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FIRM CAPABILITIES, ENTREPRENEURIAL COMPETENCY AND PERFORMANCE OF UGANDAN SMES

Ernest Abaho[1], Aarakit Sylvia[2], Joseph M. Ntayi[3] and Moses K. Kisubi[4]

ABSTRACT

This paper is based on a study that examined the relationship between the firms' capabilities, entrepreneurial competency and performance of Small and Medium Enterprises (SMEs) in Uganda. The study used stratified random sampling to derive a sample of 314 SMEs and a cross-sectional research design. Data was collected using self-administered questionnaires that were filled out by firm owners and managers as units of enquiry whereas a firm was the unit of analysis. The study findings indicate that an increase in the level of a firm's capabilities through competent management, market linkages and marketing capabilities leads to enhanced SME performance. As entrepreneurial competences and firm capabilities predict 30.4 percent of the variance in SME performance, SME owners and managers, through their entrepreneurial competences, can use firm capabilities as tools to influence their firms' operations to enhance their performance. Future research can be carried out in other geographical places to verify whether what was observed in Uganda specifically in Jinja district is applicable to the rest of the world. Similarly, future research can explore other predictors of SME performance.

Keywords: *Entrepreneurial competences, firm capabilities, SMEs, performance*

BACKGROUND

A plethora of literature exists on the performance of small and medium sized enterprises - *SMEs* (Watson, 2011; Semrau & Werner, 2012; Campbell *et al*., 2012). These SMEs play a significant role in economic growth and development through innovation diffusion, employment and resource productivity (Global Entrepreneurship Monitor- GEM, 2010; Chittithawom, Islam, Keawchana, & Yusuf, 2011; Turyahebwa, Sunday, & Ssekajugo, 2013). Through employment

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generation, growth of GDP, innovation, income distribution, resource utilisation and regional development, SMEs have greatly contributed to socio-economic development and poverty reduction (Nishantha & Padmasiri, 2010; Ocici, 2007). To attract the benefits of positive growth to the SME sector, the level of entrepreneurial activity has to be high.

Uganda has had the record of having the second highest Total Entrepreneurial Activity (TEA) index of 31.6 among all the global entrepreneurship monitor countries after Peru and the second highest startups activity (GEM, 2003; Walter *et al*., 2004). Although the TEA is high in Uganda, the business mortality rate is equally high with 50% of the startups shutting down before completing a year in operation (Walter *et al*., 2004; OECD, 2009; Nangoli *et al*., 2013) characterised by poor performance (Rooks, Szirmai, & Sserwanga, 2009). In fact, Uganda's SMEs have to contend with a big challenge of inappropriate entrepreneurial competences as evidenced by many of those who enter into business without awareness about the extent of their entrepreneurial ability and they do not carry out a market survey to determine the viability of their ventures (Rwakakamba, Lukwago, & Walugembe, 2014).

Business failure is attributed to limited supervision, lack of business and management skills, excessive competition, poor saving culture, lack of financial discipline, failure to pay taxes and lack of commitment to the business, (Nangoli *et al*., 2013; Chittithaworn *et al*., 2011). Such challenges result from limited capabilities to respond strategically to environmental dynamics (Sanchez, 2011). Firm capabilities contribute to the resourcefulness of the firm (Ambrosini & Collier, 2009) because they influence the perception of success and how to prepare for competiveness. This subsequently leads to increased performance in various functions. Okpara and Wynn (2007) and Okpara (2011) in their respective studies affirm Africa's strong potential for high performing SMEs despite the challenges of innovation and firm-related resources remaining a stumbling block

Despite this high growth potential, Okpara (2011) found that, the performance of SMEs in Africa is far below the world average as compared to the developed countries. The study indicated that issues such as lack of finance, poor management, corruption, lack of infrastructure, and poor accounting are major obstacles to small business performance. Similarly, Fatima, Mohammed and Almubarak (2016) point out that lack of access to financial resources, difficulties in finding qualified labour, work-home conflict and low profit topped

the list of factors affecting the performance of women-owned SMEs in Bahrain. A critical reflection on Okpara (2011) and Fatima *et al*. (2016) indicates that these challenges relate to entrepreneurial competencies and firm capabilities. In other words, SME performance is highly attributable to the entrepreneurial competences and capabilities that a firm controls. However, the relationship between entrepreneurial competencies, firm capabilities and performance still remains complex. The complexity of firm capabilities and firm performance arise as a result of limited understanding about the linkage between the drivers of other resources, namely entrepreneurial competences and firm performance.

According to the dynamic capabilities theory (Teece, 2014), firm owners' and or managers' entrepreneurial competencies have a strategic role to play in creating value of firm capabilities to performance. In linking firm capabilities and firm performance, entrepreneurial competencies such as opportunism, organisational aptitude, strategic orientation and entrepreneurial networking play a key role (Man *et al*., 2002; Mohamad *et al*., 2011). Entrepreneurial competencies act as a driving force in the search for opportunities and resources for competitiveness and growth (Colombo & Grilli, 2005; Vijay & Ajay, 2011).

With regard to the Ugandan context, Rwakakamba *et al*. (2014) argue that entrepreneurs in the country start businesses to just exploit what initially looks like a potentially profitable business opportunity only to realise later that they do not have what it takes to succeed in that business endeavour. This entrepreneurial deficiency is due to limited ability in sufficient preparation and self-matching with businesses that people engage in when it is a key entrepreneurial competency for start-up. However, some entrepreneurs have performed well and succeeded with their SMEs in similar circumstances. Thus, although it is possible to raise questions about the quick failure of SMEs in Uganda, the bigger question is on the entrepreneurial competency of SME operators and the capabilities of their firms in fostering competitive performance. As such, this paper investigates the relationship between entrepreneurial competencies, firm capabilities and SME performance from a developing country perspective.

THEORETICAL LITERATURE

Provision of the guiding theories of a particular research phenomenon helps to justify a scientific basis of the study and develop a logical conceptual itinerary that is both grounded and scientific. This paper is anchored on the Resource Based View (RBV) and dynamic capabilities theory of a firm. According to the RBV, firms perform differently because they control different resources and have

different capabilities (Barney, 1991; Newbert, 2007). Those resources and capabilities can generate a sustainable competitive advantage and, thus, greater performance. The RBV of the firm argues that companies equipped with valuable, rare, inimitable and non-substitutable resources and capabilities can generate sustainable competitive advantage by implementing strategies that create value, which is difficult for the competitors to imitate (Barney, 1991). Thus resources are stocks of tangible and intangible assets semi-permanently tied to the firm whereas capabilities are complex co-ordinated patterns of skills and knowledge embedded as organisational routines (Teece *et al*., 1997).

According to Penrose (1959), resources, competencies and capabilities facilitate internal growth. After all, organisational resources are key success factors in any organisation, whether profit-making or not-for-profit. In the same vein, Barney (1991) argues that resources and capabilities are two mutually dependant factors because resource acquisition and configuration constitute indicators of a firm's capability. Nevertheless, valuable resource accumulation does not guarantee on its own a superior firm's performance because firms differ in their capabilities of utilising resources at their disposal to attain superior performance (Sanchez, 2011; Eisenhardt & Martin, 2000; Teece *et al*., 1997).

Firms require access to resources to build capabilities which enhance their performance (Barney & Hesterly, 2008). For example, knowledge-based resources such as innovation capability, marketing capabilities and different production capabilities are vital firm resources (Calantone *et al*., 2002; Rangone, 1999). Therefore, the theory of dynamic capabilities (Helfat & Peteraf, 2003; Teece *et al*., 1997) has been introduced as an extension of RBV to incorporate a processual dimension to enable a better understanding of how firms gain and maintain superior performance over time. The scientific role of the RBV in this study is to test the level and nature of resourcefulness of the Uganda SMEs as well as examine its relevance in explaining performance of Ugandan SMEs.

Dynamic capabilities theory

As indicated earlier, the dynamic capabilities theory builds on the RBV. It is an entrepreneurial approach that emphasises the importance of business processes, both inside the firm and also in linking the firm to the external environment (Teece, 2014). Thus, the question of whether Uganda's SMEs are dynamic in mobilising and utilising their resources is imperative because it reflects their entrepreneurial competencies. Entrepreneurial competencies drive resource capabilities, especially about how they deal with other human resources.

Capability refers to the capacity to utilise resources to perform a task or an activity, against the opposition of circumstance (Teece, 2014). From the strategic view, a firm's capability refers to the actions, processes, systems and relationships that the company can carry out with its own resources (Sanchez, 2011). It also includes factors that contribute to the firm's awareness of strategic opportunities and/or threats and its ability to implement strategies (Barney & Arikan, 2001). A firm's capability focuses on strategy perception and implementation, which is consistent with the role of firm resources and capabilities in strategy (He, Mahoney, & Wang, 2007). It also looks at the efficiency of companies in solving problems and their ability to use and apply knowledge (Weinstein & Azoulay, 1999).

Firm performance

A firm's performance refers to how well or poorly it is fairs relative to the set objectives. In this regard, Sanchez (2011) argues that businesses should set clear objectives, target growth and compete in both the short and long run to perform well and achieve success. Failure to create such links results into failure of many small firms during their first years of operation or causes struggle in their survival. Several measures of a firm's performance have been advanced (Barringer *et al*., 2005; Chen *et al*., 2007). However, the selection of suitable measures ought to be in the light of the firm's strategic intentions to suit the competitive environment in which it operates and the kind of business it is engaged in (Hvolby & Thrstenson, 2000).

The firm's performance can be conceptualised as multidimensional by including both tangible and intangible goals. Whereas some researchers such as Barney *et al*. (1996) have used accounting measures to assess firm performance such as growth in revenues and profitability, others (see, for example, Watson, 2011) have used measures based on failure and marginal survival because small firms tend to have a higher risk of failure and poor performance within their early years of operation than larger ones. Thus, a balance between financial and non-financial measures provides a more accurate measure of the overall performance of a firm because not all aspects of organisation's activity can be expressed in monetary terms.

This study measures the firm's performance using both financial and non-financial measures. Financial measures include sales growth, profitability and market share which are adopted from Eikelenboom, (2005) and Mithas *et al*. (2011) whereas non-financial measures include customer acquisition and retention as adopted from Pont and Shaw (2003).

FIRM CAPABILITIES AND FIRM PERFORMANCE

Several empirical studies show that there is a significant relationship between a firm's capabilities and its performance (Sanchez, 2011; Barney & Arikan, 2001: Zahra *et al*., 2006; Vijay & Ajay, 2011: Weinstein and Azoulay, 1999; Eikelenboom, 2005). Tuan and Yoshi (2010) studied 102 industries in Vietnam and found that firms' capabilities are sources of competitive advantage in terms of sales and market share growth. If managers or owners evoke changes in their organisational capabilities (Eikelenboom, 2005) such as marketing, market linking and management capabilities (Desarbo *et al*., 2007), there will be a change in organisational attributes than potentially can lead to improved worker well-being, worker behaviour, efficiency that in the end leads to higher customer acquisition and profitability (Eikelenboom, 2005).

Increasingly, there is evidence that a firm's dynamic capabilities significantly affect firm performance. In this regard, a firm's ability to integrate knowledge from external sources is positively related to productivity and helps firms to avoid path dependencies imposed by their operational competencies (Ambrosini & Collier, 2009; Collis, 1994). The availability of firm capabilities can either facilitate or constrain firm activity (Zahra et al., 2006). This implies that a firm that can apply its overall capability to launch a greater level of competitive actions on average achieves a better position in the market. Resources and capabilities accumulated and developed by the firm serve as its driving force in engaging in various activities (Vijay and Ajay, 2011). Therefore, lack of activities may indicate inefficient use of a firm's resources and capabilities. In the absence of agency problems such as managerial self-dealing or avoidance, managers are expected to utilise fully the firm's resources and capabilities to engage in economically-viable and competitive activities (He *et al*., 2007).

Capabilities help firms to develop the capacity to change routines and integrate them into their operations through innovation and change orientation (Zahra *et al*., 2006; Andersén, 2011). If resources or capabilities required for perceiving and implementing a strategic action are not readily accessible to the firm, then the firm may delay or even abandon its implementation of the action planned (Barney & Arikan, 2001). This is consistent with Weinstein and Azoulay (1999) who argue that different firms control different resources which accounts for differences in their performances. Teece *et al*. (1997) in a seminal contribution

argue that dynamic capabilities enable organisations to integrate, build and reconfigure their resources and competencies to maintain performance in the face of the changing business environment.

Collis (1994) classifies capabilities in terms of order whereby lower order capabilities mean *ordinary capabilities* and high order capabilities imply *dynamic capabilities*. Collis (1994) asserts that ordinary capabilities enable organisations to perform functional activities such as logistics, marketing and manufacturing among others whereas dynamic capabilities deal with change. Ordinary capabilities are used to maintain the status quo and will earn a firm a living by producing and selling the same product in the same scale and to the same customers over time (Helfat *et al*., 2007; Winter, 2003). Teece (2007) acknowledges that ordinary capabilities help sustain a firm's technical fitness by engendering day-to-day operational efficiency whereas dynamic capabilities help sustain a firm's evolutionary fitness by enabling creation, extension and modification of the resource base, thereby creating long-term competitiveness.

The implication of these facts is that consensus is emerging about the distinction between ordinary and dynamic capabilities. This implies that dynamic capabilities create value indirectly by changing ordinary capabilities (Eisenhardt & Martin 2002; Helfat *et al*., 2007). Therefore, conceptual investigations on dynamic capabilities agree that firms with resources can rapidly deplete their endowments and be eliminated if they lack dynamic capabilities (Zott, 2003).

Whereas the dynamic view of capabilities is particularly important in international markets (Griffith & Harvey, 2001; Prange & Verdier, 2011; Teece, 2007), where firms are completely exposed to opportunities and threats associated with rapid changes in customers, technology and competitors, it is essential for SMEs to nurture a firm's capabilities in general because environmental changes affect both local and international firms. The ordinary capabilities help SMEs to do things right, whereas dynamic capabilities focus on doing the right things. This has been evident in Chinese multinationals. More evidence thus has to be observed in more than 10,000 organisations across 20 countries that most SMEs are derailed by weak capabilities (Bloom *et al*., 2013). It is, therefore, hypothesised that

H1: *There is a significant and positive relationship between firm capabilities and SME performance.*

ENTREPRENEURIAL COMPETENCIES

Competency refers to behaviours that one demonstrates to meet the minimum performance standards (Phelon & Sharpley, 2012). Sanchez (2011) defines competencies as characteristics, which enhance an individual's performance or effectiveness at work. On the other hand, entrepreneurial competencies are specific competencies relevant for the implementation of successful ventures (Mitchelmore & Rowley, 2010). On the whole, there are different categories of entrepreneurial competencies. Bartlett and Ghoshal (1997) identify three categories—*attitudes and personal characteristics, knowledge, experience and skills.* On the other hand, Man *et al*. (2002) identified six entrepreneurial competencies, namely opportunism, organising competencies, strategic orientation, relationship management, commitment to strategy and conceptualisation ability. Entrepreneurial competencies are important when it comes to business performance and an understanding of the nature and role of such competencies can have important implications for practice (Mohamad *et al*., 2011).

Several empirical studies attest to the fact that entrepreneurial competencies influence the performance of SMEs. For example, ,Sanchez (2011) who studied small firms which had just started in Spain, and Muhamad *et al*. (2011) who studied home-stay entrepreneurs in Malaysia, both established that entrepreneurial competencies have a positive impact on a firm's performance. Enterprises with managers, who have high levels of entrepreneurial competencies, tend to scan and manage the environment in which they operate to find new opportunities and consolidate their competitive positions (Sanchez, 2011). Thus, performance occurs when a person's capability or talent is consistent with the needs of the job demands and the organisational environment.

According to Mohamad *et al*. (2011) a person with the ability to create new combinations of production, organise and reorganise social and economic mechanisms, willingness to take risks and ready to exploit market opportunities operates a business more successfully than one who lacks these characteristics. Therefore, entrepreneurial competencies are associated with the firm's performance and competitiveness (Man *et al*., 2002), business growth and success (Colombo & Grilli, 2005). Acquiring and leveraging entrepreneurial competencies is crucial for achievement-oriented entrepreneurs. In SMEs, the critical resources are likely to be held by individual entrepreneurs that are reflected in their skills, knowledge, abilities, experience and education (Vijay & Ajay, 2011).

Being the key decision-makers, entrepreneurs have high influence on the formation of business strategy (Barney & Arikan, 2001) and are responsible for setting the roadmap for their firms to move towards the set goals (He *et al*., 2007).The lack of separation between ownership and control in small firms makes business owners to be responsible for setting the direction and development of their firms (Vijay & Ajay, 2011). Various studies have confirmed that the person who forms a venture is ultimately responsible for its success or failure due to lack of a separation between control and ownership (Vijay & Ajay, 2011). This thus leads to the hypothesis that

H2: *There is a positive and significant relationship between entrepreneurial competencies and SME performance.*

METHODOLOGY

The study employed a quantitative and cross-sectional research design. It acknowledges that there is a high level of informality in Uganda's SME Sector as only 47% of all the SMEs operates formally (Private Sector Development Strategy, 2016). In consequence, there was a strong limitation when it came to coming up with a reliable sampling frame. As such, the study had to rely on statistics from the Municipal Council's register of SMEs. The Krejcie and Morgan (1970) table was used to generate proportionately a sample of 314 SMEs from three subsectors, namely Trade, Hotel and Restaurant and manufacturing in Uganda. In all, 249 firms were in trade, 23 in hotel and restaurants and 41 in manufacturing. Stratified sampling was used to select the firms whereas simple random sampling procedure was used to pick the final respondents in each of the sectors. The unit of inquiry was the firm owners or managers in cases where the owners were unreachable. Data was collected using self-administered questionnaires and analysed using descriptive statistics, correlations to establish relationships between the study variables and regression to establish the level of influence of entrepreneurial competencies and firm capabilities on SME performance.

For measurement of variables, entrepreneurial competencies were measured using Man *et al.*'s (2002) and Vijay and Ajay's (2011) opportunism, organising, networking, relationship, commitment, executing and innovative thinking. Firm capabilities were measured using items adapted from Desarbo *et al*. (2007) that included marketing, market linking and management capabilities. SME performance was measured using both financial and non financial measures. Financial measures included sales growth, profitability and market share which

were adopted from Eikelenboom (2005) and Mithas *et al*. (2011) whereas non-financial measures included customer acquisition and retention, which were adopted from Pont and Shaw (2003). All the variables had Cronbach Alpha coefficients and CVI values above the minimum acceptance standards of 0.6 and 0.7 as recommended by Nunnally (1978) and Heir *et al.* (2010), respectively, hence affirming that the research instrument used to collect data was appropriate and could yield similar results all the time.

FINDINGS

This section begins with sample characteristics of the SMEs in Uganda followed by correlation results to present the relationships between the study variables. The section ends with regression results that show the extent of the influence of the firm's capabilities and entrepreneurial competency on SME performance.

Table 1: Sample Characteristics

Business ownership	Count	Percent
Sole Proprietorship	201	78.2
Partnership	46	17.9
Limited Liability	10	3.9
Total	257	100.0
Business age		
Less than 5 years	43	16.7
5-10 years	138	53.7
Over 10 years	76	29.6
Total	257	100.0
Number of employee		
5-49 employees	233	90.7
50-99 employees	24	9.3
Total	257	100.0
Nature of business		
Trade	192	74.7
Manufacturing	42	16.3
Hotel and restaurant	23	8.9
Total	257	100.0
Asset value		
Below 12 millions	13	5.1
12-360 millions	184	71.6
Over 360 millions	60	23.3
Total	257	100.0

Results in Table 1 show that the majority of businesses are Sole Proprietorships (78.2%), followed by partnerships (17.9%) and finally by limited liability companies (3.9%). In other words, most business owners in Jinja would rather start a business alone than teaming up with others to do so. For business age, most of the businesses (53.7%) had been in operation for 5-10 years, 29.6 percent of the businesses had existed for more than 10 years whereas a few businesses (16.7%) have existed for less than five years. These results indicate that most of the business owners/managers had been able to sustain their businesses for more than five years. In terms of workforce, the majority of the SMEs (90.7%) employed 5-49 employees whereas, 9.3 percent of the SMEs employed 50-99 employees.

For annual sales volume, most SMEs (71.6%) had made sales of between 12 million to 360 million Uganda shillings (approximately USD. 3500 to USD. 105,000) at the time of the study whereas 23.3% had made more 360 million and the least of the businesses (5.1%) had annual sales of below 12 million. Also, 76.7 percent of the SMEs' annual sales volumes were below 360 millions. These results indicate that most of the SMEs (76.7%) had an annual sales turnover of below 360 million in Jinja, implying that they were still small in nature. For total assets, findings show that the biggest percentage of businesses (59.1%) owned asset value of between 12 and 360 millions, 37.0 percent own assets of over 360 million whereas only 3.9 percent of the SMEs had accumulated assets of below 12 millions.

Table 2: Correlation results

	1	2	3	4	5	6	7	8	9
Opportunism-1	1.00								
Commitment to business-2	.53**	1.00							
Organising skills-3	.39**	.36**	1.00						
Ability to execute tasks-4	.35**	.36**	.40**	1.00					
Innovative Thinking-5	.37**	.35**	.37**	.32**	1.00				
Networking abilities-6	.13*	.07	.09	.14*	.31**	1.00			
Relationship Building-7	.20**	.25**	.28**	.27**	.36**	.59**	1.00		
Entrepreneurial Competencies-8	.56**	.53**	.52**	.52**	.69**	.69**	.77**	1.00	

Firm Capabilities-9	.25**	.26**	.27**	.26**	.50**	.38**	.44**	.57**	1.00
SME Performance-10	.16**	.16**	.21**	.27**	.40**	.30**	.40**	.46**	.52**
**. Correlation is significant at the 0.01 level (2-tailed), *. Correlation is significant at the 0.05 level (2-tailed).									

As Table 2 illustrates, Entrepreneurial Competencies and SME performance were positively and significantly related (r = .460**, p<.01). This implies that when an SME owner has the competencies of taking up opportunities and dealing with challenges in a timely manner, the business is more likely to attain a higher volume of sales. Entrepreneurial competencies such as Innovative Thinking (r = .409**, p<.01) and Relationship Building (r = .405**, p<.01) have the strongest correlation with SME performance compared to other components of Entrepreneurial Competencies such as opportunism (r = .168**, p<.01) and commitment (r = .167**, p<.01).

It was also established that there is a relationship between a firm's capabilities and SME performance (r = .520**, p<.01). These results indicate that when a firm has attractive pricing and advertising programmes, there is a high likelihood of improved sales, profitability and market share. We also found a significant positive relationship between entrepreneurial competencies and a firm's capabilities (r = .570**, p<.01). This was also true for the relationships between the dimensions of entrepreneurial competencies; opportunity (r = .251**, p<.01) commitment (r = .262**, p<.01), organising (r = .273**, p<.01) executing (r = .263**, p<.01) innovative thinking (r = .507**, p<.01) networking (r = .383**, p<.01) and relationship building (r = .442**, p<.01). This signifies that when managers/enterprise owners possess entrepreneurial competencies, a firm's capabilities benefits from positive change.

Regression results

The regression analysis model was used to explore the predictive effect of Entrepreneurial Competencies and Firm's Capabilities on SME performance. Table 3 shows that Entrepreneurial Competencies and a firm's Capabilities have the capacity to predict 30.4 percent of the variance in SME performance (Adjusted R Square = .304). This implies that a change in entrepreneurial competencies and a firm's capabilities causes a 30.4 percent change in SME sales, profits and market share, assuming other factors remain constant. The most significant predictor of a firm's performance was the firm's capabilities (Beta= .382, t= 5.985, Sig. <.01) followed by entrepreneurial competencies (Beta= .241, t= 3.777, Sig. <.01).

Table 3: Regression Model

	Unstandardised Coefficients		*Standardised Coefficients*			Collinearity Statistics
	B	Std. Error	Beta	T	Sig.	VIF
(Constant)	.433	.396		1.094	.275	
Entrepreneurial Competencies	.434	.115	.241	3.777	.000	1.491
Firm Capabilities	.479	.080	.382	5.985	.000	1.491
Dependent Variable: SME Performance						
R	.556					
R Square	.309					
Adjusted R Square	.304					
R Square Change	.309					
F Statistic	56.674					
Sig.	.000					

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

Regression results reveal that a firm's capabilities significantly predicts a firm's performance which indicates that a change in a firm's capabilities in terms of innovativeness, marketing capabilities, production capabilities causes a positive change in SMEs rate of customer acquisition, customer retention, sales, market share and profitability. These findings are in agreement with Sanchez (2011) who found a significant positive relationship between a firm's capabilities and its performance. Indeed, with consistent firm innovativeness, and a strong marketing force, SMEs can easily grow their sales. Crucial at this point is to have these firms recruiting smart and professional staff in marketing activities to be able to sell the value preposition generated through innovative products. This implies that for opportunism and commitment, the business environment should be supportive. It also implies that with high levels of effective innovation, SMEs in Uganda can improve their performance.

Economically, valuable innovation is built on how well it is marketed to cultivate a business sense. Thus, entrepreneurial competencies such as strong ability in relationship building and entrepreneurial networking can improve a firm's performance to create new markets and innovatively meet new market needs. It is also appreciated that Uganda does not have a high technology infrastructure in the SME sector (GEM, 2013). This means that a firm's capabilities must be supported by entrepreneurial competencies to be able to marshal resources to enable the innovation and marketing functions corroborate towards attracting more customers, effective and efficient use of the meagre resources for market dominance. Thus, from the perspective of entrepreneurial competencies, SMEs need to maximise the usage of entrepreneurial networking to be able to access good and economical clients such as government and large corporates. This feat is crucial in the financial performance function of any business. The same entrepreneurial competencies are important in lobbying for the SMEs transformation from a lower grading (Small to Medium and subsequently large). This will stave off the unfavourable effects of starting strong but declining very fast as reported by the GEM (2013, p. 12) that "While the factor-driven economies have the highest TEA rates, the early-stage entrepreneurs in these economies also have the highest proportion of necessity-driven motives". The implication is that after the necessity has been fulfilled, SME entrepreneurs in Uganda tend to relax and neglect the business.

If managers or owners of Uganda SMEs take into account changes in their organisational capabilities such as marketing, market linking and management capabilities, they can exploit these changed organisational attributes to engender improved worker well-being, worker behaviour, efficiency that in the end translates into higher customer acquisition and profitability. The results are also in agreement with Mithas *et al.* (2011) who concluded that tangible and intangible assets and resources (capabilities) serve as a 'vehicle' for strategy implementation which enables firms to earn above normal returns. From the context of resources, Uganda's SMEs can strengthen their resource capabilities by taking advantage of new financial resource opportunities such as the recent Chattels Act of Uganda, 2014, which allows SMEs to borrow and securitise their movable assets with the financial institutions. Like the firm capability theory stipulates, Uganda's SMEs need to have dynamism in constantly looking for opportunities of staying ahead of their competition. In this regard, SMEs must start creating strategic alliances within and outside their sectors for backward and forward linkages. This can create erudite avenues for product innovations, bonded markets and areas for continuous business process improvement.

From the RBV and dynamic capabilities perspective, the results support the assumption that competitiveness and performance of a firm is driven by innovation, resources, marketing and commitment towards the set strategies and grow both financially and in other non-financial aspects. This result can best be achieved if SMEs embrace the spirit of dynamic capabilities that can boost them beyond just surviving to growing more competitively to propel their entrepreneurial intentions. It is also essential to note that Uganda is a political economy and this requires SME operators to manage both their internal and external business relationships more strategically to remain politically relevant and maintain their strategic intents and values.

As we conclude, firms' capabilities vary from sector to sector and, perhaps, different economies. What we find in Uganda however is that for an SME to prosper and become more competitive, it needs to have a strong innovation capacity, good marketing team and sufficient resources. We further conclude that a firm's capabilities alone are not enough to propel an SME to lofty business heights without competitive entrepreneurial competencies. For the future, further research can consider looking at other antecedents of SME performance since this study has only been able to explain 30.4% of the variance in SME performance.

In the view point of policy and private sector development, the Uganda government and other homogenous economies, there is need to improve the communication strategies of new policies related to SME development. Notable ones include the recent Public Private Partnership Act, 2015, which focuses on improving the environment of doing business between the government and the private sector. In this regard, the government needs to educate SME operators about how they can benefit from these developments. This can be through training, one-to-one interaction with the entrepreneurs and developing a framework that makes these regulations and policies more applicable to the business needs of the business community. We also strongly suggest that the government and other development partners can develop a competency framework for the SME sector for purposes of quality assurance in the business processes. Doing so would enable the players to keep rating their businesses and themselves against those qualities. The ultimate goal is to develop best practices for each sector.

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