

## **FACTORS AFFECTING THE PERFORMANCE & BUSINESS SUCCESS OF SMALL & MEDIUM ENTERPRISES IN SUDAN (CASE STUDY: OMDURMAN)**

**Dr. Omer Ali Babiker Eltahir**

Jazan University, Community College- (University College in Ad-Darb Governorate)

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**ABSTRACT:** *Small and Medium Enterprises (SMEs) have an important role to play in the development of the country. This study attempts to identify the antecedents of business success in Omdurman- Sudan, with particular reference to small businesses. . In Sudan, the growth of SMEs is significantly low. The study examined eight factors that influence the SMEs business success. . Eight hypotheses were developed to find out factors that are affecting Business Success of SMEs in Sudan. SMEs characteristic, External Environment (competition), Customer and Markets, the way of doing business & cooperation, Resources and Finance have significant positive effect on the Business Success of SMEs in Omdurman-Sudan. The regression analysis result shown that the above factors are the most significant factors affecting business success of SMEs in Sudan.*

**KEYWORDS:** Sudan, SMEs, External Environment, Business Success

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### **INTRODUCTION**

The important contribution of a small and medium enterprises (SMEs) sector in the national economic and social development of a country has been widely recognized.

Small and Medium sized enterprises (SMEs) is a driving force for the future economy. During the last years, studies into small and medium sizes enterprises (SMEs) have grown tremendously (Lambing & Kuehl, 2007). Studies have shown that SMEs are not only important driver of employment and wealth generation but also at the forefront in fostering entrepreneurship, competition, and innovation that results in sustained success and development. Small and medium-sized enterprises are necessary for the achievement of wider development objectives, including poverty eradication, economic development, and promotion of more democratic societies (Deakins & Freel, 1998).

SMEs play an important role in an economy. Aside from generating employment, many economists believe that SMEs offer a range of advantages. Actually there is wide diversity of the businesses, so there is no single definition of a small firm because each country has their own definition for SME Firm.

SMEs benefit the economy not only through employing people and supplying the consumer, but also by supplying materials to large companies, whereby the companies can incubate SMEs. Small businesses are regarded as the critical force behind economic success, job creation and poverty reduction in emerging economies. They have resulted in accelerated economic success, and rapid industrialization that has witnessed across the globe (Thurik & Wennekers, 2004).

This study is **Entitled** (Factors Affecting small and medium sized business success in Sudan (Case Study: Omdurman). We attempted to identify the factors that affect the business success of SMEs in Omdurman-Sudan.

This study aims to provide an understanding of how people start their business by looking at all the factors that affect business success, thus help to reduce the risk of failure and increase opportunities for success .

## **LITERATURE REVIEW**

Defining SMEs is a major factor in posing the policies, legislation, programs and effective services for this sector; furthermore, although it is important to establish a definition for these enterprises, generally speaking there has not yet been any internationally accepted definition (i.e. one which all countries agree upon). This is predominantly because the standards of determining and defining both the rate and size of the works differ from one country to another and from one sector to another. For example, while some countries will define SMEs as the whole variable asset or the laborers' number or the number of sales or the paid capital, there are other countries which rely on a definition according to the different sectors and, in addition to this, many of the companies use more than one pointer at a time.

International Labor Organization (2000) argues that there is no universally accepted definition of SME. Small and Medium Enterprises (SMEs) are considered to be a most effective mechanism for economic and social wellbeing. They are a means for training, developing technical and managerial skills and recruiting local people; furthermore, they allow for the creation of a new generation of inventors and investors and are a source of innovation and spreading of new ideas. According to the European Union, Entity Company with less than 500 employees is usually regarded as an SME.

The definition of SMEs varies from country to country. In the United States, small businesses are generally defined as being independent businesses comprising fewer than 500 employees (Office of the Advocacy United States Small Business Association, 2003), but are further classified according to varying industry standards on employment size, sales and annual turnover for Government programs, such as contracting (US Small Business Administration, 2002). The concept of small enterprises varies according to the size of economic activity, the structure of the economy, the level of economic development and the objectives of economic development plans. The common definition of SMEs includes registered businesses with fewer than 250 employees. In Japan, on the other hand, SMEs are generally businesses which employ between 4 and 299 employees.

In Sudan, small and medium-sized enterprises are defined by the size of the organization's employees. So a Small Enterprise defined as that enterprise with a staff fewer than 10 employees.

### **Objectives of the Study:**

Specifically, the study will seek to:

- i) Determine the impact of demographic characteristics (age, sex, and education)
  - Age of SMEs owners/managers to SMEs performance & success.
  - Sex of SMEs owners/managers to SMEs performance & success.
  - Education of SMEs owners/managers to SMEs performance & success.

- ii) Find out the relationship between business characteristics (age of the SMEs) to SMEs performance & success.
- iii) Determine the impact of resources & finance to SMEs performance & success.
- iv) Examine the impact of customer & market to SMEs performance & success.
- v) Find out the relationship between the management & know-how and SMEs performance & success.

### **Hypotheses of the Study:**

From the above literature, the following hypotheses were derived:

- H<sub>1</sub>: There is no relationship between SMEs characteristics and business success in SMEs.
- H<sub>2</sub>: There is no relationship between management & know-how and business success in SMEs.
- H<sub>3</sub>: There is no relationship between products & services and business success in SMEs.
- H<sub>4</sub>: There is no relationship between customer & market and business success in SMEs.
- H<sub>5</sub>: There is no relationship between the way of doing business & cooperation and business success in SMEs.
- H<sub>6</sub>: There is no relationship between resources & finance and business success in SMEs.
- H<sub>7</sub>: There is no relationship between strategy and business success in SMEs.
- H<sub>8</sub>: There is no relationship between external environment (competition) and business success in SMEs.

### **Factors Affecting Business Success of SMEs & Challenges**

The business environment is defined as factors both inside and outside the organization, influencing the continued and successful existence of the organization. The business environment is considered to play a crucial role in the growth of SMEs (Demlar & Wiklund, 2008). According to Beck & Demirguc-Kurt (2006), the growth of both internal and external environment is important for SME growth.

Business success is about the achievement of goals and objectives of a company, which is not explicitly defined (Nhwangwama, Ungerer & Morrison, 2013) ; (Foley & Green, 1989). It can also be characterized as a firm's ability to create acceptable outcome and actions (Van Praag, 2003; Marom & Lussier, 2014).

Some of the factors that affect business success of SMEs are an entrepreneur characteristics, characteristic of SME, management and know-how, products and services, customers and markets, the way of doing business and cooperation, resources and finance, Strategy, external environment; and internet. Relying on financial data also limits the ability to explain future performance as they are historically oriented, hence can be misleading (Koufteros, Verghese, & Lucianetti, 2014). (Radazi, Nor, & Ali, 2017) found that success of small businesses is shaped by technology usage, so business owners who able to integrate IT into their business processes and activities could enhance their business growth. (Margaretha, & Supartika, 2016)

showed that the variable firm size, growth, lagged profitability have a negative effect on small medium enterprise profitability, while the variable productivity and industry affiliation have a positive impact on a small enterprise profitability. Jarsa, Khan (2010) recognize the financial and technological resources, government support, marketing strategies, and entrepreneur skills to have significant and positive impact on business success among the Pakistani SME. The success factors of African SME are discussed in Monibo (2003), Harabi (2005), and Govindasamy (2010). According to Harabi (2005), the important ones with positive effect are following: company location, diversification effect, legal status, price competition, strong demand for product, governmental positive regulations. Negative factors are: qualification of workers, small population centers, and governmental negative policies.

- ❖ The evidence suggests that SMEs play a vital role in the nation's economy and wellbeing. Sudan SMEs still face many **challenges**, domestic and external, which could hinder their resilience and competitiveness. They include:
  - a) Ongoing difficulties in obtaining funds from financial institutions, banks and the government agencies.
  - b) A lack of human capital is the most significant challenge facing Sudan SMEs.
  - c) SMEs face a high level of competition (Local & External).
  - d) A weak technology and ICT which hinders more efficient and productive business operations.
  - e) A high level of bureaucracy in government agencies hinders efficient SME business development operations.
  - f) A low level of research and development expenditure.

## RESEARCH METHODOLOGY

The dependent variable in this research is business success and independent variables are: Characteristic of entrepreneur and SMEs, management and know-how, products and services, customer and market, the way of doing business and cooperation, resources and finance, strategy and external environment. I design a questionnaire to gather the research data, three parts were in the questionnaire. The first part comprised of demographic characteristic, and profile information of the enterprises. The enterprises were asked to rank statements on contextual condition related to each success factor faced by the enterprises in the second part.

The second part consisted of 35 questions which were intended to measure factors of business success, using 5 point likert scale anchored by strongly agree to strongly disagree. In the third part, the enterprises were asked to score the importance of perceived of business success. The questions were short, simple and unambiguous. A total 140 sets of questionnaires were distributed through hard copy, only 125 copies were responded, 70 sets were distributed to SMEs managers and management team, so out of the 70 only 55 sets were responded. Another 70 sets were distributed to friends who are owners, managers and management team and all were responded. Overall only 120 sets of questionnaires were collected and filled up completely from total of 140 sets that were distributed early.

The study intended to see the relationship between owner characteristics, characteristic of SMEs, management and know-how, products and services, the way of doing business and cooperation, resources and finance, strategy and external environment towards business success.

### **Characteristics of the Study Sample**

A total 140 sets of questionnaire were distributed to selected respondents, only 125 questionnaires were collected back; the response rate is 89.2%. However only 120 questionnaires were used for analysis, five questionnaires was rejected due to incomplete information.

Descriptive analysis shows that out of 120 respondents, there were more male than female respondents. The results show that 65% of the respondents are male and the remaining 35% are female. The majority of respondents , a total 48 (40%) were aged between 32 to 41 years old, 35% (42) were aged between 22 to 31, 15.8% (19) were aged between 42 to 51 years old, 4.2% (5) were above 51 years old, and 5% (6) of respondents were from age less than 22 years old.

The number of employees, 12 (10%) were 1-2 employees, 62 (51.67%) were between 3-4 employees, 24 (20%) were between 5-6 employees, 6 (5%) were between 7-8, and 16 (13.33%) were more than 9 less than 10 employees.

The Duration of Organization Operated, 20 (16.67%) were less than 5 years, 23 (19.2%) were between 5 to 10 years, 40 (33.33%) were between 10 to 15 years, 18 (15%) were between 15 to 20 years, and 19 (15.8%) were more than 20 years.

There are 4 (3.3%) respondents from Primary School, 12 (10%) were from Secondary School, 15 (12.5%) were from Certificate/Diploma, 63 (52.5%) were from Bachelor's Degree, 23 (19.2%) were from Master's Degree, and 3 (2.5%) respondents from PhD.

7 (5.8%) respondents having working experience less than 2 years, 28 (23.3%) respondents between 2 to 5 years, 47 (39.2%) respondents were between 6 to 10 years, 15 (12.5%) respondents were between 10 to 20 years, and 23 (19.2%) respondents were more than 20 years.

Cronbach's Alpha for the study dependent variables and independent variables were above 0.70. Therefore data that were collected for this study were considered to be internally stable and consistent.

### **FINDINGS**

To find out whether entrepreneur characteristics, characteristic of SMEs, management and know-how, products and services, the way of doing business and cooperation, resources and finance, strategy and external environment (competition) and business success are correlated. We used correlations analysis and the results show that all factors are correlated at 5% significance level.

To determine whether the eight independent variables, which are SMEs characteristic, management and know-how, products and services, customer and markets, the way of doing business and cooperation, resources and finance, strategy and external environment

(competition), have any significant effect towards Business Success of SMEs in Omdurman-Sudan Multiple Regression Analysis was used.

The findings of the study revealed that Management know-how, Product and Services, and Strategy were found to have no significant effect on the Business Success of SMEs in Omdurman-Sudan. SMEs characteristic, External Environment (competition), Customer and Markets, the way of doing business & cooperation, Resources and Finance have significant positive effect on the Business Success of SMEs in Omdurman-Sudan. The summary of the study of the regression analysis indicated that the R-square is 0.587. This means that the above Eight variables can explain 58.7% variations in the Business Success of SMEs in Omdurman-Sudan. The Durbin-Watson Statistic shows that the serial correlation of residuals is 1.876, the value falls within the acceptance range. F-value is found to be significant at 1% significance level (sig. F= .000).

Findings of factors affecting Business Success for SME in Sudan

- 1- They argued that the main income targeted significantly influences the success of SMEs and, in order to increase success, (Resources & Finance).
- 2- Good customer relationships and customer service have been stated one of the most important factors contributing to a success of SMEs, (Customer and Markets).
- 3- No one should start a business in today's economy without a business plan (The way of doing business).

## **DISCUSSION OF FINDINGS**

- To identify the factors affecting the business success in small and medium sized enterprises in Omdurman-Sudan was the purpose of this study. SMEs have a great impact on the local economy of a country and many studies show how SMEs can improve it by increasing investment and creating jobs for locals.
- Findings of this study can be used by anyone who is interested to start his own business which will help to decision making in starting a business,
- The study has looked into characteristic of SMEs, management and know-how, products and services, customer and markets, the way of doing business and cooperation, resources and finance, strategy and external environment (competition).
- The results show that customer and markets, resources & finance played an important role in ensuring the SMEs business success in Omdurman –Sudan.
- Innovation product, quality, cost, reliability, and services are the key strategic dimension in business success.
- SME owner/manager believes that access to finance is a major challenge affecting the growth of business; Business Success is usually the outcome of the way of doing business and cooperation may play an important role in business success.

- Competition is viewed as one of the major challenges affecting the performance of SMEs, most of the respondents saw local competitors as a challenging factor,
- The results of this study that SMEs regulations governing establishment of businesses are extremely intricate and conflicting. Therefore, small businesses find it so complicated to conform to (government bureaucracy) which are considered as the most important hindrance for small firms to conduct or establish business in Sudan.

## RECOMMENDATIONS

- ❖ The **recommendations** below could be considered by SMEs in Sudan to overcome competition as a factor affecting their performance, so there were some **recommendations** made by the researcher for ways in which to improve the awareness of the support available. They were:
  - ✓ To be able to confront competition, collaboration between SMEs can be considered by entering into joint ventures, the opportunity to combine strengths, Information and technological capabilities to increase sales or to enhance their customer base.
  - ✓ To create a main Government authority to be responsible of the entire SME sector plans to review laws and regulations thoroughly, remove obstacles, facilitate access to funding.
  - ✓ To enable youth and entrepreneurs to market their ideas and products.
  - ✓ To develop a one stop-shop to facilitate access to support, and
  - ✓ Develop central and regional databases detailing information about the support providers.
  - ✓ SMEs need to continuously evaluate the environment that they operate in, understanding their competitors and their offering/service.

## CONCLUSION

We attempted to find out the most significant factors that affect the Business Success of SMEs in Sudan and found out that SMEs characteristic, customer and market, the way of doing business and cooperation, resources and finance are the most significant continue successful they need to ensure resources and finance, customer and market are developed continuously to reduce risks. The way of doing Business & Cooperation hypothesis accepted as inter-firm cooperation contribute positively to gaining organizational legitimacy, focus on its core business, learn new skills, and cope positively with rapid technological changes. Besides that, use of outside professionals and advisors should continue to be practiced by Sudan SMEs. The external environment factor competition can be viewed as a major challenge affecting the performance of SMEs in Sudan. SMEs in Sudan faced with competition which is impacting the performance of the business negatively.

## **FUTURE RESEARCHES**

- a) Future researches could perform an in-depth study on the external factor competition, addressing the impact on the performance of SMEs.
- b) It is imperative to conduct the interviews with experienced entrepreneurs as they have greatest knowledge and experience of the success factors of SMEs and their strengths and weaknesses.
- c) Future researches can carry more details of factors to identify any sub factors which might affect the success of SMEs, it is essential to provide more details regarding the content of each success factor and the extent to which each business sector, for example, quality of product or service, might be important for industry rather than for other sectors which have not been investigated in this study.

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