand, the uniqueness and superiority aspects of product innovation suggest that firms operationalize incompatible differentiation in product attributes so as to develop competitive advantage difficult to copy by competitors (Woodside, 2005).

Management competencies and performance of SMEs relation is not a direct one, but is rather mediated by a constellation of other factors like innovation, organizational and environmental factors whose contingencies have multiple implications for business growth, profitability and survival (Patient and Naledi, 2015). The literature provides information on the performance of the SMEs but does not focus on post conflict situation like Gulu Municipality thus the gap in literature.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research methodology and instruments that was used in conducting the study. It covers the research design, study population, sample size, data sources, data collection instruments, measurement of variables, data validity and reliability, data analysis, the limitations that are likely to be faced during the study, and the ethical consideration to be considered in the research.

3.1 Research Design

Since the respondents were from different levels and categories, a cross-sectional survey design which is analytical and descriptive in nature were involved in the selection of the study samples from an array of SMEs in the service and manufacturing sectors at the same point in time. It was used to study the relationship between management competencies, innovation and SMEs performance. It was chosen because it is flexible in enabling the collection of both quantitative and qualitative data. This design enabled the study to be carried out at a particular time and the notion of combining quantitative and qualitative data in this research offers the promise of getting closer to the whole population in a way that a single method study cannot achieve.

Quantitative data analysis was used to describe the statistics of the scores that described the current situation and investigated the associations between the study variables using information gained from the questionnaires. The study design allowed the review of a wide spectrum of variables relating to management competencies, innovations and the performance of SMEs in

Gulu Municipality where skills, knowledge for management competencies, product based, and technology based and customer care (behavior), profitability, sales growth and return on assets of the SMEs for the performance variable.

3.2 Study Population

The institutional population of the study included only SMEs recognized by the local authorities in Gulu Municipality ranging from Processing industries, Catering & Hotels services, Metal fabrication facilities, and Hardware & construction firms. The respondent study population consisted of the SME managers, business owners, and employees of the SMEs, SME's association chairpersons, District Commercial Officer (DCO), and the Uganda National Chamber of Commerce Director, northern Region.

Table 3.1: Study Units

SME Category	Divisions in Gulu Municipality			
	Laroo	Layibi	Pece	Bar-dege
Processing industries	6	14	0	0
Catering & Hotels services	14	11	68	10
Metal fabrication facilities	3	19	2	1
Medical facilities	8	5	13	4
Hardware & construction firms	11	7	10	0
Total	**42**	**56**	**93**	**15**

Source: Gulu Municipal Council, (2015)

3.3 Sample Size

The Sample size of the study population was 136 however there were 279 respondents for this study since in each SME there were two respondents the manager or business owner and one employee involved actively in production process, Chairperson from each SMEs strata, Chairperson Uganda chamber of Commerce Gulu and District commercial officer. In the calculation of the required sample size, the level of precision, level of confidence or risk and degree of variability was attained. The level of precision, sometimes called sampling error, is the range in which the true value of the population was estimated to be. This range is often expressed in percentage points, (for example. ±5 percent).

The confidence or risk level was based on ideas encompassed under the Central Limit Theorem which provide that when a population is repeatedly sampled, the average value of the attribute obtained by those samples is equal to the true population value. Furthermore, the values obtained by these samples are distributed normally about the true value, with some samples having a higher value and some obtaining a lower score than the true population value. In a normal distribution, approximately 95% of the sample values are within two standard deviations of the true population value (mean). The third criterion, the degree of variability in the attributes being measured, refers to the distribution of attributes in the population.

The sample size was determined using Yamane, (1967) formula for sample size determination and a 95% confidence level. The sample for each stratum is to be drawn as shown in Table 3.1 The assumptions is that the sample was representative of the population, the sampling error is small (5%), the sample is viable in the context of funds available for the research study, systematic bias is to be controlled in a better way and results from the sample study is generalizable.

The study sample constituted 136 SMEs selected out of 206 SMEs as the target population. Stratified random sampling was used to get the total number of 136 and it was preferred to ensure that division of the strata. After stratification ,random sampling, for each stratum was carried out one by one to the last stratum for allowing sample selection using sub-groups in the sample proportion to the total population. The sample size before stratification was determined using the formulae below.

$$n = \left(\frac{N}{1+N(e)^2}\right)$$

Where, N = is the target population,

n= is the sample Size,

e = is statistical error (constant)

$$n = \left(\frac{206}{1+206(0.05)^2}\right) \quad n = \frac{206}{1.515} \quad n = 136$$

The sample size of 136 study units and a population of about 206 study units were considered.

Convenience or purposive sampling technique was used to select the respondents of Managers, Proprietors and employees from each SME.

Table 3.2: Sample Frame for the Study

Category of respondents	Number of respondents	Sampling technique
Managers/business owners	136	Purposive sampling
Employees	136	Simple random sampling
SME's association chairpersons	5	Purposive sampling
District commercial officer (DCO)	1	Purposive sampling
Chairperson Uganda national chamber of Commerce, Gulu	1	Purposive sampling
Total	**279**	

Source: Field Survey, 2015

3.4 Sampling Techniques

The sampling of the SMEs was carried out using simple random sampling. Respondents such as managers of SMEs, considered to have key information was sampled using purposive sampling, employees was sampled using simple random sampling, SME's association chairpersons, District commercial officer (DCO), Uganda national chamber of Commerce(UNCC) considered to have key information was sampled using purposive sampling.

One manager or one business owner was sampled in each SME because they are considered to having the required information about the SME organization. One employee was sampled from each SME and those that were sampled were those who have worked for the given SME organization for at least 6 months since they was considered to have the necessary information about the SME organization. Five SMEs association chairpersons were considered in the study since they are considered to have information relevant for the study, the chairpersons was sampled from each of the five SMEs sector considered for this study. The DCO and the UNCC

chairperson in Gulu municipality was considered in study in the interview session since they presented the official position of the District and of UNCC.

3.5 Sampling Procedures

This study employed stratified random sampling to select respondents for equitable representation in the sample for the different sub groups. This stratum includes Hardware and construction SMEs, metal fabrication facilities, processing industries, catering and hotel facilities and medical facilities. After stratification a simple random sampling was used with each stratum to select the sample to avoid bias and ensures equal representation of the sub groups in the sample. The researcher targeted selected SMEs in Gulu Municipality to examine the relationship between management competencies, innovations and performance of SMEs in Gulu Municipality.

3.6 Data Sources

Both primary and secondary data were used in this study. Primary data on management competencies, innovation and the performance of SMEs were obtained through direct contact with the respondents. Relevant documents such as SMEs reports are considered as secondary data on the management competencies, innovation and the performance of SMEs concepts was used to supplement data collected from the primary sources.

3.6.1 Primary data

Primary data were generated from the field by direct contact with the SMEs management that constitutes the Managers, employees, proprietors. They were also obtained through the use of self-administered questionnaires to respondents following systematic and established academic procedures, as suggested by Nunnally & Bernstein (1994).

3.6.2 Secondary data

Secondary data were obtained through the already existing firms' literature (data) and any other literature from company records, journals and financial reports. These data were used since they are published by reputable institutions, from journals, the internet and other publications. Some of the data were attained from the records that the SMEs have in their data base.

3.7 Data Collection methods

The researcher adopted both the qualitative and quantitative methods to collect data so that no relevant data is missed out. Primary data were collected using questionnaires, interview guide while secondary data were gathered from existing literature.

3.8 Data Collection Instruments

The data collection instruments used in this study includes questionnaires and interview guide.

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3.8.1 Questionnaires

Questionnaires were designed and constituted closed-ended questions. Close-ended questions were provided since they are simple to administer and analyze. The questionnaire was pre-tested and validated through providing the questionnaire to selected individuals in SMEs that was not part of the study. A five-point Likert scale ranging from strongly disagree (1), disagree (2), not sure (3), agree (4) and strongly agree (5) was adapted and used to measure 92 questions on management competencies, innovation and performance of SMEs. Questionnaire was considered since it was able to provide a lot of information required for the study.

3.8.2 Interview Guide

The interview guide was used to enhance clarification of possible ambiguities related to questions asked (Churchill, 1995). The researcher carried out interviews and the data obtained was compared with data from the instruments to ascertain correctness. The interviews were administered to the SME's association chairpersons, District commercial officer (DCO), Chairperson Uganda national chamber of Commerce, Gulu because they are considered to be having the information that is vital for study. The total number of the interviewee was 7 and the interview was done through going to the office of the interviewee and administering the interview. The interviewees were considered because they had the required information for the study.

3.8.3 Measurement of Variables

A five-point Likert scale ranging from strongly disagree (1), disagree (2), not sure (3), agree (4) and strongly agree (5) was adapted and was used to measure management competencies,

nnovation and performance of SMEs. The 5 Likert scale was used to measure the constructs under Management competencies, innovation and performance of SMEs.

Innovation among SMEs was measured basing on Salavou (2004) that considers technology based, behavioral based (Customer care) and product based. Performance of SMEs in Gulu municipality was measured basing on (Erikson, 2002) using sales growth, profitability and market share. Management competencies were measured in terms of skills like technical skills, computer skills. The 5-point Likert scale was adopted to measure the attributes (constructs) of management competencies, innovation and performance of the SMEs.

3.9 Validity and Reliability of the Research Instruments

The reliability of the questionnaires was improved through pretesting of pilot samples which was done through giving the questionnaires for pre-testing respondents to read, fill and tick the appropriate areas. This enabled the re-phrasing of some questions. Furthermore, reliability of the scales was done with the application of the Cronbach Alpha Coefficient for the computations so as to check for the internal consistency of the scales. Cronbach alpha was used to determine the reliability of data. Polit and Cheryl (2006) noted that Cronbach's alpha reliability coefficient normally ranges between 0 and 1. The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale. George and Mallery (2003) provide the following rules of thumb: "> 0.9 – Excellent, > 0.8 – Good, > 0.7 – Acceptable, > 0.6 – Questionable, > 0.5 – Poor, and < 0.5 – Unacceptable". In this study the Cronbach's alpha coefficient was 0.723 which is good and the response rate for this study was at 76.7%.

3.9.1 Data processing and analysis

Data from the field were compiled, sorted, edited and coded to have the required quality, accuracy and completeness. The Statistical Package for Social Sciences (SPSS) version 16 was used for analysis of data collected. Descriptive statistics were used to present the results of the sample characteristics. A correlation analysis was carried out to ascertain the relationship between the variables which was estimated using the Pearson's correlation test and regression analysis. The regression model was considered to establish the extent to which the independent variables influenced the dependent variable. Analysis of variance and frequency counts were also done.

3.9.2 Study limitations and Delimitations

The study was associated with a number of limitations and delimitations. Mitigation of the limitations was done to an extent that they did not adversely affect the conduction of the research study or its outcome.

Accessibility to information was a limitation since financial information concerning sales was considered confidential by the SMEs. This was mitigated by informing the management of SMEs that this information is purely for academic purpose and in doing so, they were able to allow the researcher access the necessary data.

Some respondents were unwilling to reveal the required responses to the researcher since they feared that the researcher was spying on them on behalf of the competitors. This was delimited

y informing the respondents that information is purely for research findings and the information evealed by them was to be kept confidential.

In some instances, the attitude of some respondents towards researcher was poor attitude as they hought that he was a spy of the management of the SMEs. This was delimited by presenting an introductory letter from Gulu University introducing the researcher to the management of SMEs, and getting permission to involve the staff in the study.

3.9.3. Ethical considerations

The ethical issues that were considered in this study included the attainment of an introductory letter that from the Faculty of Business and Development Studies, Gulu University to introduce the researcher to the leadership and respondents in the study area. This also enabled to researcher to get permission from the local leadership and SME management to involve the targeted respondents in this study.

Informed consent, confidentiality and use of acceptable language were observed in this study, the issue of informed consent was considered by ensuring that the purpose of the research is properly explained to the respondents. Confidentiality was guaranteed by not writing down names of respondents or recording them in voice forms. On the other hand the language to be used at the time of interview was polite.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

0 Introduction

his chapter comprises of a presentation, analysis and interpretation of findings. The esentation in this chapter shows the results as tested according to the objectives of the study. he chapter begins with the sample characteristics of the respondents such as gender, age group, lucational level, nature of business, the area of operation of the business, period of the business operation, the number of employees, the level of education, amount of capital invested and ow long the employee had stayed in the business were all presented using frequency abulations, later in the chapter, more descriptive were used to present the results of the espondents response, together with a combination of Pearson Correlation and Regression nalysis.

4.1 Reliability and response rate

Cronbach Alpha Coefficient for the computations so as to check for the internal consistency of the scales, Cronbach alpha was used to determine the reliability of data and its findings is indicated in the table 4.1 below, in this study the response rate was at 76.7 percent

Table 4.1: Reliability Statistics.

Reliability Statistics

Cronbach's Alpha	N of Items
.723	91

The Cronbach Alpha analysis was done and the Cronbach Alpha reliability value generated was 0.723 which is good and it falls in the area of acceptance and in this study the response rate was 76.7 percent which is good.

4.2 Characteristics of respondents

To present sample characteristics, frequency tabulations and frequency distributions were used to indicate variations of respondents based on gender, age group, educational level, business description, nature of business, period in business and number of employees. The sample characteristics were presented basing on the responses from the respondents.

4.2.1 Respondent Category by Gender

Frequency tabulation was used by the researcher to present the gender distribution categories of the respondents. Figure 4.1 below presents the findings:

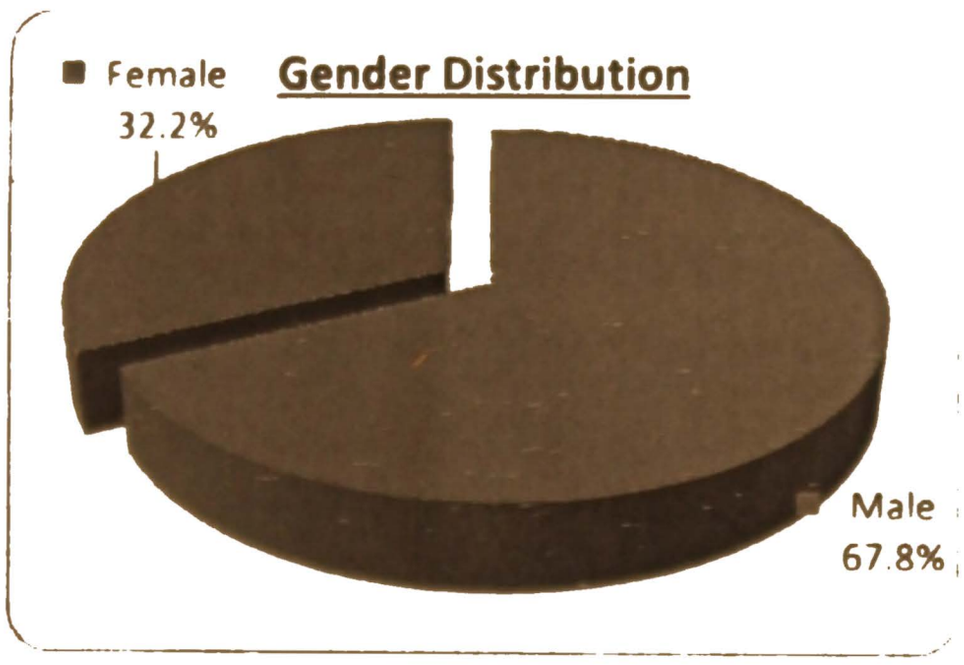


Figure 4.1: Distribution of Respondents by Gender

Source: Primary data, 2015

The results from Figure 4.1 show that 67.8 percent of the respondents were male while 32.2 percent were female. From the findings the female respondents were mostly found in the hotel and catering strata

4.2.2 Respondent categories by age group

Frequency tabulation was used by the researcher to present the age group distribution categories of the respondents. Figure 4.2 below presented the results of the findings:

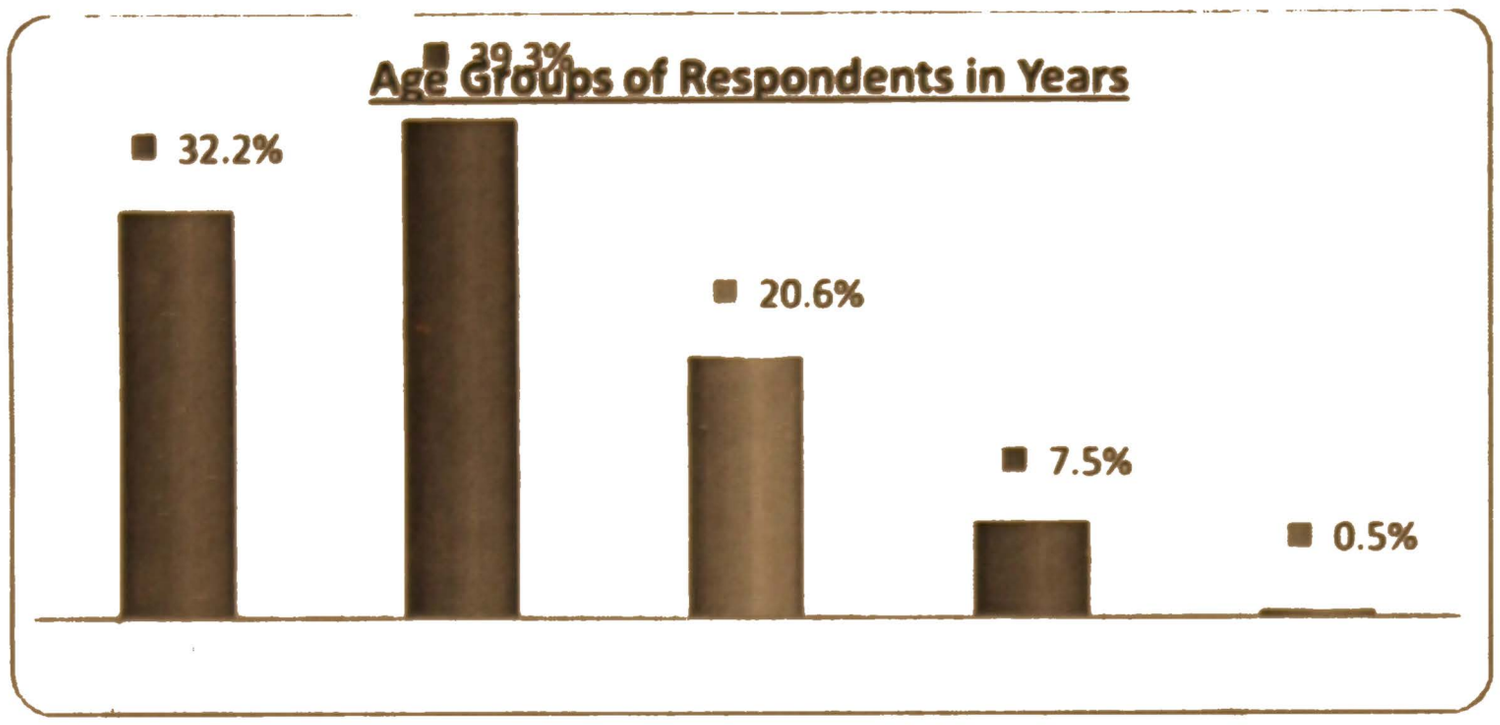


Figure 4.2: Distribution of Respondents by Age Group

Source: Field Research, 2015

According to the results from figure 4.2, the majority of the respondents of 39.5 percent belonged to the 30-39 years age group whereas proximately 0.5 percent that was the least belonged to the 60 years and above age group. This implies the majority of the respondents had acquired enough experience in doing business which enhanced their business stability and expertise. The expertise helps the owners to take favorable decision on their management and innovation affairs in the business.

4.2.3 Respondent Category by Level of Education

Frequency tabulation was used by the researcher to present the level of education distribution categories of the respondents. Figure 4.3 indicates that a majority of the SMEs managers had certificates, followed by those who had Diplomas, Degrees, and Uganda Certificate of Education (UCE). Some of the SMEs managers and owners do not have any formal education, others had reached PLE level while others had Master's Degree level and least SMEs had managers who had attained a post graduate. This implied that most of the businesses did not require the managers to have a higher level of education. The results are presented in table below.

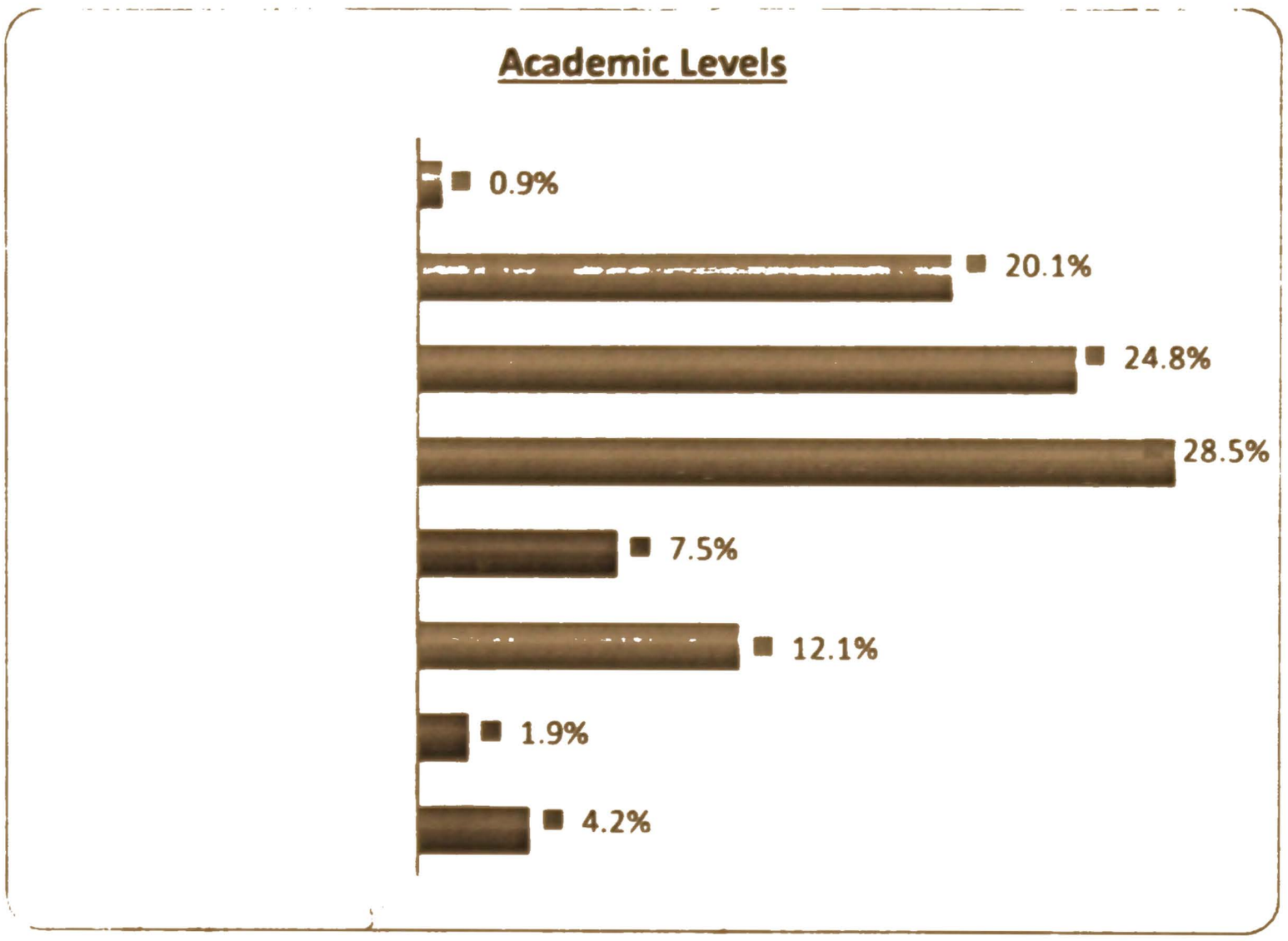


Figure 4.3: Highest Academic Level of Respondents

Source: Field Survey, 2015

4.2.4 Amount of capital invested

Table 4.2 below indicates that a majority of the SMEs invested between 40 million and above as compared to those SMEs who had invested 5-9 million. Few SMEs reported to have invested between 20-39 million and 30-39 million. The least SMEs invested between 30-39 million. Table 4.2 which show the amount of capital that was invested by these SMEs. The results of the findings are in Table 4.2 below.

Table 4.2: Amount of money that has been invested in the business

Amount of money that has been invested in the business

		Frequency	Percent	Cumulative Percent
Valid	5-9 Million	56	26.2	26.2
	10-19 Million	43	20.1	46.3
	20-29 Million	18	8.4	54.7
	30-39 Million	11	5.1	59.8
	40 Million and above	86	40.2	100.0
Total		214	100.0	

Source: Field Research, 2015

4.2.5 Number of employees employed in the Business

Figure 4.4 below indicates that, many of the SMEs employed 5-10 workers followed by those SMEs who employed between 10-19 workers. Few SMEs employed 50 and above workers which catered for 2.8 percent. This implies that a majority of the SMEs surveyed were small in size. The results are shown in Figure 4. 4 below:

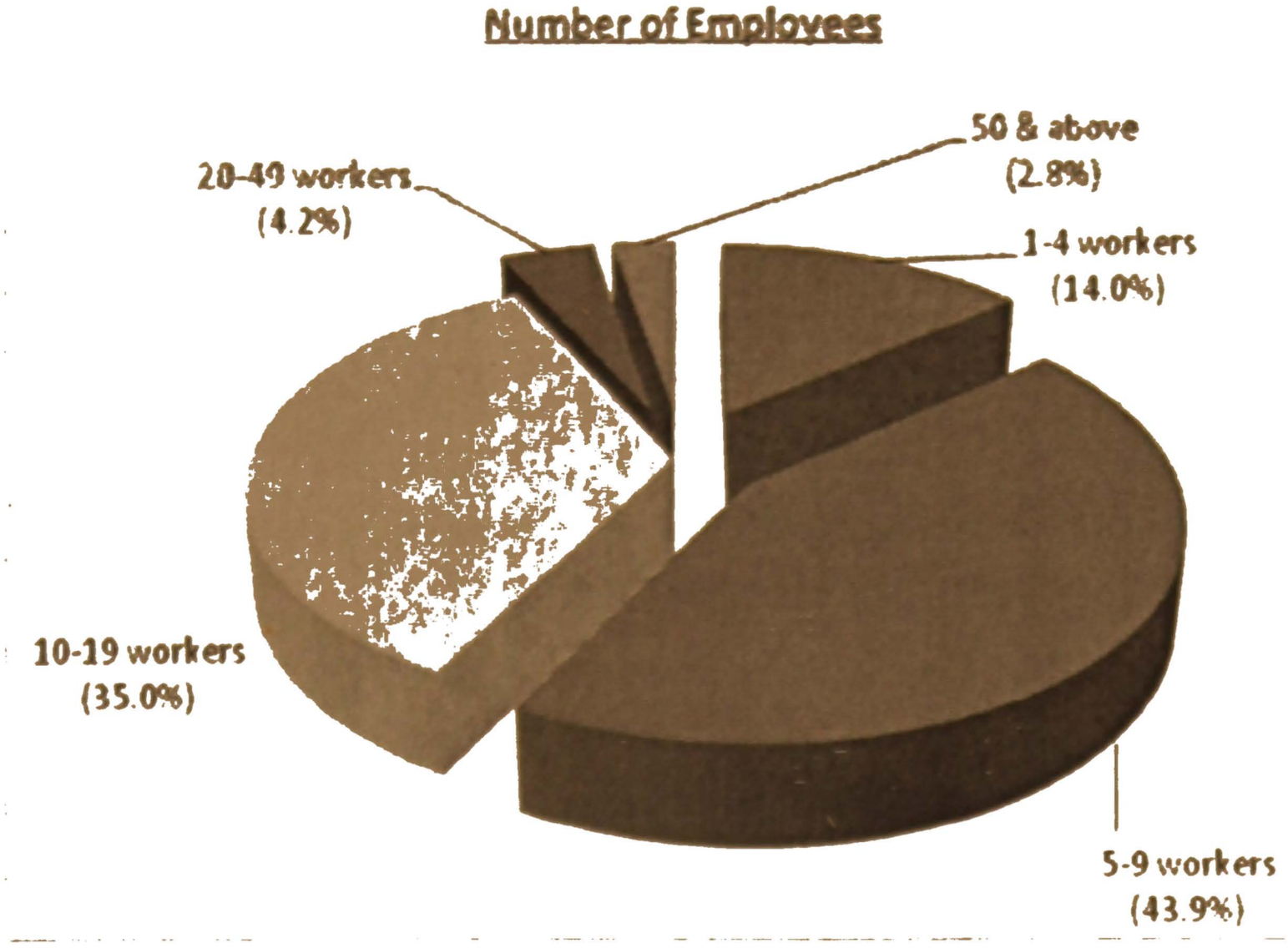


Figure 4.4: Number of Employees Employed in the businesses

Source: Primary Data 2015

4.2.6 Division of operation

From the questionnaires dispatched the findings indicates that majority of the business are operational in Pece division and Bar-dege has the fewest number of operational business. The results are shown in figure 4.5

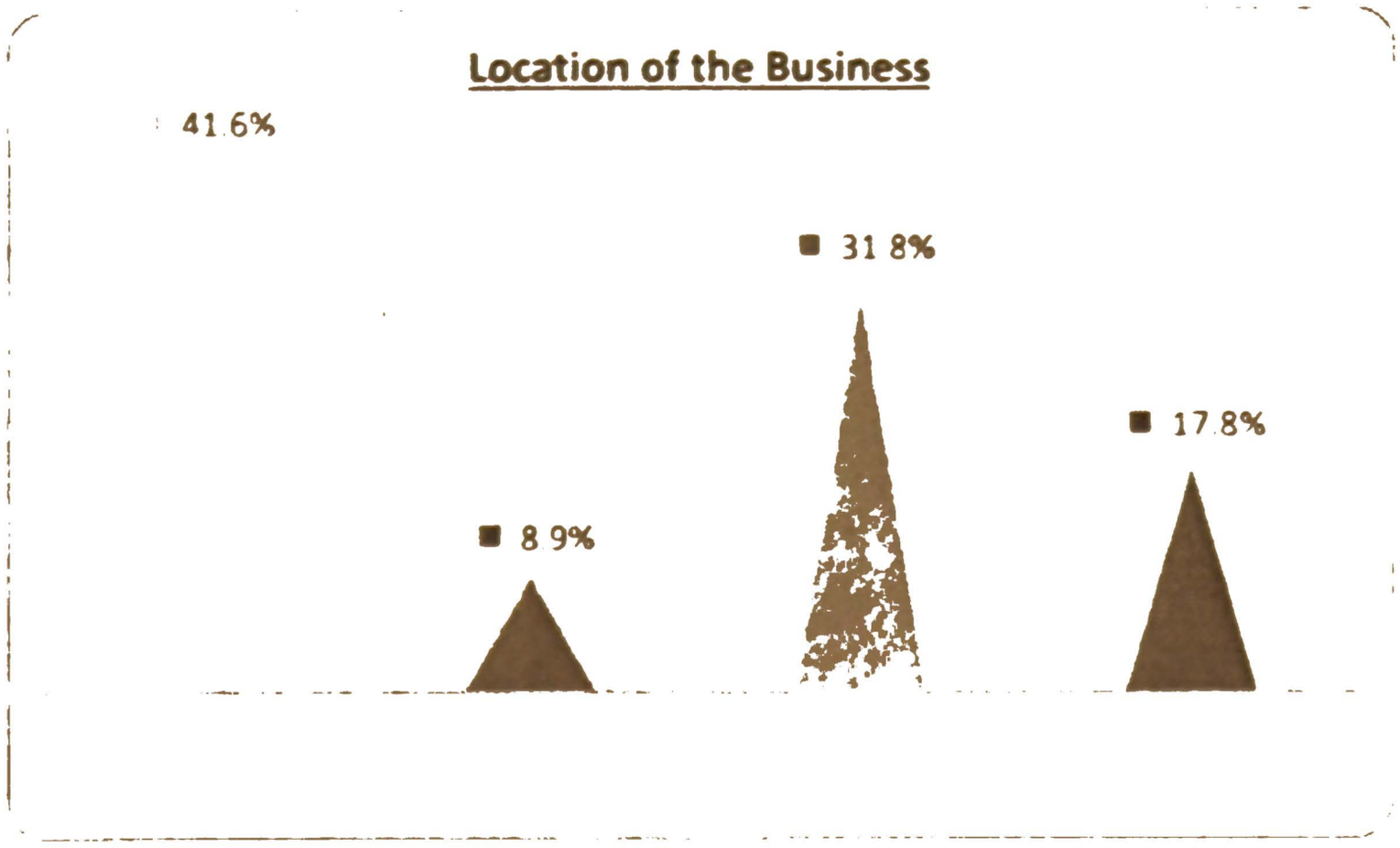


Figure 4.5: Location of the business in Gulu Municipality

Source: Field Research, 2015

4.2.7 Period of existence in the business

SME respondents were required to indicate the number of years they had been in this business. Most of the SME respondents had been in the business for two and above years which was an indication of experience in doing business and being able to understand how the business runs. These results are shown in Figure 4.6 below:

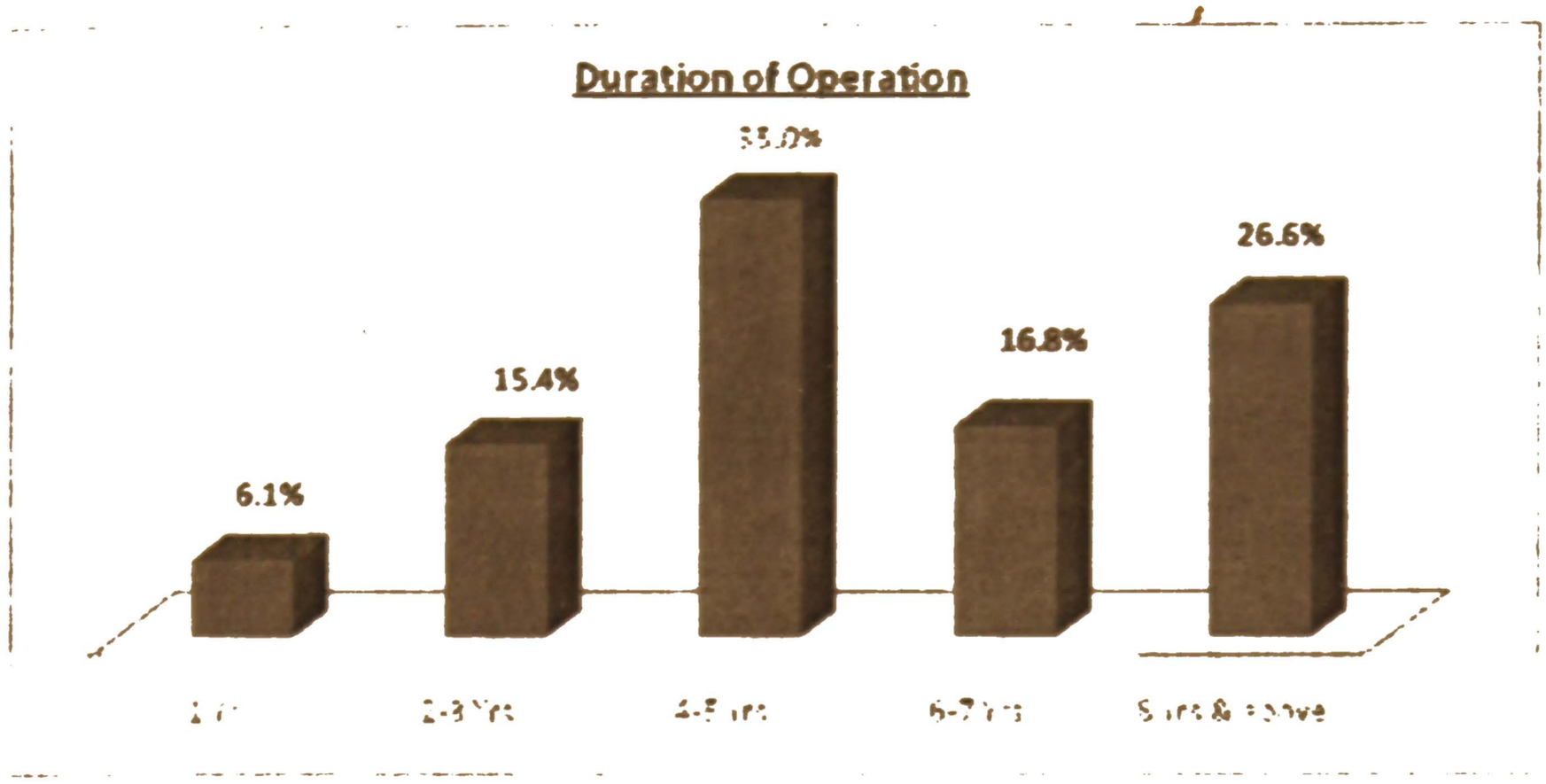


Figure 4.6: Duration of Operation of the Business

Source: Field Survey, 2015

4.2.8 Nature of Business

Frequency tabulation was used by the researcher to present the nature of business distribution in the divisions in Gulu Municipality. Table 4.3 below presents the results:

Table 4.3: Nature of the Business

Nature of the Business

		Frequency	Percent	Cumulative Percent
Valid	Metal fabrication	36	16.8	16.8
	Medical facilities	41	19.2	36.0
	Catering and Hotel facilities	92	43.0	79.0
	Processing industries	27	12.6	91.6
	Others	2	.9	92.5
	Hardware and construction firms	16	7.5	100.0
Total		214	100.0	

Source: Field Research, 2015

The results from table 4.2 above showed that 43 percent of the SMEs were dealing in catering and hotel business, 12.6 percent of the SMEs were dealing in Processing industries, 16.8 percent of the SMEs were dealing in Metal fabrication, 19.2 percent were dealing in medical facilities, 7.5 percent of the SMEs were dealing in hardware and construction firms while 0.9 percent of the SMEs were operating other form of business.

4.3 Level of Management Competencies among the SMEs

The first objective was to establish the level of management competencies of SMEs in Gulu municipality. The findings are as presented below under skills, knowledge, and experience subsections

4.3.1 Skills of SMEs in Gulu Municipality

To assess the skills of SMEs, the response from the respondents were attained and the Likert scale was used to rate their responses to the statements passed to them, the findings were as presented in table 4.4

Table 4.4 Summary Results on Skills as a Management Competence

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	I possess relevant skills to enable me perform at a high capacity	2.3	5.6	**7.9**	3.3	56.5	32.2	**88.7**
2	I have skills train my employees to acquire the necessary skills needed to perform their duties.	0	6.4	**6.4**	4.7	54.2	35	**89.2**
3	I have the skill to invent new ways of doing my business.	0	1.9	**1.9**	6.1	54.2	37.9	**92.1**
4	I am creative in doing my business and like sharing ideas with my fellow entrepreneurs	0.9	1.8	**2.7**	4.2	56.5	36.4	**92.9**
5	I am self-motivated and committed to my business	0	2.3	**2.3**	0	50	47.7	**97.7**
6	I use various techniques/skills of out competing my rivals	3.3	0.9	**4.2**	8.4	65.4	21.9	**87.3**
7	I possess management skills and these have enabled my business to survive.	0.9	4.7	**5.6**	5.6	58.4	30.4	**88.8**
8	I have the skill to display leadership qualities which guide employees in achieving the set goals	0	7.9	**7.9**	8.9	50.9	32.2	**83.1**
9	I have the skill to know what I am good at and what my weaknesses are	1.9	4.2	**6.1**	13.1	51.4	29.4	**80.8**
10	I am in a position of training my employees in skill development	1.9	10.3	**12.2**	9.8	32.7	45.3	**78.0**
11	I have the listen skills to customer complaints in the business.	2.8	3.7	**6.5**	3.7	44.4	45.3	**89.7**
12	I possess computer skills.	4.7	24.3	**29**	0.9	49.5	20.6	**70.1**
	Average	**1.6**	**6.2**	**7.7**	**5.7**	**52.0**	**34.5**	**86.5**

Source: Primary Data, 2015

The response to the question on skills as a management competencies construct noted that average affirmative response, which is combining the 'agree' and 'strongly agree' responses was 86.5 percent, with 7.7 percent being opposed to the statements and 5.7 percent not being sure, this averages were the general finding on all the statements on skills above. Response to the

question about self-motivation and commitment to business indicated 97.7 percent affirmative response and concerning possession of computer skills indicated 70.1 percent affirmative response.

The interviewees noted that the SMEs possesses the skills required to operate the various SMEs strata in this study of which it is in line with the research findings that indicated 86.5 percent affirmative response unlike the 7.7 percent non affirmative response however in the interviewees said "Most of the current employees are were trained in schools to weld and manufacture light equipment not equipment like ships, heavy construction products" meaning that the employees in the SMEs in Gulu Municipality cannot manufacture ships thus they have limited skills.

4.3.2 Level of Knowledge among the SMEs

To assess the knowledge level among the SMEs, the response from the respondents were attained and the Likert scale was used to rate their responses to the statements passed to them, the findings were as presented in table 4.5.

Table 4.5: Summary Results on Knowledge as a Management Competence

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	I have the knowledge to produce quality goods at a cheap price.	0.0	9.3	**9.3**	10.3	42.1	38.3	**80.4**
2	I have the knowledge to keep records of all the transactions made.	0.0	6.5	**6.5**	5.1	45.8	42.5	**88.3**
3	I provide mutual support and mentoring environment to my employees	0.0	0.9	**0.9**	11.2	61.7	25.2	**86.9**
4	I have the knowledge to keep myself update with the requirements needed to perform my duties.	0.0	0.9	**0.9**	9.8	61.2	28.0	**89.2**
5	I have the knowledge of the ways to out compete my rivals	0.9	0.9	**1.8**	8.4	60.3	29.4	**89.7**
6	I have the knowledge of maintaining positive attitude towards my work	0.9	0.9	**1.8**	5.1	46.7	46.3	**93**
7	I have the knowledge on ways to give others an opportunity to perform similar duties	0.9	0.0	**0.9**	5.6	68.7	24.3	**93**
8	I have the knowledge to develop unique ideas	1.9	1.8	**3.7**	14	54.2	28.0	**82.2**
9	I have the knowledge to display leadership qualities which guide employees in achieving the set goals	0.0	0.0	**0.0**	4.2	63.1	32.7	**95.8**
10	I know what I am good at and what my weaknesses are	0.9	0.9	**1.8**	6.1	50.9	40.2	**91.1**
11	I am able to conduct a market research related to the business	1.9	3.3	**5.2**	9.8	54.2	32.7	**86.9**
12	I am oriented to my business growth.	1.9	5.1	**7**	3.7	55.1	34.1	**89.2**
13	I raise enough funds to provide working equipment for my employees.	0.9	10.3	**11.2**	10.7	48.9	29.4	**78.3**
14	I have the knowledge to organize and utilize my time as efficiently as possible to do business work	2.7	2.8	**5.5**	5.6	57.9	30.8	**88.7**
15	I have the knowledge to establish and maintain good working relationships with my customers	0.0	0.0	**0.0**	1.9	49.1	49.1	**98.2**
16	I have the knowledge to listen to customer complaints in the business.	0.0	0.0	**0.0**	0.0	55.6	44.4	**100**
	Average	**0.8**	**2.7**	**3.5**	**7.0**	**54.7**	**34.7**	**89.4**

Source: Field Research, 2015

The average affirmative response, which is combining the 'agree' and 'strongly agree' responses was 89.4 percent, with 3.5 percent being opposed to the statements on experience and 7.0 percent not being sure. Response about knowledge to establish and maintain good working relationships

with customers indicated 98.2 percent affirmative response and funds to provide working equipment, employees indicated 78.3 percent affirmative response.

Interviewees noted that the employees of the SMEs have knowledge while carrying out their activities in the process of production since they are oriented to their business growth, they have knowledge of listening to the customers, they have knowledge about the products they produce and they also have the knowledge about the current market condition.

4.3.3 Level Experience among the SMEs

To assess the experience level among the SMEs, the response from the respondents were attained and the Likert scale was used to rate their responses to the statements passed to them, the findings were as presented in table 4.6

Table 4.6: Summary Results on Experience as a Management Competence

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	I have the experience of honoring my business commitments and appointments	0.0	0.0	**0.0**	6.1	56.5	37.4	**93.9**
2	I come early for work and leave late after accomplishing all the tasks	0.0	5.1	**5.1**	2.8	42.1	50.0	**92.1**
3	I have the experience of using available funds to make more profits and become more productive	0.0	3.7	**3.7**	2.8	63.6	29.9	**93.5**
4	I have the experience of taking independent and my own decision without consulting any one	0.0	20.6	**20.6**	13.1	49.5	16.8	**66.3**
5	I have the experience of self-motivation and commitment to my business	0.0	2.8	**2.8**	4.2	53.3	39.7	**93.0**
6	I have the experience of keeping my word at all times.	0.0	2.3	**2.3**	9.8	63.1	24.8	**87.9**
	Average	**0.0**	**5.8**	**5.8**	**6.5**	**54.7**	**33.1**	**87.8**

Source: Field Survey, 2015

Average affirmative response of 87.8 percent of the respondents indicated affirmative response to the statements on experience as a management competence were correct, 6.5 percent were not sure and 5.8 percent disagreed or were non affirmative. Response about the experience of honoring business commitments and appointments, experience of using available funds to make more profits and become more productive indicated more than 93 percent affirmative response however the response to the experience of taking independent and own decision without consulting any one indicated 66.3 percent affirmative response.

Interviewees said that "employees of the SMEs have experience of carrying out the various activities" in the SMEs of which it is in line with the research findings that indicates 87.8 percent affirmative response unlike the 5.8 percent non affirmative response.

4.4 Level of Innovation among the SMEs

The second objective was to establish the level of innovation of SMEs in Gulu municipality. The findings are as presented below under customer care, product innovation, process innovation and entrepreneurial innovation.

4.4.1 Customer Care

To assess the customer care level among the SMEs, the response from the respondents were attained and the Likert scale was used to the statements passed to them, the findings were as presented in table 4.7.

Table 4.7: Summary Results on Customer care.

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	My/our customers are satisfied with my/our products/services	0.0	0.9	**0.9**	8.9	54.2	36	**90.2**
2	My/our customers are happy with the superior value of my/our products/services relative to my/our competitors	0.9	0.0	**0.9**	12.1	57.9	29	**86.9**
3	My/our customers are happy with my/our long term customer relationships strategy	0.0	0.9	**0.9**	9.3	61.7	28	**89.7**
4	I/We often receive complementary phone calls/letters about my/our products/services	0.0	11.7	**11.7**	8.9	44.4	35	**79.4**
5	My/our customers promote my/our product/services by word of mouth	0.0	1.9	**1.9**	3.7	69.6	24.8	**94.4**
6	I/we have more repeat purchases for my/our products/services	3.7	5.6	**9.3**	8.9	53.7	28	**81.7**
7	My/our customer response time is good in my/our company	0.9	4.7	**5.6**	25.7	45.8	22.9	**68.7**
8	My/our customer complaints are addressed in time at my/our company	3.3	7.5	**10.8**	4.2	50.5	34.6	**85.1**
9	On-time deliveries are made in my/our company	0.0	1.9	**1.9**	11.2	54.2	32.7	**86.9**
10	My/our company puts emphasis on provision of quality after sales services	1.4	10.7	**12.1**	4.2	54.2	29.4	**83.6**
	Average	**1.0**	**4.6**	**5.6**	**9.7**	**54.6**	**30.0**	**84.7**

Source: Field Research, 2015

Average of 84.7 percent of the respondents indicated in affirmative that the statements on customer care as the innovation constructs were correct, 9.7 percent were not sure and 5.6 percent disagreed or were non affirmative. Response about customers being satisfied with products/services and customers promoting product/services by word of mouth, more than 90 percent affirmative response however the response concerning customer response time in the company indicated 68.7 percent affirmative response.

Table 4.7: Summary Results on Customer care.

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
	[illegible]	0.0	0.9	**0.9**	[illegible]	54.2	36	**90.2**
	[illegible]	[illegible]	0.0	**0.9**	12.1	57.9	29	**86.9**
	[illegible]	[illegible]	0.0	**0.9**	9.3	61.7	28	**89.7**
4	[illegible]	[illegible]	11.7	**11.7**	[illegible]	44.4	35	**79.4**
	[illegible]	[illegible]	1.9	**1.9**	3.7	69.6	24.8	**94.4**
	[illegible]	3.7	5.6	**9.3**	[illegible]	53.7	28	**81.7**
	[illegible]	0.0	5.7	**5.6**	25.7	45.8	22.9	**68.7**
	[illegible]	3.3	7.5	**10.8**	4.2	50.5	34.6	**85.1**
	[illegible]	0.0	1.9	**1.9**	11.2	54.2	32.7	**86.9**
10	[illegible]	1.4	10.7	**12.1**	4.2	54.2	29.4	**83.6**
	Average	**1.0**	**4.6**	**5.6**	**9.7**	**54.6**	**30.0**	**84.7**

Source: Field Research, 2015

Average of 84.7 percent of the respondents indicated or affirmative that the statements on customer care as the appropriation constructs were correct, 9.7 percent were not sure and 5.6 percent disagreed or were non affirmative. Response about customers being satisfied with products services and customers promoting product services by word of mouth, more than 90 percent affirmative response however the response concerning customer response time in the company indicated 68.7 percent affirmative response

The interviewees said "SMEs in Gulu Municipality provides good customer care to the various customers" although the rate varies from one sector to another of which this is in line with the research findings that indicates 84.7 percent affirmative response unlike the 5.6 percent non affirmative response however the interviewees also said "illiterate SMEs owners have poor customer care"

4.4.2 Process Innovation

To assess the process innovation level among the SMEs, the response from the respondents were attained and the Likert scale was used to use the Likert scale to rate their responses to the statements passed to them, the findings were as presented in table 4.8.

Table 4.8: Summary Results on process innovation as Innovation constructs

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	We do use the internet to deliver our services	17.8	50.5	**68.3**	4.7	17.8	9.3	**27.1**
2	We change the flow of work by merging certain activities	8.4	30.8	**39.2**	11.2	37.9	11.7	**49.6**
3	We design the internet to deliver our services	27.6	44.4	**72**	6.1	17.3	4.7	**22**
4	We change the flow of work by eliminating certain activities	7.9	14.5	**22.4**	22.4	41.6	13.5	**55.1**
5	We redesign the flow of work by the use of information communication technology	7.5	22	**29.5**	11.7	31.6	27.1	**58.7**
	Average	**13.8**	**32.4**	**46.3**	**11.2**	**29.2**	**13.3**	**42.5**

Source: Primary Data, 2015

Average of 42.5 percent of the respondents indicated in affirmative that the statements on process innovation as innovation construct were correct, 11.2 percent were not sure and 46.3 percent disagreed or were non affirmative. Response about redesigning the flow of work with the use of information communication technology recorded 58.7 percent affirmative response however the response about designing the internet to deliver our services indicated 22 percent affirmative response.

The interviewees said "the hotel and catering strata of the SMEs in Gulu Municipality uses internet to deliver services" while carrying out their activities however Metal fabrication strata in Gulu Municipality does not use internet, does not design internet products for service delivery in the process of production of which it's in line with the research findings.

4.4.3 Product Innovation

To assess the product innovation level among the SMEs the response from the respondents were attained and the Likert scale was used to rate their responses to the statements passed to them. the findings were as presented in table 4.9

Table 4.9: Summary Results on product innovation as Innovation

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	[illegible]	1.4	7.9	9.3	5.6	53.3	31.8	85.1
	[illegible]	3.3	15.4	18.7	12.6	44.9	23.8	68.7
	[illegible]	[illegible]	[illegible]	12.6	15.4	53.7	18.2	71.9
	[illegible]	0	1.4	1.4	8.9	51.4	38.3	89.7
	[illegible]	2.8	1.4	4.2	8.4	56.5	30.8	87.3
	[illegible]	2.8	3.7	6	11.2	51.4	31.3	82.7
	[illegible]	1.4	2.3	3.7	7.5	64	24.9	88.9
	[illegible]	2.4	5.6	8	8.9	58.6	24.4	83
	[illegible]	[illegible]	[illegible]	4.2	11.2	50.8	24.8	84.6
	[illegible]	1.4	8.9	10.3	4.2	48.1	37.4	85.5
	Average	2	5.8	7.8	9.4	54.2	28.2	82.7

Source: Field Research, 2015

Average of 82.7 percent of the respondents indicated in affirmative that the statements on product innovation as innovation constructs were correct. 9.4 percent were not sure and 7.8 percent disagreed or were non affirmative. Response about the products and services offered being accessible to customers recorded 89.7 percent affirmative response however the to the provision of product or service with only the elements sought by the user group and removing high cost elements indicated 68.7 percent affirmative response. The interviewees noted that the SMEs products in Gulu Municipality are readily available for the customers of which it affirms the 82.7 percent affirmative response in the study

4.4.3 Level of Entrepreneurial Innovation among the SMEs

To assess the entrepreneurial innovation level among the SMEs, the response from the respondents were attained and the Likert scale was used to rate their responses to the statements passed to them, the findings were as presented in table 4.10.

Table 4.10: Summary Results on entrepreneur innovation as Innovation construct

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	It was my our idea to start the business	15.0	19.2	**34.2**	3.3	43.0	19.6	**62.6**
2	I we like doing something new to get new customers	3.3	7.0	**10.3**	5.6	53.7	30.4	**84.1**
3	I we are never entirely happy with the way in which things are done	1.9	19.2	**21.1**	17.3	40.2	21.5	**61.7**
4	If one approach to a problem does not work, I we think of another approach	0.0	3.3	**3.3**	6.5	68.2	22.0	**90.2**
5	I we find new niches for products in current markets	0.0	23.8	**23.8**	14.5	40.2	21.5	**61.7**
6	I we enter new businesses by offering new lines and products	0.9	13.6	**14.5**	13.1	49.1	23.4	**72.5**
7	It was my our idea that the company's spending on new product development activities is increased	6.5	10.3	**16.8**	10.3	56.1	16.8	**72.9**
8	It was my our idea that the number of new products are added by the company	2.3	10.7	**13**	10.3	50.0	26.6	**76.6**
9	It was my our idea that there is company emphasis on technological innovation	3.7	8.4	**12.1**	11.7	49.1	27.1	**76.2**
10	It was my our idea that there is company emphasis on pioneering technological developments in the company	1.9	19.6	**21.5**	15.9	40.2	22.4	**62.6**
11	I we caused the high percent of revenue generated from products that did not exist three years earlier	5.1	14	**19.1**	17.8	39.7	23.4	**63.1**
12	It was my our idea to reorganize units and divisions to increase innovation	3.3	15	**18.3**	13.1	45.3	23.3	**68.6**
13	It was my our idea to coordinate activities among units to enhance company innovation	2.8	15.9	**18.7**	11.2	50.5	19.6	**70.1**
14	It was my our idea to increase the autonomy of different units to enhance their innovation	2.4	12.6	**15.0**	12.1	47.7	25.2	**72.9**
15	It was my our idea to establish procedures to examine new innovation ideas	5.1	14.0	**19.1**	17.8	39.7	23.4	**63.1**
	Average	**3.6**	**13.8**	**17.4**	**12**	**47.5**	**23.1**	**70.6**

Source: Field Survey, 2015

Average of 70.6 percent of the respondents indicated in affirmative that the statements on entrepreneurial innovation as innovation construct were correct, 12 percent of the respondents were not sure and 17.4 percent disagreed or were non affirmative. Response about one approach to a problem not working and thinking of another approach recorded 90.2 percent affirmative response however the response to the issue that we are never entirely happy with the way in which things are done and finding new niches for products in current markets indicated 61.7 percent affirmative response.

The interviewees said "the employers in Gulu Municipality SMEs gives orders and instructions to the employees how production is to be done thus leaving little room for innovativeness of the employees", this due to the fact that most of the SMEs is Gulu Municipality are operated by people who did not conceptualize the ideas thus receiving instructions from the initiators. This is in line with the findings that showed affirmative of 62.6 percent on the question "was it your idea to start the business".

4.5 Level of Performance among the SMEs

The third objective was to establish the relationship between management competencies and innovation on the performance of SMEs in Gulu municipality. The findings are as presented below under sales growth, profitability and market share.

4.5.1 Level of Sales Growth among the SMEs

To assess the sales growth level among the SMEs, the response from the respondents were attained and the Likert scale was used to rate their responses to the statements passed to them, the findings were as presented in table 4.11

Table 4.11: Summary Results on Sales growth as SMEs performance.

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	My/our sales volume have increased	1.9	16.9	**18.8**	0.0	50.2	31	**81.2**
2	In addition to my/our old customers, there is increased demand for products from customers who never bought from me/us before	2.8	4.7	**7.5**	15.0	49.5	28	**77.5**
3	My/our customers have increased on their purchasing volumes	1.4	17.8	**19.2**	3.3	50	27.6	**77.6**
4	In relation to the resources committed, my/our overall market performance has improved	3.3	15.9	**19.2**	5.6	45.3	29.9	**75.2**
5	Over the last 3 years I/we have had remarkable market growth for the company	13.6	13.6	**27.2**	48.1	23.8	0.9	**24.7**
	Average	**4.6**	**13.8**	**18.4**	**14.4**	**43.8**	**23.5**	**67.2**

Source: Field Research, 2015

Average of 67.2 percent of the respondents indicated in affirmative that the statements on sales growth as performance of SMEs construct were correct, 14.4 percent of the respondents were not sure and 18.4 percent disagreed or were non affirmative. Response about increase in sales volume recorded 81.7 percent affirmative response however the response concerning remarkable market growth for the company in the last 3 years indicated 24.7 percent affirmative response.

The interviewee noted that there is "general increase in sales of the SMEs due to increase demand of the SMEs products in Gulu Municipality" this is in line with the study that shows 67.2 percent increase in sales of the SMEs in Gulu Municipality unlike the non affirmative response of 18.4 percent.

1.5.2 Level of Profitability among the SMEs

To assess the profitability level of the SMEs, the response from the respondents were attained and the Likert scale was used to rate their responses to the statements passed to them, the findings were as presented in table 4.12 below:

Table 4.12: Summary Results on profitability as SMEs performance construct

S/N	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	The financial position of my/our firm has improved over the last 3 years	1.9	18.7	**20.6**	9.8	40.7	29	**69.7**
2	Over the last 3 years the profit margins of my/our firm have increased	2.3	18.7	**21.0**	11.2	46.3	21.5	**67.8**
3	The revenue of my/our firm has increased over the last 3 years	1.9	7.5	**9.4**	14.5	50.5	25.7	**76.2**
4	The return on investments in my/our company is good	15.4	7.5	**22.9**	53.3	21.3	2.3	**23.6**
5	In my/our company the total cost of distribution, including transportation and handling costs is low compared to competitors	13.6	38.8	**52.4**	17.8	20.1	9.8	**29.9**
6	In my/our company the total cost of manufacturing, including labor, maintenance and re-work costs is low	17.8	33.2	**51.0**	16.8	26.2	6	**32.2**
7	In my/our company the costs associated with held inventory are low	11.2	39.7	**50.9**	18.7	25.7	4.7	**30.4**
	Average	**9.2**	**23.4**	**32.6**	**20.3**	**33.0**	**14.1**	**47.1**

Source: Primary Data, 2015

Average of 47.1 percent of the respondents indicated in affirmative that the statements on profitability as SMEs performance constructs were correct, on average 20.3 percent were not sure and 32.6 percent of the respondents disagreed or were non affirmative. Response to increase in revenue in the last 3 years indicated 76.2 percent affirmative response however the response to return on investments in the business being good indicated 23.6 percent affirmative response. Interviewee that there is "increase in profitability of the SMEs in the last 5 years due to increase in demand of the services offered by the SMEs due to the existence of relative peace in Gulu Municipality" this is in line with the study that shows 76.2 percent of the respondents noted there is increase in revenue of the SMEs.

4.5.3 Market Share of the SMEs

To assess the market share of the SMEs, the response from the respondents were attained and the Likert scale was used to rate their responses to the statements passed to them, the findings were as presented in table 4.13:

Table 4.13: Summary Results on Market share as performance construct on SMEs

	Statement	SD (1)	D (2)	(1+2)	NS (3)	A (4)	SA (5)	(4+5)
1	My/our company has the ability to respond to and accommodate demand variations in the market	10.3	17.8	**28.1**	8.4	50	12.6	**62.6**
2	My/our company has the ability to respond to and accommodate poor manufacturing performance i.e. machine breakdowns	9.3	17.3	**26.6**	19.6	46.7	7	**53.7**
3	My/our company has the ability to respond to and accommodate periods of poor supplier performance	6.5	23.4	**29.9**	14.5	40.7	15	**55.7**
	Average	**8.7**	**19.5**	**28.2**	14.2	**45.8**	**11.5**	**57.3**

Source: Field Research, 2015

Average of 57.3 percent of the respondents indicated in affirmative that the statements on market share as SMEs performance construct were correct. Response concerning the ability to respond to and accommodate demand variations in the market indicated 62.6 percent affirmative response however the response about the business having the ability to respond to and accommodate poor manufacturing performance inform of machine breakdown indicated 53,7 percent affirmative response. During the course of the use of the interview guide as an instrument, the interviewee noted that there is "general increase in market share of the SMEs due to increase number of visitors (customers) in Gulu Municipality who all need products from the SMEs in Gulu Municipality" this is in line with the study that shows 57.3 percent increase in revenue of the SMEs in Gulu Municipality.

4.6 The Relationship between the Study Variables

4.6.1 Correlation Analysis

In this section, the results arising from the Pearson's Correlation Test are discussed. Correlation is a technique for investigating the relationship between two quantitative, continuous variables in which the Pearson's correlation coefficient (r) is a measure of the strength of the association between the two variables. The Pearson's r can range from -1 to 1 where -1 indicates a perfect negative linear relationship between variables, an r of 0 indicates no linear relationship between variables, and an r of 1 indicates a perfect positive relationship between variables. To investigate the relationship among the constructs a Zero-order correlation table was generated. The Pearson correlation coefficient (r) was employed to establish the level, relationship between management competencies, innovation and performance of SMEs performance.

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From Table 4.14 (the correlation results on skills as a management competency), it was established that most of the variables either had a weak or no correlation between them. It is only the variable concerning training employees in skill development that was strongly correlated to the possession of relevant skills for high capacity performance, $r(212) = .514$, $p < 0.01$.

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Table 4.14: Correlations analysis table

		Skills	Knowledge	profitability	experience	Customer care	Process innovation	Product innovation	Entrepreneurial innovation	Sales growth	Market share
Skills	Pearson Correlation	1									
	Sig. (2-tailed)										
	N	214									
Knowledge	Pearson Correlation	.721(**)	1								
	Sig. (2-tailed)	000									
	N	214	214								
Profitability	Pearson Correlation	195(**)	330(**)	1							
	Sig. (2-tailed)	.004	.000								
	N	214	214	214							
Experience	Pearson Correlation	.343(**)	.630(**)	.426(**)	1						
	Sig. (2-tailed)	.000	.000	.000							
	N	214	214	214	214						
Customer	Pearson Correlation	.663(**)	.714(**)	348(**)	.481(**)	1					
	Sig. (2-tailed)	.000	.000	.000	.000						
	N	214	214	214	214	214					
Process innovation	Pearson Correlation	.189(**)	.249(**)	.305(**)	.253(**)	.343(**)	1				
	Sig. (2-tailed)	.006	.000	.000	.000	.000					
	N	214	214	214	214	214	214				
Product innovation	Pearson Correlation	.562(**)	.675(**)	.111	.459(**)	.663(**)	.352(**)	1			
	Sig. (2-tailed)	.000	.000	.106	.000	.000	.000				
	N	214	214	214	214	214	214	214			
Entrepreneurial innovation	Pearson Correlation	.512(**)	.579(**)	.260(**)	.545(**)	.600(**)	.421(**)	.560(**)	1		
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000			
	N	214	214	214	214	214	214	214	214		
Sales growth	Pearson Correlation	.172(*)	.331(**)	.682(**)	.547(**)	.429(**)	.263(**)	.259(**)	.458(**)	1	
	Sig. (2-tailed)	.012	.000	.000	.000	.000	.000	.000	.000		
	N	214	214	214	214	214	214	214	214	214	
Market share	Pearson Correlation	.337(**)	.502(**)	.347(**)	.536(**)	.541(**)	.311(**)	.361(**)	.584(**)	.447(**)	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	.000	
	N	214	214	214	214	214	214	214	214	214	214

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

* Correlation is significant at the 0.05 level (2-tailed).

To establish the relationship between the study variables (Management competencies, innovation) and SMEs performance, Pearson correlation coefficients were generated with the use of SPSS version 16. The correlations revealed the level of strength and significance of the relationships between the study variables and the independent variables.

Results indicate a positive and significant relationship between Management Competencies constructs and the Performance of SMEs constructs. For instance sales growth and experience shows a positive relationship at (.547, $p<.01$), knowledge and market share shows a positive relationship at (.502, $p<.01$) as shown in table 4.13 above. This implies that SME require high levels of management competencies in order to perform well however this result shows that its level of management competencies is not to the peak. However in the study it was also noted that skills and sales growth had weak relationship at (.172, $p<.01$) which means that in the SMEs in Gulu Municipality it does not mean if you have the skills then the sales growth will be high, other factors are there that influences sales.

On the level of Innovations among the SMEs in Gulu Municipality Correlation results indicated a significant positive relationship between innovation and SMEs performance. This was also true for the relationships between the dimensions of innovation; customer care ($r = .663$, $p<.01$), process innovation ($r = .305$, $p<.01$), product innovation ($r = .361$, $p<.01$) and entrepreneur innovation ($r = .584$, $p<.01$) and SMEs performance. This suggests that when SMEs have good customer care, process innovation, product innovation and entrepreneur's innovation, this would have positive influence on the sales growth, probability and market share of the SMEs. Product innovation and profitability indicated a weak relationship at ($r = .111$, $p<.01$), entrepreneurial

innovation and profitability indicated a weak relationship at (r = .260, p<.01). This suggests that when SMEs have good product innovation and entrepreneur's innovation it not a guarantee that there will be positive influence on the performance of the SMEs.

In this study customer care and process innovation indicated a weak relationship (r = .249, p<.01). In this study skills and process innovation indicated a very weak relationship (r = .189, p<.01). This due to the fact most of the SMEs in this study did not engage in processing products, do not use internet, do not redesign internet to deliver services and their response to the questions were non affirmative in nature. In this study entrepreneurial skills and profitability indicated a weak relationship (r = .260, p<.01). This due to the fact most of the SMEs in this study noted non affirmative response to re-work costs being low and costs associated with held inventory being low.

4.7 Regression Analysis of Management Competencies and Innovation on Performance

Multiple regression analysis was carried out to examine the effect of different (predictor independent) variables, that is, management competencies and innovations, on the dependent variable, the SME performance. The findings were presented below under the model summary and coefficient tables.

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Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.525(a)	.276	.269	9.12643

a Predictors: (Constant), innovation, management competencies

From the model summary, it was established that the R value was .525 while R-square was .276.

In this case, the R-square is the proportion of variation in the performance of SMEs that is explained by the two independent variables. From the value it can be said that 27.6 percent of the variation in performance of SMEs can be explained by two independent variables namely management competencies and innovations. While the constructs of management competencies were skills, knowledge and experience, those of innovations were product and process innovations, customer care and entrepreneurial innovation. On the other hand, those of performance of SMEs were profitability, sales growth and market share

ANOVA(b)

Model		Sum of Squares	Degree of freedom	Mean Square	F	Sig.
1	Regression	6695.387	2	3347.694	40.192	.000(a)
	Residual	17574.557	211	83.292		
	Total	24269.944	213			

a Predictors: (Constant), innovation, management competencies

b Dependent Variable: performance

The Analysis of variance (ANOVA) table shows that the proportion of variance explained in the model summary table is statistically significant since the p-value is .000 which is below the .05 level. It can be concluded, therefore that the overall model is statistically significant, or that the independent variables (management competencies and innovation) have a significant combined effect on the dependent variable (SME performance). In summary, the two independent variables have a significant combined effect on SME performance, $F(2, 211) = 40.19$, $p < .001$.

Coefficients(a)

Mode l		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	4.273	7.237		.590	.556
	Management competencies	.219	.069	.253	3.159	.002
	Innovation	.224	.056	.319	3.989	.000

a Dependent Variable: Performance

As seen in the Coefficients table, the p-value of management competencies was .002 while that of innovations was .000. This implies that both of them are significant predictors (or significantly related to) of SMEs performance. As such, management competencies (Beta = .253, $p < .05$) and innovations (Beta = .319, $p < .001$) are significant predictors of SMEs performance. The prediction equation is based on the unstandardized coefficients, as follows:

Performance = 4.273 + 0.219 management competencies + 0.224 innovation

In this equation, the constant (4.273) is the predicted value of the SME performance variable when the independent variables (management competencies and innovations) have a zero value.

The objectives of this study was achieved as demonstrated by the various analysis done.

CHAPTER FIVE

DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion, conclusions, and recommendations arising out of the research findings in chapter four and suggests areas for further study. The study has generated several findings which are in line with existing literature and previous research findings.

5.1 Discussion of Findings on Bio-data

Under this section, a discussion of the findings was carried out in accordance with the study objectives. Here the researcher sought support for the findings from already existing literature of the earlier works conducted by other researchers on the study variables.

Respondent category by gender, the finding shows that 67.8 percent of the respondents were male while 32.2 percent were female and the research finding also revealed female respondents were mostly found in the hotel strata. This research finding noted that majority of the respondents were male with a 67.8 percent of which it is not is in line with the finding of Apollot (2012) since the study showed that majority of the respondents were female with 53.8%. According to Tulson (2000) supported by Hunter (2013) noted studies from all over the world indicates that while the share of women is somehow higher in SMEs involved in trade and service, it's generally much lower in the manufacturing SMEs. The finding in this study agree with it since there were few female respondents in the Manufacturing, metal fabrication, Hardware and construction SMEs unlike in the Medical, Catering and hotel facilities.

Respondent category by age group, according to the research findings, the majority of the respondents of 39.5 percent belonged to the 30-39 years age group whereas proximately 0.5 percent that was the least belonged to the 60 years and above age group. This implies the majority of the respondents had acquired enough experience in doing business which enhanced their business stability and expertise. The expertise helps the owners to take favorable decision on their management and innovation affairs in the business. This findings is in line with Yamaguchi (2013), Tishman (2012) who agrees that the age increase makes a person develop that in turn enhances Management experience, confidence and drive to perform as per the set targets.

Respondents category by level of education. Thapa (2007) found a positive association between education and SMEs success, the research finding here indicates that majority of the SMEs managers had certificates, followed by those who had Diplomas, Degrees, and Uganda Certificate of Education (UCE). Some of the SMEs managers and owners do not have any formal education, others had reached PLE level while others had Master's Degree level and least SMEs had managers who had attained a post graduate. This implied that most of the businesses did not require the managers to have a higher level of education. This finding is in line with the findings of Odeng (2009) where he noted that respondents 3.6 percent of the respondents had attained postgraduate degree level. A reasonable level of education enables one to have the chance to learn entrepreneurial innovation ideals as noted by Kotey and Meredith (1997). A high level of literacy depicted by the study enhances entrepreneurial programme success in the SMEs as noted by Pushpakumari (2009) who stressed that the need for the entrepreneurial programme as these that enhances the development of the SMEs which in turn improves performance.

Amount of capital invested, the research finding indicates that majority of the SMEs invested between 40 million and above as compared to those SMEs who had invested 5-9 million. Few SMEs reported to have invested between 20-39 million and 30-39 million. The least SMEs invested between 40 million and above. The finding in this study shows that 40.2 percent of the SMEs had invested 40 million and above of which this finding is in line with the findings of Odeng (2009) where he noted that 14.1 percent of the SMEs had invested 40 million and above of which both study shows a percentage less than 50 percent.

Number of employees in the business, many of the SMEs employed 5-10 workers followed by those SMEs who employed between 10-19 workers. Few SMEs employed 50 and above workers which catered for 2.8 percent. This implies that a majority of the SMEs surveyed were small in size. The finding in this study shows that 2.8 percent of the employees were 50 years and above, this finding is in line with the findings of Odeng (2009) where he noted that 2.5 percent of the SMEs had employed workers 50 years and above.

Period of existence in the business. SMEs respondents were required to indicate the number of years they had been in this business. Most of the SMEs respondents had been in the business for two and above years which was an indication of experience in doing business and being able to understand how the business runs. The finding is this study shows that 6.1 percent of the employees had worked in the business for utmost 1 year of it is in line with the findings of Odeng (2009) where he noted that 5.1 percent of the SMEs had been in business for utmost 1 year.

Amount of capital invested, the research finding indicates that majority of the SMEs invested between 40 million and above as compared to those SMEs who had invested 5-9 million. Few SMEs reported to have invested between 20-39 million and 30-39 million. The least SMEs invested between 40 million and above. The finding in this study shows that 40.2 percent of the SMEs had invested 40 million and above of which this finding is in line with the findings of Odeng (2009) where he noted that 14.1 percent of the SMEs had invested 40 million and above of which both study shows a percentage less than 50 percent.

Number of employees in the business, many of the SMEs employed 5-10 workers followed by those SMEs who employed between 10-19 workers. Few SMEs employed 50 and above workers which catered for 2.8 percent. This implies that a majority of the SMEs surveyed were small in size. The finding in this study shows that 2.8 percent of the employees were 50 years and above, this finding is in line with the findings of Odeng (2009) where he noted that 2.5 percent of the SMEs had employed workers 50 years and above.

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Nature of business, The results of the finding showed that 43 percent of the SMEs were dealing in catering and hotel business, 12.6 percent of the SMEs were dealing in Processing industries, 16.8 percent of the SMEs were dealing in Metal fabrication, 19.2 percent were dealing in medical facilities, 7.5 percent of the SMEs were dealing in hardware and construction firms while 0.9 percent of the SMEs were operating other form of business.

5.2 Level of Management Competencies among the SMEs

The first objective was to establish the level of management competencies of SMEs in Gulu Municipality. The findings are discussed below under skills, knowledge, and experience subsections.

5.2.1 Skills of SMEs

The average affirmative response, which is combining the 'agree' and 'strongly agree' responses was 86.5 percent, with 7.7 percent being opposed to the statements on skills and 5.7 percent not being sure. The findings revealed a significant positive relationship between skills and SMEs performance which implied that when SMEs possess the required skills, this would enhance their performance. The findings are in line with the assertions of Odeng (2009) who noted that skills enhance SMEs to increase market share, profitability which can help SMEs respond quickly to SMEs changes in the market. This also receives positive assertion of Hayton (2015) who noted that skills are significant for the performance of the SMEs.

5.2.2 Level of Knowledge among the SMEs

This study shows affirmative response on average of 98.2 percent on the issue that knowledge has influence on performance of SMEs. The findings revealed a significant positive relationship between Knowledge and SMEs performance which implied that when SMEs possess the ability acquire knowledge, skills and experience, this would enhance their performance. The findings are in line with the assertions of Calantone *et al.*, (2002) who noted that new knowledge which can help SMEs respond quickly to customers' needs and SMEs changes. This also receives support from Roland (2006) On the other hand, Patient and Naledi (2015) found of out that Management competencies has a positive effect on SMEs performance. Furthermore, the findings are in line with Zack et al, 2009 who revealed that Knowledge have a positive and indirect influence on SMEs performance. Other research has indicated that Knowledge positively and directly influences the SMEs' performance Chen and Liang (2011).

5.2.3 Level experience among the SMEs

This study shows affirmative response of 87.8 percent, on the issue that knowledge has influence on performance of SMEs. The findings revealed a significant positive relationship between Knowledge and SMEs performance which implied that when SMEs possess the ability acquire knowledge, skills and experience, this would enhance their performance. It is in line with Cant and Lightelm (2003) in a survey of small business failure maintain that entrepreneurs often have good ideas and are competent but they do not have a clue on how to run a business and have no underlying appreciation of business fundamentals. Professional experience has been cited as an important factor affecting many aspects of entrepreneurial firms. Experience takes many guises and breadth of experience is shown to be an important factor driving the performance of firms,

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with the number of previous jobs positively related to new firm performance (Lumpkin & Marvel 2007).

5.3 Level of Innovation among the SMEs

The second objective was to establish the level of innovation of SMEs in Gulu Municipality. The findings are as presented below under customer care, product innovation, process innovation and entrepreneurial innovation.

The findings revealed a significant and positive relationship between innovation and SMEs performance which suggested that when SMEs have well maintained customer care, process, product innovation and required competences, this would enhance their performance. According to Kelley (2009), the customer perspective of newness necessitates a change in consumer behavior to accommodate new product usage conditions. On the other hand, the uniqueness/superiority aspects of product innovation suggest that SMEs in Gulu Municipality operationalize incompatible differentiation in product attributes so as to develop competitive advantage difficult to copy by competitors (Woodside, 2005). Fink & Kraus (2009) contend that product innovation is associated with newness to the firm; product uniqueness; and product superiority. To realize the newness of product, a firm would pursue innovative imitation of competitors' products, new product invention, and improvement or modification of the existing products (Katz, 2003).

The findings revealed a significant and positive relationship between innovation and firm performance which suggested that when SMEs have well maintained structures, processes and required competences, this would enhance their performance. The higher the level of innovation among SMEs the likelihood that the SMEs will remain competitive.

5.3.1 Customer Care

Average of 84.7 percent of the respondents indicated in affirmative that the statements on customer care as the innovation constructs were correct, 9.7 percent were not sure and 5.6 percent disagreed or were non affirmative. The findings revealed a significant and positive relationship between innovation and SMEs performance which suggested that when SMEs have well maintained customer care, this would enhance their performance. According to Kelley (2009), the customer perspective of newness necessitates a change in consumer behavior to accommodate new product usage conditions. This research finding is also in line with Apollot (2012) who asserted that customer care construct of innovation has influence on the performance of the SMEs in Uganda.

5.3.2 Process Innovation

Average of 42.5 percent of the respondents indicated in affirmative that the statements on process innovation as innovation construct were correct, 11.2 percent were not sure and 46.3 percent disagreed or were non affirmative. This finding shows that there is high cost of production, high inventory cost and unless this is solved it hamper the performance of the SMEs.

5.3.3 Product Innovation

This study noted 82.7 percent affirmative response to the product innovation, the findings is in line with study done by Woodside (2005), he noted that the uniqueness/superiority aspects of product innovation suggest that SMEs in Gulu municipality operationalize incompatible differentiation in product attributes so as to develop competitive advantage difficult to copy by competitors (Woodside, 2005). Fink & Kraus (2009) contend that product innovation is associated with newness to the firm; product uniqueness; and product superiority. To realize the newness of product, a firm would pursue innovative imitation of competitors' products, new product invention, and improvement or modification of the existing products (Katz, 2003).

5.3.4 Level of Entrepreneurial Innovation among the SMEs

Average of 70.6 percent of the respondents indicated in affirmative that the statements on entrepreneurial innovation as innovation construct were correct, 12 percent of the respondents were not sure and 17.4 percent disagreed or were non affirmative. Response about one approach to a problem not working and thinking of another approach recorded 90.2 percent affirmative response however the response to the issue that we are never entirely happy with the way in which things are done and finding new niches for products in current markets indicated 61.7 percent affirmative response.

5.4 Level of Performance among the SMEs

The third objective was to establish the relationship between management competencies and innovation on the performance of SMEs in Gulu municipality. The findings are as presented below under sales growth, profitability and market share.

5.4.1 Level of Sales Growth among the SMEs

Average of 67.2 percent of the respondents indicated in affirmative that the statements on sales growth as performance of SMEs construct were correct, 14.4 percent of the respondents were not sure and 18.4 percent disagreed or were non affirmative. Response about increase in sales volume recorded 81.7 percent affirmative response however the response concerning remarkable market growth for the company in the last 3 years indicated 24.7 percent affirmative response. This study is in line with the study carried out by Apollot (2012) that noted that 60 percent of the respondents were affirmative to the statements.

5.4.2 Level of Profitability among the SMEs

Average of 47.1 percent of the respondents indicated in affirmative that the statements on profitability as SMEs performance constructs were correct, on average 20.3 percent were not sure and 32.6 percent of the respondents disagreed or were non affirmative. Response to increase in revenue in the last 3 years indicated 76.2 percent affirmative response however the response to return on investments in the business being good indicated 23.6 percent affirmative response. This study is in line with the study carried out by Apollot (2012) that noted that there was increase in sales in the last 3 years. This study finding shows that there is increasing profits among the SMEs which is in line with Abanis (2013) who stated that there is increase of profitability with an average mean of 2.67.

5.4.2 Market Share of the SMEs

Average of 57.3 percent of the respondents indicated in affirmative that the statements on market share as SMEs performance construct were correct. Response concerning the ability to respond to and accommodate demand variations in the market indicated 62.6 percent affirmative response however the response about the business having the ability to respond to and accommodate poor manufacturing performance inform of machine break downs indicated 53,7 percent affirmative response

5.5 The relationship between Management competencies and Innovation of the SMEs

Correlation results revealed a significant and positive relationship between Management competencies and innovation which is indication that the more SMEs were willing and prepared to improve performance through knowledge, skills and experience, this would improve their management of the business enterprise. The findings are in agreement with the work of Babalola (2009) who suggests that SMEs cannot avoid the modern global economy and its demand for innovative business as a precondition for competitiveness. Schwartz (2006) asserts the importance of education and having knowledge for acquiring various skills that would encourage individuals to be curious about problems, options or ways of doing their work, accordingly acting innovatively. Making a SME successful must be considered as an invention-innovation-diffusion process that tackles: the businesses mix of the given size, the SME as an entrepreneurial achievement, and entity of values (Georgellis, Joyce & Woods, 2000). Shane (2008) as supported by Oukes (2010) affirms the role of proactiveness in innovative behaviors.

Additionally, individual's problem-solving style which refers to individuals' cognitive style that is relevant to conceptual competency (Potocan & Mulej, 2009) is positively related to individual innovative behaviors. Given their small size and related pool of professionals, SMEs need to work very hard on members' innovation and related personal traits. Thus all preconditions concerning both the content and the process of innovation must be considered, which requires the holism and therefore systemic rather than one-sided thinking/behavior of the usual specialists. Hence, values/culture/ethics/norms of owners, managers and entrepreneurs, SME's members must also be innovated along with their knowledge, experience and skills.

The objectives of the study were to explore the level of management competencies of SMEs in Gulu Municipality, to analyze the level of innovation among the SMEs in Gulu Municipality, to investigate the relationship between management competencies and innovation on the performance SMEs in Gulu Municipality. The study was done with the help of a cross-sectional survey design, both qualitative and quantitative methods was used in this study. The key finding indicates that there is high level of management competencies and innovation among the SMEs in Gulu Municipality, the findings show that there is relationship between management competencies, innovation and performance of SMEs in Gulu Municipality.

5.6 Conclusions

SMEs performance is significantly predicted by Management competencies and innovation although they contribute 27.6 percent meaning that there are other predictors that contribute to the other 72.4 percent in respect to the performance of the SMEs.

For SMEs to be innovative ,workforce need to be skilled, experienced and knowledgeable of which in turn it will influence performance of the SMEs. The higher the level of innovation among SMEs, the higher the likelihood that the SMEs will remain competitive in this volatile Uganda's economy. Therefore, SME management needs to look at developing better strategies of improving innovation to enhance the SMEs performance. The findings also revealed a significant positive relationship between innovation and SMEs performance which implied that when SMEs possess the ideas of process innovation, customer care, product innovation and entrepreneur's innovation this would enhance their performance of the SMEs. This is confirmation that SMEs' willingness to embrace the constructs of innovation during their work processes would have positive effect on the performance of SMEs.

5.7 Recommendations

Basing on the above study the research made the following recommendations.

a) SMEs need to ensure that they create an innovation culture within an organization which can allow for product, process and entrepreneurial innovation.

b) Policy makers need to develop policies related to employee training and career development in order to enhance the performance of the SMEs to facilitate increase in economic growth and development.

c) Central government need to come up with policies that reward innovative SMEs inform of tax holidays, tax rebate and tax exemption.

d) Government need to Support the SMEs in creating a conducive environment for learning, innovation by setting industrial parks.

5.8 Areas for further study

a) Research studies focusing on other predictors such as access to information, culture, climate change, infrastructure, organization learning, capital base of the enterprises, research, access and source of finance, the regulatory burden, training and education as factors influencing SMEs performance other than Management competencies and innovation since innovation and management competencies account for only 27.6 percent of the performance of SMEs.

b) Since a cross-sectional study design was adopted in this study, it was not possible to consider the time line changes in preferences and perceptions as the design only allows a one point kind of measurement, further study need to be done by other researchers on the same area of study considering the longitudinal approach.

c) Similar studies in other parts of the country to influence national policies.

d) Further research need to be done on the specific predictors for the various SME strata.

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APPENDICES

Appendix I: Questionnaire

Dear Sir/Madam,

I am Okello Morris Kidega, a student of Gulu University pursuing Master of Business Administration (MBA) degree course. I am conducting a research on the topic entitled "**Management Competencies and Performance of SMEs in Gulu Municipality, Uganda**". You have been identified as a resourceful person in providing the necessary information that is required. I would appreciate your positive participation in providing me with the available information as far as this topic is concerned, whatever information you will provide will be kept fully confidential. I urge you to avail me with the details without any hesitations. Please tick in the appropriate boxes or fill in the spaces provided and feel free to seek for any clarification. Your cooperation is highly appreciated. In case of any need to communicate to me, please use the following contacts.

Okello Morris Kidega: Telephone +256-716013939 / +256-775013939 / +256-752390609

E-mail. Okellomorriskidega@gmail.com

SECTION A: Bio -Data

Name (Optional) .....

Gender

Male ☐ Female ☐

1. Age bracket/group.

   20-29 ☐ 30-39 ☐ 40-49 ☐ 50-59 ☐ 60and above ☐

2. Marital status

   Single ☐ Married ☐ Divorced ☐ Widowed ☐ Separated ☐

3. Educational background/level?

   No formal education ☐ PLE ☐ UCE ☐ UACE ☐

   Certificate ☐ Diploma ☐ Degree ☐ Masters degree and above ☐

4. Have you attended any business or entrepreneurship training

   Yes ☐ No ☐

   If yes elaborate.....

5. What is the name of your business?.....

6. What is the Nature of Business you are dealing in?

Metal fabrication ☐ Catering and Hotel facilities ☐

Medical facilities ☐ processing industries ☐

Hard ware and construction firms ☐

Others specify.....

6. In which division within Gulu Municipality is your business located?

Pece ☐ Bardege ☐ Layibi ☐ Laroo ☐

7. For how long has the business existed?

8. 1 year ☐ 2-3 years ☐ 4-5 years ☐ 6-7 years ☐ 8 and above ☐

9. How many workers are employed by the business?

1-4 ☐ 5-9 ☐ 10-19 ☐ 20-49 ☐ 50 and above ☐

10. How much amount of money has the business invested?

5-9 Million ☐ 10-19 Million ☐ 20-29 Million ☐ 30-39 Million ☐

40 & above ☐

11. For how long have you been working in the business?

1 year ☐ 2-3 years ☐ 4-5 years ☐ 6 and above ☐

SECTION B:

Please tick the appropriate box as indicated .Code 1 strongly disagree (**SD**), Code 2 for Disagree (**D**), Code 3 for Not sure (**NS**), Code 4 for Agree (**A**) and Code 5 for Strongly agree (**SA**)

S/N	**MANAGEMENT COMPETENCIES**	SD	D	NS	A	SA
	Statements					
B1	**Skills**					
12	I possess relevant skills to enable me perform at a high capacity					
13	I have skills to train my employees to acquire the necessary skills needed to perform their duties.					
14	I have the skills to invent new ways of doing my business.					
15	I am creative in doing my business and like sharing ideas with my fellow entrepreneurs					
16	I am self-motivated and committed to my business					
17	I use various techniques/skills of out competing my rivals					

18	I possess management skills and these have enabled my business to survive.					
19	I have the skills to display leadership qualities which guide employees in achieving the set goals					
20	I have the skills to know what I am good at and what my weaknesses are					
21	I am in a position of training my employees in skill development					
22	I have the listening skills to customer complaints in the business.					
23	I possess computer skills.					
B2	**Knowledge**					
24	I have the knowledge to produce quality goods at a cheap price.					
25	I have the knowledge to keep records of all the transactions made.					
26	I provide mutual support and mentoring environment to my employees					
27	I have the knowledge to keep myself update with the requirements needed to perform my duties.					
28	I have the knowledge of the ways to out compete my rivals					
29	I have the knowledge of maintaining positive attitude towards my work					
30	I have the knowledge on ways to give others an opportunity to perform similar duties					
31	I have the knowledge to develop unique ideas					
32	I have the knowledge to display leadership qualities which guide employees in achieving the set goals					
33	I know what I am good at and what my weaknesses are					
34	I am able to conduct a market research related to the business					
35	I am oriented to my business growth.					
36	I raise enough funds to provide working equipment for my employees.					
37	I have the knowledge to organize and utilize my time as efficiently as possible to do business work					
38	I have the knowledge to establish and maintain good working relationships with my customers					
39	I have the knowledge to listen to customer complaints in the business.					

B3	Experience	SD	D	NS	A	SA
40	I have the experience of honoring my business commitments and appointments					
41	I come early for work and leave late after accomplishing all the tasks					
42	I have the experience of using available funds to make more profits and become more productive					
43	I have the experience of taking independent and my own decision without consulting any one					
44	I have the experience of self-motivation and commitment to my business					
45	I have the experience of keeping my word at all times.					

SECTION C: INNOVATION

		SD	D	NS	A	SA
	Statements					
C1	**Customer Care**					
46	My/our customers are satisfied with my/our products/services					
47	My/our customers are happy with the superior value of my/our products/services relative to my/our competitors					
48	My/our customers are happy with my/our long term customer relationships strategy					
49	I/We often receive complementary phone calls/letters about my/our products/services					
50	My/our customers promote my/our product/services by word of mouth					
51	I/we have more repeat purchases for my/our products/services					
52	My/our customer response time is good in my/our company					
53	My/our customer complaints are addressed in time at my/our company					
54	On-time deliveries are made in my/our company					
55	My/our company puts emphasis on quality after sales services					

		SD	D	NS	A	SA
C2	**Process Innovation**					
56	We do use the internet to deliver our services					
57	We change the flow of work by merging certain activities					
58	We design the internet to deliver our services					
59	We change the flow of work by eliminating certain activities					
60	We redesign the flow of work by the use of information communication technology					
C3	**Product Innovation**					
61	Our products and services are readily available					
62	We are providing a product or service with only the elements sought by the user group and removing high cost elements.					
63	We have expertise/ skill for providing after sale services					
64	Our products and services are accessible to our customers					
65	Our products offers a good experience to our customers					
66	The services and products provide a trusted solutions to the target market					
67	Our value proposition is categorized with high quality					
68	We provide reliable services and products to the business partners					
69	We focus on products compatibility and convenience					
70	Our products and services are immediately available any time of the year					
C4	**Entrepreneur Innovation**					
71	It was my/our idea to start the business					
72	I/we like doing something new to get new customers					
73	I/we are never entirely happy with the way in which things are done					
74	If one approach to a problem does not work, I/we think of another approach					
75	I/we find new niches for products in current markets					
76	I/we enter new businesses by offering new lines and products					
77	It was my/our idea that the company's spending on new product development activities is increased.					

78	It was my/our idea that the number of new products are added by the company					
79	I/we invest in developing proprietary technologies					
80	It was my/our idea that there is company emphasis on technological innovation					
81	It was my/our idea that there is company emphasis on pioneering technological developments in the company					
82	I/we caused the high percent of revenue generated from products that did not exist three years earlier					
83	It was my/our idea to reorganize units and divisions to increase innovation					
84	It was my/our idea to coordinate activities among units to enhance company innovation					
85	It was my/our idea to increase the autonomy of different units to enhance their innovation					
86	It was my/our idea to establish procedures to examine new innovation ideas					

SECTION D: PERFORMANCE OF SMEs

	Statements	SD	D	NS	A	SA
D1	**Sales growth**					
87	My/our sales volume have increased					
88	In addition to my/our old customers, there is increased demand for products from customers who never bought from me/us before					
89	My/our customers have increased on their purchasing volumes					
90	In relation to the resources committed, my/our overall market performance has improved					
91	Over the last 3 years I/we have had remarkable market growth for the company					
D2	**Profitability**					

92	The financial position of my/our firm has improved over the last 3 years					
93	Over the last 3 years the profit margins of my/our firm have increased					
94	The revenue of my/our firm has increased over the last 3 years					
95	The return on investments in my/our company is good					
96	In my/our company the total cost of distribution, including transportation and handling costs is low compared to competitors					
97	In my/our company the total cost of manufacturing, including labor, maintenance and re-work costs is low					
98	In my/our company the costs associated with held inventory are low					
D3	**Market Share**					
99	My/our company has the ability to respond to and accommodate demand variations in the market					
100	My/our company has the ability to respond to and accommodate poor manufacturing performance i.e. machine breakdowns					
101	My/our company has the ability to respond to and accommodate periods of poor supplier performance					
102	My/our company has the ability to respond to and accommodate periods of poor delivery performance					
103	My/our company has the ability to respond to and accommodate new products, new markets, or new competitors in the market.					

Thank you for your response.

Appendix II: Interview Guide

Dear Sir/Madam,

I am Okello Morris Kidega, a student of Gulu University pursuing Master of Business Administration (MBA) degree course. I am conducting a research on the topic entitled "**Management Competencies and Performance of SMEs in Gulu Municipality, Uganda**". You have been identified as a resourceful person in providing the necessary information that is required. I would appreciate your positive participation in providing me with the available information as far as this topic is concerned, whatever information you will provide will be kept fully confidential. I urge you to avail me with the details without any hesitations. Please you are urged to response to the following. Your cooperation is highly appreciated. In case of any need to communicate to me, please use the following contacts.

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1. What technical skills do you have that helps you carry out various activities in the business
2. Describe the extent of computer skills that enables you carry out various activities
3. Describe the trend of sales in the business for the last 5 years
4. Describe the profitability of this enterprise?
5. Describe how the business is penetrating the market
6. What is the percentage of the market share of this enterprise
7. What are key issue concerning newness in the products that is being provided by the business
8. Describe the product development methods in the business the enterprise
9. How different is your enterprise in terms of handling the customers

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OFFICE OF THE DEAN FACULTY OF BUSINESS AND DEVELOPMENT STUDIES

: 21st July, 2015

TO WHOM IT MAY CONCERN

: **OKELLO MORRIS KIDEGA** **REG. NO. 13/U/2722/MBA**

: above named person is a final year student of Gulu University pursuing a sters of Business Administration (MBA) Degree of Gulu University.

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