



ISSN: 2230-9926

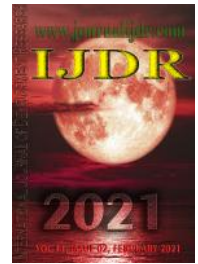
Available online at <http://www.journalijdr.com>

IJDR

International Journal of Development Research

Vol. 11, Issue, 02, pp.44459-44463, February, 2021

<https://doi.org/10.37118/ijdr.21075.02.2021>



RESEARCH ARTICLE

OPEN ACCESS

DETERMINANTS OF MICRO AND SMALL ENTERPRISES BUSINESS EXPANSION IN SOUTHERN ETHIOPIA

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ARTICLE INFO

Article History:

Received 10th December, 2020

Received in revised form

15th December, 2020

Accepted 22nd January, 2021

Published online 24th February, 2021

Key Words:

Binary Logit,
Business Expansion,
Determinants, MSEs.

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ABSTRACT

Micro and small enterprises' contributions to create employment opportunities and fostering gross domestic product have been empirically examined. However, there are inconsistent findings from the existing research about the factors affecting business expansion. Thus, this study was conducted to identify micro and small enterprise business expansion determinants in Southern Ethiopia. A multi-stage sampling technique was used. The collected data using questionnaires was analyzed using a binary logistic regression model to identify the micro and small enterprise business expansion factors. The result of the study indicated that training, technology usage, information facility, education level, working area, social networking, managers age and work experience were statistically significant determinants of business expansion. Furthermore, all significant variables have a positive relationship with enterprise business expansion. Hence, government and policy makers need to take these factors in to account to accomplish better result and increase the expansion of MSEs and they can contribution to the economic growth and poverty alleviation in the country.

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Citation: *Bogale Boshe, Dr. Endrias Geta and Dr. Abate Yesigat.* "Determinants of micro and small enterprises business expansion in southern ethiopia", *International Journal of Development Research*, 11, (02), 44459-44463.

INTRODUCTION

Micro and small scale businesses are one catalyst in the socio-economic development of any country. It contributes substantially to the GDP, export earnings, and employment opportunities. Micro and small scale enterprises (MSEs) have been broadly acknowledged as the catalyst for sustainable economic development. Apart from the fact that MSEs contribute to the increase in per capita income and output, they also create employment opportunities, inspire the development of indigenous entrepreneurship, improve regional economic balance through industrial dispersal and generally stimulate effective resource utilization that is considered to be critical in the area of engineering economic development (Odeh, 2008). In most developing countries, like India, Bangladesh, Brazil, MSEs constitute the vast majority of firms, generating a significant share of overall employment and output. However, MSEs in Ethiopia have not performed creditably well, and they have not yet played an expected significant role in economic growth.

They equally have not influenced beginner training to accelerate employment and poverty alleviation to promote Ethiopian economic development. This condition has been of great concern to the government at different levels, citizens, operators, practitioners, and organized private sectors (MOTI, 2005). The MSE sector's Ethiopia performance is low compared to similar sectors in African countries such as South Africa, Kenya, Uganda, and Tanzania (Zelege, 2010). Understand the determinants of MSE business expansion necessary for any policy intervention (Tekle, 2017). However, the lack of consistent findings by the existing research in Ethiopia has encouraged the researchers to explore why some microenterprises are successful and why others are not, why some microenterprises have performed better than others or vice versa. There might be various factors causing the variation in business expansion of the microenterprises. Therefore, this study seeks to identify micro and small enterprise business expansion determinants in Southern Ethiopia.

LITERATURE REVIEW

Definition of micro and small enterprises: The definitions of MSE differ with different institutions' setup. There is no universally acceptable definition of MSEs. Different scholars define MSEs differently based on the level of development of the country under review. However, in Ethiopia, the central statistical authority defined MSE based on the size of employment and the extent of automation for small scale enterprises and used a combination of these criteria for defining such enterprises. Accordingly, "microenterprise" means an enterprise excluding building, not exceeding Birr 50,000 in the case of the service sector or not exceeding Birr 100,000 in the industrial sector, and engages five workers, including the owner, his family members, and other employees. The same regulation defines "small enterprise" as an enterprise Birr 50,001 to 500,000 in the case of the service sector or Birr 100,001 to Birr 1,500,000 in the case of the industrial sector and engages 6 to 30 workers including the owner, his family members, and other employees (CSA, 2013).

Factors Related to Enterprise Business Expansion: The age and size of enterprises influence their performance in many ways. According to Deakins and Freel (2003), smaller and younger firms grow faster than larger and older ones. On the other hand, the enterprise age can help firms become more efficient as they observe and gain experience and learn from those observations and experiences. Older enterprises specialize and find ways to reduce their costs and improve quality (Loderer & Waelchli, 2009). Entrepreneurial ability and access to finance determine self-employed people's capability to expand their business (Burke et al., 2005). Johannisson (2000) noted that the key to entrepreneurial activity success depends on an entrepreneur's ability to develop and maintain a personal network.

Access to finance or credit also appears to have significant effects on the firm's performance. External finance access tends to make small firms more competitive (Segarra & Teruel, 2009). The creation and success of new enterprises are significantly influenced by the various activities within networks such as information communication, exchange of goods and services, and generation of expectation (Aldrich et al., 2000). Martin (2005) defined foresight as the process involved in systematically attempting to look into the longer-term future of science, technology, the economy, and society to identify strategic research areas and the emerging generic technologies likely to yield the most significant economic and social benefits. Amsteus (2011) identify the antecedents of foresight that may influence the foresight, such as environmental conditions, formal systems, training programs, etc. Furthermore, educational attainment improves a person's knowledge and skills and develops the ability of system thinking. Furthermore, in patriarchal societies such as African nations, being male are considered an advantage for a manager to run a business. Males tend to have access to better opportunities such as education and training and exposure to the external environment, enhancing their ability to predict the future and therefore have better foresight (Management Research Group, 2013).

The primary constraints identified by various studies on MSEs in Ethiopia are associated with market and finance problems. The causes of market-related problems of MSEs were shortage or absence of marketing skills, poor-quality of products, absence of marketing research, shortage of market information, shortage of selling the place, and absence of sub-contracting (FMSEA, 2006). Similarly, Adil (2007) found that inappropriate government intervention, shortage of capital, location disadvantage, lack of market, and lack of display room are the main challenges that obstruct MSEs. Lack of entrepreneurial and managerial skills, which in turn leads to problems in production due to the unfamiliarity of workers with rapidly changing technology, lack of coordination of production process, and inability to troubleshoot failures on machinery and equipment. The MSEs face a critical problem since they cannot afford to employ specialists in planning, finance and administration, quality control, and those with technical knowledge (HLCLEP, 2006).

Conceptual Framework: The conceptual framework of the study is represented in Figure 1. It indicates that micro and small enterprises' business expansion depends on some related institutional factors, entrepreneur-related factors, and related organizational factors.

RESEARCH METHODOLOGY

Research design can be defined as the blueprint for fulfilling research objectives and answering research questions (John et al., 2007). In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It ensures that the study will be relevant to the problem and that it uses economic procedures. Exploratory research design emphasizes the discovery of ideas and insights. Descriptive research design is concerned with summarizing the frequency with which an event occurs or the relationship between variables, and explanatory research design is concerned with determining the cause and effect relationships. Therefore, the types of research that were employed in this study is explanatory research. This is because the study aims at estimating the integrated influence of the factors on micro and small enterprise business expansion.

The study used primary data sources, and the main data sources were collected from micro and small enterprise managers. A multi-stage sampling technique was used to get the representative number of respondents. Three towns, namely Arbaminch from Gamo, Hosana from Hadiya, and Yirgalem from Sidama zones, were chosen for this study purposively. There are 3118 MSEs in the three towns (Arbaminch, Yirgalem, and Hosanna). As the population is finite, Yamane's (1967) sampling formula was selected. The required sample size at 95% confidence intervals would be determined as follows.

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

Where: n = Sample size
 N – Total Population
 e – Sampling Error

$$n = \frac{3118}{1 + 3118(0.0025)^2}$$

$$n \approx 355$$

Next, a stratified random sampling technique was used to divide micro and small enterprises into four sectors: manufacturing, construction, trade, and service. Then, a proportional number of respondents were determined from each strata using PPS Sampling Method (see Table 1). Finally, a systematic random sampling technique was adopted to select the ultimate respondents included in the study. The data were collected through a questionnaire defined as a standardized set of questions to obtain information from a target population sample. Even though MSE managers are reasonably educated, a team of experienced enumerators was participated to collect the data for the sake of a clear understanding of the data collection tool. The dependent variable for this study is micro and small enterprise business expansion. The independent variables of the study were training, working area, technology usage, infrastructure facility, access to finance, managerial skill, entrepreneurial experience, information facility (ICT), age of the manager, work experience, education level, social networking, and location were the independent variables included in the model. Since the dependent variable (Business expansion) was measure using a dichotomous category "1= if a firm expands its business" and "0= if a firm did not expand its business", a binary logit model was run to identify factors influencing the business expansion of micro and small enterprises. Before applying the model, a multicollinearity problem among the independent variables was tested using the contingency coefficient (CC) and Variance Inflation Factor (VIF).

RESULT AND DISCUSSION

Factors Influencing Performance of Micro and Small Enterprises: The Binary Logit Model was run to identify factors influencing the business expansion of micro and small enterprises.

Table 1. Sample design

Town	Micro-Enterprise						Small Enterprise					
	Population			Sample			Population			Sample		
	M	F	T	M	F	T	M	F	T	M	F	T
Arbaminch	670	450	1120	76	51	117	77	53	130	9	6	15
Hosana	720	180	900	82	20	102	68	80	148	8	9	17
Yirgalem	560	41	601	64	5	69	99	120	219	11	14	25
Total	1950	671	2621	229	76	298	244	253	497	28	29	57

Note: M= Male, F=Female, T= Total

Table 2. Summary of Independent Variables for Business expansion of MSE

Variable name	Variable type	Unit of measurement	Expected sign
Training	Dummy	1, if trained, 0 if no	+
Working area	Dummy	1, if yes, 0 if no	+
Technology usage	Dummy	1, if user, 0 if no	+
Infrastructure facility	Dummy	1, if yes, 0 if no	+
Access to finance	Order	1, if very low 5, if very high	+
Managerial skill	Dummy	1, if yes, 0 if no	+
Entrepreneurial experience	Dummy	1, if yes, 0 if no	+
Managers' age	Continuous	Years	+
Information facility (ICT)	Dummy	1, if yes, 0 if no	+
Work experience	Continuous	Years	+
Educational level	Ordered	Formal schooling	+
Social Networking	Continuous	Number	+
Location	Dummy	1, if good, 0 if poor	+

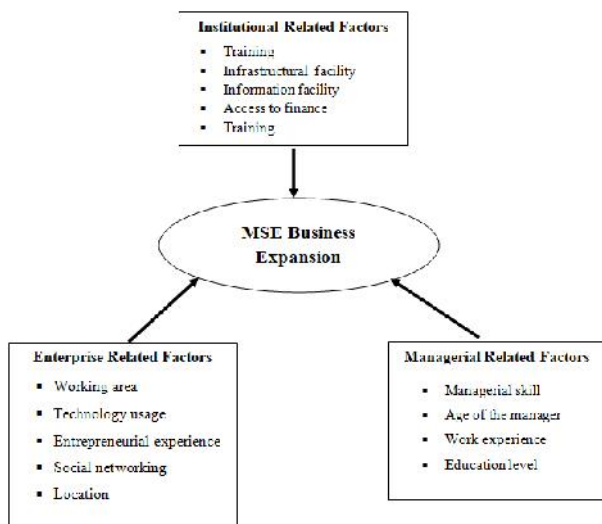
Table 3. Results of Regression Model on Factors Influencing Business Expansion of MSE

Variables	B	SE	Wald	p-value	Exp(B)
Training	1.606*	.734	4.784	.029	4.982
Working area	1.724**	.629	7.510	.006	5.607
Technology usage	1.141*	.557	4.189	.041	3.129
Infrastructure facility	.780	.635	1.509	.219	2.182
Access to finance	.609	.323	3.554	.059	1.839
Managerial skill	.205	.739	.077	.782	1.227
Entrepreneurial experience	1.011	.700	2.086	.149	2.749
Information facility (ICT)	1.572*	.672	5.470	.019	4.815
Age of the manager	.793***	.130	37.061	.000	2.211
Work experience	.889***	.250	12.629	.000	2.433
Education level	.647*	.265	5.940	.015	1.910
Social networking	2.078**	.676	9.438	.002	7.986
Location	.375	.293	1.637	.201	1.455
Constant	-32.973	5.558	35.201	.000	.000
LR Chi^2 (13)	253.020				
Prob> Chi^2	0.000				
Log-likelihood	120.831				
Pseudo R ²	0.510				

Note: *p < 0.05, ** p < 0.01, *** p < 0.001

The dependent variable (Business expansion) was measured using a dichotomous category "1= if a firm expands its business" and "0= if a firm did not expand its business". A multicollinearity problem among the independent variables was tested, and the results indicated no such problem among the variables. Therefore, all the hypothesized explanatory variables were included in the model, and the result presented as follows: The estimated coefficients of the logit model and the levels of significance are portrayed in Table 3. Thus, the likelihood ratio statistics from the logit model indicated that Chi -square statistics (253.02) was highly significant ($p < 0.001$), suggesting the model has strong explanatory power. Since the beta coefficient indicates only the direction of the independent variables' effect on the dependent variable and its estimates do not represent the magnitude of change, the odds ratio measures the expected change in probability of a particular choice regarding a unit change in an independent variable is presented. However, the under-mentioned section discusses the variables that significantly affect business expansion. A manager's training has a positive and statistically significant effect on an enterprise's business expansion ($B = 1.61$, $p < 0.05$). The odds of a manager who had taken training expand their business 4.98 times higher than those managers who did not take business training. It implied that enterprise managers who had taken business training have a better chance to expand their micro and small enterprises than those who did not take business training. This result is in line with that of Dahling *et al.* (2013).

They reported that taking training helps the owners/managers understand and recognize opportunities in every threat to expand their business. Similarly, Olusola and Olusola (2013) argued that training enhances entrepreneurs' motivation to expand their business. The enterprise's working area has a positive and statistically significant effect on its business expansion ($B = 1.72$, $p < 0.01$). The enterprise's odds with a working area expand their business 5.61 times higher than those that did not have a working area. It revealed that enterprises with working areas have a better chance of expanding their micro and small enterprises than those that did not have a working area. The result corresponds with Ortega (2010) that having a stable and fixed working area to carry various business activities has a significant role in expanding the enterprise. Conversely, a firm with no working area may not have regular consumers as the work is less accessible to them. Thus they face low performance relative to other enterprises whose working areas are fixed over specific periods and had an opportunity to expand. Technology usage has a positive and statistically significant effect on the enterprise's business expansion ($B = 1.14$, $p < 0.05$). The odds of enterprises that used technology expand their business 3.13 times higher than those that did not use technology. It revealed that enterprises with applied technology have a better chance of expanding their micro and small enterprises than those who did not use it.



This result supported the idea that technology is one of the most critical factors for a firm to expand its business (Hung & Chou, 2013). Moreover, Ortega (2010) reported that technology has a positive role in business expansion. The manager's age has a positive and statistically significant effect on the enterprise's business expansion ($B = 0.79$, $p < 0.001$). The odds of respondents who have older age expand their business 2.21 times higher than those who have a younger age. It revealed that a respondent who has older age has a better chance of expanding their micro and small enterprises than younger ones. In line with this, Tekle *et al.* (2016) indicated that older aged managers had richer experience and had a chance to expand the business to a great extent. In contrast, Dagmawit and Yishak (2016) reported that the entrepreneur's age is not statistically significant among micro and small enterprises' expansion. The information facility (ICT) of the enterprise has a positive and statistically significant effect on the business expansion ($B = 1.57$, $p < 0.05$). The enterprise's odds that have information facility expanded 4.82 times higher than those with no information facility. It revealed that enterprises with an information facility have a better chance of expanding than those with information facilities. The present result was in line with the finding of Nathan *et al.* (2015) and Anga (2014), where they pointed out that the adoption of Information and Communication Technology captures modern technology products/services, such as websites, online sales, and computerized production systems.

It is believed that ICT-based enterprises are growing faster than their counterparts because ICT can improve and strengthen customer relationships, enhance the firm image, enhance information exchange, and enable them to compete with other firms. The manager's work experience has a positive and statistically significant effect on the business expansion of the respondent ($B = 0.89$, $p < 0.001$). The odds of a manager who has better years of experience expand their business 2.43 times higher than those managers who have low years of experience. It revealed that respondents who have better years of experience have a better chance of expanding their micro and small enterprises than those with low years of experience. In line with this, Mizan (2009) showed that managers' background experience helps run their enterprise efficiently and expand to a large firm. The educational level has a positive and statistically significant effect on its business expansion ($B = 0.65$, $p < 0.05$). The odds of a manager who had a better educational level expand their business 1.91 times higher than those managers who had a low educational level. It revealed that managers who had better educational levels have a better chance to expand their enterprises than those who had low educational levels. The finding agreed with Yeboah (2015) that firms that were managed by entrepreneurs with higher formal education could have a better chance to expand than their counterparts. Besides, managers with higher educational qualifications are expected to make better quality decisions to manage a firm to expand the business (Victoria *et al.*, 2011).

The manager's social networking has a positive and statistically significant effect on the enterprise's business expansion ($B = 2.08$, $p < 0.01$). The odds of respondents who have social networks expand their business 7.99 times higher than those who did not have a social network. It revealed that managers who have social networks have a better chance to expand their micro and small enterprises than those who did not have a social network. Supporting this finding, Wolde and Geta (2015) argued that having a social network is a valuable asset that can help entrepreneurs access information and resources like credit to help their business.

Conclusion and Policy Implication

Working area, social networking, and technology usage are the other significant variables that influence micro and small enterprises' business expansion. The availability of a better working area equipped with the necessary facilities to produce, store, and sell their products in a permanently secure way enables the enterprise to expand. An enterprise with low working areas may not have regular consumers as it is less accessible to them and faces low performance. Social networking can play a higher role in helping entrepreneurs to overcome obstacles related to transaction costs, contract enforcement, and sale more. A powerful tool that can benefit an entrepreneur is getting a social network. Obtain access to information, new customers, suppliers, and credit resources to expand their business. Enterprises that applied technology have a better chance of growing their micro and small enterprises than those who did not use it. Technology is one of the most critical factors for a firm to expand its business. A manager's training and education affected entrepreneurs' market growth. Enterprise managers who have taken business training have a tremendous potential than those who have not taken business training to grow their micro and small businesses. Taking training allows management to consider and identify ways to expand their enterprise. The educational level of a manager affects its business expansion. Managers who had better academic levels have a better chance of developing their enterprises than those with low educational levels. Firms managed by entrepreneurs with higher formal education could have a better opportunity to expand than their counterparts. Besides, managers with higher academic qualifications are expected to make better quality decisions to manage a firm to grow the business. Hence, government and policy makers need to take these factors into account to accomplish better results and increase the expansion of MSEs and their contribution to the economic growth and poverty alleviation in the country.

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