



FIRMS' INTERNAL FACTORS INFLUENCING THE PERFORMANCE OF SMEs IN MALAWI

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ABSTRACT :

Despite acknowledging that SMEs are crucial in the economic growth of Malawi, there was limited research on the firms' internal factors that influence the performance of the SMEs. As such this study contributed to the empirical evidence by investigating the influence of firm's internal factors on SMEs' performance. The investigation focused on financial capability, managerial expertise and ICT usage. Further, quantitative methods were used to collect data from 353 SME owners in Lilongwe urban central with the self-administered structured questionnaires who were chosen randomly. The study had a response rate of 88.4%. As out of the 353 distributed questionnaires, 312 were returned and 305 were deemed valid after scrutiny, constituting the sample for analysis. The gathered information underwent both exploratory and confirmatory examinations, with data analysis conducted using PLS-SEM in Smart PLS tool. The results of the study show that some of the firm's internal factors do indeed influence the performance of SMEs in Malawi. Specifically, factors such as financial capability, and managerial expertise, whilst ICT usage was found to be insignificant to influence to SMEs' performance. Theoretically, the findings imply that a combination of financial capability and managerial expertise leads to an improved performance for SMEs in Malawi. Therefore, SMEs should prioritize fortifying their financial capability and managerial expertise in order to improve business performance. Hence the study recommends that, policies should be revised to empower city councils to offer business training to SMEs, and SMEs should invest in enhancing their managerial expertise and financial capability. Furthermore, it suggests that the Malawi Government should invest more in incubation programs, establish a dedicated department for SMEs' business training within city councils, and collaborate with other business training service providers to enhance the provision of business training for SMEs in the country.

Keywords: SMEs, performance

INTRODUCTION

Small and Medium-sized Enterprises (SMEs) play a vital role in economic development, contributing significantly to job creation and business activity in both developed and developing countries. Despite their importance, SMEs face performance challenges primarily due to internal factors such as managerial expertise, financial capability, and ICT usage, which are directly controllable by business owners. These factors are critical for optimizing operations, fostering innovation, and enhancing competitiveness in today's dynamic business environment. While extensive research has focused on external factors like economic conditions and legal frameworks (e.g., Angela, 2020; Belghitar et al., 2018; Nyarku & Oduro, 2018), there is limited information on internal factors, creating a research gap that this study addresses.

The study employs metrics such as transaction volume, profitability, and asset base to evaluate SME performance, as these provide a comprehensive view of financial health, reflecting revenue generation, sustainability, and operational capacity. Grounded in the Resource-Based View (RBV) theory, the research highlights how internal resources like financial capability, managerial skills, and ICT adoption can be leveraged to achieve organizational objectives and competitive advantage. Unlike external factors, these internal elements are within the control of SME owners, making their investigation crucial for informed decision-making and strategic planning.

In the context of Malawi, SMEs account for approximately 80% of businesses and are key drivers of economic growth, contributing to tax revenues, poverty reduction, and empowerment of marginalized groups (Finscope, 2023). However, SMEs face an unfavorable business environment, lacking the protective advantages of larger or government-owned entities. This has led to a significant decline in SME numbers, with a 22% reduction in Lilongwe between 2022 and 2023 (Lilongwe City Council, 2023). Previous studies in Malawi have primarily focused on external challenges like insufficient finances and complex regulations (Majanga, 2019), with less attention to internal factors and the Lilongwe context, despite it hosting the highest number of SMEs in the country.

By examining internal factors such as managerial expertise, which drives innovation and resource allocation, financial capability, which supports investment and risk management, and ICT usage, which enhances competitiveness and market reach, this study aims to empower SMEs to navigate

external challenges. The findings are expected to provide actionable insights for improving operational efficiency, employee satisfaction, and overall performance, thereby contributing to Malawi's economic prosperity. Additionally, the study addresses the scarcity of research on internal factors and the contextual gap in Lilongwe-focused studies, adding valuable knowledge to the field of SME performance.

1.1. Statement of the problem

Research on Small and Medium-sized Enterprises (SMEs) performance has predominantly focused on external factors, with some studies combining these with internal factors (e.g., Majanga, 2019), though scholars like Khalid and Muzamil (2022) recommend studying them separately due to their distinct nature; despite numerous studies, internal factors such as financial capability, managerial skills, and ICT usage remain under-researched compared to human resources, innovation, marketing, and product quality (e.g., Nyarku & Oduro, 2018; Khalid-Albalushi et al., 2022), leading to inconclusive results across different contexts; in Malawi, where SMEs face a persistent decline, including a 22% reduction in Lilongwe between 2022 and 2023 (LCC, 2023) and high failure rates (Mwatsika, 2023), the focus on external factors like insufficient finances and regulatory challenges overlooks internal factors within SMEs' control, necessitating urgent investigation into managerial expertise, financial capability, and ICT usage to address these challenges and enhance performance in an adverse business environment..

2. RESEARCH METHODOLOGY

Research Philosophy

This research utilized a positivist methodology, commencing with a theoretical framework to gather data that either confirmed or challenged the RBV theory. This methodology entailed making adjustments as needed before proceeding with additional examinations of the RBV theory. Given the study's objective of investigating the firms' internal factors affecting SME performance, a model and hypotheses were proposed and subjected to empirical testing.

Research Design

This research employed an explanatory research design, which is a type of research design utilized to examine the relationship between variables and to offer explanations for observed phenomena (Kothari, 2004). According to Piccio and Manigo (2022), the goal of this design is to identify and comprehend the fundamental causes, rationales, or factors that lead to a specific outcome or occurrence. Explanatory research endeavors to comprehend the causality behind occurrences or the interdependence of various factors.

The scope extends beyond the mere depiction of variables and strives to uncover the underlying mechanisms and processes that propel the noted relationship. Consequently, it was possible to test the causal-effect relationship between the financial capability, managerial expertise and ICT usage on SMEs' performance. Hence the selection of the explanatory design.

Research Approach

The study utilized a deductive approach. The approach involves starting with a clear hypothesis or theory and testing it through specific research objectives. In the study, the specific research objectives (e.g., the influence of financial capability, managerial expertise, and ICT usage) formed hypotheses that the study aimed to confirm or refute. The study had a predefined framework as guidance, which aligned well with a

Research Method

The study used a quantitative research method. A quantitative research approach was selected per reasons. First of all, it is a systematic and empirical approach that involves the collection and analysis of numerical data to answer research questions or test hypotheses (Kothari, 2004). It also utilizes statistical analysis and mathematical models to interpret data and establish relationships, patterns, and statistical significance (Umar & Sam, 2022). Employing quantitative research enabled the collection of numerical data on constructs such as ICT usage, managerial expertise, financial capability and SMEs' performance.

Through the utilization of standardized measurement scales incorporated within a structured questionnaire, the researcher gathered data that was capable of being quantified and subsequently subjected to statistical analysis. Also, this methodology facilitated the researcher's ability to systematically ascertain the influence of these variables on SMEs' performance. Moreover, the quantitative approach enhanced the generalization of the results to a broader population.

Table 4.1: Demographic Descriptive Analysis

Gender	Description	Frequency	Percentage
	Female	130	42.6
	Male	175	57.4
	Total	305	100.0
Age of SMEs' owners	Description	Frequency	Percentage
	18 to 24	30	9.8

	25 to 34	68	22.3
	35 to 44	138	45.2
	45 to 55	38	12.5
	55 and above	31	10.2
	Total	305	100.0
Education Level	Description	Frequency	Percentage
	Primary level	31	10.16
	Secondary level	207	67.86
	Tertiary level	67	21.96
	Total	305	100.0
Enterprise Size	Description	Frequency	Percentage
	Micro	208	68.2
	Small	77	25.2
	Medium	20	6.6
	Total	305	100.0
Business Category	Description	Frequency	Percentage
	Agriculture business	67	22.0
	Manufacturers	11	3.6
	Retailers	122	40.0
	Service providers	90	29.5
	Wholesalers	15	4.9
	Total	305	100.0
Business Experience	Description (Years)	Frequency	Percentage
	1 to 5	130	42.62
	6 to 11	92	30.16
	12 to 17	40	13.11
	18 and above	43	14.10
	Total	305	100.0

The statistics reveal that the male SME owners dominate the sample of the study, with males accounting for 57.4%, while the remaining 42.6% constitute females. Moreover, 138 (45.2%) and 68 (22.3%) of the respondents fall between the age brackets of 35-44 years and 25-34 years, respectively. The majority of the respondents, that is, 67.86%, had attained secondary education. Concerning business size, the majority of the respondents, that is, 68.2%, operate micro businesses. Furthermore, the majority of the respondents, that is, 40%, operate retail businesses. Lastly, the majority of SMEs have been in operation between 1-5 years, that is 42.62%. From these statistics, the study has drawn the following insights.

Direct Relationship Hypothesis Testing

In the Table 4.11, Financial Capability (FC) exhibits a robust and positively significant relationship with SMEs' Performance, as evidenced by a path coefficient of 0.337, a t-value of 4.571, and a p-value of 0.001, explaining 47.3% of the variance. Therefore, the hypothesis linking FC to PVA is supported. Similarly, Managerial Expertise (MG) also demonstrates a positive and significant influence on SMEs' Performance, with a path coefficient of 0.179, a t-value of 2.444, and a p-value of 0.040, accounting for 6.9% of the variance. Consequently, the hypothesis concerning MG and PVA is supported as well. In contrast, ICT usage (ICT) reveals a less substantial influence, with a path coefficient of 0.034 and a non-significant t-value of 0.58 (p-value = 0.523), explaining only 1% of the variance. Thus, the hypothesis pertaining to ICT and PVA is not supported, highlighting the limited influence of ICT on SMEs' Performance.

Hypotheses paths	Path coefficients	t-values	p-values	F ²	Hypothesis status
FC -> PVA	0.337	4.571	0.001	0.473	Supported
MG -> PVA	0.179	2.444	0.040	0.069	Supported
ICT -> PVA	0.034	0.58	0.523	0.03	Not supported

4. Conclusion

This study, conducted in Lilongwe City Central, Malawi, explored the impact of financial capability, managerial expertise, and ICT usage on Small and Medium-sized Enterprises (SMEs) performance, revealing that financial capability and managerial expertise significantly enhance performance, aligning with the Resource-Based View (RBV) theory, which posits that valuable and rare resources like robust financial resources and skilled management drive competitive advantage, as supported by studies in Malawi (Majanga, 2019) and Kosovo (Loku & Loku, 2020); however, ICT usage showed no significant influence, consistent with findings in Mexico (Iacovone et al., 2019) but contradicting RBV expectations, suggesting ICT's widespread availability in Malawi diminishes its strategic value; methodologically, the study addressed gaps by focusing on internal factors, unlike prior studies emphasizing external factors (e.g., Nyarku & Oduro, 2018), and used comprehensive performance metrics—profitability, transaction volume, and asset base—for a holistic assessment, correcting flaws like small sample sizes (Guillén et al., 2019) or convenience sampling (Nyarku & Oduro, 2018) by sampling over 10% of the SME population and ensuring anonymity to reduce biases.

Managerially, the study urges SMEs to prioritize financial literacy, cash flow, and working capital management, alongside regular business training to strengthen managerial skills, while unregistered SMEs should formalize operations to access government-backed initiatives like incubation programs, as highlighted in the Finscope (2023) report; policy-wise, it recommends that the Malawi Government collaborate with training providers, invest in incubation programs, and establish dedicated SME training departments through City Councils to enhance financial and managerial capabilities, fostering resilience in a challenging economic landscape; despite its contributions, the study's quantitative, cross-sectional design and self-reported data may miss qualitative nuances and temporal dynamics, though mitigated by diverse sampling and anonymity; future research should adopt qualitative methods like interviews or focus groups to explore contextual factors, particularly the lack of ICT impact, and investigate additional internal factors, as the 23.6% R-square indicates unexamined variables, to provide targeted solutions for strengthening Malawi's SME sector and driving economic growth in a dynamic business environment.

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