

An Investigation into the Challenges Facing SME's Performance at Gobonimo Market in Hargeisa Somaliland

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Abstract

Small and medium enterprises are the major agents of economic growth and employment in Somaliland. 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). The aim of this research was to establish the challenges facing SME's performance at Gobanimo market in Hargeisa-Somaliland. The specific objectives of the study was to investigate the relationship between accounting skills and performance of SMEs, and to examine how accounting skills possessed by entrepreneurs influences the performance of SMEs. The research reviewed Contingency theory and Capital Theory. The empirical review centered on the accounting skills, government policies and strategies contributing to SME challenges. The research used descriptive research design. Sampling frame used was obtained from the local authority on which Gobanimo Market is operating. The research targeted the population of 1250 registered SMEs in Gobanimo market. 303 respondents formed the sample of the study which was picked by using simple random sampling technique. Both primary and secondary data were used in this research. Primary data was collected by aid of a questionnaire while secondary data was collected from already published sources. A pilot study of 3 respondents was used to test reliability of the instrument. Validity and reliability tests were executed on the data collected. Data was analyzed by use of regression model and SPSS. Analyzed data was presented in tables, pie charts, and graphs.

Keywords: SMEs performance, Accounting skills, government policies, strategies

1. Introduction

Small and Medium Enterprises (SMEs) play an important economic role in many countries. Over the past 15 years, economic planners have realized the importance of the small enterprise sector 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) play a central role in the Somaliland economy. They are a major source of entrepreneurial skills, innovation and employment. In Somaliland, Small and Medium Enterprises Sector, is the biggest income and employment generator for many people and the largest business sector. Small and medium enterprises that trade in clothes, food, agricultural products, consumables, gold, beverages, fruits, etc. are visible in every city's main street across the towns and cities of Somaliland. Those traders support families who may find it difficult to get alternative sources income, it is very clear that SMEs are the backbone of the Somaliland nation's economy and deserve to attain appropriate technical, financial, legal, and political support from the top (Hiiliye, 2012). Somaliland imports Most of its food and nonfood- items from neighboring countries, this creates number of small and medium enterprises to merchandise (*as shown in the appendix 1 figure 1.1*)

In many developing countries, there are limited researchers and scholarly studies about the SMEs sector in Horn of Africa particularly SMEs in Hargeisa Somaliland. According to challenges facing new investments and industries in Somaliland, Survey report (2013), forty six per cent of formal businesses are located in the Maroodijeeh 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 in Somaliland. However this data is generalized and does not give information specific to Hargeisa. (See the table 1.2 below):

Even though 65% of economic activities in Somaliland takes place within the SME's sector, businesses in the sector operate under undefined government regulations (Special arrangement annual report, 2014). In Somaliland, Small and Medium Enterprises (SMEs) play a crucial role in fostering socio-economic development (World Bank, 2013) since they create employment opportunities, empower communities and make positive contributions towards the gross domestic product. The survival and growth of SMEs in Somaliland is therefore crucial in alleviating poverty and achieving sustainable development

Understanding of the main and overall public-policy objectives of SME's start-up processes is important towards improved business environment strategy in Somaliland. The government registers a business

to ensure that its activities are in accordance with the existing legal framework; that the relevant taxes can be levied and that relevant statistical information is collected. SME's licensing legitimizes business activities by ensuring that a business activities and operations are within the set rules and regulations and are not injurious to its profit maximization objective (ILO Report, 2011). However, most SME's still suffer from capacity limitations including lack of skilled and professional manpower, inadequate infrastructure, and lack of specified targeted strategies and policies in almost SME's; which all together constitute a major impediment in the provision of adequate quality services to the community to meet their needs and aspirations.

2. Theoretical Review

Human Capital Theory

According to Bliss (2005), human capital is the set of productive capacities of human beings constituted by knowledge and skills which contribute to the generation of profits in the economy. Acquisition of more knowledge and skills increases the value of human capital improving their productivity, income potential and improved economic growth Becker (1962). Management of working capital in SMEs and other businesses impacts on liquidity, investment portfolio and profitability (Akinwande (2010). All these three factors are decisive in the growth or failure of a business. Hence, good performance in working capital management affects these decisive factors favorably and thus, contributes to growth and success of the business. Human capital theory posits that efficient management of working capital is very vital for a business survival, and this can be achieved through education and training which imparts the rightful knowledge and skills to individuals. According to Sakamota and Powers (1995), this theory rests on the assumption that formal education and training are highly instrumental and necessary to improve production capacity of people. The proponents of this theory argue that an educated population is a productive one. The human capital theory explains the importance of accounting skills for the owners of SMEs in Gabonimo market in Hargeisa, Somaliland: Bruder et al (1992) wrote that entrepreneurs with higher and specific human capital show higher levels of performance than those with lower levels of general and specific human capital.

3. Literature Review

Accounting Skills and Performance

Many SMEs in Somaliland suffer from lack of technical and business skills and most SMEs owners do not keep records of business transactions and this is a challenge to the performance and growth of the enterprises (ILO, 2010). Bookkeeping practices of SMEs in most countries are not adequate and this negatively affects their financial performance which leads to inevitable business failure (World Bank, 2013). The financial accounting problems faced by many SMEs is because they rarely use the services of qualified accountants but instead uses the conventional way of accounting which do not include business record keeping (Gahman, 2015). Challenges faced by SMEs due to poor accounting systems and procedures leads to lack of professional accounting records which make SMEs to be disadvantaged when it comes to borrowing bank loans, since banks depend on a business accounting records to ascertain credibility and qualification for issuing business loans (Kinyua, 2014). Proper book-keeping of accounting records should be kept for the well-being and growth of a SME.

Mbogo (2011) conducted a research on the influence of managerial accounting skills on SMEs on the success and growth of small and medium enterprises in Kenya. The research investigated the managerial business practices and capabilities used by SMEs such as strategic management, finance, marketing, human resource and ICT and their influence on decision making for enterprise success and growth. The researcher collected data from Kenya Industrial Research and Development Institute (KIRDI) incubated SMEs in Nairobi. The researcher concluded that the training level and managerial accounting capabilities of owner/manager have a strong, positive and significant influence on the decision making and consequently are critical for the success, growth and survival of SMEs. Shahabi, Hosseinpour, and Soheila (2014) investigated accounting practices of small and medium enterprises of Tehran Province in Iran. The aim of their study was to guarantee proper financial management in Small and Medium Enterprises (SMEs). The results of the study revealed that SMEs do not keep proper books of accounts because the owners do not appreciate the need to keep accounting records. The researchers recommended that proper book keeping of accounts and sound accounting practices should be kept for better performance of SMEs.

Amoako (2013) conducted a research on the accounting practices of SMEs in Ghana to investigate the record keeping strategies of 201 SMEs. He found that majority of the SMEs never kept complete accounting records. He recommended training programs to sensitize entrepreneurs on the need to maintain proper books of accounts.

4. Methodology

The research used descriptive research design. In this study the target population was 1250 registered SMEs operating within the main market (Down town or Gobonimo) of the Hargeisa City, in Somaliland. The sample

frame was collected from the local authority of Gobonimo market of 26 June Municipality in Hargeisa. The researcher used simple random sampling technique as it offers every member of the population an equal chance of being included in the sample. The Study used a sample size of 303 respondents which is 30% of the preferred sample calculated as follows:

$$n = N / (1 + Ne^2)$$

Where,

n= Sample size

N= the population

e= error

The researcher assumed a 5% error margin.

Therefore,

$$n = 1250 / (1 + 1250 * 0.05^2)$$

$$n = 1250 / (1 + 1250 * 0.0025)$$

$$n = 1250 / 3.125$$

$$n = 1250 / 4.125$$

$$n = 303$$

The study used both primary and secondary data. Primary data was collected by use of questionnaires, while secondary data was collected from published materials.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Where;

Y = SMEs Performance (Dependent Variable)

X1 – X3 – Independent Variables

X1 = Accounting Skills

X2 = Government Policies

X3 = SMEs Strategies

X4 = Political stability

X5 = Access to the credit Facilities.

X6 = Legislation

β_0 = Co-efficient of the model

$\beta_1 - \beta_5$ = Beta Co-efficient of Determination

ϵ = Stochastic Error Term

The researcher used both primary and secondary data. Primary data was collected by use of questionnaires, while secondary data was collected from published materials. Data was analyzed using statistical package for social scientist (SPSS) Version 19.1 and was presented by use of tables, pie charts and bar graphs.

5. Findings of the study

The main objective of this study was to investigate the factors affecting SMEs performance at Gobonimo market in Hargeisa, Somaliland. The specific objective was to investigate the relationship between the independent variable which was accounting skills and the dependent variable which was performance of SMEs in Gobonimo market in Hargeisa, Somaliland. The sub-variables of the main independent variable included (i) Perceived importance of financial accounting skills, (ii) Book-keeping for business transactions (iii) Training in financial accounting and, (iv) attending of business seminars and workshops. The researcher used a regression model to find out the overall relationship between independent variables and the performance of SMEs in Gabonimo market in Hargeisa. The regression model summary was as presented below:

Regression Analysis

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.884 ^a	.863	.624	.632

Adjusted R squared is the coefficient of determination and it defines the extent of variation in the dependent variable due to variations in the independent variable. From the findings in the above table the value of adjusted R squared was 0.624. This is an indication that there was variation of 62.4% on SMEs performance due to changes in the independent variable which are perceived importance of financial accounting skills, book-keeping of business transactions, training in financial accounting and, attending of business seminars and workshops. This shows that 62.4% changes in SME's performance could be accounted for by perceived importance of financial accounting skills, book-keeping of business transactions, training in financial accounting and, attending of business seminars and workshops at 95% confidence interval. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.884.

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.684	2	0.422	0.3529	.050 ^b
	Residual	9.652	39	0.298		
	Total	10.336	302			

From the ANOVA statistics in table above, the processed data, which are the population parameters, had a significance level of 5% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. It also indicates that the model was statistically significant.

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Constant	2.537	.421		9.092	.032
	Perceived importance of financial accounting skills	2.721	.433	0.315	14.476	.037
	Book-keeping of business transactions	2.613	.063	.164	15.302	.036
	Training in financial accounting	1.316	.086	.237	12.252	.049
	Attending of business seminars and workshops	2.128	.230	.278	11.023	.050

The established regression equation was:

$Y = 2.537 + 2.721$ of perceived importance of financial accounting skills + 2.613 of Book-keeping of business transactions + 1.316 of training in financial accounting + 2.128 of attending of business seminars and workshops.

From the above regression equation it was revealed that holding perceived importance of financial accounting skills, book-keeping of business transactions, training in financial accounting and, attending of business seminars and workshops at 95% confidence interval to a constant zero, performance of the SMEs at Gabonimo market in Hargeisa would stand at 2.537. A unit increase in would perceived importance of financial accounting skills would lead to an increase in the SMEs performance by a factors of 2.721, and a unit increase in Book-keeping of business transactions would lead to an increase in SMEs performance by 2.613 factors. In the same way, a unit increase in training in financial accounting would lead to an increase in SMEs performance by 1.316 factors and a further unit increase in attending of business seminars and workshops would lead to increase in SMEs performance by 2.128 factors

6. Conclusion

The study had the general objective of investigating the factors affecting SMEs performance in Gabonimo market in Hargeisa, Somaliland. The specific objective of the study was to investigate the relationship between accounting skills and performance of SMEs in Gobonimo market in Hargeisa. The regression model results showed that 62.4 percent of performance of SMEs in Gabonimo market in Hargeisa can be explained by accounting skills (Rsquared = 0.624). This means that the trader in SMEs having accounting skills help increase business performance by 62.4 percent. This study was based on the premise that accounting skills influence the performance of SMEs. The study results supported this premise because accounting skills have been found to significantly and positively affect the performance of SMEs in Gabonimo market in to an extent of 62.4 percent. There is therefore need for SMEs owners to improve their accounting skills and also improve accounting knowledge that they already have in order to improve their SMEs performance.

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