

# Institutional Determinants of Profitability in Small, Medium, and Micro Enterprises (SMMEs) in Botswana: An Empirical Analysis Using Poisson Regression

Obonetse Fulu

Department of Business Administration, Africa Research University, Zambia

Received: 02.09.2024 | Accepted: 03.11.2024 | Published: 08.11.2024

\*Corresponding Author: Obonetse Fulu

DOI: [10.5281/zenodo.14054511](https://doi.org/10.5281/zenodo.14054511)

## Abstract

## Original Research Article

This study investigates the factors influencing the business performance of Small, Medium, and Micro Enterprises (SMMEs) in Botswana. It employs institutional theory as a guiding framework, which posits that institutions provide a reliable structure within which organizations operate, thereby reducing uncertainty and fostering predictability. The research utilizes a quantitative design, analyzing data through Poisson regression analysis to identify key determinants of SMME profitability. The findings reveal a multifaceted relationship between various factors and business performance. Notably, high competition in the market and frequent engagement in online marketing were found to negatively impact profitability. Conversely, several factors positively influence profits, including meticulous record-keeping, the business owner's educational attainment (measured in years of schooling), frequent preparation of financial statements, provision of employee incentives, and operating a business account linked to mobile banking. These insights underscore the critical role of strategic business practices and financial management in enhancing SMME profitability. The study concludes that SMMEs' profitability in Botswana is shaped by a complex interplay of competitive pressures and operational strategies. It emphasizes the importance of adopting practices such as rigorous record maintenance, investment in education, regular financial reporting, and leveraging mobile banking technology to maximize profitability. The research recommends that SMMEs adopt a cost-benefit analysis approach to online marketing to ensure that digital outreach efforts yield positive financial returns. This strategy will help businesses balance the trade-offs between marketing expenses and profitability, enabling sustainable growth in a competitive business environment.

**Keywords:** SMMEs, Botswana, institutional theory, profitability, Poisson regression, business performance, online marketing.

## 1. INTRODUCTION

Small and Medium-sized Enterprises (SMEs) have a crucial role in stimulating economic growth, enhancing social stability, and creating job opportunities. The importance of SMEs in Botswana is of utmost importance, given the country's strategic shift towards economic diversification and decreased reliance on diamond mining.

The business environment for Small, Medium, and Micro Enterprises (SMMEs) in Botswana is characterised by both difficulties and opportunities. The government's strong efforts, exemplified by the Economic Diversification Drive (Government of Botswana, 2011), demonstrate their dedication to creating a favourable environment for the growth of small and medium-sized enterprises (SMEs). Nevertheless, the expedition is riddled with obstacles. The research conducted by Gagoitsope and Pansiri (2012) highlighted the importance of

gaining a thorough understanding of the elements that contribute to the success of firms in Botswana. This understanding is crucial for the effective development of such enterprises. In the same vein, Eggink (2021) emphasises the significance of identifying the factors that have a substantial impact on the performance of small, medium, and micro enterprises (SMMEs), thereby making a valuable contribution to the overall economic structure of the area.

The concept of innovation and digital transformation is crucial in the discussion on SMME development. Achieng and Malatji (2022) emphasise that digital transformation is a crucial factor in promoting the growth of small and medium enterprises (SMEs), especially in the Sub-Saharan African region. Fauzi and Sheng (2020) support this claim by emphasising that the digitalization of businesses is a crucial aspect in the contemporary economic environment. Therefore,

it is crucial to comprehend the significance of technological adoption and digital literacy in Botswana's small and medium-sized enterprise (SME) sector.

Moreover, the literature indicates that the entrepreneurial environment in Botswana is shaped by an intricate interaction of several factors, spanning from individual entrepreneur traits to more extensive systemic and policy-related elements. Banwo, Du, and Onokala (2017) emphasize the importance of location-specific decisions, highlighting how geographical, infrastructural, and policy settings influence the success of small and medium-sized enterprises (SMEs). Simultaneously, research such as the study conducted by Berisha and Pula (2015) advocate for a sophisticated comprehension of the factors that define a small and medium-sized enterprise (SME), proposing that factors such as size, scope, and sector have a substantial impact on the dynamics of achieving business success.

The intent of the study is to identify and analyse the various elements that contribute to the success of Small, Medium, and Micro Enterprises (SMMEs) in Botswana. The objective is to offer a comprehensive comprehension of the internal and external factors that impact small, medium, and micro enterprises (SMMEs), encompassing individual entrepreneurial skills to macroeconomic policies. The study aims to provide practical insights and strategic guidance for policymakers, business leaders, and entrepreneurs to promote a prosperous small and medium-sized enterprise (SME) sector in Botswana.

Ultimately, the prosperity of SMMEs in Botswana is a complex interplay of multiple factors, such as governmental policy, entrepreneurial skills, digitalization, and the overall economic landscape. The objective of this study is to analyse the factors that contribute to the success of small, medium, and micro enterprises (SMMEs) in Botswana in a thorough and complete manner.

## 2.LITERATURE REVIEW

In Botswana, Small, Micro, and Medium Enterprises (SMMEs) play a crucial role in the economy since they are vital in promoting economic growth, encouraging innovation, and creating job opportunities. These firms function within a dynamic and frequently demanding setting, rendering their performance vital for the nation's economic strength and expansion into non-traditional areas such as diamond mining. This review tries to analyse and combine the key concepts and theoretical foundations that play a crucial role in determining the success of Small, Medium, and Micro Enterprises (SMMEs) in Botswana. The review aims to shed light on the factors that are crucial in order to develop a successful and long-lasting small, medium, and micro enterprise (SMME) sector in the

country's distinct economic environment.

### 2.1 Critical Determinants of SMME Success

#### Entrepreneurial Competencies and Characteristics

The success of Small, Medium, and Micro Enterprises (SMMEs) in Botswana is heavily dependent on the skills and qualities possessed by the entrepreneurs leading them. Entrepreneurial competences comprise a wide range of personal characteristics, but among the most important are the willingness to take risks, the ability to innovate, and the capacity to bounce back from setbacks (Fatoki, 2018). Entrepreneurs must possess a fundamental inclination towards risk-taking, as they need to be prepared to engage in initiatives that involve inherent uncertainties. This trait is essential for pioneering new ideas and stimulating economic growth (Stuart & Abetti, 1990). In order to maintain a competitive advantage, entrepreneurs must not only adjust to evolving market conditions, but also actively influence them by introducing innovative solutions and unique products (Drucker, 1985). Resilience refers to the tenacity and resolve that entrepreneurs require in order to overcome obstacles, adapt to difficulties, and sustain a long-term perspective for their businesses (Man, Lau, & Chan, 2002). These characteristics collectively serve as the foundation of entrepreneurial success, propelling small, medium, and micro enterprises (SMMEs) onward despite internal obstacles and external fluctuations.

#### Access to Finance

Access to capital is crucial for the establishment, viability, and expansion of Small, Medium, and Micro Enterprises (SMMEs) in Botswana. Financial capital serves as more than just a resource; it acts as a catalyst, enabling entrepreneurs to bring their business ideas to life, grow their operations, and foster innovation (Fatoki, 2018). Nevertheless, the process of obtaining credit is filled with difficulties. Small, Medium, and Micro Enterprises (SMMEs) frequently struggle with strict financing conditions, exorbitant interest rates, and collateral requirements that are unattainable for them (Fatoki & Smit, 2011). The lack of access to financial services not only hinders the development of entrepreneurial drive but also limits the expansion potential of these businesses. Furthermore, the expertise in financial management significantly impacts the success of SMMEs. Effective financial management guarantees operational efficiency, strategic allocation of resources, and maintains a steady cash flow, which is crucial for the survival of any firm (Mutoko & Kapunda, 2017). The connection between easily obtainable financial resources and skilled financial management is crucial for the strength and durability of small, medium, and micro enterprises (SMMEs) in the economic environment of Botswana.

## Digital Transformation and Technological Adoption

For small, medium, and micro enterprises (SMMEs) in Botswana to succeed, the incorporation of technology is not a choice but a vital requirement in the current digital age. The process of digital transformation brings about a significant improvement in operational efficiency through the automation of tasks, the reduction of errors, and the decrease in operational expenses (Perifanis & Kitsios, 2023). Cloud computing technologies offer small, medium, and micro enterprises (SMMEs) the ability to access scalable and flexible solutions that were previously limited to major organisations (Fauzi & Sheng, 2020). Furthermore, the use of digital platforms expands the market scope of small, medium, and micro enterprises (SMMEs) beyond physical borders, allowing them to access international marketplaces and broaden their clientele. E-commerce platforms, social media, and digital marketing tactics have a crucial role in improving the visibility of a business and fostering customer involvement (Achieng & Malatji, 2022). Essentially, digitalization entails more than just adopting technology; it involves reshaping company models to become more adaptable, customer-focused, and competitive in a swiftly changing market environment.

## External Factors Affecting SMME Survival in Botswana

The economic development of Botswana in recent decades highlights the dynamic nature of its economic structure. The nation's evolutionary trajectory, characterized by its significant diamond reserves, has been influenced by a multitude of foreign economic influences. The macroeconomic conditions of a nation serve as the contextual foundation within which small, medium, and micro enterprises (SMMEs) function, establishing the pace at which they expand, generate profits, and maintain long-term viability.

Abdul (2022) has emphasized that the economic landscape in Africa presents distinct obstacles for small and medium-sized enterprises (SMEs), and this is also evident in the case of Botswana. A robust economy serves as a catalyst for small, medium, and micro enterprises (SMMEs) to engage in investment, growth, and job creation, but an unstable economy might hinder these ambitions. Throughout history, Botswana has experienced a sustained period of economic prosperity, which has greatly benefited its Small, Medium, and Micro Enterprises (SMMEs). This growth may be largely attributed to the thriving diamond mining industry in the country. The favourable economic conditions have facilitated the growth and prosperity of small, medium, and micro enterprises (SMMEs), particularly those operating in the supporting industries (Nkwe, 2012). Nonetheless, the economy's reliance on diamond exports has rendered it vulnerable to swings in the global market, hence presenting difficulties for small, medium, and micro enterprises (SMMEs) (Majama & Magang, 2017).

Transitioning to the topic of inflation, it is a pervasive phenomenon that exerts influence over the consumer's purchasing power and the cost structures of enterprises. In Botswana, similar to most rising economies, the issue of inflation has been a matter of concern. According to Fatoki & Garwe (2010), small, medium, and micro enterprises (SMMEs) experience elevated operational expenses and reduced profit margins as a result of high inflation rates.

Furthermore, the presence of unpredictable inflation can have a distorting effect on the process of financial planning and can also contribute to the emergence of speculative investments, so impeding the long-term growth prospects of small, medium, and micro enterprises (SMMEs). In their study, Mutoko & Kapunda (2017) examined the difficulties encountered by small and medium-sized enterprises (SMEs) operating in the manufacturing sector of Botswana. Among the identified obstacles, the authors highlighted the impact of escalating costs resulting from inflationary pressures.

Interest rates, which are commonly seen as influential factors in an economy, have direct consequences on the financing elements of small, medium, and micro enterprises (SMMEs). The elevated interest rates might result in increased borrowing costs, which may impede the ability of small and medium enterprises (SMEs) to pursue expansion or innovative endeavours. According to Khanie (2018), there are notable challenges encountered by small and medium-sized enterprises (SMEs) located in Botswana when it comes to obtaining finance. This phenomenon becomes more evident when interest rates go up, as the expense of capital significantly increases, hence constraining the capacity of small, medium, and micro enterprises (SMMEs) to allocate resources towards endeavours aimed at fostering expansion and development. Conversely, the reduction of interest rates, whilst promoting borrowing, can also incentivize speculative and high-risk endeavours that may not possess long-term sustainability (Okurut, Ama, Mookodi, & Okurut, 2016).

Furthermore, it should be noted that exchange rates have a multifaceted influence on small, medium, and micro enterprises (SMMEs) in Botswana, particularly those involved in exporting or significantly dependent on imports. The exchange rate of the Botswana Pula in relation to major currencies has the potential to impact the global market competitiveness of Botswana's products. According to the International Trade Centre (2019), a robust Pula can have advantageous implications for importers but may provide challenges for exporters, particularly those operating in non-mineral industries that aim to enhance the diversity of Botswana's export range. On the other hand, a depreciated Pula currency, although it may enhance the competitiveness of exports, can lead to higher expenses for imported raw materials and goods. These costs are typically passed on to consumers or

absorbed by small, medium, and micro enterprises (SMMEs), therefore impacting their profitability (Sentsho, Maiketso, Sengwaketse, Ndzinge-Anderson, & Kayawe, 2007).

### **Socio-Cultural Factors**

The socio-cultural fabric of Botswana provides a diverse range of perspectives on its economic landscape. In order for Small, Medium, and Micro Enterprises (SMMEs) to prosper in this context, it is crucial for them to have a comprehensive awareness of the socio-cultural dimensions. The consumer is the central focus of any corporate endeavour. Consumer behaviour and tastes in Botswana have undergone changes throughout the years, influenced by both worldwide trends and specific socio-cultural factors inside the country. Nkwe (2012) asserts that SMMEs have played an important role in Botswana, highlighting the nation's reliance on indigenous enterprises to satisfy consumer needs. Due to the phenomenon of globalization and the subsequent rise in connection, customers in Botswana have been presented with a broader range of products and services. According to Chirau (2014), local enterprises that possess a comprehensive understanding of the distinctive preferences, values, and tastes of the Botswana population frequently gain a competitive advantage, despite the presence of global brands in the market. Consumer behaviour is closely linked to a nation's cultural heritage, whether it manifests in a preference for local food or a recognition of the significance of domestically produced crafts.

Upon an additional review of the cultural relevance, the profound heritage of Botswana becomes apparent. The nation takes great pleasure in its customs and traditions, which inevitably exert a significant impact on the conduct of commercial activities. Consider, for example, the profound importance of "botho," a Setswana concept that encompasses principles of reverence, politeness, and compassion. The concept of Botho holds significant cultural importance in Botswana, exerting a profound influence on several aspects of daily interactions and interpersonal connections (Muranda, Mphela, & Nyakudya, 2011). The comprehension and integration of cultural values can significantly impact the success or failure of Small, Medium, and Micro Enterprises (SMMEs). A business that exemplifies the ideals of botho, for example, is more likely to gain the trust and loyalty of its clients.

In addition, it is worth noting that conventional events and rituals, such as the well-known Domboshaba Festival, which serves as a tribute to the Botswana culture, have the potential to impact commercial activities, namely within the domains of hospitality, catering, and artisanal industries (Muriithi, 2017). Engaging in or providing financial support for such events can serve as a strategic manoeuvre for small, medium, and micro enterprises (SMMEs), enabling them to

establish a connection between their brand and cultural identity, thereby fostering community backing.

Nevertheless, the cultural relevance not only offers prospects but also presents obstacles. The influence of traditional gender roles on business endeavours has been indicated by the observations of the International Trade Centre (2019). Female entrepreneurs may encounter socio-cultural obstacles that can hinder their access to resources and limit their opportunities to engage in particular business sectors. The conflict between tradition and modernity frequently manifests itself in the economic domain, with small, medium, and micro enterprises (SMMEs) occupying a central position within this duality.

However, the task at hand is not solely focused on overcoming obstacles, but also on capitalising on advantageous circumstances. Small, Medium, and Micro Enterprises (SMMEs) that strategically include cultural narratives, so highlighting and honouring the distinctive Botswana history, have the potential to establish a specialised market segment for their products or services. According to the findings of Sentsho, Maiketso, Sengwaketse, Ndzinge-Anderson, & Kayawe (2007), the incorporation of socio-cultural dynamics into business strategy has the potential to greatly enhance the performance and competitiveness of small, medium, and micro enterprises (SMMEs).

### **Political and Legal Environment**

The emergence of Botswana as a prominent economic force in Africa can mostly be ascribed to its notable political stability and forward-thinking legal structures. In the realm of Small, Medium, and Micro Enterprises (SMMEs), the significance of the political and legal landscape is further emphasised. The delicate interplay between small, medium, and micro enterprises (SMMEs) and the political and legal framework in which they operate is crucial for comprehending their prospects for survival and growth.

The success of small, medium, and micro enterprises (SMMEs) in Botswana is heavily contingent upon the stability of the political context. In areas characterised by significant political instability, businesses frequently encounter unanticipated obstacles, encompassing sudden legislative changes and insecurity that may discourage potential investors. Fortunately, Botswana serves as a symbol of political stability in a region frequently characterised by unrest. The country's ability to maintain a stable political environment has attracted investments from both domestic and international sources, as noted by the International Trade Centre (2019). The presence of a peaceful political environment provides significant advantages for small, medium, and micro enterprises (SMMEs), as it allows them to engage in long-term planning and ensures their sustainability (Sathyamoorthi, 2002).



However, it should be noted that stability alone is not a cure-all solution. The dynamic nature of legal frameworks significantly influences the structure and dynamics of the business environment. Botswana has demonstrated a proactive approach in establishing regulatory frameworks that enhance the growth of Small, Medium, and Micro Enterprises (SMMEs), recognising their crucial role in the country's economy. The commendation of the Botswana government's initiatives in enhancing the competitiveness of small, medium, and micro enterprises (SMMEs) through a grassroots strategy to economic diversification has been expressed by the International Trade Centre (2019). Nevertheless, similar to every dynamic system, these frameworks provide their own array of obstacles.

Legal reforms can occasionally occur swiftly and may not consistently align with the interests of small, medium, and micro enterprises (SMMEs). One notable illustration is the phenomenon of credit restriction encountered by small, medium, and micro companies (SMMEs), which, despite the abundance of laws aimed at bolstering these businesses, continues to pose a substantial obstacle (Okurut, Olalekan, & Mangadi, 2011). In addition, it is worth noting that although the government has made efforts to improve the efficiency of the business licensing process, the presence of bureaucratic obstacles continues to hinder progress, hence impeding the intended growth that these frameworks seek to facilitate (Muriithi, 2017).

The interplay between political stability along with the dynamic nature of legislative frameworks is similarly observable in the context of small, medium, and micro enterprises (SMMEs) in Botswana. According to Nkwe (2012), the significance of small, medium, and micro enterprises (SMMEs) in Botswana's economy cannot be understood without considering the influence of the country's political and legal context. An example of this may be seen in Botswana's national policy, where there is a strong focus on diversification. As a result, there has been a notable increase in the recognition and assistance provided to small, medium, and micro enterprises (SMMEs) operating in areas other than mining. This has contributed to the development of a more robust and varied economy (Muranda, Mphela, & Nyakudya, 2011).

Nevertheless, the convergence of politics and business is not devoid of its drawbacks. Small, Medium, and Micro Enterprises (SMMEs) are required to possess a high level of proficiency in effectively manoeuvring through the political environment, guaranteeing adherence to dynamic legislation, and capitalising on the various forms of governmental assistance that are accessible to them. This requires a proactive stance, wherein businesses not only conform to existing legal standards but also actively participate in dialogue with policymakers, in order to ensure that their problems and challenges are effectively acknowledged and resolved (Majama & Magang, 2017).

## 2.2 Theoretical Literature

### Institutional Theory and Its Implications for SMMEs in Botswana

The importance of the wider institutional context in influencing organizational structure and behavior is emphasized by institutional theory. In summary, institutions serve as a reliable structure in which organizations function, hence providing a sense of predictability and diminishing uncertainty (Rodrigues, Franco, Silva, & Oliveira, 2021).

The theory provides a comprehensive analysis of three fundamental institutional contexts, namely the regulatory, cognitive, along with normative pillars.

**Regulatory Pillar:** The concept pertains to the established and official guidelines, policies, and penalties that are implemented and upheld by governing bodies. The study conducted by Okurut, Ama, Mookodi, & Okurut, (2016) highlighted the significance of coercive mechanisms, such as legal frameworks and governmental regulations, that necessitate enterprises to adhere to certain standards. Violation of these regulations frequently leads to legal consequences or sanctions.

**Cognitive Pillar:** This concept refers to the collective beliefs, perceptions, alongside understanding that shape the actions of individuals inside an institutional setting. The cognitive dimension pertains to the inherent and unquestioned nature of numerous organizational actions, which are deeply entrenched in collective social knowledge (Ongori, 2009).

**Normative Pillar:** This encompasses the principles, customs, and criteria that govern the operations of firms. The normative pillar frequently encompasses society norms, professional norms, and established best practices (Muriithi, 2017).

The landscape of small, medium, and micro enterprises (SMMEs) in Botswana is significantly shaped by its institutional structure. According to the International Trade Centre (2019), the regulatory framework in Botswana has exhibited a favorable disposition towards small and medium-sized enterprises (SMEs), as evidenced by the implementation of policies and initiatives that are specifically designed to cultivate entrepreneurial development and promote economic diversity. Nevertheless, Khanie (2018) has highlighted that the issue of loan accessibility continues to pose a significant obstacle, indicating the need for potential enhancements within the regulatory domain.

According to Nkwe (2012), the cognitive perspective suggested that the perception of entrepreneurship and small and medium-sized enterprises (SMEs) in Botswana is predominantly favorable. These entities are viewed as crucial for generating employment opportunities and fostering socio-economic advancement. Nevertheless, Monyake & Kuruba (2021) emphasized the difficulties associated with effectively managing expanding small and medium-sized enterprises (SMEs). This suggests that although there is a cognitive

understanding of the significance of SMEs, there is still a lack of practical knowledge and skill in this area.

In Botswana, there is a normative inclination towards endorsing entrepreneurship as a realistic and desirable professional choice. This phenomenon is evident in the various endeavors that focus on enabling young individuals and women to engage in business activities, highlighting the normative drive for promoting inclusive economic involvement (Mafoko, 2019).

Although Botswana's institutional system offers a favorable setting for small, medium, and micro enterprises (SMMEs), there are still persistent difficulties that need to be addressed. The growth objectives of numerous small and medium enterprises (SMEs) have been impeded by the intricate regulations around financial access and the strict financing requirements (Mutoko & Kapunda, 2017). Moreover, although there is a prevailing recognition of the significance of small and medium-sized enterprises (SMEs) at the cognitive level, there exists a necessity for more focused interventions aimed at providing businesses with the necessary capabilities and assets (Monyake & Kuruba, 2021).

Nevertheless, these challenges offer potential avenues for growth and development. The acknowledgement of the potential of small, medium, and micro enterprises (SMMEs) by organizations such as the International Trade Centre (2019) highlights the importance of adopting a bottom-up strategy to economic diversification. Furthermore, the academic study of Gumel & Bardai (2023) highlighted the significance of institutions such as SMEDAN in Nigeria. The research explained how institutional initiatives can effectively facilitate the interaction between important success determinants and the success of small and medium-sized enterprises (SMEs).

In a nutshell the institutional framework in Botswana, which encompasses regulatory, cognitive, and normative aspects, exerts substantial effect on the development and direction of small, medium, and micro enterprises (SMMEs) inside the nation. Despite the persistent challenges of limited access to financial resources and the necessity for skill development, there exists a plethora of opportunities for small and medium enterprises (SMEs) who possess the ability to adeptly traverse this complex environment. The application of institutional theory provides a valuable perspective for analyzing the achievements and challenges faced by small, medium, and micro enterprises (SMMEs) in Botswana. This theoretical framework offers valuable insights into potential pathways for future expansion and advancement.

### 2.3 Empirical Review

A systematic examination of small, medium, and micro enterprises (SMMEs) in Botswana uncovers significant and valuable observations. Research suggests that small, medium, and micro enterprises (SMMEs) make a substantial

contribution to the economy. However, they encounter obstacles such as restricted availability of funds, barriers to entering the market, and regulatory difficulties (Mutoko & Kapunda, 2017). Although the government has implemented supportive policies, there is a discrepancy in the efficient execution and distribution of resources (Government of Botswana, 2011). Moreover, despite the development prospects presented by digital transformation, the rate of actual implementation and incorporation of technology in small, medium, and micro enterprises (SMMEs) is still limited, mostly due to infrastructural and skill-related limitations (Achieng & Malatji, 2022). These empirical findings highlight the necessity of implementing focused interventions that tackle these practical obstacles, guaranteeing that small, medium, and micro enterprises (SMMEs) can effectively use their potential to contribute to Botswana's economic diversification and growth. Although previous studies offer excellent insights into the factors that contribute to the success of small, medium, and micro enterprises (SMMEs) in Botswana, there is a significant lack of awareness regarding the complex relationship between digital transformation, entrepreneurial skills, and the external environment. There is a lack of empirical data about the impact of digital literacy among entrepreneurs on the adoption and successful use of digital technologies. Furthermore, the full exploration of the dynamic influence of changing market conditions and regulatory frameworks on the resilience and adaptability of small, medium, and micro enterprises (SMMEs) is lacking. It is crucial to bridge this gap in order to develop comprehensive policies that support the growth and long-term viability of small, medium, and micro enterprises (SMMEs) in Botswana's distinct economic environment.

### 3.METHODOLOGY

The research seeks to evaluate hypotheses obtained from Institutional Theory by adopting a deductive method (Saunders, Lewis, & Thornhill, 2011). It specifically focuses on examining the relationship between institutional frameworks and the performance of small, medium, and micro enterprises (SMMEs) in Botswana. The study utilises a quantitative approach, employing a structured survey to gather data from small, medium, and micro enterprises (SMMEs) in different industries. The survey will assess factors such as adherence to regulations, socio-cultural factors influencing business practices, and the effects of institutional changes on business operations. The data will be subjected to statistical analysis, namely regression and factor analysis, to investigate the given hypotheses and develop conclusions regarding the impact of institutional elements on the success of SMMEs.

To identify the factors that influence SMMEs business success in Botswana.

In order to empirically test this, we develop the following models.

**Model one:** Turnover of Profit as a measure of success

Turnover = f(organizational factors, environmental factors, individual factors, government incentives)

$$\begin{aligned} \text{Profit} \\ = \beta_0 + \beta_n X_n \\ + \mu \dots \end{aligned} \quad (3.1)$$

Where:

$P_{\text{profit}}$  = Net income

$\beta_0$  = Intercept/Constant term;

$\beta_n$  = Vectors of the Regression Coefficients;

$X_n$  = Vector Matrix of independent variables; organizational factors, environmental factors, individual factors, business characteristics, strategy and structure, government incentives, and pandemic related factors

$\mu$  = Unobserved error term.

## 4.RESULT AND DISCUSSION

### Descriptive Statistics for Business Characteristics

Variable Name	Observations	Mean	SD	Min	Max
Age of Business	64	6.755	6.035	1.000	37.000
Income Business	62	1.2006	5.4506	0.000	4.2007
Profit Business	64	2.9405	9.4505	0.000	7.0006
Business Savings	66	66736.364	2.5105	0.000	2.0006
Assets Ownership	69	0.797	0.405	0.000	1.000
Assets Indebted	69	0.304	0.464	0.000	1.000
Acquired More Assets	69	0.464	0.502	0.000	1.000
Profit Margin	61	1.787	0.686	1.000	3.000

Source: Author's Computation

Table above shows the descriptive statistics for the characteristics of the business. Again, of key interest are the means of the variables. From the results, the average length of existence of the businesses was about seven years, with the minimum of 1 year and a maximum of 37 years. For the income inflow of the businesses sampled the mean was about 1200000 Botswana Pula, with the profits from these incomes reported to be an average of 294000 Botswana Pula, while the average savings was about 67000 Botswana Pula. For other variables, the means shows that majority of the businesses owned assets with a mean score of 0.797 which shows about 80% of the businesses owned assets. Furthermore, most of the assets were not gotten through debts as mean shows that only 30% of these assets were indebted. The means also shows that 40% of the businesses acquired more assets in the last business year.

Finally, most of the business had steady profit margins with a mean score of 1.7.

The regression results of the model estimated to identify the factors that influence the success of businesses in Botswana using profit as the proxy for success. A mix of responses from questions related to the business characteristics, the business' environment, strategy and structure, organizational culture, and the recent pandemic. From this result, factors such as the business employing a strategy, conformity to strict rules, paying taxes, engage in marketing, received government assistance, having official business account number, capacity building, business in existence before COVID 19, staff unable to work during the pandemic did not significantly affect the profits of the business.

### Factors influencing SMMEs profit

	Poisson Regression Business Profit
Business Profit	
Employs a Strategy	-0.315 (0.322)
Conformity to strict rules	0.0605 (0.277)
Marketing	-0.0428

	(0.757)
Tax	0.778
	(0.506)
Received Government Assistance	-0.450
	(0.311)
Competition	-2.059***
	(0.231)
Incentives to Employees	1.168*
	(0.497)
Operate Business Account with Mobile	1.971***
	(0.509)
Official Business Account Number	1.567
	(0.980)
Capacity Building	0.706
	(0.436)
Business in Existence before COVID 19	0.644
	(0.560)
Staff Unable to Work during	0.648
	(0.389)
Business online	-0.737*
	(0.339)
Business Transaction Record Keeping	1.872***
	(0.483)
Education (Schooling years)	0.0663*
	(0.0292)
Financial Statement Frequency	0.302**
	(0.116)
_cons	4.940***
	(1.450)
<hr/>	
$R^2$	0.65
AIC	9761366.8
BIC	9761402.4
F	
N	60

*Standard errors in parentheses*  
\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$   
Source: Author's Computation

The result above identified several key factors that play a significant role in influencing the profitability of small and medium-sized enterprises (SMMEs) in the country, revealing that high competition in the line of business, and the business engaging in online marketing frequently reduces profits negatively, while business transaction record keeping, higher level of education (schooling years) of the business owner, high frequency of preparing financial statement, giving incentives to employees, and operating business account with mobile significantly increases business profits. This result is feasible in many ways. For instance, excessive levels of competition in a given industry can cause price wars and reduced profit margins as businesses compete to offer lower costs and attract

customers. Businesses may struggle to maintain profitability in such situations due to pressure to decrease prices and possibly compromise on quality. This finding supports economic theory, which maintains that excessively intense rivalry can lower wages. The negative effects frequent online marketing has on revenues may also be attributed to increasing marketing costs. While employing internet marketing to reach a broader audience can be effective, there are costs associated with advertising, social media campaigns, and other digital marketing techniques. If the return on investment from online marketing efforts is not favorable, it could lead to decreased profits.



## 5. CONCLUSION AND POLICY RECOMMENDATIONS

The outcomes of the research shed light on the complex and diverse nature of profitability in Botswana's Small, Medium, and Micro Enterprises (SMME) sector. This highlights the fact that certain practices, such as maintaining meticulous records, investing in education, regularly reporting financial information, providing incentives to employees, and utilising mobile banking, can greatly enhance profits. However, challenges such as fierce competition and potentially expensive online marketing strategies may reduce profitability. SMMEs should strategically handle competition pressures by either targeting specialised markets or highlighting their unique value propositions to prevent engaging in price wars. Furthermore, in order to thrive in the digital era, it is crucial for small, medium, and micro enterprises (SMMEs) to effectively manage the trade-off between the expansive potential of online marketing and the corresponding expenses, in order to guarantee a favourable return on investment. This paper asserts that in order

for small, medium, and micro enterprises (SMMEs) to increase their profitability and make a significant contribution to Botswana's economic development, it is crucial to adopt a sophisticated approach that integrates internal managerial effectiveness with strategic market positioning.

The study recommends the following; small and medium-sized enterprises (SMMEs) should prioritise the implementation of niche marketing strategies in order to distinguish their products or services, thus mitigating the adverse effects of market competition. Tailored value propositions and focused consumer segments can aid in preserving lucrative profit margins. SMMEs should utilise a cost-benefit analysis strategy for web marketing to ensure that their expenses result in satisfactory returns, effectively balancing outreach and profitability. SMMEs should allocate resources towards financial literacy initiatives aimed at equipping business owners and managers with the necessary skills in maintaining financial records, doing financial analysis, and making strategic decisions. This will result in more knowledgeable business practices and enhanced financial outcomes.

## REFERENCES

- Achieng, M., & Malatji, M. (2022). Digital transformation of small and medium enterprises in sub-Saharan Africa: A scoping review. *Journal for Transdisciplinary Research in Southern Africa*, 18(1), 1-3.
- Banwo, A., Du, J., & Onokala, U. (2017). The determinants of location specific choice: small and medium-sized enterprises in developing countries. *J Glob Entrepr Res*, 7(16), <https://doi.org/10.1186/s40497-017-0074-2>.
- Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of management* 17(1), 99-120.
- Berisha, G., & Pula, J. (2015). Defining small and medium enterprises: A critical review. *Academic Journal of Business, Administration, Law and Social Sciences*, 1: 17-28.
- Drucker, P. (1985). *Innovation and Entrepreneurship: Practices and Principles*. New York: Harper & Row.
- Eggink, M. (2021). Determinants of Small, Medium and Micro Enterprises' Performance: A Structured Literature Review. 5th international confrence on business, management & economics (pp. 15-38). Mbombela, South Africa: School of Development Studies, University of Mpumalanga.
- Fatoki, O. (2018). The Impact of Entrepreneurial Resilience on the Success of Small and Medium Enterprises in South Africa. *Sustainability*, 10(7), 2527. <https://doi.org/10.3390/su10072527>.
- Fatoki, O., & Garwe, D. (2010). Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach. *African Journal of Business Management*, 4(5), 729-738.
- Fatoki, O., & Smit, A. (2011). Constraints to credit assess by new SMEs in South Africa: A supply-side analysis. *African Journal of Business Management(AJBM)*, 1413-1425.
- Fauzi, A., & Sheng, M. (2020). The digitalization of micro, small and medium-sized enterprises (MSMEs). *Journal of small business management*, 1-26.
- Gagoitseope, P., & Pansiri, J. (2012). Evaluation of critical success factors for developing Small and Medium-sized enterprises in Botswana. *Journal of African Business*(3), 51-61.
- Government of Botswana. (2011). *Economic Diversification Drive: Medium to Long-Term Strategy 2011 - 2016*. Gaborone: Ministry of Trade and Industry.
- Botswana: Botswana Institute for Technology Research and Innovation.
- Mafoko, L. P. (2019). Assessing Factors Affecting the Performance of Youth Owned Manufacturing SMEs. A case of Kweneng District Council. *The International Journal of Multi-Disciplinary*

- Research, 1-33.
- Majama, N. S., & Magang, T. S. (2017). Strategic Planning in Small and Medium Enterprises (SMEs): A Case Study of Botswana SMEs. *Journal of Management and Strategy*, 8(1), 74-103.
- Man, T., Lau, T., & Chan.K.F. (2002). The competitiveness of small and medium enterprises: a conceptualization with focus on entrepreneurial competencies. *Journal of Business Venturing*, 17(2), 123-142.
- Monyake, J. M., & Kuruba, G. (2021). Challenges of Managing Growing Small & Medium Businesses (SMES) In Botswana. *International Journal of Innovative Science, Engineering & Technology*, 8(12), 12-29.
- Muranda, Z., Mphela, T., & Nyakudya, M. (2011). Entrepreneurship policy, enterprise diversification and the motivation factor: The case of Botswana. *Journal of Social Development in Africa*, 26(1), 75-106.
- Muriithi, S. M. (2017). African small and medium enterprises (SMES) contributions, challenges and solutions. *European Journal of Research and Reflection in Management Sciences*, 5(1), 36-48.
- Mutoko, W., & Kapunda, S. (2017). Factors influencing small, medium and micro-sized enterprises' borrowing from banks: The case of the Botswana manufacturing sector. *Acta Commercii*, 17(1), 1-9.
- Nkwe, N. (2012). Role of SMES in Botswana. *American International Journal of Contemporary Research*, 2(8), 29-37.
- Okurut, F. N., Ama, N. O., Mookodi, L., & Okurut, M. L. (2016). Determinant of SMMEs Growth in Botswana. *International Journal of Economic Issues*, 9(1), 23-44.
- Ongori, H. (2009). Role of Information Communication Technologies Adoption in SMES: Evidence from Botswana. *Research Journal of Information Technology*, 1: 79-85.
- Perifanis, N. A., & Kitsios, F. (2023). Investigating the Influence of Artificial Intelligence on Business Value in the Digital Era of Strategy: A Literature Review. *Information*, 14(2), <https://doi.org/10.3390/info14020085>.
- Rodrigues, M., Franco, M., Silva, R., & Oliveira, C. (2021). Success Factors of SMEs: Empirical Study Guided by Dynamic Capabilities and Resources-Based View. *Sustainability*, 13(21), 12301. <https://doi.org/10.3390/su132112301>.
- Sathyamoorthi, C. R. (2002). Government policy and entrepreneurship performance: The case of small, medium and micro enterprises in Botswana. *Pakistan Journal of Applied Science*, 2(5), 563-569.
- Saunders, M., Lewis, P., & Thornhill, A. (2011). *Research methods for business students*. London: Pearson education Ltd. 6th Ed.
- Sentsho, J., Maiketso, J., Sengwaketse, M., Ndzinge-Anderson, V., & Kayawe, T. (2007). Performance and competitiveness of small and medium sized manufacturing enterprises in Botswana. Gaborone: Bay Publishing (Pty) Ltd.
- Stuart, R., & Abetti, P. (1990). Impact of Entrepreneurial and Management Experience on Early Performance. *Journal of Business Venturing*, 5: 151-162.
- Teece, J. D., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 18(7), 509-533.