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Effect of Market Conditions on Sustainability of SMEs in Central Uganda

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A B S T R A C T

The study investigated the effect of market conditions on sustainability of SMEs in central Uganda. Survey design was employed with a sample of 259 respondents who included owners and managers of SMEs in central Uganda. The research tools were pretested before being employed. The study employed mixed methods to allow a robust understanding of the study findings. Regression and correlational analysis were employed. Simple linear regression was specifically used to ascertain the degree of prediction between market conditions and sustainability of SMEs in central Uganda. Findings revealed significant effect of market conditions on sustainability of SMEs. The study further indicate significant relationship between market conditions and sustainability of SME. We therefore, conclude that market conditions significantly affect sustainability of SMEs. Irrespective of other factor, market conditions alone predicts about 30% of SMEs sustainability. We recommend the formation of favorable policies by relevant authorities to foster market conditions favorable to SMEs. Policy formulation should in consultation with stakeholders involved in SMEs to ensure good policies are formulated to supports the sector.

Keywords: Market Conditions, Sustainability, SMEs

1. Introduction

Sustainability of SMEs is dependent of many factors that interact to ensure a favourable business environment in which businesses operate in. Market conditions determine how businesses may carry on with their operations. Survival of a business depends on either internal factors or external factors. However, both internal and external factors are paramount to survival of SMEs and hence their sustainability in business. Market conditions may be favourable or unfavourable, therefore, there is need to understand the extent to which market conditions contribute to sustainability of SMEs.

2. Effect of Market Conditions on Sustainability of SMEs

Many factors affect the lower rate of participation of SMEs in international trade. There are internal constraints of higher vulnerability to market developments and high infrastructure costs, as well as lower productivity, including a lower level of digitization (OECD, 2017). In addition, SMEs are disproportionally affected by trade barriers and inefficiencies resulting from trade policy, namely standards and technical regulations, logistics processes and services, and customs and other administrative trade procedures. The conventional wisdom about markets and market reform provided the intellectual grounding for neo-liberal policies that were applied across a broad range of countries and conditions.

The US International Trade Commission (2014) investigated trade barriers for SME in the EU market. The findings pointed at the following cross-cutting trade barriers: (i) Standards related measures resulting in high compliance costs in particular for chemicals and cosmetics but also for machinery and technical equipment; (ii) High tariffs and quotas for agriculture products including corn, wheat, lamb and poultry. (iii) Difficulties involving trade secrets and patenting costs; and (iv) Logistics challenges including customs requirements.

Complying with regulatory requirements and adapting to regulatory variance across countries is more difficult and costly for SMEs compared to larger firms. Isti et al., (2014) contend that Government has much influence to establish the environment and create infrastructure that support entrepreneurship. Governments can only provide an underlying conducive environment to the emergence of productive entrepreneurship rather than unproductive entrepreneurship (Minniti, 2008). Mandhachitara and Allapach. (2017) observed that there is a relationship between positive leadership and the success of

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the enterprises. Further, Dutz et al. (2000) explored the relationship between entrepreneurship and economic development in low-income countries. In this context, they suggest that two policies are critical for promoting growth. First is protecting commercial freedom, property rights, and contracts, and second is fostering opportunities for grassroots entrepreneurship is paramount through an active supply-side competition policy that emphasizing access to essential business services and other required local inputs. Whereas, Gherghina, Botezatu, Hosszu, and Simionescu, (2020) found out that the price gap in the market between two raw materials, not the price value determines how much to buy. This helps build a strategy for when, what, and subsequently, an optimization is attained that minimizes supply cost and derive desired benefit from the business and Sustainability may be achieved the barrier to market entry may be low.

For Bosma, Zwinkels, and Carree, (1999) entrepreneurship development can be explained by the supply side (labor market perspective) and the demand side (product market perspective; carrying capacity of the market) of entrepreneurship. The demand side of entrepreneurship represents the opportunities for entrepreneurship. It can be viewed from a consumers' and a firms' perspective. The greater of diversity of consumers demand, the more room is created for potential entrepreneurs. Meanwhile from a firms' perspective, focus is on the industrial structure (sector structure, outsourcing, and networking). The opportunities are influenced strongly by technological developments and government regulation (Verheul et al., 2001).

Gupta and Batra (2016) analyzed survey data collected from 198 manufacturing Indian SMEs found a strong positive relationship between entrepreneurial orientation and firm performance, while environmental contingencies (demand growth and competitive intensity) were found to have a moderating influence on the performance relationship.

Table 1 Regression results between market conditions and sustainability

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.529[a]	.280	.277	.36087	1.740

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.028	1	13.028	100.040	.000[b]
	Residual	33.468	257	.130		
	Total	46.495	258			

a. Dependent Variable: Sustainability

b. Predictors: (Constant), Market conditions

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.513	.097		26.000	.000
	Market conditions	.295	.030	.529	10.002	.000

a. Dependent Variable: Sustainability

Results in table 4.13 reveals findings on the second objective, in the model summary box the R Square the value is 0.280. This tells us how much of the variance in the dependent variable (business sustainability) is explained by the independent variable (market conditions). The beta coefficient for market conditions suggests that it predicts sustainability of SMEs by 29.5%. The Durbin-Watson statistic of 1.740 is approximately two. This statistic helps to understand if the predictors are significant or not. These statistics therefore, suggest that market conditions significantly predict business sustainability. Therefore, this could suggest that good market conditions ensure sustainability of SMEs. Favorable market conditions entice entrepreneurs to start businesses and such business can easily grow. Market conditions can therefore, be stimulated by policy formulation in such a manner that SMEs find it favorable to conduct business and are able to attain sustainability.

From the interview respondents were asked if market conditions are the major contributors to the growth of your business. The respondents indicated that;

> *.....if you don't have market for your products you will definitely not succeed with the business, if the market conditions are favorable the business makes good money and it easy for the business to grow.*
>
> *Yes market conditions are an important factor but there many other factors that contribute to growth. If market conditions are good the business makes money which in the long run helps the business to grow. When market conditions are poor the business also struggles to survive and may lead to failure. …..when the economic conditions are good businesses do well because we can make money that enable the business to grow.*

3. Testing the hypothesis

H_o: There is no significant effect of market conditions on sustainability of SMEs in central Uganda

To assess the statistical significance of the result it is necessary to look in the table labeled ANOVA. The model in this study for objective two meet statistical significance (Sig = .000, this really means p<.05). This suggests significant effect and the null hypothesis rejected. Therefore, the study concludes that market conditions have a significant effect on business sustainability in central region in Uganda.

Table 2 Correlation between market conditions and sustainability

Correlations

		Market conditions	Sustainability
Market conditions	Pearson Correlation	1	.529**
	Sig. (2-tailed)		.000
	N	259	259
Sustainability	Pearson Correlation	.529**	1
	Sig. (2-tailed)	.000	
	N	259	259

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

Cohen (1988) maintains that if r =.50 to 1.0 or r = –.50 to –1.0 then relationship is large. Table 2 reveals results of Pearson's correlation coefficient suggesting a large relationship between market conditions and business sustainability. In other words, (r = 0.529; sig. 0.000) this is a strong significant relationship between the two variables. The coefficient of 0.529 implies approximately 53% suggesting that the two variables are largely related. Therefore, the study concludes that there is a strong positive relationship between market conditions and sustainability of SMEs in central Uganda.

4. Recommendations

We recommend the formation of favorable policies by relevant authorities to foster market conditions favorable to SMEs. Policy formulation should in consultation with stakeholders involved in SMEs to ensure good policies are formulated. Small businesses should be protected against stiff competition of large businesses. To ensure sustainability of SMEs, there is need to ease access to the market by manufacturers where good infrastructure should be enhanced by government. Market conditions are favorable when buyers and sellers can easily predetermine desired output and consumption through understanding the modalities of the market, this call for information availability to both buyers and seller, where they should have access to market information should conveniently established.

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