

An Analysis on Encounters and Prospects of Micro and Small Scale Enterprise in Oromia Regional State: In the case of Nekemte Town

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Abstract

The Micro and Small Scale Enterprises (MSEs) occupied a place of importance in the Ethiopian economy with a potential for job opportunities, growth and development. The aims of this study was to scrutinize the challenges and opportunity affecting the performance of MSEs with a special emphasizes on manufacturing ,trade and service sectors in Oromia Regional State, in case of Nekemte city. For the sake of achieving the objectives of this study, questionnaires were analyzed using statistical analysis such as descriptive and inferential analyses. The information collected through questionnaire from a sample of 133 operators and face-to-face interviews were conducted with 21 operators of MSEs. The respondent operators were selected using stratified sampling technique. Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy. The findings reveal that the major challenges that hinder MSEs and their transformation towards Medium scale are the lack of working place, limited starting capital, marketing problems, infrastructures and politico-legal problems. In order to mitigate working place problems, stakeholders like the City Administration MSE office, trade and industry and the land administration should have a joint plan; more financial accesses shall be introduced; With the support of the community, Trade and Industry should seriously follow up the operation of MSEs; a fair competition and healthy market arrangement shall be established; the microfinance institutions should revisit its policy to ease the credit access and there should be a room to provide credit without group formation if the customer has an equivalent asset for collateral.

Keywords: Operators • MSEs • Performance • Challenge

Introduction

The reality of economic poverty is among the crucial features of least developed countries. This incident has been estimated to lead large proportion of the people of these countries to live hardly ever for survival. On the other hand, this has a trend to distort the socio-economic wellbeing of the society as a whole in terms of crimes, absence of peace, mental depression, and other related undesired practices which are likely to put the societies in a vicious circle of poverty [1].

Several scholars state a number of multi-dimensional reasons for the presence of such underdeveloped features in the LDCs. Lack of sufficient savings and productive investments are expected to be among the major tangible reasons for the underdeveloped economic status of these countries [2]. In consideration of this, a number of policy measures were being taken to increase the rate of savings and to expand investments across these economies.

On the other hand, primary much emphasis was being given to the extension of investment on large scale economic activities which comprise a very little proportion of the total economic activities of the countries. It is common that, in most LDCs, very large proportion of the people are engaged in small scale economic activities. Hence, all the efforts that were made for decades which neglect the small scale economic activities could not achieve the desired mission of the societies [3].

For that reason, different studies started to lay the thought of focusing on small scale economic activities. Accordingly; recently, different developing country's governments begin to design economic policies and strategies

that can broadly embrace these initially neglected economic activities.

There are different empirical evidences revealing the shift of policy focus from the one that emphasizes on large scale economic activities to micro, small and medium scale activities. In Thailand, planning and policy-making used to give much attention to large scale enterprises. But, recently, they appear to have been characterized by the understanding that there must be a shift from emphasis on large-scale enterprises toward the small and medium-sized enterprise sector, including microenterprises. It is felt that micro, small and medium-sized enterprises are able to contribute to the achievement of national development objectives Generally, in most fast developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high-level training, much capital and sophisticated technology [4].

In consideration of this, the Government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenges of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National MSE Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs [5].

MSEs have been given much attention by different policy makers as a path for economic growth and development. The improvement of performance and expansion of these enterprises is believed to bring a better socio-economic environment which can improve the wellbeing

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of the society at large. However, the worthiness and the capability of the enterprises to realize the achievement of the desired mission, is conditional on the fulfillment of different factors, of which the availability of favorable market condition is the major one.

Hypothetically, it is anticipated that the progress of Medium and Small Scale Enterprise relies on their profitability and their ability of capital accumulation. This is, in turn, highly correlated with the availability of sufficient market for their products. The lower the demand for their products, the lower will be the sales and revenue generated by the enterprises. The opposite is likely to hold if the demand for the products is higher with greater access to the market.

Divers empirical studies show that small enterprises usually regard market constraints and the inability to sell their products as one of the most serious obstacles to the starting of businesses and growth beyond mere subsistence level. In addition, access to markets and lack of market information is one of the most critical constraints to the growth of emerging MSEs in Kenya. The policies for addressing this problem do not seem to have achieved much success because access to market and information on competitors continues to be a severe problem for MSEs. According to the study of Kayanula Dthere was a general lack of marketing skills and information by MSEs. Their study shows that processors had little knowledge of their customer preferences regarding product range, taste and packaging.

All these assertions also hold true in the case of Ethiopian MSEs, as revealed from various studies undertaken concerning the MSE sector. Accordingly, responsibility for steps to overcome this constraint falls upon many different groups: individual entrepreneurs and groups of small businesses which have to compete with others for the same clients, regional governments, chambers and business associations who should see to it that there are no hindrances to market access of new comers, and big enterprises who should re-orient procurement towards small suppliers and subcontractors.

Therefore, by considering the upper mentioned understanding in mind, the researcher will analyze the existing marketing phenomena empirically thereby an attempt will be made to identify the major challenges and determinants of favorability of MSEs' market, taking a case study on operators of the sector in Oromia Regional State specifically in Nekemte city. In addition, the researcher undertakes a multi-dimensional need assessment to figure out the compatibility between the existing and actual situation of the businesses and what ought to be.

Materials and Methods

Source and Nature of Data

To undertake this study, both primary and secondary data have been taken into account. 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 documents, websites, reports and newsletters were reviewed to make the study fruitful. Moreover, the secondary data is gathered from different organizations which are concerned with the activities of MSEs, such as both regional and national agencies of MSE, Ministry of Trade and Industry and others.

To collect the primary data, questionnaires is systematically designed and distributed to both the MSE operators in the city. This was completed by the owner managers/or operators of the enterprises. Besides, face-to-face interviews with the MSEs operators/and the relevant owner managers who heads the enterprises in the selected sectors.

Research Design

The study adopted the descriptive and mixture of survey and observation to examine selected micro and small scale enterprise (MSE) operators. The study also applied the triangulation methods,(which refer

to the use of more than one approach to the investigation).This made the researcher to apply qualitative approach and quantitative approaches of data collection and analysis. With qualitative approach, a highly structured questionnaire administered to customer of product and MSEs operators at Nekemte city. The quantitative approach will be used to conduct interviews with government office, NGO and financial institutions officials in Nekemte town. Moreover, the study utilized cross-sectional in the sense that all relevant data was collected at a single point in time. The reason for preferring a cross-sectional study is due to the vast nature of the study and the limitation of time. And obtaining information from a cross-section of a population at a single point in time is a reasonable strategy for pursuing many descriptive researches [6].

Questionnaire Design

The layout of the questionnaire was kept very simple to encourage meaningful participation by the respondents. The questions were kept as concise as possible with care taken to the actual wording and phrasing of the questions. The reason for the appearance and layout of the questionnaire are of great importance in any survey where the questionnaire is to be completed by the respondent. The literature in the study was used as a guideline for the development of the questions in the questionnaire. Besides, some questions in the questionnaire were adopted from other sources. The questions that were used in the questionnaire are multiple-choice questions and five-point likert scale type questions. The type of scales used to measure the items on the instrument is continuous scales (strongly agree to strongly disagree).

Sampling Design

The researcher targeted all the registered and licensed Micro and small scale enterprises operators based at Nekemte city particularly operators of manufacturing (metal and wood works), operators of Trade (building and construction materials), operators of service (Electronics, beauty salon, grocery, photo studio, and pharmacy). The justification behind to select these categories of associations is due to the ease to access information and their high concentration in number in the study area and also need assessment survey result.

Sample Size and Sampling Technique

The study has use both Stratified random sampling and area sampling (proportional cluster sampling) method as a primary tool to identify the appropriate and relevant respondents of operators of the sectors. Accordingly, all the selected sectors (Manufacturing (Metal and wood works, Service (Electronics, Pharmacy, Beauty salons, Photo studio, Grocery), Trade (Building and construction materials shops) in the city are considered in to different strata (sector). And then, we selected sector using simple random sampling method.

Argues that, "The main factor considered in determining the sample size is the need to keep it manageable enough. Also this enabled the researcher to derive from it detailed data at an affordable cost in terms of time, finances and human resource. In this study, the sample size formula has been used, which was developed by Cochran:

In this study to select sample size, a list of the population formally registered MSEs until May 2018 by the Nekemte city Trade and Industry Development Bureau were obtained. The total population of the study is 1000 enterprises in the cities, the sample of 140 which includes Manufacturing, Service, and Trade were selected. The interviews were administered on the sample of 20 operators. These small numbers of interviewees were selected because of related responses from majority of respondents.

One hundred thirty three questionnaires were distributed across the three sectors cities, out of which 133 were completed and retrieved successfully, representing 98% response rate (Tables 1-3).

Table 1. Marketing factors affect the performance of MSE in nekemte city.

Marketing Factors	Manufacturing Business Sector	Service Business Sector	Trade Business Sector	Grand
	A. mean	A.mean	A.mean	A.mean
Inadequate market for my product	4.23	4.36	2.3	
Lack of market information	2.50	3.94	3.77	
Lack of promotion to attract potential users	3.95	3	2.9	
Grand mean/standard deviation				

Table 2. Politico-legal factors that affect the performance of MSE in study area.

Legal factors item	Manufacturing Business Sector	Service Business Sector	Trade Business Sector	Grand
	A. mean	A.mean	A.mean	A.mean
The tax levied on my business is not reasonable	3.88	3.77	3.73	4.24
Bureaucracy in company registration and licensing	4.33	4.36	4.5	3.52
political intervention	3.00	2.91	3.02	
Lack of government support	2.13	3.5	3.7	3.22
Grand mean/standard deviation				3.62

Table 3. Infrastructural factors that affect the performance of MSE in study area.

Infrastructural factors	Manufacturing Business Sector	Service Business Sector	Trade Business Sector	Grand
	A. mean	A.mean	A.mean	A.mean
Power interruptions	4.88	4.63	3.63	4.24
Insufficient and interrupted water supply	3.0	4.53	3.13	3.52
Grand mean/standard deviation				3.73

Variables and measurements

The selection of performance measures that reflect the true situation of small businesses with some degree of certainty and reliability is indeed a crucial process. The lack of universally accepted standard performance measures left the door open to business organizations to decide and choose its own performance measures that might not truly reflect their performance. Such performance measures include but not limited to: market share, sales volume, company reputation, return-on-investment (ROI), profitability, and established corporate identity. While some might argue that most of these performance measures are appropriate for large corporations, they are not always perfectly applicable to small businesses.

In this study, change in profit is used as a dependent variable to measure the performance of MSEs. Here the change in profit ratio data is used as the measure of the dependent variable performance of the enterprises involved in the survey. This is mainly because of the following three reasons. First, as the pilot study clearly indicates, MSEs are more focuses on profitability than other modes of performance measures. Second, as recommended by Rami and Ahmed change in profit has been widely adopted by most researchers and practitioners in business performance models. Also growth in employment level of the enterprises would not be another appropriate alternative measure of performance because this MSEs are primarily established as a source of self-employment. The independent variables are politico-legal, working premises, infrastructural, marketing variables.

Data analysis

The processed data further transformed to look for patterns and relationship between and/or among data groups by using descriptive and inferential analysis. The Statistical Package for Social Science (SPSS) version 20 was used to analyze the data obtained to carry out an empirical investigation on the favorability and challenges of market access of the sector. Specifically, descriptive statistics (mean standard deviation and charts) and inferential statistics (Chi-square independence test) were taken from this tool.

Descriptive analysis

It used to analyze the favorability and challenges of market access of the sector. In relation to this, the degree of favorability of market access was categorized into high favorability, medium favorability and unfavorable market access. Accordingly, the extent of favorability of market access will be measured using the number of associations facing the three possibilities of market access. Similarly, severity of each marketing challenge of the sector were analyzed using three possibilities (sever, not sever and not a problem at all) taking the number of associations reporting so, as a unit of analysis. Descriptive analyses were also applied to discuss the issues related to the major determinants of demand (market access) of products of MSEs in the city. The three categories of favorability of market access (high favorable, medium favorable and unfavorable) will be considered to describe the demand for the products of each type of business (industry)

in different places of the city. To identify the more demandable products of MSEs, a need assessment targeted on the users (consumers) of the products of MSEs carried out, in all areas of the city.

Accordingly, the more demandable products in different areas of the city is screened out and ranked using descriptive ways of analysis taking the number of selected customers using the products in different places of the city as a unit of analysis. In addition, those demandable products which cannot be accessed easily in different places of the city were identified and ranked using similar ways of analysis.

Data analysis and interpretation

To facilitate ease in conducting the empirical analysis, the results of descriptive analyses are presented first, followed by the inferential analysis. The purpose of this study is to critically assess the challenge and factors affecting the performance of MSEs in Nekemte city [9]. How far, the owner managers are aware on the challenges of MSE's performance. Data were collected from operators or owner managers of MSEs found in the study area.

Generally, this section is organized in the following manner: First, the general information about respondent and MSEs were presented and analyzed. Second, different factor that expected to affect the performance of MSE were analyzed using chart, table and Chi-square technique

The respondents of Manufacturing business sector (Metal and wood works) agree with their current working place is not convenient to run business (mean scores of 3.39). But, the mean scores for enterprises engaged in Service business sector (Electronics, Beauty salons, Photo studio, Grocery) and Trade business (Building and construction materials shops) not that much complaining the work place environment.

During need assessment (pilot) survey it was identified that among marketing factor three items (Inadequate market for my product, Lack of market information and Lack of promotion to attract potential users) are critical factors that affect and challenges the performance of MSEs engaged in all selected sectors in Nekemte city. The mean scores clearly show respondents agreement on the variables. That is mean scores of market inadequacy are 4.23 and 4.36 for MSEs engaged Manufacturing business sector (Metal and wood works), Trade business (Building and construction materials shops) respectively. However, operator in Service business sector (Electronics, Beauty salons, Photo studio, Grocery) disagree on issue related to lack of market in their product (mean score of 2.30). Moreover, lack of market information hinder businesses performance for business enterprises engage in all sector (mean scores are 2.5, 3.94 and 3.77). Likewise, in relation to lack of promotion to attract potential users, the respondents of Trade business and Service business sectors are neither 'agreed' nor 'disagreed' (mean score of 3.0 and 2.9). But, as the table above shows, lack of promotion to attract potential users is the main factor that affects the performance of MSEs engaged manufacturing business sector. As the mean score (3.95) clearly depicts, the respondent operators agree on their inability to promote potential users. As it is indicated in, the mean for some selected politico-legal factors were calculated. The table shows the bureaucracy in company registration and licensing has a mean score of 4.33, 4.36, 4.5 for Manufacturing business sector, Service business sector, Trade business respectively. Therefore, it may be concluded that bureaucracy in company registration is the main factor that challenges for the success MSE in Nekemte in all selected sectors [10]. This is followed by average score of the respondent's response with regard to unreasonable tax and related issues. The enterprises engaged in all sector, the tax levied on their business is not reasonable. The agreement on the non-reasonability of the tax amount is justified by the calculated means of 3.88, 3.77 and 3.73 respectively.

Conclusion

Based on the available findings, the researcher has drawn the following conclusions:

It is possible to wrap up that entrepreneurs are not satisfied with the existing business environment. Hence, the dominant challenges hindering MSEs transformation towards Medium scale are the lack of working place, starting capital (credit ceiling) and the action of whole sellers involvement in the parallel work of retailing. The credit is not more than twenty thousand birr. This limits them not to invest in moderate businesses such as milk cows which a single one needs to invest more than 25,000 birr.

The main sources of startup and expansion finance or funds for most MSEs are iqub/idir followed by personal savings, family and friends/relatives. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases this problems may be the inability of many operators to meet formal financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from informal sources.

The workings premises factors include absence of own premises and the rent of house is too high. Marketing factors include inadequacy of market, difficulty of searching new market, lack of demand forecasting, lack of market information and absence of relationship with an organization/association that conduct marketing research. Infrastructural factors incorporate power interruptions, and lack of sufficient and quick transportation service that hinder the business performance of all sectors.

Though, various governmental bodies designed various programs aimed at developing MSEs sector. Most of the programs were not given the appropriate backing and as such the impact of the programs could not be felt in the performance and competitiveness of MSEs. This is mainly because of the fact that these programmes or policies are not effectively implemented in line with their intended objectives owing to various reasons. According to the findings, the reason ranges from lack of visible commitment of some governmental bodies to lack of regular integration between the MSEs operators and the concerned bodies of the government.

Finally, the study has further identified that the different influences in which each of the factors under study have in different categories of the business. The research clearly illustrates that, even if the degree of those critical factors in manufacturing sector slightly differ from the factors that are critical to trade sectors, most of the factors are considerably common for three sectors. It has been noted that the contextual factors are prevalent to the businesses such as workings premises, marketing and infrastructure had very high effects on the performance of MSEs compared to other factors in the Nekemte City.

In order to have a bright prospect for MSE, the following recommendations are forwarded. In order to address the need of working place, stakeholders like the Nekemte city administration MSE office, trade and industry and that of the land administration should have a joint plan. Particularly, women are more vulnerable to problems which most of them had a very limited starting and operating capital resulting them less advantageous in the business competition as compared to male entrepreneurs. The national and regional governments also support provision of shades. Clustering of working places with similar specialization is advisable since customers flow to the areas where there are many alternatives for price and quality comparison.

National and regional government bodies should provide affordable alternative sources of finance for MSEs. This can be done by communicating with the banks and other credit institutions to lessen their requirements. This should be done so that MSEs can get enough access to finance for their business activities.

The strengthening of government institutions at different levels would play a major role in positively influencing the development of MSEs, thus to reduce delays in processing legal requirements. The government through various relevant departments should specialize more in taking up a facilitative role, especially by reviewing all the blockings by laws, to address

issues of getting a license or getting a premises on which to operate. A number of factors should be considered in designing all-encompassing policy for the promotion of the sectors.

Work lace and Marketing factors are frequently indicated as the explanatory factor for most problems faced by the studied MSEs. Therefore, it is necessary to solve this deep-rooted problem. Some of the ways of doing so can be: Providing selling and display places in areas close to working place, linking the MSEs with other private contractors working within or around Nekemte so that the operators are able to secure market opportunity, changing the perception of the general public through extensive awareness creation mechanisms, since private individuals are envisaged to be the main buyers of the products manufactured by MSEs in the long run and allowing those MSEs located and operating at Nekemte city to participate in biddings opened in other sub-cities of study area.

To make MSEs competitive and profitable, increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial. Moreover, improved provision of necessary infrastructure and enabling the environment for business operations is generally an imperative. Uninterrupted power supply and quick transportations are basic to effective performance of these enterprises.

It is the researcher view that future research could therefore investigate the other sectors like construction, urban agriculture, and retail and come up with specific findings which will potentially contribute a lot in the development of the country in general. This study dealt with more of

contextual and internal factors that affect the performance of MSEs. Further research could target the medium and larger firms that have dominated the markets having graduated from the MSEs. The field of MSEs is large and very diverse. It is an interesting area with many unresolved issues. It would be encouraging to get more solutions to many issues arising.

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