MAKERERE UNIVERSITY

BUSINESS RISK MANAGEMENT, CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SME's) UNDER UGANDA WOMEN ENTREPRENEURS' ASSOCIATION LIMITED (UWEAL)

BY

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PLAN A

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DECLARATION

I **NAMBAJJWE PRISCILLA** declare that this dissertation is my original work and has not

been published and presented to any university for the award of an academic degree.

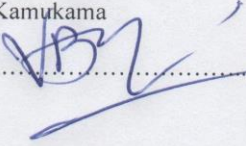Signed .... Date....... 27. 09. 2018

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APPROVAL

This is to certify that this dissertation has been submitted with our approval as University Supervisors.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS AND ACRONYMS

BOU   : Bank of Uganda

IFC   : International Finance Corporation

PESTEL   : Political, Economic, Social, Technological and Legal

PSFU   : Private Sector Foundation of Uganda.

SMEs   : Small and Medium Enterprises

SWOT   : Strength, Weaknesses, Opportunity and Threats.

UBOS   : Uganda Bureau of Statistics

UWEAL   : Uganda Women Entrepreneurs Association Limited.

ABSTRACT

The study was prompted by the escalating poor financial performance of small and medium enterprises (SMEs) in Uganda as reported by the findings of the Private Sector Foundation of Uganda. SMEs which were registered by Uganda Women Entrepreneurs Association Limited formed the units of inquiry because they were registered and totaled to 157 in number.

The study used a cross sectional design which involved both analytical and descriptive analysis, with samples selected using simple random sampling. The research questionnaires were analyzed using the statistical package for social scientists and relationships established using regression models as well as descriptions of the factors affecting the variables using factor analysis.

The findings of the study showed a significant and positive relationship between business risk management and financial performance as well as a positive relationship between capital structure and financial performance of SMEs. The overall Adjusted R Square was 19.5% implying that the department variable was explained by the independent variables up to 19.5% and 80.5% of the changes in the dependent variable could be explained by exogenous factors outside the model.

The study recommended the need for a proactive business risk management and optimum leverage of the capital structure for investment decisions made by SMEs as well as periodic monitoring and measurement of financial performance at given intervals.

CHAPTER ONE

INTRODUCTION

1.1: Background to the study

Small and medium enterprises are drivers of economic growth and development in less developed countries .This is attributed to the fact that most government policies of alleviating poverty are aimed at creating a conducive atmosphere for their operations   (Hazel, 2010).

Small and medium enterprises (SMEs) are   therefore indispensable in the alleviation of poverty and increasing the standard of living of the population once proprietors have the skills of managing both the internal and external risks coupled with the use of different sources of finance in expanding the businesses through capital budgeting decisions (William, 2011).

Hubbard (2009) notes that SMEs can take on risks depending on the risk attitudes of proprietors and the covenants structured in the debt agreements from third parties .This is hinged on the notion that a highly geared company is preferred because debt attracts interest deductions as compared to equity holders demanding higher rates of return. The higher rate of return limits the number of projects to invest in which lowers the financial returns on the projects and some project rejected because of a lower net present value. The proprietors of SMEs can therefore increase the amount of debt in the capital structure when they are able to reduce and manage the risks such that the returns can pay the debts and the balance capitalized. Capital structure is defined as the way a company finances its assets using a combination of equity, debt and hybrid securities (Kaplan, 2012).

According to Drake (2009) the capital structure of a company influences managers on the investment decisions to take and the degree to which they manage business risks in order to achieve desired financial profitability. Business risk in this context refers to the events

inherent in the operational activities of an entity which leads to losses by lowering actual returns from the expected. The methods of managing such risks can range from accepting the consequences of the risk and budgeting for it, transferring the risk to third parties, reducing the negative consequences of the risk to acceptable levels and avoiding the risk by not engaging in any business activity hence risk averse behaviors in nature. Kaplan (2012) notes that companies which manage business risks to an acceptable risk appetite can take on different combinations of debt and equity to increase returns for shareholders and other linked stakeholders.

Mellin (2010), shows that when a firm is able to manage the business risk, it can get cheaper sources of finance since capital providers can demand a lower required rate of return and the firms' performance in terms of return on assets, return on investments can improve to the satisfaction of shareholders. A study by Cheng (2011) on the financial performance of SMEs in China revealed that 60% of SMEs used more of debt than equity which boots the profit after tax and increased the profits available for distribution to shareholders as compared to 40% of SMEs which used more of equity than debt and had lower profits after tax for distribution to shareholders. This study was limited by the fact that it ignored the level of business risk management which influences the financial performance of an entity.

In addition, the Private Sector Foundation of Uganda (PSF, 2010) shows that the financial performance of SMEs in Uganda is featured by low liquidity levels and decreasing profitability to the extent that banks and other financial service providers give stringent lending terms and conditions on the advanced credit facilities. Similarly SMEs in Uganda are 26 %profitable with a 16% return on investment, in contrast to SMEs in Rwanda which are 36% profitable with a 21% return on investment. (International Finance Corporation, IFC, 2010). This is further escalated by the liquidation of SMEs like Ntinda College School,

Kajjansi Progressive in the education sector of Uganda illustrating financial distress and bankruptcy.

According to Bank of Uganda (BOU, 2010) statistics for 2011 shows that a survey on 500 SMEs found that 30% of them used debts from banks and micro finances and 5% used equity finance for investments. However 15% of the properties for SMEs were sold to pay debts from lenders and 3% were incapacitated with operational cash flows and collapsed.

The Uganda Bureau of Statistics (UBOS, 2011) shows that 25% of the SMEs in trading activities cannot access loans from financial institutions with ease and 10% of the SMEs collapse after five years.

Similarly, Mugume, (2011) shows that the business risk for SMEs which are not listed on the stock market is higher compared to SMEs which are listed and registered as companies. The unlisted SMEs experience poor financial performance in terms poor working, cash shortages and cash outs, inventory stock outs, limited innovations coupled with high financial risk.

The financial risk is also reflected in the inability of SMEs to pay loan obligations and remain with free cash flows to sustain their operations. This is further exacerbated by the business risk which constrains the cash flows leading to adverse financial performance.

SMEs in Nakawa are limited from accessing credit to modify their capital structure compared to SMEs in other divisions of Kampala District (Nsubuga, 2016). This background established the basis for the research on the financial performance of SMEs using the antecedes of business risk management and capital structure.

1.2 Statement of the problem

Financial Performance of Small and Medium Enterprises in Nakawa division of Kampala district continues to decline in terms of limited liquidity for discharging financial obligations

and sustaining business operations. This is worsened by profitability levels at an average of 26% and a return on investment of 16 % (UBOS, 2017).

The adverse financial performance of Small and Medium Enterprises in Nakawa can be contrasted with their counterparts in Rwanda with an average profitability of 38% and an average return on investment of 23% (World Bank, 2017).The Small and Medium Enterprises are thus hampered from accessing debt to vary their capital structure as well as managing business risks to an acceptable level in with the available resources (Bank of Uganda, 2017).

The adverse financial performance of Small and Medium Enterprises is attributed to inadequate business risk management which hinders capital structure variations for business capitalization.

1.3 Purpose of the study

The study investigated the relationship between business risk management, capital structure and financial performance of SMEs in Uganda.

1.4 Objectives of the study

i. To establish the relationship between business risk management and financial performance of SMEs in UWEAL.

ii. To establish the relationship between capital structure and financial performance of SMEs in UWEAL

iii. To establish the combined relationship between business risk management and capital structure on financial performance of SMEs in UWEAL

1.5 Research questions

i. What is the relationship between business risk management and financial performance of SMEs?

ii. What is the relationship between capital structure and financial performance of SMEs?

iii.   What is the combined relationship between business risk management and capital structure and financial performance of SMEs?

1.6 Scope of the study

Conceptual scope

The study examined the relationship between business risk management, capital structure and financial performance of SME's under UWEAL.

Geographical scope

The study was carried out from Nakawa division.

1.7 Significance of the study

1) The study will provide highlights on improving financial performance of SME's in UWEAL such that they sustain operations for further investments.

2) The study will be used in literature review for further research on SME's in UWEAL's financial performance in Uganda.

3) The study will provide a deeper understanding of the reasons for the failure of SME's in UWEAL to access funding from banks and other financial institutions.

4) The study will identify gaps in existing literature about business risk management of SME's in UWEAL and seek ways of closing them using trends in technology and dynamic business environment.

1.8 The conceptual frame work

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│ Capital     │                                    │
│ structure   │           ─────────                ▼
│  - Amount   │                         │      ┌─────────────┐
└─────────────┘                         │      │ Financial   │
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│ Business    │
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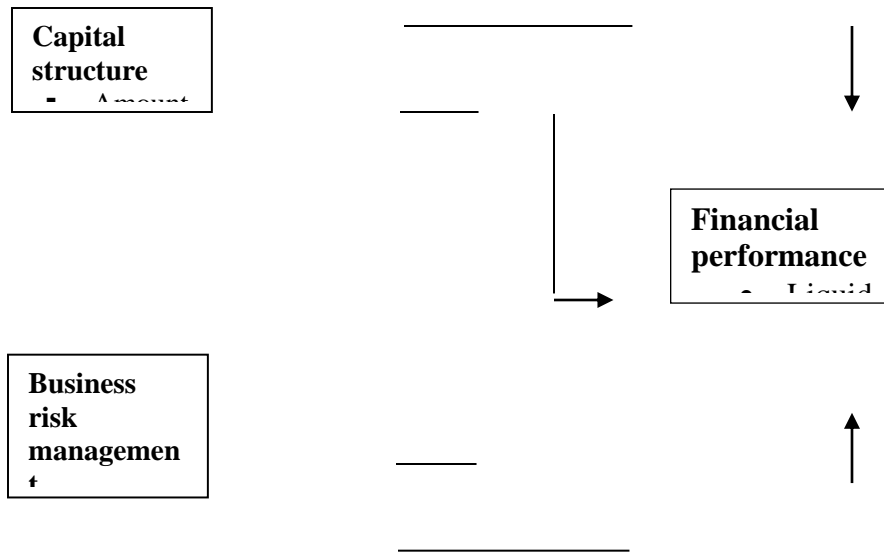
Source: Adapted and Modified from the literature of William (2011), Tabol (2010), Kaplan (2009), Mellin & Curis (2010).

The conceptual framework is built on the concept of risk attitudes in financial management. Managers' behaviors are rated on a continuum of two extremes representing risk averse and risk seeking behaviors.

Risk averse managers are more likely to refuse and avoid risk and risk seeking managers are likely to accept risk. This in turn influences the level of debt and equity or a combination of debt and equity in the capital structure as well as the level of business risk to accept and manage with in the business. The overall effects of business risk management and capital structure are reflected on the financial performance of the firm (Kaplan, 2010), Tabol (2010), Mellin & Curis (2010) and William (2010).The firm in the context of this research represents SMEs for the simplicity of comprehending literature and establishing relationships between the variables of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1: Introduction

This section reviews literature on the variables of the study as per the study objectives by identifying differences and similarities in the literature by different academic scholars aimed at establishing whether there are relationships and making conclusions to the identified problems.

2.2 Business risk management

The concept of risk is the potential that a chosen action or inaction or activity or a choice of inaction leads to a loss or undesirable outcome Franklin (2001).The undesirable outcomes which can materialize into losses needs to be managed leading to business risk management. In other words business risk is the probability of loss inherent in firm operations in the business environment that may impair its ability to provide returns on investment. Business risk is also explained further as the risk inherent to the firm in its operations (Kaplan, 2013).Business risk is at all levels of the business and has three components of financial, operational and compliance risks. In other words financial risk arises from the financial activities or financial consequences of an operation for example cash flows being inadequate to service debts, operational risks are risks arising with regard to firm operations for instance a firm losing a major customer can antagonize it activities and compliance risk arises from non-compliance with laws and regulations that surrounds the business like the failure to submit tax returns to tax authorities.

Richard, Brealey & Stewart (2009) adds that business risk management involves a spectrum of strategies of ensuring that potential losses on the portfolio of investments don't materialize into liabilities to reduce the cash flows of the investments resulting into reduced financial performance below the set benchmarks or expectations by management. The strategies of

business risk management in general aims at reducing the adverse consequences of risks on the business activity which erodes profitability, investments and reinvestments (Kaplan, 2010).

According to Barsk (2010), the process of business risk management for a business involves identifying significant risks which could prevent the business from achieving its objectives, proving a framework to ensure that that the business can meet its objectives and reviewing the objectives and framework regularly to ensure that the objectives are met. This is complemented by using various tools of identifying and managing business risks like using the SWOT, The five forces model and values chains as postulated by Porter and PEST analysis for the external factors affecting the firm's business (Porter, 1985) and the use of financial forecasts can also be used in analyzing whether the risks materials and calculation of probabilities to assign on the events (Lawrence, 2010). Once risks are identified they can be managed to an acceptable level and the benefits of business risk management to SMEs include predictability of cash flows which facilitates planning in advance, minimizing potential impacts of bankruptcy and increased confidence of shareholders and other stakeholders of the firm (Hubbard, 2009).

The major components of risk management according to Kaplan (2011) ranges from identification, assessment ,monitoring and mitigation of the risks yet according to Mellin & Curis (2010) in addition to the former setting of the risk appetite, communication of risk management procedures to stakeholders are all components of business risk management. In addition risk management can involve setting strategies in place of hedging risks using third parties with competencies of risk management as well as training staff with skills of responding to the identified risks in a timely manner. This can involve communication, financial reporting, auditing the information system of the entity and establishing policies for rewarding staff who communicate the potential risks identified to the organization. This reduces on the resources

provided for risk management and the saved resources can be invested in other activities which can yield returns to the organization and such long term strategies involves management and the board of directors, That is, the pace and value attached to business risk management by the firm determines how well the firm is able to mitigate and manage risks as well as achieving targets on risk management.

2.3 Risk identification

This involves looking at the specific events and conditions that could result in risks materializing Kaplan (2012). Business risks can be managed when a manager is aware of the risks that they exist, what items of the risks affect the business and to what degree. This analysis helps the manager in seeking solutions of managing the identified risks before they materialize which makes it easier to think of the methods that can be used to manage them.

Cheng (2011) notes that risk identification needs to be a continuous process for SMEs to achieve desired financial performance, such that new risks and changes affecting existing risks may be identified quickly and dealt with appropriately before they can cause unacceptable losses. This observation is similar to Kaplan (2012) which shows that capital structure decisions should be achieved within the organization hierarchy such that each level is capable of identifying relevant risks to improve performance like at the organizational level, key risks affecting strategy like risks relating to competition should be identified ,at divisional level risks of supply shortages materializing to losses need to be addressed and at operational level, risks of machine breakdown delaying production can be dealt with by the operational staff. The SMEs can use automated information systems of identifying risks faster than manual systems and once the risks are identified, they can be an immediate response of managing such risks. This is common with SMEs which incur debts in their operations; risk identification helps in normalizing cash flows to

the expected level which helps in achieving planned activities. The failure to identify risks brings excessive damages to the business and bankruptcy in the long run. This is true according to Adams (2011), who shows that SMEs without departments or personnel in charge or risks tend to underperform in times of calamities as compared to SMEs with personnel in charge of risk identification and management. This implies that risk identification ranks in an equal magnitude with other risk management strategies which should be given an equal priority.

2.4 Risk assessment

Risk assessment according to Lawrence (2010) involves analyzing, profiling and consolidating of risks. This depends on how dynamic the environment within which a given SME operates and how changes in that environment could result in significant and sudden changes in risks which will in turn mean that the risks are managed within the available means.

Risk assessment is important because, certain factors can prevent a firms performance such as changes in technology involving new technology and can significantly benefit innovators, social patterns changing to influence customer demand and supply which is highly dependent on raw materials, economic dynamics including the political environment affecting the degree to which firms can change the capital structure and return on investments Richard et al (2009).Risk assessment in firms requires an informed management with competencies of quantifying and assigning probabilities to risks basing on the trends, forecasts, projections as well as making assumptions on the likely risks which are expected to occur. Management is charged with the responsibility of risk assessment and once risks are inadequately assessed, they can materials and can escalate the going concern issues leading to firm bankruptcy (Kaplan, 2013). Risk assessment models can range from economic value added, value at risk, and default risk indicators to credit ratings for firms using debts in their capital structure. However, risk

assessment is done with reference to other methods of risk management not in isolation and the results of risk assessment can aid other risk management models to reduce risks to an acceptable level. Risks which are assessed to have a high degree or more likely to occur should be avoided as compared to those with a low likelihood of occurring. Similarly, risks, which are assessed to severe consequences when they materialize, should be avoided than those whose consequences are anticipated to be low.

2.5 Monitoring risks

The monitoring of risks involves reviewing the effectiveness of the methods chosen to control or minimize risks from occurring Kaplan (2012).The purpose of risk monitoring is to ensure that risk management methods continue to operate effectively and systems produce accurate and reliable information for decision making. Effective monitoring of risks involves active participation by senior managers and the board in giving direction as well as setting the risk appetite and putting in place strong information systems so that data on the conditions posing risks to the financial performance of the firm is got and this guides capital providers on the required rate of returns to firms while advancing credit Pandey (2010).

The monitoring procedures in risk management include the periodic evaluation and testing of control methods, choosing continuous monitoring programs built into information systems, supervisory reviews of controls such that reconciliation reviews are part of the processing and quality assessment reviews of all departments. The management of a firm is charged with the responsibility of ensuring that risks are monitored on a continuous basis by enacting internal control mechanisms of segregating the responsibilities for approving and recommending transactions. This controls risks entailed in fraudulent transactions, ensures that professional ethics are complied with by staff performing transactions as well as enforcing discipline (Kaplan,

2013).The risk monitoring mechanism should be dynamic for it to become effective and should change by the changing environmental demands to capture the potential threats to risks affecting the firm and ensuring that controls are not penetrated by staff leading to fraud and damaging the firms reputational integrity. This reduces threats to operational risks as well as threats caused by non-compliance to the regulatory environment. The risk monitoring tool therefore is effective once given attention by management and promotes management integrity in building the risk management spectrum of the firm including its focus on detailed signals of risks in strategic hierarchy of the organizations.

2.6 Risk mitigation

These are the methods taken of reducing risks from occurring. They include risk avoidance, risk reduction; risk acceptance and risk transfer Kaplan (2012). This depends on the likelihood/consequence matrix which can be abbreviated as TARA (Transfer, Avoidance, Reduction, and Acceptance) according to the ALARP principle Crane (2008).

Businesses can transfer the risks by contracting third parties to bear the consequences of the risks like taking up insurance. This can apply to risks with a low likelihood of occurring but with high or severe consequences , avoidance strategy involves abandoning an activity completely since the likely hood of the risks occurring are high and the consequences of the risks are also high. The reduction strategy involves firms sharing part of the risk with another firm like an insurance firm or making provisions for the risk and taking insurance. The acceptance strategy is relevant to risks which are not significant meaning that the costs of dealing with the risk are lower than the benefits hence the consequences of the risk are low and the likely hood of the risk occurring are also low.

Firms can mitigate risks effectively when staff have competencies of identifying, measuring, monitoring and indentifying risk from occurring (Kaplan, 2013).The competencies can promote judgment and decision making as well as timing of when to take particular courses of actions to mitigate risks including the estimation of net benefits within the cost constraints. Risk mitigation is at the epitome of risk management because failure to mitigate risks from occurring renders the risk management framework useless. In other words, risk mitigation should scan the internal and external environment affecting the firms' risks for the risks to be mitigated to acceptable limits within the firm. In addition, risk mitigation needs to be timely such that the risks are detected when it is early for the organization to achieve the risk management objectives.

 2.7: Capital structure

The capital structure of a firm defines the composition of debt and equity in its operations (Stone, 2009). A highly geared company uses more debt as compared to equity and lower gearing is associated with companies characterized by a lower preference for debt and lower risk taking. The combination of debt or equity in the capital structure is determined by cost (Kaplan, 2009).Debt is cheaper than equity because it carries a tax shield, since interest is paid before tax as compared to equity which is non-tax deductible. This implies that dividends are treated as post tax claims to the shareholder .Duration of finance in terms of time to maturity and security of the finance. Long-term finance is more expensive and is secured as compared to short-term finance which can be cheaper but unsecured because of the interest component as a charge for the finance. Similarly, (Cole, 2009) adds that gearing influences the capital structure because finance providers become skeptical in providing finance to a firm that is highly geared due to the potential risks of financial distress and bankruptcy costs. A highly geared company is susceptible to collapse when there is a down turn in sales revenue due to external factors in the market like

recession, inflation or decline in the general purchasing power. In addition, factors like accessibility to debt, cost of debt relative to equity, risk taking and risk averse attitudes of managers, the economic situation prevailing either of a depression or boom, inflation, required rate of return and the objectives of shareholders have a significant impact on the capital structure decisions of a firm at a time.

The amount of debt represents the obligations to third parties which form a liability in the balance sheet and the payment of interest is expensed in the profit and loss account as well as the principle being capitalized. The debts to SMEs can be inform of loans, either micro or macro, secured or non-secured by these assets and the default on the obligation leads to credit risk resulting in decreased reputation risk hence rendering future borrowing hard Kaplan (2010).

According to Jensen & Meckling (1976), a particular single firm owner wishes to finance projects in excess of the firm's internal resources. The owner has two options, to issue equity or debt. If a firm issues equity, the owner- manager's fraction interest within the firm decreases. This increases the incentive for an owner manager to undertake excessive perk consumption since the costs to the owner of such activities have been lowered as a result of a reduction in his fractional interests.

These costs include the monitoring expenses of the principle (equity holder), bidding expenses of the agent (the manager) and the money value of the reduction in welfare experienced by the principle due to the divergence between the agents' decisions and those which maximize the welfare of the principle.

There exists conflicts between equity holder and managers which in turn influence the capital structure decisions and also influence its ability to manage business risks. Jensen (1976) shows

that managers prefer to have greater perquisite levels and lower effort levels, provided that they do not have to pay for these through lower wages or by a lower market value of their personal equity holdings.

The second conflict arises because managers may prefer short term projects which produce early results and enhance their reputation quickly rather than more profitable long term projects Masulis (1988).The third conflict is that managers may prefer less risky investments and lower leverage to lessen the probability of bankruptcy Hunsaker (1999). They also wish to minimize the likelihood of employment termination. As this increases with changes in corporate control, management may resist take-overs irrespective of their effect on shareholder value Garvey & Hank (1999). Management may also find it cheaper to use internal sources of finance as compared to external sources because of accessibility issues. That is a quoted company whose shares are listed can access finance with ease because the shares are traded on the market as compared to a non-listed company, with illiquid shares and characterized with high transaction costs. The buyers of the shares will require a third party to transact on their behalf.

2.8: Financial performance

The financial performance of a firm is reflected in its ability to satisfy the objectives of shareholders by increasing shareholders wealth maximization evidenced in increased dividends and capitalization Pyke (2009). In contrast ,the firm managers regard financial performance in terms of increased bonuses, exceeding targets for growth and salary increments Kaplan(2012).However both shareholders and managers have a desire for the firm to have an increased profitability, liquidity, efficiency, investors and favorable solvency ratios at a time.

The profitability ratios measure the changes in gross profit which is expressed as gross profit over sales revenue and the higher the ratio the more competitive the business is in selling goods

which can be due decreased prices or favorable seasons to boost demand. The net profit percentage measures the net profits made per the sales revenue attained and this ratio is important in measuring the rate at which operating expenses are minimized in a business. The liquidity ratio measures the cash available at short notice to the business. This cash can be used to pay short term debts and buy stock .The liquidity at a time is measured by current assets over current liability and the acid test ratio which expresses current assets less stock per current liabilities. The lower the ratio the better for the liquidity of the firm, though this depends on business to business Kaplan (2012).

The efficiency ratios measure the rate at which the company is able to turn stock into cash and the higher the cash operating cycle the better for the firm as it can use creditors' funds to fund its working capital needs. The efficiency ratio include receivable collection period expressed as trade receivables per credit sales, payables credit payment period stated as payables per credit purchases or payables per cost of sales and inventory turnover expressed as inventory per cost of sales. In addition the inventors' ratios are important in attracting inventors to invest in the company thereby having a direct impact on the capital structure and the cost of capital. The investors' ratios include the earnings per share expressed as profit after tax per the number of ordinary shares in issue, dividend cover expressed as the earnings per share per the dividends per share in a given period and the dividend yield which is measured as divided per share per the current market value of the shares. The higher the current market value of the shares the better the financial performance of the company.

The financing ratios include gearing which measures the prior charge capital over the total capital and the interest cover measures the operating profit per interest payable at a given period. The higher the interest cover the better for the firm to borrow funds. Alternatively, Cole(2009)

adds that financial performance is important because its determines the achievement of short-term goals with respect to liquidity and profitability as well as long term goals in terms of financial sustainability. A firm can achieve desired financial performance when both the short term and long term goals are achieved and the failure to alien the two goals leads to bankruptcy and going risks which management can address by seeking financial assistance inform of loans and short-term overdrafts to meet short term working capital needs with long term finance sanctioned for capitalizing long term assets and discharging long term liabilities in the interest of the finance providers. Norton (2008) adds that financial performance is part of the overall spectrum which a firm should address for its survival in the market. There is need to focus on the customers, learning and innovations, bushiness growth and development. This can enable a firm to assess whether business targets are being met or note and the way forward to manage the gaps identified in the financial performance. This can be done using tools like variance analysis, reasonableness tests, as well as analytical procedures of analyzing the strength and weaknesses within the firm and the extent to which the external environment affects the financial performance of the firm at a particular point in time.

2.9: Business risk management and financial performance of SMEs.

The objective of business risk management is to maximize the wealth of shareholders by reducing or deterring potential risks from materializing   into losses. This is done by managing the daily operations of a business in terms of working capital and liquidity such that cash deficits are reduced. The payables in the cash cycle can be negotiated for increased days, receivables collected on time and ensuring that inventory turnover is at desired levels to avoid obsolete inventory Kaplan (2010).

The conformity of operations to the financial performance can entail the maximization of profitability and liquidity but at the same time conflicting in terms of realizing returns on investments either short or long term. Profitable businesses increases the wealthy of shareholders through the dividends declared and increasing liquidity which ensures that financial claims on the entity are settled as they become liable for payment Pandey (2010).

The ability of a firm to reconcile the conflicting objectives of liquidity and profitability as major financial indicators ensures that the going concern status is guaranteed. Thus the conflicting objectives arise due to the fact that the liquid assets such as bank accounts earn very little return or no return so liquid assets decreases the profitability and the opportunity costs of such liquid assets is the cost of short term finance or profit lost by not investing in profitable projects Brown (2010).

However the argument is biased because it focuses on short run periods like twelve months' time yet business must exceed this Johnson (2010).There are circumstances which dictate that business risk management is for short time or long run survival of a firm for example liquidity is important when short term finance is hard to find and profitability is relevant when cash management is conservative.

According to Modigliani & Miller (1970), the degree to which business risks are managed has a positive influence on the financial performance of business in terms of investment decisions, dividend decisions and financing decisions which are generalized as the decision triangle of financial management.

This can be illustrated as the decision to increase dividends might lead to a reduction in retained earnings and hence a greater need for external finance to meet the requirements of the proposed

capital investments projects leading to an increase of debt in the capital structure. Similarly the decision to increase capital investment spending can increase the need for financing which can partly lead to a reduction in dividends.

In addition, business risks once reduced is reflected in a firms operations to reduce expenses which affects the profit and loss statement of the firm. The income which would be expensed on combating business risks can be diverted into productive ventures leading to improved financial performance. Business risks are crucial because they affect the entire operations of a firm. They can impact directly on the going concern status of the firm and capable of accelerating other risks like liquidity risk, reputation risk and financial risks leading to financial distress because the firm may not have the cash flows to pay its suppliers and remain in operations or the firm can be limited from accessing more finance because of its poor credit rating as shown by the poor financial performance. Kaplan (2009) notes that the business risk is both internal and external to the firm and can be managed when proprietors have the expertise of scanning the environment to detect threats and take precautionary measures of reducing risks to acceptable levels as required by the shareholders. Financial performance has a positive relationship with business risks because an increase in business risks affects the going concern status of the firm, increases costs of obtaining finance from the market as lenders charge higher interest costs to compensate for the likely default by the firm and shareholders can increase the required rate of return for equity funds because of the likely risks of financial distress.

2.10 Capital structure and financial performance of SMEs

Market imperfections in the capital markets make firms to prefer internal funding to external funding leading to limited investment decisions taken. That is to say, the pecking order theory

suggests that managers choose capital financing on the basis of convenience and relative costs of different sources of finance Solomon (2006).

This shows that retained earnings are preferred sources of finance resulting into lower costs of financing and improved financial performance in times of depression. This is however limited by the fact that internal funds may be limited to finance capital development expenditures necessitating external sources of financing which increases gearing and affects the capital structure Brown (2010).

Equity is more expensive than debt because of the relative risk of the two sources of finance. Equity is riskier than debt and so equity is more expensive than debt on the assumption that taxes don't exist. The increase in gearing by a company replaces equity by debt meaning that the capital base remains constant and the weighted average cost of capital is not affected by increasing debt which lowers the financial risk and remains constant Kaplan (2012).

The analysis of the relationship of debt and equity without taxes is unrealistic because taxes exist in reality meaning that the weighted average cost of capital decreases as a company gears up and the value of the company is increased by the value of the tax shield and an optimal capital structure results by gearing up the company as much as possible Richard et al (2009).The argument about gearing as much as possible is challenged by Crane(2006) who shows that the high levels of gearing results into bankruptcy risk, agency costs and financial distress leading to poor financial performance in terms of liquidity and over trading.

Similarly, Murinde 2003 adds that the capital structure of a given firm is affects the financial performance by increasing cash flows from investments projects with positive net present value. The cash flows generated can pay off the interest and principle payments on the debt. In addition,

a firm can take real options to improve on the present value of investment projects. The options can range from delaying the projects when prices are anticipated to be low, expanding the project when the expansion utilizes the capacity of the project, abandon the project which is anticipated to bring loses without any return despite the risks management framework and redeploy resources to other investment ventures which are more productive the initial investment project.

Kerlinger (2010) shows that the capital structure of a firm can affect financial performance in terms of availability of funds for investment projects. Accordingly, a highly geared firm with more debt as compared to equity can experience problems of accessing funds from the financial providers because they become skeptical as the financial risks of such firms increase. This is in contract to firms with low levels of gearing with capacity to absorb more debts. These firms can be advanced lower interest structured financial products because of the existing trust on their ability to absorb debts and invest in productive investment projects.

Modigliani (1959) adds that the capital structure is irrelevant to financial performance of a firm provided the firm can invests money into productive investments which generates more wealth for the shareholders. He postulates that a firm should gear as much as it can access debts for investments to create returns for shareholders. This is contrasted to Leady (2010), who shows that high levels of gearing can make firms to run out of security to secure the credit facilities which restricts their borrowing capacity. This due to the fact that as borrowing increases, firms lower their borrowing capacity and the risks tolerance levels by debt providers lowers. The additional debts are procured at high interest rates which reduce the firm profitability leading to adverse financial performance.

2.11 Business risk management, capital structure and financial performance of SMEs

The primary financial management objective of a company is the maximization of shareholder wealthy by managers acting as agents for the principle (Shareholder) and once managers take initiatives of managing risks, accessing debt to invest in projects with positive present values, financial performance is improved in terms of profitability, liquidity and increased returns on investments Pandey (2009).

However, this is not always true in practice where managers act in ways that do not lead to shareholders wealthy maximization leading to agency problems. This arises because the objectives of managers differ from those of shareholders and as a result of separation of ownership from control Gray, Owen & Adams (2005).This is further reinforced by information asymmetry between shareholders and managers which prevents shareholders being aware of managerial decisions.

The capital structure decisions can be made by managers alone, but there is a risks of managers making suboptimal decisions which are against the goals of firm due to self-interest (Cole, 2004).There is need for intervention by those charged with governance to ensure that managerial decisions are in the best interest of the firm for goal alignment and goal congruence which are crucial in shareholder wealth maximization. Business financial management is therefore relevant from all levels of the firm and should involve the respective connected stakeholders for a firm to benefit from the expertise of managers taking decisions. The managerial decisions which are aliened to the firms goals and objectives can result into desirable financial performance as well as enabling a firm to take on optimal capital structures which adds value to stakeholders

In addition, financial performance is achieved when risks are controlled to acceptable levels of the risk appetite and increases in company value. The agency problems can be reduced thorough

share option schemes. This gives the rights to managers to buy shares on a future date at a predetermined price which is fixed when the share option is issued Brown (2010).The share option schemes can encourage managers to control risks such that the share price can increase by investing in projects with a positive present value since this increases the reward they receive from share options schemes. The higher the share price in the market when share options are exercised, the greater the capital gain and the better the financial performance, lower risk and optimal capital structure.

The share option schemes can be good for managers but managers can be rewarded for poor performance when the share prices in general are increasing or it's possible that managers may not be rewarded for good performance when the share prices are falling in general due to economic up turmoil's like recessions.

This is further paradoxical since it is difficult to decide on the share option exercise date that encourages managers to focus on managing risk in bide of increasing shareholder wealthy while still remaining challenging rather than easily achievable.

In a nutshell, financial performance is desired for all firms but it's not an end in its self, non-financial performance measures like employee morale, corporate social responsibility, health and safety practices, environmental sustainability and footprints are important for SMEs to become competitive and survive in the market since they are socially contracted by society.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter explains the methodology that was adopted in conducting the study in order to achieve the objectives of the study. This chapter also describes the research design, survey population, methods of data collection, data processing and analysis, presentation and measurements of variables and limitations to the study.

3.2 Research design

The research was cross sectional involving an analytical and descriptive design. The cross sectional research design was used because data was collected at a point in time. The analytical and descriptive design involved establishing the relationships between business risk management, capital structure and financial performance of small and medium enterprises (SMEs).

3.3 Study population

The study population comprised of the 157 SMEs operating in Nakawa Division in Kampala Capital City. The unit of analysis was SMEs that are registered members of the association called Uganda Women Entrepreneurs Association Limited (UWEAL, 2010). Therefore the study is about SMEs as the unit of analysis.

3.4 Sampling Size and Sample selection

A sample size of 108 SME's was selected from a population of 157 SMEs based on Krejcie & Morgan (1970). Simple random sampling was used to select 108 SME's from the entire population. This was done by writing down all SME's on pieces of paper and putting the papers in a bowl. A single piece of paper was drawn at a time without replacement until all 108 were exhausted. Purposive sampling was then used to select a respondent from each SME. The respondent from each SME was either a manager or a business owner because these were identified as the people with the information needed by researcher for the study.

The unit of analysis was the SME while the unit of inquiry was either a manager or a business owner of the firm.

3.5 Data sources

The study employed both primary and secondary methods of data collection. Primary data was collected from the respondents and secondary data was collected from journals, magazines, articles and government gazettes about SMEs. The primary method enabled collection of reliable data since there was direct interaction between the interviewer and the interviewee. Questionnaires were used as the basic tool for capturing and collecting data for this study. The questionnaires were administered to the respondents in advance and appointments were scheduled for purposes of completing questions through interactive sessions with the respondents.

3.6 Data collection instrument

Data was collected using self-administered questionnaires stating the questions on the study variables

3.7 Measurements of variables

Business risk management was measured by identification, assessment, monitoring and mitigation of risks Kaplan (2010).

Capital structure was measured by the degree of debt, degree of equity and the mixture of debt and equity William (2010).

Financial performance was measured by liquidity, profitability and return on asset (Toba 2010, Mellin & Curis 2010).

3.8 Validity and reliability of the research instrument

The questionnaires were tested for validity using the content validity index. Cronbach alpha test of 0.5 or higher was used as a cutoff point showing that the questions in the questionnaires are relevant Cronbach (1951).

Table 3.8: Cronbach Alpha Test

	Cronbach Alpha Coefficient	No of items	Content Validity Index
Business Risk Management	0.7	22	0.865
Capital Structure	0.714	6	0.840
Financial Performance	0.706	14	0.830

The research questionnaire was subjected to a reliability test and according to the Cronbach's Alpha statistic in table 3.8, all variable items were found to be reliable and valid because the value of the test statistic was at the threshold of 0.70 and above for all the variables, according to Nunnally (1978). This implies that the items would on average elicit similar responses when administered by the same respondents several times. This study further examined the content validity of research instruments using the Content Validity index. The results indicated that all the variables had a CVI of greater than 0.6 as indicated in the table above.

3.9 Data processing and analysis

Data was collected using a questionnaire. The questionnaire was coded before data was into the computer. The data was analyzed using Software Package for Social Sciences (SPSS). The descriptive statistics such as correlation, regression, factor analysis, and regression and T tests were used as further analysis.

3.10 Ethical considerations

The introduction letter from the Graduate and Research Centre was used as an identification document to access information from the respondents.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter details the presentation and interpretation of the findings of the study. The analysis is in form of factor analysis, correlation analysis of the items for pairs of variables under study, regression of dependent variable on the independent variables and tests for mediation. The results are presented following the research objectives of the study.

4.2: Demographic characteristics of the population.

The information about the demographic characteristics of the population involved the type of SMEs, Number of employees, Annual turnover, and Education level of the respondents, sources

of finance, survival in terms of number of years in operations as well as the financial information provided whether it was audited or unaudited. The findings are shown in tables 4.2 and 4.3 below;

Table 4.1: Characteristics of SMEs.

Type of SMEs	Response	Percentage (%)
Trade	53	57
Manufacturing	22	24
Services	18	19
Total	**93**	**100**
Number of Employees	**Response**	**Percentage (%)**
5-10	36	39
11-20	29	31
21-50	20	22
50 and more	8	9
Total	**93**	**100**
Annual Turnover (Million Shs)	**Response**	**Percentage (%)**
50-100	58	62
101-200	29	32
201 and above	6	6

Total	93	100
Sources of Finance	**Response**	**Percentage (%)**
Equity	57	61
Debt	36	39
Others	0	0
Total	**93**	**100**
Financial Information	**Response**	**Percentage (%)**
Audited financials	21	23
Unaudited financials	72	77
Total	**93**	**100**
Number of Years in existence	**Response**	**Percentage (%)**
1-2	48	52
3-5	30	32
6 years and above	15	16
Total	**93**	**100**

Source: Primary Data.

Table 4.1 shows that out of the 108 SMEs from which data was to be collected, only 93 of them responded to the questionnaire hence a response rate of 86.11%. SMEs in the study which were engaged in trade and commerce constituted 57% followed by SMEs in manufacturing at 24% and the least respondents were services at 19%.

The table 4.1 also shows that most of the SMEs had an annual turnover ranging between 50-100 million constituting 62% of the response, SMEs with an annual turnover ranging from 101 -200 million constituted 32% and SMEs with an annual turnover exceeding 200 million constituted 6% of the respondents.

The table 4.1 above further shows that most of the SMEs used owner funds constituting 61% and only 39% could access debt financing from financial institutions.

It is also shown in table above that 77% of the SMEs which did not have audited financial information but only provided management financial information produced internnnaly.23% of

the respondents had audited financial statements. The lack of audited financial information increases business risks and restricts SMEs from accessing credit from financial institutions to improve on leverage.

The table 4.1 shows that most of the SMEs had been in existence for a period ranging between 1-2 years which constituted 52%, those which had been in existence for a period of 3-5 years constituted 32% and those SMEs which had been in existence for a period exceeding 6 years constituted 16% of the respondents.

The table also shows that most SMEs had employees ranging from 5-10 constituting 39% , followed by SMEs with employees ranging from 11-20 constituting 31%, SMEs with employees ranging from 21-50 constituted 22% and SMEs which had more than 50 employees had 9% of the respondents. The overall analysis shows that most of the SMEs sampled had employees ranging from 5 to 20 employees.

Table 4.2: Characteristics of respondents

Gender	Response	Percentage (%)
Male	41	44
Female	52	56
Total	**93**	**100**
Age group	**Response**	**Percentage (%)**
21-25	8	9
26-30	10	11
31-35	12	13
36-45	31	32
46-50	17	18
50+	15	17
Total	**93**	**100**
Education Level of employees	**Response**	**Percentage (%)**
Ordinary Level	18	19
Advanced Level	12	13
Certificate	42	45

Diploma	10	11
Degree	9	10
Others	2	2
Total	**93**	**100**

Source: Primary Data.

Table 4.2 shows the distribution of SMEs by gender, age group and education level of respondents. SMEs had male respondents constituting 44% and 56% were female.

The table further shows that respondents in the age group ranging from 21-25 constituted 9%, 26-30 constituted 11%, 31-35 constituted 13%, 36-45 constituted 32%, 46-50 constituted 18% and respondents in the age group of 50+ constituted 17% of the respondents.

The overall analysis shows that most of the SMEs sampled had respondents whose age was ranging from 26 -50 years.

The table also shows that 19% of the respondents had an ordinary certificate of education, 13% had an advanced certificate of education, 45% were certificate holders in given professions, 11% had diplomas, 10% had degrees and 2% had other qualifications that were relevant to business management. The results further show that the respondents had knowledge to read questions in the questionnaires and filled the required responses appropriately.

4.3: Correlation analysis

The bi-variate correlation analysis was conducted using Pearson product moment formula so as to establish the relationship between Business risk management, capital structure and financial performance. The results are summarised in the table 4.3 below:

Table 4.3: Correlation analysis

	1	2	3	4	5	6	7	8	9	10	11
Business Risk Management (1)	1										
Identification (2)	.888**	1									
Risk Assessment	.387**	.253**	1								

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(3)											
Monitoring (4)	.120	.082	.253**	1							
Mitigation (5)	.296**	.262**	.461**	.430**	1						
Capital Structure (6)	**.143**	**.205***	**.259****	**.175**	**.340****	**1**					
Debt (7)	.072	.162	.165	.274**	.327**	.786**	1				
Equity (8)	.142	.133	.215*	-.057	.146	.645**	.035	1			
Financial Performance (9)	**.193****	**.196***	**.097**	**-.026**	**.066**	**.068**	**-.054**	**.176**	**1**		
Liquidity (10)	.162	-.182	-.098	-.015	-.032	.124	-.035	.244**	.800**	1	
Profitability (11)	.156	-.143	-.063	-.026	-.074	-.005	-.052	.056	.844**	.353**	1
**. Correlation is significant at the 0.01 level (2-tailed).											
*. Correlation is significant at the 0.05 level (2-tailed).											

Source: Primary data

4.3.1: Business Risk Management and Financial Performance of SMEs under UWEAL

The findings of the study in table 4.3 reveal that there was a significant positive relationship between Business Risk Management and Financial Performance of SMEs in UWEAL (r = 0.193, P>.05). This implies that the level of Business Risk Management affects the level of financial performance of a firm. This implies that there was significant and positive relationship between business risk management and financial performance

4.3.2: Capital Structure and Financial Performance of SMEs under UWEAL.

The findings of the study in table 4.3 showed further that there was no significant relationship between capital structure and Financial Performance in UWEAL (r = .068, P>.05). This implies that the capital structures of the SMEs have little or no association with financial performance. The findings are in line with Modigliani and Miller Capital structure theory, which states that firm value is independent of a firm's capital structure. Accordingly, firm value depends on the investment decisions made which add value to the firm in form of cash flow streams from investments (Modigliani & Miller 1958). .

4.4: Regression analysis

The Regression model of Financial performance was estimated to establish whether the level of Business Risk Management and the Capital Structure of UWEAL are significantly associated with financial performance or not. The results are summarized in table 4.4 below.

Table 4.4: Regression analysis

	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.629	.396		9.170	.000
Business Risk Management	.178	.082	.206*	2.184	.031
Capital Structure	.094	.091	.097*	1.028	.306
Dependent Variable: Financial Performance					
R Square	0.199		F Statistic		2.648
Adjusted R Square	0.195		Sig. (F Statistic)		0.046

Source: Primary data

4.4.1 The Business Risk Management and Capital Structure and Financial Performance in UWEAL

The regression model summarized in table 4.4 indicates that of the two independent variables, only Business Risk Management had a significant effect on Financial Performance (Beta = .206, p>.05). This implies that when the level of Business Risk Management of SMEs is improved, it enhances Financial Performance; in contrast, financial performance becomes adverse when the level of Business Risk Management is low. In addition, the multiple regression model was found to be robust or significant (F=2.648, P>.05), implying that all the independent variables in the

model were appropriate predictors of Financial Performance, and the variation of all of the independent variables when combined could explain variations in financial performance up to 19.5%.

Capital structure was not a significant predicator of financial performance (Beta=0.097, P>.05). This is consistent with literature by Solomon (2006) who assets that firms prefer internal funding to external funding because of business risks. This is concurs with the pecking order theory which postulates that firms manage business risks by using internal funds with low risks compared with external finance which is associated with interest rate fluctuations which are detrimental to a firms earnings especially in periods of recession.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS OF THE STUDY

5.1: Introduction

This chapter presents the discussion of the findings of the study based on research objectives, conclusions from the findings and recommendations including areas for further research.

5.2 Discussion of Findings

5.2.1 Business risk management and financial performance of SMEs.

The results of the bi-variate correlation showed a positive and significant relationship between business risk management and financial performance of SMEs. This shows that when SMEs priorities business risk management, financial performance improves. Business risk management can be improved by improving on the level of risk assessment of scanning the environment to identify potential risks using proactive approaches rather than reactive approaches to risk management. The findings of the study are in line with Kaplan (2010), who shows that firms can manage the daily operations of the business through monitoring the liquidity to ensure that working capital is optimal which reduces the transaction costs of stock outs, cash deficits and surpluses, obsolete inventory and minimizes payables and receivables periods to maximize the wealth of shareholders. In addition, risk monitoring ensures that the conflicting objectives of liquidity and profitability of a firm are reconciled which reduces business risks to a manageable level. The assessed risks can be mitigated using both internal mechanisms like improving on

internal controls or transferring such risks to third parties. Likewise, Johnson (2010) adds that risk management entails both short term and long term managerial decisions taken with the help of those charged with governance in the firm.

5.2.2: Capital structure and financial performance of SMEs.

The findings of the study showed that the relationship between capital structure and financial performance was positive. This implies that there is a little effect between capital structure and financial performance of SMEs. SMEs can therefore gear the capital structure provided they have the capacity to pay debts and the business cash flows can be sustained in case of any down turn in sales revenue. The findings of the study are in line with Modigliani and Millers capital structure irrelevant theory (Modigliani, 1959).The capital structure irrelevant theory states that the value of the firm is independent of the capital structure decisions but dependent on the investment decisions. In other words, firm value is increased when a firm invests in projects with positive present value which increases the wealth to shareholders. In contrast Leady(2010) shows that a highly geared company is susceptible to costs of financial distress and a bankruptcy costs when there is a down turn in sales and such a firm cannot aces more debt with ease because of the financial risk. Financial providers can only provide finance to such firms at a higher rate of return to compensate for the financial risk.

Accordingly, Kaplan (2009) shows that despite the fact that the capital structure decisions have little effects on a firms financial performance, firms ought to minimize the level of debt and incur debts up to the optimum point where the marginal costs of additional debt is equal to the marginal benefits of using more debt for investment projects.

5.2.3: Business risk management, capital structure and financial performance of SMEs.

The findings of the study showed that business risk management, capital structure and financial performance were positive. Business risk management was a significant predicator of financial performance and capital structure was not a significant predicator. This implies that business risk management has an impact on financial performance in terms of liquidity and profitability. Kaplan(20090,shows that poor liquidity management leads to cash deficits and poor working capital management in general which increases the business risks leading to poor financial performance. Similarly, the risk of solvency is increased where a firm is unable to meet the daily cash expenses and it also damages the firm's reputation to third parties like suppliers hence the need for an aggressive approach rather than a liberal approach to working capital management which is risky. In addition, a firm needs to maximize the return on capital employed by minimizing working capital investments as part of business risk management to maintain profitability. The short-term funds can be supplemented by using external financing for investment decisions to increase firm value.

In other words, there is a tradeoff between profitability and liquidity when managing the risks exposed to a business. The proprietors of SMEs can balance the two contrasting objectives by being proactive in risk management and making capital structure decisions in the best interests of the firm's stakeholders.

5.3 Conclusions

The study aimed at investigating the relationship between business risk management, capital structure and financial performance of SMEs in Uganda. The conclusions below are made as per the research objectives.

From the study, it is evident that business risk management is crucial in determining the financial performance of small and medium enterprises. This shows the need for firms to manage their business operations as risks are a cost and therefore can affect financial performance.

From the study, capital structure was insignificant in predicting financial performance of small and medium enterprises. This implies that firms can use alternative sources of funds such as working capital to run their businesses.

5.4 Recommendations

The following recommendations are drawn from the findings of the study as explained in the conclusions.

Small and medium enterprises should train employees in risk management. This allows business owners to set up procedures to avoid risk, minimize its impact or at the very least, be able to cope up with the impact.

Small and medium enterprises should establish an internal risk management unit to reduce costs that come with unhandled risks. This way, business risks can be checked on through proactive risk assessment, monitoring, identification and mitigation for their survival and sustainability in the market.

5.5: Areas for further research

The research focused on financial performance of SMEs, there is need for further research on the non-financial performance of SMEs in Uganda.

There is need for research on the effects of investment decisions on financial performance of SMEs in Uganda.

A study can be conducted on minimizing financial distress and bankruptcy risks for SMEs which are geared with debt.

5.6: Limitations of the study

i. Unwillingness to complete questionnaires by some respondents who saw the exercise as non-beneficial to them.

ii. Accessibility to information on financial performance was hard as most SMEs considered it confidential.

iii. Financial constraints at some stage while delivering questionnaires to respondents in different places.

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Working paper 2017.

Appendix 1: Sample Size Determination

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351

35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381

Source: Krejcie, R. V., & Morgan, D.W. (1970).

Note: N is population size and S is sample size

Appendix 2: QUESTIONNAIRE FOR SMES MANAGERS/OWNERS

Dear respondent,

I am a student doing research on the topic of, **Business risk management, capital structure and financial performance of SMEs in UWEAL.**

This is to request you to answer the following questions which will help me achieve the objectives of the research. The information given will be treated with utmost confidentiality it deserves and will strictly be used for academic research.

Thank you.

Student

Section A

1. Type of SMEs:

1	2	3
Trade	Manufacturing	Services

2. Number of employees:

1	2	3	4
5-10	11-20	21-50	More than 50

3. Annual turnover:

1	2	3
50-100 million Shs	101-200 million Shs	200 million Shs and above

4. Education level of manager:

1	2	3	4	5	6
O-level	A-level	Certificate	Diploma	Degree	Others

5. Source of finance:

1	2	3
Owner's equity	Debts	Others

6. Financial information:

1	2
Audited	Unaudited

7. Number of years this SME has existed:

1	2	3
1-2 years	3-5 years	6 years and above

Please tick the following questions using the scale below

5	4	3	2	1
Strongly agree	Agree	I am not sure	I disagree	I strongly disagree

	Questions	5	4	3	2	1
	Business risk management					
1	Risk are identified in this firm before they materialize	5	4	3	2	1

2	Conditions and events suspected to lead to risks are addressed in advance	5	4	3	2	1
3	The risk appetite in this firm is set by managers and shareholders	5	4	3	2	1
4	Managers in this firm are trained on business risk management	5	4	3	2	1
5	Risk identification take primacy other risk management measures	5	4	3	2	1
6	Risk identification is a continuous process in this firm	5	4	3	2	1
7	There is a hierarchy of risk management in this firm	5	4	3	2	1
8	Physical inspection of potential conditions leading to risks is done daily	5	4	3	2	1
9	Enquiries are made about product quality from our customers	5	4	3	2	1
10	All departments are involved in managing business risks in this firm	5	4	3	2	1
11	Checklists are used to ensure that risk areas are not missed out	5	4	3	2	1
12	Internal benchmarking is done to ensure that risky area are identified	5	4	3	2	1
13	External benchmarking of risk identification is done with comparison to industry risks	5	4	3	2	1
14	The assessment of risks is aimed at taking corrective actions	5	4	3	2	1
15	Profiling of risks is aimed at predicting likely chances of risks occurring	5	4	3	2	1
16	The effects of risks which materialize has been severe in this firm	5	4	3	2	1
17	Risks assessed to be similar are consolidated and managed together	5	4	3	2	1
18	Technological and environmental changes are incorporated in risk assessment	5	4	3	2	1
19	Sensitivity analysis is used in assessing the of risks on financial performance	5	4	3	2	1
20	Accounting ratios are calculated at a time to analyze the trend of risks	5	4	3	2	1
21	The risk management methods chosen are reviewed periodically	5	4	3	2	1
22	Methods which fail to manage risks effectively are discarded	5	4	3	2	1
23	All managers are involved in evaluating risk management methods	5	4	3	2	1
24	Each manager is required to submit monthly reports on risks	5	4	3	2	1
25	There is an internal audit department for reviewing adherence to internal controls and risk management	5	4	3	2	1
26	Committees are in place for managing risks	5	4	3	2	1
27	This firm avoids risk with high consequences and likely hood of occurring	5	4	3	2	1
28	Risks are not transferred to third parties for risk management in this firm	5	4	3	2	1
29	There internal measures of reducing the likely consequences of risks	5	4	3	2	1
30	Risks which are not significant are accepted by this firm	5	4	3	2	1
31	Decisions of managing risks depend on risk appetite set by management	5	4	3	2	1
32	Residual risks are not catered for in this firm	5	4	3	2	1
	Capital structure					
1	Managers in this firm participate in capital structure decision	5	4	3	2	1
2	The option to issue debt in this firm is always easy	5	4	3	2	1
3	Managers get incentive for managing debt issued	5	4	3	2	1
4	Managers disclose all the information to debt providers in this firm	5	4	3	2	1
5	This firm has inadequate collateral securities to secure debts	5	4	3	2	1
6	Loans borrowed are paid on time by this firm	5	4	3	2	1
7	All debts incurred by this firm are insured	5	4	3	2	1
8	This firms decision to incur debts are based on capacity and purpose	5	4	3	2	1
9	Debts are preferred in times of recession by this firm	5	4	3	2	1
10	Internal funds are sufficient without incurring debts in this firm	5	4	3	2	1
	Financial performance					
1	Sales in this company have been increasing for the last six months	5	4	3	2	1
2	The gross profit margin for this firm is competitive in the industry	5	4	3	2	1

3	The market growth for our products has reduced for the last six months	5	4	3	2	1
4	This firm has measures of reducing operating costs to desirable levels	5	4	3	2	1
5	This firms operating costs are high for the last six months	5	4	3	2	1
6	This firm assets are utilized below capacity	5	4	3	2	1
7	The operating profits in this firm exceed operating costs	5	4	3	2	1
8	Net profits after tax are capitalized	5	4	3	2	1
9	Sales are made to customer on cash basis only	5	4	3	2	1
10	Whenever credit is given out it can't exceed 30 days without being recovered	5	4	3	2	1
11	Our bad debts exceed provisions made on bad debts	5	4	3	2	1
12	This firm pays creditors after a months	5	4	3	2	1
13	Some creditors have refused to supply this firm for the last six months	5	4	3	2	1
14	This firm replenishes stock after every months	5	4	3	2	1
15	This company pays dividends yearly	5	4	3	2	1
16	The dividends keep on fluctuating yearly in this firm	5	4	3	2	1

Thank you very much for participating in this study. I hope the outcome will help SME's in UWEAL improve financial performance by managing the business risk and capital structure.

Appendix 3: List of Small and Medium Enterprises registered by Uganda Women

Entrepreneurs Association Limited

No	Name	No	Name	No	Name	No	Name
1	Kamukamu Traders	36	Metropolitan Investors	70	Baba Traders	104	Makers Limited
2	Biyinzika Traders	37	Answaar	71	Chico	105	Mwazo

	Limited		Limited		Company		Limited
3	Aguma Investments	38	Sunset Traders	72	Fortune Traders	106	Kwaka Company
4	Quality Dinners Shops	39	KamaKamu Traders	73	Produce Link Limited	107	Best Investors Limited
5	Pride Investments	40	Naluwoza and Brothers	74	Kadidi Company Limited	108	Retach Limited
6	BQC Traders	41	KK and Sons	75	Mwanga and Sons Limited	109	Faster Traders
7	Avin Company Limited	42	General Traders Company Limited	76	Together Motions Limited	110	Movers Limited
8	Buwekula Stores	43	Ezikokolima Limited	77	Materials Limited	111	Njovu Millers Limited
9	Agro Processors Limited	44	Seyyid and Sons	78	Profaners Limited	112	Kala Limited
10	Madelia Limited	45	Modern Investors Ltd	79	Kadumi Company	113	Green World Suppliers
11	Enso Traders	46	Mbalire Investments	80	Arumba Company	114	Visionary Traders Limited
12	Kubirima Investments Limited	47	Namuwongo Investments	81	Home Materials Limited	115	Bwana Limited
13	Global Company	48	AZ Limited	82	Mimi Company Limited	116	Acuna Company Limited
14	Trusted Brains Limited	49	Malaika Traders	83	MEC Limited	117	Ngoni Limited
15	Exo Firms	50	Baaka Traders	84	Bukka Company	118	Trust Traders
16	Bikita Ventures Limited	51	RST Company	85	Bamu Company	119	Akopesha Limited

17	Apex Investments	52	Bajjaber Company	86	Njanja Limited	120	Aola Company
18	Maize Millers Company Limited	53	Rwangabo Investments Limited	87	Akron Company	121	Traders Pride Limited
19	Nzoa Feeds	54	Grapets General Traders	88	Top Traders	122	Food Solutions Limited `
20	Apilla & Sons	55	Industrial Solutions	89	Buhuba Company	123	Agro Suppliers
21	Nkumba United Traders Limited	56	Maize Flour Traders Limited	90	Match Makers Limited	124	Farmers Pride Limited
22	Entrepreneur Linkages Limited	57	Mukwetu Traders	91	Mundani Limited	125	Produce Markets Limited
23	FTB Limited	58	Igabo Traders Company	92	Twende Company	126	Ngonzi General Merchandise Limited
24	AVEX Traders	59	Mansuru Traders	93	Nkka Limited	127	Shallar General Traders
25	Furniture Mart Limited	60	Bagabo Investors	94	Real Traders	128	Kabanzana Limited
26	Buza Limited	61	Agaza Traders	95	Fasteners Limited	129	Produce Traders Company Ltd
27	Sonde United Traders Limited	62	Mwenzo Company Ltd	96	Backers Limited	130	Food Suppliers Limited
28	Bantubalamu General Traders	63	Kuti Company Limited	97	Retailers Limited	131	Produce General Stores
30	Innovative Ventures Limited	64	Afanya Limited	98	Parker Limited	132	Chilling Limited
31	Revolvers Investment Company Limited	65	Kiwa Limited	99	Home Solutions Limited	133	Perennials Company Limited

32	Lugave Maize Millers Limited	66	Crocks Limited	100	Ngovi Limited	134	Adm Limited
33	Homers Bakery Limited	67	Awa Traders	101	Aiders Company	135	Egf Limited
34	Mothers of Love	68	Wanza Limited	102	Solutions Limited	136	Bazima Company
35	Tailor Designers	69	Milla Limited	103	Kav Limited	137	Nam Traders
138	Bata Limited	139	Banga Limited	140	Musa Limited	141	Aqulia Limited
142	Danz Limited	143	Aca Company	144	MX Company	145	Lwiza Limited
146	Chil Limited	147	Millers Choice	148	Stock Company	149	Food Crops Limited
150	Buta Limited	151	BL Limited	152	PC Limited	153	Table Take Limited
154	Women Traders Limited	155	Mugimu Company	156	Mama Company	157	Produce Stores Investments Limited

Source: Uganda Women Entrepreneurs Association Limited (UWEAL, 2010).