Towards Enhancing Business Survival and Growth Rates in LDCs: An Exploratory Study of the Drivers of Business Failure among SMES in Kampala-Uganda

Sudi Nangoli
Dickson D. Turinawe
Geofrey M. Kituyi
Christopher Kusemererwa
Mahmood Jaaza

Abstract

Existing studies indicate that the survival and growth of small and Medium Size Enterprises (SMEs) significantly accounts for the economic performance of LDCs like Uganda. However, the failure rate of SMEs in Uganda is still high as new start-ups collapse shortly after they assume operations. The purpose of this study was to establish and describe the drivers of business failure such that by countering them, more small scale businesses can survive, grow and thereby boost the economic performance of the host countries. The Data used was collected from 50 SMEs operating in Kampala. Data was cleaned and analyzed to extract the salient factors that cause SMEs to shutdown pre-maturely. Based on the findings, this study identifies and proposes solutions, key policy interventions and approaches to be adopted towards enhancing business survival and growth rates. Unlike related studies, this research uses data from the area with the highest business activity in Uganda which is a fair benchmark for other areas seeking economic growth.

Key words: Business survival, Business sustainability, Business failure, SMEs, Kampala, Uganda.

1.0 Introduction

Small and medium size Enterprises (SMEs) are the key drivers of economic growth in LDCs (Rwakakamba, 2011; Ocici 2006). Therefore efforts directed towards enhancing their survival and growth, directly impact on the economic development of LDCs. Uganda is one of the LDCs that is experiencing high failure rates of SMEs although it is ranked as one of the most entrepreneurial countries in the world (GEM 2004;2009). Many Ugandans tend to start businesses in all spheres of operations, unfortunately many of these businesses, shutdown before even completing a year in operation (Brüderl et al., 1992; Boden & Nucci, 2000; Walter et al., 2004; Rooks & Sserwanga, 2009). The range of businesses operated by SMEs in Uganda include setting up and managing carpentry workshops, boutiques, general merchandise shops, operating health clinics, selling fresh foods, riding motor cycles (commonly known as boda-bodas), selling telecoms Airtime and vending cooked food among others. Previous studies have indicated that the unbecoming behavior of most Ugandan business men such as a poor saving culture, acts of financial indiscipline, lack of a desire and commitment to achieve greater heights, irresponsibility, laxity and laziness, and lack of a vision are key factors hindering the survival and growth of SMEs (see e.g. Nakamura, 2007). Ocici (2006) also indicates that the unfortunate education system of Uganda which mainly prepares students for ready office jobs and gives little attention to entrepreneurship education is another factor accounting for the low business survival rates in Uganda. Unless these factors are investigated and addressed, the potential for SMEs to prosper and thereby stimulate faster economic development of host nations will remain stagnant thereby harboring social injustices like unemployment and poor living standards among others.

The purpose of this study was to establish and describe the drivers of business failure in Uganda such that by countering them, more small scale businesses can survive, grow and thereby boost the economic performance of the host countries.

The rest of this paper is organized as follows; the next section reviews literature on performance of SMEs, followed by the research methodology, presentation of findings and data analysis, discussion of findings, implications, limitations and areas for future research.

2.0 Literature Review

Ugandan enterprises are largely informal with approximately 97% unregistered businesses, employing close to 80% of the population. The situation of business sustainability is appalling in Uganda. Many businesses don't live even for a year (Rooks & Sserwanga, 2009). Research by PELUM (2011) established that limited market, fluctuations in commodity prices, inefficient value addition techniques, lack of access to timely market information, limited access to capital, low bargaining power, and limited managerial skills and capacity are some of the most pressing challenges faced by Ugandan small businesses owners. Rwakakamba (2011) who describes Uganda as a graveyard of business start ups argues that family members constitute the main source of labor in most of these businesses (Rwakakamba, 2011). Gersick et al. (1997) argues that family businesses are run on the basis of son-brother-cousin relationship and that this sometimes causes conflict of interest and hinders business survival and growth. The family business model came into play as scholars tried to solve the challenges that businesses faced in the 1960s and 70s such as sibling rivalry, nepotism and poor management of family businesses (Gersick *et al.*, 1997). According to Gersick et al. (1997), the family, the business and its ownership, have unique characteristics such as membership requirements, value structures, family and organizational structures that explain how they co-exist using the three circle model of family business.

Other studies have tended to view behavior of the business managers/owners and employees as the key drivers of business survival and growth. Brockhaus (1986); Cooper and Ziemnowicz, (2007); Kirby and Fan (1995) observed for example, that a risk taking propensity, internal locus of control and a need to achieve are some of the key factors leading to the success of new business start-ups. Rauch and Frese (2007) however are doubtful of the role of behavioral traits in business success. From their study, they found out that some literature indicated that there is a positive correlation between personality traits, business creation and success. While Alutu and Uzamere (2011); Adesulu (2010) argue that education is important in making individuals to understand and widen their entrepreneurial quality, ability and behaviors, many Ugandan entrepreneurs are characterized by low or lack of education, uncouth and poorly managed people. They operate in the informal (jua kali) sector mainly for survival purposes, have a poor saving culture and do not have proper channels of capital sourcing (Ocici, 2006). Most of them obtain capital through selling off property, offering casual labor and sometimes a few lucky ones access high interest credit from micro finance institutions locally known as SACCOS and intolerant money lenders. Ugandan entrepreneurs lack certain key skills such as problem solving, goal setting, faith and confidence in what they do and above all they lack a business vision which is very important for business success as suggested by (Denslow & Giunipero, 2003; Kiggundu, 2002).

3.0 Methodology

This section presents the sampling design, the research methods, tools and instruments that were used in conducting the study. The study adopted a descriptive and interpretivistic survey design (Kothari, 2004) that was aimed at establishing facts regarding the issues under study from the chosen business players in SMEs. This research design thus adopted a Critical Humanism paradigm and involved the people studied in the research process. In line with Briggs (2009) and Asika (1991), such design is used mainly in business and social science research where the researcher aims at describing the current state of affairs with no effort to control and/or manipulate the variables under the study. Using this design, the researchers employed various forms of enquiry to ascertain the state of affairs as guided by (Kothari, 2004). Primary data of 50 SMEs collected from business managers/owners and employees that were running these businesses were collected using a questionnaire. In line with Rooks & Sserwanga's (2009) argument that a robust sample is difficult to attain in studies involving small scale businesses in Uganda since most of them are not registered and lack a clear structure, the study sample was generated using purposive and simple random sampling techniques. Other related studies in Uganda have used Cluster sampling method (Rwakakamba, 201; Briggs, 2009). While Purposive sampling was used to target only those key respondents like business owners, random sampling technique was used to select employee respondents. The study population comprised owners and employees of 50 small businesses in Kampala-Uganda.

A total of 10 SMEs were selected purposively in consideration of type of business and location from each of the 5 divisions of Kampala district and 6 employees, including the owner(s) of each business served as the unit of inquiry as seen in table 1 below;

Table 1: sample size design

Kampala District				
Division	Number of SMEs	Sampling method	Number of respondents	Sampling method
Central Division	10	Purposive sampling	6*10=60	Simple Random
Nakawa Division	10	Purposive sampling	6*10=60	Simple Random
Rubaga Division	10	Purposive sampling	6*10=60	Simple Random
Kawempe Division	10	Purposive sampling	6*10=60	Simple Random
Makindye Division	10	Purposive sampling	6*10=60	Simple Random
Total	50		300	

Source: Primary data

The researchers kept reminding the respondents through making phone calls to those who had not filled in this tool within the time they had promised to do so, as a way of maximizing the return rate of the questionnaires. With the help of SPSS software tool Version 19, descriptive statistics were generated to extract the most important drivers of business failure among SMEs in Kampala-Uganda that characterized the unit of inquiry. Content validity index and Cronbach alpha coefficient were used to test the validity and reliability of the questionnaire. The results as seen in table 2 indicate that the data collection tool was valid and reliable since all variables had a cronbach alpha coefficient >0.7 and content validity index >0.6. During data analysis, missing values were addressed using the List deletion method as affected data was too marginal.

Table 2: Reliability and reliability results

Variable	N Items	Anchor	Cronbach Alpha Coefficient	Content Validity Index
Drivers of business failure	20	5	0.768	0.678
Suggested Policies for overcoming business failure	6	5	0.877	0.782

4.0 Presentation of Findings and Data Analysis

As seen in table 3 below, frequencies and percentages were used to determine the respondents' gender, age bracket, marital status and highest academic qualification. The findings indicated that the majority respondents constituting 62.7% (N=143) were female while male respondents contributed only 37.3% (N=85). The findings also showed that 27.2% (N=62) respondents where in the age bracket of 18-25 years while those in the age bracket of 26-30 constituted majority of the respondents at 32% (73). A total of 65 respondents, representing 28.5% of the respondents, were in the age bracket of 31-35 and 27.2% of respondents were in age bracket of 18-25. 22 respondents were in age bracket 36-40 while only 4 and 2 respondents were in age bracket 41-45 and 46-50 respectively. No respondents were aged 50 years and above. Findings also showed that majority of the respondents constituting 56.1% were single. This was followed by respondents who were cohabiting at 37.3%. A total of 13 respondents, contributing 5.7% were married. Respondents who were divorced/separated and widowed tallied 0.4% each respectively. Frequencies and percentages were also used to determine the highest qualification of respondent. Findings indicated that majority of the respondents constituting 45.2% (N=103) had attained undergraduate degrees, 37.3% (N=85) had only certificates and 10.1% had diplomas. Only 6.6% had attained Postgraduate qualifications while 2 respondents, representing (0.9%) had no academic qualification. The findings indicate that SMEs in Kampala that have managed not to collapse within less than a year, have mainly employed youthful staff whose age ranges from 18-35 years.

The finding that most organizational staff in SMEs were not married, and that most of them were female may indicate that engaging female persons who have less social responsibilities, may enable them to concentrate more on helping the firm to build sustainable competitiveness through innovation. Frequencies and percentages were also used to determine the mode of employment in which respondents where, the Period they had spent in current organization, those who had ever owned a business and those respondents who had ever closed a business.

The Findings showed that majority of the respondents constituting 43.0% were employed in family businesses. This was followed by respondents who were working for other people/company (33.8%). The self employed were 53 (23.2%). As regards Period spent in current organization, Findings showed that majority of the respondents had worked in that organization for a period of 1-3 years (60.5%). A total of 66 respondents, constituting 28.9% had worked for the organization for period of 4-6 years while 21 respondents contributing 9.2% had worked for the organization for a period of 7-9 years. Only 3 respondents had worked for their organizations for a period of 10 years and above. This indicates that respondents had good knowledge of their organization's performance. Findings showed that majority of the respondents constituting 75.4% (N=172) had ever started their own business at one point in their life and only 24.6 (N=56) respondents had never. The results also show that the majority respondents constituting 62.8% had ever shutdown a business while a total of 64 respondents representing 37.2% had never closed business

Table 3: Background information about the Unit of inquiry

		Count	Valid %age
	Male	85	37.3
Gender	Female	143	62.7
	Total	228	100.0
Marital Status	Single	128	56.1
	Married	13	5.7
	Divorced/separated	1	0.4
	Widow	1	0.4
	Cohabiting	85	37.3
	Total	228	100.0
Age Bracket	18-25	62	27.2
	26 - 30 yrs	73	32.0
	31 – 35yrs	65	28.5
	36-40yrs	22	9.6
	41-45yrs	04	1.8
	46-50yrs	02	0.9
	Above 50 yrs	00	00
	Total	228	100.0
Highest academic qualification	No formal education	2	0.9
	Certificate	85	37.3
	Diploma	23	10.1
	Undergraduate degree	103	45.2
	Postgraduate degree	15	6.6
	others	0	0.0
	Total	228	100.0
Mode of employment	Self employed	53	23.2
	Working for another person/company	77	33.8
	Working in family business	98	43.0
	Total	288	100
Period with organization	1-3 years	138	60.5
	4-6years	66	28.9
	7-9years	21	9.2
	10 years and above	3	1.3
	Total	228	100
Business ownership	Ever started own business	172	75.4
	Never started own business	56	24.6
	Total	228	100
Business closure	Ever closed a business	108	62.8
	Never closed a business	64	37.2
	Total	172	100
Valid N (list wise)			

Source: Primary Data

Drivers for starting own business

The drivers for setting up a business have a far reaching influence on its survival and growth (Briggs, 2009; Rwakakamba, 2011). As such, the 172 respondents who had ever started their own business as was shown in Table 3 above were asked to explain what drove them to start their own businesses. Their responses are as summarized in Table 4. Data were generated on a 5 point likert scale, where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree. Descriptive means were used to analyze the date. Findings in Table 4 indicate that respondents strongly agreed that they started a business in order to get side income (Mean=4.78), create jobs for my family members (Mean=4.72), sustain their families (Mean=4.67). The respondents also strongly agreed that they started businesses because they were unemployed (Mean=4.45), and also that they wanted to get rich (Mean=4.22). Respondents agreed that they started a business because they were retrenched (Mean=3.81). These findings support those of Chigunta, (2001) and Kambewa, et al. (2001) who indicated that among other reasons; people may start business so as to obtain an alternative route for advancement from a dead-end job and to obtain additional money.

Table 4: Drivers for starting own business

	N	Min	Max	Mean	Standard Deviation
I needed to get side income	172	1	5	4.78	.602
I had been retrenched	172	1	5	3.81	.611
I was unemployed	172	1	5	4.45	.601
I wanted to get rich	172	1	5	4.22	.763
I wanted to sustain my family	172	2	5	4.67	.989
I wanted to create jobs for my family members	172	1	5	4.72	.677

Source: Primary data

Drivers of Business Failure:

The 108 respondents who had ever closed a business as was seen in table 3 above, were asked to rate the factors that caused their businesses to fail. Data on reasons for business shutdown were generated on a 5 point likert scale, where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree. Descriptive means were also used to analyze the date. Findings in Table 5 below indicate that respondents strongly agreed that they employed relatives (Mean=4.76), I was never available to supervise the business (Mean=4.71), Excessive competition especially from foreign products (Mean=4.61), I lacked business management and entrepreneurship skills (Mean=4.61), Poor savings culture (Mean=4.61), Lack of financial discipline on my part (Mean=4.57), Because of financial problems (Mean=4.56), I employed untrustworthy people (Mean=4.55), I failed to manage and pay bank loans (Mean=4.54), poor management of family businesses (Mean=4.51), Failure to pay rent and taxes (Mean=4.44), Lack of commitment to the business (Mean=4.44), Failure to meet the needs of the owner which is generating profits (Mean=4.34), Failure to meet the needs of the family e.g. job creation (Mean=4.32), My employees lacked business management and entrepreneurship skills (Mean=4.31), Lack of financial discipline on my employees part (Mean=4.34), Sibling rivalry (Mean=4.15), conflict of interest between managers and family (Mean=3.62).Respondents however disagreed on nepotism (Mean=2.81).

Table 5: Drivers of Business Failure

	N	Min	Max	Mean	Standard Deviation
Sibling rivalry	108	1	5	4.15	.664
Nepotism	108	1	5	2.81	.641
poor management of family businesses	108	2	5	4.51	.692
conflict of interest between managers and family	108	2	5	3.62	.872
Failure to meet the needs of the family e.g. job creation	108	1	5	4.32	.678
Failure to meet the needs of the owner which is generating profits	108	1	5	4.34	.675
Poor savings culture	108	2	5	4.61	.776
Lack of commitment to the business	108	1	5	4.44	.656
Financial problems e.g. lack of money for business continuity	108	2	5	4.56	.743
Lacked business management and entrepreneurship skills	108	2	5	4.61	.662
My employees lacked business management and entrepreneurship skills	108	1	5	4.31	.609
Was not available to supervise the business well	108	2	5	4.71	.942
I employed untrustworthy people	108	2	5	4.55	.675
I employed relatives	108	2	5	4.76	.878
I failed to manage and pay bank loans	108	2	5	4.54	.732
Lack of financial discipline on my part	108	2	5	4.57	.783
Lack of financial discipline on my employees part	108	1	5	4.34	.675
Failure to pay taxes and rent	108	1	5	4.44	.958
Excessive competition especially from foreign products	108	2	5	4.61	.621

Source: Primary data

Suggested Policies for overcoming business failure:

Respondents were asked to give policy suggestions for overcoming business failure and as such improving business survival and growth rates. Data were generated on a 5 point likert scale, where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree. Descriptive means were used to analyze the date. Findings in Table 6 indicate that respondents strongly agreed that interest rates should be lowered (Mean=4.87), Training in entrepreneurship (Mean=4.87), Business soft loans from government (Mean=4.81), Controlled inflow of foreign products (Mean=4.76), Provision of subsidies (Mean=4.66) and Establishment of business incubation centers to improve innovation (Mean=4.55).

Table 6: Key Policies for overcoming business failure

	N	Min	Max	Mean	Standard Deviation
Training business personal in entrepreneurship skills	228	3	5	4.87	.791
Provision of subsidies by Government	228	1	5	4.66	.684
Lower interest rates charged on loans	228	3	5	4.87	.865
Provision of Business soft loans from government	228	3	5	4.81	.901
Establishment of business incubation centers to improve innovation	228	1	5	4.55	.688
Controlled inflow of foreign products	228	3	5	4.76	.692

Source: Primary data

5.0 Discussions

The purpose of this study was to establish and describe the drivers of business failure such that by countering them, more small scale businesses can survive and grow to boost the economic performance of the host countries. The results also support the arguments by (Briggs, 2009), to the effect that sustainability of small scale business can be improved if business managers and employees start re-investing the profits made, paying tax in time to ease their tax burden, making frank spending priorities, and attending refresher courses on business management skills. In line with Reynolds et al., (2000) and Ocici, (2006), the results signify that support extended in the form of ensuring access to low cost finance, if extended to SMEs, can enhancing their Survival and growth (see also; Higino, 2005).

The said finances can be offered by Government, Donors, and private lending bodies like microfinance institutions. Also, the results support the ideas of (Briggs 2009; Amit et. al., 2001) that demographic factors, like education have implications on the business's ability to survive and grow. The results indicate that many managers and employees working in SMEs today have attained some reasonable education of at least an undergraduate degree. Ocici (2006) has however argued that this may not be supportive of business as Ugandan education mainly trains students for white collar jobs. Chlosta, et al. (2010), however averred that personal abilities of sustaining business could be gradually developed after completing a university program. It can be argued that the high education rate observed among respondents is so due to the increased efforts put on education by government. The results indicate that SMEs that have successfully survived for over a year in Uganda employ youths who are of the age bracket 18years to 35years. Schnurr and Newing (1997), has indicated that youths have features like;- initiative, drive, imagination, enthusiasm, zest, dash, ambition, energy, boldness, audacity and courage that aid business survival and growth.

6.0 Implications, Study Limitations and Areas for Further Research

The results imply that the key drivers of business failure among SMEs in Kampala-Uganda include among others; the poor saving culture, managers not being available to supervise their business, lack of business management and entrepreneurship skills, Excessive competition especially from foreign products, employing untrustworthy people, failure to manage and pay bank loans, failure to pay rent and taxes, Sibling rivalry and conflict of interest between managers and family among others. The results further imply that lowering of interest rates, equipping business persons with skills in entrepreneurship, provision of Business soft loans from government, Controlled inflow of foreign products, Provision of subsidies and establishment of business incubation centers can go a long way in enhancing the Survival and growth of small scale Businesses. This study was however limited by a number of factors; firstly, the lack of a comprehensive sampling frame meant that the sample chosen may have not been representative. Secondly, the limited resources could not enable us spread our survey around the whole country. Also, the study was cross-sectional and as such, results need to be applied with prudence in informing long term actions as the factors that explain business failure could have revolve. Further studies therefore need to take a longitudinal study design to avert this worry. Overtime the Government of Uganda has been making strides towards improving business growth country wide; an extensive study covering all the interventions it has set up need to be conducting to establish the impact they have had on business survival and growth

Acknowledgments

We would like to extend our appreciation to the Faculty of Entrepreneurship and Business Administration of Makerere University Business School that funded this study. Special thanks go to the MUBS Principal, Professor Wasswa Balunywa and the late Dean faculty of Entrepreneurship and Business Administration, Dr. Warren Byabashaija.

References

Adesulu, D., (2010). Entrepreneurship Education, Only Way to Achieve Vision 20:2020*. Vanguard News Paper, Thursday, 25th March.*

Alutu A.N.G. and A.O. Uzamere (2011). The Girl-Child and Entrepreneurial Education: A Case for Economic Sustainability. *Current Research Journal of Social Sciences 3(3): 180-187, ISSN: 2041-3246*

Asika N (1991). Research Methodology in the Behavioral Sciences. *Lagos: Longman Nigeria.*

Boden JR, Nucci AR (2000). On the survival prospects of men's and women's new business ventures. *J. Bus. Venturing.*

Briggs, B., R. (2009). Issues affecting Ugandan indigenous entrepreneurship in trade. *African Journal of Business Management Vol.3 (12), pp. 786-797*

Brockhaus, R.H. and P.S. Horwitz 1986. 'The Psychology of the Entrepreneur'. *In D.L*

Brüderl J, Preisendörfer P, Ziegler R (1992). Survival chances of newly founded business organizations. *Am. Soc. Rev.*

Chigunta, F. (2001), " Youth Livelihoods and Enterprise Activities in Zambia". Report to IDRC, Canada.

Chlosta, s, Patzelt, H, Klein, S and Dormann, C. (21010). Parental role models and the decision to become self employed: The moderating effect of personality. Small business economics, pp 1-18

Cooper Ramin Maysami and Christopher Ziemnowicz (2007). Ethnicity, Gender and Entrepreneurial Tendencies: The Singapore Perspective. *The Copenhagen Journal of Asian Studies*

Denslow L. Diane and Larry C. Giunipero (2003). Improving Purchasing Success through Entrepreneurial Behavior. *The Jim Moran Institute, Florida State University.*

Gersick K.E, Davis A.J, Hampton M.M and Lansberg Ivan (1997). Generation to Generation: Life Cycle of Family Business. *Harvard Business School Press*

Global Entrepreneurship Monitor report (GEM) 2004.

Global Entrepreneurship Monitor report (GEM) 2009.

Higino Schneider, P. (2005). "International trade, economic growth and intellectual property rights: A panel data study of developed and developing countries." Journal of Development Economics 78(2): 529-547.

Kambewa, P. *et al*., (2001), " Youth Livelihoods and Enterprise Activities in Malawi". Report to IDRC, Canada.

Kiggundu, M. N. (2002). Entrepreneurs and entrepreneurship in Africa: What is known and what needs to be done. *Journal of Developmental Entrepreneurship, 7 (3), 239-258.*

Kirby, D. A., and Y. Fan (1995). 'Chinese Cultural Values and Entrepreneurship: A Preliminary Consideration'. *Journal of Enterprising Culture 3(3): 245-260.*

Kothari CR. (2004). Research Methodology, Methods and Techniques (2nd Edition). *New Delhi: New Age*

Nakamura Richard (2007). The Great Hunt for Entrepreneurship in Bubulo, Uganda. Minor Field Study in Uganda. *School of Economics and Management, Växjö University*

Ocici Charles (2006). A Working Paper On Entrepreneurship Presented At National Consultation Conference: Legal Empowerment Of The Poor. *Commission on Legal Empowerment, International Law Institute*

PELUM (2011). Approaches for Achieving Farmer Entrepreneurship in Uganda; Case Studies of PELUM Uganda Member Organisations. *PELUM Association*

Rauch Andreas, Michael Frese (2007). Meta-analysis on entrepreneurs personality. *European Journal of Work and Organizational Psychology*

Reynolds, P.D., Carter, N.M., Gartner, W.B., and Greene, P.G. (2004). The Prevalence of Nascent Entrepreneurs in the United States: Evidence from the Panel Study of Entrepreneurial Dynamics. Small Business Economics, 23, 263-284.

Rooks, G., Szirmai, A., & Sserwanga, A., (2009). The Interplay of Human and Social Capital in Entrepreneurship in Developing Countries. The Case of Uganda. Research Paper No. 2009/09. *United Nations University World Institute for Development Economics Research.*

Rwakakamba Morrison (2011). Budget Priorities and Job Creation in a Competitive Regional Market. Twaweza, *The African Executive*

Schnurr, J. and Newing (1997), "A Conceptual and Analytical Framework for Youth Enterprise and Livelihood Skills Development: Defining an IDRC Niche". IDRC, Canada.

Walter T, Balunywa W, Rosa P, Sserwanga A, Barabas S, Namatovu R (2004). Global Entrepreneurship Monitor, Uganda Executive Report 2004. Kampala: *Makerere University Business School.*