



**FACTORS INFLUENCING MICRO AND SMALL BUSINESS ENTERPRISES' PERFORMANCE IN MOGADISHU,
SOMALIA**

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ABSTRACT

The general objective of this study was to assess the factors influencing small and micro enterprises' performance in Mogadishu, Somalia. Results from the study revealed that Lack of political stability in a country effects business operations. Target population of the study was Mogadishu remittances. The author randomly chose three randomly out of the functioning eight. The sample for this study was both Administrative and operational staff of some remittance institutions in Mogadishu, the sample size of this study contained 90 respondents in which 30 were Administrative members and the rest 60 were operational staff. The study was descriptive where both qualitative and quantitative data was used in the analysis. Data analyses were used quantitative method. Absence of SME policy and rivalry competition was another setback. Results from the study revealed that Lack of political stability in the country affected business operations. Lack of educational and financial infrastructures hindered smooth running and growth of Mogadishu Micro and small businesses. This was especially true for the companies which operate internationally. There was limited information on the challenges facing Small Scale businesses in Somalia which had hindered the success of all the strategies employed by the various stakeholders. It was of this view that the study aimed at investigating the challenges facing Small Scale Businesses in Mogadishu. Absence of female employees also could be hindrances as majority of remittances' customer were female. This indicated that there was need for adequate training of the owners and managers of the Micro and Small Business Enterprises in Somalia. Based on its findings, this study developed recommendation to tackle challenges that affect SMEs' performance. Somali government should develop SME policies based on development and new emerging businesses, such as remittances. Credit and investment companies such as private banks & international donors should reduce prerequisites of their investment. SME founders and managers should employ educated employees and increase female number incumbents. SME owners & managers should prepare training plans, especially in financial management, entrepreneurship, communication and marketing skills.

Key terms: Educational Development, Financial Development, Micro and Small Enterprise, Organizational Performance, Political Development

INTRODUCTION

Micro and Small Enterprises (MSEs) are lifeblood of most economies. To be successful in this and other business sectors, finance plays a major role. As far as MSEs are concerned as part of business enterprises, they need finance to start up, expand, diversify and for working capital of the business firms. Without finance, no one business enterprise can achieve its objectives. Finance is the backbone of MSEs and any other business enterprise (Mckernan & Chen., 2005).

SMEs contributes about 45 per cent of manufacturing employment and 29 per cent of manufacturing GDP in developing countries, in contrast to 67 per cent and 49 per cent in developed countries, respectively (IFC, 2010).

The backbone of the European economy is SMEs which is about 98 per cent of the enterprises in the EU. In 2012, SMEs employ 67 per cent of the European workforce and generate 58 per cent of the revenue. Micro, Small and Micro Enterprises (MSMEs) are viewed as a key driver of economic and social development in the African context. MSMEs are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development (Pelham, 2000). MSMEs tend to be large in number, accounting for about 90 percent of all enterprises in many African countries and over 80 percent of new jobs in a given country (Reinecke, 2002).

SME performance is constrained by internal factors and external factors, such as the carrying capacity of the environment, government policy or competition. The chief importance is that SMEs have the capability to produce sufficient levels of skilled and semi-skilled employment (Bubou, Siyanbola, Ekperiware, & Gumus, 2014).

In Somalia, the small business sector has both the potential and the historic task of bringing millions of people from the survivalist level including the informal economy to the mainstream economy.

According to the last comprehensive estimates conducted in 2012, Somalia maintains an informal economy largely based on livestock, remittance/money transfer companies, and telecommunications.

Recognizing the critical role small businesses play in the Somali economy, the United Nations Development Program through the Economic Foundations envisages the strengthening of MSMEs to become the key industries of tomorrow by improving their productivity and innovation through small business grants (UNDP, 2013). However, it is generally recognized that MSMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development.

The International Finance Corporation (IFC) (2011) has identified various challenges faced by MSMEs including lack of innovative capacity, lack of managerial training and experience, inadequate education and skills, technological change, poor infrastructure, scanty market information and lack of access to credit (International Finance Corporation, 2011).

The catalytic roles of micro and cottage businesses have been displayed in many countries of the world (Odeh, 2005) such as Malaysia, Japan, South Korea, Zambia, and India among other countries. They contribute substantially to the Gross Domestic Production (GDP), export earnings and employment opportunities of these countries. MSEs have been widely acknowledged as the springboard for sustainable economic development (Osotimehin, 2012).

Apart from the fact that it contributes to the increase in per capital income and output, it also creates employment opportunities, encourage the development of indigenous entrepreneurship, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization that are considered to be critical

in the area of engineering economic development (Odeh, 2005).

The MSEs play a key role in triggering and sustaining economic growth and equitable development in both developed and developing countries. According to World Bank (2013) Micro and Small Enterprises cut across all sectors of the country's economy. They also provide one of the most prolific sources of employment, not to mention the breeding ground for entrepreneurs in Micro and large industries, which are critical for industrialization.

The exploitation of the potential of the indigenous sector as an engine for growth, using local resources and appropriate technology which is the nature of MSEs, is seen as an alternative development model to the traditional large-scale intensive "stages of growth" paradigm in developing economies (OECD, 2004). The MSE sector in Africa is a vibrant example of small enterprises activities leading to successful growth and development of African economies (Hope, 2002).

Despite their significance, past statistics indicate that 3 out of 5 businesses fail within the first few months of operation and those that continue 80 per cent fail before the fifth year (UNDP, 2013).

This menace is attributed to poor financial management among small businesses and other challenges. Accessing credit is a major constraint to the development and growth of MSEs and also to poor rural and urban households.

A crucial element in the development of the MSE sector is access to finance, particularly to bank financing, given the relative importance of the banking sector in serving this segment.

Firm-level data collected by the World Bank show that access to finance is perceived as one of the main obstacles to doing business. A number of studies have shown that financing is a greater obstacle for MSEs than it is for large firms, particularly in the developing world, and that access

to finance adversely affects the growth of the MSE sector more than that of large companies (Beck & Demirgüç, 2006). It is, therefore, unsurprising that the international development community has listed small and micro enterprises (SMEs) access to finance as an important policy priority.

Africa's MSEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of the high risk of default among MSEs and due to inadequate financial facilities. Small businesses in Africa can rarely meet the conditions set by financial institutions, which see MSEs as a risk because of poor guarantees and lack of information about their ability to repay loans.

In almost all economies of the world especially in developing countries in Africa, micro and small enterprises are crucial and are a key factor for sustained growth and development. MSEs Play pivotal roles in creating dynamic, market oriented economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratization.

The MSEs in Somalia have not performed creditably well and hence has not played expected vital and vibrant role in the economic growth and development of Somalia. This situation has been of great concern to the government, citizenry, operator's practitioners, and the organized private sector groups' year in year out.

The UNDP through its policies and pronouncements have signified interest and acknowledgement of the crucial role of the MSEs, sub-sectors of the economy and hence made policies for energizing the same (UNDP, 2010).

The CIA, (2007) found that three out of five businesses in Somalia failed within the first few months of operation and those that continued 80 per cent failed before the fifth year. MSEs have unique issues, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development of the economy. Among those issues is inadequate access to credit facilities (Hope, 2002).

Access to capital, problems of market, and access to raw materials and intermediate inputs are the main problems (Philipos, 2006).

Specific Objectives

- To determine the influence of political development on micro and small business enterprises' performance in Mogadishu, Somalia.
- To find out the influence of education development on micro and small business enterprises' performance in Mogadishu, Somalia.
- To ascertain influence of financial development on micro and small business enterprises' performance in Mogadishu, Somalia.

LITERATURE REVIEW

Theoretical Framework

Credit Rationing Theory.

One of the most important theories that focused on financing gap analysis is the Credit Rationing Theory by Stiglitz & Weiss (1981). In their formulation, Stiglitz and Weiss (1981) argued that agency problems (a conflict of interest between management (agents) and the shareholders (owners) of the organization) and information asymmetries are the major reason why SMEs have constrained access to finance. They argued that only SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms

have superior private information (asymmetric information). Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk.

Stiglitz and Weiss (1981) explained the choice among different financing sources under conditions of asymmetric information and credit rationing. Asymmetric information can lead to credit rationing conditions by modifying the risk-return distribution; this fact encourages banks to refuse capital for investments and produces divergence between capital demand and supply (Alfo & Trovato, 2006).

Deakins, North, Baldock and Whittam (2008) argued those information asymmetries are more acute in new and technology-based propositions. They argued at an early stage, information is limited and not always transparent and assets are often knowledge based exclusive associated with the founding entrepreneur. Especially with manufacturing and technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit.

There are some categories of SMEs that will face additional problems due to lack of security, such as young entrepreneurs or those from deprived areas.

The Firm Growth Theory

The firm growth theory known asserts that MSEs are more likely to disappear and be replaced by modern large-scale industry. This theory has, however, been shown to be inaccurate in the sense that MSEs do not normally compete directly with large enterprises; rather, they often tend to remain micro and small, co-existing with large multinational companies, which phenomenon the World Bank (1989) has identified as the 'missing middle' (Ryan, 2005).

The most obvious activity where these niches exist is in distribution to areas or income groups where

their costs would be prohibitively high for large enterprises. However, in a literature survey on macro analyses of micro enterprises in developing countries, Liedholm and Mead (1993) came to the conclusion that macro-level empirical evidence indicates that, as aggregate per capita income increases, there is a systematic pattern of evolution of MSEs towards larger firms based in larger localities, producing more modern products. Nevertheless, critics of this view argue that analyses on MSE development must take account of differences in their efficiency, the type of influence MSEs exercise in society, linkages between small and large enterprises, the changing roles of women entrepreneurs, differences in the level of education in the labor force and other socio-economic differences (Murinde et al, 2006).

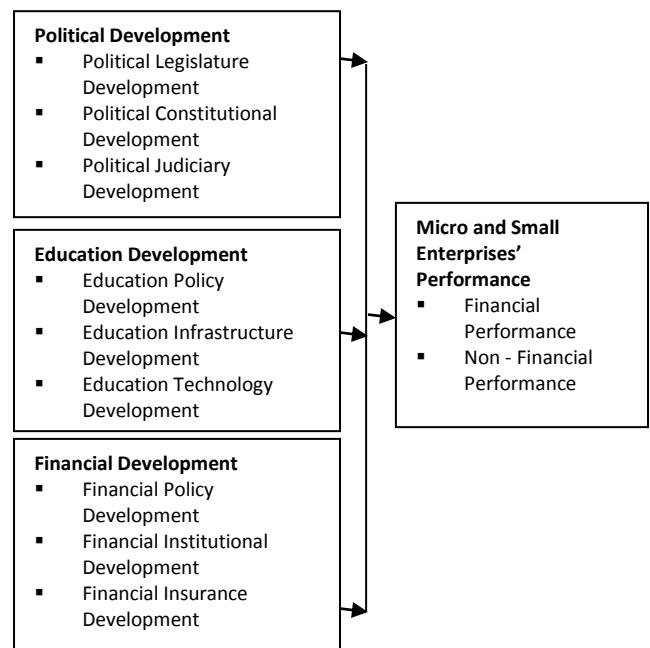
Pecking Order Theory

Myers (1984) and Myers & Majluf (1984) developed the Pecking Order Theory (POT) based on the premise that ‘inside’ management are better informed of the true value of the firm than the ‘outside’ investors. These information asymmetries result in varying costs of additional external finance, as potential investors perceive equity to be riskier than debt. They propose that firms seek to overcome problems of undervaluation arising from information asymmetries, preferring to finance investment projects with internal funds in the first instance. When internal equity is exhausted, firms use debt financing before resulting to external equity. Authors state that the POT is even more relevant for the SME sector because the relatively greater information asymmetries and the higher cost of external equity for SMEs (Ibbotson, Sindelar & Ritter, 2001).

These factors suggest that MSE owners source their capital from a pecking order of, first, their “own” money (personal savings and retained earnings); second, short-term borrowings; third, longer term debt; and, least preferred of all, from the

introduction of new equity investors, which represents the maximum intrusion. Empirical evidence supports applicability of the POT in explaining the finance of MSEs (Ou & Haynes, 2006). These studies emphasize that small firms rely on internal sources of finance and external borrowing to finance operations and growth, and only a very small number of firms use external equity. A number of studies report that firms operate under a constrained pecking order, and do not even consider raising external equity (Howorth, 2001).

Conceptual Framework



Independent Variables Dependent Variable

Figure 1: Conceptual Framework

Political Development

“Political Development” is defined in many ways. W. W. Rustow treated political development as a typical phenomenon of the industrial society. He was of the opinion that the industrial societies are the patterns setters of political development for other societies.

Edward Shils treated political development as nation state building. Development is more than improvements in people's well-being: it also describes the capacity of the system to provide the circumstances for that continued well-being. as the propensity of a change in the executive, either by "constitutional" or "unconstitutional" means. Economic growth and political stability are deeply interconnected (UNDP, Human Development Report , 2010) on one hand, the uncertainty associated with an unstable political environment may reduce investment and the pace of economic development. On the other hand, poor economic performance may lead to government collapse and political unrest (UNDP, 2010).

Somalia is a country with complex political, security, and development environment, and much of its recent past has been marked by poverty, famine, and recurring violence. The country has existed in a state of armed conflict of one form or another since 1988 and without a functional central government since 1991.

Lack of political stability in a country effects business operations. This is especially true for the companies which operate internationally. For example, an aggressive takeover could overthrow a government. This could lead to riots, looting and general disorder in the environment. These disrupt business operations. The political environment can impact business organizations in many ways. It could add a risk factor and lead to a major loss. Political instability facilitates corruption and bribes. Corruption is a barrier to economic development for many countries, due to political instability, Small Business have to offer bribes to the fighting groups in order to operate, this negatively impacts on their profits and hindering their growth (Roe & Jordan, 2011). Political instability is regarded by economists as a serious malaise harmful to economic performance. Political instability is likely to shorten policymakers' horizons leading to suboptimal short term macroeconomic policies.

It may also lead to a more frequent switch of policies, creating volatility and thus, negatively affecting macroeconomic performance. Political instability creates inflation in the economy, this leads to increase in the price of goods and services as the commodities become scarce. (Veiga, 2011).

Education Development

Education is the back bone of every aspect, especially small business' performance. According to Bradford (2007) his research on perceived needs of the business training in South African township and found that the most desired skill needed was "how to keep financial records of the businesses" followed by "how to market the products of the businesses". The next was 'Communication skills'. Untrained employees cannot produce high-quality products. They also lack adequate knowledge and skills to provide satisfactory customer service. This combination results is dissatisfied customers. The company will experience declining sales if dissatisfied customers choose competitors who can provide quality products and appropriate service (Mashene, 2014).

Many entrepreneurs are technical experts in what they do but start a business without any formal training or experience in management practices and principles. By "management" here we mean the business of successfully managing the non-technical side of the business, the "back room" activities. As a result of inadequate management, many small businesses fail in the early years. They fail not because of a weakness in the product or service concept they have, but because the business was not properly managed in the back office (Mashene, 2014).

Financial Development

Micro and Small Enterprises (MSEs) are lifeblood of most economies. To be successful in this and other business sectors, finance plays a major role. As far as MSEs are concerned as part of business

enterprises, they need finance to start up, expand, diversify and for working capital of the business firms. Without finance, no one business enterprise can achieve its objectives. Finance is the backbone of MSEs and any other business enterprise (Mckernan & Chen., 2005). Accessing credit is a major constraint to the development and growth of MSEs and also to poor rural and urban households. This is mainly due to the behavior of lenders in terms of hedging against borrowers' risks by demanding collateral, which they lack, and also information asymmetry. Consequently borrowers who are willing to pay prevailing credit interest rates cannot access the funds at those rates because lenders are unwilling to lend to them due to dearth of information about them and lack of collateral sable assets, severely constraining their access to credit. This behaviour is common amongst formal financial institutions. Evidence shows that such borrowers may then be forced to limit their investments to retained earnings (International Finance Corporation, 2011) thereby restricting enterprises growth and development.

Micro and Small Enterprises' Performance

Universally there is no common definition of MSEs and different countries use different words based on the conditions of MSEs and countries economy. The statistical definition of MSEs varies by country, and is usually based on the number of employees or the value of assets.

The lower limit for MSEs is normally set at 5 to 10 workers and the upper limit at 50 to 100 workers. Since these limits can vary in different countries, one should not overly concern about the lack of consistency in employment-based definition of MSEs. For example, a 50-employee firm in USA would be considered as smaller than a 50-employee in Bolivia due to the relative size of their economy. The concept of performance GEM, (2004) 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 ways thus making cross-comparison difficult.

METHODOLOGY

The study was descriptive were both qualitative and quantitative data was used in the analysis. Data analyses were used quantitative method. Quantitative approach means collecting data, analyzing, and interpreting numbers (Westmorland, 1998). This study was conducted in Mogadishu, the capital city of the country, with the largest percentage of Micro and Small Business Enterprises, study specially targeted to the remittance companies. There were 11 remittance firms operating in Mugadishu, namely: Amal, Amana, Dahabshil, Taaj, Juba, Mustaqbal, Kaah, Bakaal, Muno express & Tawakal enterprises. The researcher randomly selected a representative sample for the study which was relevant in finding out the factors influencing facing Micro and Small Business Enterprises in Mogadishu, Somalia. The Pearson's moment correlation analysis and multiple regression analysis was used for inferential analysis in the study.

Model Specifications

$$Y = \beta_0 + \beta_1X_1 + \beta_1X_2 + \beta_1X_3 + \epsilon$$

Where:

Y = Micro and Small Enterprises' Performance

β_0 = Intercept of the Regression Line

$\beta_1 - \beta_1$ = Constants of the Independent Variables

X_1 = Political Development

X_2 = Educational Development

X_3 = Financial Development

ϵ = stochastic error term

RESEARCH FINDINGS

Influence of political development on micro and small business enterprises' performance in Mogadishu, Somalia.

The respondents were requested to indicate the extent to which they support or unsupported the following set of statement related to “influence of political development on micro and small business enterprises’

performance in Mogadishu, Somalia”. The responses were placed on the five Likert scale where 1= Strongly disagree, 2= Disagree, 3= Do not know 4= Agree and 5= Strongly Agree. The results are presented in table 1 below.

Table 1: political development

	N	Minimum	Maximum	Mean	Std. Deviation
Political Legislature Development affects the performance of small and medium enterprises in Mogadishu	90	3	5	3.53	.524
Political Constitutional Development affects the performance of small and medium enterprises in Mogadishu	90	2	5	4.26	.610
Political Judiciary Development affects the performance of small and medium enterprises in Mogadishu	90	2	5	4.17	.838
Political instability in Somali affects the performance of SME’s in Mogadishu	90	2	5	4.02	.734
Valid N (listwise)	90				

The study established that respondents agreed that; political legislature development affected the performance of small and medium enterprises in Mogadishu (mean=3.53), and respondents strongly agreed that Political Constitutional Development affected the performance of small and medium enterprises in Mogadishu (mean=4.26). In addition, respondents were agreement that Political Judiciary Development affected the performance of small and medium enterprises in Mogadishu (mean=4.17), and political instability in Somali affects the performance of SME’s in Mogadishu (mean=4.02). Majority of respondents as indicated in analysis above, were in support of the statements related to influence of political development on micro and small business enterprises’ performance in Mogadishu, Somalia. Studies by (Hadjikhani and Thilenius, 2005; Hadjikhani and Ghauri, 2008) observed that political connections affected MSEs performance directly on business activity or indirectly mediated by business relationship support and coercion (Hadjikhani and Thilenius,

2005; Hadjikhani and Ghauri, 2001; and 2008). In the same vein Ghauri and Hadjikhani, (2006) and Henisz (2003), both states lobbying and coercion by political units were real. The notion of coercion implied the exercise of legitimate power to force business firms to follow the political decisions increased the costs and reduce the business gains. The supportive rules or financial support by political units on the other hand will have positive effects and increase the firms’ performance.

Influence of education development on micro and small business enterprises’ performance in Mogadishu, Somalia.

The study sought to determine the extent to which education development influences MSEs performance in Mogadishu, Somalia. The respondents were asked to indicate the extent to which they supported or unsupported statements. The responses were placed on the five Likert scale where 1= strongly disagree, 2= disagree, 3= neither, 4= agree and 5 is strongly

agree. The results are as presented in Table 2 below.

Table 2: education development

	N	Minimum	Maximum	Mean	Std. Deviation
Education Policy Development affects the performance of SME's in Mogadishu	90	3	5	4.16	.634
Education Infrastructure Development affects the performance of SME's in Mogadishu	90	2	5	4.23	.875
Education Technology Development affects the performance of SME's in Mogadishu	90	3	5	3.74	.696
Education development greatly affects the performance of SME' in Mogadishu Somalia	90	2	5	4.10	.704
Valid N (listwise)	90				

From the findings, respondents strongly agreed that; Education Policy Development affected the performance of SME's in Mogadishu (mean=4.16), and that Education Infrastructure Development affected the performance of SME's in Mogadishu (mean=4.23). In addition, respondents agreed that Education Technology Development affected the performance of SME's in Mogadishu (3.74), and that Education development greatly affected the performance of SME' in Mogadishu Somalia (mean=4.10). This was line with studies carried out by Oforegbunam et al. (2010) and Ogundele et al. (2012) that suggests performance of most SMEs are affected by inadequate training. They contended that for MSEs to realize its objective of profit maximization, the people involved must be

adequately trained. This makes them be sensitive in their responsibilities.

Influence of financial development on micro and small business enterprises' performance in Mogadishu, Somalia.

The study sought to determine the extent to which education development influences MSEs performance in Mogadishu, Somalia. The respondents were asked to indicate the extent to which they support or unsupported statements. The responses were placed on the five Likert scale where 1= strongly disagree, 2= disagree, 3= neither, 4= agree and 5 is strongly agree. The results are as presented in Table 3 below.

Table 3: financial development

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Policy Development affects the performance of SME' in Mogadishu Somalia	90	2	5	4.04	.748
Financial Institutional Development affects the performance of SME' in Mogadishu Somalia	90	2	5	4.01	.772

Financial Insurance Development affects the performance of SME' in Mogadishu Somalia	90	2	5	3.93	.716
Financial development affects the performance of s in Mogadishu Somalia	90	2	5	3.96	.778
Valid N (listwise)	90				

From the table above, analysis showed that, respondents strongly agreed that; financial policy development affected the performance of SME' in Mogadishu Somalia (mean=4.06), and that Financial Institutional Development affected the performance of SME' in Mogadishu Somalia (mean=4.01. In addition, respondents agreed that Education Technology Development affects the performance of SME's in Mogadishu (3.74), and that financial insurance development affecteds the performance of SME' in Mogadishu Somalia (mean=3.93). Respondents were also in agreement that financial development affected the performance of s in Mogadishu Somalia (3.96). This was line with studies carried out by Oforegbunam et al. (2010) and Ogundele et al. (2012) that suggests performance of most SMEs are affected by

inadequate training. They contends that for MSEs to realize its objective of profit maximization, the people involved must be adequately trained. This makes them be sensitive in their responsibilities.

MSEs Performance

The study sought to determine the extent to which education development influenced MSEs performance in Mogadishu, Somalia. The respondents were asked to indicate the extent to which they supported or unsupported statements. The responses were placed on the five Likert scale where 1= strongly disagree, 2= disagree, 3= neither, 4= agree and 5 is strongly agree. The results were as presented in Table 4 below.

Table 4: MSEs performance

	N	Minimum	Maximum	Mean	Std. Deviation
Availability of funds supports the performance of SMEs	90	2	5	4.09	.816
Good policies provide SME's with better environment for performance	90	2	5	4.04	.748
Government subsidies and support can enable SME's performance better	90	2	5	4.06	.709
Skills acquired during training and experience can provide SME's good environment for performance	90	2	5	3.96	.652
Valid N (listwise)	90				

As indicated in the table above, analysis shows that, respondents strongly agreed that; financial policy development affected the performance of SME' in Mogadishu Somalia (mean=4.06), and that Financial Institutional Development affected the

performance of SME' in Mogadishu Somalia (mean=4.01. In addition, respondents agreed that Education Technology Development affects the performance of SME's in Mogadishu (3.74), and that financial insurance development affected the

performance of SME' in Mogadishu Somalia (mean=3.93). Respondents were also in agreement that financial development affects the performance of s in Mogadishu Somalia (3.96). This was line with studies carried out by Oforegbunam et al. (2010) and Ogundele et al. (2012) that suggests performance of most SMEs are affected by inadequate training. They contends that for MSEs to realize its objective of profit maximization, the people involved must be adequately trained. This makes them be sensitive in their responsibilities. And this is in line with Madole (2013) stated that bank loan plays a very crucial role to promote small business growth. His findings were that the amount of loans is significantly and positively related with performance of MSEs. Therefore, the government and MFIs should enhance the out-reach of microfinance loans through creating awareness of the activities and operations to SMEs especially those in rural and semi-urban areas that are yet to appreciate the benefits of the scheme. Wanambisi (2013) also recommended that amount of loan given by MFIs

to MSEs should be increased to enable the MSEs grow to medium scale enterprises.

Correlation Analysis

The researcher conducted correlation analysis which involved coefficient of correlation and coefficient determination in order to establish the relationship between independent variables and dependent variables in the study.

Coefficient of Correlation

The study used correlation analysis to identify the relationship between variable. Positive correlation means that high values on one are associated with high values on the other, and that low values on one are associated with value scores on the other. Correlation coefficient values which are a numerical value number between 0.0 and 1.0 were used to define correlation. The closer the correlation to 1.0, the stronger the relationship between the two variables.

Table 5: Model summary

		MSE's performance	Political development	Education development	Financial development
MSE's performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	90			
Political development	Pearson Correlation	.556**	1		
	Sig. (2-tailed)	.000			
	N	90	90		
Education development	Pearson Correlation	.425**	.192	1	
	Sig. (2-tailed)	.000	.070		
	N	90	90	90	
Financial development	Pearson Correlation	.500**	.341**	.559**	1

Sig. (2-tailed)	.000	.001	.000	
N	90	90	90	90

** . Correlation is significant at the 0.01 level (2-tailed).

To establish the relationship between the independent variables and dependent variable, the study conducted correlation analysis and as shown in the Table 5 above, political development and MSE's performance had a positive correlation of value 0.556. education development was found to be positively correlated to MSE's performance with a correlation value of (0.425) and finally financial development and MSE's performance showed a correlation of figure 0.500. The analysis showed that there was a higher correlation in political development and MSE's performance. This implied that the influence of political development was significant in determining MSE's performance in Mogadishu, Somalia.

Table 6: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.637 ^a	.406	.385	.32996

a. Predictors: (Constant), political development, education development, financial development

Analysis of Variance (ANOVA)

The study used ANOVA to establish the significance of the regression model. Statistical significance was considered significant if the p-value was less or equal to 0.05. The significance of the regression model had a p-value of 0.00 which was less than 0.05. This indicated that the regression model was statistically significant in predicting factors

Regression Analysis

Coefficient of Determination (R²)

In Table 6 below, showed regression model calculated at 95% level of significance. Coefficient of determination explains the extent to which changes in the dependent variable (MSE's performance) can be explained by the change in the independent variables. From the findings this meant that 0.406 of 40.6% of variance is attributed to combination of the three independent factors investigated in this study that is, political development, and education development and financial development while the 59.4% is explained by other factors not studied in this research on MSE's performance.

influencing micro and small business enterprises in Mogadishu, Somalia. The ANOVA results indicated that the model was significant at F = 19.562, with df= 3 where p = 0.000. At 95% confidence level the analysis indicated high reliability of the results obtained thus indicating that the study was statistically determined.

Table 7: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.389	3	2.130	19.562	.000 ^b
	Residual	9.363	86	.109		
	Total	5.753	89			

a. Dependent Variable: MSE's performance

b. Predictors: (Constant), Political development, education development, Financial development

Multiple Regressions

Regression analysis was undertaken with respect to performance as dependent variables and the other three independent variables; political development, education development, and financial development. The Multiple linear regression analysis is a general statistical technique used to analyze between a

single dependent variable and several independent variables (Hair et al., 2006). It is one of the most extensively used multivariate statistical techniques for testing hypothesis and predicting values for the dependent variables. The regression coefficients result for this study were presented in table 8.

Table 8: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.927	.438		2.117	.037
	political development	.263	.114	.251	2.313	.023
	education development	.122	.103	.119	1.188	.008
	financial development	.392	.084	.429	4.662	.000

a. Dependent Variable: MSE's performance

The regression model equation was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$$Y = 0.927 + 0.263X_1 + 0.122X_2 + 0.392X_3 + \epsilon$$

Where:

Y = MSE's Performance in Mogadishu, Somalia

β_0 = Constant term indicating the level of MSE's performance in the absence of any independent variables β_1 , β_2 , and β_3 are the coefficient functions of the independent variables

X_1 = Political development

X_2 = Education development and

X_3 = Financial development

ϵ = Error term of the regression

The study used multiple liner regression to examine the relationship between independent variable and dependent variable. Taking all factors constant at zero, MSE's performance in Mogadishu will be 0.927. The findings analyzed also indicated that taking all other independent variables at zero; a unit increase in Political development would lead to a 0.263 increase in MSE's performance in Mogadishu, Somalia; a unit increase in education development

would lead to a 0.122 increase in performance of MSE's in Mogadishu, Somalia; and a unit increase in financial development will lead to a 0.392 increase in MSE's performance Mogadishu, Somalia. From the fore going analysis, the study found out that at confidence level of 95% and p-value less than < 0.5 , all independent variables; political development, education development and financial development has a positive and significant effect on MSE's performance in Mogadishu, Somalia.

Hypotheses Testing Summary

Hypothesis 1

H₀₁: political development does not have a statistically significant effect on micro and small business enterprises' performance in Mogadishu, Somalia ($\beta_1 = 0.263$; $t = 2.117$; $p \leq 0.05$) was therefore rejected and an alternative adopted stating that political development has statistically significant effect on micro and small business enterprises' performance in Mogadishu. Studies by (Hadjikhani and Thilenius, 2005; Hadjikhani and

Ghauri, 2008) observed that political connections affects MSEs performance directly on business activity or indirectly mediated by business relationship support and coercion

Hypothesis 2

H₀₂: education development does not have a statistically significant effect on micro and small business enterprises’ performance in Mogadishu, Somalia ($\beta_2 = 0.122$; $t = 1.188$; $p \leq 0.05$) was rejected and conclusion made that alternative hypothesis adopted stating that education development has statistically significant effect on micro and small business enterprises’ performance in Mogadishu, Somalia. This is line with studies carried out by Oforegbunam et al. (2010) and Ogundele et al. (2012) that suggests performance of most SMEs are affected by inadequate training

Hypothesis 3

H₀₃: financial development does not have a statistically significant effect on micro and small business enterprises’ performance in Mogadishu, Somalia ($\beta_3 = 0.392$; $t = 4.662$; $p \leq 0.05$) was rejected and alternative hypothesis adopted that states that financial development has statistically significant effect on micro and small business enterprises’ performance in Mogadishu, Somalia. the study is in line with the study by (Mckernan & Chen., 2005) who states that without finance, no one business enterprise can achieve its objectives they further state that finance is the backbone of MSEs and any other business enterprise.

Table 9: Hypotheses Testing

Research Hypotheses	B	T	Sig.	Comments
1) H01: political development does not have a statistically significant effect on micro and small business enterprises’ performance in Mogadishu, Somalia.	0.263	2.313	0.023	Reject H01
1) H02: education development does not have a statistically significant effect on micro and small business enterprises’ performance in Mogadishu, Somalia.	0.122	1.188	.008	Reject H02
2) H03: financial development does not have a statistically significant effect on micro and small business enterprises’ performance in Mogadishu, Somalia.	0.392	4.662	0.000	Reject H03

CONCLUSIONS

Despite the efforts by various stakeholders to promote and facilitate the growth of SMEs in Somalia, there was persistent failure of small business enterprises in the country, especially Mogadishu.

Lack of security development, government subsidies and access to credit had been indicated as a key problem facing Small Micro and Small Enterprise businesses in Somalia. Absence of SME policy and rivalry competition was another setback.

Results from the study revealed that Lack of political stability in a country effects business operations. This was especially true for the companies which operate internationally.

There was limited information on the challenges facing Small Scale businesses in Somalia which has hindered the success of all the strategies employed by the various stakeholders. It was of this view that the study aimed at investigating the challenges facing Small Scale Businesses in Mogadishu. Absence of female employees also could be hindrances as majority of remittances' customer were female.

The study also indicated that many entrepreneurs were technical experts in what they do but start a business without any formal training or experience in management practices and principles. As a result of inadequate management, many small businesses, remittances fail in the early years. This indicated that there was need for adequate training of the owners and managers of the Micro and Small Business Enterprises in Somalia.

RECOMMENDATION

Somali government should develop SME policies based on development and new emerging businesses, such as remittances.

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Credit and investment companies such as private banks & international donors should reduce prerequisites of their investment.

SME founders and managers should employ educated employee and increase female number incumbents and prepare training plans, especially in financial management, entrepreneurship, communication and marketing skills.

FURTHER RESEARCH:

The study aimed at assessing factors influencing micro and small business enterprises' performance in Mogadishu, Somalia. The study aimed at identifying the influence of political development on micro and small business enterprises' performance in Mogadishu, Somalia, the influence of education development on micro and small business enterprises' performance in Mogadishu, Somalia and the influence of financial development on micro and small business enterprises' performance in Mogadishu, Somalia. The study variables can be further explored specifically on large well established business and government or state owned firms.

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