

Impact of Business Development Services on Performance of Micro and Small Enterprises in East Amhara Region of Ethiopia

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Abstract

Micro and small enterprises have been regarded to play significant roles of job creation, poverty alleviation and economic development of Ethiopia. business development service is an important element of government and non government efforts to create more enabling environment for micro and small enterprises to flourish. This study aims at establishing how market access, input supply services , infrastructure facilities ,training and technical assistance service affect performance of micro and small enterprises in East Amhara region. The study employed both quantitative and qualitative study approaches. Both business development service beneficiaries and non beneficiaries were respondents for the five Likert scale survey questionnaire. semi structured key informant interview was also conducted with micro and small enterprise employees and business advisors. The study found that market access, infrastructure facility, input supply ,training and technical assistance affect the performance of micro and small enterprise in east Amhara. However, infrastructure facility and training and technical assistance have insignificant impact on performance of non beneficiaries micro and small enterprise in east Amhara for the study period.

Key words: business development service, micro and small enterprise, performance

1. Introduction

The micro and small enterprises (MSEs) have been regarded to play significant roles of job creation, poverty alleviation and economic development of many countries worldwide. MSEs play a key role in triggering and sustaining economic growth and equitable development in both developed and developing countries(Lawrence & Maurice, 2012;Stella,2014).According Lawrence & Maurice(2012) survey conducted in Botswana, Malawi, Eritrea, Swaziland and Zimbabwe underscored the importance of MSEs sector especially in employment creation and income generating.

Organizations especially micro and small enterprises are confronted by dynamic and complex business environments characterized by globalization resulting in the need for greater efficiency and effectiveness(Washington,2014).performance of MSEs enhanced through factors related to market access, infrastructure, policy advocacy, bookkeeping/accounting, legal advice, consulting, input supply, training and technical assistance, technology and product development, and alternative financing mechanisms as well as business incubation .These all are termed as business development service (ILO, 2003). Business development service (BDS) is a very important means of supporting the development of micro, small and medium-sized enterprises , which are known to create employment, generate income and contribute to economic development and growth(UNDP, 2004).

The relationship between BDS and performance has however been a subject of debate for several decades now. This debate has led to calls for studies to establish the nature and form of this relationship (Brijlal, 2008). These calls have mainly focused on the need to determine the impacts of different aspects of business development services on micro and small enterprise. According to Namusonge (2010) market access , infrastructure facility, input supply, training and technical assistance service impacts positively on growth of firms and constantly changing business environments.

In Ethiopia, it is widely recognized that, the government and donors have supported Micro and Small Enterprise (MSE) in a variety of ways, which include both financial and non financial service, they have understood that non financial service currently known as business development services (BDS), is among the important factors that can improve the performance of MSE operators in the country(Gebrehiwot and Wolday, 2004).Empirical studies demonstrate that provision or supply of BDS to MSEs has received a considerable amount of attention, demand for measuring impact of BDS on MSEs performance has been given relatively less focus. Researches done on BDS and its impact on micro small enterprise are very scanty in Ethiopia. Amhara region is one of the potential areas of the country with large number of micro and small enterprise, as per the knowledge of the researcher; there is scarcity of studies on business development service and its impact in the region. Therefore, it is very helpful and critical issues that should be studied to contribute some in the strategies that helps to improve performance of small and micro enterprises in most areas of the country. Therefore the purpose of the study is to find how the business development services offered to MSEs influence the performance of their businesses.'

2. Literature Review

This section focuses on the literature pertaining to business development service and its impact on performance of micro and small enterprise. The section commence with a review of general concepts and principles of business development service. The review raises basic issues in BDS like , meaning, role of business development service, and types of BDS.

2.1. Meaning and definition of business development service

Business Development Service is non financial service provided to MSEs on formal or informal basis. According to Washington et al (2014) BDS are services that provided to enterprises so as to improve their performance. BDS address market problem by providing information ,facilitating the provision of consultancy services, encouraging skills ,improve equity by engaging in technology transfer and development, and providing access to infrastructure and financial services. Park, Lim and Koo (2008) on their study justify that market imperfections negatively affect MSEs ,therefore, they need to provide government support to survive competition with large and established enterprises. Brijlal (2008) finding indicated that Leaving the MSEs sector without government or donor support can negatively affect their growth and survival, as a result there is need for government intervention .

According to the Committee of Donor Agencies for Small Enterprise Development (2001) definition, BDS is defined as services that improve the performance of the enterprise by providing access to markets and ability to compete. The definition includes: training, consultancy, marketing, information, technology development and transfer, business linkage promotion both at strategic and operational level. Similarly The International Finance Corporation (2006) defines BDS as those non financial services and products offered to entrepreneurs at various stages of their business needs. According to Esim (2001) BDS can help micro and small enterprise solve their problems by: facilitating access to market, introducing new technology ,improve availability of quality input , improve technical and management skills, eliminating policy problems, and helping enterprise access appropriate finance mechanism.

2.2 BDS and their role in supporting MSEs

Any enterprise needs and uses two major types of services: Financial and non financial services that are more commonly referred to as business development services (BDS).Financial services help existing or would-be entrepreneurs to acquire the means for establishing or expanding a business. On the other hand, business development services refer to the transfer of knowledge, skills, information, offering advice on the various aspects of business activities, and special non-financial assistance (Anton, 2004).

According to Anton (2004) BDS offered on an institutional basis are available through private sector organizations, government organizations and institutions, associations of MSEs and NGOs, under different arrangements and conditions. The services are usually offered without charging a fee or at a subsidized fee, for non-profit motives, mainly as a part of an organization's mandate to promote and support MSE sector. The services may or may not be classified as demand-driven, because there are no pressures on the providers to achieve any kind of sustainability, and they usually do not pay specific attention to issue of demand.

Helping enterprises to develop their business activities, particularly at important turning points over the course of their life cycle, is the central task of business support organizations. The services that they provide are many and various, but, in almost every case, they concern essentially the provision of information and advice to entrepreneurs and business managers.BDS has been studied in different forms in small enterprise literature. For example in South Africa, JP Morgan Chase (2013) argued that BDS led to improved MSE business growth, access to finance, access to markets, financial management, workforce management and corporate governance which resulted in increase in their overall revenue and number of permanent staff. Specifically, BDS enabled MSEs in that study to adopt more structured approaches to management and planning and to have the ability to prioritize and be more strategic and focused.

2.3 Types BDS service

Business development services comprises of many disciplines, it does not fit easily into a single category. BDS organized into categories that address issues MSEs commonly face. However, there may be significant overlap between categories with some services fitting into more than one. It should be also known, that BDS are often complementary and implementing strategies may use several of them to achieve desired results.

Business development service include a wide range of non financial support service concentrated in the following categories: market access, infrastructure, policy advocacy, book keeping, legal advice, consulting,

input supply, training and technical assistance, technology and product development, and alternative finance mechanism and business incubation (Minda,2013).He further explain that in supporting development and sustainability of MSE ,these service help to increase employment, generate higher income and provide economic security .Such intervention at micro level contribute the alleviation of poverty empower vulnerable groups by the means economic development and growth.

The Small Enterprise Education Program Guide to Business Development Services identified seven BDS categories: market access, input supply, technology and product development, training and technical assistance, infrastructure, policy/advocacy and alternative financing mechanisms (Basilio & Rodriguez, 2010). This study however focused on four dimensions, that is, market access, infrastructure facilities , input supply , Training and technical assistance which are deemed crucial for micro and small enterprises (Mahmoud, 2011; Boncella, 2013 ; Okey, 2014).

2.3.1.Market access

According to extant literature, market access has been presented in different forms. For example Small Enterprise Education Program guide to business development services argued that market access consists of marketing business, market linkages, trade fairs and exhibitions, development of samples for buyers, market information, subcontracting and outsourcing, marketing tips and meeting, market research, marketing space development, showrooms, packaging and advertising (SEEP, 2000). In contrast, UNDP (2004) presented market access as a seven element factor comprising market research, market information, trade fairs, product exhibitions, advertising, packaging, marketing trips and meetings, and subcontracting and outsourcing. Mahmoud (2011) has pointed out that market access has positive relationship with performance of organizations in Ghana.

Differences in opinions have been reported in measuring the variable and regarding market access effect. In this study, market access was regarded from the viewpoint of market information and advertising facilities, market linkage with input suppliers and customers ,which are the key components that affect organizations market outreach.

2.3.2.Input supply

According to Basilio and Rodriguez (2010) input supply includes linking to input suppliers, improve supplier capacity to provide regular supply of inputs, information on input supply sources, encouraging the establishment of bulk buying groups. Input supply services have been described as the business function that is responsible for identification and purchase of external resources needed by organization to fulfill its strategic objectives (Kidd, 2005). In manufacturing environment an important undertaking is the purchase of raw materials and other input supplies which are important ingredients. Input supplies have been noted as important for an enterprise's processes since they facilitate the production of goods and services (Koh et al., 2007).

However, MSEs are not as strong as their larger counterparts, due to their inability to negotiate favorable input supply services. Studies argue that limited resources and capabilities in small enterprises affect their ability to negotiate for better prices and terms and this may be alleviated when business development services are provided to MSEs (Schmitt-Degenhardt, Stamm & Zehdnicker, 2002). According to Miehlabradt and McVay (2003), better input supply services may be achieved by MSEs to suppliers, facilitating bulk buying groups, improving suppliers' capacity to provide quality inputs and providing information on input supply services.

2.3.3. Infrastructure facility

Organizational infrastructure refers to the physical structures that enable businesses to run smoothly (Horby, 2005). In a manufacturing concern, infrastructure facilities consist of the factory, equipments and warehousing facilities. Unavailability of appropriate infrastructure could lead to excessive capital investments, support levels and inadequate organizational flexibility. Thus strained access to infrastructure components like warehousing may have adverse implication for performance in a manufacturing enterprise.

According to Easterly (2002), infrastructure facilities have been viewed as the basic structures physical and organizational that provides support for development of an organization or economy. It has been regarded as an essential linkage between a firm and its markets which can have the potential to impact on the firm's revenues and overall effectiveness (Price, Stoica & Boncella, 2013). He added that well developed infrastructure facilities reduce the impact of inter regional distances, integrating the local markets as well as connecting them at low cost to markets in other countries and regions. Izquierdo and Vasallo's (2004) study pointed out that infrastructure

facilities and economic development are positively correlated such that there are effects during the construction phase and during the usage of such facilities.

2.3.4. Training and technical assistance

According to Basilio and Rodriguez(2010) training and technical assistance includes mentoring, feasibility studies and business plans, exchange visits and business tours, management training ,franchising, technical training, counseling/advisory services, financial and taxation advice, legal services , accountancy and bookkeeping.

As observed by Okwena et al (2011), book keeping practices among the small businesses in Kisii Municipality are not effective and this has had a negative effect on the financial performance of these enterprises. The poor bookkeeping skills are associated to little knowledge. MSEs, therefore require bookkeeping services to be able to have accurate financial records that can enhance decision making. Moreover, according to Thaker (2008), training is an organized procedure by which people learn knowledge and skills for a definite purpose. Tim and Brinkerhoff (2008) insist that human capital development represents the planned opportunity that is provided for training as the overall process whereby an individual's behavior is modified to conform to a pre-defined and specific pattern. Training is also a process or procedure through which skills, talents, knowledge of employees are enhanced.

Mochona (2006) studied the impact of microfinance in Addis Ababa-Ethiopia. He assessed the impact of microfinance on women micro enterprises that were clients of Gasha Microfinance Institution. The research findings indicated that only a few of the women clients of the Gasha Microfinance Institution reported increased incomes from their micro enterprise activities. Majority of the women clients of Gasha Microfinance Institution were also unable to build key assets since the savings were dismal. The study recommended that, improving technical and business skills of clients through training and technical assistance will enhance their business skills hence their performance. Also, it recommended that the women microenterprises should be assisted to establish market channels for their products until they do that independently.

Based up on the review of different literature, this study has identified market access, input supply, infrastructure facilities, training and technical service which are the major types of business development services that are crucial for improving the performances of small and micro enterprises and the possible outcomes as a result of using these services(Mahmoud, 2011; Boncella, 2013 ; Okey,2014).

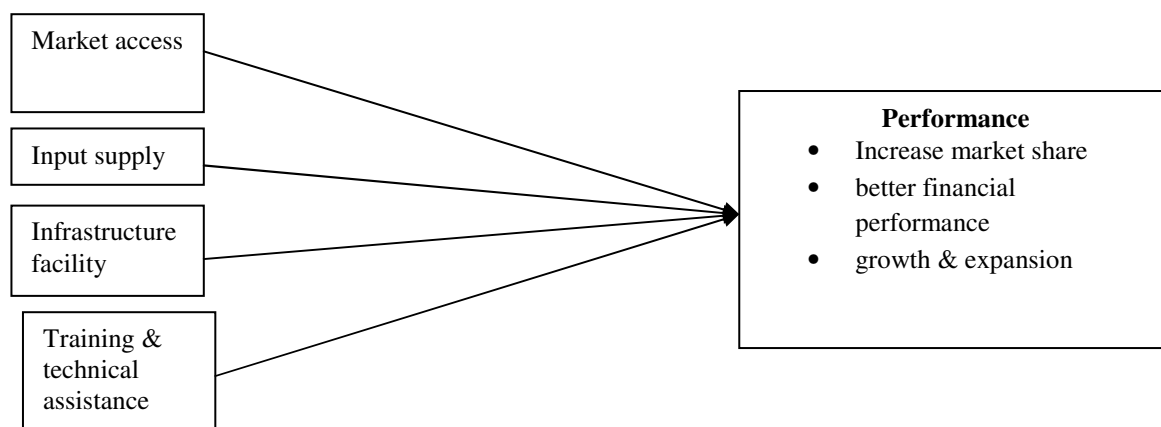


Figure 1. Conceptual framework for the study

3. Research Methodology

Quantitative and qualitative research design used to obtain information concerning the impact of business development service on MSEs. The type of research is mixed in to which both quantitative and qualitative data analysis techniques used to produce richer and more complete information. Quantitative research techniques was employed to gather numerical data and use statistical analysis to arrive at meaningful conclusions. On the other hand, qualitative techniques used to gather data in words and concepts.

For this study among many towns in Amhara region, four towns were selected based on the availability of BDS services by Entrepreneurship Development Center-Ethiopia. The selected towns were Woldia, Dessie, Kombolcha, Debrebirhan. According the data obtained from the four towns, the total numbers of enterprises

which get business development service were 375 and total number of enterprises which did not get BDS service 9172. Thus, all these 9547 enterprises were target population of the study.

Both primary and secondary sources of data were used. Basically, the study focused to use primary sources of data for this study. The primary data were collected from 395 enterprises, 30 BDS advisors and 30 micro and small enterprise employees. Besides, secondary data were gathered from official documents, advisors reports, and reports found from the enterprise under study.

The sample size of the study was determined using the table for determining sample size from a given population provided by Malhotra (2007) which shows that for a population of 375 BDS beneficiaries a sample size of 80 is adequate and for 9172 non beneficiaries sample size of 315 is adequate. Thus, sample size of the study was 395 from BDS beneficiary and non beneficiary enterprises of the selected towns. Since the numbers of enterprises of the selected towns were not equal, the sample size in each town were proportional to each town. The sample respondents from each town drawn using simple random sampling method.

The researcher used close ended and open ended questionnaire and semi structured, interview to collect primary data. Questionnaires were constructed based on the research objectives. Since each instrument has been adopted, the researcher did not go further to take pilot study for checking the consistency and validity of the instruments. The data collected from sample respondents analyzed on the basis of the objectives of the study. At first, in order to ensure logical completeness and consistency of responses, data editing and coding was carried out by the researcher. Identified mistakes and gaps were rectified. Once data editing is completed, analysis of both qualitative and quantitative data were conducted using different statistical techniques. For quantitative data statistical techniques linear regression and paired sample t-test were employed. The linear regression model for the study is as follows

$$PR = \beta_0 + \beta_1(MKTACS) + \beta_2(IFRASf) + \beta_3(IS) + \beta_4(TTA) + \epsilon$$

Where: PR, Performance of MSEs; MKTACS, market access; IFRAF, infrastructure facility; IS, input supply; TTA, training and technical assistance; and ϵ the error term. Moreover, the response obtained from interview questions was analyzed qualitatively to triangulated the regression results.

4. Findings

In this section the study presents the results on the impact of business development service on micro and small enterprise in East Amhara Region.

From the regression result as shown in table 1, R^2 value indicates that the proportion of variance in the dependent variables which can be explained by the independent variables is 75.8% for BDS beneficiaries and 45.7% for non beneficiaries. That is, about 24.2% of the variations in the dependent variable are not explained by the independent variables for BDS beneficiaries and 54.3% for non beneficiaries included in the model.

Management of markets through continuous innovation products or processes, and response to dynamic customer requirements is the essence of MSEs survival and growth. The regression result for BDS beneficiaries on market access indicates positive relationship between market access and enterprise performance. The relationship was highly statistically significant at 1% significant level. As shown in Table 1, the impact of market access on performance relatively the highest (t-statistics 9.634) and used to predict strong variations in performance while there is high market access. Besides, Basilio and Rodriguez(2010) confirms that BDS provides market access to micro and small enterprises and hence increase performance. However, Washington et al. (2014) argue that there is no evidence for market access in performance of small and medium manufacturing enterprises in this study. Similarly market access for non beneficiaries was statistically significant at 5% significant level.

Even though market access for non beneficiaries has positive relationship with performance and statistically significant, the magnitude of impact is relatively less than BDS beneficiaries. In this study, market access was regarded from the viewpoint of market information, advertising facilities and market linkage which are the three key components that affect organizations' market outreach. The interview result also shows that marketing and advertisement practices have their own contribution for the performance of micro and small enterprise in the study area. The information obtained from non BDS beneficiary MSEs indicated that they were less satisfied with marketing and advertisement activities as result their sales declined during the study period.

Infrastructure facilities are basic structures that provides support for development of an organization. It links between a firm and its markets which can have the potential to impact on the firm's revenues and overall effectiveness. From the regression result above, the coefficient for infrastructure facility is positive and highly

statistically significant at 1% significant level. This result is in line with Washington (2014) findings. In contrast infrastructure facility for non beneficiaries is in significant. This implies that the combination of various infrastructure facilities does not improve the performance of enterprise for non BDS users. This indicates that there is high variation in working environment for employees to develop new design and product in the workshop, adequacy of storage and warehousing facilities and in transport and delivery facilities between BDS beneficiary and non beneficiaries. It was also evident from the study that a higher percentage of those that had good infrastructure facility were those satisfied with BDS service as opposed to those that were non beneficiary enterprises.

Input supply here represents an important undertaking in the purchase of raw materials and other input supplies which are crucial ingredients for production of goods and services. The result from the regression analysis indicates the variable has positive impact on performance of micro and small enterprise. Input supply is highly significant at 1% significant level for BDS beneficiaries where as it is significant at 5% significant level for non beneficiaries. The result of this study is in line with the finding of Lawrence(2014) and Stella(2013).

According to Miehlabradt and McVay (2003), better terms of input supply services may be achieved by linking MSEs to suppliers, facilitating bulk buying groups, improving suppliers' capacity to provide quality inputs and providing information on input supply services. Thus, how inputs are procured may contribute to improved performance of an organization. However, contradictions and differences in opinion have been reported regarding this relationship. In this study, input supplies were viewed as linking of MSEs to raw material suppliers, information on input supply sources and access to group purchasing arrangements. Hence there is better input supply services on both categories of enterprises, though there is difference in magnitude, which increase the performance of micro and small enterprises. According to this study, enterprises should give priority to incubation facilities in which new ideas may be nurtured and prototyped so as to improve existing business products and services. Similarly, MSEs management should ensure availability of warehousing facilities where finished products may be stored under safe conditions before distribution.

The coefficient of training and technical assistance for BDS users is positive and statistically significant at 5% significant level. This indicates that MSEs performance is associated with higher training and technical assistance service. Training and technical assistance are associated with higher efficiency and effectiveness which increase organization performance. This result is also similar with Stella (2013). Moreover, the study conducted by Mohamed(2015) on Tigray region of Ethiopia indicated that 96% of BDS beneficiaries got training and technical assistance service. As result of this intervention their performance found to be increased dramatically. On the other hand training and technical assistance for non beneficiaries is insignificant. BDS beneficiary respondents that were satisfied with book keeping and training services had higher sales volume than those that were least satisfied (non BDS beneficiaries) with their accounting and management system. Similarly, the interview result indicates that training for micro and small enterprise is desirable as it provides necessary skills required to set up business. Poor growth of market shares was reported for the respondents that had never attended training whereas none of those always attending trainings reported poor growth of market shares. This implies that bookkeeping increases the growth of market shares of enterprises thereby the performance of MSEs. Most of non user respondents have no recording keeping experience and have poor growth of market shares. Good growth in profits for those with bookkeeping and accounting services was higher as compared to those without service. Book keeping practices among micro and small businesses were not effective and this has negative effect on the financial performance of these enterprises. The poor bookkeeping skills are associated to little knowledge.

The Paired T-test result from table 2 shows that there is a performance difference between BDS and non BDS beneficiary MSEs. The mean difference (0.896) is statistically significant at 1% significant level. This indicates that business development services contribute for the performance improvement of micro and small enterprises in the study area. Moreover, the response from the interview also indicates similar results. Micro and small enterprise which had got BDS increase their market share, able to achieve better financial performance, and expansion and growth. The statistically significant difference in market share, financial performance and expansion might be due to the supports provided to BDS beneficiary enterprises on market access, infrastructure facility, input supply, training and technical assistance. This result is also in line with JP Morgan (2013) argument. He argued that BDS led to improved MSEs business growth, access to finance, access to markets, financial management, and workforce management which result in increase in the overall performance. Moreover, Mohamed (2015) on his study pointed out that increased outreach of BDS interventions resulted in market expansion, increased market share and increased financial position.

5. Conclusion

Based on the findings of the study, the conclusion would be that market access, infrastructure facility, input supply, training and technical assistance were found to be important variables in determining the performance of micro and small enterprise for BDS beneficiaries in East Amhara. However, no significant association was found between infrastructure facility, and training and technical assistance and performance of non BDS beneficiary MSEs.

According to this study, market access was the strongest indicator of MSEs performance. Based on this finding infrastructure facilities contribute to improved performance of BDS beneficiary MSEs while it has no association with performance of non beneficiary enterprises. This implies that Micro and small enterprises should give priority to incubation facilities in which new ideas may be developed and prototyped in order to improve existing products and service. Similarly, MSEs management should ensure availability of warehousing facilities where finished products may be stored under safe conditions before distribution. Furthermore, the study result indicates that input supply services positively contributes to performance of both beneficiary and non beneficiary MSEs. Considering the importance of this variable, MSEs owners and management should practice to benefit from associated discounts and should facilitate linkages with raw material suppliers to reduce delays in delivery and supply times. In addition, the study established that training and technical assistance offered to MSEs has a positive impact and enable them to perform well.

The study findings have shown that there is a performance difference between BDS and non BDS beneficiary MSEs. This study established that all the four variables, that is, market access, input supply, infrastructure facilities, training and technical assistance jointly have an impact on performance improvement of BDS beneficiary MSEs. Since the study findings have shown that business development services have an impact on business performance the study recommends that the Amhara region government through the micro and small enterprise development agency and Entrepreneurship Development Center should provide business development service for MSEs so as to increase their knowledge in management and technical skills.

Further Research Directions

This study focused on MSEs on East Amhara. This context excludes MSEs at the county level hence limiting generalization of the results to MSEs in Ethiopia. Further studies may thus focus on MSEs beyond East Amhara. Future research can also investigate impact of BDS on performance using a broader framework to measure performance of MSEs.

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Table 1. Regression output Significant at 1%; ** significant at 5%; *

Variable	BDS beneficiaries			Non- users		
	Coefficient	t-statistics	Sig.	Coefficient	t-statistics	Sig
Constant	0.669	2.217	0.030*	1.069	6.874	0.000**
Market access	0.610	9.634	0.000**	0.150	2.240	0.044*
Infrastructure facility	0.105	3.455	0.001**	0.104	1.665	0.156
Input supply	0.435	8.408	0.000**	0.149	2.246	0.049*
Training & Technical assistance	0.100	2.372	0.020*	0.021	1.613	0.067
Adj. R2 = 0.7584; Prob(F-statistics = 0.0000)				Adj. R2 = 0.4576; Prob(F-statistics = 0.0000)		

Table 2. Paired sample t-test

	Mean difference	t-statistics	Sig. (2-tailed)
APRB - APRN	0.896	11.684	0.000**

** Significant at 1%

APRB-average performance of BDS beneficiaries; APRN-average performance of non beneficiaries