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The Role Of Entrepreneurial Skills In The Performance Of Smes In Nebbi District, West Nile Region Uganda

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ABSTRACT

The study sought to determine the role of entrepreneurial skills in the performance of SMEs in Nebbi District, West nile Region in Uganda. Using both purposive and simple random sampling procedure, a sample of 106 participants was selected for the survey. A questionnaire was used in the study. The data was analyzed using SPSS statistical package. The study concluded that there is a moderate relationship between entrepreneurial skills and performance of SMEs. However, entrepreneurial skills cannot account for the total amount of variation in performance of SMEs as it contributes only 32.5% of the level of performance in Nebbi district. The study recommended that government must invest more resources in entrepreneurship development training. Emphasis must be paid on developing entrepreneurial skills in productivity and marketing as these were identified as key performance indicators. In addition, young entrepreneurs should be trained in gathering and processing market information that is relevant to their businesses.

Keywords: Entrepreneurship skills, Performance of SMEs, Profits, Markets, Productivity

1. INTRODUCTION

The level of economic growth of any region largely depends on the level of entrepreneurial activities in the region. Therefore, knowledge-based human capital investment is a prerequisite for sustained growth and productivity of enterprises (Kerosi & Kayisime, 2013). They noted that a firm's competitive advantage stems from its entrepreneurial abilities, technical knowledge, and its adaptability to the internal and external business environment. One contributing factor to the success of SMEs depends on entrepreneurial characteristics and traits (Syamsuriana & Mohd, 2014). Entrepreneurial characteristics ought to be combined to bring out the creative and innovative abilities in an individual who seeks to own a business.

2. LITERATURE REVIEW

2.1 ENTREPRENEURSHIP SKILLS

Entrepreneurship is the application of creativity and innovation to solve problems and attempt to exploit opportunities (Conceicao, Moeljadi, Rohman, & Solimun, 2014). Entrepreneurship is a process of bringing together creative and innovative ideas, combining them with management and organization skills in order to combine people, money and resources to meet an identified need and thereby create wealth (Moska, 2013). According to (Tambwe, 2015), entrepreneurship is the way of thinking, reasoning, and acting that results in the creation, enhancement, realization and renewal of the value of the individual, group, organization and society. The entrepreneur seeks out investment opportunities and assumes the risk of establishing a business, which depends on the individuals' entrepreneurship skills.

Entrepreneurial skills is the ability to combine both the innate characteristics and other resources, which depends on the individual's entrepreneurial skills (Moska, 2013). During turbulent times, the individual needs to possess to handle the turbulent times of any business. At the individual level, entrepreneurship is a characteristic embodied in entrepreneurs' mind that helps establish businesses, generate employment, create new products and services, stimulate innovation and improve welfare (Souksavanh, 2014). Entrepreneurial skills are the skills, which complement the entrepreneur to analyze situations, opportunities and environments, and assists the entrepreneur/manager to organize, manage and assume the risks and rewards of a business or enterprise (Gakure, Ngugi, Waititi, & Keraro, 2013). According to (Afolabi & Macheke, 2012), the entrepreneurial skills essential for the success of SMEs include motivation, ability to gather resources, financial management, human resource management, marketing and technical skills. A weakness in a particular skill is associated with a decrease in the overall performance of the venture. Skilled entrepreneurs have all it takes to go after their dreams and reach their main goals. They have a way of surviving the tough situations unlike those who have totally no experience or lack important skills such as managerial, accounting, negotiation, and customer relationship skills (Wamoto, Ayuma, & Kimani, 2016). A large component of success in entrepreneurship can be attributed to skills. Entrepreneurs with a record of accomplishment of success are more likely to succeed than first time entrepreneurs and those who have previously failed (Gompers, Kovner, & Scharfstein, 2006).

The competencies (business skills) of entrepreneurs make business more successful and may lead towards sustainable competitive advantage as well (Shehnaz & Ramayah, 2015). Two entrepreneurial characteristics determine business success and these include psychological factors and education experience (Sarwoko, Surachman, & Hadiwidjojo, 2013). Psychological factors that affect business performance include need for achievement, locus of control and personal traits. On the other hand, the level of education is positively associated with business performance. Higher education is considered to have better impact in entrepreneurship because it reflects the fact that they are on average more capable. Though some of these traits could be in born, training entrepreneurs in management training improves management competencies while skills training is a powerful tool for job creation (International Labor Organization, 2014). Studies by (Sajilan & Tehseen, 2016) indicate that entrepreneurial skills lead to venture performance and, expansion and growth; and contribute towards profitability and growth of business. Entrepreneurial competencies linked with behavior and decision-making skills have been proven to influence business performance (Nieuwoudt, 2016).

SMEs have limited abilities to develop entrepreneurial skills to take advantage of local economies of scale in terms of reputation, increase in the volume of sales and increase in the number of customers (Kerosi & Kayisime, 2013). They also lack the ability to gather and process market information outside of what is immediately relevant to their business due to lack of technical knowledge and training on how to make use of this information. Entrepreneurs require creative and technological capabilities to grow their firms (Morales &

Marquina, 2013). The same study indicated that prior entrepreneurial experience influences sales and employment growth of new firms.

2.2 PERFORMANCE OF SMES

Small businesses, whose own-managers have experience of participating in entrepreneurship programs exhibited superior managerial practice. The economic impact of SMEs can be measured by their contribution to output, employment, income, investment, exports and other economic indicators (Gakure, Ngugi *et al* , 2013). In literature related to entreprenuership, performance in business is measured by growth in employees or sales and by the increase in profits. Sajilan & Tehseen (2016) designed a conceptual framework for SMEs entrepreurial competencies and business performance indicators. SMEs business performance indicators include increase in profit, sales growth, growth in employees, firm's asset growth, industry average or comparison with the competing firms and value added. Several indicators can be used to gauge performance including high productivity, leadership, high profits, high production, low costs, community development and business growth (Muthalib, Harafa, Yani, & Rostin, 2014). The owner of a business is a key factor in business performance. The relationship between the owner of a business and its performance indicated that entreprenurial minded owners grow their businesses to maturity due to their adminisntrtive competencies (Sarwoko, Surachman, & Hadiwidjojo, 2013).

2.2.1 PROFITS

SMEs whose owners had technical knowhow, attitude towards work and managerial skills had significant association with profitability and the customer satisfaction (Heenkenda & Chandrakumara, 2016). Profitability is consutructed by deducting the variable cost of production from the total revenue obtained in a particular period. Profitability sees business performance from the view point of financial targets achievements as planned by the firm (Conceicao *et al*.., 2014). SMEs should not merely struggle to suvive but grow their profits and remain ahead in the race of competition (Muthalib *et al*.., 2014). Profitability measures that are universally accepted for their value in management of SMEs are return on assets, return on equity and proft margin. These three measure the relationship between outputs (net income from oprations) and outputs. A firm's input include return on assets, return on equity, and operating profit margin (Waithaka & Njeru, 2015).

2.2.2 MARKET

Marketing consists of all profitable human activities undertaken by the firm towards creation of goods and services (Moska, 2013). Market share views business performance in terms of product sales, market position and market share. SMEs owners should have the ability to detect and respond to market changes, and the appropriate changes in buying habbits, having an attractive product range, to gain market share. Marketing factors such as good service, ability to cater to customer satisfaction, ability to look for market opportunities, advertising, and sales promotion; ar the most critical elements in the success of small business (Zahiruddin,

Kwai, Sanusi, Abdul, & Moen, 2011). The ability to design, produce and market products or services superior to those of their close rivals determines the level of a firm's competitveness (Syamsuriana & Mohd, 2014).

2.2.3 PRODUCTIVITY

Productivity is vewed in terms of a firm's achievement in its business activities to meet customer wants and needs, as well as employees' productivity. Muthalib *et al*…,(2014) noted that investment in human resources and capital investments increase productivity of physical workers. SMEs are capable of achieving high level productivity through the application of people-based approaches or techniques such as employee motivation, organizational communication, employee training and development, and participation in decision making (Madatta, 2011).

3. METHODOLOGY

The study was conducted based on cross section survey design. This design was chosen to ensure that the study accurately described the true nature of existing conditions. The target populations for this study were small and medium enterprises (SMEs) operating in Nebbi District, West Nile in the counties of Jonam and Padyere. These areas were chosen since there had been a lot of new skills development and support from government in supporting various businesses in District. The respondents were drawn from all categories of general merchandise dealers. Stratified random sampling was conducted to select 107 respondents. The research strategy employed both descriptive and correlations analysis. Self-administered questionnaires were used to enable the respondents have adequate time to respond to the same set of questions in a predetermined order. A 5- point Likert scale ranging from 1-5 where 1 (strongly disagree), 2 (disagree), 3 (not sure), 4 (agree), 5 (Strongly agree) was used to gather data.

4. RESULTS

The gender composition of the participants indicated that (65.1%) were male and (34.9%) were female. The marital status of the participants indicated that (67.3%) were single while (26.4%) were married. A small percentage (5.7%) represented those who were neither single nor married. In terms of age distribution, (81.1%) claimed to fall in the (30 - 39) years' age while (14.2%) claimed to fall in the (20 - 29) years' age group. Most participants (46.2%) belonged to trade businesses while (12.3%) who were the least belonged to manufacturing. Most of the businesses contacted for this study (45.3%) employed from three to five employees. Concerning business ownership, (58.5%) were sole proprietors while (2.8%) were limited liability companies. Participants indicated that (80.2%) had been in business for not more than four years.

Table 1: Reliability Statistics

Cronbach's Alpha	N of Items
.902	61

According to the study, a reliability test of ($\propto = .902$) is far above Cronbach alpha coefficient of ($\propto > .70$). This implies that the item used in this study were credible and reliable for generalization.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Entrepreneurship skills	107	2.53	4.59	4.0621	.40488
Performance of SMEs	106	2.09	4.59	3.8889	.50632
Profit	106	2.00	4.70	3.8132	.52754
Marketing	106	2.18	4.64	3.9906	.57124
Productivity	106	2.09	4.73	3.8628	.60475
Valid N (listwise)	106				

Participants' opinion on entrepreneurship skills indicated a high level of entrepreneurship skills with (mean = 4.0621) while performance of SMEs was moderate, with (mean = 3.8889). Since there were not much variations in mean of profit, marketing and productivity, (Std. deviation = .60475) indicated much variation in productivity and little variation (Std. deviation = .52754) in profit.

Table 3: Correlations

		Entrepreneurship skills	Performance of SMEs
Entrepreneurship skills	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	107	
Performance of SMEs	Pearson Correlation	.570(**)	1
	Sig. (2-tailed)	.000	
	N	106	106

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

The correlation between entrepreneurial skills and performance of SMEs ($r = .570$, p-value$< .05$) indicate the existence of a moderate relationship. In addition, the assumption significance below 0.05 indicates that the statistic is significant and the variables are linearly related. This implies that a variation in the level of entrepreneurship skills in Nebbi district is associated to a moderate variation in the level of performance of firms.

Table 4: Correlation tests

		Performance of SMEs	Profit	Marketing	Productivity
Performance of SMEs	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	106			
Profit	Pearson Correlation	.863(**)	1		
	Sig. (2-tailed)	.000			
	N	106	106		
Marketing	Pearson Correlation	.902(**)	.667(**)	1	

	Sig. (2-tailed)	.000	.000		
	N	106	106	106	
Productivity	Pearson Correlation	.907(**)	.664(**)	.740(**)	1
	Sig. (2-tailed)	.000	.000	.000	
	N	106	106	106	106

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

Considering the indicators of performance, a better combination exists between marketing and performance (r =.907, p-value =.05) followed by marketing and productivity (r = .902, p-value = .05). This seems to suggest that entrepreneurs with productivity and Marketing skills perform better than those who focus much on profits.

The regression model indicated (R square .325). This implies that that entrepreneurial skill can only account for 32.5% of the level of firm performance in Nebbi district. It seems there are several other factors that account for the remaining percentage of performance of firms.

Table 5: ANOVA tests

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.751	1	8.751	50.100	.000(a)
	Residual	18.167	104	.175		
	Total	26.918	105			

a Predictors: (Constant), Entrepreneurship skills

b Dependent Variable: Performance of SMEs

ANOVA reveals that regression sum of squares (8.751) is smaller than residual sum of squares (18.167), which implies that the model is inadequate to explain the amount of variation in performance of SMEs in Nebbi district.

Table 6: Regression tests

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	B	Std. Error
(Constant)	1.005	.409		2.455	.016
Entrepreneurship skills	.710	.100	.570	7.078	.000
R	.570				
R Square	.325				
Adjusted R Square	.391				
Std. Error of the Estimate					

Predictors: (Constant), Entrepreneurship skills

Dependent Variable: Performance of SMEs

Since entrepreneurial skills and performance of SMEs are measured in different units, standardized beta coefficients indicate ($\beta = .570$), which suggests that for every single unit of change in entrepreneurial skills, performance of SMEs change by 0.570. The suggested regression model therefore, is $\text{Performance of SMEs} = 1.005 + 0.570 * \text{entrepreneurial skills}$

The regression constant (1.005) suggests that even in the absence of any noticeable entrepreneurial skill, SMEs can perform to some degree. This implies that when entrepreneurial skill = zero, SMEs performance = 1.005, for any given unit of measure.

Table 6: Factor analysis

	Components		
	Productivity	Marketing	Profits
Capital investments	.400		
Human resources investment	.360		
Organizational Communication	.160		
Offer good services		.328	
Advertise our business		.325	
Responding to market changes		.199	
Standing competition			.096
Asset base			.095
Financial targets			.069
Total	7.015	2.424	2.089
% of Variance	21.922	7.575	6.529
Cumulative %	21.922	29.496	36.026

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Component Scores.

From the study above, capital investment (0.400) has the largest partial correlation load and is the greatest indicator of productivity in SMEs. Of all the indicators marketing as component of performance of SMEs, offering good services (0.328) has the largest partial correlation load, while standing competition (0.096) has the largest load of all the indicators of profits as a measure of performance of SMEs. In general, productivity is the greatest of the indicators of performance of SMEs in Nebbi district accounting for (21.9%) of the level of performance of SMEs. Notwithstanding, the three factors cumulatively contribute (36.0%) of total variations in the level of performance of SMEs in Nebbi district.

5. DISCUSSION

The study revealed that there is a moderate relationship between entrepreneurial skills and performance of SMEs. The statistic is in line with (Sajilan & Tehseen, 2016), who asserted that entrepreneurial skills lead to venture performance, and expansion and growth; and contribute towards profitability and growth of business. The study indicated that SMEs with marketing and productivity abilities perform better than those, which focus on profits. However, (Kerosi & Kayisime, 2013) noted that SMEs have limited abilities to develop entrepreneurial skills to take advantage of local economies of scale in terms of reputation, increase in volume of sales and increase in the number of customers. Morales & Marquina (2013) amplified the same view by

asserting that SMEs lack the ability to gather and process market information relevant to their business due to lack of training on how to make use of this information. The study indicated that entrepreneurial skills contribute a limited percentage of performance of SMEs in Nebbi district. This agrees with (Syamsuriana & Mohd, 2014) who argued that entrepreneurship skills ought to be combined to bringout the creative and innovative abliites in an individual who seeks to own a business. The study indicated capital investment is the key indicator of productivity. This suports (Muthalib *et al*…, 2014) who pointed out that capital investments increase productivity of physical workers.

6. CONCLUSIONS

There is a moderate relationship between entrepreneurial skills and performance of SMEs. However, entrepreneurial skills cannot account for the total amount of variation in performance of SMEs as it contributes only 32.5% of the level of performance in Nebbi district. There are other factors that seem to predict performance of SMEs, which this study could not capture, due to its scope. It should also be noted that SMEs could perform even without any noticeable degree of entrepreneurial skills. This however, does not eliminate the relevancy of entrepreneurship development in training in Nebbi district. The dominance of productivity and marketing as key indicators of performance shows the need to promote productivity and marketing abilities of SMEs in Nebbi district.

7. RECOMMENDATIONS

In its fight against poverty through promotion of SMEs, government must invest more resources in entrepreneurship development training. While efforts have been made to include entrepreneurship development training on college and university curricula, the training institutions should teach entrepreneurship in a more practical way than theorizing its principles. Emphasis must be paid on developing entrepreneurial skills in productivity and marketing as these were identified as key performance indicators. In addition, young entrepreneurs should be trained in gathering and processing market information that is relevant to their businesses. Sponsoring agents and financial institutions should provide means of enhancing capital investments of SMEs in the district.

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