Competence and Critical Success Factor Development as an Avenue for Achieving Sustainable Micro and Small Enterprises in Africa

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This paper explores the case for defining the critical success factors (CSFs) that are necessary for the growth of the micro and small enterprises in East Africa. The paper reviews some literature on identification and development of competencies and CSFs. The paper uses two case studies to argue that CSFs should be framed more explicitly within the micro small enterprise (MSE) planning process. The paper highlights some of the CSFs that appear to hold the key to successful growth and development of MSEs using two cases from Kenya. The paper concludes by showing the need for further research to more clearly identify and define the CSFs which MSEs in the region need to fully articulate and manage in order to succeed and grow.

INTRODUCTION

The argument that small businesses in Africa are crucial in the role they play in employment creation, and general contribution to economic growth is not new. Although this may be true, the vast majority of new enterprises tend to be one-person establishments (Mwega, 1991). This has tended to ensure that the journey of the MSE entrepreneur in many instances is short-lived, with the statistic of MSE failure rate in Africa being put at 99 per cent (Mead & Liedholm, 1998; Rogerson, 2000).

Various reasons for these failures have been proposed by scholars in this area, including lack of supportive policies for MSE development (McCormick, 1997a, 1998), intense competition with replication of micro-businesses (Manning & Mashego (1993); unavailability of funding (World Bank, 1993); manager characteristics including lack of skills, experience and culture (Katwalo and Madichie 2008; Ray, 1993); marketing techniques used including quality of service and markets served (Blankson et al, 2006).

This paper is based on case studies done with two micro-enterprise owner in Nairobi, Kenya. It focuses on how developing both competences and critical success factors (CSFs) would help to fill the gap in achieving sustainability of African MSEs under continuing globalisation. The paper argues that effort must also be directed towards defining the CSFs necessary for MSEs to grow and compete in the global arena, and that developing specific competences required for the African MSE to be competitive would increase the chances of success in achieving sustainability.

LITERATURE REVIEW

Competence Development

Competencies can be said to be present or at play in most endeavours. Several definitions of competence have been proposed (See Boyatzis, 1982; Caird, 1992; Katwalo 2006). However, the essence of all these definitions appears to be ability and is thus, related to performance. On the other hand, Caird (1992: 26) posits that 'the notion of competency refers to a set of knowledge, skills, and personality variables, which relate to successful behaviour in a designated field'. The concept of competency is also used variously to refer to the knowledge, skills, and abilities, personality attributes and resilience required in order for an individual to be successful at a particular job or task.

Competence development calls for the deliberate accounting for and nurturing of knowledge and know-how or what may also be referred to as intellectual capital or intellectual material that has been formalised, captured as well as leveraged to produce a higher-valued asset. Thus the individual entrepreneur's knowledge will only be intellectual material and becomes intellectual capital when it is given coherent form that enables it be described, shared and exploited. The question to ask here is how can the African MSE owner be supported to make this a reality?

Ray (1993) argues that in order to understand why some MSEs become successful and others fail, it is crucial to study the entrepreneur's personality or attributes, the entrepreneur's background and experience, and the entrepreneur's skills, including how they learn. According to Hills and Laforge (1992), some of the competencies that seem to work for entrepreneurs include: The propensity to take risks, the ability to identify customer needs and wants, a level of innovation, and the ability to identify new opportunities.

Critical Success Factors

Critical success factors can be referred to as key success factors, key variables and key result areas. According to Aaker (2005), a key success factor is 'any competitive asset or competence that is needed to win in the market place whether it is a strategic competitive advantage, actually representing a sustainable point of advantage or merely a point of parity with the company's competitors. Aaker contends that 'the firms that gain position in the short run and become contenders for winning in the long run will address those key success factors, and differentiates between actual key success factors and emerging key success factors. For example, for an African MSE, key success factors could be characteristics that contribute to image such as perception in the market place, or competence development such as networking. Aaker's differentiation between actual and emerging key success factors implies that market environments change, and so too may the assets and competencies required to operate successfully within the market place. For example, it is possible for a firm to establish a strong position during the early stages of its operations, but then lose ground later when the key success factors change.

The key questions to ask therefore would be: What are the key success factors, assets and competencies needed to compete successfully? How will these change in the future? How can the assets and competencies of competitors be neutralised by strategies? It is also possible to view sustainable African MSEs as those which will successfully attend to CSFs that relate to their output environments, e.g. customer needs and demand growth' in accordance with Wilson and Gilligan (2005) assertion. Here the MSEs should be concerned to develop distinctive competencies appropriate to enabling them to deliver their 'grand strategy'. Focusing on competencies and CSFs would also mean that programmes that purport to support the African MSE have got to begin to consider how to help MSEs differentiate their offerings, as a possible answer to the sustainability question. According to McDonald and Dunbar (2004), 'key discriminating features are the 'characteristics and properties of a purchase which customers regard as decisive when making a distinction between alternative offers'.

One of the problems of lack of access to capital is the inability of many entrepreneurs to meet financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. It is therefore necessary to begin to look at CSFs, and the Value Chain in order to achieve sustainable MSEs. CSFs can also be defined in terms of components of a strategy in which the organisation must excel to outperform the competition. These are underpinned by core competencies in specific activities or in managing linkages between activities. The question therefore is to what extent the African MSEs can be supported in terms of building their capabilities, technical support that would enable them to access capital both locally and internationally as well as sound business systems.

Some of the areas to which support could be targeted include, the likely key areas which might have the most significant impact on product decisions for the African MSEs including for example customers, competitor actions, technology, and government legislation. It would be important for the MSEs to define wants and needs of their customers and to establish how to deliver the products and services that meet these needs.

RESEARCH METHODOLOGY

The study was exploratory in nature, using case study approach. In-depth interviews were conducted with the owners of the selected micro-enterprise, and visits were made to the company premises to observe the day-to-day activities of the company. This method has been suggested by Wortman *et al*. (1989). The micro enterprises were chosen using non-random sampling. This is because the owners were easily accessible for the study and their enterprise seemed to fit the purpose of the study, which was to determine the critical success factors of success for a micro-enterprise in a developing country. Simple content analysis was used to analyse the data.

RESULTS AND DISCUSSION

The results discussed below reveal that the micro-enterprise owners in this case experienced most of the challenges faced by small business owners in a developing world, but found ways to meet the needs of their chosen niche. However, their ability to grow was restricted broadly by the weakness of not looking at the processes of growth holistically. For example, issues to do with customer care or productivity improvement.

Profile of the Entrepreneurs

The first case is based on an MSE that dealt with printing and photocopying services, owned by a young man aged 24. The business-owner had no formal post-secondary school training of any kind, and had gone into business to earn a living since he could not find a job due to lack of tertiary education. Asked whether he had prepared any business plan prior to starting his business, the business owner responded that he did not know how to prepare a plan, and asking someone else to prepare the plan for him would have been too costly. *"Besides, I felt that a business plan was not necessary for such a small business"*, the owner added. The second case is based on grocery business run by another young man. The green groceries he sold included vegetables of all kinds such as, cabbages, spinach, *kale* (sukuma wiki), tomatoes, onions, pumpkins, bananas, oranges, avocadoes, passion fruits, garlic, coriander (dhania), green chilli, carrots and peas. Though there were already some established green groceries in the area, he knew that demand was still high for these types of foodstuffs.

Micro-enterprises in developing countries have tended to be run very informally, sometimes missing on the benefits that accrue from using a more systematic approach of management. Although formalising the micro-enterprise may sometimes bring more challenges (like taxation), managing the enterprise informally may lead to poor planning and eventual losses since changes in the environment may be unanticipated.

Funding

For both MSEs, initial financing came from relatives or friends. The funding was used to purchase the relevant equipment and to stock up on supplies required to provide the services. Both sourced for extra funding 1-2 years after starting operations. They also both saw the potential to expand and decided to source for more funds. However efforts to obtain loans from either the banks, or micro-finance institutions proved futile. For the first case an attempt to obtain funding from agencies distributing funds from government also failed. This is because of a stipulation that required anyone seeking for funds to form a group of 25 people. *"This was not the way I wanted to run my business"* the MSE owner explained. The microfinance institution in which the business owner had put in some savings also collapsed, melting away with his savings.

Most MSE financing in Kenya for example has tended to focus on entrepreneurship and MSE growth from a purely economic and financial perspective. This was also true of both these cases, where a lot of effort was directed at obtaining funds to buy more equipment or stock without looking at the efficient utilisation of such stock or equipment. It is imperative that for sustainability to be achieved, the focus for financing and support should begin to take a more marketing and operations perspective to complement the financial and economic perspective. This means providing a clearer definition of the critical success factors that African MSEs need to manage, as well as push a programme of furnishing these MSEs with the necessary competences to truly achieve sustainability.

For example support to define new and better distribution channels. The paper takes the definition of (Harrison 2000) 'A channel of distribution, or marketing channel, describes the groups of individuals and companies which are involved in directing the flow and sale of products and services from the provider to eventual customer'. For the African SME, developing key direct distribution channels or branch networks, direct sales force, and direct marketing or intermediaries is important.

Dealing with Competition

Both cases showed that competition come with the terrain with competitors offered exactly the same services as the respondent's, and charging less for all the other services. For case A the new competitor had better, more sophisticated photocopying machinery and equipment that could handle more volume of work and that worked faster. This forced the respondent to reduce his price, and this led him to incurring losses. About three months after the competitor entry, the company was making approximately half the sales it used to make per day, and spending twice as much as they used to on promotional and marketing activities.

The respondent however realized that although his photocopying machine was slower, it produced clearer copies than the competitor's. He used this as his selling line. He also knew that the competitor, who was much older than the students, had no rapport with them. The respondent was however almost the same age with the students (his core customers) and was able to relate very well with them. *"I talked to them informally and was able to determine their needs as young people". I started selling to them posters of American celebrities, and copying hip-hop music for them using the computer that had originally been used only for typesetting*", the respondent explained. Through these initiatives, the business owner managed to get a good number of loyal customers who would be willing to leave their documents with him and pick them up later, hence overcoming the challenge of the slow photocopying machine. He also realized that the lecturers at the college preferred quality work to speed, and would also collect the work that was not so urgent from their offices and ask them to pick later. Although his market share had reduced considerably, the respondent had found a niche that he could serve effectively, and his business was able to survive for that period.

The critical success factors for the market that both these cases were serving lay in superior quality, understanding customer needs and meeting them better than the competitor. This is what scholars like Pelham and Wilson, (1996) have referred to as the customer orientation. Although the respondent in this case was at a disadvantage due to his slow machine, he leveraged his youth and outgoing personality as competencies to create close relationships with customer that he would have otherwise lost to competition. Through the close relationships he had forged, he was able identify their needs, and fill the gaps not filled by the competitor. This enabled him to target his niche effectively, and to expand his service repertoire.

CONCLUSION

The cases clearly demonstrate that although sourcing for funds aimed at entrepreneurial activity is important, there is need for such MSEs to explore avenues to focus on critical success factors (CSFs) or those factors that an organisation must have to compete successfully within a given market. Thus understanding what the CSFs will be for the African MSE is likely to enhance the potential for sustainability. The ability to define and even map these CSFs will undoubtedly lead to the ability to anticipate and respond to changes in the market place.

Secondly most SME financing has tended to focus on entrepreneurship and SME growth from a purely economic and financial perspective. It is imperative that for sustainability to be achieved, the focus for financing should begin to take a more marketing and operations perspective to complement the financial and economic perspective. This would necessitate providing a clearer definition of the critical success factors that African SMEs need to identify and mange to truly achieve sustainability. Effort must therefore be aimed not solely at access to funding for start up capital or other entrepreneurial activity such as those aimed at specific segments of the population, but also incorporate the other elements which bring about growth such as skills development otherwise all efforts will continue to underachieve. The fact remains that the vast majority of African MSEs could improve their chances of competing globally if in addition to funding for start up and expansion/growth, they were also supported to understand their respective markets and how they worked as well as supported to develop for example specific skills relevant to their markets.

The cases also demonstrated that MSEs experienced most of the difficulties cited such as limited skills in business management and even more limited funding, facing intense competition in the niche market served. It was also made clearer that MSEs used social networks to access some funding and to retain their customer's loyalty. However, where the policies to support micro businesses remain largely rhetorical, the question of survival and development for micro and MSEs remains a question of individual ingenuity. Therefore, the argument for focusing financing and other support for the MSEs in Africa on both CSFs management and competence development in order to achieve sustainability become critical. The paper thus concludes that in addition to finance, sustainability is only possible with the offer of sound business support and development services.

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