



MAKERERE UNIVERSITY BUSINESS SCHOOL

**COMPETITIVE STRATEGIES AND THE FINANCIAL SUSTAINABILITY OF SMES
IN UGANDA: A CASE STUDY OF MUKONO DISTRICT**

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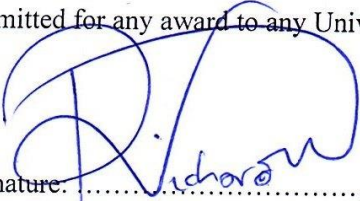
**A DISSERTATION SUBMITTED TO MAKERERE UNIVERSITY BUSINESS SCHOOL
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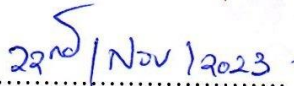
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NOVEMBER, 2023

DECLARATION

I, **Wafula Richard**, hereby declare that this is my original work. It has never been published or submitted for any award to any University

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APPROVAL

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

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DEDICATION

I dedicate my dissertation work to my family and many friends. A special feeling of gratitude to my Late Mother. Rose and Aunt Betty whose words of encouragement and push for tenacity ring in my ears.

My Siblings, Doreen, Florence, Vicent, and Ronald, and my cousins Phina, Prisca, Elly, and Loy have never left my side and are very special. I also dedicate this dissertation to my Manager Brenda, my supervisor Hadijah who have supported me, my fellow work colleagues Tony, Maxwell, Rashida, Vivian, Annette, Merab, Stella, Judith and Esther. I will always appreciate all they have done.

I dedicate this work and give special thanks to my MBA friends for being there for me throughout the entire Master's program all of you have been my best cheerleaders.

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LIST OF ACRONYMS

CGAP - Consultative Group to Assist the Poor

GDP - Gross Domestic Product

GEM - Global Entrepreneurship Monitor

MFI - Microfinance Institution

RBV - Resource-Based View

SDGs - Sustainable Development Goals

SMEs - Small and Medium-sized Enterprises

TSE - Tehran Security Exchange

ABSTRACT

The study purpose was to assess the relationship between competitive strategies and financial sustainability of SMEs in Uganda. The research problem was that SMEs face a high mortality in Uganda and more than 60% of them never celebrate their first anniversary, despite their critical importance as the backbone of the Ugandan economy (UIA, 2020; Aruho, 2021). This is especially true in Mukono district where SMEs continue to fail. The study objectives were to determine the effect of Cost leadership strategies on the financial sustainability of sustainability of SMEs in Uganda, to examine the effect of differentiation strategies on the financial sustainability of SMEs in Uganda, to establish the effect of focus strategies on the financial sustainability of SMEs in Uganda and to explore the relationship between the competitive strategies (as one variable) and financial sustainability.

The study adopted a cross sectional survey design based on quantitative data. The population comprised of 65,000 small and medium enterprises operating in Mukono District and the sample size was 384 SMEs selected using a simple random sampling design. Primary data was collected using a questionnaire. Findings show there is a significant and positive relationship between Cost leadership strategies and financial sustainability ($r = .743, p < .01$), there is a significant and positive relationship between differentiation strategies and the financial sustainability of SMEs in Uganda ($r = .711, p < .01$), there is a significant and positive relationship between focus strategies and the financial sustainability of SMEs in Uganda ($r = .633, p < .01$) and that the three strategies in combination predict 59.1 percent of the variance in financial sustainability (Adjusted R Square = 0.591).

Based on the findings, Ugandan SMEs are advised to adopt cost leadership strategies for financial sustainability, which could involve streamlining operations, leveraging local supply chains, and employing flexible work arrangements. However, maintaining product and service quality should remain paramount to avoid negatively impacting customer relations and business reputation. They are encouraged to implement differentiation strategies to improve their financial standing and the SMEs are recommended to develop focus strategies, targeting niche market segments using their unique capabilities.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small and medium enterprises (SMEs) have become a critical catalyst for the growth of any economy in both the developed and developing countries (Hou & Fang, 2023).. They are central to the sustainability of economies and play a great role in industrial ecosystems, economic resilience and technological sovereignty. The growth of SMEs is pivotal for the prosperity both in the developing and developed countries (Tripathi & Brahma, 2018). A growing number of organizations are integrating sustainability into their business strategy (Guntz, 2011).

In Uganda, despite SMEs being the heartbeat and core prime movers of economic development (Asiimwe, 2017), acting as engines for wealth creation, employment opportunities, poverty alleviation, and also stimulating wider prosperity (Mutambi, 2013), they lag in growth and their mortality rate is very high, with only 30% being able to see their first birthday (Afunadula, 2018).

More companies are managing sustainability to improve processes, pursue growth, and add value to themselves rather than focusing on reputation alone. Sustainability requires gaining competitive advantage over one another and over large enterprises, which is a very serious task for managers, because they need to find a way to deliver superior value to their customers (Yep et al. 2012). A company's competitive strategy consists of all the business approaches and initiatives that a firm undertakes to attract customers and fulfill their expectations to withstand competition on pressures and to strengthen its market position.

It deals with management action plans for competing successfully and providing superior value to customers. Competitive strategy enables it differentiate or put the company apart from its competitors (Thompson & Strickland, 2003). Customers have become more demanding towards service providers (Porter 2008). They are becoming harder to please, they are smarter, more price conscious, more demanding, less forgiving, and they are approached by many more with equal or better offers (Kotler & Keller, 2016). The situation calls for an organization having a competitive advantage.

Competitive advantage is the core of any firm's success and therefore businesses must develop a plan that addresses ways to compete in their respective markets (Ansoff, 1990) as postulated in the Resource based view theory, a managerial framework used to determine the strategic resources a firm can exploit to achieve sustainable competitive advantage. A competitive advantage is something that cannot be easily replicated and is exclusive to a company or business (Danso et al., 2019). The competitive advantage combines the scope of activities for which a firm seeks to achieve them, leading to three generic strategies for achieving above average financial performance in an industry cost leadership, differentiation and focus (Porter, 1985; Farida & Setiawan, 2022; Wang, 2022). However, some of these strategies are implicit, having evolved over time, rather than explicitly formulated. Competitive strategies are long-term approaches SMEs use to gain a competitive advantage in the eyes of their target audience. An effective competitive strategy will help a firm develop, enhance and exploit one or more competitive advantages (David, 2019). However, these strategies have changed significantly because of changes in technology and the recent hard times of the pandemic affecting financial sustainability. This is especially true of small and medium enterprises (SMEs) even in Uganda.

Uganda, like many other developing countries, depends heavily on small and young enterprises for exports, gross domestic product (GDP), employment and economic growth. With over one million small to medium enterprises (SMEs), Uganda was globally ranked the second highest in total entrepreneurial activity (GEM, 2004). However, the World Bank (2015) survey report found that overall, approximately 70 percent of all SMEs in emerging markets are not financially sustainable. This is a cause for concern to find out whether it is related to the different competitive strategies that may or may not be used in these SMEs. There is need to investigate why such entities in a critical industry remain highly unsustainable in the long run, hence looking at the relationship between competitive strategies and the financial sustainability.

1.2 Statement of the Problem

In Uganda, SMEs account for approximately 90% of the private sector and contribute around 20-25% of the nation's GDP (UBOS, 2022). Most firms have been leveraging on competitive strategies to drive performance within the firm (Ozdemir & Mecikoglu, 2016). The Ugandan government has introduced various initiatives and programs. These include the Youth Livelihood Program (YLP), the Women Entrepreneurship Program (WEP), and the Micro, Small, and Medium Enterprises (MSMEs) support programs (Enterprise Uganda, 2022).

Despite efforts to ensure formidable financial sustainability, SMEs face a high mortality in Uganda and more than 60% of them never celebrate their first anniversary, despite their critical importance as the backbone of the Ugandan economy (UIA, 2020; Aruho, 2021). This is especially true in Mukono district where SMEs continue to fail. The underlying

reasons are not clear but it could be due to poor competitive strategies. Given their unique position as the heartbeat and prime movers of the economy, SMES need to do better than their competitors, who include one another and also larger enterprises in the market place, as they try to match with their goals and objectives and not to stand a chance not to fulfill their dreams in so doing, they have to take cost advantage, differentiation, and innovation to facilitate sustainable growth. Despite the sustainability trend in SMES, there is an inadequate examination of how competitive strategies impact financial sustainability. This creates a gap that this study seeks to examine.

1.3 Purpose of the Study

The study purpose was to assess the relationship between competitive strategies and financial sustainability of SMEs in Uganda.

1.4 Specific Objectives

- (i) To determine the effect of Cost leadership strategies on the financial sustainability of SMEs in Uganda.
- (ii) To examine the effect of differentiation strategies on the financial sustainability of SMEs in Uganda.
- (iii) To establish the effect of focus strategies on the financial sustainability of SMEs in Uganda.
- (iv) To explore the relationship between the competitive strategies (as one variable) and financial sustainability

1.5 Research Questions

- (i) What is the effect of Cost leadership strategies on the financial sustainability of SMEs in Uganda?
- (ii) What is the effect of differentiation strategies on the financial sustainability of SMEs in Uganda?
- (iii) What is the effect of focus strategies on the financial sustainability of SMEs in Uganda?
- (iv) What is the relationship between the competitive strategies (as one variable) and financial sustainability?

1.6 Scope of the study

1.6.1 Subject Scope

The study examines competitive strategies and financial sustainability of SMEs. The various competitive strategies were each be related to the issue of financial sustainability to ascertain the relationships, if any, that may exist among them.

1.6.2 Geographical Scope

The study was carried out in SMEs located in Mukono District. This study area was chosen due to the diversity of businesses in the district hence providing the best hybrid of options among various informed and experienced entrepreneurs.

1.6.3 Time Scope

More to that, the study findings were based on empirical data collected during the period of October 2022 to November 2022, and therefore such data pertaining to this period of time are referred to in the report.

1.7 Significance of the Study

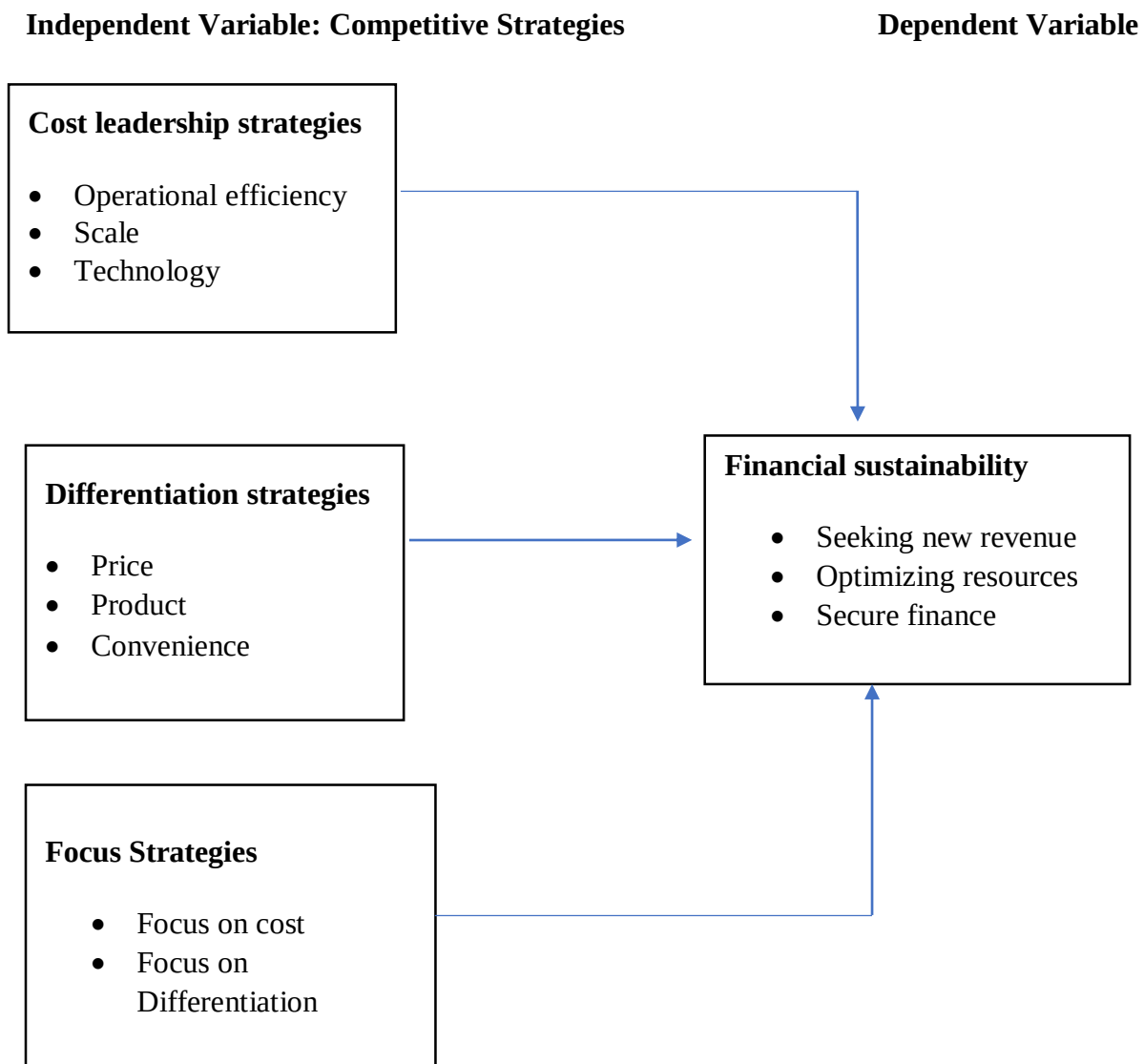
The study may be significant in the following ways:

- i. This study shall contribute to existing knowledge on competitive strategies and financial sustainability of SMEs by providing deeper debate and a more up-to-date source of information on the subject matter.
- ii. The study will also be of significance to future researchers as literature review, and further provoked research in the area of competitive strategies and financial sustainability of SMEs.
- iii. This study will be useful to policy making institutions and the government in determining policies that are suitable for them in tandem with appropriate competitive strategies and financial sustainability of SMEs which are the backbone of the Ugandan economy.

1.8 Conceptual framework

Figure 1: Conceptual Framework

The conceptual framework sought to present the interaction between competitive strategies and the financial sustainability of SMES in Uganda.



Source: adapted from the works of Porter (1986), Kipesha & Xianzhi (2013) as well as Kinde (2012).

The conceptual framework above highlights the main variables as competitive strategies and financial sustainability. The independent variable is broken down into cost leadership strategies, differentiation strategies and focus strategies. The framework shows a relationship between cost leadership strategies and financial sustainability, differentiation strategies and financial sustainability as well as between focus strategies and financial sustainability.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Literature concerning the subject of competitive strategies and financial sustainability of SMEs are reviewed in this chapter. The literature reviewed was extracted from online sources, journals, dissertations, newspapers and text books. This chapter includes a theoretical review, empirical review and a conclusion.

2.1 Theoretical Literature Review

2.1.1 Resource based view theory

The resource-based view (RBV) is a managerial framework used to determine the strategic resources a firm can exploit to achieve sustainable competitive advantage. Barney's 1991 article "Firm Resources and Sustained Competitive Advantage" is widely cited as a pivotal work in the emergence of the resource-based view (Barney, 1991). During the 1990s, the resource-based view (also known as the resource-advantage theory) of the firm became the dominant paradigm in strategic planning. RBV can be seen as a reaction against the positioning school and its somewhat prescriptive approach which focused managerial attention on external considerations, notably industry structure (Mak'Anyengo & Maina, 2019). The so-called positioning school had dominated the discipline throughout the 1980s. The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive strategies and performance. It adopts two assumptions in analyzing sources of competitive strategies (Barney, 1991 and Peteraf & Barney, 2003). First, this model assumes that firms within financial institutions (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control.

Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate). Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive strategy (Stoelhorst, 2021). The argument goes "If all financial institutions in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market" (Cool, Costa & Dierickx, 2002, p. 57). RBV explains that a firm's sustainable competitive advantage is reached by virtue of unique resources being rare, valuable, inimitable, non-tradable, and non-substitutable, as well as firm-specific (El Daly, 2020).

Likewise, SMEs may reach a sustainable competitive strategy through unique resources which it holds, and these resources cannot be easily bought, transferred, or copied, and simultaneously, they add value to a firm while being rare. It also highlights the fact that not all resources of a firm may contribute to a firm's sustainable competitive strategies. Varying performance between firms is a result of heterogeneity of and RBV is focused on the factors that cause these differences to prevail. RBV provides the understanding that certain unique existing resources will result in superior sustainability and ultimately build a competitive strategy. Sustainability of such an advantage will be determined by the ability of competitors to imitate such resources (Izuogu & Onyekwere, 2019).

However, the existing resources of a firm may not be adequate to facilitate the future market requirement, due to volatility of the contemporary markets. There is a vital need to modify and develop resources in order to encounter the future market competition. An

organization should exploit existing business opportunities using the present resources while generating and developing a new set of resources to sustain its competitiveness in the future market environments; hence, an organization should be engaged in resource management and resource development. Their writings explain that in order to sustain the competitive strategies, it is crucial to develop resources that will strengthen the firm's ability to continue the superior financial sustainability. Any industry or market reflects high uncertainty and, in order to survive and stay ahead of competition, new resources become highly necessary. The need to update resources is a major management task since all business environments reflect highly unpredictable market and environmental conditions. The existing winning edge needed to be developed since various market dynamics may make existing value-creating resources obsolete (Harsch & Festing, 2020).

Eminent scholars have introduced various resources and cited several discussions on developing strategies in order to build up RBV theories in the strategic management field. Homogenous or standardized resources i.e. financial resources, physical resources, human resources, technological resources, reputational & organizational resources are classified by Grant (1991). In other words, homogeneous resources set as an ability to “unique, customized, idiosyncratic, and specific to a firm”. Furthermore, resources are categorized into tangible resources (i.e., financial resources, physical resources & human resources) and intangible resources (i.e. patents, brand recognition & reputation) (Zahra & Das, 1993). Grant (1991) highlights the intangible resources that are not physical in nature like assets and core competencies and these assets are categorized into legal assets (i.e. agreements & contracts, patents & trademarks) and legal assets (i.e. reputation & suppliers’ network) and other structural-cultural resources.

It is assumed that in the imperfect market a firm gain competitive strategies only when they allocate and distribute key resources excellently (Harsch & Festing, 2020). Therefore, RBV describes that resources, capabilities and core competencies are highly correlated to explore the firm's sustainability that prolong the firm's performance. The theory is relevant to the current study given its emphasis on the major variables which are competitive strategies and financial sustainability.

2.2 Empirical Review of Literature

2.2.1 Competitive Strategies

Competitive strategies are the core of any firm's success and therefore businesses must develop a plan that addresses ways to compete in their respective markets (Zhao et al., 2020). However, some of these strategies are implicit, having evolved over time, rather than explicitly formulated. A company's competitive strategy consists of all the business approaches and initiatives that a firm undertakes to attract customers and fulfill their expectations to withstand competition on pressures and to strengthen its market position. It deals with management action plans for competing successfully and providing superior value to customers. This enables it to differentiate or put the company apart from its competitors (Gure & Karugu, 2018).

Porter's competitive strategies deal with the core issues that many organizations are concerned with, namely efficiency (cost) and product/service quality. Generic strategies were used initially in the early 1980s and seem to be even more popular today (Pavlović & Čelić, 2020). They outline the four strategic options open to organizations that wish to achieve a sustainable competitive strategy. Porter (1989) said that no single competitive

strategy is guaranteed to achieve success and even some companies that have successfully implemented one of the Porter's competitive strategies found out that they could not sustain the strategy. A firm that engages in each generic strategy but fails to achieve any of them is 'stuck in the middle'. It possesses no competitive strategies. A firm that is stuck in the middle will compete at a disadvantage because the cost leader, differentiator or focusers will be in better positions to compete in any segment (Porter, 1989; Rehman et al., 2022).

2.2.2 Cost Leadership

This strategy involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive). To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals. There are three main ways to achieve this (Porter, 1985; Christensen, 2001; Farida & Setiawan, 2022).

The first approach is achieving a high asset utilization. In service industries, this may mean for example a restaurant that turns tables around very quickly, or an airline that turns around flights very fast. In manufacturing, it will involve production of high volumes of output. These approaches mean fixed costs are spread over a larger number of units of the product or service, resulting in a lower unit cost, i.e., the firm hopes to take advantage of economies of scale and experience curve effects (Pavlović & Čelić, 2020; Erlangga, 2022).

The second dimension is achieving low direct and indirect operating costs. This is achieved by offering high volumes of standardized products, offering basic no-frills products and

limiting customization and personalization of service. Production costs are kept low by using fewer components, using standard components, and limiting the number of models produced to ensure larger production runs.

The third dimension is control over the value chain encompassing all functional groups (finance, supply/procurement, marketing, inventory, information technology etc..) to ensure low costs (Erlangga, 2022).

2.2.3 Differentiation

Kavale, Namusonge and Mugambi (2016) assessed the effects of product differentiation strategy on corporate growth of Microfinance Institutions (MFIs) in Kenya. The study employed descriptive and quantitative research designs. The target population was 57 firms and the sample size was 32 firms arrived at through stratified and purposive sampling methods. The questionnaire was the primary data tool. The study found out that product differentiation strategy has significant effects on corporate growth in MFIs in Kenya.

Porter stressed the idea that only one strategy should be adopted by a firm and failure to do so will result in “stuck in the middle” scenario (Porter, 1985). He discussed the idea that practicing more than one strategy will lose the entire focus of the organization hence clear direction of the future trajectory could not be established. However, contrary to the rationalization of Porter, contemporary research has shown evidence of successful firms practicing such a “hybrid strategy” (Hambrick, 1983; Rehman et al., 2022). They reason that though Porter had a fundamental rationalization in his concept about the invalidity of hybrid business strategy, the highly volatile and turbulent market conditions will not permit

survival of rigid business strategies since long-term establishment will depend on the agility and the quick responsiveness towards market and environmental conditions.

2.2.4 Focus Strategy

A focus strategy is a competitive strategy to direct marketing and sales efforts to a specific market segment. This strategy seeks to exploit underserved or undiscovered segments of a target market. A focus strategy is an integrated set of actions taken to produce products, goods, or services that serve the needs of a particular market segment, instead of a whole broad market. Although the breadth of a target is clearly a matter of degree, the essence of the focus strategy is the exploitation of a narrow target's differences from the balance of the industry (Sheth, Jain & Ambika, 2020).

A focus strategy concentrates on serving a particular market niche, which can be defined by (1) a different segment of a product line, (2) a different geographic market, or (3) a particular customer group. There are many specific customer needs firms can serve by using this focus strategy. Selecting a niche by type of customer might mean serving only the very rich, the very young, or the very adventurous. Examples of specific market segments that can be targeted by a focus strategy include (1) a particular buyer group, (2) a different segment of a product line, or (3) a different geographic market (Harry & Ejo-Orusa, 2020).

Focus strategy differs from cost leadership strategy and differentiation strategy chiefly in that it is directed toward serving the needs of a limited customer group or segment. Companies that succeed with a focus strategy understand the dynamics and unique customer needs of their market niche. As a result of developing and promoting “niche”

products and services, they can attract a higher share of customers in that market segment than competitors. Plus, they can earn above average profits and reduce the threat of competitors entering the niche (Hifza & Aslan, 2020).

2.3 Financial Sustainability

Financial sustainability refers to the ability of organizations to cover all its costs from its own generated income from operations (Thapa, Calmer, Taylor & Conroy, 1992 & Azman-Saini, 2022) without depending on external support or subsidy (Kinde, 2012). Khandker and Khalily (1995) notes that financial sustainability defines the ability of an institution to continue operations owing to viability of operations, hence ability to cover operational, financial and administrative costs. Related to this is that financial sustainability stands for the degree that an institution is capable of generating sufficient revenue from offered services to meet full operating costs (Guntz, 2011; Shaik et al., 2022).

Kipsha and Xianzhi (2013) citing the Consultative Group to Assist the Poor (CGAP) (2004) acknowledge that sustainability is a pace towards profitability. However, Rosenberg (2009) equates financial sustainability to profitability. Both are responsive to cost reduction, that is, administration, transaction and operating costs on the back of revenue generation and innovative funding methodologies. Sustainability has three notches, the first one being operational sustainability followed by financial sustainability.

Profitability is a supreme sustainability measure where cost of capital, inflation cost and all non-cash items on top of operating expenses are paid out of operating revenues only. Surpluses realized by a profitable MFI are used to expand outreach (Rosenburg, 2009; Ayayi & Sene, 2010; Tehu- lu, 2013).

To keep a business running, they need to increase revenues. Increasing revenues are a sign of good financial health of a business. To increase revenue for a small business, management should focus on the customers, boost marketing and sales efforts, review the pricing strategies and expand the market (Staicu, 2018).

Optimization is one of the most important tools for achieving sustainability. Optimization is a search process for a specific problem according to special conditions of that problem. The goal of optimization is to discover the best feasible response with the consideration of the problem constraints (Willems & Nick, 2019; Kankinsingi & Dhliwayo, 2022).

Financing is the process of providing funds for business activities, making purchases, or investing. Financial institutions, such as banks, are in the business of providing capital to businesses, consumers, and investors to help them achieve their goals. The use of financing is vital in any economic system, as it allows companies to purchase products out of their immediate reach (Falcone & Sica, 2019).

2.4 Relationship between the variables

2.4.1 Cost leadership and Financial Sustainability

Cost leadership strategies are only viable for firms with the opportunity to enjoy economies of scale and large production volumes and big market share. Small businesses can be "cost focused" not "cost leaders" if they enjoy any advantages conducive to low costs (David, 2019). For example, a local restaurant in a low rent location can attract price-sensitive customers if it offers a limited menu, rapid table turnover and employs staff on minimum wage.

A cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will switch once a lower-priced substitute is available (Gure & Karugu, 2018). A reputation as a cost leader may also result in a reputation for low quality, which may make it difficult for a firm to rebrand itself or its products if it chooses to shift to a differentiation strategy in future (Al-Romeedy, 2019; Amini & Rahmani, 2023).

2.4.2 Differentiation and Financial Sustainability

Valipour, Birjandi & Honarbakhsh (2012) assessed the effects of cost leadership strategy and product differentiation strategy on the sustainability of firms. The research data was collected from 45 firms in the Tehran Security Exchange (TSE) during 2003-2010. The statistical technique is used to examine the assumption of multiple regressions. To test the assumptions, firms were divided into 2 groups: firms with cost leadership strategy and firms with product differentiation strategy.

The results indicated that in the firms with cost leadership strategy, there were positive relationships between leverage; cost leadership strategy and dividend payout with performance. The results also suggested that there were positive relationships between leverage and firm's size with performance in the firms with product differentiation strategy, but the relation between product differentiation strategy and dividend payout with performance was negative.

Competitive strategy is about being different or unique in the eyes of the customer, by deliberately choosing a different set of activities to deliver a unique mix of value (Porter, 2005; Tiwari, 2022). Porter (2005) continues to define competitive strategy as a combination of the ends for which the firm is striving and the means by which it is seeking

to get there. It is also a search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces.

2.4.3 Focus and Financial Sustainability

Karanja (2012) observes in a study of real estate firms in Kenya that increase in the number of players has led to increased competition. The most popular type of competitive strategy was on the basis of focused differentiation. Firms tended to target certain levels of clients especially the middle and upper class who resided in certain targeted estates. Not surprisingly, some of the world's most successful companies started out by focusing on narrow target markets. Walmart began by focusing on serving rural towns where larger retailers such as Sears and Kmart did not sell. Amazon started by focusing on consumer book buyers with Internet access. Facebook began as a service for Harvard students.

A business can sustain competitive advantage by focusing on a narrow target market. Then, as they increase the customer share, they can expand the market and become the next leader in the industry (Amini & Rahmani, 2023).. The strategy matches market characteristics with the company's competitive advantages to select markets where a focus of the company's resources is likely to lead to desired sales volumes, revenues and profits (Wardana & Darma, 2020; Tiwari, 2022).

2.4.4 Competitive Strategies and Financial Sustainability

The importance of Small and Medium-sized Enterprises (SMEs) in promoting economic growth, employment, and innovation has been widely acknowledged in the global economy. However, achieving financial sustainability is a crucial challenge for SMEs, as

they often face resource constraints, high competition, and a dynamic business environment (Adomako & Tran, 2022). Porter's (1980) generic competitive strategies have been the foundation of much research on competitive advantage and financial sustainability in SMEs. The cost leadership strategy involves minimizing costs to offer products or services at lower prices than competitors, while the differentiation strategy is about providing unique, high-quality offerings that stand out in the market (Adomako & Tran, 2022). The focus strategy, on the other hand, involves concentrating on a specific market segment or niche (Pavlović & Čelić, 2020). These strategies have been widely researched and applied in the context of SMEs, with various studies suggesting that the effective implementation of these strategies can enhance the financial sustainability of SMEs (e.g., Spanos et al., 2004; Peng et al., 2008; David, 2019; Shaik et al., 2022).

2.5 Conclusion

The review of the literature shows that there exists a linkage between the various competitive strategies namely cost leadership, differentiation and focus strategy and financial sustainability. In summary, the RBV theory is also related to competitive strategies and financial sustainability because it provides a framework for understanding how firms can leverage their unique resources and capabilities to achieve a sustainable competitive advantage and financial stability. The review shows that several studies have been undertaken in various contexts but it shows that none of these past studies have been done in SMEs in Uganda, much less in Mukono District, further validating the need to undertake this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter reviews the methodology that was used to conduct this research. It specifically covers the research design, study population and sample size, data sources, research instruments, reliability and validity of research instruments, measurement of research variables and data processing and analysis. It also covers the ethical considerations.

3.1 Research Design

The study adopted a cross sectional survey design based on quantitative data. Amin (2005) points out that a cross- sectional survey research design helped the researcher to gather large amounts of data from a sample of cross-section/groups of people or units at a particular point in time. A cross sectional study approach allowed the researcher to collect information on the situation at a point in time. This was much easier, and more applicable to this study than a longitudinal approach which would require collection of information over a period of time (Bryman, 2006).

3.2 Population

According to the National Small Business Survey of Uganda Report (2017), there were approximately 65,000 small and medium enterprises operating in Mukono District. These comprised the study population. The unit of analysis were the SMEs and the unit of enquiry are the senior managers or the proprietors of these enterprises.

3.3 Sample Size and Sampling Procedure

A sample of 384 SMEs was determined from the population using the (Krejcie & Morgan, 1970) table of sample size determination. The SMEs were selected using a simple random sampling design. Simple random sample advantages include ease/simplicity of use and minimization of bias. No easier method exists to extract a research sample from a larger population than simple random sampling (Dhivyadeepa, 2015).

3.4 Data Sources and Instruments

The study employed primary sources of data. Primary data was obtained directly from the chosen sample of respondents using semi-structured questionnaires.

A self-administered questionnaire based on a five Likert scale ranging from strongly Disagree (1), Disagree (2), Neutral (3), Agree (4), and Strongly Agree (5) was used to collect quantitative data. The choice of the questionnaire as a research instrument was because of its ability to present the same questions to all respondents thereby providing a comparable basis for assessment. The questionnaire method was also appropriate because of its convenience and its ability to give the respondents the independence and free will to express their thoughts and opinions.

3.5 Measurement of the variables

The tool has two main variables: competitive strategies and financial sustainability. The independent variable is broken down into cost leadership strategies which are measured by operational efficiency, scale and technology as pointed out by Porter (1986), differentiation strategies which are measured by price, product and convenience (Porter, 1986); and focus

strategies and Focus strategies which are measured by focus on cost and focus on differentiation as measured by Kinde (2012) and Porter (1985).

3.6 Data Collection Procedure

Questionnaires were hand-delivered to the respondents in their business premises and they were given time of one week before they were collected back for analysis and interpretation. Alternatively, some questionnaires were sent by email to respondents though it was mostly physical ones delivered.

3.7 Validity and Reliability of the instrument

3.7.1 Validity of the instrument

This measures the accuracy of the questionnaire by taking into account what it is intended to measure (Maxwell, 2009). To ensure validity, the questionnaire was subjected to a content validity index where five experts were requested to rate the relevance of the questions set against the study variables using the scale of relevant and not relevant. The results for CVI are shown in table 1 below:

Table 1: Content Validity Index (CVI Results)

Variables	CVI Score
Cost Leadership	0.877
Differentiation	0.801
Focus	0.800
Financial Sustainability	0.799

Source: primary data

As seen in the table above, the results for CVI were above 0.7 which indicates validity of items in the questionnaire (Chan & Idris, 2017).

3.7.2 Reliability of the instrument

The term reliability refers to the consistency with which information can be confirmed while validity refers to whether the measurements being taken are caused by the phenomena of interest. The evaluation of questionnaire reliability- internal consistency is possible by Cronbach's alpha (Cronbach, 1951), which is considered to be the most important reliability index and is based on the number of the variables divided by items of the questionnaire, as well as on the correlations between the variables (Nunnally, 1978). As a general rule of thumb, a Cronbach's alpha score of 0.7 or above signifies a reliable scale (Nunnally, 1978).

Reliability results are shown below in table 2.

Table 2: Reliability Results

Variable	No of Items	Cronbach's Alpha
Cost Leadership	18	0.883
Differentiation	14	0.894
Focus	11	0.848
Financial Sustainability	13	0.861

Source: primary data

3.8 Data Processing, Analysis and Presentation

Data was summarized, edited and coded. Both descriptive and inferential statistics were used to analyze the data collected. Descriptive statistics involved computation of mean, standard deviation, percentage and frequencies while inferential statistics were used to determine the relationship between independent and dependent variables. This involved Pearson correlation (R) and multiple linear regressions. This was done using SPSS version 28.

Pearson Correlation analysis which will enable the researcher determine whether there is a relationship between variables while multiple linear regression will enable the researcher establish the extent to which the independent variables affect financial sustainability and how much each aspect of competitive strategies affects financial sustainability at 95.0% confidence level and 0.05 significance level. Thereafter, data will be presented in the form of tables and charts.

3.9 Ethical Consideration

The selected participants' inclusion was based on the requirement of research. This was non-prejudicial treatment of participants who refuse to take part or those who withdraw. More so sensitivity to and respect for the participants' beliefs, habits, lifestyles, culture and were adhered to and courteous treatment was accorded to them at all times.

No participant was coerced into taking part in the study and were free to withdraw at any stage. Participants were approached and the purpose of the study explained. No remuneration was offered.

Although the variables have been researched on by a number of scholars including academicians and writers; this research is an original writing with reference to secondary documents like reports, journals, and text book study. The dissertation is not a duplication of any writer or scholar's work. Any work that is another writer is declared to be so.

The information provided by participants was not shared without their will and there was no intrusion of their privacy as anonymity was upheld. Participants were assured of confidentiality verbally and in the written consent form.

CHAPTER FOUR

PRESENTATION, ANALYSIS, AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter contains the presentation, interpretation, and analysis of the findings of the study following the study objectives. The presentation of the findings is according to the objectives of the study which were:

- i. To determine the effect of Cost Leadership strategies on the financial sustainability of sustainability of SMEs in Uganda.
- ii. To examine the effect of differentiation strategies on the financial sustainability of SMEs in Uganda.
- iii. To establish the effect of focus strategies on the financial sustainability of SMEs in Uganda.
- iv. To explore the relationship between the competitive strategies (as one variable) and financial sustainability

4.1 Response Rate

Out of 384 targeted respondent SMEs, only 239 gave information. This represents a response rate of 62.2 percent. A 62% response rate is considered good in many contexts, particularly for academic surveys where response rates tend to be lower than in other research areas. Baruch and Holtom (2008) found that the average response rate for organizational surveys is 52.7%. A 62.2% response rate would be above this average. For that matter the researcher proceeded with presentation of the results.

4.2 Demographic Characteristics

4.2.1 Characteristics of the SMEs

The study sought information on the firms regarding the major category of the firm, or age of the business. Results are shown below in table 3:

Table 3: Characteristics of the Firms

Parameter	Frequency	%
Business Line		
Products	158	66.1
Services	81	33.9
Total	239	100.0
Age of the Business		
less than a year	100	41.8
1-2 years	77	32.2
3-5 years	51	21.3
More than 5 years	11	4.6
Total	239	100.0

Source: primary data

4.2.2 Business Line

Results in table 3 above show that most of the SMEs (66.1%) are dealing in products while 33.9 percent are dealing in services. This implies that the data was obtained from SMEs of various business line though most of them were dealing in products. This shows that different entities are part of this study and that SMEs which participated in this study deal more in products rather than in services.

4.2.3 Age of the business

Data in table 3 also shows that the biggest business line of 41.8 percent have been in business for less than a year followed by 32.2 percent which have been in business for 1-2 years, and others of varying time periods in business. The more the number of years the fewer the SMEs that

participated. This implies that the SMEs tend to go out of business as the years go on and this could be due to a sustainability effect, as they become more unsustainable the older, they grow.

4.2.4 Characteristics of the Respondents

The study also sought information on the respondents regarding the gender, age and the education level. Results are in table 4 below:

Table 4: Characteristics of respondents

Parameter	Frequency	%
Gender of the respondents		
Male	138	57.7
Female	101	42.3
Total	239	100.0
Age of the Respondents		
less than 30 years	15	6.3
30-39	77	32.2
40-49	95	39.7
50-59	41	17.2
60 years and above	11	4.6
Total	239	100.0
Education Level		
Certificate	45	18.8
Diploma	24	10.0
Bachelor's degree	133	55.6
Postgraduate diploma	33	13.8
Master's degree	4	1.7
Total	239	100.0

Source: primary data

4.2.5 Gender

From the results in table 4, it was found that most of the respondents (57.7%) are male while the females comprised of the minority (42.3%). The results show that the respondents who own the SMEs were therefore generally male and that the study is based on information mainly from male respondents, though the females are also significantly represented.

4.2.6 Age of Respondents

Findings show that the biggest category of the respondents was aged between 40-49 years (39.7%) followed by those who are aged 30-39 years (32.2%). Results show that in third place are those aged 50-59 years (17.2%). This implies that the results are based on SME business owners who are in the middle age category.

4.2.7 Education level of the Respondents

Additionally, the results show that the majority (55.6%) of the respondents have a bachelor's degree while 18.8 percent have a certificate. 13.8 percent have a postgraduate diploma and there are other qualifications represented in the findings. This shows us that the SME owners have various academic qualifications. For the study this was relevant in as far as understanding the purpose of the study and helping the researcher as much as possible to gather relevant data.

4.3 Pearson's Correlation Results

The objectives of the study concerned relationships between the variables as well as their indicators. To achieve this, the Pearson (r) correlation coefficient was computed given the interval nature of the data and the need to test the direction and strength of this relationship. The Table 5 below shows the Pearson Correlation Coefficients for the variables under study.

Table 5: Pearson's Correlation Coefficient

Variable	1	2	3	4	5	6	7	8	9	10	11	12
1. Operational Efficiency	1											
2. Scale	.309**	1										
3. Technology	.716**	.276**	1									
4. Cost Leadership Strategies	.880**	.634**	.849**	1								
5. Price	.697**	.097	.547**	.589**	1							
6. Product	.691**	.342**	.641**	.717**	.520**	1						
7. Convenience	.523**	.524**	.411**	.612**	.416**	.461**	1					
8. Differential Strategies	.804**	.367**	.668**	.791**	.851**	.802**	.745**	1				
9. Focus On Cost	.638**	.364**	.570**	.671**	.549**	.596**	.481**	.673**	1			
10. Focus On Differentiation	.553**	.301**	.555**	.601**	.509**	.543**	.465**	.628**	.669**	1		
11. Focus Strategies	.650**	.363**	.616**	.694**	.577**	.621**	.517**	.710**	.902**	.924**	1	
12. Financial Sustainability	.703**	.377**	.657**	.743**	.604**	.656**	.444**	.711**	.587**	.570**	.633**	1

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

Source: Primary data

4.3.1 Cost leadership strategies and financial sustainability of SMEs in Uganda

The first objective of the study was to find out the relationship between Cost leadership strategies and financial sustainability of SMEs in Uganda.

The results in table 5 show that there is a significant and positive relationship between Cost leadership strategies and financial sustainability ($r = .743$, $p < .01$). These results imply that an increase in cost leadership strategies leads to better financial sustainability of these SMEs in Uganda.

4.3.2 Differentiation strategies and financial sustainability of SMEs in Uganda

The second objective was concerned with establishing the relationship between differentiation strategies and the financial sustainability of SMEs in Uganda.

The results in table 5 show that there is a significant and positive relationship between differentiation strategies and the financial sustainability of SMEs in Uganda ($r = .711$, $p < .01$). These results imply that better differentiation strategies lead to better financial sustainability of SMEs in Uganda.

4.3.3 Focus strategies and financial sustainability of SMEs in Uganda

The third objective was concerned with establishing the relationship between focus strategies and the financial sustainability of SMEs in Uganda.

The results in table 5 show that there is a significant and positive relationship between focus strategies and the financial sustainability of SMEs in Uganda ($r = .633$, $p < .01$). These results imply that better focus strategies lead to better financial sustainability of SMEs in Uganda.

4.4 Multiple Regression Analysis

In order to ascertain the predictive power and combined effect of the independent variables on the dependent variable, a multiple regression was run using SPSS version 26. The results are below.

Table 6: Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.752	.180		4.169	.000
	Cost leadership Strategies	.498	.076	.471	6.550	.000
	Differential Strategies	.219	.070	.228	3.118	.002
	Focus Strategies	.138	.062	.138	2.217	.028

R=0.772, R Square=0.596, Adjusted R Square=0.591, Std. Error of the Estimate=.44798, F statistic=112.309, sig =.000.

a. Dependent Variable: Financial Sustainability

As seen in table 6, the three strategies in combination predict 59.1 percent of the variance in financial sustainability (Adjusted R Square = 0.591). This implies that the remaining 40.9 percent is explained by factors other than the independent variables. The high F-statistic of 112.309 shows that the correlation between the dependent variable and the model is statistically significant.

More to that, the results show that two of the three independent variables are significant predictors of financial sustainability. This is shown by the significance of cost leadership strategies (beta=.471, $p<.01$), and of differentiation strategies (beta=.228, $p<.05$).

Focus strategies on the other hand were found not to be a significant predictor of financial sustainability of the SMEs in this study (beta=.138, $p>.05$).

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of the findings in relation to the research objectives, conclusion, recommendations, limitations to the study and as well as areas for further study.

5.2 Discussion of Findings

In the section that follows, the findings are discussed as per the study objectives.

5.2.1 Cost leadership strategies and financial sustainability of SMEs in Uganda

The study sought to find out the relationship between Cost leadership strategies and financial sustainability of SMEs in Uganda. The results show that there is a significant and positive relationship between cost leadership strategies and financial sustainability ($r = .743, p < .01$). These results imply that an increase in cost leadership strategies leads to better financial sustainability of these SMEs in Uganda. The multiple regression results however show that cost leadership strategy is not a significant predictor of financial sustainability of SMEs ($\beta = .138, p > .05$).

The findings of this study indicate a significant and positive relationship between cost leadership strategies and the financial sustainability of SMEs in Uganda. This implies that the utilization of cost leadership strategies can enhance the financial viability of these businesses in the long term. These results are in alignment with the general understanding of cost leadership strategies but bring some nuances when contextualized within the landscape of SMEs in Uganda and the broader theoretical debates.

Cost leadership strategy, as indicated by the literature, is generally associated with firms capable of harnessing economies of scale and having large production volumes (Porter, 1980; Pavlović & Čelić, 2020; Amini & Rahmani, 2023). The strategy essentially allows a firm to achieve a competitive advantage by reducing costs to a level lower than competitors, thereby offering products or services at a lower price or achieving higher margins at the same price level.

However, the assertion that SMEs can only be "cost focused" and not "cost leaders" due to their scale and market share limitations provides an interesting platform for discussion. SMEs may not have the capacity to leverage economies of scale to the same extent as larger firms, but they can still harness cost advantages in different ways. For example, they can utilize localized supply chains, flexible work arrangements, and niche market knowledge to reduce costs. SMEs, particularly in developing countries like Uganda, can also be more agile, adaptable, and innovative in their cost-cutting measures compared to larger, more bureaucratic organizations (Achtenhagen, Melin & Naldi, 2013; Erlangga, 2022).

The findings resonate with the positions of the scholars, suggesting that cost leadership strategies can improve the financial sustainability of SMEs in Uganda. It is possible that, in this specific context, the benefits of cost leadership strategies (such as the ability to offer lower prices or achieve higher margins) may outweigh the potential downsides (such as lower customer loyalty or perceived low quality). The finding reflects the argument put forth by scholars like Roper and Jackson (2019), who suggest that cost strategies can often be more effective in environments where consumers are price-sensitive, which is often the case in emerging markets.

However, it's crucial to note that the effectiveness of cost leadership strategies, as the study suggests, does not diminish the importance of other competitive strategies. As Porter (1980) points out, successful competition requires a clear choice between cost leadership, differentiation, and focus. Therefore, while the findings of this study are promising for SMEs in Uganda, they should not lead to an overemphasis on cost leadership strategies at the expense of others.

5.2.2 Differentiation strategies and financial sustainability of SMEs in Uganda

The second objective was also concerned with establishing the relationship between differentiation strategies and the financial sustainability of SMEs in Uganda. The correlation results ($r = .711$, $p < .01$) show that there is a significant and positive relationship between differentiation strategies and the financial sustainability of SMEs in Uganda. These results imply that better differentiation strategies lead to better financial sustainability of SMEs in Uganda. The regression results also show differentiation to be a significant predictor of financial sustainability.

The findings from this research shed light on the significant and positive relationship between differentiation strategies and financial sustainability of SMEs in Uganda. This suggests that by enhancing differentiation strategies, SMEs can improve their financial sustainability, with the study's regression results also pointing to differentiation as a significant predictor of financial sustainability.

According to Porter's (2005) perspective, a competitive strategy aims to achieve a unique position in the market, which can be attained by engaging in distinct activities that create a unique value mix. The results from this study align with this premise, suggesting that

SMEs in Uganda can enhance their financial sustainability by adopting differentiation strategies that enable them to stand out in the marketplace.

The findings of this research also echo the work of Valipour, Birjandi & Honarbakhsh (2012), who conducted a study on the impact of cost leadership and product differentiation strategies on firm sustainability. While their study did not find a positive correlation between differentiation and performance, it's worth noting that their study was conducted on firms listed on the Tehran Security Exchange, which may significantly differ from the context of SMEs in Uganda in terms of scale, scope, and business environment.

The discrepancy between this study's findings and Valipour et al.'s (2012) results underscores the necessity of understanding the unique context within which businesses operate. For example, SMEs in Uganda may be operating in an environment where differentiation is highly valued by customers and can lead to significant competitive advantages, thus explaining the observed positive relationship between differentiation and financial sustainability. This aligns with the views of scholars like Wong, Long-Fatt, and Zhao (2014), who argue that differentiation strategies can be particularly effective in markets where there is a high degree of competition and customer demand for unique offerings.

Additionally, it's worth noting that differentiation can take various forms and can be driven by factors such as innovation, superior customer service, or a strong brand identity (Johnson, Whittington, & Scholes, 2011; Tiwari, 2022). Differentiation strategies are not just about offering unique products but also about creating an overall unique customer experience that can drive loyalty and profitability. This aligns with the findings, suggesting

that differentiation strategies in the context of SMEs in Uganda may be broad and multifaceted, contributing to financial sustainability in various ways.

However, it's important to consider that while differentiation can lead to superior financial performance, it also requires significant investment in areas such as research and development, marketing, and customer service (Grant, 2016). Therefore, the relationship between differentiation and financial sustainability may be contingent on the ability of SMEs to make and sustain such investments.

5.2.3 Focus Strategies and Financial Sustainability of SMEs in Uganda

The third objective was concerned with establishing the relationship between focus strategies and the financial sustainability of SMEs in Uganda. The correlation results show that there is a significant and positive relationship ($r = .633$, $p < .01$) between focus strategies and the financial sustainability of SMEs in Uganda. These results imply that better focus strategies lead to better financial sustainability of SMEs in Uganda.

The research findings establish a significant and positive correlation between focus strategies and the financial sustainability of SMEs in Uganda, confirming the perspective put forth by Karanja (2012) and Wardana & Darma (2020) as well as Erlangga (2022). This reinforces the idea that a business, particularly in its nascent stages, can carve a niche for itself by focusing on a specific, narrow target market, which aligns with the trajectory of successful corporations like Walmart, Amazon, and Facebook.

Karanja's (2012) observation on the competitive strategy among real estate firms in Kenya points to a scenario where businesses narrow their target market to distinct consumer segments, in this case, the middle and upper class residing in specific estates. This focused

approach, coupled with differentiation, appears to have been successful in the face of heightened competition. The positive correlation between focus strategies and financial sustainability found in this study implies that a similar approach could be beneficial to SMEs in Uganda.

Several examples of successful companies utilizing focus strategies, such as Walmart, Amazon, and Facebook, underscore this point. Walmart initially honed in on rural towns neglected by larger retailers. Amazon started by catering solely to book buyers with internet access, while Facebook initially served Harvard students. Over time, these companies have broadened their target markets, yet their success stories began with focus strategies.

Wardana and Darma (2020) also stress the importance of aligning the company's competitive advantages with market characteristics in their discussion on focus strategies. SMEs with unique resources or capabilities can leverage these to cater to a specific market segment where these resources or capabilities are particularly valued, thereby achieving a competitive advantage and improving financial sustainability.

The study's results also mirror the sentiments of other researchers such as Hitt, Ireland, and Hoskisson (2007), who found that companies that manage to successfully implement a focus strategy often outperform their competitors in terms of profitability. This strategy allows companies to serve a limited target market better than competitors and thus command higher prices, leading to improved financial performance.

However, it's important to note that while focus strategies can potentially lead to improved financial sustainability, the approach does come with risks. If the chosen market segment

is too narrow or if it becomes less viable over time, businesses might struggle to maintain their financial sustainability (Porter, 1980). Therefore, companies should continually monitor their target markets and be prepared to adjust their strategies as needed.

5.2.4 The relationship between the competitive strategies (as one variable) and financial sustainability

In order to ascertain the predictive power and combined effect of the independent variables on the dependent variable, a multiple regression was run. The three strategies in combination predict 59.1 percent of the variance in financial sustainability. This implies that the remaining 40.9 percent is explained by factors other than the independent variables. This shows that the correlation between the dependent variable and the model is statistically significant (sig = .000). More to that, the regression results show that all of the three components of competitive strategy are significant predictors of financial sustainability.

The research findings underscore the symbiotic relationship between competitive strategies as a whole and the financial sustainability of SMEs, which coalesces with the foundational propositions of Porter's (1980) generic strategies. The results suggest that competitive strategies account for a significant proportion of variance in financial sustainability, echoing the assertions made by Spanos et al., (2004), Daud et al. (2022) and Peng et al., (2008). This lends further credence to the broad idea that a well-implemented strategy—be it cost leadership, differentiation, or focus—can strengthen an SME's financial footing. Porter's framework proposes that companies can achieve a competitive advantage by either minimizing costs, differentiating their products or services, or focusing on a specific

market segment. The study's results suggest that the effective application of competitive strategies, both individually and in combination, can contribute to SMEs' financial sustainability. This aligns with Spanos et al., (2004) and Peng et al., (2008) as well as Shaik et al (2022) who argued that the implementation of these strategies can enhance SMEs' financial sustainability.

Moreover, these strategies may be particularly relevant for SMEs, which often operate with resource constraints and face high competition and a dynamic business environment. While larger companies might have the resources to compete on multiple fronts, SMEs often need to choose one primary strategy that aligns with their strengths and the market's needs. The findings underscore the importance of this strategic decision and suggest that choosing the right strategy can have a substantial impact on financial sustainability.

The relationship between competitive strategies and financial sustainability is also supported by more recent literature. For instance, Miller and Le Breton-Miller (2014) suggest that family businesses that pursue differentiation strategies tend to have higher financial performance. The authors attribute this to the firms' ability to leverage their family-oriented culture to deliver unique products and services, which aligns with the idea of differentiation as a route to financial sustainability.

Furthermore, Martínez-Román et al., (2011) found a positive relationship between innovation (a key component of differentiation strategies) and business survival in Spanish SMEs. This suggests that companies that can differentiate their products and services from competitors are more likely to achieve financial sustainability. While this study was based on Spanish SMEs, the concept could be applied to Ugandan SMEs.

Regarding cost leadership, Choi and Ravichandran (2010) suggest that IT investments can help firms lower their costs, thereby leading to improved financial performance. This echoes Porter's idea of cost leadership as a competitive strategy and supports the results of the study.

However, a study by Lee, Kim, and Kim (2016) found that while cost leadership and differentiation strategies both contribute to financial sustainability, the effectiveness of these strategies varies based on external environmental factors. For instance, in highly competitive environments, differentiation may be more effective, while cost leadership may be more advantageous in less competitive markets. This suggests that while the application of competitive strategies can enhance financial sustainability, SMEs also need to consider their business environment when choosing their primary strategy.

5.3 Conclusion

This study was undertaken with the primary objective to assess the relationship between competitive strategies and financial sustainability of SMEs in Uganda.

Pursuant to the first objective, this study has highlighted the role of cost leadership strategies in enhancing the financial sustainability of SMEs in Uganda, a sector that, despite its critical role in the nation's economy, suffers from a high mortality rate, with over 60% failing within their first year. The significant positive relationship found between the adoption of cost strategies and financial sustainability indicates that implementing such strategies play a key role in mitigating the prevalent issue of SME failure, thus contributing to economic stability and growth.

More to that, differentiation strategies show a significant positive relationship with the financial sustainability of SMEs in Uganda. This relationship could be crucial in addressing the high mortality rate of SMEs, a sector that plays an integral role in Uganda's economy. Over 60% of SMEs in Uganda do not survive past their first year; hence, effective differentiation strategies are instrumental in increasing their longevity and contributions to the national economy.

Furthermore, the findings that focus strategies significantly impact financial sustainability present an important solution for the sector. Emphasizing a niche market will provide SMEs the chance to improve their longevity, and in turn, their contribution to Uganda's economy. Focus strategies are an effective approach for SMEs to stand their ground amidst intense competition and the complex business landscape.

The research corroborates and extends the existing body of knowledge, confirming the integral role of Porter's generic competitive strategies—cost leadership, differentiation, and focus—in bolstering the financial sustainability of SMEs, a claim supported by various scholars. Furthermore, the findings show that these strategies account for a substantial part of the variability in financial sustainability among SMEs in Uganda. The effective implementation of these strategies can, therefore, serve as a crucial lever for enhancing the financial robustness and longevity of SMEs.

5.4 Recommendations

The following recommendations are made based on the findings of this study:

In light of the findings, it is recommended that SMEs in Mukono District consider adopting cost leadership strategies where feasible, given the demonstrated relationship

between such strategies and financial sustainability. This might include measures such as streamlining operations, leveraging local supply chains, and utilizing flexible work arrangements. However, it is crucial that these strategies are not implemented at the expense of product or service quality, as this could potentially alienate customers and negatively impact the business's reputation in the long term. Given the high failure rate of SMEs in Uganda, the adoption of such strategies could potentially play a key role in enhancing survival rates and contributing to overall economic stability and growth.

In light of the findings, it is recommended that Mukono District SMEs should explore and invest in differentiation strategies to improve their financial sustainability. These strategies could include innovations in products or services, exceptional customer service, or building a strong brand identity. Implementing these strategies might require SMEs to invest in areas such as research and development, marketing, and customer service.

SMEs in Mukono District should be encouraged to develop and implement focus strategies that allow them to target a niche market segment. This will be achieved through resources and training programs that help them understand their unique capabilities and how to leverage them to serve a specific market effectively. Given the positive correlation between focus strategies and financial sustainability, adopting such strategies could increase the survival rate of SMEs in Uganda. Focus strategies enable SMEs to carve out a niche in the market and better serve it than larger competitors, enhancing their competitive position and financial sustainability.

5.5 Limitations to the study

The research methodology applied in this study was cross-sectional in nature, inherently providing a snapshot of data at a particular point in time. This approach might not reflect historical trends or fluctuations in the variables under examination, potentially leading to inaccuracies in interpreting ongoing financial sustainability trajectories of SMEs.

The geographical scope of this study was confined to SMEs operating within Mukono District, potentially limiting the generalizability of the findings. The unique circumstances and market conditions in other districts may not be sufficiently represented or accounted for in this research.

The integrity and accuracy of the data collected may have been compromised due to the potential for respondents to withhold complete information or provide misleading responses. The competitive nature of business, particularly in the SME sector, could have incited proprietors to be overly protective of their strategic information, leading to a significant constraint in data collection.

Despite reassurances of confidentiality and the academic purpose of the study, there was a degree of resistance from the respondents regarding divulging sensitive financial information. This lack of cooperation posed a challenge in gathering comprehensive data. However, continued efforts were made to ensure respondents understood the importance of their contribution, and many did eventually participate.

5.6 Areas for Further Study

To achieve a more comprehensive understanding of the situation at hand, future research could benefit from employing a longitudinal study design. The cross-sectional approach used in this study may inadvertently skew the results and draw incorrect conclusions about the actual circumstances.

This research suggests that competitive strategies alone do not fully encapsulate the complexity of financial sustainability. Therefore, future studies could delve into other potential influencing factors such as service quality, credit policies, customer attitudes, and marketing efforts, to provide a more holistic picture of financial sustainability.

Further research should be conducted to investigate the best ways for Ugandan SMEs to implement competitive strategies effectively and the potential challenges they may face in the process. This could include studies on industry-specific strategies, factors influencing the success of competitive strategies, and how to balance the investment required for differentiation with the financial capabilities of SMEs. These strategies, while showing promise in enhancing financial sustainability, may present challenges, especially considering the resource limitations of SMEs. Therefore, it is crucial to understand how to effectively implement these strategies within the SME context in Uganda to ensure their successful adoption and execution.

To enhance the applicability of these findings, it would be worthwhile to extend future investigations to other business entities including large-scale enterprises and government parastatals. The objective would be to determine whether the observed correlations in this

study hold true in those contexts, considering the unique dynamics presented in these results.

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APPENDIX III: QUESTIONNAIRE FORM

Dear Respondent,

I am a student at Makerere University Business School pursuing a Master's degree of Business Administration (MBA). As one of the requirements for being awarded with this qualification, I am conducting a study on a topic entitled, "*COMPETITIVE STRATEGIES AND THE FINANCIAL SUSTAINABILITY OF SMES IN UGANDA: A CASE STUDY OF MUKONO DISTRICT*". You have been identified as one of the resourceful people to participate in this study. You are requested to answer the questions as honestly as possible to facilitate reliable conclusions and recommendations. All responses obtained will be strictly used for academic purposes and will be treated with anonymity and utmost confidentiality.

SECTION A: DEMOGRAPHIC CHARACTERISTICS

Section A (I): SME Characteristics

1. Age of the business

Less than a year	1-2 years	3-5 years	5 years & above
1	2	3	4

2. SME Business Line (Tick all that Apply)

Products	Services

Section A (II): Respondent's Characteristics

3. Gender

Male	Female
1	2

4. Age Bracket

<30 years	30-39 years	40-49 years	50-59 years	60 years & above
1	2	3	4	5

5. Education Level

Primary	Secondary	Tertiary
1	2	3

SECTION B: COST LEADERSHIP STRATEGIES

This part has statements about the cost leadership strategies. You are provided with 5 options from which you are supposed to tick (✓) one in every question. Key: 1-Strongly Disagree (SD), 2-Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5 represents Strongly Agree (SA).

Operational Efficiency						
	The firm always strives for efficiency in its operations.	1	2	3	4	5
	The firm has tight cost controls in both production and distribution.	1	2	3	4	5
	The firm incurs less transaction cost	1	2	3	4	5
	The institution spends less on operating expenses	1	2	3	4	5
	The firm is cost effective in our operations.	1	2	3	4	5
	The firm's efficient processes are able to create customer value.					
Scale						
	The institution has superior products which create customer value.	1	2	3	4	5
	The business plans to grow its customer base to reduce overall costs	1	2	3	4	5
	The Total costs of a service are always matching with the results achieved	1	2	3	4	5
	managers recognize that as the customer numbers grow, the costs also reduce	1	2	3	4	5
	The managers have superior knowledge manifested in leading-edge products which generate utility for more and more consumers.	1	2	3	4	5
Technology						
	The business uses cost efficient technologies.	1	2	3	4	5
	The institution is good at innovating in a new technology.	1	2	3	4	5
	The institution always carries out value-adding activities.	1	2	3	4	5
	The institution ensures product innovation at all levels.	1	2	3	4	5
	The firm's information is stored and transmitted digitally and can be shared across previously separate devices.	1	2	3	4	5
	The business communicates through several social channels to our clients.	1	2	3	4	5

SECTION C: DIFFERENTIATION STRATEGIES

This part has statements about the Differentiation strategies. You are provided with 5 options from which you are supposed to tick (✓) one in every question. Key: 1-Strongly Disagree (SD), 2-Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5 represents Strongly Agree (SA).

Price						
	We look at what others charge before setting prices	1	2	3	4	5
	We charge different prices to different clients	1	2	3	4	5
	Our prices depend on the volume one is purchasing	1	2	3	4	5
	Our product costs make up part of our pricing decision	1	2	3	4	5
	we change our priced depending on what is happening in the market	1	2	3	4	5
Product						
	The business strives to make its packaging unique from others	1	2	3	4	5
	The product design is easily distinguishable from other businesses	1	2	3	4	5
	We try to communicate the uniqueness of our offers through the quality of the product	1	2	3	4	5
	our products are more appealing to customers	1	2	3	4	5
Convenience						
	We extend our services to customers in the comfort of their homes	1	2	3	4	5
	Customer convenience is at the fore of our core strategy	1	2	3	4	5
	Customers have many ways in which to pay for our products	1	2	3	4	5
	Customers who get our products also find complementary ones at the same location	1	2	3	4	5
	Customers can have customized products to meet their special needs	1	2	3	4	5

SECTION D: FOCUS STRATEGIES

This part has statements about the Focus strategies. You are provided with 5 options from which you are supposed to tick (✓) one in every question. Key: 1-Strongly Disagree (SD), 2- Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5 represents Strongly Agree (SA).

Focus on Cost						
	Competition in this business is based on cost of the products	1	2	3	4	5
	We charge prices based on what others charge	1	2	3	4	5
	Our customers come to use because of the prices we charge	1	2	3	4	5
	We keep running costs low so as to enable low pricing	1	2	3	4	5
	Our business has a cost advantage over the competition	1	2	3	4	5
	Higher margins are expected from having a favorable cost position	1	2	3	4	5
Focus on Differentiation						
	We strive to ensure that our products and services are uniquely desirable	1	2	3	4	5
	we have a clear focus on making our commodities different	1	2	3	4	5
	we have gained a lot through differentiation	1	2	3	4	5
	we do not consider other strategies besides differentiation	1	2	3	4	5
	we focus on differentiation for a narrow market of customers	1	2	3	4	5

SECTION E: FINANCIAL SUSTAINABILITY

This part has statements about the financial sustainability. You are provided with 5 options from which you are supposed to tick (✓) one in every question. Key: 1-Strongly Disagree (SD), 2-Disagree (D), 3- Not Sure (NS), 4- Agree (A) and 5 represents Strongly Agree (SA).

Seeking New Revenue						
	The business always seeks new sources of revenue	1	2	3	4	5
	We watch our revenue performance regularly	1	2	3	4	5
	We always take needed action to increase revenue	1	2	3	4	5
	We recognize that revenue is the lifeblood of continued business	1	2	3	4	5
	We have multiple streams of business income	1	2	3	4	5
Optimizing Resources						
	The business keeps a record of all resources available to it	1	2	3	4	5
	we seek to make sure the resources are in position to bring in as much revenue as possible	1	2	3	4	5
	the business earnings are acceptable risk exposure to owners	1	2	3	4	5
	there is a business plan in place to help use resources well	1	2	3	4	5
Secure Finance						
	the business has access to finance when needed	1	2	3	4	5
	the business is a going concern	1	2	3	4	5
	the business is able to meet its obligations when they arise	1	2	3	4	5
	the business is profitable	1	2	3	4	5

Thank you very much for participating!