

DETERMINANTS OF MICRO AND SMALL-SCALE ENTERPRISES PERFORMANCE IN BICHENA TOWN- A STUDY IN ETHIOPIA

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ABSTRACT: *The present paper analyzes various determinants that affect the performance of Micro and small-scale Enterprises in developing countries like Ethiopia. Nowadays Micro and small-scale Enterprises play a significant role in the growth and development of the economy and this fact is also identified by developing countries. But their performances to achieve goals like income generation, poverty alleviation, and food security are not as expected due to different factors such as lack of finance, entrepreneurial skills and lack of training, etc. That is why the present study is an attempt to assess different factors that affect the performance of Micro and Small-Scale Enterprises in Bichena town (Developing Country Ethiopia). For the analysis of the Data statistical tools like Pearson’s Product Moment Correlation Coefficient and Multiple Regression analysis also used.*

Key Word: Performance Measurement, Micro and Small-Scale Industries, Income Generation

INTRODUCTION

Micro and small-Scale enterprises (MSEs) is the backbone of Developing economy. It is considered as an engine of economic growth. In this context, the role of MSEs is revenue generation, poverty alleviation through job creation and food security. The role of MSEs is not only significant in developing economies rather developed economies are also getting benefits from MSEs in accelerating the economy. Ethiopia is facing so many problems like Unemployment, low income, Food insecurity, and poverty. Ethiopian Government has formulated a policy to face these problems by fostering Micro and Small-Scale Enterprises. Nowadays Developing economies have started to focus on the crucial role of MSEs in their development (1).

Recently, a policy shift toward the private sector has occurred in many developing countries and in this context, the role of entrepreneurs in micro and small enterprises as seedbeds for large-scale entrepreneurship is receiving greater recognition (2). Increasing concern about the need to achieve high growth that is shared and that encourages human development has given a new focus to the development of the sector (3). As a result, the government of Ethiopia has issued a national SME

development strategy for the promotion of Small and Micro Enterprises in 1997 and established a well-concerned institution for the sector by the Council of Ministers of Ethiopian Regulation Number 33/1998 on April 3, 1998. The revised MSEs Development Strategy was designed in 2011 to integrate the development of the sector with the country's 5-year (2003-2007) Growth and Transformation Plan (GTP), hoped to bring about rapid economic growth and lift up the country to middle-income level. Even though micro and small enterprises are contributing a lot for poverty alleviation, they are facing multi-dimensional problems both at start-up and operational levels (4). A large number of MSEs in Ethiopia are unable to grow (expand in terms of employment) and remain to be survival (non-growing) type which cannot provide employment (5). For instance, out of 1000 MSEs in Ethiopia, around 69% of them are found survival types (6) and particularly in the capital city Addis Ababa majority (75.6%) of the MSEs are unable to grow at all since start-up and only 21.9% of the MSEs had added workers (7). Following table provides requirement of Enterprises under separate categories:

1. Micro Enterprises
2. Small Scale Enterprises

Microenterprise:

Particulars	Industry Sector	Service Sector
Area	(Manufacturing , Construction and Mining)	(Retailer, Transport, Hotel and Tourism, ICT and maintenance service).
No. of Persons	5	5
Total Assets required	Not exceeding Birr 100,000 (one hundred thousand).	Not exceeding Birr 50,000 (Fifty thousand).

Small enterprise:

Particulars	Industry Sector	Service Sector
Area	Manufacturing , Construction and Mining	Retailer, Transport, Hotel and Tourism, ICT and maintenance service.
No. of Persons	6-30	6-30
Total Assets required	Paid-up capital of total asset Birr 100,000(one hundred thousand) and not exceeding Birr 1.5 million.	Paid-up capital is with Birr 50,001 and not exceeding Birr 500,000.

In developing countries, micro and small enterprises (MSEs) have a dynamic role and serve as engines through which the growth objectives of developing countries can be achieved. The MSE sector has been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and are reasonably priced, to a large number of people, 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. However, a variety of problems have been observed on the practice of MSEs, as a result, their performance is not as expected as it is. Due to these numerous researches were conducted on the practices, implementation as well as challenges of SMEs. Based on (8) the performance of SMEs indicated that the performance of SMEs depends mainly on access to finance and firm size, environmental factors such as infrastructure, business legal status, and legal registration. Access to finance is inferred by examining whether firms have overdraft facilities and line of credit facilities and also captured through self-reported measures of access to finance.

Research Methodology

The objective of the study

The main aim of the study is to analyze different factors that affect the performances of MSE's.

The hypothesis of the study

To achieve the objective of the study following hypotheses are formulated.

H₁: Entrepreneurial skill has a significant impact on MSEs' performance.

H₂: Access to the market has a significant impact on MSEs' performance.

H₃: Access to finance has a significant impact on MSEs' performance.

H₄: Infrastructure has a significant impact on MSEs' performance

H₅: Accesses to training has a significant impact on MSEs' performance.

H₆: Legal and regulatory framework has a significant impact on MSEs' performance.

It confined to 5 key MSE sectors; Manufacturing, Construction, Service, Agriculture and Trade.

Sample Size

There are 380 possible respondents. Only 198 MSE will be taken from the total 380 active MSEs as sample size and proportionally distributed between five sectors of the MSE.

Data Collection and Analysis

Primary and secondary data are collected through reviewing existing literature, reports, field observation, interviewing top-level officials of MSE agency to investigate how MSE in the study areas emerge.

For analysis of the data **linear regression model** is used.

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

Y_i = Micro and Small-scale enterprises performance; β₀ = Constant; β_i = Vector of unknown parameters;

X₁= Entrepreneur skill;

X₂= Access to Finance

X₃= Access to market

X₄= Access to training

X₅= Legal and regulatory framework

X₆= Infrastructure Adequacy and e = error term.

Pearson's Product Moment Correlation Coefficient

Pearson's Product Moment Correlation Coefficient is used to determine whether there is a significant relationship between Entrepreneurs' skills, Access to finance, Access to market, Access to training, Legal and regulatory frameworks and Infrastructure adequacy variables with performance

Table1. The relationship between independent variables and performance

Variable	Y	X1	X2	X3	X4	X5	X6
Performance of SMEs (Y)	1						
Entrepreneurs' skills(X1)	.556	1					
Access to finance (X2)	.605	.419	1				
Access to market(X3)	.630	.365	.357	1			
Access to training(X4)	.338	.097	.103	.363	1		
Legal and regulatory frameworks(X5)	.544	.405	.370	.378	.047	1	
Infrastructure adequacy(X6)	.575	.354	.408	.442	.025	.410	1

Source: Survey data, 2019 SPSS output

As per Table1 except Training (r = .338, p< .01). all factors have a strongly positive relation with MSE's Performance.

✓ Strong Positive relationship between entrepreneurs' skills and performance (r =.556, p < .01).

✓ Strong Positive relationship between access to finance and performance (r = .605, p < .01)

✓ Strong Positive relationship between access to market and performance (r = .630, p < 0.01),

✓ substantial positive correlation between legal and regulatory framework and performance (r = .544)

✓ Substantial positive correlation between infrastructure adequacy and performance (r = .575, p<.01) which was statistically significant at 99% confidence level.

This shows that for the better performance of MSEs more training should be provided to the Entrepreneurs.

Regressions Analysis

Table 2: Model Summary of the multiple regressions

Model Summary ^b										
Model	R	R Square	Adjusted R Square	Std. The error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.838 ^a	.702	.675	.16897	.702	26.268	6	67	.000	1.448
a. Predictors: (Constant), INFRA, TRAIN, INTR, RULE, ACCF, ACCM										
b. Dependent Variable: PERFORMANCE OF SMEs										

Source: Survey data, 2019 SPSS output

As per Table 2 correlation between the observed value of performance and the optimal linear combination of the independent variables is 0.838, as shown multiple R. R Square value is 0.702 and adjusted R square value is 0.675, which means that 67.5% of the variation in performance can

be explained by the independent variables. The remaining 32.5 % of the variance is explained by other variables not included in this study.

The overall model is significant (F – statistic = 26.268, P<0.01), and consistent with prior studies, the model’s explanatory power is high (adjusted R² = 0.675).

Table 3: Performance on the selected variables using multiple regressions

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Coefficients	(Constant)	.196	.220		.892	.376
	Entrepreneurs’ skills(X1)	.150	.062	.191	2.432	.018
	Access to finance (X2)	.213	.063	.266	3.378	.001
	Access to market(X3)	.197	.073	.229	2.691	.009
	Access to training(X4)	.094	.035	.195	2.679	.009
	Legal and Regulatory F (X5)	.138	.060	.183	2.314	.024
	Infrastructure adequacy(X6)	.136	.051	.217	2.672	.009

Source: Survey data, 2019 SPSS output

The above table 3 describes the Unstandardized, standardized coefficients, t and p values of the independent variables in the multiple linear regression analysis.

Predicted performance score = 0.196 + 0.150 (Entrepreneurs’ skills) + 0.213 (Access to finance) + 0.197 (Access to market) + 0.094 (Access to training) + 0.138 (Legal and Regulatory Framework) + 0.136 (Infrastructure adequacy).

Hypotheses Test

H₁: Entrepreneurial skill has a significant impact on MSEs’ performance.

Table 3 shows that entrepreneurial skill has 0.150 beta coefficients, which means that if the operators of MSEs are skillful, then the performance will be increased by 15% by controlling other factors constant. Since the beta coefficient of entrepreneurial skills has a positive sign, it has a positive impact on the performances of MSEs.

Therefore, the formulated hypothesis has been accepted. This result is consistent with the study of (8). According to this, the lack of entrepreneur technical skills is one of the most often cited reasons for the effective operation of MSEs.

H₂: Access to the market has a significant impact on MSEs’ performance.

As it is shown from table 3 access to market has 0.197 beta coefficients, which shows that if access to the market is increased by 100%, small and micro enterprises will be decreased by 19.7% by controlling other factors constant. Since the beta coefficient of access to the market has a large magnitude

the positive sign, it has a strong positive impact on the performance of SMEs. Access to the market is statistically significant at a 1 percent significance level because the p-value of this variable was 0.009 which is less than 1%.

Therefore, H₂ is accepted in the study. The result has been consistence with (9).

H₃: Access to finance has a significant impact on MSEs’ performance.

H₃ is also supported by the regression result as of a significant positive relation with the performance of MSEs. Table 3 depicts access to finance has a 0.213 beta coefficient and shows that if the operators of the enterprises got finance 100%, then the performance of the enterprises will be increased by 21.3% having other variables constant. Relative to the other variables, access to finance has a greater and positive beta coefficient; which implies that the influence of access to finance is high. Since the probability value of access to finance 0.001 which is less than 1%, it is statistically significant.

Hence Hypotheses H₃ is accepted.

H₄: Infrastructure has a significant impact on MSEs’ performance.

As the result is observed in table 3 infrastructure fulfillment has a 0.136 beta coefficient, which shows if the needed infrastructure by small and micro enterprises 100% fulfilled, then the performance of the enterprises will be increased by 13.6% controlling other variables constant. This shows that enterprises having good facilities and infrastructures perform well. This is supported by (10)

H₅: Accesses to training has a significant impact on MSEs' performance.

Based on the results displayed in table 3 above access to training has a 0.197 beta coefficient and shows that with other variables constant if the operators of the enterprises trained 100% the performance of the MSEs will be increased by 19.7%. Providing training on different issues of the enterprises increases the performance of Micro and small-scale Enterprises.

Therefore, the hypothesis "access to training has a significant impact on MSEs' performance" is accepted. This result is supported by another researcher (11)

H₆: Legal and regulatory framework has a significant and negative relationship with MSEs' performance.

As shown from table 3, the legal and regulatory framework has a beta coefficient of 0.138, which shows that an increase in the legal and regulatory activities at 100% will increase the performance of MSEs by 13.8% by controlling other factors constant. The positive sign of the beta coefficient of legal and regulatory variables has indicated that it has a positive impact on the enterprise's performance. The legal and regulatory framework variable is not statistically significant at 1 percent significant level because the p-value of it was 0.024 which is not less than 1%. Therefore, hypothesis **H₆** has been accepted in the study. The results were consistent with (11).

CONCLUSION AND SUGGESTIONS

Based on Data Analysis, it can be concluded that except for training all factors Entrepreneurial skill, Access to market and finance, legal and regulatory framework and infrastructure has a significant positive relationship with the performance of Micro and small-scale enterprises. If developing countries like Ethiopia wants to boost the growth of MSEs, then they should focus on all these factors especially Training.

Suggestions-

- ❖ Federal Government should make arrangements for providing adequate training to stakeholders of MSEs.
- ❖ National Bank of Ethiopia and Commercial Bank of Ethiopia should provide sufficient loans for the startup of the business at a low rate.
- ❖ Proper monitoring and follow up of these Enterprises should be done by the concerned authorities so that timely remedy can be provided to the sick units.
- ❖ Ethiopian Government should make arrangements for venture capital so that these units can run smoothly and help the economy in revenue generation and growth.

❖ Female candidates should be motivated to run such type of Business.

❖ Concerned Authorities should organize trade fairs and exhibitions for increasing sales revenue.



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