

Business Development Service (BDS) Role in Improving the Performance of SMEs in Case of Selected Manufacturing SMEs in Adama Town, Ethiopia

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Abstract

Business development services as one mechanism of enterprises development have been thought of as a wide array of non-financial services designed to help small and micro enterprises to overcome barriers and increase their profitability and contribution to job opportunity creation by improving their performance. This study assessed the role of BDS in improving the performance of small and micro enterprises by focusing on enterprises engaged in the manufacturing sector of wood, metal and mortar work subsectors in the town. The finding of the research shows that Business Development Service plays a key role in improving the performance of the enterprises. The ANOVA test result reveals that the role of BDS in contributing towards employment opportunity creation, enterprise growth and expansion, and technology transfer is found to be moderate. The findings of the study also show absence of statistically significant difference among the views of target respondents towards the role of BDS in improving the performance of SMEs. Based on the findings, the study recommends that despite the fact that there are some BDS currently delivered to the enterprises, other important aspects of BDS be included in the package for better performance of SMEs.

Keywords: Business Development Service, Small and Micro Enterprises.

1. Introduction

Small and micro enterprises (SMEs) have been described as catalysts for the future economy. There is a special need to accelerate SMEs' growth and to improve their competitiveness. Under the circumstances of increasing market pressure, enterprises try to improve their competitive position and performance by development efforts, and a business development project, further abbreviated to BDP, is one tool for that (*Bargen et al., 2003, Dreisler et al., 2003*).

For the last ten years there has been an increasing interest in entrepreneurial-oriented policy, focusing more on the individual than the firm (*Bargen et al., 2003, Dreisler et al., 2003*). Boter et al. (1999) reaffirmed the obvious conclusion that it is not firms, but individuals that do business. From that perspective thought must be given to how to motivate people, provide good opportunities to develop new business, and how to develop support structures for creating the necessary skills for entrepreneurs. (*Boter, 2005*).

The development of BDS can complement interventions designed to improve access to finance for small firms. Clearly, BDS is only one of the possible ways of improving the performance of the small enterprise sector, which conventional wisdom suggests also depends on an enabling external environment conducive to business competitiveness; access to financial, as well as non financial services; and expanding market opportunities for the products and services provided by small enterprises. Nevertheless, it can be argued that an effective BDS system, capable of delivering business services that meet the needs of small enterprises, is a necessary part of a strategy for supporting growth in the small enterprise sector (*Committee of Donor Agencies for Small Enterprise Development, 2000*).

The role of government in the development of an SME support system with both public and private actors was unclear to workshop participants. Some indicated that government should be planning and directing development of the new system, whereas others proposed a more enabling role for local government. SME service organizations do not fully understand what SMEs really need. Also, SMEs do not know what services these organizations provide. One government supported program in Sri Lanka introduced a combined approach of credit and BDS delivery as a package to support the development of rural none and off-farm micro-enterprises. As a result of the support services provided, a large number of micro-entrepreneurs have emerged. A large number of associations have been formed and it is envisaged that they will continue to facilitate access to both financial and non-financial services. (*FAO, 2007*).

The Federal Democratic Republic of Ethiopia (FDRE) developed a Micro and Small Enterprises Development Strategy, by considering that they are vital vehicles and have potential to tackle the challenges of battling unemployment, and securing economic growth with equity in the country (*FDRE Ministry of Trade and Industry 1997*). But the strategy does not consider the existence of differences among the targeted subsectors, the needs of the enterprises and kinds of ownership. There have been very few large-scale surveys over a complete range of Business development service (BDS) provided in the country in general and in Adama town in

particular. Prior studies predominately focused on what SMEs need to know and their general lack of financial skills presenting the views of “experts” such as accountants, bankers, and lawyers. This study is designed to fill this gap and attempts to examine the role of BDS in improving the performance of small and micro enterprises in Adama town.

2. Materials and Methods

2.1. Research Design

The research design for this study is *descriptive*, describing what has happened and what is happening. And the study has primarily used qualitative data which was obtained through a questionnaire that was distributed to and filled by the employees of the enterprises, and interview sessions with management bodies of the BDS providers in the SMEs development agency. Quantitative data (descriptive statistics) are also used in analyzing and interpreting data gathered through close ended questions. Primary data was gathered directly from employees, managers and owners of the selected small and micro enterprises and employees in the SMEs development agency. A questionnaire was developed to gather this primary data from these respondent groups. In addition to the data obtained through questionnaire, a structured interview was conducted with management bodies of the Small and Micro Enterprises Development Agency of the town.

2.2. Sample Design

The study has primarily used a hybrid of two sampling techniques in order to determine the sample size to collect the appropriate data. These are; purposive sampling method and stratified sampling method.

2.2.1 Sampling method one: Purposive sampling

There are 457 Small and micro enterprises in Adama town that are engaged in five different sectors; Trade, manufacturing, service, construction, and urban agriculture. But, from this number of sectors the researcher *purposively* selected those enterprises that are engaged in the manufacturing sector.

2.2.2 Sampling method two: stratified and purposive sampling methods

The number of employees in each enterprise is varying, but, 50 employees (38 managers of the enterprises and another 12 employees of the enterprises) from all enterprises were considered based on the judgment of the researcher. Therefore, the study was based on the data obtained from a sample size of **100** (50 respondents from the 38 enterprises and 50 respondents from the employees in the small and micro enterprises development agency) respondents (both through questionnaire and interview session). Since the target population is heterogeneous in nature, the researcher preferred to classify the whole population into four categories (strata).

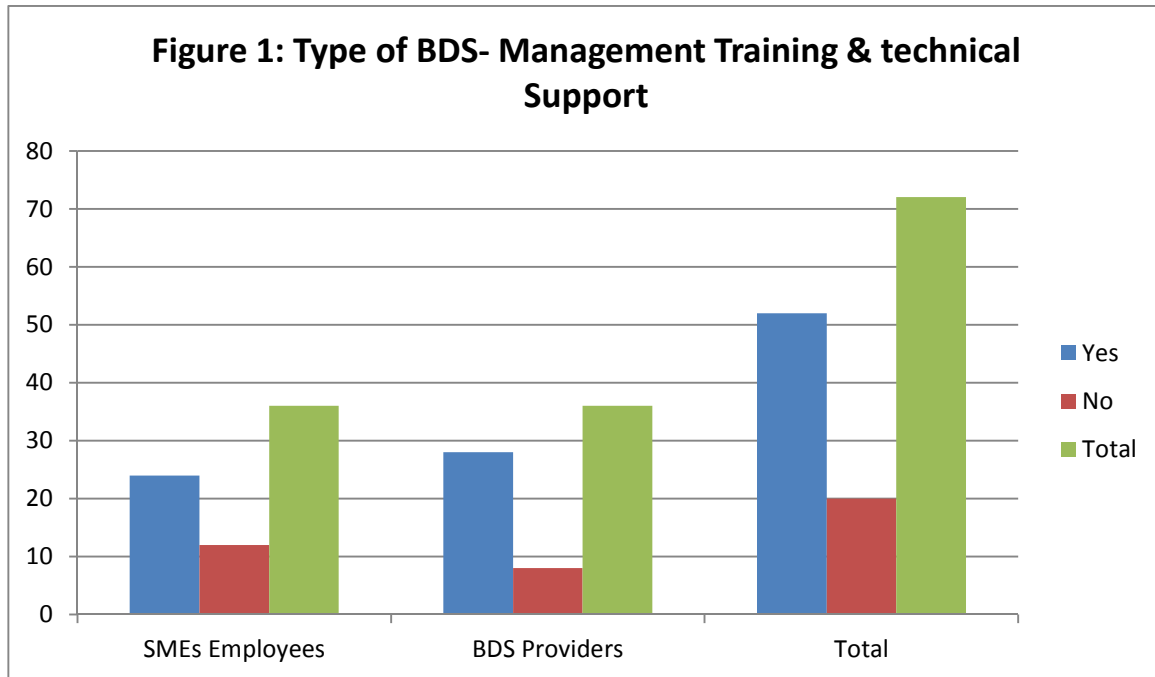
2.3. Methods of Data Processing and Analysis

The data collected was processed by checking, coding, and editing and it was analyzed, based on the nature of the data (qualitative or quantitative). Consequently, data collected from the respondents were analyzed as follows: responses were categorized and frequencies were tallied. Percentage and frequency count were used to analyze the characteristics of the population as it helps to determine the relative standing of the respondents. Moreover, the study employed descriptive statistics like mean scores, standard deviations, and *ANOVA* and chi-square tests were conducted with the help of SPSS version 20. For the interviews and open ended questions, the responses were analyzed by using *content analysis method*. In using this technique, first summary sheets were prepared and field notes were written and the content of the response were analyzed. Finally, based on the analyzed data, interpretation was made side by side with the analysis part to come up with certain conclusions and recommendations at the end.

3. Results and Discussion

3.1. Types of BDS provide for the SMEs

- Management training and technical support
- Market linkage service
- Material supply
- Technology & product development
- Information & consultancy service
- Infrastructure & working premises
- Loan service
- Business plan development

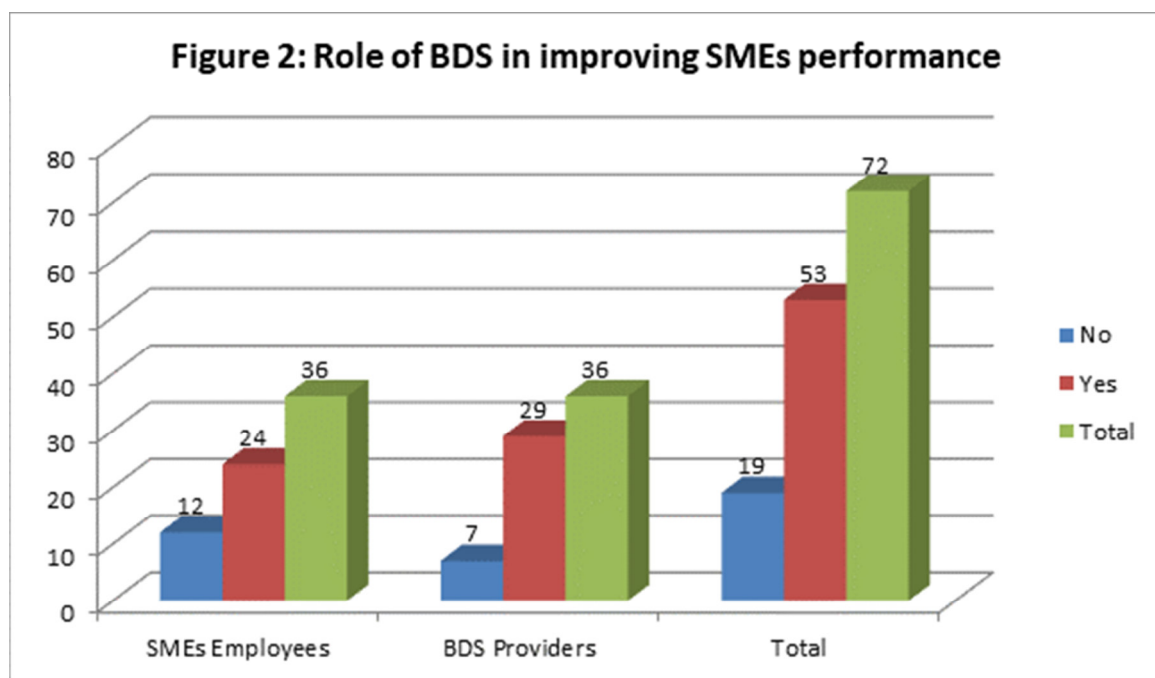


3.2. Role of BDS in improving the performance of SMEs

Respondents were asked whether Business Development Service provided to SMEs played a role in improving their performance. The Chi-square result for the views of the two respondent groups is depicted in the table below;

Table 1: Chi-square result showing the response on the role of BDS

Role of BDS in improving SMEs performance	No	%	Yes	%	Total	Chi-square Test		
						Value	Df	P-value
SMEs Employees	12	33.3%	24	66.7%	36	1.787	1	0.181
BDS providers	7	19.4%	29	80.6%	36			
Total	19	26.4%	53	73.6%	72			



Majority, 29 (80.6%) of the respondents (employees) in the SMEs development agency replied that the business development service delivered to the enterprises has played role in improving the performance of the

enterprises. In addition, from the chi-square result the p-value $0.181 > 0.05$, we can understand that there is no statistically significant difference in the responses of the two respondent groups towards this item. Moreover, the data obtained through the help of interview with management bodies of the SMEs development agency shows that BDS is an indispensable ingredient to the improvement in the performance of the enterprises.

3.3. Changes observed as a result of Business Development Service

The response to the open ended questions showed that a great deal of changes in performance of SMEs is witnessed as a result of the agencies effort to deliver BDS. Among these changes are;

- Improved working process
- Accumulation of own capital by making use of government's loan services
- Able to save time and energy, waste free and suitable working place as a result of training in Kaizen.
- Expansion of the enterprises
- Improved accounting system and profitability
- Better management of their business.

According to the data obtained through the interview, some of the improvements in the performances of the enterprises as a result of using BDS are reduction in wastage of time and resources, and appropriate income tax as a result of improved financial record keeping.

4. Conclusion and Recommendations

4.1. Conclusion

- The types of business development services delivered to the enterprises so far includes Management training and technical support, Infrastructure and working premises, Business plan development, Financial recording systems, Entrepreneurship, Kaizen system, Stock control techniques, and Loan services.
- The contribution of the business supports towards promoting employment opportunity creation, enterprise growth and expansion, and technology transfer could be rated as moderate.

4.2. Recommendations

The finding of the study indicates that the types of Business Development supports delivered to the SMEs in the town includes Management training and technical support, Infrastructure and working premises, Loan services, business plan development, financial recording and some others. Recognizing the importance of SMEs in promoting employment opportunity, technology transfer and other roles in the town, it is recommended that other supports be given to the enterprises so that they could be able to grow from micro to small, from small to medium, and from medium to large and contribute their part to the economic growth.

The ANOVA test indicates that the contribution of the business supports towards business growth & creation of employment opportunity, and technology transfer is nearly moderate. It is advisable to give emphasis to the BDS package so that its contribution could be upgraded to high or very high.

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