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Influence of Retained Earnings on the Growth of Small and Medium Size Manufacturing Enterprises in Rwanda

The purpose of this study was to analyze the influence of retained earnings finance structure on the growth of manufacturing SMEs in Rwanda. To reach the study objective, mixed research design was used in collecting, analyzing and interpreting quantitative data. The target population of this study consisted of all the 868 small and medium manufacturing enterprises registered with Rwanda Development Board as of November 2017. A study sample size of 273 firms was considered using stratified and random sampling techniques. Close-ended questionnaires were employed in data collection. The data collected was analyzed using Statistical Package for Social Science to generate descriptive statistics including percentages, frequency tables and mean scores. Multiple regression analysis was used to explore the relationship between retained earnings and the growth of small and medium size manufacturing enterprises in Rwanda. The study findings from regression coefficients on retained earnings and growth of small and medium manufacturing enterprises revealed a beta coefficient of $\beta=0.255$, $p=0.000 < 0.05$. These results indicate that retained earnings have a positive and significant effect on growth of manufacturing SMEs in Rwanda. Hence, a unit increase in retained earnings would result into an increase of 0.225 units in growth of small and medium manufacturing enterprises among the recommendations, the management of the SMEs in Rwanda should consider reinvesting some of the profits into business to support growth. Similarly, governments, NGOs and Lending institutions must come together to create a forum where small business are trained in cash and capital management. This will ensure that some small businesses retain their earnings to finance firm expansion and growth during times of low liquidity such as the turbulent financial times created by the COVID 19 pandemic.

Key Words

Retained earnings; Small and Medium Size Manufacturing Enterprises

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