Success Factors of Micro and Small Enterprises at Gamo Gofa Zone of Arbaminch Town at Ethiopia

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1.1 ABSTRACT:

The basic objective of this study is to analyze some key determinants of success among 189 sampled micro and small enterprises out of 280-targeted population at Arbaminch town. Proportions sampling formula were used and Questionnaire, interview, and document reading, were used to obtain the data. Two indicators, namely compound employment growth, and represent success. Data analysis was carried out using descriptive statistics and multi regression model. The descriptive part presents the stages of growth of MSEs using graphs based on the sector type and years of operation. Number of employees who took training based on the types of training given was also presented in this section. Moreover, the mean compound employment and capital growths of the enterprises in relation to various independent variables were computed. The regression result showed that success of micro and small enterprises measured by employment and capital growth is affected by a variety of factors.

From the compound employment growth, it was found that enterprise's initial size and years of operation are inversely related with success providing evidence that firms with smaller initial size and year of operation grow faster than firms with higher initial size and year of operations. In addition, there is statistically positive link among service sector, preparation of business plan, access to marketing information and involvement in social network and compound employment growth. Based on findings, recommendations to government bodies, to operators of MSEs and suggestions for future researchers are forwarded.

1.2 KEYWORDS: MSEs, Annual compound growth rate, Success

1.3 BACK GROUND OF THE STUDY:

Micro and small enterprises and development opportunity have very direct relationships. They require less capital and more labor. MSEs have the capacity to generate a much higher degree of employment opportunity with less capital as compared to large-scale sectors (st.Marry university college, 2006: 76-79). This indicates that MSEs are one of the key elements that contribute to the development of a nation.

According to Khrystyna et al (2010: 4), Formal MSMEs employ more than one-third of the global population, contributing around 33 percent of employment in developing economies. This shows the lion's share contribution of micro and small enterprises in alleviating the problem of unemployement.

Overall, the above discussion highlights the importance of MSEs to economic development and job creation.

Despite the mentioned fact above, the success of MSEs faces a number of constraint, that hinders its rapid growth and development, which ultimately reduce the weight of its potential contribution to the national economy. Such factors are entrepreneurial characteristics, absence of BDS, social linkages, marketing problems, and absences of proper business plan due to knowledge or other reasons (Gurmeet and Rakesh, 2008: 120-136 ;Beyene, 2007: 25-27 ;Linda and Robert, 1998: 10-12).

Small business in Ethiopia is no exception in this regard facing the mentioned challenges as reveled by researches conducted in various parts of the country.

As per the observation of the researcher in Arbaminch town, the growth status of these enterprises is not studied. It is also clear that the larger the number of the small-scale enterprises are the more likely to produce new jobs. In this respect, this study intends to identify the determinants of MSEs Success in Arbaminch town.

Moreover, as per the information obtained from the Gamo Gofa zone trade and industry reveled out of 288 enterprises registered in the town, only few MSEs graduated to the upper group making the dynamics possible and about 30.6% of them are totally stop trading. The lack of significant growth of MSEs Development in Arbaminch notwithstanding, numerous government support schemes that have been established in the past are worrisome.

Therefore, this study tried to analyze the relationship between the compound annual growth of current capitals (current employee) of the enterprises with identified independent factors that can affect the growth (success) of the current capital (current employee) through sector dimension analysis.

The study is worthy in identifying the growth status of the enterprises and analyzing the factors that affect the success of MSEs. So as to take appropriate measures by decision makers and contributes to the objective of national development.

1.4 STATEMENT OF THE PROBLEM:

Prior research documented that SMEs play a significant role in the economy of a country. Consequently, the performance of the SME sector is closely associated with the performance of the nation. There has been more written about small business growth in recent years than any other aspect of management. One of the main reasons is the contribution of expanding enterprises to economic development and unemployment reduction, which generally has attracted the attention of researchers and policy makers in many countries (Bernice. & Meredith, 1997 :37-64).

The current Ethiopian government considers MSEs as one of the core development strategies through which it believes to achieve social and economic prosperities for its citizens. Presently it is carrying out an intensive registration of the enterprises at national level the same is true at Arbaminch town. Nevertheless, the status of their operation is the basic question to be asked by the policy makers and researchers.

Very recent studies shows that MSEs in Ethiopia are constrained and failed to succeed by a number of factors (Washiun & Paul, 2011 :233-246; Gurmeet & Rakesh, 2008 :120-136) such as unfavorable legal and regulation condition, lack of access to market, poor access to quality business infrastructure, problems of raw materials and lack of working capital are among many factors.

Even though scholars note that, the safe way is to have comprehensive measures of success than relying on a single indicator in dealing with the success/growth of micro and small enterprises, studies (Gebreeyesus, 2009: 46; Solomon, 2004: 51) conducted so far in line with this issue give more emphasis to single measurement criteria of success/growth as methodology. and even special focus is given to the determinants of performance of manufacturing enterprise, but such assessment do not guarantee to conclude about determinant factors of success of MSEs in whole sector. In addition, though there are some studies, which directly or indirectly assessed the success/growth determinants of MSEs, they have reached to different conclusions for similar research issue for example concerning the effect of firm's initial size (Garoma, 2012: 177; Tiruneh, 2011: 12) which is necessitated to have further study. It implies that the studies conducted in other specific area do not guarantee to conclude about the picture of the rest parts of the world, especially at town level.

Furthermore, previous studies conducted in Ethiopia focused on the regional level and sub cities of Addis Ababa - Ethiopia. So that, this work contribute to fill the research gap of MSEs existed at zonal level and what factors mostly affecting at this micro level. In light of the above-mentioned fact, it is vital to investigate the factors that affect the success of micro and small enterprise in Arbaminch town. So that to find timely and the real success determinants of MSEs at the town and in dealing with success determinants

this study tries to answer the important question of why a few MSEs graduate to the upper level while others stay as start-up as mentioned in the background part.

1.5   REVIEW OF RELATED LITERATURE:

1.5.1 DEFINITIONS OF SUCCESS AND FAILURE OF MSES:

Small business success can be defined in many different ways. A study by Beaver and Jenning (1995) stated that the most commonly adopted definition of success is financial growth with adequate profits. The study concluded that being able to define success, whether generally or specifically, is not the same as explaining success. Other definitions of success are equally applicable. For example, some entrepreneurs regard success as the job satisfaction they derive from achieving desired goals.

1.5.2 CRITERIA FOR MEASURING THE SUCCESS AND FAILURE OF THE BUSINESS:

Three indicators, namely employment growth, turnover growth and profit growth, represent Success (garoma, 2012). This indicates the appropriateness of the growth of the enterprises to measure the success of the business.

According to Walker and Alan, (2004) Small business success can be measured by financial and non-financial criteria although the former has been given most attention in the literature. This implies that financial performance is the most widely used measures of business performances.

1.5.2 COMPOUND EMPLOYMENT GROWTH:

According to Solomon (2007) Micro and small enterprises offer both a safety valve for the survival of workers that is available to find steady wage employment and opportunity for the poor entrepreneurs to raise their capital and income. It is due to this main reason that the Ethiopian government have attempted to promote MSEs through support for financial and non-financial services appropriate for them. In plain English, this mean the successful expansion of MSEs and employment creation is inseparable. Hence, it is logical to consider the employment contribution of these enterprises to measure successs.

1.5.3 COMPOUND CAPITAL GROWTH:

This study prioritizes employment growth than capital growth. The main justification for relying on employment growth as an indicator of success is that use of other dimensions of success indicators will become more complicated when, for example, firms do not keep complete books of records. Consequently, it is in rare cases that a multiple set of success indicators are measured for a given data set or a particular study. The argument here is that these small firms easily recall the number of employees over time than their capital growth. Hence capital growth was included only as a supportive indicator of success.

1.5.4 FACTORS DETERMINING THE SUCCESS AND FAILURE OF MICRO AND SMALL ENTERPRISES:

- **GOVERNMENT ASSISTANCE IN TRAINING AND OTHER SERVICES:**

The importance of government assistance to small business success is reported in a number of studies. For instance, Yusuf (1995: 68-73) in his study on 220 small business entrepreneurs in the South Pacific region listed the most critical factors to enterprise success were good management, access to financing, personal qualities and satisfactory government support.

However, with reality of Ethiopia, particularly at regional level MSEs have little access to getting BDS (FeMSEDA, 2005/6: 34) .In line with this Belwal and Singh (2008: 120-136). Also noted that associated with limited government and institutional supports, most MSEs in Ethiopia fail to continue their operations. Hence, these shows that lack access to BDS are constraining the success of MSEs in Ethiopia mainly at regional level.

• ENTREPRENEURIAL CHARACTERISTICS:

There have been many research studies that evidenced the contribution of education to the success of MSEs. For example Bates (1995: 26-36) indicated success of a firm owned by educated owners are more likely. Cantuche et al (2010: 195) Also explained that education promoting entrepreneurship creativity, opportunity recognition besides to this it helps to raise awareness of firm's growth.(Saleem, 2011: 37-39; King, 2002: 74-76) reported positive and significant effects of owners education on the success of MSEs.

• LIMITED ACCESS TO BUSINESS DEVELOPMENT SERVICES:

Business Development Service which include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, business linkage promotion, and linkages to finance and financial services are designed to help micro, small, and medium-sized enterprises overcome barriers to increased profitability, by improving their productivity and access to high value markets. .However; since informal enterprises do not comply with government regulations, the majority of them have no access to business development services offered or coordinated by governments. Some of them are unaware that business development services are offered while others are ignorant to its worth (Endalkachew, 2008).

• MARKETING PROBLEMS:

The success/failures of MSEs are also constrained by marketing problem. As indicated by (Mead and Leidholm, 1998: 61-76) most of MSEs Set their market for low-income groups, this results in minor growth or failure in case of bad economic situations. Their bad performance will not guarantee the time of economic shocks that easily turn them to the road of failure.

Gurmeet and Rakesh (2008: 120-136) found that MSEs in Ethiopia are constrained by marketing problem. Their lack of entrepreneurial and management competency adding to low exposure, results in finding markets. Absences of market facilitate the failure rate.

• THE SECTOR:

Many empirical studies reveal that microenterprise success varies across sectors e.g., (Mead and Liedholm, 1998: 61-74; McPherson, 1995: 31-54; Liedholm, 2002: 227-242; Gebreeyesus, 2009: 46). For example, (Liedholm, 2002: 227-242) found, for selected African countries (Botswana, Kenya, Lesotho, Malawi, Swaziland, and Zimbabwe) that manufacturing and service sector performed significantly better (higher growth rate) compared to trading sector. What the above findings suggests that sector differences can contribute for the success of the enterprises.

• SOCIAL NETWORK:

Many research findings indicate the greater association between social network and the success of a business. For instance, researchers like (Granovetter, 1973: 1360-1380, Garoma, 2012: 177) contend that there is a positive and significant relationship between social networks and the success of or even survival of enterprises. Scholars (Renzulli et al, 2000: 523-547) also support this, according to them social networks help entrepreneurs from conception to growth. They argued that before starting any operation, a small enterprise sector operator is highly influenced by the surrounding friends, families, and ethnic groups to embark on a specific activity social cohesion and mutual support help firms to survive and learn their surroundings .from this it can be inferred that social network serves as crucial assets for firm's success/growth.

1.6 RESEARCH OBJECTIVES:

The overall objective of the study is to analyze the factors that affect the success of micro and small enterprises at Arbaminch based on the compound annual growth rate of employment and capital. The specific of this research are:

1. To evaluate the growth statuses of micro and small enterprises at Arbaminch town.
2. To investigate whether social networking have relationship with the success of MSEs.
3. To verify whether government-supporting services affects the success of MSEs.
4. To analyze whether entrepreneurial characteristics is affecting the success of MSEs.
5. To analyze whether the sector in which the MSEs operate can have significant impact on the success of MSEs.
6. To analyze whether access to BDS have a significant impact on the success of MSEs.

1.7. CONCEPTUAL FRAMEWORK:

Success has been viewed using both compound employment growth to maintain a comprehensive approach of defining firm success. Based on review of literature 8 factors are taken into consideration that determine enterprises success. (Fig 1). The research design is Causal as we intent to identify the impact of these factors on MSE's success
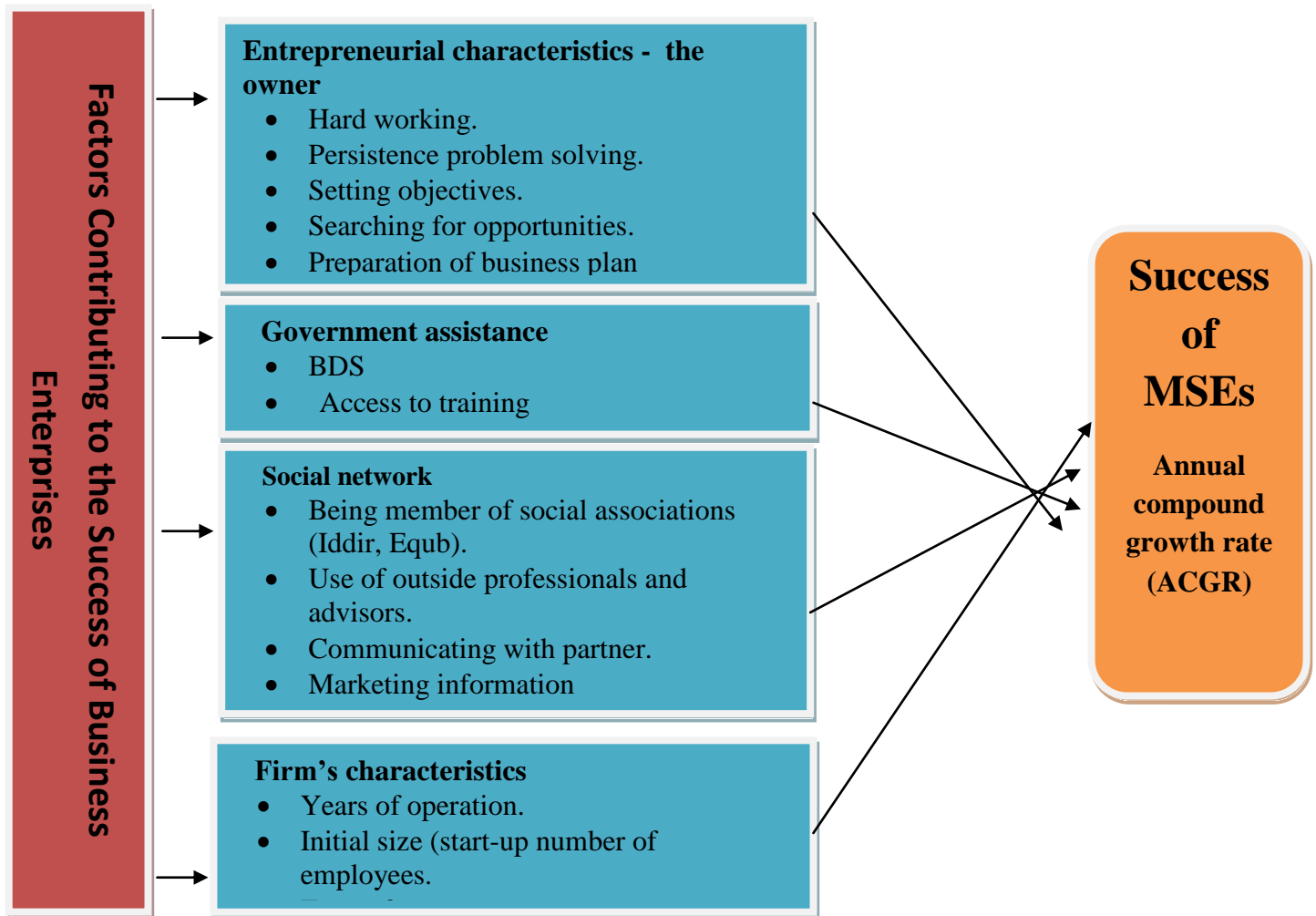

Fig 1: Factors affecting the success of MSE's

Mathematical Model can be written as follows:

$$MSE'S = \beta + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + U$$

Where,

MSE'S = MSE's success

β = is intercept & constant, $\beta_1 - \beta_8$ =Coefficients

X_1 = Entrepreneurial traits of the business owner/manager MSEs.

X_2 = Firms years of operations.

X_3= Difference in sector type.

X_4= Preparation of business plan.

X_5= Access to training

X_6= Initial firm size (number of employees)

X_7= Access to market information

X_8= Involvement in Social network

U = Random error

1.8 RESEARCH HYPOTHESIS:

- **Ha$_1$:** There is significant impact between the success of MSEs and Entrepreneurial characteristics.
- **Ha$_2$:** There is significant impact between the success of MSEs and firms years of operations.
- **Ha$_3$:** There is significant impact between the successes of MSEs Enterprises in relation to the difference in sector type.
- **Ha$_4$:** There is significant impact between the success of MSEs and preparation of business plan.
- **Ha$_5$:** There is significant impact between the success of MSEs and access to training.
- **Ha$_6$:** There is significant impact between the success of MSEs and Initial firm size (number of employees).
- **Ha$_7$:** There is significant impact between the successes of MSEs and access to market information.
- **Ha$_8$:** There is significant impact between the success of MSEs and Involvement in Social network.
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1.9 RESEARCH METHODOLOGY:

The research is carried by self administered questionnaires to collect the responses. Micro and small enterprises located in Arbaminch town and which are in operation for at least two year constitute the population and were stratified according to the sector in which they are operating. The target population of this study was 280 (Arbaminch town) which consists 134 from manufacturing sector 171, from construction sector and 79 from urban agriculture sector. Out of total 280 firms total sample size from the study population (182). From each stratum, proportionate sample size was computed.

1.10 DATA ANALYSIS & DISCUSSION:

In conducting the study, 189 questionnaires were distributed out of which 183 were returned and answered.
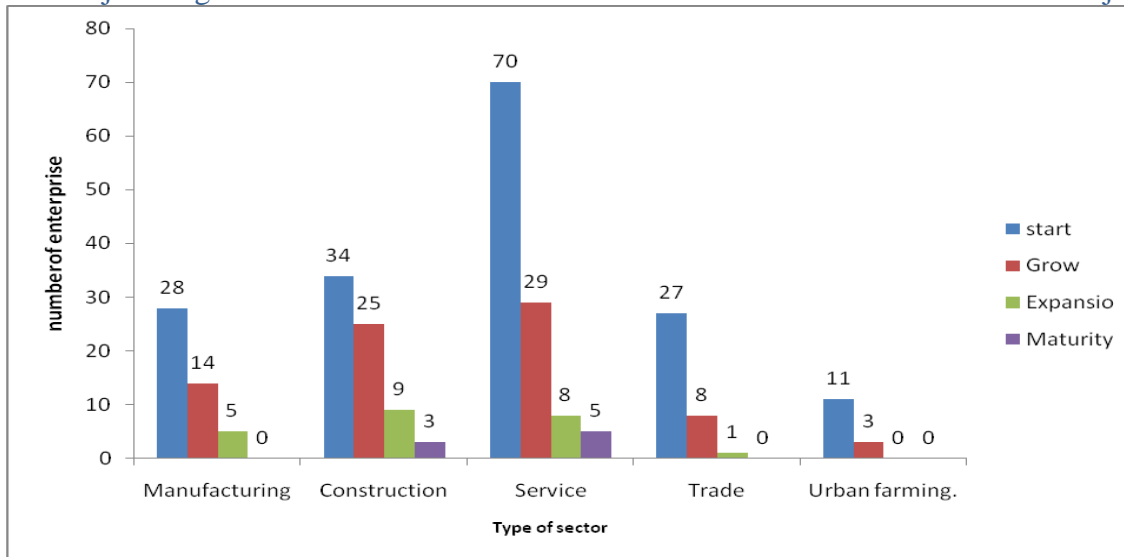
Fig: 2. Distribution of firm's growth based on sector (Source: Gamo Gofa zone trade and industry office, 2013)

As fig.2.Shows, considering on sector type service and construction sectors have better growth status as compared to the other sector though the total number of the two sectors outweighs the other. Moreover, it is only from these two sectors that the enterprises score the expansion and maturity stages of growth.
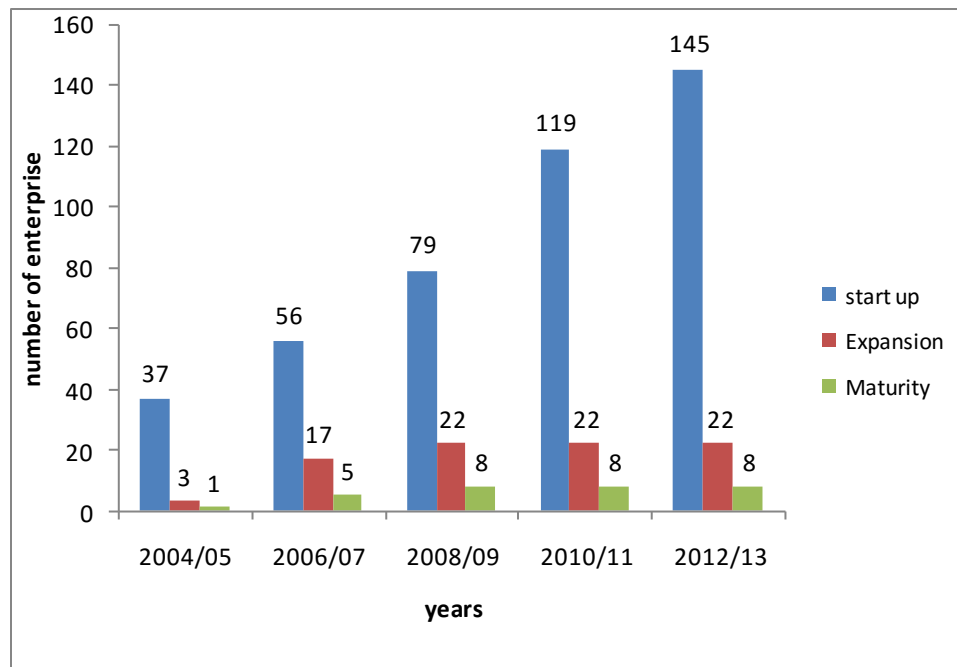

Fig: 3.firm's growth based on years of operation
 Source: Gamo Gofa zone trade and industry office, 2013
As it can be seen in fig.3 status of MSEs at Arbaminch is highly fluctuating. Ironically, though it is said that the support to the MSEs currently is improving the fact above shows that the number of enterprises graduating to the upper level presently is not as expected as the support.
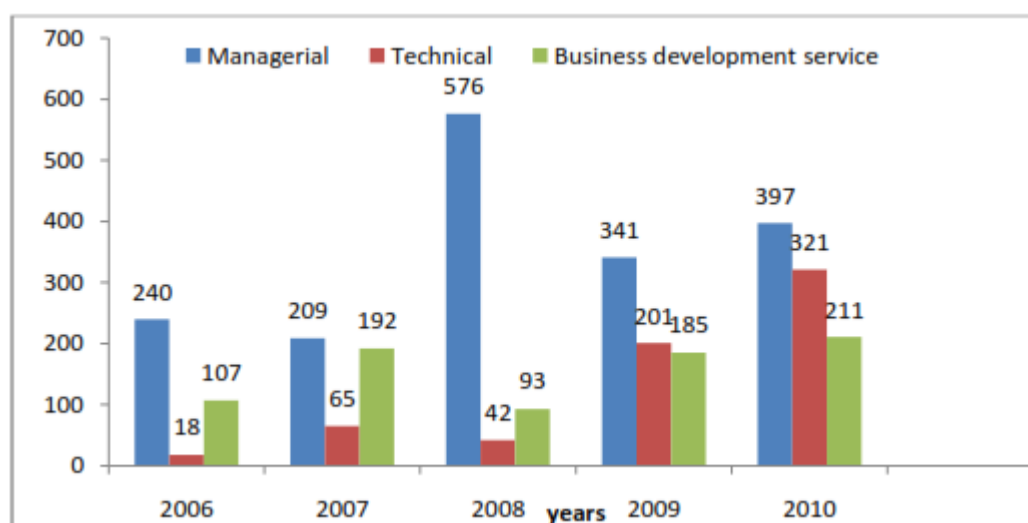
Fig 4: Training support given on recent years

Source: Gamo Gofa zone trade and industry office, 2013

As seen from figure 4, the training support given by the government shows unsteadiness in terms of the number of employees it participates. When it comes to the responses of market related issues, large portion of the sampled owners/managers respond negatively to positively stated items. The enterprises most likely face challenges of obtaining distribution channel to their products and associated with lack of knowledge in marketing they might face problem of obtaining market information as per the data in the table. Generally, as per the respondents response indicated in the table.8, above there is a potential gap with access to business development services and marketing factor of MSEs at Arbaminch town.

Annual compound growth rate(ACGR), average annual growth rate (AAGR) and average growth (AG) is the three possible methods used to calculate the employment creation and growth of micro and small enterprises(Minilek and K. P. M, (2012). Liedholm and D, (1999).

$$\text{Annual compound employment growth(ACEG)} = \left\{ \frac{\text{The current employment}}{\text{Initial employment}} \left(\frac{1}{\text{Enterprise age}} \right) \right\}^{-1}$$

$$\text{Average annual employment growth rate (AAEGR)} = \frac{\text{Current employment} - \text{initial employment}}{\text{Enterprise age}}$$

$$\text{Annual employment growth rate (AEGR)} \frac{\text{Current Employment} - \text{Initial employment}}{\text{Initial employment}}$$

Michael(1994),Minilek and K. P. M, (2012) support the advantage of using the ACEG as it allows a much more precise assessment of timing effects of employment growth. This research uses ACEG as the indicator of MSE's success at Arbaminch.

Table 1: Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.713[a]	.651	.630	3.22551	1.821

a. Predictors: (Constant Average entrepreneurial characteristics, coded year of operation , type of sector coded, presence of business plan, training support, initial number of employees., access to marketing information, involvement in social networking

The adjusted R2 gives us fair idea of how well our model generalizes and ideally we would like its value to be the same, or very close to, the value of R2. In this example the difference for the final model is small (in fact the difference between the values is .651 −.630 =0.021 (about 0.21%). This shrinkage means that if the model were derived from the population rather than a sample it would account for approximately 0.21% less variance in the outcome. The Adjusted R2 value of 0.630 means that about 63% of the variation in compound employment growth of MSEs is explained by the explanatory variables.
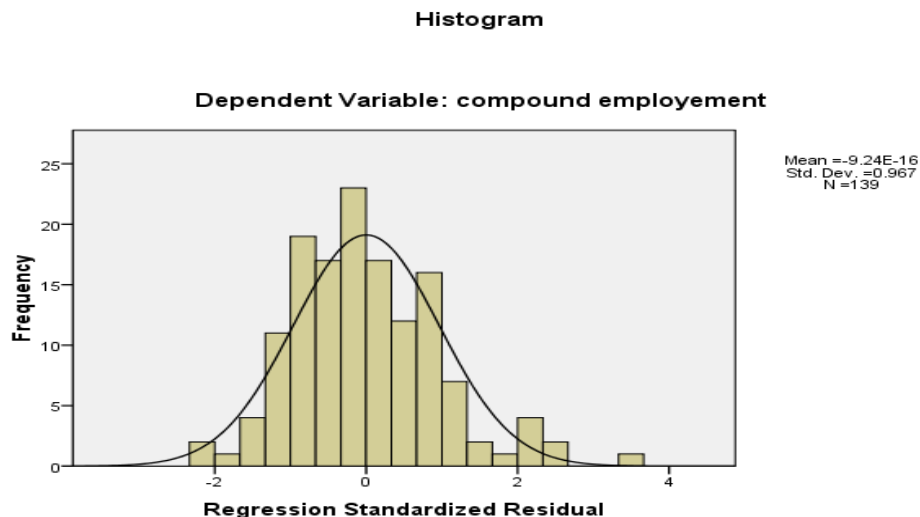
Table 2 : Analysis of variance

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.151	9	.461	19.162	.000a
	Residual	6.560	129	.051		
	Total	10.711	138			

a. Predictors: (Constant), Average entrepreneurial characteristics, coded year of operation, type of sector coded. presence of business plan, training support, intial number of employees., access to marketing information, involvement in social networking

For the analysis of variance (ANOVA) table above the F ratio shows that the model is able to predict the outcome variable. The p value is .000 (0.05) means that the independent factors have significance impact on SME's performance.

Fig 5: Test of normality

Dependent Variable: compound employment growth.

Histogram (Fig 5) above indicates the test for normality of residuals the. Since the histogram looks like a normal distribution (a bell-shaped curve) for the compound employment growth (success) data, the distribution is roughly normal.

Table.3 : Result from Linear Regression of the compound annual Employement growth

Variables	Unstandardized coef.(B)	Standardized coef. (Beta)	t-ratio	sig.
(Constant)	.250		1.875	.000
Average entrepreneurial characteristics	-.011	-0.32	-.786	.098
Coded years of operation	-.021	-.396	-.0538	. 000*
Type of sector coded	.013	.069	.310	. 010*
Presence of business plan	.004	.072	.0056	.044**
Training support	.14	.64	.400	.089
Initial number of employees	-.010	-.355	-3.333	.000*
Access to market information	.001	.001	.025	.017**
Involvement in social networking	.088	.155	2.146	.035**

Source: own survey computation. (*1% level of significance, **5% level of significant.

Table.3 presents the regression output of the independent variables on MSE's success (Annual compound employment growth). By the regression equation we can see the relationship between the MSE's success and the factors we have taken as independent variables. From the regression outcome of table3.above the relationship between the outcome and predictors can be written as:

Compound employment growth (MSE's success) =.25 +-.011 (AEC) -.021 (CYO) +.013 (TOS) +.004(BP) + .14(TS) + -.010(IE) +.001 (AMI) + .088 (ISN) +e.

The intercept value 2.5 means that if the values of firms age, sector type, business plan, initial size, access to market information and involvement in social networking value were zero, the compound employment growth of MSEs would be about .25 employment.

1.11 HYPOTHESIS TESTING:

Looking at the p-value entrepreneurial characteristics (0.098) of the owner/manager of MSEs do not appear to have a significant impact (p>0.05) on the success of MSEs at Arbaminch. This means we reject the alternate hypothesis (Ha1).

Firm's year of operation found to have significant impact (p<0.05) on the success of MSEs at Arbaminch. The increment of firm's year of operation by one year, accounts for 2.1 times decrease in the compound employment growth assuming other variables keep constant. This implies the alternate hypothesis (Ha2) is accepted.

Sector type appeared with significant p-value (0.010 < .05) this is good news for those enterprises that are in service sector. Keeping other factors, constant Operating in service sector contributes a 1.3 rate increment in compound employment growth as compared with other sectors. Indicating that service sector is a success advantage compared to all other sector. Hence the decision is accepting the alternative hypothesis at (Ha3).

It was found that there is a statistically significant relationship between usage of business plan and the success of MSEs (p value .044< 0.05). A firm that use business plan; are advantages by a rate of 0.4increment in compound employment growth assuming other things remain constant. Hence, accept the alternative hypothesis (Ha4).

Concerning the training support it appeared with statistically insignificant value0.089 (p>0.05), hence it leads to the rejection of the alternative hypothesis (Ha5).

Firm's initial size was found to be statistically significantly (p value .000 < .05) to employment growth at 5% significant level; this implies we accept alternative hypothesis (Ha$_6$).

Access to market information appeared with a statistically significant value (p value .017 < .05) .Evidence from the regression of employment growth revealed MSEs with access to market information has 0.001rate hence; accept the alternative hypothesis (Ha7) at 5% level of significance.

The study has found involvement of social networking is an important variable for the success of MSEs. Social involvement appeared with positive and statistically significant (P value = .035 < .05), Leading to the conclusion of accepting the alternative hypothesis (Ha7).

1.12 CONCLUSIONS:

This research was conducted in Arbaminch town with the prime intent of investigating the factors affecting the success of sampled MSEs at Arbaminch. More specifically, the researcher tried to scrutinize the attempted to evaluate the growth statuses of MSEs, from the descriptive part; it was found that only few enterprises transferred to the upper growth stages. The majority of the enterprises are appeared to stay at their start-up or growth stages this indicates the availability of potential constraints that obstruct the success of these enterprises.

Findings of this study also showed that the personnel involved in provision of support are less shouldering their due responsibilities for promoting the effectiveness of the MSEs at Arbaminch town.

From the output of the linear regression Initial size, firm's year of operation, market information, usage of business plan and involvement in social networking are statistically favored variables; this shows that these variables are the major success determinants of MSEs at the study area.

1.13   RECOMMENDATIONS:

Based on the foregoing concluding remarks, the following suggestions have been forwarded, so that it would enhance the success, and sustainable contribution of the MSEs.

Provision of entrepreneurial training with the context of the country is very crucial for sustainable growth of MSEs. In this regard, support agencies need to modify their training and advisory services to meet the specific needs and situation of MSEs. Support organizations can also play facilitating roles by referring and linking MSEs to other organizations for special skills training.

Enterprises operating without business plan are advised to prepare business plan. Online service providers of the enterprises had better convince and aid such enterprises to prepare business plan.

To address the issue of marketing and business development services the trade and industry office has to organizes and facilitates marketing promotional programs like trade fairs and bazaars this will give them opportunity to display their respective products so as to expand their market share, exchange experiences, knowledge transfer as to how to utilize marketing instruments, and so on. In addition, Linking MSEs with medium and large firms to serve as market outlets, Provision of training on quality improvement and cost reduction modalities, Provision of information on market opportunities, Construction of display centers and provision of advertising support and establishment of market information centers are recommended activities that need the coordinated efforts of all concerned stakeholders.

The supporting agencies and organizations such as, government and donors need to Strengthen, through providing the necessary incentive and capacity building training to the work forces of the Arbaminch town enterprises establishing unit and TVET college support providers.

Policy makers are also advised to design policies that improve the facilities and skill development programs of MSEs establishing bodies.

In relation to the regression output, concerned bodies are advised to give stronger focus on the statistically favored variables. Since, all of these variables are the statistically significant factors to influence the success of MSEs at Arbaminch.

Finally yet importantly, Time series data related with financial achievement is not available in organized written form. However, it is crucial for success evaluation of the enterprises. The researcher observed the absence of this data in organized written form. MSEs of the study area are recommends to prepare recodes of annual sales and profit achievements this will help future researchers to have comprehensive measures of success indicators. Replication of this study that using larger and broader geographic area is advisable by Future research for cross validation purposes

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