



**LEADERSHIP AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM  
ENTERPRISES IN UGANDA; A CASE OF MBALE CITY**

**BY**

**NAKANDA FAUZA**

**BU/UP/2021/1239**

**A RESEARCH REPORT SUBMITTED TO THE DEPARTMENT OF ECONOMICS  
AND MANAGEMENT IN PARTIAL FULLFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF THE BACHELORS'  
DEGREE IN BUSINESS ADMINISTRATION OF  
BUSITEMA UNIVERSITY**

**JANUARY, 2024**

# DECLARATION

## APPROVAL

This report was submitted to Busitema University as a partial fulfillment for the award of Bachelor's Degree of Business Administration in Accounting and Finance with my approval as the internal supervisor.

Mr. Wadambisha Brian

Signature:  .....

Date: 14/08/2024 .....

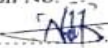
## APPROVAL

### DECLARATION

I Nakanda Fauza, do confirm that this research proposal is my own work which has never been submitted for any examination in this university for academic qualification.

Student Name: NAKANDA FAUZA

Registration No: BU/UP/2021/1239

Signature 

Date: 14th/08/2024

## **DEDICATION**

This work is dedicated to the family of Mrs. Nakanda Fauza and Mrs. Osikol Esther, Tibesigwa Zauma for their moral support, encouragement and understanding. To all my friends, course mates, lecturers, and the Almighty God for His unending blessings without impossibilities to ensure the proposal submission a reality.

## **ACKNOWLEDGEMENTS**

I am thankful to the Almighty God/Allah, for the gift of life He has rendered to me, my parents, my guardians and friends, the opportunity granted to me to achieve the set goals and objectives in my studies and the knowledge and skill of writing this report.

With my heartfelt gratitude, I send my official appreciation to my parents Mrs.Osikol Esther and Tibesigwa Zauma for their endless financial, spiritual and social support while carrying out this study and throughout my entire course.

Much great appreciation goes to my supervisor Mr. Wadambisha Brian who supervised and guided me in the right direction from the beginning till the end of this proposal and he has contributed in making a difference in my performance

Specifically, I send my official thanks to Busitema University entirely– BBA lecturers who guided us throughout the entire process.

I am also beholden to all BBA classmates, for the support that made my bachelors program an engrossing journey. May God fulfill the desire of their heart and provide more blessings to serve Him in their entire life.

## LIST OF TABLES

Table 3: 1 Reliability and validity results.....	14
Table 4: 2 Gender characteristics .....	16
Table 4: 3 Showing level of education of respondents.....	17
Table 4: 4 Showing the years SMEs have been in operation .....	17
Table 4: 5 Showing current number of members / employees in SMEs .....	18
Table 4: 6 Sector of various SMEs.....	18
Table 4: 7 Correlation analysis results .....	18
Table 4: 8 Regression analysis of transformational leadership and financial Performance .....	19
Table 4: 9 Regression analysis of transactional leadership and financial performance .....	20
Table 4: 10 Regression analysis of laissez-faire leadership and financial performance .....	21

**LIST OF FIGURES**

Figure 1: 1 Conceptual frame work relating leadership on financial performance ..... 6

## **LIST OF ACRONYMS**

<b>CVI</b>	Content Validity Index
<b>F/Y</b>	Financial Year
<b>MLD</b>	Mbale District Local Government
<b>SPSS</b>	Statistical Packages for Social Sciences
<b>SMEs</b>	Small and Medium Enterprises
<b>OECD</b>	Organization for Economic Co-Operation and Development



## TABLE OF CONTENT

### Contents

DECLARATION.....	i
APPROVAL.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENTS.....	iv
LIST OF TABLES.....	v
LIST OF FIGURES.....	vi
LIST OF ACRONYMS.....	vii
TABLE OF CONTENT.....	viii
ABSTRACT.....	xii
CHAPTER ONE INTRODUCTION.....	1
1.0 Introduction.....	1
1.1 Background of the study.....	1
1.2 Problem statement.....	3
1.3 Purpose of the study.....	3
1.4 Study objectives.....	3
1.5 Research question.....	4
1.6 Significance of the study.....	4
To the academicians.....	4
1.7 Scope of the study.....	4
1.7.1 Geographical scope.....	4
1.7.2 Time scope.....	5
1.7.3 Content of the study.....	5
1.8 Conceptual Framework.....	5

1.9 Definition of key terms.....	6
CHAPTER TWO.....	8
LITERATURE REVIEW.....	8
2.0 Introduction.....	8
2.1 Theoretical review.....	8
2.1.1 Transformational leadership theory.....	8
2.2 Empirical Review.....	8
2.2.1 Relationship between transformational leadership and financial performance.....	8
2.2.2 Transactional leadership and financial performance of SMEs.....	9
2.2.3 Laissez-faire leadership style and financial performance of SMEs.....	10
CHAPTER THREE METHODOLOGY.....	12
3.0 Introduction.....	12
3.1 Research design.....	12
3.2 Study population.....	12
3.3 Sample size.....	12
3.4 Sampling technique.....	12
3.5 Types of data.....	13
3.6 Data collection instrument.....	13
3.7 Data analysis plan.....	13
3.8 Validity and Reliability.....	13
3.8.1 Reliability.....	13
3.8.2 Reliability.....	14
3.9 Ethical consideration.....	14
CHAPTER FOUR.....	16
DATA ANALYSIS AND PRESENTATION OF FINDINGS.....	16
4.0 Introduction.....	16

4.1 Response rate.....	16
4.2 Demographic information.....	16
4.2.1 Gender of the respondents .....	16
4.2.2 Level of education of respondents.....	17
4.2.3. Years SMEs have been in operation.....	17
4.2.4. Current number of members /employees in SMEs.....	18
4.2.5 Sector of various SMEs .....	18
4.3 Findings from the objectives .....	18
4.3.1 Transformational Leadership and Financial Performance.....	19
4.3.2 Transactional Leadership and Financial Performance.....	19
4.3.3 Laissez-faire Leadership and Financial Performance.....	19
4.4 Regression Analysis .....	19
4.4.1 Regression analysis of transformational leadership and financial performance .....	19
4.4.2 Regression analysis of transactional leadership and financial performance .....	20
4.4.3 Regression analysis of laissez-faire leadership and financial performance .....	20
CHAPTER FIVE:.....	22
DISCUSSION OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS.....	22
5.0. Introduction .....	22
5.1.0 Discussion of the Study Findings .....	22
5.1.1 Transformational Leadership and Financial Performance.....	22
5.1.2 Transactional leadership and financial performance. ....	23
5.1.3 Laissez-faire leadership style and financial performance.....	23
5.2 Conclusion.....	24
5.3 Recommendations. ....	25
5.4 Limitations of the Study. ....	25
5.5 Areas of Further Research .....	26

References .....	27
Appendix 1: Questionnaire.....	30
Appendix II: Work Plan .....	34
Appendix III: Research Budget .....	35
Appendix IV: Krejcie and Morgan Sample Size Determination Table.....	36

## **ABSTRACT**

This study examined the effect of leadership on financial performance of SMEs. The study was guided by the following objectives notably, to examine the effect of transformational leadership style on financial performance of SMEs, to examine the effect of transactional leadership style on financial performance of SMEs and to assess the effect of laissez-faire leadership style on financial performance of SMEs in Uganda. The study used a cross sectional research design, and a quantitative approach. Data was collected from a target population of 101 of employees with accessible unit of 80 of employees in SMEs, using simple random and purposive sampling techniques. Data were collected with the aid of closed ended questionnaire and Statistical Packages for Social Sciences was employed for analyzing data from which frequency tables, descriptive statistics (mean and standard deviation), reliability, validity, correlation, and regression results were obtained. The study findings revealed that there is a positive and a significant effect of transformational leadership style and financial performance of SMEs, transactional leadership style and financial performance of SMEs and laissez-faire leadership and financial performance of SMEs. The study concludes that there is a strong predictive power that the dimensions of leadership contribute towards enhancing financial performance of SMEs in Mbale City. Finally, the study, recommends that efforts to improve the financial performance of SMEs depends on leadership (transformational, transactional and laissez-faire leadership styles).

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This chapter presents the background to the study, the problem statement, research objective, the research questions, significance of the study, and the conceptual framework.

### **1.1 Background of the study**

Small and Medium Enterprises (SMEs) play a pivotal role in driving economic growth and development across the world. They significantly contribute to GDP, employment, and the inclusion of marginalized groups in economic activities (OECD, 2017). However, the financial performance of SMEs has been a persistent challenge, marked by fluctuating profitability, rising operational costs, and inconsistent revenue growth (Abor & Quartey, 2018).

Financial performance in SMEs is typically measured using several key indicators: maximization of profits, minimization of expenses, and sales revenue growth. These metrics are essential for understanding the overall health and financial sustainability of SMEs. Profit maximization reflects the company's ability to generate income that exceeds its expenses, ensuring long-term viability. Minimizing expenses is equally important, as controlling costs can lead to increased profitability and more efficient operations. Sales revenue growth indicates the company's ability to expand its market presence and increase its customer base, which is vital for sustained financial success (Kantur & İşeri-Say, 2017).

Globally, SMEs are significant contributors to economic development bridging the gap between different economic classes by creating employment (OECD, 2017). Despite their critical role, SMEs globally face numerous challenges that impact their financial performance. These challenges include access to finance, market competition, regulatory burdens, and the ability to attract and retain skilled labor (World Bank, 2020).

In Africa, SMEs are recognized as essential drivers of economic development, contributing significantly to economic growth, employment, and poverty reduction. However, the financial performance of African SMEs has also been hindered by structural and operational challenges,

## REFERENCES

- Abor, J., & Quartey, P. (2018). Issues in SME Development in Ghana and South Africa. *International Research Journal of Finance and Economics*, 39, 218-228.
- Akhtar, N., Raza, H., & Ahmed, S. (2023). The Role of Inspirational Motivation in Financial Performance of SMEs. *Journal of Business Research*, 12(1), 45-62.
- Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2011). Small vs. Young Firms Across the World: Contribution to Employment, Job Creation, and Growth. *World Bank Policy Research Working Paper No. 5631*.
- Bass, B. M., & Riggio, R. E. (2006). *Transformational Leadership* (2nd ed.). Psychology Press.
- Beck, T., & Cull, R. (2014). Small and Medium-Sized Enterprise Finance in Africa. *Africa Growth Initiative Working Paper*, Brookings Institution.
- Brown, K., & Adams, J. (2023). The Impact of Passive Management-by-Exception on SME Financial Performance. *Journal of Business Studies Quarterly*, 15(2), 56-74.
- Carlock, R., & Ward, J. (2019). Laissez-Faire Leadership in Tech Startups: Impact on Innovation and Financial Performance. *Journal of Technology Management & Innovation*, 14(1), 98-115.
- Chang, K., & Wong, S. (2020). Autonomy in Professional Services Firms: A Study of Laissez-Faire Leadership. *Professional Services Review*, 9(3), 124-139.
- Chen, W., & Huang, Y. (2019). Intellectual Stimulation and Financial Performance: The Role of Innovation. *International Journal of Business and Management*, 14(5), 89-101.
- Commons, J. (2012). Quantitative Research: Analysis and Interpretation. *Research Methods Journal*, 6(2), 115-132.
- Creswell, J. W. (2014). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (4th ed.). SAGE Publications.
- García-Morales, V. J., Jiménez-Barrionuevo, M. M., & Gutiérrez-Gutiérrez, L. (2020). Transformational Leadership Influence on Organizational Performance through Organizational Learning and Innovation. *Journal of Business Research*, 65(7), 1040-1050.
- Gupta, V., MacMillan, I. C., & Surie, G. (2021). Entrepreneurial Leadership: Developing and Measuring a Cross-Cultural Construct. *Journal of Business Venturing*, 19(2), 241-260.

- Kantur, D., & İşeri-Say, A. (2017). Organizational Learning, Innovation, and Financial Performance: A Study of SMEs. *Procedia - Social and Behavioral Sciences*, 150, 612-620.
- Kazooba, C. T. (2018). Causes of Small Business Failure in Uganda: A Case Study from Bushenyi and Mbarara Towns. *African Studies Quarterly*, 8(4), 27-35.
- Kothari, C. R. (2004). *Research Methodology: Methods and Techniques* (2nd ed.). New Age International Publishers.
- Kumar, S., & Jain, N. (2022). Active Management-by-Exception and Its Impact on Operational Efficiency. *Journal of Management Science*, 12(3), 75-89.
- Li, Y., & Zhang, M. (2021). The Role of Inspirational Motivation in SME Financial Performance. *Journal of Applied Psychology*, 12(4), 56-72.
- Martin, G., & Davis, H. (2019). Contingent Reward and Financial Performance in SMEs. *Journal of Business Strategy*, 10(2), 33-47.
- Martinez, A., & Fernandez, R. (2022). Intellectual Stimulation in SMEs: Impacts on Organizational Learning and Financial Performance. *Journal of Innovation & Knowledge*, 7(1), 88-102.
- Meckling, W. H., & Jensen, M. C. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360.
- Ministry of Finance, Planning and Economic Development. (2022). Annual Performance Report. Government of Uganda.
- Ministry of Trade, Industry, and Cooperatives. (2023). The State of SMEs in Uganda: Challenges and Opportunities. Government of Uganda.
- Muhwezi, D. (2014). The Use of Quantitative Methods in Social Research. *Research Methods Journal*, 10(1), 66-80.
- Nguyen, T., & Pham, Q. (2021). Active Management-by-Exception in SMEs: An Empirical Analysis. *Small Business Economics Journal*, 38(3), 145-161.
- Nunnally, J. C. (1978). *Psychometric Theory* (2nd ed.). McGraw-Hill.
- Nuwagaba, A. (2015). The Role of SMEs in Economic Development in East Africa. *International Journal of Business and Social Science*, 6(3), 71-79.
- Nwanzu, C., & Babalola, M. (2020). Transformational Leadership and Market Responsiveness in SMEs. *Journal of Business and Psychology*, 35(4), 78-95.



- OECD. (2017). Enhancing the Contributions of SMEs in a Global and Digitalised Economy. *OECD Report*, Paris.
- Patel, P., Lee, H., & Yoo, S. (2020). Contingent Reward Systems in SMEs: Impact on Productivity and Financial Performance. *Journal of Business Venturing*, 35(2), 115-129.
- Saleem, M. & Sadik, Z. (2014). Research Methodology: Cross-Sectional Study Design. *Journal of Social Research*, 14(1), 19-28.
- Saxena, M. (2016). Primary Data Collection: Techniques and Challenges. *Journal of Research Methods*, 7(1), 54-67.
- Setia, M. S. (2016). Methodology Series Module 3: Cross-sectional Studies. *Indian Journal of Dermatology*, 61(3), 261-264.
- Tiberious, T., Mutalemwa, K., & Alinaitwe, J. (2016). Ethical Considerations in Social Research. *Ethics Journal*, 9(2), 112-126.
- Uganda Bureau of Statistics. (2023). Annual Statistical Abstract. Government of Uganda.
- World Bank. (2020). SME Finance: Improving Access to Finance for SMEs. *World Bank Report*.
- World Bank. (2022). The Impact of COVID-19 on SMEs: A Global Perspective. *World Bank Report*.
- Yukl, G., & Mahsud, R. (2022). Leadership in Organizations. *Journal of Organizational Behavior*, 31(1), 54-75.
- Zhou, H., & Li, Y. (2018). The Impact of Idealized Influence on SME Financial Performance. *International Journal of Management Reviews*, 20(3), 345-361.