

Perceived managerial problems in SMEs: evidence from Botswana

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Introduction

Although the discovery of mineral wealth (i.e. diamond) has propelled Botswana into the middle-income category, the country still faces the problem of economic diversification, employment creation, income distribution and poverty alleviation. The main strategy employed by the government to diversify the economy and create employment has been the promotion of the development of small- and medium-sized enterprises (SMEs). There is a general consensus that Botswana should not continue putting all its “eggs in one basket”.

The most common argument in favor of SMEs is that they are sustainable forms of diversifying the economy away from mining; they create substantial job opportunities; and they help narrow the gap between urban and rural development, and alleviate poverty. SMEs employ more people per unit of investment as compared to large firms. The prevalence of low-skill and unskilled labor force in the economy coupled with the tendency of the government to reduce its role as primary employer made the promotion of SMEs a primary source of employment creation, income generation and poverty alleviation.

Method and results

The objective of the study was to investigate how managerial problems are affecting the performance and development of SMEs, and analyze the relationship between these factors and firm specific demographical variables, and the association among the problems themselves. Data were collected from through questionnaire from 250 SMEs.

The majority of the sample firms were small in size (70 percent), owned by males (78 percent) and concentrated in the non-manufacturing sectors (merchandising and service) (90 percent) of the economy. Respondents were asked to rate the impact of 34 managerial items on the performance of SMEs on a five-point scale ranging from 5 (very high) to 1 (very low).

Perceived managerial problems

Managerial actions issues

Many researchers and practitioners claim that the major cause of small business failure is “poor management”. Whether the causes are labeled as financing, competition, marketing, inventory, etc., they can be safely avoided if good management was in place. Although it has become difficult to explain what constitutes “poor management”, small business owners/managers need to develop basic managerial skills and knowledge. If they are to succeed, managers need to have adequate skills in the area of planning, organizing, directing and controlling organizational resources. The respondents have clearly recognized the importance of managerial adequacy and competency as critical success factors. Managerial competency is measured by seven factors.

The main contributor to the critical role of the managerial factor is the use of external advisors (mean = 3.45), focus on strategy formulation and implementation rather than focusing on operational bits and pieces (mean = 3.42), aiming for long term competitive advantages rather than short-term profits (mean = 3.26), and developing strong interest for non-financial benefits such as need for achievement and recognition (mean = 3.23). Most SMEs in developing economies lack strategic orientation and long-term vision. They put greater emphasis on short-term profits rather than building long-term competitive potential.

Human resources development issues

The respondents indicated that human resources development (HRD) is a critical success factor affecting the performance of SMEs. But, its perceived impact on SMEs is relatively low (mean = 3.05). Out of the eight human resources development related items, lack of experienced employees in the market (mean = 3.52), lack of skilled manpower in the market (mean = 3.45), lack of low cost training facilities (mean = 3.22) and inaccessibility and unavailability of training facilities in the community (mean = 3.06) are considered to be more important than other HRD issues such as employee turnover (mean = 2.50) and dependence on family labor (mean = 2.55). According to SMEs perception of the market, the major problem is not shortage of manpower, but lack of skilled and experienced personnel, and accessibility to or lack of low cost training facility in the community. A finding different from previous studies is that HRD policies seem to have little impact on firm performance (mean = 2.88). This could be attributed to many factors including misconception of the word HRD.

Recruiting new employees is one of the biggest challenges racing small firms, and a key component of organizational success. Previous research on the staffing practices of small firms has found that small firms tend to rely on social networks to attract workers, particularly at the inception of the firm. However, as SMEs grow in size they exhaust the supply of suitable family and friends, forcing them to recruit strangers to fill work positions. Since the performance of SMEs is closely related with their ability to recruit strangers the development of effective recruitment policies and practices in small firms has significant implications for organizational survival.

Organizational development issues

The way SMEs are organized or structured has an important implication for the flow of information and effectiveness of communication in the organization. Organizational structures affect unity of command, and unity of chain as well as the flow of authority and responsibility in the organization. They clarify issues like who reports to whom and the job description and content of each organizational member. The respondents considered organizational development as a critical success factor (mean = 2.82) with a lower perceived impact on SMEs than do other factors.

Centralized decision making (mean = 3.09), lack of clear division of activities (mean = 2.89), low level of formalization (mean = 2.87) and high span of control (mean = 2.86) are considered to be more influential than other activities like level of standardization (mean = 2.63), organizational structure (mean = 2.75) and communication problems (mean = 2.79). This is not surprising, as most SMEs in the developing economies do not have formal organizational structure, line of communication, formalization and standardization policies.

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Managerial background issues

Managerial background includes basic requirements to be a professional manager. These include general educational background; training in basic business management skills, and practical industry experience. The respondents considered it as a small business critical success factor with a lowest mean value of 2.76. The ranking of managerial background as least influential is in contrast to theory and the findings of other previous studies.

In contrast to previous studies, the impacts of managerial education, training and experience on the performance of SMEs were rated low. This could be attributed to:

- the concentration of the sample firms in non-manufacturing sectors where managerial background has relatively less impact on performance; and
- since most companies are foreign based (South Africa), managerial leadership flows from the headquarters.

Organizational design and development covers lack of clear division of labor, lack of open communication, lack of proper organizational structure, low level of standardization of products/service and formalization of working procedures. Although these factors are also rated low, there is of course lack of adequate evidence to witness that these organizational design related items do not critically affect the development of SMEs in developing economics.

Conclusions

The measurement scale used in the study does not indicate the actual impact of selected factors. It is intended to show only the direction of the perception of the sample firms. It is therefore important to note that any conclusion drawn from these findings should be tentative. This research has empirically identified the problems that SMEs in Botswana are facing. Ranging from managerial actions (mean = 3.28) to managerial background related problems (mean = 2.76). These problems could be summed up with one phrase, "lack of the necessary skill to manage and run a business venture."

Lack of low cost and inaccessibility/unavailability of training facilities in the local community has put considerable impact on the performance of SMEs. If Botswana government policies for the promotion of SMEs are to yield better results, there is need to develop low cost training facilities that would enhance or facilitate the development of skills (both operational and managerial) for this sector. Vocational training programs should be tailor-made to meet the needs of the SME sector. It is obvious from the research that local external consultants are under-utilized by SMEs. This could be attributed, among other things, to lack of awareness about the role of consultants. Whatever the reason may be, there is need to involve consultants in the development of SME capabilities in order to enhance their competitiveness.

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