

# “Managerial Competency and Organizational Flexibility in Small and Medium Enterprises in Botswana”

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## **Managerial Competency and Organizational Flexibility in Small and Medium Enterprises in Botswana**

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### **Abstract**

Although the discovery of diamond has propelled Botswana from one of the poorest countries in 1966 to its current stage of development as a middle-income country, the country still faces the problems of economic diversification, employment creation, income generation and distribution, and poverty alleviation. Governmental and non-governmental organizations have put many efforts on the development of Small and Medium Enterprises (SMEs) to diversify the economy away from mining, to create jobs and alleviate poverty. However, the pace of development of SMEs, after 30 years, is very slow and discouraging. The SMEs failure rate, caused by a plethora of internal and external factors, is now estimated to be over 80 %. There is a general consensus among policy makers, politicians, and researchers in Botswana that this trend should not be allowed to continue indefinitely.

The purpose of this paper is to investigate the perceived critical managerial factors (PCMFs) affecting the development of SMEs by collecting primary data from 203 SMEs in 3 cities in the Republic of Botswana by means of questionnaire. Both descriptive and inferential statistics were employed to present the demographic distribution of the sample firms, the identification, ranking and association of PCMFs. The findings showed that five PCMFs (human resources development; organizational development, managerial background; managerial leadership and competitive strategy) affect the performance of SMEs. The PCMFs are strongly related among themselves, indicating the need for a holistic and systematic approach in addressing them. Important relationships were also found between the PCMFs and firm-specific demographic variables such as ownership status, experience and operating period. Recommendations and implications of the findings for future research, policy makers, practitioners in SMEs, and SMEs support agencies and groups are also forwarded.

**Key words:** Empowerment, Small and Medium Enterprises, Developing Economies, Botswana, Perceived Critical Managerial Factors, Entrepreneurial development.

### **Introduction**

Botswana is a middle income developing African country. Its political administration is based on equity in the distribution of resource and services. Although Botswana has achieved a remarkable growth in economy, socio-political stability and education since its independence in 1966, largely due to good governance and the discovery of mineral wealth, the country still faces the problems of economic diversification, employment creation, income distribution and poverty alleviation. The country's economy is highly dependent on the mining and beef sector(s) for its income and on foreign markets for the import of basic goods and services.

The most common argument in favor of SMEs is that they create substantial job opportunities as they use relatively labor-intensive technologies. SMEs employ more people per unit of investment as compared to large firms. Thus, a given amount of money will create more jobs if it is spread over a large number of SMEs than if it is focused on few large companies (Abdullah and Baker, 2000). The major and immediate challenge for Botswana is providing employment for low-skill labor. The declining job opportunities in the South African mines for Botswana, the prevalence of low-skill and unskilled labor force in the economy, and the tendency of the government to reduce its role as primary employer made the promotion of SMEs a primary source of employment creation. The long-term vision for Botswana states that 'the vital component of the strategy to achieve full employment within 20 years is the expansion of SMEs', which is an important mechanism for involving Botswana in the process of industrialization (Presidential Task Group for long-term vision for Botswana, 1997:43).

SMEs contribute not only to income generation but also income distribution. Large firms normally tend to produce an elite number of high wage income earners whereas SMEs produce a significantly large number of relatively low-income earners. The development of SMEs would therefore help spread income to more people. Since the majority of Botswana (over 65%) are living in rural areas, the promotion of the development of SMEs should continue to be a policy priority to narrow the gap between urban and rural development and to monitor social inequities and rural migration.

SMEs also promote the culture of saving and investing in society. The money invested in SMEs would probably have been allocated to consumption expenditure if SMEs have not been established or sought for it. This nature of propensity to save and invest, induced by the development of SMEs, can directly contribute to the overall savings ratio of the population of Botswana.

Enhancing the poverty alleviation potential of SMEs through financial, regulatory and managerial assistances will eventually reduce dependency on foreign markets. This will not only save foreign exchange but also reduce the impact, which fluctuations of foreign exchange receipts will have domestically. The promotion of the development of SMEs will, therefore, have a long run effect on economic independence, and sustained sovereignty and autonomous development.

The government of Botswana has put great efforts and resources to achieve economic diversification through the promotion of the development of SMEs. Various policies and programmes that are directly or indirectly promoting SMEs have been developed. Moreover, the socio-economic importance of SMEs as industrial development strategy is explicitly stated and documented in the National Development Plan 8 (1998/2003) and in the long-term vision of the country (Long term Vision for Botswana, 1997).

## **The Problem**

The rate of development of SMEs in Botswana is very slow and their contribution toward economic diversification, employment creation, income distribution and poverty alleviation is minimal. This could be attributed to several factors. The business environment in which SMEs are operating today is different. Considerable changes have taken place in the world economic order during the past two decades. The growing intensity of international competition and globalisation are affecting the growth of SMEs in developing economies. The World Trade Organization (WTO) agreement and the Southern African Development Community (SADC) Protocol on trade cooperation signed in 1996, for example, provide challenges for SMEs in Botswana as the tariff reductions under WTO and SADC has the potential to increase the intensity of competition locally, regionally and internationally (Government Paper No. 1, 1998). The ability of firms to survive and grow in today's turbulent markets depends to a large extent on their managerial capabilities and strategic awareness.

The Government of Botswana has long recognized the fact that small business development in Botswana has been constrained by lack of relevant entrepreneurial education and vocational training (SMME Task Force Report, 1998:38) and efforts were made to incorporate this need into (1) the national policy in education, (2) the national policy on vocational education and training, and (3) the industrial development policy which also places considerable emphasis on human resources development (Policy on SMME, 1999). However, the implementation of the policies to promote entrepreneurship has almost entirely emphasized financial assistance. The government has established The Financial Assistance Policy (FAP) in 1982 to address the financing problems of SMEs. Although the FAP has stimulated some indigenous investments, it was characterized by serious implementation and coordination problems (Briscoe and Hampel, 1996). In response to the recommendation from both the national conference on Citizen Economic Empowerment (NACCÉE) held in July 1999 and the forth evaluation of FAP which was completed in 2000, the Government has established the Citizen Entrepreneurial Development Agency (CEDA) in 2001 to redirect efforts to deal with the real constraints affecting the development of SMEs and citizen participation in the economy (CEDA Guideline, 2001). One of the major objectives of CEDA is to foster citizen entrepreneurship through the development of entrepreneurial culture and

skills. However, despite all these efforts and changes, the pace of development of SMEs is not encouraging.

Most SMEs are at their survival/existence stage, with more emphasis being placed on short-term survival issues than growth and long-term competitiveness. It is estimated that the general failure rate for SMEs in Botswana is over 80%, with over 70% of start-up firms failing in their first 18 months and only less than 2% of them expand their businesses (Policy on SMME, 1999). Although small business failure is caused by several interrelated factors, "poor management" or "lack of managerial adequacy and competency" has long been recognized as an important factor affecting all areas of business performance. Thus, the identification PCMFs will eventually enable policy makers, practitioners and other SMEs stakeholders design proactive entrepreneurial development assistance programmes.

## **An Overview of Managerial Problems**

Different studies have employed different approaches to examine the problems of SMEs. Keats and Bracker (1988), recognizing the dynamic relationship between the firm and entrepreneurial characteristics, proposed a conceptual model of SME performance. This model suggests that performance outcomes are a function of many variables, including individual owner characteristics, owner behavior and entrepreneurial influences. The model transcends the belief that SMEs are merely miniature versions of large businesses and recognizes small firms as unique entities. The managerial activities, decisions, and commitment are affected by entrepreneurial characteristics of the manager. Dodge and Robbins (1992) used organizational life cycle model to study problems of SMEs and argue that organizational structures in one stage of development of SME are not the same as that in the preceding or following stage because, with different emphasis and operating context, each stage of development will have a different set of problems. However, in this paper, only management related problems that are internal to the organization and are within the control of the enterprise are reviewed. Managerial problems include lack of managerial education and training, strategic vision and awareness, human resources management, organizational development, and competitive strategy.

Several researchers have identified different managerial problems affecting the development of SMEs. A study by Busch (1989) has identified lack of formal recruitment and hiring procedures, lack of HR development policies (extended benefits) and inability to attract and recruit suitable staff as critical factors related to HR management. Williamson's (2000) study also acknowledged that, negligence in developing & empowering employees, lack of experienced employees in the market, lack of low cost training facilities, and inaccessible/unavailability of training facilities are important managerial factors. Hornsby and Kuratko (1990) have also identified dependence on family and relatives for labor, and lack of well-trained employees in the market as challenges for the success of smaller firms. According to John Argenti (1976) the main cause of small business failure is "poor management" although it has become very difficult to identify what constitutes "poor management". But, he argues that if there were managerial adequacy and competence, the firm could have been saved from failure.

The importance of organizational design and development also has received adequate attention from researchers around the world. Pindea et al. (1998) and Cowan (1990) have found lack of open communication, low level of standardization of products/services and formalization of operating procedures to be important managerial factors affecting both the short term and long run performance of firms. Similarly, Yosuf and Aspinwal (2000), Cowan (1990), Sausaber and Baker (1989) have empirically tested the impact of lack of proper organizational structure, lack of clear division of labor, and inappropriate span of control on the performance of firms.

These problems could be effectively overcome if only there is managerial excellence in the organization. Yosuf and Aspinwal (2000) studied the problems of SMEs and found that lack of managerial skills, training, general education and practical experience put greater impact on performance than any other factors. As the stiffness of competition and the dynamism of markets increase, managers need more than just basic skills and education. Today's global competition has made strategic planning, competitive strategy, performance benchmarking and information gather-

ing and processing basic requirements for the survival of firms. Monk (2000) pointed out that overemphasis on short-term profitability, rigid decision-making patterns, and poor use of external advisors are major threats to SMEs. Boyl and Desai (1991) studied the classification of small business problems and confirmed that fear of failure, bankruptcy and risk coupled with lack of interest on the part of management in non-financial rewards have hindered the development of firms. Monk (2000) also noted that family commitment and personal problems put unnecessary pressure on owner/managers, whose managerial philosophy is closely tied with personal characteristics. Peterson et al. (1983) and Smallbone (1990) suggested that centralized one-man decision-making, lack of delegation (doing everything), and the practice of putting more emphasis on firefighting than strategic issues are among the major factors affecting small firms.

The ability of managers to perform has very important bearings on the performance of the business. The sources of many managerial problems in SMEs are lack of education and professional training. Today, owners/managers of small firms must be familiar with many aspects of management such as finance, personnel, sales, production, etc. Many studies indicated that entrepreneurs perform poorly in many areas of management such as bookkeeping, marketing, costing, warehousing, stock control, production scheduling, and quality control. The owner/managers in some cases either do not understand financial statements or do not use them for planning purposes. Some owner/managers still do not differentiate between personal expenditure and business expenses, and have no accurate perception of their production costs (such as unit cost of labor; cost per unit of capital; marketing cost per unit of product, etc.).

Human resources management is the major challenging aspect of corporate governance, particularly in the context of SMEs. The future of small firms depends on the development and maintenance of human resources. As Drucker (1984) noted they require "a few highly competent people, dedicated to the task, driven by it, working full time and very hard". For many firms, the attraction, development and maintenance of successful individuals are a critical success factor. Recruiting new employee is one of the biggest challenges facing small firms, and a key component of organizational success. Previous research on the staffing practices of small firms has found that small firms tend to rely on social networks to attract workers, particularly at the inception of the firm. However, as SMEs grow in size they exhaust the supply of suitable family and friends, forcing them to recruit strangers to fill work positions. Since the performance of SMEs is closely related with their ability to recruit strangers the development of effective recruitment policies and practices in small firms have significant implications for organizational survival.

Organizational design and development are a critical managerial activity that determines who will do what, the effectiveness of communication channels, smooth flow of authority and responsibility, effectiveness of coordination among various units in the organization, the formalization of procedures, and standardization of services and products. Thus, managers must give due consideration for the appropriateness of existing organizational design and structure. The organizational structure of most SMEs is likely to develop around the interest, preferences, and abilities of the owner/managers. This will have a devastating impact when the firm grows.

## **The Survey**

The objective of the study is to investigate the perceived critical managerial factors (PCMFs) affecting the development of Small and Medium Enterprises (SMEs), and analyze the relationship between PCMFs and firm specific demographical variables, and the association among the PCMFs themselves, for the purpose of designing a proactive entrepreneurial development program in Botswana. Data were collected from three cities by means of questionnaire from 203 SMEs during the period between April and November 2002 and analyzed by using both descriptive and inferential statistics.

First, demographic characteristics of the respondents were tabulated and presented to show distribution of the sample firms in different demographical variables. Second, a data reduction [Principal Component Analysis] and purification [Varimax Rotation] were conducted to identify the most PCMFs and to measure the reliability of the scale. Third, the PCMFs were compared and ranked according to their perceived mean values. Forth, the relationship between PCMFs and

demographic variables was measured by using descriptive statistics (mean scores) and inferential statistics (F-tests). Fifth, the association among the PCMFs was measured by conducting partial correlation analysis. Finally, a summary of the findings of the study was presented.

## Findings and Discussions

**Demographic Characteristics:** The first part of the questionnaire was designed to gather information on firm characteristics. The majority of the respondents were males (68%) indicating low participation of women (28%) in top managerial positions in the private sector. Most of the sample firms (65%) were taken from Gaborone, while 20 and 15% were selected from Francistown and Lobatse, respectively. This is due to the fact that while the majority of the firms are located in the capital city, most of the firms in the other two towns are extensions or branches of these firms. As shown in Table 1, the majority (70%) of the sample firms were small with 6 to 25 full time paid employees, 14% were micro with up to five employees, while the remaining 15% were medium sized companies with number of employees ranging from 26 to 99.

As shown in Table 1, the sample firms were operating in different sectors of the economy. Most of them (65%) were from the merchandising (retail and wholesale) industry, while 25% were operating in the service industry. Only 10% were from the manufacturing industry. This division of SMES by industry type was believed to be helpful to study critical success factors because firms in different sectors of the economy face different types of problems.

The legal form of organizations is also believed to be related to types of problems affecting their performance. Most (69%) of the firms were established as corporations whereas the remaining are organized or registered as sole proprietorship (13%) and partnership (11%). All the respondents do not have similar status in their company. Some are owner managers (11%), others are part owner managers (33%). But, the majority (55%) of the respondents is employed as full time managers.

Table 1

Demographic characteristics of SMEs

| VARIABLES | No. | %  | VARIABLES     | No. | %  | VARIABLES   | No. | %  |
|-----------|-----|----|---------------|-----|----|-------------|-----|----|
| Firm Size |     |    | General Exp.  |     |    | Legal Form  |     |    |
| 001-005   | 28  | 14 | Up to 5 Years | 43  | 21 | Sole Owner  | 27  | 13 |
| 006-025   | 142 | 70 | 6 -10 Years   | 84  | 41 | Partnership | 23  | 11 |
| 026-099   | 31  | 15 | Over 10 years | 65  | 32 | Corporation | 139 | 69 |
| Gender    |     |    | Company Exp.  |     |    | Status      |     |    |
| Male      | 137 | 68 | Up to 5 Years | 108 | 55 | Owner       | 22  | 11 |
| Female    | 57  | 28 | 6 -10 Years   | 72  | 36 | Part owner  | 67  | 33 |
|           |     |    | Over 10 years | 18  | 9  | Manager     | 114 | 55 |
| Location  |     |    | Citizenship   |     |    | Capital     |     |    |
| Francist  | 41  | 20 | Botswana      | 68  | 34 | Own         | 117 | 58 |
| Gaborone  | 130 | 65 | Foreigner (s) | 107 | 53 | Loan/Credit | 36  | 18 |
| Lobatse   | 26  | 15 | Joint Owner   | 15  | 7  | Mixed       | 33  | 16 |
| Industry  |     |    | Firm Age      |     |    | Age 20-30   | 40  | 20 |
| Manufg    | 20  | 10 | Up to 5 years | 34  | 17 | 31-40       | 70  | 35 |
| Merchg    | 131 | 65 | 6-10 years    | 126 | 62 | 41-50       | 59  | 29 |
| Services  | 49  | 25 | Over 10 years | 39  | 19 | Over 50     | 27  | 13 |

The respondents were also asked to indicate the number of years they have worked as managers in general and the number of years of managerial experience in their current company.

Only 21% of managers of the sample firms have below 5 years experience while the remaining 73% have over 5 years general managerial experience.

However, most of them (55%) have been managing their current company for less than five years. Only 9% of them have over ten years management experience, while 36% of them have from 6 to 10 years managerial experience with their current company. The more the number of years a company operates is, the better its understanding of the operating environment and the market will be. Most of the sample SMEs (62%) has been operating in the Botswana economy from 6 to 10 years, while 19% of them operated for over 10 years. Only 17% of them were established in the past five years. The majority of the owners are foreigners (53%). Botswana citizens own 34% of the sample firms whereas both foreigners and locals owned the remaining 7%.

**Perceived Critical Managerial Factors:** The respondents were asked to evaluate the perceived impact of 37 selected management related factors on the performance of SMEs using a five-point scale ranging from 5 (very high) to 1 (very low). The respondents have assigned scores to each of the 37 factors. However, since it is difficult to analyze and compare these 37 items individually and separately, they must be reduced to manageable number of factors. To achieve this goal the principal component analysis (PCA) method of data reduction was employed by using the SPSS program version 11.50.

The PCA showed that 33 items (out of 37) were loaded on six factors and the remaining 4 items were not significantly loaded onto any of the six factors and excluded from the study. The 33 items were varimax rotated until they produced the required factor loading of 0.5 (see Nunally, 1978, and Appendix-1). A reliability analysis was then conducted to measure the internal consistency of the items loaded onto each of the six factors. As shown in Table 2, five factors have produced a reliability coefficient (Cronbach Alpha value) of over 0.5, the required minimum cut off point but the personal factor scored a reliability coefficient of below 0.50 (Nunally, 1978). Thus, the study accepted the five factors as Perceived Critical Managerial Factors (PCMFs) and rejected the last factor from further analysis because of the low reliability value (Alpha=0.378).

Table 2

Reliability (Cronbach's Alpha) Coefficients and Mean Scores

| Rank | FACTORS               | CODE | ITEMS | CASES | ALPHA | Mean |
|------|-----------------------|------|-------|-------|-------|------|
| 1    | Organizational Design | ORD  | 7     | 182   | 0.825 | 2.82 |
| 2    | Managerial Background | MAB  | 5     | 188   | 0.819 | 2.76 |
| 3    | HRM Development       | HRD  | 8     | 189   | 0.796 | 3.05 |
| 4    | Managerial Leadership | MAL  | 7     | 193   | 0.715 | 3.28 |
| 5    | Competitive Strategy  | COS  | 4     | 194   | 0.697 | 3.02 |
| 6    | Personal Factors      | PRF  | 2     | 185   | 0.378 | 2.65 |

The first PCMF, organizational design and development (ORD), consisted of 7 inter-related items that are more consistently responded to by 182 (out of 203) respondents and have the highest reliability coefficient of 0.825. This means that ORD is a reliable measurement for the 7 items. A summary of mean impact of the five PCMFs is also presented in Table 2. It should be noted that all the five PCMFs are critical to the performance of SMEs. But, they vary in their degree of importance as perceived by the respondents. The five acceptable PCMFs are discussed in the next section, according to their order of perceived importance (mean value).

**Managerial Leadership:** Many researchers and practitioners claim that the major cause of small business failure is "poor management". Whether the causes are labelled as financing, competition, marketing, inventory, etc., they can be safely avoided if good management is in place. Although it has become difficult to explain what constitutes 'poor management', small business owners/managers need to develop leadership skills and knowledge. If they are to succeed, managers need to have advanced skills in the area of planning, organizing, directing and control-

ling organizational resources. The respondents have clearly recognized the importance of managerial adequacy and competency as critical success factors. Managerial excellence is measured by seven factors shown below.

Table 3

## Managerial Leadership Items

| No. | Items                                                  | N   | Mean | Std. D. |
|-----|--------------------------------------------------------|-----|------|---------|
| 1   | Poor use of external advisors and consultants          | 197 | 3.45 | 1.149   |
| 2   | More emphasis on firefighting than on strategic issues | 193 | 3.42 | 1.206   |
| 3   | Overemphasis on short term profitability               | 198 | 3.26 | 1.251   |
| 4   | Lack of interest in non-financial rewards              | 198 | 3.23 | 1.174   |
| 5   | Rigid decision making patterns/inflexibility           | 198 | 3.20 | 1.166   |
| 6   | Fear of failure, bankruptcy and risk taking            | 201 | 3.16 | 1.260   |
| 7   | Lack of delegation (owner/manager doing everything)    | 201 | 3.14 | 1.273   |

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

**Human Resources Development:** The respondents indicated that human resources development is a critical success factor affecting the performance of SMEs with a perceived impact value of 3.05.

Table 4

## Human Resources Development Items

| No. | Items                                               | N   | Mean | Std. D |
|-----|-----------------------------------------------------|-----|------|--------|
| 1   | Lack of experienced employees in the market         | 199 | 3.52 | 1.381  |
| 2   | Lack of well trained employees in the market        | 201 | 3.45 | 1.392  |
| 3   | Lack of low cost training facilities                | 198 | 3.22 | 1.351  |
| 4   | Inaccessible/unavailability of training facilities  | 197 | 3.06 | 1.400  |
| 5   | Lack of formal recruitment and hiring procedures    | 203 | 2.90 | 1.337  |
| 6   | Lack of HR development policies (extended benefits) | 201 | 2.88 | 1.319  |
| 7   | Dependence on family and relatives for labor        | 199 | 2.55 | 1.409  |
| 8   | High employee turnover                              | 197 | 2.50 | 1.398  |

Out of the eight human resources development related items, lack of experienced employees in the market (mean = 3.52), lack of skilled manpower in the market (mean = 3.45), lack of low cost training facilities (mean = 3.22) and inaccessibility and unavailability of training facilities in the community (mean = 3.06) are considered to be more important than other HR development issues such as employee turnover (mean = 2.50) and dependence on family labor (mean = 2.55). The important finding at this point is that according to SMEs perception of the market, the major problem is not shortage of manpower. There are two major problems (1) lack of skilled and well experience personnel in the labor market, and (2) accessibility to or lack of low cost training facility in the community. Although this finding is in line with those of previous studies, there is one exception. Most previous studies attach greater importance to the use of HR development policies than to any other factor. But, our sample SMEs considered HRD policies to have little impact on

firm performance (mean = 2.88). This could be attributed to many factors including misconception of the word HRD.

The future of small firms depends on the development and maintenance of human resources. As Drucker (1984) noted they require “a few highly competent people, dedicated to the task, driven by it, working full time and very hard”. For many firms, the attraction, development and maintenance of successful individuals are a critical success factor. Recruiting new employee is one of the biggest challenges facing small firms, and a key component of organizational success. As SMEs grow in size they exhaust the supply of suitable family and friends, forcing them to recruit strangers to fill work positions. Since the performance of SMEs is closely related with their ability to recruit strangers the development of effective recruitment policies and practices in small firms has significant implications for organizational survival.

**Organizational Design and Development:** The way SMEs are organized or structured has an important implication for the flow of information and effectiveness of communication in the organization. Organizational structures affect unity of command, and unity of chain as well as the flow of authority and responsibility in the organization. Organizational structure clarifies issues like who reports to whom, who is responsible for what and the job description and content of each organizational member. The respondents considered organizational development as a PCMF with above average (mean=2.89) perceived impact on SMEs.

Table 5

## Organizational Design and Development Items

| Rank | Items                                                 | N   | Mean | Std. D |
|------|-------------------------------------------------------|-----|------|--------|
| 1    | Centralized one man decision making                   | 200 | 3.09 | 1.471  |
| 2    | Lack of clear division of activities and duties       | 194 | 2.89 | 1.299  |
| 3    | Low level of formalization of working procedures      | 197 | 2.87 | 1.344  |
| 4    | The span of control (number of employees supervised)  | 196 | 2.86 | 1.406  |
| 5    | Lack of open communication                            | 201 | 2.79 | 1.340  |
| 6    | Lack of proper organizational structure               | 200 | 2.75 | 1.351  |
| 7    | Low level of standardization of products and services | 197 | 2.63 | 1.324  |

Centralized decision making (mean = 3.09), lack of clear division of activities (mean = 2.89), low level of formalization (mean = 2.87) and high span of control (mean = 2.86) are considered to be more influential than other activities like level of standardization (mean = 2.63), organizational structure (mean = 2.75) and communication problems (mean = 2.79) as indicated in Table 2 above. This is not surprising, as most SMEs in the developing economies do not have formal organizational structure, line of communication, formalization and standardization policies. But, many studies confirmed that standardization of products or services, organizational structure, and communication effectiveness are more influential than the others. Haswell and Holmes (1989) for example compared financial performance of small firms against selected managerial practices and concluded that organizational structure affects managerial decision-making process and effectiveness.

**Managerial Background:** Managerial background includes basic requirements to be a manager. These are general educational background, professional training, and advanced level training in strategic awareness and planning. Training in basic business management skills, and practical industry experience are also grouped under this category.



Managerial experience is also significantly related to human resources development at 99% level of confidence. This could attribute to the fact that managers with varying degree of practical experience may perceive the impact of HRD on the performance of SME differently. As shown by the asterisks, the other relationships are self-explanatory. This analysis of relationship is believed to be of paramount importance particularly for policy makers and enterprise development support groups to customize their assistance to the specific needs of SMEs.

The study also examined the relationship among the five PCMFs themselves. As shown below, there are statistically significant relationships between some PCMFs. The Human Resources development factor, for example, is significantly related to the organizational development factor at 99% confidence level.

Table 8

Degree of Correlation Among the PCMFs

|                                                         | MEAN | ORD      | HRD     | MAB      | MAL      | COS    |
|---------------------------------------------------------|------|----------|---------|----------|----------|--------|
| ORD                                                     | 2.82 | 1.0000   |         |          |          |        |
| HRD                                                     | 2.76 | 0.5299** | 1.0000  |          |          |        |
| MAB                                                     | 3.05 | 0.4141** | 0.3216* | 1.0000   |          |        |
| MAL                                                     | 3.28 | 0.1743   | 0.1806  | 0.2353*  | 1.0000   |        |
| COS                                                     | 3.02 | 0.2113*  | 0.2918* | 0.4126** | 0.4322** | 1.0000 |
| LEVEL OF SIGNIFICANCE AT * $P < 0.05$ AND ** $P < 0.01$ |      |          |         |          |          |        |

This implies that the two are positively associated. Any effort put to address the HRD problem, will also help solve any ORD problems. In other words, failure to address HRD problem will exacerbate the ORD problems as they are closely related. HRM development problems that companies experience could be related to organizational development problems (lack of clear division of activities and duties, lack of open communication, lack of proper organizational structure, centralized one man decision making, low level of formalization of working procedures and low level of standardization of products and services) which in turn is related to managerial background of the owner/manager. Table 8 shows a very strong association between organizational development and HRM development and managerial background at 1% confidence level. At the same time the association between HRM development and managerial background is very strong, at 1% confidence level.

## Conclusions and Recommendations

The purpose of the study is to identify critical success factors for a proactive entrepreneurial development programme. The paper has identified several problem areas under 10 critical success factors. These are not different from those identified in previous studies. However, they differ in their perceived impact on the performance of SMEs. The traditional approach to assist small and medium enterprises was fragmented and not comprehensive enough to address the basic problems. SMEs assistance programs in most developing countries are not based on an empirical investigation of actual problems affecting their performance. Even today, the Citizen Entrepreneurial Development Agency (CEDA) focuses largely on financial assistance. Only little attention has so far been given to other areas of assistance like entrepreneurial training and education and new business incubation systems. The current strategy of the government of Botswana is to promote SMEs and diversify the economy away from mining. But, the authors believe that promotional efforts should be based on research findings on critical factors affecting the development of entrepreneurship and small businesses in the economy.

The findings show three important implications for SME support groups including the government, practitioners in SMEs, and researchers and academics in the areas of entrepreneurship and small business development.

First, the designing and implementation of small business assistance programs should be based on the identification and prioritization of critical success factors. All problems do not have equal degree of complexities, magnitude or impact on small business performance. Different problems with different degree of perceived impact on SMEs can be addressed at different times in different ways depending on the availability of resources and situations in the operating environment. A proactive entrepreneurial development programs require long-term view of current problems. The study of small business problems must target on finding long lasting and sustainable solutions. Entrepreneurship cannot develop in a vacuum. Efforts must be made to incorporate entrepreneurship into the national culture and way of life. This calls for the integration of entrepreneurship with school curriculum starting from kindergarten. Currently, there is a widening gap between educational institutions (schools, colleges and university) and the actual world of work. The study of small business problems must find strategies to bridge or narrow this gap, and focus on building long term potential. The increase in the number of small businesses in the economy should not be equated with the development of entrepreneurship in the country. These are two different constructs. It is the development of entrepreneurship that leads to an increasing number of viable small firms, not vice versa. Thus, the implication of this paper for small business support group is that the development of a proactive entrepreneurial program should be based on an empirical investigation of small business problems, with the view to achieve long-term sustainable solution. SMEs support group including the government should focus on building competitive potential of indigenous firms through not only material and financial assistance but also through education, training, strategic awareness programs, and entrepreneurial orientation. The target should not be increasing the number of SMEs but to achieve changes in entrepreneurial attitude of the people of Botswana at large.

Second, the research design, operationalization, and conceptualization of critical success factors need to be re-explored. Third, the findings of the study also have important implications for practitioners in SMEs. Owners/managers in SMEs tend to excessively focus on short-term profitability and put very little emphasis on building long-term competitive potential. There is strong need on the part of practitioners to think and act strategically with a view to achieve sustainable competitive advantage in the long run. This study has identified 10 critical factors affecting the performance of SMEs. However, since SMEs do not have all the resources and capability to solve these problems simultaneously, they must prioritize problem areas to be addressed. Attempts to address selected strategic issues will have longer lasting solution than the sum of all efforts made to alleviate short-term operational problems. If marketing activities are considered critical to the survival and growth of SMEs, the strategic issues within the marketing construct must be identified and addressed step by step depending on their long-term impact on the competitive potential of the firm in the future.

In sum, the future research agenda must strongly focus on the development, testing and validation of a measurement scale designed to identify critical success factors for firms operating under different financial and managerial circumstances. Regarding the implementation of research findings by small business support agencies, problem areas should not be considered as independent of themselves. SME critical factors are highly interdependent. Failure to effectively address operational problems may lead to the compounding of strategic problems. The final remark of this study is to investigate the causes of small business problems. Lack of marketing or financing is not a problem by itself. It is the consequence of other factors such as lack of skills, information or other resources.

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