Vol. 13(6), pp. 198-206, 28 March, 2019
DOI: 10.5897/AJBM2019.8758
Article Number: 95FBDC360401
ISSN: 1993-8233

http://www.academicjournals.org/AJBM

African Journal of Business Management

Full Length Research Paper

The joint effect of firm capability and access to finance on firm performance among small businesses: A developing country perspective

Peter Turyakira[1], Sendawula Kasimu[1*], Pedson Turyatunga[2] and Saadat Nakyejwe Kimuli[3]

[1]Department of Marketing and Management, College of Business and Management Sciences, Makerere University, Kampala, Uganda.
[2]Eastern and Southern African Management Institute, Arusha, Tanzania.
[3]Department of Entrepreneurship, Makerere University Business School, Kampala, Uganda.

Received 24 January, 2019; Accepted 19 February, 2019

The purpose of this paper was to establish the joint effect of access to finance and firm capability on small businesses' performance in Kampala, Uganda. The study adopted a cross-sectional design with a sample of 384 small businesses. Self administered questionnaires were used in data collection and data was collected from August to November 2018. The study utilised SPSS to perform correlation and regression. The study found out that access to finance, firm capability and firm performance are positively related. Regression analysis also revealed that access to finance and firm capability equally account for 41.8% change in small business performance. Conversely, access to finance was found to be the most influential factor in predicting firm performance as compared to firm capability. Therefore, the study recommends that policies and programs to improve small business owners' capabilities should be implemented to enhance the performance of their firms; small business owners need government support to get finance characterised by low interest rates; no collateral security and as such, their performance will gradually improve. Small business owners also need to establish long-tern relationships with customers, suppliers and employees to improve their services and products to better the performance of their firms.

Key words: Firm capability, access to finance, firm performance, small businesses.

INTRODUCTION

Small businesses are recognized by researchers as engines for economic growth and development. Globally, small businesses significantly contribute to innovation, income distribution and poverty reduction (Abaho et al., 2017; GEM, 2003), contribute approximately 75% of the gross domestic product (GDP) and employ about 2.5 million people (Osunsan et al., 2015; Harash et al., 2014; Sendawula et al., 2018a). They also serve as breeding ground for entrepreneurs, ehnance economic conversion and have an extraordinary potential for enhancing sustainable development (Harelimana, 2017; Sendawula et al., 2018b). Given the role of small businesses, countries such as Uganda are trying to promote small businesses to ehnance their performance. However, Uganda, a developing country, is experiencing poor performance of small businesses with approximately 75%

*Corresponding author. E-mail: sendawulakasimu@gmail.com.

of the established businesses failing before completing a year in operation (Nangoli et al., 2013). In addition, few small businesses exist for more than five years (OECD, 2010). This suggests poor performance of small businesses in Uganda.

Previous studies indicate various predictors of firm performance (Eniola and Entebang, 2016; Adomako and Danso, 2014; Abaho et al., 2017; Harash et al., 2014). According to Mulyono (2013), performance of small businesses is dependent on the resources and the capabilities that these businesses control. Nangoli et al. (2013) also reveal that the failure of small businesses could be a result of inadequate supervision, insufficient managerial skills, high competition, low saving culture, poor financial discipline, high taxes and limited commitment to running the business. Furthermore, Vijay and Ajay (2011) reveal that entrepreneurial competencies are vital in enabling small businesses to interact effectively and efficiently with both the internal and external environment to achieve desired performance. Relatedly, firm capability is a source of superior performance for small enterprises and may result in sustainable performance (Ambrosini et al., 2009). Barney (2001) reports that capabilities accumulated over time may act as a driving force for small businesses to undertake several opportunities (Vijay and Ajay, 2011). Access to finance is also fundamental in promoting firm performance (Harash et al., 2014). As such, businesses that access finance are likely to perform better than their counter parts.

It should be noted that extant literature has focused on established large organizations, with less emphasis on small businesses. Additionally, there seems to be limited research on the joint effect of firm capability and access to finance on firm performance. This gap in the literature is puzzling because small businesses need distinct skills, knowledge and finance to enhance their performance. Hence, this paper is aimed at establishing the effect of access to finance and firm capability on business performance in Uganda.

LITERATURE REVIEW

This study adopted the Resource Based Theory (RBV) (Wernerfelt, 1984) and Dynamic Capability Theory (Teece, 2014) to explain the joint effect of firm capability and access to finance on performace of small businesses in Uganda. According to the RBV, firms perform differently because they control different resources and capabilities (Barney, 1991) that enhance business performance. This theory also contends that firms that have resources that are unusual, treasured, unique and difficult to substitute can realize competitive advantage through undertaking strategies that generate value that cannot be replicated by competitors (Barney, 1991).

According to Penrose and Penrose (2009), resources, skills and knowledge enhance internal growth of the business. Accordingly, organisational resources are critical to the success of any organisation. Similarly, Barney (1991) asserts that resources and capabilities are equally dependant aspects since their acquisition constitute capabilities of a firm. Conversely, valuable resource accumulation may not warranty a superior business's performance because firms utilise resources at their disposal differently to achieve greater performance (Sánchez, 2011; Eisenhardt and Martin, 2000; Teece et al., 1997). The relevance of the RBV theory in this study is to describe how access to finance promotes small business performance in Uganda. Nevertheless, this theory does not present what businesses need to attain sustainable performance, addressed by the dynamic capability theory (Helfat and Peteraf, 2003; Teece et al., 1997).

The theory of Dynamic Capability stresses the role of business processes in linking the firm to the external environment (Teece, 2014). Capability refers to the capacity to utilize resources to perform a task or an activity, against the opposition of circumstance (Teece, 2014). From the strategic point of view, a firm's capability refers to the actions, processes, systems and relationships that the company can carry out with its own resources (Sánchez, 2011). A firm's capability focuses on strategy perception and implementation, which is consistent with the role of firm resources and capabilities in strategy (Wang et al., 2009). As such, firm capabilities in terms of employee knowledge and skills, physical technical system, management system, values and norms promote performance of small businesses through customer satisfaction, internal process and learning and growth. To this extent, the dynamic capability theory is relevant in explaining performance of small businesses in Uganda.

Firm performance

Performance empasizes how well a firm can utilise its assets to generate profits (Marimuthu et al., 2009). Performance is also conceptualized as "the accomplishment of stated business objectives measured against known standards, completeness and cost" (Harash et al., 2014). Given the significant role of small businesses in promoting economic growth worldwide, their performance is crucial. Harash et al. (2014) reveal that small business performance involves the degree to which small business owners manage to realize its purpose and goals. Conversely, Richard et al. (2009) indicate that performance of small businesses involves three aspects of a firm outcomes: financial performance, market performance and shareholder return. Firm performance can also be measured using financial and non financial meseaurement. In this study, non-financial measures will be adopted since they supplement on the financial measures and present data on the improvement relative to customer needs, competition as well as employees (Osunsan et al., 2015). Scholars such as Sebikari (2014) adopted financial measures in predicting firm performance and less attention to non-financial measures.

Firm capability and business performance

There is no consensus among the scholars on the meaning of firm capability as several scholars perceive the concept differently. Krammer et al. (2018) view firm capability as actions, processes, and systems and associations' businesses may undertake using it available resources. As such, Barney and Arikan (2001) assert that firm capability includes factors that enhance small business' awareness of strategic prospects/threat and its ability to undertake strategies. Weinstein and Azoulay (1999) add that firm capability involves the efficiency of a business in solving problems in specific operational areas. In this study, firm capability entails the use of knowledge, skills, technology and intelligence of markets and demand. Previous studies reveal that capbilities and firm performance are significantly related (Tuan and Yoshi 2010; Ismail et al., 2012). According to Tuan and Yoshi (2010), firm capabilities such as relationship building and employee abilities are foundation of competitive advantage that translates into sales and market share growth. Despite the existence of research at the macro level, there are few empirical studies about capabilities at the firm level such as how organizational capabilities contribute to firm performance. This is so important because it helps in understanding why some firms perform better than their counterparts (Ismail et al., 2012).

The RBV theory reveals that businesses have resoures, skills and knowledge that are different among firms (Barney, 2001). This in turn results into competitive advantage that leads to improvement in firm performance (Harash et al., 2014). This is in agreement with Sánchez (2011) who asserts that internal capabilities which are rare and difficult to imitate enhance firm performance. The implication is that small businesses need to effectively utilize their organizational capabilities such as managerial systems, employee knowledge and skills, values and norms (Eikelenboom, 2005). This will translate into improved workers welfare, behaviour and efficiency that ultimately contribute to high performance of small businesses in Uganda. Thus, the hypothesis:

H_1: Capability and performance of small businesses are positively related.

Access finance and performance of small businesses

Accessing resources has been alluded to as one of the important factors in promoting firm performance (Fowowe, 2017). Similarly, inadequate finance limits firm performance (Malhotra et al., 2005). Finance involves a situation where businesses need capital from different sources to enhance maintenance and their performance. Kyophilavong (2011) also views finance as "the total amount of money that owners invest in their businesses". Access to finance is the ability of business to obtain financial services such as credit, deposits, payment and insurance (Adomako and Danso, 2014). Access to financing facilitates firm expansion, innovation and acquiring new technology, recruiting and retaining employees (OECD, 2006). Extant studies indicate that small businesses face many challenges in accessing finance as compared to large and well established organizations (Nangoli et al., 2013). Yet, these businesses are vital in enhancing economic growth of both developed and emerging economies through employment creation, income distribution and poverty reduction. In view of the role they play, it is important for the government and financial institutions to support small businesses in accessing finance to promote their performance.

In developing economies such as Uganda, access to finance is among the greatest challenges limiting small business performance. A study conducted by Harash et al. (2014) reveals that small businesses are unable to access finance from financial institutions due to their inability to meet requirements such as collateral securities. This suggests that banks are eager to offer credit facilities to small businessess, but most small businesses lack the requirement to access loans, this in turn limits their performance. In addition, Harelimana (2017) reports that access to finance by small businesses improves their profitability and efficiency, prevents liquity problems, improves solvency as well as increasing asset quality. This indicates that small businesses which access finance, especially bank loan, are likely to perform better than other businesses that have limited financial access. Hence, the hypothesis:

H_2:Access finance and perfomance of small businesses are positively related.

The impact of financial accesss and firm capability on performance of small businesses

Firm capability is vital in accessing financial resources to enhance small business performance. Small business owners need capabilities such as knowledge, skills and experience to get finances from both formal and informal sources. In small businesses, decision making is an important capability that entrepreneurs need to evaluate different sources of finance and be able to select the most appropriate source of financing their businesses (Eniola and Entebang, 2016). Furthermore, Wachira and Kihiu (2012) reveal that capabilities such as financial knowledge, create pressures on financial institutions to provide reasonable financial services. This is achieved by making comparison between banks, asking important questions and ultimately negotiating for better rates. This translates into access to finance by firms that have such capabilities and ultimately contributing to better performance of small businesses in Uganda.

Garman and Forgue (2011) also assert that firm capability creates awareness on individual income and how such funds have to be used and managed efficiently. This suggests that businesses without knowledge and skills of personal financial management may find it difficult to access finance from external sources such as financial institutions. Firm capabilities also enable businesses to appreciate the available financial products and know where to source for help as well as taking effective measures to enhance their financial position (Miller et al., 2009). Wachira and Kihiu (2012) report that firm capabilities such as financial knowledge enables entrepreneurs to solve challenges related to accessing finance. This indicates that financial information enables entrepreneurs to get ready for tough financial times and develop strategies that minimize such situation like savings and investing in assets which contribute to performance of small businesses in Uganda. Thus, the hypothesis:

H3: Firm capability and access to finance positively affect firm performance.

MATERIALS AND METHODS

The study used a cross-sectional and correlational approach to establish the joint effect of access to finance and firm capability on small businesses' performance in Kampala, Uganda. A cross-sectional design involves examining variables under investigation at one point in time (Salkind, 2011). The approach is considered to be the most appropriate because the phenomenon under study are measured as they naturally occur without being manipulated. In addition, this approach is selected because it is flexible in both qualitative and quantitative data collection. Correlational design on the other hand is a quantitative method that involves establishing relationship between study variables. As such, data was collected from August to November, 2018. The study population involved 108,534 registered businesses in Kampala (Uganda National Bureau of standard, 2012), and a sample of 385 small businesses were investigated comprising of 287 businesses from trade, 61 from hotel and restaurant as well as 37 from the manufacturing businesses (Krejcie and Morgan, 1970). A rotary approach was used to select the subjects. Small businesses were the study's unit of analysis, owners/managers were the unit of inquiry.

Operationalization of study variables and questionnaire design

A likert scale of five points was developed to determine the extent to which respondents agree or disagree with the statement used to measure study variables. The study employed a self-administered questionnaire with the help of research assistants in collecting data from the small business owners or managers. The questionnaire was designed based on existing literature on firm capability, access to finance and firm performance.

Analysis of data

This was performed using SPSS in order to summarize the data and to allow quick interpretation of results. Specifically, quantitative data generated from the questionnaire through data coding was analysed to get descriptive statistics that involved determining frequencies, percentages, mean variance and standard deviation in order to get general response to the question in the likert scale. Pearson correlation coefficient was done to investigate the association between the predictor and dependent variable (firm performance). Regression analysis was conducted to determine the joint effect of the independent variable to the predictor variable.

RESULTS AND DISCUSSION

The study revealed that most of the respondents (51%) were female. This suggests that small businesses in Uganda are mainly dominated by female as compared to their male counterparts. Regarding age, the study indicated that majority of the respondents are in 25 to 29 years age bracket (47%), followed by those in 18 to 24 years age bracket (22%). This evidently shows that on average, people who are mostly involved in small businesses in Uganda are below the age of 40 years. Concerning the marital status, the study discovered that majority of the respondets (52%) were married. This shows that married people are actively involved in small businesses to earn a living and be able to look after their dependents (family members). For the education level, it was revealed that majority of the participants (50%) have a bachelors degree. This implies that respondents were knowledgeable as far as issues under investigation are concerned. Moreso, results revealed that most of the business owners (52%) participated in the study.

Firm characteristics

The findings of this study indicate that majority of the small enterprises (84%) are registered while 16% operating illegally. Furthermore, it was discovered that many small enterprises in Kampala (57%) are sole proprietorships followed by the partnership businesses (29%) and then limited liability enterprises (14%). The study also discovered that majority of the small enterprises (58%) have been in existance for fewer than 5 years. Moreso, most small businesses (54%) in Kampla have less than 50 employees. Regarding business type, it was revealed that majority of the businesses (59%) are involved in trading ventures, followed by manufacturing businesses (25%). This implies trading businesses are easy to establish in Uganda.

Descriptive statistics

Here, present the descriptive statistics of the study variables (as depicted in Table 1) regarding the extent to which respondents were in agreement with the statements

Table 1. Number of respondents rating various attributes with a particular score of 1 (low) to 5 (high).

Attribute	N	1	2	3	4	5	Mean	Median	Modal
Firm performance	371	0	13	50	278	30	3.88	30	4
Firm capability	371	0	20	27	128	196	4.35	27	5
Access to finance	371	5	10	6	96	254	4.57	10	5
Credit terms	371	5	10	11	115	230	4.49	11	5
Access to credit	371	5	10	2	111	243	4.55	10	5
Customer satisfaction	371	2	8	82	230	49	3.85	49	4
Internal process	371	2	25	98	202	44	3.70	44	4
Learning and growth	371	0	16	43	208	104	4.09	43	4
Knowledge and skills	371	0	15	16	157	183	4.37	16	5
Physical technical system	371	10	26	57	160	118	3.94	57	4
Management system	371	10	15	23	126	197	4.31	23	5
Values and norms	371	5	16	50	138	162	4.18	50	5

put to measure study variables. The study reveals that the mean scores for statements put to the respondents meant to measure firm performance is 3.88 out of a maximum of 5. The median for firm performance is 30 while the model score is 4. This implies that 278 businesses investigated agreed that they are high performing firms in Kampala Uganda. However, 63 small businesses are low performing firms since their score are below average. The study also indicated that the mean rating for firm capability is 4.35 out of a maximum of 5. The median for firm capability is 27 while the model score is 5. This finding suggests that 196 of the investigated businesses strongly agreed that they have enough capabilities such as knowledge, skills and improved management systems that are vital in enhancing performance of their businesses.

In addition, the study found out that the mean scores for statement measuring access to finance is 4.57 out of 5. The median score for access to finance is 10 yet the model score is 5. This implies that 254 businesses studied strongly agreed that they have access to finance such as bank loans, personal saving among others. This finding is not surprising because the government has launched several programmes aimed at helping entrepreneurs in Uganda to access capital to boost their businesses like the youth funds among others.

Correlation analysis

Pearson correlation analysis was undertaken to measure the strength of the linear relationship between study variables and is indicated by r. Results in Table 2 revealed that firm capability and performance of small businesses are positively related ($r= 0.597^{**}$, $p<0.05$). The study also indicates that all measurement items of firm capability such as employee knowledge and skill, physical technical systems, management systems, values and norms are all independently associated with firm performance. Therefore, small business owners should enhance their capabilities to achieve sustainable performance. Moreso, access to finance and performance of small businesses are positively related ($r = 0.628^{**}$, $p<0.05$). Thus, small businesses that have access to finance in terms of favourable credit terms and conditions can access credit anytime, the performance of their businesses in terms of satisfying customers, improved internal process, learning and growths will ultimately improve.

Regression analysis

The study was conducted to establish the joint effect of access to finance and firm capability on firm performance. Therefore, a linear regression was performed to test the effect of independent variable on the dependent variable. This was done to determine the extent to which firm capability and access to finance predict the firm performance as indicated in Table 3.

Results in Table 3 indicate that firm capability and access to finance have a significant contribution on firm performance ($\beta = 0.260$, $p <0.05$) and ($\beta =0.418$, $p <0.05$), respectively. This implies that firm capability and access to finance are significant predictors of firm performance. From the aforementioned results, a unit change in employee knowledge and skills, physical technical systems, management system, values and norms (firm capability) will bring about a 0.260 change in firm performance. On the other hand, a unit change in access to credit and credit terms and condition (access to finance) will bring about a 0.418 change in firm performance indicated by customer satisfaction, internal processes as well as learning and growth. Furthermore, a combination of access to finance and firm capability on the performance of small businesses accout for 41.8%. This finding suggests that there are other factors that explain firm performance apart from access to finance

Table 2. Correlation results.

Correlation	1	2	3	4	5	6	7	8	9	10	11	12
Credit terms (1)	1											
Access to credit (2)	0.892**	1										
Access to Finance (3)	0.979**	0.966**	1									
Knowledge and Skills (4)	0.770**	0.758**	0.786**	1								
Physical and technical system (5)	0.665**	0.579**	0.644**	0.610**	1							
Management system (6)	0.658**	0.564**	0.634**	0.666**	0.816**	1						
Values and norms (7)	0.839**	0.739**	0.817**	0.763**	0.661**	0.591**	1					
Capability (8)	0.822**	0.737**	0.806**	0.845**	0.911**	0.895**	0.835**	1				
Customer satisfaction (9)	0.521**	0.478**	0.516**	0.444**	0.333**	0.410**	0.359**	0.436**	1			
Internal process (10)	0.383**	0.311**	0.361**	0.250**	0.419**	0.502**	0.270**	0.425**	0.405**	1		
Learning and growth (11)	0.565**	0.625**	0.608**	0.599**	0.382**	0.483**	0.510**	0.548**	0.520**	0.294**	1	
Firm performance (12)	0.624**	0.594**	0.628**	0.541**	0.484**	0.595**	0.478**	0.597**	0.838**	0.744**	0.746**	1

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

and firm capability. Overall, access to finance was found to be the most influential factor in explaining firm performance ($\beta = 0.418$, $p < 0.05$) as compared to firm capability ($\beta = 0.260$, $p < 0.05$).

DISCUSSION

The findings of this study reveal that firm capability in terms of employee knowledge and skills, physical technical systems, management system as well as values and norms significantly affect performance of small businesses in Kampala, Uganda ($\beta = 0.597$, $p < 0.05$). This implies that firm capability significantly explains performance of small businesses. This finding is not surprising because a firm that has capabilities such as skilled employees that know what and how to undertake their duties and responsibilities in the business, automatically translates into better performance of such a business. This finding is consistent with the findings of Abaho et al. (2017) and Desarbo et al. (2007) who indicated that firm capabilities such as competent firm management, market linkages and marketing capabilities promote firm performance. This is because a firm that has a competent management will ensure that all business activities are well planned, recruits rightful persons to undertake these activities and ultimately execute them effectively and efficiently. This will result into high productivity and reduced operational costs, indicating good firm performance. Lau and Ngo (2004) also support the findings of this study and as such, the authors reported that increased organizational capabilities significantly explain the increased performance of small businesses. In their study, they argue that a small business with innovative capability, quality-enhancing capability and cost-reduction capability will be in position to perform better than its counterparts. This implies that firms which have innovative capability are able to create new methods of performing tasks which automatically improves on the efficiency and effectiveness in firm operations which ultimately brings about better performance. Also, quality-enhancing capabilities enable firms to produce products and services of value to their customers which will attract and retain customers thereby generating more sales and ultimately bringing high performance of firms. Additionally, small businesses that are able to operate with minimal costs achieve higher levels of profitability which implies better performance in the market. The study findings also agree with Tuan and Yoshi (2010) who found out that firm capabilities enhance small business performance; thus increased sales and market share growth. In their study of Vietnam SMEs, they revealed that when a firm possess capabilities, this results into competitive advantage in the industry which will in turn lead to greater small business performance. No wonder firm capabilities are a source of competitive advantage. It is also important to note that capabilities such as cost reduction and quality are significant contributors of competitive

Table 3. Regression results.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.497	0.124	-	12.119	0.000
	Access to finance	0.311	0.050	0.418	6.218	0.000
	Firm capability	0.178	0.046	0.260	3.868	0.000

R= 0.646[a]; R^2= 0.418; Adjusted R^2= 0.415; DF1= 2; DF2= 368; F Change= 132.039. [a]Dependent Variable: Firm performance.

advantage which collectively lead to good firm performance.

Additionally, the research findings indicated that access to finance significantly impacts firm performance (β = 0.628, p <0.05). This findings is in agreement with Fowowe (2017) who asserts that firms that can access finance have better chances to perform better than those that are constrained in terms of accessing finance. This implies that growth of a firm comes as a result of access to finances. This further means that access to finance enables small businesses to cater for short-term and long-term obligations which makes them operate effectively and efficiently thereby facilitating growth and ultimately better performance. Conversely, small businesses which do not have access to finance are constrained in meeting their short-term, medium and long-term obligations and thus cannot perform competitively in their respective industries thereby affecting their overall performance. Harash et al. (2014) also indicated that firms that can access adequate levels of finance achieve considerably better performance. Firms that access finance get better credit terms and have access to credit that enables them to operate efficiently and effectively. A small business is said to have better credit terms if it can afford the interest rates charged by financial institutions, it has sufficient collateral to get credit, good credit history facilitates credit access. Moreover, financial credit access is facilitated if it easily gets credit from financial institutions, if it gets a loan size it needs at any time, and if the amount of credit got from the bank is on the increase. These scenarios collectively improve on the small business' access to finance which will eventually culminate into improved firm performance.

The study further revealed that firm capability and access to finance jointly have a significant positive effect on firm performance (β = 0.260, p <0.05) and (β =0.418, p <0.05), respectively. This implies that firm capability and access to finance are significant predictors of firm performance. As such, a unit change in firm capability will bring about a 0.260 change in firm performance. On the other hand, a unit change in access to finance will bring about a 0.418 change in firm performance indicated by customer satisfaction, internal processes as well as learning and growth. Furthermore, the joint effect of firm capability and access to finance on firm performance is 41.8%. However, access to finance was found to be the most influential factor in explaining firm performance (β = 0.418, p <0.05) as compared to firm capability (β =0.260, p <0.05). These finding are in agreement with Carmeli and Tishler (2004) who revealed that capabilities such as perceived organizational reputation, management skills, organizational culture and organizational communication enable industrial firms to access finance and as such enhance their performance. This finding is not surprising because such capabilities determine whether a firm can access finance through borrowing or not. As such, organizational culture that indicates the values, beliefs and principles of the organizational management determine the ability of a firm to access finance through borrowing. Therefore, small businesses with a culture that allows its management to borrow money from financial institutions always find it easy to access credit to effectively and efficiently undertake its operation, thus high performance as compared to small businesses whose culture that does not allow management to borrow money from financial institutions to finance business operations. In addition, management skills that involve the ability of managers to understand the economic potential of the organization. Thus, a management team that is skilful in resource mobilization will always find it easy to identify financial institutions that can offer credit to the business and as such, they will negotiate to get favourable terms and conditions to access finance cheaply, thus high business performance. Barney and Arikan (2001) also revealed that firms possess and control resources, skills and knowledge that are different among firms. This suggests that small business owners can use their own resources such as retained earning to achieve superior performance as compared to those that luck such resources and capabilities.

CONCLUSIONS AND RECOMMENDATIONS

The study findings show that access to finance and capability enhance the performance of small businesses. Specifically, when businesses access finance that is characterised by favourable terms and conditions, as well as loans being available and easily accessible, it enables them to acquire all the necessary facilities that are needed to enhance the performance of their businesses. This finding suggests that business owners need to have access to finance for their businesses to attain sustainable performance. Regarding the effect of firm capability on firm performance, it can be further concluded that firm capabilities positively affect firm performance. This is an indication that when small businesses have unique capabilities in terns of knowledge and skills, effective management systems, pricing and advertising programs, control quality cost and manage relationships with customers and suppliers, small businesses will retain customers which increases customer acquisition and retention leading to increased profits, sales and market share. Therefore, small business owners should enhance capabilities of their staff through learning and growth to spur performamce of their businesses. Concerning the joint effect of firm capability and access to finance on firm performance, it can be concluded that both variables affect the performance of small businesses.

Intrinsically, firm capabilities especially learning and growth provide an opportunity for both the small businesses owners and their employees to acquire new skills and knowledge; which are important in achieving effective management and operation of small businesses. Therefore, small business owners need to improve on their capabilities to promote acces to credit and translate into high performance indicated by customer satisfaction, internal processes, learning and growth and employee retention.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

However, this study has some limitations and future studies should be conducted to address these gaps. First, the study covered small business in Kampala district only. This suggests that a similar study can be carried out in other parts of the country to verify whether what was observed in Kampala district represent the characteristics of all small business in Uganda in general. Second, since this study focused on only three sectors: manufacturing, trade and restaurants and hotels, similar studies can be carried out in other sectors such as the service sector.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

REFERENCES

Abaho E, Aarakit S, Ntayi J, Kisubi M (2017). Firm Capabilities, Entrepreneurial Competency and Performance of Ugandan SMEs. Business Management Review 19(2):105-125.

Eniola AA, Entebang H (2016). Financial literacy and SME firm performance. International Journal of Research Studies in Management 5(1):31-43.

Adomako S, Danso A (2014). Financial Literacy and Firm performance The moderating role of financial capital availability and resource flexibility. Available at: https://www.dora.dmu.ac.uk/handle/2086/13895

Ambrosini V, Bowman C, Collier N (2009). Dynamic capabilities: an exploration of how firms renew their resource base. British Journal of Management 20:S9-S24.

Barney JB, Arikan AM (2001). The resource-based view: Origins and implications. Handbook of strategic management. pp. 124-188.

Barney JB (2001). Resource-based theories of competitive advantage: A ten-year retrospective on the resource-based view. Journal of Management 27(6):643-650.

Barney J (1991). Firm resources and sustained competitive advantage. Journal of Management 17(1):99-120.

Carmeli A, Tishler A (2004). Resources, capabilities, and the performance of industrial firms: A multivariate analysis. Managerial and Decision Economics 25(6-7):299-315.

DeSarbo WS, Di Benedetto CA, Song M (2007). A heterogeneous resource based view for exploring relationships between firm performance and capabilities. Journal of Modelling in Management 2(2):103-130.

OECD (2010). "Bologna +10" high-level meeting on SMEs and entrepreneurship. Available at: http://www.oecd.org/cfe/smes/bologna10high-levelmeetingonsmesandentrepreneurship.htm

Eikelenboom B (2005). Organizational capabilities and bottom line performance: The relationship between organizational architecture and strategic performance of business units in Dutch headquartered multinationals. Eburon Uitgeverij BV.

Eisenhardt KM, Martin JA (2000). Dynamic capabilities: What are they? Strategic Management Journal 21(10/11):1105-1121.

Fowowe B (2017). Access to finance and firm performance: Evidence from African countries. Review of Development Finance 7(1):6-17.

Garman ET, Forgue R (2011). Personal finance. Cengage Learning.

Gathungu JM, Mwangi K (2012). Dynamic capabilities, talent development and firm performance. DBA Africa Management Review 2(3):83-100.

Harash E, Al-Timimi S, Alsaadi J (2014). Effects of financing on performance of small and medium enterprises (SMEs). International Journal of Management 2(10):1-9.

Harelimana JB (2017). Role of Access to Finance for the Performance of Small and Medium Enterprises in Muhoza Sector, Rwanda. Account and Financial Management Journal 2(01):559-567.

Helfat CE, Peteraf MA (2003). The dynamic resource-based view: Capability lifecycles. Strategic Management Journal 24(10):997-1010.

Ismail AI, Rose RC, Uli J, Abdullah H (2012). The relationship between organisational resources, capabilities, systems and competitive advantage. Asian Academy of Management Journal 17(1):151-173.

Krammer SM, Strange R, Lashitew A (2018). The export performance of emerging economy firms: The influence of firm capabilities and institutional environments. International Business Review 27(1):218-230.

Krejcie RV, Morgan DW (1970). Determining sample size for research activities. Educational and Psychological Measurement 30:607-610.

Kyophilavong P (2011). SMEs access to finance: Evidence from Laos. Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies pp. 117-150.

Lau CM, Ngo HY (2004). The HR system, organizational culture, and product innovation. International Business Review 13(6):685-703.

Marimuthu M, Arokiasamy L, Ismail M (2009). Human capital development and its impact on firm performance: Evidence from developmental economics. Journal of International Social Research *2*(8):265-272.

Malhotra A, Gosain S, Sawy OAE (2005). Absorptive capacity configurations in supply chains: gearing for partner-enabled market knowledge creation. MIS Quarterly 29(1):145-187.

Miller D, Lee J, Chang S, Le Breton-Miller I (2009). Filling the institutional void: The social behavior and performance of family vs non-family technology firms in emerging markets. Journal of International Business Studies 40(5):802-817.

Mulyono F (2013). Firm Capability dalam Teori Resource-Based View. Jurnal Administrasi Bisnis 9(2):128-143.

Nangoli S, Turinawe DD, Kituyi GM, Kusemererwa C, Jaaza M (2013). Towards enhancing business survival and growth rates in LDCS: an exploratory study of the drivers of business failure among SMEs in Kampala-Uganda. International Journal of Humanities and Social Science 3(8):284-291.

Nunnally JC, Bernstein IH (1994). Psychometric theory (3rd ed.). New York: McGraw-Hill.

Osunsan OK, Nowak J, Mabonga E, Pule S, KibirigeAR, Baliruno JB (2015). Firm age and performance in Kampala, Uganda: A selection of small business enterprises. International Journal of Academic Research in Business and Social Sciences 5(4):364-374.

Penrose E, Penrose ET (2009). The Theory of the Growth of the Firm. Oxford University Press.

Petersen MA, Schoeman I (2008). Modeling of banking profit via return-on-assets and return-on-equity. In Proceedings of the World Congress on Engineering. pp. 1-6.

Salkind NJ (2011). 100 questions (and answers) about research methods. SAGE.

Sánchez O (2011). Mobilizing resources in Latin America: The political economy of tax reform in Chile and Argentina.

Sebikari KV (2014). Entrepreneurial Performance and Small Business Enterprises in Uganda. International Journal of Small Business and Entrepreneurship Research 2(4):1-12. Available at: http://www.eajournals.org/wp-content/uploads/Entrepreneurial-Performance-and-Small-Business-Enterprises-in-Uganda1.pdf

Sendawula K, Turyakira P, Bananuka J (2018a). Adoption of sustainable entrepreneurship in small and medium enterprises (smes) in developing countries: literature review. Journal of Advances in Social Science and Humanities 4(2):1-7.

Sendawula K, Turyakira P, Alioni C (2018b). Sustainable entrepreneurship intention among University students in Uganda: A conceptual paper. African Journal of Business Management 12(6):131-139.

Teece DJ (2014). A dynamic capabilities-based entrepreneurial theory of the multinational enterprise. Journal of International Business Studies 45(1):8-37.

Teece DJ, Pisano G, Shuen A (1997). Dynamic capabilities and strategic management. Strategic Management Journal 18(7):509-533.

Tuan NP, Yoshi T (2010). Organisational capabilities, competitive advantage and performance in supporting industries in Vietnam. Asian Academy of Management Journal 15(1):1-21.

Uganda National Bureau of Standard (2012). Annual report. Available at: https://unbs.go.ug/attachments/menus/34/unbs%20annual%20report%202012-2013.pdf

Vijay L, Ajay VK (2011). Entrepreneurial Competency in SME? S. Bonfring International Journal of Industrial Engineering and Management Science 1(Special Issue Inaugural Special Issue):05-10.

Wachira MI, Kihiu EN (2012). Impact of financial literacy on access to financial services in Kenya. International Journal of Business and Social Science 3(19):12. Available at: http://repository.embuni.ac.ke/handle/123456789/1703

Wang HC, He J, Mahoney JT (2009). Firm-specific knowledge resources and competitive advantage: the roles of economic-and relationship-based employee governance mechanisms. Strategic Management Journal 30(12):1265-1285.

Weinstein O, Azoulay N (1999). Firms'capabilities And Organizational Learning A critical survey of some literature. Available at: http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.196.9900

Wernerfelt B (1984). A resource-based view of the firm. Strategic Management Journal 5(2):171-180.

Zahra SA, Sapienza HJ, Davidsson P (2006). Entrepreneurship and dynamic capabilities: A review, model and research agenda. Journal of Management Studies 43(4):917-955.