

## Assessment of Factors Affecting the Performance of Small and Micro-Enterprises in the Case of Goba Town, South East Ethiopia

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### Abstract

This study was conducted in Bale Goba, Oromia region with the objective of assessing factors affecting the performance of small and micro enterprises. Specifically it was aimed to identify internal and external factors that affect the performance of small and micro enterprise as well as to analyze the performance of the small and micro-enterprises at the study area. Data was collected from both primary secondary sources. There were five sectors at the study area sample were proportionally determined and then random sampling techniques was used to take sample from each sectors. To analyze the collected data descriptive and narrative method of analysis were employed and then the result was presented in tabular and graphical forms. The study revealed that the small and micro enterprise owners were motivated to start up the business due to lack of alternative source of income and the respondents evaluated the performance of their business as 'moderate'. The majority of the respondents reported that the major internal factors affecting the performance of their business were lack of enough capital and poor quality of product. The research also revealed that the major determining external factors affecting the performance of small and micro-enterprises were problem of market linkage at the study area and increase in the price of input. Government should give due consideration in market linkage, price of raw material and search alternative way to reduce capital problem.

**Keywords:** Assessment, Factors, Goba, small-Enterprises, Micro-Enterprises, Performance

### INTRODUCTION

In these days, it is not uncommon to see people leading a better way of life. One of the reasons behind this is role of small and micro enterprises. This sector of economy in most of the countries now hosting many people specifically those living in urban areas (Hailey, 2007). Small and micro enterprise is the major features of the economic landscape in developing countries because of the contribution of the enterprises to creation of job, alleviation of poverty. They have been given prominence in development plans as well as strategies (Liedholm, 1999).

Small and micro enterprises had emerged as all engines on growth for the present millennium to the third world countries. The sector has been playing a prominent role in Socio economic development of the country. The small and micro enterprises sector which forms the part of total industrial sector had direct impact on the national economic growth. The small and micro enterprises sector is playing an important role in the economies on the developing countries. It has also a great prospect on craning the countries current image. Currently this sector is creating an economic pressure by decreasing unemployment. Consuming the idle resources of the countries, Providing chapter products, introducing new business, reducing the work load of the other industries by providing them input easily, reduce balance of payment by producing import substitute products and services (Wolday, 1997).

From the historical trend of the contemporary world in developed countries were manifested by low level of small and micro enterprises and predominance of agriculture. The Ethiopian small and micro enterprise base and economic development is going to the lowest even by Africa standards. There were various constraints to the countries small and micro enterprises. Among the many constraints the most notable ones may be the sector has been dominated by agriculture, low level of qualities man power and low motivation towards the enterprise. (Ayele, 2006). The researcher focused on factor affecting the performance of small and micro enterprises which found in the case of Bale Goba town. Bale Goba is found in Bale Zone Oromia region and far from around 445 km from Addis Ababa which is the central city of Ethiopia. According to the owner and body of Oromia regional state executive body this agency gets its name as Bureau of industry and development by proclamation number 163/2003 sectors hold many activities.

- Process the enrollment of an employment
- To reduce poverty and unemployment which found in the rural and urban area of Bale Goba woreda?
- The sector investigates the natural resource of the environmental to fulfill the societies need and wants.
- Micro and Small business enterprises also give the license both the individual and group trade according the recommendation of the regional

An understanding of at factor affecting the performance in running small and micro enterprises is important for the existing enterprises but also for prospective enterprises. Small and micro enterprises are the base and

crucial role for the economic development in developing countries. The most vital aspect for the growth of society in society was an adequate and enterprises firms cease its operations and even government existence due to different challenges faced by the sectors such as investment, financial problems, infrastructure problems, lack of government support and market related problems (Hailay, 2007). As to the knowledge of the researcher, no sufficient study were conducted in this area covering this issues of factors affecting the performance of small and micro enterprises. Therefore, this study was designed to fill the knowledge the gap through identifying the major determining factors affecting the performance of small and micro-enterprises.

### Research Question

**The study will have the following research question these are**

- What is the performance of Small and micro enterprises at the study areas?
- What are the internal factors affecting the performance of small and micro enterprises?
- What are the external factors affecting the performance of small and micro enterprises?

### Objective of the study

#### General Objective

The main objective of the study was to assess factors affecting the performance of small and micro enterprise in the Goba town.

#### Specific Objective

- ❖ To identify internal factors affecting the performance of small and micro enterprises.
- ❖ To identify external factors affecting the performance of small and micro enterprises.
- ❖ To investigate the performance of small and micro-enterprises at the study area.

### Significant of the study

The study is significant for different individual and institutions as it helps the researcher to broaden his knowledge and understanding of small and micro enterprises. The finding of the study can also help as initial sight for other researchers who can be interested to go through details of the study in the future it will also help the researchers to relate theoretical knowledge with practical environment it also help small and micro enterprises to adopt some useful ideas from the finding of the study to their business understandings.

Finally, the study of this research is significant and helpful for decision makers as well as other stake holders to know factor affecting the performance of small and micro enterprises.

### The Scope of the Study

The scope of the study was limited to small and micro enterprises at Goba town which is located in Oromia region, Bale Zone. The study would be conducted by considering only factor affecting the performance of small and micro enterprises at Goba town.

### Limitation of the Study

While conducting the study, the researcher encountered the following limitation.

- ✓ Unavailability of some respondents at planned time
- ✓ Shortage of Finance
- ✓ Shortage of time
- ✓ In convenience of respondents to answer the question appropriately and on time basis

## METHODOLOGY

### Method of Data Collection

The data was collected from primary data source and secondary data sources. To collect primary data the researcher used self- administered questioner. Both closed and open and ended questions were prepared and translated in to local languages (Afan Oromo and Amharic). Secondary data was collected from different source like books, magazine and book on enterprises.

### Sample size Determination and sampling technique

To determine the representative sample size from the total population size of 280 that is the total small and micro enterprise in Goba town , the following sample size determination formula was used using confidence level of 95% (C.R Kathari , 2004).

$$n = \frac{Z^2(pq)(N)}{e^2(N-1) + Z^2(p*q)}$$

Where - n- Total Sample Size

Z- Confidence level (95%-From z-table 1.96)

N- Total Population of the enterprise (280)

e- Confidence error (5%)

p- Probability accepted (5%)

q- Probability rejected (1-p 0.95)

$$n = \frac{(1.96^2)(0.05*0.95)(280)}{0.05^2(280-1)+1.96^2(0.05*0.95)}$$

$$n = 53.8/0.9 = 60$$

There were five sectors at the study area with different population size. These are construction sectors with 50 participants, Agriculture with 40 population sizes, Trade sector with 80 population size, services sector with 50 population sizes and manufacturing sector with 60 population size was the sectors of the enterprises and the researcher took sample from each sector proportionally. Once the total sample size (60) was determined using the above sample size determination formula the sample size from each sector were determined proportionally (see table 3.2). After the total sample size (60) was determined and the sample size from each sector was proportionally determined, random sampling techniques was used to take the sample from each sector as it was briefly shown by table 3.2.

Table 3.2: Small and Micro Enterprise Sectors and sample size taken from each sectors.

No.	Sectors	Number of participants	Sample taken from each sector
1	Manufacturing	60	$60*60/280=13$
2	Construction	50	$50*60/280=11$
3	Trade	80	$80*60/280=17$
4	Services	50	$50*60/280=11$
5	Agriculture	40	$40*60/280=8$
	Total	280	60

Source: Self-manipulation from secondary data

### Data Analysis

The raw data collected for the purpose of carrying out this study was analyzed using descriptive and narrative method of data analysis. Accordingly, descriptive statistics such as percentage was used and the result was presented in tabular and graphical forms.

### RESULT AND DISCUSSION

In this section the data collected from both primary and secondary sources was analyzed and interpreted. Initially from 280 total population of small and micro enterprise 60 sample sizes were determined and the questionnaire was distributed for all of the identified respondents. However, due to different irregularities, 92 % ( 55 questionnaires) were returned back. Due to this reason, the responses of 55 respondents were used for analysis. Accordingly, this section presents the finding of the study which was presented using table and graphs in brief followed by discussion. In the first sub section, the socio-economic characteristics of the respondents was briefly presented and followed by the major findings such as motivation for business startup and performance small and micro-enterprise as well as determinants of the performance of small and micro-enterprises.

#### Socio-economic characteristics of the respondents

The majority of the respondents were male (62%) and 51% of them were female respondents. the age group of majority of the respondents was 26-30 and the level of education of the majority of respondents (53%) was what we call 'level'. Table 4.1 presents the selected socio economic characteristics of the respondents.

Table 4.1: Socio economic characteristics of the respondents

Socio-economics characteristics	Categories	Response rate	
		Number	Percentage (%)
Sex	Male	34	62
	Female	21	38
Age	Below 20	0	0
	21-25	13	24
	26-30	28	51
	31-40	14	25
	Above 40	0	0
	Total	55	100
Level of education	Below grade 10	8	15
	Grade 10	14	25
	Level (TTC)	29	53
	Degree	4	7
	Above degree	0	0
Total	55	100%	

Source: Own Survey, 2018

### Business type and sectors

The type of business that the respondents were engaged in and the sectors in which their businesses were categorized were represented in Table 4.2

N0	Sectors	Number of respondents	Percentage (100%)
1	Manufacturing	13	24
2	Construction	8	14
3	Trade	17	31
4	Service	11	20
5	Agriculture	6	11
<b>Total</b>		55	100%

Source: Own Survey, 2018

As it was shown in table 4.2, the majority of the respondents (31%), were engaged in trade sector in different kinds of businesses such as domestic retailing, shoe shop, electronics, boutique, flour shop and sheketasheket. About 24 % of the respondents were engaged in service sector like café and restaurant, beauty salon, and decoration services. About 14% of the respondents were engaged in construction sectors like infrastructural sub construction and cobblestone. About 11% of the respondents were engaged in agricultural sectors like animal bearing and poultry.

### Motivation and Performance of Small and Micro Enterprises

The respondents were asked to indicate what motivated them to startup the business that they were running at that time. Table 4.3.1: Showed the response of respondents.

Table 4.3.1: Motivation for Starting up the Business

Motivation	Number of respondents	Percentages (100%)
Lack of alternative sources of income	39	71
High profitability of the business	6	11
To generate additional income	0	0
To improve the livelihood of own household	10	18
Total	55	100

Source: Own Survey, 2018

As it was indicated in table 4.3.1, lack of alternative source of income motivated the majority of the respondents (71%) to startup the business. About 18% of the respondents were started their business for the sake of improving the livelihood of their households.

In addition to this, the respondents were requested to evaluate the performance of their business. Table 4.3.2 presents the response of the respondents regarding the performance of their business.

Table 4.3.2: The performance of small and micro enterprises

Scale	Number of the respondents	Percentage (%)
Very good	6	11
Good	12	22
Moderate	34	62
Failed	3	5
Total	55	100%

Source: Own Survey, 2018

The finding revealed that 62% of the respondents evaluated the performance of their business ‘Moderate’ which to mean that it satisfactory. Only 22% of the respondents evaluated the performance of their business as ‘Good’ which is to indicate the business was performing well or they raise good profit out of their business. Few respondents evaluated the performance of their business as ‘very good’. 5% of the respondents responded that their business was almost to fail.

### Factors Affecting the Performance of Small and Micro-enterprises

#### Internal Factors

The respondents were asked to select the major internal factors affecting the performance of small and micro-enterprise from the given alternative they were provided. Poor recording ability of transaction, poor quality of the product, technical problems, managerial problem, lack of enough capital were the alternative the respondents were given as internal factors which might affect the performance of the small and micro-enterprises. The responses of respondents were presented in figure 4.4.1 below.

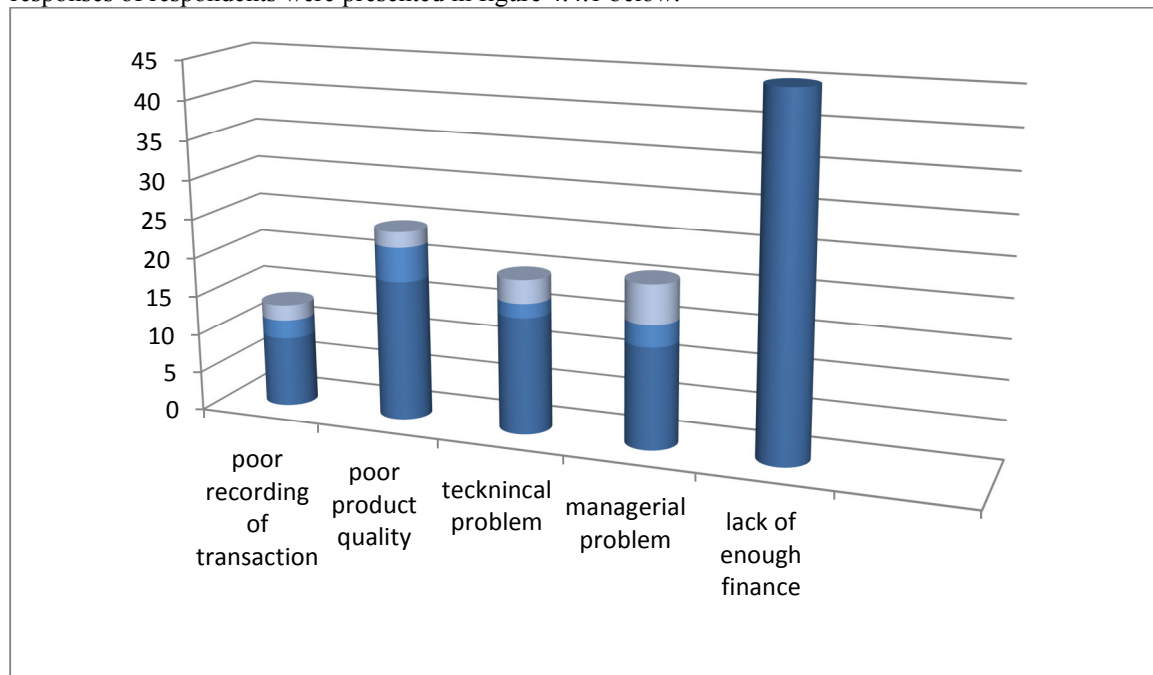


Figure 4.4.1: Internal factors affecting the performance of small and micro-enterprises

As we can understand from the above figure, the majority of the respondents (45%) responded that lack of enough capital was the major determinant factors affecting the performance of their businesses, whereas, 18%, 15%, 13%, and 9% of the respondents responded that poor quality of the product, technical problem, managerial problem and poor recording ability of transaction were the factors affecting the performance of their business respectively.

#### External (environmental) factors affecting the performance of small and micro-enterprises

External factors affecting the performance of small and micro-enterprises were analyzed and presented by the following figure 4.4.2

The bellow figure 4.4.2 illustrated the external factors (factors which are beyond the control of the business owners and they are most of the time called environmental factors in different literatures). The majority of the respondents (36%) reported that market linkage problem were the major determining external factor affecting the performance of their business and about 27% reported that increase in price of raw material (inputs) was one of the determining factor affecting the performance of their business. The remaining proportion 17%,9%,9%,2%, of

the respondents responded that poor infrastructure, high tax, scarcity of work place and lack of training were factors affecting the performance of small and micro-enterprises.

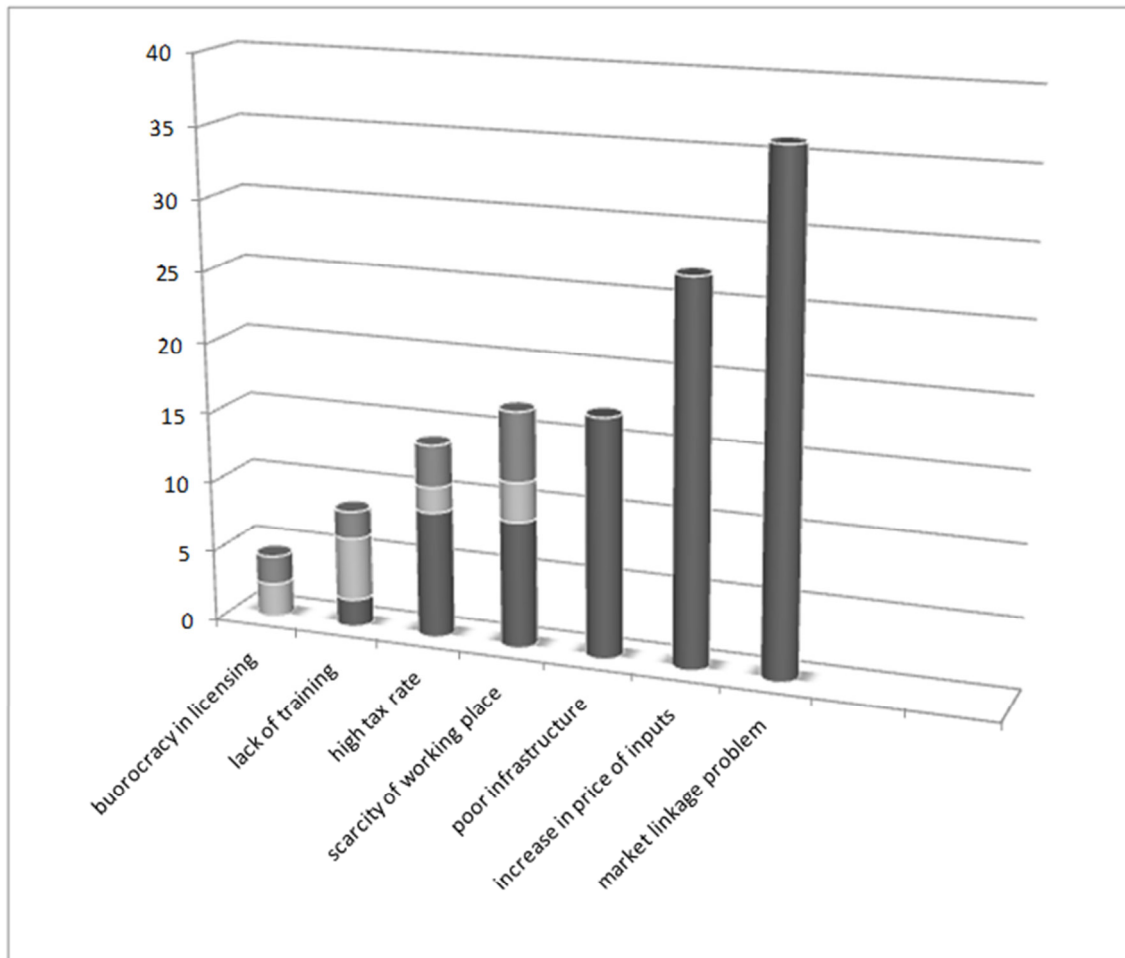


Figure 4.4.2: External Factors Affecting the Performance of Small and Micro Enterprises

## CONCLUSION AND RECOMMENDATION

### Conclusion

The study investigated the major factor affecting the performance of small and micro-enterprises in the case of Goba town. The study revealed that lack of enough capital is the major determining internal factor affecting the performance of small and micro-enterprises. Poor recording ability of transaction and managerial problem were affecting the performance of small and micro-enterprise less likely as few respondents reported these factors as determining factors. The research also revealed that external factors such as poor marker linkage, high increase in the price of raw materials/inputs/ were significantly affecting the performance of small and micro-enterprise at the study area. Given these determining factors majority of the respondents evaluated the performance of their business as 'moderate'.

### Recommendation

Based on the finding of the study, the following recommendations were forwarded.

- The government should give due consideration in market linkage
- The government should work on reducing the increasing price of raw material(input) both at national and regional level
- Local government should search for the alternative ways by which low working capital problem of the small and micro enterprises can be addressed.

## CONFLICTS OF INTEREST

The authors declare that they have no conflicts of interest.

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## 7. Appendix

1. Sex A. Male B. Female
2. Age A. Below 20 B. 21-25 C. 26-30 D. 31-40 E. above 41
3. Level of education A. Below grade 10 B. grade 10 C. level (TTC) D. Degree  
F. Above degree
4. What is the kind of the business you are running currently? -----
5. In which sector do categorize your business?  
A. Manufacturing B. Construction C. Trade D. Services E. Agriculture
6. What motivates you start to startup your business?  
A. Lack of laternative source income  
B. high profitability of the business  
C. To generate additional income  
D. To improve the livelihood of own household  
F. Other-----
7. How do you evaluate the performance of your business?  
A. Very good B. good C. moderate D. failed
8. From the given listed internal factors which one do you think affect the performance of your business?  
A. poor recording ability of transaction  
B. poor quality in producing the product  
C. technical problem  
D. managerial problem  
E. lack of enough finance  
F. other-----
9. From the given alternative which external factors affect the performance of your business?  
A. Poor infrastructure  
B. market linkage  
C. lack of training  
D. Beurocracy in licensing  
E. high tax rate  
F. increasing the price of input (raw material)  
G. scarcity of work place  
H. Other-----