Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 07 Issue 08 August 2024

Article DOI: 10.47191/jefms/v7-i8-41, Impact Factor: 8.044

Page No: 5201-5205

Firm Growth and SME Performance

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ABSTRACT: The study aimed to determine Firm growth, and SME Performance in Buloba town, Wakiso district, Uganda. The research sample size was 80 SMEs based in Buloba town. The study adopteda survey research design; it included the use of self-administered questionnaires which were structured in nature. The study objective was to determine the effect of Firm growth and the performance of SMEs in Buloba town. The results revealed that firm growth enabled SMEs' performance. The findings proved that a (total mean = **3.498**, Std = **1.275**) was satisfactory, according to the Likert scale and this showed that Firm growth enabled efficient accessibility of funds (credit) by SMEs thus boosting performance. SMEs in Buloba need to merge and pool resources so that they can have enough capital to enable them to operate better. This will enable them to request credit facilities with one voice. This is so because large firms can easily access funds since they are not seen as risky ventures. Money lenders are also assured of SMEs repayingthe loaned money.

KEYWORDS: Firm growth, SME Performance, Uganda, SMEs

1. INTRODUCTION

Firm growth has a great influence on the development of SMEs (Smith J. & Brown A., 2012). It is noted that the poor can reliably borrow when they are given the chance to start or improve a viable business and become economically active. Firm growth enables SMEs to obtain all the requirements financial institutions require for borrowing. It helps SMEs improve performance once borrowed funds are invested rightly. Lending is a fraction of what financial institutions offerto SMEs. They (financial institutions) try to develop a wide range of products and services with fees-based products rising in importance, all aimed at serving the SMEs.

SMEs could be constrained more than large firms. They are more likely to use informal sources of finance and trade credit to fund their working capital and investment than larger firms would (Yahaya, 2023). It is believed that SMEs have limited accessibility to credit facilities, deposit facilities and other financial support services offered by formal financial institutions.

The stringent lending procedures required by these financial institutions help to scare away SMEs (Muriithi, 2017). According to Mwewa (2013), lending bodies perceive SMEs as high-risk and unviable commercially. Based on this, only a few SMEs access credit from financial institutions.The availability and accessibility of external financing have positively impacted the growth and performance of any business (Osoro, 2013). Financial institutions have different products that help them improve their performance by raising productivity, improving returns on investment, and increasing incomes (Muriithi, 2017).

2. LITERATURE REVIEW

2.1 Effect of firm growth on SME Performance.

Firm growth indicators are among the important SMEs' performance measures. Shepherd and Wiklund (2009) identified five common firm growth measures that were used in past studies. These are growth in sales, employees, profit, assets, and equity. SMEs' performance measures have been developed in Western countries (Eijdenberg, 2016).

Entrepreneurs in the Western world are motivated by the availability of opportunities to be exploited, while entrepreneurs in least-developed countries are motivated by necessities.

While earnings from entrepreneurial businesses in Western countries can solely be used to foster firm growth, part of earnings from least developed countries go to personal expenses to support the lives of entrepreneurs. This reality has raised a need to measure SMEs' performance using personal wealth indicators as suggested in Eijdenberg (2016). However, the use of personal

wealthto measure SMEs' performance in least-developed countries like Tanzania is a new approach. Thus, it is not yet known whether entrepreneurial orientation influences such measures (Eijdenberg, 2016).

Several studies have revealed that small and medium enterprises are financially more constrained than large firms. For example, Calomiris (1990) noted that when the company is smaller, it gets greater restrictions on credit accessibility.

Berger (1995) argues that smaller and younger firms are more likely to face a higher cost of financing and are required to offer collateral. There is a high risk involved because small firms have a high failure rate compared to large firms; Schifer & Weder (2001) found out that there wasa negative relationship between the size of the business and the risk it might pose for the lender.

In addition, Lopez-Gracia and Aybar Arias (2000) came up with a different explanation stating that smaller firms may limit their financial structure to avoid the need to share control of the business with others. More so suppliers of external funds regard SMEs as riskier enterprises for several reasons;

SMEs face a more uncertain competitive environment than larger companies. They experience more variable rates of return and higher rates of failure.

SMEs are less equipped with human and capital resources to withstand economic adversities. There are inadequate accounting systems, which undermine the accessibility and reliability of theinformation concerning profitability and repayment capacity.

In developing countries, the operating environment is more volatile thus hurting the security of transactions. There is a greater risk that lenders will not get paid or that assets will not be properlyregistered.

3. METHODS

The researcher adopted a quantitative survey design. Jesica D.M. (2021) stated that primary data can be collected by a survey research design. A survey typically consists of a set of structured questions where each question is designed to obtain a specific piece of information. Survey design was undertaken because it was an easily accessible way for respondents to share their knowledge about a particular topic. The survey research method used a variety of data collection methods with the most common being questionnaires and interviews. Questionnaires were self- administered to the target group of respondents. The research information was obtained from both primary and secondary sources. The primary data was obtained from the respondents who were given questionnaires to fill out and responses to the questions on the impact of Firm growth on SME performance. The secondary information was obtained through the Internet, journals, and books. The 80 SMEs in Buloba town, Wakiso district Uganda were considered for data collection.These included: 28 Wholesale shops, 4 Saccos, 8 Schools, 4 Drug shops, and 36 Restaurants. Simple random sampling was used to identify 80 SMEs in Buloba town, Wakiso district Uganda. The response rate was 81%, which exceeded the 60% response rate considered minimally acceptable (Pickett, 2018). This sampling was adopted in the context of this study due to its ease, fairness, representativeness of the population, and the fact that it can be used to conclude based onthe results of the study (Sharma 2017). The content validity index(CVI) was used. According to Beaglehole et…al., (2006), Validity ensured that there was no systematic error and the random error was as small as possible. Validity is the level to which an instrument measures what it purports to measure. Cronbach's coefficient alpha test for the internal consistency of the scales was used to measure the variables. A widely used 5-Likert scale was employed for scoring responses (1: strongly disagree; 2: disagree; 3: neutral; 4: agree; 5: strongly agree). The analysis was conducted using Means and Standard Deviations to compute the central tendency and measure the dispersion of the study variables. To interpret the mean values, the following numerical values and descriptions were used: 1.00-1.80 very unsatisfactory, 1.81-2.60 unsatisfactory, 2.61-3.40 fairly satisfactory, 3.41-4.20 satisfactory, and 4.21-5.00 very satisfactory.

4. RESULTS

4.1 The Descriptive Statistics for Firm Growth on the Performance of SMEs

The independent variable of this study was firm growth which was measured using SME performance indicators. This section measured the central tendency (mean) and dispersion (standard deviations).

Table 1. Descriptive Statistic in Firm Growth

Firm Growth		Mean	Std	Interpretation
1	My business has grown over the year	3.20	1.348	Fairly satisfactory
2	Our product range have increased	3.63	1.28	satisfactory
3	My business customers have increased	3.60	1.33	Satisfactory
4	My business has employed more people	3.56	1.14	Satisfactory
	Average firm growth	**3.498**	**1.275**	**Satisfactory**

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The results revealed that firm growth as an element of SME performance was satisfactory (total mean = 3.498, Std = 1.275). This was attributed to the fact that many of the respondents agreed that firm growth was positively related to SME performance. The above results indicate that the performance of the surveyed SMEs in Buloba town demonstrates firm growth. It should be agreed that firm growth leads to SME performance.

The researcher found that many respondents agreed that business growth was attributed to the increase in the product range with a (mean=3.63 and Std=1.28) was satisfactory according to the Likert scale.

The researcher noted that SMEs had increased in product range and were growing, thereby havingenough funds to increase production and launch new products. This was followed by the respondents also agreeing that business customers had increased and the businesses had employed more people, this had a (mean=3.60, 3.56 and Std=1.33, 1.14 respectively). Some respondents witha (mean=3.20 and Std=1.348) were not so sure about whether their business had grown over the years. Therefore, SMEs can grow, and can have capital that would be invested to increase production, and employ more workers, and as a result, SME performance would improve.

4.2 The Descriptive Statistics for Performance of SMEs.

The dependent variable of this study was the performance of SMEs which was measured using (anincrease in Profit, sales, and capital increase over the years and the business's ability to employ specialists). This section measured the central tendency (mean) and dispersion (standard deviations). A five Likert Scale of 1-5 was used to provide a vivid interpretation of the results.

4. : Descriptive Statistics For The Performance Of SMEs.

Scale	Mean	Response	Interpretation
1	1.00-1.80	Strongly Disagree	Very unsatisfactory
2	1.81-2.60	Disagree	Un satisfactory
3	2.61-3.40	Not sure	Fairly satisfactory
4	3.41-4.20	Agree	Satisfactory
5	4.21-5.00	Strongly Agree	Very satisfactory

Table 2: Descriptive Statistics for SMEs and Indicators of SME Performance.

SME performance				
Indicators of SME performance		Mean	Std	Interpretation
1	Profit has increased in my business over the years	3.28	1.34	Fairly satisfactory
2	Sales has increased in my business over the years	3.27	1.37	Fairly satisfactory
3	Capital has increased in my business over the years	3.31	1.35	Fairly satisfactory
4	My business now employees' specialists and professionals	3.67	1.28	Satisfactory
	***Average* SME performance**	**3.40**	**1.34**	**Satisfactory**

The results revealed that SME performance indicators as an element of the SME performance weresatisfactory (total mean = 3.40, Std = 1.34). This was attributed to the fact that the most of the respondents agreed that SME performance was determined by the performance indicators. It should be agreed that credit accessibility leads to better performance of SMEs.

The researcher found that the majority of the respondents agreed with the view that SMEs' performance was indicated by the SMEs' ability to employ specialists and professionals with a (mean=3.67 and Std=1.28) which was satisfactory according to the Likert scale.

Furthermore, this was followed by the respondents with a (mean=3.28, 3.27, 3.31 and Std=1.34, 1.37, 1.35) that were not so sure about whether their SMEs performance was indicated by the increase in profit, sales, and capital over the years.

Therefore when SMEs can grow, they will be able to perform better since they can employ betterhuman resources who work hard and as a result, profit increase, sales, and capital and thus increasethe performance levels of SMEs.

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The Test for Hypothesis on effects of Firm growth on the performance of SMEs.

The objective of the study was to find out the effect of firm growth on SME Performance in Buloba town.

H02: Firm growth has no significant role on the performance of SMEs in Buloba town

Table 3: Regression of firm growth on SME Performance in Buloba town.

Model		Unstandardized Coefficients		Standardized coefficients	t	sig
		B	Std. Error	Beta		
	Constant	1.499	.403		3.721	0.000
	Firm growth.	.465	.107	.480	4.339	0.000
R	.480					
R^2	.230					
Adjusted R^2	.218					
F	18.826					
Respondents	65					

Table 3: gives the summary of the findings for the role of firm growth on the performance of SMEsin Buloba town.

The researcher revealed that firm growth significantly affects the performance of SMEs by causing a variance of 21.8% or 22% (Adjusted R2=0.218, P=0.000 <0.05). This rejects the null hypothesis that stated that firm growth had no significant role on the performance of SMEs. The alternate hypothesis was, therefore, accepted, thus, firm growth has a significant role in the performance of SMEs.

The findings of the study imply that when firms improve and have grown financially and have material wealth like assets, it becomes easy to attract financing institutions to give the firm credit and as a result capital will be available to invest and the firm will improve on its operations which lead to the improved performance of SMEs.

Furthermore, the study revealed that the regression model was the best fit for predicting the effect of firm growth on the performance of SMEs (F=18.826, P=0.000<0.05) this is because (P=0.000)is less than (0.05) coefficient level. Similarly, the study revealed that every unit change in firm growth would significantly affect the variance in performance of SMEs by 46.5% (Beta = 0.480, P = 0.000).

5. CONCLUSION AND RECOMMENDATIONS.

5.1 The effect of firm growth on SME Performance in Buloba town.

The objective of this study was to find out the effect of firm growth on SME Performance in Buloba town. The null hypothesis that there is no significant effect of firm growth on the performance of SMEs was rejected and the alternative hypothesis was maintained.

It should be agreed upon that SMEs could be constrained more than large firms, and therefore arelikely to use informal sources of finance and trade credit to fund their working capital and investment than larger firms would (Yahaya, 2023). It's believed that SMEs have limited accessibility to credit facilities, deposit facilities, and other financial support services offered by formal financial institutions.

The stringent lending procedures required by these financial institutions help scare away SMEs (Njeru, 2014). According to Mwewa, (2013), it's noted that lending bodies perceive SMEs as high-risk and unviable commercially, based on this, only a few SMEs access credit from financial institutions.

Therefore, growth of SMEs to large firms would be a positive towards accessibility to credit facilities. The reason is that the financing bodies would have trust that a large firm would to a larger extent not default on the money borrowed. On the other hand, it should be noted that large firms can also default on loans, however, it is to a small extent because they have a name to protectand a lot that would be ruined if they were sued in court. That brings the researcher to the conclusion that firm growth has a significant effect on the performance of SMEs

The SMEs in Buloba need to merge resources and pool resources so that they can have enough capital to enable them to operate better with one voice to request credit facilities. This is so because large firms can easily access funds since they are not seen as risky ventures, money lenders are assured of them repaying the loaned money. According to Mwewa, (2013), lending bodies perceive SMEs as high-risk and unviable commercially, based on this, only a few SMEs do accesscredit from the financial institutions. Being

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an SME means the firm is small with limited resources in terms of funding, assets, and human capital. It should be noted that small enterprises are enterprises or firms employing less than 5 workers, with a maximum of 50 employees, with the value of assets excluding land, building, and working capital of less than UGX 50 million (13,889 USD), and the annual income turnover of between UGX 10-50 million (USD 2800- 13,889). Kasekende and Opondo (2013) stressed that a medium-sized enterprise is considered a firm that employs 50 and 100 workers.

Furthermore, if the firm has between 5 to 50 employees, in most cases they do not have assets and their income is less than 50 million UGX per year, this means they can't do a lot, they are limitedby size and a result they are viewed as a risky venture to invest your money, that's why SMEs are not able to access credit because of their size and this hinders performance of SMEs.

However with growth, if the SMEs can employ over 150 employees, it means it would have started gaining assets and its income would be big, the money lenders would be seeing it as an able client for their financing and as a result they would easily access funding and hence improvingperformance of SMEs

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