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

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A descriptive Survey employing the use of questionnaires, an interview and observation schedules were used to collect data from a sample size of 152 Micro and small enterprises picked from a population of 1500 operating within and around a 400 metre radius of Hargeisa City. They were selected using stratified sampling, and purposive sampling techniques. Data was analysed using descriptive statistics such as frequencies and percentages Chi Square tests were used to test the significance of associations between selected variables.

The fmdings were displayed in percentages, frequencies, figures and tables. This study revealed that certain characteristics of the enterprise and the socio cultural background of the entrepreneur have an impact on MSE performance; thus given a conducive environment and adequate support, The MSE entrepreneurs in Hargeisa can realise their full potential and maximise their contribution to the country's economic development. The study also demonstrates that with the installation of basic infrastructure, and the elimination of both rigid regulations and the threat of demolition, the enterprises perform more efficiently. This highlights the need for urban planners to allocate land and provide basic infrastructure for the informal sector.

Definition of Keywords

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Chapter One

I. Introduction

a) 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. 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). Forinstance 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.

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). 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

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developing countries alike, 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. As with many developing countries, there is limited research and scholarly studies about the SMEs sector in Somaliland particularly SMEs in Hargeisa town. According to National Baseline Survey. (1999), fifty six per cent of formal businesses are located in the Hergeisa region. On the other hand, informal sector enterprises are more widely distributed, with the majority found in the rural areas. This survey highlights the regional distribution of enterprises 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 Success or failure of SMEs in Hergeisa City and to understand how they can be well.

b) Statement of the Problem

Small and medium enterprises are the major agents of economic growth and Employment. In Somaliland, over seventy percent of small businesses are estimated to fail each year(National Baseline Survey, 1999). Amoud (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of SMEs. However, despite government efforts in Somaliland to promote SMEs activity, less progress seems to have been achieved, judging by the performance of the informal sector. When the state of the macro economy is less favourable; by contrast, the opportunities for profitable employment expansion in SMEs are limited. Unfortunately, there is very little information on how the small business sector is structured. 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.

This study seeks to investigate the factors that affect the performance of small businesses in order to develop an understanding of the dynamics of SMEs not only for the development of support programmes and growth strategies for SMEs, but also for the growth of the economy as a whole. Factors affecting the success or failure of SMEs in Hergiesa City will be explored to better understand why they fail or succeed and how they can be improved.

c) Main Objective of the Study

The main objective of this study was to investigate factors affecting the performance of SMEs in Hergiesa Somaliland.

i. *Specific Objectives of the Study*

Specifically, the following objectives shall be tackled.

- To investigate the socio-cultural background of entrepreneurs that influences the performance of their businesses.
- To examine the business related Government policies and how they influence the performance of SMEs in Hergeisa city.
- To identify the challenges facing SMEs in Hargeisa City and how these challenges influence their performance.
- To suggest ways of sustaining SMEs

d) Significance of the Study

It is hoped that the study results would be used by the Government through the Ministries of Culture and Youth Affairs (MOCYA), Gender and social services in developing policies for the disbursement of the Youth and Women funds to the small businesses. It is also hoped that Municipal Council of Hargeisa would use the findings of this study to develop the findings of the study to design appropriate policies and strategies that could guide the planning for and location of SMES within Hargeisa city and other urban areas in Somaliland. Non-Governmental Organizations (NGOs) and other Development Partners dealing with poverty eradication will also find the report useful. The results of this study would be disseminated in workshops, published and shared in libraries thus the study will contribute to the stock of knowledge from which societies and institutions depend for problem solving.

e) Research Questions

The study shall be guided by the following research questions:

1. What is the relationship between the characteristics of a business enterprise in Hergiesa City and its performance?
2. To what extent does the socio-cultural background of an entrepreneur affect the performance of the business enterprise in Hergiesa City?
3. How does Government Policy and legislative processes impact on the performance of SMEs in Hergiesa City?
4. What challenges do entrepreneurs operating SMEs in Hargeisa face?
5. What strategies are employed by small and micro-enterprises in countering the challenges that they face?
6. What do you think could be done to prevent these challenges

f) The Scope of the Study

The study focuses on SMEs operating in the context of Hargeisa as it has a collection of many SMES of different types. Hargeisa, which is the capital city of Soma liland is located 110km East of Borama, 150km West of Berbera. Various types of small businesses

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were studied. The researcher took two weeks collecting data.

g) Limitations of the Study

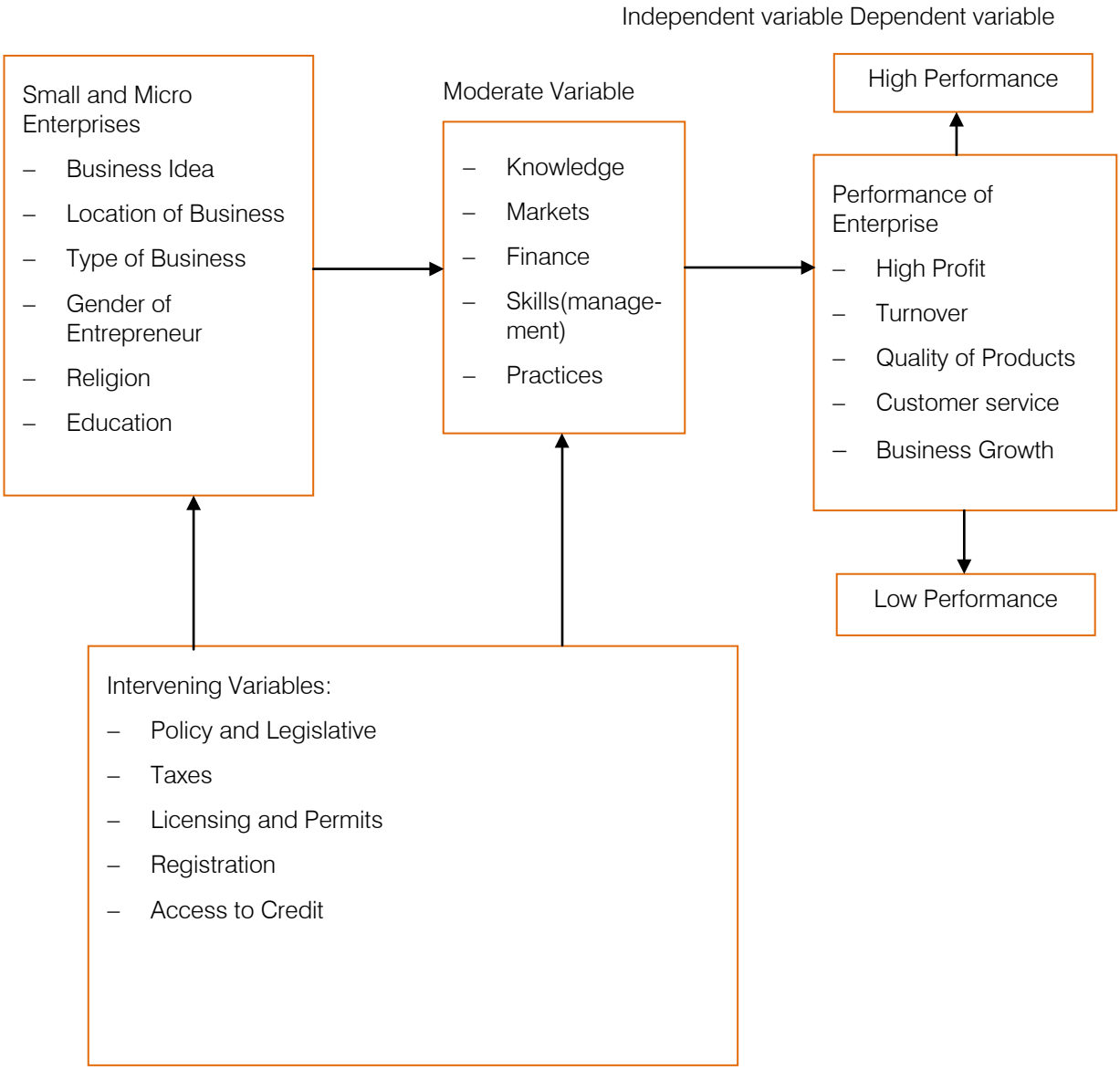
The researcher faced a number of challenges at the time of data collection and they included the following:

The researcher faced financial constraints as much money may be required to meet the cost of transportation and meals. This challenge was overcome by seeking financial support from financial institutions. The researcher also had limited time to cover all the small businesses in Hargeisa. In order to overcome this problem, he concentrated on his selected sample of the SMEs in Hargeisa.

There was a challenge of haphazard and disorganized nature of the businesses operating within and around mini and super markets that may hamper the collection of data. The researcher addressed this challenge by getting more organised in terms of time management and presenting himself well at the area of stud

h) Conceptual Framework

This study was guided by the following conceptual framework:



Source: Developed by the researcher

Figure 2.1: The relationships between the variables

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Explanation

The independent variables in this frame work are small and micro enterprises with underlying success factors. These include factors that are inclined towards the business owner such as age, gender, education, training and experience. These coupled with characteristics of the business enterprise such as size, source of capital, number of employees can impact on the performance of the business (dependent variable).

The business owner or entrepreneur may possess certain inherent knowledge, skills and practices which may influence a business enterprise either negatively or positively as this study shall find out. These include knowledge of the markets, management, and the trends in the particular type of business. These factors moderate the performance of the enterprise. And thus, the moderating factors that may vary with characteristics in the business or business owner.

Performance of the business which reflects in terms of high profit turnover, quality of products, customer service and business growth are dependent on factors in business or it's owner. How the business owner uses the knowloge, skills, manage and what they practice in business will give them either high or low business performance.

However, government policies on the ground and legislative processes, taxes, licensing and permits, registration and access to credit also have a direct impact on the SMEs and moderating variables which in turn affect business performance.

This study seek to determine how all these factors interplay among themselves and how they affect the performance of the SMEs in Hargeisa.

Chapter Two

II. Literature Review

a) Introduction

This chapter focuses on the evaluation of the existing literature. The research identifies gaps in what other researchers have written about the topic he is researching about. The researcher mainly takes the initiative to critic the secondary information by filling the gaps with new knowledge based on his own opinions.

b) Characteristics of SMEs

According to Perry and Pendleton (1983) many typical characteristics of SMEs are determined by factors like size of organization or independent ownership. This is supported by empirical findings by compiled by (Wagner1992) who found out that SMs in Japan are characterised by smaller numbers of employees that are more involved in retail. The same study reveals how Nigerian SMEs entail smaller ownership such as one-man business or in partnership while others were family business or private limited company.

It is important to mention that SMEs are operated by more women than men in many countries of the world, also backed by the (International Labour Organization, 1989) which reveals that the sector accounts for 41 percent of women-owned and 30 percent men owned enterprises around the world. This fact is not far from reality in Somaliland case.

Usually, SMEs are more operated by every person both the educated and non-educated ones but the latter are more in this business. As if this is not enough, SMEs require smaller amounts of capital to begin the business. This could probably be one of the reasons why many uneducated entrepreneurs Hargeisa city are involved in the sector.

c) SMEs Performance Management

Management and skills are needed to run micro and small enterprises. Research shows that majority of micro and small enterprises are not well equipped in terms of Management skills. Majority of those who run SMEs are the ordinary people whose management background is wanting. Hence they may not be well equipped to carry out managerial routines for their enterprises. King and McGrath (2002) suggest that those with more managerial skills and training are more likely to be successful in the SME sector. As such, for small businesses to do well, entrepreneurs need to be well informed in terms of technical skills and management to remain players in a competitive business economy.

However, (Holt, 1992) acknowledged that managerial skills play a subsidiary role in promoting entrepreneurship, because entrepreneurs are born. It is often articulated that the number of entrepreneurs will ultimately be increased more if awareness of the feasibility and desirability of starting a business is established at a young age.

d) Factors that determine success and failure of SMEs

Sutton (1997) noted that, most of the successful entrepreneurs in Sri Lanka have not gone through higher education or formal courses in entrepreneurship. Lack of formal education may not block their desire to operate SMEs. They could use indigenous knowledge and become more successful than those other entrepreneurs that went through formal system of education. In another study conducted by (Meng and Liang, 1996) regarding entrepreneurs in Singapore disclosed that successful entrepreneurs have higher managerial skills compared to that of unsuccessful entrepreneurs. Ninety percent of business failures are associated with "management inadequacy" according to(Perry and Pendleton, 1983).

One could also point out that experience may determine business success, especially when the new business is related to previous business knowledge and experiences. Entrepreneurs with vast experiences in managing business are more capable of finding ways to

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open new business compared to those without any experience. The importance of experience for small-scale business success is also underscored by other experts like (Zimmerer and Scar-borough, (1998) note that prominent reasons behind business failures are related with managerial and experiential capabilities.

e) Sources of Finance for SMEs

Support services to SMEs cover both financial and non-financial interventions provided enhance the development and sustainability of the sector. The Baseline Survey of 1999estimated that 260 organizations (private and public, national and international) entrepreneurs had support programmes. In an attempt to understand the scope of these organizations, the 2009 MSE Survey enquired into the different types of assistance received by MSE operators who discovered that their operations depended on both formal and informal assistance as well as financial and non-financial assistance.

Wanjohi and Mugure (2008) acknowledges that4 per cent of accessed credit was obtained from formal financial channels, such as NGOs, micro-finance schemes, commercial banks and Savings and Credit Cooperative Societies (SACCOS). In Somaliland's case, small scale entrepreneurs are supported by the Islamic financial institutions through borrowing and paying back after an agreed period of time but still others may be facilitated by support from relatives in diaspora who send them remittances.

f) How SMEs Promote the Economy of the country

According to (Hisrich, 2000.), Sub-Saharan African countries report a high number of SMEs contributing to economic growth in the economy. There is a large difference between regions and countries in regard to the number of SMEs. The variation between countries in the region of Sub Saharan Africa is large and data uncertainty is high. The number of SMEs is highly dependent on how you define them and whether or not you include the informal part of the economy. The reason behind this pattern is probably due to smaller economies of scale on the national level in smaller domestic markets.

According to Ayyagari (Weitzel, and Jonsson, 1989), SME sector's contribution to both employment and GDP shows a strong positive correlation with GDP per capita. Consequently, the wealthier a country is, the more important are the SMEs in the overall economy. More recently the Executive Vice president of the Development Bank of Southern Africa by the name of (Thapa,, 2007), stated that "in most African countries SMEs in the formal sector contribute less than 20% to gross GDP Lucas (1978) show that shift towards services has been broad based, registering substantial growth in several service sectors in most countries in the region. This supports the perspective that SMEs play a pivotal role in the formation of a stronger service sector. In this way, the role of SMEs in economic growth and development should not be underestimated.

g) Age of the Firm on Business Performance

According to many sources and daily observation, the age of an entrepreneur may affect firm survival and growth and/or organizational decline or death. What makes new SMEs face a greater risk of survival than older firms is that new firms do not have experience, access to resources, networking skills(see, Amyx, 2005). In some instances, age of an entrepreneur goes with trust. In some countries of East Africa, youths are more engaged in SMEs according to a previous conversations with a Ugandan professor. In Somaliland, old people are trusted with the exchange of goods and services than young people.

h) Location of the Business on its Performance

Geographic location has its implications on access to markets and other resources like finance, skilled labour, subcontractors, infrastructure, distribution and transport logistics and other facilities. SME success also depends on neighbourhood appearance and continued or maintained future business operations in that location. According to Orthodox regional development theory by (Row, 2008),urban areas have favourable supply-side conditions for firm development. SMEs located in urban areas typically have a relative ease of access to customers and the inputs required (i.e. finance, premises and technology) to produce goods or services. SMEs located in urban areas may benefit from "agglomeration economies" and spatial externalities such as specialized infrastructures, information, network of suppliers, specialized labour, specialized knowledge, concentration of existing exporters (Bonte, 2009).

Ronge and Nyangito (2002) found that firms in remote rural areas were less active in various dimensions of innovation. This may be influenced by the fact that most rural areas have less and reliable financial and business service sectors than urban areas. Further, limited awareness and usage of external business advice have been reported by firms located in rural areas (Keeble, 1997).This study seeks to find out whether the location of a business has any influence on the performance of the SMEs located at Hargeisa.

i) Challenges Facing SMEs

It is generally recognized that SMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development these include: lack of managerial training and experience, inadequate education and skills, lack of credit, National Policy and Regulatory Environment, technological change, poor infrastructure and scanty markets information (Hall, 1987).

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There are various other financial challenges that face small enterprises. They Include the high cost of credit, lack bank charges and fees. The scenario witnessed in Somaliland particularly during the climaxing period of the year 2012 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' which they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among most African nations, Somaliland inclusive, the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persists (McPherson, 1995). There is digital divide between the rural and urban Somaliland. With no power supply in most of the rural areas, it is next to impossible to have internet connectivity and access to information and networks that are core in any enterprise. Thus technological change, though meant to bring about economic change does not appear to answer to the plight of the rural entrepreneurs except in the case of urban SMEs.

j) Sustainability of SMEs

According (Evans1987), maintaining social acceptance is crucial in doing business. Companies need to be perceived positively by stakeholders. Sustainability means maintaining strong relationships according to (Raman, 2004). Treating employees well increases their job satisfaction and makes them more likely to stay with the company as well as marketing it to attract more customers and profit. SMEs contribute significantly to economic growth, employment and national development. Their contribution is commensurate with the level of economic development and diversification of their respective countries. Business sustainability makes firms resilient so they are able to adapt to change and create long-term financial value. Sustainability and the legacy of the firm are part of SMEs' day-to-day activities (Weber 1930).

Sustainable SMEs aims at finding a balance between social-wellbeing, ecological quality and economic prosperity (Gakure 2006). Sustainable SME scan get ahead of supply chain pressure and ever-stricter regulation (see, McClintock, 2009). Firms adopting sustainable practices early could avoid unnecessary costs. The reputation of an entrepreneur could build community connections to capture multiple benefits. For example, keeping customers informed about cost effective quality goods and services may make projects advance to a better position. Sustainable practices help companies meet legal requirements such as permits more quickly and this could guarantee their competitive advantage.

Chapter Three

III. Methodology

a) Introduction

This chapter articulates the research designs through which data was be collected. The sampling frame was employed to focus on the procedure, size and techniques. The chapter presents research methods and instruments such as observation and its check list, key informant interview with its guide, questionnaires and their guides as well as focus group discussions. Ethical considerations were also discussed.

b) Research Design

Longenecker and Palich(2006) assert that research design refers to the master plan that will be used in the study in order to answer the research questions. Qualitative techniques shall dominate the data collection which was descriptive in nature and explanatory. Quantitative techniques were used in order to find out factors influencing the performance of SMEs in Hargeisa City.

c) Target Population

In this study, the target population includeds mall scale business owners such as those operating the mini and super market in Hargeisa City due to their concentration of various SME types and can thus be representative of most enterprise sectors in Somaliland. The study also targeted the daily customers who buy the products and receive the services of the entrepreneurs. Lastly, some policy makers in the ministry of commerce who regulate SMEs were also involved in order to capture reliable and valid information.

d) Sampling

i. *Sampling Procedure*

The researcher applied the Morgan Table to determine the sample size from the target population. This is because the Morgan table clearly illustrates various population sizes together with their proposed samples(Morgan and Krejcie, 1970).

ii. *Sample Size*

According to (Meng, 1996), survey is a method that studies large population by selecting and studying the samples from the population to discover the relative incidence, distribution and interrelations of sociological and psychological variables. In this respect the researcher had previously intended to interview 152 respondents as guided by the Morgan table. However, due to challenges encountered in the field indicated in chapter one above, he accessed only 120 respondents. This sample included SMEs, some members of the community who are the buyers of the products as well as some key policy makers in the ministry of commerce that regulate SMEs.

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iii. *Sampling Techniques*

Kothari (1990) recommends stratified sampling because it is accurate, easily accessible, divisible into relevant strata and it enhances better comparison; hence representation across strata. The respondents were selected from the Hargeisa communities which are divided into strata based on one or more attributes (see also Staw, 1991). The researcher gave each stratum an equal chance of being sampled to take part in the study.

Purposive sampling was used to select the key informants in the Ministry of Commerce because the researcher believes they have information regarding regulation of SMEs in Somaliland and Hargeisa city in particular. Ainebyona (2011) acknowledges that "people who have experience of particular issues can provide relevant information about them." People who are responsible for regulating business could be more knowledgeable in giving out information from their field of work.

The researcher also used random sampling technique to collect information from some of the community members who are also the daily customers of SMEs in their locality. These people shared their experiences about the small and medium businesses communities.

e) Data collection methods

The study used questionnaires, key informant interviews, observation and document analysis as the main tools for collecting data.

i. *Questionnaires*

Hart and Paris (1956) explains that descriptive data are usually collected using questionnaires. Others like Cochran (1981) have also identified questionnaires and interviews as crucial instruments of data collection in descriptive research. The researcher adopted both the open ended and closed type of questionnaires because it saves time.

ii. *Interviews*

Key informant interviews shall also be conducted during data collection. Kothari (1990) points out that "interview method of collecting data involves presentation of oral-verbal stimuli and reply in terms of oral-verbal responses." Such kind of interaction with the SMEs and other participants helped the researcher to capture first-hand information regarding the study. The researcher meanwhile noted all the information in his notebook that enabled him present reliable information in his dissertation.

iii. *Observation*

Direct observation method was applied in this study to capture pertinent information regarding the location and organization of the market. This research tool was guided by a structured protocol to ensure gathering of pertinent information only. Scientific evidence emphasises that researchers shall conduct focussed observations in order to understand the relationships between the entrepreneurs and the customers (see, Ainebyona, 2011). It could be a wise step for a researcher to capture nonverbal information regarding the size of the business, its location, type of products and type of business, customer care and the emotions of customers in relation to the quality of service. The researcher in this case used the data collected by use of naked eyes to supplement the data obtained by use of other tools and techniques.

f) Validity and Reliability of data

Validity of research instruments ensure scientific usefulness of the findings arising thereof Becchetti, and Trovato, (2003). Validity is the extent to which the instruments will capture what they purport to measure (Allison, 1984)since it is critical in all forms of researches and acceptable level is largely dependent on logical reasoning, experience and professionalism of the researcher (Cortes, 1987).The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. In order to come up with reliable data, the researcher discussed the contents of the questionnaires and interview guides with his supervisor before going to the field to avoid vague and unclear questions and responses.

g) Data Processing and Analysis

Qualitative data which was gathered from the field, was summarised and interpreted to get meaning out of it. Quantitative findings were outlined and analysed using SPSS in chapter four below ensure accuracy.

h) Ethical Considerations

According to Gene and Davis (1996), researchers conducting business research should be concerned about ethical issues … because "unethical research can lead to poor quality data" and eventually affect the decisions at the later stages of implementation. The researcher obtained an introduction letter from his institution of learning in this case, School of Graduate Studies and Research of Gollis University. This helped him in identifying himself to the SMEs and other respondents that participated in the study.

Before interacting with the community members and entrepreneurs, the researcher sought informed consent from both the Municipal Council of Hargeisa to allow him permission to interact with the relevant research participants. It is important to note that "society has the right to expect that personal information gained through research will not be disclosed" (Gene and Davis. 1996). In this case, the researcher respected the confidentiality and anonymity of respondents in order to ensure their safety and privacy.

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Chapter Four

IV. Data Presentation and Analysis

a) Introduction

This chapter presents the findings, analyses the responses the primary sources. The field experiences of the entrepreneurs operating businesses within the Hargeisa have been discussed and where possible gaps have been identified and filled combining them with secondary sources.

b) Research Area

Data were collected from Hargeisa city specifically among the sampled small and medium entrepreneurs finding them at their supermarkets. The Ministry of Commerce/ Finance and local government or municipal council was also involved in the study to capture related information from government officials responsible for tax regulation because it was expected that they knew how the SMEs operate and had good or bad experiences dealing with this responsibility. Customers in the community who were/are not part of the SMEs were visited from their communities. The latter were also important in the study because they interact with SMEs on daily basis.

c) Research findings

This section outlines the findings about small and medium enterprises.

a) The study found out that rent in some of the supermarkets that were located in the city center was too expensive for most small and medium entrepreneurs.
b) This research study found out that most of the SMEs operating in Hargeisa have very low or no education background.
c) The study also found out that most of the entrepreneurs were not aware of the feelings of their customers towards their business making it difficult to convince them to buy their products.
d) The study also discovered that most of the small and medium entrepreneurs lack customer care. So, they were most likely to lose customers every day.
e) The study also found out that SME's create employment, enhance capacity building for manpower and skills development, promote growth, reduce poverty, and facilitate industrial development among other.
f) Practical evidence from respondents revealed that the rise in creation of SMEs came with reduction in the cost of transportation of goods and services in Hargeisa and Somaliland in general.
g) The study found that the majority of SME's are constrained by lack of financing because small micro enterprises typically have no access to commercial banks because they do not exist in this country. This implies that lack of credit facilities make it difficult for small and medium entrepreneurs facilitate their businesses.
h) The study also found out that SME's are also lacking adequate marketing skills to operate the business perfectly well.

d) Quantitative findings

Quantitative data has been presentation tables below. After every table is an interpretation of statistical information to bring out the clarity of the report.

Table 1: Gender of the entrepreneurs

Gender	Frequency	Percentage %
Male	88	73%
female	32	27%
Total	120	100%

It is clear the number of males (73%) outweigh that of females represented by (27%) in the sampled wards. This implies that males in Hargeisa constitute of the highest number of small and medium entrepreneurs than that of females. This could partly explain that women are have limited capacity to start small scale businesses.

Table 2: Marital Status

Marital status	Frequency	Table N %
Single	67	55.8%
Married	49	40.8%
Separated	2	1.7%
Widowed	1	0.8%
Missing	1	0.8%
Total	120	100.0%

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SMEs are dominated by people who are not yet married according to table 2 above that represented 55.8% followed by those who were reported married. The latter were 49 people that equaled 40.8%. The study indicated that the separated and widowed were very few in the business activity. The widowed or the separated owning children may have more financial challenges especially if they are women finding it difficult to get starting capital. This does not mean that men who have lost their wives or separated with them cannot be in this category.

On the other hand, married and sing young men may find it easier to start up an SME on the basis of cooperating with each other to achieve common goals.

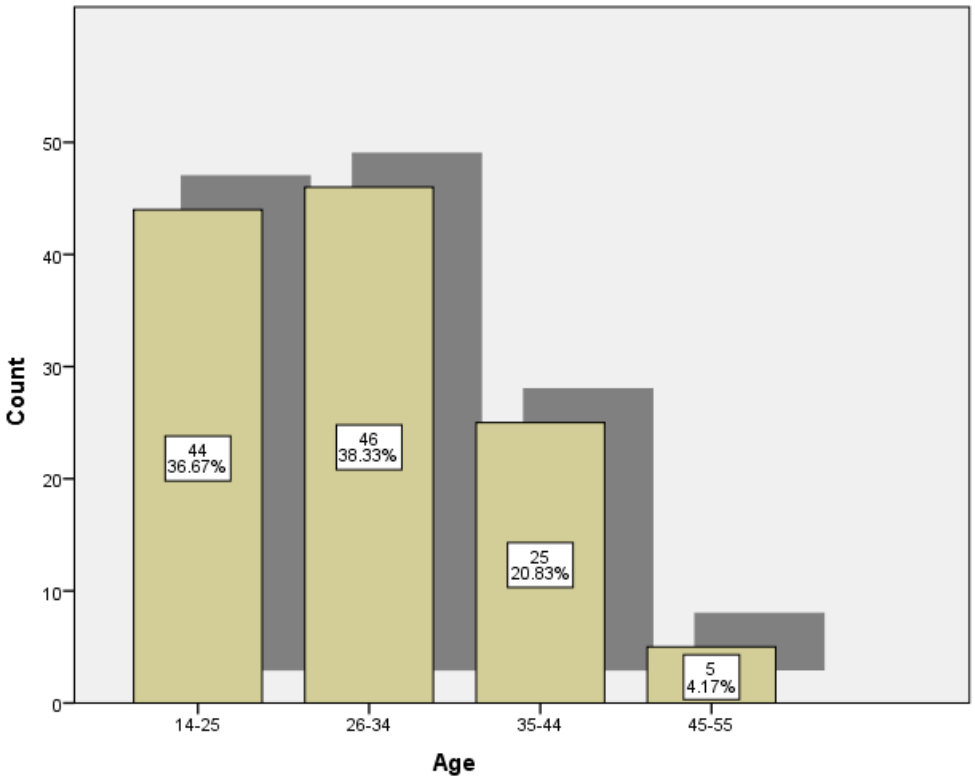

Figure 1: Age of Responde

The age of the respondents was sought in order to establish the level of awareness due to their age. The figure above shows that 36.67% of target population were between14-25 years old while 38.33% were between 26-34 years. The respondents between 35-44 years old were represented by 25%. Lastly, 4.17% represented those who were between 45-55 years old and were very few in SME operations in Hargeisa. SMEs are operated by citizens of relevant ages including teenagers and those who are older. Having teenagers in the business could mean that the level of school going children are more in business or other activities than education.

Table 3: Employed vs Sector

		Employment in other sector or not					
		Private	Civil service	NGO	Others	Total	Percent
		Count	Count	Count	Count	Count	Percent
	Employed in other sector	76	7	9	9	101	84.1
	No	0	0	0	0	19	15.9
	Total	76	7	9	9	120	100
		63.3	5.7	7.5			

Respondents were asked if they are employed in any other sector and the table above shows 101 (84%) of respondents are employed in other sectors while 26% are not as indicated in the table above. Operating two businesses a common feature among the citizens of Somaliland. It may perceived as prestigious to have formal and informal employment but could also mean that those who have such chances may have additional income to advance in line with entrenuership.

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Table 4: Business Location Business location

SME location	Count	Table N %
Comfortable	107	89.2%
uncomfortable	13	10.8%
Total	120	100.0%

Respondents were asked if they are comfortable with the place where you are located and the table above shows (89.2%) of respondents are comfortable in their location while 10.8%of the respondents are not comfortable with their location. Being comfortable with the business location could imply that the SME gets more customers every day or their businesses are doing very well and appreciates to be there despite the likelihood of high rent that may be required by the landlords.

Table 5: Type of Enterprises

Type of enterprise	Count	Table N %
Transport	8	6.7%
Grocery	4	3.3%
Boutiques/clothes shop/tailoring	17	14.2%
Supermarket	36	30.0%
Electronics	14	11.7%
Retail shop	27	22.5%
Service (shoeshine/barbershop/salon)	14	11.7%
NA	0	0.0%
Total	120	100.0%

The table above shows the common SME's in Hargeisa and this means that supermarkets are the common type of SME's. Like in any other city in Somaliland, SMEs sell a variety of products. Some small number of entrepreneurs may specialize such as those in transport that represented 6.7%, electronics (14%). However, the majority of SMEs were boutiques, supermarkets or retail businesses with a mixture of different products.

Table 6: Time of Business being operating

Time of Business being operating	Count	Table N %
less than 1year	13	10.8%
2-3 years	14	11.7%
4-7 years	41	34.2%
8-10 years	1	0.8%
over 10 years	51	42.5%
Total	120	100.0%

The table above revealed that those who had stayed in the area for below 1years formed 10.8% of the total number of respondents. Those who had stayed in the area for between 2years and 3yrs formed 11.5% of the total number of respondents while the majority (42.5%) had been staying in the area for over 10 years. Overstaying in one business might mean that SMEs are successfully meeting their basic needs out of operating those business. It could also indicate that the majority of the respondents understood the needs of the community.

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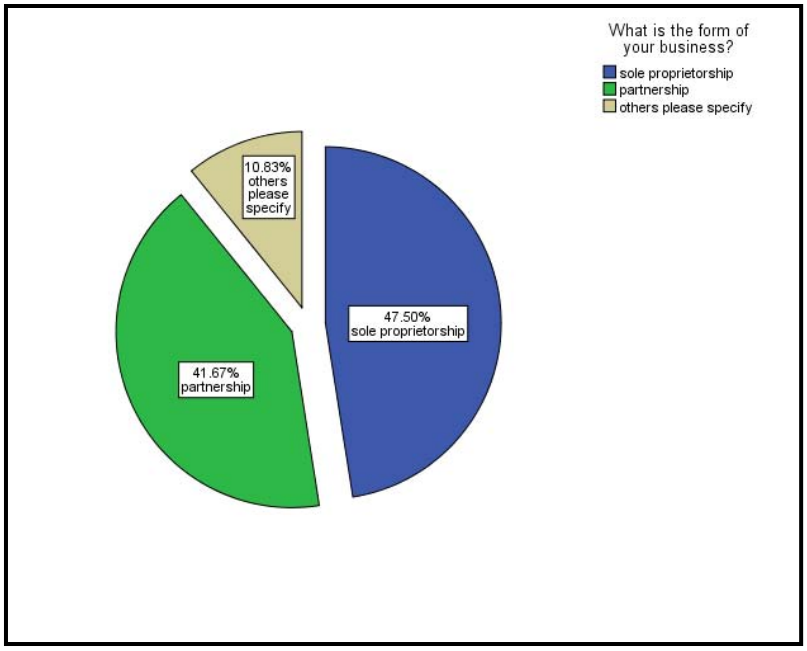

Figure 2: Form of Business

An overwhelming 47.50% of the respondents that they would have sole proprietorship while 41% had partnership and the rest 10% had other forms of business like family business. Sole proprietors were found to be the majority which implied that may people prefer to be their own bosses. Partnerships are also very common as in the Somaliland's case. Family or non-family members are most likely to combine efforts and incomes as well as sharing costs and expenses to minimize any likely business shocks.

Table 7: Business Registration

Business Registration	Frequency	Percent
Registered	104	87%
Not registered	16	`13%

An overwhelming majority of respondents that represented 87% disclosed that they had registered their business while 13% had not registered them. This shows that registered property rights are necessary to support investment, productivity and growth. Lack of registration could mean that the few SMEs experience financial challenges making it difficult to raise the taxes as well as paying other associated costs especially if they do not own the shop or business space.

e) Qualitative Findings

i. *Sustaining small and Medium Enterprises (SMEs)*

Director of commerce in the ministry of the finance when we asked how to sustain the small and medium enterprises of Somaliland was said "reduction in the number of foreign licenses, and enforcement of SME's regulations for registration property; establishing immediately a force to eliminate illegal business in Somaliland and a review of the assessments of the evidence of Taxes that SME's paid to government." Other important factors that also found during interview to the director of inland revenue in the ministry of finance showed that is protect basic rights of SME's owners and building up Trade and Investment Capacity of SMEs Developing capacity building programs that include supply chain and cluster initiatives, which recognize the potential for developing tiers of suppliers to maximize trickle down effects, including to micro enterprises as lower tier suppliers.

ii. *SMEs Contribution to Economic Development*

"SME's are contributing value to country's economy by creating jobs, enhancing income, strengthen purchasing power, lowering costs and adding business convenience.

There is no doubt that small and medium scale enterprises are essential for rapid and sustained economic growth and development. They create employment, enhance capacity building for manpower and skills development, promote growth, reduce poverty, and facilitate industrial development among other" said by the director of commerce in Somaliland SME's contributes in economic development in the

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country, also creates opportunities of employments, they participate 50% of the market employment, support regional supply and access to service delivery SME'S contribute the economy of the country to the market economy system, as known, relies on four pillars: private property, free price system, competition and entrepreneurial ability. Market economy is considered as the economy of free initiative and according to this free initiative is private property. The development of free enterprise combined with efforts to create an institutional market, with clear rules of the game for all, constitute a guarantee for the development of rapid and sustainable economic development. It is recognized, theoretically and practically, that sustainable economic growth also improves the social and political stability and in terms of the transition period which is Somaliland currently situated guarantees reform system. Sustainable growth is achieved when in the country is created a safe environment and sustainable private sector.

iii. *Main Challenges of SMEs*

Most challenges that SME's face are more but I can tell you some of them which are Lack of financing because small micro enterprises typically have little to access to commercial banks or Islamic banks and also they face lack of creditor

SMEs are working in this Country and competitive environment as a result SMEs are affected by factors within their boundary. Organizational problems grouped into five areas which are human relations, accounting, marketing; internal management and external management. Although, they have generally concluded that the most prevalent areas in which SME have problems are sales or marketing, human resource management, and general management, they specifically reported promotion, marketing research and training as the most frequently encountered problems such as public relations and lack of adequate marketing skills that could be minimized through mass sanitization of SMEs using local and international media in form of local newspaper, radios, direct mails, among others.

Chapter Five

V. Summeries, Conclusions and Recommendations

a) Introduction

The chapter presents a summary, conclusions and recommendations on the specific Factors affecting the performance of Based on the findings in chapter four, the study gives a Summary, recommendations and suggestions for further research. The recommendations are based on the objective of the study.

b) Summaries

From the findings of the study discussed in chapter four above, the study established in some of the supermarkets that were located in the city center was too expensive for most small and medium entrepreneurs. The study found out that most of the SMEs operating in Hargeis a have very low or no education background. The study also found out that most of the entrepreneurs were not aware of the feelings of their customers towards their business making it difficult to convince them to buy their products. The study also discovered that most of the small and medium entrepreneurs lack customer care. So, they were most likely to lose customers every day. The study found that the majority of SME's are constrained by lack of financing because small micro enterprises typically have no access to commercial banks because they do not exist in this country. This implies that lack of credit facilities make it difficult for small and medium entrepreneurs facilitate their businesses.

The study also found out that SME's are also lacking adequate marketing skills to operate the business perfectly well

c) Conclusions

From the presentation of chapter four and summary above the study concludes that access to business location affected the performance of the business to a great extent. The study further concludes that accessibility to business location affected the performance of SMEs. The location of business was readily available to them to entrepreneurs hence were able to make timely and quality decision to propel their business operations forward.

If the location is available was relevant for their business as it informed them of the changes in the business environment and business registration requirements. The information available to the entrepreneurs in this market was necessary for their business growth.

The study further concludes that access to finance affected performance of SMEs. It affected performance to a great extent because it limited the entrepreneurs' ability to take advantage of opportunity as and when they arose. The sources of capital for SMEs differed ranging from own savings, bank loans, and donations from family and friends among other sources. The entrepreneurs in this market were found not to have enough capital to finance their business operations.

The study further concludes that education of manager of SME's affected the businesses to a very great extent by facilitating communication with both the supplier and customers, by easing the transportation of goods and by easing the marketing of our products. Technology provided payment options to entrepreneurs thereby expanding their payment options.

Finally the study concludes that most of the respondents measured the performance of the business the number of customers and that the government

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policy and regulations affect the performance of the business to a very great extent through taxation, licenses, through creation of support funds and through liberalization of the economy.

The availability of managerial experience affected the performance of SMEs of SMEs to a great extent. The entrepreneurs were well prepared to face changes in the business environment and to plan appropriate changes in technology. Managerial skills were found to be the most important constraint faced the respondent. Managerial experience is important in any business because it determines the quality of decisions made and how they impact on the performance of an organization.

d) Recommendation

1. From the above presentations of summary and conclusion, the study makes the following recommendations on the specific factors affecting the performance of SMEs in Hargeisa. The study recommends that business location need to be made accessible to all business people in the market. Although the entrepreneurs accessed necessary business location, the location was limited and was only available to a limited number of entrepreneurs. This study therefore recommends that infrastructure be put in place to increase the location among entrepreneurs to promote the growth and performance of such enterprises.
2. On access to Finance, the study recommends that the Government of Somaliland works out modalities on how to finance SMEs. This has been promoted to some extent by the creation of several funds like the Youth Development Fund and Women Development Fund. This would promote accessibility to pre-requisite capital necessary for the growth and development of SMEs in Soma lil and.
3. It further recommends that technology be included in aspects of the business to facilitate communication with both the various stakeholders in business. By doing this, the SMEs will benefit from the ease of transportation of goods, marketing and pricing of their commodities.
4. Finally the study recommends that the government policy and regulations that affect the business should be looked into so that to ensure they do not affect the performance of the business in a negative way.

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Appendix Imap of Somaliland



Appendix I

a) Letter of Introduction of Researcher To Respondent

Dear Respondent,

My name is Moukhtar Houssein Robleh. I am a student at the Gollis University undertaking a degree in Masters of Business Administration. I am undertaking a research project entitled:

Factors influencing Performance of Micro and Small Enterprises (SMEs) in Hargesa city.

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.

Appendix III

Questionnaire: for the Entrepreneurs

Part 1: Personal Details

The entrepreneur:	Female ( )	Male ( )		
Marital status:	Single( )	Married ( )	Separated ( )	Widowed ( )
What is your age?	14-25( ) 26-34( ) 35-44 ( ) 45-55 ( )			

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Are you employed?	Yes ( ) No ( )		
If yes in which sector?	Private ( ) Civil Service ( ) NGO ( ) Others ( )		
Have you or any one in your business received any business skills related training?		Yes ( ) No ( )	If yes which one ?

Part 2: Enterprise Details

Name of the enterprise and physical location		
Are you comfortable with the place where you are located? Yes ( ) No ( )		
Number of employees in the enterprise: Women _____ Men _____ Full time Part time_____Part time_____		
Type of enterprise and sector	Transport ( ) Grocery ( ) Boutiques/clothes shop/ tailoring / ( ) Supermarket ( ) Electronics ( ) Retail shop ( ) Service (shoeshine/barbershop/salon ( )	
How long has your business been operating?	Less than 1 year ( ) 2 - 3 years ( ) 4- 7 years ( ) 8-10 years ( ) over 10 years ( )	
Have you had any other business prior to the current one? Yes ( ) No ( )		
For how long did you run the previous enterprise?	Less than 3 years ( ) 5 years ( ) Over 5 years ( )	
What is the form of your business?	Sole Proprietorship ( ) Partnership ( ) others Please specify ( )	
Is your business registered? Yes ( ) No ( )		
How much do you get per day? (dollar)	Below 10 ( ) 10-50 ( ) 50-100 ( ) 4= over 100 ( )	
What factors do you think contribute to this income?	1_____ 2_____ 3_____	
Do you think you can improve on this income? Yes ( ) No ( )	Explain	
How much was your start-up capital and the source(s)?	Source starting capital	Amount

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	Total	
What is the type or kind of assets (e.g stock, debtors etc	Type of the Asset	Amount
	Total	
What kind of liabilities (e.g creditors, loans etc)		
	Types of liabilities	Amount
What's the origin of your business?	Established ( ) Inherited ( ) Other specify _____	

Part 3: Legislative Processes and Policy Framework

Are there any rules set by the MC that govern how you run your business? Yes( ) No ( )
If yes which ones?
How do these rules affect you?
Does your business experience any challenges? Yes ( ) No ( )
If yes. What would you say are the main challenges that your business faces? If no, why?
How have you handled the challenges you have mentioned?

Key Informant interview guide for policy makers or officials in Ministry of Commerce/ Finance

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1. What is your position in the ministry of commerce/ finance ?
2. What is your responsibility in this office?
3. What do you understand by Small Micro Enterprises?
4. How does your responsibility relate with business operations in Somaliland?
5. What types of businesses are common in Hargeisa?
6. How are SMEs contributing to the economic growth of this country?
7. What challenges do they face?
8. How do you think these challenges can be overcome?
9. How do you think SMEs can be sustainable in Hargeisa and Somaliland generally
10. How does the ministry of commerce/finance collect taxes from SMEs in Hargeisa?
11. What challenges do you face as you try to collect these taxes?
12. How does the Ministry of commerce/finance respond to these challenges?

Interview Guide for customers

1. What kinds of products or raw materials do you like to buy in the market?
2. What types of SMEs are common in Hargeisa city?
3. What challenges do you face when you are buying commodities or products
4. How do you respond to these challenges?
5. What do think can be done to improve your relationship with SMEs?

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