

**Factors Influencing the Performance of Small and Micro Enterprises (SMEs) of Somaliland a Case Study in Hargeisa Town**



**A Thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Sciences in Accounting and Finance**

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**JIMMA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
SCHOOL OF GRADUATE STUDIES  
DEPARTMENT OF ACCOUNTING AND FINANCE**

**November, 2020  
Jimma  
Ethiopia**

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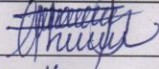
**Jimma  
Ethiopia**

## DECLARATION

I, the undersigned, declare that this study entitled "Factors Influencing the Performance of Small and Micro Enterprises (SMEs) of Somaliland a Case Study in Hargeisa Town" is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

Declared by:

Name: Aidarous Ahmed Ali

Signature: 

Date: 11<sup>th</sup> of march 2021

## CERTIFICATE

This is to certify that this study, "*Factors Influencing the Performance of Small and Micro Enterprises (SMEs) of Somaliland a Case Study in Hargeisa Town*", undertaken by *Aidarous Ahmed Ali* for the partial fulfillment of Master of Sciences Degree in Accounting and Finance at Jimma University, is an original work and not submitted earlier for any degree either at this University or any other University.

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**Research Advisor:**

Mr. Abiy Getahun

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Date: 11<sup>th</sup> of March 2021

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**Research Co-advisor:**

Mr. Mengistu Deyasa

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## **ABSTRACT**

*Small and Micro Enterprises (SMEs) play an important economic role in many countries of the world. Over the past 10 years, economic planners have realized the importance of the small enterprises in achieving economic development. SMEs occupy a prominent position in the development agenda of many developing countries like Somaliland. Currently, In Somaliland, the Government has been promoting the development of SMEs through the formulation and implementation of Small and Micro Enterprises Development Strategy, but some enterprises fail to sustain, and some others remain for a long period of time without transforming into middle level enterprise. The purpose of the study is therefore to assess the factors influencing the performance of small and micro enterprises, in Hargeisa town, Somaliland. Primary data were collected from a sample of 198 randomly selected SMEs engaged in Electronics, Boutiques/clothes shop/tailoring, Transport, Supermarket and Retail shop, through structured questionnaire by using stratified random sampling techniques. Data were analysed using descriptive and inferential statistics with using a Statistical Package for Social Science (SPSS version-23). Specifically, multiple linear regression analysis was carried out to examine the variation in the performance of enterprises related to the variation in each of the independent variables of the study. The results show that the performance of small and micro enterprises is determined by age of the respondent, education level of respondents, business type, preparing plan for future operations, record keeping and financial control system, management experience for business and marketing related skill, but being male or female and being one or more than one ownership have no effect on capital change. Based on the result we can recommend that stake holders of the sector should work on preparing training programs on management issues and creating experience sharing opportunities especially to those enter into the sector without any management experience. Similarly based on the result we can recommend SMEs should start using plan to their business activities and also adopt a formal record keeping and financial control system in their internal practice.*

**Key Words:** Small and Micro Enterprises, performance, factors,

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## Table of Contents

ABSTRACT.....	i
ACKNOWLEDGMENT.....	ii
ACRONYMS.....	vi
LIST OF TABLES.....	vii
LIST OF FIGURES.....	viii
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1 Background of the study.....	1
1.2 Statement of the problem.....	2
1.3. Research questions.....	5
1.4. Objectives of the study.....	5
1.4.1 General objectives.....	5
1.4.2. Specific Objectives.....	6
1.5. Significance of the study.....	6
1.6. Scope of the study.....	6
1.7 Limitations of the study.....	7
1.8 Organization of the paper.....	8
CHAPTER TWO.....	9
REVIEW OF RELATED LITERATURE.....	9
2.1. Theoretical Review.....	9
2.1.1 Sstakeholders' Theory.....	9
2.1.2 Resource Based Theory.....	9
2.2. Small and Micro Enterprises (SMEs).....	10
2.3 Definition of Business Performance.....	13
2.4. Measures of performance.....	14
2.5. Factors influencing SMEs performance.....	15

2.6. Personal Related Factors .....	17
2.6.1. Gender of the Entrepreneurs .....	17
2.6.2. Education status of the Entrepreneurs.....	17
2.6.3 Age of the Entrepreneurs .....	19
2.6.4. Management familiarity of business owners .....	20
2.7. Business Related Factors.....	21
2.7.1. Marketing capability of Business Owners .....	21
2.7.2. Planning strategy of the business .....	22
2.7.3. Record Keeping and Financial Control of the enterprise.....	23
2.7.4. Form of Ownership.....	23
2.7.5. Type of Business Small and Micro Enterprises .....	24
2.8. Empirical Study.....	24
2.8.1 Knowledge Gaps .....	27
2.9. Conceptual Framework.....	28
CHAPTER THREE .....	29
RESEARCH DESIGN AND METHODOLOGY .....	29
3.1. Introduction .....	29
3.2. Description of the study area.....	29
3.3. Research design.....	29
3.4. Types and Source of Data .....	30
3.5. Target population .....	30
3.6. Sampling design .....	30
3.6.1 Sampling technique.....	31
3.7. Method of data collection.....	33
3.8. Method of data analysis and presentation .....	33
3.9. Model specification .....	34
3.10. Definition of Variables.....	34
3.11. Ethical consideration .....	35



CHAPTER FOUR.....	36
RESULTS AND DISCUSSION .....	36
4. Introduction .....	36
4.2. Demographic background about the respondents .....	36
4.3. General Information on Business Enterprises .....	39
4.4. Multiple Regression analysis .....	41
4.4.1: Assumption of multiple linear regression analysis .....	42
4.4.3: Regression analysis.....	45
4.5 Hypothesis testing and discussion with literature .....	47
CHAPTER FIVE .....	53
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	53
5.1 Summary .....	53
5.2. Conclusions .....	54
5.3. Recommendations .....	54
Reference .....	57
Appendices.....	62

## **ACRONYMS**

SMEs .....	Small and Micro Enterprises
MoTIT.....	Ministry of Trade Industry and Tourism
CSDS.....	Central Statistics Department of Somaliland
GEM.....	Global Entrepreneurship Monitor
GDP.....	Gross Domestic Product
ROI.....	Return-On-Investment

## LIST OF TABLES

Table 2.1: The SME Definition Table .....	12
Table 3-1 Sample size selection procedures using stratified random sampling .....	32
Table 4.1. Age of respondents .....	37
Table 4.2: Educational level of respondents .....	37
Table 4.3: Summary statistics for continuous variables .....	38
Table 4.4: General Information on Business Enterprises .....	39
Table 4.5: Multi-collinearity test .....	45
Table 4.6: Model Summary .....	45
Table 4.7. ANOVA.....	46
Table 4.8: Regression analysis on the dependent variable growth of SMEs' .....	46

## LIST OF FIGURES

Figure 3.1 Conceptual frameworks (Own Model).....	28
Figure 4.1: Sex of respondents.....	37
Figure 4.2: Histogram .....	43
Figure 4.3: Normal P-P plot.....	44
Figure 4.4: Scatter Plot .....	44

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Small and Micro Enterprises (SMEs) play an important economic role in many countries of the world. Over the past 10 years, economic planners have realized the importance of the small enterprises in achieving economic development. Many governments and development organizations have focused on the promotion of SMEs as a way of encouraging broader participation in the private sector. Small and medium-sized enterprises (SMEs) are the backbone of Singapore's economy, contributing 47% of the country's GDP and generating 62% of available jobs (Allison1984). Similarly, micro, small and medium-sized enterprises (SMEs) play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises (European Commission, 2011). For instance, in Britain; SMEs are the backbone of the British economy (Rowe, 2008). According to the Department for Business, Enterprise & Regulatory Reform (BERR)'s Enterprise Directorate Analytical Unit, the UK economy is 99% SMEs, employing 14.23m people, out of a working population of approximately 30 million. In terms of UK turnover and Gross Domestic Product (GDP), UK SMEs account for 1.48trillion sterling (British Pounds). SMEs (with at least 1employee) outperform the large UK Corporations in terms of productivity despite having minimal resources, little support is largely ignored. Large UK Corporations of 250 employees which account for 52% of employment but less than only 50.8% of UK turnover (ibid), thus the UK economy is supported by SME performance, and improving performance will have a substantially positive effect on the entire UK economy.

The promotion of SMEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in Africa. SMEs are the main source of employment in developed and developing countries, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP (Okafor2006). However, many SMEs remain outside the formal banking sectors yet they play a key role in the economy of many countries. In Somaliland, they create employment at low levels of investment per job, according to the Baseline Survey (2011), there are estimated over 100,000

micro-small enterprises that provide employment opportunities to nearly quarter of a million people or 33% of the country's total employment. Accordingly, a large number of urban and rural households derive their livelihood from small-micro enterprises. Despite the problem of business failure is standing issue in Somaliland their significance, past statistics indicate that 34 out of the 72 small and medium enterprises have closed down between 1996 and 2012 due to the many challenges they face (UNDP, 2012). However, it is generally recognized that SMEs face unique problems, which affect their growth and profitability and, hence, diminish their ability to contribute effectively to sustainable development. Many of the problems cited have implications for technology choice. These problems include lack of access to credit, inadequate managerial and technical skills, low levels of education, poor market information, inhibitive regulatory environments, and lack of access to technology (Harper 1974; ILO, 1989; House et al. 1991). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo and Mutiso, 1999). According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs.

As with many developing countries, there is many research and scholarly studies about the SMEs sector while there is a few research in Somaliland particularly SMEs in Hargeisa town. However, this survey highlights the regional distribution of enterprises in Somaliland. Given the importance of SMEs to the Somaliland economy and the exposure to risks owing to their location, there is need to conduct this study to investigate the factors influencing the performance of SMEs in Hargeisa Town and to get a solution the problems SMEs face.

## **1.2 Statement of the problem**

The Small and Micro Enterprise sector (SME) has been recognized throughout developing countries in the areas of wealth creation and the improvement of living standards. A huge majority of firms worldwide are SMEs, and they play a significant role in the economy. Even in the developed market economies SMEs account for a large share in output and employment (UNECE, 2003).

Mead (1998) observed that the health of the economy as a whole has a strong relationship with the health and nature of SMEs. According UN-Habitat (2006) problems at small and medium sized enterprises in Somaliland include: difficult access to market, products of poor quality, no information on market demands and new products, poor management experience, difficulty to compete with imports, poor strategic planning, local purchasing power is generally low due to widespread poverty and unemployment/idleness.

However, the government efforts to promote SMEs activity, not much progress seems to have been achieved, judging by the performance of the informal sector. Unfortunately, there is very little information on how the small business sector is structured. Starting and operating a small business includes a possibility of success as well as failure. Because of their small size and the exposure to risks owing to their location, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes (Robleh M Houssein, 2017).

Study conducted by Solomon (2016) revealed that SMEs suffer from a mass of internal problems, one of the internal factors which affect the performance of small and micro enterprise is the characteristics of the business and the capability of the business managers that means the skill of the manager, the education level of the enterprises, the age of the business by itself has significant impacts rather than the externals. This can also easily have seen on the limited jobs available in the market compared to the population of unemployed number of youth that join the working age and the substantial controversy existing over the underlying growth assumption. This is due to different institutional, policy, operational and financial constraint factors existing from both sides, from government and SME's owners.

Wolday (2004) examined factors hindering the development of SME and found interruption of electric power, unreliability of water supplies and unavailability of adequate transportation and high taxes to be the major challenges for the development of micro and small enterprises.

On the other hand, a study conducted by Solomon Worku (2004), which focuses on the determinants of enterprises growth, finds age of the entrepreneurs and the start-up capital, the extent of diversification, availability of infrastructural facilities, availability of own working premises and availability of workers with vocational formal training as the major determinants for the growth of small and micro scale enterprises.

Study of Said (2010) conducted on factors influencing the performance of small scale enterprises in Hargeisa, the findings revealed that those problems like high illiteracy levels of most of the business owners, business owners had no entrepreneurship or managerial skills and it is not easy to access credit facilities from other sources to finance the business operation. But these findings are not included factors like, partnership form of the business, planning practice of the business record keeping and financial controls, marketing. Thus this study tries to examine how these factors influencing not only Small but Small and Micro Enterprises. In addition to this, the model used by the researcher was descriptive type. But the descriptive type cannot measure regarding on the extent on factors that influencing the performance of Small and micro enterprises rather than mentioning only on Small scale enterprises.

Somaliland has far failed to maximize the benefits derived from the SME sector, which promises and needs to play a pivotal role in promoting and sustaining the industrial as well as overall economic growth (Ahmed M. U., 2003). The failure can be attributed to various reforms and trade liberalization measures that have squeezed the sphere of Government's activity in business. Consequently, the private sector has to lead the economy in a dynamic growth path.

On the other hand, the country has one of the highest unemployment rates and the number of urban unemployment raised to 1.1million and the number of urban populations below poverty line is 37% (Rami Alasadi, 2007). Hence, to promote the proliferation of SME and enhance its performance to enable to tackle the problem of unemployment and poverty reduction, the government forwarded SME Development Strategy in 1997, in 2003 and in 2011.

However, the studies were conducted several years ago, and a lot must have been changed since then. However Small and micro enterprises are the major agents of economic growth and Employment. Any good policies and strategies need to rely on timely information if they are to promote small and micro scale enterprises with the view to increasing their contribution to poverty reduction and economic growth.

In Somaliland, the Government has been promoting the development of SMEs through the formulation and implementation of Small and Micro Enterprises Development Strategy and the number of SMEs in the country is steadily growing. But, a lot of these businesses are failing and seize operations (UN-Habitat, 2006) And some others remain for a long period of time without



transforming into middle level enterprise. they are producing similar and non-standard products and are not showing competitive performance improvement. However, a many Research studies exist that examines these factors influencing performance of SMEs in developing countries, while there are a few researches conducted on this topic in Somaliland. Therefore, the first motive to undertake this study would be due to that a lot of SMEs are failing and seize operations, it is important to know the factors that are affecting business performance. According to that the researcher conducted on this topic on factors influencing the performance of small and micro enterprises, in Hargeisa town, Somaliland.

### **1.3. Research questions**

- What are the factors affecting the performance of small and micro enterprises in relation with their personal related factors (gender, age and educational level)?
- To what extent the management experience of the enterprises owners affect performance of small and micro enterprises?
- To what extent ownership of the principals and type of business affect performance of small and micro enterprises?
- Is there any significant difference on the performance of small and micro enterprises in relation to the use of record keeping and financial control mechanism of enterprises?
- What is the relationship between planning practice of enterprises and performance of small and micro enterprises?
- Is there any significant difference on the performance of small and micro enterprises in relation to the difference marketing skill of owner of the enterprises?

### **1.4. Objectives of the study**

#### **1.4.1 General objectives**

The main objectives of this study was to determine the factors influencing the performance of Small and Micro Enterprises (SMEs) of Somaliland a Case Study in Hargeisa Town

#### **1.4.2. Specific Objectives**

1. To investigate the main factors that affect the performance of small and micro enterprises in relation with their personal related factors
2. To determine the extent to which management experience of the enterprises owner affect performance of small and micro enterprises
3. To determine the extent to which ownership of the principals and type of business affect performance of small and micro enterprises
4. To examine the extent to which planning practice of enterprises affect performance of small and micro enterprises
5. To determine the extent to which using record keeping and financial control mechanism of enterprises affect performance of small and micro enterprises
6. To examine the extent to which difference marketing skill of owner of the enterprises affect performance of small and micro enterprises.

#### **1.5. Significance of the study**

The result of this research would come up with major concerns that hinder the performance of small and micro enterprises and may offer policy recommendations based on the research finding. So, this research is expected to be support entrepreneurs, they may use the finding of this research as additional information to address the problems uncovered in the development of SMEs and the small and micro enterprises development office and the owners of such enterprises may be able to know the real problems and then to seek solution for those problem. As well as academic scholars /researchers the findings from this study will assist academicians in broadening of the prospectus with respect to this study hence providing a deeper understanding of the critical factors that affect the performance of SMEs. Also, non-Governmental Organizations (NGOs) and other Development Partners dealing with poverty eradication will also find the report useful. So, it will serve as document to policy makers as well as SMEs in Somaliland.

#### **1.6. Scope of the study**

The study assessed factors influencing the performance of SMEs in Somaliland particularly in Hargeisa City, one of the urban centers in Somaliland. The choice of this urban center is that being the Capital City, it is has attracted a number of local and international investors. Most,

have invested in several SMEs. On account of these diverse SMEs, Hargeisa City was found to be rich in a study population out of which a sample would be derived from. According UN-Habitat these problems are those affect at small and medium sized enterprises in Somaliland thus this study is delimited to the marketing skill, planning practice, educational level of the founders, owners age, owners' gender, management experience, ownership type and record keeping practice. Besides, the scope of this study was spread across SMEs especially in the business sector of Electronics, Boutiques/clothes shop/tailoring, Transport, Supermarket, Retail Shop and Service (shoeshine/barbershop/salon/ stationary). Therefore, this study was carried out for this year of 2019-20.

### **1.7 Limitations of the study**

All studies have limitations. Considering that the research questions and the objectives were set to be attained, the first limitation is that they suffer from restricted phenomenon in the context of the sample. The sample used in this study could possibly limit the generalizability of results of the study compared with that of studies conducted with samples of a wider scope and diversified characteristics. Therefore, the study recommends that the future research based on this study's model investigates samples with wider scope and more diverse characteristics in order to increase the generalizability of results, because a being investigating samples with wider scope a there is a possibility of being generalizing the results of the study, because the term generalizability means the results of one study being applicable in other similar population as well. This is usually most unlikely as result generalizability would always be a limiting factor in single study. Secondly, the methodology employed in this study relied on cross-sectional research, and as a result, the casualty between variables was not exploited comprehensively. As a result, it is recommended that the future longitudinal studies be conducted on the same topic to examine deeply other factors that could be of greater influence on the SMEs in Somaliland. Lastly, in general, there was a common method bias that existed because the study used a questionnaire for data collection. Qualitative data collection instruments such as interviews could have tapped into greater inner personal and silent opinions and perceptions of the participants, that means the researcher has collected the data from just one source like questionnaire in case of quantitative data so there is a possibility the researcher will get qualitative data of the same topic through interview or focus group then research might be different so this called common bias.

Quantitative data most collected in this study; Therefore, the study recommends that the future research based on this topic must collect qualitative data through to get in-depth analysis because of quantitative data based on object opinion while qualitative data based on subject opinion.

## **1.8 Organization of the paper**

The rest of the paper is organized as follows: chapter two presents theoretical and empirical related literature to the study. The third chapter contains a brief description of the research design. In chapter four detailed findings of the study and discussion were made. Finally, chapter five presents the conclusions and recommendations of the study.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1. Theoretical Review**

The matter under review is firm performance. This is a subset of organizational effectiveness that covers operational and financial outcomes (Santos & Brito 2012). From the theoretical perspective, the most suitable theories that can explain the SMEs performance in the study area are: the stakeholders' theory and resource-based theory.

##### **2.1.1 Stakeholders' Theory**

The stakeholders' theory is one of the most robust theories that explain firm performance in the business management field. This theory was coined by Freeman in 1984 and refers a stakeholder as any "group or individual who can affect, or is affected by, the achievement of a corporation's" (p.vi) or "organization' purpose" (p.54), "firm's objectives" (p.25), "organization's objectives" (p.46) or "performance" (p.iv). This theory argues that for firms to perform, they must have an experience of interconnected relationships between themselves and their customers, suppliers, employees, investors, communities and others who have a stake in them. For this case, the SMEs in Hargeisa City have to related and connect with all the customers from different parts of the world, the suppliers of services and goods and the like. The *theory* argues that a *firm* should create value for all *stakeholders*, not just shareholders.

##### **2.1.2 Resource Based Theory**

According to Rindova and Fombrun (1999) and in line with the resource-based view of the firm and its eventual performance, resources, capabilities and core competencies are essential for a firm's competitive advantage. This therefore means that sufficient resource support and policies are needed to create capacities that are vital for SMEs' performance. This theory provides a structure that allows us to explain how business such as the SMEs in Hargeisa City can identify suitable measures to overcome growth obstacles, have better access to technology resources, manpower resources, financial resources, natural, and infrastructure, and access to the market. In effect, there are four types of tangible resources financial, organisational, physical, and technological. There are also other intangible resources: human, innovation and reputational

resources (Barney, 1991; Grant, 1991). By and large, these are some of the resources that can trigger firm performance, and in this case the SMEs' performance in Hargeisa City (Somaliland).

## **2.2. Small and Micro Enterprises (SMEs)**

There is an anxiety among policymakers, economists, and business experts that Small and Micro Enterprises (SMEs) are drivers of economic growth. A healthy SMEs contribute prominently to the economy by creating more employment opportunities, generating higher production capacities, increasing exports, and introducing innovation and entrepreneurship skills. As Gebreyesus (2009) cited in Dababneh and Tukan (2007), the feature of SMEs not only reflects the economic forms of a country but also the social and cultural proportions. These diverse forms are observably reflected within different definitions and criteria of SMEs used by different countries: On the other hand, some refer to the number of employees as their typical criteria for SMEs, others use invested capital, and another uses an aggregate of the number of employees, invested capital, sales, and industry type.

Though, there is no single and globally acceptable definition of a small enterprise (Kayanula and Quartey, 2000:35). United Nations Industrial Development Organizations (UNIDO) provides an alternative definition for developing countries. Thus, it defines micro-enterprises as business firms with less than 5 employees and small enterprises as business firms with 5-19 employees (UNIDO, 2002:53).

The United States of America, the Small Business Act issued in 1953 declared that a small business is one that is individually owned and worked and not governing in its field of operation. The act also moreover said that, number of workers and sales volume as a guideline in defining small businesses (Major L. C. & Radwan N. S., 2010:2019). In the same country, a committee for economic development (CED) has defined that small business is characterized by at least two of the important features: management is independent (normally the administrators are owners), capital is supplied and an individual or small group holds ownership and the area of operation is mainly local (workers and owners are in one home country). According to Kaya Nula and Quartey (2000:16) in Malawi, the reliable definition of enterprise sizes is based on three criteria namely the level of capital investment, number of employees, and turnover. An enterprise is defined as a small scale if it meets any two of the three criteria, that is, it has a capital investment

of USD 2,000 - USD 55,000, employing 5-20 individuals and with a turnover of up to USD 110,000 (using 1992 official exchange rate).

In Kenya, by referring the 1999 SME National Baseline Survey, SMEs defined as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting, gathering, and forestry), whether in the formal or informal sector which employs 1-50 individuals (Ronge et al., 2002 cited in Mulugeta, 2011:15). More attainable, according to them, micro-enterprises are those that employ 10 or fewer workers and small-scale enterprises are those that employ 11-50 workers. The same study argued that the above definitions are based on one of the three criteria mainly used in literature to define SMEs-number of employees. The second criterion relies solely on the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, SMEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes, and labor laws. The last criterion defines SMEs by their limited amounts of capital and skills per worker. The above-indicated authors emphasized highlighted that the degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of SMEs is based; and lastly, they claimed that the term SME incorporates firms in both the formal and informal sectors.

Rigorously defining small business has always been hard, even controversial. The term covers a variety of firms and most writers use it rather loosely based on their purpose of the study. As Gebreeysus (2009) adopted the definition of small business from Peterson, Albaum, and Kozmetskys (1986) 'A small business is one which is independently owned and operated, and which is not dominant in its field of operation. Researchers and other interested parties have used specific criteria to operate the small business as a construct value-added, the value of assets, annual sales, and the number of employees. The latter two criteria are most often used to delimit the category

In Ethiopia, there is lack of uniform definition at the national level to have a common understanding of the MSE sector. While the definition by Ministry of Trade and Industry (MoTI) uses capital investment, the Central Statistical Authority (CSA) uses employment and favors capital intensive technologies as a yardstick. The definition used by MoTI, which uses capital

investment as a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997. According to MoTI

Micro enterprises are those businesses enterprises, in the formal and in formal sector, with a paid-up capital not exceeding Birr 20,000 and excluding high tech consultancy firms and other high-tech establishments. Small enterprises are those business enterprises with a paid-up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high-tech establishments.

On the other hand, CSA categorizes enterprises into different scales of operation on the size of employment and the nature of the equipment. According to CSA Establishments operating less than ten persons and using motor-operated equipment are regarded as small-scale manufacturing enterprises.

Enterprises in the micro-enterprise category are subdivided into informal sector operations and cottage industries: Cottage and handicraft industries are those establishments performing their activities by hand and using non power-driven machines. The informal sector is characterized as household type establishments or activities, which are non-registered companies and cooperatives working with less than 10 persons. All enterprises employing ten or more workers are grossly regarded as medium and large enterprises.

Similarly, in Somaliland there is no uniform definition at the national level to have a common understanding of the SME sector. Ministry of Trade Industry and Tourism (MoTIT) have defined SMEs, which used total number of employees, annual sales turnover as a yardstick,

According to MoTIT Micro Enterprise“ is an enterprise employing up to 4 people with annual sales turnover or total assets not exceeding USD 5,000. A „Small Enterprise“ defined as a firm that employs between 5-20 people and with annual sales or total assets between USD 5,000 and USD 50,000.

**Table 2.1: The SME Definition Table**

<b>Enterprise</b>	<b>Number of employees</b>	<b>Annual sales/ turnover or total assets</b>
<b>Micro Enterprises</b>	1-4	Up to USD 5000
<b>Small Enterprises</b>	5-20	Between USD 5,000 - 50,000

Source: Somaliland MSME Policy July 2019



Where there is a conflict in the classification between employment and Assets criteria (For instance, if the employees are 7 and the enterprise's turnover is less than \$5000, we will employ asset-based or sales classification which prioritizes the amount of investment put in the enterprise and revenue generated. Hence, the enterprise will be regarded as micro level). (Somaliland report, 2019).

### **2.3 Definition of Business Performance**

According to Martin (2010:67) performance is defined simply in terms of output terms such as quantified objectives or profitability. performance has been the subject of wide and increasing empirical and conceptual investigation in the small Firm literature (Bidzakin K.J., 2009:31). The problems that remain unresolved are the goals against which performance should be evaluated and from whose perspective the goals should be established (Etzioni, n.d:128). Rami Alasadi and Ahmed Abdelrahim (2007:6-13) on their investigation defined performance as follows. The most commonly adopted definition of success good performance is financial growth with sufficient profits. Other meanings of success good performance are equally applicable. For example, some entrepreneurs consider success as good performance as the job satisfaction they derive from attaining desired goals. However, financial growth due to maximizing profits has been widely adopted by most researchers and practitioners in business performance models.

Global Entrepreneurship Monitor (GEM) defined Performance as the act of performing; of accomplishing something successfully; using knowledge as distinguished from only possessing it (GEM, 2004:10). However, performance resembles to be conceptualized, operationalized, and measured in different ways therefore, making cross-comparison is difficult (Srinivasan et al., 1994:22). Among the most frequently used operationalization are survival, growth in employees, and profitability.

A business enterprise could measure its performance using financial and non-financial measures. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting for time, and employees' turnover. Realizing the limitations of relying solely on both the financial or non-financial measures, owners-managers of the modern small business has adopted a hybrid approach of using both the financial and non-financial measures (H Gin Chong, 2008:13).

## 2.4. Measures of performance

According to Gimbert *et al.* (2010), a performance measurement system is a concise and defined set of measures (financial or non-financial) that supports the decision-making process of an organization by collecting, processing, and analyzing quantified data of performance information. Similarly, Firm performance is commonly measured in terms of economic performance. According to Walker and Brown (2004), small business performance can be measured by financial and nonfinancial criteria while the foregoing has been given the most attention in the literature. Traditional measures of firm success have been based on employee numbers or financial performance, such as profit, turn over or return on investment. implicit in these measures is an assumption of growth that presupposes all small firm owners want to grow their businesses.

For firms to be viewed as well perform or not these financial measurements need increases in profit or turn over and/or increased numbers of employees. As Walker and Brown (2004) cited from the study of Halland Fulshaw (1993), ‘The most, clear measures of performance are profitability and growth’. In economic terms, this is seen as profit maximization. Economic measures of performance have generally been famous due to the ease with which they can be managed and employed since they are very much hard measures. Trkman, (2009) noted that performance measure is necessary for entrepreneurial and small firms because it helps them to ascertain the success or failure of the firm and also serves as an indicator to achieve sustainable development in entrepreneurial and business activities. Thus, Murphy, Trailer, and Hill, (1996) argued that “accurate performance measurement is important to understanding new enterprise and small business success and failure.

Moreover, Walker and Brown (2004) suggested, ‘all Business must be financially viable on some level to continue to exist’. However, given that some firms have no interest in growth, thereby pointing out that financial gain is not their primary or only impulse, then there must, therefore, be other non-financial criteria that these small business owners use to measure their firm performance. In smaller, entrepreneurial, and independent firms, measures of performance may have more complex dimensions than just financial performance (Mohan-Neill, 2009). Non-financial measures of performance used by business owners, such as independence, job satisfaction, or the ability to balance work and family duties (Walker and Brown, 2004, Mohan-

Neill, 2009) are subjective and personally defined and are consequently more complicated to quantify.

The hard measures previously mentioned, therefore, are easier to understand and can be used in a comparative way against existing data and as benchmarks for future measures.

Non-financial measures are based on standards that are personally determined by the individual business owner although commonalities within the partners of small business owners occur. These non-financial measures presume that there is a given level of financial security already established; it may be that this is within the business, or that the small business owner does not require the business to be the primary source of income (Walker and Brown, 2004).

The selection of performance measures that reflect the true situation of small Firms with some degree of certainty and reliability is indeed an essential process. The lack of universally accepted standard performance measures left the door open to business organizations to decide and select its own performance measure that might not truly reflect its performance (Alasadi and Abdelrahim, 2007) Such performance measures include but not limited to: market share, sales volume, company reputation, return-on-investment (ROI), profitability and established corporate identity. While some might debate that most of these performance measures are appropriate for large corporations, they are not always perfectly applicable to small businesses. In this study as SMEs concerned the financial measure of success that is the growth of the total capital of the enterprises is used since it is better than then on financial measures in terms of reducing the subjectivity of the measurement results.

## **2.5. Factors influencing SMEs performance**

Small and Micro enterprises regarded a vital part of the socio-economic development of both developed and developing countries, usually, some of these businesses fail within the first few years of their start-up. Of those working, some grow quickly, while others grow slowly. So, it is necessary to identify the causal factors of better performance because it helps new entrants of the sector consider the factors and use for their future in the business (Alasadi and Abdelrahim, 2007).

These factors could vary from one country to another due to economic, geographical, and cultural differences. This kind of investigation of the SME's performance-related factor is very

significant or important for developing countries like Somaliland because the research conclusion could be useful for the economic development planners as well as to individual entrepreneurs and business owners in the countries concerned.

Some of the factors that have been identified by researchers range from finance to personnel. For instance, Ombongi and Long (2018) argue that the existence and performance of SMEs, partly relies on the nature and quality of the financial capital available at their disposal such as the bank credit.

Domi, Keco, Musabelliu, and Kapaj, (2018) in the recent research, found that innovativeness, innovation behavior, customer orientation and human resources hiring and training practices, were significant variables that affect SMEs' performance in Albanian tourism sector.

Relatedly, Almansour, Almansour, and Almansour, (2019) conducted a quantitative research in Jordan on factors influencing the performance of the industrial small and medium enterprises (SMEs). They found out that financial management, marketing, technological and government policy and regulations, were antecedent to the performance of these SMEs involved in manufacturing activities.

Other factors that have been isolated as potent in the performance of SMEs in Sudan are: SMEs characteristic, External Environment (competition), Customer and Markets, the way of doing business & cooperation, Resources and Finance according to Eltahir, (2018). In other words, business success of the SMEs in Omdurman (Sudan) can be explained by the above bunch of variables.

To date, there is no unified ethical model on firm performance. There are, however, several models that shed light on the issues from different points of view. The performance of a firm is motivated by external opportunities, such as promising demand prospects for the firm's product, and/or internal inducements, such as a shift to more efficient utilization of existing resources of the firm. On the other hand, external and internal factors may also function as obstacles to better performance. As far as external determinants of performance are concerned, demand for the firm's products is the major factor. Second, the market activities of contenders, the supply of production factors, and the features of the local business environment are typically external to a small firm. Internal determinants include the features of the firm itself and the attributes of the business owners of the enterprises. In this research, the internal factors of the enterprises are

under consideration. There are also various factors like socio-economic, political, and motivational factors that affect the performance of small businesses in general and SMEs in particular. Searching on the literature of SMEs performance across the world, we can find various factors affecting their performance. In the following section of the review of related works of previous researchers regarding each of the independent variables of this study, they are presented and discussed under two main subtopics of personal and business-related factors. Because of according to UN-Habitat (2006) as well as the researcher mentioned in chapter one those problems are those affect at small and medium sized enterprises in Somaliland include: difficult access to market, products of poor quality, no information on market demands and new products, poor management experience, difficulty to compete with imports, poor strategic planning, local purchasing power is generally low due to widespread poverty and unemployment/idleness. However, none of these factors have been verified empirically. for that reason, the researcher focused on these factors in order to know how affects the performance of Small and Micro Enterprises in Hargeisa town.

## **2.6. Personal Related Factors**

### **2.6.1. Gender of the Entrepreneurs**

The performance of women entrepreneurs in their businesses has become an important area of recent policy and academic debate. Comparatively little rigorous and in-depth research, however, has been undertaken on the issues of gender and business performance, especially in Nigeria. Srinivasan, Woo and Cooper (1994) defined performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualized, operationalized and measured in different in different ways, making cross-cultural comparison difficult. Among the most frequently used operationalization are survival, growth in employees, and profitability (Lerner, Brush, and Hisrich, 1997).

Cooper *et al* (1992) examined various factors that influence business performance and he categorized performance such as: as experience, education, occupation of parents, gender, race, age, and entrepreneurial goals. Also, Lerner and Hisrich (1997) conducted a study on Israeli women entrepreneurs and categorized the factors that affect their performance into five perspectives, that is, motivations and goals, social learning theory (entrepreneurial socialization),

network affiliation (contacts and membership in organizations); human capital (level of education, skills) and environmental influences (location, sectoral participation, and socio-political variables).

Thibault, Wilcock and Kanetkar (2002) suggest that factors influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees as important factors in examining the performance as small-scale business operators. The most comprehensive summary of factors influencing performance was noted in a literature review by Theo and Chong (2007) to include: individual characteristics, parental influence, business motivation and goals, business strategies, goals and motives, networking, entrepreneurial orientation and environmental factors. Performance differences between the gender have been ascribed to several factors (Lerner, Brush, & Hisrich, 1997) such as, close association with decision-making, business management, strategy formulation and the functional areas emphasized (Fielden et al., 2003; Mukhtar, 2002).

### **2.6.2. Education status of the Entrepreneurs**

Better education brings about better performance (GEM, 2012). Successful small business owners may acquire competence through training, experience or by using the expertise of others. Few successful entrepreneurs succeed alone or straight out of college (Ebert & Griffin, 2003).

In addition to this, Sunny et al., (1994) in a study of the role and constraints of the non-formal sector in Botswana also observed that businesses in this sector are a refuge for those without education.

McClelland, (1961) has argued that education is necessary for developing entrepreneurial characteristics such as need for achievement. Also, Meyer (1991) found that probability of entry into self-employment to increase with the level of education.

Thapa (2007) in his investigation in Nepal has found that education has a positive effect on entrepreneurial success. The study of Lussier (1995) suggested that people without any college education who start a business have a greater chance of failing than people with one or more years of a college education. Mohan-Niell, (2009). Education can provide the skills set and knowledge, which can help owners/managers with tools, like technology literacy, which helps to increase performance and productivity. If education cultivates comprehensive literacy, this

would help the owner/managers to integrate relevant information to do effective planning and to make well-informed decisions, which would ultimately enhance the organization's performance. As well as Thapa, Goswami and Joshi (2008) in their study they found that the education of owners has a positive effect on entrepreneurial and small business performance. Similarly Rose, Kumar, and Yen (2006), in their study of the 'Dynamics of Entrepreneurs Success Factors', reported that higher education level helps the business owners to have better knowledge and skills which contribute to the performance of their venture. Working experience also assists the entrepreneurs with information and understanding about the industry and thus, assisted them in venturing into the current business they are in. Another research by Charney and Libecap (2000), found that entrepreneurship education produces self-sufficient enterprising individuals. Furthermore, they found that entrepreneurship education increases the formation of new ventures, the likelihood of self-employment, the likelihood of developing new products, and the likelihood of self-employed graduates owning a high-technology business.

### **2.6.3 Age of the Entrepreneurs**

Alasadi and Abdelrahim (2007), in their study of Small Business Performance in Syria also found that as the age of the business owner grows it contributes to the enterprises' performance. From the study result of Alasadi and Abdelrahim, it may be argued that increased age brings with it an adequate level of accumulated knowledge or experience of a certain trade to try going into self-employment alone. This study, therefore, seeks the relationship between the age of the business owner and the success or failure of the business.

Lussier (1995). also argued the relationship of the business owner's age and its effect on the performance of the enterprises. He reported in his study that, younger people who start a business have a greater chance to fail than older people starting a business.

Similarly, Praag (2003), in his study of business survival and success of young small business owners, younger small business starters have a lower performance and survival probabilities than older starters. The chance of both voluntarily and forced exit from the business is higher to young starters. From this one can understand that the age of small business owners, have its own contribution to the performance of SMEs because individuals learn not only from formal education but also from their walks of life. Many studies have concentrated on the entrepreneurial traits of the owners of small businesses as key determinants of small business

performance. Ages of the owners/managers were one of the most important characteristics that were frequently used to predict small business performance (Lussier and Pfeifer, 2001).

#### **2.6.4. Management Familiarity of Business owners**

Temtime and Pansiri (2004) also reported in their study managerial background has less significance on the performance of the enterprises. This may arise from the fact that most managers of failed enterprises do not accept the fact that their lack of managerial education and experience is also responsible for failure.

Managerial effectiveness influences every aspect of a business and is often believed to be the most important factor contributing to small business performance. The management skills and management concepts of business founders are deemed much more important than their technical skills and their concern about the production which has resulted in an overall positive organizational performance (Lin and Yeh-Yun1998).

Zelege (2009) conducts a study on the efficiency of management as a determinant of long-term survival in micro, small and medium enterprises in Ethiopia, and his research ascertains that a high level of managerial skills significantly promotes long-term survival and profitability in small businesses and enterprises. Successful businesses are essentially associated with the ability to generate a profit on a sustainable basis. profitability has enabled successful businesses to achieve their next level of growth as well as the potential to stay competitive in business.

The main reason for failure is unexperienced management. Managers of bankrupt firms do not have the experience, knowledge, or vision to maintain their organizations. In diagnosing the root causes of small firm failure, it should not be surprising that this turns out to be the management inefficiency of owner-managers (Zelege, 2009).

In contrast, the study report of Rose, Kumar, and Yen (2006), indicates management experience was found not significant for the performance of small enterprises. Apparently, individuals who were found successful in their small business venture were less dependent upon their previous business skills. In addition, their study shows that marketing functions such as promoting the company and its product and services, understanding market needs, customer feedback, and market analysis ensure the long-term business performance of the business venture. Ninety



percent (90%) of business failures are associated with “management inadequacy”, which consist of either management inexperience or incompetence (Perry and Pendleton, 1983). While Lee and Denslow (2005) in their study found a lack of capital and lack of experience is one of the major factors affecting entrepreneurial performance.

Lin and Yeh-Yun (1998), in their study of Success factors of small and medium-sized enterprises, suggested that the management skills and management concepts of business founders are much more important than their technical skills and their anxiety about the production which has resulted in an overall positive organizational performance. They argued in their study that, although technical skills may guarantee the survival of a given SME, for an enterprise to truly thrive, founders need to enhance their capabilities in carrying out contemporary management concepts, such as satisfying employees' growth needs, delegating responsibility, and participative management. Another study was done by Okpara (2011) On SMEs operating in Nigeria supports the argument that lack of management experience of small business owners is the other major reason for small business failure. So, this study will examine how the experience impact business performance.

## **2.7. Business Related Factors**

### **2.7.1. Marketing capability of Business Owners**

Careful analysis of market conditions can help small business owners assess the probable view of their products and services in the market place. Deterioration in customer base can happen for any number of reasons, including poor service, high prices, and new competitors. Making improvements in products/services offered, marketing, inventory, customer service, and work force personnel can all do a great deal to halt deterioration in customer relations (Ebert & Griffin, 2003).

Pulendran, Speed and Widing (2002), suggest that the quality of marketing planning is associated with higher level of market orientation. Maybe one can argue that better quality planning assists managers in seeking to implement a market orientation to accomplish their goal, or conversely, market orientation assists planning by providing a clear and unambiguous goal that serves to focus the planning effort.

The study of Lussier (1995) emphasizes on the importance of marketing skill of the business owners as one factor to the success and better performance of small businesses. Marketing skills, such as identifying new prospects, showing effective corporate positioning, customer handling, finding ways to efficiently advertise, and the ability to come up with new ideas are very important factors that small and micro business enterprises should possess to be successful survival in the future.

Temtime and Pansiri (2004) also reported in their study of Small Business Critical Success/Failure Factors in Developing Economies, in Botswana shows that marketing activities such as product marketing, market research, and demand forecast and so forth have greater impact on the performance of small businesses enterprises.

### **2.7.2. Planning strategy of the business**

Ahmed, Shabazz, and Mubarak (2008) suggested that no one should start a business in today's economy without a business plan. They argued that better performance for small businesses is achieved through planning, commitment, and time, nurturing, financing, and positioning to seize opportunities. Many of these activities must be done on a continual basis as the environment in which businesses operate is continuously evolving. Planning was also recognized by several studies as a key factor to small business performance such as Lussier (1995), Lussier and Pfeifer (2001), Alasadi, and Abdelrahim (2007). A business often begins with an idea that is acted upon. However, to get from the ideas stage to the actual business start-up generally involves considerable Planning. In many cases, the amount of actual Planning done is dependent on the willingness of the entrepreneur to do it. Some entrepreneurs prepare business plans as a means to attain financing for their businesses while others use a plan to get all their ideas down on paper to assess whether their business idea is sound and viable.

Another fact rarely considered is that most of new organizations fail within a few years mostly due simply to poor planning or no planning at all. Most people who start a new business enter a field related to their current employment or a favorite hobby. They don't do a market study first to see whether the interest for their item or service is growing, declining, or stagnating.

### **2.7.3. Record Keeping and Financial Control of the enterprises**

Technological recording systems is considered to be an important determinant of small manufacturers' ability to compete in the context of economic liberalization and increasing global integration of developing countries. This is because many of their markets, even traditional ones, are undergoing fast change. In this situation, lack of capability to adapt and upgrade spells defeat, while firms that are capable of keeping up with, or even initiate improvements will have an edge over competitors (Romijn, 1998).

For example, the weaknesses of the small and middle industry in Indonesia is attributed to market orientation, human resource quality, technological recording systems, market access, and capitals. One of the weaknesses is related to the aspect of information technology application whereas the rapid growth of the information and communication technology affects the world economic development (Hermana, Sugiharto & Margianti 2004).

Poor record-keeping can also lead to strained relationships with vendors which may result in difficulty in obtaining and receiving the merchandise. Lacking working capital decisions and accounting information have been referenced consistently as causes of small business failure.

The study of Lusseir (1995), revealed that organizations that do not keep updated and precise records and do not use satisfactory financial controls have a greater chance of failure than firms that do.

However, the study of Rose, Kumar, and Yen (2006) did not show any significant relationship between small business performances and the record-keeping, and financial control practices of the enterprises. So, in this study will examine the impact of the record-keeping and financial control to the business.

### **2.7.4. Form of Ownership Small and Micro Enterprises**

the study of Lusseir (1995), upholds the way that enterprises which are owned by more than one owner have a higher chance of success than those enterprises owned and managed by a single owner.

The other study report of Lafuente and Rabetino (2011) indicates the relationship between enterprises performance and forms of ownership. They reported that rather than those firms with a single-tier leadership structure (entrepreneur-manager), the presence of entrepreneurial teams increases the firm's resources and capabilities, a fact that enhances employment growth

indicating that the presence of entrepreneurial teams improves internal decision-making processes leading to higher growth rates.

### **2.7.5. Type of Business Small and Micro Enterprises**

Mohamad Radzi et al. (2017) argue that firms have the desire to access and control resources either in the short or long term provided the resources will offer a competitive advantage over rivalries. These firms may have disparities in the access and control of the various resources, thus generating uniqueness in the different products or services they offer. Thus, a firm's performance is determined from effective utilization of resources and capabilities possessed in the business (Saffu et al., 2012) since such resources are required for innovations to gain and sustain competitive advantage (Mohamad Radzi et al., 2017).

### **2.8. Empirical Study**

According to Mead & Liedholm (1998) and Swierczek and Ha (2003), the main factors that affect the performance of SMEs in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support. The argument that small businesses in Africa are crucial in the role they play in employment creation and general contribution to economic growth is not new. Although this may be true, the vast majority of new enterprises tend to be one-person establishments (Mwega, 1991). This has tended to ensure that the journey of the SMEs entrepreneur in many instances is short-lived, with the statistic of SMEs failure rate in Africa being put at 99 percent (Rogerson, 2000). Various reasons for these failures have been proposed by scholars including lack of supportive policies for SME development (McCormick 1998), intense competition with replication of competition with replication of micro-businesses (Manning and Mashego, 1993); manager characteristics including lack of skills and experience (Katwalo and Madichie, 2008).

A study by Hall (1992) has identified two primary causes of small business failure appear to be a lack of appropriate management skills and inadequate capital (both at start-up and on a continuing basis). The research undertaken in Tanzania by surveying 160 micro enterprise showed that high tax rates, corruption, and regulation in the form of licenses and permits, are found to be the most important constraints to business operations of microenterprises (Fredland et al., 2006 cited in Mulugeta, 2011).

Roy and Wheeler (2006) identified that the level of training of micro entrepreneurs (both formal and informal); experience and number of years in operation; knowledge of the market level of differentiation (in terms of price, quality or other) and diversification of products access to the necessary resources and/or technologies; level of planning; vision for the future; and the entrepreneur's level of poverty are among the factors contributing to success of SMEs while lack of market knowledge and training, limited access to capital, and lack of co-operation among possible business partners are some of the factor inhibiting the growth and development of the micro enterprise sector.

Martey *et al.* (2013) conducted a research to examine the Performance and Constraints of Small-Scale Enterprises (SSE) in Accra Metropolitan Area of Ghana. The researchers make use of age, gender, marital status, education, experience, employees, ownership status, initial capital and annual cost are used to influence performance. Survey questionnaire and the interview was used as a method of data collection in the study, and SPSS and econometric views (E-views) was used to analyze the data collected. The result of the study indicates that the age of entrepreneurs is one of the most influential determinants of performance of SMEs. The findings further indicate that the performance of entrepreneurs of married entrepreneurs is lower than those that have not get married by 819. The number of years of formal education attained by the entrepreneur is positively associated with the performance of small-scale enterprises. The result also indicates the years of experience influence the profit of small-scale enterprises positively, and the performance of small-scale enterprises is significantly affected positively by the number of employees engaged in the business. The result shows that initial capital invested in the business significantly affects performance negatively. Finally, the annual cost incurred by small scale enterprises significantly affects the revenue of the business positively.

Mbugua (2013) identify the Factors Affecting the Growth of Micro and Small Enterprises (MSE): A Case of Tailoring and Dressmaking Enterprises in Eldoret Kenya. The researcher makes use of business management, level of marketing, availability of finance, and also the characteristic of the entrepreneurs as the variable or factors that influenced the growth of micro and small enterprises. Questionnaire that includes both structured and unstructured questions was the main source for data collection, and it was supported by interviews and observation checklist. Base on the one hundred and fourth-eight sample enterprises, only one hundred and thirty were

returned completed and satisfactory. Chi-square and regression analysis were used to analyze the data. The finding indicates that there is a significant relationship between marketing and the growth of the enterprises. In the same line or vein, the result shows that there is a positive relationship or correlation between the availability of finance and growth of the enterprises. But the result indicate that the characteristics of entrepreneurs are divided into three part such as number of years in self-employment, motive of going into self-employment and marital status of the owner-managers, and also the finding further spelt out that there was no significant relationship between the number of years an entrepreneur was in self-employment and the growth of the enterprises, and also the study identifies that there was a positive and significant relationship between motive of going to self-employment as a variable of entrepreneurial attributes and the growth of the enterprises. Finally, the study found an inverse relationship between marital status and growth of enterprises.

Mohammed and Nzelibe (2013) conducted a study to investigate the Assessment of the Performance of SMEs as a Catalyst for Employment Generation and Wealth Creation in Nigeria. In the study financing, perceived political environment, and lack of management skills was used as the factors that influenced the performance of SMEs. Data used for the research work was collected through questionnaires, and a sample of one hundred and fifty SMEs was used from a population of two hundred and forty SMEs in Nasarawa States, Nigeria. Regression analysis model was employed to test or analyzed the hypotheses of the study. The finding of the study signifies that there are other major obstacles other than financing that hinders the development and growth of SMEs in Nigeria, and it shows that there is an association or connection between the perceived political environment and performance of SMEs, and lack of management skills affect and influenced the performance of small and medium enterprises in Nigeria.

Nabintu (2013) investigate the Factors Affecting the Performance of Small and Micro Enterprises Traders at City Park Hawkers Market in Nairobi County, Kenya. In his study performance of SMEs, was influenced by access to business information, access to finance, technological input in the payment system, and availability of management experience. Questionnaire was the Method use in collecting data for the study, and multiple regression analysis was used to determine the relationship between the variables under study. The study makes use of signaling theory, pecking order theory and balance scorecard. The finding of the

study narrates that there is a positive correlation or relationship between financial performance of SMEs and access to information, access to finance, technological input payment system and availability of managerial experience of magnitude 0.132, 0.066, 0.238, and 0.362 respectively. However, the positive relationship were very low as they fall below a threshold of 0.5 which might be due to the ordinal nature of the data collected since the magnitude of the respective factors could not be established.

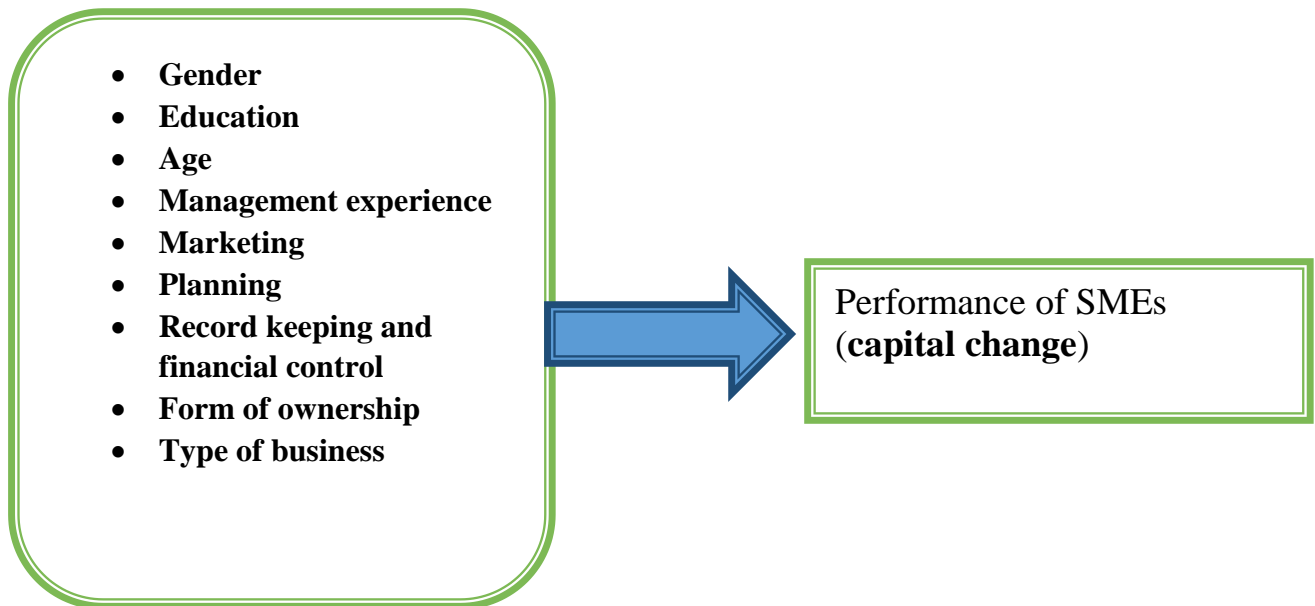
The research undertaken in Somalia by surveying 90 micro enterprise showed that Lack of security development, Absence of SME policy and rivalry competition, Absence of female employees, Lack of educational and financial infrastructures are the major factors that hindered smooth running and the growth of small and Micro businesses. (Adan and Kising ,2018).

### **2.8.1 Knowledge Gaps**

There are a few researches conducted on the factors influencing the performance of SMEs in Somaliland. However, said (2010) conducted on factors influencing the performance of small-scale enterprises in Hargeisa, Somaliland. However, the author focused on only small-scale enterprises not on Small and Micro enterprises. In addition to this the methodology that was used in the prior research Said (2010) is poor. Because there is no good measurement for the significance of the variables and the direction it impacted on performance of Small enterprises. So as to add the measurement which is methodology and that was the reason the researcher conducted the study. In addition to this there are many researchers conducted on factors influencing the performance of Small and Micro Enterprises in developing countries. Though, this researcher who conducted research on factors influencing performance of Small-scale enterprises in Hargeisa focused on performance small scale enterprises. However, descriptive type cannot measure regarding on the extent of factors influencing the performance of Small and micro enterprises. Due this the researcher tries to conduct on the factors influencing the performance of Small and Micro Enterprises.

## 2.9. Conceptual Framework

From above theoretical review the researcher tries to depict by conceptual frame work. As mentioned on theory aspects the factors influencing the performance of Small and Micro Enterprises are so many factors. These frame work is the summary of all theory that the researcher tried to explain. The frame work depicted the factors which are influencing the performance of Small and Micro Enterprises. And the frame developed and presented as follow;



**Figure 3.1 Conceptual frameworks (Own Model)**



# **CHAPTER THREE**

## **RESEARCH DESIGN AND METHODOLOGY**

### **3.1. Introduction**

This chapter discusses the description of the study area, research design, and methodology of the study; the chapter explains the Source of Data, study population, sampling design and Sampling technique, data collection methods and data analysis and presentation Method and specification of the Model and Definition of Variables.

### **3.2. Description of the study area**

This study was conducted in Hargeisa, Somaliland. Hargeisa is the capital of the self-proclaimed Republic of Somaliland. From the shores of the Gulf of Aden, Somaliland extends southwards to the Somali National Regional State of Ethiopia, bounded by Djibouti to the west and Somalia (Puntland) to the east. The territory's geography is distinguished by three main topographical features locally known as the Guban, Oogo and Hawd (Lewis, 1961).

According to Central Statistics Department of Somaliland (CSDS) report in 2019, the region has 3,500,000 inhabitants with an area of 137,600 km<sup>2</sup>. Somaliland has enjoyed relative peace and stability for over a decade and has a democratically elected president and parliament, and an executive-appointed Government: the administration is functional but weak (UN-Habitat, 2006).

### **3.3. Research design**

Since the research has an intention to achieve different objectives, the research designs were descriptive and explanatory methods. The study was partly descriptive because it tries to describe Factors influencing the performance Small and Micro Enterprises and it is partly explanatory research design because it has examined the relationship between nine independent variables which are Record keeping and financial control, Management Experience, Planning, Education status of the entrepreneurs, Age of the entrepreneurs, form of ownership, Business type, Marketing skill, Gender of the entrepreneurs, and dependent variable performance of Small and Micro Enterprises (capital growth). Cross-sectional method was used to collect data at a time. The study assessed Factors influencing the performance of Small and Micro Enterprises of Somaliland a case study Hargeisa Town. The data used to conduct this study are the primary data obtained through the questionnaires and secondary data from different sources.

### **3.4. Types and Source of Data**

This study used both primary and secondary source of data to determine the factors influencing the performance of Small and Micro Enterprises (SMEs) of Somaliland in Hargeisa Town. Primary data were collected through distributing questionnaire regarding on dependent and independent variables. The secondary data is being obtained from two institutions that are Hargeisa Local Government (municipality) and Somaliland Ministry of Trade industry and Tourism. The former is responsible body to register small enterprise in the region where as the latter is responsible body to register all Micro enterprises operating in Somaliland, books, research thesis, articles, internet and annual reports.

### **3.5. Target population**

Target population is the specific population about which information is desire. According to Ngechu (2004), a population is well defined or set of people, service, elements, and events, group of things or households that are being investigating. Mugenda and Mugenda, (1999), explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. In this study, the target population were small and micro-scale businesses operating in Hargeisa Town. According to the two institutions that data is being obtained which are Hargeisa municipality and Ministry of Trade industry and Tourism. Therefore, the target population of the study was 6970 small and micro enterprises which includes Electronics (823), Boutiques/clothes shop/tailoring (2025), Transport (95), Supermarket (655), Retail Shop (2965) and Service (shoeshine/barbershop/salon/ stationary) (407) which were registered by the two institutions of Hargeisa municipality and Ministry of Trade industry and Tourism.

### **3.6. Sampling design**

For the purpose of this study, the researcher has used probability sampling techniques for primary data. Stratified random sampling was employed to draw a proportion of a population so that each member of the population has an equal chance of being selected. A sample drawn at random is unbiased in the sense that no member of the population has any more chance of being selected than any other member. According to the two institutions that data is being obtained which are Hargeisa municipality and Ministry of Trade industry and Tourism among the total of 6970 SMEs, 4920 are small enterprises and while 2050 are micro-enterprises which were

licensed (registered) by Hargeisa municipality and Ministry of Trade industry and Tourism respectively. Usually, a confidence level between a 5% and 10% margin of error is assumed (CR. Kothari; 2004). Considering data management and time this study applied a simplified formula provided by Yamane (1967) to determine the sample size at 7% margin of error, where confidence levels 95%, therefore the basic reason to take seven percent (7%) margin of error was to minimize the sample size due to budget constraint.

$$n = \frac{N}{1 + N(e)^2} = \frac{6970}{1 + 6970(0.07)^2} \approx 198$$

Where, **n** is the sample size, **N** is the population size and **e** is the margin of error

### 3.6.1 Sampling technique

Due to the variation of SMEs' business in terms of their size and business sectors they engaged in, stratified random sampling was used to get information from different sizes of the SMEs. This technique was preferred because it is used to assist in minimizing bias when dealing with the population. And the population was first classified according to their business nature and size. Accordingly, a representative sample of each stratum in accordance with their proportion in the population was allocated as indicating the following table 3.1. To keep the desired sample size of 198 within 7% margin error, the numbers of respondents from each stratum were determined in accordance with Paul Newbold and W.L Carlson (2000):

$$S = \frac{C}{N} * n$$

Where,

S= respondents desired from a stratum

C = category (stratum) of population

n= total desired sample(198)

N= population of all SMEs

**Table 3-1 Sample size selection procedures using stratified random sampling**

Sector	Size	Population		Sample(S)
		C	C/N C	C/N*n
		Freq	Percentage	Frequency
Electronics	Small	543	7.791	15
	Micro	280	4.017	8
Boutiques/clothes shop/tailoring	Small	1525	21.879	43
	Micro	500	7.174	14
Transport	Small	55	0.789	2
	Micro	40	0.574	1
Supermarket	Small	430	6.16	12
	Micro	225	3.228	6
Retail shop	Small	2120	30.4	60
	Micro	845	12.12	24
Service(shoeshine/barbershop/salon/stationary)	Small	247	3.54	7
	Micro	160	2.29	6
Total		6970	100	198

**Source:** own computation based on data from Hargeisa municipality and Ministry of Trade industry and Tourism.

Out of the 198 questionnaires administered 23, 57, 3, 18, 84 and 13 were distributed to Electronics, Boutiques/clothes shop/tailoring, Transport, Supermarket, Retail Shop and Service (shoeshine/barbershop/salon/ stationary) respectively. The numbers of questionnaires retrieved Eleven SMEs owners could not be returned and a total of returned 4 responses were excluded from analysis due to irrelevant information and not correctly filling the questionnaires. Thus, the study analysed the data on only 183 responses of SMEs, which resulted a sufficient percentage (92.42%) response rate and 7.58% non-response rate. Babbie (2004) asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. The achieved response rate was more than 70% which implied that the response rate was very good. The purpose of the study was to analyze factors that influencing the performance of Small Micro Enterprises which is found in Hargeisa Town.

### **3.7. Method of data collection**

The study was based on both primary and secondary data sources. In order to support the reliability of the data to be collected, quantitative research tools were used. To obtain quantitative the instrument that comprised of a questionnaire was used Which includes both open and close ended questions, because they are straight forward and less time consuming for both the researcher and the participants (Owens, 2002). In the case of questionnaire validation, the researcher created the items on the questionnaire and understand the meaning and intension of those items thus the extent of that the items are valid.

The secondary data is being obtained from two institutions that are Hargeisa Local Government and Somaliland Ministry of Trade industry and Tourism. The former is responsible body to license small enterprise in the region where as the latter is responsible body to license all Micro enterprises operating in Somaliland.

After the data was obtained from the aforementioned body, the sample of respondent were selected based on the list of their identifier such as license number from each stratum using simple random method. The primary data collection phase took place between February – March, 2020 which was collected through a researcher/ administered questionnaire designed.

Gay (1996) explains that descriptive data are usually collected using questionnaires. Others like Simons (1998), Cohen and Manion (1998) have also identified questionnaires as crucial instruments of data collection in descriptive research. The questionnaires support a multiple theme perspective in which the likely hood of affecting factors of SMEs' performance. A sample of the cover letter and questionnaire accompanying is presented in the Appendix.

### **3.8. Method of data analysis and presentation**

This is the further transformation of the process data to look for the nature of the data and relationship between and among data groups by using descriptive and inferential statistics. The statistical package for social science (SPSS version 23) was used to analyze the data obtained from primary sources. Specially, descriptive statistics frequency, percentage, charts, mean, and standard deviation. Descriptive analysis is used to reduce the data in to summary format by tabulation. The data arranged in table format and measure of central tendency (mean and standard deviation). Multiple linear regressions were used to answer the research questions stated in this study regarding the performance of enterprises in relation to each of the independent variables of the study.

### 3.9. Model specification

The multiple linear regression models are used to study the relation between one dependent variable and two or more explanatory variables. The regression model that involves more than one repressor variables is called multiple linear regression models. Suppose the response variable Y may be related to K repressors (explanatory variable). The model's is given by

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \dots + \beta_9 X_9$$

Where:

$X_1$  = Gender of the respondents (1 for male, 0=female)

$X_2$  = Age of the respondents (1=21-30, 2=31-40, 3=41-50, 4=50 above)

$X_3$  = Educational status of the respondents (1=Primary educated, 2=Secondary educated, 3=Diploma, 4=Higher educated)

$X_4$  = Planning (If respondents preparing plan for future operations coded as 1, otherwise 0)

$X_5$  = Types of business (1=retail shop, 2= Boutiques/clothes shop/tailoring, 3=transport, 4=supermarket, 5=electronic, 6=service)

$X_6$  = Record keeping and financial control (If respondents have record keeping for their day-to-day business operation coded as 1, otherwise 0)

$X_7$  = Management experience of owners (If respondents have management experience of owners coded as 1, otherwise 0)

$X_8$  = Form of ownership (If respondents owned by more than one person as a partnership coded as 1, otherwise 0)

$X_9$  = Marketing related skill (If respondents having managerial related skill coded as 1, otherwise 0)

### 3.10. Definition of Variables

To make each of the independent variables selected for this study clearer, one can see the explanations and research finding reported by Lussier (1995). He has discussed these variables in relation to their effect on small business performance as follows:

**Record keeping and financial control:** Businesses that keep updated and accurate records and uses adequate financial controls have performed better than firms that do not

**Management Experience:** Businesses managed by people with prior management experience have a greater chance to perform better than firms that are managed by people without prior management experience.

**Planning:** Businesses that develop specific business plans have a greater chance of success than firms that do not.

**Education:** People without any college education who start a business have a greater chance of failing than people with one or more years of college education.

**Age:** Younger people who start a business have a greater chance to fail than older people starting a business.

**Partners:** A business started by one person has a greater chance of failure than a firm started by more than one person.

**Marketing:** Business owners without marketing skills have a greater chance of failure than owners with marketing skills.

**Gender:** The characteristics of women and men that are socially constructed

**Business sector:** The aggregate macroeconomic sector that contains the private, profit-seeking firms in the economy that combine scarce resources into the production of wants-and-needs satisfying goods and services.

### **3.11. Ethical consideration**

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and consent was secured before the commencement of distributing questionnaires. The right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential thus collective names like “respondents “were used.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

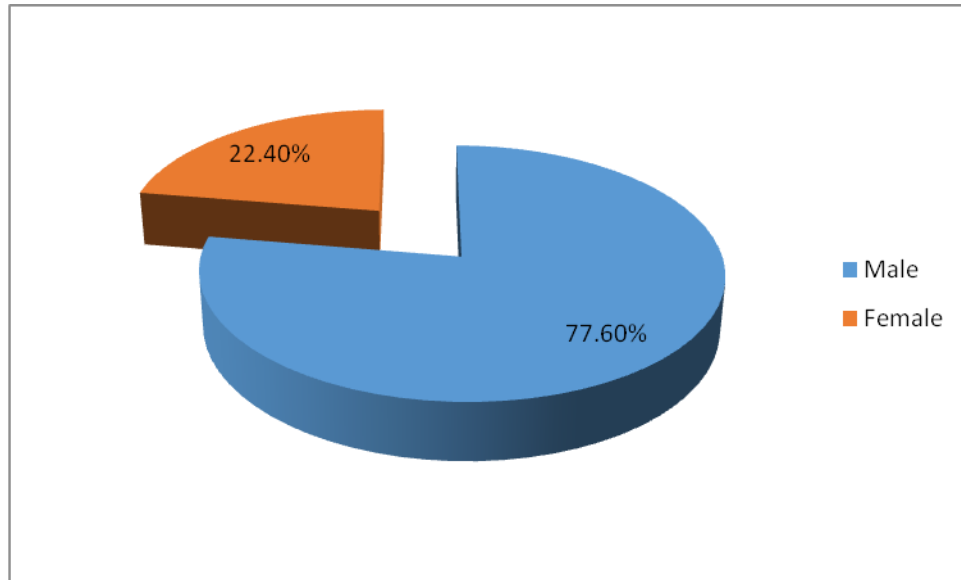
#### **4. Introduction**

This chapter presents analysis and interpretation of findings from data that were gathered from the SMEs found within Hargeisa Town from Feb – March, 2020. The data was obtained through self-administered questionnaire. To obtain more dependable information, diversified groups of respondents which engaged in electronics, boutiques/clothes shop/tailoring, transport, supermarket, retail shop and Service (shoeshine/barbershop/salon/ stationary) were involved to give information for the study. The analysis and interpretation of this study was based on the data collected from the SMEs found within Hargeisa town. Out of the 198 questionnaires administered 23, 57, 3, 18, 84 and 13 were distributed to Electronics, Boutiques/clothes shop/tailoring, Transport, Supermarket, Retail Shop and Service (shoeshine/barbershop/salon/ stationary) respectively. The numbers of questionnaires retrieved Eleven SMEs owners could not be returned and a total of returned 4 responses were excluded from analysis due to irrelevant information and not correctly filling the questionnaires. Thus, the study analysed the data on only 183 responses of SMEs, which resulted a sufficient percentage (92.42%) response rate and 7.58% non-response rate. Babbie (2004) asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. The achieved response rate was more than 70% which implied that the response rate was very good. Hence, the data gathered were organized and analysed in a manner that enables to answer the basic research questions raised at the beginning of the study by SPSS version 23.

#### **4.2. Demographic background about the respondents**

In order to have clear understanding about the result of the study, it is important to be familiar with demographic characteristics of the sample members of SMEs in Hargeisa town.





**Figure 4.1: Sex of respondents**

Regarding the gender of the respondents the above chart in Figure 4.1 shows 142(77.6%) of respondents were male and the rest 41(22.4%) respondents were female. Therefore, this shows that the majority of the respondents were male which owned and managed businesses Hargeisa town.

**Table: 4.1. Age of respondents**

Age	Frequency	Percent
21-30	77	42.1
31-40	69	37.7
41-50	27	14.8
above 50	10	5.5
Total	183	100.0

According to the Table 4.1 shows that majority of the study respondents 77(42.1%) were possessed by individuals in the age range of 21-30 years, hence in their prime productive and reproductive ages. The other 69(37.7%) SMEs in this study were owned by principal with the age range of 31 to 40 years, 27(14.8%) of the respondents were in the age interval from 41 to 50 years old, but minority of study participants 10(5.5%) have owners with age of 50 years old and above. The result indicated that most of the SMEs Owners/Managers are young. This shows the majority of respondents are between ages of 21 and 30 years in which they are active work force

and ready to act where there is comfortable situation is prepared for them because they are in adult age and have many responsibilities in the future. In addition, they are the age group expected to imitate and flexible according to the environment of enterprises.

**Table 4.2: Educational level of respondents**

<b>Level of Education</b>	<b>Frequency</b>	<b>Percent</b>
Intermediate school	63	34.4
Secondary school	46	25.1
Diploma	45	24.6
Degree	19	10.4
Masters	10	5.5
Total	183	100.0

As it is indicated in the Table 4.2, shows 63(34.4%) sample respondents were intermediate school, 46(25.1%) were Secondary school, 45(24.6%) college diploma holders, 19(10.4%) were degree holders, and the rest 10(5.5%) sample respondents were Master holders. This result table 4.2 shows the majority of respondents' education levels are intermediate 63(34.4%) and secondary school 46(25.1%) therefore they play active role in the performance of small and micro enterprises.

**Table 4.3: Summary statistics for continuous variables**

<b>Variables</b>	<b>N</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Std.</b>
Initial capital of SMEs (in 1000 dollar)	183	0.100	100	8.243	14.670
Current capital of SMEs (in 1000 dollar)	183	0.800	350.00	30.706	51.744
Capital growth of SMEs (in 1000 dollar)	183	0.30	277.00	22.462	40.736

The average change in the current and previous capital for small and micro-scale enterprises in this study is about 22.462 thousand dollars with standard deviation 40.73. The minimum capital change is found to be 3 hundred dollars and the maximum capital change is 277 thousand dollars. The average initial capital at the beginning time in small and micro-scale enterprise was 8.243 thousand dollars with standard deviation of 14.670. The minimum initial capital at the beginning time was 100 dollars and the maximum initial capital was 100 thousand dollars. The average of current capital was 30.706 thousand dollars with standard deviation of 51.744. The

minimum current capital was 800 dollars and the maximum current capital was 350 thousand dollars.

### 4.3. General Information on Business Enterprises

**Table 4.4: General Information on Business Enterprises**

No.	Item	Categories	Frequency	Percentage
1	Age of the enterprise	2-5 years	80	43.7
		6-10years	49	26.8
		10-15years	37	20.2
		15 above	17	9.3
		Total	183	100.0
2	Type of business enterprise in operation	Electronics	20	10.9
		Boutiques/clothes shop/ tailoring	57	31.1
		Transport	3	1.6
		Supermarket	18	9.8
		Retail shop	74	40.4
		Service	11	6.0
		Total	183	100.0
3	Form of ownership	Sole proprietorship	133	72.7
		Partnership	50	27.3
		Total	183	100.0
4	Preparing plan for future operations	Yes	157	85.8
		No	26	14.2
5	Time span of the plan	Below 1 years	32	17.5
		1-2 years	73	39.9
		3-5 yeas	30	16.4
		5 above	22	12.0
		Total	157	85.8
6	Record keeping and financial control system	Yes	68	37.2
		No	115	62.8
		Total	183	100
7	Kind of record keeping and financial control System	Recording the daily transaction	42	61.7
		Balance sheet	11	16.2
		Income statement	6	8.9
		If other specify	9	13.2
		Total	68	37.2
8	Owners management	Yes	116	63.4

	experience	No	67	36.6
		Total	183	100.0
9	Experience in Year	No experience	67	36.6
		1-3	57	31.1
		3-5	26	14.2
		above 5	33	18.0
		Total	183	100.0
10	Marketing related skill of the principal	Yes	108	59.0
		No	75	41.0
		Total	183	100.0

The above table 4.4 shows that majority of the enterprises 80(43.7%) years in operation were 2 - 5 Years, 49(26.8%) were 6–10 years in operation 37(20.2 %) were 10-15years in operation and 17(9.3%) were more than 15 years in operation. The finding revealed that majority of small and micro enterprises have 2-5 years of experience in doing the business activity.

Regarding business type which SMEs are engaged in one can easily identify the type of the Business that the enterprises engaging in under Table 4.4. Majority of the enterprises 74(40.4%) are involved in a business that is retail shop followed by Boutiques/clothes shop/ tailoring 57(31.1%). And 20 (10.9%) are involved electronics, 3 (1.6%) are involved transport, 18 (9.8%) are involved supermarket and the rest of the enterprises in the sample 11 (28.4%) are engaged in different business activities such as barbershop, shoeshine, salon and stationery which are included under service sector.

As can be seen from above table majority of the enterprises 133(72.7%) were sole proprietorship, and 50(27.3%) of them were partnership enterprises in Hargeisa town. Also, from Table 4.4 one can easily identify the type of planning practice that the enterprises short term and long-term period planning.

Most of the respondents 157(85.8%) were preparing plan for future operations of the enterprise, but the rest 26(14.2%) were not preparing plan for future operations of the enterprise. Among those preparing plan for future operations 32(17.5%) of the respondents were span their time to cover plan for future operations for less than a year and 73 (39.9%) has a planning tradition for 1 to 2 years a head of the current business period, 30(16.4%) has a planning tradition for 3 to 5 years, and the remaining 22(12%) enterprises had above 5years future plan for their business.

This data reveals majority of respondents SMEs owners have poor trends regarding their planning practice.

The other variable in this study included for the analysis are the record keeping tradition and financial control. In this regard the majority 115 (62.8%) enterprises have no record keeping practice in their business activities and the remaining 68(37.2%) of the respondents were used a record keeping for their day-to-day business operation. Among those keeping and financial control System 42(61.7%) of them record their transaction daily followed by balance sheet 11 (16.2 %) and 6 (8.9%) and 6 (8.9%) were used income statement and the remaining 9 (13.2%) were used other systems used to record.

Regarding managerial experience, 116(63.4%) of the enterprise's owners have experience and the remaining 67 (36.6%) have no managerial experience and they lack most managerial skills. Therefore, among those have managerial experience 57 (31.1%) have 1-3 years' management experience, 26 (14.2%) have 3-5 years' management experience while the rest 33 (18.0%) have above 5 years' management experience. Thus, the result table 4.4 shows that majority of enterprises owners and managers have 1-3 years' management experience that means the enterprises owners have poor management experience.

The last variable is related to marketing skill of owners from the respondents about 108(59%) have agreed that they have marketing skill which is obtained from different training programs facilitated Hargeisa micro and small business development agency. The remaining the sample respondents 75(41%) have agreed that they have no marketing related skill. Thus, this result indicated that enterprises owners or managers their marketing skill were poor and they need different training programs in order to enhance their marketing strategy.

#### **4.4. Multiple Regression analysis**

Multiple regression analysis was then conducted to find out the independent variable on performance of SMEs. It gives more detailed analysis as it enabled the examination of the influence of each of the independent variables on dependent variables, controlling for all other factors. It also allowed the researcher to determine the combined effect of the variables (Gay, Mills, & Airasian, 2006).

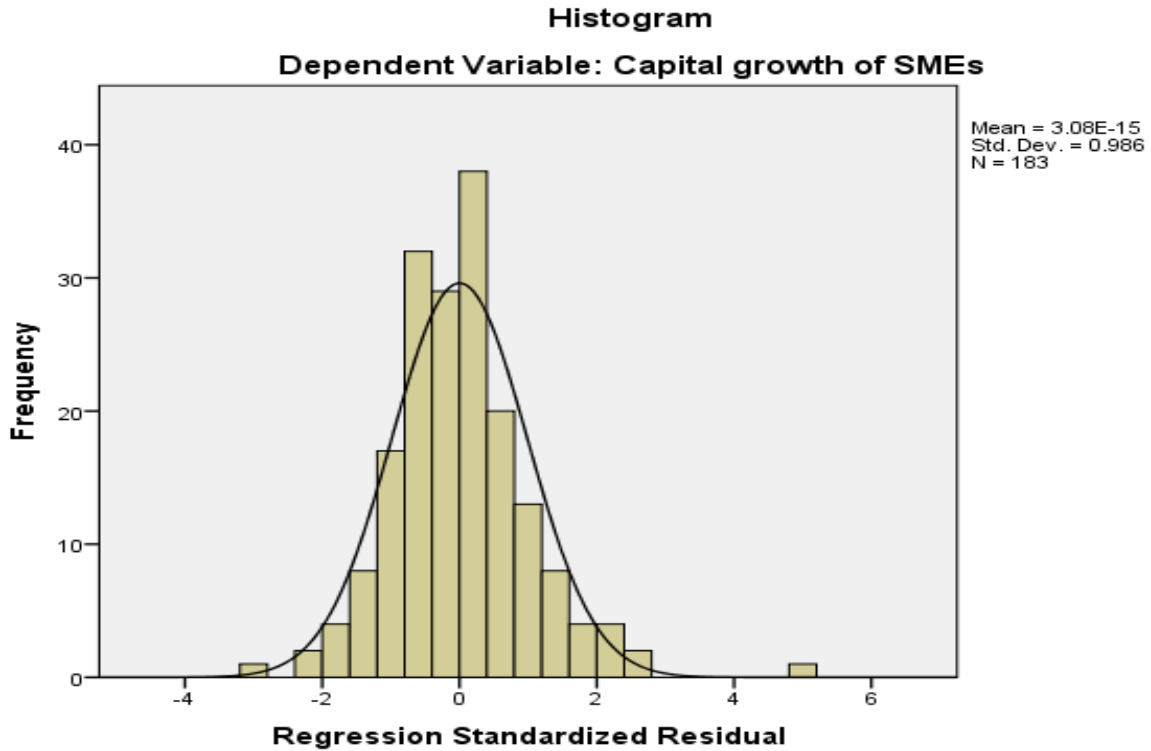
Multiple linear regression analysis is a well-known statistical technique which fits a relationship between one dependent and more than one independent variable. Accordingly, model summary, an analysis of variance (ANOVA) and regression coefficient for each of the independent variables were discussed under this sub-section.

In this section and the subsequent sections on regression results, the coefficient of determination (R square) was used as a measure of the explanatory power to show how the independent variables explain the dependent variable. The F statistics (ANOVA) was used as a measure of the model goodness of fit. Pearson correlation and the regression coefficient summary were used to explain the nature of the relationship between the dependent and independent variables. The significance levels of the regression results were also taken into account for proper interpretations.

#### **4.4.1: Assumption of multiple linear regression analysis**

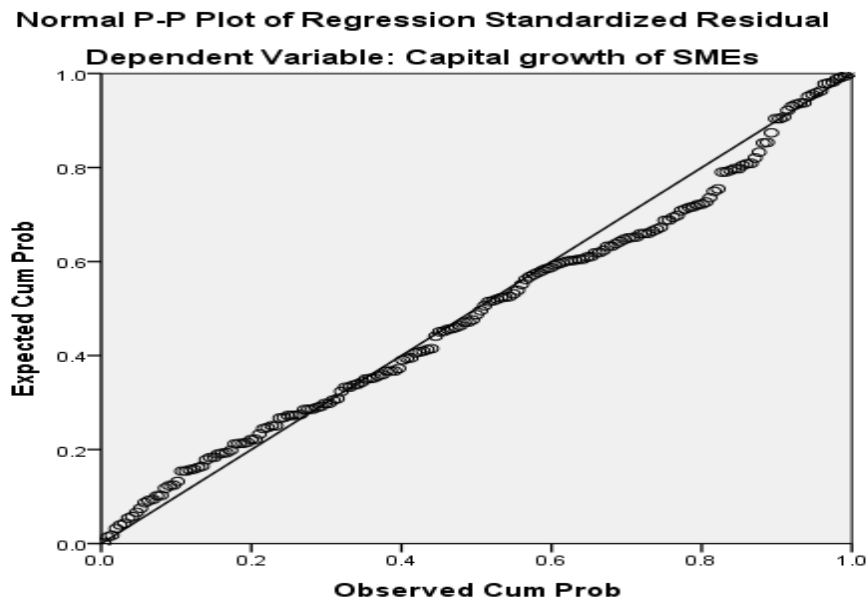
Certain assumptions must be tested and met in order for the results of multiple regression analysis to be useful. It assumes that variables have normal distributions and that the relation between the dependent and the independent variable is linear when all other independent variables are held constant. Observations of the visual representations of the histogram, scattered plot, and partial plots revealed that the assumptions of normality and linearity for the dependent variable (capital change of SMEs) were checked and the assumptions of multiple linear regressions were satisfied.

To test the normality assumption, the histogram of residuals was used to check the extent to which the residuals are normally distributed. The residuals histogram in figure 4.2, below, shows us fairly normal distribution for the variable. Thus, based on these results, the normality of residuals assumption is satisfied for the dependent variable growth of enterprise.



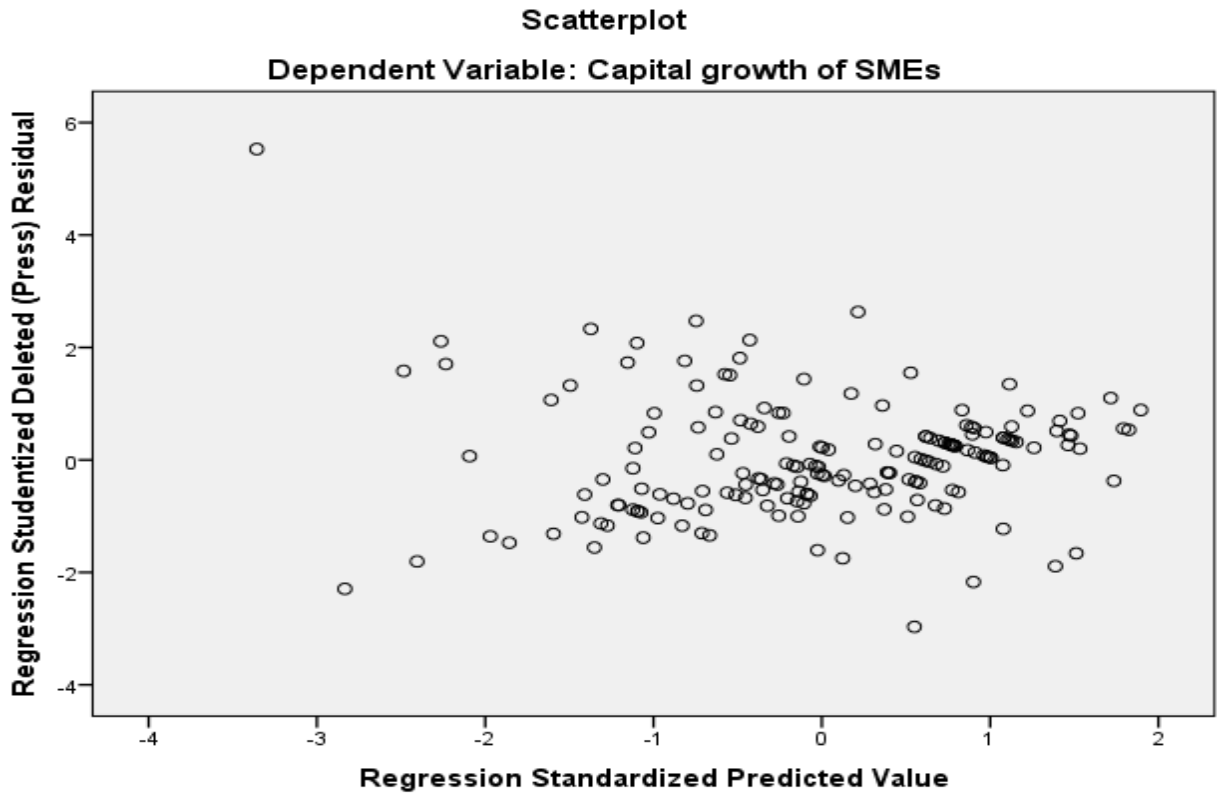
**Figure 4.2: Histogram**

To check the linearity assumption in multiple linear regressions the normal P-P plot was used, the plot shows all observed values somewhat spread along the straight diagonal line. Figure 4.3 in below shows us most of the observed values are spread very close to the straight line; there is high likelihood that the data are normally distributed and linear.



**Figure 4.3: Normal P-P plot**

To check homogeneity assumption a scatter plot of the residuals against the predicted values was used to indicate whether the homogeneity of variance assumption is met. If it is met, there should be no pattern to the residuals plotted against the predicted values. The following scatter plot, (Figure 4.4); shows there is no clear pattern, which suggests homogeneity of variance assumption is met.



**Figure 4.4: Scatter Plot**

A common problem that arises in multiple regression analysis is also multi-collinearity. This basically means that two or more of the independent variables being used are highly correlated with each other and in effect measure the same thing. This makes it difficult to identify the unique relation between each predictor variable and the dependent variable (Urdan, 2005). The collinearity statistics for this study revealed that none of the Variance Inflation Factors were above 10 for each dependent variable (capital change). In research this is said to be an acceptable number to test for multi-collinearity as any number above 10 would be cause for concern. The



tolerances are all above 0.2. If a variable has collinearity tolerance below 0.2, it implies that 80% of its variance is shared with some other independent variables (Table 4.5).

**Table 4.5: Multi-collinearity test**

Variables	Collinearity Statistics	
	Tolerance	VIF
Gender	.946	1.058
Age	.901	1.110
Educational status	.849	1.177
Business type	.955	1.047
Form of ownership	.894	1.118
Preparing plan for their future operations	.881	1.135
Record keeping and financial control system	.574	1.741
Management experience for business	.912	1.096
Marketing related skill	.589	1.697

#### 4.4.3: Regression analysis

Regression analysis was conducted to empirically determine whether independent variable was a significant determinant of capital growth of SMEs.

**Table 4.6: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.815 <sup>a</sup>	.664	.593	23.345

Regression results in table 4.6 indicate the goodness of fit for the regression between cost and independent variable was satisfactory. The adjusted R squared of 0.593 indicates that 59.3% of the variances in capital change of Small and Micro Enterprises' can be explained by the independent variables. The remaining variances on the dependent variable could be explained by other explanatory variables not included in this study.

**Table 4.7. ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	105047.719	9	11671.969	10.251	.000 <sup>b</sup>
	Residual	196978.993	173	1138.607		
	Total	302026.712	182			

From table 4.7, it is apparent that the regression model was significant using ‘between the independent variable and dependent variable. An F statistic of 10.251 and a probability value of 0.000 clearly indicate that the model was good fit.

**Table 4.8: Regression analysis on the dependent variable growth of SMEs’**

	Categories	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
(Constant)		7.529	13.953		.540	.590
Gender	Male	-5.54	6.226	-.057	-.891	.374
	Female					
Age	21-30	1.345	2.183	1.032	0.041	0.342
	31-40	2.703	2.321	.138	2.767	.007*
	41-50					
Education	Secondary school	-5.91	3.052	.365	1.223	.008*
	Diploma	2.167	5.915	.023	.366	.715
	Higher educated					
Business type	Retail shop	16.20	7.060	.196	2.295	.023*
	Boutiques	15.20	7.050	.173	2.157	.032*
	Supermarket	3.321	1.270	1.071	2.764	0.070
	Others					
Form of ownership	Yes	-.803	5.882	-.009	-.137	.892
	No					
Preparing plan for future operations	Yes	4.797	7.780	.041	1.617	.038*
	No					
Record keeping and financial control system	Yes	13.01	6.607	.160	1.970	.049*
	No					
Management experience for business	Yes	7.324	5.467	.087	2.340	.002*
	No					
Marketing related skill	Yes	20.98	7.364	.258	2.849	.005*
	No					

\*Indicates significance (p-value<0.05)

In this study, nine variables were identifying to determine a significant difference on capital change among these variables seven of them significantly determine capital change of SMEs.

At 5 percent level of significance, respondents' age, working in Retail shop and Boutiques, preparing plan for future operations, record keeping and financial control system, management experience for business and marketing related skill have positive effect on capital change, but having educational level intermediate or secondary school has negative effect on capital change of SMEs as compared to higher educated in Hargeisa town. On the contrary, being male or female, having diploma, and being one or more than one ownership has no effect on capital change.

The estimated regression model was

$$Y = \beta_0 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \varepsilon.$$

Therefore, using the multiple regression coefficients in table 4.8 above, the fitted regression model would be:

$$\begin{aligned} \text{Capital change of SMEs}' &= 7.529 + 2.703 \text{ Age} - 5.918 \text{ (Secondary)} + 16.200 \text{ (Retail shop)} \\ &+ 15.205 \text{ (Boutiques)} + 4.797 \text{ (Preparing plan for future operations)} + 13.018 \text{ (Record} \\ &\text{keeping and financial control system)} + 7.324 \text{ (Management experience for business)} + \\ &20.980 \text{ (Marketing related skill)} + \varepsilon \end{aligned}$$

Capital change was measured by subtracting all initial capital and all current capital in order to get all the capital change of the enterprises therefore after received all the capital change of a sample respondents of small and micro enterprises then the researcher was computed their average change of small and micro-scale enterprises and the average change was 22.462 thousand dollars with standard deviation 40.73. so when the researcher subtracted all initial and current capital of the enterprises and then received all the capital change of the sample respondents after that capital change was considered as one variable which is the dependent variable of the study and the reason was these two condition firstly being asking directly to the responds or participants their capital change or profit may get suspect and no one could respond so in order to avoid that the respondents were asked their initial capital and current capital then the researcher subtracted and got their capital changes and assumed capital changes the

dependent variable of the study and the other reason was to measure the relationship between all capital change (dependent variable) and all other independent variables of the study therefore here it is below the relationship between capital change (dependent variable) of the enterprises and the independent variables of the study.

The capital change, in this benchmark category was about 7.529 thousand Dollars. A one-year increase in age, the average capital change of the SMEs owner would be increased by 2.703 thousand Dollars per year. Similarly, for those respondents having secondary school educational level, average capital change was lower by 5.918 as compared to respondents having degree and above. In the same manner; for those respondents working in retail shop sector, the average capital change was higher by 16.200 thousand Dollar for actual average of 23.729 thousand Dollar. Likewise, for those respondents working in boutiques sector, the average capital change was higher 15.205 thousand Dollar as compared to other sectors. On the other hand, respondents preparing plan for future operations, the average capital change was higher by 4.797 thousand Dollar for actual average of 12.326. Regarding record keeping and financial control system, average capital change was higher by 13.018 thousand Dollar for actual average of 20.547. Similarly, respondents having management experience for business have 7.324-thousand-dollar average capital change as compared to non-experienced business management. Likewise, for those respondents having marketing related skill, the average capital change was higher 20.980 thousand Dollar as compared to having non-marketing related skills.

In general, from the regression analysis, the higher the absolute value of the beta coefficient of the variables, the higher the contribution that the independent variables have on the dependent variable. Therefore, marketing related skill had highest contribution ( $\beta=20$ ,  $p<0.05$ ) on capital change of SMEs, then followed by business type, and level of education ( $\beta= -5.918$ ,  $p<0.05$ ) was least contribution to the capital change of SMEs. Therefore, planning, record keeping and financial control, management experience of owners, age, educational level and marketing skill have a relation with the performance of SMEs operating in Hargeisa Town.

## 4.5 Hypothesis testing and discussion with literature

### **Ho: Age of the entrepreneurs has no significant impact on the capital change or performance of small and micro enterprises**

In the above table 4.8 coefficient on Age (beta = 2.703, t = 2.767, p value 0.007<.05) is statistically significant and positive effect on performance of small and micro enterprises as compared other age categories in Hargeisa town. This indicates that one-year increase in age, the average capital change of the Small and Micro Enterprises owner would be increased by 2.703 thousand Dollars per year. Therefore, the Alternative hypothesis which states, Age of the entrepreneurs has significant impact on the capital change or performance of small and micro enterprises can be accepted and we reject (Ho) which states, Age of the entrepreneurs has no significant impact on the capital change or performance of small and micro enterprises.

The findings agree with Sinha (1996) that disclosed that successful entrepreneurs in India were relatively younger in age. The findings also agree with Kristiansen, Furuholt, & Wahid (2003) that found a significant correlation between age of the entrepreneur and business success. The findings from Uhuru market differ from findings from previous research because in Uhuru market, most of the businesses are family-owned which have passed through different generations. They are already established small businesses thus the reputations of the shops matter most but not the age of the people running them.

### **Ho: Sex of the entrepreneurs has no significant impact on the capital change or performance of small and micro enterprises.**

According table 4.8 coefficient on sex (beta = -5.54, t = -.891, p value .374 >.05) is statistically not significant and not positive effect on performance of small and micro enterprises in Hargeisa town. Therefore, Null hypothesis which states, sex of the entrepreneurs has no significant impact on the capital change or performance of small and micro enterprises can be accepted and we reject (H1) which states, sex of the entrepreneurs has significant impact on the capital change or performance of small and micro enterprises.

But it does not mean the performance is the same for Small and Micro Enterprises owned and operated by male and those owned by female is the same, but it means the variation in performance of enterprises is not statistically significant.

**Ho: Educational level of the entrepreneurs has no significant impact on the capital change or performance of small and micro enterprises.**

In the above table 4.8 the coefficient on educational status (Secondary) ( $\beta = -5.918$ ,  $t = 1.223$ ,  $p$  value  $0.008 < .05$ ) is statistically significant and having secondary school has a negative effect on performance of small and micro enterprises as compared to higher educated. Therefore, the Alternative hypothesis which states, education of the entrepreneurs has significant impact on the capital change or performance of small and micro enterprises can be accepted and we reject (Ho) which states, education of the entrepreneurs has no significant impact on the capital change or performance of small and micro enterprises.

This finding agrees with Wanigasekara, and Surangi (2010) who conducted a study in Ghampaha district, Sri Lanka on 33 SMEs which suggested owners with less education than college degree owners might encounter financial worries as compared to those with more education and can maintain their business activities in the market thus staying competitive by constantly adjusting to the dynamic business environment. Similarly, this finding agrees with Rose, Kumar, and Yen (2006), which reported those business owners which have higher education they would have better knowledge and skills which contribute to the performance of their enterprises.

**Ho: Management experience for business has no significant impact on the performance of small and micro enterprises.**

In the above table coefficient on Management experience for business ( $\beta = 7.324$ ,  $t = 2.340$ ,  $p$  value  $0.002 < .05$ ) is statistically significant and positive effect on performance of small and micro enterprises. This indicates that management experience for business 7.324-time higher performance than none experienced business owners. After that the Alternative hypothesis which states, Management experience of the entrepreneurs has significant impact on the capital change or performance of small and micro enterprises can be accepted and reject (Ho) which states, Management experience of the entrepreneurs has no significant impact on the capital change or performance of small and micro enterprises.

The findings agree with (Anakwe and Greenhaus, 2000) which suggested that prior management work experience was very significant for a small business to be successful. Similarly, the findings agree with (Lin and Yeh-Yun1998) which proposed Managerial experience influences every aspect of a business and is often believed to be the most important factor contributing to

small business performance. The management skills and management concepts of business founders are deemed much more important than their technical skills and their concern about the production which has resulted in an overall positive organizational performance

**Ho: Preparing plan for future operations has no significant impact on the performance of small and micro enterprises.**

In the above table coefficient on Preparing plan for future operations (beta = 4.797, t = 1.617, p value 0.038 <.05) is statistically significant and positive effect on performance of small and micro enterprises. This indicates that business owners preparing plan for future operations have 4.797time high performance than who were none preparing plan for future operations. Therefore, this result supports the Alternative hypothesis which states, plan of the entrepreneurs has significant impact on the capital change or performance of small and micro enterprises can be accepted and we reject (Ho) which states, plan of the entrepreneurs has no significant impact on the capital change or performance of small and micro enterprises.

**Ho: Record keeping and financial control system has no significant impact on the performance of small and micro enterprises.**

In the above table coefficient on record keeping and financial control system (beta = 13.018, t = 1.970, p value 0.049 <.05) is statistically significant and positive effect on performance of small and micro enterprises. This indicates that business owners those recording and controlling their financial system is 13.018 time highly performance than those entrepreneurs' none recording and controlling their financial system. Therefore, the regression result of table 4.8 support the Alternative hypothesis which states, record keeping and financial control system has significant impact on the capital change or performance of small and micro enterprises was accepted and we reject (Ho) which states, record keeping and financial control system has no significant impact on the capital change or performance of small and micro enterprises. The findings agree with (Lusseir 1995), which revealed the organizations that keep updated and precise records and use satisfactory financial controls have a better performance according to those don't use any records keeping or any other financial systems to their day-to-day business tractions.

**Ho: Marketing related skill has no significant impact on the performance of small and micro enterprises.**

In the above table coefficient on marketing related skills (beta = 20.980, t = 2.849, p value 0.005 <.05) is statistically significant and positive effect on performance of small and micro enterprises. This indicates that business owners having marketing related skills 20.980-time high performance than those business owners which do not have any marketing skills. the regression result of table 4.8 support the Alternative hypothesis which states, marketing related skills has significant impact on the capital change or performance of small and micro enterprises was accepted and we reject (Ho) which states, marketing related skills has no significant impact on the capital change or performance of small and micro enterprises.

This finding agrees with (Lussier 1995) which suggested marketing skill of the business owners is one of the most important factors to the success and better performance of small and micro enterprises. Therefore, those having marketing skills, have capability to emphasis such as identifying new prospects, showing effective corporate positioning, customer handling, finding ways to efficiently advertise, and the ability to come up with new ideas are very important factors that small and micro business enterprises should possess to be successful survival in the future.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

The purpose of this study was to describing factors influencing the performance of small and micro enterprises in Hargeisa Town. The study was guided by the following research questions:

1. What are the factors affecting the performance of small and micro enterprises in relation with their personal related factors (gender, age and educational level)?
2. To what extent the management experience of the enterprises owners affect performance of small and micro enterprises?
3. To what extent ownership of the principals and type of business affect performance of small and micro enterprises?
4. Is there any significant difference on the performance of small and micro enterprises in relation to the use of record keeping and financial control mechanism of enterprises?
5. What is the relationship between planning practice of enterprises and performance of small and micro enterprises?
6. Is there any significant difference on the performance of small and micro enterprises in relation to the difference marketing skill of owner of the enterprises?

The research adopted a descriptive and explanatory research design with a target population of 6970 SMEs from which a sample size of 198 respondents was selected. The respondents were identified through stratified random sampling techniques. The collection of data was conducted through the use of questionnaires and thereafter analyzed through descriptive and inferential statistics so as to be able to draw conclusions. The process of data collection was enhanced by the use of research assistants (RAs) drawn from business class and trained on the utilization of the research tools. Data coding was first done then followed by data presentation via tables and, figures. Multiple regression analysis was used to answer the research question.

The study revealed that the majority of the respondents were male representing 77.6% of the total respondents. The study also showed that demographic characteristics of an entrepreneur such as; gender, Age, level of education, Business type, Form of ownership, preparing plan for

future operations, Record keeping and financial control system, Management experience for business, and Marketing related skill.

The average change in the current and previous capital for small and micro-scale enterprises in this study is about 22.462 thousand dollars with standard deviation 40.73. Multiple regression analysis was conducted after checking all the assumptions of multiple regressions to find out the major factors influencing the performance of small and micro enterprises in Hargeisa Town.

The study further revealed that 66.4% of the variances in capital change of SMEs' was explained by the independent variables such as age, level of education, Business type, preparing plan for future operations, Record keeping and financial control system, Management experience for business, and Marketing related skill.

Finally, the result showed that planning, record keeping and financial control, management experience of owners, age (31-40), educational level intermediate/secondary school, and marketing skill have a relation with the performance of SMEs operating in Hargeisa Town, but being male or female, being in the age group 21 - 30 years, having diploma, and being one or more than one ownership have no effect on capital change.

## **5.2. Conclusions**

This research was conducted in Hargeisa town of Somaliland in order to critically assessing the factors influencing the performance of SME operators engaged in Electronics, Boutiques/clothes shop/tailoring, Transport, Supermarket, Retail Shop and Service (shoeshine/barbershop/salon/stationary).

Specifically, the study attempted to examine the Record keeping and financial control, Management Experience, Planning, Education status of the entrepreneurs, Age of the entrepreneurs, form of ownership, Business type, Marketing skill, Gender of the entrepreneurs and to recommend possible solution to alleviate the problem of SMEs. Based on the objectives and findings of the study, the following conclusions are worth drawn.

Therefore, those factors which determined the capital change (i.e. performance of small and micro enterprises) in this study are: age of the respondent, education level of respondents, business type, preparing plan for future operations, record keeping and financial control system,

management experience for business and marketing related skill, but being male or female and being one or more than one ownership have no effect on capital change.

In this study, enterprises owned by individuals with the age of 31 to 40 shows higher performance than the other age groups of enterprises and respondents having intermediate or secondary school educational level have in average capital change were lower as compared to respondents having degree and above. Furthermore, the study has a different business sectors therefore those retail shop and Boutiques have better performance as compared to the other business sectors.

In terms of Hypothesis testing with discussion part the specific empirical findings emerged from the investigation that there exists significant positive relationship between independent variables and dependent variable. Moreover, the selected independent variables may significantly explain the variations in the dependent variable in study area.

The other result obtained in this study is that, there is significant variation on the performance of SMEs operating in Hargeisa Town in relation to the deference in their internal practice of using or not using plan, use record keeping and financial control system or not using, but there is no difference in terms of the type of ownership of the enterprise as possessed by single owner or more than one owner. But in terms of average capital growth those enterprises, which have planning practice shows higher performance than those who do not plan. In terms of record keeping and financial control, those enterprises using this system shows better performance.

### **5.3. Recommendations**

Based on the result of the study the following recommendation are forward regarding the Hargeisa Town, Small and Micro-Scale Enterprises.

- In relation to the education level of the owners, those enterprises owned by individuals with education level of diploma and above shows better performance. In this respect enterprise owners should focus on up grading themselves in education by using alternative programs. Also, other stakeholders of the sector, especially Small and Micro Development Agencies should work on providing short term training that helps enterprises in their business work.

- The result shows those enterprises that have planning practice and those enterprises using record keeping and financial control mechanism shows better performance. If that is so, SMEs should start using plan to their business activities and also adopt a formal record keeping and financial control system in their internal practice.
- In relation to management experience of owners and marketing skill enterprises owned by individuals with previous management and marketing skill shows better performance. So, the stake holders of the sector should work on preparing training programs on management issues and creating experience sharing opportunities especially to those enter into the sector without any management experience.
- Government officials in Hargeisa town should motivate Small and Micro-Scale Enterprises enterprise to increase their capital to be able competent.

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**Appendices**  
**(Questionnaire)**  
**JIMMA UNIVERSITY**  
**COLLEGE OF BUSINESS & ECONOMICS**  
**MSC IN ACCOUNTING & FINANCE**

My name is Aidarous Ahmed Ali. I am a student at the Jimma University undertaking a degree in Master of Accounting and finance. I am undertaking a research which entitled: **Factors influencing Performance of Small Micro and Enterprises (SMEs) in Hargeisa town.** You have been selected to participate in this study to obtain your perceptions and views regarding various aspects of the SME sector. There are no good or wrong answers but your honest participation in answering the questions will assist in establishing the factors influencing performance of the small businesses in Hargeisa town. The information provided will be treated confidentially.

Thank you in advance.

**Personal information of the principal business owners**

1. **Gender:** Male  Female

2. Age of the principal business owner(s)

A) 21-30

B) 31-40

C) 41-50

D) Above 50

3. Education level of the principal business owner(s)

A. Intermediate school

B. secondary school

C. Diploma

D. Degree

E. Masters

**Business Related Information**

4. What is the age of your business under the current ownership?

- A. 2 - 5 years
- B. 6-10 years
- C. 10-15 years
- D. 15 and above year

5. What is the form of ownership in this business?

- A. Sole proprietorship
- B. Partnership

6. What is the type of business you are involved in?

- A. Electronics
- B. Boutiques/clothes shop/tailoring
- C. Transport
- D. Supermarket
- E. Retail shop
- F. Service (shoeshine/barbershop/salon stationary)

7. How many employees did the enterprise have when first established including the Principal owner?

- A. 1 – 5 employees
- B. 6 – 10 employees
- C. 11 – 20 employees

8. How many employees are working currently in the enterprise including the principal owner?

- A. 2 – 5
- B. 6 – 10
- C. 11 – 20
- F. 21 – 30

9. What was the amount of total capital invested in Dollar to start this business?

.....

10. Currently how much the total capital of your business in Dollar?

.....

11. Do you prepare a plan for your future operations of the enterprise?

A. Yes

B. No

12. If your response for question 11 is yes, what is the time span your plan covers?

A. Below 1 year

B. 1 to 2 years

C. 3 to 5 years

D. above 5 years

13. Do you have a record keeping and financial control system?

A. Yes

B. No

14. If your response for question 13 is yes, what kind of record keeping and financial control system you reusing?

A. Recording the daily transaction

B. Balance sheet

C. Income statement

D. If other specify.....

15. Do (se) the principal owner manager(s) of the enterprise have/has any management experience before establishing this business?

A. Yes

B. No

16. If your response for question 15 is yes, how many years?

A. No experience

B. 1- 3

C. 3 - 5

D. Above 5

17. Do you have any marketing related skill that you obtain either through your formal education or any kind of informal education and marketing training?

A. Yes

B. No

18. If your response for question17 is yes, what is the specific advantage you gained?

A. How to price your products

B. How to handle customers

C. How to sale your products

D. How to create market linkages

E. If others, specify.....