

**ASSESSING THE ECONOMIC FACTORS AFFECTING THE GROWTH OF SMES
IN UGANDA: A case study of Mukono Municipality**

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Abstract

This study examines the economic factors affecting the growth of Small and Medium Enterprises (SMEs) in Uganda. SMEs play a crucial role in driving economic development, job creation, and poverty reduction in the country. To gain a comprehensive understanding of the factors influencing SME growth, this research examines the impact of access to finance, market dynamics, and human capital development on the growth of SMEs. The research involved collecting data from a diverse sample of SMEs in Uganda, encompassing various sectors, ownership structures, and sizes. The analysis of this data provides valuable insights into the specific challenges and opportunities facing SMEs in Uganda's unique business environment. The study's findings challenge the conventional belief that access to finance is the primary determinant of SME growth. While financial resources are important, other contextual factors, including accessibility to financial institutions, borrowing costs, and the suitability of financial products, may moderate their impact. Consequently, SMEs are encouraged to adopt a more holistic approach to growth, encompassing market responsiveness and human capital development. Market dynamics emerged as a critical factor significantly influencing SME growth. Enterprises that adeptly adapt to changes in customer preferences, anticipate market shifts, and make necessary adjustments experience higher growth rates. Furthermore, the competitive landscape significantly influences pricing decisions, emphasizing the importance of market awareness and responsiveness. Contrary to expectations, human capital development did not exhibit a statistically significant effect on SME growth in Uganda. This suggests that SMEs should critically assess their human resource strategies to ensure alignment with their growth objectives. Optimizing human resource practices to unlock the full potential of employees may be more critical than merely having a skilled workforce. In conclusion, SMEs in Uganda have the potential to drive economic growth, but addressing disparities in access to financial resources, enhancing adaptability to market dynamics, and optimizing human capital development is crucial. Policymakers, business support organizations, and SME owners should collaborate to create an enabling environment that fosters SME growth. Targeted financial interventions, market information dissemination, and investments in education and skills development are

recommended to nurture SME growth and contribute to Uganda's economic development. This study provides valuable insights for future research and informs policies and strategies aimed at supporting the resilience and growth of SMEs in Uganda.

Declaration

I Ssebudde Gordon, declare that the dissertation titled "Assessing the Economic Factors Affecting SME Growth in Uganda" is my original work, and I have duly acknowledged all sources of information and materials used. I confirm that this work has not been previously submitted for any other degree or qualification, and I have appropriately attributed and quoted the work of others. I have complied with the ethical guidelines of Uganda Christian University, and any collaborative efforts have been properly acknowledged. This declaration signifies my commitment to the authenticity, integrity, and adherence to the ethical standards of this research.

Signature:

Date

Ssebudde Gordon

Approval

This dissertation titled: “Assessing the Economic Factors Affecting the Growth of Small and Medium Enterprises in Uganda: The case study of selected SMEs in Mukono Municipality has been submitted for examination with the approval of my supervisor.

Signed:

Date

Mukisa Simon Peter

Dedication

I dedicate this dissertation to my beloved father Mr. Sserunkuma Moses and my beloved family for their support love encouragement and tireless efforts to make sure I achieve this degree. May the almighty God reward you abundantly.

Acknowledgement

My journey through this dissertation begins with the ultimate benefactor, the Divine Creator. I extend my heartfelt thanks to God, whose unwavering guidance, boundless wisdom, and grace illuminated my path and sustained me through every challenge. Next, my sincere appreciation goes to my supervisor, Mr. Mukisa Simon Peter whose unwavering guidance, expertise, and patient mentorship were invaluable throughout this research journey. His insightful feedback and constant support played an important role in shaping the quality and direction of this work.

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Acronyms

SME	Small and Medium Enterprises
MoFPED	Ministry of Finance Planning and Economic Development
IFC	International Finance Corporation
UNECA	United Nations Economic Commission Africa
Ho	Null Hypothesis
STATA	Statistics Data
ANOVA	Analysis of Variance
STD	Standard deviation
OECD	Organization for Economic Cooperation and Development

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chapter One

1.0 Introduction

The study focuses on assessing the economic factors affecting the growth of SMEs in Uganda. This chapter begins by providing a brief background of the study that enables the reader to understand the statement and general and specific objectives. Then the subsequent sections present the research hypotheses, research questions, significance of the study, and scope of the study, and finally conclude by providing a conceptual framework.

1.1 Background of the study

Small and medium enterprises play an important role in economic and social development and are seen as the pillar of the economy in both developed and developing countries. Unlike large enterprises, the creation of SMEs does not require a huge amount of capital in the form of large sums of money to prepare a business site, acquire the necessary technology and capital, or secure the labour force necessary to operate the business. (Khalid Ismail, Albalush and M. Muzamil Naqshbandi 2016 SMEs account for over 90% of global business units and 50% to 60% of total employment, while SMEs engaged in manufacturing account for 40% to 80% of manufacturing employment (Kennedy & Hobohimi 1999). In developing countries, it is estimated that small businesses employ 22% of the adult population (Quartey, 2001)

In the 1990s, small businesses became an important part of the UK and US economy, and probably one of the reasons for this was the growing number of workers laid off by large companies to join small businesses in the 1980s and early 1990s. (Alnaloui & Karami, 2003). Secondly, large companies are increasingly being forced to outsource some of their work to smaller organizations; this process is driven by the development of the Internet. Thirdly, the relative stability of the UK and USA economies since the 1990s has further encouraged trade. Fourth, globalization has fostered more entrepreneurship in the UK (Alhaloui & Karami, 2003). labor and medium enterprises are increasingly becoming an economic factor in the development of many African countries.

About 37% of South Africa's estimated 2.6 million micro, small, and medium enterprises (SMEs) are formal enterprises. Of these, 54% are micro-enterprises and 15% are based in rural areas. Owners include both those who have found a business opportunity and those who are in business out of necessity and have no alternative source of income. Two of three small business owners, run their businesses and don't have employees, while 32% say offer 1-10 jobs. Although growth in the number of SMEs has lagged economic growth over the last decade, their contribution to South Africa's total value added (GDP excluding taxes and subsidies) has increased from 18% in 2010 to 18% in 2020. increased to 40%. (Financing SMEs and Entrepreneurs 2022)

Micro, small, and medium enterprises (MSMEs) form the backbone of Kenya's economy, comprising the majority (98%) of all registered and unregistered enterprises in the country. The sector remains highly informal, with only 20% of Kenya's 7.4 million MSMEs operating as licensed enterprises. The MSME sector offers tremendous opportunities for the socio-economic transformation of the Kenyan economy. It also provides opportunities to include low-skilled and economically marginalized groups in the workforce, including youth, women, people with disabilities, and those with lower levels of education. Most of these MSMEs are active in the agribusiness, manufacturing, trade, and services sectors. (Mulae, 2022)

Uganda's economy is predominantly supported by small and medium enterprises (SMEs), which make up 90% of the private sector, spread across all sectors, and are an important part of new business. (National Small Business Survey, 2015). They employ poor people such as women and youth (MoFPED) and play an important role in generating income, especially for the poor (Uganda Investment Authority 2008). In Uganda, many SMEs operate under the informal sector and are known to use raw materials found within the country (labour and other inputs) rather than large enterprises (National Small Business Survey 2015). According to the Ministry of Finance, Planning and Economic Development (MoFPED), the majority of the SMEs have fewer than 20 employees. MoFPED is a small enterprise that employs between 5 and 50 people with an annual sales or revenue turnover total assets of up to Uganda shillings (USH) 360 million and a medium enterprise is an enterprise that employs more than 30 people with an annual turnover of assets between USH 360 million and 30 billion.

1.2 Statement of the Problem

SMEs are the catalysts of the economy in both developed and developing countries as they have more production opportunities compared to large enterprises. They adapt to the changes in demand in a short time and reach full employment and full competition in a short time. Therefore, they are seen as a key element in achieving growth and employment targets. (Ozkaya, 2020). However, SMEs, continue to face significant challenges in achieving sustainable growth and long-term viability. (Smith, 2018). Small and Medium Enterprises (SMEs) face a disproportionate impact from market shortcomings and obstacles, as well as deficiencies within the business environment and policy domain. The significance of SMEs' contributions is dependent upon their ability to access critical resources like expertise, knowledge networks, and financial support. Additionally, the impact hinges on public investments in domains such as education, training, innovation, and infrastructure. Moreover, a favourable atmosphere for the transition of business ownership or management is pivotal for ensuring the sustainability of numerous SMEs, consequently affecting job implications over the long term. Amidst the prevalent challenges leading to a notable SME failure rate in

Uganda, the pivotal contribution of these enterprises in fostering inclusive and sustainable economic progress, generating employment opportunities, spurring industrialization and innovation, and mitigating income disparities cannot be underestimated. Despite the numerous research endeavours aimed at understanding the factors determining SME growth, statistical data underscores that a significant portion fails to surpass their first quarter-year mark. Given the pivotal role of small businesses in Uganda's economy, continuous investigations are imperative to shed light on areas necessitating improvement among the sector's stakeholders. After conducting a comprehensive review of previous studies using SMEs based in Mukono mufavorable, Uganda, the study selected and examined the most influential factors affecting SME growth in the service sector of Uganda. This research aimed at identifying gaps related to market factors as well as providing recommendations to bolster the sector's sustainability, which is crucial in addressing unemployment concerns in Uganda. The study identified the key economic drivers and barriers that SMEs encounter in their different stages of growth. Consistently, the study examined the folowing factors: access to finance, human capital developendeavorsmarket dynamics.

1.3 Purpose of the study

The purpose of the study was to examine the economic factors that affect the growth of small and medium enterprises in the service sector of Uganda using selceted SMEs in Mukono Municipality.

1.4 Study objectives

- i. To examine the impact of access to finance on SME growth.
- ii. To examine the influence of market dynamics on SME growth.
- iii. To examine the influence of human capital on SME growth.

1.5 Research hypotheses

H0₁: SME growth is not significantly influenced by Access to finance

H0₂ Market dynamics have no significant effect on the growth of SMEs

H0₃: Human capital development has a significant effect on SME growth

1.6.0 Geographical scope

The study focused on the economic factors that influence the growth of SMEs across Mukono municipality. The selection of this region was based on several considerations, including the availability of relevant data, accessibifollowingSMEs for data collection and the costs to be incurred while the study was carried out.

1.6.1 Content scope

The study examined the economic factors that affect the growth of small and medium enterprises and these include but are not limited to access to finance, human capital, and market dynamics. The study explored the interselected interdependencies among these economic factors that affect SME growth. The scope allowed for a comprehensive analysis of the variables providing a holistic understanding of the challenges and opportunities faced by SMEs in the service sector. By addressing these issues, the study aimed at contributing to the knowledge base surrounding SME development and providing appropriate recommendations for concerned stakeholders.

1.6.2 Time scope

The study took a period of five months from May 2023 to September 2023 on the SME's growth in the service sector across Mukono municipality. This time gave an allowance for a systematic and thorough investigation of the variables as well as sufficiency in data collection, analysis, summarizing the findings and lastly writing a report.

1.7 Significance of the study

The study was hoped to help in the formulation of effective policies and support mechanisms to enhance the performance of SMEs and their contribution to the overall economy. Furthermore, findings from the study are hoped to contribute to the existing body of knowledge on the underlying economic dynamics that shape SME growth. The insights gained from this study are bound to provide a comprehensive understanding to the concerned stakeholders of the economic factors that require attention and intervention to foster a conducive environment to contribute to growth. Lastly, it is hoped to make a significant contribution to the literature on the growth of SMEs, particularly in Uganda, where it is hoped to be used as a good starting point for researchers.

1.8 Justification

Small and medium enterprises play a vital role in driving economic growth, job creation, and innovation in numerous economies. However, many SMEs face significant challenges in achieving sustainable growth. Understanding the economic factors that influence SME growth is crucial for formulating effective policies, strategies, and support mechanisms to enhance their performance and contribution to the overall economy.

1.9 Conceptual Framework

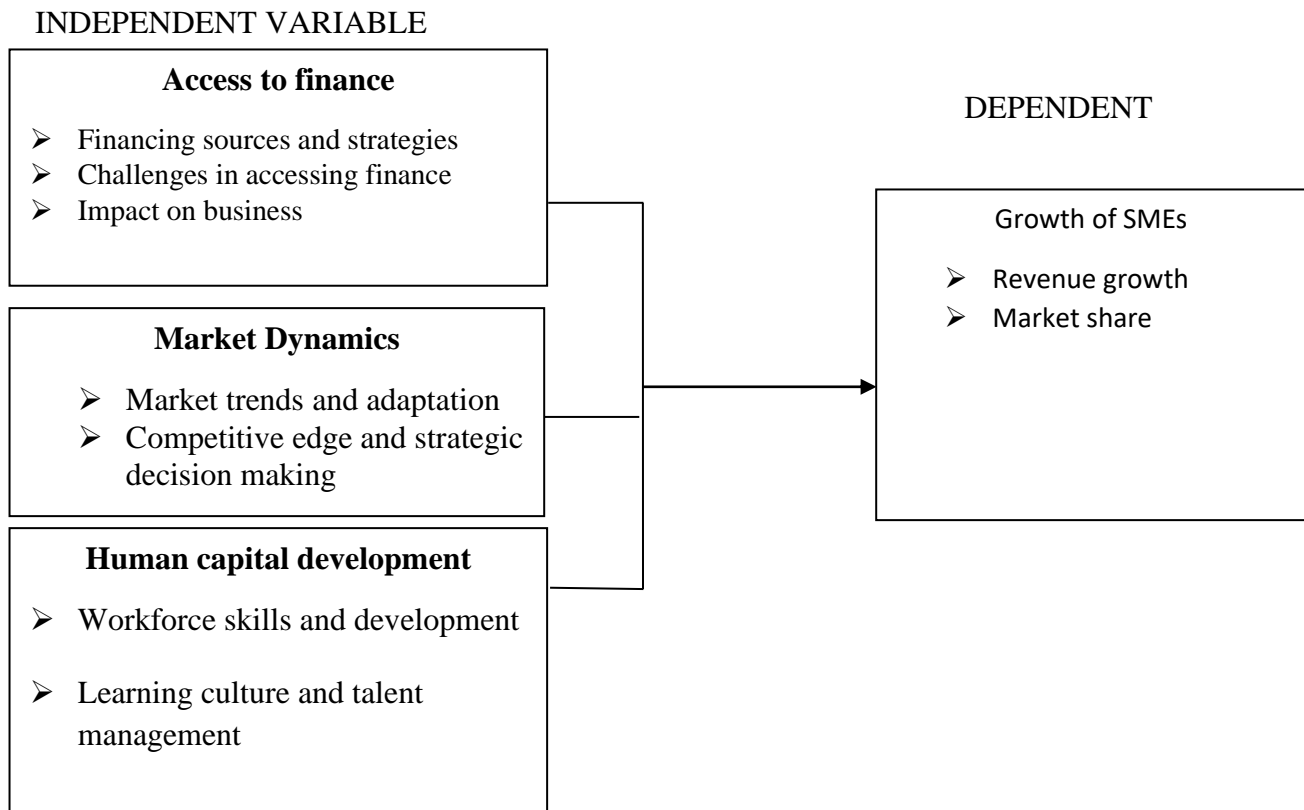


Figure 1: Conceptual Framework

1.10 Conclusion

Chapter one has introduced the research topic, "Economic Factors Affecting SME Growth," emphasizing its significance in understanding how factors such as access to finance, market dynamics, and human capital impact SMEs. The study aims to provide valuable insights for SMEs and policymakers to support sustainable growth. Chapter 2 will conduct a thorough literature review to explore relevant frameworks and empirical studies, offering practical implications for stakeholders.

Chapter Two

Literature Review

2.0 Introduction

This chapter presents a comprehensive review of the relevant literature on the economic factors affecting the growth of Small and Medium Enterprises (SMEs). The literature review is a critical component of this study as it provides a solid theoretical foundation and establishes the existing knowledge and research gaps in the field. By examining and synthesizing a wide range of scholarly works, this chapter aims to build a conceptual framework that will guide the subsequent analysis and discussion.

2.1 Factors affecting the growth of SMEs

This section presents how the independent variable that is, access to finance, market dynamics, and human capital development affect the SME's growth.

2.1.1 The relationship between the availability of financial resources and the growth of SMEs

The ability of SMEs to access finance is important for funding business investment, ensuring that businesses reach their growth potential, and facilitating new business start-ups. However, a lack of finance can constrain cash flow and hamper businesses' survival prospects. In most studies on job creation and employment, it is widely recognized that SMEs account for most of the job creation in the economy (Adelino & Robinson, 2017). So, while there is wide evidence of job creation potential by SMEs, most of them struggle to finance their growth activities due to factors such as asymmetry of information and credit rationing, in both emerging and developed economies (Goffe, Hammersley and Rustom 2021).

SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of \$5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. East Asia and Pacific accounts for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%). The gap volume varies considerably from region to region. Latin America and the Caribbean and the Middle East and North Africa regions, in particular, have the highest proportion of the finance gap compared to potential demand, measured at 87% and 88%, respectively. About half of formal SMEs don't have access to

formal credit. The financing gap is even larger when micro and, informal enterprises are taken into account. (World bank SMEs finance project 2022)

SMEs are a vital part of the UK economy and contribute significantly to economic growth however access to finance in particular is important for funding investment, ensuring businesses reach their full growth potential, and facilitating new business start-ups. Whilst around half of businesses use external finance, a smaller proportion (around 20%) is seeking finance at any one time. Of those who have used external finance in the previous years, bank finance is still the primary source of finance. 28% of all SMEs have used an overdraft and 11% have used a bank loan. Whilst the majority of firms seeking finance do get it (74% of SME employers), several structural market failures are restricting some viable SMEs from accessing finance in the UK. This is due to imperfect or asymmetric information between finance providers and small businesses. This manifests itself in a debt funding gap affecting businesses that lack collateral or track record; and in the equity gap affecting SMEs seeking between £250,000 to £5m of equity finance.

Lack of access to finance has been identified as one of the severe constraints for business development in South Africa, and this is particularly true for growth and job creation in small and medium-sized enterprises (SMEs). Due to their lack of access to financial resources, many SMEs in South Africa do not contribute adequately to economic prosperity and job creation to their full potential. The problem is even more crucial in Africa generally than in other parts of the world as enterprises are less likely to have a loan than in other developing regions of the world (Beck & Cull 2014, and UNECA 2020). Among the reasons highlighted are the high cost of credit, the limited supply of credit, the complicated application procedures, the collateral requirements, and corruption. The lack of access to finance has a huge impact on SME growth and performance (Fowowe, 2017).

Financial systems in Kenya remain underdeveloped which results in credit constraints for households and firms, especially small and medium-sized enterprises (SMEs), and low investment rates. The unavailability of finance has been identified as the most severe obstacle to doing business in Kenya, as highlighted in the United Nations Economic Commission for Africa (UNECA)'s Economic Report on Africa 2020. Access to finance is the second main obstacle to SMEs in Kenya, the first being electricity affecting the operation of businesses in Africa. According to the World Bank Enterprise Survey, 23 per cent of small companies and 16 per cent of medium-sized firms see access to finance as the main obstacle affecting the operations of businesses in Kenya. "Such financial constraints worsen the 'valley of death' in which business start-up in Kenya do not survive their first three years" (UNECA, 2020).

In Uganda, the majority of MSMEs (74 per cent) are also constrained by access and cost of finance despite the reforms made in the financial sector, interest rates in Uganda remain high (20–23 per cent) compared unfavourably to its comparators. SMEs' access to finance is limited by stringent financial requirements, particularly land collateral. This limits MSMEs' growth because they cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms. Additionally,

there are limited options for long-term financing which forces enterprises to use short-term finance for long-term projects. The limited availability of long-term finance opportunities in Uganda is a result of three factors, first, formal savings would be translated to long-term investments are low, with limited long-term savings in the retirement benefits and insurance sectors. Second, underdeveloped capital markets provide equity and debt finance to only a small number of large firms. Third, development finance institutions lack the financial capacity to expand their operations. This financing constraint affects local SMEs more since they cannot access finance on international markets. This is why the public unfavourably muldation of domestic arrears owed to the private sector. (National Small Business Survey of Uganda, 2015)

2.1.3 The effect of Market Dynamics on SME growth

In the period of globalization, competition has become fiercer than ever, reduced trade barriers, technological advancement, and lower communication and transportation costs have sharpened international competition (Grimm et al., 2005). Market dynamism simply can be defined as the degree of change in the market. The essential factors in describing market dynamism are rapid changes in technologies, changes in market structure, the instability of market demand, intense fluctuations in the supply of materials, and the probability of market shocks (Sirmon, 2018). Market dynamism is fundamentally characterized by volatility and unpredictability. In an environment with a high level of market dynamism, it is not easy to distinguish the market boundaries, develop clear successful business models, and identify market participants such as competitors, customers, and suppliers (Eisenhardt, 2016). Thus, firms usually suffer from this external uncertainty caused by a highly dynamic market environment, which makes it more difficult to predict future market situations, plan and organize their resources, and respond with their own knowledge and related processes (Miller D, 2019).

Other researchers look at the effect of changing pricing that affects the demand and supply of a product that leads to a firm's profitability, hence survival. According to Wang and Ahmed (2007), the difference between static and dynamic markets, to a great extent, seeks to recognize changed predominant types of rivalry, specifically circumstances where price drives rivalry (static markets), from those where technological advancement and product assume more noticeable parts (dynamic markets). One of the fundamental reasons for rivalry policy is the deterrence of over-the-top market power and its manipulation (Motta, 2004). According to Motta (2004), the rationale behind competitive policy is the great market influence or great rate of focus. This is harmful to customers' well-being as well as to the performance of different opponents in the business. Another tool for market rivalry is being creative, which is a counter-attack technique to tough competition.

The impact of market dynamics on Small and Medium Enterprises (SMEs) in Tunisia has garnered increasing scholarly attention, as evidenced by studies such as Ben Rejeb H. et al. (2019) and Zouari S. et al. (2021). The evolving nature of market conditions, characterized

by rapid technological advancements, changing consumer preferences, and globalization, holds profound implications for the performance and growth of SMEs. Research has illuminated that the ability of SMEs to prosper and remain competitive is closely intertwined with their capacity to effectively navigate these dynamic market forces. Ben Rejeb and colleagues' work underscores how market dynamics necessitate agile business strategies, innovative approaches, and swift adaptation to shifting consumer demands, influencing SMEs' revenue generation and sustainability. Furthermore, Zouari et al.'s study emphasize that market volatility prompts the need for SMEs to develop an acute understanding of consumer behaviour, embrace flexible marketing strategies, and harness digital platforms to connect with their target audiences in meaningful ways. This literature review underscores the pivotal role of market dynamics in shaping the trajectory of SMEs in Tunisia, highlighting the imperative for these enterprises to proactively engage with changing market conditions to seize opportunities and overcome challenges.

In Kenya, the sources of performance variations among firms have been embedded in terms of industry forces and organizational characteristics. Weerawardena et al. (2006) argued that a firm's performance can be explained by the strengths and weaknesses of the industry forces it operates within. Firms that perceive their industry forces as dynamic may push themselves to be more proactive and innovative, thereby influencing performance. Oyewobi et al. (2013) concluded that the dynamic nature of the African business environment has driven most organizations to emphasize and adopt a proactive position in response to these changes. This has enabled these organizations to take advantage of existing opportunities in their operating environments. As indicated by Pearce and Robinson (2011), competition means the conduct that business competitors display regarding winning the market by looking, consistently, to pick up an advantage over each other. This conduct is communicated to cover the number of organizations competing in the market, product separation, kind of innovation used, delivery of better administrations, focused costs, and incentive for cash and competitive prices. A venture is probably not going to succeed when its administration neglects to create techniques expected to adequately counter its opposition (Svejnar & Stanislaus, 2007).

The impact of market dynamics on Small and Medium Enterprises within Uganda has emerged as a vital focus of the investigation, as evidenced by research such as the work by Kasekende and Ntayi (2018). The ever-evolving landscape of market conditions, characterized by swift technological advancements, shifting consumer preferences, and global interconnectedness, holds profound implications for the performance of SMEs. Scholarly inquiry has revealed that the ability of SMEs to flourish and sustain competitiveness is intricately linked to their adeptness in navigating these dynamic market forces. Previous research has shown how the fluidity of market dynamics necessitates adaptable business strategies, innovative approaches, and rapid adjustment to evolving consumer needs, consequently affecting SMEs' revenue generation and long-term viability. Furthermore, the volatility of markets compels SMEs to foster an in-depth comprehension of consumer behaviour, embrace flexible marketing tactics, and leverage digital platforms to

effectively engage with their target audiences. This comprehensive review underscores the pivotal function of market dynamics in shaping the trajectory of SMEs in Uganda, underscoring the importance of proactive and responsive strategies for these enterprises to capitalize on the opportunities presented by the ever-changing market landscape (Namugenyi et al. 2020).

In Uganda, SMEs are expected to be highly sensitive to market changes and competition to thrive in the market. In the context of a highly dynamic market, Ugandan firms are required to scan customer preferences, expand the boundary of information, and develop adaptive quick responses so that they can deal with the customers' needs properly, and cope with the turbulent market situations to remain competitive. (Kamasak and Yavuz, 2017). SMEs can draw on the flexible nature to redefine strategies and programmers to meet changes in customer demands and harsh conditions in the external environment. The complexity of the behavioray result in the creation of an evolving strategy that does not necessarily pursue explicit objectives or formal approaches but rather progresses through trial and error flexibly and incrementally that strives to keep up with market dynamism (Namugenyi et al. 2020).

2.1.4 The influence of Human Capital Development on SME growth

Fostering human capital development stands as a fundamental factor in nurturing a culture of entrepreneurship and cultivating robust entrepreneurial abilities. The process of human capital development plays a pivotal role in facilitating effective knowledge transmission and practical skill enhancement, all aimed at achieving the overarching goal of enhancing an organization's workforce. Recognizing that the transfer of knowledge and the honing of skills through training are pivotal components that bind the retention and continuous improvement of human potential within enterprises, particularly within the SME sector, this dynamic contributes significantly to the viability and endurance of such SMEs (Atkinson, 2018).

Human capital development plays a pivotal role in shaping the growth trajectory of Small and Medium Enterprises (SMEs) within the United States. Extensive literature underscores the significant impact of a skilled and well-trained workforce on SMEs' competitiveness, innovation, and overall performance. As SMEs often operate within resource-constrained environments, investing in the development of human capital enables them to navigate dynamic market landscapes with greater adaptability. Skilled employees possess the expertise to enhance product and service quality, leading to improved customer satisfaction and loyalty. Moreover, human capital development fosters a culture of innovation, allowing SMEs to effectively harness emerging technologies and seize new market opportunities. Collaborative studies emphasize the positive correlation between training programs, employee skill acquisition, and SME growth. This review underscores the intricate

connection between human capital development and SME success, advocating for tailored policies and initiatives that empower SMEs to invest in their workforce, thereby contributing to the United States' economic vitality (Sirmon, 2018).

It is pertinent to note that the technological growth of any nation depends on the bulk of trained human resources available. Manpower is the basic resource, the indispensable means of correcting other resources to mankind's use and benefit. How well we train, develop, and employ human skills is fundamental in deciding how we will accomplish this as an organization (John F. Kennedy). How we do this will profoundly depend on the kind of nation we have (Gary, 2017). According to Thaker (2008), "training is an organized procedure by which people learn knowledge and skills for a definite purpose". Tim and Brinkerhoff (2008) insist that human capital development represents the planned opportunity that is provided for training, education-directed and planned experiences, and guided growth. Training is also a process or procedure through which the skills, talents, and knowledge of employees are enhanced (Industrial Training Fund, 2006).

SMEs in Nigeria are recognized as one of the principal driving forces for sustainable economic development because of their role in job creation, stimulation of entrepreneurial skills, and private ownership of businesses and as such, must be involved in human capital development for sustainable development of their businesses and the economy as well. Sullivan and Sheffrin, 2013 define human capital development as the development of a stock of competencies, knowledge, and personality attributes embodied in the ability of a person to perform labour to produce economic value. Human capital development represents the investment people make in themselves, others, or their organizations that enhance their economic productivity. Human capital development represents the investment people make in themselves, others, or their organizations that enhance their economic productivity (Atkinson, 2018). Human capital development is the bedrock upon which all organizational resources rest. Bontis, and Dragonetti, (2020) defined human capital development as representing the human factor in the organization, the combined intelligence, skills, and expertise that gives the organization its distinctive character. Training is considered fundamentally important to human capital development.

Human capital development is the bedrock upon which all other organizational resources rest. Bontis, Dragonetti, and Roos, (2020) defined human capital development as representing the human factor in the organization, the combined intelligence, skills, and expertise that gives the organization its distinctive character. The hallmarks of the organization especially entrepreneurship firms are those that are capable of learning, changing, innovating, and providing the creative thrust which, if properly motivated, can ensure the long-term survival of the Entrepreneurship firms. Human capital development involves on-the-job training; sponsorship of seminars and workshops, as well as participation

in trade fairs and exhibitions for serving employees as it helps them adjust to rapidly changing job requirements and market conditions. Human capital theory suggests that training or skill development raises the productivity of workers by imparting useful knowledge and skills, hence, raising workers' future income by increasing their lifetime earnings.

All SMEs need to be involved in human capital development to fortify their businesses and to get more production. There is a popular maxim that human capital or resources is the greatest asset at the disposal of organizations especially in SMEs. The workforces of SMEs, especially the small and medium enterprise firms are the stock of human capital it acquires, deploys, and retains in pursuit of profitability, market share, and customer satisfaction. posited that the greatest assets of SMEs are knowledgeable and skilful workers. A study carried out by Ahmed found that training workers of SMEs gives an added advantage of withstanding the challenges of present-day businesses. The right quality of human capital development helps them develop the talents of the worker, transfer knowledge to the novice, and re-strategies to make more profit (Okpala & Chidi,2018).

Human capital development exerts an important influence on the growth and sustainability of Small and Medium Enterprises (SMEs) within the context of Kenya. A growing body of literature underscores the significant role that well-trained and skilled employees play in driving SME performance, innovation, and competitiveness. Studies such as Muthoni, M. L. and Gachunga, H. (2020) and Muturi, W. and Kimani, E. (2018) have highlighted how investments in human capital, encompassing training, education, and skill enhancement, enable SMEs to navigate complex business environments more effectively. Such endeavours lead to heightened productivity, improved product and service quality, and enhanced customer satisfaction. Furthermore, human capital development has been linked to SMEs' increased adaptability to technological advancements and market shifts. These findings collectively emphasize the integral relationship between human capital development and SME success in Kenya, advocating for targeted policies and interventions that bolster workforce capabilities and contribute to the nation's economic advancement.

The impact of human capital development on the growth and prosperity of Small and Medium Enterprises (SMEs) in Uganda is a subject of increasing interest in scholarly discourse. Research by Okumu, J. M., and Obaa, B. B. (2019) highlights the crucial role of investing in employee training, education, and skill enhancement in driving SME success. A burgeoning body of literature underscores how a skilled and knowledgeable workforce contributes to heightened operational efficiency, product and service quality improvement, and enhanced overall performance endeavors the SME sector. These studies suggest that human capital development fosters a culture of innovation, enabling SMEs to adapt to market

dynamics and technological advancements more effectively. This review underscores the intricate interplay between human capital development and SME growth in Uganda, emphasizing the need for targeted policies and initiatives that promote workforce capacity-building and contribute to the nation's economic advancement (Nansubuga, F., et al. 2021).

In conclusion, human capital can be described as the vehicle that takes organizations to their destination within a stipulated time frame. The importance of human capital development to the survival of modern organizations cannot be overemphasized however, for any organization to survive the competitive business world, it must train and retrain its human resources in consonance with its immediate and remote operational environment. Training of employees results in increased productivity in any organization (Ruiz et al., 2017). It helps SME employees attain self-fulfilment in personal goals as they work to achieve an organizational goal.

2.2 Conclusion

Chapter two has provided a comprehensive review of the economic factors affecting the growth of SMEs establishing a solid theoretical foundation for empirical investigation to follow. It has revealed that access to finance is a critical factor for SME growth. Adequate Additionally, the literature has emphasized the significance of human capital development, including knowledge, skills, and capability of the workforce, in driving SME growth that is SMEs that invest in training, talent acquisition, and employee development are better positioned to innovate, increase productivity and achieve long-term growth. The review has underscored the influence of market dynamics on SME growth that is factors such as market size, competition, customer preference, and industry trends and challenges faced the findings of this literature review provide a valuable foundation for the subsequent eself-fulfillmentis in this study.

Chapter Three

Methodology

3.0 Introduction

This chapter presents the methodology employed to examine the economic factors that affect the growth of small and medium enterprises (SMEs) in the service sector of Uganda. The research methodology is crucial as it provides a systematic approach to collecting, analyzing, and interpreting data, ensuring the reliability and validity of the study's findings. This chapter outlines the research design, data collection methods, sample selection, and data analysis techniques utilized in this study.

3.1 Research Design

According to C.R. Kothari, a research design is a blueprint or a plan for conducting research. It outlines the strategies and methods that were employed to gather relevant data and information, analyze that data, and draw valid and reliable conclusions from the research study.

The research design that was employed in this study is a cross-sectional research design that integrates both qualitative and quantitative methodologies. The chosen research design aligns with the objectives of the study, allowing for a comprehensive exploration of the factors influencing SME growth. It provides a framework for collecting and analysing data that enables a detailed examination of the identified factors and SME growth outcomes.

3.2 Study Population

The target population of the study was an entire set of small and medium enterprises in Mukono municipality. The sampling frame was a list of 100 target populations of enterprises, from which the required sample size was drawn, which was available in Mukono municipality. A sample was drawn because it is impossible to consider the total population as respondents to this survey due to impracticality, time, and cost. The sampling units for this study focused on, the top managers, Owners, and managers, or other responsible persons who lead the enterprise like a salesperson who represent the owner.

3.3 Sampling technique

The sample for the study was selected using a stratified sampling technique. This technique involves dividing your target population (SMEs) into subgroups (strata) based on specific

characteristics (such as industry type, company size, etc.), and then selecting a proportional number of participants from each subgroup. The sample that was included in this study describes the characteristics of the sample such as the number aimed to achieve diversity and representation across different industries and geographical locations to enhance the generalizability of the study's findings.

3.4 Sample Size Determination

The sample size was determined using the Yamane sample size determination. The selected sample selection aimed to achieve diversity and representation across different industries and geographical locations to enhance the generalization of the study's findings. The sample size was 80 enterprises in the service sector consisting of wholesale shops, Healthcare clinics, restaurants, and salons.

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

Where;

N = Study population

n = Sample population

e = margin of error

$$n = \frac{100}{1 + 100(0.05)^2}$$

$$n = 80$$

Table 3.4 Sample size determination

CATEGORY	N	Sample size	n
Healthcare clinics	20	$\frac{20 \times 80}{100}$	16
Wholesale shops	35	$\frac{35 \times 80}{100}$	28
Restaurants	30	$\frac{30 \times 80}{100}$	24
Salons	15	$\frac{15 \times 80}{100}$	12

Source: Secondary data, 2023

3.5 Data Collection Methods

The research adopted a robust survey methodology, leveraging both qualitative and quantitative data collection techniques. This comprehensive approach ensured a well-rounded exploration of the research subject and enhanced the study's ability to derive insightful conclusions. Amidst the array of survey methods at our disposal, this research strategically centred on the utilization of questionnaires as the primary data collection instrument. This strategic choice is guided by the study's research objectives, aiming to gather specific and measurable information directly relevant to the factors influencing SME growth.

3.5.1 Questionnaire Survey Method

The questionnaires were distributed to all respondents, who were managers of Small and Medium Enterprises (SMEs). These individuals possessed firsthand knowledge and insights into the various aspects of SME growth and the factors that influence it. To ensure consistency and facilitate analysis, the questionnaire presented respondents with a set of closely defined choices for recording their answers. This structured approach helps to standardize the responses which made it easier to quantify and analyze the data. Respondents selected the most relevant alternative from the provided choices, which will contribute to the clarity and reliability of the collected data

3.6 Data Sources

The research collected both qualitative and quantitative information that is, primary and secondary were collected. In primary data, the researcher intended to know the current situation and perceptions of the people who were interviewed by use of questionnaires. For secondary data, the researcher intended to get both the findings of other researchers and the district SME database. The primary data helped to get answers to specific questions that were designed to capture specific issues from respondents, especially those issues that could not be obtained from the secondary information.

3.7 Data Collection Instrument

3.7.1 Self-Administered questionnaires

Questionnaires are a widely employed instrument for systematically collecting structured information, serving diverse research objectives. In this study, a targeted approach was involved in the distribution of 80 questionnaires to individuals engaged within the chosen SMEs. The questionnaire method was anticipated to facilitate precise data collection,

ensuring that respondents' input aligns coherently with the research's logical sequence. The significance of questionnaires rested on their capacity to solicit accurate insights from participants. By adhering to a predetermined structure, questionnaires offer a reliable means of extracting information that pertains to the study's focus. To this end, the study constructed questionnaires meticulously designed to capture essential details such as respondents' ages, the nature of their businesses, and the challenges confronted by SMEs in the municipality.

A standardized questionnaire, employing a five-point Likert scale, was utilized to gather measurable primary data from individual participants. The Likert scale ranged from 5 for Strongly Agree to 1 for Strongly Disagree, allowing respondents to express their opinions on a structured scale. This approach aimed to quantify the participants' perspectives effectively and systematically.

3.8 Validity and Reliability

3.8.1 Reliability

Reliability refers to the constancy and steadiness of an observed score derived from a measurement scale, denoting the absence of random error (Saunders, et al., 2009). To ensure reliability, a pilot testing phase and an interviewer-administered questionnaire were employed, in contrast to the "drop and collect later" approach (Kothari, 2009). The study closely oversaw the implementation of the questions, maintaining fidelity to the questionnaire method. This strategy was designed to enhance the dependability of the gathered data and to mitigate potential inconsistencies.

Table 3.8 Reliability test results

Variable	Total No of items	Cronbach's alpha
SME growth	7	0.9
Access to finance	10	0.92
Market dynamics	9	0.92
Human capital development	8	0.96

Source: primary data, 2023

Table 3.8 above shows that on average SME growth yielded a Cronbach's alpha value of 0.9, Access to finance yielded an alpha value of 0.92, Market dynamics yielded an alpha value of 0.92 and human capital development yielded an alpha value of 0.70. Since all variables yielded an alpha value greater than 0.70 accepted for social sciences, it was concluded that the instrument was consistent and therefore reliable.

3.8.2 Validity

Validity in research concerns the alignment between the obtained findings and their apparent meaning (Saunders, et al., 2009). This entails ensuring that participants selected for the study genuinely represent the target population. In this context, the research engaged actual practitioners within SMEs, allowing for an authentic understanding of the subject matter. Employing a descriptive case study design further enhanced validity by facilitating a comprehensive exploration of the research context, improving data evaluation skills, and synthesizing insights. This approach aimed to meticulously capture the essence of the target population, bolstering the study's validity.

3.9 Model Specification

The model was structured based on two distinct sets of variables, namely the dependent variable (SME Growth) and the independent variables (Access to finance, market dynamics, and human capital). The fundamental aim underlying the utilization of a regression equation in this study is to enhance its efficacy in revealing, understanding, and the selected variables. The ensuing regression model will be formulated to comprehend three independent variables in conjunction with a single dependent variable.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + U_i$$

Where:

Y = Dependent variable (Growth)

β_0 = Constant term

X_1 = Access to finance,

X_2 = Market dynamics,

X_3 = Human capital development

U_i = Disturbance or error term

$\beta_1, \beta_2,$ and $\beta_3,$ = Coefficient of independent variables

Accordingly, this statistical technique was used to explain the following relationships. Regress growth (as dependent variable) on the selected linear combination of the independent variables using multiple regressions (access to finance, market dynamics, and human capital development)

3.10 Data management and Analysis plan

Data analysis is a key step in extracting meaningful insights from the collected data. This section presents the analytical techniques and tools that were utilized to analyze the data and

draw conclusions regarding the economic factors affecting SME growth. Whether quantitative or qualitative, the chosen analytical methods were justified based on their suitability for addressing the research hypothesis and objectives. The steps that were involved in the data analysis process, including coding, categorization, statistical tests, or analysis were detailed.

The Likert scale was used to transform qualitative data into quantitative so that it could be analyzed using Stata statistical software and MS Excel. The main methods with which the data was analyzed included analysis of variance or ANOVA, and regression. Frequency tables were constructed to demonstrate a breakdown of respondents according to their responses.

Regression analysis revealed the statistical significance of each factor that was assumed to have an impact on the growth of SMEs.

3.11. Measurement of Variables

This section defines the methods employed to measure the study's core variables, ensuring their operationalization for effective analysis. The dependent variable, "Growth," encompasses revenue growth and market share. Respondents rated these dimensions on a Likert scale from 1 (Low) to 5 (High). The independent variables; Access to Finance, Market Dynamics, and Human Capital were quantified on a Likert scale to assess perceptions ranging from 1 (Low) to 5 (High). These structured measurement techniques enabled a comprehensive evaluation of the variables, facilitating accurate analysis and contributing to the study's validity and reliability.

3.12 Ethical Consideration

Ethical considerations hold a pivotal role in research endeavours, and this segment extensively addresses the ethical facets pertinent to the study. This encompasses securing informed consent from participants, guaranteeing the confidentiality and anonymity of data, and unwavering adherence to ethical guidelines and regulations. Measures enacted to safeguard participants' rights and privacy were expounded upon, underscored by a steadfast commitment to ethical research principles. All research participants slated for inclusion were duly apprised of the research's purpose and their voluntary participation, as well as their informed consent, before the distribution of questionnaires. Upholding the respondents' privacy rights, the study diligently maintained the confidentiality of individual identities. Throughout, individual names will be safeguarded, employing collective labels like "respondents" to ensure discretion.

3.13 Conclusion

Chapter 3 has presented a detailed methodology that was used in this study to examine the factors affecting the growth of SMEs. The research design, data collection methods, sample selection, data analysis techniques, reliability and validity of the research, and finally the ethical considerations have all been carefully addressed ensuring a rigorous and systematic approach to answering the research questions. It has provided a comprehensive overview of the research methodology adopted. Chapter 4 will include an analysis of the collected data on the selected SMEs in Mukono municipality using the Stata statistical software package and this will provide answers to the research questions.

Chapter Four

Data Presentation, Analysis and Interpretation

4.0 Introduction

This chapter presents the results of a statistical analysis of the data obtained from the respondents. The results focus on testing the hypotheses stated in Chapter One. Therefore, general information from the business enterprises respondents as well as descriptive statistics on the growth of small and medium enterprises currently experienced in Mukono Municipality were presented and analyzed. Data was collected from owners, managers, or any responsible persons of SMEs.

4.1 Response rate

Eighty questionnaires were distributed, out of which 64 were completed and retrieved successfully, representing an 80% response rate as indicated below.

Table 4.1: Response rate

CATEGORY	Questionnaires issued	Questionnaires returned	Response rate(%)
Healthcare clinics	16	12	75
Wholesale shops	28	24	85.7
Restaurants	24	18	75
Saloons	12	10	83.3

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e: Primary data

The table above shows an overall high response rate of 80% and suggests that the survey results were representative of the study population. Mary. F (2016) contends that a response rate of 60% is a strong representative of the population and of acceptable standards.

4.2 Background of the Respondents

This section reflects the distribution of respondents by sex, age, education level, number of employees and total assets of the respondents as shown in Table 4.2 below.

Item	Details	Frequency	Percentage
Gender of the respondent	Male	38	59.38
	Female	26	40.62
	Total	64	100
Age of the respondent	Between 25 - 35	46	71.88
	36 and above	18	28.13
	Total	64	100
Education level	Postgraduate	10	15.63
	Bachelor's degree	49	76.56
	Diploma	4	6.25
	A level and below	1	1.56
	Total	64	100
Number of employees	Between 6-49	50	78.13
	Between 50-100	14	21.88
	Total	64	100
Total assets	Between 10 - 100	48	75
	Between 100-360	16	25
	Total	64	100

Table 4.2 Background of the respondents

Source: Primary data, 2023

According to Table 4.2, the percentage of male respondents was 59.38% and the percentage of females was 40.63. This implies that male managers managed a bigger number of SMEs

According to Table 4.2, bachelor's degree respondents dominated the sample by contributing (76.56%), followed by postgraduates whose contribution was (15.63%), Diploma and those who fell under A level and below had the least contribution of (6.25%), and (1.56%) respectively. This implied that the majority of the SMEs were managed by degree-holders. According to Table 4.2, the majority of the respondents belong to the category of 25-35 contributing 71.88% of the total respondents, and the rest of the respondents belonged to the category of 36 years and above contributing 28.13% of the total respondents. This implies that the category of 25-35 dominated the sample.

According to Table 4.2, 78.13% of the total respondents indicated having between 6 and 49 employees, while the remaining 21.88% reported having between 50 and 100 employees. This suggests that SMEs employing between 6 and 49 workers dominated the sample implying that most of them were small enterprises.

According to Table 4.2, of the total respondents, 75% of the respondents' SMEs had a total asset value ranging between UGX 10-100 million and 25% of the respondents' SMEs had a total asset value ranging between UGX 100 to 360 million. This suggests that the SMEs whose total assets are between UGX 10-100 million dominated the sample.

4.3. Description of the dependent variable: Growth of SMEs

The dependent variable, SME growth, was measured in terms of revenue growth, and market share. It comprised 7 quantitative items. These were measured using a five-point Likert scale ranging from 1 – 5. Where (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree and (5) = strongly agree as shown in Table 4.3.

Table 4.3 Statistics of respondents' rating on revenue growth and market share

Revenue growth	Agree F (%)		Not sure	Disagree F (%)		Mean	SDV
	SA	A		DA	SDA		
1. My SME has experienced significant revenue growth	9 (14.1)	20 (31.3)	12 (18.8)	11 (17.2)	12 (18.6)	3.0469	1.3502
2. Revenue growth has positively impacted our growth	16 (25)	20 (31.3)	11 (17.2)	10 (15.6)	7 (11)	3.4375	1.3199
3. Revenue growth is a key indicator for our expansion	14 (21.9)	20 (31.3)	13 (20.3)	11 (17.2)	6 (9.4)	3.3906	1.2676
4. We have effectively implemented strategies for growth	11 (17.2)	20 (31.3)	14 (21.9)	15 (23.4)	4 (6.3)	3.2969	1.1910
Market Share							
5. My SME market share within the industry has increased	3 (4.7)	23 (35.9)	13 (20.3)	17 (26.6)	8 (12.5)	2.9375	1.1530
6. Our SME's competitiveness is linked to market share	9 (14.1)	17 (26.6)	19 (29.7)	15 (23.4)	4 (6.3)	3.1875	1.1391
7. We have strategically pursued market share expansion	3 (4.7)	22 (34.3))	17 (26.5)	12 (18.8)	10 (15.6)	2.9375	1.1667

Source: Primary data

Table 4.3 reveals that most respondents consider revenue growth as a crucial indicator for SME growth, with a mean score of 3.3906 and a standard deviation of 1.2676. Additionally, a significant proportion of SMEs have adopted growth strategies, as reflected by a mean score of 3.2969 and a standard deviation of 1.1020. Table 4.3 further demonstrates that SMEs associate their competitiveness with market share, as indicated by a mean score of 3.1875

and a standard deviation of 1.1391. Additionally, a significant majority have actively pursued market share expansion, with a mean score of 2.9375 and a standard deviation of 1.1667.

4.4 Access to finance and how it impacts the growth of SMEs

The first objective of the study was to examine the impact of access to finance on the growth of SMEs. The impact was assessed in the form of financing sources and strategies and the challenges SMEs face in accessing funds to finance their enterprises. Access to finance was measured using 5 items scored on a five-point Likert scale ranging from 5= Strongly Agreed, 4= Agree, 3= Not Sure, 2= Disagree, 1= Strongly Disagree and the findings are presented in Table 4.4

Table 4.4 Descriptive results on access to finance

Financing sources and strategies	Agree F (%)		Not sure	Disagree F (%)		Mean	SDV
	SA	A		DA	SDA		
1. Our SME successfully obtains loans for expansion	6 (9.4)	20 (31.3)	13 (20.3)	15 (23.4)	10 (15.6)	2.9531	1.2527
2. Personal savings are used for SME growth	6 (9.4)	21 (32.8)	14 (21.8)	17 (26.6)	6 (9.4)	3.0625	1.1667
3. Alternative funding sources have been explored	8 (12.5)	20 (31.3)	17 (26.7)	13 (20.3)	6 (9.4)	3.1719	1.1759
4. Financial institutions offer suitable financing	9 (14.1)	16 (25)	19 (29.7)	14 (21.9)	6 (9.4)	3.125	1.1888
Impact on business							
5. Access to credit impacts seizing opportunities	10 (15.6)	24 (37.5)	10 (15.6)	10 (15.6)	10 (15.6)	3.2188	1.3270
6. Financing constraints hinder our business expansion	3 (20.3)	21 (32.8)	9 (14.1)	16 (25)	5 (7.8)	3.3281	1.2731
7. Financial support enhances our business expansion	18 (28.1)	18 (28.1)	12 (18.8)	14 (21.9)	2 (3.1)	3.5625	1.2068
Challenges in accessing finance							
8. Accessing finance is a challenge to our business	19 (29.7)	17 (26.6)	7 (10.9)	14 (21.9)	8 (12.5)	3.3906	1.4323
10. High-interest rates hinder borrowing for growth	24 (37.5)	18 (28.1)	8 (12.5)	12 (18.8)	4 (6.3)	3.7188	1.3150

Source: Primary Data, 2023

Table 4.4 reveals significant findings regarding SMEs' access to financing. Firstly, a substantial majority of SMEs reported difficulties in securing loans for expansion, with a mean score of 2.9532 and a standard deviation of 1.2527. These challenges stem from the high-interest rates and collateral requirements. Additionally, the table underscores that a significant majority of SMEs rely on personal savings to fuel their growth efforts, indicated

by a mean score of 3.0625 and a standard deviation of 1.1667. Respondents strongly emphasized the positive impact of financial support on business expansion, as reflected in the mean score of 3.5625 and a standard deviation of 1.2068. Moreover, the majority of SMEs expressed financial constraints as a hindrance to their growth, and they identified high interest rates as a barrier to borrowing.

4.5 Market dynamics.

The second study objective was to examine the influence of market dynamics on the SME's growth. Market dynamics was divided into two parts that is, “market trends and adaptation” and “competitive edge and strategic decisions”. It was measured using 9 questions scored on a five-point Likert scale ranging from 5= Strongly Agreed, 4 Agree, 3= Not Sure, 2= Disagree, 1= Strongly Disagree and the findings are presented in Table 4.5

Table 4.5 Descriptive results on market dynamics

Market trends and adaptation	Agree F (%)		Not sure	Disagree F (%)		Mean	SDV
	SA	A		DA	SDA		
1. We quickly adapt to changes in customer preferences	14 (21.9)	16 (25)	18 (28.1)	13 (20.3)	3 (4.7)	3.3906	1.1767
2. Competitive landscape influences our pricing decisions	13 (20.3)	27 (42.2)	6 (9.4)	9 (14.1)	9 (14.1)	3.4063	1.3419
3. Market trends significantly impact our growth	18 (28.1)	24 (37.5)	6 (9.4)	9 (14.1)	7 (10.9)	3.5781	1.3310
4. Anticipating market shifts guide our product development	18 (28.1)	22 (34.4)	10 (15.6)	11 (17.2)	3 (4.7)	3.6406	1.2001
Competitive edge and strategic decisions							
8. Market competition drives our innovation	13 (20.3)	27 (42.2)	5 (7.8)	7 (10.9)	12 (18.8)	3.3438	1.416667
9. Making adjust in market demand is essential for our growth	14 (21.9)	27 (42.2)	9 (14.1)	8 (12.5)	6 (9.4)	3.5469	1.23352

Source: Primary Data, 2023

Table 4.5 reveals that SMEs quickly adapt to changes in customer preferences with a (mean = 3.3906 and STD 1.1767). it also reveals that anticipating market shifts guides SMEs' product development (mean = 3.6406 and STD = 1.2001). The table also reveals that respondents agreed that making adjustments in market demand was essential for their growth (mean = 3.5469, STD =1.2335) and these emerged as the key indicators for this variable.

4.6 Human Capital Development

The third objective of the study was to examine the impact of human capital development on SME growth. It was divided into two parts and measured using 8 questions scored on a five-point Likert scale ranging from 5= Strongly Agreed, 4= Agree, 3 Not Sure, 2= Disagree, and 1= Strongly Disagree and the findings are presented in Table 4.5.

Workforce skills and development	Agree F (%)		Not sure	Disagree F (%)		Mean	SDV
	SA	A		DA	SDA		
1. Our employees' skills contribute significantly to growth	19 (29.7)	20 (31.3)	7 (10.9)	8 (12.5)	10 (15.6)	3.4688	1.4361
2. We invest in professional development to support growth	8 (12.5)	23 (35.6)	10 (15.6)	18 (28.1)	5 (7.8)	3.1719	1.2026
3. Continuous employee training enhances our competitiveness	21 (32.8)	16 (25)	6 (9.4)	12 (18.8)	9 (14.1)	3.4375	1.4679
4. Employee capabilities drive our product/service excellence	17 (26.6)	20 (31.3)	8 (12.5)	9 (14.1)	10 (15.6)	3.3906	1.4211
Learning culture and talent management							

Table 4.6 *Descriptive results on Human Capital Development*

5. Investing in employee skills positively impacts our growth	17 (26.6)	22 (34.4)	7 (10.9)	10 (15.6)	8 (12.5)	3.4688	1.3682
6. Employee knowledge sharing enhances our growth potential	18 (28.1)	22 (34.4)	8 (12.5)	8 (12.5)	8 (12.5)	3.5313	1.3566
7. Learning is encouraged and embedded in our company	19 (29.7)	21 (32.8)	7 (10.9)	12 (18.8)	5 (7.8)	3.5781	1.3069
8. We attract and retain top talent through effective HR practices	20 (31.3)	17 (26.6)	8 (12.5)	13 (20.3)	6 (9.4)	3.5	1.3686

Source: Primary data, 2023

Table 4.6 reveals that continuous employee training enhances competitiveness (mean = 3.4375 and STD = 1.4679) Table 4.5 also reveals that respondents claimed that learning was encouraged and embedded in their SMEs (mean = 3.5781 and STD = 1.3068) and that they attract and retain top talent through effective HR practices to enable their SMEs grow (mean = 3.5 and STD = 1.3686)

Table 4.6 also reveals that knowledge sharing among employees enhances growth potential with (mean = 3.5381 and STD = 1.3069). This implies that SMEs whose employees are able to share knowledge with others achieve substantial growth.

4.7 Regression Analysis and hypothesis Testing

Multiple regression analysis was carried out to establish the overall effect of Access to finance, Market dynamics and Human Capital Development on the growth of SMEs using adjusted R² statistics. The linear regression analysis was conducted to establish which among the dimensions of the independent variable was the most significant in determining the growth of SMEs in Mukono Municipality. The linear regression results were also used to test the study hypotheses and are presented in Table 4.7

Table 4.7 Linear regression analysis results

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	0.723	0.6333	0.6149	0.6156
ANOVA				

Model		Sum of squares	df	Mean Square	F	Sig.
	Regression	39.2624	3	13.0875	34.54	0.0000
	Residual	22.7380	60	0.3790		
	Total	95.225	63	0.9841		
Model		Coefficients		T	p>[t]	
		Beta	Std. Error			
1	Access to finance	0.3201	0.1832	1.75	0.086	
	Market dynamics	0.5267	0.1735	3.03	0.004	
	Human capital dev	-0.0613	0.1349	-0.45	0.651	
	constant	0.51	0.2894	1.76	0.083	
Dependent Variable: SME Growth						
Predictors: Access to finance, market dynamics and Human capital dev						

Source: Primary Data, 2023

The linear regression model is given as follows,

$$\text{Smegrowth} = 0.51 + 0.3201\text{AF} + 0.5267\text{MD} - 0.6127\text{HCD} + U_t$$

Where;

Smegrowth = SME growth

AF = access to finance

MD = Market Dynamics

HCD = Human capital development

Ut = disturbance term

Table 4.8 above shows the multiple regression analysis which explores the combined influence of Access to finance, Market dynamics, and Human capital development on SME growth. The model indicates statistical significance this is because the Prob > F = 0.0000 is less than the level of significance of alpha 0.05 suggesting that the combination of these independent variables significantly predicts SME growth. The correlation coefficient (R= 0.723) indicated the strength of the association between Access to finance, Market dynamics and Human capital development taking into consideration all interactions among the study variables.

The R-squared value of 0.6333 suggests that 63.33% of the variability in SME growth is explained by the considered factors and the remaining 36.67 is explained by other factors not included in the study. The adjusted R-squared value, accounting for the number of predictors, is 0.6149 and the standard error estimate is 0.6156.

The coefficients for the predictors are as follows:

Access to Finance (Beta = 0.3201, $p = 0.086$) This predictor has a coefficient of approximately 0.3201, but it is not statistically significant at the 0.05 significance level ($p = 0.086$) as a result of the p-value being greater than the level of significance of 0.05. Access to finance has a coefficient of 0.3201. This means that holding other variables constant, a one-unit increase in access to finance is associated with an increase of 0.3201 units in SME Growth.

Market Dynamics (Beta = 0.5267, $p = 0.004$). This variable has a coefficient of 0.5267 and is statistically significant ($p = 0.004$), this is because the p-value of 0.004 is less than the level of significance alpha of 0.05 indicating a positive relationship with SME Growth. The coefficient of 0.5267 suggests that holding other variables constant, a one-unit increase in favourable market dynamics is associated with an increase of 0.5267 units in SME Growth, and this relationship is statistically significant.

Human Capital Development (Beta = -0.0613, $p = 0.651$) This variable has a coefficient of approximately -0.0613 and is not statistically significant ($p = 0.651$) as the p-value of 0.651 is greater than the level of significance of 0.05. The coefficients suggest that a unit increase in human capital development leads to a -0.0613 decrease in SME growth. The constant term (intercept) has a coefficient of approximately 0.51 and is not statistically significant ($p = 0.083$).

In conclusion, the regression model suggests that Market Dynamics has a statistically significant positive relationship with SME Growth. However, Access to Finance and Human Capital Development do not appear to have a statistically significant impact at the 0.05 significance level. Adjusted R Square indicates that the model explains approximately 61.49% of the variance in SME Growth, suggesting that other factors not included in the model may also influence SME Growth.

4.8 Hypothesis Testing

H1: SME growth is not significantly influenced by Access to finance

The coefficient for Access to Finance is approximately 0.3201, and the corresponding p-value is 0.086. Since the p-value of 0.086 is greater than the significance level ($\alpha = 0.05$), we

fail to reject the null hypothesis (H0). This means that there is no significant influence of access to finance on SME growth.

H2: Market dynamics have no significant effect on the growth of SMEs

The coefficient for Market Dynamics is 0.5267 with a p-value of 0.004. Since the p-value of 0.004 is less than the significance level of alpha (0.05), we reject the null hypothesis and accept the alternative that there is a significant positive effect of market dynamics on SME growth.

H3: Human capital development has no significant effect on SME growth

The coefficient for Human Capital Development is approximately -0.0613, and the associated p-value is 0.651. Since the p-value (0.651) is much greater than the significance level ($\alpha = 0.05$), we fail to reject the null hypothesis (H0) for this hypothesis. This means that there is no significant effect of human capital development on SME growth.

Chapter Five

Discussion, Conclusions and Recommendations

5.0 Introduction

This chapter presents the findings of the research on the economic factors affecting the growth of Small and Medium-sized Enterprises (SMEs). It addresses each of the research objectives and hypotheses, drawing on both quantitative and qualitative data to provide a comprehensive understanding of the factors at play. Lastly, it presents the conclusions and recommendations.

5.1 Discussion of the findings

5.1.1 Investigating the Impact of Access to Finance on SME Growth

The analysis revealed that access to finance did not have a statistically significant influence on SME growth in Uganda despite yielding a positive outcome. This finding contradicts with earlier studies that access to finances are a decisive factor in SME development (D Amadasun and a. Mutezo, 2022). While access to finance is important for SMEs, other contextual factors in Uganda may mitigate its impact. This could include issues related to the accessibility of financial institutions, the cost of borrowing, and the suitability of financial products for SMEs. In Uganda, SMEs often face challenges in accessing financial institutions. These challenges can include geographical barriers, limited rural access to banking services, and cumbersome documentation and application procedures. While there may be financial institutions available, their reach may not extend to the areas where SMEs operate, making it difficult for them to access the necessary funds for growth. This lack of accessibility can significantly reduce the impact of available financial resources.

Even when SMEs have access to financial institutions, the cost of borrowing can be prohibitively high. High interest rates on loans can eat into the profit margins of SMEs, making it challenging for them to invest in expansion or other growth-related activities. This cost burden can outweigh the benefits of accessing finance and, as a result, diminish its overall influence on SME growth.

Financial institutions often consider SMEs to be riskier borrowers compared to larger, more established businesses. This perception leads to stricter lending criteria, higher collateral requirements, and, in some cases, outright rejection of loan applications. As a result, SMEs may face hurdles in obtaining financing, even if they have access to financial institutions. The economic environment and regulatory landscape in Uganda also impact the influence of access to finance on SME growth. Economic volatility, inflation rates, and exchange rate

fluctuations also affect the affordability and feasibility of borrowing for SMEs. Regulatory changes or instability can create uncertainty in the financial sector, which can, in turn, affect SMEs' access to finance.

In Uganda, many SMEs still rely on informal financial practices, such as savings and credit cooperatives (SACCOs) or borrowing from family and friends. These informal networks often provide more accessible and flexible financing options than formal financial institutions. As a result, SMEs may prioritize these informal channels over formal banking.

5.1.2 Exploring the Influence of Market Dynamics on SME Growth

Market dynamics emerged as a significant factor affecting SME growth. SMEs that adapt quickly to changes in customer preferences, anticipate market shifts and make adjustments accordingly experience higher growth rates. This collaborates with earlier findings that market dynamics significantly impact the growth of SMEs (Kasekende & Ntayi, 2018). The competitive landscape significantly influences pricing decisions, emphasizing the importance of market awareness and responsiveness. This finding underscores the need for SMEs in Uganda to be proactive in monitoring and adapting to changing market trends.

The significance of market dynamics in influencing SME growth in Uganda underscores the vital role of adaptability and market responsiveness in the success of these enterprises. SMEs that demonstrate the ability to swiftly adapt to changes in customer preferences are better positioned to not only meet evolving consumer demands but also to gain a competitive edge. This adaptability is often a reflection of a keen understanding of the market, as SMEs must be attuned to shifting trends, emerging technologies, and evolving consumer behaviours. By doing so, these SMEs can tailor their products or services to better align with what the market demands, thereby attracting and retaining a larger customer base.

The findings emphasize the interdependent relationship between market dynamics and pricing decisions. SMEs that are acutely aware of the competitive landscape can make informed pricing choices that maximize profitability while remaining attractive to consumers. This highlights the importance of continuous market analysis and the development of robust pricing strategies. Essentially, the study underscores that SMEs in Uganda need to embrace a proactive stance toward market trends, incorporating regular market assessments into their operational strategies, and fostering a corporate culture that values innovation and adaptability. In a rapidly changing business landscape, this approach can be a key driver of sustained SME growth and competitiveness.

5.1.3 Examining the Impact of Human Capital Development on SME Growth

Human capital development did not demonstrate a statistically significant effect on SME growth. This suggests that while employee skills and development are crucial, they may not directly translate into higher SME growth rates. SMEs should carefully assess their human resource strategies to ensure they align with their growth objectives.

The finding that human capital development did not exhibit a statistically significant impact on SME growth in Uganda is noteworthy. The findings contradict earlier studies that human capital development has an impact on SME growth (W. Muturi. and E. Kimani, 2018). It suggests that while investing in employee skills and development is undoubtedly important, there might be complexities at play within the Ugandan SME landscape that temper the direct correlation between human capital and growth. This observation raises questions about the effectiveness of current human resource strategies within these SMEs. It implies that the mere presence of a skilled workforce does not automatically guarantee growth; instead, SMEs should focus on optimizing their human resource practices to harness the full potential of their employees.

To enhance the potential benefits of human capital development, SMEs in Uganda may need to consider a multifaceted approach. This could encompass aligning employee training and development more closely with the specific needs of the business, as well as cultivating a culture of innovation and knowledge sharing within the organization. By fostering an environment that encourages employees to apply their skills effectively and contribute to the company's strategic objectives, SMEs may find that human capital development becomes a more potent driver of growth. Moreover, the study highlights the importance of monitoring and evaluating the impact of human capital strategies regularly. This iterative approach allows SMEs to make data-driven adjustments to their employee development initiatives, ensuring that they remain responsive to the dynamic business environment and continue to drive growth in the long term.

5.2 Conclusion

This study explored the economic factors influencing the growth of Small and Medium Enterprises (SMEs) in Uganda. The research sought to uncover the relationships between financial resources, market dynamics, human capital, and the growth prospects of SMEs in this dynamic and evolving business environment. Through a comprehensive data analysis and a review of relevant literature, several key insights have emerged:

The analysis did not find a statistically significant influence of access to finance on SME growth in Uganda. This outcome challenges the conventional belief that financial resources alone are the primary driver of SME development. It suggests that in the Ugandan setting, factors such as accessibility to financial institutions, the cost of borrowing, and the suitability of financial products may mitigate the impact of access to finance. As such, SMEs should adopt a more holistic approach to growth, incorporating other critical factors like market dynamics and human capital development. However, disparities in access to financial resources among SMEs remain a challenge that requires further attention.

Market dynamics emerged as a key factor significantly affecting SME growth in Uganda. SMEs that adeptly adapt to changes in customer preferences, anticipate market shifts and make necessary adjustments experience higher growth rates. Additionally, the competitive landscape significantly influences pricing decisions, underlining the importance of market awareness and responsiveness. This finding highlights the need for SMEs in Uganda to proactively monitor and adapt to changing market trends to achieve sustained growth. To thrive in this dynamic environment, SMEs should continuously gather market intelligence, respond swiftly to customer needs, and remain vigilant about competitive forces.

The analysis revealed that human capital development did not demonstrate a statistically significant effect on SME growth in Uganda. While employee skills and development are undoubtedly crucial, this finding suggests that other contextual factors may temper the direct link between human capital and growth in the Ugandan SME. SMEs should, therefore, critically assess their human resource strategies to ensure they align with their growth objectives. This implies that it's not just about having a skilled workforce but optimizing human resource practices to unleash the full potential of employees. To enhance the potential benefits of human capital development, SMEs in Uganda may need to align employee training more closely with business needs, foster a culture of innovation and knowledge sharing, and regularly evaluate the impact of their human resource strategies.

In conclusion, SMEs in Uganda have the potential to be powerful engines of economic growth, contributing to employment, innovation, and poverty reduction. However, realizing this potential requires addressing the disparities in access to financial resources, enhancing adaptability to market dynamics, and recognizing the vital role of human capital development.

The Ministry of Trade together with its agencies , business support organizations, and SME owners themselves need to collaborate in creating an enabling environment that fosters SME growth. This may involve targeted financial interventions, market information dissemination, and investments in education and skills development.

This study provides valuable insights into the complex interplay of economic factors that impact SME growth in Uganda. I hope that these findings will inform future research, policies, and strategies aimed at nurturing the growth and resilience of SMEs, ultimately contributing to the economic development of Uganda.

5.3 Recommendations

i. Enhance Financial Access and Support

The Ugandan government through its ministries and agencies responsible for regulating SMEs should continue to implement policies and programs that promote financial inclusion for SMEs. This includes ensuring that SMEs have access to affordable credit and financial support mechanisms.

Financial institutions should develop SME-specific financial products with flexible terms and lower interest rates. They should also streamline their loan approval processes to make them more accessible to SMEs.

ii. Market Intelligence and Adaptability

SMEs should invest in market research and intelligence to understand evolving customer preferences, market trends, and emerging opportunities. This will enable them to adapt their products and services more effectively.

SMEs should embrace technology to monitor and respond to market dynamics in real time. Utilize data analytics and digital marketing strategies to stay competitive and reach a wider customer base.

iii. Human Capital Development

SMEs should prioritize ongoing employee training and development to build a skilled and adaptable workforce. Collaboration with vocational and technical training institutions can bridge skill gaps.

Create a culture of innovation within SMEs. Encourage employees to suggest and implement process improvements and new ideas. Recognize and reward innovation.

iv. Business Support Ecosystem

The Ministry of Trade, Industries and Cooperatives (MTIC) should establish and promote business incubators and accelerators that provide mentorship, networking, and access to resources for SMEs.

The government should continue to provide support through tax incentives, grants, and capacity-building programs to enhance the competitiveness of SMEs.

v. **Access to Global Markets**

The government should encourage SMEs to explore international markets. The Ministry of Trade and its agencies should assist in export readiness and market access, including information on trade agreements and export financing. SMEs should consider joining industry-specific trade associations to gain access to market insights and opportunities for collaboration.

5.3.1 Further Research

Access to Finance

- i. Investigate the impact of digital financial services, including mobile money and online lending platforms, on SMEs' access to finance. Analyze how these technologies affect the ease and cost of borrowing for SMEs.
- ii. Examine the effectiveness of credit guarantee programs and their role in reducing the perceived risk of lending to SMEs. Evaluate how these programs can be improved or expanded to benefit a larger number of SMEs.

Market Dynamics:

- i. Analysis on various market entry strategies for SMEs in Uganda, including exporting, franchising, and joint ventures should be carried to determine which strategies are most effective for different types of SMEs.
- ii. Investigation on the role of market information systems and how they impact SMEs' access to markets in order to assess how technology can improve SMEs' access to market data and trading partners.

Human Capital Development:

- i. Further studies should be undertaken to evaluate the effectiveness of skills training programs for SME owners and employees so as to assess how these programs enhance productivity, innovation, and overall business performance.

- ii. Studies on the role of entrepreneurship education in fostering a culture of entrepreneurship should be undertaken in Uganda to analyze the long-term impact of entrepreneurship courses in schools and universities.

These recommendations aim to address the economic factors affecting SMEs and provide actionable steps for enhancing the growth prospects of SMEs in Uganda. Implementing these recommendations requires collaboration among government agencies, financial institutions, business associations, and SME owners to create a conducive environment for sustainable SME growth and economic development in Uganda.

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Appendices

Appendix A: Study Questionnaire

I'm Ssebudde Gordon Carrying out a study on economic factors affecting the growth of small and medium enterprises in Mukono municipality as a partial requirement for the award of Bachelor of Science in Economics and Statistics at Uganda Christian University. You have been selected to participate in this study as a respondent. Kindly provide the most appropriate information as indicated in the questionnaire based on your objective experiences. The information provided shall be used for academic purposes and will be kept with utmost confidentiality.

Thank you in advance.

Yours truly,

Signed

Ssebudde Gordon

SECTION I: BACKGROUND INFORMATION

01	Gender	Male Female	1 2
02	Age	Between 25-35 36 and above	1 2
03	Education level	Postgraduate Bachelor's degree Diploma A-level or equivalent	1 2 3 4
04	Number of employees	Between 6-49 Between 50-100	1 2
05	Total assets	Between UGX 10-100 million Between UGX 100-360million	1 2

Section II: Growth dimensions (circle as Appropriate)

Indicate the extent to which you agree with the following statements regarding access to finance and how it affects your business on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree

Scale	5	4	3	2	1
Revenue growth					
1. My SME has experienced significant revenue growth	5	4	3	2	1
2. Revenue growth has positively impacted our growth	5	4	3	2	1
3. Revenue growth is a key indicator for our expansion	5	4	3	2	1
4. We have effectively implemented strategies for growth	5	4	3	2	1
Market share					
5. My SME market share within the industry has increased	5	4	3	2	1
6. Our SME's competitiveness is linked to market share	5	4	3	2	1
7. We have strategically pursued market share expansion	5	4	3	2	1

Section III: Access to finance (circle as Appropriate)

Indicate the extent to which you agree with the following statements regarding access to finance and how it affects your business on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree

Scale	5	4	3	2	1
Challenges in accessing finance					
1. Accessing finance is a challenge to our business	5	4	3	2	1
2. High interests hinder borrowing for growth	5	4	3	2	1
3. Collateral requirements are an obstacle to our access to finance	5	4	3	2	1
Financing sources and strategies					
4. Our SME successfully obtains loans for expansion	5	4	3	2	1
5. Personal savings are used for SME growth	5	4	3	2	1
6. Alternative funding sources have been explored	5	4	3	2	1
7. Financial institutions offer suitable financing	5	4	3	2	1
Impact on the business					
8. Access to credit impacts seizing opportunities	5	4	3	2	1
9. Financial constraints hinder our business expansion	5	4	3	2	1
10. Financial support enhances our business expansion	5	4	3	2	1

Section IV: Market dynamics (circle as Appropriate)

Indicate the extent to which you agree with the following statements regarding market dynamics and how they impact your business on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree

Scale	5	4	3	2	1
Market trends and adaptation					
1. We quickly adapt to changes in customer preferences	5	4	3	2	1
2. Market trends significantly impact our growth strategies	5	4	3	2	1
3. Competitive landscape influences our pricing decisions	5	4	3	2	1
4. Anticipating market shifts guide our product development	5	4	3	2	1
Competitive edge and strategic decision-making					
5. Market competition drives our innovation	5	4	3	2	1
6. Making adjustment to demand is essential for our SME growth	5	4	3	2	1

Section V: Human capital development (circle as Appropriate)

Indicate the extent to which you agree with the following statements and how they impact your business on a scale of (1) = strongly disagree, (2) = disagree, (3) = not sure (4) = agree (5) = strongly agree

Scale	5	4	3	2	1
Workforce skills and development					
1. Our employees' skills contribute significantly to growth	5	4	3	2	1
2. We invest in professional development to support growth	5	4	3	2	1
3. Continuous employee training enhances our competitiveness	5	4	3	2	1
4. Employee capabilities drive our product/service excellence	5	4	3	2	1
Learning culture and talent management					
5. Investing in employee skills positively impacts our growth	5	4	3	2	1
6. Employee knowledge sharing enhances our growth potential	5	4	3	2	1
7. Learning is encouraged and embedded in our company	5	4	3	2	1
8. We attract and retain top talent through effective HR practices	5	4	3	2	1