

Evaluation of Factors Affecting Small and Medium Enterprises Growth in Afghanistan

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Declaration

I hereby declare that the thesis entitled "An **Evaluation of internal and external Factors Affecting SMEs development in Afghanistan**" has been conducted by me under the guidance of Professor Waqas Shinwari, a lecturer of Kardan's Master of Business Administration (MBA).

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Certificate

I certify that Mr. Khalid Adil, has prepared his thesis entitled “An evaluation of internal and external Factors Affecting SMEs development in Afghanistan” for the award of Master of Business Administration (MBA) degree of Kardan University, under my guidance. He has carried out the work at Kardan University.

Assistant Prof. Waqas Shinwari

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Abstract

The main purpose of this study is to analyze the internal and external factors affecting Small and Medium Enterprises (SMEs) growth in Afghanistan. A robust SME sector contributes vastly to the economy in terms of Gross Domestic Product (GDP), by bringing down the unemployment level, reducing poverty and promoting entrepreneurial activities. To find out those factors, this study uses Exploratory Factor Analysis (EFA) technique. A sample of 150 SMEs employees including top level and middle level managers were chosen for the study through a structured questionnaire. Management of SMEs, use of technology, marketing the products, skilled labor, and structure and size of the businesses are the internal factors affecting SMEs' growth. Role of government, education curriculum and SMEs knowledge, access to finance, loyal customers, and competition from foreign companies are external factors affecting the SMEs' growth. The study signifies the role of government, use of updated technology, investment on development of labor for SMEs growth. It is important that SMEs spend more resources on marketing their products, utilize updated technology, maintain and increase their customers' base, and be involved in productive competition.

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List of Acronyms

SME	Small and Medium Enterprise
KMO	Kaiser-Meryer-Olkin
FA	Factor Analysis
SPSS	Statistical Package for Social Sciences

Chapter 1

1.1 Introduction

1.2 Background of the Study

Small and Medium Enterprises (SMEs) make up around 85% of the private sector in Afghanistan, and it is regarded as the backbone of the growth of economy (ACCA, 2010). SMEs are considered as the important component in the economic structure of both developed and developing countries (Govori, 2013). SMEs have a crucial role in bringing prosperity, innovation (partially via partnership with large corporations) and economic growth to a country. SMEs in European Union makes 99.8% of all the firms and provide employment to around 76 million people, which is 67.4% of the total employment in 2010 (Ayyagari et al., 2010). In India, according to ministry of small and medium enterprises, there are 13 million SMEs operating around the country in 2008, this makes 80% of the country's total businesses (Ghatak, 2010). So, it can be inferred that SMEs are responsible for inclusive economic growth of a country (Amaradiwakara & Gunatilake., 2017; Bayati & Taghavi, 2007). The inclusive growth is for both manufacturing and service sectors. When service sectors are growing in proportion to overall production in an economy, it signals the making of a more developed and formalized economy (Lake et al., 2010).

Schlogl (2004), stated that SMEs lead in contribution to both employment and number of companies but still their full potential is not realized yet. Despite such contribution and significance to economy, SMEs across the globe and in Afghanistan faces many challenges and obstacles which hinder the performance of these businesses. The challenges, in Afghanistan, are increasing with each passing day because the country's economic, political, and security situation is becoming complex and dynamic. According to Khan et al., (2018), there is lack of government support, over the counter illegal transactions, informal markets, money laundering, lack of public awareness about financial knowledge and limited types of financial institutions are key challenges faced by businesses in Afghanistan. But they also stressed that despite all these challenges, there are potential opportunities for growth because of low competition, huge chunk of unserved market, and underdeveloped SMEs in the country. So, SMEs have potential of meaningful contribution to GDP and reduction of unemployment in the country.

Despite such important role and contributions, failure rate of SMEs is very high throughout the globe (Fang, Yuli & Hongzhi, 2009) and Afghanistan is not an exception in this case. Failure and success of SMEs in Afghanistan is because of many factors which are not researched till recently. Therefore, given the state of SMEs in Afghanistan, it is pertinent to find factors of both success and failures for improving the SMEs performance and sustainability. This study tries to explore those factors by categorizing them as external and internal factors. Categorizing the factors as external and internal helps the organization in the management of those factors accordingly. Government, regulatory body, and SMEs' leadership can potentially use the findings of the study to develop laws, regulations and strategies for the development of the SMEs performance.

1.3 Problem Statement

Afghanistan's SMEs have not been able to grow much due to frequent policy changes of Government and the great level of corruption. Also, they face great competition in and outside the country. Therefore, the profitability of SMEs has decreased and many of them have got financially upset. Besides, SMEs are going through both success and failure in different sectors for internal and some other external factors too. Country's handmade carpets and other products have fallen sick due to collapse in the business as well as other industrial restrictions at home. 200,000 people were employed by SMEs, and now only 50,000 of them are employed by SMEs which has led to great poverty in absence of any alternative source of income. Afghanistan's economists, entrepreneurs and chamber of commerce repeatedly call for the survival and revival of these SMEs to boost economy and protect jobs. In view of this, this study has been undertaken with the purpose of identifying the internal and external factors affecting development of in Afghanistan.

1.4 Research question

i. What are the internal and external factors affecting SME development in Afghanistan

1.5 Research objective

i. To find the internal and external factors affecting SME development in Afghanistan

ii. To suggest some strategies to increase the growth and development chances of SMEs

1.6 Significance of the study

The purpose of this study is to identify the internal and external factors affecting SME development in Afghanistan. This study is significant in finding the factors responsible for the development of SMEs. The study suggests some strategies to increase the growth and development chances of SMEs. It will also be a source for further research.

1.7 Scope of the study

This study is focused on SMEs in Kabul, Afghanistan, thus, to get a comprehensive and in depth understanding of what is going on in SMEs makes this study meaningful. Facing challenges and problems are part of almost every research that a researcher must faces, but overcoming those challenges makes one even stronger for other harder tasks. Though these challenges to somehow postponed the progress of the study but put researcher on toes to work tirelessly in making it an authentic study. A lot of commitment and effort were employed in conducting a thorough and intensive study, at the same time certain obstacles like time constraint were encountered.

1.8 Limitations

Some of the limitations of conducting this study were lack of practical research resources, time constraints and the unwillingness of respondents to answer the questions during the data collection process, which was vital for obtaining the needed inputs for the research work.

1.9 Organization of the study

This study is organized into six comprehensive chapters. Chapter number one focuses on the introduction of the study by providing background information on research problem, objectives, questions

and scope of the study. Chapter number two includes the review of literature on the research problem and concepts with specific references considering their application in SMEs. The focus of chapter number three is research methodology and justifications. Chapter number four discusses the findings of the study on the internal and external factors affecting SME development in Afghanistan. Chapter number five is the discussion and the last chapter presents the conclusion taken from the findings and discusses the recommendations to enhance the growth of SMEs.

Chapter 2

Literature Review

Introduction

This chapter provides insight on the internal and external factors affecting SME development in different countries. Findings of all different authors are taken into consideration to have a better theoretical understanding of all the factors affecting SME development and know how.

2.1: Definition of Small and Medium Enterprises

Defining SME is quite challenging, because different scholars have defined it differently all around the world (Sitharam & Hoque, 2016). According to Baumbach (1983), definition of SMEs differs from employees' number, size of the enterprise, type of industry, and country. Jasra et al. (2011) stated that "SMEs are a business but not a public limited company, having more than 250 workers in manufacturing and service industries including trading businesses". Alarape (2008) defined SMEs as "an enterprise comprising 11-100 employees or a total cost more than N50 million, including working capital but exclusive of cost of land While Arowomole (2000) defines it "an independently owned and operated business which is not leading in its field and meets the criteria of the SME business administration". The definitions of Alarape and Arowomole suit more the small businesses only because Darren et al., (2009) defined medium enterprises as "an enterprise which employ up to 249 employees in UK, up to 250 employees in European Union, up to 200 employees in Australia, while up to 500 employees in U.S.A". In Afghanistan, any enterprise that consists of 100 employees and a maximum sale of 995,355 AFN per year is called Small and Medium Enterprise (World Bank, 2011).

There is an ample literature available about the performance of SMEs (Chittithaworn, 2011; Zulkifli, 2015). These studies identified factors which effect the performance of SMEs across the globe. Some studies divided these factors as internal and external factors. Jahur & Quadir (2012) identified ability to enter international markets, good customer relationship, and good supply chain system as the main external factors effecting the performance of SMEs while managerial qualities, technology, and lack of skilled labor are identified as internal factors effecting the performance of SMEs by Noreen & Junaid (2015) and Clegg (2018).

Among the external factors, competition is believed to be one of the important determinants of SMEs growth (Lind, 2009; Singh et al., 2010; Gunasekaran et al., 2011). Nkwabi & Mboya (2019), Wang (2016), Nichter & Goldmark (2009), Dalberg (2011), Mazanai & Fatoki (2012) and Haron et al. (2013) consider access to finance as a main obstacle for SMEs' development, particularly in developing countries. Government regulations can be an important factor effecting SMEs. With changing regulations, it is difficult for small firms to bear the compliance cost (Christian, 2003). Fielden et al. (2000), Ligthelm & Cant (2002), Ligthelm & Cant (2002), Luiz (2002), and Clover & Darroch (2005) consider support of the government policies as pivotal for the growth and sustainability of SMEs. Okpara & Kabongo (2009) argued that infrastructure of a country can be one of the leading factors for the success or failure of an SME. Weak

infrastructure within judicial system may lead to corruption which negatively affect the growth of SMEs (ADB, 2005). Corruption and red tape can increase the business costs and may make the product uncompetitive in the market (Obeng & Piaray, 1999). Afghanistan is ranked 172 out of 180 countries in 2018 (Transparency International - Afghanistan, 2018). Such a worse corruption scenario makes it really difficult for the SMEs to survive in Afghanistan.

Wasilczuk (2000), Hisrich & Drnovsek (2002), Ibrahim & Soufani (2002), Markman & Baron (2003), Mughan et al. (2004), Martin & Staines (2008), Alattar, Kouhy & Innes (2009) and Abdel, Rowena & Robyn (2010) all consider effective managerial skills are must for the success of SMEs. For SMEs to gain competitive advantage, besides managerial skills, SMEs need to have access to appropriate and updated technology (Rogerson, 2001; Clover & Darroch, 2005; and Arinaitwe, 2006). Having effective managerial skills and access to updated technology will not bear the fruits if entrepreneurs do not have the marketing skills of how to sell their products (Gartner et al., 1999). Al-Mahrouq & Maher (2010) argue that the significance of marketing is universally accepted and recognized for all businesses, especially for small and medium-sized businesses.

Botha (1999) defined creativity “as the process of developing and creating new and workable concepts, commodities and ideas”. Mansfield et al. (1971) and Ridderstrale & Nordstrom (2003) consider creativity and innovation as the backbone of entrepreneurship and growth. Owner’s personality and entrepreneurship skills are linked with creativity and innovation which positively affect the performance of SMEs (Leitão & Franco, 2011). These skills have a strong impact on the strategic framework of business operations (Leburić and Krneta, 2004; and Tan & Smyrniou, 2011). All the mentioned studies do not have any contribution from Afghanistan as the literature on SMEs in Afghanistan context is very limited. This study tries to fill the gap and add to the body of knowledge by exploring the factors effecting the performance of SMEs in Afghanistan.

2.2: Empirical Literature

Chittithaworn (2011) conducted a research on Factors Affecting Business Success of Small and Medium Enterprises (SMEs) in Thailand. He aimed to identify all factors (internal and external) that affect the success of SMEs and help the entrepreneurs decrease the risk of failure and ultimately increase their chances of success. The study found out eight internal and external factors that affect the SMEs success in Thailand. The factors are SMEs features, Proper management, products and services quality, Customers and Markets, method of conducting and doing business, loans, business development strategy, and networking. They developed a theoretical framework and designed their questionnaire according to the chosen factors. To find out factors affecting success of SMEs in Thailand, they developed eight hypotheses. All hypotheses were tested with SPSS and five of them were accepted. The most significant factors influencing success of Thailand’s SMEs were networking, loans, markets, method of conducting business and SMEs features and characteristics, shown by conducting the regression analysis.

Another factor analysis study conducted by Dr. Islam (2014) found that there are eight internal and external factors influencing SME’s success in Bangladesh. Proper management, use of update technology, financial support, good networking, government support, good working environment, owner’s qualification

and good marketing strategy were the factors they found that influence SME success in Bangladesh. These factors together cover 54.50% of the dependent variables.

Besides all the above-mentioned factors, there are too many other factors too, that are not recognized by this study because of lack of time and other issues. Therefore, there is room for more research in other countries as well to identify some other factors (Dr. Islam,2014).

Zulkifli (2015) conducted a factor analysis study to find the Factors Affecting the Success of Bumiputera Entrepreneurs in Small and Medium Enterprises (SMEs) in Malaysia.

The key factors they found that affect the success of SMEs in Bumiputera of Malaysia include weak management, ineffective marketing and obstacles in getting enough financial aid. Bumiputera entrepreneurs also faced some challenges in their business. The challenges were lack of participation in international markets, limited human resources, limited raw materials and obstacles to market their products in the supermarkets. Therefore, Bumiputera SMEs should overcome these problems if they do not want to go bankrupt or fail in their businesses.

A factor analysis study on the Success of SMEs in Bangladesh identified some internal and external factors contributing to the success and failure of SMEs. Some of the internal factors causing failure were; bad management, owner's low qualification, Owner's low self-confidence and prior work experience. The other external factors that led the SMEs to success were ability to inter the international markets, good relationship with customers and good supply chain system. The study has recommended SMEs to keep in mind these factors when they develop any policy or strategy for them (Nasurl Quadir, 2012).

Dr. Noreen (2015) conduct a research to identify the vital internal factors influencing the growth of SMEs in Pakistan and how growth can be measured in Pakistan.

For primary data collection he used a questionnaire that is designed based on a 5 item Likert scale. For secondary data they have used research papers, articles, internet and many other sources to get a better picture of SMEs in Pakistan. He chose 300 SMEs trading in services and manufacturing industries in Pakistan. The main respondents were senior management and owners as they have the adequate knowledge to answer the questions. For the presentation and data analysis he used inferential statistics. Findings of the study reveal that there is significant relationship among identified factors and growth. Multiple regression analysis revealed that there is a positive but insignificant relationship between marketing and innovation. And there is positive significant relationship between managerial qualities, technology and lack of skilled labor. They recommend that interest in technical education must be improved, number of technical institutions must be increases and support the technical training programs to enhance the technical skills of labor. They also recommend that the relationship among SMEs, research institutions and the government should improve, and long-term coordination must be built among them to advance the technological achievements of Pakistan.

A research on the Effect of Marketing Management Strategies on the Performance of Small and Medium Enterprises (SMEs) in Cote d'Ivoire explored different marketing management strategies applied by SMEs to enhance their performances. The research used both exploratory and descriptive research design. The sample size used in the research was 200. 50 respondents were senior management, 50 middle level management and the rest were bottom level management and workers in Abidjan city, chosen from SMEs in service and manufacturing sectors.

Research findings showed that many entrepreneurs understand the important role marketing management strategies play in the performance of SMEs; that application of new technology in marketing management strategies can be integrated into SMEs improvement plan and that marketing management strategy is a genuine instrument for supportable growth of SMEs. The study suggests that leaders of SMEs apply and articulate policies that will improve the development of new marketing management strategies with the goal of filling the gaps in the administration of SMEs in Cote d'Ivoire (Diabate Ardjouman,2015).

Another study on the internal and external factors that affect the progress and expansion of SMEs in Bangladesh and their implication on policies explored different types of factors vital for the development of SMEs in Bangladesh. Therefore, to find the information concerning to study objectives, the researchers developed a questionnaire. The variables in the study tool were derived from a policy, exploratory research and the related literature. In order to reduce many variables to a fairly smaller set of fundamental factors that abridge the required information contained in the variables, the factor analysis technique was used. The study used varimax orthogonal rotation technique which is developed by Kaiser (1958).

Findings of the study show that SMEs in Bangladesh face many difficulties that disturb their expansion and progress. These obstacles make it progressively tough for local SMEs to grow. Issues that make small businesses development particularly tough, however, are absence of loans, administrative corruption, and political interfering. If the mentioned problems can be solved, SMEs could become one of the main sources of opportunities and development for local economies (S. Chowdhury,2013).

Naqvi (2011), wanted to find all the factors that are critical for the success and failure of SMEs in Bahawalpur of Pakistan. He conducted an exploratory study and developed models from different studies and ultimately generalized the results on Bahawalpur SMEs. The findings of this study demonstrated that customer service, know-how of SMEs and owner's experience are the critical success factors. While lack of finance, government rules and regulations, administrative corruption and infrastructure were the most crucial factors that contribute towards the failure of SMEs in Bahawalpur of Pakistan. Because of the high percentage of SMEs failure in Pakistan, this research discourse some of the critical success and failure factors that can be helpful for some entrepreneurs of SMEs in Pakistan, especially in Bahawalpur. This will also help them find the possible solutions for the mentioned failure factors before planning to start their business.

Wijewardena and Zoysa (2005) conducted a study to find the key factors that are considered to have effect on the development and success of SMEs. Their analysis was according to the perceptions of SMEs owners in Sri Lanka. Findings of the study revealed that there are six factors that positively affects the success of surveyed SMEs. Customer orientation, quality of the products, effective management, good

working environment, market strategy and access to finances were the factors that have an impact on the success of firms in Sri Lanka. Whereas, Yusof and Aspinwall (1999) suggested ten success factors for SMEs to consider throughout the total quality management cycle. The factors are good leadership, measuring the outcome, development and performance, effective staff trainings and applying quality assurance technique.

In Taiwan, Lin (1998) conducted a research to find the success factors for SMEs in the framework of technology, people and SMEs structure. She used the Leavitt's model, which states that you can change any firm by changing its people, technology and structure. She surveyed 43 firms and found out that people have far more significant impact than structure and technology in the success of SMEs. Furthermore, this study revealed that good attitude, professional skills and operating techniques were more significant than hard equipment for the success of SMEs in Taiwan.

Rose (2006) attempted to find the Malaysian entrepreneurs success factors that contribute to their venture growth. He tried to test the relationship among venture growth and individual creativity, human capital, competency and government support. Findings of this study state that owner's competency and creativity have a positive impact on SMEs success.

Walker and Brown (2004) found the factors that are significant for owners of SMEs. He writes that financial factors are mostly assumed to be measures of SMEs success. But, for SMEs there are other non-financial factors too that contribute towards their success. They disseminated 290 questionnaires to the owners and managers of SMEs in Western Australia. The findings of the study revealed that owner's gratification and accomplishments, egotism in the job and flexible lifestyle are usually more valued than wealth making.

A study on SMEs in Jordan found that update technology, structure of the SME, financial strength, marketing strategies, creativity and human resources are the main contributors to the success of SMEs in this country. The analysis of the mentioned study was according to the results of the questionnaire that was disseminated among 163 SMEs operating in Retail, Services and Manufacturing industries. For data analysis, the factor analysis technique was used (Al Mahrouq,2010).

Hoque & Sitharam (2016) aimed to identify the internal and external factors that affect the performance of SMEs in KwaZulu-Natal of South Africa. They distributed 325 questionnaires to managers and owners of firms and only 74 people responded their questionnaires. Findings of the study state that technological improvement will enhance the performance of SMEs. When it comes to challenges, most of the respondents observed competition as a key problem. Nearly all the respondent stated that corruption disturbing SMEs activities and performance. Among the internal and external factors that showed a significant relationship with the performance of SMEs was Competition ($p = 0.011$). It was revealed that SMEs must realize that they need to prepare for the competition coming from both domestic and international markets. One way to deal with the competition is to have collaboration among SMEs.

An evaluation of SMEs in Malaysia revealed that SMEs in this country are having domestic and international challenges, that slow their growth and competitiveness. The challenges are: 1. Lack of funds from government or financial institutions. 2. The most important challenge is lack of human capital. 3. High level of competition from international companies. 4. lack of access to updated technology. 5. Government bureaucracy. 6. Less research and development (Saleh & Ndubisi,2006).

Another study on the factors that affect the development of SMEs in Nairobi Central Business District. The research used descriptive survey design. He developed a questionnaire for data collection. Content related method and half-split criterion were used for validity and reliability respectively. The study targeted 67 youth that owned SMEs and were operating in the mentioned district. Sixty out of Sixty-Seven of the questionnaires were answered which made around 89.6%. SPSS was used for data analysis through descriptive statistics. Factor analysis technique was used to determine the factors that affect the development of the microenterprises. The study revealed that access to finance, creativity, government rules and regulations and non-financial factors affect the development of microenterprises with a correlation's coefficient of 0.913, 0.847 and 0.756. The study also recommends that the government must conduct training and awareness programs for youth in order to enhance their knowledge about SME management and development (Henry,2017).

Elhame (2014) attempted to identify the factors affecting growth of SMEs. He found that the internal factors affecting SMEs development in Addis Ababa were: Size of the firm, age, competencies, environment and human capital. While, the external factors were access to finance, markets and infrastructure. Both qualitative and quantitative method was used. For data analysis, he used inferential and descriptive techniques and many statistical tools to check the data. For dependent and independent variables, the study applied the empirical model and used statistical tools to test the relationship among independent variable and growth. The study revealed that Gibrat's law of age and size independence of firm growth is not hold in the case of Addis Ababa. Relatively, it was found that age of a firm has significantly inverse relationship with enterprise growth. Moreover, it was also found that growth of enterprise negatively affected by both age and initial size, though the effect of initial size is statistically insignificant. Lastly, Because of the geographical proximity among SMEs and its straight result of environmental similarity, the effects of environmental factors are weak.

A study on the impact or external and internal factors on the performance of SMEs in Croatia confirmed that there is a total of eleven factors (external and internal) that affect the performance of SME in the mentioned country. The internal factors are enterprise size, life cycle stages, update technology, creativity, business autonomy, business goal, markets and centralization. While the external factors that exercise a less significant impact on the performance of SMEs are general state of the economy, specific industry/sector, and type of customers (Daša Dragnić, 2014).

Soini & Veseli (2011) conducted a qualitative research to find out the external and internal factors influencing SMEs development in Kosovo. They found out a number of obstacles that affect SMEs growth; access to finance, competition, corruption and other barriers were considered as the external factors. Some

of the internal factors deriving from external were, managerial competencies, marketing strategies, creativity level, investment on technology and skilled labor.

Shamsuddin (2014) wanted to examine the relationship among government support and SMEs performance in Malaysia. For the purpose of data collection, the study used a self-administered questionnaire and chose a sample 150 SMEs in northern states of West Peninsular Malaysia. The collected data was analyzed with the help of SPSS software. The findings of the study confirmed that government support is positively related to enterprises performance. The findings of the study provide update information to Malaysian government on how to develop new programs and guidelines to support and improve SMEs performance.

2.3: Determinants of SMEs

They are classified as internal and external factors based on above empirical literature:

2.3.1 Internal Factors:

According to the empirical literature, the most common internal factors identified are management, technology, marketing, innovation and creativity, Size and structure of the firm, owner's qualities and networking or relationship.

2.3.1.1 Management: There is no doubt that managerial skills have a positive impact on the performance of firms. Education, managerial knowledge and experience are the tools to measure managerial competencies (Hisrich & Drnovsek, 2002). A study was conducted to find the importance of managerial competence in SMEs success, it was found that lack of management competence is the key factor for SMEs failure (Martin & Staines, 2008). Abdel, Rowena & Robyn (2010) revealed that SMEs' entrepreneurs do not have enough knowledge of understanding financial and accounting statements and have serious issues with financial planning. It was also found that the entrepreneurs of SMEs with little knowledge about financial issues do not value the statements extracted from finance. Due to this, they have led their business to failure. (Alattar, Kouhy & Innes, 2009).

Because of in-effective and weak management, Bumiputera businessmen failed in doing and maintaining business. Although, they have been in business long, but they are not able to survive and cannot compete due to their poor management. The main reason for their failure was also due to in-effective performance management functions, especially in decision making. Management is a science to be learned over time. However, some of the ethnic entrepreneurs believe that if they are trained, they can take care of their business. But this idea only works in some areas that don't require knowledge to manage the business (Zulkifli,2015).

While entering the competition, the firms always strive to find competitive advantages over competitors that is even decisive for the success of the enterprises (Walley, 1998). SMEs are mostly not very competitive in good management, market knowledge, creativity and sensible investment, which are significant for improving the quality (OSMEP, 2007). Absence of enough managerial, financial, marketing and human resources skills and knowledge in the internal market are the main reason for SME failure. (Leigthelm & Cant, 2002).

A study on the factors contributing to the success of SMEs is done by Benzing and colleagues (2009) and revealed that management skills is one of the main factors contributing to the success of SMEs. Managerial skills include, the ability to manage staff, accounts, environmental conditions with sufficient government, family and friends support (Benzing et al., 2009).

Effective managerial skills are must for the success of SMEs (OECD, 2002:24). Management competence are a set of factors that give the entrepreneur the ability to have a successful role and the authority to act efficiently in a specific range of possible future condition (Ibrahim & Soufani, 2002:427; Markman & Baron, 2003:287; Wasilczuk, 2000:88; Mughan et al, 2004:428; Lange et al, 2000:6; Man et al, 2002:131; Bird, 1988:443).

2.3.1.2 Technology: An increased number of SMEs built on quality assurance, technological innovations and intellectual property due to complications in technology and technological findings (Nasser et al, 2003:399). For them to gain competitive advantage, SMEs need to have access to appropriate and up to date technology (Rogerson, 2001a:117). The failure to have advanced technology at start-up can negatively impact the business development process in today's world of technology (Clover & Darroch, 2005:243; SME survey, 2003).

Despite the substantial support from government, the primary cause for SMEs growth in developing countries is the lack of access to technology or their low technological capacities (Arinaitwe, 2006). Small firms are still struggling with their lack of technological capacabilites despite eye catching technological advancements all around the world. Without this phenomenon, SMEs in developing countries will find it difficult to compete or grow (Arinaitwe, 2006). SMEs all over the world, especially in India and China are facing common challenges in building product quality through upgrading technology. Although, China, has the comparative advantage with regard to cheap labor and low industrial costs. In India, most of SMEs have low scale of production and it does not allow them reduce costs of production and engage in upgrading the technology, which has become a great obstacle for them. (Singh, Garg & Deshmukh, 2010).

They key to maintain the business is technology. Any business that wants its current customers to have faith in it and attract more customers, then it needs to produce innovative products in a well- timed manner (Amaradiwakara & Gunatilake, 2016). Due to less attachment to technology and its cost, SMEs use traditional technology and process in developing countries (Ibrahim a,1990). Furthermore, the level of technology in SMEs censoriously disturb their development and efficiency. Communication services, water, power and infrastructure are poorly available in developing countries. Therefore, small and medium business operating in such areas are technologically weak and are unable to support their business through technology (Elhame ,2014).

Dunning (1980) states that technology and specific organizational skills help a business gain competitive advantage in the market.

2.3.1.3 **Marketing:** Skills in marketing is all about knowing your customers and have the knowledge of how to sell them, and it is very important for the success of SME (Gartner et al, 1999:219). Marketing skills cover in-depth market research and analysis, realizing the needs of customers, preparing marketing plan, developing marketing strategy, recognizing the marketing mix (People, process, location, promotion, place, product and price), finding your target market, choosing a selling strategy, providing quality services, Advertising, public relations, e-commerce, competitor knowledge, promotion, product development, selling and developing plans and strategies to gain competitive advantage and surpass the competition (Monk, 2000:12; Tustin, 2003:26).

Mahrouq (2010) says that, the significance of marketing is universally accepted and recognized for all business, especially for small and medium-sized businesses. Marketing is believed to be one of the most important factors for small and medium enterprises. It includes market research, promotion, and location of the business. The same factors are mentioned in McCarthy and Perreault (1993). All the variables of this factor are vital for SMEs that target a specific market segment and receive the required raw materials from local market. It is also clear that SMEs products are not very complicated and can easily be changed or altered and developed.

It is suggested that SMEs must have continued development programs for the purpose of environmental changes and competition. Overtime, the joint entrance of new competitors changed marketing infrastructure that really affect distributors, suppliers, customers, and SMEs do not have to knowledge to deal with these circumstances. Poor cash flow, strategic problems related to customers and size of the enterprise are the hindering factors of Small and Medium Enterprises. Internal communication lacks with disability of evaluating customer's complaints in SMEs (Noreen,2015).

When it comes to competitiveness and market performance, the issue of marketing strategy needs a comprehensive and detailed analysis. First, marketing strategy plays the role of an intermediary between performance and environmental factors because it explains how business responds and adjust to the environment. Second, marketing strategy includes several uncertainties and different approaches defining, classifying and identifying methods of conducting business and measuring their impact on performance (Dragnić,2014).

2.3.1.4 **Creativity and Innovation:** Creativity is defined as the process of developing and creating new and workable concepts, commodities and ideas (Botha, 2006, Rwigema & Venter 2004). It is also defined as "the discovery of new information about market desires, new resources, technology and or adding new information to the existing knowledge through the questioning of conventional wisdom," (Pretorius et al, 2005a:56; Lumsdaine & Luimsdaine, 1995:13). Since, the successful implementation of creative ideas is called innovation, therefore, creativity is connected with innovation. The purpose of innovation is to make sure that the set commercial and profitable goals and objectives are in line with the specific opportunity in the market (Antonites, 2003, Brazeal & Herbet, 1999, Pretorius et al, 2005, Themba et al, 1999).

Today, SMEs are also branded by manufacturing innovative products and most of their owners and managers are greatly motivated by innovative business activities. With innovation small and medium businesses can easily meet their customer needs especially regarding changes in products or services and have their niche market. Furthermore, SMEs must understand the perception, needs, and wants of the customers to create innovative products with superior values if they want to be successful (Barbara et al. 2011).

Innovation is regarded as a key factor for the success of SMEs and plays a vital role in today's business. With innovation small and medium businesses can easily meet their customer needs especially regarding changes in products or services and have their niche market (Levy & Powell 2005, 22). Globalization has pressured firms to meet far more greater demands of the market. Innovation relies on research and development because for business to design new products they need to conduct different kinds of research and use this knowledge to develop and design a new product. Typically developed countries allocate around 3% of their GDP to R&D. Brazil, China and India have increased their R&E expenditure to the levels of most developed countries (Morrison, 2006).

Innovation is usually defined to as the backbone of entrepreneurship and growth (GEM's4 research; Ridderstrale and Nordstrom, 2004; Mansfield et al., 1971; Schumpeter, 1934). Some of the essential parts any business strategy are product, process and technological innovations (Dulčić and Bakotić, 2004; Taylor, 1999; Sharfman and Dean, 1997; Damanpour, 1991; West and Farr, 1990; Miles et al., 1978). Moreover, the condition of resources (financial, material, culture, knowledge) is the representative of innovation and technological levels of any business (Atuahene-Gima and Murray, 2004; Desphande and Farley, 2004; Greenley, Hooley and Saunders, 2004; Matsuno, Mentzer and Ozsomer, 2002; Grant, 1996; Milgrom and Roberts, 1990; Drucker, 1985).

2.3.1.5 Size and Structure: The negative symptoms of size show that it affects the growth of SMEs damagingly. Naturally, younger and smaller firms are found to grow more quickly than older ones. This is because they put a lot of efforts in the field. But, Francesca et al (1999) revealed that Gibrat's Law of Proportionate Effect does not work for new small firms because they fight to reach size that is large enough to ensure their survival. Most of the firms, particularly small ones in developing countries with weak financial systems, face considerable credit limitations which greatly affects their development and growth (Hubbard,1998). Haibo & Gerrit (2009) documented that small firms have weak financial capital and due to this it is difficult for them to grow and compete with larger ones.

There is a discrimination among Small and medium enterprises and large firms in Pakistan. Because of their size, SMEs are not much capable of conducting successful business. To expand their business, they lack trained human resources, technical, managerial and financial skills. The limited domestic market size, competition from other larger firms and sustainability of their businesses forced the small and medium enterprises to look for opportunities in global markets. There are many reasons behind small and medium enterprises' expansion process. As they were small, they were not even much aware of the influential factors of the target country. They were not involved in international market expansion processes; due to

this they also struggled to enter international markets and expand. Therefore, size of the business directly affects the growth of that specific firm. (Hussain, 2003).

Many researchers write that there is a positive relationship among firm's size and its probability to expand and reach international markets. (Aaby, Slater 1989, Keng, Jiuan 1989, Ali, Camp 1993, Erramilli, Rao 1993, & Katsikeas 1994). We use resource theory to find the relationship among firm size and internationalization (Aaby, Slater 1989, & Bonaccorsi 1992). Aaby and Slater (1989) state that if any firm aims to go international, then it must have a great deal of resource commitment. They further explain that the larger the firm, the greater its ability to go international. And it can easily absorb the risks associated with it. Though, resources must never be viewed as only financial capital. It covers so many other important factors too. (Dunning 1980, 1995 & O'Farrell 1998).

2.3.1.6 Owner's Quality: Leitao & Franco (2011) found that the performance of SMEs is positively affected by the high levels of education of the SME owners. Owners that are highly educated are able to attain and develop skills to start up a new business and to sustain the business. Pratt (2001) detailed that Owner's prior experience, access to capital, interpersonal skills and hardworking are significant drivers of any firm's success. Experience and knowledge of the local market also plays a great role in the success (Hussain & Windsperger, 2010).

Another important factor is owner's ability to build good network. It includes variety of people who contribute in marketing of the owner's products or services. Birley & Westhead (1994) claim that SMEs owners' network that are vigorously engrained can be seen as their social core that they usually submit to and regularly reflect on while making decisions. Usually, these ties are only at personal level and get strengthened by the passage of time and become shared knowledge and experience. Nohria (2012) argued that workplace colleagues, family members and close friends can be used as a very good tool for marketing management strategy of social nature to push your business to higher positions. So, it can be said that SMEs owners play a vital role in building a good network of colleagues, friends and family members that in terms of marketing management could help improve the performance of SME.

Owner's personality is also another specific factor affecting SMEs growth. All studies have demonstrated that it has a significant impact on the operation and existence of any business, especially SMEs (Zhang, Yang and Ma, 2008; Barringer, 2005; Nicholls-Nixon, 2005; Tan and Smyrniotis, 2005; Leburic and Krneta, 2004, Mullins, 1996). Particularly, its immense impact on the strategic framework of business has been established (Goals, vision, culture, mission, business), that implicitly, affects all the factors of the internal strategy, performance and environment. The issue of analysis of this factor is deeper reflected by the analysis of owner's personality traits, attitude, motives etc. which requires a professional psychological approach.

Owners of small and medium enterprises should have the passion for the businesses, be 100% ready to be personally involved in his business, be willing to stay with the business and have the personality to understand the market clearly and pay attention to details and proactiveness (Michael Porter, 1985).

2.3.1.7 Relationship or Networking: A network is a precise form of relationship within which certain types of mutually rewarding relationships exist and links a defined set of events of objects, persons or person or a set, from where a business owner obtains resources and get critical support for the enhancement and development of a his/ her business (Nhlengethwa, 2003:1; Drakopoulou Dodd & Patra, 2002:117; Harris & Wheeler, 2005:187). Professional membership, sector based trade association, business opportunities, business linkage, referrals, technicians, consultants, specialists, shared costs, supply chain, bankers, distributors, contractors, clients, customer linkage, innovation, chamber of commerce, networks of coordination and collaboration as well as institution ties can be obtained through networking (Jansen, 2003; Zhao & Aram,1995:349; Li & Ferreira, 2006:49; Batjargal, 2006:305). Networks can be categorized as those that provide personal support, professional support (entrepreneurial networks) or public support (social networks) (Jansen, 2003; Hite, 2005:114; Nhlengethwa, 2003:1; Jack & Robson, 2002:1; Markman & Baron, 2003:292; Drakopoulou Dodd & Patra, 2002:117). Successful entrepreneurs sensibly grow useful links at professional, personal, and business levels (Rwigema & Venter 2004:70; Batjargal, 2006:305).

Chaston (1995) wrote about a 'networking model' for the survival, growth and promotion of SMEs in the UK. The model consisted the concepts and theories of inter-firm cooperation through the formation of trading links of SME sector, and it was transferred from the Danish Technological Institute. It was found that large firms always become a barrier for small firms when they want to develop a trading network as they do not have much interest in building a network with small firms.

There is a general academic agreement on the significance of building effective networks for establishment and success of an entrepreneurial ventures (Wilson & Stokes 2004, Hanna &Walsh 2008). Through networking businesses will have the opportunity to gain access to resources that might otherwise not be available to them. Moreover, It also helps in the development of a business's credibility, expand the supplier contacts and customer base, spot access to available funds and resources, inspire creativity and innovation and aid in developing strategic partnerships (Witt, 2004). Entrepreneurs seldom own all the skills and knowledge required to develop the firm, and finding people with the missing skills, and convincing them to contribute, is a significant dimension of their networking.

2.3.2 External Factors:

According to the empirical literature, the most common external factors affecting development of SMES are competition, access to finance, government support, corruption, and infrastructure.

2.3.2.1 Competition: Competition. In a changing business atmosphere and under dynamic competitive circumstances where each competitor strives to do impossible things to survive, any business must make decisions not only for the survival but also for the development of business (Scarborough et al., 2009). Due to globalization of markets, technological advancement, and customers changing demands the competitive standards change uninterruptedly. Competition between small and medium enterprises has immensely increases over the years. New managerial and organizational techniques, changing technologies and changing market trends are the factors considered for competition and sustainability of

SMEs. Survival of SMEs greatly rely on a number of factors including flexibility of SMEs to change or alter some of their strategies and technologies (Gunasekaran, Rai & Griffin, 2011).

SMEs and competition related literature state that global competition challenges most of purely domestic SMEs because their products and sales are tremendously localized. Local SMEs find it progressively hard to survive or even sustain their current business place in their respective markets (Singh, Garg & Deshmukh, 2010).

Competition helps the SMEs to find competitive advantages that significantly affect the success of the enterprise (Walley, 1998). Some of the important factors for improving the firm's quality are innovation, market knowledge, prudent investment, business operation and goods management, but SMEs are usually not very competitive in these factors (OSMEP, 2007). When developing countries compete other countries due to increase trade and globalization however blocks and other limitations normally favor these countries (Lind, 2009). Free Trade Agreement allows the international competitors increase the competition (OSMEP, 2007). World Bank carried out a survey on SMEs in developing countries. The findings of the study revealed that competition is one of the main risks for the survival of individual enterprises. Though competition signifies high risk, but it is also one of the factors that pushes companies towards higher productivity that results in their development, independence and growth. Researches on barriers faced by firms in Kosovo showed that unfair competition which includes informal economy and public services and tax system was the main obstacle for development of SMEs (WB, 2010).

2.3.2.2 Access to Finance: Access to finance is one of the main challenges hampering the development, growth and survival of newly established SMEs in South Africa (Mazanai & Fatoki, 2012). The credit processing of most of financial institutions has become more complicated, and due to the financial crisis, the institutions have become more careful, making it problematic for SMEs to understand the procedures, rules and decisions when it comes to the loan processing (Haron et al., 2013). Even prior to the crisis, in many developing countries access to funds they needed to expand their businesses was a worry to SMEs. In most of these countries banks and other financial institutions do not provide SMEs with adequate capital (Dalberg, 2011). Pretorius & Shaw (2004) observe that a clear majority of SMEs depend on internal finance, like owner's contribution, friends and family, which is usually insufficient for SMEs to continue and grow. Therefore, for SMEs to decrease the impact and problem of cash flow, access to external finance is necessary for them.

For SMEs and entrepreneurs that must mobilize their own resources or capital to expand or launch their business, lack of finances and capital were the main barriers (Harvie, 2005). Furthermore, In developing countries SMEs find it difficult to access banks for loans because of the high risk of failing to pay back, low profitability and the high collateral demanded by banks (Harvie, 2005). Access to finance and capital seems to be difficult for many small and medium firms in developing countries. This problem rises from lack of capital market, weak banking institutions and ineffective legal framework on collateral and credit assessment. Financing and access to finance play a critical role in the development and growth process of SMEs. (World Bank, 2011).

According to Nichter and Goldmark (2009) policies favor large enterprises while SMEs face difficulties to develop due to lack of access to finance. Lack of collateral, inability to meet the complex formalities of financial institutions, and high transaction costs lead to SMEs usually face difficulties to develop. This literature review has confirmed it. It says that, SMEs bare a high risk and it find it very difficult to obtain loans from banks or other financial institutions. Most of the enterprises studied in this research have financed their start-ups with internal resources. This is case that almost all new enterprises face due to their inability to gain access to external loans. The generated data interprets that obtaining loan is very difficult for Kosovo SMEs. It was found that newly established SMEs usually face problems in collateral and the banks unwillingness to finance them.

2.3.2.3 Government Regulations: Most of the SMEs owners have the perception that bureaucracy at government level influence the development and growth of business. This result is supported by another study which stated that SMEs have lower ability to absorb compliance costs of government regulations than bigger companies (Christianson, 2003). Regulations regarding establishment of new business are tremendously complex and conflicting. Therefore, small firms find it so complex to follow, as the government of South African has created new systems of bureaucracy which are considered as the most significant burden for small firms to establish or conduct business in this country (Small Business Project, 2003).

The significance of SMEs to a country economy specifies how vital it is to have government policies that support small and medium firms, including rules that allow them to operate proficiently and decrease their administrative costs (Harvie & Lee, 2005). Though governments have taken initiatives to support and promote small and medium firms to reduce poverty and enhance their development, but, still sincere administrative procedures and laws like accessibility to aid from government lack (Harvie, 2005). According to World Bank research, the need to bribe in order to gain access to public services, lack of trust in the judicial system, and complicated tax systems indicate major barriers for SMEs, particularly in South East Europe (World Bank, 2000).

The government programs in support of SMEs, especially in form of knowledge and expertise can ensure the growth of SMEs far more than the initial incubation and early survival (Nasser et al, 2003:399; Ligthelm & Cant, 2002:5). Clover & Darroch (2005:244) state that Lack of public sector support has an undesirable influence on business development in any country. The South African government typically provides support to new enterprises in the form of inducements or incentive programs to encourage them (Mueller & Thomas, 2001:67), many SMEs have no information on current government support mechanisms or how to access them (Finmark, 2006). Some of the small and medium enterprises find the government procurement opportunities or grants very inflexible, complex and inadequate for real SME needs (Fielden et al, 2000:300; Luiz, 2002:56).

2.3.2.4 Corruption: Bureaucratic corruption and red tape can significantly increase business costs, as well as the time spent negotiating with corrupt officials makes products and services uncompetitive in the marketplace (Ahwireng-Obeng & Piaray, 1999:78). There is a high level of bureaucracy in South Africa. In South Africa, the corruption rate is high, compared to developed countries (Transparency International, 2008). Transparency International's (TI) 2013 annual global corruption perception index (CPI) shows that SA has dropped 34 places since 2001. Out of 175 countries, SA ranks at number 72 (Corruption Watch, 2013). According to the GEM report corruption is becoming more prevalent, impacting the enterprises ability to survive and grow in SA, while the high levels of crime are affecting all business (Xavier, Kelley, Kew, Herrington & Vorderwuibecke, 2012). In a survey of SMEs in Mexico, more than 50% of those interviewed saw their business severely negatively affected by corrupt practices (UNIDO, 2007).

2.3.2.5 Infrastructure: Okapar & Kabonga (2009) stated that factors related to infrastructure such as access to roads and power supply were main factors contributing to the success or failure of SMEs. Though, findings of the research show that the SME owners strongly believe that telecommunication and power supply infrastructure as factors affecting the performance of business. An appropriately functioning power supply infrastructure is another factor that contributes to the growth and development of SMEs. Electricity, water sanitation and transportation are the factors that greatly contribute to the development of any country and are connected to the success of businesses and economic growth (Okpara & Kabonga, 2009).

One of the main factors leading to failure of SMEs is poor infrastructure. Poor training, lack of technical and business education, poor quality of services, lack of reliability and corruption cost the growth of firm. Good education springs insight into many problems. In Pakistan, the educational infrastructure and design is ill managed and distributed in public and private sector. Another great hurdle for SMEs is the lengthy judicial procedures and process which needs to be revised and replaced with a transparent system. Weak infrastructure of the judicial system strengthens corruption and other illegal activities and that negatively impact the growth of SMEs (ADB, 2005).

2.3.2.6 Conclusion

The majority of authors in reviewing the literature reflected marketing, technology and management as internal and vital factors for the development of SMEs. Access to finance, corruption and government regulations were reflected as the external factors affecting SMEs development.

Chapter 3

Research Methodology

3.1: Research Methods

The study tries to explore the factors affecting the performance of SMEs in Afghanistan; therefore, the study follows Exploratory Factors Analysis (EFA). EFA seeks “to uncover the underlying structure of a relatively large set of variables.” EFA starts with a correlation matrix which presents the inter-correlations of the variables studied (Field, 2000). The highly intercorrelated variables measure another underlying variable called “Factor.” The study targeted SMEs’ stakeholders ranging from owners, employees, policy makers, and regulators.

3.3: Research Instrument

For data collection, the study utilizes questionnaire consisted of a total of 43 close ended questions. The SPSS software is used for data analysis.

3.4: Population and Sample Size

A sample of 150 SMEs employees including top level and middle level managers were chosen for the study through a structured questionnaire. The response rate was 93.75%. The study used random sampling technique for data collection.

3.5: Data Analysis

The data were analyzed with the use of SPSS software by running the KMO and Bartlett’s Test, Variance Explanation and Factor Affecting SMEs Growth in Afghanistan.

Chapter 4

Data Analysis and Findings

4.1: Factor Analysis

For EFA, the study first conducted correlation analysis where none of the coefficients has a value greater than 0.9 and also the determinant value is also less than 0.000, this signifies that there is no multicollinearity and singularity problem in the data collected. Which applies that we can advance to KMO and Bartlett's Test to check the feasibility of the exploratory factor analysis.

To check whether the data is feasible for exploratory factor analysis, the study tested the given hypothesis:

H₀: Factor analysis is not appropriate

H₁: Factor analysis is appropriate

4.2: KMO and Bartlett's Test

Table 1: KMO and Bartlett's Test

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.479
Bartlett's Test of Sphericity	Approx. Chi-Square	1845.585
	df	903
	Sig.	.000

The KMO value of sampling adequacy is .479 which is a great range of adequacy and it also shows that data is adequate. Bartlett's test of Sphericity significant value is .000 rejecting the null hypothesis and signifying that 'Factor analysis is appropriate'. On the basis of KMO findings we can advance to next step of EFA i.e. extracting value of 'communality'. After extraction of variance in first statement in communality statement, the value is 57.5%. Total variance of the first few statements demonstrates much of the variance and so on. It helps in locating that all these factors are a quite equivalent and they are important in explaining the problem at disposal.

4.3: Variance Explanation

From the below Table 2 out of the 43 statements, the Eigen values explain the amount of variance, like component 1 has 2.963 variance and total 16 factors are there which have the variance above 1. The total percentage of variance explained by these factors is 68.539% as indicated in extraction sums of variance loadings, thus confirming the feasibility of these factors as the important in explanation of SMEs growth in Afghanistan. Therefore, based on the cumulative percentage of variance, the study expects 16 variables which can possibly affect the performance of SMEs.

Table 2: Total Variance Explained

Total Variance Explained						
Initial Eigenvalues				Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative%
1	2.963	6.892	6.892	2.963	6.892	6.892
2	2.875	6.686	13.577	2.875	6.686	13.577
3	2.634	6.126	19.703	2.634	6.126	19.703
4	2.420	5.627	25.330	2.420	5.627	25.330
5	2.139	4.975	30.305	2.139	4.975	30.305
6	2.074	4.824	35.129	2.074	4.824	35.129
7	1.911	4.444	39.573	1.911	4.444	39.573
8	1.718	3.996	43.569	1.718	3.996	43.569
9	1.678	3.902	47.471	1.678	3.902	47.471
10	1.540	3.582	51.053	1.540	3.582	51.053
11	1.462	3.399	54.452	1.462	3.399	54.452
12	1.325	3.082	57.534	1.325	3.082	57.534
13	1.277	2.970	60.504	1.277	2.970	60.504
14	1.256	2.920	63.424	1.256	2.920	63.424
15	1.121	2.608	66.031	1.121	2.608	66.031
16	1.078	2.508	68.539	1.078	2.508	68.539
17	.969	2.253	70.792			
18	.935	2.175	72.967			
19	.905	2.106	75.073			
20	.850	1.977	77.050			
21	.834	1.940	78.990			
22	.754	1.754	80.744			
23	.738	1.716	82.460			
24	.694	1.615	84.075			
25	.648	1.507	85.583			
26	.623	1.450	87.033			
27	.593	1.379	88.411			
28	.535	1.244	89.655			
29	.469	1.090	90.746			
30	.446	1.037	91.783			
31	.426	.991	92.773			
32	.408	.949	93.723			
33	.361	.841	94.564			
34	.350	.814	95.377			
35	.309	.718	96.095			

36	.283	.658	96.753			
37	.247	.575	97.329			
38	.238	.555	97.883			
39	.230	.535	98.419			
40	.218	.506	98.925			
41	.185	.430	99.355			
42	.153	.357	99.712			
<u>43</u>	<u>.124</u>	<u>.288</u>	<u>100.000</u>			
Extraction Method: Principal Component Analysis.						

From the above table 2 out of the 43 statements, the Eigen values explain the amount of variance, like component 1 has 2.963 variance and total 16 factors are there which have the variance above 1. The total percentage of variance explained by these factors is 68.539% as indicated in extraction sums of variance loadings, thus confirming the feasibility of these factors as the important in the explanation of SMEs growth in Afghanistan. So, based on the cumulative percentage of variance, the study expects 16 variables which can possibly affect the performance of SMEs.

Table 3: Factors affecting SMEs growth in Afghanistan

Factor No.	Statement	Factor Loading	Name of Factor	Related to
1.	Not having a strong marketing team leads your business to failure	.494	Managing SME	Internal Factors
	I should learn more about managing SMEs	.315		
	One reason that I am successful is that I am very good at networking	.316		
	I am not a best manager	.369		
2	I think using machineries cost much electricity	.388	Technology	Internal Factor
	Foreign SMEs have better technology and good products	.317		
	I have little experience of using technology	.402		
3	Not having a strong marketing team leads your business to failure	.478	Marketing	Internal Factor
	Knowing more people means more people know your business	.350		
	More people think you try to deceive them when you advertise	.332		

	Consumers do not like what they have not tried before	.412		
	Spending money on adds is illogical	.345		
	Marketing is the main factor for SMEs success	.510		
4	Type of business	.374	structure and Size of Business	Internal Factor
	The bigger the size of firm the more profit it makes	.351		
	Type of business ownership	.595		
5	You have to spend a lot to train a new employee	.441	Skilled labor	Internal Factor
	Most of SMEs staff do not SMEs knowledge	.323		
	You can hardly find educated labor	.309		
	Experience of the employee	.468		
6	If you have good relation at govt. level, you rarely run into legal problems	.410	Role of Government	External Factor
	Getting a new license will get years	.402		
	I worry that govt. bureaucracy will stop SMEs development	.498		
	My friends say that if you don't bribe government officials, they won't issue a license	.427		
	Bribing officials is an issue that must be addressed	.404		
	Government should review tax issues	.324		
7	I should learn more about managing SMEs	.565	Curriculum and SMEs knowledge	External Factor
	School system is outdated and has nothing about SMEs	.467		
	Adding topics on SMEs in school curriculum will be a big help for SMEs	.331		
	You can hardly find educated labor	.309		
	Learning books on entrepreneurship is interesting to me	.548		
8	Banks do not lend a money that you really need	.422	Access to Finance	External Factor
	The loan system is very complicated in Afghanistan	.549		
	Banks charge a very high rate of interest on loans	.441		
	Funding business can be done only through friends or family	.429		
	Financial institutions do not trust SMEs to provide them loans	.444		
9	Launching a new product is a big risk	.639		

	Loyal customers do not want to see any changes in the products	.543	Loyal Customers	External Factor
	Consumers do not like what they have not tried before	.412		
10	Foreign SMEs have better technology and good products	.317	Foreign SMEs Competition	External
	Foreign SMEs produce good quality products	.365		
	All good employees are hired by foreign SMEs	.378		

Chapter 5

Discussion

Based on the factor loading, Table 3 summarizes a total of ten variables which are further categorized as internal and external variables affecting the performance and growth of SMEs in Afghanistan. Management of SMEs, use of technology, marketing the products, skilled labor, and structure and size of the businesses are the internal determinants of SMEs growth. Role of government, curriculum and SMEs knowledge, access to finance, loyal customers, and competition from foreign companies are external factors affecting the SMEs' growth.

Management of SMEs is considered as one of the important factors for the growth and sustainability of SMEs (Hisrich & Drnovsek, 2002). Martin & Staines (2008) finds lack of managerial skills a major cause of SMEs failure. Considering the uncertain business environment of Afghanistan, effective managerial skills can be proved as a competitive edge for SMEs. Clover & Darroch (2005) argue that failure to have advanced technology at start-up can negatively impact the business development process in today's world of technology. Arinaitwe (2006) believe that the primary cause for SMEs growth in developing countries is the lack of access to technology or their low technological capacities. SMEs in Afghanistan operate more in a traditional manual system, use of updated technology can increase the operational efficiency of SMEs in Afghanistan.

Another factor identified is marketing skills which is about finding your relevant target market, choosing a selling strategy, providing quality services, Advertising, public relations, e-commerce, competitor knowledge, promotion, product development, selling and developing plans and strategies to gain competitive advantage and surpass the competition (Monk, 2000; and Tustin, 2003). Reaching out for customers in Afghanistan is a challenging task considering the limited access of public to internet and technology. In such cases, it is very important for SMEs in Afghanistan to invest more on marketing their products. The study finds skilled labor as an important factor for increasing cost efficiency. Today's market competition is based on cost controlling and skilled labor can be an important factor to control and manage the operational and production costs. Hubbard (1998) believe that smaller firms with financial capital and limited access to finances are more prone to failure against the large sized firms and this size of business directly affect the growth of business (Hussain, 2003).

One of the explored external factors which affect the growth of SMEs is role of government. Role of government is important from different dimensions like policy making, providing tax relief, building trust on judicial system, granting access to government aid packages, access to public procurement projects, providing opportunities for SMEs to build public private partnerships, infrastructure, security and ease of doing businesses (Fielden et al., 2000; Clover & Darroch, 2005; and Harvie, 2005; Okapar & Kabonga, 2009). In case of Afghanistan, as the small medium enterprise sector is struggling, support of government in all the mentioned areas is direly needed. Government must come up with business-friendly regulations to encourage entrepreneurs. Government must facilitate incubation centers and develop the updated curriculum of doing business both at college and university levels. It is the job of the government to increase the financing facilities which is the backbone of doing business. In developing countries, SMEs find it difficult

to access banks for loans because of the high risk of failing to pay back, low profitability and the high collateral demanded by banks (Harvie, 2005).

At the same time, due to increasing complication of financial markets, financial institutions are becoming more careful in loan processing and approval, making it more difficult for SMEs to access finances (Haron et al., 2013). In Afghanistan there is only one microfinance bank with limited contribution in SMEs development as the loans are interest based and being a religiously conservative society, majority people do not prefer taking interest-based loans. Walley (1998) argued that competition helps the SMEs to find competitive advantages that significantly affect the success of the enterprise. For the survival of business, SMEs must be competitive in innovation, market knowledge, prudent investment, business operations, cost control, keeping loyalty of customers, and management efficiency. In Afghanistan, the context of competition for SMEs is different which only revolves around sales and market share while these two factors depend upon being competitive in cost control maintaining customers' loyalty, efficient operations and management and innovation (Singh, Garg & Deshmukh, 2010).

Chapter 6

Conclusion and Recommendations

The objective of the study was to explore the factors affecting the growth of SMEs in Afghanistan. The factors were categorized as the internal (firms associated) factors and external (market related) factors. As the SMEs in Afghanistan are struggling with survival and growth because of the multidimensional complex environment, it is important to find out those possible factors which can affect the growth of SMEs in Afghanistan. The study used exploratory factor analysis to achieve the objective. The study found Management, use of technology, marketing the products, skilled labor, and structure and size of the businesses are the internal challenges of SMEs growth while role of government, curriculum and SMEs knowledge, access to finance, loyal customers, and competition from foreign companies are external factors affecting the SMEs' growth.

The study explored the diverse role of government ranging from regulations to providing financial security to the entrepreneurs. The findings also stress the use of technology to bring efficiency in operations of the business and to reach out to more customer base across the country. Development of incubation centers is important to facilitate SMEs and create more public awareness about the SMEs and entrepreneurship. To be competitive in the market, it is necessary that enterprises invest on the development of labor force, because skilled labor is a competitive tool for cost control and efficiency. Entrepreneurs face acute limitation of access to finance. Government, through public private partnership, can launch diverse nature of financing facilities. Access to such facilities must be made easier and 'Shari'ah' compliant so that majority of people can capitalize on such facilities. Confirmatory Factor Analysis is needed to confirm the explored factors of the study.

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