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THE RELATIONSHIP BETWEEN MANAGERIAL COMPETENCE AND FINANCIAL PERFORMANCE

A CASE OF R AND T ENTERPRISE IN PALLISA DISTRICT

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BU/UP/2018/4215

A RESEARCH REPORT SUBMITTED TO THE FACULTY OF MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR'S DEGREE OF BUSINESS ADMINISTRATION

BUSITEMA UNIVERSITY

MARCH 2022

DECLARATION

I, MUTENDEREZA ALEX, declare that this report “The relationship between managerial behavior and financial performance of SMEs: A Case Study on R and T Enterprise, Pallisa district.” Submitted by me to undertake a research in partial fulfillment of the requirements for the award of the Bachelors Degree of Business Administration to Busitema University is my original work, has not been presented for degree in any other university and that all sources of materials used for this have been duly acknowledged**.**

Declared by:

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Date………………………………………………………

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APPROVAL

This is to certify that this research report has been compiled and submitted by MUTENDEREZA ALEX a student of Busitema University registration number BU/UP/2018/4215 under my approval as the University supervisor.

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ABSTRACT

This study aims to evaluate relationship between managerial behavior and financial performance of SMEs on R and T Enterprise in Pallisa district in Uganda. The study was induced by managerial competences experienced by the accountants, employees and clients in R and T Enterprise. The study had the following major objectives such as the relationship between managerial behavior and financial performance, relationship between managerial communication and financial performance and relationship between domain knowledge and financial performance of SMEs.

Data was collected using questionnaires and an interview guide which showed a very positive relationship between managerial competence and financial performance. A sample of 39 respondents was used in the study from the target population of 48. Closed ended self-administered questionnaires were utilized in collecting data from the field. Data collected was analyzed using descriptive statistics (frequencies and percentages) using SPSS. The findings were then being presented in the form of tables. The study concludes that there is a positive relationship between managerial competence and financial performance and the managers should be able to recruit competent workers in order to improve on their financial performance. The study recommended that the employees of the organization should have enough skills needed in financial performance, should provide relevant information in order to improve on their knowledge and employees should improve on the skills in order to enhance financial performance in SMEs

ACKNOWLEDGEMENTS

I would like to thank my almighty God, the empathetic, the most gracious and source of knowledge and intelligence, who bestowed upon me the health, the power of communication and the nerve to accomplish this report.

I would like to sincerely thank my mentor and supervisor MR. EMOJONG RONALD for his productive comments, important suggestions and good supervision in my research report.

Finally, I take this opportunity to show gratitude to my gorgeous Parents MUPERE BENARD and SOSA JENIPHER, my wife KANYAGO BRENDA and my fellow students for infinite support mentally, spiritually and financially to the success of this report. May the Almighty God bless them so much.

ACRONYMS/ ABBREVIATIONS

SMEs. Small and Medium Enterprises

R and T. Real and Time

SPSS. Statistical Packed for Social Science

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CHAPTER ONE: INTRODUCTION

1.0 Introduction

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

1.1Background of the study

According to EshnaVerma (2017) financial Performance refers to the degree to which financial objectives have been accomplished and is an important aspect of finance risk management. It is the process of measuring the firm's results, policies and operations in monetary terms.

Even though SMEs provide solution to various economic problems, they also face challenges that deter their growth due to failure to create stronger relationship between managerial competence and financial performance of SMEs. One major challenge is access to finance; Ryan et al (2014) stated that constrained access to external finances by SMEs and limiting funding for growth. Eniola&Entebang (2015) found out that unfavorable government policies influenced negatively on SMEs performance with decreasing issuance of total credit by both commercial and merchant banks to SMEs.

Beck &DemirgüçKunt (2006) found limited access to credit hinders start-up and growth of SMEs with consideration of legal systems and information flow, which do not favor SMEs. Kinyua A. (2014) argued that due to strict regulations by lending institutions small enterprises have been great left out hence leading to their low degree of financial performance.

Ngui T. (2014), Magutu P. et al (2015) put forward limits in innovation and the inability of these small enterprises to incorporate technology results into low production, therefore result into low outputs culminating into lesser profits hence low financial performance.

T. (2014) noted stagnant rate of new firms' formation and collapse of already established SMEs before 5 years. A report by UNDP with focus on Kenyan SMEs noted difficulties for SMEs to access funds despite large number of abstract. The study has confirmed a direct relationship between managerial competence and SMEs financial performance.

Nyaboga et al (2015) looked into lease competence and structure effect on SMEs performance in efforts to determine favorable lease terms with positive connection to SMEs cash flows. The study concluded low competences among lessee managers hence constrained payment of rental fees that in return affect SMEs cash flows. Traditionally financial performance has been based on the income statement and balance sheet.

In China and America Governments, researchers and other stakeholders across the world have developed great research interest in Small and Medium-Scale Enterprise (SME) financing because of the significant role these small firms play in GDP growth of various countries such as China (Du et al. 2015). For instance, National Bureau of Statistics of China states that 99% of firms in China are made up of SMEs which increases the financial performance of each firm and they contribute 60% of GDP growth. The story is similar in the US as 67% of private sector employments are created by SMEs and contributes 99.7% of US employer firms (Small Business Administration, 2015). SMEs can thus be said as job creation engines.

In Ghana the SME sector is an important source of employment creation and national revenue through taxation in Ghana (Kayanula and Quartey, 2000; Keskin, 2006; Abor and Quartey, 2010). SME in Ghana face a problem of geographical location hindering access to desired markets, low technology and inability to grow sales revenue, or increase profitability (Aourey et al, 2015)

In Uganda, Small and medium Enterprises (SMEs) are seen as a driving force for the promotion of an economy (Khan and Jawaid, 2004) Small enterprises in Uganda are characterized by low access to credit, they operate in the informal sector, they employ very few skilled people (Walugembe,2018). The very nature of SMEs in Uganda is very limiting factor to financial performance.

1.2 Statement problem

In Uganda, the subject of financial performance has received significant attention from scholars in the various areas of business and strategic management (Pimpong and Laryea, 2016)
However, despite of this attention financial performance in R and T enterprise is still a challenge for this has resulted into over holding of inventory which increases tied up capital which results into deterioration, obsolescence damage and loss of inventory through pilferage and burglary [Dong and Su 2010, Guel et al 2013]. Finance is one of the most important resources needed to start and develop Small and Medium Enterprises (SMEs) (Badagawa, 2003; Gilbert, McDougall &Audretsch, 2006). Finance is needed to give birth to an SME through the creation of other factors of production such as land and labor. However, in Uganda, over 50% of all SMEs close

shop before they celebrate their second birth day (Mbabazi, 2012). Whereas the collapse of SMEs has been attributed to their lack of ability to raise finance (Kasekende&Opondo, 2003; Calice, Chando&Sekioua, 2012). Therefore, it is for this reason why the study is being carried out

1.3 Purpose of the study

To establish the relationship between managerial competence and financial performance of small medium enterprises in Pallisa District.

1.4 Research objectives

The study was guided by the following objectives;

- To determine the relationship between managerial behavior and financial performance?
- To determine the relationship between managerial communication and financial performance?
- To determine the relationship between domain knowledge and financial performance?

1.5 Research questions

The study was guided by the following objectives;

- What is the relationship between managerial behavior and financial performance?
- What is the relationship between managerial communication and financial performance?
- What is the relationship between domain knowledge and financial performance?

1.6.0 Scope of the study

1.6.1 Content scope

The study will consider managerial competence, which is made up of managerial behavior, managerial acumen, domain knowledge and financial performance since these are crucial when making a positive relationship in private sector entities. In regards to financial performance, the fiscal sustainability, budgetary control and value for money are regarded as crucial in measuring performance with private entities.

1.6.2 Geographical scope.

This study will cover Pallisa District when finding out the relationship between managerial competences on financial performance of private sectors in Uganda.

1.6.3 Time scope.

The research will take a period of three months to be conducted; the first month will be used to write the proposal consisting of chapter one to three. The second month will be used to analyze data and finally the third month will be used to compile research proposal.

1.7.0 Significance of the study

1.7.1 Government

The results of this study will be used by the government to develop policies and regulations that will guide the favorable locations for growth of SMEs in Pallisa district and urban areas in Uganda.

1.7.2 Academicians.

Academicians who wish to carry out further research on the subject are able to find the literature arising from this study to be of great value since it's to add value to the existing literature. Likewise, the finding of this study will enable the research to make recommendations on ways to improve the growth and development of SMEs in Uganda.

1:7:3 Researchers

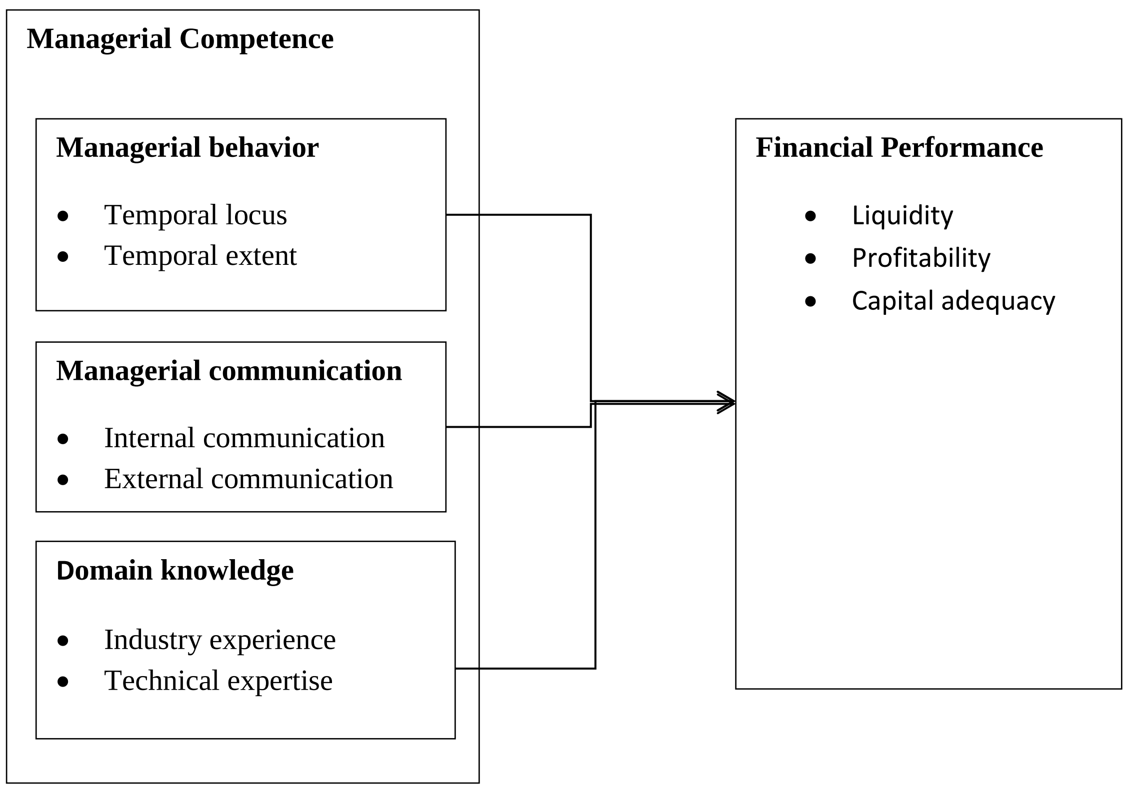
The researcher will manage to graduate after this study is completed. The study will be useful even for other coming researchers.

1.8.O Conceptual frame work

Financial performance in the context of private enterprises considers the liquidity and ability of the organization to generate economic value for the entrepreneur. According to Orobia et al (2019) financial performance is perceived differently since reflects the management effectiveness and efficiency in utilizing the company's resources hence financial performance is the ability to make the business survive and effectively manage the inventory and cash resources (liquidity).

In regards to the study, according to Oser and Redding (2003) financial performance is considered to be liquidity, profitability, and capital adequacy.

Figure 1. 1 Conceptual Framework.



Source: Orser and Riding (2003) Management competences and small enterprise performance

From the above conceptual framework, it can be argued that the independent variables managerial competence has got a correlation with financial performance of SMEs. Managerial competence according to Armstrong (2006) is knowledge, skills and behaviors that make a manager in an organization unique and do the job effectively. Managerial competence according to Stott & Walker (2005) and Bourne& Franco-Santos (2010), managerial competence can be measured in terms of managerial communication, domain knowledge and managerial behavior. It can therefore be concluded that, other factors notwithstanding, the financial performance of any enterprise depend on managerial competence.

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