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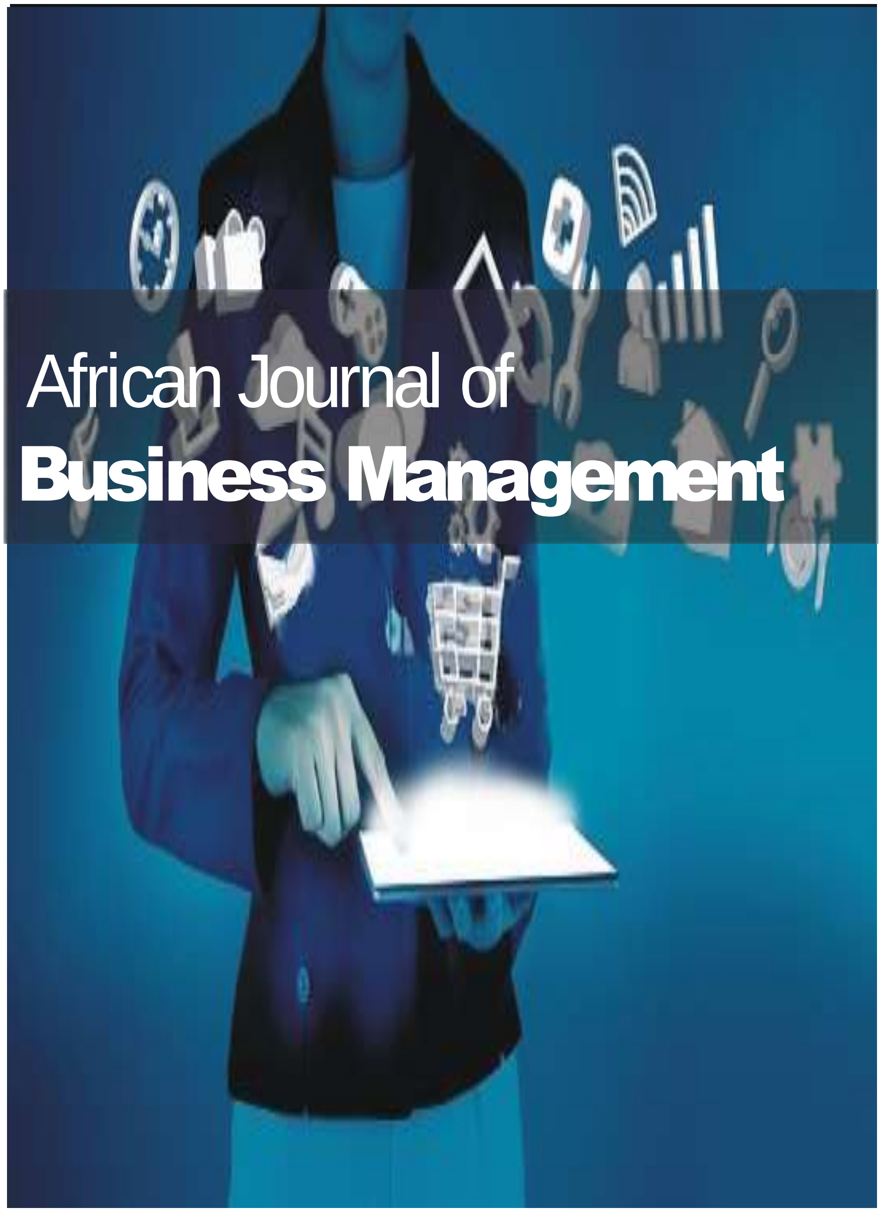


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African Journal of Business Management

*Review*

# Improving agriculture in Nigeria through public-private partnerships

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**The agriculture sector in Nigeria has remained largely undeveloped. The reason for this is due to the limited public sector funding in the different agricultural value chains including research and development. On the other hand, there has also been very minimal private sector investment in the sector. The cause of this is a lack of incentive for the private sector in Nigeria to invest in sectors like agriculture with very informal market structures and therefore without clear paths to profitability. It is believed that these problems can be resolved with better collaboration between the private and public sector actors through the instrumentality of public-private partnerships (PPPs). This will increase investment in the sector by pooling both public and private sector resources and also create realizable and foreseeable income streams for investors. This fact seems to be finally catching on in Nigeria, where the government has initiated a number of PPP programmes to address some of these underlining problems. This paper looks at some of the PPP programmes that have been initiated by the government with particular focus on the provision of services, infrastructure, sustainable land use systems and the development of structured markets. This paper aims to evaluate the impact of these programmes and also suggest improvements that will ensure that agriculture PPPs are further enhanced in Nigeria.**

**Key words:** Agricultural Markets, Sustainable Development, Public-Private Partnerships.

## INTRODUCTION

Despite the fact that the agricultural sector affects the lives of most people in Nigeria, it has hardly enjoyed the attention it deserves from successive governments. Prior to the country's independence in 1960 and the decade following independence, agriculture was truly the most important economic sector in the country accounting for the highest number of employment, highest contributor to gross domestic product and foreign exchange earnings (Ajetomobi, 2010) The oil boom in the 1970's changed this narrative, as successive governments paid less attention to the agricultural sector, leading to a decline in the contribution of agriculture to the Nigerian economy. Nevertheless, the sector continues to be the highest employer of labour in the country and contributor of a significant portion of the GDP. (Punch Newspaper, 2016). Due to the indifference of past governments to the agriculture sector, it is not surprising that the sector continues to face significant challenges. According to the Food and Agriculture Organisation (FAO), of the United Nations, some of the challenges being faced by the sector include: the outdated land tenure system that constrains access to land, a very low level of irrigation development, limited access to research findings and technologies, high cost of farm inputs, poor access to

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credit, inefficient fertilizer procurement and distribution, inadequate storage facilities and poor access to markets (Nwangwu, 2018). The consequence is that after so many years, the sector is still characterized by small farm holding, a very little food processing industry and lack of structured markets.

The overriding reason for this state of affairs is a lack of investment in the sector. For instance, there is limited public sector investment in the different agricultural value chains including research and development that is required to catalyse the sector The paucity of funds constrains the government which is the largest investor in agricultural infrastructure in Nigeria. The private sector could have filled the financing gap left by the government. However, there has also been a minimal structured investment by the private sector. The apathy of the private sector is precipitated by a lack of incentive to invest in sectors like agriculture with very informal market structures, without clear paths to profitability for businesses. Agriculture is just not being treated as a business by policymakers, and rather it is seen more as a social service. It is believed that since these problems centre primarily around the issue of a lack of investment in the sector, that it can be resolved with better collaboration between the private and public sectors through public-private partnerships (PPPs) which will allow the parties pull their resources together for the good of the sector.

It is not surprising also that the recent drop in oil prices and the slip of the economy into recession has redirected the focus of the Nigerian government back towards agriculture. The present government administration believes that the agriculture sector provides sufficient opportunity for the country to diversify its economy, making it less susceptible to the volatility of oil prices. In pursuing its new agro-centric policy, the present government has intervened through several measures including provision of concessionary loans to farmers, training, improvement in input supplies, especially fertilizers under the anchor borrower’s programme. Also, the government has commenced the concession of grain silos and River Basin Development Authorities to private sector investors. This paper evaluates the impact of these partnerships between the private and public sectors and suggests ways of improving their impact. It concludes that while these interventions have recorded some successes, a lot is still required to be done if agriculture is to compete with the oil sector as the lifeblood of the Nigerian economy. Also, as the government continues to be constrained by limited funds and insufficient technical and operational know-how, this paper argues that the best way to bridge the financing and management gap in the agriculture sector in Nigeria is through PPPs.

## WHAT ARE PPPS?

PPPs can be defined as the relationship between public sector agencies and private sector entities under which the responsibility for any or all of the combination of designing, financing, construction, management and operation of public infrastructure, utilities and other investments that were traditionally undertaken by the public sector are contractually shared and jointly undertaken by both the public and private sector, usually in proportion to the kind of risks each party can best carry (Nwangwu, 2013). Agriculture PPPs may specifically then be defined as a formalized partnership between public institutions and private partners designed to address sustainable agricultural development objectives, where the public benefits anticipated from the partnership are clearly defined, investment contributions and risks are shared, and active roles exist for all parties throughout the PPP lifecycle”(FAO, 2016) .

The most critical success factor for agriculture PPPs is the allocation and mitigation of risks. Therefore, the use of PPPs in the sector will allow parties share the risks and rewards in agriculture projects and services. This will in effect enable the government to focus on those aspects of the agricultural service offerings that it can carry out conveniently while transferring the risks that it is uncomfortable to take to the private sector party. For instance, the government can provide land and assume the regulatory risk in a farming project, while the private sector assumes financing and market risks. However, structured, the basic rule is that a party to a PPP transaction should only be made to assume risks which it is most suited for and willing to shoulder at the most acceptable price (Abrahamson, 1973).

Despite being in extensive use in Nigeria, in several infrastructure sectors, most notably in the transport and electric power sectors, there has however been very minimal use of PPPs in the agriculture sector. The reason for this may be attributable to the difficulty in convincing the private sector investors on the viability of the agriculture sector. Government policies have spectacularly failed to address the unbalanced risk and reward structure in most agriculture projects, therefore alienating the private sector. However, it is a fact that PPPs, if well designed are suited for solving the problems bedevilling the agriculture sector. It can unlock private sector investment and its superior managerial capabilities to augment the resources of the public sector. It also ensures the sustainability of agriculture projects by ensuring the timely completion and execution of projects by eliminating the reliance on the very unreliable government budgetary systems. Indeed, for these reasons, some countries have adopted PPP like structures to develop their agriculture sector (Ponnusamy, 2013).

In recent time, however, the Nigerian government has begun to deploy PPPs to develop the agriculture sector. These attempts at the use of PPPs in the agriculture space are still new, and a few projects have been started recently. While some of these initiatives are still at their procurement stage, others have commenced operations. Using a case study methodology, this paper evaluates some of these projects to understand whether they are making the required impacts and suggest ways in which the government's PPP programme in the agriculture sector may be improved. The discussion on the impact of agriculture PPPs in Nigeria in this paper is divided into three major categories. The first is the provision of services to farmers, which include input supplies, training, credit facilities and insurance under the Federal Government of Nigeria's Anchor borrowers programme. The second is the provision of agriculture infrastructure which includes storage, logistics and irrigation to framers through the concessions of the River Basin Development Authorities (RBDAs) and the grain silos. The final category is the discussion of the development of agricultural markets.

## PROVISION OF SERVICES

The activities that would fall under this heading include the so-called "soft" activities like providing knowledge and skill transfer through trainings and other capacity-building initiatives and also business networking (FAO, 2018). Services will also include hard activities like the supply of inputs and finance (FAO, 2018). In developing countries, the provision of these services is crucial for the transmission of smallholder farmers from subsistence to commercial agriculture (FAO, 2018). The provision of services also helps enhance the competitiveness of the agriculture sector by contributing to the improvement of the economic and social conditions of farmers.

One of the key programmes of the Federal Government of Nigeria, the Anchor Borrowers Programme is a perfect example of the provision of services to farmers through PPPs.

### Anchor borrowers programme

The Central Bank of Nigeria (CBN) in line with its development objectives established the Anchor Borrowers Programme (ABP) in November 2015. According to the CBN, the objective of the programme is "to create a linkage between anchor companies involved in processing and smallholder farmers of the required key agricultural commodities" (CBN, 2016). The essence of the programme is the provision of critical inputs in kind or cash to smallholder farmers to boost production of agricultural commodities, stabilize input supplies to agro-processors and address the country's negative balance of payments on food (CBN, 2016). At harvest, the smallholder farmer supplies his/her produce to the Agro Processors (Anchor) who pays the cash equivalent to the farmer's account (CBN, 2016). According to the CBN, other notable objectives of the programme is to increase financing to the agriculture sector, reduce agriculture commodity importation thereby conserving much need foreign reserve, increase capacity utilization of agriculture firms, create new generation of farmers/entrepreneurs and employment, deepen the government's cashless policy and financial inclusion, reduce the level of poverty among smallholder farmers and assist rural smallholder farmers grow from subsistence to commercial production levels (CBN, 2016).

Under the programme, the targeted commodities are those that are likely to give a competitive advantage to the country. These include, cereals (rice, maize, wheat), cotton, roots and tubers (cassava, potatoes, yam, ginger), sugarcane, tree crops (oil palm, cocoa, rubber), legumes (soya bean, sesame seed, cowpea), tomatoes, livestock, and any other commodity that may be introduced to the list by CBN.

Under the Anchor borrowers programme, CBN provided funds (about =N=40 billion out of the =N=220 billion Micro, Small and Medium Enterprises Development Fund) to certain participating financial institutions to on-lend to smallholder farmers. The financial institutions, mostly banks obtained the loans at 2% from the CBN and were directed to lend at a maximum of 9%. The tenor of the loan was fixed depending on the gestation period of the identified commodities. The collaterals provided by the farmers under the scheme were:

(a) Cross and several guarantees by farmers in cooperatives;
(b) Tripartite agreements signed by the parties
(c) Cross and several guarantees by farmers in cooperatives registered in the National Collateral registry
(d) 5% minimum equity contribution.

Bearing in mind the risk appetite of banks to lend to farmers with little or no collateral, CBN agreed to absorb 50% of any amount in default after satisfactory evidence that every means of loan recovery has been exhausted by the bank. This was one of the ways used to encourage the banks and other lending institutions to participate in the scheme. Under the scheme, small farm holders are entitled to loans ranging between =N=150,000 and =N250,000 to assist them in procuring necessary agricultural inputs such as seedlings, fertilizers, pesticides to help agricultural outputs and productivity.

As at 31st of December, 2017, it was estimated that about 218,000 farmers from across the federation benefitted from the programme and about =N=45.5 billion was disbursed. President Buhari in a broadcast to mark the country’s 57th Independence Anniversary described the programme as a success. Also, according to CBN, the programme has been able to generate almost 3.5 million direct and indirect jobs (The Guardian, 2017). The programme is also reputed to help increase the popularity of locally grown rice, and this has prompted the CBN to expand the programme to other crops (Evbuomwan and Okoye, 2017).

However, several reports, otherwise, the major problem being the recovery of the loans that were given out to the smallholder farmers. It has been reported that most of the beneficiaries have bluntly refused to repay the loans. Some of the reasons proffered were that some of the conditions for repayment were quite onerous and that there were insufficient enlightenment campaigns to intimate farmers that loans were repayable hence most of them saw it as a reward for voting President Buhari into power in 2015 (Evbuomwan and Okoye, 2017).

Kano State and some other states have disclosed plans to set up mobile courts to try over 45,000 farmers that defaulted. Another tactic that has been employed by some states of the federation is to elicit the support of local clerics to help cajole errant farmers to repay the loans (Evbuomwan and Okoye, 2017). This is similar to what was done in Kebbi State where about 78,000 farmers benefitted from the loan, already 5,968 farmers have been sentenced to various prison terms by mobile magistrates set up to try them (Evbuomwan and Okoye, 2017). The story of default is the same across various states of the federation. For instance, in Kaduna State it was reported that the recovery effort could only yield about 22% of the loan in commodity value as agreed by the farmers before the facility was recovered. In Kano State, from a total sum of =N=950 million released by CBN to rice farmers, only =N=6m was paid back as at December 2017 (Evbuomwan and Okoye, 2017).

It is clear from the preceding that a lot still needs to be done in creating awareness and structuring of the programme if it is going to be sustainable. It appears that the smallholder farmers involved in the programme do not entirely understand its objectives and modalities. Therefore, there ought to be a better stakeholder awareness campaign. There was also the insufficient transfer of commercial risk to the smallholder farmers. The smallholder farmers and cooperatives should be made to assume a lot more of the financial risk or the risk of loan defaults than they presently do. Farmers should be made to secure the loans with their lands. This would in the first place ensure that there will be a reduction in defaults and also provide a means for recovery of the loans in the event of default as security can be sold and the proceeds used to repay the loans. This, of course, is only possible where lands have transferrable title documents.

It appears from the preceding also that the significant risk facing the ABP is the possibility of loan defaults. The participating banks refused to shoulder this risk alone, and CBN agreed to absorb 50% of the loans, provided the banks can show that they had done everything possible to recover the loans. While it is not clear what standards would be required from the banks to prove that everything has been done to recover the loans, it appears that this would include the threat of prosecuting defaulters as has been the case across the different states. This approach has not been very successful judging from the very high numbers of cases that have progressed to trial in the affected states.

From the preceding, it is evident that the programme as presently structured by CBN will continue to run into the problems of default by smallholder farmers until the underlining issue of title to farmland is addressed. State governments should be encouraged to put structures in place that will ensure that Certificates of Occupancy are issued to smallholder farmers which will make it easier for credit to be granted to them as these lands can serve as valid collaterals since their alienability is improved. If these title documents had been available, there would have been a far lower number of farmers defaulting on their loans as the shame and economic consequences of losing their lands would be sufficient deterrent.

CBN has undertaken to introduce technology to help ensure better compliance by farmers. Under the new system, biometric information of farmers will be taken, their farms mapped and biometric cards produced for each farmer. This would go a long way in helping to reduce loan defaults. However, the best solution as in most PPP projects is to ensure the proper allocation of risks in a way that aligns with the incentives of the parties in the project.

**Provision of infrastructure**

Most traditional PPP projects are focused on the provision of infrastructure. The provision of agriculture infrastructures like irrigation, agro-processing and storage facilities are essential components of the agriculture value chain. In most cases, private sector farmers are unable to build this infrastructure themselves due to their high capital expenditure that is required and the unlikelihood that the investors would be able to recover the investment throughout the lifespan of the infrastructure. The government may subsidize the infrastructure.

***Grain silos***

Nigeria suffers from periodic spikes in the prices of foodstuff generally due to the cyclical nature of its weather. Food is abundant during the raining season and then as the country transitions into the dry season; food prices rise as production slows down. Post-harvest losses are also a perennial occurrence in Nigeria. This situation applies to most products as well as grains. This situation is easily solved by storing the product including the grains during the harvest season when they are susceptible to waste, ensuring that they are now available all year round.

The Federal Government of Nigeria under its strategic grains reserve programme, constructed some silo complexes across the country to solve the problems of post-harvest losses. However, most of the silo complexes were never operational due to a wide range of reasons. This includes a lack of budgetary allocations to operationalize the assets, erratic power supply and non-maintenance of backup generator sets, absence of environmental management plans to guide the mitigation of environmental impact and the absence of a competitive market for grain storage resulting in non-market determined tariffs for storage (Infrastructure Concession Regulatory Commission, 2018). The few assets that were being operated by government suffered from a complete lack of maintenance. The situation across most states in Nigeria is that grains are now mostly stored in warehouses and even in other open structures leading to the loss of a large amount of produce. For these reasons, despite the large volume of grains produced within the country, Nigeria still suffers a high volume of shortages during the offseason.

The government turned to PPPs to concession the existing silo complexes to private sector operators who will rehabilitate and operate the complexes. Accordingly, it is hoped that PPPs would allow large and smallholder farmers store and process their grains in modern vertical silos with the aid of modern technology. It is believed that the silo complexes would be better utilized for efficient grain reserve services in the hands of private sector operators. Also, the silos will serve to increase storage utilization and efficiency of grain trading and post-harvest services.

The concession of the silos whilst not having been completed is a good development for the country. Just like in some countries where PPPs have been utilized for grain storage, the concession of the silos will provide some advantages, which include the following:

(a) Scarce public funds will no longer be employed for the completion of the construction of the assets as private sector partners would now invest their funds for that purpose. This would allow the government to focus their resources elsewhere in the provision of other much needed social infrastructure.
(b) The private sector party is also able to upgrade and optimize the silo complexes employing the use of very modern technology and know-how.
(c) Private sector partners would be able to bring their expertise into the management and operation of the facilities, thereby relieving the government agencies from the day to day management of the assets. The government agencies may now transform from the role of managers of the assets to owners and regulators since the transaction is structured along the line of the landlord-tenant model.
(d) Ownership in the asset remains in the hands of government and operations reverts to the government at the end of the concession period. The PPP option also ensures that the government receives an improved asset at the end of the concession period. Also, there is usually the transfer of technology from the private sector operators to the public sector.

However, the transaction process for the concession of the silos have been relatively slow and have still not reached financial close despite having commenced over three years ago. The slow pace of the transaction leads to further deterioration of the assets and delays the impact the transaction would have had on the economy. Also, the concessions are designed to last fourteen years. The short-term nature of this concession would not provide the private sector partners with sufficient incentives to invest much money into improving the asset as there might be an insufficient amount of time for them to recover such investments (Iganiga and Unemhilin, 2011)

## Optimization of land use

The next area where PPPs are useful is in the optimization of land use. To illustrate this, this paper looks at the concession or commercialisation of the River Basin Development Authority assets scattered around the country.

### *Concession/Commercialisation of river basins*

Following the severe drought that occurred in Nigeria between 1972 and 1974, the military government in Nigeria at the time, promulgated Decree 25 of 1976 to develop Nigeria's water resources. It is the enactment of this law that gave birth to the creation of 11 River Basin Development Authorities.

According to S.4 of the RDDA Act, the functions of each authority shall be:

(a) to undertake comprehensive development of both surface and underground water resources for multipurpose use with particular emphasis on the provision of irrigation infrastructure and the control of floods and erosion and for watershed management;
(b) to construct, operate and maintain dams, dykes, polders, wells, boreholes, irrigation and drainage systems, and other works necessary for the achievement of the authority's functions and hand over all lands to be cultivated under the irrigation scheme to the farmers;
(c) to supply water from the authority's completed storage schemes to all users for a fee to be determined by the authority concerned, with the approval of the minister;
(d) to construct, operate and maintain infrastructural services such as roads and bridges linking project sites: provided that such infrastructural services are included and form an integral part of the list of approved projects;
(e) to develop and keep up-to-date a comprehensive water resources master plan identifying all water resources requirements in the authority's area of

operation, through adequate collection and collation of water resources, water use, socio-economic and environmental data of the River Basin.

Therefore, the RBDAs was primarily established to provide water for irrigation and domestic supply, improvement of navigation, hydroelectric power generation, recreational facilities and fisheries. The RBDAs were also supposed to perform more comprehensive economic and social functions like bridging the gap between rural and urban centres and discourage migration from rural areas to urban centres. These objectives were to be achieved through surface impoundment of water by constructing dams which would enable all year round farming activities in the country.

However, after nearly four decades of its establishment, the RBDAs have not lived up to its expectations. The RBDAs have merely failed to harness the country's water resources to boost agricultural development through irrigation farming within the country. Presently only one million hectares of land is under irrigation on Nigeria. Due to this, the government of Nigeria has been promoting the use of PPPs to overcome this challenge. The process has however been slow with the government seemingly undecided on whether to outright concession to the irrigation facilities or commercialise them (Anyanwu et al., 2010).

It is important to note that PPPs in irrigation are not easy to execute as private sector investors will only invest if they are sure that they would be able to recoup their investment. Irrigated agricultural projects are difficult to fund on a commercial basis because it is difficult for them to deliver short-term expected financial returns. This is because they are dependent on some factors outside the control of the investor. For instance, investments in irrigation projects are self-contained because they are solely linked to local offtake. Therefore, infrastructure providers have been exposed to the same type of market and commodity risks that the farmers are exposed to (World Bank Group, 2017). Additionally, since water is only one of the cost elements that a farmer faces, the viability of the investment in the irrigation infrastructure is also linked to other costs to the farmers like credit, fertilizer and access to the market. Therefore, the ability and willingness to pay off the farmer are critical. The private sector irrigation provider is also concerned that there exists a mechanism for receiving payments from the farmers.

From the foregoing, it is evident that PPPs in the irrigation sector would not be easy to deliver. However, the sector is crying out for investment, and it is imperative that the government finds a way to conclude the ongoing commercialisation or concession process to attract private capital into the sector. It is suggested that perhaps the concession of the irrigation facilities should be made in conjunction with the hydroelectric power dams so that it would be viable.

## AGRICULTURAL MARKETS

The development of markets for agriculture produce is essential to the growth of the agriculture sector. It provides incentives for private sector investors to devote their resources to agriculture projects knowing that there is a clear path to returns for such investments. Another role that markets play in a sector with seasonal production like agriculture, is to help manage risks associated with demand and supply shocks by helping adjust supply when needed thereby reducing the price variability faced by consumers and producers (Barreti and Mutambatsere, 2008)

Like in most developing countries, the history of the development of an agriculture market reveal first direct intervention by government in the 1960s and 1970sto resolve failures in market structures and then the adoption of a more liberalised market-oriented approach to ensure that farmers get value for their produce (Eigege and Cooke, 2016; Barreti and Mutambatsere, 2008). Trade in agriculture in Nigeria also went through the same historical trajectory. The Federal Commodity Marketing Boards were established in 1977 by the then Federal Military Government to take care of crops like cocoa, groundnuts rubber and tubers. The Commodity Marketing Boards themselves devolved from the old regional West African Produce Control Board of 1942. In 1947 this local board then evolved into national monopsonistic single commodity marketing boards (Ojowu and Mensah, 1988). There were four marketing boards in Nigeria; these were the Nigerian Cocoa Marketing Board which was set up in 1947, followed by the boards for oil-palm produce, groundnuts and cotton. In 1954 when Nigeria assumed a federal status, these boards became regional multi-commodity boards and then as states were created, control of the boards became the responsibility of the states. The role of the boards was basically to interface with farmers and bring stability to their operations by ensuring that their products were purchased by the government. Government also assisted by providing them with necessary tools like tractors, scales and pest control implements. From inception, the Marketing Boards were exploitative, and farmers never benefitted from the arrangement. According to Gavin Williams:

"*Since their inception, Nigerian Marketing boards have been used to serve various interests and purposes, hardly any of which have benefited the producers. They originated in the second world war and were perpetrated after the war by a labour government so that they might play their part in meeting British needs…Nigerian politicians found them a ready-made instrument for taxing farmers, enriching themselves and financing their political activities. Their pricing policies from producing export crops rendering the boards redundant." (Williams, 1985).*

Indeed, this system of exploitation was perpetuated even after the price-fixing functions of the regional boards were taken over by the Federal Government in 1974 and after the state marketing boards were finally dissolved in 1977 in favour of a centralized Federal Commodity Marketing Board. The system was generally characterized by corruption, bureaucratic red tape, smuggling and discriminatory tax regimes by state governments (Kolawole, 1974). Indeed the decline in agriculture as a major export in Nigeria was not only a function of the increase in the price of oil but could also be traced to the marketing boards which denied farmers the incentive to continue to produce export commodities (Mgbenka et al., 2015).

All these led to the liberalisation of the sector in 1986 with the dissolution of the marketing boards and the introduction of a free market pricing regime for agricultural produce (Williams, 1985; Omorogiuwa et al., 2014). This led to the deregulation of product marketing with a concomitant increase in prices and farmers received more for their products at prices that were formerly fixed at low prices by the technical department of the marketing board were now purely market-driven (Williams, 1985). However, the liberalization of the sector had not resolved all the issues afflicting the market for agricultural produce in Nigeria. The sector is still constrained by issues like poor quality control and grading of produce which adversely affects export trade and lack of a conventional method of determining prices. The current Minister of Agriculture, Mr. Audu Ogbeh has proposed the reintroduction of marketing boards to tackle these issues (Vanguard Newspaper, 2017).

The reintroduction of the marketing boards is not likely to solve the present issues with the market for agriculture produce in Nigeria. The reintroduction of these boards is not only outdated but also out of step with the country's present liberalised economic outlook. Therefore, it appears that whilst the country is liberalising and encouraging private sector investment and operation of most of its economic sector; thee government is looking at nationalizing an aspect of the agriculture sector.

Speaking against the clamour for the reintroduction of marketing boards, Gavin had this to say as far back as 1985:

'*Against all the evidence, it (marketing boards) maintains a strong appeal for bureaucrats, technocrats and regrettably many socialists. Socialists have no business defending or reforming such exploitative institutions. De jure state monopolies on the marketing of crops impose high costs on producers, on government budgets and consumers. They create de facto monopolies for favoured and protected traders and the opportunities for profitable collusion between people in business and officials, civil police and military. Against such institutions and monopolistic arrangements, socialists should support free trade (Williams, 1985).*

While this statement from Gavin remains true even today, it is still very doubtful that the government would have the capacity or budgetary discipline required to operate a marketing board structure effectively. Instead of this very backwards looking policy, it is better to introduce PPPs to resolve the problems that are apparent in the current arrangement. The government should concentrate on de-risking the sector to allow for additional private sector investments across the entire agriculture value chain and should also be responsible for setting policies and standards through its various organs in the sector. The government should leave the fixing of prices to market forces. Finally, efforts should be intensified to privatise the ineffectual commodities exchange to make it more efficient.

## CONCLUSION

It is essential that Nigeria should look towards the greater use of PPPs to develop the agriculture sector. This is because agriculture PPPs allow for the proper allocation of risks ensuring that the different parties can carry the kind of risks which they are best able to manage. Agriculture PPPs if also done properly promote value for money for the public sector. This paper evaluated the few agriculture projects that are being currently procured through PPPs like the grain silos and the RBDA commercialisations and concludes that if they are properly executed they can turn around public assets that were hitherto lying waste. It is the case that the intervention of the private sector parties would put the assets into better use. The Anchor borrowers programme is a good project that requires better allocation of risks between the parties to ensure its sustainability. Finally, the creation of an agriculture market in Nigeria is essential to the growth and sustainability of the sector. It is therefore essential that the country puts PPP structures in place that would help resolve some of the problems presently constraining the market instead of resorting to the old centralised marketing board structures that had been earlier jettisoned due to its ineffectiveness.

## CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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# An evaluation of the impact of the management practices and how they impact on employee-engagement: Employees' perceptions

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**The employer-employee relationship has always been governed by the understanding that the employee is simply a hired hand to complement the business owner in the process of achieving a firm's set objectives. The rest of the other activities and phenomena are taken for granted – 'I employ you, you do your work I pay you', so the circle continues. The employer drives the employee to perform to enable the firm reach its objectives and give a good return on the investments. The rest of the other activities are merely a means to an end, understood to be merely a symbiotic relation, one hand washing the other. The concept of employee-engagement as a management tool does not seem to hold much strength and appreciation amongst managers whose sole purpose is to produce results. This paper brings into light empirical research indicating that industry captains do not focus on human capital as critical for effective productivity. The managers resort to hiring and firing as a means of boosting productivity, slave driving to increase labour performance. The industry captains are quick to point a finger to the labour as inhibiting free will hiring and firing as a solution to poor productivity. Consequently, the industry may be breeding a generation of non-devoted, convenience employees resulting in mediocre performance. The question asked always is; why does South Africa have low productivity? The paper points the problem to the failure of management to capitalize on the benefits of employee-engagement as an accessory to effective management by impression.**

**Key words:** Commitment to the firm, conducive work-environment, employee-engagement, manager-employee-relationship, peer-relationship and productivity.

## INTRODUCTION

Meihami and Meihami (2014: 80-91) assert that organizations constantly seek for means to enhance profitability by developing competitive advantage with the focus on the people that do the work. Defining the mission and the vision is not enough in this dynamic business terrain, a new culture of trust and employee buy-in may be the way to go. It should be an imperative for business to strengthen employer-employee relations

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to retain the experience and the indispensable knowledge within the experienced employees. Effective leadership should therefore focus on employee engagement as an accessory to existing managerial competencies which should clarify the vision / mission prompt employee performance. The ideal employee engagement should be measured through the relationship between the firm and its employees. The higher the level of employee engagement, the higher the probability of a workforce highly absorbed and enthusiastic about their occupation (Albrecht et al., 2015: 7-35). An "engaged employee" is positive about her/his work and her/his performance leading to the development of a difficult-to-copy competitive advantage for the firm. It can be stated here that employee engagement does not come by luck; it is a result of deliberate effort to create conducive environment. The low productivity can be averted by providing an enabling environment that would motivate the employees to commit themselves more to their duties. Employee engagement, from the research, brings a new sense of devotion and ownership from the employee towards their tasks, thereby increasing productivity. It is this opportunity that management continues to miss, which could enhance productivity at the same level of employment. This research therefore seeks to identify the impact of a deliberate employee-engagement oriented management practice towards the attainment and maximization of employee productivity.

## THEORETICAL BACKGROUND TO THE STUDY

Carasco-Saul et al. (2015: 38-63) are of the view that an engaged employee has a heightened emotional and intellectual connection to the organisation and to co-workers especially if the leaders are close to the employees. This results in higher levels of loyalty and higher probability of high performance and full employee engagement. Organizations focusing on employee engagement outperform their own performance-expectations, making it easier to compete in the global village. Inevitably employee-engagement has become more complex and cumbersome because of the increase on the diversities at the workplace. The availability of information and subsequent knowledge of the employees only serve to complicate the process which is supported by Saks and Gruman (2014: 155-182) who posit that change is inevitable compounded by the ever-changing market needs.

According to Korschun et al. (2014: 20-37), there is a direct relationship between the level of employee-engagement and performance level of an individual employee's awareness of the business context. Engaged employees show enthusiasm and are emotionally attached to the organization and cognitively alert to any happenings in the organization. A triangle can be drawn between employee-engagement, individuals-involvement and job-satisfaction. This inevitably builds pressure for the individual to do more for the organization including promoting it, protecting it, and being innovative for the sake of the loved organization.

Jowah (2013: 708-719) posits that the effectiveness of a leader reaches its maximum when there is a congruency between the follower and leader expectation. At this stage the average employee performs at their best, they become fully engaged as they will feel respected, accepted and valued. All things being constant, it is possible to predict the creation of an employee-employer engagement ideal to boost and maintain productivity. Popli and Rizvi (2015: 59-70) assert that employee engagement is the driver of organisational success since high employee engagement levels assist in retention of experienced personnel. The retention of skills means the presence of intellectual property (knowledge), which when properly managed (knowledge management) will boost employee-engagement. Pauleen and Gorman (2016: 23-38) define knowledge as a "fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information." The explicit, implicit and tacit knowledge in the organization, combined with high employee engagement, would form a solid impenetrable force of high morale, high productivity, high synergy, and not an easy to bit competitive advantage.

Bin (2015: 1-8) noted that the three elements responsible for driving employee engagement are; contributions, connections, and growth and advancement. Great leadership generates increased employee engagement that results in organizational efficiency. Cognizance should be taken of the three dimensional concept of work, namely; physical, emotional and cognitive element of the human employee. Saks and Gruman (2014: 155-182) mention both emotional and intellectual (cognitive) dedication to the organization (an indication of employee-engagement) which takes in a lot of strength and zeal for the organization. It is the degree of satisfaction of the employees with the organization that makes them think of their workplace as their second home.

## PROBLEM STATEMENT

It has been alluded to in the foregoing literature that leadership, organizational structure and culture, and the ability of management to measure the extent to which the employees may be loyal to the firm would enable the management to predict employee engagement. It can be stated here that employee engagement does not come by luck, it is a result of deliberate effort to create the conducive environment. This study seeks to evaluate the degree of employee engagement in selected companies in the Cape Metropolis of Cape Town. It is assumed that the average leader / manager may have little academic knowledge about the value of employee engagement.

## RESEARCH METHODOLOGY

This is the "how" part of this empirical research; it is a mixed quantitative and qualitative research using pre-constructed instruments (questionnaires) that had been pre-tested and re-constructed for the purpose. The questionnaires were administered to different respondents in different workplaces by final year Research Methodology students who had been trained on research methods.

### Target population

The people who feel the effects of leadership behavior are those employees who are managed. It can be argued that employee feels a degree of subordination as long as they have someone that they report to, including managers who report to senior managers. The target population was decided on the basis of any employee who was not the owner of the organization, and preferably not classified as a senior manager.

### Sample, sampling and sampling technique

The sample was all subordinates in 10 selected firms/organizations that were available / able to fill in the questionnaires. The interviewers were part time Research Methodology students who carried out the research at their workplaces. They were requested to choose randomly, of course dependent on willingness and availability of the prospective respondents. The 10 students participating were requested to get a minimum of 10 questionnaires each (100) properly completed, solely to do with the costs and time involved.

### Data collection and analysis

The data were collected using well-structured questionnaires that had been pre-tested and reconstructed to be relevant. The questionnaire was sent to a statistician for further corrections before it was administered. One hundred people responded and the data were edited, and coded. The coded data were captured into the Excel Spread sheet and bar charts, pie charts, histograms and other pictorial data-representing forms were developed. The data were therefore interpreted and analyzed.

## FINDINGS

The perceptions of a hundred respondents are recorded under the findings. The format is simply stating the question or statement as it appeared in the questionnaire with the response following thereafter. The response includes the brief explanation and interpretation of the graphic representation of the findings. The questionnaire was divided into three parts named, Section A (Demographics), Section B (structured statements – Likert scale) and Section C (open ended questions).

### Section A: Demographics

The biography assisted in identifying the respondents and in determining which of them were relevant to the study. General questions were asked with pre-determined answers to eliminate those that did not qualify for the survey.

**Question 1: What is your gender?** The research had nothing specifically to do with gender in the questions that followed, except the researcher wanted to know for the record how many males and females participated in the survey.

Out of the 100 responding, from left to right 2% of the total is females employed as general workers with 9% male. The administrators show females at 12% contrasted to males at 3% (¼ of the total for females); there were more female supervisors at 8% which is twice the males at 4%. Ironically the number of female managers (13%) stands at 4 times that of males at 3%, but "other" has female respondents at 20% with males at 26%. In all, 55% females responded with males at 45%.

**Question 2: What is your age group?** It was considered important that the age groups of the respondents be ascertained. The age group would help establish the level of maturity and this may indicate the average years of experience in the workplace. Results are analyzed based on cross tabulating age groups and their levels of occupation.

*Unskilled labour:* Of particular interest is the absence of unskilled labour (0%) in age group below 20 years, and none (0%) above 50 years. Most would complete high school at about the age of 19 and 20. This means that there were no recent *matriculants* that were interviewed. There is only 9% of unskilled workers for age group of 41-50, which is as expected; at that age the bulk have been promoted or moved to other occupations. As would be expected, 55% (entry level) come from 21-30 years, with a drop to 36% for the ages 31-40 years.

*Administrators:* As in the case of general workers, there are no administrators below 20 years of age, but a sudden jump to 47% for the age range 21-30. This is followed by 31-40 age range at 40% and a low 13% for the 41-50 age group. No administrators were found in the age group of 50 years plus.

*Supervisors:* The results show that 33% of the supervisors responding were between the ages of 21-30 years of age, 25% were between 31-40 years, another 25% was between 41-50 years with 17% above 50 years of age. It was rather surprising that there were more supervisors between the ages of 21-30 compared to the subsequent years when it is expected that the longer people serve the higher the chances of them getting to supervision level.

*Managers:* Usually the most experienced, knowledgeable or educated, which ever fits the description of how the individual gets to management level. The highest percentage of managers (39%) is in the age group of 41-50 years. This may be an indication of years of experience mostly, and may not relate to academic achievements. Age groups of 31-40 years and 50 years plus are both at 28% each, with those 20 years and below at 0%, whilst 21-30 age group is at 5%. The managers statistics were very much along expectations.

*Other:* No provision was made to identify what other levels would represent, the anticipation was these would be, and not limited to professions such as technicians, engineers, advisors etc. In this category, 39% were in the age group 21-30 years, 28% between the age group 31-40, with the 41-50 years age group recording 18 with 11% at 50 years and above.

**Question 3: - State the employment status -** industries in South Africa have moved swiftly to outsourcing and *casualisation* of labour. It is believed to be cost saving. The researcher wanted to establish the employment status of the respondents, the workplace now commonly people employed as permanent, casual, contract, consultant, and other status that may be a hybrid of two or more of the status.

Unskilled employees accounted for 73% with 9% as casual labour, 18% on contract, and none of the unskilled labour consulted was classified as “other. **“**Administrators accounted for 73% as permanent, no casual (0%), 27% were on contract, with consultants and *other* at 0% each. Supervisors and managers were both at 100% each. The other had 74% permanently employed, 2% as casual, 11% on contract and 13% as consultants.

**Question 4: How many years (total) work experience do you have?** The longer an individual has worked, the more they are likely to provide objective perceptions to employee perceptions because of their exposure. Have been managed or having managed different personalities may translate to a degree of emotional intelligence. Just above one third (35%) of the respondents have between 0-5 years working experience; this could be a young company or a company that has experienced recent expansion (55% of unskilled labour was age 21-30). The 6-10 years’ experience range sits at 30% with 11-15 years at 11% and those with 16 years plus accounting for 24%.

## Section B

Likert scale was used to measure the perceptions of the respondents. A 5-level Likert (1 – 5) scale with 1= strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree was used; the statements are classified into sub-topics.

**Type of job:** In times of high unemployment people take just “anything.” The situation is compounded by the influx of economic refugees who will accept any job as long as they get paid. The statements on which the respondent’s perceptions were measured are presented in Table 1.

*Statement - this is my dream job and here I will stay till retirement:* It is surprising that only 33% of the respondents felt that this was what they had dreamt of having. On the other hand 45% (nearly half) of the respondents disagreed that this is what they had set out to have in their lives. Ambivalence is high at above one fifth (22%); the picture can be considered gloomy as the majority of the employees either have no opinion or are not devoted to the company they work for.

*Statement - I am here by default I had no job I could do:* When jobs are scarce, people look for anything to earn themselves some money to live on. A total of 16% people allege that they got to this job by default, even though 45% (above) had indicated that the job they occupied was not their dream job. It could be that after failing to find their dream jobs they may have worked to get to plan B. The neutral are at 17%, with 67% rejecting the assertion that they got the current jobs by default. It may be important to consider that 73% of the employees are not skilled, therefore any job is a job.

*Statement - As a professional this job is relevant to my aspirations:* Though no specific reference was made to a specific skill, people develop skills at the workplace, which becomes their profession. In response to this statement, unskilled labour stood at 73%; now just over three fifths of the respondents (61%) assert that the jobs they are in are relevant to their aspirations. Neutral (21%) continue to worry; it can be generalized that the respondents seem to be comfortable with their current occupations. Only 18% are definitely not comfortable.

*Statement - There is more to learn in the job and I want to advance:* A decisive 56% of the respondents positively want to advance in this area of employment, but neutrality shoots up to an uncomfortable 26%, leaving 18% to disagree. It can be generalised that most employees would want to advance in the current field of occupation, a positive for employee engagement.

*Statement – I am glad that I am accountable for what takes place here:* Most people simply put in hours and work just hard enough not to be fired. A strong 70% agree to be accountable for what takes place in the organisation. Only 14% of the respondents are not happy with those that are undecided at 16%. It can be generalised that most of the respondents want to be responsible. Organisations may need to groom their employees and give them responsibilities as part of

**Table 1.** **T**he respondents' perceptions about their current jobs.

| S/N | The type of my job | Strongly disagree 1 | Disagree 2 | Neutral 3 | Agree 4 | Strongly agree 5 |
|---|---|---|---|---|---|---|
| | | (%) | | | | |
| 1 | This is my dream job and here I will stay till retirement | 18 | 27 | 22 | 23 | 10 |
| 2 | I am here by default there was no other job I could get | 27 | 40 | 17 | 12 | 4 |
| 3 | As a professional this job is relevant to my aspirations | 8 | 10 | 21 | 49 | 12 |
| 4 | There is more to learn on the job and I want to advance | 5 | 13 | 26 | 56 | 0 |
| 5 | I am glad I am accountable for what takes place here | 5 | 9 | 16 | 52 | 18 |

Source: Response from survey.

**Table 2.** Job environment.

| S/N | Job environment | Strongly disagree 1 | Disagree 2 | Neutral 3 | Agree 4 | Strongly agree 5 |
|---|---|---|---|---|---|---|
| | | (%) | | | | |
| 6 | My supervisor consults me before making any decisions | 5 | 18 | 30 | 40 | 7 |
| 7 | I am not involved in the decision making process | 15 | 33 | 28 | 17 | 7 |
| 8 | I just wait to be told what to do and what not to do | 26 | 35 | 16 | 22 | 1 |
| 9 | I keep my distance from things that do not concern me | 9 | 34 | 15 | 26 | 9 |
| 10 | I am employed to produce and not innovate and I do just that | 16 | 34 | 15 | 26 | 9 |

Source: Data from survey.

employee engagement strategy.

**Job environment:** This has to do with the surroundings of one's work place, namely; ergonomics, relationships, tasks and all other matters pertaining to the work, directly or indirectly. This part of the research meant to measure the effect, if any, of the environment to their commitment to the job and organisation.

*Statement - My supervisor consults me before making decisions:* Being consulted may mean much to a subordinate, it brings worthiness; it means valuable, important and useful. This improves positivity towards one's job, and towards the organisation in general. In the response 23% disagree that they are consulted, neutral is at an all-time high at 30%, with 47% agreeing with the assertion. This shows a system that acknowledges its workforce.

*Statement - I am not involved in the decision making process:* The total disagreeing is 48% (compare this to the 47% above), meaning they are acknowledged and they develop a sense of worthiness and get engaged with their organisation. Ambivalence is again high at 28%, not clear why respondents would not know their position on this matter. 24% agree that they are never involved in decision making.

*Statement - I just wait to be told what to do and what not to do:* To this statement 61% disagreed, meaning they do not wait to be told what to do, they are involved. Ambivalence is unusually low at 16%, leaving 23% amongst those that believe they just wait to be told what to do. It can be generalized that most respondents are engaged in the operations in their firms.

*Statement - I keep my distance from things that do not concern me:* Indifference is at 15%, somewhat acceptable given the previous high scores of neutrality. Those disagreeing – saying they do not stand off - are at 43% with those that "stand aloof" at 35%. The picture in the organizations does not encourage at all, with more than one third of the respondents distancing themselves from ownership of operations.

*Statement - I am employed to produce and not innovate*

**Table 3.** Job prospects.

| S/N | Job prospects | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| | | | | (%) | | |
| 11 | I have reached the climax of my profession and I can't advance | 26 | 28 | 16 | 19 | 11 |
| 12 | There is a demand for me and I want to try new companies | 9 | 16 | 23 | 34 | 18 |
| 13 | My concern is not the type of job but the type of management | 8 | 21 | 21 | 31 | 19 |
| 14 | Opportunities to advance are difficult in this profession | 17 | 33 | 18 | 17 | 15 |
| 15 | I am worried about the absence of advancement in this firm | 11 | 21 | 18 | 31 | 19 |

Source: data collected from survey.

*and I do just that:* It may have more to do with the style of management or the culture of the organization, neutrality sits at 15%, and those disagreeing account for 50% of the respondents, meaning that half the respondents "innovate." It is not very well for the workplace though where 35% of the employs just do what they are told to do, and possibly work just hard enough not to be expelled from work.

**Job prospects:** This involves the chances or opportunities for one to develop in the job place, to get promoted. Rising to senior levels at a workplace is uplifting to the employee; it is acknowledgement by senior management. The sub-statements are listed in Table 3.

*Statement - I have reached the climax of my profession and I cannot advance:* The response appears to correspond to the age groups as recorded in the demographics; 54% of the respondents disagree that they have reached their climax (high percentage of interviewees below 40 years of age). Those that do not know are at 16%, with 30% agreeing that they have reached their climax.

*Statement - There is a demand for me and I want to try new companies:* This would be expected of those who are young and employable in other firms. Only 52% think they are in demand, could be the 25% disagreeing are unskilled or too old to think of changing to new jobs. Whatever the reason, this might give a reason for loyalty if they are not able to move. Ambivalence stands at 23%.

*Statement - My concern is not the job but the type of management:* Many employees leave their jobs because of the "type of management." Of the respondents, 29% disagreed, but 50% agreed that they would be concerned with the type of management. Indeed most managers do not know how to manage and motivate employees, but neutrals remain high at 21%.

*Statement - Opportunities to advance are difficult in this profession:* The participants (50%) disagree with the statement, with 32% agreeing that there are no advancement opportunities; such employees may want to move to firms with better prospects. The absence of opportunities may be because of the type of business, size of business, or even the way the business is operated, without forgetting the age of the employee. Neutral is at 18%.

*Statement - I am worried about the absence of advancement in this firm:* In this case 32% disagree (they are not worried} and 50% agree (they are worried) because there are no career opportunities. We do not know the reasons, but it is known that those who worry may seek for other opportunities. As usual neutral is high at 18%; this response is exactly like the one above.

## Section C

### Working relationships with peers

*Statement - People in the firm do not want to cooperate to work together:* Whilst employee engagement has more to do with the leadership and the firm, the peers are very much a critical part of the day to day experiences of the employee. Half (50%) of the respondents disagreed with the idea of a place with people that never cooperate. The usual neutral featured at 17% with agreeing 33% with the statement (Figure 4).

*Statement - I want to move to an environment where I am respected:* Too often some employees are in transit looking for work environments that suit them. This statement was met with mixed reactions with 22% neutral,

**Table 4.** Working relations in employee engagement.

| S/N | Working relationships with peers | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| | | (%) | | | | |
| 16 | People in the firm do not want to cooperate to work together | 15 | 35 | 17 | 22 | 11 |
| 17 | I want to move to an environment where I am respected | 11 | 19 | 22 | 34 | 14 |
| 18 | I am comfortable with my environment though it has problems | 9 | 11 | 28 | 46 | 6 |
| 19 | The poor team spirit in the firm discourages good performance | 14 | 27 | 20 | 28 | 11 |
| **20** | **My performance is not affected by the attitude of my peers** | 4 | 17 | 22 | 37 | 20 |

Source: data from survey

**Table 5.** Dialogue and feedback relationships with managers.

| S/N | Dialogue with superiors | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| | | (%) | | | | |
| 21 | My manager makes regular contact with me on job issues | 21 | 17 | 8 | 26 | 28 |
| 22 | I wait for long before I get any feedback for any requests | 9 | 26 | 22 | 34 | 9 |
| 23 | The time taken before feedback is frustrating I want to quit | 3 | 9 | 18 | 52 | 18 |
| 24 | Good manager and firm but I think I need change | 17 | 33 | 18 | 17 | 15 |
| 25 | The rest of the company is heavy disorganized I hate it | 7 | 16 | 30 | 40 | 7 |

Source: data from survey.

48% agreeing that they would want to move. Only 30% seem to show loyalty.

*Statement - I am comfortable with my environment though it has problems:* Some employees seem to have endurance where others fail. Consequently there is no scientific formula that can be used to predict this, 20% disagreed with the statement. Neutrality went up to 28%, but 52% of the respondents agreed to stay even though there are problems with at the workplace.

*Statement - The poor team spirit in the firm discourages good performance:* 41% of the respondents rejected either that there is a poor team spirit, or that the poor spirit discourages their performance. Neutral came down to 20%, whilst the remainder 39% agreed (very close to 41% disagreeing), meaning there is no consensus on the ground on this.

*Statement - My performance is not affected by the attitude of my peers:* Too often many people fail to focus because of the activities of other people around them. In this case 57% of the respondents agree that the behavior of other people does not impact on their performance. The indifference is at 22% leaving those disagreeing (those whose performance is disturbed by the attitude of their peers) at 21% (below the neutral at 22%). It is somewhat encouraging to see high degree of focus, which is positive for employee engagement.

## FEEDBACK SECTION/DIALOGUE WITH SUPERIORS

This part of the work focused on the relationship between the subordinates and the managers directly. The management styles of managers are critical in the development of employee engagement; as such it was necessary to extend the survey to the relationships with the critical setters of the pace. The respondents' opinions about their working relationship with their managers are illustrated in Table 5.

*Statement - My manager makes regular contact with me on job issues:* Whatever the reasons, this creates the much desired employee engagement all things being constant. Of those responding, 38% disagreed, meaning their managers do not liaise with them for anything to do with work issues. On the other hand 54% agree that the managers contact them regularly, a good show for loyalty. Only 8% are neutral.

*Statement - I wait for long before I get any feedback for any requests:* One of the greatest weaknesses of managers and leaders is lack of responsiveness. In this case 35% (disagree), meaning they do not wait for long, good indication of good management. Contrary to this position, 43% agree that they never get feedback in time for them to perform their duties. This leads to frustration and poor performance which works against employee-engagement. The remaining 22% are not sure.

*Statement - The time taken before feedback is frustrating:* I want to quit –80% of the manager's responsibility is communication, and part of that communication should be giving feedback. When there is no feedback, subordinates do not know what to do and how to do it; it is frustrating. Of the respondents, 12% say they are not frustrated by delayed feedback, 18% do not have an opinion and yet 70% get frustrated to the point of wanting to quit because there is a timely feedback.

*Statement - Good manager and a good firm, but I think I need change:* Sometimes people get tired of a place and aspire for something different. 50% of the respondents want to stay on (high engagement) with 18%, neutral and 30% think they need a change.

*Statement - The rest of the company is heavily disorganized and I hate it:* Of those participating, 23% have nothing against the place and do not see any disorganization at the workplace. Neutral are at 30%, but a disturbing 47% hate the place and think that it is disorganized.

## ETHOS AND VALUES OF THE ORGANISATION

Too often, the loyalty of the employees may have to do with their pride over the organization they work for. Some companies are perceived as prestigious to work for, regardless of the level or position. This was measured also as a means of employee engagement.

*Statement - I like the firm because it sells top range products:* The outside prestige of the company too often becomes a bond between the employee and the employer. 11% of the respondents disagreed that they liked the firm because of its products, 18% were neutral, and a resounding 71% agreed that they liked the firm because of its products. That is high and works well for high employee engagement (Table 6).

*Statement - The firm consults us for important changes to be made:* Consulting is another way of engaging the employees, and 67% of the respondents disagree that they are contacted when changes have to be made. Of the remainder 15% are indifferent with 18% agreeing that they are approached. By this measure, the employee engagement is definitely not high due to resistance to change if not consulted in the process.

*Statement - The firm develops employees to become professionals:* Some organizations invest in their personnel's development with the hope of retaining such for better organisational performance. In this instance, 32% disagreed with the statement, 18% abstain, and 50% agree that the organization has developed them or does develop employees to be professionals. It would have been ideal to identify those that are developed and how.

*Statement - I started here at low level and was financed by the firm:* This may be part of those agreeing that the firm developed them to be professionals. The response was 35% disagree (compare with the 32% disagreeing in item 29 above), 16% are ambivalent (compare with 18% above) and 49% agree (compared to the 50% above) who agreed in the preceding statement. It would be ideal to identify those who have been earmarked for development.

### Commitment and productivity of workers

Commitment to an organization is another form of high and effective employee engagement. An engaged employee is loyal and committed to the organization. This is what the next part of the work seeks to establish.

*Statement - I am serious about my work because of the regulations of this firm:* Particular reference is made here focusing on what makes the subordinates to work very hard. The response, as listed in Table 7, shows that; 41% disagree that they work hard because of the regulations, 20% do not know, and 39% agree that they are serious with their jobs because of the regulations.

*Statement - I put in everything in order to get better payment: This* is a typical effort-reward engagement stated here. The responses were: 72% disagreed that they put in more effort to get better money or that they may get more money if they put in more effort. Ambivalemce is at 7% and 21% agree with the statement. It can be generalised that the respondents generally do not believe that working harder brings them monetary rewards.

*Statement - the work environment encourages hard work:* It is known that the type of environment impacts positively or negatively the practitioners. This can be confirmed

**Table 6.** Ethos and values of the organization.

| S/N | Ethos and values of the organisation | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| | | | | (%) | | |
| 26 | I like the firm because it sells top range products | 3 | 8 | 18 | 30 | 41 |
| 27 | The firm consults us for important changes to be made | 29 | 38 | 15 | 14 | 4 |
| 28 | The firm develops employees to become professionals | 11 | 21 | 18 | 31 | 19 |
| 29 | I started here at low level and was financed by the firm | 18 | 17 | 16 | 34 | 15 |

Source: data from survey.

**Table 7.** Evaluation of employee engagement through Commitment and productivity.

| S/N | Commitment and productivity | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| | | | | (%) | | |
| 31 | Statement; I am serious about my work because of the regulations of this firm | 26 | 15 | 20 | 7 | 32 |
| 32 | Statement : I put in everything in oprder to get better payment | 20 | 52 | 7 | 3 | 18 |
| 33 | Statement: the work environment encourages hard work | 7 | 26 | 16 | 21 | 28 |
| 34 | Statement: I work hard because I love the organisation I work for | 13 | 19 | 14 | 28 | 26 |
| 35 | Statement: If I am given an offer elsewhere I will not go because I love my company | 19 | 33 | 19 | 21 | 8 |

Source: data from survey

through the study of ergonomics; however, 33% disagreed with the statement, 16% were indifferent with 49% agreeing that the the environment affects the way they work.

*Statement - I work hard because I love the organisation I work for:* There are numerous factors that cause people to consider themselves ’perfect fit’ in an environment. To this statement, 32% disagree with the statement, 14% are indifferent and 54% agree with theassertion. That may be a good number of engaged employees, but one wishes the number to go higher.

*Statement - If I am given an offer elsewhere I will not go because I love my company:* The decision not to leave your firm is based on many factors. The results are; 52% outrightly would not leave the organisation, 19% remained neutral with 29% agreeing that they would leave for the next organisation to pursue the offer.

## Conclusion

From the foregoing literature employee engagement may be defined as the sum total of the factors at a workplace which impact employees’ ability to perform well their day to day responsibilities. This creates the environment in which an employee can perform better and to his/her fullest. The environment creates or enhances their values, culture, believes and even perceptions about what constitutes good performance. Engaged employees wake up in the morning looking forward to go to work and clear as to what they will do, what changes they can help institute to advance their work, with a sense of belonging and ownership. Engaged employee feels that they belong to a team where they are involved and they contribute in developing the work as well as developing themselves.

The findings above tell a somewhat different story though there is good behavior overlapping from time to time. Managers do not always liaise with employees in work related issues even though some managers do contact their subordinates occasionally (54%).

In other instances lack of cooperation has recorded levels of up to 50% giving the impression that employee engagement is low. When half the staff are not cooperating and yet they are not willing to leave the firm, it disturbs. It becomes a cause for another study to ascertain why unhappy employees will not leave; chief among the reasons could be, difficult to find an alternative job, convenience of job to home or school for the children, old age and nearing pension, and many other factors.

Working seems to be an accepted norm and 72% confirm that they still get paid the same way whether or not they work hard. Some of these (50%) allege that they have been developed by the firm with and 71% allege commitment to the firms they work for because of the products produced by the firms. This may augur well for employee engagement; it can be said that employee engagement may be viewed in the form of a continuum depending on the issues at hand and the comparison beeing made.

Even though they are not contacted by the management (67%) over issues to do with the organizations, 52% are prepared to stay even if things are difficult. The commitment of the subordinates is further noted with 57% suggesting that the attitudes of other employees do not affect their allegiance to the firms. Nevertheless, the absence of advancement opportunities does not affect 50% of the loyalists who may want to continue with their organizations. A sizeable majority (61%) of these employees do not wait to be given directions; they give themselves work to do, meaning they have a degree of empowerment and know what should be done. Given, 67% believe that they got the jobs by merit and not by default yet 73% of these employees indicated that they are not skilled. This may be because this is the best they could get given their circumstances; 56% of them still want to advance another degree of loyalty and employee engagement. Of particular interest is the 70% who are prepared to be accountable for whatever things they are given to do.

It can be stated in closing that there is a relationship between leader-followership-organisation culture link which is indispensible. There needs to be drawn a pre-determined structure to bring about congruency between the leadership, followership, tasks and the organisational fit. Such a strategic-fit can enable management predict the prefered levels of effective employee engagement. Thus the higher the level of employee engagement, the higher the probability of a workforce highly absorbed and enthusiastic about their occupation. Also, an "engaged employee" is positive about his/her work and if his/her performance will be high which leads to the development of a difficult-to-copy competitive advantage for the firm.

## CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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# Cash inflow conundrum in Ugandan SMEs: A perspective of ISO certification and firm location

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**The study employed the World Bank Enterprise survey 2013 for Uganda and quintile method to determine the relationship between firm location, International Standards Organization (ISO) certification and cash inflows of Small and Medium Enterprises (SMEs) in Uganda. The results show that ISO certification and firm location are positively and significantly related to SMEs' cash inflows. It was also realized that other factors such as using email, foreign ownership, access to finance and tax administration are not obstacles to firm's cash inflows. Our findings suggest that creating awareness among entrepreneurs about ISO certification and creating enabling environment for SMEs in Uganda to become ISO certified should be highly considered by Government of Uganda. In addition, the Government of Uganda with Kampala Capital City Authority must develop deliberate policy to enable SMEs get internet connection cheaply and faster. This will ease doing businesses and enable SMEs' cash inflows to grow.**

**Key words:** Cash inflows, location, International Standards Organization (ISO) certification, Uganda.

## INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are major contributors to economic growth of developing nations (Calice et al., 2012). Currently, the number of SMEs operating in Uganda's economy is estimated to exceed 1,100,000, and SMEs contribute approximately 80% to Gross Domestic Product (GDP). In addition, SMEs employ approximately 2.5 million people (National Strategy for Private Sector Development, 2017). To support SMEs, the National Development Plan II (NDP II, 2015) indicates to Government of Uganda the need to establish incubation centers for SMEs to promote and accelerate the use of research, innovation and applied technology. Furthermore, NDP II (2015) provides that Government of Uganda should strengthen standards and processes for SME production. This is for the purpose of enhancing the use of standards and quality infrastructure in industry as an objective of developing Uganda's industrial sector. Given the stated benefits and measures, it is evident that SMEs are important for Uganda's economic development. Having discussed the contribution of SMEs to the economy, it is important to consider ISO certification, firm location and cash inflow in

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the following paragraphs.

Firms hold cash to be able to make regular transactions (transaction cost motive), ability to finance emergencies (precautionary motive) and financing future activities and investments when cash is costly or unavailable (speculative motive) (Oler and Picconi, 2014). In addition, cash holdings can help a firm retire all debt obligations (Bates et al., 2009). Because of the importance of cash to a firm's operations, the study investigates the factors which influence the cash inflows of the firm. Having discussed the importance of cash holding in a firm, it is imperative to introduce International Organization on Standards (ISO), thus the following paragraph.

The International Organization on Standards (ISO) is a framework where standards on quality assurance in design, production, installation and services are developed. This frame work involves a set of standards, for instance ISO 9000, ISO 9001, ISO 9003, ISO 9004-2, ISO 14000, ISO 22314, ISO 44001, ISO 20700 and ISO 20400 (International Standards Organization, 2017). The entire set of standards aims at ensuring that goods and services are provided on internationally recognized standards framework which is environmentally friendly (Aba and Badar, 2013). It was established that ISO 9000 standards empower customers to assess the quality of products. Eventually products whose quality is conceived to be high, attract more customers, hence increases sales and cash inflows. On the other hand, Beck and Walgenbach (2009) empirically established that in areas known for low quality products such as East Germany, ISO 9000 standards do not lead to high sales per employee. It is further noted that, Gruca and Rego (2005) had established a significant relationship between customer satisfaction and increase in future cash flows of the firm. It can therefore, be argued that complying with international standards of practice by being ISO certified may help in increasing firm cash inflows.

However, for SMEs operating in Uganda, obtaining ISO certificate is ideal but the required quality and quantity by ISO is high, thus limiting SMEs (Ernst and Young, 2011). Moreover, in some market segments such as Ugandan banana products, quality is not a concern for consumers in the local market (Kiiza et al., 2004). If quality is not a concern for consumption in some sectors, one would wonder whether ISO certification can create any influence on firm cash inflows. Having discussed ISO certification, it is important to consider firm location, hence the following paragraph.

It is practical that if firms locate near source of materials, the cost of production reduces hence low prices for goods and services. It can also be argued that firms located in urban centers have access to customers with high purchasing power. However, locating firms in areas known for low quality products cannot lead to increased sales (Beck and Walgenbach, 2009). In addition, an increase in population size within firm location, results in an increase in variety of local goods produced Holmes (1999). This is in anticipation of new customers with quite different tastes and preferences. Furthermore, it is empirically significant that SMEs located in big cities have less liquidity problems compared to those in peripheral (Voulgaris et al., 2003). It is thus indicated that firms located in bigger towns or those in towns with high population size can have cash inflow advantages because of exposure to a large number of customers. However, an investigation was required in Uganda to establish the reality of this position because, though Uganda has many emerging towns, a capital city and rising population, there is increased number of poor people (Uganda Bureau of Statistics, 2017). Therefore, the study had to investigate whether location influences firm's cash inflows in Uganda.

There are myriad of studies about SMEs operations in Uganda, for example, Tushabomwe-Kazooba (2006) studied the causes of business failure in Uganda: A case of Mbarara town in Western Uganda. Ntayi et al. (2013) focused on moral values in SMEs while applying for licenses or under circumstances of tax payment. Kakeeto-Aelen et al. (2014) studied the impact of trust on customer satisfaction in Ugandan restaurants. Turyakira et al. (2014) discussed extensively about corporate social responsibility (CSR) in Ugandan SMEs. Wangalwa et al. (2016) studied the on-farm milk handling practices in Mbarara (Western Uganda). Kintu (2017) established empirical evidence of the relationship between core values and entrepreneurial performance in SMEs of Uganda's central region. The study by Namagembe et al. (2018) focused on green practices and firm performances. In addition, the study by Islam et al. (2018) discussed the contribution of mobile money to firm investment. None of the above mentioned considered cash inflows, location and ISO certification in SMEs in Uganda. Although Tushabomwe-Kazooba (2006) discussed location, which is one of the variables in the current study, his study was not specific on which kind of places businesses should locate to have a consistent flow of cash and does not consider ISO certification. Furthermore, Uwonda et al. (2013) considered cash flow management in SMEs in Uganda's Lango Sub-region, Turyahikayo (2015) focused on challenges of financing SMEs in Uganda, while Mutesigensi et al. (2017) focused on cash flows and survival of SMEs in Uganda's West Nile region. Whereas, such immediate studies considered many factors for cash flows in Ugandan firms, non-considered location and ISO certification as factors affecting cash inflows in Uganda's SMEs. It was thus, important to conduct this study to close the knowledge gap.

In order to establish the relationship between cash inflows and ISO certification, and the relationship between cash inflows and firm location among SMEs in Uganda, the following questions were listed:

i) What is the relationship between ISO certification and

cash inflows of firms in Uganda?
ii) What is the relationship between location of firms and cash inflows of firms in Uganda?

For the purpose of this study, SMEs were considered as unit of analysis rather than micro enterprises. In addition, cash inflows is measured by percent of total annual sales because entrepreneurs in Uganda can easily understand how firms can generate sales (Kintu, 2017), rather than acquiring credit. ISO certification is measured by ability to possess internationally recognized quality certification, and location is measured by capital city (Kampala) and other towns in Uganda.

## LITERATURE REVIEW

Cash is considered to be an important factor while managing firm's working capital (Abioro, 2013; Enow and Kamala, 2016). In addition, SMEs failure has been linked to inadequate cash flow management (Uwonda et al., 2013). Although the study by is about cash flow management, it was limited on owner's inefficiencies, poor tax planning and poor working capital management as causes of cash flow mismanagement. ISO certification and firm location was not studied.

### ISO certification and cash inflows

The frame work of ISOs involves a set of standards for instance ISO 9000, ISO 9001, ISO 9003, ISO 9004-2 and ISO 14000. The aim of these standards is to ensure that goods and services are provided at an international standard (Aba and Badar, 2013). The ISO certification can be of a competitive advantage to firms. Entrepreneurs, therefore, need to re-affirm their strategies by adopting them. With ISOs being adopted, retail sales can more than double (International Standards Organisation, 2017).

Corbett et al. (2005) empirically established that ISO 9000 certification influences faster growth in firm's sales. However, the growth does not mean sales increase is relative to asset base. In addition, Beata and Naotaka (2018) using a firm level panel data in Slovenia covering a period 1987 to 2006, established that ISO 9000 certification boosts firms' sales, exports and employment. Mahelet (2014) established financing from local customers as one of the significant determinants of ISO certification among firms in Ethiopia.

The ISO standards provide a basis upon which international consumers can rely to purchase products. The ISO certification in modern days is a pre-requisite for firms if they are to achieve quality, environmental protection and thus appeal to a large clientele. It is ideal for Ugandan firms, therefore, to become ISO certified in the quest for large market to grow the cash inflows. However, the challenge that exists with Ugandan firms is that most of them do not promote a formal agenda, yet ISO must operate under formal systems.

In addition, Ugandan SMEs find the criteria for being ISO certified difficult to cope with (Ernst and Young, 2011) and at the same time, some Ugandan consumers in specific markets such as the banana products market do not care about quality to consume (Kiiza et. al., 2004). It is thus interesting to establish whether ISO certification can influence firm cash inflows in situations where most firms do not want to be formal or find it hard to be ISO certified and having a section of customers not minding quality to consume. The following hypothesis can thus be stated:

$H_1$: There is a positive significant relationship between ISO certification and cash inflows in Ugandan firms.
$H_0$: There is no positive significant relationship between ISO certification and cash inflows in Ugandan firms.

### Firm location and cash inflows

It is projected that by 2025, the ratio of urban to rural dwellers will be 3:2 (Satterthwaite et al., 2010). The growth in population may be associated with increase in demand for products and product variety. Holmes (1999) contended that firms located in places of high population have an opportunity to produce a variety of goods for the market. Furthermore, firms locate where they expect market opportunities (Lucia et al., 2012). In addition, because they have less access to information and high operating costs, rural firms are less liquid compared to urban firms (Tim and Paul, 2005).

The studies which relate firm location to liquidity/or firm sales/or cash inflows are from developed world such as the United States of America. Thus, there are limited study findings about the subject in under-developed economies such as Uganda.

Although firms are free to establish anywhere in Uganda, firms which locate in urban centers have an advantage of serving the community with higher purchasing power and incur lower transaction costs. However, Uganda is unique in a way; as population rises, the number of poor people also increases (Uganda Bureau of Statistics, 2017). Therefore, it may not be a surprise that firms that locate in urban areas have stagnating sales which affect their cash inflows/or liquidity. It is important then to establish the effect of location to firm's cash inflows. From the above discussion the following hypotheses arise:

$H_2$: There is a significant positive relationship between firm location and firm cash inflows.
$H_0$: There is no significant positive relationship between firm location and firm cash inflows.

## METHODOLOGY

In order to provide insight on the effect of firm location and possession of an ISO on cash inflow, this study employs both descriptive and quantitative statistical techniques. Descriptive statistical analysis entails the use of cross-tabulations where we generated the average percentages of firms and by key background characteristics in order to draw insights on the interactions between different characteristics. On the other hand, quantitative statistical techniques entail the estimation of an empirical model with a view of answering the set study questions.

### Empirical model

The empirical model employed in this section draws from Beck and Walgenbach (2009), but with modifications in the outcome variable and also the explanatory variables considered in the overall model.

It is assumed that within each firm $i$ in sector $j$, the outcome variable cash inflow is a function of location, possession of an ISO and a set of other firm and entrepreneurial characteristics as control variables like firm age, size, ownership, export status, legal status among others as identified from the previous studies. The estimated empirical model is given as:

$$\ln CI_{ij} = \beta_0 + \beta_1 loc_{ij} + \beta_2 ISO_{ij} + \beta_3 z_{ij}^{'} + \varphi_j + \varepsilon_{ij}$$

Where; $\ln CI_{ij}$ is the dependent/outcome variable, cash inflow of a firm $i$ in sector $j$ and is proxied using total firm sales; $loc_{ij}$ is location of the firm; $ISO_{ij}$ represents a firm's possession of an international quality certificate; $z_{ij}^{'}$ is a vector of all other control variables including firm and entrepreneurial characteristics; $\varphi_j$ is the parameter for the sector which can either be the service or manufacturing sector; $\varepsilon_{ij}$ is the error term ; while $\beta_0$, $\beta_1$, $\beta_2$ and $\beta_3$ are the parameters of interest.

### Estimation strategy

To examine the effect of location and possession of an ISO on a firm's cash inflow, the study uses a quantile regression approach initially developed by Koenker and Bassett (1978) to estimate the regression model. From the empirical model, the quantile regression model can be written as,

$$\ln CI_{ij} = x_i \beta_\theta + \varepsilon_{\theta i} \quad \text{with} \quad Quant_\theta(\ln CI_{ij} / x_i) = x_i \beta_\theta$$

Where; $\ln CI_{ij}$ is the dependent variable; $x_{ij}^{'}$ is the vector of exogenous variables; and $\beta_\theta$ is the vector of parameters; $Quant_\theta(\ln CI_{ij} / x_i)$ denotes $\theta th$ conditional quantile of $\ln CI_{ij}$ given $x_{ij}^{'}$. The $\theta th$ regression quantile, 0< $\theta$ <1 estimation is obtained by solving the following optimization problem.

$$\min_{\beta \in \Re^k} \left[ \sum_{i: InCI_i \geq x_i \beta} \theta \, | \ln CI_i - x_i \beta_\theta | + \sum_{i: InCI_i < x_i \beta} (1-\theta) \, | \ln CI_i - x_i \beta_\theta | \right]$$

The quintile regression is deemed appropriate because unlike the OLS, it permits assessing the effect of different explanatory variables at various quintiles in the distribution of the dependent variable. The quintile regression estimation is also more robust in case of presence of any outliers and also when the dependent variable is not normally distributed. Results from the OLS estimation are reported and compared with those from the quintile regression (Table 1).

### Data source and scope

The study uses the World Bank Enterprise Survey (WBES, 2013) data for Uganda. This is a cross-sectional data set covering a period of 2013. The WBES data covers information on various aspects with topics ranging from sales and supplies performance, finance, firm and entrepreneurial characteristics, and the general investment climate. This information is provided by a representative sample of top managers and firm owners engaged in non-agricultural formal sector. A total sample of 762 firms belonging to both the manufacturing and service sector from all regions of the country, that is; Kampala, Central, Western, Eastern and Northern were considered.

### Descriptive statistics

Table 2 provides summary statistics for the study variables. Firms' cash inflow is measured by annual sales in the fiscal year prior to the survey and summary statistics for difference between location and ISO certification is shown in Table 3. Firms located in Kampala have more average sales than firms located in other towns of Uganda. Likewise, ISO certification for firms located in Kampala has more impact on sales than ISO certification for firms located in other towns of Uganda.

## RESULTS AND DISCUSSION

### Interpretation and discussion of findings

Table 4 indicates a significant positive relationship between ISO certification and cash inflows. Using the quintile method, the relationship between ISO certification and cash inflows is significant and positive except at Q40. It is further indicated that the level of influence of ISO certification to cash inflows increases as quintiles increase. At Q10, the influence is significant at 0.771, it increases at each level of significant quintile, and at Q90 the cash inflow is 1.338. The performance indicated in Table 4 implies that a firm which is ISO certified has more sales compared to firms which are not ISO certified. Also, ISO certification has more influence to firms with high level of sales than those with low sales level as indicated from Q10 to Q90. This kind of performance concurs with International Standards Organization (2017) that adopting ISO standards influences faster growth in firm sales. The performance also concurs with Beata and Naotaka (2018) who used a firm level panel data in Slovenia covering a period 1987 to 2006 and established that ISO certification influences firm growth. Given the above discussion, the first hypothesis and research question $H_1$: There is a positive significant relationship between ISO

**Table 1.** Variable definition.

| | |
|---|---|
| Cash Inflow (Sales) | A firm's sales in the last fiscal year from the period the survey was taken. |
| ISO | Refers to whether a firm has an internationally-recognized quality certificate with values of '1' for firms with a quality certificate and '0'otherwise. |
| Location | Refers to whether the firm is located in the official capital city "Kampala" or otherwise. |
| Firm age | This is calculated as the difference between the year the survey was taken (that is 2013) and the year when the firm began its operations. |
| Ownership | Defined as to whether the firm is owned by a foreign individual taking on a value of '1' or domestically owned with a value of '0'. |
| Use email | Whether a firm uses email in communication with its clients and takes on the value of '1' for firms using emails and zero otherwise. |
| Formal training | Takes on the value of '1' if the firm had formal training programs for its full time employees in the last fiscal years. |
| Manager's experience | Refers to the number of years of experience of a firm manager. |
| Access to finance | Defined as to whether a firm has access to finance inform of loans or credit taking on a value of '1' if the firm has access to finance and '0' otherwise. |
| Tax admin | Relates to whether tax administration is an obstacle to firms and takes on the value of '1' for those who reported tax administration as an obstacle and '0' otherwise. |
| Tax rate | This relates to whether tax rate is an obstacle to firms and takes on the value of '1' for those who reported tax rate as an obstacle and '0' otherwise. |
| Competition | Asks firms whether they face any competition from informal or unregistered firms. In the study, competition takes on a value of '1' if the firm faces any competition from the informal firms and zero otherwise. |
| Business licensing | Refers to whether business licensing is an obstacle to firms and takes on the value of '1' for those who reported tax administration as an obstacle and '0' otherwise. |
| Corruption | Whether corruption is an obstacle to firms and takes on the value of '1' for those who reported tax administration as an obstacle and '0' otherwise. |

**Table 2.** Summary statistics for the study variables.

| Variable | N | Mean | SD | Min | Max |
|---|---|---|---|---|---|
| Cash inflow (Sales) | 762 | 6.160e+09 | 4.690e+10 | 400,000 | 9.750e+11 |
| ISO (1= Yes) | 697 | 0.189 | 0.392 | 0 | 1 |
| Location (1=Kampala) | 762 | 0.497 | 0.500 | 0 | 1 |
| Firm age | 708 | 14.723 | 10.664 | 1 | 86 |
| Ownership (2=Foreign) | 741 | 0.143 | 0.350 | 0 | 1 |
| Use email (1=Yes) | 755 | 0.426 | 0.495 | 0 | 1 |
| Formal training (1= Yes) | 755 | 0.317 | 0.465 | 0 | 1 |
| Manager's experience | 762 | 13.681 | 8.245 | 1 | 41 |
| Access to finance (1= Yes) | 684 | 0.208 | 0.406 | 0 | 1 |
| Tax admin (1=Obstacle) | 760 | 0.761 | 0.427 | 0 | 1 |
| Tax rate (1=Obstacle) | 762 | 0.706 | 0.456 | 0 | 1 |
| Competition (1=Obstacle) | 709 | 0.879 | 0.327 | 0 | 1 |
| Business licensing (1=Obstacle) | 760 | 0.771 | 0.420 | 0 | 1 |
| Corruption (1=Obstacle) | 755 | 0.784 | 0.412 | 0 | 1 |

Source: Authors' tabulation from WBES (2013).

certification and cash inflows in Ugandan firms is confirmed.

Table 4 indicates that locating firms in Kampala is significant and positively related to firm cash inflows at

**Table 3.** Summary statistics for difference between Location and ISO certification.

| Variable | Location | | ISO | |
|---|---|---|---|---|
| | Kampala | Other town | Yes | No |
| Cash inflow (Sales) | 7.200e+09 | 5.130e+09 | 1.400e+10 | 4.560e+09 |
| ISO (1= Yes) | 0.235 | 0.146 | | |
| Location (1= Yes) | | | 0.606 | 0.462 |
| Firm age | 14.109 | 15.291 | 18.691 | 14.034 |
| Ownership (2=Foreign) | 0.186 | 0.100 | 0.373 | 0.081 |
| Use email (1=Yes) | 0.532 | 0.322 | 0.754 | 0.326 |
| Formal training (1= Yes) | 0.373 | 0.262 | 0.442 | 0.264 |
| Manager’s experience | 13.900 | 13.465 | 17.000 | 13.278 |
| Access to finance (1= Yes) | 0.158 | 0.254 | 0.330 | 0.189 |
| Tax admin (1=Obstacle) | 0.769 | 0.752 | 0.702 | 0.787 |
| Tax rate (1=Obstacle) | 0.704 | 0.708 | 0.667 | 0.704 |
| Competition (1=Obstacle) | 0.947 | 0.807 | 0.810 | 0.900 |
| Business licensing (1=Obstacle) | 0.794 | 0.748 | 0.826 | 0.766 |
| Corruption (1=Obstacle) | 0.724 | 0.844 | 0.738 | 0.809 |

Source: Authors’ tabulation from WBES (2013).

Q10 and Q40. This implies that firms with low sales level that locate in Kampala can make more turnovers compared to similar firms located in other towns. Findings concur with Tim and Paul (2005) who established that firms that locate in urban areas are more liquid compared to those located in rural areas. Findings also concur with Voulgaris et al. (2003) who established that firms located in bigger cities have less liquidity problems. However, firms with larger level of sales from Q70 to Q90 have an insignificant positive relationship between location in Kampala and cash inflows. This implies that locating in Kampala (capital city) does not matter for firms with relatively high level of sales in generating cash inflows. The findings in Table 3 concur with Lucia et al. (2012) who assert that firms locate where they expect market opportunities.

Given the above discussion, the second hypothesis $H_2$: There is a significant positive relationship between firm location and firm cash inflows is confirmed. The relationship between ISO certification and firm cash inflows using OLS analysis is significant and positive at 0.611. The performance at OLS is similar to that of quintiles except for Q40. On the other hand, locating firms in Kampala is positive and significantly related to cash inflows using the OLS approach. The OLS results are similar to results obtained using quintile approach at only Q10 and Q40. It was also discovered that the use of emails, access to finance, foreign ownership and tax administration are not obstacles to firms’ cash inflows.

## Conclusion

The article was set to establish the impact of firm location and ISO certification on SMEs’ cash inflows using data drawn from World Bank Enterprise Survey for Uganda (2013). The analysis employs both descriptive and estimation of OLS and quintile regression model at Q10, Q40, Q70, Q80 and Q90. The results show that ISO certification is significantly related to cash inflows at OLS and Q10, Q70, Q80 and Q90. Firms with ISO certification can raise more cash inflows than firms which are not ISO certified. Also, locating firms in Kampala (Uganda’s capital city) is significantly related to firms’ cash inflows at OLS, Q10 and Q40. This implies that location impacts more on firms with low levels of sales than firms with high levels of sales.

The study findings show that Ugandan firms have to become ISO certified if they are to grow their cash inflows. Government and all trade related bodies should ensure that they encourage firms and put in place necessary infrastructure such as easy and cheap access to internet to enable firms obtain ISO certificates. However, this can be achieved through a deliberate policy of firm monitoring, quality supervision and guidance.

Having established that the relationship between locating firms in Uganda’s capital city and cash inflows is significant for firms with low level of sales (Q10 and Q40), Kampala Capital City Authority (KCCA) must have a deliberate policy to make these firms flourish rather than perish. Infrastructure development enabling cheap and quicker access to internet should be prioritized.

Finally, Ugandan firms with larger sales volume do not collect much cash inflows in the capital city. This implies that the rise in poor population in capital city does not affect their cash inflows. The results may also imply that firms with higher sales are focusing on brand acceptance

**Table 4.** Estimated impact of location and ISO certification on firm cash inflows.

| Variable | OLS | Q10 | Q40 | Q70 | Q80 | Q90 |
|---|---|---|---|---|---|---|
| ISO (1=Yes) | 0.611** | 0.771** | 0.127 | 0.781*** | 0.891** | 1.338** |
| | (0.243) | (0.337) | (0.214) | (0.290) | (0.371) | (0.597) |
| Location (1=Kampala) | 0.303* | 0.552** | 0.292* | 0.102 | -0.026 | -0.007 |
| | (0.157) | (0.247) | (0.157) | (0.212) | (0.271) | (0.437) |
| Ownership (2=Foreign) | 1.079*** | 0.466 | 0.526** | 1.683*** | 1.730*** | 1.596** |
| | (0.313) | (0.383) | (0.243) | (0.329) | (0.421) | (0.678) |
| Use email (1=Yes) | 0.997*** | 1.105*** | 0.467*** | 0.589*** | 1.320*** | 1.682*** |
| | (0.172) | (0.262) | (0.166) | (0.225) | (0.288) | (0.464) |
| Formal training (1=Yes) | 0.379** | 0.147 | 0.350** | 0.231 | 0.432 | 0.422 |
| | (0.177) | (0.256) | (0.163) | (0.220) | (0.281) | 1.338** |
| Manager's experience | 0.012 | -0.008 | 0.010 | 0.016 | 0.013 | -0.001 |
| | (0.010) | (0.014) | (0.009) | (0.012) | (0.015) | (0.024) |
| Access to finance (2=No) | -0.665*** | -0.217 | -0.380** | -0.596** | -1.083*** | -1.279** |
| | (0.223) | (0.299) | (0.190) | (0.257) | (0.328) | (0.529) |
| Tax admin (1=Obstacle) | -0.338 | -0.585* | -0.282 | -0.129 | -0.327 | -0.075 |
| | (0.207) | (0.318) | (0.202) | (0.273) | (0.350) | (0.563) |
| Tax rate (1=Obstacle) | 0.413** | 0.238 | 0.351* | 0.065 | 0.051 | 0.636 |
| | (0.202) | (0.285) | (0.181) | (0.245) | (0.313) | (0.505) |
| Competition (1=Obstacle) | -0.085 | 0.144 | 0.146 | -0.182 | -0.488 | -1.368** |
| | (0.298) | (0.379) | (0.241) | (0.326) | (0.417) | (0.671) |
| Business licensing (1=Obstacle) | 0.194 | 0.261 | 0.262 | -0.021 | 0.115 | 0.171 |
| | (0.201) | (0.298) | (0.189) | (0.256) | (0.328) | (0.528) |
| Corruption (1=Obstacle) | -0.105 | -0.201 | -0.049 | -0.032 | -0.026 | -0.024 |
| | (0.183) | (0.304) | (0.193) | (0.261) | (0.334) | (0.538) |
| Sector dummy (1=Services) | -0.293 | -0.048 | -0.373** | -0.389* | -0.467* | -0.138 |
| | (0.178) | (0.250) | (0.159) | (0.215) | (0.275) | (0.443) |
| Constant | 18.377*** | 16.247*** | 17.773*** | 19.338*** | 20.490*** | 21.710*** |
| | (0.486) | (0.673) | (0.428) | (0.579) | (0.740) | (1.193) |
| Observations | 571 | 571 | 571 | 571 | 571 | 571 |
| R-squared | 0.224 | 0.1263 | 0.0391 | 0.1260 | 0.1894 | 0.2259 |

Source: Authors' tabulation from WBES (2013).

over the economy than being centered only in the capital city.

## Study contribution

Beata and Naotaka (2018) used a firm level panel data in Slovenia covering a period 1987 to 2006 to establish that ISO certification influences firm growth. However, this study used World Bank Enterprise survey data (2013) to establish that ISO certification and location are significant factors in determining firms' cash inflows in Uganda.

Whereas studies such as Uwonda et al. (2013) and Mutesigensi et al. (2017) used percentages and descriptive statistics to determine the relationship between cash flow management and SMEs' performance.

This study employed both descriptive and quintile method of regression analysis to determine whether firm location and ISO certification influence firms' cash inflows in Uganda. From the literature perspective, the study has established that ISO certification for firms located in Kampala has more impact on sales than ISO certification for firms located in other towns of Uganda. Also, the relationship between ISO certification and cash inflows for firm at low levels of sales is insignificant among SMEs in Uganda. It was further established that the relationship between locating firms in Uganda's capital city (Kampala) and cash inflows is significant only with firms that have low sales levels.

## CONFLICT OF INTERESTS

The authors have not declared any conflict of interests

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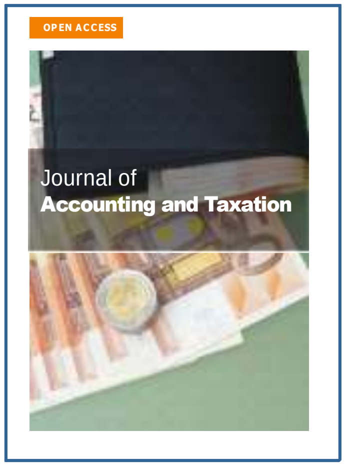


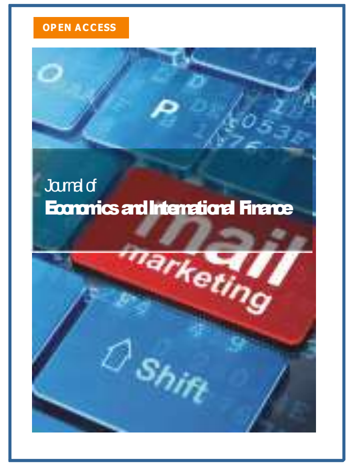


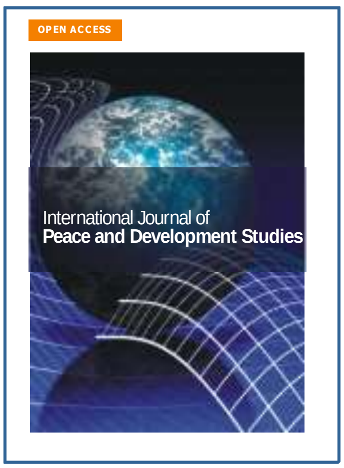


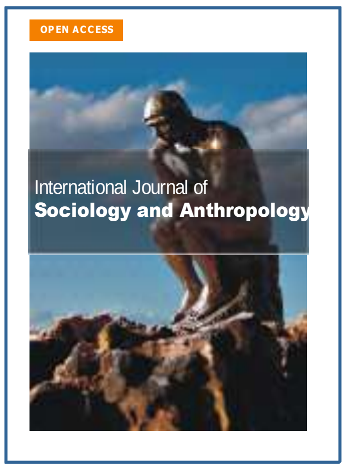



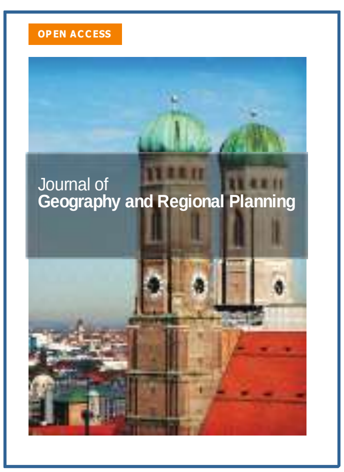


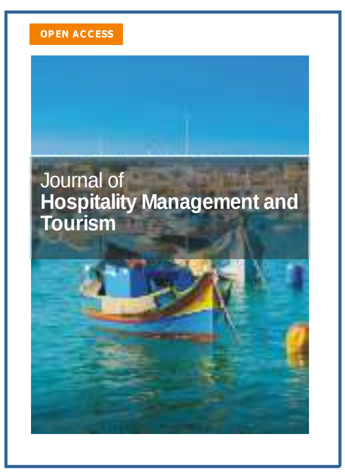


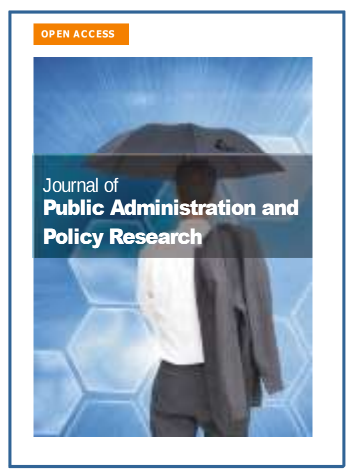


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