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Determinants of Micro and Small Enterprises Success: The Case of Ambo Town, Ethiopia

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Abstract

Over the years, some of the MSE have grown extremely large and profitable and on the other hand, many others have failed or have not been as successful as they might have been. Even if their enormous contribution to economic development and employment is undeniable, government's policy still fail to identify the determinants that are responsible for the growth and failure of MSE. So the research study was undertaken with the intension of identifying those factors responsible for success and failure. Data was collected from MSE in Ambo and the regression result shows that only Age of business, record and borrowing were seen as significant in predicting the business success with p values less than 0.01.

Keywords: Entrepreneur; Motivation; Ambitions; Career; Facilitating Factors; Goal

Introduction

Ambo is a spa town and separate woreda in central Ethiopia. Located in the West Shewa Zone of the Oromia Region, west of Addis Ababa, this town has a latitude and longitude of 8°59′N 37°51′E and an elevation of 2101 meters.

Figure 1: A small view of Ambo Town, Ethiopia.

Micro and small enterprise (MSE) sector is highly diversified sector and plays a predominant role in the economy of developing countries. They employee a large proportion of the labor force and in many developing countries they are the source of income for various peoples. MSE have also been influential in bringing about economic transition by providing goods and services to a large number of people without requiring high-level of training, large sums of capital or sophisticated technology. Again, these enterprises utilize local resources, use skills harnessed to produce a variety of products for the market. Micro and small enterprise sector is described as the natural home of entrepreneurship [1]. The sector is claimed to be a breeding ground for development of industrial skill and entrepreneurships.

Therefore, in developing countries if success is to be broad based and employment opportunities are to grow, greater support should be given to those sections of the economy that are able to absorb much of the labor force. Considering the degree of unemployment as well as realizing the role of MSEs towards sustainable employment generation, the government has to give due attention in terms of promoting favorable MSE environment. In this country MSEs have become the favorite of policy makers as it is commonly believed that they are as essential element of industrialization with forward and backward linkages to different sectors in the economy and for the aforementioned reason. However, before changing the policy, the policy makers themselves should know the factors that influence the growth and expansion of these enterprises.

Literature Review

Over the years, some of the MSE have grown extremely large and profitable and on the other hand, many others have failed or have not been as successful as they might have been. It is natural to say that every small business owner starts with high hopes of success, but it is a usual phenomenon that each year firms go out of businesses. Although failure is not the sole reason for enterprises to leave the business, many enterprises do fail each year [2]. The 1994 census reported this town had a total population of 27,636 of whom 13,380 were males and 14,256 were females.

Numerous studies have tried to identify the determinants of firms' growth, mainly in order to isolate those factors which would allow us to distinguish the successful businesses of tomorrow from those which will fail to grow. They identified that firm success is affected by different types of factors related to owner-manager characteristics and firm. Again they continue to list other factor related to business growth

like access to market/demand for its product/, competition and finance [3,4].

Those factors make this obligatory for the business to differ on growth are owner manager characteristics such as Gender, Education status, Age of owner/manager, Work experience of owner/manager, family back ground and business characteristics like Industrial sector, Age of business, Legal status and formality. The following factors are discussed at length which were deliberated in the past studies.

Age of the Owner/Manager

Younger individuals may be more willing to assume risks and grow their business [5,6]. That means a younger individual may have a higher need for additional income. The burden of supporting a family and meeting mortgage payments generally declines with age. An older individual who continues to be the owner-manager of a small firm is more likely to have reached his/her initial aspirations. However, while younger individuals have more motivation to expand their business they also may have fewer financial resources and fewer experience.

Gender

Female entrepreneurs are more risk averse and are less likely to success in comparison with their male counterparts [7]. That means female entrepreneurs with concerns for income stability and economic security may be more prone to avoid risks involved with firm growth. Women operators tend to devote their profit to minimize risk and increase security of the welfare of the household, while male operators are likely to invest into the growth of the enterprise [3,8,9]. So it will be hypothesized as follows.

Education

Those with a relatively higher level of education have a greater ability to efficiently allocate Resources to more productive lines of business and to select profit maximizing inputs/combinations [10,11]. That means firm whose owner/manager has formal education is likely to perform better than those owner/managers without these types of education. Again Loan providers use owner-managers 'education levels as an indication of the latter's ability to utilize resources to generate profit and be able to meet their obligations. Thus, firms with relatively more educated owner/manager are likely to have more access to external finance [10,11].

Industry Experience

Businesses were owned/managed by people with prior experience having a greater chance of success than firms managed by people without prior experience [3]. Empirical evidence suggests that previous experience of owner/manager can have a significant impact on the success of a business venture in terms of both the survival and growth of the business. In a study of fast growing young companies found that those companies were more likely to be started by founders who had experience in the industry [3]. It is assumed that previous experience, ranging from tacit knowledge of the products, processes and technology, to specific human capital investment in relationships and goodwill with specific customers, suppliers or stakeholders, reduces the "liability of newness" associated with new entrepreneurs and hence enhances their ability to obtain credit, develop sales and achieve other forms of co-operation [12].

Age of the Firm

The vast majority of the studies have presented evidence that younger firms tend to grow faster [3]. Young firms have accumulated less information than older firms about their managerial abilities. Consequently, younger firms have more variable growth rates than older firms because they have less precise estimates of their true abilities. For the same reason it follows that there will be more exits among younger firms, but also that among surviving firms, younger firms will grow faster than older firms. Surviving small firms are expected to grow faster than larger firms and to have more variable growth rates [3,7,13].

Self Confidence

Another important element in the success of MSEs is self-confidence. A growing number of studies identify having full confidence among success of MSEs is a critical factor for cluster competitiveness and success. A key element that underpins the social capital of a cluster is the degree of trust that exists among the various members of groups that comprise it. However, trust is one of those rare commodities that can neither be bought, nor imported; it can only be built up painstakingly through a prolonged process of interaction. Trust, as component of social capital, helps overcome failures or reduce costs for firms in cluster by supporting stable and reciprocal exchange relationship among them.

Family Background

A number of studies have shown that entrepreneurs are more likely to be from families in which the parents owned a business [10]. It is assumed that young individuals develop knowledge of what is involved in running a business and that they are more likely to perceive entrepreneurship as a viable career choice. There is indeed some empirical evidence to suggest that coming from an Entrepreneurial family background increases the likelihood of survival [11]. When the Allies reached Ambo with a South African armored car patrol in early 1941, they had to evacuate 140 "utterly panicked Italians". The British operated an improvised camp for prisoners-of-war at Ambo until 1942.

Sector

A firm's sector also plays a role in determining how much competition it faces and how costly it may be to buy inputs [8,14-20]. Similarly, some types of business may face less competition because of high barriers to entry or be more or less profitable because of demand side conditions.

Formality

Businesses having financial record can easily identifies their resources and their performance from the available data. Studies shows that, businesses that keep updated and accurate records and uses adequate financial controls have a greater chance of success than firms that do not use [21-26].

Nevertheless, the bulk of such research tends to concentrate on MSEs in developed countries; very limited studies have provided such research on MSEs in Africa. To the best of my knowledge, this paper is the first to quantitatively investigate the relationship between success and growth lending variables on small firm data in our country;

Ethiopia. Ideally, this would allow the implementation of better-targeted economic policies, since growing firms greatly contribute to the creation of jobs and wealth. This paper will fills this gap in literature; it incorporates an analysis of influence of five owner/managers, five firm characteristics on the growth of the firm and three external variables.

Research Methodology

Based on the above discussions we hypothesize that

H1: MSE growth is influenced by owner manager characteristics, business characteristics and some external variables.

We use multiple regression analysis to further test the hypothesis. The model summary developed as

Success=$\beta_0+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+\varepsilon$

The data were collected using self-administered questionnaires in Likert scale. 150 questionnaires were distributed to Ambo University students on randomly bases and sufficient time was allotted to provide their responses. Respondents were asked to rate each of the variables on a five point Likert scale with 1 represent strongly disagree, and 5 represent strongly agree. Before analyzing, the assumption tests, reliability and validity tests were carried out. The frequency of each demographic profile has been conducted and analyzed under this chapter. T-test was conducted to determine the differences in Business growth for different owner and business characteristics; and multiple regression test conducted to understand how much of the variance is explained by a set of predictors and its influenced on the criterion. Graph 1 on test of normality indicated that the data was distributed normally.
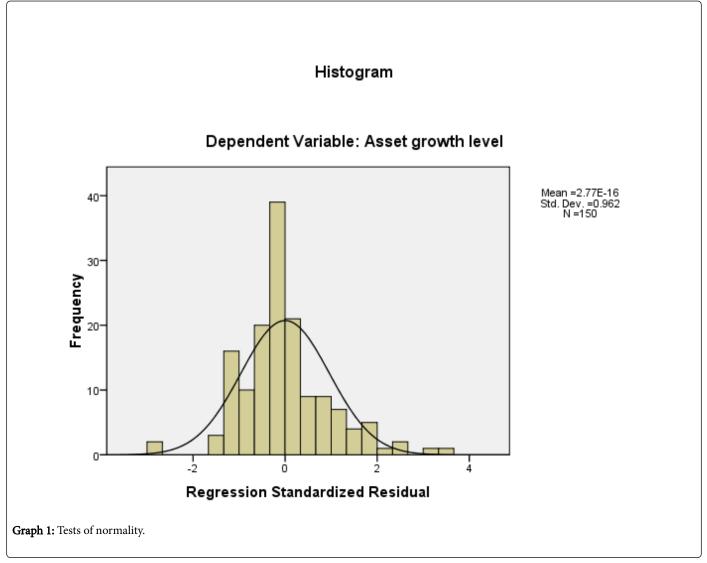

Graph 1: Tests of normality.

Table 1 provides the results of descriptive statistics. Concerning age it can be seen that more responses were received from respondents within the age group of 26 to 35. The research has thus targeted the latest generation of respondents which will be useful for policy making as they are the engine for development. Concerning gender most of the respondents are male. Similarly Table 1 revealed that most responses were received from those individuals whose families don't have business before. Again, on educational qualifications provided responses from degree holders (54%).

Variables	Measure	Frequency	Percent	Valid Percent	Cumulative Percent
What is your level of confident at start of business?	Very high	30	19.7	19.7	21.1
	Moderately high	113	74.3	74.3	95.4
	Normal	6	3.9	3.9	99.3
	Low	1	0.7	0.7	100
Did you ever borrowed from external sources?	Yes	4	2.6	2.6	3.9
	No	146	96.1	96.1	100
Does your business have financial records?	Yes	149	98	98	99.3
	No	1	0.7	0.7	100
What type of business you are engaged in?	Agriculture	23	15.1	15.1	16.4
	Manufacture	24	15.8	15.8	32.2
	Trade	28	18.4	18.4	50.7
	Construction	65	42.8	42.8	93.4
	Services	10	6.6	6.6	100
Do any of your family members own a business?	Yes	1	0.7	0.7	2
	No	149	98	98	100
What is your Educational Status?	No schooling	8	5.3	5.3	6.6
	Elementary	2	1.3	1.3	7.9
	High school	57	37.5	37.5	45.4
	University	83	54.6	54.6	100
What is your age?	26-35	149	98	98	99.3
	36-45	1	0.7	0.7	100
What is your gender?	Male	108	71.1	71.1	72.4
	Female	42	27.6	27.6	100

Table 1: Summary of descriptive statistics.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.410a	0.168	0.101	149.73

Predictors: (Constant), level of confident, gender, family background, Age of your business, type of business, Age of owner, Education level, level the competition, financial records, borrowed, Work experience of owner/manager.

Dependent Variable: Asset growth level

Table 2: Model summary.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	623332	11	56667	2.528	.006a
	Residual	3E+06	138	22419		
	Total	4E+06	149			

Predictors: (Constant), level of confident, gender, family background, Age of your business, type of business, Age of owner, Education level, level the competition, financial records, borrowed, Work experience of owner/manager

Dependent Variable: Asset growth level

Table 3: ANOVA.

The table indicated that the respondents were mostly engaged on construction business. While most respondents were borrowed and have financial recording system for their business, most of them have moderate confidence on their business (74.3%). The data was then run to test the regression. The regression results are presented in the Tables 2-4.

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-440.1	474.01		-0.928	0.355
	Gender	3.278	28.362	0.009	0.116	0.908
	Age	153.11	153.52	0.079	0.997	0.32
	Education level	20.368	17.185	0.1	1.185	0.238
	Work experience	-33.57	26.708	-0.134	-1.257	0.211
	Family back ground	252.88	172.99	0.131	1.462	0.146
	Type of business	15.099	10.979	0.116	1.375	0.171
	Age of business	128.25	43.915	0.287	2.92	0.004
	Records	440.08	170.92	0.227	2.575	0.011
	Borrowing	-292.1	89.084	-0.299	-3.279	0.001
	Level of competition	0.888	29.365	0.003	0.03	0.976
	Level of confident	-35.88	28.21	-0.113	-1.272	0.206

Dependent Variable: Asset growth level

Table 4: Coefficients.

Interpretation and Conclusion

Overall, Eleven factors were identified as influencing the business success in Ethiopia. All earlier studies found that Gender, Education status, Age of owner/manager, Work experience of owner/manager, family back ground and business characteristics like Industrial sector,

Age of business, Legal status and formality and other characteristics influences the business success [3,4]. But contrary to the expectation only Age of business, having recording system and borrowing from external source were seen as significant in predicting the business success with p values less than 0.01. More interestingly, the factors identified by the past researchers explain the business success in Ethiopia only to the extent of 41%. This indicates that there could be other factors like attitude, culture and level of economic development which might affect business success. We thus reject the hypothesis by stating that the factors deliberated by the past researchers did not in fact predict the business success in Ethiopia. Again they can make interview with successful individuals to identify the variables they have which others don't. This type of research opens up potential for future researchers in providing more realistic determinants of business growth.

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