Factors Affecting the Performance of Micro and Small Enterprises in Wolita Sodo Town

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ABSTRACT

The fundamental objective of this study is to assess factors affecting the performance of MSEs in Wolita Sodo Town. The study was employed both quantitative and qualitative research design. Both primary and secondary data were employed. Questionnaire, interview and observation were the main data collection instruments. Among the 672 operators in Wolita Sodo Town 251 sample sizes were selected using stratified and simple random sampling technique. After the data has been collected, it was analyzed using simple statistical techniques descriptive statistics and inferential statistics were used to assess the relationships and differences between variables.

Furthermore, the research finding showed that among such factors financial, political-legal, access to business information service, technological and infrastructure are the major factors that affect the performance of MSEs in Wolita Sodo Town.

Keywords: *MSEs, factors, performance, Sectors.*

INTRODUCTION

Micro and small enterprises play an important role in building worlds economy. In different part of the world they are serving as home of income generation, reduction of unemployment, and innovation.

Small businesses are the backbone of the U.S economy and the primary source of jobs for Americans. Small- and medium-sized enterprises (SMEs) also account for the largest group of U.S. exporters are a major user of imported goods. Small businesses are a continuing source of dynamism for the American economy. They produced three-fourths of the economy's new jobs between 1990 and 1995, an even larger contribution to employment growth than they made in the 1980s. They also represent an entry point into the economy for new groups. Women, for instance, participate heavily in small businesses. Small firms also tend to hire a greater number of older workers and people who prefer to work part-time (http://www.ustr.gov/trade-topics/small-business). This depicts that small businesses' are the engine of a countries economy and home of job creation.

Throughout the world it is acknowledged that micro and small enterprises play a vital role in socio-economic development as a means for generating sustainable employment and incomes (ILO, 2003).

Micro and small enterprises and development opportunity have direct relationships. They require less capital and more labor. MSEs have the capacity to generate a much higher degree of employment opportunity with less capital as compared to large-scale sectors. Owing to the mentioned facts they are considered to be of greatest value in building up a local production structure (coordinating land, labor, and capital in that locality) and in promoting economic growth.

In successful developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, that are of adequate quality and are reasonably priced, to a large number of people particularly in rural areas, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology (Endalkachew Mulugeta, 2008).

The Government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of SMEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National MSE Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of SMEs.

Until2004/2005, the national strategy was implemented by Federal SMEs Development Agency organized only at national level. Because of this, it was very difficult to make the strategy practical especially in delivering business development service for SME operators. Thus, by considering the critical role of the sector and the constrained faced by SME operators since 2004/2005 the government of Ethiopia decide to establish SMEs coordinating body at regional level. It considers MSEs as one of the core development strategies through which it believes to achieve social and economic prosperities for its citizens. Presently it is carrying out an intensive registration of the enterprises at national level the same is true at sodo town.

As Endalkachew Mulugeta (2008) the MSE (Micro and Small Enterprise) sector is the second largest employment-generating sector following agriculture in Ethiopia.In addition, (Beyene, 2007) explained the strategic contribution of micro and small enterprises to Ethiopian economy. He describes that currently MSEs approximately account for about one-half of the total indusrial production. This can also support the remarkable contribution of MSEs to the countries economic development.ILO, (2003) described the MSE sector is characterized by highly diversified activities, which can create job opportunities for a substantial segment of the population. This indicates that the sector can be a quick remedy for any unemployment problem. To curb unemployment and facilitate the environment for new job seekers and self-employment, a direct intervention and support by the Government is crucial.

While a considerable amount is known about the factors that affect the success of small and medium-sized businesses, this knowledge continues to be imperfect and a large number of questions remain unanswered regarding the small business sector in developing countries. Since developing countries are expected to adopt

different economic policies and they are occupying different phases of economic development, factors that determine the success of small businesses would vary accordingly. In this study, the attempt is made to investigate factors that might contribute to the success of micro and small businesses in sodo town.

According to review, of literature numerous factors attribute to the success and failure of business. The factors include poor business plans, lack of entrepreneurial characteristics, poor management of people, lack of finance, absence of supporting institutions, poor location, absence of BDS, management incompetence, poor financial control, lack of experience, failure to develop a strategic plan, inability to make an entrepreneurial transition and poor planning.(Beyene, 2007),(Belwal, 2008), (sho nesy & D.Gulbro, 1998). In general there are different factors which are still affecting the performance of MSEs.

Therefore, this study is intended to identify and analyze factors that cause the success/failure of the MSEs after categorizing the enterprises as successful and failure MSEs based on their profitability.

Statement of the Problem

As Tiruneh Abebe (2011), the Micro and Small Enterprises Sectors contribute to economy development of nations' by creating employment opportunities, production of goods and services and other value added activities. The existence of a strong small business sector is necessary for the boosting of the economy. However, the transition of this sector to medium and large business sectors is as crucial to preserve the flow of new small businesses into the economy. In addition, such transition or growth will further reduce the unemployment rate and increase the number of products or services offered to the society. Hence, growth of MSEs considered as synonymous with success.

Micro & Small Enterprises caught the attention of development practitioners and policy makers recently not only because of its importance in terms of generating employment also because of various other attributes. Some of these are: Micro and Small Enterprises are breeding ground for entrepreneurs, the sector has high employment generating capacity, and is less capital intensive and it is highly competitive, flexible, and innovative (Endalkachew Mulugeta, 2008).

Even though, the number of MSE increasing in an increasing rate, the status of their operation is

the basic question to be asked by the policy makers and researchers. Due to change in business environment and economic situation of the world, it is at fast pace to affect or be affected by the global economic settings. There are also internal environmental factors such as the entrepreneurial characteristics, finance and market skills that cause the success/failure of them.

It is natural to say that every small business owner starts with high hopes of success, but it is a usual phenomenon that every year firms go out of businesses. Although failure is not the sole reason for enterprises to leave the business, many enterprises do fail each year (Tiruneh Abebe, 2011).

This study argues that success is a complex process and that a combination of both internal and external factors together would better explain the success or failure of microenterprises. On this point Belay File (2012) argued that a multi-dimensional analysis, where a number of external and internal factors are taken into account would yield a clearer understanding of success.

Shonesy and Gulbro (2004) cited in Tiruneh Abebe (2011), reported from their review of literatures on small business success studies, 'there have been several studies, which seek to identify the critical success factors for small businesses. However, there appears a problem to develop a common list of the factors which contribute for success of small business performance operating in various business environments and regions'. It is important to define these factors for any new business, as the owner should be concerned about the chances for success.

Understanding of why some firms succeed and others not is crucial to the stability and health of the economy. Despite this fact, however, which factors are the most important to the success of

MSEs sector in Ethiopian has not been adequately studied empirically.

So this study tries to assess selected success or failure factors identified from literature with the performance of Micro and Small Business Enterprises in Sodo Town.

Objectives of the Study

General Objective

The general objective of this study is to investigate factors affecting the performance of micro and small enterprises in Sodo Town.

LITERATURE REVIEW

Definition of Small and Micro Enterprise (SMEs)

Worldwide, there is no common definition of the SME. Although the Size criteria (number of employees, sales turnover, Asset size total capital investment and the like), and Economic criteria (market share, independence and personalized management) are the two main approaches used to define MSEs (Beyene, 2007).

In the case of Ethiopia, until recent times there is lack of uniform definition at the national level to have a common Understanding of the MSE sector. While the definition by Ministry of Trade and Industry (MTI) uses capital investment, the Central Statistical Agency (CSA) uses employment and favors capital-intensive technologies as a yardstick. The definition used by MTI, which uses capital investment as a yardstick, has been developed for formulating micro and small enterprise development strategy in 1997 (Tiruneh, 2011).

According to the new Small & Micro Enterprises Development Strategy of Ethiopia (published 2011), the working definition of MSEs is based on capital and Labor (Konjit, 2012).

Table2.1. *Small and Micro enterprises definition*

sr.no.	Enterprise level	Sector	Hired labour	Capital
1	Micro	Industry	≤5	$6000.00 or ≤ Birr 100,000.00
		Service	≤5	$3000.00 or ≤ Birr 50,000.00
2	Small	Industry	6-30	$90,000.00 or ≤ 1,500,000.00
		Service	6-30	≤ Birr 500,000.00

Source: *federal micro and small enterprise development agency*

The Roles of Micro and Small Enterprises for Economic Development

In all successful economies, MSEs are seen as an essential springboard for growth, job creation

and social progress. The small business sector is also seen as an important force to: generate employment and more equitable income distribution; activate competition; exploit niche

markets; enhance productivity and technical change and through the combination of all of these measures, to stimulate economic development (Zewde and Associates, 2002; Trovato and Becchetti, 2002; Andy and Paul, 2002; Nuno and Santos; 2003).

Reduction of poverty and unemployment in Ethiopia by supporting and promoting only large-scale industries has frequently unsuccessful instead focusing on small businesses, which require relatively less capital and absorb a significant portion of the labor force, will be the solution. The labor absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation activities is vital for many of the challenges facing the country (Petersen and Carpenter,2002; ILO,2004;Freel and Robson, 2004; Ishengoma, 2004; Gebrehiwot and Wolday, 2005).

In Ethiopia the contribution of micro and small enterprise (MSE) have been significant. According to the Central Statistical Authority (CSA, 2009) survey the contribution of the small-scale establishments to the gross domestic product (GDP) or the national economy during the year 2009 E.F. Y, the small-scale manufacturing establishments' value added was to the tune of 32.5 billion birr. Accordingly, all the small-scale manufacturing establishments, together, created employment opportunity for 2,140,668 people. Furthermore, out of the 2.1 million, 831.5 thousand or 38.85 % were permanent employees.

Factors Affecting the Performance of Micro and Small Enterprise

Acording to Tiruneh,(2011) the factors that affect the performance of MSEs could vary from one country to another due to the economic, geographical and cultural differences. This kind of investigation of the success factor is very important for developing countries like Ethiopia because the research conclusion could be useful for the economic development planners as well as to individual entrepreneurs and business owners in the countries concerned.

According to (Harvie and Lee, 2005),the significance of SMEs within an economy emphasize the importance of having governmental policies that support SMEs; issuing regulations that help them and their ability to operate efficiently and regulations that imply low administrative costs. Although there has been an increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, there is still a lack of laws, administrative procedures and access to assistance from governmental agencies (Harvie, 2005).

The finding of Sethuraman, (1997) indicated that in most of developing countries, the majority of small enterprises lack access to formal financial services. Researches in this area evidenced that the informal firms start their business with their own savings supplemented by borrowing from friends and relatives. Since most of the operators are poor they start their business with very little capital. A few meet their capital requirements through informal credit mechanisms which exist within their community, but rarely from the formal sector institutions. SMEs have complexity in growing due to lacking of collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions (Harvie, 2005; APO, 2001; Leopairote, 1997).

The introduction and use of new technology can help streamline processes and increase worker productivity of small enterprises if managed properly. The ability of using technology to the business advantage requires the skill to identify possible uses for each technological advance. Some technological advances may prove cost prohibitive for some small business. This evaluation should shine some light on the possible benefits it will provide to both employees and the company. (Nicole Long. demand media, 2016).

Access to business information services has been identified as one area that needs attention from governments and business services providers if the SMEs sector in developing countries is to achieve sustainable levels of growth and development. Many firms in Africa operate in an information-poor environment due to lack of adequate business support services and the poor information technological infrastructures (Oshikoya & Hussain, 2007). Access to information has however not been given the challenges regarding ICTs infrastructure and the cost of IT hardware and software. This in itself has created many problems in the area of business information services for the SMEs sector. As governments and business

service providers try to address the many challenges facing the SME sector, it is also important that the present use of ICTs in

accessing business information services be identified in order to provide more development support in this area (Levy, 2000).

Macpherson and Holt (2007) and Barratt-Pugh (2005) claim that firm growth is dependent on managerial knowledge. In comparison with LEs managers in SMEs are generally less trained (Tannock et al., 2001), consequently, they chose poor production technology, do not use proper accounting systems and underestimate required funding and also SMEs spend less on formal training than LE due to financial limitations and the fact that it can be difficult to take employees out of the production (Thassanabanjong et al., 2009; Tannock et al., 2001).

RESEARCH METHODOLOGY

According to Mark et al. (2009:101) mixing qualitative and quantitative approaches gives the potential to cover each method's weaknesses with strengths from the other method. In this study, a combination of qualitative and quantitative approaches of doing research was employed, which has been practiced, as recommended by Creswell (2009:203-216). Primary data was collected using questionnaire and key informant interviews. The questions that were used in the questionnaire were five-point likert scale type questions. The type of scales used to measure the items on the instrument is continuous scales (strongly agree to strongly disagree).The secondary data collected from report, record brochure and news paper etc. More over the study used a Pearson correlation analysis to test the

hypothesis drawn and their relationship, furtherly multiple regression analysis was used to test the effect of independent variables on the performance of MSEs and to rank the identified factors.

The target population for the study was functional small and Micro Enterprises operated in wolita sodo town which were 672 in number. The sampling technique used in this study was stratified random sampling to get information from different sizes of the MSEs in sodo town. With this technique, the sampling frame was organized into relatively homogeneous groups (strata) before selecting elements from the sample. The samples were selected based on population proportion.

The researcher used Yamane's (1967) formula to calculate sample size:-

Assumptions:

A 95% confidence level, and e = ±5%

$$n = \frac{N}{1 + N(e)^2}$$

Where:-

n = the sample size

N = the population size

e = the level of precision (Sampling error)

$$n = \frac{N}{1 + N(e)^2} = \frac{672}{1 + 672(0.05)^2} = 251$$

N = 251

Table3.1. *Proportionate Sample Distribution for each MSE*

No	Sector	Number of MSEs	Sample
1	Manufacturing	121	121/672*251=45
2	Construction	29	29/672*251=11
3	Urban agriculture	32	32/672*251=12
4	Trade	167	167/672*251=62
5	Service	323	323/672*251=121
	Total	**672**	**251**

Both qualitative and quantitative data has been collected from primary and secondary sources. Primary data were collected from operators of SMEs by administrating structured and semi-structured questionnaires. The secondary data also collected from the key information such as, SMEs bureaus, literature, journals and SMEs reports and journals.

The regression analysis was used to determine the dependence of MSEs performance upon the independent variables i.e. political-legal, technology,

infrastructure, finance, entrepreneurial, and access to business information services factors. Statistical package for social science (SPSS) soft ware version 20 was used to analyze SPSS analyze the valid responses.

Model Development and Specification

The equation of regression on this study is generally indicates the relationship of the dependent variable performance on the six independent variables (politico-legal, technology, infrastructure, finance, entrepreneurial, and access

to business information service). The fundamental objective of using regression equation on this study was to make the study more effective in describing, understanding and predicting the stated variables. Therefore, the developed model and its specification is outlined below;

$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6$

Where:

Y is the response or dependent variable-performance of MSEs

$X_{1=}$ politico-legal, X2= technology, X_3= infrastructure, X4= finance X5=entrepreneurial, X6= access to business information service are the explanatory variables.

β0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0.β1, β2, β3, β4, β5 and β6 are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables

DATA ANALYSIS AND DISCUSSION

Table4.1. *Model Summary for Multiple Linear Regressions*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.927	.871	.865	.2367

Dependent Variable: performance of MSEs

Predictors: political-legal, technological, infrastructure, finance, entrepreneurial and acces to business information service

Source: *survey result 2019*

Based on the above table 4.1, the adjusted R square for this research was 0.93, which indicates 93% of the variation for the factor affecting performance of MSEs by the optimal linear combination of the independent variables tested (political-legal ,technological, infrastructure, finance, entrepreneurial and acces to business information service factors).

As indicated by multiple R. Besides, given the R Square value of 0.871 and adjusted R square value of 0.865, it may be realized that 87.1% of the variation in performance can be explained by the independent variables. The remaining 12.9% of the variance is explained by other variables not included in this study.

Table4.2. *Regress performance (as dependent variable) on the selected variables (as independent variables) using multiple regressions.*

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Hypotheses	Results
	B	Std. Error	Beta				
Constant	-150	.104		-.441	.151		
Politicl-legal	.038	.020	.232	7.544	.000	H1	Fail to reject
Technological	.106	.021	.137	4.940	.000	H2	Fail to reject
Infrastructures	.189	.028	.125	6.869	.000	H3	Fail to reject
Finance	.276	.037	.269	1.871	.000	H4	Fail to reject
Entrepreneurial	.093	.032	.048	.2.925	.064	H5	Rejected
Access to business information services	.085	.021	.153	4.095	.000	H6	Fail to reject

Source: *SPSS result of own survey 2019*

The regression model with all the predictor variables indicate as follow:

Predicted performance score = -.150 + .232 political-legal) + .137 (technological) + .125 (infrastructure) +.269 (finance) + .153 (entrepreneurial and access to business information).

The above table shows that, all the explanatory variables included in this study can significantly explain at 99% confidence level to the variation on the dependent variable. The standardized beta coefficient column shows the contribution that an individual variable makes to the model. The beta weight is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant). As these are standardized we can compare them.

The smaller the value of sig.(and the larger the value of t) the greater the contribution of that predictor. The result of multiple regression analysis in the above table 4.2 clearly demonstrates that five explanatory variables have positive and significant influence on SMEs performance with the value of (β=0.232, 0.137, 0.125, 0.269, 0.153) for political-legal, technological, infrastructure, finance and access to business information service factors respectively with p-value less than 0.05. However entrepreneurial factor had insignificantly and positively related to performance of MSEs with p-value of 0.064 which is greater than 0.05 and beta value of 0.048.

In this study the highest Beta value is 0.269 for finance factor, second highest is 0.232 for political-lega factor. This implies the 1 % increase in finance support would result in a 26% increase on SMEs performance other variables remain constant. The predictor variables technological (.137), infrastructure (.125), access to business information service (.153), are also significantly related to the variable performance and these are also good predictors.

CONCLUSION

Regarding to the multiple regression analysis the researcher rank the identified factors with the help of standardized beta coefficient as follows. Finance is the most influential with the regression coefficients of beta of 0.269. The next important factor is political-lega factor with the beta of 0.232, access to business information services with the beta of 0.153, technological factor with the beta value of 0.137, infrastructures factor with the beta 0.125 and entrepreneurial factor with the beta value of 0.048 is the least predictor of performance when it compared with other explanatory**.** Entrepreneur factor has insignificant effect on performance of MSEs.

RECOMMENDATION

- Inadequacy of credit institution and high collateral requirement is the major constraints for MSEs to expand their activities. The wolitasodo city government bodies should enhance the establishment of other alternative micro finance institutions so as to improve access to credit service by working jointly with the banks and other credit institutions to full fill financial requirements of MSEs.

- The support of government in different levels play significant role for the development of

MSEs, wolita sodo city government bodies should reduce bureaucracy and delays in registration and licensing in processing legal requirements by revising all the jamming laws, regarding getting a license or premises on which to operate.

- Accessibility of business information service is vitale for MSEs in order to make accurate decision. The providing of business information was limited for entrepreneurs. Therefore the study recommends for the government to improve accessibility of business information service for MSEs.

- Finally the study recommends the government to advance the technology and infrastructures such as constant supply of electric city, water and transportation systems and providing working space that affects the performance of MSEs.

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