

Performance of Micro Enterprise and Its Determinant Factors: The Case of Angacha Town, Kat Zone, Ethiopia

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Abstract

This study examines the performance of microenterprises and factors that affects microenterprises in Angacha town KAT Zone. This study also inspect the cost and benefit ratio of micro enterprise as related to financial flow and its management to measure the performance and identified the factors that influence the performance of micro enterprise in Angacha town. All 40 micro enterprises from two sub-towns of Angacha were included in the study and key informants from relevant government office were interviewed to collect necessary data on enterprises performance and determinant factors. Descriptive analyses of the data were computed to assess various characteristics of micro enterprises in the study area. According to the result obtained from benefit cost ratio analysis 71.8% of enterprises found in the study area survived whereas 28.2% failed. In addition, a regression model was used to identify the determinant factors that affected the performance of the enterprises. The results of the regression analysis showed that age of enterprises, age of operators, education level, number of employees, amount of initial capital, entrepreneurial skill, experience of manager, access to training and access to market were statistically significant at less than 1% significance level and had positive relationship with the performance of enterprises. Recommendations emanating from the study are to build up the performance of micro enterprises not only to survive in the business but also to transform into small, medium and higher level of enterprises. To improve the performance of enterprises beyond the impact of challengeable constraints, all concerned bodies should give high attention to update and initiate entrepreneurial skill by applying innovative training, ensure experience and best practice sharing system, allocate sufficient capital, upgrade education level attained and create alternative market demand, monitoring and evaluation of all benefit generated and costs incurred as well as effective utilization of employees to ensure successful operational performance of the enterprises.

Keywords: performance, determinant, factors .level of intensity, Benefit cost ratio,.

1. INTRODUCTION

1.1. Background of the Study

It is widely recognized that at all levels of development small and medium-sized enterprises have a significant role to play in economic development in general and in industrial d development in particular. The contribution of micro enterprises to economic development, income generation and poverty alleviation is widely recognized (ILO, 2007).

Small and microenterprises have been discovered to be a key driver for a country's economic growth. Small and microenterprises help to create employment and are often seen as very important for the growth and innovation of dynamic economies. The micro enterprise sector is particularly important for low-income, poor and women groups. In Ethiopia, like in any other developing countries, medium and large-scale manufacturing or service giving sectors due to state bureaucracies could not create enough jobs to absorb the ever increasing labor force, especially in urban areas. In such situations, micro enterprises may be reported to be source of livelihood for poor and unemployed people in both urban and rural areas (Fantahun, 2004).

Micro enterprises are critical potential role in economic growth as well as poverty reduction and economic improvement of the any country. The usefulness of such interference however, depends on identifying the key problems of the potentially successful entrepreneurs. The study was been assessing the determinants and its factors of micro enterprises in study area.

1.2. Statement of the Problem

In Ethiopia, years have elapsed since micro enterprises were recognized as an important area of intervention by the private sector to curb the socioeconomic problems. Other than the fast population growth, the inability of the economy to generate sufficient employment opportunities and low productivity, low skills of the working poor, including those operating in smallholder agriculture and the informal economy contribute to the high incidence of poverty and ever increasing unemployment problems. Due to the growing labor supply and limited formal employment opportunities, there is a lot of interest in building the capacity of the informal economy that employees a significant portion of the labor force (Decent Work Country Programmed Ethiopia, 2009).

Small and microenterprises support and development space that sought to bring to the fore the challenges, dynamics and funding issues faced by small enterprises. The challenges further include unfavorable legal and regulatory environments, in some cases, unfair rigid practices, not have of access to markets, finance, business

information, lack of business premises at appropriate rent machine or land , low ability to acquire skills and managerial expertise, low access to appropriate technology and poor access to quality business infrastructure. This study, the effort would be to assess the determinates of micro enterprises and identify the factors affecting the of micro enterprises in Angecha town.

1.3. Objectives of the Study

The general objective of this study was to assess the determinant and its factors affecting the performance of micro enterprises in Angecha town Kembata Tembaro (KT) Zone.

The specific objectives are:-

1. To identify the determinates of micro enterprises in the study area
2. To identify factors affecting micro enterprises in the study area

2. RESEARCH METHODOLOGY

2.1. Research Design

Descriptive survey and both qualitative and quantitative techniques for data collection were employed.

2.2. Description of the Study Area

The Kembata Tembaro (KT) zone is one of the zones in SNNPR. The zone covers a total area of 1523.6 sq. km. and for administrative purpose it is divided 7 woredas. Durame, Administrative center of Kembata Tambaro Zone is located at a distance of about 350 km away from Addis Ababa. Angacha Woreda is found in Kembata Tembaro Zone with a distance of 157 km from south of Hawassa, capital city of the region.

2.3. Sample size and Sampling techniques

In this research paper, it would be tried to use relevant information to gather necessary data regarding the study of determinant of micro enterprise and its factors in Angecha town. The total enterprises in the study area they participate in different goods and service activities would be 145.

Sectors and activities of micro enterprises

	Sectors of MEs	Activities of MEs	Number of MEs	Sample size
1	Construction	coble stone and concrete brick	51	$0.35*51=17$
2	Manufacturing	garment, handcraft, metal and wood work	48	$0.33*48=15$
3	Urban agriculture	seedling, fruit and vegetable plantation	26	$0.17*26=5$
4	Service	beauty salon, shoe-shining, car washing and road cleaning	14	$0.09*14=2$
5	Trade	tea and coffee trade	6	$0.04*6=1$
Total			145	40

Source: Angecha town micro and small enterprise development office (2016/17)

2.4. Source of Data and Data Collection Method

The major sources of data for the study will be from both primary and secondary.

2.5. Method of Data Analysis

The study's method of data analysis would descriptive and inferential. The researcher may use the responses from the closed ended questionnaire compared for the frequency distribution and will be tabulated in terms of percentage. The responses from interview, open ended questionnaires, observations and document analysis will be summarized and finally generalizations will be made based on the result of the study.

3. DATA ANALYSIS AND INTERPRETATION

3.1. Descriptive Results

This study was intended to determinant and its factors affecting the performance of micro enterprises in Angecha town Kembata Tembaro (KT) Zone. study area Angacha woreda as well as to know the effect of hypothesized independent variables on the dependent variables. In this section of analyses descriptive statistics such as mean standard deviation, percentage, t-test and chi-square test will be employed.

Socio-demographics characteristics of Sample households

Questionnaires were distributed out of this 40 were collected. About 70% and 30% of were male and female respectively .This indicates that there was almost the participation of women was less than men in micro enterprises operating in Angecha town.

Table 1. Show the sex of the respondent

Sex	Number of respondent	Percentage
Male	28	70%
Female	12	30%
Total	=40	100%

Source: Survey data (2016)

Table 2. Education and age of the sample respondent

No	Variable	Respondents		χ^2
		No	%	
1.	Educational level	Frequency	Percentage	43.04***
	Illiterate	3	7.5%	
	1-8 grade	9	22.5%	
	9-12 grade	25	62.5%	
	Certificate	2	5%	
2.	Age of respondent			18.13***
	18-20	6	22.5%	
	21-35	23	65%	
	36-50	9	12.5%	
	51-65	3	0	

*** Significant at 1 percent. Source: - Own survey

Regarding the age of the respondents most of entrepreneurs (65%) were included in the sample were under the age group of 21-35, 12.5% were in between 36-50, and 22.5% were in between 18-20 age group (Table2). This shows that more than half of the micro enterprises in Angecha town were run by the youth and the majority of the respondents are found on the age of productive. About 62.5% of the micro enterprise attained grades 9-12 (high school level), 22.5% attained 1-8 (elementary level of education), 5% had certificate level of educational background and 2.5% of the respondents have upgraded their educational status up to diploma level (Table 4.3). This shows that the majority of entrepreneurs have attained high school education and this most workers are found in high school level of educational.

4.2. Characteristics of Micro Enterprises

The study identified the following five basic characteristics of micro enterprises exhibited in the operations of their business including duration of time the enterprises stay in the business, length of time' stay in the enterprises, number of employees in the enterprises, the type sector of the enterprise and entrepreneurial skill of the operators in the enterprises.

Table 3: The duration of time the enterprises stay in the business

Age of MEs	Frequency	Percentage (%)
1-2 years	24	60%
3-4 years	10	25 %
5-6years	4	10%
7-8years	2	5%
Total	40	100%

Source: Survey data (2016)

Basic business information

a. What makes you start business in Angecha town?

Question	Number of respondent	Percent %
What makes you start business in Angecha town		
Market opportunity	18	45.76%
Governmental encouragement	14	33.89%
Availability of raw material	8	20.34%
Only for moral satisfaction	0	0
Total	40	100%

Source: Survey data (2016)

The above table showed that numbers of respondent and their relative percentage for motivational factors to start business.

Form table we can see that about 45.76% (18) of the respondent have started business by looking market opportunities while 33.89%(14) from total sample population have started business by availability of raw

material about 20.34%(12) respondents start their business by government encouragement .to start up a venture the firm need market access for its product availability raw material, support from family social and government information and advice. From the above table it is possible to conclude majority of Micro and small enterprise in Angecha town entered in to the business looking of high market government support, and availability of raw material respectively.

As if is show in the above graphical representation most of the respondent initial capital is range from 1000-5000. Which cover around 20.34(12) of the total population ,followed by capital range between 10,000-20,000 and 300,001 cover the same percentage of 22.22%(20)the remaining 14.48%(4)respondent and 1.45%(3)covers initial startup capital of 5001-10,000 and 20.001-30,000 respectively

In Ethiopia the business with capital of less than 500,000 birr categorized under small business generally the initial capital of micro growth and expansion, since the level of their business capital town is limited to be extent of their initial capital.

Response	Total population	Percentage %
Merchandise	21	52.5%
Construction	6	15%
Urban agriculture	6	15%
Service delivery	5	12.5%
Others	2	5%
total	40	100%

Source: Survey data (2016)

Table shows the types of business that the respondent is running

The assessment that is made on the number and types of business that the respondent are currently running are current running directly dependent on the sample size that the researcher is driven as it is shown in the above table the majority of respondents are engage in merchandise type of business which constitute 52.5%(21)service is another business sector that constitute 5%(2)next to merchandise ,the remaining industry urban agriculture construction and service delivery sector constituting 15%(6), 15%(6) and 12.5%(5),respectively. According to bridge ONeil and Crome (2003) small business are owned by one person or by small group of people and managed by their owners who with all management issue usually with little other help.

This show that absence of managerial skill is the major bottleneck of micro and small enterprise in Angecha town .The problem further results in Misallocation of resources .failure to resource conflict between workers, failure to know the internal strength and weakness and also external opportunities and thereat of the business and etc. which restricts the growth and expansion of the business indirectly.

b. Challenge for growth of micro and small enterprise in Angecha town

Question	Respondent	
	Number	Percentage
What challenges you face while running your business in Angecha town		
•financial problem	24	60%
•Market availability		
•Lack of infrastructure		
•Lack of access to market	16	40 %
•Government action		
Total	40	100%

Source: Survey data (2016)

The above table shows challenge of Micro and small enterprise

Based on the above respondent provides it is possible to inter that the most severe problem that Micro and small enterprise have faced while running their business where financial problem which account 60% (24) followed by market access which constitute 40 %(16) form the total respondents. According to Balu (2000) small business face problem in which they operate in addition to the above like shortage of raw material in adequate finance out date method of production lack of managerial skills and computation from large scale enterprises and others. Finally the great problem regarding financial problems and market unavailability that hinder growth and expansion Micro and small enterprise in Angecha town

c. Data presentation whether the sector get an opportunity of training or not

Response	Total population	Percentage
Yes	19	48%
No	21	52%
Total	40	100%

Source: Survey data (2016)

The above table shows the respondent opportunity of training

The number of relevant training program made a variable to Micro and small enterprise in Angecha town have been very minimal .As it is show in the above table only 48%(19)of the total respondents get an opportunity of training ,The remaining which is the largest percentage 52%(21)of the respondent are no getting an opportunity of training . The general lack of awareness about the spread of an already existing facility and what they offer to small enterprise sector or those interested in a business career constitute one of the major or short coming of the whole training program.

d. Growth level of respondents business

Response	Total population	Percentage
High	6	15%
Moderate	14	35%
Slow	20	50%
Total	40	100%

Source: Survey data (2016)

The above table shows the level of micro and small enterprise growth in Angecha town

As it is depicted in the table around 50 % (20)of the Micro and small enterprise in Angecha town shows slow rate of growth level which is followed by moderate growth level account for 35% ,(14%)of the total respondents. The remaining 15% (6) of the respondents replies that their business growth level fast .The shows that most of the Micro and small enterprise in the woreda are not growing at an expected rate. The respondents are also asked the main reason for show and stagnant growth level of their business and they mention major problem like. Such as Lack of access to market, lack of startup capital, lack of training on low to raise the growth level of their business and lack of skilled manager.

e. Data presentation on access to credit and source

Respondent	Total population	Percentage
Yes	19	48%
No	21	52%
Total	40	100%
Source of credit it		
bank	14	35%
Small saving and credit association	21	52 %
Interested individual who give loan	5	13%
total	40	100%

Source: Survey data (2016)

Table. Show responses on access to credit and source of credit

As it is indicated in the above 52% (21) of the respondents does not have an access to credit and only 48% (19) of the respondents have an access to credit from those respondents having an access 52%(21) get the access from small saving and credit association which is followed by those respondents who get an access from bank accounting for 35% (14) the remaining 13%(5) are from interested individual who give loan..In order to supplement the institutional finance. Generally form the above we conclude that Micro and small enterprise in Angecha town cites lack of access to credit as greatest constraints to their growth and expansion whether they are formally established or not. The financial need of different types of business is also very with access problem particularly server for the start up enter price.

F. Response on access to Market

Response	Total population	Percentage
Yes	17	42.5%
No	23	57.5%
Total	40	100%

Source: Survey data (2016)

The above table shows the response on access to market

In a free market economy especially with stiff competition marketing is a key factors for the successes of micro and small enterprise .As stated on the above table 42.5%(17) of the respondents in the access to market .This shows that sector are facing a serious problem related to its access to market .The respondents are asked to mention some of the contributing factors for the problem and they cite problem like

- ❖ The area in which most of Micro and small enterprise operations undertaken their business activity is not found in the center of the market.
- ❖ The customer is not information centers which furnish market related information in such area as information in such area as information on price, source of input existing and potential market customer need and etc.
- ❖ Lake of adequate marketing channel through which they could market their Output and etcsome

of the factor.

Generally geopolitical location of the town is attractive for different business expansion so conducting appropriate research about market demand of micro and small enterprise may lead to market success of the sector.

G. Natural of competition in micro and small enterprise

Response	Total population	Percentage
Yes	33	82.5%
No	7	17.5%
total	40	100%

Source: Survey data (2016)

The above table shows response on the nature of competition.

In our local one might identify on similar business opens just at their business ideas. As it stated in the above table 82.5% (33), of the mist operators responds that their business face a sever complication on the market and only 17.5% (7), of the sector operator business are free from these problems. Respondent are also asked their major competitors majority of their competitor arise from domestic which constitutes 82.5 % (33) remaining 17.5 % (7) account for foreign competitors. From this what was concluded are most of micro and small enterprise in Angecha town face great completion in the town and their majority of competitors are dominated by the domestic competitors.

H. NATURE OF PROMOTION

Response	Total population	Percentage
Yes	5	32.20%
No	35	67.80%
Total	40	100%
Main reason for lack of promotion		
Lack of finance	20	50.85%
Lack of skill	11	28.81%
Others	9	20.34%
Total	40	100%

Source: Survey data (2016)

The above table shows the response on promotion and their major problem.

As it is be live that there are many users of small business product and services who would buy if they knew about them most of the time .The quality quantity and price would suit the need of many and potential supplies would also be willing and able of provide what is required but neither side is aware of the existing possibilities.

According to the investigation made 67.80% (35) of the total population responds that they didn't made any promotional practice to their products and services only 32.20 % (5) of the respondents make promotion about their products and services and they replied that lack of finance and lack of necessary skills are their main problem .which constitute about 50.85%(20) and 28.81%(11) respectively. The remaining 24.34 % (9) is other problem like lack of access to media to get at low cost in their closer areas.

I.Data presentation on government support for small business

Response	Total population	Parentage
Yes	20	50%
No	20	50%
Total	40	100%

Source: Survey data (2016)

The above table shows government Support in Micro and small enterprise

As it can be seen from the above table from total population, 50 % (20) responds that government support their business running and the remaining 50 % (20) is accounted for those respondents who responds the government does not support their business. The respondent are also asked what type of support government provides to them .some of them are reducing tax, encouraging the sector to start by providing lands market advantage and loan availability. Generally the support of government in worda toward the sector is less, for success fullness of business, it needs support from different part internally and externally, beside this government support is the essential one.

j. Data presentation of governed action

Response	Total population	Percentage
Yes	15	37.5%
No	25	62.5%
Total	40	100%

Source: Survey data (2016)

The above table shows the natural of government action

The government support some business by reducing tax, crating available market place rewarding business by provide better for development of the country . In this study 37.5% (15) of the respondent claimed that government activities influence their business and 62.5% (25) respondent that there is no government activity which affect their operation. Respondent are also asked to mention some of the problem and they cite problem such as bureaucratic process to get license .The mandatory requirement of 10 individual to form one group also affect their operatio

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

This study was undertaken to assess the performance of micro and small enterprises and factors that affect the performance of enterprises in Angecha town. The study was mainly based on the operators of micro enterprises from all sectors of micro enterprise in Angecha town. Accordingly, 40 micro enterprises and 6 key informants were included in the study. The study measured the performance of enterprises in terms of benefit cost ratio using which survived and failed micro enterprises were identified. A statically analysis was applied with benefit (performance) as the dependent variable and age of the enterprise, age of the entrepreneurs, education level, number of employees, amount of initial capital, entrepreneurial skill, experience of the manager, access to training and access to market as independent variables. The results showed that all variables were had positive relationship with the performance of enterprises.

5.2. Conclusion and Recommendations

Globally, there is an increased recognition of the important role played by micro enterprises in the economic development of a country. The role of micro enterprises in employment and income generation is increasingly recognized and has become a major playing field for policy makers and donors with dual objective of enhancing growth and alleviating poverty. However, their performances to realize the intended goals are not as expected due to variety of factors which hinder their activities in the business.

The good performance of micro enterprises in their filled of business was the result of generation of higher benefits from their business than costs incurred. As the findings of this study showed, more than one fourth of the enterprises found in the study area had bad performance when their performance were measured based on benefit cost ratio values of the enterprises. There are a number of constraints identified by this study which hinder the performance of micro enterprises. These include lack of entrepreneurial skill of the operators, low amount of initial capital to inter into the business, low experience of managers in overall managerial activity, low education level of the operators, limited access to training to initiate and capture knowledge, limited access to market to exchange their products and services, low age of enterprises stay in the business, low level attained age of operators and improper number of employees in the enterprises.

Administrative bodies should give high emphasis to facilitate basic requirement to promote start-up and expiation of enterprises which brings high job creation and sustainability of enterprises in the business. Preparation of different market exhibitions which help enterprises to get market access and market linkages for their products and services as well as share good habits of work among them that leads enterprises to sustain in the business is essential. Micro enterprises should take different trainings to initiate and upgrade their entrepreneurial and managerial skills. They should convert part of their profit into investment capital to expand business and should not withdraw working capital to pay for their debt to the lending institutions. They should also work hard to have market demand linkage for their products and services and arrange the number of employees in the enterprises according to the size and work load in the enterprises. Even if the majority of enterprises found in the study area currently survived and run their business, the survival status of the enterprises is the primary and necessary condition to exist in the business, but it is not sufficient and satisfactory condition to transform them into medium and higher level of enterprises. High level of performance builds the capacity of enterprises to attain the intended goals of tangible reduction of unemployment and poverty alleviation. Therefore, concerned government authorities should strengthen their efforts in such a manner that a continuous follow ups and backstopping of enterprises is ensured until they can stand by their own and grow to the next level.

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