

**MAKERERE UNIVERSITY**

**MAKERERE UNIVERSITY BUSINESS SCHOOL**

**NETWORK RELATIONSHIPS, MARKETING CAPABILITIES AND PERFORMANCE  
OF MICRO, SMALL AND MEDIUM ENTERPRISES WITHIN URBAN AREAS IN  
UGANDA: A CASE OF NAKAWA DIVISION**

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**OCTOBER, 2018**

**PLAN A.**

**DECLARATION**

I declare that this dissertation is my original work and it has never been presented anywhere for academic purposes.

Signature.......... Date: 22/10/2017.....

Erinah Najjingo

## APPROVAL

This is to certify that this dissertation has been submitted with our approval as university supervisors.

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## **DEDICATION**

I humbly dedicate this project to my dear husband Aloysius Tamale for supporting my education, my dear sons; Jordan Mulungi Tamale, Joshua Muganzi Tamale and my lovely daughter Johanna Martha Talemwa, whose time I used to put up this thesis, I am forever grateful.

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## **LIST OF ACRONYMS**

MSMEs:	Micro Small and Medium Enterprises
UBOS:	Uganda Bureau of Statistics
GDP:	Gross Domestic Product
GEM:	Global Entrepreneurship Monitor
UIA:	Uganda Investment Authority
URBS:	Uganda Registration Services Bureau
UGX:	Uganda Shillings
MEFPED:	Ministry of Finance, Planning and Economic Development
OECD:	Organization for Economic Co-operation and Development
CVI:	Content Validity Index
SPSS:	Statistical Package for Social Sciences

## **ABSTRACT**

Micro, Small and Medium Enterprises (MSMEs) are key drivers in world economies and are a means of creating employment and hence poverty alleviation. This study sought to examine the relationship between Network Relationship, marketing capabilities and performance of MSMEs. A Cross sectional survey was used as a methodology in which a population of 8270 businesses in the food processing and restaurant, metal fabrication and welding and market vendors were considered. From this population 367 businesses were drawn as a sample using stratified sampling method to group the businesses and simple random sampling to select the respondents. The study findings indicated that there is a significant positive relationship between marketing capabilities and performance of MSMEs, there is also a significant positive relationship between network relationship and performance of MSMEs, and a significant positive relationship between network relationship and marketing capabilities. On the mediating role of marketing capabilities in the relationship between network relationships and performance of MSMEs the findings showed a significant mediating effect of ( $Z = 5.795, p < .01$ ). It was found out that there is a positive and significant relationship between network relationships, marketing capabilities and performance of MSMEs.

## CHAPETR ONE

### 1.0. Background to the study

Micro, Small and Medium Enterprises, (MSMEs), are firms employing fewer than 200 employees (Allee, 2011). MSMEs include all types of enterprises irrespective of their legal forms, whether formal or informal to ensure inclusiveness (Olutayo, Kinyatta, Baliruno and Kibirige, 2015). The Uganda Bureau of Statistics (UBOS) (2014) categorizes MSMEs basing on the number of employees, capital investment and annual sales turnover. Micro enterprises employ not more than 5 people and have total assets not exceeding UGX: 10million. Small enterprises employ between 5- 49 people and have total assets of between UGX: 10 million and 100 million, while Medium firms employ 50-100 people with total assets more than UGX. 100 million not exceeding UGX. 360 million, (Ministry of Finance Planning and Economic Development, 2015).

MSMEs, are important to all economies in the world, especially developing countries (Hamza, 2015). Agyei- Mensah (2012) asserts that MSMEs provide substantial employment opportunities for the benefit of both the rural and urban poor. MSMEs are regarded as the major engine of economic growth and equitable development in the world (Chaudhary, 2014). In the East African Community, MSMEs play a much bigger role in developing national economies by alleviating poverty and participating in the global economy (Asiedu et al, (2014). In Uganda, MSMEs are regarded as key drivers in fostering innovation, wealth and job creation and account for approximately 90% of the entire Private Sector, contribute to approximately 75% of the Gross Domestic Product (GDP) and employ about 2.5 million people,( Kyambadde, 2015).

Moreover, MSMEs are largely concentrated in the major urban areas of Uganda with the majority in Kampala district, (UBOS 2011). Despite MSME’s urban location, development, promotion and implementation of MSME’s policies and economic prioritization, their performance in terms of profitability, sales turnover, market share, new product development and customer retention remains a challenge, (Kyambadde, 2015). This is evidenced by the high business failure rate in Uganda, (GEM report 2013; Kyambadde 2015).

In particular, Nakawa Division in Kampala district is one of the areas where MSMEs exhibit poor performance (Nakawa MSMEs Register, 2015). In 2015, Nakawa Division had 16,793 registered MSMEs, however, a total of 1,562 representing a 9.3% had closed down within the same year leaving a total of 15,231 surviving MSMEs in the division (Nakawa MSMEs Register, 2015). In 2016 a total of 319 new MSMEs were registered within Nakawa division however, by the end of the same year a total of 2,674 (55 being part of the 319 new MSMEs) had failed representing 17.2 % an increase in the failure rate from the 9.3% registered in 2015 (Nakawa MSMEs Register, 2016). This failure rate has been attributed to low sales turn over, low demand, sales volume and high operation costs caused by inadequate promotions to create awareness of the different products in the market (Nakawa MSMEs Register, 2016).

**Table 1. 1: Showing MSMEs failure rate in Nakawa Division**

<b>Year</b>	<b>No. of Registered MSMEs</b>	<b>No. of failed MSMEs</b>	<b>% failure rate</b>
2015	16,793	1562	9.3
2016	15,550 (Including 319 new MSMEs)	2674 (55 being part of the 319 MSMEs registered in 2016)	17.2

*Source: Nakawa MSMEs register 2016*

The situation may not be so different in other urban areas in Uganda. However, up to now no specific study has been conducted to establish the relationship between network relationships, marketing capabilities and performance of MSMEs in urban areas of less developed countries such as Uganda.

Sharmilee & Muhammad (2016) suggest that to improve MSMEs performance, owners or managers should consider developing collaborations and marketing capabilities. Collaborations provide emotional support, protect MSMEs from competition, enable MSMEs to achieve economies of scale and scope, acquire cheap complementary skills and knowledge, increase sales volume, profitability and customers. While marketing capabilities enable MSMEs to understand customers' current and future needs, and how to serve them better, reach new customers, analyze competitors and competition which improves MSMEs performance, (Santarelli and Tran 2013). Therefore, developing network relationships and marketing capabilities may help owner/managers to improve their sales turnover which may in turn lead to profitability and hence improved performance, (Hakimpoor, 2013).

### **1.1 Statement of the Problem**

Although Uganda is ranked as one of the most enterprising countries, it is also among those with the highest number of MSMEs that perform poorly and close business before the end of the first year (UIA, 2013; GEM 2013). This is evidenced by the annual business failure rate that currently stands between 30- 50%, (Kampumure, 2015; Kiningi, 2014). This failure rate is attributed to poor performance in terms of low sales volume, low productivity, low profits and lack of experience in terms of marketing, (Turyahebwa, 2013). This challenge is also faced by MSMEs in urban areas which quit business when they fail to meet their performance targets, (URBS 2017). Whereas there have been suggestions that network relationships and marketing capabilities could enhance MSMEs performance, there is limited empirical evidence to this effect, (Gurmeet, Singh, Pathak and Rafia, 2012; Narasimhan, Rajiv and Dutta, 2014;

Rutashobya, Alan, and Nilsson, 2015; Morgan, Vorhies, and Mason, 2016; Sara and Westhead, 2017). It is against this background that the study seeks to examine the extent to which network relationships and marketing capabilities influence performance of MSMEs located in urban areas in Uganda.

## **1.2 Purpose of the Study**

This study intended to examine the relationship between network relationships, marketing capabilities and performance of MSMEs in urban areas in Uganda.

## **1.3 Objectives of the Study**

- i.) To establish the relationship between marketing capabilities and performance of MSMEs in the urban areas in Uganda.
- ii.) To establish the relationship between network relationships and performance of MSMEs in the urban areas in Uganda
- iii.) To examine the relationship between network relationships and marketing capabilities
- iv.) To examine the mediating role of marketing capabilities in the relationship between network relationships and performance of MSMEs in the urban areas in Uganda.

## **1.4 Research Questions**

- i.) What is the relationship between marketing capabilities and performance of MSMEs in the urban areas in Uganda?
- ii.) What is the relationship between network relationships and performance of MSMEs in the urban areas in Uganda?
- iii.) What is the relationship between network relationships and marketing capabilities?
- iv.) What is the mediating role of marketing capabilities in the relationship between network relationships and performance of MSMEs in the urban areas in Uganda?



## **1.5 Scope of the study**

### **1.5.1 Conceptual scope**

The study was limited to network relationships as independent variables, marketing capabilities as the mediating variables and MSMEs performance the dependent variables. Network relationships were viewed in terms of network embeddedness, network resourcefulness and network governance (Tooksoon et al, 2010). Marketing capabilities considered price management, promotion management, product management and distribution management (Vorhies et al, 2011). MSMEs Performance was looked at in terms of financial and non-financial measures which include sales volume, profitability and number of customers (Chong 2011).

### **1.5.2 Geographical Scope**

The study focused on all registered MSMEs with the Nakawa MSME registrar located in Nakawa division, Kampala district. Nakawa division was selected because it comprises 45% of MSMEs in Kampala district (Nakawa MSMEs Register, 2015). Besides, there is overwhelming evidence of high MSMEs failure rate within the division (Nakawa MSMEs Register, 2016).

### **1.5.3 Time scope**

The field study was conducted between October 2017 and November, 2017. Literature review covered a period of 15 years up to date.

## **1.6 Significance of the Study**

This study will help to inform MSMEs owners/managers and employees on the role of network relationships and marketing capabilities in driving MSMEs performance. This will enable owners and managers in MSMEs to engage in relevant and useful network relationships as a source of competitive advantage to boost performance.

The researcher intends to make a contribution to the existing research done in the area of network relationships and MSMEs performances to enable future researchers have a wide reference.

It will be helpful to people who are interested in starting businesses by making them aware of the importance of network relationships and marketing capabilities on MSMEs performance.

To the policy makers the knowledge will help them in formulating policies that would improve the perception of network relationships and MSMEs performance.

## 1.7 Conceptual Framework

**Figure 1: Conceptual Framework**



*Source: developed from literature review (Tooksoon and Mohamed, 2010; Li et al, 2013; Ge et al, 2009; Genc et al, 2013; Vorhies and Harker, 2000; Simpson, Padmore, & Newman, 2012)*

From figure 1 above, performance of MSMEs is reflected as the dependent variable, network relationships is the independent variable while marketing capabilities is mediating the variables. The framework suggests that network relationships directly influence performance of MSMEs (Santarelli and Tran, 2013) or indirectly affect performance through the mediating role of marketing capabilities (Meliá, 2012; Shin and Aiken, 2012). The framework also posits that marketing capabilities directly influence the performance of MSMEs (Agyapong, Osei, and Akomea, 2015). Network relationships are measured through network embeddedness, network resourcefulness and network governance (Tooksoon and Mohamed, 2011), marketing capabilities are measured through price management, promotion management, product management and distribution management and market information management (Vorhies and Harker, 2011) and MSMEs performance will be measured through Sales Volume, Profitability and number of customers (Padmore and Newman, 2012)

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section will conceptualize and understand network relationships, marketing capabilities and performance of Micro Small and Medium Enterprises in the urban areas in Uganda. The section will help the researcher broaden her understanding of the variables under study. The presentation of the review of the literature about the study variables will be made in relation to the study objectives.

#### **2.2 Overview of MSMEs in Uganda**

MSMEs include all types of enterprises irrespective of their legal form whether formal or informal enterprises to ensure inclusiveness (Olutayo, Kinyatta, Baliruno and Kibirige, 2015). Uganda Bureau of Statistics in their 2016 report categorized these enterprises basing on the number of people they employ, capital investment and annual sales turnover. Micro enterprises employ 1-5 people and own total assets not exceeding UGX 10million. On the other hand small enterprises employ 5 to 49 people and own total assets between UGX 10 million to 100 million. While Medium firms employ 50-100 people with total assets more than UGX. 100 million not exceeding UGX. 360 million, (MEFPED, 2011).The government of Uganda has recognized the role of MSMEs in economic development and transformation and has established the Directorate of MSMEs in the Ministry of Trade and Cooperatives to address their challenges and support them to grow (MSMEs Sector policy 2015).

### **2.3. Network Relationships**

Garcia and Cater, (2016) assert that network relationships are a driver to secure important resources for MSMEs. Chetty and Wilson (2013) added that network relationships provide firms access to resources and complementary skills which lead to specialized knowledge and achievement of economies of scale and scope. Network relationships have also been recognized as a source of competitive advantage to enterprises within the network (Ford, et al, 2014). OECD (2011) further indicates that firms that engage in network relationships are more complex, flexible and efficient due to the continuous inflow of information within the network. Given the challenges faced by most MSMEs such as; limited finance, competition, managerial competence and limited motivation among others to engage in network relationships would partly address these challenges (OECD, 2014). Tooksoon and Mohamed (2010); Naudé, et al, (2014) suggest that networking can be conceptualized in terms of resourcefulness, embeddedness and governance.

In their review of networks and innovation, Pittaway et al. (2014) concluded that firms with competence to manage their networks have an opportunity to benefit from the relationship since it breeds trust among the actors through which market information and resources are obtained.

### **2.4. Marketing Capabilities:**

Shin and Aiken (2015) define marketing capabilities as the repeatable patterns of applying resources to market related needs of the business that become embedded as routines over time. Vorhies and Morgan (2015), add in the aspect of a combination of processes that are directed towards engaging collective knowledge, skills, and resources of the firm to achieve the market needs. Day (2014) explains that possession of marketing capabilities enables enterprises to understand changes taking place in the markets in order for them to operate more effectively. In agreement with the previous scholars, Genc (2016) noted that marketing capabilities include; price managements, product management, promotion management, distribution management

and market information management. The abilities to obtain and utilize market capabilities with balanced marketing mix tools are of significant value to the performance of all firms regardless of size.

## **2.5. MSMEs Performance**

Sandberg, Vinberg and Pan (2016) in their study noted that performance of MSMEs is determined by their capability to create employment and wealth through business start-up, survival and their sustainability. MSMEs performance is also defined in terms of how the firm's objectives are achieved (Jarvis et al., 2014; Wood, 2015). Chittithaworn et al., (2014) describe business performance as the firm's ability to create acceptable outcomes and actions. Recent scholars have suggested the use of both non-financial and financial metrics to measure firm performance (Berrone, et al. 2016; Sinha and Sen, 2016; Baard and Watts, 2015). Financial measures include; total sales, liquidity and profitability (Boermans and Willebrands, 2012), while non-financial measures include, customer service, marketing effectiveness, human capital, innovation, customer loyalty, assets and corporate culture (Dele 2012). Non-financial measures are used to supplement the financial measures by providing data on customer requirements or competitors aimed at achieving profitability (Sinha and Sen, 2014).

## **2.6 Marketing Capabilities and performance of MSMEs**

The relationship between marketing capabilities and firm performance has attracted a lot of attention within the research fraternity (Krasnikov and Jayachandran, 2014; Morgan, Slotegraaf, and Vorhies, 2014; Murray, Gao, and Kotabe, 2011). Most of the studies have expressed positive relationship between the two variables (Krasnikov and Jayachandran, 2014). Market capabilities are embedded in organizational routines and serve as a source of competitive advantage (Day, (2014; Burgess and Steenkamp, 2015). Morgan, Vorhies, and Mason, (2016) added that firms that possess market capabilities over other enterprises,

effectively implement strategic orientations fundamental in directing the business towards specific performance objectives.

Narasimhan, Rajiv and Dutta, (2014) assert that marketing capabilities such as research and development have a stronger impact on firm's performance through increasing its ability to innovate. Qureishi and Mian (2014) conquer that market capabilities like marketing research, pricing, product management, channels, promotion and marketing management enable MSEs to identify customer demands, and gear their synergies to meet them hence boosting their leadership in the market. Consequently, such companies register improved market share which improves sales growth and profitability.

Marketing capabilities enable MSMEs to match products to the needs of niche, find appropriate distribution options, and price appropriately for the value of the product in its market hence improving performance through sales growth and profitability (Ramaswami et al., 2014).

MSMEs with marketing capabilities are more likely to become immune to competitive imitation and acquisition because their underlying knowledge of the market (Krasnikov and Jayachandran, 2016). Indeed, marketing capabilities support the MSMEs processes like market sensing and customer linkages which lead to increased market share. Vorhies, Morgan, and Autry (2014) emphasized that MSMEs with marketing capabilities proactively determine market needs, enhance communication and coordinate the required resources to meet customer needs hence increasing market dominance which boosts profitability.

Marketing capabilities nurture entrepreneurial interests that satisfy the performance of MSMEs through effective customer targets, market positioning, and product distribution in the marketplace (Morgan 2012). However, there is increasing debate among scholars whether marketing capabilities alone contribute to the growth of customer numbers, increase sales and profitability to boost the performance of MSMEs (Zhou, Yim, and Tse, (2015).

## **2.7 Network Relationships and Performance of MSMEs**

Network relationships are fundamental in MSMEs performance due to the cost reduction advantages, increasing market power of collaborating firms and gain access to external resources (Hicklin et al, 2013). MSMEs that engage in network relationships activities such as participating in associations, mobilizing collective resources and establish relationships built on trust gain access to important resources that boost their performance (Boonchoo, Pattana, Tongurai and Jittima, 2012). More so, MSMEs with large and diverse network relationships stand a high chance to benefit from such linkages. Chetty and Wilson (2014) add that such MSMEs get access to resources and complementary skills for production to achieve economies of scale and scope hence increasing their market share. Valkokari and Helander (2016) noted that MSMEs become more innovative and attract more customers to their products and services.

Jack, Dodd and Anderson, (2015); Rutashobya, Alan, and Nilsson, (2015) suggest that for MSMEs to be competitive in the business environment, they should engage in relationships that would enable them take advantage of existing and emerging opportunities and exchange of resources to increase their profitability. In addition Rutashobya, Alan and Nilsson (2016) suggest that with such network relationships, MSMEs stand an advantage to expand both in the local and international markets.

Much as most studies express a positive association between network relationships and performance of MSMEs, Watson (2012) indicates that not all network relationships would improve performance of MSMEs. The formal network relationships which are significant tend to be expensive for many MSMEs to engage in. Besides, Hicklin, et al (2014) noted that MSMEs that are engaged in network relationships are more likely to divert from their major



objectives hence setting new ones that favor the network. Westphal et al., (2013) posed that network relationships compel businesses to specific norms and practices which may not necessarily be suitable for every MSME leading to retarded business growth.

This had earlier been emphasized by Ingram and Baum (2012) who noted that engaging in network relationships limits firms from personally discovering opportunities and information outside the network relationships, increase institutional dependence and limit the local adaptability of the firms. As a consequence, such network relationships negatively influence MSMEs performance in terms of survival and market share. Conversely, Doz and Hamel, 2014; McEvily and Zaheer (2015) assert that network relationships may expose MSMEs to risk of transferring valuable knowledge and proprietary information to competitor firms within the same network.

Much as there are risks associated with MSMEs engagement in network relationships, if well harnessed firms would tap into resources that give them competitive advantage in form of economics of scale and scope

## **2.8 Network Relationships and Marketing Capabilities**

MSMEs engage in a number of network relationships with the main objective of increasing market share (Gilmore et al., 2014). Accordingly, MSMEs in the long run acquire distinctive ability in supporting marketing activities while overcoming internal constraints. Daphne (2016) observed that through building network relationships, MSMEs gain access to important market information and resources that enable them to penetrate into markets.

Such information and resources enable MSMEs to understand the market dynamics and customer behavior which influence their marketing mix strategies. Hakimpoor (2014) observed that network relationships such as network governance help MSMEs to establish legitimacy

and develop a desirable reputation in the marketplace giving them a platform to strengthen their market information management. Network Relationships are used by owner/ managers to penetrate difficult markets through their strong and weak ties to gain an understanding of in business-to-business market relationship hence boosting their capabilities (Olkonnen, et al, 2015).

In addition, Vorhies (2014) indicated that network relationships serve an important function for building, maintaining and equipping MSMEs with customer satisfaction skills. As a consequence, MSMEs transact with suppliers and other partners in order to acquire external resources to produce at competitive prices to retain and attract customers hence improving their marketing capabilities (Uzzi, 2014).

Furthermore, Rostami (2012) noted that effectively managing relationships with suppliers and other strategic partners plays an important role in boosting marketing capabilities such as product management, price management and distribution management. This fosters continuous innovation to meet and satisfy the ever changing customer demands. On the contrary, Zirger and Maidique (2013) urged that improving marketing capabilities through network relationships may not necessarily work as expected since, young MSMEs may enter into weak network relationships because of their limited exposure leading to critical knowledge loss hence setting an over dependence business environment cycle. This will hinder MSMEs from acquiring the intended marketing capabilities to sustain their businesses.

Lippman and Rumelt, (2014), suggest that young MSMEs need to engage in network relationships since such enterprises typically have less knowledge about markets; they need to tap into resources of existing and big enterprises to get support that helps them to learn and adopt to the market environment. This provides young MSMEs time to forge relationships with

external partners, including customers and channel members to improve their marketing capabilities (Venkatraman et al., 2014). Generally, scholars agree and suggest that network relationships among MSMEs improve their market capabilities.

### **2.9. Mediating role of Marketing Capabilities in the relationship between network relationships performance of MSMEs**

The strong relationship between network relationships and performance of MSMEs has been acknowledged by many scholars (Saeed, Yousafzai, and Engelen, 2014). Specifically, network relationships contributes to MSMEs growth (Moreno and Casilas, 2014), sales growth, resource acquisition (Simon, Stachel, and Covin, 2015), and overall performance (Mahmood and Hanafi, 2013). On the other hand, there are scholars who argue that the relationship between network relationships and MSMEs performance could be negative or insignificant for some reasons, such as business cycle (Andersén, 2010) or non-linear relationship (Kreiser, Marino, Kuratno, and Weaver, 2013). This calls for testing for the mediating role to understand the relationship between network relationship and performance of MSMEs (Qureshi and Kratzer, 2012).

To understand the complex relationship between network relationships and performance of MSMEs, it is useful to consider marketing capability as a mediating variable; especially from the role of product development (Qureshi and Kratzer, 2012). Marketing capabilities enable MSMEs in the network to share resources such as market information and research and development which are vital in product development to meet customer needs and satisfaction.

The dynamic capabilities theory explains how to achieve sustainable competitive advantage from network relationship. This provides an explanation on how MSMEs value-creating strategies meet dynamic market to gain long-term competitive advantage, economies of scale

and scope (Eisenman, 2013). MSMEs with capability to control scarce and unique resources have more opportunities to achieve growth and profitability. Along with market power, MSMEs typically have two optional decisions to gain economic profit: increasing the number of output or decreasing the price of output. Firms that deploy their unique resources and increase their output may trigger their competitors to decrease their output (Costa, Cool, and Dierickx, 2013).

### **2.10. Conclusion and Knowledge Gap**

While nurturing MSMEs there is need to consider the role of Network relationships, marketing capabilities and how they affect their performance. MSMEs are characterized with limited financial resources and out dated technology, it is important to pay more attention to Network relationships as an alternative resource, which would boost their performance. Network relationships promote knowledge acquisition, innovation that enable a positive work environment to gain competitive advantage (Martínez-Cañas, Sáez-Martínez, and Ruiz-Palomino, 2016; Duffy, Scott, Shaw, Tepper, and Aquino, 2016). Marketing capabilities nurture entrepreneurial interests that satisfy the performance of MSMEs through effective customer targets, market positioning, and product distribution in the marketplace (Morgan 2012).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0. Introduction**

This chapter describes how the study was conducted and it focuses on the Research design, Target population, Sample size and selection, Sampling techniques and Procedures, Data sources, data collection methods, Data collection instruments, Reliability and validity, Measurement of variables, Ethical procedure, Data processing, Presentation and data analysis.

### **3.1 Research Design**

The study followed a cross sectional survey (Amin, 2005). The researcher chose to use cross-sectional survey because it is effective when gathering data of a sample population at a particular point in time. The study employed a descriptive and analytical research design to examine the relationship between variables. The unit of analysis was the MSME's and the unit of inquiry was business owners or managers.

### **3.2 Study Population**

The population of the study consisted of 8,270 MSMEs in the subsectors of food processing and restaurants business, metal fabrication and welding and market vendors that had been in business for a period not less than 5 years and were fully registered (Nakawa register, 2016). This enabled the researcher to study enterprises that had survived in business for some time and were knowledgeable, therefore fit to inform the study. The total study population of businesses considered was 12, 876 surviving MSMEs by 2017, (Nakawa register, 2016). The three (3) subsectors food processing and restaurants business, metal fabrication and welding, and market vendors comprised a total of 8,270 MSMEs representing (45%) of business in Nakawa which gave me a substantial representation of the total population

### **3.3 Sample Size and sampling techniques**

A sample size of 367 MSMEs was considered using Krejcie and Morgan (1970). Stratified sampling was used to group different MSMEs into strata comprising sectors from which simple random sampling method was used to select the MSMEs. Purposive sampling technique was used to select the respondents who were business owners and managers since they possess the required information.

**Table 3. 1: Population distribution and sample table**

<b>Category</b>	<b>Population</b>	<b>Sample</b>	<b>Sampling Method</b>
-----------------	-------------------	---------------	------------------------

Food processing and restaurants business	3849	164	Simple random sampling to select the MSMEs and purposive to select the respondents who are owners or managers.
Market Vendors	3521	136	Simple random sampling to select the MSMEs and purposive to select the respondents who are owners or managers.
Welding and Metal fabrication	900	67	Simple random sampling to select the MSMEs and purposive to select the respondents who are owners or managers.
<b>Total</b>	<b>8,270</b>	<b>367</b>	

*Source: (Nakawa MSMEs register, 2016).*

### **3.4 Data Collection method**

Primary data source was used for this study. The researcher went to the field and collected the data using the appropriate instrument that were selected. Primary data was used since it was a fresh study to enable the researcher attains first-hand information.

### **3.5. Data Collection Instrument**

Quantitative data was obtained through the use of self-administered questionnaire anchored on a five-point Likert-type scale ranging from 5(strongly agree) to 1(strongly disagree), (Vagias and Wade, 2006). Neuman and Robson (2012) attested that five-point scale is the most suitable and gives better results. Hence, the five-point Likert scale was utilized in this study. Confirmation to this exists in the literature as past studies used a 5 point likert scale, (Ali et al., 2014; Bacha, 2014; Noor, 2012), among others. Therefore the 5 point likert scale was selected to allow the respondents express how much they agree or disagree with the statements in the questionnaire,(

*appendix 1).*

### **3.6 Measurement of Variables**

Each dimension was measured basing on the works of other scholars and was modified to match the Ugandan study context. Network Relationships was measured using network embeddedness, resource acquisition and network governance (Tookssn and Mohamed, 2010) Marketing capabilities was measured in terms of price management, promotions management, product management and distribution management (Li et al, 2013; Ge et al, 2009; Genc et al, 2013) and performance of MSMEs was measured using both financial and non-financial measures (Padmore and Newman, 2012). These measures were adopted from the literature.

### **3.7 Validity and Reliability of the Research Instrument**

Validity of the instrument was measured through seeking for views from experts both academicians and practitioners in the area of MSMEs performance who assisted on the relevance of the scales in the instrument. A content validity index of 0.7 was established. According to Amin (2005), CVI of 0.7 qualifies questionnaire items to be used in data collection exercise.

Reliability of the items was done by applying the Cronbach Coefficient Alpha for the computation to check for the internal consistency of the items that conform to a Cronbach Coefficient Alpha of 0.7++ was retained. According to Cronbach (1951), data collection instruments are reliable if they obtain a result of at least 0.7. The results for Cronbach obtained were 0.7++ from the respondents as illustrated in the table below.

#### **Table 3. 2: Reliability and validity**

<b>Results</b>			
<b>Variable</b>	<b>Cronbach's Alpha</b>	<b>CVI</b>	<b>No. of Items</b>
Network Relationships	0.837	0.80	16
Marketing Capabilities	0.895	0.83	26
Performance	0.880	0.79	11

*Source: Primary Data*

### **3.8 Data Processing and Analysis**

Data from the field was compiled, sorted, edited and coded to have the required quality, accuracy and completeness. Then it was entered into the computer using the Statistical Package for Social Sciences (SPSS) version 23 for analysis. During the analysis of the data, descriptive statistics was used to understand the results of the sample characteristics. The researcher used correlation analysis to test the relationship between the independent variables and the dependent variable. Regression analysis was used to show the combined effect of the independent variables on the dependent variable. The single mediator model was used to test for the mediating role of marketing capabilities in the relationship between network relationships and performance of MSMEs using Baron and Kenny's conditions for mediation.

### **3.9. Response rate**

Out of a targeted sample of 367 respondents from different MSMEs, 250 provided information, however only 244 were useable giving a response rate of 68.5%. Details of the responses are presented in the subsequent tables in chapter four.



### **3.10. Ethical Procedure**

In order to ensure ethical research principles, the researcher obtained an introductory letter from Makerere University Business School and sought permission to undertake the research among MSMEs in Nakawa division. This was after the higher degrees committee reviewed the proposal and granting the researcher permission to precede with data collection. Appointments were arranged to determine the proper time for questionnaires to be administered and picked. The research instrument was used to collect the data was delivered and collected by the researcher after being filled by the respondents. The research was purely academic and confidentiality and anonymity of the respondents was strongly protected.

## **CHAPTER FOUR**

### **PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS**

#### **4.1 Introduction**

This chapter covers the analysis, presentation and interpretation of the results according to the objectives of the study. The chapter is comprised of four sections; Section one presents the introduction, section two covers the response rate, section three deals with the demographic characteristics which include gender, age, educational level and the number of years and individual spent at the organization. Section four looks at the analysis of the study variables for answering the research objectives.

#### **4.2 Demographic Characteristics of Respondents**

The demographic characteristics of the respondents that were discussed include; gender, age, educational level and the number of years spent in business. While business characteristics included ownership, type of business, profits, duration and number of people employed. Their respective descriptive statistics were generated. Table 4.1 below shows the distribution of these characteristics.

**Table 4. 1: Demographic Characteristics of Respondents**

The table below shows the demographic characteristics of the respondents including gender, age educational level and current position.

<b>Variable</b>	<b>Category</b>	<b>Frequency</b>	<b>Percent</b>
Gender	Male	157	64.3
	Female	87	35.7
	Total	244	100.0
Age	below 25	40	16.4
	25-35	107	43.9
	35-45	67	27.5
	45-55	27	11.1
	Above 55	3	1.2
	Total	244	100.0
Education Level	Primary	55	22.5
	Secondary	104	42.6
	Tertiary	76	31.1
	Others	9	3.7
	Total	244	100.0
Current Position	Manager	129	52.9
	Owner	115	47.1
	Total	244	100.0

*Source; Primary data*

The results in Table 4.1 reveal that out of the 244 respondents, slightly more than half of the respondents were male (64.3%) with the rest being female (35.7%). This indicates that majority of the male are engaged in micro and small businesses in Nakawa division as compared to female. This is an indication that the researcher observed gender balance in the administration of the questionnaires.

In terms of age of the respondents, most of them were aged between 25 to 35 years (43.9%), followed by those aged between 35 to 45 years (27.5%), those aged between 45to 55 years accounted for 11.1% and those aged above 55 years accounted for 1.2%.The findings reveal

that the youth are more engaged in micro and small businesses since Uganda has the world's youngest population with over 78 percent and most of these businesses require energy and hard work. These are followed by the middle age group who may be engaged in the business activities for survival. The low participation of people aged 55 years and above is a clear indication that engaging in micro and small businesses requires energy and hard work.

In regard to the education level of the respondents, majority were found to have attained secondary (42.6%), this was followed by those with tertiary qualifications (31.1%), then those who stopped in primary accounted for 22.5%, with the least being those with other forms of qualification at 3.7%. The findings revealed that majority of the people engaged in Micro and Small businesses attained secondary education, this would imply that they failed to raise money for tuition to pursue university education and ended up in business. Those who attained tertiary education and are engaged in Micro and Small businesses activities imply that they completed their studies and were not absorbed in the job market, while those who attained primary education are either directly running their own small businesses or working for others and those with other qualifications are engaged in small businesses to generate side income.

The current position of the respondents, the majority 52.9% were managers and 47.1% were owners of the business. This implies that the category of people who were involved in the study were in positions involved in the day to day running of the business.

#### 4.1.2 Characteristics of MSMEs

**Table 4. 2: Characteristics of MSMEs**

Table 4.2 shows the business characteristics which include position in the business, type of the business, and duration in the business, profits a day and the number of people employed.

<b>Variable</b>	<b>Category</b>	<b>Frequency</b>	<b>Percent</b>
Business Ownership	Owner	121	49.6
	Manager	123	50.4
	Total	244	100.0
Type of Business	Welding and metal fabrication	59	24.2
	Restaurant and food processing	95	38.9
	Market Vendor	78	32.0
	Others	12	4.9
	Total	244	100.0
Duration in Business	5-10 years	84	34.4
	10-15 years	117	48.0
	Above 15 years	43	17.6
	Total	244	100.0
Profit a day	Below 10,000	22	9.0
	10,000 - 50,000	138	56.6
	50,000 - 100,000	61	25.0
	100,000 - 200,000	18	7.4
	Above 200,000	5	2.0
Total	244	100.0	
Number of people employed/ Size of business	1 – 5	138	56.6
	6 – 49	106	43.4
	Total	244	100.0

*Source: primary data*

The findings of the study revealed that majority of the businesses are operated by managers accounting for 50.4% and the rest were operated by the owners that accounted for 49.6% The findings imply that most of the owners of these firms have other sources of income or employed

somewhere else hence employing people to manage their businesses, these are followed by the owners who manage their own businesses and this implies that this is the only economic activity and source of income they depend on for survival. Those employed in other activities are very few and this is basically because small businesses employ very few people.

In terms of the type of business, restaurant and food processing accounted for 38.9%, these were followed by market vendors who accounted for 32.0%, welding and metal fabrication comprised of 24.2% and others accounted for 4.9%. The findings revealed that most of the people in micro and small businesses are engaged in restaurant and food processing since they are not difficult to start and they require little capital and can easily be managed. Market vending is also a key activity in micro and small businesses, the business employs mostly female. Most male with tertiary education are engaged in welding and metal fabrication since it requires some skills and energy.

In relation to the duration/ time spent in business, the findings revealed that majority of businesses accounting for 48.0% had been in operation between 10 to 15 years. This implies a high survival rate of micro and small businesses. This was followed by those between 5 to 10 years that accounted for 34.4% implying that people were determined to run the businesses. The businesses that had been in existence for more than 15 years accounted for 17.5%. The results imply that majority of the people embraced the phenomenon of engaging in micro and small businesses not long ago.

Further analysis revealed that majority of the businesses record a daily profit of 10,000 to 50,000 Ugandan shillings accounting for 56.6%. This result implies that micro and micro businesses are characterised with low sales and returns. 25.0% of the businesses recorded a profit of 50,000 to 100,000 Uganda shillings and this are taken to be sizeable small businesses with large stock volumes and sales turnover most especially the welding and metal fabrication

business. 9.0% percent of the businesses recorded a daily profit of below 10,000 shillings which implies a bit of struggle and difficulty to operate with low chances of survival and only 7.4% of the businesses recorded a profit of 100,000 and 200,000 shillings, while 2.0% of the businesses make a profit of above 200,000 shillings a day.

In terms of the number of people employed/ size of business, majority of the businesses employed between 1 to 5 people accounting for 56.5%. 43.4% of the businesses employed between 6 to 49 people and none of the businesses sampled employed 50 people and above. The findings revealed that most of the businesses in urban areas are micro and small firms that employ 6-49 people. Most of these micro and small businesses are in restaurants and food accounting for 38.9 percent, followed by market vendors accounting for 32.0 percent while 24.2 percent of these businesses are in welding and metal fabrication. These are mainly sole proprietorship businesses required to register their business names and location with the Municipality Councils for easy payment of market dues. Unlike the Medium and Large scale Enterprises which are required to register with the Uganda Registration Service Bureau (URSB) whose formalities are cumbersome to micro and small enterprises.

**Table 4. 3: Cross tabulation between type and size of business**

		Type of Business				Total
		Welding and metal fabrication	Restaurant and food processing	Market Vendor	Others	
<b>People employed</b>	<b>1 - 5</b>	19.6%	37.0%	39.1%	4.3%	100.0%
	<b>6 - 49</b>	30.2%	40.6%	23.6%	5.7%	100.0%
<b>Total</b>		24.2%	38.5%	32.4%	4.9%	100.0%

*Source primary data*

The results in table 4.3 show that the firms engaged in market vending were found to employ between 1 to 5 people (39.1%) while most of the firms engaged in restaurant and food processing (40.6%) had between 6 to 49 people.

### **4.3. Correlation analysis**

A bi-variable Pearson correlation analysis was conducted in order to establish the relationship between the variables under study as summarized in table 4.6. This analysis was particularly important in addressing the study objectives.

#### **Determining the relationship between variables**

The relationship between the study variables was carried out by using the Pearson correlation coefficient. Table 4.6 below shows the results of correlation analysis and a descriptive analysis of correlation analysis.



**Table 4. 4: Descriptive analysis and Bi-variate Correlation results**

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
<b>1. Network relationships</b>	<b>3.85</b>	<b>0.59</b>	<b>1</b>										
2. Network embeddednes	3.95	0.66	.902**	1									
3. Network resourcefulness	3.80	0.61	.849**	.700**	1								
4. Network governance	3.81	0.77	.881**	.685**	.583**	1							
<b>5. Marketing capabilities</b>	<b>3.70</b>	<b>0.52</b>	<b>.740**</b>	<b>.662**</b>	<b>.593**</b>	<b>.683**</b>	<b>1</b>						
6. Price management	3.26	0.96	.542**	.395**	.484**	.539**	.694**	1					
7. Promotion management	3.83	0.67	.578**	.550**	.417**	.541**	.788**	.363**	1				
8. Product management	3.92	0.58	.621**	.621**	.467**	.542**	.772**	.319**	.633**	1			
9. Distribution management	3.83	0.56	.541**	.489**	.434**	.494**	.798**	.355**	.528**	.605**	1		
10. Marketing information	3.69	0.62	.553**	.532**	.445**	.477**	.799**	.335**	.577**	.561**	.735**	1	
<b>Performance</b>	<b>4.05</b>	<b>0.49</b>	<b>.554**</b>	<b>.494**</b>	<b>.423**</b>	<b>.529**</b>	<b>.616**</b>	<b>.388**</b>	<b>.492**</b>	<b>.457**</b>	<b>.549**</b>	<b>.513**</b>	<b>1</b>

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

**Source: primary data**

The descriptive statistics in table 4.4 indicate that the respondents agreed to the existence of good network relationships (mean = 3.85) among micro, small and medium enterprises within urban areas in Uganda, additionally, network embeddness was found to be the most prevalent, followed by network governance and network resourcefulness. Similarly, it was found that micro, small and medium enterprises generally had marketing capabilities (mean = 3.70), strongest of the capabilities being Product management and Promotion management, however they were not found to be grounded with respect to price management. In respect to these micro, small and medium enterprises were reported to be having commendable performance with respect to either their profits or sales volumes.

The results also showed that there was low deviation of the individual responses from the common opinion by virtue of the standard deviation values that were below one unit. This could point to the low varying perceptions in regards to network relationships, marketing capabilities and performance of micro, small and medium enterprises.

#### **4.3.1. Relationship between Marketing Capabilities and performance of Micro, Small and Medium Enterprises**

Results indicated that there is a significant positive relationship between Marketing Capabilities and performance of micro and small businesses ( $r= 0.616, p<0.01$ ). Noteworthy, performance had a significant and positive relationship with all the dimensions of marketing capabilities the strongest being with distribution management ( $r= 0.549, p<0.01$ ). This implies that when there is improvement in Marketing Capabilities with respect to price, promotion, product and distribution, the performance of small businesses will also increase while a decline in the levels of Marketing Capabilities will also lead to a decline in performance of these firms.

#### **4.3.2. Relationship between Network Relationships and Performance of Micro, Small and Medium Enterprises**

Results indicated that there is a significant positive relationship between Network relationship and performance of micro and small businesses ( $r= 0.554, p<0.01$ ). Further still, performance had a significant positive relation with all the dimensions of network relationships. However, the strongest was with network embeddedness with ( $r= 0.499, p<0.01$ ). This implies that when there are improvements in Network Relationships, in regard to network embeddedness, resourcefulness and governance, the performance of Micro and Small businesses will also increase while a decline in the levels of network relationships will also lead to a decline in the performance of Micro and Small businesses. The results also indicate that the performance of the small businesses also had a positive relationship with all the dimensions of network relationships.

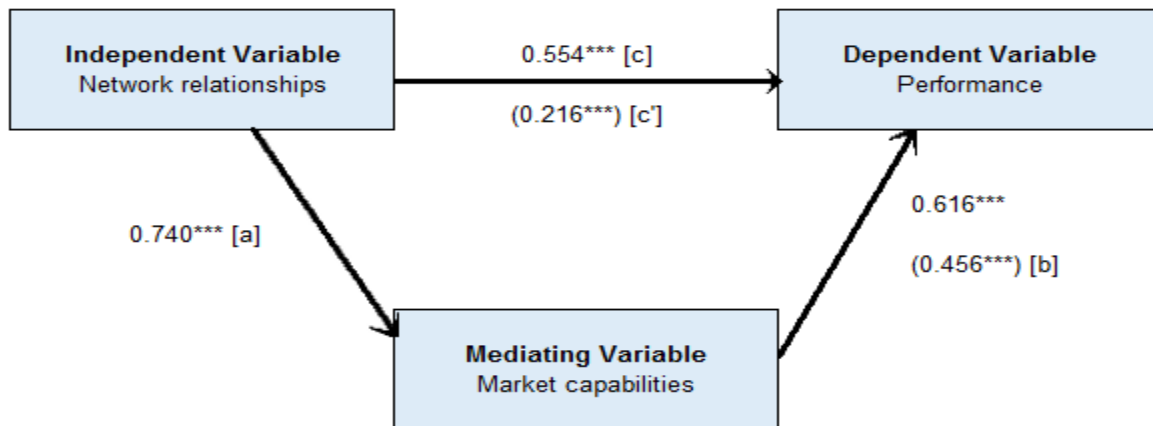
### 4.3.3. Relationship between Network Relationships and Marketing Capabilities

Results indicated that there is a significant positive relationship between Network relationship and marketing capabilities ( $r= 0.740$ ,  $p<0.01$ ). The relationship was also extended to dimensions of both network relationships and marketing capabilities. However, the strongest was noted between network governance and price management, ( $r= 0.359$ ,  $p<0.01$ ). This implies that when there are improvements in network relationships, marketing capabilities will also increase while a decline in the levels of network relationships will also lead to a decline in marketing capabilities. Furthermore, the same kind of relationship holds for all of the pairs of the dimensions of both Network relationship and marketing capabilities.

### 4.3.4. Mediating role of marketing capabilities in the relationship between network relationships and performance of Micro Small and Medium Enterprises.

figure 4.1

<b>Type of mediation</b>	Significant	
<b>Sobel z-value</b>	5.795847	$p = <0.000001$
<b>Effective Size measures</b>		
<u>Standardised Coefficients</u>		
Total:	0.554	
Direct:	0.216	
Indirect:	0.337	
Indirect to Total	0.609	



Baron and Kenny (1986) put out four steps for testing mediation. The steps include; 1. The independent variable should be correlated with the dependent variable. 2. The independent variable should be correlated with the mediating variable. 3. The mediating variable should have a significant effect on the dependent variable when controlling for the effect of the independent variable. 4. There should be complete mediation across the variables and if only the first three steps are satisfied, then partial mediation is observed in the data. Results of the med graph in figure 4.1 above indicated that there was a significant relationship between network relationships and performance ( $\beta = .554, p < .01$ ), likewise network relationships was found to have a significant relationship with marketing capabilities ( $r = .740, p < .01$ ). Furthermore, marketing capabilities were also found to have a significant effect on performance ( $r = .456, p < .01$ ) in the model of performance on both network relationships. Likewise network relationships were also found to have a significant effect on performance ( $r = .216, p < .01$ ) in the model of performance on both network relationships. The sobel test for mediation showed that the mediating effect was significant ( $Z = 5.795, p < .01$ ), implying that marketing capabilities had partial mediation effect on the relationship between network relationships and performance. In other words, the effect of network relationships on performance is partially due to its influence on marketing capabilities

#### **4.4 Regression Analysis**

The regression was run to determine the extent to which the independent variables predict the variations or changes in the dependent variable. Specifically, the regression below shows the extent to which networking relationships and the marketing capabilities affect the Performance of MSMEs in Urban Areas in Uganda.

**Table 4. 5: Results of the regression analysis**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.729	.184		9.394	.000
Network relationships	.180	.062	.216	2.921	.004
Marketing capabilities	.438	.071	.456	6.160	.000
<i>R Square</i>	.401		<i>F Statistic</i>	80.74	
<i>Adjusted R Square</i>	.396		<i>Sig.</i>	.000	

*Source: primary data*

### **Interpretation of the results**

Results in Table 4.5 indicate that the model was well specified and can significantly be used to predict the changes in the performance of micro and small businesses (F-statistic=80.740, p-value<0.05). A significant causal effect between marketing capabilities and the performance of micro and small businesses exist that is, a unit change in marketing capabilities, on average brings about a 0.456 increase in the performance of micro and small businesses ( $\beta=0.456$ ,  $p \leq 0.05$ ). Again the results showed that a unit increase in network relationships, on averages increases the performance of micro and small businesses by 0.216 assuming other factors constant ( $\beta=0.216$ ,  $p \leq 0.05$ ). With regard to combined variation, network relationships and marketing capabilities explained 39.6% of the total variation in the performance of micro and small businesses (Adjusted  $R^2 = 0.396$ ).

## CHAPTER FIVE

### DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This research was out to examine the relationship between network relationships, marketing capabilities and the performance of MSMEs in Urban areas in Uganda; a case of Nakawa division and it was guided by the following objectives;

- i. To establish the relationship between marketing capabilities and the performance of MSMEs in the urban areas in Uganda.
- ii. To establish the relationship between network relationships and the performance of MSMEs in the urban areas in Uganda
- iii. To examine the relationship between network relationships and marketing capabilities
- iv. To examine the mediating role of marketing capabilities in the relationship between network relationships and the performance of MSMEs in the urban areas in Uganda.

In this chapter, the findings presented in chapter four are discussed, conclusions drawn and recommendations are made. The first part of this chapter deals with discussion, the second part deals with conclusions and the last part deals with recommendations and areas for further research.

## **5.2 Discussion of Findings**

### **5.2.1 Marketing Capabilities and the Performance of MSMEs in Urban Areas in Uganda.**

The findings revealed that there is positive and significant relationship between marketing capabilities and the performance of MSMEs. The study revealed that price management has a direct relationship with sales volume. The prices set and charged will influence the quantities that will be demanded and sold and this will have an ultimate impact on the profits that will be registered by an MSME. Furthermore, the findings indicated that Price management and the number of customers are positively related. This is supported by the works of Weerawardena et al, (2014) who observed that marketing capabilities enable business enterprises to carry out the changes to meet the demands of their customers which can lead to sustained superior returns.

The findings also revealed that Promotion management contributes to sales volume. When promotional mixes are well designed, customers will obtain key information on the MSMEs products, distribution channels and where to find and access them hence increasing the sales volume which in turn will boost profitability. Therefore poorly designed promotion management programmes will affect the MSMEs sales volume. Some customer's decisions to buy is ignited by the availability of information disseminated through promotional management.

It was found out that product management and sales volume portrayed a positive and significant relationship. This implies that a well-orchestrated product management plan will enable the MSMEs to differentiate their products from those of their competitors, offer products that meet and satisfy customer needs, efficiently position products in the marketplace to attract customers, which will all contribute to the growth of the sales volumes and hence profitability. The findings are in agreement with Ramaswami et al., (2014) who noted that marketing capabilities enable



MSMEs to match products to the needs of niche, find appropriate distribution options, and price appropriately for the value of the product in its market hence improving performance through sales growth and profitability. In support of the findings, Qureishi and Mian (2014) conclude that market capabilities like marketing research, pricing, product management, channels, promotion and marketing management enable MSMEs to identify customer demands, and gear their synergies to meet them hence boosting their leadership in the market hence improving MSMEs sales volume and profitability.

### **5.2.2 Network Relationships and Marketing Capabilities of MSMEs in Urban Areas in**

#### **Uganda.**

The study found out that there was a significant and positive relationship between Network relationships and marketing capabilities. Network embeddedness enables MSMEs to form groups through which they collaborate, share knowledge and information enables them to design effective and Price management programmes which result in setting competitive prices, establishing joint/ collaborative promotion and product management.

The study revealed that resource acquisition and marketing capabilities have a positive and significant relationship. Through networks MSME owners and managers are able to get knowledge about the availability of resources and to establish strong relationships with the suppliers. This enables MSMEs to locate some of their businesses near their key suppliers and also when resources are acquired at affordable costs, the best competitive prices will be set. This is backed up by Uzzi, (2015) who noted that businesses transact with suppliers and other partners in order to acquire external resources to produce products/services at competitive prices, and designs on how best they can retain and attract customers hence improving their marketing capabilities

Finally, a positive and significant relationship existed between network governance and price management. When trust exists among MSME members, there is fairness in their dealings since they always provide platforms for discussing issues and members take part in the leadership of their associations. This enables members in the network to agree on price strategies, promotion, distribution and product management strategies which result into economies of scale and scope for the MSMEs. This too finds support from Weerawardena et al, (2007) who observed that marketing capabilities enable business enterprises to carry out the changes to meet the demands of their customers which can lead to sustained superior returns.

### **5.2.3 Network Relationships and the Performance of MSMEs in Urban Areas in Uganda.**

The findings revealed that a positive and significant relationship existed between Network relationships and the performance of SMMEs. Network embeddedness, resource acquisition and network governance bring together MSMEs owners and managers into associations where they discuss issues that concern them and influence their marketing mix strategies. This positive relationship results into attracting many customers, producing products that are market responsive and meet customer demands which lead to customer numbers, sales volume and profitability. This supported by the literature review where it is noted that the closer the relationship among members, the faster the speed of sharing resources (Ahuja, 2000).

The findings are also in agreement with Jack, Dodd and Anderson, (2015); Rutashobya, Alan, and Nilsson, (2015) who suggested that for MSMEs to be competitive in the business environment, they should engage in relationships that would enable them take advantage of existing and emerging opportunities and exchange of resources to increase their profitability.

Other studies by scholars also support the findings for instance; Krackhardt, (2012) noted that network governance relies on implicit and open-ended contracts that are supported by social mechanisms like power and influence which reduces the threat of ostracism and loss of reputation (Jones et al., 2013) rather than legal enforcement. There was also a positive and significant relationship between network governance and non- financial network governance and Performance. Finally, a positive and significant relationship also existed between network governance and number of customers. This positivity is supported by Pittaway et al. (2014) who concluded that the extent to which firms have access to new opportunities is connected to their existing networks and participation in those networks.

#### **5.2.4 Mediating Role of Marketing Capabilities in the Relationship between Network Relationships and Performance of MSMEs in Urban Areas in Uganda.**

The study found out that marketing capabilities plays a strong mediating role between network relationship and performance of MSMEs. Marketing capabilities mediate through providing marketing information, product, distribution and promotion management which strengthen the relationship in the network among MSMEs. Through these strategies, MSMEs are able to attract customers and set competitive prices that result into increased sales volume and profitability.

It was discovered that their emphasis on the mediating role of marketing has helped them to attain a competitive advantage over other players in the same business which has enabled them to survive and succeed. Their main focus has always been on the direct relationship between market orientation in terms of marketing capabilities and competitive advantage in terms of building more network relationships. These findings are supported by the works of Qureshi and Kratzer, (2012), who found out that marketing capabilities enable MSMEs in the network to share resources such as market information and research and development which are key in product development to

meet customer needs and satisfaction.

### **5.3 Conclusion**

It can be noted that a positive and significant relationship existed between marketing capabilities and Performance of MSMEs in Urban Areas in Uganda. This was generally attributed to the fact that performance of MSMEs was directly related to their marketing capabilities. In addition, a positive and significant relationship existed between Network Relationships and marketing Capabilities . This was attributable to the fact that a network embeddedness,, resource acquisition and network governance strengthen the relationship of members of MSMEs which give them a competitive advantage to boost their customer numbers, sales volume and profitability.

Furthermore, a positive and significant relationship existed between Network Relationships and Performance MSMEs in Urban Areas in Uganda. This too was precipitated by strong ties portrayed by the network relationships. Finally, it was found out that marketing capabilities play a direct mediating role between network relationships and performance of MSMEs.

### **5.4 Recommendations**

In light of the research findings, the following recommendations are made;

- i. There is need for MSMEs owners or managers to actively engage themselves in the formation of associations and strengthen those networks in order to gain knowledge and get access to critical information in the industry and acquisition of key resources that will give them a competitive advantage and economies of scale.
- ii. MSMEs should also embrace marketing capabilities and put a lot of emphasis on designing effective marketing mix strategies such as product, promotion and distribution management and marketing information management since it has been found out that marketing capabilities plays a direct mediating role between network relationships and

MSMEs performance.

- iii. MSMEs should invest a lot of time and resources in conducting marketing research aimed at understanding the customer, since customers directly affect their performance.
- iv. In addition, MSMEs need to exert more emphasis in building and sustaining loyal ties with both the internal and external customers so as to be in position of boosting the performance of their businesses. This could be done through training their staff in seminars, conferences, workshops and so forth so as to equip them with up to date skills and competencies.
- v. Further studies should concentrate on Medium Enterprises.

### **5.5. Areas for further study**

The study concentrated on studying the relationship between network relationships, marketing capabilities and MSMEs performance in urban areas a case of Nakawa division, future studies should attempt to widen the scope to cover other areas with considerations to MSMEs in rural areas.

Since the study has proved that there is a direct mediating role of marketing capabilities between network relationship and performance of MSMEs, future studies on the mediating role of marketing capabilities in network relationships and performance of MSMEs should be conducted. Studies on Network Relationships and the Internationalization Process of Small Software Firms in developing countries like Uganda should also be conducted in future.

### **5.6 Limitations to the study**

The study was limited to only three variables that were studied. This limited the researcher to only those variables.

The Scoop of the study targeted MSMEs, however Medium enterprises did not participate because the area is fully saturated with Micro and Small businesses.

The study was limited to only MSEs in Nakawa division. This limited the researcher to only that area where the research was conducted.

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**APPENDECIES**

**APPENDIX 1: QUESTIONNAIRE**

**MAKERERE UNIVERSITY BUSINESS SCHOOL**

Dear respondent,

I am a student pursuing a Master of Science in Marketing of Makerere University offered at Makerere University Business School. My study is on Network relationships and performance of MSMEs within urban areas in Uganda, a case study of Nakawa Division. You have been identified as a respondent, and I therefore request you to kindly spare a few minutes of your busy schedule to fill this questionnaire. This study is purely for academic purposes. Your honest answer and sincere responses are highly appreciated and shall be treated with outmost confidentiality.

**Section A: Personal Data**

In this section you are requested to tick the option that best suits you

Name of the respondent (optional) .....

**1) Demographic characteristics of the respondent**

a) **Gender:** Male  Female

**b) Age of the respondent**

Below 25years  25-35years  35-45years  45-55years  above 55years

**c) Level of education attained:**

Primary level  secondary level  Tertiary level  Others (Specify) .....

**d) Are you the owner of the business?**

Yes

No

What is your current position in the firm?

Manager

Owner , Others (specify).....

**2) What type of business are you involved in?**

Welding and metal fabrications

Restaurant and food processing

Market vendor

Others (Specify).....

**How long have you operated this business?**

5-10 years  10- 15 years  Above 15 years

**3) How much profit do you get in a day?**

Below 10,000  10,000-50,000  50,000 - 100,000  100,000 - 200,000

Above 200, 0000

**4) How many people do you employ?**

1-5  6-49  50-100  above 100

**Section B**

**For the statements below, please rate the extent of your agreement or disagreement with each by ticking one of the options provided**

**Degrees: 5.Strongly Agree, 4.Agree, 3.Not Sure, 2.Disagree, 1.Strongly disagree**

<b>B</b>	<b>Network Relationships</b>	<b>SA</b>	<b>A</b>	<b>NS</b>	<b>D</b>	<b>SD</b>
	<b>Network Embeddedness</b>					
<b>B1</b>	The firm is part of an enterprise group	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B2</b>	Business collaboration with our friends regarding our work is good	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B3</b>	We always make use of advice from our friends and family	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B4</b>	Our regular source of good ideas is from our friends and family	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B5</b>	Our membership in a business network has contributed to getting businesses from other members in the network	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
	<b>Network Resourcefulness</b>					
<b>B6</b>	Our membership in a business network has contributed to getting knowledge from other members in the network	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B7</b>	Regular business contacts with other employees helps me/ us to acquire productive resources	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B8</b>	Our membership in a business network has contributed to our company to be more competitive	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>

<b>B9</b>	Our external accountants help us to solve most of our financial management problems	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B10</b>	We regularly obtain advice & resources from people we have known for a long time	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
	<b>Network Governance</b>					
<b>B11</b>	We absolutely trust our network friends.	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B12</b>	Our network friends don't take unfair advantage over us.	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B13</b>	Our network friends always listen if I have issues to discuss with them	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B14</b>	Our network friends always act in a manner that is consistent we want	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B15</b>	We take part in the leadership of the associations we subscribe too	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>B16</b>	We often meet with other traders to discuss ways of growing our businesses	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C</b>	<b>Marketing capabilities</b>					
	<b>Price Management</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C1</b>	We can identify our competitors' pricing strategies	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C2</b>	We are able to offer competitive prices	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C3</b>	We can monitor competitors' prices and price changes	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C4</b>	We can stick to our price list and minimizing discounts	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>



	<b>Promotion management</b>					
<b>C5</b>	We are able to locate our target buyers/ customers	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C6</b>	We are able to get knowledge of the places where the customers buy and when	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C7</b>	We are able to market our products/ services using the marketing channels the customers use on a regular basis	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C8</b>	We are able to get information about the marketing channels that work best with our target customers	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C10</b>	We are able to identify when and where our customers are most ready to buy our products or service	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C11</b>	We are able to position our business in a place convenient to customers	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
	<b>Product Management</b>					
<b>C12</b>	We have the ability to differentiate our product / service	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C13</b>	Our product/ services can satisfy customer needs	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C14</b>	The product features are able to meet the customer needs	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C15</b>	We have the ability to position the product / services in the marketplace	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C16</b>	We have the ability to identify competitors and how they compare with us	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C17</b>	We are able to find out that customers are unhappy with the quality of our services / products, and take corrective action immediately	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>

	<b>Distribution Management</b>					
<b>C18</b>	We are able to review our distribution strategies with the relevant contacts	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C19</b>	We keep to our delivery time	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C20</b>	We have enough resources for transportation	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C21</b>	We are able to provide dependable delivery	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
	<b>Marketing Information</b>					
<b>C21</b>	We are able to share proprietary information with our partners	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C22</b>	We are able to get information about issues that affect our business	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C23</b>	We are able to share business knowledge of core business processes with others	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C24</b>	We are aware of the image the people have of our brand vs our/ my competitors	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>C25</b>	We are aware of what people think about the different aspects of our/ my product (name, packaging, features, advertising, pricing)	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>D</b>	<b>Performance</b>					
	<b>Profits</b>					
<b>D1</b>	Our business capital has been growing over the past 5 years	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>D2</b>	Our cash collections have increased over the last three years	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>D3</b>	Our profits have been growing over the last five years	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>D4</b>	The business' assets have increased in the last 5 years	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>

<b>D5</b>	Our operational costs have been reducing with the increase in production/business activity	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
	<b>Sales volume</b>					
<b>D6</b>	Our annual sales greatly increase each year.	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>D7</b>	Our firm has been expanding as a result of increasing sales volume	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>D8</b>	Our stock levels have increased due to increased sales and demand	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
	<b>Customers</b>					
<b>D9</b>	The customer retention rate is always increasing	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>D10</b>	Every year we register new customers	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>D11</b>	Existing customers refer new customers to my/our firms products and services	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>

**THANKYOU**

**Appendix 2: Factor Analysis Results**

Factor analysis for all of the variables in the study was conducted primary to identify their factor structure which helps to establish; 1) the hierarchy of importance of the components of the major constructs and 2) the indicators of the constructs that best explain the constructs by virtue of the factor loadings associated with them. Using the Varimax method for principal components measurement, only those factors with an Eigen value greater than 1 were retained according to Guttman-Kaiser rule. Factor analysis.

**Table 1. Factor structure of Network Relationships**

Table 1; below shows individual findings of particular items under Network relationships which include; Network governance, Network Embeddedness and Network Resourcefulness.

	Network Governance	Network Embeddedness	Network Resourcefulness
Our network friends always listen if I have issues to discuss with them	.807		
We absolutely trust our network friends.	.791		
Our network friends don't take unfair advantage over us.	.769		
We take part in the leadership of the associations we subscribe too	.730		
We often meet with other traders to discuss ways of growing our businesses	.719		
Our network friends always act in a manner that is consistent we want	.718		
Our membership in a business network has contributed to		.831	
Business collaboration with our friends regarding our work is good		.722	
The firm is part of an enterprise group		.716	
We always make use of advice from our friends and family		.628	
Our regular source of good ideas is from our friends and family		.624	
Our external accountants help us to solve most of our financial management problems			.834
Our membership in a business network has contributed to			.829
We regularly obtain advice & resources from people we have known for a long time			.824
Regular business contacts with other employees helps me/ us to acquire productive resources			.635
Our membership in a business network has contributed to			.635
Eigen value	4.911	3.747	2.514
Variance (%)	28.691	22.67	18.465
Cummulative Variance (%)	28.691	51.361	69.826

*Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 5 iterations.*

**Source: Primary Data**

Of the three constructs of Network relationships as captured in the study, network governance (Eigen value = 4.911, Variance = 28.691%) was the most pertinent explaining 28.7%, followed by network embeddedness (Eigen value = 3.77, Variance = 22.670%) and network resourcefulness (Eigen value = 2.514, Variance = 18.465%) which contributed 22.7% and 18.5% respectively. All of the three factors combined explained approximately 69.8% of Network relationships, which is evidence of considerable level of validity of the items captured in the factor structure. Further still the results in the table summarize the items that measure each of the components of the Network relationships in their order importance. The level of importance of each item is illustrated by the factor loadings, where a higher value indicates a higher magnitude. To this effect items with factor loadings below 0.5 were eliminated and as shown in table 1, all items loaded above 0.6 which signifies considerable validity of measurement.

**Table 2. Factor structure of Marketing Capabilities**

Table 2. Shows individual findings of particular items under marketing Capabilities which include; Distribution management, Product management, Price management, Promotional management and Market information.

	Distribution management	Product management	Price management	Promotion management	Market Information
We are able to provide dependable delivery	.749				
We have enough resources for transportation	.690				
We have enough resources for transportation	.619				
We have the ability to identify competitors and how they compare with us		.784			
Our product/ services can satisfy customer needs		.755			
We are able to find out that customers are unhappy with the quality of our services / products, and take corrective action immediately		.618			
The product features are able to meet the customer needs		.566			
We can monitor competitors' prices and price changes			.920		
We are able to offer competitive prices			.878		
We can stick to our price list and minimizing discounts			.820		
We can identify our competitors' pricing strategies			.819		
We are able to get knowledge of the places where the customers buy and when				.811	
We are able to market our products/ services using the marketing channels the customers use on a regular basis				.782	
We are able to locate our target buyers/ customers				.749	
We are able to get information about issues that affect our business					.746
We are able to share business knowledge of core business processes with others					.636
We are aware of the image the people have of our brand vs our/ my competitors					.517
Eigen value	3.76	3.619	3.591	3.56	2.464
Variance (%)	15.000	14.5	14.365	14.2	9.854

Cummulative Variance (%)	15.000	29.5	43.874	58.1	67.96
					4

***Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 7 iterations.***

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Results in table 2 indicate that of the five components of distribution management (Eigen value = 3.76, Variance = 15.000%) was the most significant each explaining approximately 15.0% variation, followed by product management (Eigen value = 3.619, Variance = 14.500%), price management (Eigen value = 3.591, Variance = 14.365%), promotion management (Eigen value = 3.560, Variance = 14.200%) and market information (Eigen value = 2.464, Variance = 9.854%) which contributed 14.5%, 14.4%, 14.2% and 9.9% respectively. Results in table 2 also summarizes the items which underlie each of the factors arranged by their level of importance where the item with a higher factor loading is deemed to have more information about the factor.



**Table 3. Factor structure of Performance**

Table 3 shows individuals findings of particulars items under Performance which include, Profitability, Sales Volume and Customers

	Profitability	Sales volume	Customers
The business' assets have increased in the last 5 years	.845		
Our profits have been growing over the last five years	.831		
Our operational costs have been reducing with the increase in production/business activity	.767		
Our business capital has been growing over the past 5 years	.713		
Our cash collections have increased over the last three years	.702		
Our stock levels have increased due to increased sales and demand		.925	
Our firm has been expanding as a result of increasing sales volume		.907	
Our annual sales greatly increase each year.		.882	
Every year we register new customers			.837
The customer retention rate is always increasing			.775
Existing customers refer new customers to my/our firms products and services			.679
<i>Eigen value</i>	<i>3.102</i>	<i>2.629</i>	<i>1.773</i>
<i>Variance (%)</i>	<i>28.198</i>	<i>23.9</i>	<i>16.12</i>
			<i>2</i>
<i>Cummulative Variance (%)</i>	<i>28.198</i>	<i>52.098</i>	<i>68.22</i>
<b><i>Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 4 iterations.</i></b>			

Performance as depicted in the conceptual framework of the study were operationalized by three factors. Results in table 3 revealed that all of the three factors were significant and in their order of importance in measurement, they include; Profitability (Eigen value = 3.102, Variance = 28.198%), sales volume (Eigen value = 2.629, Variance = 23.900%) and customers (Eigen value = 1.773, Variance = 16.122%). Each explaining approximately 28.2%, 23.9% and 16.1%

respectively. This implies that all of the factors cumulatively explained approximately 68.2% of marketing capabilities.

Furthermore the in table 3 results show a summary of the factors and the items that under scored each of the factors in their order of significance in as shown by their factor loadings, where a higher value indicates a higher magnitude. Noteworthy is the fact that all of the items retained in the factor structure of marketing capabilities loaded above 0.65, which signifies substantial validity of the measurement items.