

# Determining Factors of Smes' Sales' Performance —— Case of Togo

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**Abstract:** By using a cross-firms time-series data of 135 SMEs for the years 2009 and 2016, this paper has identified the determinants and has empirically investigated their impact on corporate performance in Togo. The sample was clustered on SMEs given that no previous studies have focused on this area of research. We have considered in our analysis two categories of determinants including internal and external factors to the SMEs so as to have room for targeted policy recommendations to both corporate managers and the government who administrates and regulates the business environment. To measure the influence of identified determinants on SMEs level of performance, we have first set up a conceptual framework adapted from the Balanced Scorecard model which originally provides a clear prescription as to what companies should measure in order to 'balance' their financial perspective. In the basic econometric model that follows, we have used SMEs annual sales, the dependent variable, as a proxy for performance. Results, following the regression –using random effects model – pointed out five variables with high significant impact on SMEs development. We found that in practice, firms with experienced top managers have direct impact on their annual sales. Similarly, banks loans to working capital, manufacturing as well as firms that use internet and sell whole or part of their products to foreign markets enjoy significant positive margin as compared with the rest. On the downside, taxation appeared as one of major obstacles that hamper SMEs growth. Following all above findings, we sensed that both managers, financial institutions and the government have equally high responsibilities to take. Internally, business starters and less experienced managers need to be trained. Programs designed for more interaction and knowledge sharing between managers can mean a way to make them more productive. Despite recent efforts, we argued that external factors including infrastructure, production facilities, tax schedules and the financial environment must feature high in government priority actions to implement.

**Keywords:** Performance, SME, Random Effects, Government, Togo

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## 1. Introduction

Small and medium-sized enterprises (SMEs) play a very important economic and social role. The development of SMEs offers many job opportunities which can help lower the unemployment rate and cope with the demographic challenges of growing populations. In addition, the development of the SME sector can help increase competition and productivity and thus boost growth in overall income and per capita income. This development will

also stimulate structural transformation, as a healthy SME sector is associated with innovation and technological upgrading. Also, according to the United Nations Industrial Development Organization (UNIDO), which deals with the economic health of developing countries, access to the world market through liberalization, deregulation and democratization is the best way, for developing countries to abolish poverty and inequality. In this context, the development of a dynamic private sector enabling SMEs to play a central role is an important element. Currently, although there is no accurate data, a World Bank research

estimates that SMEs account for nearly 95% of all businesses and employ nearly 60% of the workforce in the private sector worldwide. It is also estimated that SMEs contribute around 50% of the world's gross value added.

Performance measurement is fundamental to any management control. Performance evaluation, primarily helps in understanding weak areas, identifies gaps to carry out improvement and ensures that a company's activities are properly aligned with its objectives. Drawing on existing literature, the methods and schematics to measure corporate performance are diverse. Bearing empirical studies to helping Small or Medium Enterprise (SME) in developing countries to perform successfully is constrained by scarcity of data. Like anywhere else we have assumed that in Togo, SMEs can thrive following their own strengths and weaknesses endogenous to the internal structure and operating system as well as their success will depend on the business climate that they were established in. To find out the empirical evidences, the paper aims to answers the following basic questions: what determinants drive the most SMEs to perform well? At what extent do these factors affect SMEs' growth? And what are the specific responsibilities of both the corporate managing team as well as the government for SMEs to be successful in Togo?

The study hence into Assessing the internal specific factors including SMEs potentials and weaknesses, then measure their impact on SMEs performance

As above mentioned, a growing performance of SMEs is an important source of sustainable economic growth. Profitable SMEs create value, hire people, promote innovation, and pay taxes from which we all benefit. Investigating the determinants of these firms' performance may provide insights in what drives performance up/down and teach valuable lessons both for business executives and policy makers.

## 2. Literature Review

Research on small and medium-sized enterprises (SMEs) to capture how they influence socio-economic development or being influenced by specific factors is an old and complex topic. Complexity in terms of common definition is a debate. For Hooi [22] and Sheers [22], to date, there is no accepted worldwide definition of SMEs and it is difficult to formulate a universal definition of a small business. This is true because the economies of countries differ and people adopt particular standards for particular purposes. Although the term SME and Small, Medium and Micro Enterprise (SMME) are used interchangeably, Leopoulos [31] concurred that there is no common definition of these terms. The geographic placement of SMEs, as well as country specific legislation, influences the numerous SME definitions [36].

From an analytical standpoint, several studies on factors determining performance of SMEs have generally been conducted from two approaches; either by focusing on variables at entrepreneur and firm level or by incorporating a broader framework that also includes the external

environment.

### 2.1. Theoretical Literature

The SME sector in West Africa has been exploding until recently. The peculiarity of the sector in the region, Togo included, is that it's a mixture of self-employment outlets and dynamic enterprises that are involved in various activities mainly concentrated in urban areas, however are unable to expand, grow and transform into higher size thresholds. Questions have been posed as to what might be the main reasons behind such phenomena.

Modern literature sustain that firms are more heterogenous entities and the very likely success in terms of higher revenues may come by far from the within structure. For Melitz [33], it's productivity. Melitz argues that productivity –exogenously determined – is a catch-all that includes all sources of heterogeneity in revenue relative to factor inputs across firms, including differences in technical efficiency, management practice, firm organization, and product quality. This applies to all categories of business undertakings. It means that no matter how impressive the business environment that they were established in, SMEs should never have been left to fend for themselves, they need productive workers as well as skilled and proactive managers.

Besides, there can be found numbers of models on strategic orientations and SME performance (Yuan et al. [32]). Suliyanto and Rahab [45] recommended a study on the relationship between market orientation and performance with variable of Business environment. This view is also shared and supported by Awang, et al. [7] who were recommending to consider the use of external environmental factors in entrepreneurship studies. In addition to the relationship between knowledge management performance as proposed by [36, 28] suggested the inclusion of organizational culture to mediate in the relationship between Entrepreneurial orientation and firm performance. For [21] the need for mediation and moderation in the relationship between strategic orientations and firm performance is appropriate.

To many other scholars, the development of SMEs may be also undermined by a number of factors, including inadequate finance, lack of managerial skills, equipment and technology, poor access to capital markets, among others [35]; [38, 7]. A cursory look at the literature on SME development reveals that inadequacy of funds significantly constrains SME development [25].

Authors also link managerial functions and ownership as responsibilities of the owner/manager, arguing that the knowledge is vital to the success of business (Everaert et al. [27]). According to Kamyabi and Devi [27] owner/manager knowledge has direct effect on SMEs' performance.

In contrast, for Caldeira and Ward [27], competences are firms' most important assets that are used to improve firm performance. To strengthen performance therefore, SMEs should outsource and concentrate on the functions that are not core competence (Gilley et al [27]). For smaller firms,

Gooderham [27] suggest that they can acquire competencies by utilizing qualified persons as in the case of Melitz [27]. From this, Gilley et al [4, 27] states that by outsourcing, SMEs can employ the external services needed. Inadequate or lack of financial skills and knowledge of most SME owner/managers on financial control systems can adversely affect decision-making Deakins et al. [27]. For example, Gooderham [27] revealed that areas where SME owner/manager often lacks competence are in functions involving provision of advisory services on internal planning, decision-making and control.

## 2.2. Empirical Literature

The operations of small and medium-scale enterprises (SMEs) occupy a sizable position in the economic landscape of most economies in the world, especially for developing countries. For Ayyagari et al. [9] it is estimated that around 95% of enterprises across the world are SMEs and they account for approximately 60% of private sector employment worldwide. Drawing on previous studies, we suggest that managing the strengths of SMEs internal operations and recognizing potential opportunities and threats outside of their daily operations are keys to thrive. This section then discusses the above-mentioned points i.e. looking at internal and external factors to SMEs and evidence of their impact on performance.

### 2.2.1. SMEs' Internal Factors

Generally, the internal business environment includes factors within the organization that impact the approach and success of corporate activities. It's mostly mentioned that; the role of company leadership is an important internal business factor. Also, the leadership style and the styles of other company management impact organizational culture. The positive or negative nature, level of family-friendliness, effectiveness of communication and value of employees are cultural implications that result from leadership approaches.

Beyond these measures, Zindiye et al. [16] disbursed a study on factors that affects the SMEs performances within the manufacturing sector in Harare in Zimbabwe. Among other variables, the researchers then make use of human resources and management skills because the prior factors that influence the SMEs performance. Questionnaire were the method used to collect data for the study and the statistical tools named ANOVA (Analysis of Variance) and a regression analysis were applied to measure data statistically. Findings of the study reveal that lack of skilled human resources results from poor SMEs' performance, management skills play a major role within the 's performance, economic factors were found to possess the foremost prominent relationship to business performance and economic initiation were found to affect more on business performance.

Chittithawan et al. [30] in their studies determine the Factors Affecting Business Success of Small and Medium Scale Enterprises (SMEs) in Thailand. Their study presented management and know-how, customer and market, SMEs characteristic, the way of doing business and cooperation,

product and services, resources and finance, strategy and external environment which are used as a variable that influences business success of SMEs in Thailand. The data in the study was collected through Survey questionnaire, and ordinary least square were used to measure or test the hypotheses under study. The result revealed that SMEs characteristic, customer and markets, the doing business strategy, knowledge sharing and therefore the availability of finance have a positive and significant effect on the business success of SMEs in Thailand.

Abor [3] examine Debt Policy and Performance of SMEs; his study was a comparative study both in Ghana and South African. The researcher used debt policy/ratio that has short-term debt ratio, long-term debt ratio, total debt ratio, and trade credit as the variables that influenced more the performance of SMEs. In his study Panel data were used, and also the study was analyzed by regression analysis to seek out a relationship between variables. The result spelled out that using measures of performance; the finding indicates that capital structure affects or influences financial performance but not exclusively. The result also reveals that capital structure, most importantly long-term and total debt ratios, adversely affect the performance of SMEs. it's meanwhile also indicated that agency issues may result in SMEs pursuing high debt policy and leading to lower performance.

In a slightly different dimension, to weight how SMEs may leverage on internal strength or undergo within structure challenges, Martey et al. [18] conducted a study to look at the performance and constraints of small-scale enterprises (SSE) in Accra Metropolitan Area of Ghana. The researchers make use of age, gender, marital status, education, experience, employees, ownership status, initial capital and annual cost are used to influence performance. Survey questionnaire and also the interview were used as a technique of collecting data in the study. Their result indicates that, entrepreneurs age is one in all the foremost influential determinants of performance of SMEs. The findings further indicate that the performance of married entrepreneurs is not up to those who aren't yet married. The number of years of formal education attained by the entrepreneur is positively related to the performance of small-scale enterprises. The result also indicates the years of experience influence the profit of small-scale enterprises positively, also the performance of small-scale enterprises is significantly affected positively by the amount of employees engaged within the business. The result shows that initial capital invested within the business significantly affects performance negatively. Finally, the annual cost incurred by small scale enterprises remarkably affects the revenue of the business positively.

Ahmad et al. [34] looked into the New Determination of factors that Affect the expansion of Small and Medium-Sized Enterprises in Pakistan. Access to finance, public and private partnership, lack of training skills and education, stress, lack of motivation, lack of political stability, bureaucracy, lack of management, access to public infrastructure, and inflation, was applied as factors that influence on growth of SMEs. In the empirical analysis, structural equation modeling was used

based on a sample of two hundred and forty-seven Services Company. The study indicates that there is a positive relationship between supervisor support and organizational incentives for training transfer. Organizational incentives are directly related or correlated with both studied company-level training outcomes, also the acquisition and interpretation of information, cognitive and behavior changes. They are also indirectly related or correlated with the company performance through encouraging cognitive and behavioral change. The volume and quality of training are correlated and related only to the acquisition and interpretation of information while there is no direct relationship or correlation with company performance.

Mahmood and Hanafi [2] led a search to assess the Entrepreneurial Orientation and Business Performance of Women-Owned Small and Medium Enterprises in Malaysia: Competitive advantage as a Mediator. Entrepreneurial orientation and competitive advantage were the variables that influence business performance. the data utilized in this research was collected through mail survey questionnaire completed by women owner/managers and it had been selected randomly from a sampling frame of registered SMEs, and data was analyzed through regression analysis so as to actualize the results of the study. Finally, the result revealed that there's a noteworthy correlation relationship between entrepreneurial orientation and business performance and while the competitive advantage was found to partially or slightly mediate the entrepreneurial orientation and business performance relationship.

Shehu et al. [7] carried along with a study to research the mediating effect between some determinants of SMEs performance in Nigeria. The research uses Owner/manager knowledge, competitive intensity, complexity of marketing, technical competence, firm size, and advisory services as the factors that influence or affects SMEs performance in Nigeria. The study makes use of structure questionnaire survey that incorporates a sample of two hundred and seventy-eight manufacturing SMEs that operate in Kano State, Nigeria, and a complete of one hundred and ninety-eight questionnaires were filled correctly and return which represent 71% of the response rate, and also a Structural Equation Modeling (SEM) was used to test the hypotheses under study. The results of the study indicates that there's a positive and robust relationship between advisory services, complexity of marketing decision, owner/ manager knowledge and SMEs performance, and also the result shows that there's no direct correlation relationship between firm size, technical competence services, and SMEs performance. The study result also shows that advisory services mediate the connection between owner-manager knowledge and therefore the complexity of promoting decision.

In another study that was conducted by Uddin and Bose [8] determine the Factors Impacting on the Success of SMEs in Bangladesh: Evidence from Khulna City. Success of SMEs was full of business plan, channel of distribution, management skills, use of technology, government support, access to capital, personnel (HR), customer management, and

improved product/services. the info used were collected from SMEs owners of the Khulna city, which is that the divisional city of Bangladesh and 195 respondents were interviewed for the study. Two factors were identified, firstly using the rotated components matrix, and secondly using regression statistic were employed to live the information. The result shows that business plan, channel of distribution, management skills, and government support contains a highly remarkable and direct correlation with the success factors of SMEs whereas personnel and product/services have a small amount of indirect correlation and eventually the remainder of the three variables like technology, customer management, and access to capital encompasses a slight correlation.

Unhooked et al. [7] investigate the Impact of Strategic Human Resource Management (SHRM) on the Tangible Performance: Evidence from Nigerian SMEs. Strategic human resources management (SHRM), work knowledge, individual fit and job fit, incentive for individual employee contribution, and incentive for achieving firm goal are utilized by the researcher because the variable that influenced tangible performance. The study makes use of Cross-Sectional approach or technique to gather data from a sample of two hundred and fifty SMEs in Lagos, Nigeria, and it had been disbursed through questionnaire. multivariate analysis was wont to test or investigate the variables under study. The results of the study enlightened that there has been a major relationship between, work knowledge, individual fit and job fit, the inducement for individual employee contribution and inducement for achieving the firm goal with the tangible firm performance

### 2.2.2. SMEs and External Factors' Influence

Commonly, external factors fall into several categories, including socio-economic, legal or ethical, political and technological. Socio-economic factors relate to the values, attitudes and concerns of SMEs target customers and their economic abilities to afford their products. The legal, ethical and political environments generally relate to firms' need to abide by business laws and to meet the ethical or social responsibility standards of their customers and communities.

Authors have focused on some of these determinants on which managers have limited influence on, however have everything to do with the growth of their enterprises. In a recent study conducted by Mohd et al. [36] to examine the moderating effect of government policy on entrepreneurship and growth performance of (SMEs) in Cambodia, the researchers use, among other variables, firm financing, market practices, and Government policy as key factors that impacting on the expansion performance of SMEs. Survey method was used to gather two hundred and twenty usable questionnaires from SMEs owner/managers within the city of Phnom Penh city in Cambodia, and multiple regression analysis was accustomed to determine the result. The finding shows a positive relationship between, firm financing, market practice and growth performance of SMEs. The result also confirms that government policy has a vital role as a full

moderator in such relationships. In the same vein, Okpara [37] investigate the factors constraining the growth and survival of SMEs in Nigeria with possible extension to implication for poverty. In addition to using internal factors, the research makes use of financial, corruption, and infrastructure as variables that affect the performance of SMEs. A questionnaire was used to collect data from two hundred and eleven small business owners and managers located in the cities of Aba, Onitsha, Abuja, and Lagos in Nigeria. Following a multiple regression analysis, the result shows that financial constraints, corruption, and infrastructure constraints are negatively correlated with small business performance.

Rich findings on the same point are that various authors introduce the discussion into a sort of not only cross-firm analyses but also beyond multiple countries span. Looking at the same topic in a study carried out by Amwele [20] to examine empirically factors affecting the performance of Small and Medium-Sized Enterprises in the retail sector in Windhoek, Namibia, we also understand that apart from SMEs characteristics; customers and market, resources and finance, external environment, competition, infrastructure, Government interventions and corruption imply similar effect on business performance just as in other countries.

Despite SMEs could even be defined differently across borders, exogenous factors aren't likely to be so, especially in many African countries. In Nigeria, Akinruwu et al. [39] led a study to explore the Determinants of Small and Medium Scale Enterprises Performance in Ekiti State. The researcher makes use of funding, political, education, infrastructure, Government policy, staff, entrepreneur competencies, customer patronage, technology and distribution channels as factors that influenced SMEs performance. Survey questionnaire was accustomed collect data, and thus the information gathered was analyzed through SPSS whereby statistical method was employed to supply an accurate result of the study. The results of the study indicates that funds, managerial skills, government policy, education, and infrastructure are significantly related to the performance of SMEs at 5% level of significance. By ranking, funds were considered most important follow by government policy, and infrastructure, while political, raw-material, customer patronage, technology, and marketing do not have positive and significant relationship with SMEs performance.

Thaimuta and Moronge [31] examine the factors affecting the performance of Matatu Paratransit venture in Small and Medium Enterprises (SMEs) in Nairobi County, Kenya. Management skills, entrepreneurial skills, training, and government policies affect the performance of Matatu paratransit sector in Nairobi County; and so, the data used for the study was collected through questionnaire. statistical method was accustomed to analyze the information, it absolutely was performed through SPSS software, resource base view theory, entrepreneurship theory, theory of entrepreneurship, and empowerment theory was use as a supporting theory for the study. Finding states that management skills, entrepreneurial skills, training and also

the role of state policies influence or affect the performance of Matatu paratransit sector in Nairobi County Kenya<sup>1</sup>.

Many results showed that the constraint on external finance was most serious, while other factors like licensing didn't appear to be as significant an issue needless to mention. More generally, Gree and Thurnik [27] divided the obstacles into two groups: external and internal. Among all obstacles chosen, finance clothed to be the foremost important. Other significant factors are "management skills" "location" "technology" "corruption" "regulations"; which are almost like what was listed within the world Bank Enterprise Survey of emerging economies.

In conclusion researchers used similar factors yet as different variables that influence or affect firm performance. In most cases, analyses and inferences are drawn on primary information similarly as on case studies. variety of the researchers makes use of variables that truly captures or influence performance of SMEs like within the study of ([37, 34, 39]), while others didn't use the appropriate variables that actually captures, influence or affect the performance of SMEs like within the study of (Abor; Mata & Aliyu; Mohd et al). the strategy of information analysis that was mostly employed by the researchers was statistical method like within the study of (Abor; Mohd et al.; Fatoki; Mudavanhu; Thaimuta & Moronge), and most of the researchers did not makes use of supporting theory or theories to their studies, like within the study of (Ofoegbu; Martey et al.; Shehu et al.; Shehu & Mahmood, etc.), and also base on their findings the researchers found or discovered different result in their studies.

### 3. Methodology and Data Analysis

This chapter presents the research methodology adopted in conducting the study in so to attain our objective which is to look out the factors that affect the performance of SMEs in Togo. The chapter is thus structured into theoretical foundation, our conceptual framework, data collection and data analysis.

#### 3.1. Theoretical Approach: The Balanced Scorecard (BSC)

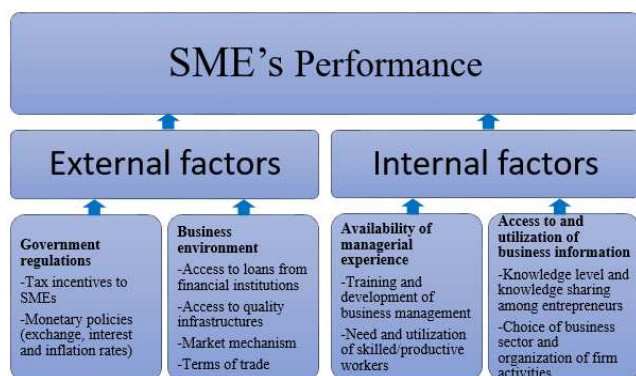
BSC suggests managers to review organization's performance from four dimensions, customer perspective, internal perspective, innovation & learning perspective, financial perspective (Kaplan and Norton [43]). BSC incorporates financial and non-financial measures in one measurement system. The objectives and measures of BSC are derived from an organization's vision and strategy. The Balanced Scorecard provides executives with a comprehensive framework that translates a company's vision and strategy into a coherent set of performance measures. in line with [43] the balanced scorecard not only allows the monitoring of present performance, but also tries to capture information about how well the organization is positioned to

<sup>1</sup> Abdullahi\*, M. S., Abubakar\*, A., Aliyu, R. L., & Murtala, B. U. (2015). Empirical Review on The Determinants Influencing Firm Performance In Developing Countries. Malaysia International Journal of Scientific and Research Publications, 5 (6).

perform within the future. Furthermore, the Balanced Scorecard has evolved to become a core management tool, in way that it helps CEOs not only to clarify and communicate strategy, but also to manage strategy. In practice, companies use the BSC approach to accomplish four critical management processes which are: clarify and translate vision and strategy, communicate and link strategic objectives and measures, plan, set targets, and align strategic initiatives, and enhance strategic feedback and learning.

### 3.2. Extended Conceptual Framework

Performance of SMEs in Togolese market depends on certain factors which are split into two categories as dependent and independent variables. Independent variables include: access to business information, access to financial resources, and availability of managerial experience in business and access to infrastructure. Government regulations are included as a moderating variable. the connection of the variables is displayed within the figure 1 below:



Source: Author's conception based on literature

**Figure 1.** Conceptual framework.

**Framework Description: Major Determinants of SMEs Performance.**

As set out in two broad categories –internal and external –, factors influencing SMEs performance can be detailed into various components as in the following cases.

#### a) Access to business information services

Access to business information services has been one amongst the areas that needs more attention as identified. Many firms in Africa operate in an information-poor environment because of the dearth of adequate business support services and also the poor information technological infrastructures (Oshikoya & Hussain, [28, 6]). Access to information has however not been given the identical attention as other constraints to growth of SMEs like access to finance, markets, technology or training. In developed countries, SMEs enjoy easy accessibility to business information services, thanks to the well-developed information and communication technologies (ICTs) infrastructure and also the ease access to element and software.

#### b) Access to finance

Lack of access to credit/ finance is nearly universally indicated as a key problem for SMEs. Credit constraints

operate in sort of ways in Togo where undeveloped capital economic process entrepreneurs to depend upon self-financing or borrowing from microfinance institutions at a crucially high rate, from friends or relatives which isn't enough to enable SMEs and undertake their business activities optimally. Financial constraint remains a significant challenge facing SMEs in under developed countries (Wanjohi and Mugure [24]).

#### c) Availability of Managerial experience

Majority of these who run SMEs are ordinary lot whose mostly lack of educational background. Hence, they'll not preferably be equipped to hold out managerial routines for his or her enterprises (King& McGrath [5, 4, 44]). Management skills reliable to the owner/manager and also the enterprise. Bennet [42] made a definition of management as concerned with the deployment of fabric, human and finance resources with the look of organization structure. Haimann [48] consider management as a process of getting tasks accomplished with and through people by guiding and motivating their efforts.

#### d) Access to infrastructure

Ombura [42] points out that infrastructure networks are useful instruments within network economies. Infrastructure and related services help to form things happen, it feeds and it's fed by trade, it fuels foreign direct investment, it backs up the creation and sustainability of business clusters, it also cuts costs and raises competitiveness. A spatial planning approach ensures the foremost efficient use of land by balancing competing demands within the context of sustainable development (Roze [48]). It becomes an ongoing, enduring process of managing change by a spread of actors, within the interests of sustainable development (Tewdwr, [40]). This makes efforts to push industrial development extremely urgent and rural focused (Kinyua, [49]).

#### e) Government regulations

Government policies should aim to encourage and promote the event of local technologies. There should prior the promotion of the local tool industry to cut back reliance on imports. SMEs are said to face a “liability of smallness.” due to their size and resource limitations, they're unable to develop new technologies or to create vital changes on the prevailing ones. Still, there's evidence that SMEs have the potential to initiate minor technological innovations to suit their circumstances. However, for SMEs to totally develop and use this potential, they have specific policy measures to confirm that technology services and infrastructure are provided. (Wanjohi, [5, 41]). Policy initiates in revitalizing the SME sub-sector mustn't be only government engineered, but all the stakeholders in development arena should take frontline.

### 3.3. Data and Empirical Analysis

Due to financial and time constraints in conducting the present study, we were unable to design a questionnaire and conduct a green survey, which mainly would have been of rich contribution to the research results.

As such, our dataset is sourced from the World Bank



database.<sup>2</sup>

As described by the World Bank survey group, this Microdata Library facilitates access to data collected through sample surveys of households, business establishments or other facilities. These 'microdata' sets may also originate from population, housing or agricultural censuses or through an administrative data collection processes. The Library contains supporting documentation from censuses and surveys conducted or supported by the World Bank, as well as by other international organizations, statistical agencies and other agencies in low and middle-income countries.

#### a) Sample and feature

The Enterprise Survey (ES) were conducted by the World Bank Group and its partners across all delimited regions within Togo and cover small, medium, and large firms. The size of the firm is determined by the number of employees: 5 to 19 (small), 20 to 99 (medium), and 100 or more (large).

#### Box 2: detailed definition and feature of SMEs in Togo

SMEs are classified in terms of their sector of activity including: (i) the manufacturing, agricultural or forestry industry, (ii) wholesaling, (iii) retailing, (iv) services and (v) mining industry. The economic parameters include in the definition are compounded by: the number of permanent employees, annual turnover, and the total balance sheet.

#### b) SMEs in the manufacturing, agricultural or forestry sector

A medium sized industrial, agricultural or Forestry Company is a company that employs less than 100 permanent employees and whose annual turnover does not exceed 500 million CFA francs or the balance sheet total does not exceed 750 million CFA francs.

A small industrial, agricultural or forestry company is a company that employs less than 50 permanent employees and whose turnover does not exceed 250 million CFA francs or the balance sheet total does not exceed 250 million CFA francs.

#### c) SMEs in the Wholesale Sector

A medium-sized company in wholesaling employs less than 50 employees and its annual turnover does not exceed 250 million CFA francs or its total balance sheet is not higher than 250 million CFA francs.

A small company in this category employs less than 50 employees and its annual turnover does not exceed 200 million CFA francs or the total balance sheet does not exceed 150 million CFA francs.

#### d) SMEs in the retail sector

A medium-sized company here is the one employing less than 50 employees and whose annual turnover does not exceed 250 million CFA francs or the total balance sheet does not exceed 250 million CFA francs.

A small company is a company that employs less than 30 employees and whose annual turnover does not exceed 100 million CFA francs or the total balance sheet does not exceed 50 million CFA francs.

#### e) SMEs in the service sector

A medium-sized company employs less than 50 employees

with annual turnover which does not exceed 250 million CFA francs or whose total balance sheet does not exceed 250 million CFA francs.

A small company is a company that employs less than 30 employees and whose annual turnover does not exceed 100 million CFA francs or the total balance sheet does not exceed 75 million CFA francs.

#### f) SMEs in the mining sector

A medium-sized company is a company employing less than 50 employees and whose annual turnover does not exceed 250 million CFA francs or the total balance sheet does not exceed 250 million CFA francs.

A small company is the one that employs less than 30 employees and whose annual turnover does not exceed 100 million CFA francs or the total balance sheet does not exceed 75 million CFA francs.

Note: \$1=537.04374 CFA francs (Jun. 2021) (see <https://www.xe.com/currencyconverter/convert/?Amount=1&From=USD&To=XOF>)<sup>3</sup>

Firms with less than five employees are ineligible for the survey as well as for our analysis. Firms that are 100% state-owned are also ineligible. Business owners and top managers in 150 firms were interviewed in 2009 and between June and November 2016. Given the focus of our study, large firm were dropped from the sample and a total of 135 SMEs kept, on which our analysis and inference will be drawn.

#### Model Design and Empirical Analysis

Here we follow the remaining strategy to integrate the different components of the study in a coherent and logical way including to effectively design the econometric model, define variables measures in order to be able and analyze the data.

#### a) The model and variables specification

Multiple linear regression model is the econometric model used based on the description appeared in our proposed conceptual framework which also follows the pattern of [28].

$$Y_{it} = \alpha + \beta_i X_{it} + \varepsilon_{it} \quad (1)$$

Where:

$Y_{it}$ =dependent variable or SMEs performance often proxied by the annual sales growth. Due to the lack of available data, the annual sales of SMEs are used in place of the growth rate. However, the variable has been transformed into its log form, therefore to keep the growth perspective in the analysis.

$X_{it}$ =independent variables including internal factors as well as external factors that influence the performance of SMEs in Togo. Our paper has considered to use eleven (11) independent variables, which also have widely been used in the literature. These include:

The Top Manager's experience which measures the number of year a Top Manager has spent coordinating the

<sup>3</sup> Source: Author's compilation from Ministère du Commerce et de la Promotion du Secteur Privé (2006): Charte des petites et moyennes entreprises et industries (pme/pmi) du Togo, <https://www.izf.net/sites/default/files/reglementation-entreprises/charte-pme-versi-on-finalisee.pdf>.

firm activities

The market access: this variable is a dummy which distinguishes between SMEs selling exclusively to the domestic or their immediate local market from the ones exporting all or part of the production to foreign countries. It takes the value 0 and 1 (1 if the firm sells exclusively to local consumers and 0 otherwise)

Loans from Banks: if an SME is able to source more than 50% of its working capital from banks, this variable takes the value 1, otherwise it takes the value 0.

Infrastructure and facilities: these variables are also qualitative, which we have transformed into binary and scaled variables. To capture the impact of infrastructure and business facilities on SMEs performance, we have use two major proxies: Access to internet defined to isolate the type of SMEs who owns internet in their premises already in 2009. This first category takes value 1 and the rest 0. The second proxy is the supply of electricity. Power outages have been rated from “no obstacle” to “very severe obstacle” to firms' daily activities. In our case “no obstacle”=0 “minor obstacle”=1 “major obstacle”=2 “severe obstacle”=3 “very severe obstacle”=4

Corporate tax: as the survey has been targeted to formal enterprises, corporate and other taxes born by the SMEs have been considered.

Sector of activity: Our data include both manufacturing

and service sectors. It's suggested that the choice of one's business sector may have different exposure to the market. As a qualitative variable, we have labeled manufacturing sector as 1 and the service sector 0.

The local market size: this variable takes the value 1 if the size of the local market is between 500,000 and or over 1 million people. Otherwise, it takes the value 0

SMEs established in the capital city, Lomé: given that the data has been collected from SMEs throughout the national territory, it's worth looking at whether the location where they operate from matters. If the firm is located in the capital city, it takes the value 1, otherwise, the value is 0.

Gender of the top manager: this variable makes valuable sense based on the argument that gender might make a difference in terms of ability to manage an SME.

The share of ownership: ownership share may play a significant role in SMEs performance because it's directly linked to by who and how critical decisions are made. This variable takes the values ranging from 0 to 100%.

$\alpha$ =intercept, standing for the performance of and SME if the factors of interest are removed

$\beta_i$ =the coefficient to estimate

$\varepsilon_{it}$ =error term

$i=(1-135) \rightarrow$  number of SMEs in our sample

$t=(2009 \text{ and } 2016) \rightarrow$  time span of the sample

Table 1. Descriptive statistics.

Variable used in the regression	Number of Observation	Mean values	Standard Deviation	Min	Max
SME's annual sales	255	7.87e+08	2.33e+09	-8	2.00e+10
Top Manager experience	265	15.99	9.71	2	50
Selling exclusively to domestic market	270	0.66	0.47	0	1
Loans from Bank	270	0.18	0.38	0	1
Access to internet	270	0.24	0.43	0	1
Facing Power outages	270	2.21	1.31	0	4
Tax as business obstacle	270	2.01	1.95	-9	4
Sector of activity	270	0.33	0.47	0	1
Local market size	270	0.87	0.33	0	1
SME established in the capital city, Lomé	270	0.88	0.32	0	1
Top Manager is Male	270	0.87	0.34	0	1
Domestic private ownership (%)	270	75.37	40.69	0	100

#### b) Choice of Statistical tool and regression method

We will use STATA 14 to perform the regression and eventually for graph designing. “Stata is a complete, integrated statistical software package that provides everything needed for data analysis, data management, and graphics”.<sup>4</sup>

Choosing the appropriate regression methods for panel data requires mostly the so-called Hausman test after the data is explicitly declared as panel. The two models that require the test are the random and the fixed effect. The third option which will stand for robustness check for simplicity is the ordinary least squares (OLS) also known as the pooled OLS model.

To explain the difference between the two main methods, let's assume the basic model:

$$Y_{it} = \alpha + a_i + b_t + \beta_i X_{it} + \varepsilon_{it} \quad (2)$$

The random effects assumption (made in a random effect model) is that the individual-specific effects ( $a_i, b_t$ ) are uncorrelated with the independent variables  $X_{it}$ . The fixed effect assumption is that the individual-specific effects are correlated with the independent variables. Once one assumption is verified, the model that defines it will be the most appropriate for regression. The selection of the appropriate model is made by performing the Hausman test.

#### c) The Hausman test results and regression model selection

$b$ =consistent under  $H_0$  and  $H_a$ ; obtained from xtreg

$B$ =inconsistent under  $H_a$ , efficient under  $H_0$ ; obtained from xtreg

Test:  $H_0$ : difference in coefficients not systematic

$\chi^2(10) = (b-B)'[(Vb-VB)^{-1}](b-B) = 2.13$

$\text{Prob} > \chi^2 = 0.25$

A closer look at the above result from the Hausman specification test displays a P-value=0.25=25% which is

4 <https://www.stata.com/why-use-stata/>



far higher than the default 5%. This result of such high P-value suggests that between the two regression methods, random effects model is more appropriate for our data analysis.

Table 2. Regression results.

VARIABLES	SME's annual sales [ <i>in log</i> ]				
	Expected sign	Random effects model			
Top Manager experience [ <i>in log</i> ]	+	0.681*** (0.172)	0.686*** (0.172)	0.687*** (0.172)	0.668*** (0.171)
Selling exclusively to domestic market	-	-1.421*** (0.263)	-1.257*** (0.274)	-1.254*** (0.274)	-1.131*** (0.276)
Loans from Bank	+	1.064*** (0.271)	1.135*** (0.273)	1.168*** (0.275)	1.223*** (0.273)
Access to internet	+		0.673** (0.269)	0.672** (0.270)	0.721*** (0.268)
Facing Power outages	-		0.0768 (0.370)	0.0802 (0.371)	0.0632 (0.367)
Tax as business obstacle	-			-0.0746 (0.0677)	-0.0846 (0.0671)
Sector of activity	+/-				0.724** (0.299)
Local market size	+				
SME established in the capital city, Lomé	+				
Top Manager is Male	+				
Domestic private ownership	+/-				
Constant	+	17.04*** (0.508)	16.66*** (0.620)	16.79*** (0.631)	16.52*** (0.633)
Observations		243	243	243	243
R-squared		---	---	---	---
Number of panel		201	201	201	201

Table 2. Continued.

VARIABLES	SME's annual sales [ <i>in log</i> ]			Pooled OLS model	Fixed effects model
	Random effects model				
Top Manager experience [ <i>in log</i> ]	0.696*** (0.172)	0.688*** (0.172)	0.693*** (0.173)	0.589*** (0.190)	0.891*** (0.315)
Selling exclusively to domestic market	-1.072*** (0.281)	-1.110*** (0.281)	-1.107*** (0.282)	-1.263*** (0.313)	-1.033** (0.472)
Loans from Bank	1.263*** (0.275)	1.282*** (0.274)	1.290*** (0.275)	1.423*** (0.298)	0.942** (0.454)
Access to internet	0.679** (0.270)	0.635** (0.269)	0.650** (0.271)	1.153*** (0.322)	-0.235 (0.395)
Facing Power outages	0.0955 (0.368)	0.0992 (0.366)	0.0597 (0.375)	-0.0813 (0.404)	0.409 (0.634)
Tax as business obstacle	-0.0866 (0.0672)	-0.0781 (0.0675)	-0.0779 (0.0676)	-0.0933 (0.0709)	-0.237 (0.189)
Sector of activity	0.701** (0.302)	0.699** (0.302)	0.700** (0.302)	0.582** (0.286)	1.279 (1.419)
Local market size	0.430 (0.602)	0.483 (0.601)	0.485 (0.602)	0.311 (0.637)	1.370 (1.263)
SME established in the capital city, Lomé	0.268 (0.480)	0.250 (0.481)	0.255 (0.482)	0.120 (0.484)	
Top Manager is Male		-0.464 (0.396)	-0.461 (0.397)	-0.456 (0.390)	-1.737 (1.143)
Domestic private ownership			-0.146 (0.284)		
Constant	15.76*** (0.885)	16.17*** (0.955)	16.28*** (0.979)	16.83*** (1.002)	16.24*** (2.138)
Observations	243	243	243	243	243
R-squared	---	---	---	0.326	0.434
Number of panel	201	201	201		201

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

## 4. Results Analysis and Discussion

This section is nearly the all-in-one important part of the research toward its goal as we analyze, discuss the results backed by previous evidences and state detailed policy implications from our own perspective. Following the findings, our analysis can be split into five major points.

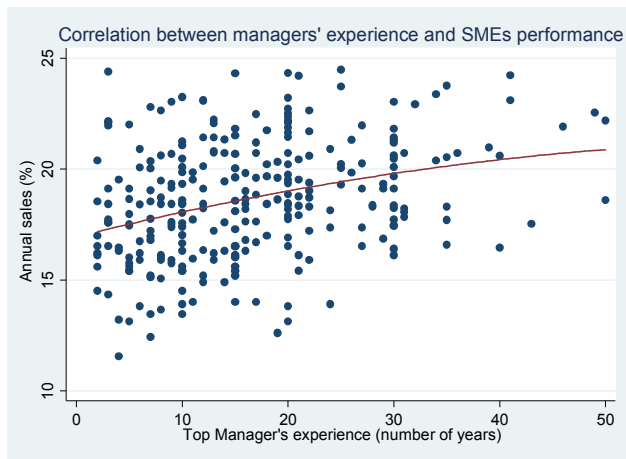
### 1) Managerial experience and internal governance on performance of SMEs

In general, Top Managers' experience as well as their skill level is one of the key factors on firms' performance. Here we use the log of years of a top manager's experience in SMEs. The first result shows that a percent increase in a top manager's experience can increase the company annual sales by about 0.681%. Other results referring to the same variable display approximatively similar values with the RE model.

The significance of the top managers' attitude and perceptions for firms' performance has been argued and confirmed by many other researchers (Bettis and Prahalad 1995 Katsikeas and Piercy 1998; Suarez-Ortega and Alamo-Vera 2005)<sup>5</sup>. It's suggested that top managers' knowledge and skills constitute firm-specific intangible resources and managers play a crucial role by even influencing firm internationalization (Leonidou and Katsikeas 1996) regardless of its size. According to Reuber and Fisher (1997), in smaller and younger firms the skills and knowledge of the management team are likely to be even more important and influential on the firm's performance than in larger firms.<sup>6</sup>

<sup>5</sup> K. Janepuengporn, and P. Ussahawanitchakit, — The Impacts of Knowledge Management Strategy on Organizational Performance: An Empirical Study of Clothing Manufacturing Businesses in Thailand. International Journal of Business Strategy, Vol. 11 (1), pp. 92-109, 2011.

<sup>6</sup> [https://www.fin-kp.si/zalozba/ISSN/1581-6311/8\\_239-259.pdf](https://www.fin-kp.si/zalozba/ISSN/1581-6311/8_239-259.pdf)



**Figure 2.** Correlation between Managers' experience and SMEs performance.

In practice, in the one hand, interaction between SMEs and knowledge sharing at home or abroad are among the prime opportunities for managers to acquire further experience. In the other hand, today, interesting programs such as la Maison de l'Entreprenariat de Lomé (MEL), le Fonds d'Appui aux Initiatives Economiques des Jeunes (FAIEJ), have been set up to seed, nurture and accompany young professionals to build into more skilled Managers. The MEL for instance has settled within the campus of the University of Lomé to better educate end-of-cycle students on the importance of entrepreneurship.

For less experienced Managers, Empretec could be a solution. This Training project is an integrated program of entrepreneurial capacity development. It provides training, technical assistance and an institutional framework to foster the development and international competitiveness of small and medium-sized enterprises. The program was designed by the United Nations Conference on Trade and Development (UNCTAD), and is deemed to be a support program designed to strengthen the behavior and performance of entrepreneurs.

Its main objective is to strengthen productive capacities and international competitiveness in order to promote economic development, eradicate poverty and ensure the equal participation of developing countries in the global economy.

Another option is the psychology-based entrepreneur training programs. New World Bank study, jointly released with the National University of Singapore Business School, and Elephant University revealed in September 2017 that psychology-based entrepreneur training programs are outperforming traditional business trainings amongst micro entrepreneurs in West Africa, translating into increased firm profits by 30% compared to 11% for traditional business training.

Researchers conducted a randomized controlled trial with a sample of 1,500 micro entrepreneurs in Lomé, Togo, to compare the impacts of standard business training to personal initiative. The trial, which consisted of the two trainings and four rounds of follow-up surveys, yielded surprising results.

Togolese entrepreneurs who went through personal initiative training earned higher profits than those in the traditional training or control groups at every percentile. Professor Michael Frese explained that the psychology-based training aims at developing key behaviors associated with a proactive entrepreneurial mindset such as self-starting behavior, innovation, identifying and exploiting new opportunities, goal-setting, planning and feedback cycles, and overcoming obstacles.

The second factor in this category is the type of ownership. Our regression using the domestic private ownership suggests that, an SME when completely owned by locals, is likely to perform less compared to the one involved in a certain partnership with the government or foreign partners. This is materialized by the negative sign (-0.146) though not statistically significant.

The gender of the Top manager seems to play a slightly different role as well. Results point that SEMs led by a Female Manager may observe higher performance. In fact, for firms operating in similar environment, if the Head of the company is a man, the annual sales are likely to be less by 46% compared to if the Manager were a woman. This simply means that women make better managers compared with men, except that the evidence is not strong because the coefficient is not statistically significant.

The choice of sector of activity appears to be determinant for achieving greater performance. Our sample was clustered on two aggregate sectors: manufacturing and services. On what appears from regression, SMEs operating in the manufacturing industries tend to accumulate higher sales compared with those in the services sector. In other words, one can realize an additional 72.4% higher annual sales if s/he invests in manufacturing activities with the same amount of capitals than choosing to invest in the services.

However, the unfortunate fact is that the Togolese economy is weakly represented by the industrial sector with only 19.7% of the GDP, of which 5.5% for the manufacturing industry. This is to mention that the sectoral dynamic should move in the positive direction i.e. the economy needs to improve from an unproductive agrarian industry to the manufacturing sector so that it's less costly for SMEs to melt with the whole. In fact, a healthier manufacturing sector provides opportunities for both upstream industries as well for the services. But, what actually is happening is alarming. The progressive decrease from 2005 to 2015 in the proportion of industries (21% to 20%) and services (44% to 32%) in GDP followed by the increase in the share of agriculture (35% to 47%) is an index of weak structural transformation of the Togolese economy.

This could be reversed if the government is able to instill a new hope for investment in the manufacturing sector. A bundle of incentives to spur the interest of SMEs to invest more in the manufacturing activities may include among others: reduced tariffs on quality controls, ease of export procedures and reduced export taxes on manufactured products. Financial institutions also need to take on their role to provide loans to the firms targeting the manufacturing

sector. This may not be exclusively, but incentivized, given that this industry not only adds more value to the economy, can provide more jobs, but also appears to be the most profitable for investors.

### 2) Access to finance on performance of SMEs

Results suggest that banks loans as working capital have the highest and extremely significant impact on SMEs performance. In practice, we can notice that firms that are fully financed by banks to run their daily activities perform 106.6% higher than the ones whose working capitals are internally funded. In 2016, the World Bank reported that only a mere 18% of enterprises surveyed appear to benefit loans from banks in Togo.

Generally, a positive working capital will indicate that a SMEs is able to pay off its short-term liabilities almost immediately. It is otherwise unable to do so if the working capital is negative. This is why analysts are sensitive to decreases in working capital. Decreasing working capitals is a sign that a company is becoming overleveraged, is struggling to maintain or grow sales, is paying bills too quickly, or is collecting receivables too slowly. Increases in working capital, on the other hand, suggest the opposite.

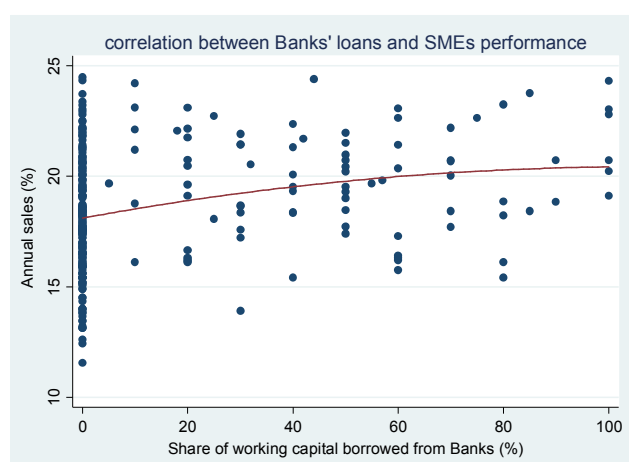


Figure 3. Correlation between Banks' loans and SMEs performance.

This should be an appeal to the government and financial institutions on their role to make the business environment more bearable and attractive for existing SMEs and for starters willing to enter the market. A well-developed financial market is deemed to provide payment services, mobilize deposits, and facilitate funding for the purchase of fixed assets – such as buildings, land, machinery, and equipment – as well as working capital. Efficient financial markets reduce the reliance on internal funds or informal sources such as family and friends by connecting firms that are creditworthy to a broad range of lenders and investors.

This perspective is also backed by previous findings. To mention but few; Batra, Kaufmann and Stone<sup>7</sup> state that access to finance allows firms to grow and develop. As SMEs

are not operating in a vacuum, a favorable business environment and healthy overall economic setting as a whole are good predictors of performance<sup>8</sup>.

extremely risk averse when it involves funding small businesses. A recent Nottingham post reported that in the UK, raising finance for SME clients continues to be very difficult simply because banks' lending criteria are still far too restrictive within the SME sector. In Togo, financial institutions often blame the weakness of the quality of the legal environment, the absence of specialized magistrates to handle banking disputes, the high cost of formalities, the cumbersome procedures for obtaining land titles, the shortage of mechanisms for coverage, risk sharing and risk diversification. It's therefore not excluded that the granting of a loan is predicated on further criteria such as the financial situation of the borrowers, their level of overall indebtedness likewise as profitability. In conclusion, it seems that neither banks nor the legal environment are the only to blame, applicants for banks loans are often unable to provide basic information as demanded.

### 3) Access to infrastructure on performance of SMEs

Infrastructure is proxied by access to electricity and access to internet. According to the World Bank (2016), a well-developed physical infrastructure, including roads, electricity, water and telecommunications, is central to competitiveness and growth of an economy. Quality infrastructure efficiently connects firms to markets for inputs, products, and technologies. It reduces the cost of production and enhances the competitiveness of firms in domestic and international markets.

For the first, it may be believed that SMEs facing severe obstacles to get and utilize electricity obviously end up worse off. Whilst this is not the case in the RE model, the evidence however appears for OLS that power outages impede on the sales to grow. Concretely severe cases of power cut lead SMEs to underperform in the range of 8.13% lower than those facing less or no obstacles. In fact, SMEs requires a reliable supply of electricity for efficiency in their daily operations.

Togo, like many other African countries, is also challenged with the energy deficit. On their attempt to demonstrate how power shortage negates on the economy overall performance in Ghana, Nyanzu and Adarkwah<sup>9</sup> went claimed that poor electricity supply or lack of quality and available power supply to the public and the business enterprises is a hindrance to economic development. The authors recommend that the government should implement policies and programs such as power mix approach and renewable energy and bring in private sector participation to install competition and efficiency. This is in the interest to mitigate the unreliable electricity supply.

<sup>8</sup> Smit and Watkins, 2012; A literature review of small and medium enterprises (SME) risk management practices in South Africa; African Journal of Business Management Vol. 6 (21), pp. 6324-6330.

<sup>9</sup> Nyanzu, Frederick & Adarkwah, Josephine, 2016. "Effect of Power Supply on the performance of Small and Medium Size Enterprises: A comparative analysis between SMEs in Tema and the Northern part of Ghana," MPRA Paper 74196, University Library of Munich, Germany.

<sup>7</sup> Kaufmann, Daniel and Batra, Geeta and Stone, Andrew H. W. The Firms Speak: What the World Business Environment Survey Tells Us about Constraints on Private Sector Development. <https://mpra.ub.uni-muenchen.de/8213/> MPRA Paper No. 8213, posted 10 Apr 2008 18: 28 UTC.

On the plan sheet to overcome the power challenge in Togo, the main focus of the Government is an effort to implement its strategies as in the SCAPE described as the Accelerated Growth and Employment Promotion Strategy which aims to increase production capacity nationwide. As mentioned in the report of the bureau of statistics (DGSCN, 2014), the goal was to increase electricity generating capacity from 161 MW in 2010 to at least 300 MW in 2015 and 500 MW in 2020. Some initiatives have already been taken by the Government to increase energy production in recent years through public-private partnerships with Contour Global and the promotion of renewable energies (solar energy, wind, etc.). In this vein, and as recommended by Nyanzu and Adarkwah (2016)<sup>10</sup>, we also suggest that SMEs should consider alternative sources of power such as solar power, inverter, biogas, generators, which would help curb the cost power outage brings to their production and to boost their output.

In this category of infrastructural needs, results also show that SMEs that own internet connection in their premises enjoy better performance in the form of sales growth. Between different firms operating in the same environment and in the same industry or sector, those who connect to internet technologies can sale 0.673% more than the ones without similar infrastructure.

To emphasize on the contribution internet to the corporate performance, Lawrence (2009)<sup>11</sup> states that within the present increasingly global world, both information and information technology are vital to organization of all sizes. For him, businesses both large and tiny need information to succeed in today's rapid changing environment as they need to be able to process data and use information effectively when conducting their day-to-day operations. An internet presence is able to instantly give SMEs a global audience. Owners can reach out to customers from around the world and customers are able to learn faster about and purchase their products and services. In a nutshell, such companies' potential population of customers is endless.

According to the World Bank statistics (2017), the share of the total population in Togo with access to and use of internet was 0.011% in 1996, rising to a mere 11.31% in 2016. This looks alarming due the fact that the share was 0.006% for Ghana in 1996, but is up by a dominant share of 34.666% twenty years later. Resolving the issues of internet low access entails addressing major policy and operational barriers because although a rising number of people in the country may have gained access to the internet, the facts speak for themselves; many still remain outside the digital revolution.

In countries like Togo where the communication industry is almost kept under monopolistic management with taxes levied over the reach of some SMEs, there is a need for the

government to rethink the market mechanism. On the one hand, monopolies keep telecommunications prices high and make it difficult for small businesses and impoverished residents to access digital services. On the other hand, more often, private internet service suppliers such as Moov, complain on the per-user fees imposed on data usage, discouraging them from investing in remote areas (because they will generate less revenue, yet comparable tax bills). West (2015), in his study on how to improve internet access in developing countries, advises that, reducing these taxes can be an effective way to expand Internet access.

#### *4) Access to markets on performance of SMEs*

In less developed countries like Togo, targeting the international market is one of the most challenging decision for SMEs given the level of competition on the global market. Therefore, most of these tiny or medium sized firms tend to rely on the domestic or their immediate local market. The latter market choice also does lead to different outcome based on size and location. For instance, as suggested by our results, it will be more profitable for firms to locate in the capital city Lomé rather than elsewhere. Thus, for SMEs running similar businesses, the ones in the capital city Lomé can annually sell 26.8% above the average performance of the rest in other locations. Those selling to market exceeding one million consumers also make additional sales of 43% more than the ones supplying markets of less customers. On top of all, considering outside market for export may be of better exposure. Results show that narrowing the target market to only the domestic demand can lower the relative performance. Therefore, on a comparative basis, SMEs supplying 100% of their product to the domestic market sell 110 to 125% lower than the category completely open up to global buyers.

There is a common conception that firms should not try to be everything to everyone i.e. they must be focused while targeting markets. It simply means no matter how great a firm's product or service is, it will never appeal to everyone. The broader the market, the more difficult it is to create a strong brand message, compelling designs and tempting offers, especially if the firm is not large enough. However, depending on the goods or services they offer, SMEs may need to look out to spot not everyone but a bigger market to serve. SMEs need to go broad, but strategically by first specializing and then target a category of consumers—for instance, age, gender, marital status, children, income level and need etc.—at regional or international level. The point is that if the firm is restricted to a small target market and also competing against other companies, its market horizon can become saturated quickly, meaning that its sales opportunities will become restricted in the very shorter run.

Market is one of the critical factors in a company life and its well-being, simply because when there is no one to sell to, there is no reason to produce. In terms of global market target, Togo is signatory to a number of free trade agreements (FTAs) which offer several products, produced locally, preferential tariffs or quota free access to African regional, EU and U.S market. As for a concrete instance, many product especially in the light manufacturing such as garment, textile or agro

<sup>10</sup> Nyanzu, Frederick and Adarkwah, Josephine (2016): Effect of Power Supply on the performance of Small and Medium Size Enterprises: A comparative analysis between SMEs in Tema and the Northern part of Ghana.

<sup>11</sup> Kenneth J. Zucker & Anne A. Lawrence (2009) Epidemiology of Gender Identity Disorder: Recommendations for the Standards of Care of the World Professional Association for Transgender Health, International Journal of Transgenderism, 11: 1, 8-18, DOI: 10.1080/15532730902799946.

processing etc. have access to several preferential tariff schemes in the United States, including the Generalized System of Preferences (GSP), the GSP+ for Least Developed Countries, and the African Growth and Opportunities Act (AGOA). For apparel products, complete exemptions are available for a limited square footage of imports to the US. This limit is adjusted annually based on the previous year's apparel imports. For the EU market, Togo qualifies for the "Everything but Arms (EBA)" system, wherein everything produced in Togo qualifies for full tariff exemptions. This is a substantial benefit over many other countries. At least, medium sized firms willing to go out –in terms of global market access as export base can joint-venture with foreign companies which in large extent have already built confidence with buyers in the EU as well as in the United States or elsewhere.

#### 5) *Government regulations on performance of SMEs*

The World Bank reported that 'in 2016, firms in Togo spent more time dealing with government regulations and obtaining licenses than in 2009. The percentage of firms that met with tax officials increased from 67% in 2009 to 77% in 2016. The percentage of senior management's time spent dealing with regulations ("time tax") also increased, from 3% in 2009 to 10% in 2016. On average, the regulatory and tax burden on firms in Togo is higher than the average for comparator economies. In low income economies, on average, 70% of firms met with tax officials and time tax on average was 8.5 percent—lower than in Togo'.

In literature, tax burden has been cited as a notable impediment for business success in a country. Evidences are no different with SMEs in Togo, and this is demonstrated through our regression that firms that reported to face severe tax obstacles are likely to realize 7.46% lower performance compared to those reporting this aspect of the government regulations as a minor issue.

Tax is a key link between the government, the firms and the consumers. Tee et al. (2016) state that if the tax structure is not adequately designed to the specific environmental conditions, it may create a greater burden to the tax-paying organizations and eventually affecting the final consumer due to the shifting ability of tax. They suggest that despite the contribution that taxation can make towards the Gross Domestic Product (GDP) of a country in general, much attention is also needed to the side effects of tax on the growth of SMEs.

As this paper is not intended to conduct in-depth analysis on taxes alone, it's however one of the most important although it often seems the least favorite topic for small business owners. Korem (2013)<sup>12</sup> lent a special attention to this topic and recommended that tax schedule for SMEs needs action from the government as the author found that there was a crowding effect between taxation and growth of SMEs in Togo. Specifically, he found that taxes mostly impede on the growth of nascent SMEs i.e. in their first year

of installation. In contrast, for the ones that reach acceptable sizes, taxation is no longer deemed to be a growth constraint. In terms of economic policies, the study proposes that the taxation system to Togolese SMEs should be reviewed downwards, especially during the first years of establishment so as to encourage the emergence of this category of companies.

Tax reduction may not be an easy step for the government to undertake vis-à-vis SMEs for the sake of their growth. Tax alleviation can be feasible for this category of corporation when the strategy is correctly rethought and redesigned. The first step in this endeavor may be to get business owners fully informed on their specific tax schedules so as to resolve the issues of fear to formalization. Speaking of SMEs, there should be a sub-institution formed within the Office Togolais des Recettes (OTR) to inform and keep the companies updated on a regular basis by email as well as by face-to-face visits for those without access to internet. Taxes are burden, therefore the personnel of Authorities in charge must be trained on the best way to avoid tensed interaction and to keep warm contact with the companies. SMEs owners can be taught of taxes as part of the salary paid to workers rather than a heavy debt or penalty owed to the government. Given that most of these small business owners are inexperienced, they may need closer attention and help on how to build a record book including a system to track income and expenses, procedures to collect and store required receipts for taxes and so on.

## 5. Conclusion and Recommendations

The goal pursued in this paper was sequential in that the first step focused on to identify and quantify the impact of determinants to SMEs performance. We have found that this topic has widely been discussed in the literature, leaving little room for further studies to carry out. It was however very eye-catching that various background models for validation in empirics were not all consensual and that anyone can lean on the most appropriate for a special case. Lending this opportunity to the case of corporate performance in Togo was more than filling in a blank research area given the missing analytical literature on this particular topic for SMEs. This gap was nearly sufficient to catch the readers and the policy-making audience attention to explore new viewpoints and proposed policy options for SMEs development based on the spatial target –Togo.

Drawing on all the above-mentioned, we argued that if the business environment were fair to all the companies, SMEs that adopt rigorous internal discipline or establish a streamlined within-structure with experienced and skilled managing personnel will always perform better. This is an appeal to Business starters, lower-skilled and less-experienced managers that they should attain entrepreneur-focused trainings in professional institutes before embarking or while at an early stage of their entrepreneurship. For SMEs looking out to sell to wider markets, targeting foreign customers must feature higher on

<sup>12</sup> Mohd Shariff, Mohd Noor and Chea, Peou and Ali, Juhary Moderating effect of government policy on entrepreneurship and growth performance of small-medium enterprises in Cambodia.

their consumer base plan-book. It's also advisable for SMEs to consider entering the manufacturing industry as it pays more back, creates jobs and adds more value to the economy. The role of the government is also crucial. The business environment should be made attractive and bearable for investment. Provision of production facilities including sufficient and stable electricity, lower-cost internet supply, professional training centers, taxation and other regulations have to be competitive, not only for existing companies, but also for foreign investors seeking to relocate their businesses. In sum, if the market is distorted by non-aligned policies from the government, SMEs face many constraints whereby the environment generates extra costs which in turn weaken their performance. Therefore, given firms' internal structure, we strongly suggest that the government is also central to SMEs success. In sum, if the market is distorted by non-aligned policies from the government, SMEs face many constraints whereby the environment generates extra costs which in turn weaken their performance. Therefore, given firms' internal structure, we strongly suggest that the government is also central to SMEs success.

## 6. Limitations and Suggestions for Possible Extension

There are two major limitations to this research, both due to lack of information. In the first place, firm level data used for our analysis was available on Enterprise Survey platform of the World Bank only for the years 2009 and 2016. Although significant findings emerged from the regression, we are forced to put a caveat, arguing that all the results could not mean accurately what has been displayed as there could be problem of consistency and efficiency about estimated coefficients. This is however an important and a very good step for a future study to delve deeper in results validation by using other datasets from primary surveys. The first limitation is followed by the quasi-absence of analytical literature on SMEs topic in Togo. Such a lack of reference literature must be looked at as a serious problem as rigorous academic views on serious topics for development are being widely replaced by quick and streaming blogs. Lack of literature means lack of thoughtful information base for both policy makers and SMEs owners leading everyone to fend for oneself. This is however an opportunity for academics to work toward filling this important gap because imported literature may not necessary best-fit the case of Togo.

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