

# Assessment on the Determinant Factors on the Performance of Micro and Small Enterprises: The Case of Hossana Town in Ethiopia

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## Abstract

This paper investigates assessment on the determinant factors on the performance of micro and small enterprises in Hossana town, in Ethiopia. The study used survey method using a structured questionnaire which was administered to 125 sample respondents. In order to accomplish the objectives of the study, independent variables and a dependent variable, performance of micro and small enterprises was discussed. This study includes five micro and small scale enterprises, from each strata owners or managers of the enterprise was taken for the study by using stratified and convenience sampling techniques. After the data collected, it was analyzed by using descriptive statistics like tables and graphs. Also multiple linear regression model was used. The findings show that experience, planning practice, record keeping practice, access to finance and access to raw materials (inputs), are positively and significantly determine the performance of micro and small scale enterprises so the concerned bodies should provide finance for enterprises and better to give training on how to prepare plan, how to keep good record, and how to manage over all work activities in the enterprise.

**Keywords:** determinants, micro and small enterprises and performance

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## 1. Introduction

In emergent countries, micro and small enterprises by advantage of their size, capital investment and their capacity to generate greater (ILO, 2008). The Ethiopian government has long recognized the important contribution that small and micro enterprises can make in poverty reduction, employment creation and private sector development. Due to these reasons and based on the government strategy of capacity building in public and private sectors, donors as well as national governments have attempted to promote micro and small enterprises through support for financial and non-financial services appropriate for them (Solomon, 2007). Habtamu and Nigusu (2013) distinguished MSEs do assist as a means of conveying economic transition by using the skill and the capacity of people without demanding high-level training, much capital and sophisticated technology. The 2014 Urban Employment Survey by the Central Statistical Agency (CSA), issued in October 2014, indicates that the urban unemployment in the country was 17.4%. Most studies less focused on factors that hinder the Performance of MSEs and fail to investigate different variables which may determine the performance of micro and small enterprises. For instance, the study conducted by Workneh (2007) with the objective of analyzing factors that hinder the performance of MSEs found that lack of capital, problem of business development services and inappropriate locations are still major problems of the sector Mokenen and Tilaye (2013) reported from their review of literatures on micro and small business performance there are some factors like lack of adequate finance, lack of working premise, lack of managerial and technical skill, lack of adequate market and lack of infrastructure affect the performance of micro and small enterprises. However, there may be other factors which determine the performance of MSEs which did not be studied by previous researches which in turn will determine their chance in the competitive business environment. The researcher's literature search shows that to date, very few researches has been conducted on the factors determine the performance of micro small enterprises in Ethiopia in general, and particularly in Hossana town. Thus, gaps exist with respect to understanding the problems facing MSEs in Hossana town. Therefore, the intent of this study is to assess the determinant factors on the performance of MSEs. Given the significance of MSEs to a nation's development in different ways, the researcher postulate the determinant factors of MSEs. Therefore, the purpose of this study was to assess the determinant factors on the performance of micro and small enterprises in Hossana town. objective of this research was to assess the determinant factors on the performance of micro and small enterprises in Hossana town. Significance of the Study Studying the possible factors that determine the performance of micro and small enterprises is significant for the following reason: First, given the importance of small business to a nation's economic growth, and also the role that small business plays in poverty reduction, this study postulates that an understanding of the factors determine performance of micro and small scale enterprises is important to manage and avoid the massive failure of small businesses. Secondly, it will be one

input to entrepreneurs, to alleviate the problems that affect entrepreneurs. Thirdly, from an academic perspective this study will contribute to the future development of this line of research, particularly in a developing country like Ethiopia, this study is significant value to researcher alike and findings from this study will assist academicians in broadening of the prospectus with respect to this study. Fourthly, the findings of this study will help MSEs in Hossana and others, within an insight into the benefits of using different determinant factors that affects the performance of MSEs. Also, the result of the research will provide relevant information to policy makers and local development planners working on the development of favorable environment for MSEs. Finally this researcher contributes to develop skills and interests in the case of similar research more specifically

## 2. Materials and methods

For this study explanatory survey research design was used with well-defined subject and conduct research to describe it accurately. The data was obtained from sample of managers or owners of the micro and small enterprise. Both primary and secondary sources of data were used for the study. Accordingly, from this total population the sample size was proposed by using the following sample size determination formula provided by Yamane (1967) by using 95% confidence level with the 5% precision. To select 125 respondents for the study, the stratified sampling technique was employed. For the case of this study micro and small enterprises which found in Hossana town was divided in to five groups or strata. From each stratum, samples was selected by using convenience sampling. Data was analyzed by using descriptive and inferential statistics. Regression analysis was used to test the hypotheses stated in this study regarding the performance of enterprises in relation to each of the independent variables of the study. Multicollinearity in regression occurs when predictor variables (independent variables) in the regression model are more highly correlated with other predictor variables than with the dependent variable. Hence, as necessary, tests for multicollinearity and heteroskedasticity were made. Tests for multicollinearity is done using variance inflation factor (VIF) Mugenda, (2003) define validity as the degree to which results obtained from the analysis of the data actually represents the phenomena under study. Orodho, (2005) defines validity as the degree to which empirical measure or several measure of a concept, accurately measures the concept. In this study each statement rated on a 5 point likert scale response which includes strongly agree, agree, undecided (average), disagree and strongly disagree. Based on this an internal consistency reliability test was conducted in 125 micro and small enterprise managers or owners. Cronbachs alpha is a reliability coefficient that indicates how well the items in a set are positively related to one another it is computed in terms of the average inters correlations among the items. On this study to increase the level of alpha the researcher tried to use data reduction by using SPSS software even if for some variables Cronbach's alpha is less than 0.7 this may be due to some respondent's carelessness in the time of filling questionnaire.

## 3. Results and discussion

The following tables summarize the demographic information of respondents by gender, marital status, age, educational level, income, work experience and family size of the respondents

Table 1. Gender of the respondents

Gender	Number	Percentage	t-value
Male	74	61.7	
Female	46	38.3	
<b>Total</b>	<b>120</b>	<b>100</b>	<b>-0.725</b>

As it is depicted in table 1, majority of the respondents or 74(61.7%) of the enterprise owners or managers are males and the remaining 46(38.3%) are females. This may show significant proportion of the participants in the micro and small enterprises are men. A t- test was conducted to examine whether there is a significant mean difference in performance of males and females. Accordingly the test result shows that there was no significant mean difference in performance between males and females managers or owners. The mean difference was insignificant with t- value of 0.725. (See appendix table 3).4.1.2. Age of the Respondents

Table 2. Age of the respondents

Age	Number	Percentage
20-25	36	30
26-31	40	33.3
32-37	25	20.8
38-43	14	11.6
Greater than 43	5	4
<b>Total</b>	<b>120</b>	<b>100</b>

The sample response shows that 40(33.3%) of the respondents are in age range between 26-31 followed by 36(30%) of the respondents whose their age range between 20-25, also 25(20.8%) of the respondents are within the age range of 32-37, 14(11.6%) of the respondents are within the age range of 38-42 and the remaining 5(4%) of the respondents age is greater than 42 years. From the above information we have seen that most of them are

26-31 age range.

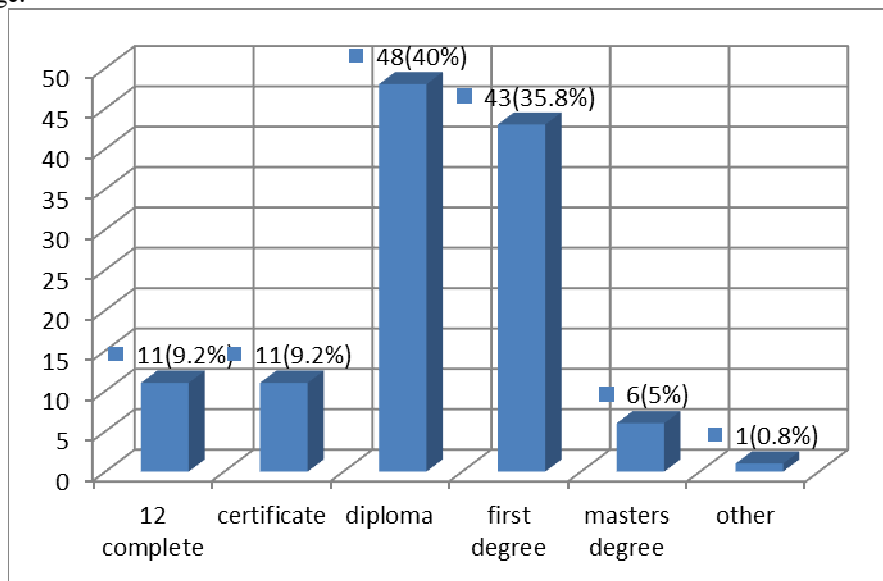


Figure 1. Education level of the respondents

When we see the educational level of the respondents, 48(40%) of the respondents are diploma holders, 43(35.8%) of the respondents have first degree, 11(9.2%) certificate holders, 11(9.2%) of the respondents are 12 complete, 6(5%) of the respondents have masters degree and the remaining 1(0.8%) are others. From this data we have seen that most of the micro and small enterprise managers or owners are diploma holders.

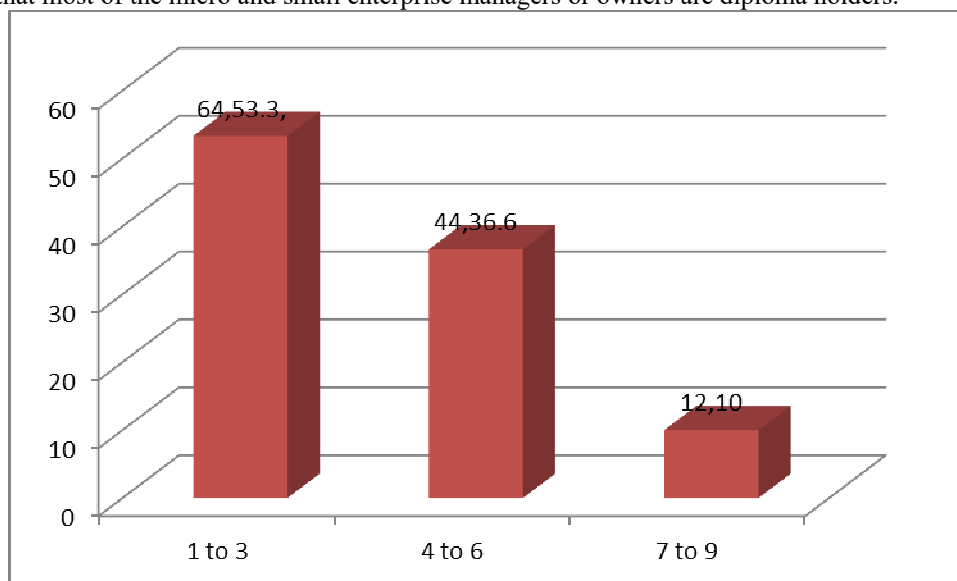


Figure 2. Experience of the respondents

With regard to the work experience of the respondents, the figure shows that majority of the respondents 64(57.5%) have 1-3 years of experience in their work, 44(36.7%) respondents have 4-6 year experience and 12(5.8%) respondents are 7-9 years of service in their enterprise. This shows that most of them have short time experience in their work. In addition to this, the regression output shows that, when the education level increases, the performance of the enterprise also increases.

As we can see from the above table, majority of the respondents 41 (34.1%) have no family, 36(30%) are 1-3 family size, 32(26.7%) are 4-6 family size and the remaining 11(9.2%) of the respondents have between 7-9 family size.

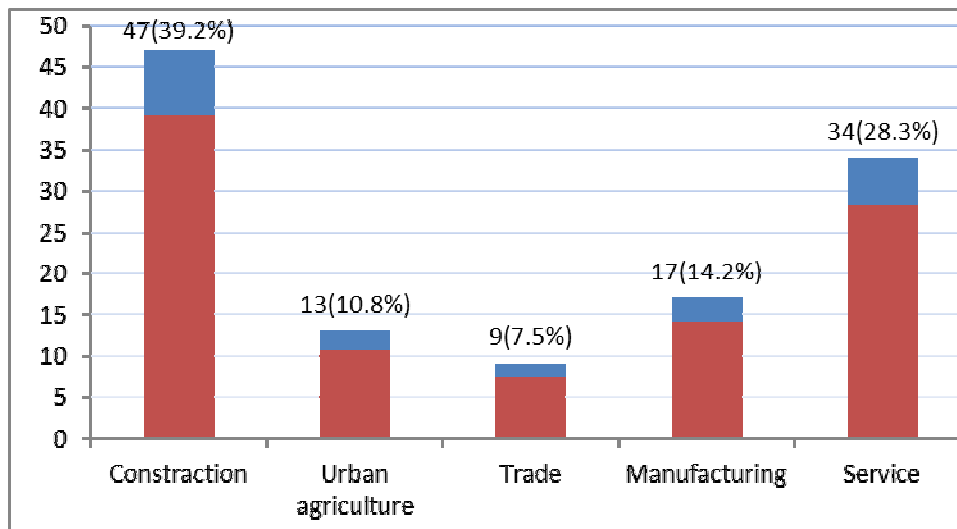


Figure 3. Type of enterprise respondents engaged.

As shown in the figure 5 above the majority of the respondents 47(39.2%) are engaged in the construction sector followed by service sector 34(28.3%). The manufacturing sector accounts 17(14.2%), urban agriculture accounts 13 (10.8%) of the respondents and the remaining 9(7.5%) of the respondents engaged in trade. From the above result we have seen that most respondents engaged in construction sector.

Table 3. Reason to start his specific Business

Reasons to start this business	Number	Percent
There is skill in this business	25	20.8
There are parents in this business	22	18.3
Consideration it would be profitable	45	37.5
Lack of other job	28	23.3
<b>Total</b>	<b>120</b>	<b>100</b>

Table3 above vividly shows that most of the respondents 45(37.5%) establish their own business for the reason that they consider it would be profitable in short period of time, 28(23.3%) of the respondents' start their business because of lack of other job, 25(20.8%) respond that they started this business due to skill in the area of the business and the remaining 22(18.3%) of the respondents establish their own business because there are parents in the business. This shows that most of the respondents or entrepreneurs establish their own business for the reason that they consider it would be profitable.

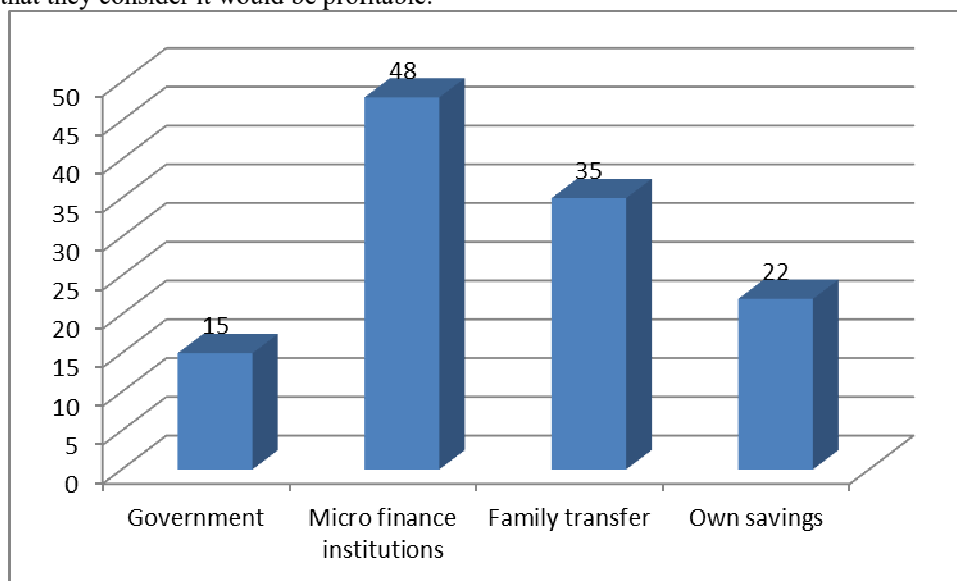


Figure 4. Source of startup capital

In the figure, above respondents were asked to identify their startup capital for their business 48(40%) of the respondents main source of start-up fund was micro finance institution, 35(29.2%) of the respondents respond that their business start up fund source is their family, 22(18.3%) of the respondents got their business capital from their own saving and 15(12.5%) get assistance from government. This implies that for the most

enterprises, micro finance institutions are the main source to start their business.

Table . Credit taken from individual or institution

Response	Number	Percent
Yes	51	42.5
No	69	57.5
<b>Total</b>	<b>120</b>	<b>100</b>

Table 4 indicates whether the enterprise taken credit from institution, 69(57.5%) of the respondents responded that they did not take any credit and the remaining 51(42.5%) of the respondents responded that they take credit from institutions. So most of the micro and small enterprises were not take credit but they run their business by family transfer, own savings and from other sources.

Table 5. Range of capital at start up and current level

Group	Observation	Mean	std. error	std. deviation	(95% confidence level)	
0	75	2.793	.057	.495	2.6792.907	
1	45	3.503	.095	.639	3.3113.695	
combined	120	3.059	.059	.650	2.942	3.177
difference	-.7103	.104			-.916	-.503

T calculated = -6.8083

A t- test was conducted to examine whether there is a significant mean difference in performance of members and non- members to cooperatives. Accordingly the test result shows that there is a significant mean difference in performance between members and non- members to cooperatives. The mean difference was significant with T- value of 6.8083. (See Appendix table 4).

Table 6. Overall level of performance of micro and small scale enterprises

Level of performance	Frequency	Percentage
1.2 – 1.7	3	2.5
1.8 – 2.3	20	16.7
2.4 – 2.9	27	22.5
3.0 – 3.5	43	35.8
Above 3.5	27	22.5
<b>Total</b>	<b>120</b>	<b>100</b>

Table 6 shows the overall performance of micro and small enterprises. The overall performance was measured by using a 5 point Likert scale ranging from ‘much more than expected’ to ‘much less than expected’ (5=much more than expected 4=more than expected 3=expected (average) 2=less than expected 1=much less than expected) was used to capture the response of the respondents. From the above response one can understand that 70(58.3%) of micro and small scale enterprises may perform more than they expect or average amount of performance and 50(41.7%) of the micro and small scale enterprises perform less than average amount of performance. This result shows that most of the micro and small enterprises are able to perform better.

Table 7. ANOVA test result

ANOVA <sup>a</sup>					
Model	Sum of squares	Df	Mean square	F	Sig
Regression	33.222	8	4.153	26.956	.000 <sup>b</sup>
Residual	17.100	111	.154		
<b>Total</b>	<b>50.322</b>	<b>119</b>			

a. Dependent Variable: performance

b. Predictors: (Constant), age, gender, Plan, experience, Access to raw mate, Recordkeeping. Education, Access to finance.

The ANOVA result in the above table shows that there is linear relationship between dependent variable (performance) and the set of independent variables. This means the model is adequate in explaining the relationship between independent and dependent variables. This is because overall P value of the model ( $p = 0.000 < 0.01$ ) shows the model is adequate at 1% level of significance.

Table 8. Result of multiple regression analysis

Model	Unstandardized coefficient	Standardized coefficient	t-value	Std. error	p-value
Constant	-.260	-	-1.025	.254	.307
Age	.023	.227	3.482	.007	.001
Gender	.055	.041	.702	.079	.484
Education level	.190	.296	4.957	.038	.000
Experience	.096	.283	4.747	.020	.000
Record keeping	.152	.202	3.352	.045	.001
Planning practice	.132	.186	3.184	.042	.002
Access to finance	.115	.159	2.471	.046	.015
Access of raw material	.112	.117	1.966	.057	.042
F statistics	F(8,111)= 26.956				0.000
R <sup>2</sup> (R <sup>2</sup> adj.)	0.660(0.636)				

Source: Own survey data 2020.

As shown in table, the coefficients of the regression forage (0.023,  $p < 0.01$ ). This shows there is significant relationship between age and performance of micro and small scale enterprises also it indicates that when the age of manager or owner of the enterprise increase by one year the performance of the enterprise increases by 0.023. From this result we can understand that younger micro and small scale enterprise starters have a lower performance than elders.

The other socio-demographic factor, gender is not significant at 1 percent and 5 percent level of significance and it is concluded there is no dependable pattern of relationship between gender of the owner or manager of the micro and small scale enterprises and their performance.

Other socio-demographic factor education level (0.190,  $p < 0.01$ ) is significant determinant to the performance of micro and small scale enterprises. When the education level increases the performance of the enterprises also increases. Likewise other study done by Rose, Kumar and Yen (2006), in their study of the 'Dynamics of Entrepreneurs Success Factors', reported that, higher education level helps the business owners to have better knowledge and skills which contribute to the success of their venture.

The regression output shows that experience of manager or owner of the enterprise (0.096,  $p < 0.01$ ), has a significant relationship with performance of micro and small scale enterprises. This clearly shows that when the experience increases by one year the performance will increase by 0.096. Hence the null hypothesis of the study which states that, there is difference in the management experience of the owner or managers of the business is accepted. Similar to this finding another study done by: O.Okpara (2011), on MSEs operating in Nigeria supports the argument that, lack of management experience of the small business owners is the other major reason to small business failure. As the findings of this study, most business owners who do not have management experience and adequate training and skills to operate a business faces a problem of collapse of their businesses.

The result additionally exhibited that the other factor influencing performance of micro and small enterprises is planning practice (0.132,  $p < 0.01$ ), the regression result clearly shows that there is significant and positive relationship with the performance of micro and small enterprise. The result of regression helps to accept the null hypothesis which states that there is significant relationship on the performance of enterprises in relation to the difference in planning practice of the enterprises. This shows that enterprises led by plan has more perform than which do not led by plan.

Other variable in this study is recordkeeping practice (0.152,  $p < 0.01$ ), as shown in the regression output it has positive and significant relationship with the performance of micro and small scale enterprises. Also the hypothesis states that there is significant relationship on the performance of enterprises in relation to the difference in using record keeping system so this hypothesis is supported. This may indicates that micro and small enterprises which handle recordkeeping are more perform than enterprises those do not keep record. Other finding in line with the study is done by Bowen (2009) observes that there is a strong relationship between business performance and the level of training in the business management especially in business finance record keeping.

The other variable in this study which is expected to create variation on the performance of enterprises is access to finance (0.115,  $p < 0.05$ ), shows there is significant relationship with performance of micro and small scale enterprises. Based on the regression result, the null hypothesis which states that there is significant relationship on the performance of enterprises in relation to the difference in access to finance is accepted. Micro and small enterprises which have access to finance can more perform than others. Similarly other study done by Nuno Santos (2003) financing is one of the crucial elements that determine the development of (MSEs) and necessary to help them to set up and expand their operations, develop new products, and invest in new staff or

production facilities.

The last variable in this study is access of raw material to the enterprise which is expected to create difference in the performance of enterprises. In this regard the regression analysis (0.012,  $p < 0.042$ ) shows there is significance difference between the performances of micro and small scale enterprises with access to raw material. Based on this result, the null hypothesis which states, there is significant relationship on the performance of enterprises in relation to access of raw materials is supported.

### Conclusion

Micro and small enterprises 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 equitable income distribution; activate competition; exploit niche markets; enhance productivity and technical change. Through the combination of all of these measures it stimulates economic development. However, their performances to realize the intended goals are not as expected due to variety of factors which hinder their activities in the business.

Based on the findings of this study, different factors were identified which determine the performance of micro and small enterprises in Hossana town. Lack of access to finance is crucial problem to micro and small enterprises. Finance needs MSEs to set up and expand their operations and build up new products. The finding of the study shows that there is no diverse access to finance for micro and small enterprises in the study area.

Also planning practice is one factor which affects the performance of micro and small enterprises. Even if the fact is majority of new businesses fail within a few years mostly due to simply to poor planning or no planning at all. On this study most enterprises have no plan for their operation. Many small businesses fail to keep adequate records this leads to major problems and quite possibly the closing of the business. The finding shows that keeping good record increases the chances of business survival and it will make them more aware of what is going on in their businesses and it will save their money. Many MSEs owners or managers are lack of managerial experience and low education level. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. Regarding determinant factors of performance of micro and small enterprises the regression result showed that age, education level of the owners or managers, management experience, planning practice, record keeping, and access to finance and access to raw material were the main factors determine the performance of micro and small enterprises. This means they are positively and significantly determine the performance of micro and small enterprise. But gender is insignificant to performance of micro and small enterprises in Hossana town.

Regarding the third objective about the effect of cooperative member ship the result of descriptive analysis shows that enterprises those members to cooperatives are obtain various advantages than non-members. Addition to this descriptive analysis result, the t-test analysis result shows that member to cooperatives perform more than non-members.

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