

INNOVATIONS

Assessing the internal factors that hinder the performance of Small and Micro Enterprises in Ethiopia: the case of Ficthe town

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Abstract

The purpose of this study is to examine the internal factors that affect the performance of SMEs in Ficthe town. The performance of SMEs is crucial to create competitive and profitable business sector and to support the National Economic development. Hence, this study was focused on the internal factors that hinder the performance of SMEs. In doing so, the researcher used descriptive and explanatory type of research and the primary data gathered through interview and questionnaire while the secondary data were collected through document review. The study result indicated that the internal factors were seriously affecting the performance of SMEs. Therefore, the study summarized that SMEs were affected with internal factors like lack of marketing management, financial management, human resource management, material management, general management and business planning skills. It is recommended that, the concerned government body should facilitate and provide capacity building training to SMEs owners and managers so as to increase the performance of the sector.

Key words: 1. Internal factors 2.performance 3. SMEs 4.skills 5.Hinder 6.Ficthe town

1. Introduction

Micro and small enterprise (MSE) sector has been recognized worldwide for its role in wealth generation, employment creation, and poverty reduction. In many developing countries, the growth of Small Scale Businesses (SSBs) is a wide spread concern due to their contribution to Economic growth and Development, because they compose the larger informal sector that is significant in the provision of employment in an Economy.

They make a vital contribution in improving economic and social development of a country through stimulating large employment, investment development of indigenous skill and promotion of entrepreneurship and innovativeness (Lidehelm, 2001). Similarly, Lara and Simeon (2009:1453–1464) found that the MSE sector generates substantial employment and economic output in many countries. Their share of overall employment tends to be higher in developing countries, which are typically more focused on small-scale production.

The sector has potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (MoTI, 1997:9).

Small enterprises are major drivers of both employment and economic contribution to more than 50% to GDP and 60% to employment in developed economies. These types of enterprises however, constitute less than 30% of employment and 17% of GDP in developing countries.

Indeed a study conducted in Africa by ILO indicates that only 20% of the total population of working age group in many African countries was reported to have working in the small enterprise sector (ILO, 2003).

According to the 2002 central statistics agency report there were 974,676 micro and 31,863 small enterprises generating a means of livelihood for about 1.3million people in Ethiopia. Another study conducted in 2003 also reveals that 1863 MSEs had created employment opportunities for about 97,782 citizens' (CSA, 2003).

Despite the central role of SMEs in Ethiopia, it is very low in performance when compared with that of other countries due to shortage of start-up capital, lack of qualified employees, lack of proper financial records, lack of proper human resource management, lack of marketing skills, planning skills and business management skills. Therefore, the purpose of this study is to examine the internal factors that influence the performance of Small and Micro Enterprises, using data from a sample of 207 randomly selected small and Micro Enterprises in Ficthe town.

1.2. Objective of the study

2. The general objective of the study is to assess the internal factors that affect the performance of SMEs in Ficthe town.

Specific objective

The specific objectives of this study are to:

1. Identify the internal factors that hinder the performance of SMEs
2. Assess either the internal factors affects the performance of SMEs or not and to what extent

Research design

According to (John A.H.etal., 2007:20-84), research design is the blueprint for fulfilling research objectives and answering research questions. In another words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information. The same authors discusses three types of research design, namely exploratory, (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables) and explanatory (concerned with determining the cause and effect relationships).

The types of research employed under this study were descriptive and explanatory research. The major purpose of descriptive research is description of the state of affairs as it exists at present. Then

this study describes and critically assesses the factors affecting the performance of SMEs in north Shoa zone, Ficthe town.

Target population

It is the specific population about which information is desired. According to Ngechu (2004), a population is well defined or set of people, service, elements, and events, group of things or households that are being investigated.

There are 287 SMEs which are registered in Ficthe town SMSEs Office which are engaged in construction, café and restaurant, Garment, merchandise and retail shops, Wood and metal work, Bull fattening, Poultry and animal breeding.

Table 1: Target population

No	Target population in category of the sector SMEs based on their sector they participated	Frequency	Percentage
1	Construction	19	6.60
2	café and restaurant	106	36.90
3	Garment	18	6.30
4	Merchandize and retail shop	102	35.54
5	Wood and metal work	14	4.90
6	Bull fattening	13	4.53
7	Poultry and animal breeding	15	5.23
	Total	287	100

Source: Ficthe town SMEs office 2019

Sampling techniques and sample size

To select sample of enterprise from the total population of SMEs a stratified random sampling was applied to get a representative number of enterprises from each sector that was considered in this study. This technique was preferred because it was used to assist in minimizing bias when dealing with the population with this technique. The sample frame was organized into a relatively homogeneous group (Strata’s), before selecting elements for the sample.

According to Janet (2006:94), this step increases the probability that the final sample will be representative in terms of the stratified groups.

The strata’s were sectors of SMEs including construction, café and restaurant, Garment, merchandise and retail shops, Wood and metal work, Bull fattening, Poultry and animal breeding.

According to Catherine Dawson (2009:54), the correct sample size in a study is dependent on the nature of the population and the purpose of the study. Although there are no general rules, the sample size usually depends on the population to be sampled.

In this study to select sample size, a list of the population formally registered SMEs until June 2018 by the Ficteh town administration. The total population of the study is 287 enterprises which include

construction (19), café and restaurant (106), Garment (18), merchandise and retail shops (102), Wood and metal work (14), Bull fattening (13), Poultry and animal breeding (15).

Therefore, in this study to select the sample size a list of the total population formally registered by Ficthe town administration until July 2018 was used. A total population of 287 enterprises that comprised of 19 (6.60%), 106 (36.90%), 18(6.30%), 102 (35.54%), 14 (4.90%), 13 (4.53%), 15(5.23%) were identified and used for this research. The sample size selected here was considered as a representative of construction, café and restaurant, Garment, merchandise and retail shops, Wood and metal work, Bull fattening, Poultry and animal breeding respectively.

To estimate the sample representative the following formula was applied. Since it is relevant to studies where a probability sampling method is used. Slovin's sampling formula: $n = \frac{N}{1 + Ne^2}$ where e^2 - margin of errors/error margin 5% (1+ne²) N- population size n-sample size $n = \frac{287}{(1+287*5\%^2)}$.

Therefore, n= 167 from the total population. The total of 167 questionnaires was distributed to be filled out and 161 questionnaires were properly filled and returned, representing 96.4 percent response rate. The purpose of the study was to assess the factors that mostly influencing the performance of SMEs which is found in Ficthe town.

$$n = \frac{N}{(1 + Ne^2)}$$

Where

N= population size

n=sample size

e²=margin of errors

$$n = \frac{287}{(1 + 287 * 5\%^2)}$$

Therefore; n=167

Data collection tools

The study employed both primary and secondary sources of data collection

1) Primary source

In order to realize the target, the study used well-designed questionnaire as best instrument. This was completed by the owner, managers/or operators of the enterprises. It was also used a face-to-face interview in order to clarify ambiguity information during response on questionnaires.

2) Secondary source

Secondary data from files, pamphlets, office manuals, circulars and policy papers were used to provide additional information where appropriate. Besides, variety of books, published and/or unpublished government documents, websites, reports and newsletters were reviewed to make the study fruitful.

Data were analyzed and presented in tables and charts to see the frequency of the factors and to measure the impacts that hinder the performance of SMEs.

2. Result and discussion

Under this section the collected data were analyzed, presented and discussed accordingly.

Table 2: Demographic characteristics of SMEs owners/managers

	Frequency		Percentage
Respondents sex	Male	96	64
	Female	54	36
	Total	150	100
Respondents age	20-30	67	44.67
	30-40	60	40
	40-50	23	15.33
	50+	0	0
	Total	150	100

Source: own survey 2019

Table 3: Educational levels of the respondents

Respondents educational level	Frequency	Percentage
Below grade 10&12	64	42.67
10+1	37	24.67
10+2	15	10
10+3	12	8
10+4	14	9.33
Degree	8	5.33
Master's degree	0	0
Total	150	100

Source: own survey 2019

2.1. Internal factors affecting the performance of SMEs

The internal factors that are discussed below are lack of Business management skills that contains the following items. These are lack of marketing skills, lack business planning skills, lack of financial management skills, lack of human resource management skills and lack of general management skills. The detail analyses of all factors are listed down in the following table.

Table 4: questions to identify whether the Owner/ managerial has a business management skills or not

Statement	Response	
	Frequency	Percentage
Do the managers/owners of SMEs have managerial skills?		
Yes	39	26
No	90	60
Not yet known	21	14
Do the managers/owners of SMEs have marketing management skills?		

Yes	36	24
No	89	59.33
Not yet known	25	16,67
Do the managers/owners of SMEs have Business planning skills?		
Yes	15	10
No	97	64.67
Not yet known	38	25.33
Do the managers/owners of SMEs have financial management skills		
Yes	28	18.67
No	83	55.33
Not yet known	39	26
Do the managers/owners of SMEs have human resource management skills?		
Yes	34	22.67
No	79	52.66
Not yet known	37	24.67

The study was focusing on to know either the owner/ manager of SMEs has managerial skills or not. To identify this, basic managerial skills like marketing management skills, business planning skills, financial management skills and human resource management skills were identified and questions forwarded to respondents. It has been asked that whether the owner/manager of SMEs has marketing management skills or not. It has been presented in the above table that majority 60% of the total respondents said no while 26% were said yes. The remaining 14% of them reacted as not yet known. With respect to marketing management skills, 59.33% said no while 24% and 16.67% were agreed that yes and not yet known respectively. Concerning the business planning skills, most of the respondents (64.67%) were said no while 10% & 25.33% of them responded as yes and not yet known respectively. Regarding financial management skills, 55.33% of them said no and the remaining 18.67% & 26% said yes and not yet known respectively. 52.66% of the total respondent realized that the owner/ manager of SMEs have no human resource management skills while 22.67% were said yes and the remaining 24.67% not yet known. In summary all owner/ managers of SMEs were identified that they didn't have required skills to manage their own business. Therefore, the study also done on to identify whether these all skills are affects the performance of SMEs or not. Accordingly, the respondents were asked one by one on the following skills and the result has been presented in the following table.

Table 5: Business Management Skills related factors

Factors for interactions	Agreement level							
	SD		DA		A		SA	
	F	Percentage	F	Percentage	F	Percentage	F	Percentage
lack of marketing management skills	26	17.33	28	18.67	54	36	42	28
Lack of business planning skills	23	15.33	27	18	49	32.67	51	34
Lack of financial management skills	16	10.67	24	16	60	40	50	33.33
Lack of human resource management skills	29	19.33	30	20	61	40.67	30	20
lack of general management skills affect the performance of SMES	12	8	19	12.67	40	26.67	79	52.67

Where: “SD” stands for strongly disagree, “DA” stands for disagree, “A” stands for agree, “SA” stands for strongly agree, and “F” stands for frequency (source own computation)

The findings of the study shows that the level of agreement and disagreement among respondents with the statement regarding lack of business management skills as a factor on the performance of SMEs. The above table indicated that 64% of the respondents either agreed or strongly agreed that lack of marketing management skills affect the performance of SMEs, while 36% disagree or strongly disagree on this issue.

With regard to lack of business planning skills, 66.67% of the respondents either agreed or strongly agreed that lack of business planning skills affect the performance of SMEs while 33.33% of the respondents disagreed or strongly disagreed on the skills required for the performance of SMEs.

With respect to lack of financial management skills, 83.33% of the total respondents either agreed or strongly agreed that lack of financial management skills affect the performance of the business, while 26.67 % disagreed or strongly disagreed.

Concerning lack of human resource management skills, 60.67% of the total respondents either agreed or strongly agreed that the performance of SMEs were affected because of lack of enough human resource management skills while 39.33% either disagreed or strongly disagreed on this statement.

On the topic of lack of general management skills, 79.34% of the total respondents either agreed or strongly agreed that lack of general management skills affect the performance of SMEs while 20.67% either disagreed or strongly disagreed on the importance of general management skills to increase the performance of SMEs.

From all business management skills lack of business planning skills was strongly affect the performance of SMEs in rated 34% while financial management skills rated with 33.33%. Lack of human resource management skills affected by 20% next to lack of marketing management skills (28%).

Table 6: Extent to which lack of business management skills related factors affect the performance of SMEs

Statement for discourse and interaction	Rating scales									
	VLE		LE		ME		GE		VGE	
	F	P (%)	F	P (%)	F	P (%)	F	P (%)	F	P (%)
To what extent lack of marketing skills affect the performance of SMES	2	1.33	3	2	15	10	51	34	79	52.67
To what extent lack of business planning skills affect the performance of SMES	0	0	0	0	16	10.67	51	34	83	55.33
To what extent lack of financial management skills affect the performance of SMES	0	0	6	4	12	8	51	34	81	54
To what extent lack of human resource management skills affect the performance of SMEs	3	2	11	7.33	15	10	70	46.67	51	34
To what extent lack of general management skills affect the performance of SMEs	5	3.33	4	2.67	15	10	51	34	75	50

Where: “VLE” stands for Very Little Extent, “LE” stands for Little Extent, “ME” stands for Moderate Extent, “GE” stands for Great Extent, “VGE” stands for Very Great Extent, “F” stands for frequency, and “p” stands for percentage (Source own computations)

Respondents rated 5 different statements with a scale from 1-5. These statements were targeted to identify respondents’ level of agreement on the extent to which lack of business management skills related factors affect the performance of SMEs. Regarding to what extent lack of marketing management skills affect the performance of SMEs, data presented in the above table revealed that 84.67% of the respondents were agreed on either great extent or very great extent while 15.33% argued as moderate extent and none of the respondents either little or very little extent.

With regard to what extent lack of business planning skills affect the performance of SMEs, 89.33% of the total respondents agreed on the scale rated either great extent or very great extent while 10.67% moderate extent with the statement and none of the respondents were agreed on either little or very little extent.

Concerning to what extent lack of financial management skills affect the performance of SMES, 84% of the respondents rated as either great extent or very great extent. 8% of the respondents agreed on moderate extent while 4% either very little extent or little extent.

With respect to the extent to which lack of human resource management skills affect the performance of SMEs, 80.67% were agreed on either great extent or very great extent while 10% Saied moderate extent. 9.33% were agreed on either very little extent or little extent.

In case of to what extent lack of general management skills affect the performance of SMEs, the above table revealed that 84% of the total respondents agreed on that either great extent or very great extent while 10% of them were agreed on moderate extent. 6% were agreed on either very little extent or little extent.

Discussion of major findings

In the results of the study, it was found out that the performance of SMEs was affected because of lack of marketing management skills. This idea supported by Lussier (1995). The study of this scholar emphasizes on the importance of marketing skill to the business owners for the success and better performance of small businesses. Murphy (2006:13-14) added that small business owners exhibit certain personality traits that are responsible for the success or failure of their businesses. Therefore, inadequate marketing skills of owners create marketing problems in the small business sector.

On the other hand, majority (34%) of the respondents were strongly agreed that lack of business planning skills affects the performance of SMEs. This finding supported by Delmar and Shane (2003); Perry (2001) and Liao and Gartner (2006) that there is a positive relationship between business plans and survival. Whilst Gruber (2007) finds that business plans help to achieve market objectives. Business planning practices have been observed to have a positive impact on firms' performance (Eriksen, 2008; Hussam&Raef, 2007). Wickham (1998) further states that business planning is very beneficial for SMEs performance as it forces the entrepreneur/manager to continuously think about open business questions and seek out solutions which are aim to achieve SMEs vision and objectives which result in a higher performance. Ahmed, shabazzand Mubarak (2008) suggested that no one should start a business in today's economy without a business plan. They argued that better performance for small business is achieved through planning and business planning skills is very important for the success of small business.

With respect to lack of financial management skills, 83.33% of the total respondents either agreed or strongly agreed that lack of financial management skills affect the performance of SMEs. In reverse to this finding, there is a consensus amongst experts that financial management skills are some of the key components in the skills mix for SMEs to be successful (Bloom & Boessenkool, 2002:244, Roodt, 2005:18, Kotze & Smit, 2008:35, Akande, 2011:372, Bezuidenhout & Nenungwe, 2012:11658). According to them, if an SME is not managed well from a financial management point of view, it cannot survive over the medium- to long-term. Arasti (2011:7490) realized that in today's trading environment, businesses which lack financial accounting skills may not be sustainable in the market. In brief, financial skills are crucial to the success of a business and therefore the small business manager must have an adequate accounting background. In general, Roodt (2005:18) found that financial skills are some of the top skills that entrepreneurs report as necessary for success in business.

On the topic of lack of general management skills, 79.34% of the total respondents either agreed or strongly agreed that lack of general management skills affect the performance of SMEs. Supporting this finding, Martin &Staines, (2008) asserted that Lack of managerial competency / skills was found to be the main reason why SMEs fail. Hisrich & Drnovsek (2002) found that managerial competencies/ skills positively impact on the performance of SMEs and further, pointed out by Martin & Staines (2008) SMEs failure is a result of lack of managerial experience. Stanislaus and Mornay, (2011) also added that poor performance of SMEs is the product of inadequate management skills. Furthermore, Osamwonyi & Tafamel, (2010) asserted that managerial skill of an entrepreneur is very vital to the

success or failure of the SSBs. This is an indication that, the managerial skills of an entrepreneur is very vital to the success or failure of the SSBs (Osamwonyi & Tafamel, 2010).

On the other hand, the study also sees the degree to which that lack of managerial skills affects the performance of SMEs. According to the study results, 80.67% of the respondents were agreed that lack of managerial skills affects the performance of SMEs in a very great or great extent. This finding supported by Malachy Daudu Yini OLOWU Ibrahim ALIYU (2015) that managerial skills have significant impact on SSBs performance.

Concerning lack of human resource management skills, 60.67% of the total respondents either agreed or strongly agreed that the performance of SMEs were affected because of lack of enough human resource management skills.

5. Conclusion and Recommendation

5.1. Conclusion

From the above analysis the study concluded that the internal factors were seriously affecting the performance of SMEs. Internal business factors were identified as lack of financial management skills, lack of marketing management skills, lack of business planning skills, lack of human resource management skills and lack of general management skills. According to the study result these all factors were affecting the performance of SMEs to a very great and great extent.

5.2. Recommendation

Based on the finding results and discussions of the study, the following recommendations are forwarded.

To make SMEs competitive and profitable as well as to improve the performance of the sector, increasing the capacity and skills of the owners/ managers through continuous training, experience sharing from successful enterprises and provision of advice and consultancy services are very crucial.

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