



Research Article

Success and Failure Determinants of Small Businesses: Evidence from Qardho, Puntland, Somalia

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ABSTRACT

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This paper explores the success and failure determinants of small businesses in Qardho, Puntland, Somalia, and specifically, how the internal and external factors can affect the business performance. A survey was conducted on a sample of 150 owner-managers of small firms in that a structured questionnaire was distributed in a cross-sectional, quantitative design. The analysis of reliability showed acceptable internal consistency on all scales. Descriptive findings showed that there was a moderate agreement on the significance of internal capabilities, i.e., management skills, planning, innovation as well as financial control and a strong agreement in terms of external conditions (availability of finance, infrastructure development, and regulatory support). Correlational analysis established a positive relationship between internal and external success factors and business performance as well as negative relationship between the perceived risks of failure and the success factors. The multidimensional regression analysis also showed that the external factors used were a strong predictor of the performance ($\beta = .426, p = .001$) as it predicted 25.4 percent of the variance, but the internal competencies and perceived risk of failure did not have a significant effect on performance. In general, the results highlight that the performance of Qardho SMEs largely relies on the external business environment and that the financing schemes, infrastructures, and favorable policies and skills in managerial positions should be improved. The research adds to the scanty existing empirical evidence on the topic of SMEs in Puntland and provides recommendations to policy makers, practitioners, and researchers interested in enhancing the resilience and development of local enterprises.

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Introduction

Globally, Small businesses are defined by number of employees, volume of sales or annual turnover and the structure of ownership. For example, the OECD (2023) defines small firms as having 10–49 employees and the World Bank (2025) describes them as independent businesses with less than 50 workers, both drawing attention to their very important role in global employment and economic development. In Sub-Saharan Africa, small enterprises are generally firms with between 5 and 50 employees and limited financial resources and operate in the informal sector but play a significant role in innovation as well as labor creation (AfDB, 2022). Nationally, in Somalia, the World Bank (2025) and the Federal Ministry of Commerce and Industry (2024) refer to as small enterprises “those who employ 5–19 workers,” a classification used in SME development policies. At the local level, research in Garowe revealed that small businesses are predominantly family-owned or individual operated, and most are trades and services-oriented businesses normally employing less than 20 workers which generally operate on personal savings or informal credit (Mohamed et al., 2025).

Small and medium-sized enterprises (SMEs) are the engine of global economic development, creating jobs, reducing poverty, and accounting for a large percentage of GDP (World Bank, 2020; OECD, 2017). In most economies, SMEs make up the majority of businesses and utilize significant amounts of labor (World Bank, 2020). For instance, they account for more than half of global GDP and are drivers of community empowerment and poverty alleviation (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2014). However, although they are essential, small businesses face difficulties that can pose a threat to their very existence in terms of fierce competition on the market environment, restricted access to finance, high level operational costs and regulatory constraints (Coad, Frankish Roberts & Storey, 2013). These barriers are also a major causal factor of the global high early business failure rate, with subsequent impacts on employment and macro-economic (in)stability (Bosma, Content, Sanders & Stam, 2018).

The SMEs are very important in the economic revival and livelihood in weak settings like the Horn of Africa. The Somali economy is characterized by the presence of a vibrant private sector, which is supported by small and medium enterprises

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whose contribution to the economic revival, transformation, and generation of income in the country is high (World Bank, 2019). Under such a regional arrangement, there has been relative peace and thriving entrepreneurship within the Puntland State of northeastern Somalia, and especially in places like Qardho. Qardho is one of the oldest known settled places in Puntland, has a significant commercial potential due to its strategic positioning, agribusiness and pastoral potential (FSNAU, 2018). However, there have been anecdotal reports that most small-scale enterprises in Qardho are not able to survive and end up failing.

Problem Statement

Even though small businesses are the nerve centre of the Qardho economic system, their future seems to be shaky. The percentage of companies that do not survive is also large in their first years of operation hence preventing domestic job creation and diversification of the economy. Recent survey of Garowe, which is the capital of Puntland, found that 70 per cent of failing small businesses were shut down in the initial two years (Mohamed et al., 2025) suggesting that the same can be applied to Qardho. Internal weaknesses faced by the entrepreneurs may include: poor planning and financial skills, external forces are aggravated by poor access to finance, poor infrastructure and lax regulatory environment. Nevertheless, there is a lack of information on the factors that influence their results. This paper will look at the high failure rates and low growth of small firms in Qardho and explain why the problems are caused by exogenous and endogenous factors and what implication it has on the policy and practice.

Objectives of the Study

This study aims to:

1. Determine the success factors of small business enterprises in Qardho.
2. Investigate the main causes of small business failure in Qardho.
3. Examine the comparative effects of internal and external factors on SME outcomes.

Significance of the study

Academically, this study contributes to limited literature on entrepreneurship and SME development in post-conflict settings like Puntland. By focusing on Qardho, it fills a contextual research gap and enhances understanding of small business dynamics in Somalia. Practically, the findings will help entrepreneurs identify success factors—such as financial management, innovation, and customer orientation—and avoid common pitfalls like poor planning or resource mismanagement. For policymakers and development agencies, it provides empirical evidence to design targeted interventions and reforms, aligning support programs with actual business needs (World Bank, 2019). For international investors and donors, it offers a realistic view of the challenges facing small businesses in Qardho, contributing to informed development planning and local economic resilience.

Theoretical Framework

The current research is based on the theories that describe the performance of SMEs in terms of internal and external factors. The concept of Critical Success Factors (CSFs) as proposed by Rockart (1979) is that organisational success depends on a successful performance in certain crucial areas. The model of small business that is put forward by Storey (1994) also shows that three significant determinants such as entrepreneurial characteristics, firm strategy and structure, and external environmental conditions are the determinants that combine to influence the outcomes of businesses. This two-fold point of view

has been supported by subsequent studies: Simpson, Tuck, and Bellamy (2004) were able to show that the internal competencies like management skills and innovation interact with the external factors like competition, policy, and infrastructure.

Resource-Based View (RBV) argues that the resources and capabilities specific to a firm are a source of competitive advantage (Barney, 1991), whereas institutional theory states that businesses have to be adjusted to the realities of the regulatory and social environment to succeed (North, 1990). Based on these frameworks, this research areas of success and failure can be grouped into internal (endogenous) and external (exogenous) groups. Internal aspects include managerial competence, financial control, planning, innovation and human capital; external aspects include availability of finance, infrastructure, taxation, competition in the market and stability. This is an integrative model that is backed by studies conducted in Somali (Mohamed et al., 2025) and this has a very strong theoretical basis when it comes to the analysis of the business environment of Qardho.

Gap in Literature

The studies available on SMEs in Somalia and in the Horn of Africa has paid little attention to Qardho's small business sector. Most of the studies were conducted in major urban towns such as Mogadishu, Hargeisa, Garowe and Bosaso (Ahmed, 2020; Ali, Ali, & Abu-Hadi, 2013; Farah & Ainebyona, 2019; Mohamed, 2025; Burale, Saroufim, & Rizvi, 2024). These are more developed towns with a different mode of economy and infrastructure than Qardho. As such, the results cannot be generalized to Qardho's mix of trade, pastoral and agrarian markets. This article fills this gap by providing local empirical evidence on Qardho's SMEs—a sector which has been neglected by scholars and policymakers. It adds to theoretical literature as well as hands-on policymaking for the subnational economies of Somalia.

Literature Review

Critical Success Factors in Literature

Scholars have always been searching for the key factors that will determine the success/failure of small businesses and, as a result, a large number of studies on Critical Success Factors (CSFs) can be found in the literature. A systematic review by Malesu and Srovátka (2025) underscores nine common CSFs: (1) entrepreneurial traits; (2) financial resources; (3) networking opportunity; (4) technology use; (5) strategic planning exercise; (6) HRM; (7) enterprise structure; (8) customer orientation; and (9) government support. Of these, based on the studies reviewed financial resources, networking and technological adoption were identified by more than 80% of reviewed articles to be critical to SME success. This highlights that funding; collaboration and the technological potential are also global pillars of SME performance.

Empirical studies show contextual variations. In Al-Tit et al. (2019) discovered that external institutions support is the most significant factor influencing SME success, and in Bosaso, Somalia Burale et al. (2024) also found that the existence of formal strategic planning enhances long-run business performance. On the same note, things that make managers competent and their level of education were highlighted by Simpson et al. (2004) as internal forces. Throughout the literature, one of the themes that have become common is the interdependence of entrepreneurial management competencies, the availability of resources, and the presence of favorable environments, which when put together brings about the ability to ensure entrepreneurial success.

In the case of Qardho, these results imply that the companies that are directed by strategic planning, customer orientation, and innovation with the support of sufficient networks and financial resources have better chances to survive.

Small Business Failure in Context: The Case of Puntland

Business failure can always be seen as the opposite to success. In sensitive markets such as Somalia, SMEs encounter risks that raise the probability of their failure. Mohamed et al. (2025) discovered that in Garowe, the most common internal factors responsible for failure were bad debt repayment and cash flow mismanagement. Other reasons were found to be poor business planning, insufficient innovation and low flexibility in the market. Externally, poor business siting, high taxation and constrained access to money markets were also contributory factors (Farah & Ainebyona, 2019). Similarly, Ali et al. (2013) noted the limited availability of microfinance facilities in Mogadishu, and that a large number of entrepreneurs have to depend on their personal savings or informal sources for credits.

Moreover, poor business management and lack of sufficient human capital are some of the internal issues that are periodically experienced (Ahmed, 2020). Entrepreneurs are often not trained on budgeting, documentation keeping and marketing which often leads to strategic failure. These problems are made worse by regulatory complications and tax imbalances (Farah and Ainebyona, 2019). These factors reflect issues experienced by SMEs throughout Puntland, suggesting that small enterprises in Qardho are equally at risk. Finally, the failure of SMEs in Puntland is due to a combination of internal inefficiencies – including poor planning and management – as well as external obstacles, such as taxation, inadequate finance systems and volatile markets. Understanding this balance is key to enhancing enterprise survival in Qardho.

Methodology

The study adopted a cross-sectional research design that is quantitative in nature, in order to examine the effects of both internal and external factors on the performance of small businesses in Qardho. The systematic format of the design allows the collection of data in standard forms and enables comparison of the data statistically across the business operators (Malesu & Syrovatka, 2025).

The target population will be owner-managers of small firms with less than 20 employees operating in the trade, service, and light manufacturing industries. The companies that were at least one year old were included and the key decision-maker was the respondent. The sample population was chosen as 150 firms, which is sufficient to allow a multivariate statistical analysis (Cohen, 1992; Hair, Black, Babin, and Anderson, 2019). It was represented by use of stratified random sampling on the basis of sector and location.

A validated SME questionnaire was constructed in the form of a structured questionnaire to ensure that both internal and external variables are captured, such as managerial skills, planning, networking, use of technology, access to financing and the regulatory environment. The scoring of responses was based on a 5-point Likert scale. The questionnaire was first formulated using English followed by its translation to Somali where it was piloted using 20 subjects to test internal consistency and comprehension.

Cronbach, alpha was applied to determine reliability (acceptable level is 0.70) (Hair et al., 2019). The data were gathered through face-to-face methods as the digital forms, being complete and confidential (Podsakoff et al., 2003).

The data were analyzed with SPSS using descriptive statistics, correlational analysis and multiple regression to examine the impact of internal and external factors on business performance and risk of failure. This study was approved by the appropriate institutional review board. Attendance was voluntary, participants' anonymity ensured and information securely stored.

Despite cross-sectional, the design offers some evidence of relationships between important factors that determine small businesses performance in Qardho (OECD, 2017; Malesu & Syrovatka, 2025).

Findings and Discussion

Table 1: Demographic Characteristics of Respondents (N = 150)

Variable	Category	Frequency (N)	Percentage (%)
Gender	Male	114	76.0
	Female	36	24.0
Age	Under 25 years	14	9.3
	26 - 34 years	12	8.0
	35 - 44 years	71	47.3
	45 - 54 years	39	26.0
	55 years and above	14	9.3
Marital Status	Single	47	31.3
	Married	103	68.7
Education level	No formal education	51	34.0
	Primary school	3	2.0
	Secondary school	19	12.7
	Diploma	25	16.7
	Bachelor's degree	51	34.0
	Master's degree or above	1	0.6
Business sector	Trade	95	63.3
	Service	54	36.0
	Light manufacturing	1	0.7
Years in operation	1 year	13	8.7
	2 - 4 years	54	36.0
	5 - 6 years	40	26.7
	Above 6 years	43	28.7
Ownership type	Sole proprietor	121	80.7
	Partnership	13	8.7
	Family business	16	10.7

The demographic profile of the 150 respondents is representative of the population of small business owners in Qardho. The majority 76.0% were male, showing that business ownership in the town is male dominated even though female constituted 24.0% of entrepreneurs. With respect to age, almost half of the participants (47.3%) were aged 35–44 years, followed by respondents aged 45–54 years (26.0%). Very few (9.3%) were younger than 25 or older than 55 indicating that most entrepreneurs are in their productively active middle age range.

Marital status findings indicate that most of the participants were married (68.7%), this might be due to more financial obligations and household-level economic engagement.

There was a marked disparity in the education levels, with only (34.0%) having no former or literate education and an equal proportion (34.0%) being graduates or holding degrees, bringing to attention the dyadic mode of un-educated as well as educated entrepreneurship involvement. Less than 1% had a master's degree or higher, indicating the poor representation of highly educated people in the SMEs sector.

The majority of the businesses operated were in trade (63.3%) and services (36.0%), there were few involvements in light manufacturing (0.7%). This indicates the dominance of Qardho's commodity-based economy. Variation in business experience was

moderate, with 36.0% being in operation for 2–4 years and 28.7% for over six years.

In terms of ownership, nearly 80.7% of the entrepreneurs operated as sole proprietorships, few were family owned (10.7%), and others were partnerships (8.7%) reflecting that entrepreneurship in Qardho is primarily individual based, depended on personal or household investment.

Table 2: Reliability Results for Study Variables

Scale / Construct	No. of Items	Cronbach's Alpha (α)	Decision
Internal success factors	20	.897	Reliable
External success factors	16	.812	Reliable
Failure Risk (Perceived Risk)	4	.746	Acceptable
Business Performance	4	0.721	Acceptable

Cronbach's alpha was used to present the internal consistency of measurement scales employed in this study. The findings support acceptable to high reliability of all the constructs. The internal success factors scale exhibited excellent reliability ($\alpha = .897$), which indicates that the 20 items consistently assessed the latent construct. The criterion success factors also indicated high reliability ($\alpha = .812$) and thereby supporting the internal unity of the 16 items we use to measure external business conditions.

The alpha presented by the Failure Risk scale was acceptable ($\alpha = .746$) and was above the standard for exploratory research. Similarly, acceptable reliability was also obtained for the Business Performance scale ($\alpha = .721$), suggesting that the four items in question had adequate consistency with which to conduct quantitative analysis. In general, the reliability results establish that measuring tools were internally consistent and appropriate for subsequent statistical analysis.

Table 3: Descriptive statistics

Variable	Mean	Std. Deviation	N
Internal Success Factors	3.23	0.78	150
External Success Factors	3.43	0.41	150
Perceived Failure Risks	3.30	0.69	150
Perceived Business Performance	2.34	0.53	150

The descriptive part of the analysis provides an understanding into how respondents view factors that affect small business performance in Qardho. Overall, mean levels of agreement are moderate to high for internal and external success determinants, although perceived business performance is considerably lower.

The average score of the Internal Success Factors was 3.23 (SD = .78), meaning that individuals tended to moderately agree on the role that firm-level capabilities – managerial skills, planning, innovation and financial control – perform in business success. A higher standard deviation implies slight variation in the respondent perspectives over internal competencies.

The greatest mean score was on the External Success Factors (M = 3.43, SD = 0.41), which suggested that participants considered the external factors such as market conditions, infrastructure, financial accessibility, and policy initiatives to be a comparatively more potent factor affecting business results in the

present situation. The standard deviation is relatively low, indicating that the level of homogeneity of perceptions of the importance of influencing factors exists among respondents.

Perceived Failure Risks had an average of 3.30 (SD = 0.69), which indicated a clear moderate risk perceived with regard to failure, i.e., competition, financial challenges and operational constraints. Such low variability of the risk perception implies a wide range of perceived risk among the respondents.

Perceived Business Performance had the lowest mean score (M = 2.34, SD = 0.53) because quite a number of the respondents ranked their business performance comparatively low as a sign of being cautious about growth, profitability, and sustainability. This weak performance evaluation highlights the difficulty that small businesses in Qardho will have to endure, even with the determination of key success factors.

On the whole, the findings imply that despite the awareness of the actors of success and failure, an apparent shortage in the ability to translate their knowledge into business achievements implies the necessity of specific assistance programs and capacity-building initiatives.

Table 4: Pearson Correlation Matrix of Study Variables (N= 150)

Variable		Internal	External	Failure Risk	Performance
Internal Success Factors	Pearson Correlation	1	.762**	-.603**	.408**
	Sig. (2-tailed)		.000	.000	.000
External Success Factors	Pearson Correlation	.762**	1	-.211**	.501**
	Sig. (2-tailed)	.000		.009	.000
Perceived Failure Risks	Pearson Correlation	-.603**	-.211**	1	-.111
	Sig. (2-tailed)	.000	.009		.176
Perceived Business Performance	Pearson Correlation	.408**	.501**	-.111	1
	Sig. (2-tailed)	.000	.000	.176	

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

This table shows the Pearson correlation coefficients between study variables. The findings show a number of statistically significant correlations at the 0.01 level which suggest that there are significant relationships between internal and external business factors, perceived risks and business performance for small firms in Qardho.

Internal Success Factors and External Success Factors are positively correlated ($r = .762$, $p < .001$), reflecting that firms' strong internal functioning (i.e., planning, managerial skill, innovation) tends to accumulate external support including access to finance, trade networks and market enabling. This suggests interplay between internal capabilities and external environment in explaining business success.

Internal Success Factors are also moderately positively related to Perceived Business Performance ($r = .408$, $p < .001$), indicating that companies with higher internal capabilities are more likely to perform better. This result is congruent with resource-based and managerial capability perspectives where internal capabilities are critical for SME performance.

Perceived Failure Risks had a negative relationship with Internal Success Factors ($r = .603$, $p < .001$), which implies that the risk of failure is considerably less in case of firms with better

infrastructure. Moreover, there were positive correlations between External Success Factors and business performance ($r = .501$, $p < .001$) and negative correlations between External Success Factors and the risk of failure ($r = .211$, $p = .009$), which means that good external circumstances contribute to performance and deter the tendency of failure.

On the other hand, Perceived Failure Risks did not have any correlation with Perceived Business Performance ($r = .111$, $p = .176$). This non-relation suggests that entrepreneurs might be

aware of internal and external risks but their perceptions are not directly observed with the measures of existing performance, which could be explained by the presence of the optimism bias or coping adaptation policies in difficult economic circumstances.

Such results prove the existence of external and internal success factors which have a great impact on business performance and reduce the perception of risks, thus highlighting the necessity of capacity building and creation of favorable policies to facilitate SMEs in Qardho.

Table 5: Multiple Regression Results Predicting Business Performance (N = 150)

Predictor	B	Std. Error	β	t	p-value	Tolerance	VIF
Constant	0.096	0.411	—	0.234	.815	—	—
Perceived Failure Risks	0.036	0.078	0.047	0.458	.648	0.491	2.037
Internal Success Factors	0.076	0.104	0.112	0.729	.467	0.216	4.635
External Success Factors	0.546	0.161	0.426	3.389	.001	0.324	3.091

Model Fit:

$R = .504$, $R^2 = .254$, Adjusted $R^2 = .239$, Std. Error = .4639

ANOVA:

$F(3, 146) = 16.584$, $p < .001$

Dependent Variable: Perceived Business Performance

The results of the multiple regression analysis showing influences of internal success factors, external success factors and perceived failure risks on business performance among small businesses in Qardho. The model as a whole is significant, $F(3, 146) = 16.584$, $p < .001$, meaning that the predictors collectively account for a substantial amount of variance in business performance. The R^2 value indicates that 25.4% of the variation in performance can be explained by the model ($R^2 = .254$; Adjusted $R^2 = .239$) which implies a modest predictive ability in keeping with the environment of social science research.

Of the independent variables, External Success Factors was the only significant predictor of business performance ($\beta = .426$, $t = 3.389$, $p = .001$). This means that good external environment—access to credit, infrastructure and markets—significantly improves firm performance in the SME of Qardho. The finding is consistent with institutional and SME-growth theories, which highlight the significance of external enabling environments to support enterprise sustainability in developing countries.

On the other hand, Internal Success Factors ($\beta = .112$, $p = .467$) and Perceived Failure Risks ($\beta = .047$, $p = .648$) had no significant impact in firm performance. Whilst internally driven abilities and perceptions of risk are conceptually important, their non-significance may indicate a capacity constrained managerial environment, poor strategic processes or external constraints driving the agenda. It may also suggest that internal reforms are not enough without conducive external conditions.

Multicollinearity diagnostics also indicate that the tolerance values are in an acceptable range (> 0.10), as are the VIF scores, which do not exceed the common cut-off value of 5, showing there is no evidence of multicollinearity and supporting robustness of the model.

Discussion of Findings

The results of this study offer useful insights on factors contributing to success and failure of small businesses in Qardho. Internal drivers of success - management capability, planning and innovation, financial control - were accepted to a moderate extent by companies in the sample and correlated positively with business performance reflecting that higher internal capacity goes

hand in hand with better performance. But the regression analysis showed that these had low predictive values of performance, showing that though entrepreneurs were aware of them importance; there exist few managers with enough depth or systems to turn internal strengths into hard results. External determinants, however, were identified as the most dominant factor in determining SME performance. There was broad consensus among respondents about the relevance of external enablers (such as finance, infrastructure, market stability and regulatory support), which were found to be the only statistically significant predictors of performance. This is indicative of the structural constraints that small business encounter in Qardho, where weak institutions and lack of access to finance count the most. Perceived failure risk was also partially recognized and inversely related to internal success factors, meaning that the higher probability of perceived risk is felt by firms with worse internal systems. Yet perceived risks did not have a meaningful effect on performance, meaning that the risk consciousness alone does not impact business results in a restricted environment. Business practices in general were considered weak with low growth and profitability despite an understanding of drivers of success. The low statistical explanations of the regression model also indicate that some unobservable contextual dynamics (e.g., market shock, informal practices, and security-related) also play a role in the business outcome. Overall, the findings suggest that although both internal and external factors matter, external structural conditions have a greater immediate effect on Qardho SME performance. This underlines the importance of comprehensive strategy to develop managerial capacity while also upgrading general business conditions through policy, allowing better access to finance and infrastructure.

CONCLUSION AND RECOMMENDATIONS

Conclusion

In this study, the internal and external factors that affect the success, failure, and performance of small businesses in Qardho were explored. The results demonstrated that even though the entrepreneurs consider internal capabilities, such as planning, managerial skills and financial control, to be important factors

this does not in isolation predict strongly business performance. Rather, external factors – such as access to finance, infrastructure, market stability and enabling regulatory environments emerged as the most important factors explaining the performance of SMEs. Perceived failure risks were considered moderate and not significantly related to performance. In general, the findings demonstrate that small businesses in Qardho function within a difficult environment with structural constraints which preclude effective growth and continued performance. Building a better set of internal capabilities and external business environment nodes is vital to improve the SME ability to be competitive and survive in the region.

Recommendations

Policy Recommendations

- Increase financial accessibility through the growth of microfinance initiatives, as well as relaxing requirements around collateral and fashioning Islamic finance models that are suitable for local circumstances.
- Enhance business-enabling infrastructure, such as market structures, road networks, electricity access and digital connectivity to operational challenges.
- Provide greater regulatory clarity and certainty, in particular with respect to taxation and licensing, as a means of making the SME environment steadier.
- Create SME development agencies or local business support canterers to offer training, advisory and market information services.

Practical Recommendations for Entrepreneurs

- Acquire managerial and financial capabilities, particularly in planning, budgeting, record-keeping, and customer dealings.
- Business network diversification, taking advantage of the partnerships with local associations and digital platforms to open up new market opportunities.
- Leverage technology and digital tools for marketing, inventory management, and finance to improve efficiency.
- Adopt strategic planning protocols (such as assessing risks and evaluating market conditions) to become more adaptable and resilience.

Academic/Institutional Recommendations

- Integrate entrepreneurship training in TVET and local university curricula to meet the managerial and financial skill gaps.
- Promote research-policy linkages by stimulating local institutions to periodically carry out SME assessments and policy-oriented evidence-based recommendations.
- Support data gathering systems that monitor the SME performance, which will contribute to more targeted policy responses.

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