

Effect of Local Business Culture on SME Outsourcing Choice by TNCs in Uganda

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Abstract: Business culture has been reported to be a key influence on business linkage creation between small and medium enterprises (SMEs) and transnational corporations (TNCs) in an economy. TNCs tend to outsource some of their activities to SMEs whose business culture is considered supportive to TNC operations. While strong outsourcing to SMEs in an economy is a major source of SME growth and competitiveness, limited outsourcing to local SMEs reduces their opportunities for growth, competitiveness enhancement and sometimes results in hostility against TNCs. This paper investigates the effect of business culture on TNC outsourcing Choice to SMEs in Uganda. The study uses survey data from TNCs and logistic regression tests to determine the influence of different aspects of SME business culture and workstyles on outsourcing by TNCs. It is established that some aspects of the SME business culture and workstyles are significant predictors of TNC decisions to outsource to local SME partners while some do not. The paper generates managerial and policy implications for promoting SME-TNC business linkages especially in Africa.

Key words: outsourcing; transnational corporations; small and medium enterprises (SMEs); business culture

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1. Introduction

Business culture has been reported to be a key influence on business linkage creation and sustenance between transnational corporations (TNCs) and small and medium enterprises (SMEs) in an economy. Leung et al. (2005) and Miller (2010) suggest that TNCs will tend to outsource some of their activities to SMEs whose business culture and work styles is considered supportive to TNC operations and will chose not to outsource to smaller firms if the business culture and work styles are considered unsupportive.

Although effective business linkages between SMEs and TNCs where TNCs outsource some of their activities to SMEs generates numerous benefits including being an important source of business-to-business financing (Kauffmann, 2005; Kumar & Subrahmanya, 2007) that can spur SME growth and competitiveness, SMEs are required to exhibit positive business culture and workstyles that are consistent with international business practices (Miller, 2010). The business culture aspects singled out include mainly attitudes on timekeeping; attitudes on cost, quality and service; attitudes on meeting deadlines; importance attached to business relationships;

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attitudes on technology and technology use; as well as honesty and integrity in business transactions that have been found to be key influences on business linkage creation between SMEs and TNCs in an economy. Leung et al. (2005) observe that a supportive culture where timeliness and keeping time is valued, where honesty and integrity in business transactions is stressed, where high quality is emphasized and firms as well as clients insist on quality, where the culture of keeping deadlines has taken root, and business relationships are given high importance are likely to have *numerous* and *strong ties* between firms in general but between TNCs and smaller firms in particular. Bowie (undated) also pointed out an additional aspect of business culture that is attitude on technology and technology use as being key to linkage establishment between local firms and TNCs.

However, according to Miller (2010), business culture in developing countries tends to be characterized by aspects that are not consistent with international practices and unsupportive of the globalization goals of TNCs. Miller's observation was earlier echoed by Leung et al. (2005) who pointed out that business cultures where timekeeping and meeting deadlines are not emphasized will push TNCs to search for international rather than local business partners who tend to value time and adherence to deadlines, are willing to enter into service level agreements and accept penalties for underperformance on contracts. Therefore, the local business culture can have a positive or negative effect on local SME outsourcing choice and the scope and variety of SME-TNC business linkages in general. Developing countries, particularly those in the least developed regions tend to be most negatively affected by unsupportive business culture and workstyle of enterprises, especially of SMEs, that is not consistent with international practices and globalization goals of TNCs. For instance in Uganda, a common feature characterizing TNC-SME relations is that of TNCs complaining about the general incompetence and inability of local enterprises to deliver on contracts on one hand, and SMEs complaining, on a perennial basis, of favouritism and segregation in the award of lucrative contracts in favour of international firms on the other (The East African, 2012; Daily Monitor, 2012).

2. Problem and Research Questions

While business linkage creation and sustenance between TNCs and SMEs is influenced to a large degree by the business culture and workstyle of enterprises in an economy, this possible influence has attracted limited systematic investigation in Uganda. While TNC-SME relations in a number of sectors is characterized by relative animosity and sometimes open accusations of SME incompetence by TNCs and of TNC favouritism by local SMEs, the role of business culture and workstyle of the SMEs remains less clear.

Using data from a survey of TNC perceptions of business culture in Uganda, this paper sought to address two questions as follows:

- (1) Do business attitudes and workstyles of SMEs positively or negatively influence the decision of TNCs to outsource to local SMEs?
- (2) Is the influence for all the business culture aspects significant or not? Which ones are significant and which ones are not?

3. Conceptualization

We conceptualize a direct relationship between SME business culture and TNC outsourcing choice to local SMEs in line with Wattapruttipaisan (2002; 2003). Local SME business culture perceived by a TNC, specifically the attitude on time keeping, attitude on cost, quality and service, attitude on meeting deadlines, importance

attached to business relationships, attitude on technology and technology use, as well as honesty and integrity in business transactions influences directly the TNC's decision to outsource to local SME partners. While this decision is in part affected by TNC needs and TNC expectations, this influence is mild.

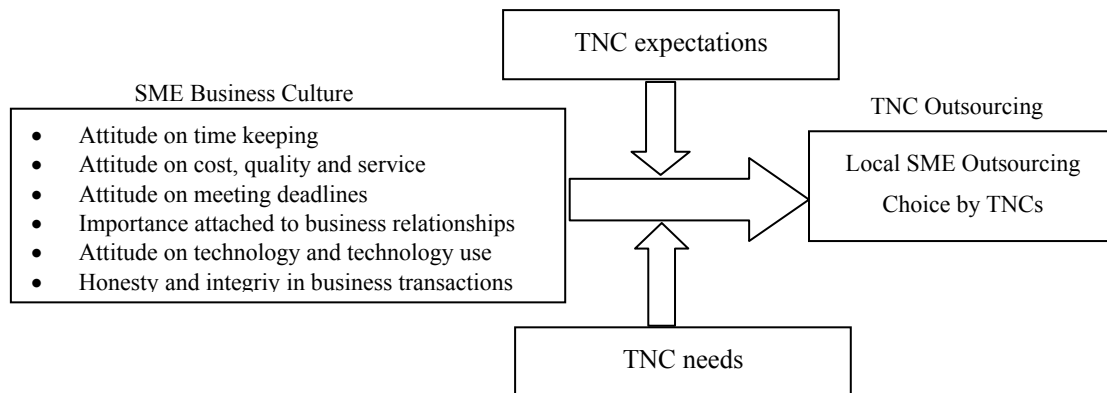


Figure 1 Conceptual Framework

4. Relevant Literature

Culture is a broad and widely used term in many different fields and processes in modern society and economy. According to Hofstede (1980), culture refers to the software of the mind that drives the thinking and actions of people and its most distinct classifications relate to national culture and organizational culture. However, business culture is another common reference to culture, mainly in international business, referring to that part of national culture that relates to the dominant business practices in an economy as distinct from that of other countries (Goic & Bilic, 2008; Upadhyia & Vasavi, 2006). It is therefore considered a sub-set of national culture. While national culture covers a number of broad aspects such as religious conventions and beliefs, taboos and traditions, societal family orientation whose effects ultimately find their way into business methodology and commercial interactions, it covers entire populations in a country and largely tends to be indirect to business (Hofstede, 1980, 1991, 2001; O'Connor, 2008; Breitingner, 2000). On the other hand, business culture encapsulates the business attitudes and behaviours exhibited by a particular country's private sector (Goic & Bilic, 2008; Upadhyia & Vasavi, 2006; Wattapruttipaisan, 2002) and how different or similar they are from those of other countries. Authors and commentators on national business cultures have tended to describe business cultures along specific aspects of behaviour common ones being: business ethic and framework, business etiquette, decision making in enterprises, conduct of business meetings, women in business, attitudes to time and punctuality, working hours and working styles, business attire, business entertaining and gift giving and others (Upadhyia & Vasavi, 2006; Leading Edge, 2012; UKTI, 2011)

However, the most far reaching scholarly work on national cultures and how they influence business practices and organizational cultures was that of Hofstede (1980; 1991) whose work focused on ways of measuring national culture and how these "measures" might operate differently in different contexts. Hofstede pointed out the cultural values that were considered important in a national culture and which could be reflected in the way businesses within a country are operated and organized. Hofstede's work suggested that the differences between national cultures were based in deep-rooted values and were therefore largely implicit and tend to create operational challenges to corporates, their employees and their representatives doing business with suppliers or

customers in countries other than their own. Hofstede's typology covered five bipolar dimensions namely; *Power distance* that concerns the extent to which less powerful members of organizations within a country expect and accept that power is distributed unequally; *Individualism/collectivism* concerning societies that were individualistic and those that were more socially oriented or collectivist; *Masculinity/femininity* concerning the degree to which gender roles are distinct and adhered to within a society; *Uncertainty avoidance* concerning the extent to which the members of a society feel threatened by uncertain and unknown situations; *Confucian/dynamism* concerning the extent to which long-termism or short-termism appears to be the dominant approach. However, looking at the countries in Hofstede's samples, it is apparent that Africa as a sub-region was largely uncovered in the sample (Jones, 2007). Yet, while big and diverse, Africa, particularly sub-Saharan Africa also represents a distinct cultural region. As a result, there seems to be a limited scholarly work comparable to Hofstede's work that covers national business cultures in Sub-Saharan Africa.

Like with the rest of Sub-Saharan Africa, there is limited systematic research that has been undertaken on the national and business culture Uganda. Most references to business culture in Uganda are still anecdotal and rely on their experiences or their "understanding" of business practices. Examples include those of the New Vision (2012; 2013). Nonetheless, descriptions of business practices in Uganda characterize business culture in a number of ways. First, on business ethic and framework, Ugandans are described as being highly entrepreneurial (UIA, 2011). On the time and punctuality as well as the business workweek, Ugandans are described as "not overly concerned with being punctual. People are expected to arrive within the first hour or two after the appointed time. However, punctuality tends to be more valued in business situations" (Leading Edge, 2012). There is also flexibility on working hours and the work week. On decision making, Ugandans are described as group decision makers and there is a premium on consensus. Ugandans engage in extensive discussions and usually seek external advice before making decisions (UKTI, 2011). On meetings, Ugandans are described as beginning most meetings with introductory conversation about people's backgrounds and families before going into structured business discussions (UKTI, 2011). On women in business, Ugandans are described as being in transition regarding gender roles but women are involved in all business roles and types of business with few sensitivities related to the dress code that still exist. Business entertaining and gift giving are described as generally accepted and there are less sensitivities regarding greetings and courtesies (Leading Edge, 2012; UKTI, 2011). On the whole therefore, business culture in Uganda can, at a basic level, be characterized as highly entrepreneurial, with flexibility on the work week, allows freedom for women in business, values group decision making, but is poor in time keeping and respect for deadlines, allows less structured meetings while greetings, courtesies and business entertainment attract fewer cultural sensitivities. It remains less clear to what extent this type of culture is supportive or unsupportive of the globalization goals of TNCs.

However, following globalization, rapid technological change and the opening of national economies to transnational corporations (TNCs), enterprise attitudes and work style behaviours cited as vital to competitiveness and business linking with TNCs include: attitudes on time and time keeping, punctuality and meeting deadlines; attitudes on cost, quality and service; importance attached to business relationships; attitudes on technology and technology use; and lastly, honesty and integrity in business transactions. According to Wattapruttipaisan (2002; 2003), all these business culture elements are essential to creating business linkages between SMEs and large corporates particularly TNCs and if they are positive and consistent with international trends and expectations, can result in significant outsourcing by TNCs to local enterprises in an economy. Wattapruttipaisan points out that the reverse is also true.

Therefore, while having the right level of knowledge about a country's business culture helps transnational corporates avoid taking gambles in their international operations and results in higher chances of achieving their objectives, for SMEs in an economy, business attitudes and practices have to be consistent or at least close to international best practices if they are to stand a chance of being outsourced to by TNCs. With a supportive business culture, outsourcing to SMEs is a primer for strong business linkaging that may allow for business to business financing. When business to business financing develops, SMEs are enabled to mitigate the perennial challenges of limited access to finance (Lemuel, 2009; Lefilleur, 2009; Kauffmann, 2005) that are particularly common in Africa (Collier, 2009). Further growth in business linkaging with larger TNCs enables SMEs improve their levels of international cultural awareness, build international competencies and more globally sensitive. For the TNCs, improved linkaging with local SMEs further reduces their chances of failure in a market (UNCTAD (2006). Together, these possibilities create an additional imperative for exploring factors impacting on TNC-SME outsourcing including the role of business culture.

5. Study Design

5.1 Sampling and Data Collection

The survey covered TNCs with at least five years of operations in Uganda during the period May 2012–January 2013. TNCs from five sectors namely: Agro-processing, Iron and Steel, Real Estate and Construction, Telecommunications and Petroleum and Mining were covered. The sectors were selected because they were the sectors that had attracted significant foreign investment by 2012 and therefore had the highest concentration of TNCs. A minimum sample of 50 TNCs was selected for study, 10 firms from each sector since it would be higher than the acceptable minimum sample size for organizational studies (Rose & Sullivan, 1996). Data collection involved mainly the use of self-administered questionnaires. Where resistance was encountered, the drop and pick method (Ibeh, 2003) was employed. However, this represented less than 20% of usable questionnaires received. A total of 53 usable questionnaires were collected.

5.2 Variable Measurement and Data Analysis

Local business culture was measured using a five-point likert-type scale ranging from *Very good* to *very poor* covering six aspects of business culture namely: time keeping, concern for cost, quality and service, meeting deadlines, importance attached to business relationships, attitude on technology and technology use and honesty and integrity in business transactions. Finally, TNC Outsourcing Choice was assessed on whether a TNC outsourced some of its activities to local SMEs or not. Regarding data analysis, bi-variate correlations involving the spearman's rank order correlation was used to test for direction. Logistic regression test, which is ideal when one needs to predict the presence or absence of a characteristic or outcome based on a set of predictor variables (Morgan & Griego, 1998; Rose & Sullivan, 1996) was also used to determine the predictive power of business culture on local SME outsourcing choice by TNCs.

6. Findings

6.1 Level and Forms of Outsourcing between TNCs and Local SMEs

In order to assess whether or not outsourcing relationships between TNCs and local SMEs exist, TNCs were asked specific questions on whether they outsource their activities to SMEs and then to local SMEs in particular. The summary of responses is presented in Tables 1 and 2 below.

Table 1 Level of TNC Outsourcing to SMEs

Category	Currently Outsource Activities and Operations to SMEs		Currently Outsource Activities and Operations to Local SMEs	
	Frequency	Percent	Frequency	Percent
Yes	35	97	33	94
No	2	03	03	06

Source: Primary data

Table 1 shows that 97% of the TNCs operating in Uganda outsource their activities and operations to SMEs and 94% of the TNCs outsource to local SMEs. With regard to use of different forms of outsourcing or business linkage types, seven forms were investigated with regard to degree of use and associated risk perceived. The results are summarized in Table 2 below.

Table 2 Outsourcing Forms, Use by TNCs and Level of Perceived Risk (N = 36)

Linkage Type	TNCs in Use (%)	TNCs with High Perceived Risk %
Supply of Raw materials	61	31.6
Supply of other inputs	39	78
Provision of Services	75	20
Distribution of goods	41.7	30
Sub-contracting	41.7	12.5
Cluster membership	25	-
Strategic Partnership/Alliance	25	12.5

Source: Primary data

Table 2 shows that all seven forms of outsourcing or business linkages with local SMEs envisaged and surveyed were in use by TNCs. The results suggest that TNCs in Uganda use local SMEs to supply raw materials and other inputs, provide services, distribute goods, and sub-contract them on a variety of tasks. In addition, TNCs are involved in cluster memberships and also have formed strategic alliances with local SMEs. However, the proportion of use varies between the different outsourcing forms or business linkages with *supply of services* and *supply of raw materials* the most common outsourcing forms or business linkage types involving TNCs and local SMEs. Other outsourcing forms though in use are generally less common. With regard to the level of perceived risk of business with local SMEs, this is generally low across all outsourcing forms except for *supply of other inputs* (non raw materials) where 78% of TNCs reported high perceived risk.

6.2 TNC Perceptions of the Business Culture and Workstyle of SMEs

An assessment of the supportiveness of the local business culture and workstyle of SMEs on business linkage establishment and sustenance between TNCs and SMEs was undertaken using a 5-point likert-type scale ranging from 1 Very high and 5 None. The results are summarized in Table 3 below.

Table 3 TNC Assessment of Supportiveness of SME Business Culture and Work Style

Aspect of Business Culture & Workstyle	N	Minimum	Maximum	Mean	Std. Deviation
Importance attached to business relationships	36	1.00	3.00	2.0556	0.71492
Honesty and integrity in business transactions	35	1.00	4.00	2.2571	0.81684
Attitudes on technology and technology use	35	1.00	4.00	2.4571	0.81684
Attitudes on cost, quality, service	36	1.00	5.00	2.4722	0.84468
Attitude on meeting deadlines	36	1.00	4.00	2.5000	0.91026
Attitudes on time keeping	36	1.00	5.00	2.5833	0.90633

Source: Primary data from TNC survey

Table 3 above shows that one aspect of culture—*importance attached to business relationships* had a mean score of 2.0 suggesting that this aspect was considered to be strongly supportive of business linkage establishment and sustenance. The other aspects of SME business culture namely: attitudes on time keeping, attitude on meeting deadlines, attitudes on cost, quality, service, attitudes on technology and technology use, honesty and integrity in business transactions scored between 2.0 and 2.5 suggesting that these were considered by TNCs to be moderately supportive of business linkage establishment and sustenance.

6.3 Correlation and Logistic Regression Analysis

As a first step to regression, correlation using the spearman's rank order correlation was undertaken to determine the direction of the relationship between different aspects of culture and local SME outsourcing choice by TNCs. Regression analysis, using the binary logistic test that is suitable for categorical variables was undertaken to test the predictive power of culture on local SME outsourcing choice by TNCs. The results of both tests are presented in Tables 4 and 5.

Table 4 Correlation of Business Culture and Local SME Outsourcing Choice by TNCs

Aspect of the Local Business Culture and Workstyle	R.	Sig
Attitudes on time keeping	-0.307	0.073
Attitudes on Cost, Quality, and Service	-0.409*	0.015
Attitudes on meeting deadlines	-0.155	0.374
Importance attached to business relationships	-0.013	0.939
Attitudes on Technology and technology Use	-0.103	0.562
Honesty and Integrity in business transactions	-0.238	0.175

Note: *. Correlation is significant at the 0.05 level (2-tailed); **. Correlation is significant at the 0.01 level (2-tailed).

Table 4 shows that all the local business culture variables are negatively correlated with local SME outsourcing choice by TNCs. Secondly, one aspect-attitude on cost, quality and service is significantly correlated to local SME outsourcing choice by TNCs while the other aspects are not. The results suggest that overall, local business culture in Uganda influences local SME outsourcing choice by TNCs negatively and this influence is significant in the case of local attitudes on cost, quality and service.

With regard to the predictive power of culture on local SME outsourcing choice by TNCs, the results of logistic regression in tables 5a and 5b show that local business culture is a strong predictor of local SME outsourcing choice by TNCs. The prediction was above the Cut Value of 0.500 (90%) suggesting that local business culture overall had very strong predictive ability for local SME outsourcing choice by TNCs. However, taking the cultural variables individually, *local attitudes on cost, quality and service* was the aspect with that was significant (Beta -4.476, Sig. 048) while the other aspects were not significant. The results suggest that the effect of local business culture on local SME outsourcing choice by TNCs is primarily driven by local attitudes on cost, quality and service.

Table 5a Logistic Regression Results—Classification Table

Dependent Variable	Predicted		Percentage
	Yes	No	
Do you outsource any of your activities and operations to local SMEs			
Yes	42	1	98
No	4	3	43
Over all Percentage			90

Note: Cut value is 0.500, predictor: Local business culture (all aspects combined).

Table 5b Logistic Regression Results—Variable Coefficients

Predictor Variable	Beta	S.E	Wald	df	Sig.
Local Attitudes on time keeping	-3.169	1.631	3.777	1	0.052
Local attitudes on cost, quality and service	-4.476	2.266	3.903	1	0.048
Local attitude on meeting deadlines	0.493	0.841	0.344	1	0.558
Importance attached to business relationships	-1.318	1.154	1.305	1	0.253
Local attitudes on technology and technology use	1.673	1.254	1.778	1	0.182
Honesty and integrity in business transactions	3.730	2.004	3.464	1	0.063

Note: Dependent variable: local SME outsourcing choice by TNCs.

7. Discussion and Implications

As expected, outsourcing to SMEs is a significant feature of TNC activities and operations in Uganda with 97% of the TNCs outsourcing their activities and operations to SMEs and 94% of them outsourcing to local SMEs. Although the motivating factors for outsourcing were not specifically investigated, this level of outsourcing to SMEs is consistent with the literature on TNCs that suggests increasing necessity to outsource to smaller firms in new markets due to competitive, market penetration, efficiency and other reasons (Subrahmanya, 2006; Okatch et al., 2011). The results confirm the notion that TNCs in line with current trends of globalization of economic activities find outsourcing inevitable as long as competent suppliers can be obtained locally (Wattapruttipaisan, 2002), something that engenders economic opportunities for smaller players particularly SMEs. That most outsourcing is concentrated on supply of services and supply of raw materials with low perceived risk is also not surprising as TNCs tend to view developing country markets such as Uganda as sources of raw materials as opposed to *supply of other inputs (non-raw materials)* with a higher perceived risk of 78%, which tend to involve high technology content that local suppliers tend not to have. Therefore, the results seem to confirm that trends associated with globalizing TNCs' outsourcing behaviours are also prevalent in Uganda.

Furthermore, the results of the study show that local business culture was considered moderate in supporting TNC-SME business relationships (Mean between 2.00-2.5) except for *importance attached to business relationships* that was considered strongly supportive with a mean score of 2.0. The results further show that all local business culture aspects were negatively correlated with local SME outsourcing choice by TNCs with only one aspect—*local attitudes on cost, quality and service* significantly correlated. The results suggest that while local business culture influenced local SME outsourcing choice by TNCs negatively, this influence was significant with regard to local attitudes on cost, quality and service. Similarly, the results showed that local business culture is a strong predictor of local SME outsourcing choice by TNCs but more specifically, the aspect of local attitude on cost, quality and service was the only significant predictor, suggesting that the effect of local business culture on TNC outsourcing choice is primarily driven by the local attitudes on cost, quality and service. Apparently therefore, local business culture in Uganda while not severe and is acceptable, it is considered not good enough to support business linkage establishment and sustenance with TNCs. Only one aspect of the local business culture—*importance attached to business relationships* is considered good enough to support TNC-SME business relationships while all other aspects namely: attitude on time keeping, attitude on meeting deadlines, attitudes on technology and technology use, honesty and integrity in business transactions, and attitude on cost, quality and service do not support strong TNC-SME business linkaging. To foster strong TNC-SME business relationships therefore, it is apparent that majority of the SME business culture and work style aspects require addressing to be

consistent with international trends and expectations.

Moreover, given that the local business culture seems to influence TNC-SME business relationships negatively, it is suggested that such relationships are either prevented from being established or when established are made weaker due to business culture and work style aspects that are less supportive or even repulsive. According to Wattapruttipaisan (2003), business culture elements have to be positive and consistent with international trends and expectations to result in significant outsourcing by TNCs to local enterprises in an economy and when the local business culture is not, the reverse often happens. Although 94% of the TNCs reported outsourcing to local SMEs, it is likely that this outsourcing does not result into strong business relationships, collapses soon after establishment (possibly at the initiation of the TNC) resulting in loss of outsourcing business from one SME to another. There is therefore a strong likelihood of high SME turnover in TNC outsourcing relationships. This seems to be supported by the high incidences of favouritism and segregation in the award of lucrative contracts in favour of foreign companies reported in Uganda's petroleum sector (Daily Monitor, 2012; The East African, 2012). It is also likely that outsourcing is driven by other factors other than SME-related factors, which tends to reduce the beneficial impact that this outsourcing might engender to the SMEs in form of better price offers as well as different forms of business-to-business (b2b) financing (Kumar & Subrahmanya, 2007). To ensure sustainable and beneficial linking between TNCs and SMEs, policy and regulatory frameworks to guide TNC-SME outsourcing relations appear necessary across sectors. This may take the form of SME-friendly National Content Policies (NCPs) that provide for measures of beneficial impact from TNC-SME outsourcing relationships.

Furthermore, while local business culture and workstyle of SMEs did not seem to support strong TNC-SME business relationships, it was a strong predictor of local SME outsourcing choice. This implies that business culture determined whether a TNC decides to outsource to a local SME or not. Since the attitude on cost, quality and service was the most significant predictor, it is further suggested that a TNC will outsource to local SMEs primarily based on the SMEs' attitude to cost, quality and service although other factors are also important. Therefore, to be able to increase the ability of SMEs to obtain outsourcing opportunities from TNCs, greater emphasis needs to be put on this aspect of culture and workstyle. Given the finding that TNCs are generally willing to outsource locally, SMEs just need to be more sensitive to cost, pay greater attention to quality and quality standards as well as service levels above all else. At the same time, policies that require stringent adherence to quality standards seem to require increased emphasis in the short term as are capacity building programs to SMEs regarding compliance to international levels of efficiency and service quality.

In conclusion, given that trends associated with globalizing TNCs' outsourcing behaviours are prevalent but with a relatively high degree of ambivalence with regard to outsourcing to local SMEs, fostering strong TNC-SME business relationships requires conscious adjustment in the majority of the SME business culture and work style aspects to be consistent with international trends and expectations. Greater adjustment is required with regard to sensitivity to cost, attention to quality and quality standards as well as service levels. SME capacity building interventions are required to aid this adjustment. Lastly, this study did not capture the proportion of TNC business outsourced to local SMEs that would provide a better indicator of the degree to which TNCs in Uganda outsource locally and therefore the effect of business culture on TNC outsourcing outcomes was difficult to quantify. This aspect might be important in future research.

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