

EXTERNAL FACTORS AFFECTING THE GROWTH OF MICRO AND SMALL ENTERPRISES IN GONDAR, ETHIOPIA

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ABSTRACT - The purpose of the study was to investigate external factors affecting the growth of MSEs with a sectorial emphasis on manufacturing, service, trade, construction and urban farming in Gondar town. For the sake of achieving the objectives of this study, questionnaires were analysed using descriptive statistical analysis. The information gleaned through questionnaire from a sample of 218 operators. The respondent operators were selected using stratified sampling technique. The empirical study brings out two major challenges which seem to affect the growth of MSEs in the town which include: financial problems and marketing problems. Based on findings, recommendations to stakeholders of operators of MSEs were provided.

Index Terms- Manufacturing, Service, Trade, Construction and Urban farming

1. INTRODUCTION

Micro-enterprise is the business enterprise hiring up to five labour power and 100,000 birr capital for industry sector and for service sector up to five labour powers and a capital of 50,000 birr. And small scale enterprise includes 6-30 labour power and maximum of 1.5 million birr capital for industry sector and the service sector involves 6-30 man power and a capital of 500,000 birr. The industry sector includes Manufacturing, Mining and Construction and service sector embraces, Transport, Retail, Recreation, Hotel and Tourism, Maintenance and Information Technology contained.

SMEs are necessary engines for achieving national development goals such as economic growth, poverty alleviation, democratization and economic participation, employment creation and industrial base, and local production escalation. The role of SMEs as engines of growth was shown, for example, by the post war recovery in Austria and Germany and by the diverging paths of the Central European and Baltic countries from those of the Commonwealth of Independent States.

2. REVIEW OF LITERATURE

[1] investigated Access to financing at start-up, Access to infrastructure and public services is an important factor affecting the performance of all enterprises, but particularly small ones who do not have the resources to invest in alternatives to publicly provided infrastructure and taxation (tax rates as well as tax administration) as a key constraint facing MSEs business development.

[2] examined the most pressing MSEs Problems and constraints that need urgent solutions in Saudi Arabia were identified as: problems in the area of securing finances for establishing and running MSMEs, problems with bureaucratic processes and procedures, problems with inconsistency of rules and regulation, problems with the availability of business information, lack of entrepreneurial and management competence and exposure, problems in finding the markets and distribution networks, limited amount of government and institutional support and changing the culture of running the business in the country.

[3] Has studied on Factors Affecting the Performance of Micro and Small Enterprises in Arada and Lideta Sub-Cities, Addis Ababa based on 261 sample operators engaged in garment and textile and metal and wood work activities and food processing. The results of the study revealed that the main constraints of the MSEs were politico-legal, working premises, technology, infrastructure, marketing, finance, management and entrepreneurial.

3. OBJECTIVES OF THE STUDY

- i) To examine the external aspects related to finance and marketing constraining the Growth of MSEs.
- ii) To suggest actions to be taken by concerned bodies to alleviate the problem of MSEs.

4. RESEARCH METHODOLOGY

The primary data were collected through structured questionnaire from randomly selected MSEs Owner/ manager questionnaire were distributed for 252 owners / managers of MSEs. Descriptive analysis was used to reduce the data in to a summary format by tabulation (the data arranged in a table format) and measure of central tendency (mean and standard deviation) was used.

Definition

United Nations Industrial Development Organizations gives alternative definition for developing countries. Thus, it describes micro enterprises as the business firms which contain less than 5 employees as well as small enterprises as the business firms which contain 5-19 employees [4].

5. EXTERNAL FACTORS THAT AFFECT THE GROWTH OF MSEs

Financial related constraints

African managers including managers in micro enterprises perceive credit access among the key difficulties and often place among the primary list that constrain the growth of the business, although the existing empirical evidences so far have not been strong enough to support this claim [5].

Several empirical studies test the sensitivity of investment to internal financial resources such as, profits in the absence of external resources. The availability of internal financial resource has been found to affect investment on manufacturing sector in Africa positively, but the effect is marginal contrary to the existing notion [6]; [7].

In Africa business owners tend to depend upon their own or family savings because access to capital is a challenge for them. Most of the business owners cannot meet the requirements for commercial loans and such loans are Barriers to business growth expensive [8].

Financial factors

Table-1: Financial factor that affects the growth of MSEs

Item	Manufacturing		Service		Trade		Construction		Urban Farming	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
Inadequacy of credit institutions	3.7	0.86	3.57	1.03	3.28	0.93	3.44	0.73	3.86	1.1
Lack of cash management skills	3.55	0.89	3.48	1	3.27	1	3.44	0.73	4.14	0.69
Shortage of working capital	3.85	1.1	3.9	1.02	3.71	1	4.33	0.87	4.43	0.8
High collateral requirement from banks and other lending institutions	3.5	0.95	3.72	1	3.33	1.04	3.67	1.22	3.86	0.9
High interest rate charged by banks and other lending institutions	3.4	1.14	3.5	1	3.31	1.04	3.56	1.13	3.86	1.1
Loan application procedures of banks and other lending institutions are too complicated	3.35	1.18	3.35	1.05	3.1	1.01	3.22	0.83	4.14	1.1
Grand mean/ standard deviation 3.627& 0.958										

(Source: Researcher's Survey)

Besides to other resources, financial resources are the most significant resources which help enterprises to get diverse technologies and educated work helping as a device to move. Amended technologies and competent work force are not improved as a result of lack of finance, this designates the restriction /lack of finance hinders the progress of enterprises.

According to table 1, Inadequacy of credit institutions is one of the barrier that affects their growth for manufacturing, service & urban farming sector respondents, that their means value are 3.7, 3.57& 3.86 and standard deviation of 0.86, 1.03 & 1.1, respectively. However for entrepreneurs engaged in, trade & construction Inadequacy of credit institutions is not as such problem like other sectors their mean value is 3.28 & 3.44 and standard deviation of 0.93 & 0.73, respectively.

Respondents of the service & urban farming agree that Lack of cash management skills is one of the problem that impediment their growth by score of mean 3.55& 4.14 and standard deviation of 0.73 & 0.69, respectively. For the respondent engaged in manufacturing, trade & construction Lack of cash management skills is not the main issue as their mean is 3.48, 3.27 & 3.44, respectively.

The mean score 3.85, 3.9, 3.71, 4.33 & 4.43 and standard deviation 1.1, 1.02, 1, 0.87& 0.8 of the respondents in table 4.5 shows that the main problem faced by those operators engaged in manufacturing, service, trade, construction & urban farming is the problem related to Shortage of working capital. Regarding High collateral requirement from banks and other lending institutions the mean scores depicts that the respondents of the four sectors except respondents engaged in trade agree that High collateral requirement from banks and other lending institutions is one of the problems for their growth. The result show that the mean score ranged between 3.86 to 3.5 for trade and the mean score is 3.33.

With regard to High interest rate charged by banks and other lending institutions the mean score of 3.4, 3.5, 3.31, 3.56 & 3.86 and standard deviation 1.14, 1.04, 1, 1.13 & 1 for entrepreneurs engaged in manufacturing, service, trade, construction & urban farming.

The mean value 3.35, 3.35, 3.1, 3.22 & 4.14 and standard deviation of 1.18, 1.05, 1.01, 0.83&1.1 for entrepreneurs engaged in manufacturing, service, trade & construction, respectively for Loan application procedures of banks as well as other loaning organizations are too complicated. This shows that the respondents of the four sectors are in dilemma to say that Loan application procedures of banks and other lending institutions are too complicated or not but the respondents of urban farming accepted as a problem.

The Grand mean of financial factor result indicates that it is the main factor that affects the growth of micro and small enterprises. In obedience with this result, [9] specified that majority of MSEs in countries for instance Ethiopia operates at underneath capacity because of deficiency of credit or else over-regulation. This difficulty has been aggravated by the request for security by commercial banks as a requirement for the consent of loan requests.

This is also dependable with preceding outcomes. For instance, according to [10] stated that even though active firms like MSEs tend to seek credit more actively, it does appear that small firms are affected more severely by capital constraints. For numerous causes alternating from lack of guarantee, MSEs incline to face more financial restrictions than do bigger businesses. As of the viewpoint of MSE owners, inadequate credit is commonly the most clear and persistent challenge deterring firm progress. MSEs receive formal loans relatively occasionally, and must therefore be dependent on other kinds of credit.

Similarly, [11] found that formal money lending institutions have so far failed to produce innovative, affordable and user friendly financial services with a particular view to assist the struggling MSE sector in Ethiopia.

Financing is one of the vital elements that govern the development of (MSEs) and essential to help them to set up and enlarge their actions, grow new goods, and spend in new staff or else production amenities. However if they are fruitful, there comes a time for all emerging MSEs When they need novel investment to enlarge or invent extra. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, or other financial institutions Lack of finance.

Furthermore, [12] stated that CBs, including the CBE, are believed to target mainly big and medium borrowers with relatively bigger investment activities and hence are not considerate when it comes to minor borrowers, owing to risk aversion attitude.

Marketing related constraints

Many literatures and authors stress that lack of market information as well as markets have been the major impediments to the development of small enterprises in Ethiopia. Because of the absence of market research and information many of the small enterprises are often concentrated in the production of similar commodities which puts them under fierce competition among themselves [13].

Marketing service providers are dedicated intermediaries that smooth access to moneymaking markets, whether using direct sales otherwise via brokering or else sub-contracting. Moreover these mediators offer a diversity of supplementary services, and while the demand for these services may differ relying on the selected sector and market, this study will show that ancillary services often prove just as essential as market access [14].

Marketing factors

Table-2: Marketing factors that affect the growth of MSEs

Item	Manufacturing		Service		Trade		Construction		Urban farming	
	MN	SD	MN	SD	MN	SD	MN	SD	MN	SD
Inadequate market for my product	4.45	0.51	4.13	1	4.21	0.92	4.33	0.71	4	1.41
Searching new market is so difficult	3.85	0.5	3.63	1.5	3.87	1	4.22	1.09	3.71	1.38
Lack of demand forecasting	4.15	0.75	3.6	1.22	3.74	0.95	3.89	1.05	3.86	1.35
Lack of market information	4.2	0.7	3.63	1.23	3.73	1.07	4.11	1.17	4	1.41
Absence of relationship with an organization that conduct marketing research	3.9	0.85	3.53	1.3	3.54	1.06	3.67	1.12	3.57	1.51
Lack of promotion to attract potential users	3.4	0.94	2.9	1.24	3	1.02	3	1.12	3	1.29
Poor customer relationship and handling	2.6	1	2.43	1.13	2.31	0.96	2.56	1.24	2.29	0.95
Grand mean/standard deviation 3.572 & 1.077										

(Source: Researcher’s Survey)

The above table 2 demonstrates that access to profitable markets is a main factor which governs the long term achievement for all businesses. For small and microenterprises, though, different constrictions limit this access, for instance inadequate technology, absence of raw materials, inefficient production and geographic isolation.

As shown in the table above The mean scores and standard deviations clearly show respondents agreement on the variable that market is inadequate is the main marketing factor with mean scores of 4.45, 4.13, 4.21, 4.33& 4 and standard deviation of 0.51, 1, 0.92, 0.71& 1.41, respectively for MSEs engaged in manufacturing, service, trade, construction & urban farming, respectively.

The respondents of manufacturing, service, trade, construction & urban farming agree with a mean of 3.85, 3.63, 3.87, 4.22& 3.71 and standard deviation 0.5, 1.5, 1, 1.09 & 1.38 that there is difficulty of Searching new market.

In table 2 it can be seen that, lack of demand forecasting is another marketing factor that affect the growth of MSEs. The arithmetic mean of 4.15, 3.6, 3.74, 3.89 & 3.86 with standard deviation of 0.75, 1.22, 0.95, 1.05& 1.35 for MSEs engaged in manufacturing, service, trade, construction & urban farming, respectively. In addition, the above table demonstrates that lack of market information deters businesses growth. The mean scores stand 4.2, 3.63, 3.73, 4.11& 4 and standard deviation remain 0.7, 1.23, 1.07, 1.17& 1.41 for entrepreneurs engaged in manufacturing, service, trade, construction & urban farming, correspondingly.

Similarly, majority of respondents agreed with they have no relationship with an organization that conduct marketing research. This agreement is justified by the mean scores of 3.9, 3.53, 3.54, 3.67& 3.57 and standard deviation 0.85, 1.3, 1.06, 1.12& 1.51 for MSEs engaged in manufacturing, service, trade, construction & urban farming, respectively.

Lack of promotion to attract potential users is also one of the problems for MSE. The mean scores are 3.4, 2.9, 3, 3& 3 and standard deviation of 0.94, 1.24, 1.02, 1.12& 1.29for operators engaged in manufacturing, service, trade, construction & urban farming, respectively.

On the other hand, the table above shows that respondent of service, trade & urban farming doesn’t agree with Poor customer relationship and handling as one of the problems of MSEs growth. Manufacturing and construction sector respondents are neither ‘agreed’ nor ‘disagreed’ with Poor customer relationship and handling as it affect the growth with mean of 2.6, 2.56 and standard deviation 1& 1.24, respectively.

The Grand mean of marketing factor result indicates that it is one of the main factors that affect the growth of micro and small enterprise. This respondent response consistent with previous studies like [15] there is sufficient evidence that small business failure can result from either a lack of marketing, or poor marketing practice.

By the same token, [16]; [17]; [10]; found that due to lack of market related knowledge, MSEs face serious problems because of they are unable to meet the visible growth due to lack of information where the best market areas are located, inability to analyse their respective market, lack of skills to set competitive prices, inability to effectively promote products.

On their finding [18] stated that in most cases, MSEs have limited means in obtaining effective and relevant data as well as information on market availability that can be gained from MSE Development Agencies, Chambers of Commerce, Industry and Tourism Bureaux, associations as well as Trade. Nevertheless, MSEs have difficulties in getting their hands on adequate data and information, one of the reasons for this deficit is that many of the centres are not within the reach of most MSEs.

Many literatures and authors stress that lack of market information as well as markets have been the major impediments to the development of small enterprises in Ethiopia. Because of the absence of market research and information many of the small enterprises are often concentrated in the production of similar commodities which puts them under fierce competition among themselves [19].

Comparison of Factors

Albeit all the independent variables financial and marketing factors affect the growth of MSEs, the degree of their effect does not necessarily equal. The following table clearly compares the overall impact of all key factors discussed in detail above depending on their mean value.

Table-3: Comparison of the major factors

No.	Factors	Group Mean	Group Standard deviation	Rank of severity
1	Financial Factors	3.627	0.958	1
2	Marketing Factors	3.572	1.077	2

(Source: Researcher's Survey)

From the above table it can be seen that financial factor is the biggest potential to contribute to the growth of different sectors of MSEs, followed by marketing and managerial factors. This result is supported by [3] who found that lack of finance rank on top being reported as the major constraints by a large proportion of the enterprises. However, according to [20] marketing factor is the main factor that contributes to the growth of MSEs followed by financial and managerial factors.

6. CONCLUSIONS

The most important external factors identified were financial factors which include Shortage of working capital with mean value of 4.044, High collateral requirement from banks and other lending institutions with 3.616 mean, Lack of cash management skills with 3.576 mean, Inadequacy of credit institutions with 3.57 mean. Shortage of working capital is the main financial factor that hinders the growth of MSEs. Though, MSEs lack cash management skills they face limited access to the long-term capital markets, these firms tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their need because it became hard for this enterprises to fulfil the requirements of the financial institution such as collateral requirement, loan application procedure and also the interest rate charged by financial institution is high to afford by MSEs.

Marketing factors include inadequacy of market with mean value of 4.224, lack of market information with 3.934 mean, difficulty of searching new market with 3.856 mean, lack of demand forecasting with 3.848 mean, absence of relationship with an association that conduct marketing research with 3.642 mean. Due to fast changing environment and increase of knowledge dissemination, it is difficult to MSEs to maintain competitive advantage through internal capability. Since, enterprises have no cooperation with universities & marketing research organization they can't access expertise from outside to get market information.

When there is inadequacy of market, the probability that MSEs experience growth is less and it became severe wherein inadequate customers coupled with difficulty of searching new market and lack of matching their products in accordance with changing demand. Thus, since marketing is one of the most activities required by businesses to growth through satisfying the needs and wants of customers, its constraints on the other hand hamper the growth of firms.

7. RECOMMENDATION

The main interest of this paper is to identify factors affecting the growth of Micro and Small Enterprise's (MSEs) in Gondar town and to suggest certain solutions how MSEs might be overcome such hindrance of growth. Thus, the following measures are recommended to be undertaken by all concerned Stakeholders.

Larger firms are much more attractive to financiers than MSEs. Hence, it is uneasy job for MSEs to raise debt to finance their working capital need. So considering their vital role for socio-economic development of the country, the Gondar town government bodies should struggle to set up suitable financial infrastructure to support them in collaboration with banks and MFIs to allocate a certain portion of their loanable funds for MSE businessperson and to make available comfortable lending and settlement arrangements and in addition to this Loan providers should have to charge reasonable interest rate.

Regarding to marketing support, the following measures need to be taken by concerning bodies.

- Getting priority on government development works like housing development.
- Encouraging market linkage between & among MSEs, medium & large scale industries.
- Providing MSEs Working premises & sales display centres in suitable location.
- Supporting MSEs in forming linkage with an organization that conduct marketing research.
- Providing Skill training on marketing concepts, product development and customer relation.
- Providing and supporting in participation of periodic Exhibition and bazaars.

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