

TITLE: FIRM INNOVATION BEHAVIOUR AND PERFORMANCE**Abstract**

Manufacturing firms in developing countries operate under structurally weak conditions, characterized by limited regulatory enforcement, pervasive informality, shallow financial markets, inadequate intellectual property protection, and minimal Research and Development (R&D) investment, all of which constrain innovation and firm performance. In Uganda, the scarcity of locally developed innovations reinforces dependence on imported goods, eroding domestic initiative, undermining value addition, employment creation, and long-term competitiveness. This dissertation examines how Ugandan manufacturing firms address these innovation challenges and whether their innovation behavior translates into performance gains. Specifically, it (1) examines the effects of competition from the informal sector (CIS) and access to finance on firm innovation behaviour, (2) identifies the product innovation strategies employed by manufacturing firms, and (3) analyses the impact of these strategies on firm performance. To guide the analysis, the study draws on five interrelated theoretical frameworks: dual economy, pecking order, institutional theory, and both the resource-based and knowledge-based views. The first objective employs World Bank Enterprise Survey data and a multivariate probit model, revealing that exposure to CIS stimulates product innovation, with financing sources shaping firm innovation choices. The second objective categorizes product innovation strategy into four groups: product innovation is internally developed (Make), sourced externally (Buy), created through collaboration (Ally), or developed by modifying original innovations (Imitate). It utilizes the Uganda National Innovation Survey (NIS) dataset, indicating that product innovation strategies differ according to firm innovation expenditures, obstacles, information sources, and objectives. Firms investing in external R&D and machinery acquisition are more likely to innovate. The third analysis, based on PLS-SEM and using the NIS dataset, reveals that product innovation strategy has no direct effect on firm performance, suggesting mediation by other firm capabilities, including product novelty and, to a lesser extent, internationalization. The study suggests improvements in regulatory enforcement, encouraging formalization of informal businesses, and expanding affordable long-term financing. Additionally, there is need to enhance firm R&D capacity and external technology acquisition, strengthen existing policies such as “Buy Uganda Build Uganda” (BUBU) to promote locally manufactured goods’ consumption, and strengthen the intellectual property rights (IPR) framework to incentivize firms to develop new products. Finally, prioritizing novelty is vital for fostering firm performance.

Keywords: innovation, finance, informality, manufacturing, strategy, & firm performance

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