

Factors Constraining Survival of Micro and Small Enterprises in Ethiopia (A Case of Woliso Zone Sebeta Hawas Woreda)

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Abstract

Currently, MSEs in both developed and developing countries are seen as the most important alternative sector in fostering socio-economic developments. This study is undertaken to analyze factors that determine the survival of MSEs in Ethiopia with specific reference to woliso zone sebeta hawas woreda. To achieve the objectives of the study both primary and secondary data was collected from the organized MSEs located in sebeta hawas woreda by using convenience method through the questionnaire and interview. The collected data were analyzed in descriptive and inferential analysis. The findings revealed that the problem of MSEs growth around the study area are the poor management style available in the enterprises, many MSEs are limited by their Owen perception, Government regulation and policy before and thereafter has not been very favorable to the small enterprise development and survival and Change of technology has posed a great challenge to small businesses. Hence, it concluded as individual, organizational, technological and regulatory environment have impacts on the growth of MSEs growth around the study area. Therefore, the individual entrepreneurs' attitude towards the Micro and small enterprises program by the government should be changed and the government should also takes corrective actions before and after the organization of Micro and small enterprises.

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Introduction

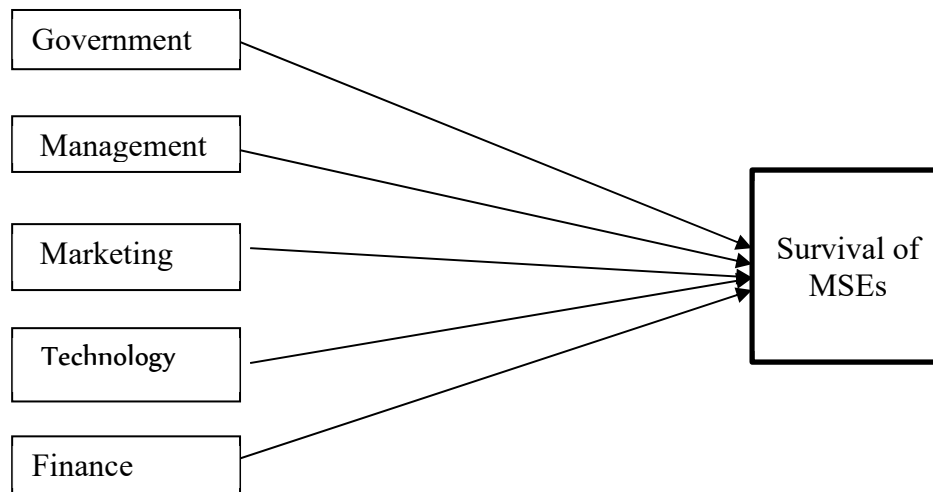
MSEs play a great role in bringing innovative products, techniques and new markets, dynamism and flexibility which is another virtue of smallness with possibility of meeting that they believe behaviorally to respond to customers' changing demand so as not to lose them and to win new ones by supplying better products and services. This allows them to change what they have been doing with far less difficulty (Michael Bowen, Samuel Mureithi, 2009). Research has shown that in order to achieve the contributions made by MSEs and ensures them to grow; it is required to overcome series challenges such as: financial constraints, marketing constraints, managerial constraints, infrastructural constraints and others because they are the common and major factors in making businesses to fail (Okpara, 2011).

However, research carried earlier on small-scale enterprises reveal that the performance of a number of them is less than satisfactory and haven't solve the problem, today MSEs constraints are divested/incased form time to time with development and technology. Thus, gaps exist with respect to understanding the problems facing MSEs in Sebeta Hawas woreda. Therefore, the intention of this study will be to identify the factors constraining the survival of MSEs delimiting them to marketing, management, finance, and technology and government support aspects.

The Conceptual Framework

Conceptual framework means that concepts that relate to one another were used to explain the research problem. Since business performance is influenced by both internal and contextual factors, operators need to understand what influences businesses to reach peak development and survival. The contextual factors include, government, management, marketing, financial and technology factors. Nevertheless, the factors must be closely monitored to ensure that stringent measures are taken within the best time to either take advantage of the opportunities or combat the threats found in the business environment. To align the conceptual framework with the research objectives, business development and survival is the dependent variable whereas government, management, marketing, financial and technological, factors are all independent variables.

Figure 1: *Conceptual model*



Source: Developed based on existing literatures

Methods and Materials

Sampling method the official definition of micro and small enterprises (i.e. having 10 workers or less) was adopted, including street vending and “gulits”. The major micro and small enterprise activities were identified on the basis of information from previous surveys, reconnaissance survey conducted by the principal researchers, and a pilot survey (in which the coordinator, supervisors and some of the enumerators were also involved). Then, a sample of 125 micro and small enterprises was selected which, in the absence of MSE list by town, was distributed. The questionnaire was refined and finalized based on inputs from the pilot survey, which was then administered to the sample MSEs. Completed questionnaires were checked for errors and inconsistencies at two levels:

First, supervisors in each cite were made to thoroughly check every questionnaire immediately after completion and those with errors returned to the enumerators for correction. The second check involved a data analyst. Unlike previous MSE studies and surveys in Ethiopia (including the CSA surveys cited above), the present study included highly detailed questions related to various aspects of MSEs, thereby generating data that permits in-depth analysis of many MSE related issues so as to under-pin evidence-based policy making. The survey instrument (structured questionnaire) included questions related to background of the owner and history of the enterprise; finance; marketing; business development services (BDS); product improvement/change; rules/regulations; and infrastructure issues; as well as relationships with suppliers and clients.

Validity and Reliability

Validity is the degree to which a measure accurately represents what it is supposed to .It is concerned with how well the concept is defined by the measure(s). Therefore this study tried to addresses validity through the review of literature and adapting instruments used in previous research. On the other hand Reliability is concerned with the internal consistency of the items. Hair et al. (2007) defined reliability as the extents to which a variable or a set of variable is consistent in what it is extended to measure. As the current study uses multiple items in all variables, internal consistency analysis was carried out through Cranach alpha reliability tests. Duffy, Duffy, and Kilbourne (2001) asserted, Cronbach’s α measure the consistency with which participants answers items within a scale. Duffy et al. (2001) further stated, a high α (greater than .60) indicates that the items within a scale are measuring the same Construct. SPSS version 20 used to produce the values for Cronbach’s α . The results of the reliability analysis are presented in below table. Based on the results of the reliability analysis, one can conclude that the items are internal consistence.

Table 1 Reliability Test

Scale	NO of items	Alpha value
Marketing related constraints	10	0 .774
Management Constraints	8	0 .742
Finance constraints	10	0 .802
Government Constraints	8	0.736
Technological Changes	8	0.712
Developments	8	0.848

Results and Discussions

This section presents the analysis, discussion and inferences made on the basis of the responses obtained. All the

data were coded and entered in to SPSS version 20.0 and inferences were made based on the statistical results. The research instrument used in the study was survey questionnaire. The location of the study was Woliso zone Sebeta hawas woreda. The study population comprised MSEs operating privately and cooperatively which in total registered enterprise of 634.

For the purpose of this study Stratified sampling followed by simple random sampling technique is used to get information from different sectors of the MSEs. From 6 strata of 634 enterprises the researcher selected 125 based on Carvalho (1984) sample size determination method.

Sector of respondents engaged

Table 2 sector of respondents engaged

	Frequency	Percent	Valid Percent	Cumulative Percent
Construction	23	19.2	19.2	19.2
Hotel	12	10.0	10.0	29.2
Manufacturing	15	12.5	12.5	41.7
Services	30	25.0	25.0	66.7
Trade	32	26.7	26.7	93.3
Urban & Agriculture	8	6.7	6.7	100.0
Total	120	100.0	100.0	

(Source: Researcher's Survey)

As shown in figure above, the sample firms were operating in three sectors of the economy. Most of them are engaged in Trade (26.7 %) ,Service (25%) , Construction (19.2%),Manufacturing (12.5%),Hotel (10%) and Urban Agriculture(6.7%), This division of MSEs by sector type was believed to be helpful to study each sector critical factors that affect the development and survival of MSEs. This is because firms in different sectors of the economy face different types of problems. That means the degree of those critical factors which affect one sector may differ for other sector.

Table 3 Major source initial capital

	Frequency	Percent	Valid Percent	Cumulative Percent
Personal saving	37	30.8	30.8	30.8
Micro finance	32	26.7	26.7	57.5
Friends and relatives	24	20.0	20.0	77.5
Ekuiib	15	12.5	12.5	90.0
Ngo's	9	7.5	7.5	97.5
Bank	3	2.5	2.5	100.0
Total	120	100.0	100.0	

(Source: Researcher's Survey)

Respondents were asked to identify their foremost source of initial capital during the establishment of the business and concerning this, as shown on Table 3, the main source of initial capital for 37(30.8 percent) MSEs' to start their business is personal saving. For others the key source of finance to start their businesses is micro finance for 32(36.7 percent), friends and relatives was others source for 24(20 percent) respondents. An informal institution such as Ekuib was the main source of initial capital for 15(12.5 percent) individuals and NGO was the major initial capital for 9(7.5 percent) individuals.

This implies the main source of finance for MSEs in Sebeta Hawas is personal saving. Previous studies By (Etsegenet, 2000; Tegegne & Mulat, 2005; Mulu, 2007) show that informal financial source, especially personal saving and loan/assistances from relatives or friends are a major source of initial capital about 75% of their sampled MSE operators. Also this study supports that many of MSEs' chief source of initial capital is personal saving and followed by borrowing from financial institution for those can fulfil the requirements.

Regression Analysis Assumption

The regression analysis was conducted to know by how much the independent variable explains the dependent variable. Before we go to in detail of multiple regression assumption of multivariate normal distribution, independence of errors, and equality of variance were first tested. This study involves a relatively large sample (125 Enterprises) and therefore, the Central Limit Theorem could be applied and hence there is no question on normality of the data. Two major methods were utilized in order to determine the presence of multicollinearity among independent variables in this study. These methodologies involved calculation of both a Tolerance test and Variance Inflation Factor (VIF) (Kleinbaum & Klein, 2002). The results of these analyzes are shows as all predictors VIF is below 10 and none of the Tolerance levels is < or equal to .01. Multicollinearity was not a concern with this data set as confirmed by the main effect regression models.

According to Andy Field (2009) the acceptable Durbin – Watson range is between 1.5 and 2.5. In this analysis

Durbin – Watson values are ranges from 1.823 to 2.133, which are between the acceptable ranges, show that there was no auto correlation problems in the data used in this research. Thus, the measures selected for assessing independent variables in this study do not reach levels indicate of multicollinearity. Therefore, regression analysis of Predictors and Dependent variables was conducted and the results of the regression analysis are presented as following section.

Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among Predictor variables. The research used statistical package for social sciences (SPSS V 20) to code, enter and compute the measurements of the multiple regressions

Table 4. Multiple regressions.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig	
		.864 ^a	.746	.735	.68982	.000
Coefficients	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	Variable	B	Std. Error	B		
	(Constant)	.898	.242		3.708	.000
	Market	.369	.065	.403	5.669	.000
	Management	.348	.063	.332	4.904	.000
	Finance	.446	.078	.507	5.703	.000
	Government	.113	.056	.127	2.008	.047
	Technology	.088	.044	.109	1.986	.049

a. Predictors: (Constant), financial factors, marketing factors, management factors, Government and Technological factors.

The table 4 revealed that, the correlation between the observed value of development and survival and the optimal linear combination of the independent variables (marketing, finance, management, Government and technological) is 864^a as indicated by multiple R. Besides, given the R Square value of .746 and adjusted R square value of .735, it may be realized that 74.6 % of the variation in development and survival can be explained by the independent variables. The remaining 25.4% of the variance is explained by other variables not included in this study. The unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below.

Predicted Development and survival = .898 + .369 (Market) + .348 (Management) + .446 (Finance) + .113 (Government) + .088 (Technology)

Table 4 further shows that, all the explanatory variables included in this study can significantly explain at 95% 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. Thus, the largest influence on the development and survival of MSEs is from the finance factor (.446), Market factor (.369) and the next is Management (.348). On the other hand technology with the beta value of (.088) and Government factor with the beta value of (.113) are the poorest predictor of performance when it is compared with the other explanatory variables under study.

Conclusions and Recommendation

MSEs' operation is not affected much by competition even though the similar products are in the market from other small businesses since most of them are experiencing the same strength and limitations making them uniform rather than shining the as competitively advantaged over the other. Enterprises development is linked to a company's ability to motivate employees to innovate and moreover, to sustain growth, firms need to constantly respond to their customers' needs in novel and precise ways. From this it is possible to say that the problem of MEs growth is not the management style available in the enterprises.

Enterprise are uncertain by Market or price of their product and they perceive that high risk may rise in their business and decrease financial portfolio as a result of adverse movement in the market variables such as prices, currency exchange rates and interest rates. From this information it is possible to conclude that many MSEs are limited by their Owen perception. Government regulation and policy before and thereafter has not been very favorable to the small enterprise development and survival. Change of technology has posed a great challenge to small businesses.

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