

The Impact of Communication Strategies and Access to Finance on the Success of Small-scale Enterprises in Tabor Sub-city, Hawassa

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Abstract

The objective of this study is to investigate the impact of communication strategies and access to finance on the success of small-scale enterprises in Tabor sub-city in Hawassa of the Southern Nations, Nationalities and Peoples' Regional State. To this end, the authors have employed a mixed research approach. The target population of the study was small-scale enterprises in the sub-city. Samples of 122 small business owners were randomly taken from the total of 177 small business owners in the sub-city. Both primary and secondary data were collected for the study. Primary data were collected through structured questionnaire and direct personal interview small-scale business owners and head of the small-scale establishing government body. Secondary data were collected by reviewing related materials. Logit model was employed to analyze the data with Statistical software package for Social science version (23.0) to present the results of this study. The findings of this study showed that out of two explanatory variables incorporated in the model both variables (i.e. communication strategies and access to finance) were found to be fundamental determinants of the success of the small-scale enterprises in the sub-city. Finally, the findings of the study may inform policymakers about the determinants of success of small-scale enterprises in the sub-city, support them to formulate constructive policy and make decisions on these issues in order to achieve the goal of reducing unemployment rate and promoting the economic development of the country.

Keywords: Impact, success, Access to Finance, Communication strategies,

1. Introduction

Economists more recognized the role of small enterprises in creating employment and income generation with dual objectives of enhancing economic growth and sustainable development. They are the dependable source of employment by creating opportunities at relatively low capital cost (Kimiya, 2004). In addition, they play pivotal roles in poverty reduction, promoting import export business transactions of the country, replacing import with local production, income and employment generation as well as economic development of the countries. It is for this reason that recently economic policy shift toward the private sector using the role of small scale entrepreneurs as a corner stone for the development of large scale entrepreneurship at global level (Abdullah and Baker 2000).

With the above mentioned importance however; most of small business didn't succeed for a long period. A number of factors were listed by academicians for the failure of these enterprises like inaccessibility of formal credit for start up and expansion because of the difficulty of the requirements such as business plan, governance systems, collateral and other accountability issues which are related to business risk management (Mesfin, 2015, Berihanu and Mesfin, 2012 and Osotimehin et al., 2012), communication strength of inter-enterprise and between the enterprises, with research organizations, and government institutions (Mesfin, 2015), in adequate infrastructure, problem of over taxation and managerial skill as well as bureaucratic and corrupt personnel of government officials (McCrphon, 2001).

Few researchers such as Brehanu and Mesfin (2014), Gebrehiwot and Wolday (2006), Admasu (2012), Tsega (2014), Mohamed (2016), Mesfin (2015), and Dechasa (2017) have done the research on the topic related to factors affecting the success of MESs in Ethiopia, but to the knowledge of the researchers, no study incorporate communication strategy and use econometric model to test the factors in the area. Therefore; this study tries to fill the gap with the aim of investigating the impact of communication and finance on small business success in Tabor sub-city, Hawassa, SNNPRS, and Ethiopia.

2. Research Hypothesis

The paper answers the following research tentative statements:

H1: *Improved communication strategies has positive influence on success of Small business*

H2: *Access to external source of finance has positive impact on success of small scale business*

3. Literature review

3.1 Empirical review literature

According to Asama et al (2015) the factor that affect the success of small –scale enterprises can be classified as

external (political, legal, human resource capability, technological, infrastructural, marketing and access to external finance) and internal (Management Experience, Entrepreneur characteristics such as age, education and Industry Experience , Marketing skills. Record keeping and financial control, business communication strategies and Technological capacities of entrepreneurs).

3.2 External factors

External influences of small scale enterprise success are determinants of external business environment that management has no (little) control over them. According to Asma et al., (2015, 105-107) the small scale enterprises in developing countries were influenced by business environmental factors such as legal and regulatory framework i.e. unfair competition from the non-official sector, access to industrial real estate, bureaucracy in developing administrative and operational procedures to deal with the requirements of government regulations, such as costly and timely procedures to obtain licenses and permits, register property, and move collateral, Corruption, Tax System, Access to external Finance and Human Resources Capacities.

3.3 Internal factors

The internal factors include those variables that are specifically related to the owner of the small business (characteristics of the entrepreneurs). These encompass variables such as age of owner, education, management experience of owner, prior business and industry experience of owner, lack of training, lack of technological capabilities and marketing skills of the owner.

Education: People without any college education who start a business have a greater chance of failing than people with one or more years of college education

Age: Younger people who start a business have a greater chance of failing than older people starting a business.

Industry Experience of the owner: Businesses managed by people with prior industry experience have a greater chance of success than firms managed by people without prior industry experience.

Management Experience: Businesses managed by people with prior management experience have a greater chance of success than firms that are managed by people without prior management experience.

Marketing skill of entrepreneurs: Business owners without marketing skills have a greater chance of failure than owners with marketing skills (Fikirte, 2017: 10-11).

Besides Asma et al. (2015: 107-108) in addition to the serious business environment challenges to the success of small-scale business, it also influenced by the firm-specific factors such as entrepreneur characteristics, poor management competence, lack of skilled managers, deficiencies in marketing strategies, low efforts of R&D and low technological capacities are also prominent factors that determine the success of small scale business.

4. Methodology of the study

According to (Abiy et al., 2009) there are two research approaches. These are quantitative and qualitative research approaches. Quantitative research approach involves numerical or statistical data and emphasis on the quantifiable observations of the research. Whereas, qualitative research approach is an approach to gather non-numerical data in which words and observations are used to express the reality. In this study the authors employed both approaches to achieve the objective of the research.

In this research, the authors used both primary and secondary data. To collect primary data structured questionnaires and direct personal interview were used. The questionnaire was prepared in both Amharic and English languages that helps to reduce language understanding barriers by respondents.

Target population, Sampling Technique and Sample Size

According to Tabor sub-city of Hawassa small scale enterprise developing body first quarter report (October, 2017) there are 177 small scale enterprises in Tabor sub-city. The researchers have used this as target population of the study. To determine the sample size from total Entrepreneurs of the sub city, mathematical formula of Yamane (1967) was used by taking in to account the total population, the sampling error and the level of reliability. It is assumed that the sample would have 95% reliability about population and a sampling error was 5%. This simplest formula is:

$$n = N/1 + (e)^2 * N$$

Where N= study population, n = sample size and e = error margin

Accordingly, sample was first determined from total target population by formula as follow:

$$155 = 254 / 1 + (0.05)^2 * 254$$

Then randomly select sample from eight each area, the following formula of (Israel, 1992) was also used by the researcher and showed in the following table 2.1. This is:

$$nh = (Nh/Ns) * n$$

Where, nh = sample size from each activity, Nh = total population in each business activity, Ns = target

population and n = sample size from target population.

Table 4.1 Determination of sample size from each business activity by applying formula

Business Activity		Population in each sub-activity	Sample size	Strata from each activity
Service	Transport	2	(2/177) *122	1
	Café & Restaurant	91	(91/177) *122	64
	Tourism	4	(4/177) *122	3
	IT	3	(3/177) *122	2
Industry	Urban Agriculture	7	(7/177) *122	5
	Construction	43	(43/177) *122	30
	Manufacturing	26	(26/177) *122	18
Total		177	(177/177)	122

Source: Authors' design (2018)

Therefore, the maximum sample size from small scale business owners was 122 small -scale enterprises. The logic behind using cluster probability sampling technique to select sample form three clusters give equal chance to the all taxpayers three categories and to select representative sample for the study.

Econometric model development

Success of Small- scale Enterprise is a dependent variable, while Access to external source of Finance and having communication strategy are considered as independent variables. In this study, the dependent variable assumes values 0 and 1, which is 0 if the small business owner is a failure and 1 if the small business owner is Successful in doing business. Therefore, Success of Small- scale Enterprise is treated as dichotomous discrete variable and a non-continuous dependent variable that does not satisfy the assumptions in the linear regression analysis.

There are several methods to analyze the data involving binary outcomes. However, for this particular study, logit model was selected over other models because of its simplicity of calculation and that its probability lies between 0 and 1 (Gujarati, 1995), it is extremely flexible and easily used model from mathematical point of view and results in a meaningful interpretation (Hosmer and Lemeshew, 1989).

Logistic regression was developed by statistician David Cox in 1958. The binary logistic model is used to estimate the probability of a binary response based on one or more predictor or independent variables. It allows one to say that the presence of a risk factor increases the probability of a given outcome by a specific percentage. Since the dependent variable of the study (success in doing business) have binary/dichotomous outcomes (failure and success), the binomial logistic regression model was selected for this study to find the impact of Access to external source of finance and communication strategies on small- scale business success.

Dependent variable can be defined as whether small business owner had succeeded or not. Hence, if small business owner succeeded in doing business, value of dependent variable will be one and otherwise zero. The binomial logistic model is one of the sophisticated binary response models that overcome the limitations of the LPM. In a binary response model, interest lies primarily in the response probability: was developed by researchers as follow:

$$P(y = 1 | \mathbf{x}) = P(y = 1 | x_1, x_2, \dots, x_k) \dots\dots\dots (1)$$

Where, p(y = 1 | x) is the probability that y=1(success) given x(independent variable), y success in doing business and x denote the full set of explanatory variables such as access to external source of finance and business communication strategies that influence the success of small business.

To avoid the LPM limitations, let us consider a class of binary response models of the form:

$$P(y = 1 | \mathbf{x}) = G(\beta_0 + \beta_1 x_1 + \dots + \beta_k x_k) = G(\beta_0 + \mathbf{x}\beta) \dots\dots\dots (2)$$

Where, G is a function taking on values strictly between zero and one: 0 < G(z) < 1, for all real numbers z. This ensures that the estimated response probabilities are strictly between zero and one. We write $\mathbf{x}\beta = \beta_1 x_1 + \dots + \beta_k x_k$. Logistic function is nonlinear functions that are used for the function G in order to make sure that the probabilities are between zero and one. In the logit model, G is the logistic function which is between zero and one for all real numbers z. This is the cumulative distribution function for a standard logistic random variable:

$$G(z) = \exp(z) / [1 + \exp(z)] \dots\dots\dots (3)$$

Where, $Z = \mathbf{X}\beta = \beta_1 x_1 + \dots + \beta_k x_k$

$$\text{logit}(p) = b_0 + b_1 X_1 + b_2 X_2 + b_3 X_3 \dots b_k X_k + U \dots\dots\dots (4)$$

Where b0, b1, b2 and b3 where coefficients and X1, X2, X3.....Xk were independent variables incorporated in the model and U is error term. Logit(P) can be back transformed to p by the following formula:

- When one categorical variable and one independent variable is included:

$$P(Y) = \frac{1}{1 + e^{-(b_0 + b_1 x_1)}}$$

➤ When one categorical variable and several independent variables is included in the study:

$$P(Y) = \frac{e^{b_0 + b_1 x_1 + b_2 x_2 + \dots + b_n x_n}}{1 + e^{b_0 + b_1 x_1 + b_2 x_2 + \dots + b_n x_n}}$$

Where, P(Y) is probability of Y occurring, e is natural logarithm base ($e \approx 2.71828\dots$), b_0 is interception at y-axis, b_n is regression slope coefficient of X_n , and X_n is predictor or independent variable that predicts the probability of Y.

Since one categorical/dummy/binary dependent variable and eighteen independent variables are included in this study, the binomial logistic regression model of this study finally becomes:

$$P(Y) = \frac{e^{\beta_0 + \beta_1 ATF + \beta_2 CCS + U}}{1 + e^{\beta_0 + \beta_1 ATF + \beta_2 CCS + U}} \dots \dots \dots (5)$$

P(Y) denotes the probability of success (being successful in doing business, (ATF) access to finance and (CCS) communication strategies were two explanatory variable incorporated in the model and U error term. Logit model limits probabilities for values of dependent variable between 0 and 1. X_i denotes the independent variables that influence loan repayment performance of borrowers. β_0 and β_i , known as the parameters of the model, respectively, the intercept and slope coefficients. U is error term or the influence of exogenous variables that not incorporated in the model.

After accomplishment of data collection procedure, it should have classified as per each variable, the qualitative data was coded to be measured quantitatively. In this research data, were analyzed by descriptive statistics such as maximum and minimum values, average, correlation, frequency, percentage, variance and standard deviation, content analysis of interviewed data and inferential statistics (logistic regression) by the help of Software package for social Science version 23.0 in order to get the reliable finding.

5.Results and Discussion of Inferential statistics

5.1. Pearson correlation matrix for dependant and independent variables

Table 5.1: Pearson correlation matrix for dependant and independent variables

Variables	Correlation	SSS	ATF	CCS
SSS	Pearson Correlation	1.00	-.294**	-.239**
	Sig. (2-tailed)		0.001	0.008
	N	122	122	122
ATF	Pearson Correlation	-.294**	1.00	0.118
	Sig. (2-tailed)	0.001		0.195
	N	122	122	122
CCS	Pearson Correlation	-.239**	0.118	1.00
	Sig. (2-tailed)	0.008	0.195	
	N	122	122	122

** . Correlation is significant at the 0.01 level (2-tailed).

The table 4.5 shows the relationship between dependent variable (Success of small-scale enterprises in doing business (SSS) and independent variables. The result shows that (Access to Finance (ATF) and Having communication strategies (CCS) were found to be significantly correlated with Success of small-scale enterprises in doing business (SSS) at 1% significance level as Sig. (2-tailed) is less than 0.01).

Econometric Model Analysis and Results

Here, econometric analysis was undertaken in order to identify the impact of access to external finance and business communication strategies on success of small-enterprises in Tabor sub-city of Hawassa. The results of binary logistic model on impact of access to external source of finance and communication strategies were presented in the table 4.19. A total of 18 explanatory variables were incorporated in the binomial logistic regression (often referred to as logistic regression). All two variables (access to finance and communication strategies) were found to be significantly influence the probability of success in doing business at different significance level.

5.3 The Goodness-of-Fit Model

Table 5.2. Omnibus Tests of Model Coefficients

	Chi-square	Df	Sig.
Step	22.449	2	0.00
Step 1 Block	22.449	2	0.00
Model	22.449	2	0.00

Source: authors' computation (2018)

From above table 4.17. To test the measure of goodness of fit in logistic regression analysis, the chi-square was computed and showed that the model was significant at 1 percent significance level. Consequently, the null hypothesis stating the coefficients of independent variables to be equal to zero was rejected and the alternative hypothesis of non-zero slope was accepted. The value given in the Sig. column is the probability of obtaining the chi-square statistic given that the null hypothesis is true. In other words, this is the probability of obtaining this chi-square statistic (22.449) if there is in fact no effect of the independent variables, taken together, on the dependent variable. This is, of course, the p-value, which is compared to a critical value, perhaps .05 or .10 to determine if the overall model is statistically significant. In this case, the model is statistically significant because the p-value in the sig. column is less than 0.01 or 0.05 or 0.10.

5.4 The Goodness-of-Fit Model

Table 5.3. Classification table (A &B)

Classification (A) Table^{a,b}

Observed			Predicted		
			Success in doing business		Percentage Correct
			Failure	Success	
Step 0	Success	Failure	0	35	.0
		Success	0	87	100.0
Overall Percentage					71.3

a. Constant is included in the model.

b. The cut value is .500

Classification (B) Table^a

Observed			Predicted		
			Success in doing business		Percentage Correct
			Failure	Success	
Step 1	Success	Failure	13	22	37.1
		Success	9	78	89.7
Overall Percentage					74.6

Source: authors' own computation (2018)

In the classification table ^{a,b}, the probability of a correct prediction is 71.3 percent and in classification table ^a, the overall predictive accuracy is 74.6 percent. In addition, 89.7 percent in classification table ^a is also known as the sensitivity of prediction, whereas 50 percent is also known as the specificity of prediction. The fit is said to be good if the overall correct prediction rate exceeds 50 percent (Shewhart and Wilks, 2013). To characterize the model used for this study as useful, compare the overall percentage accuracy rate produced SPSS version 23.0 classification table at step"0" and at step"1". Accordingly, the result indicated that the overall accuracy rate computed by SPSS 23.0 version at step"0" was 71.3 percent and the accuracy rate computed by SPSS 23.0 version at step"1" was 74.6 percent were correctly predicted at the cut value of 0.5. Hence, the criteria for classification accuracy are satisfied. In this case, the fit of model is good as the overall correct prediction percentage (74.6 percent) is greater than 50 percent.

Binomial logistic regression estimates the probability of an event (in this case, being successful in doing business) occurring. If the estimated probability of the event occurring is greater than or equal to 0.5 (better than even chance), SPSS Statistics classifies the event as occurring (e.g., small-scale business owner being successful). If the probability is less than 0.5, SPSS Statistics classifies the event as not occurring (e.g., failure in doing business). The above table 4.22 has subscript which states, "The cut value is .500". This means that if the probability of a case being classified into the "successful" category is greater than .500, then that particular case is classified into the "successful" category. Otherwise, the case is classified as in the "failure" category.

Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	VAR00001(1)	1.213	.450	7.251	1	.007	3.362
	VAR00002(1)	1.539	.448	11.777	1	.001	4.659
	Constant	-.620	.389	2.534	1	.111	.538

a. Variable(s) entered on step 1: VAR00001, VAR00002.

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	123.790 ^a	.168	.241

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

5.5 Output of the model

Table 4.19. Results of the binomial logistic regression model

-2 Log likelihood = 123.790 ^a Cox & Snell R Square = 0.168 Nagelkerke R Square = 0.241						
Explanatory variables	B	S.E.	Wald	df	Sig.	Exp(B)
ATF	1.213	0.450	7.251	1	0.007	3.362
CCS	1.539	0.448	11.777	1	0.001	4.659
Constant	-0.620	0.389	2.534	1	0.111	0.538

Source: binomial logistic regression model output (2018)

Number of observation: 122 B=regression coefficient Exp (B) = odds ratio Sig. = significance, S.E. = Standard error, -2 Loglikelihood = 123.790^a Cox & Snell R Square = 0.168, Nagelkerke R Square = 0.241 * and ** indicate that the coefficients are statistically significant at 5% and 10% level respective

$$P(y=1) = \frac{e^{-0.620+1.213 ATF +1.539 CCS}}{1 + e^{-0.620+1.213 ATF +1.539 CCS}}$$

The result on Table 4.2 shows that the Cox and Snell R-square with a value of 0.168 implies that about 16.9 percent of the changes in successful in doing business (SSS) could only be explained by explanatory variables namely; that (Access to external source of finance (ATF) and Business communication strategies (CCS). While 83.1 percent of the changes in successful in doing business (SSS) could be explained by other exogenous factors. The Nagelkerke R-square of 241 percent tells us that the model as a whole is statistically significant.

Accordingly, the result of this study, shows access to external source of finance ($\beta=1.213$) has positive and significant relationship with success in doing business. Hence, hypothesis H1 is accepted. Even if access to finance positively influence the success of small –scale in Ethiopia, lack of access to finance has the reverse impact on their success business As per the interview has been conducted small- scale business owners’ representatives, the major challenges in access to finance for small business in Tabor sub-city were, collateral requirement, group requirement, lack of financial intermediaries, and access to information about the availability of the loan. This result is consistent with finding of other studies results (Firewoini, 2016; Haile Michael, 2014; Abraham et al, 2015; Harmilee S and Muhammad H, 2016) find out that, Lack of access to start up- capital financing on reasonable terms and conditions is probably the most serious constraint facing SMEs. Lack of suitable financing has been a major hindrance to the fast growth of business start-ups and to exploiting the full potential of existing business enterprises particularly SMEs. Thus, with regards to these challenges the main findings are; First, the accessibility of and efficiency of the financial intermediaries is very limited especially external finance source, and firm size determines in accessing finance for investment purpose.

With regarding to age impact of respondents the probability of having communication strategy ($\beta= 1.539$) is positive and statistically significant. Therefore, hypothesis H2 is accepted.

5 Conclusion

The aim of the study is to examine impact of access to finance and business communication strategies on success of small and micro enterprises in Tabor sub-city of Hawassa town. The issue of SME has been one of the top agendas of various policy makers and academics since 1990s in developing countries especially in Hawassa Tabor sub-city Sidama Zone, SNNPRS, Ethiopia due to their indispensable role in creating wide job opportunities, improving house hold income and well-being and boosting of national economy.

The descriptive findings of the study showed that SMEs in Tabor sub-city of Hawassa in Sidama zone had

significantly contributed to creation of new jobs for considerable youths and raising the yearly average incomes considerably but influenced by lack of access to finance and communication strategies in promoting their business. Majority of the study participants were youth who are believed to give bright future for the development of the sector and reduce youth unemployment. However, the representation of males in MSE's activities is more than that females, which reveals the prevalence of gender gap in the sectoral representation and balancing this gap and improving the participation of more females would have indispensable roles in benefiting females, bringing political, social and economic development of the society. Furthermore, the study had revealed that for SMEs operating in the study area a number of factors have been affecting their success, among those the major ones include lack of access to finance and absence of communication strategies.

According to Pearson correlation Matrix result access to external source of finance and having Business communication were significantly positively correlated with successful in doing business. Results of the Binary logistic regression analysis also suggested that compliance attitude is significantly influenced by access to external source of finance and Business communication strategies having sig or p-value of 0.007 and 0.001 respectively which is less than 0.05 level of significance.

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