

**MAKERERE**



**UNIVERSITY**

**PROFITABILITY OF SMALL AND MEDIUM SCALE  
FURNITURE WORKSHOPS IN UGANDA**

**BY**

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**A SPECIAL PROJECT REPORT SUBMITTED TO THE SCHOOL OF FORESTRY,  
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MAKERERE UNIVERSITY**

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## DECLARATION

I, Asiket Joshua, declare that this research work is a result of my own effort and has not been previously accepted or submitted for any award or any other institution of higher learning. Where any other information has been used in this research, the authors have been dully acknowledged. I, hereby declare that this is my original piece of work. It has never been presented to Makerere University or any other institution of higher learning for any award.

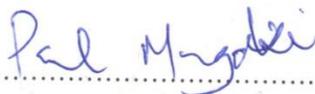
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**ASIKET JOSHUA**

## APPROVAL

This is to certify that this research report has been under my supervision and is now ready for submission.

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## **DEDICATION**

I dedicate this research report to my Grand Father Stephen Asiket and Mother Betty Irupu, I will always appreciate your love.

## **ACKNOWLEDGEMENT**

I would like to thank the Almighty God for the gift of life and guiding me throughout this research report. His grace is always sufficient.

Special thanks go to Dr. Paul Mugabi for guiding me throughout the research. I thank all my parents who contributed in any kind of support for during the period of data collection. Last but not least I extend my gratitude to all my friends who have made it possible for me to produce this piece of work through their contribution in various ways. God Bless you all.

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## ABSTRACT

There is growth in the furniture industry in Uganda today with it contributing to economic development to the country. It has provided employment to many Ugandans and has helped in fighting poverty. These furniture businesses are small scale and medium scale. The growth of furniture businesses is as a result of meeting the primary objective which is profit maximization. Profitability is one of the measures of determining the growth of a business. The existing competition between small and medium scale furniture workshops affects profitability. The purpose of this study was to compare the profitability of small and medium scale furniture workshops in Uganda. Specifically the study assessed the monthly expenditure on resources, monthly revenues, profitability and the challenges facing small and medium scale furniture workshops. The study was carried out in Kampala district where by four divisions of Kawempe, Nakawa, Makindye and Rubaga were selected. Only 6 medium scale furniture workshops were selected and 10 small scale furniture workshops selected from each division. The results indicated that; timber had highest cost compared with the rest of the resources for small scale furniture workshops while for the medium scale furniture workshops it was the equipment with highest cost. The small scale furniture workshops generated highest revenue from beds with it being 28.9% of total revenue and medium scale furniture workshops from house hold furniture with 31% of total revenue. The profitability of medium scale furniture workshops was higher than that of the small scale workshops with 13.9% compared to 11.6%. Small scale furniture workshops were mostly faced with the challenges of heavy taxes, seasonality of customers, lack of facilities, and scarcity of timber species. Medium scale furniture workshops were faced with mostly the challenges of seasonality of customers, high timber costs and change in customer choices. The study concludes that medium scale furniture workshops have high profitability compared to small scale furniture workshops and that there is need of capacity building of business owners in terms of business management through training.

**Key words:** Profitability, small and medium scale furniture workshops, Uganda

## **LIST OF ACRONYMS**

CAGR-	Compound Annual Growth Rate
DRC-	Democratic Republic of Congo
GDP-	Gross Domestic Product
KCCA-	Kampala Capital City Authority
MIED-	Ministry of Industrialization and Enterprise Development
MITC-	Ministry of Trade Industry and Cooperatives
MSFW-	Medium Scale Furniture Workshops
SMEs-	Small and Medium Enterprises
SMFEs-	Small and Medium Furniture Enterprises
SPGS-	Saw log Production Grant Scheme
SSFW-	Small Scale Furniture Workshops
UBOS-	Uganda Bureau of Statistics
URA-	Uganda Revenue Authority
USA-	United States of America
WWF-	World Wide Fund for nature

## CHAPTER ONE: INTRODUCTION

### 1.1 Background to the Study

Furniture making is one of the booming enterprises in the forestry sector. The global furniture trade has been growing steadily since the 1960s. According to Kaplinsky *et al.*,(2003) the furniture industry developed as the largest low tech sector with the global trade worth US \$57.4 billion, exceeding apparel US\$51 billion and footwear US\$36.5 billion. In 2014, the global furniture trade amounted to US\$140 billion (MIED, 2016).Europe and North America dominate the world furniture trade. Indonesia is one of the main furniture producer in Asia with the industry dominated by small and medium enterprises with export value of US\$1.18 billion in 2011 (Melati *et al.*, 2013).

Africa accounts for 2.8% of the global furniture trade. Kenya's furniture market grew by 10% compound annual growth rate (CAGR) between 2009 and 2013 (MIED, 2016). Larinde and Aiyeloja (2014) reported that the furniture industry makes 80% of the wood based industry in Nigeria. In Tanzania, Small and Medium Enterprises (SMEs) contributed to the Gross Domestic Product (GDP) estimated to be 30-35% where the furniture sector was one of the significant contributors. The furniture sector employs about 17% of the total workshop in the manufacturing industry (Isaga, 2012). According to Amoah and Fordjour (2012), the industry is a resource, labour intensive in nature that includes small, medium and large volume producers.

Growth in furniture trade is as a result of the workshops having positive impact for business continuity. Isaga (2012) indicated that profitability is one of the measurements of growth of an enterprise. Without profitability a firm could not attract outside capital and the business will not persist in the long run. By knowing and understanding firm profitability, it will give the feedback to the firm on how the business is run (Margaretha and Supartika, 2016). The performance of these enterprises depends on their main objective. Most of the workshops are established with the purpose of maximizing profits.

The Uganda's furniture industry is constituted by micro, small and medium scale furniture workshops. Most of the Small and Medium Furniture Enterprises (SMFEs) are in the urban areas where the demand for furniture is high especially in Kampala. These workshops target areas with

good market like Kampala which is a developing city. Even low income earners can purchase furniture from small scale workshops (Sseremba *et al.*, 2011). SMFEs make up to 80% of the wooden industry in Uganda (Zziwa *et al.*, 2006) while the small scale furniture workshops made up to 26% of the total number of manufacturing businesses in Uganda (UBOS, 2002). The achievement of the main objective in a business is what keeps this workshops performing in the market. The main objective of most of these workshops is profit maximization.

The wood industry in Uganda is developing and captures most of the country's total market for furniture. With increased population, the demand for quality furniture continues to grow, the market is greatly expanding too, and attracting many foreign companies which do furniture business in the country. Pangemanan and Walukow (2018) suggested that producing quality furniture products is a profitable program for the industry, because quality design for competitors will be very difficult to create products of the same quality. Therefore industry must be innovative in creating products that will be more attractive to consumers and will increase the income the industry. With continuous importation of the high quality furniture, the profitability of these SMFEs in the market is affected.

## **1.2 Problem Statement**

Over the past decades, Uganda's furniture industry was dominated by the small scale furniture workshops where by the market was less competitive for them. However, Uganda's furniture market is free and has attracted few investments of medium scale furniture manufacturing companies in the last decade, most of which are foreign and few local companies which use high technology. As a result customers have had different preferences for the furniture products from these workshops. This has brought competition between the small and medium scale furniture producers which affects profitability. The market for products is affected by competition and so are the business profits. Therefore the financial position of these businesses is affected. Amidst this competition, there was insufficient empirical and documented information on the profitability of small scale and medium scale furniture workshops in Uganda. This information on profitability would give the small and medium scale furniture workshops their positions in business in relation to each other in furniture business since profitability is a crucial indicator for the financial position of the business (Abanis, 2013). It can help the scale with low profitability to improve its business strategies so as to compete fairly in the market.

### **1.3 Main Objective**

To compare the profitability of small and medium furniture workshops in Uganda

### **1.4 Specific Objectives**

1. To assess the monthly costs of resources used by small and medium furniture workshops
2. To assess the monthly revenues of small and medium furniture workshops
3. To determine the profitability of small and medium scale furniture workshops
4. To find out the challenges faced by small and medium scale furniture workshops

### **1.5 Research Questions**

1. What are the monthly costs of resources used by small and medium scale furniture workshops?
2. What are the monthly revenues of small and medium scale furniture workshops?
3. What is the profitability of small and medium furniture workshops?
4. What are the challenges faced by small and medium scale furniture workshops in Uganda?

### **1.6 Scope of the Study**

The study aimed at assessing the profitability of small scale and medium scale furniture workshops and the challenges facing these workshops in Uganda. The study targeted the small scale and medium scale furniture workshops in Kampala district where there are a lot furniture workshops and high levels of furniture businesses.

### **1.7 Justification of the Study**

Profit maximization is the primary objective of both small and medium scale furniture workshops. Profitability indicates the financial position of the business in an industry. The insufficient information on profitability does not make these furniture workshops realize their positions in relation to other businesses in the same industry in the competitive market.

The information collected from this research could help in providing knowledge to these small and medium scale furniture workshops on their market positions and performance. This can help the low profitability workshops change their strategies in doing business so as to improve market competitiveness and the business efficiency even in the environment where there is imported furniture. This can help them realize better profits there by achieving the main objective.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 The Furniture Industry in Uganda

#### 2.1.1 The Overview of the Furniture Industry in Uganda

Uganda's furniture industry evolved during the colonial rule after World War 2. By 2002 there were 3,088 furniture businesses in Uganda (UBOS, 2003). Furniture industry is most vibrant sector in the wood industry (Kizito, 2009) with it mostly dominated by the small scale furniture workshops (Auren and Krassowska, 2004). In 2010, furniture making contributed to 17% of the manufacturing industry where by 26.5% of the furniture businesses were in Kampala district, the central region had 31.9%, eastern region had 15.2%, northern region had 5.1% and the western region had 21.3% (UBOS, 2011a).

According to Kizito(2009), the research done by Department of Forest Products Engineering Makerere University in 2007 found out that there were 20 medium sized producing firms for Kampala market, but these industries have increased in number over the previous years. They are high technology enterprises using machines from Europe and Asia. The furniture is sold by roadside displays in Kampala city and its suburbs especially by the small scale furniture workshops, the medium furniture workshops which make furniture of high quality use showrooms for displaying their products (Kizito, 2009).

Timber is the single most important raw material in the furniture industry. As a basis for wood furniture production in Uganda, various timber species exist to provide a variety for the furniture producers. Sseremba *et al.* (2011) reported that the most common species are *Albizia coriaria*, *Markhamia lutea* and *Chrysophyllum albidum* while *Khaya* spp, *Milicia excelsa* and *Olea* spp as the least used species in production of furniture. The furniture product is selected by the consumers basing on the preferred timber species.

Furthermore, most small scale producers have switched to the use of previously lesser known species such as *Celtis* spp, *Albizia* spp, Kirundu (*Antaria toxicaria*), Musizi (*Maesopsis eminii*) and Ffene (*Artocarpus heterophyllus*) for furniture production (Zziwa *et al*, 2006) because of the scarcity of the traditionally known furniture making species. However, most of these species are known of poor quality especially in terms of strength and durability.

### **2.1.2 The Trend of Furniture Trade in Uganda**

Global trade of furniture has been on an increase over the last years faster than furniture production. As stated by Azizi *et al.*, (2016) furniture industry accounts for portion of global trade so development and flourishing of this industry serves as a developing engine of a large part of related and dependent industries.

Uganda's export of furniture increased between 2002 and 2006 by value from 92,000 US Dollars to 2,984,000 US Dollars (UBOS, 2007). According to UBOS (2007), the importation of furniture between these years increased by 95.1%. The production of furniture between 2012 and 2016 reduced by 22.2 % (UBOS, 2017). UBOS (2017) reported that, the formal exports by value reduced by 48.9% and the import value also reduced by 1.8% between 2012 and 2016 but an increase by 11% was notified between 2012 and 2014.

### **2.1.3 The Consumption of Furniture Produced in Uganda**

A variety of wooden furniture products such as chairs, tables, doors, shutters, cabinets are manufactured through various activities such as solid wood processing for furniture, crafts and rattan processing, wood carving, paneling and furnishing (Sseremba *et al.*, 2011).

Sseremba *et al.*, (2011) reported that the demand for wooden furniture products worldwide was increasing greatly with a 34% increase in Africa in the year 2010. In Uganda, the wood industry is evolving and captures 70% of the country's total market for furniture for which the market is divided into home use and contract markets, constituting supplies to hotels, restaurants, offices and public facilities.

Local furniture consumption is mainly by low and medium income earners. The type and frequency of use of timber species in furniture workshops depends on the market forces of demand and supply (Zziwa *et al.*, 2006). This forms the foundation for the prices at which consumers wish to purchase the furniture. The consumption of furniture products depends on the quality, design and the finish. Consumers also buy these products based on their income, age and level of literacy (Kizito, 2009).

### **2.1.4 The Context of Small and Medium Furniture Workshops**

Li *et al.*, (2009) suggested that there is no single, universally accepted definition of the SMFEs in terms of number of employees, sales revenue, and total assets. European union 2007 defines the

small scale enterprises as those with less than 50 employees having a turnover of € 10 million and medium sized enterprises are those with less than 250 employees with a turnover of € 50 million. In addition European Union states the terms of ownership stating that Small and Medium Enterprises (SMEs) must be independent with only 25% owned by outside interests.

Kozak (2007) defines them as the forest based enterprises whose economic activity is taken mainly at individual or household level usually employing family members, closed relatives or the neighbours with negligible salaried labour. According to Hallberg (2000) the definition for SMEs varies with the country and it's based on the number of employees and the value of assets. The lower limit for small scale enterprises is 5 to 10 workers and the upper limit has 50 to 100 workers, the upper limit for medium scale enterprises is between 100 to 250 workers.

In Ugandan context, small scale enterprises employ between 5 and 49 workers and the total assets between UGX 10 Million but not exceeding UGX 100 million while the medium scale enterprises employ between 50 and 100 workers with total assets more than UGX 100 million and not exceeding UGX 360 million (MTIC, 2015).

### **2.1.5 The Contribution of Small and Medium Furniture Workshops to the Development of the Economy**

According to Azizi *et al.*, (2016) the furniture industry creates employment opportunities for many people and enhances the GDP. Small scale producers are important across countries and stages of development, in most developing countries small scale enterprises provide the largest share of employment (Hallberg, 2000). In low income countries its mainly the small scale enterprises which dominate while in middle income countries it is mainly medium scale enterprises which dominate and provide most of the employment (Hallberg, 2000).

Small and medium scale wood based enterprises are important in poor poverty reduction strategies in developing countries because; they are labour intensive and become source of employment and economic development, they are able to grow given the enabling environment and favourable market conditions, they cater for local and domestic markets which are growing in importance and rely on empowerment of local entrepreneurs who have interests in making their businesses successful (Kozak, 2007).

In Uganda as reported by UBOS (2003), furniture making by 2002 accounted for 26% of the manufacturing industry and it had employed a total number of 10,988 people. By 2010 the furniture industry had employed 18,136 persons which contributed to 13% of the persons employed in the manufacturing sector (UBOS, 2011b).

## **2.2 Profitability**

### **2.2.1 Concept of Profitability**

There are many ways in which the profitability of the business has been defined. According to Bierman (1965), profitability means ability of an enterprise, company, firm or an organization to make profit from all its business activities. Harward and Upton (1961); Nishanthini and Nimalathan (2014) defined profitability as investment's ability to earn returns from its use. Profitability in other words is the organization's ability to generate income and its inability to generate income is a loss (Sivathaasan *et al.*, 2013). According to Nishanthini and Nimalathan (2014), profitability is the relative measure of the earning capacity of the business as it is different from profit which is the absolute measure of its earning capacity.

According to Nimalathan (2009), profit is the major objective of the business which does not only measure the product success but also measures its market development. Profitability provides the accurate view of the business efficiency (Nishanthini and Nimalathan, 2014). It is expressed by determining the relationship that exists between profit and other variable (Nimalathan, 2009). As stated by Nimalathan (2009), profitability is composed of two words profit and ability. Profits are different in the use and the purpose of the figure and ability reflects the potential of the business to make profits.

Bierman (1965) highlighted that profitability is the index which measures the efficiency of the management in making profit for an enterprise from the available resources from the market. Therefore businesses which have high profitability are efficient in utilizing the resources to make profits in a company. Profitability is one of the most important objectives in managing finances because maximising owner's wealth is one of the objectives of financial management and profitability determines the performance (Malik, 2011). Profitability is the primary measure of the success of the business (Nishanthini and Nimalathan, 2014). Sivathaasan *et al.*, (2013) suggested that when the business is not profitable, it can continue functioning and when it is highly profitable, the owners are rewarded with a large return on their investments.

Though Profitability is an important standard in measuring efficiency, it cannot be taken as a final proof for the efficiency of an enterprise. The state of profitability can vary like the way temperature and humidity do (Nimalathasan, 2009). Profitability is an important indicator in measuring the financial position of the business. A firm is considered weak when its profitability is weak compared to other businesses in an industry (Abanis, 2013)

### **2.2.2 Profitability Ratios**

Profitability ratios show the measure of the business performance as they show the efficiency in managing assets, liabilities and costs (Merilainen, 2015). According to Nishanthini and Nimalathasan (2014) profitability ratios show the ability of the business to generate profits and central investment to security analysis, shareholders and investors. Profitability ratios are seen as a way to identify and measure business efficiency of small and medium scale enterprises (Abanis, 2013)

Profitability ratios are of little value in isolation, they give meaningful information only when they are analysed in comparison to competitors or compared to the ratios in the previous periods Profitability ratios are expressed as percentages so that it is easy to compare with peer competitors and other periods (Zions Bank, 2013). Different profitability ratios provide important insights into the financial health and performance of a company. According to Zions Bank (2013) the gross profit margin ratio, operating profit margin ratio and the net profit margin ratio are the commonly used ratios for small scale businesses. These ratios are then used easily to compare the medium scale and small scale furniture workshops.

#### **Gross profit margin ratio**

Gross profit is what is left after subtracting cost of sales from sales. Cost of sales is the price paid by the business for the products it sold which includes raw materials and labour (Zions Bank, 2013). It is the ratio of gross profit to sales revenue. It is the percentage by which gross profits exceed production costs. Gross margin reveals how much a business earns taking into consideration the costs that it incurs for producing its products. The ratio of gross profit as a percentage of sales is an important indicator of your company's financial health. The gross profit ratio depicts the purchasing efficiency of an enterprise (Nishanthini and Nimalathasan, 2014). The high ratio implies that the enterprise has a better purchasing efficiency and management.

Without an adequate gross margin, a company will be unable to pay its operating and other expenses and build for the future (Zions Bank, 2013).

### **Operating profit margin ratio**

The operating profit margin is an indicator of company's earning power from its current operations. This is the core source of company's cash flow, and an increase in the operating profit margin from one period to the next is considered a sign of a healthy, growing company. If the company's operating income is not sufficient to generate the cash needed to keep operating, then the management has to find other sources of cash (Zions Bank, 2013).

### **Net profit margin ratio**

It is the ratio of profitability calculated as after tax net income divided by the sales. It shows the amount of the sales left after all the expenses have been paid. The ratio is widely used as overall measure of profitability and is important for proprietors (Nishanthini and Nimalathan, 2014)

According to Nimalathan (2009) other ratios involved in determining the profitability of an enterprise are Return on Investment, Return on Capital Employed and Return on Equity. In addition Return on Average Assets and Return on Average Shareholders are other ratios for determining profitability (Velampy and Nimalathan, 2010). Velampy and Nimalathan (2010) highlighted that sales positively correlate with profitability ratios return on investment and the number of depositors associate negatively with the profitability ratios except return on equity

### **2.3 Factors Affecting the Profitability of Small and Medium Furniture Workshops**

High value furniture is attributed to factors like design capability; lack of innovative and creative designs of furniture has affected the market. There is increased competition among furniture sellers and producers but distinctive design makes one a winner having used the same raw materials and the machines. Presenting new and diverse designs with quality plays an effective role in attracting customers in domestic and international markets, technical skill of labour force and marketing ability (Azizi *et al.*, 2016b).

Azizi *et al.*, (2016) revealed a number of factors which affect the development of the furniture industry. Regulation of imported furniture tariffs; Importation of cheap and low quality furniture

products can lead to recession on the domestic furniture producers. This causes unfair competition and therefore reducing their ability to get customers hence affecting their incomes.

Fragmentation of the furniture industry especially the small scale furniture workshops makes it hard for them to access international markets on their own hence reduced market which could be domestic and international. Marketing abilities of these furniture workshops has an effect on their profitability. The target markets, market developments and changes in customer consumption patterns (Azizi *et al.*, 2016).

Competitive environment in the furniture industry also affects profitability. The existence of competition can lead to improved quality of the products and increased production. These reduce the costs for operating the furniture workshop. Application of significant and highly efficient competitive strategies to contend intensively furniture growing market is among the factors affecting profitability and flourishing of furniture industry (Azizi *et al.*, 2016).

Economic stability; flourishing of an investment depends on the financial security for an investor. Investors prefer taking low risks. Risks like inconsistency of raw material costs and custom tolls, unclear and unstable condition of imports and exports as a result absence of financial security and return on equity (Azizi *et al.*, 2016)

Margaretha and Supartika (2016) further stated that business size has influence on its profitability. Large businesses have better access to resources compared to small businesses. This positively impacts on the profitability of the business. The performance of large sized companies is better than that of small companies in terms of take advantage economics of scale in transactions and enjoy higher levels of profit.

Productivity is a factor which is seen to have the effect on the profitability of the business. Margaretha and Supartika (2016) mentioned that productivity in terms of labour productivity influence the level of the business's profitability. Highly productive businesses have high productivity. The productivity of SMEs is more than that of large businesses since they have smaller scope of organization so it is easy to set up. The limitation of assets enables the management to increase the productivity up to optimum levels. It will lead to high productivity and hence high profitability.

## **2.4 Relationship between Profitability and Size of the Workshop**

The studies carried out earlier have brought mixed results on the profitability of different sizes of businesses leading to lack of general consent on how profitability is related with the size of the business. Dahmash (2015) pointed out that size has positive impact on profitability whose impact differs among industries.

The size of the business plays an important role in explaining the profitability of the business and large scale enterprises are more profitable than small and medium scale enterprises within the same industry (Babalola, 2013). According to Bates (1971) as quoted by Abanis (2013), large enterprises were more profitable than small enterprises in United Kingdom. This is as a result of superior competition and diversification which gives them more advantage. In addition large firms have better access to resources compared to small firms (Margaretha and Supartika, 2016) .

In contrast, Gaio and Henriques (2018) mentioned that many studies have been done and found out that there is a negative relationship between profitability and the size of the business. SMEs were more profitable when compared to the large scale enterprises. As acknowledged by Abanis (2013) research carried out in USA in the 1980s found out that small enterprises were more profitable than large enterprises and yet in 1960s it was large enterprises which were more profitable than small ones.

Gaio and Henriques (2018) suggested that another set of studies found out that there was no significant relationship between the profitability and size of the business. Gaio and Henriques (2018) highlighted that each study uses a different data set of businesses and different time frames making it difficult to draw the general conclusion of the relationship between profitability and the business size.

## **2.5 Challenges facing the Furniture Industry**

Limited access to sustainably harvested raw materials is one of the challenges facing the furniture industry. The industry employs various wood materials which include the wood based panels, metal, leather, glass, metal as well as plastic. All the furniture sub segments use wood or wood based panels as the main input, but there has been a challenge of obtaining suitable wood species for furniture production (Rossitsa and Popova, 2015).

High cost of hiring skilled labour is another challenge in the industry. Furniture industry is labour intensive and therefore it is one of the important factors in the production. Hiring of skilled labour is expensive for the furniture manufacturing companies (Andrea *et al.*, 2014; Rossitsa and Popova, 2015). This has led to automation of production in other developed countries to reduce on the cost of labour by investing in high technology machinery.

According to Rossitsa and Popova (2015), investment in technology machines is another challenge to the furniture industry. Adequate machinery endowment is widely recognized as critical factor in production process as it delivers efficiency and productivity gains. Standardization in production minimizes costs but it involves large capital investment which some companies are not able to meet in order to acquire it.

Lack of innovation and design is another challenge in furniture business. Andrea *et al.*, (2014) highlighted that it is seen as the crucial factor in maintaining the market position since it they are necessary in customers changing needs and market pressure. Changing tastes, emerging needs and introduction of innovative products are key issues. Therefore lack of innovation has affected the consumption of the furniture products. In addition to this, there is lack of research internally in order to develop new materials or technology.

The changing customer demand also affects the operation of the furniture industry. The demand for furniture is dependent on consumer housing trends. People are turning to small households like apartments and small houses, these trends have a huge impact on furniture manufacturing. Apartments and small houses require less furniture and rental places are always finished with cheaper and small furniture. Because of these there is reduced consumption of the furniture products and hence affecting the operation of furniture workshops (Andrea *et al.*, 2014).

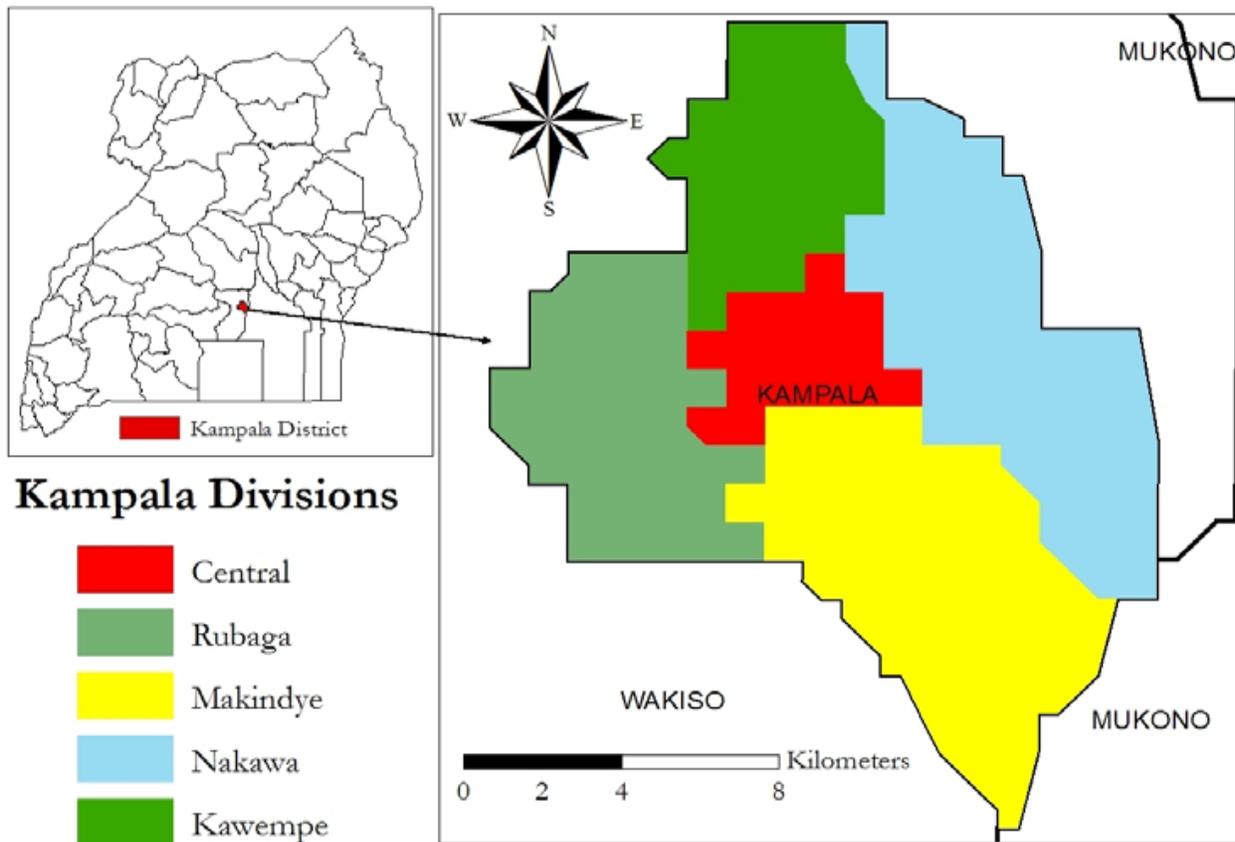
As pointed out by European Union (2013) globalization has affected the furniture sector. Because of competition there is severe pressure on the furniture prices especially from the Asian market. There are also import pressures from the low cost countries like china and Indonesia.

Difficulty in accessing credit and loans to fund the costs needed for the investment. Some furniture businesses don't have enough assets which act as security to obtain capital from the financial institutions(European Union, 2013). This restricts their investments to only the business capital and therefore limiting their expansion.

## CHAPTER THREE: STUDY AREA AND METHODOLOGY

### 3.1 Study Area

The study was conducted in Kampala district. The district doubles as the capital city and major commercial hub of the country. Administratively, Kampala district is divided into 5 divisions and has a population of 1,507,080 (2014 population and Housing Census). It is located  $32^{\circ}$  E and  $15^{\circ}$  E of the Greenwich,  $0^{\circ}$  and  $19^{\circ}$  N of the equator and bordered by Wakiso and Mukono districts to the North East and South-West respectively. The district was chosen as a study area because of its high business activity and has 35% of the furniture workshops in the country are located in Kampala (UBOS 2002 quoted by Sseremba *et al.*, 2011). The data was collected from divisions of Rubaga, Makindye, Nakawa and Kawempe.



**Figure 3.1:** Map of Kampala district showing the study divisions

### **3.2 Research Design**

In order to achieve the intended objectives of this study, a cross sectional survey design was adopted. The survey documented the monthly expenditures and revenues of the sampled small and medium scale furniture workshops, and the challenges facing these furniture workshops in the country.

### **3.3 Sampling Procedure and Sample Size**

Four out of the five divisions of Kampala district were purposively selected; these included Nakawa, Makindye, Kawempe and Rubaga divisions. The fifth division, located in the central division had low levels of furniture activities so it was not selected for the study. Ten small scale furniture workshops were purposively selected from each of the four divisions which made a total of forty small scale workshops for the entire study. Workshops were purposively selected targeting those which could give information as some of them declined.

Only six medium scale furniture workshops were randomly selected in the district because they were very few in the country. Respondents to be interviewed were selected purposively during the study targeting the business managers to give the necessary information.

### **3.4 Data Collection**

#### **Interviews**

Face to face interviews were conducted with the managers of the selected furniture workshops. Primary data were collected through interviews by use of an interview guide (appendix) to ensure accuracy in the data collection. This involved asking for the monthly costs on the resources and the revenues from the sale of the products. Personal interviews were carried out to collect data from the respondents. The questions were planned in advance and the researcher used an interview guide. Interviews were used because it is easy to fully get information in a shortest time possible.

#### **Review of the documents**

The documents containing the expenditures and revenues of the business were reviewed so as to get the additional information regarding the study. These included the receipts, accounting books used in the business transactions.

## Observation

Some data on the challenges was collected through observing how the activities were done in a workshop and getting to see which activities are not done basing on ergonomic principles which have turned into challenges to the workshop. This was done with the piece of the paper to note down observed challenges.

## 3.5 Data Analysis

Descriptive statistics was undertaken to analyze the data using Excel software. Means of monthly costs of the resources and the revenues of the products were summarized in form of frequencies and then shown in the graphs i.e. bar charts. Descriptive statistics was also generated to show the profitability of the workshops shown in table and challenges facing the workshops which was represented in pie-charts

## 3.6 Profitability Measurements

The following are the ratios used to measure the profitability in this study

1. *Gross profit margin ratio* =  $\frac{\text{Gross profit}}{\text{Sales}} \times 100\%$ .....equation 1

2. *Operating profit margin ratio* =  $\frac{\text{Operating profit}}{\text{Sales}} \times 100\%$ .....equation 2

3. *Net profit margin ratio* =  $\frac{\text{Net profit}}{\text{Sales}} \times 100\%$ .....equation 3

Where;

Gross profit = Sales – Cost of goods

Operating profit = Gross profit – Selling and Administrative expenses

Net profit = Operating profit – Income tax

Cost of goods include costs directly involved in manufacture of products like costs of timber, electricity, equipment, labour

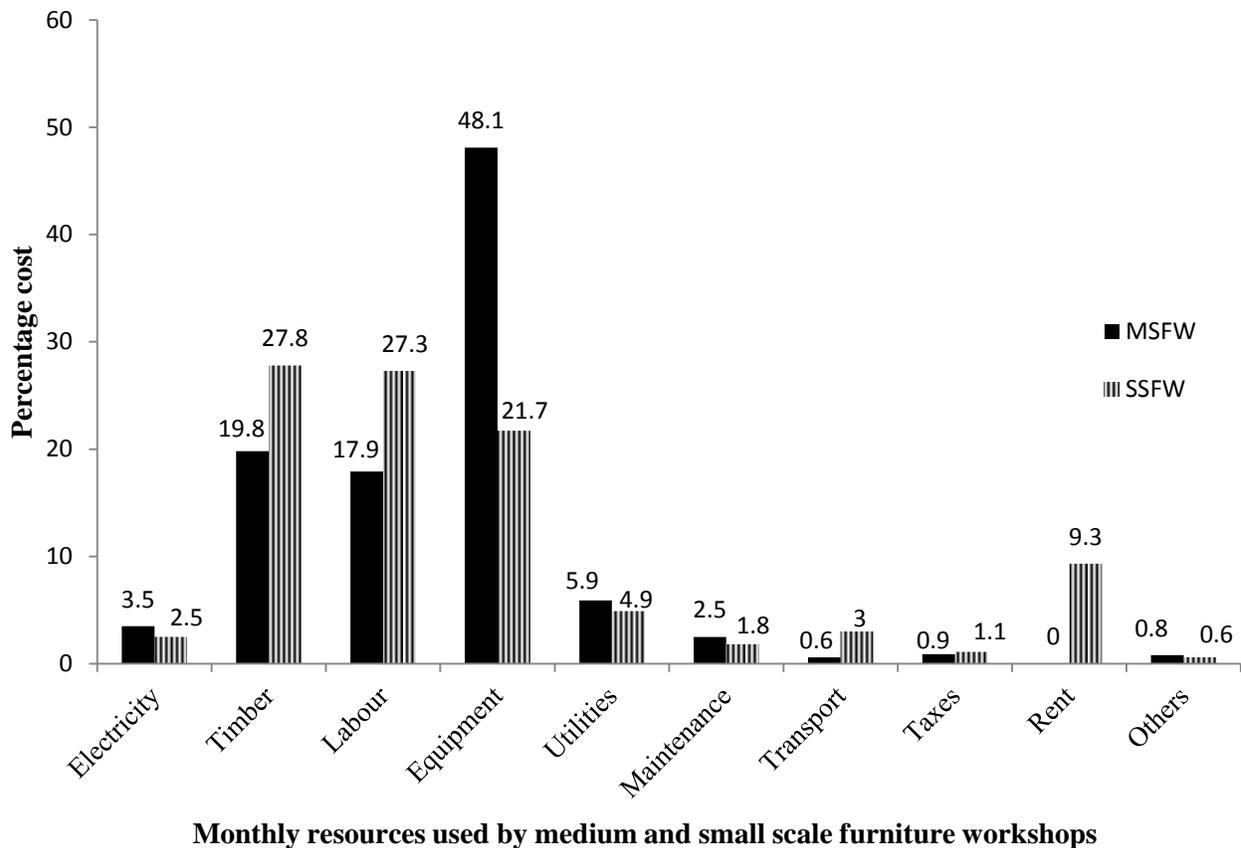
Administrative Expenses include salaries, payroll taxes, benefits, rent, utilities, office supplies, insurance, depreciation, transport etc.

## CHAPTER FOUR: RESULTS

### 4.1 Monthly Costs of Resources used by Small and Medium Furniture Workshops

The monthly costs for the resources used by small and medium scale furniture workshops varied (Figure 2). For the small scale furniture workshops (SSFW), the cost of timber used monthly was the highest (27.8%) followed by labour which had 27.3% and equipment at 21.7% (Figure 2).

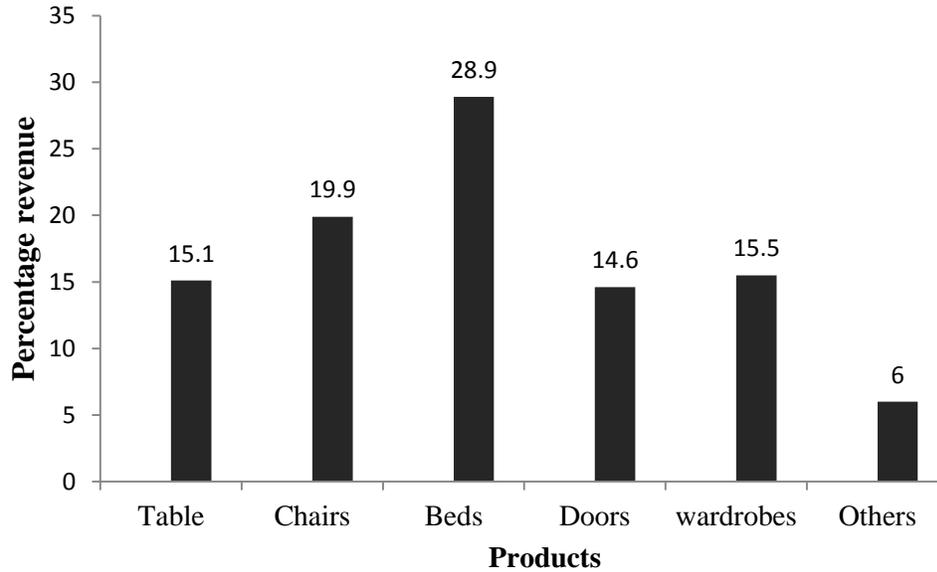
The medium scale furniture workshops (MSFW) had highest cost on the equipment which was 48.1% of the total cost. Timber and labour had 19.8% and 17.9% respectively of the total cost. Medium scale furniture workshops did not spend on rent (Figure 2).



**Figure 4.1:** The average percentage costs of resources used by small and medium scale furniture workshops

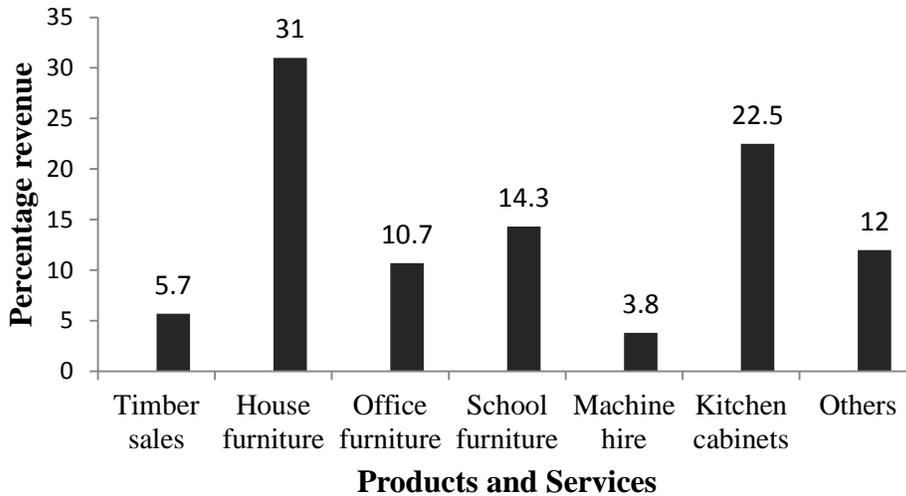
#### 4.2 Monthly Revenues of Small and Medium Furniture Workshops

There were variations in monthly revenues for the products of small scale furniture workshops (Figure 3). The beds had the highest revenue which was 28.9% of the monthly revenue. This was followed by the chairs which had 19.9% (Figure 3).



**Figure 4.2:** The average percentage revenue generated from different products by small scale furniture workshops

Medium scale furniture workshops had house furniture generate the highest revenue which was 31% of the total revenue; these include doors, windows and shutters, wardrobes, stair cases, dining tables and chairs, beds, coat hangers. Kitchen cabinets were the second in generating revenue with 22.5%, the school and other furniture like podiums had 14.3% and 12% respectively (Figure 4).



**Figure 4.3:** The average percentage revenue generated from different products and services by medium scale furniture workshops

#### 4.3 The Profitability of Small and Medium Scale Furniture Workshops

The findings revealed that the profitability of medium scale furniture workshops was higher than that of small scale furniture workshops for the profitability ratios of operating profit margin ratio and net profit margin ratio except for gross profit margin ratio where small scale workshops had high profitability of 29.8% compared to that of medium scale workshops which was 26.1% (Table 1). Generally profitability of medium scale furniture workshops was higher than that of the small scale furniture workshops since net profit margin ratio is the overall measure of profitability (Table 1)

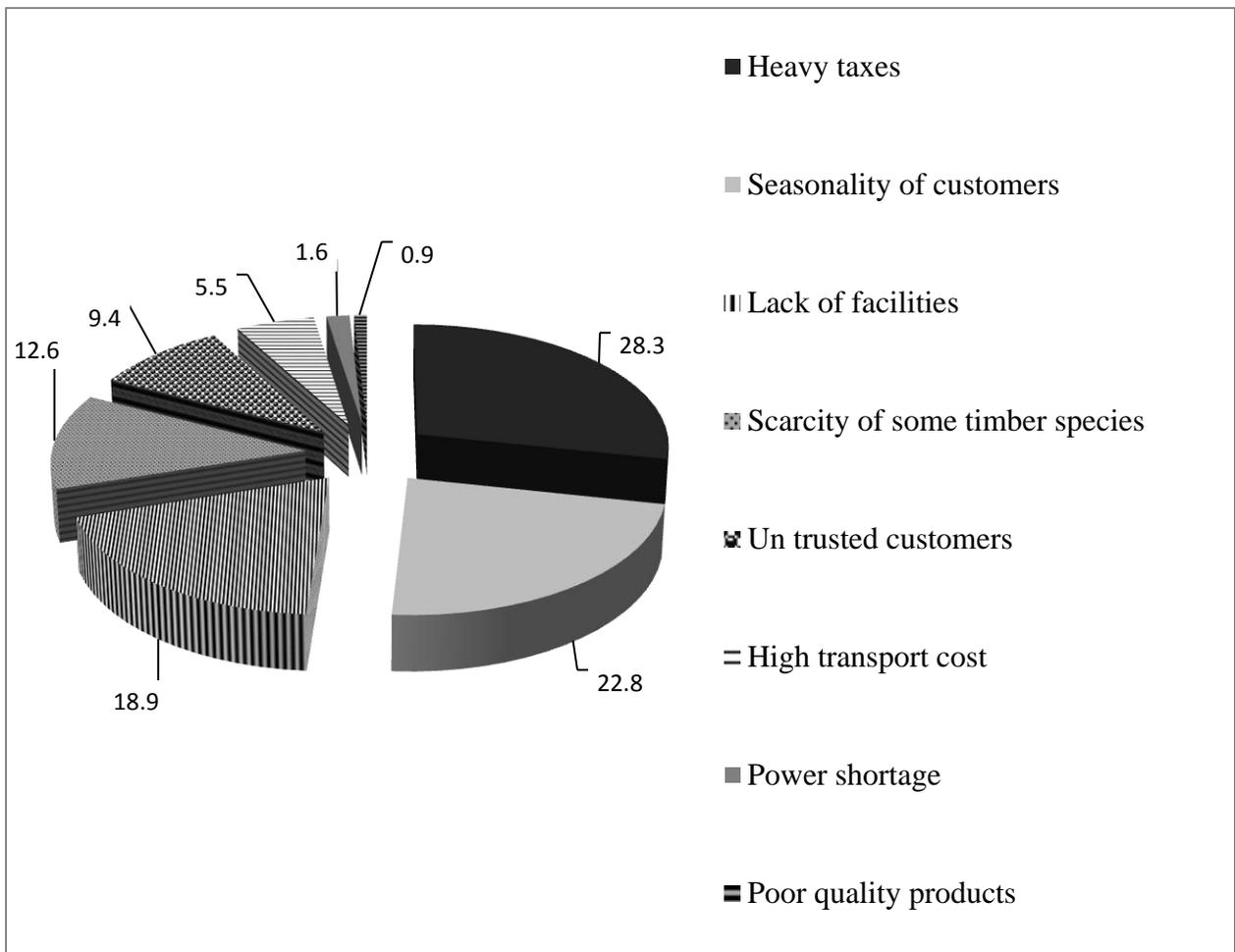
**Table 4.1: Profitability of small and medium scale furniture workshops**

Type of workshop	Profitability ratios (%)		
	Gross profit margin ratio	Operating profit margin ratio	Net profit margin ratio
Small scale	29.8	12.6	11.6
Medium scale	26.1	14.7	13.9

#### 4.4 Challenges faced by Small and Medium Scale Furniture Workshops

##### 4.4.1 Challenges faced by Small Scale Furniture Workshops

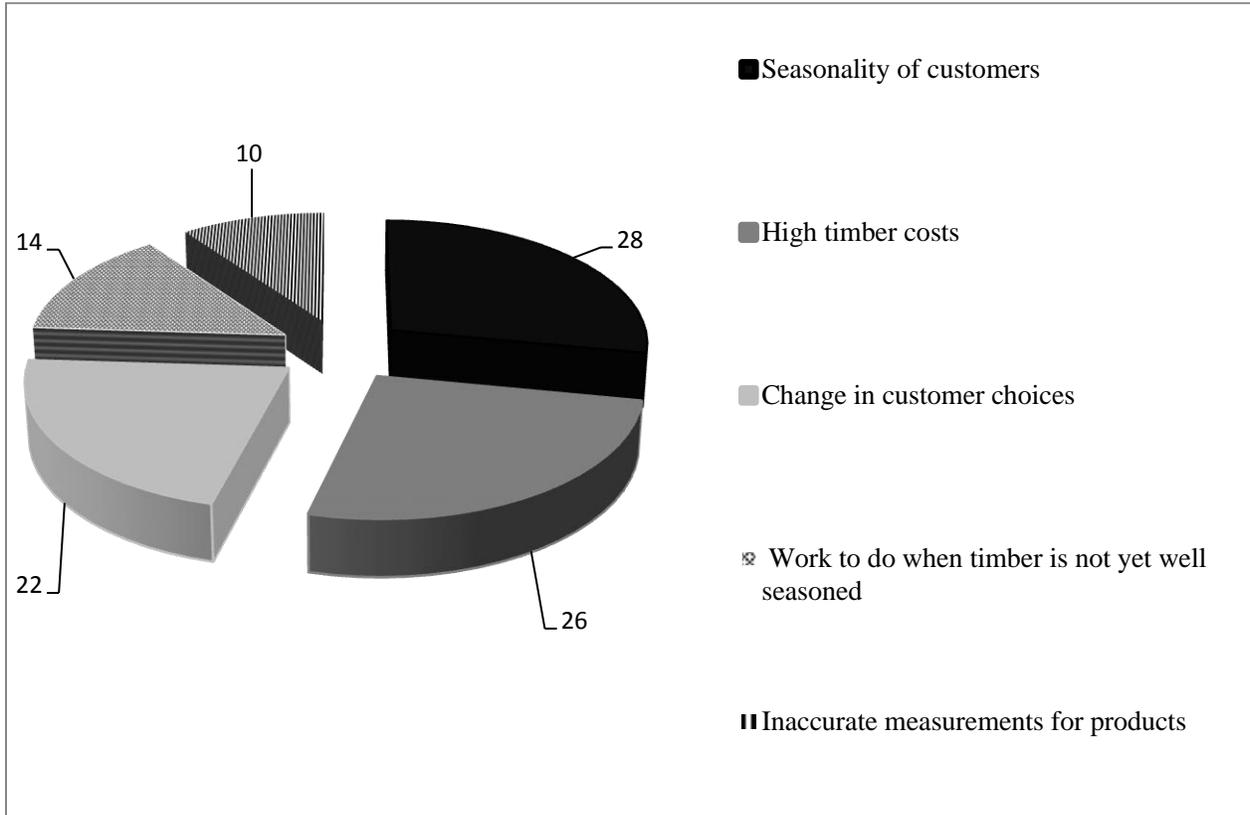
The small scale furniture workshops were faced with a number of challenges. Heavy taxes was represented by around 28% of the responses. About 23% of responses was seasonality of customers being another challenge facing small scale furniture workshops. Close to 19% of the responses was the lack of working and storage facilities for the workshops. 12.6% of the suggestions was scarcity of some tree species (Figure 5).



**Figure 4.5:** Challenges faced by small scale furniture workshops in Uganda

#### 4.4.2 Challenges faced by Medium Scale Furniture Workshops

The medium scale furniture workshop also had a number of challenges they face with seasonality of customers (28%) emerging as the biggest challenge facing the workshops (Figure 6). High timber prices was the second biggest challenge (26%). The change in customer choices (22%) was another challenge (Figure 6).



**Figure 4.6:** Challenges faced by medium scale furniture workshops

## CHAPTER FIVE: DISCUSSION OF THE RESULTS

### 5.1 Monthly Costs of Resources used by Small and Medium Scale Furniture Workshops

The small scale furniture workshops had high monthly expenditure on timber with 27.8% of the total monthly costs. This is as a result of rising costs of sourcing timber from Democratic Republic of Congo (DRC) (native species), western and south-western Uganda (native and plantation species). As a result of long distance, timber prices have risen (SPGS, 2010). Labour was the second highest in the total cost of the enterprises. This could be as a result of rising costs of living which has caused the joiners to demand for more salaries. Equipment was another resource which was among those which had high costs with percentage cost of 21.7%. Small scale furniture workshops don't have enough capital to acquire high technology equipment (Auren and Krassowska, 2004). So they end up acquiring those which can be used without costing them a lot of finances. Rent had a slightly high percentage cost of 9.3%. Most of the furniture workshops are set up on rentals where they have to incur high charges from the landlords who pay rental tax to the Uganda Revenue Authority (URA) so they end up imposing high charges on rent. Utilities didn't cost much of the monthly costs with 4.9% of the total cost. The transport cost involved transporting the materials from sources to the workshops. This included the cost of transporting timber from stores or sawmills which are within Kampala or ordered timber from a distance like (DRC). It also involved cost of transporting hardware to the workshop. The increasing costs of fuels has led to increase in transport costs. Electricity was not used by all the workshops because some of them didn't have the equipment which would require power to run. Some workshops pay for moulding services making them not to have the need of electricity since they may have the equipment which does not require electricity. Maintenance costs were low as a result of most of these workshops having equipment which may not need maintenance but requires buying a new one when it gets a problem. Tax was on 1.1% of the total monthly costs. This involves the Kampala Capital City Authority (KCCA) and the tax payable to URA. The URA tax varies with the size of the business and its location in terms of the street (Jelte, 2017).

The medium scale furniture workshops had high costs on the equipment which was 48.1% as compared to small scale furniture workshops which had 21.7%. This is because medium scale furniture workshops buy high technology machinery (Kizito, 2009) which requires large capital

to invest (Rossitsa and Popova, 2015) resulting to higher percentage cost of the total cost. Timber was the second with 19.8% of the total cost. The medium scale furniture workshops import timber of high value from DRC like mahogany (*Khaya anthotheca*) which is expensive because of the declined supply from the traditional sources in the central forest reserves (WWF, 2012). Labour followed by 17.9%. Medium scale workshops employ a large number of workers both casual and administrative workers. Employment of experienced and trained joiners is expensive (Andrea *et al.*, 2014) making cost of labour a little higher. These are paid according to the role played in the workshop. The utilities were 5.9% which was slightly higher than that of the small scale furniture workshops with 4.9%. Medium scale workshops produce a variety of wooden products which require different utilities like paint, varnish and others which are used in large quantities and hence more costly compared to that used by small scale workshops. Electricity cost was high compared to that of the small scale workshops because of the heavy machinery which require the power to run unlike the small scale workshops where electricity may not be used throughout engineering of the product. The maintenance costs for medium scale workshops are higher than that for small scale. This is as a result of the medium scale workshops having high technology equipment which need to be maintained regularly to ensure efficiency in production. The tax was accounting for 0.9% of the total monthly costs which is less than that of the small scale furniture workshops. Medium furniture workshops pay taxes which involve Value Added Tax, income tax, rental tax to URA (Jelte, 2017). The transport costs were very low, they involved costs of obtaining raw materials from the sources and for distribution of products to customers. All medium workshops acquired land so there were no costs incurred on rent.

## **5.2 Monthly Revenues of Small and Medium Furniture Workshops**

The small scale furniture workshops produced mostly house hold furniture. The difference in revenue generated by these products is as a result of difference in demand for the products from the consumers. The beds emerged to generated high revenue because of the high demand and have increased prices as compared to the rest of the products. Other products like stands, racks generated less revenue. This is attributed to low demand for this type of the products.

The medium scale furniture workshops had household furniture generate more revenue compared to other type of furniture. This is as a result of increasing demand for modern housing.

Many people are constructing houses in urban and peri urban places hence need for house hold furniture like chairs, tables, beds and others. Kitchen cabinets followed house hold furniture in generating revenue is as a result of increasing constructions of residential, opening up of hotels, and cottage construction. The school, office furniture and the doors and shutters nearly generated the same revenue. This is as a result of more schools and offices opening up and therefore there is demand for furniture. Some companies generated revenue through sale of timber and machine hiring services like planning, moulding for small scale joiners. Kaufman (2012) pointed out that there is a positive relationship between demand and the revenue generated for the business.

### **5.3 The Profitability of Small and Medium Scale Furniture Workshops**

The small scale furniture workshops had the gross margin ratio higher than that of the medium scale furniture workshops (29.8% compared to 26.1%). The gross profit margin reveals how much a business earns taking into account the costs it incurs for producing its products. The small scale furniture workshops have higher gross profit margin ration because it incurs low costs of producing its products compared to medium scale furniture workshops. This is attributed to the cost of equipment, timber, electricity, utilities and labour being higher for medium scale furniture workshops hence the gross profit was low compared to that of small scale furniture workshops.

Medium scale furniture workshops had high profitability compared to the small scale furniture workshops as indicated by high net profit ratio of 13.9% to 11.6% since the net profit ratio is the measure of overall profitability (Nishanthini and Nimalathan, 2014). This may be due to superior competition and strategic advantages of medium scale furniture workshops associated with greater diversification (Margaretha and Supartika, 2016) which attract customers bringing in profits to the business. These workshops may have stronger bargaining power with customers and suppliers which helps them to transact fairly. Medium scale furniture workshops are better able to withstand oscillations at the level of activity have better financial stability, face less uncertainty in terms of profit variance, and are generally more diversified, allowing them to offset the losses of one activity with profits from another. They may also have access to capital markets, proper management and the use of high technology in production. These attributes position medium scale furniture workshops to have a high profit making business.

Small scale furniture workshops on the other hand have market uncertainties and superior capital constraints. Lack of access to and cost of finance is a severe problem for small scale workshops. Some businesses have insufficient capital for expanding and maintaining their equipment and technology, and low productivity and competitiveness. Poor managerial skills like poor record keeping, decision making not based on analysis as earlier noted by Kizito (2009), affect the performance of the business. Some business owners want to be managers of their businesses to reduce the operational costs; this can affect the running of the business on the days when they are not around. These lower the profitability of small scale furniture workshops. Good financial and workshop management are significant for efficiency of SMEs (Gaio and Henriques, 2018).

## **5.4 Challenges faced by Small and Medium Scale Furniture Workshops**

### **5.4.1 Challenges faced by Small scale Furniture Workshops**

Small scale workshop owners complained about the taxes levied on them by the government saying the taxes are high for them and yet the government doesn't provide for the means to improve on sale of their products. The same challenge of high taxes on small scale enterprises was reported by Ishengoma and Kappel(2008).The respondents mentioned the government should tax them as well as improving for them the market for their businesses to grow.

Some of the respondents said the trend at which customers buy the products varies with them even finishing a week without receiving any customer. Seasonality in customers may be attributed to the perception that some of these workshops do not manufacture good quality products. Andrea *et al.*, (2014)reported that changing tastes, emerging needs lack of innovative products can make customers to become rare.

Some small scale workshops lacked working and storage facilities. As pointed out by Kizito (2009) lack of storage facilities leads to wetting by rain and drying causing distortion effects and the surface is also compromised like the vanish layers peel off due to temperature differences. Lack of these facilities may be due to limited space for setting up production lines (Sseremba *et al.*, 2011), low finances to construct the structures and may be due to limited knowledge of how important it is to protect manufactured products from weather changes.

Scarcity of valuable timber species like *Khaya anthotheca*, *Milicia excelsa* which are needed by most customers who put order and want quality and durable products. This can be attributed to

over exploitation of these species and the few trees remaining mainly in gazetted forest reserves which have restricted access. Timber of the scarce species may be got from DRC which makes it expensive to get and transport.

Lack of trust on customers was another challenge faced by these workshops. Some customers make a deposit for the product and take it without completing payments. Some order for the products and end up not coming for them. This is as a result of change in the taste for products for the customers (Andrea *et al.*, 2014).

Small scale furniture workshops faced a challenge of high transport costs. Workshops which are far from timber stores complained about high transport charges. The costs are also high for transporting timber outside Kampala especially if it has been ordered from the plantation sawmills which are far from Kampala or from DRC. Increasing transport costs are as a result of increase in the cost of fuel.

Some respondents stated that they are not reliably connected to power and this could delay some operations especially those who had machines which required power to run. This may be as a result of power transmission problems around the area of operation.

Production of poor quality products was another challenge. These products end up being neglected by the customers. This is attributed to incompetent labour employed by these workshops (Auren and Krassowska, 2004). This causes the business to incur losses since some of these products may not be sold.

#### **5.4.2 Challenges faced by Medium Scale Furniture Workshops**

Medium scale furniture workshops like small scale furniture workshops were faced with the seasonality of customers. There is inconsistency of customers in purchasing products from the workshops. This is as a result of changing tastes and low cost of imported furniture (Andrea *et al.*, 2014)

The cost of obtaining timber was high. This is as a result of these workshops importing timber from the DRC which is expensive. Most of the timber obtained from DRC is of rare valuable species like *Khaya anthotheca*, *Milicia excelsa*, *Chrysophyllum albidum*(SPGS, 2010). Timber from these species is expensive, all these combined increase the timber prices.

Some customers changed choices for the products. Customers order for products and after the product is ready, they end up purchasing the different product leaving out the ones they had ordered for. Some customers end up not getting the product from the workshop. Kizito (2009) acknowledged that customers' demand for the furniture products change over time so customers can order for products and later change what they need.

The companies sometimes received short term orders for work when the timber is not yet ready. This happens when the seasoned timber stock is finished and the available timber is still undergoing seasoning. This sometimes leads to loss of customers who want the product within a short time.

Sometimes the people sent by the company to take measurements failed to do correct measurements when on site for products to be fitted in buildings like doors and shutters. This leads to the manufacture of products which do not fit the spaces they are meant to close. The company therefore has to re-do the work which is part of material and time wasting. This is as a result of lack of skills and experience of some labour employed by these companies (Auren and Krassowska, 2004).

## CHAPTER SIX: CONCLUSION AND RECOMMENDATIONS

### 6.1 Conclusion

- Small scale furniture workshops spend highly on timber followed by labour while for the medium scale furniture workshops, high expenses are incurred in getting the equipment. The medium scale furniture workshops have the lowest expenditure on transport and no expenditure on rent.
- Small scale furniture workshops get highest revenue through the sale of beds. The medium scale furniture workshops get highest revenue through the sale of house furniture.
- Medium scale furniture workshops have higher profitability compared to small scale furniture workshops.
- Small scale furniture workshops are mostly faced with the challenges of heavy taxes, seasonality of customers, lack of facilities and scarcity of timber species. Medium scale furniture workshops are mostly faced with the challenges of seasonality of customers, high timber costs and change in customer choices.

### 6.2 Recommendations

- The Uganda government should support the furniture making industry especially small scale furniture manufacturers through technology transfer especially designing and finishing machines from developed countries to improve on the quality of the wooden furniture. This can be by provision of funds through loans and incentives. This can increase on the competition advantage.
- Capacity building of wooden furniture manufacturers and enhancing them with the skills. These include entrepreneur, management and production skills. This can be done by organizing training workshops, establishing more technical institutions that provide training in carpentry and joinery as well as supporting the existing ones. By doing this there is proper management of the business and value for products increases hence generating more revenue.
- There should be conservation of scarce high value timber species like *Khaya anthotheca*, *Milicia excelsa*, *Chrysophyllum albidum*. This can be done through safe guarding existing

fields into which they are found and imposition of restrictions for their exportation. It can reduce on the importation of timber from the DRC hence reducing cost of timber.

- Research can be done on Comparing consumer satisfaction on furniture products produced by small and medium scale workshops in Uganda.

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**APPENDIX**  
**INTERVIEW GUIDE**

**ASSESSING THE MONTHLY EXPENDITURES OF RESOURCES, THE REVENUES FOR SMALL AND MEDIUM SCALE FURNITURE WORKSHOPS AND THE CHALLENGES FACING THEM**

**SECTION 1: BACKGROUND INFORMATION**

1. Division.....
2. What is the number of employees in this furniture workshop?  
.....

**SECTION 2: INFORMATION ON THE EXPENSES OF THE WORKSHOP PER MONTH**

3. Specify the monthly expenses in your workshop

<b>Resource</b>	<b>Monthly expense</b>
Electricity	
Raw materials	
Labour	
Equipment and tools	
Utilities	
Maintenance	
Transport	
Taxes	
Rent	
Others	

**SECTION 3: INFORMATION OF THE REVENUES OF THE WORKSHOP**

4. Specify the monthly revenue for the product or service

Product/ service		Monthly revenue
Tables	Dining	
	Office	
Chairs	Office	
	Ordinary	
Beds		
Doors		
Wardrobes		
Kitchen cabinets		
Benches		
Timber sales		
Machining		
Others specify...		

5. What could be those challenges which you are facing?

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