

Firm Size and Technical Efficiency in East African Manufacturing Firms

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Abstract

The main objective of this study was to establish the relationship between firm size and technical efficiency in East African manufacturing firms. This study used a two-step methodology to examine the relationships between technical efficiency and firm size in East African manufacturing firms. In the first step, technical efficiency measures were calculated using DEA approach. Secondly, using GLS technique, a technical efficiency equation was estimated to investigate whether technical efficiency is increasing in firm size. Contrary to our expectation, the results showed a negative association between firm size and technical efficiency in both Ugandan and Tanzanian manufacturing firms. The existence of a positive association between size squared and technical efficiency and a negative association between firm size and technical efficiency in Ugandan and Tanzanian manufacturing firms suggests an inverted U- relationship between firm size and technical efficiency in these countries.