

# Factors Determining the Success of Small and Medium Enterprises in Tigray region: the Case of selected town Hintalo Wejerat Wereda

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## Abstract

Micro and small enterprises and development opportunity have very direct relationships. They require less capital and more labor. SMEs have the capacity to generate a much higher degree of employment opportunity with less capital as compared to large-scale enterprise. The overall objective of the study is to analyze the factors that determine the success of small and medium scale enterprises at Hintalo Wejerat some selected town. This study analyzes some key determinants of success among 193 sampled small and medium scale enterprises out of 373-targeted population at Wereda Hintalo Wejerat. Proportions sampling formula were used and Questionnaire, interview, and document reading, were used to obtain the data. Two indicators, namely compound employment growth, and capital growth, represent success. Data analysis was carried out using descriptive statistics and multi regression model. The descriptive part presents the stages of growth of SMEs using graphs based on the sector type and years of operation. Number of employees who took training based on the types of training given was also presented in this section. Moreover, the mean compound employment and capital growths of the enterprises in relation to various independent variables were computed. The regression result showed that success of micro and small enterprises measured by employment and capital growth is affected by a variety of factors.

From the compound employments growth, it was found that enterprise's initial size and years of operation are inversely related with success providing evidence that firms with smaller initial size and year of operation grow faster than firms with higher initial size and year of operations. In addition, there is statistically positive link among service sector, preparation of business plan, access to marketing information and involvement in social network and compound employment growth.

**Keywords:** determinants, success factors, small and medium scale enterprise, Hintalo Wejerat.

**JEL Classification:** M21.

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## 1. Introduction

### 1.1. Background of the study

The small and medium business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Wolfenson, 2007: 28-39). Similarly, Simeon and Lara (2009: 1453-1464) found that the MSE sector generates substantial employment and economic output in many countries.

Small and medium scale enterprise in Ethiopia is no exception in this regard facing the mentioned challenges as revealed by researches conducted in various parts of the country. For instance, a study made by (Garoma,

2012: 177; Habte, 2012: 66) on the micro enterprise of Addis Ababa in the urban informal sector confirmed such pointed factors as the determinants of the enterprise success.

The current small and medium business environment in Ethiopia is relatively inviting and more stable when compared with the past regime. The government has formulated different policies that encourage entrepreneurs to take the initiative to start venture of their own. Among the different kinds of entrepreneur in Ethiopia, these are engaged in the restaurant and coffee house businesses are significance. This businesses industry plays a curtail role in the overall economy of Ethiopian by creating job opportunities for a considerable number of people.

Small business in Ethiopia is no exception in this regard facing the mentioned challenges as reveled by researches conducted in various parts of the country.

Therefore, this study tried to analyze the relationship between the compound annual growth of current capitals (current employee) of the enterprises with identified independent factors that can affect the growth (success) of the current capital (current employee) through sector dimension analysis.

The study is worthy in identifying the growth status of the enterprises and analyzing the factors that affect the success of SMEs. So as to take appropriate measures by decision makers and contributes to the objective of national development.

## **1.2. Statement of the problem**

Prior research documented that SMEs play a significant role in the economy of a country. Consequently, the performance of the SME sector is closely associated with the performance of the nation. There has been more written about small business growth in recent years than any other aspect of management. One of the main reasons is the contribution of expanding enterprises to economic development and unemployment reduction, which generally has attracted the attention of researchers and policy makers in many countries (Bernice. & Meredith, 1997 :37-64).

The current Ethiopian government considers SMEs as one of the core development strategies through which it believes to achieve social and economic prosperities for its citizens. Presently it is carrying out an intensive registration of the enterprises at national level the same is true at Hintalo Wejerat. Nevertheless, the status of their operation is the basic question to be asked by the policy makers and researchers. There are many factors that affect the performance of SMEs either positively or negatively which in turn will determine their fate in the competitive business environment. These factors, which contributes to the success of the enterprises, are categorized as internal attributers (personal and business related) and external attributers (governmental, access to market, infrastructure) factors (Beyene, 2007: 39).

Very recent studies shows that MSEs in Ethiopia are constrained and failed to succeed by a number of factors (Washiun & Paul, 2011: 233-246; Gurmeet & Rakesh, 2008: 120-136) such as unfavorable legal and regulation condition, lack of access to market, poor access to quality business infrastructure, problems of raw materials and lack of working capital are among many factors.

According to (Tiruneh, 2011: 3) in Ethiopia there are only few empirical studies that deals with the factors that affects the success of MSE's. This indicates the need to conduct study related with the mentioned topic.

According to Alasadi and Abdelrahim (2007: p. 1-2) research that can lead to the identification of those factors that are associated with small and medium business performance is a great interest to policy makers, owner manager and their advisor, associated with the importance of small business to the economy. He added that the survival, success and performance of these enterprises in this sector are an issue of continuous concern.

Even though scholars note that, the safe way is to have comprehensive measures of success than relying on a single indicator in dealing with the success/growth of micro and small enterprises, studies (Gebreeyesus, 2009: 46; Solomon, 2004: 51) conducted so far in line with this issue give more emphasis to single measurement criteria of success/growth as methodology. and even special focus is given to the determinants of performance of manufacturing enterprise, but such assessment do not guarantee to conclude about determinant factors of success of MSEs in whole sector. In addition, though there are some studies, which directly or indirectly assessed the success/growth determinants of SMEs, they have reached to different conclusions for similar

research issue for example concerning the effect of firm's initial size (Garoma, 2012: 177; Tiruneh, 2011: 12) which is necessitated to have further study. It implies that the studies conducted in other specific area do not guarantee to conclude about the picture of the rest parts of the world, especially at town level.

Therefore, this study conducted to fill the research gap of SMEs existed at wereda level and what factors mostly success at the small and medium scale enterprise level. In light of the above-mentioned fact, it is vital to investigate the factors that the success of small and medium scale enterprise in Wereda Hintalo Wejerat. So that to find timely and the real success determinants of SMEs at the town and in dealing with success determinants this study tries to answer the important question of why a few SMEs graduate to the upper level while others stay as start-up.

This study was investigating factors that affect the success of micro and small enterprises at Hintalo Wejerat Wereda some selected town raising the following research questions:

1. How the growth statuses of micro and small enterprises in the study area?
2. What are relationships of social networking with the success of MSE's?
3. When a government-supporting service affects the success of SMEs?
4. Which the SMEs operate can have significant impact on the success of SMEs?
5. How BDS have a significant impact on the success of SMEs.

### **1.3. Objective of the study**

The overall general objective of the study was factors determining the success of small and medium enterprises in Tigray region; the case of Hintalo Wejerat Wereda some selected town.

Based on general Objective the following Specific objectives formulated.

- To evaluate the growth statuses of micro and small enterprises at Hintalo Wejerat.
- To analysis whether social networking have relationship with the success of SMEs.
- To verify whether government-supporting services affects the success of SMEs.
- To analyze whether the sector in which the SMEs operate can have significant impact on the success of SMEs.
- To analyze whether access to BDS have a significant impact on the success

### **1.4 Scope and limitation of the study**

The study was limited to Tigray Regional state, Hintalo Wejerat Wereda in two areas (Adigudom, and Hiwane) to overcome the existing analyze the factors that determine the success of small and medium scale enterprises at Hintalo Wejerat some selected town. It was also delimited to those SME's that been registered under the SME's development strategy of Ethiopian government and licensed by each centers of SME's service center in the sub Town. Lack of relevant data and biased judgment of interviewees were some of the other problems, which encountered. To begin with, the fact that the majority of the respondents' educational background is low creates some negligence in filling the questionnaire. Some do not give values to the questionnaire and some others do not return it totally.

## **2. Literature review & conceptual framework**

### **2.1 Literatures**

#### *Definition of Micro and Small Enterprise (SMEs)*

Worldwide, there is no common definition of the MSE. Although the Size criteria (number of employees, sales turnover, Asset size total capital investment and the like), and Economic criteria (market share, independence and personalized management) are the two main approaches used to define SMEs (Beyene, 2007: 39).

#### *Medium Enterprise*

**Industry sector** (manufacturing, construction and mining); an enterprise operates with 100 and above people including the owner and/or their total asset is exceeding 1.5m Birr.

**Service sector** (retailer, transport, hotel and Tourism, ICT and maintenance service) it operates with 31-100 persons including the owner of the enterprise and/or the value of total asset is Birr 1.5 million.

#### *Small Enterprises*

**Industrial sectors** (manufacturing, construction and mining): It operates with 6-30 persons and/or with a paid up capital of total asset Birr between 100,000(one hundred thousand) and not exceeding Birr 1.5 million.

**Service sector** (retailer, transport, hotel and Tourism, ICT and maintenance service)

It operates with 6-30 persons or/and total asset, or a paid up capital is with Birr between 50,001 and not exceeding Birr 500,000 (FeMSEDA, 2011: 13).

## **2.2. Definitions of success and failure of SMEs**

According to Siropolis (1998: 92-93) the followings are the most common reasons why small business succeed or fail.

**Age:** Younger people who start a business have a greater chance of failure than older people do. This implies the younger the business owner the higher the chance of failure in doing the business this is because business owners learn not only from formal education but also from their walks of life.

**Capital:** Businesses that start with too little investment by owners have a greater chance of failure than business with adequate investment by owners.

**Education:** People with no college education who start a business have a greater chance of failure than people with one or more years of college education.

**Experience:** Business run by people without prior industry experience have a greater chance of failure than business run by people with prior industry experience.

**Marketing:** Business owners without marketing skills have a greater chance of failure than others with marketing skills. This shows that owners with marketing skill are more likely to perform well than owners with no marketing skills.

**Parents:** Business owner whose parents did not own a business have a greater chance of failure than owners whose parents did own a business. Therefore, family background is one element that contributes to the success of business.

**Planning:** Business that do not prepare a business plans have a greater chance of failure than business that do.

**On an individual level;** education, work experience, and gender and the household affect growth /success while at the firm level; firm age, formality, technology, and finance are key factors.

**At the social level,** inter-firm cooperation and social networks are key factors affecting growth/success while at the top level.

**The business environment;** the macroeconomic context, regulatory and institutional context, location and sector, infrastructure, and the value chain are relevant factors affecting MSE growth /success.

#### *Individual level*

**Age and experience;** one might expect older and/or more experienced people to become entrepreneurs, for the following reasons:

The human and physical capital requirements of entrepreneurship are often unavailable to younger workers.

**Education of the business owner;** According to Hand et al (1987: 55-63) education to business owner successful performance is very relevant. A reason for supposing it would do so is that education improves literacy, quantitative training, and social and communication skills.

#### *Family background*

It has been widely recognized that self-employment tends to run in families. Self-employed parents might offer their offspring informal induction in business methods, transfer business experience and provide access

to capital and equipment, business networks, consultancy and reputation. In addition, children may be motivated to become entrepreneurs if this eventually entitles them to inherit the family business (Parker, 2004:).

### **Business plan**

Business planning is one of the processes regarded as predictor of business success (Institute of Small Business, 2010). Scholars of entrepreneurship and small business management hail business plans as the source of success (Nieuwenhuizen et al, 2003: 33) because it seeks to clarify, crucial issues such as: the vision and mission of the enterprise, membership of the enterprise, objectives of the enterprise, market availability and access, financial projections, possible financial sources, how the enterprise intends to redeem the financing, ownership prior to the implementation of business idea.

#### *Social networking*

In many developing countries, including Ethiopia, social links serve either as an enforcement or information device in the MSE's Sector. In an attempt to clarify this point (Premaratne, 2002: 52) Explains networking as long-term contact between small business owners and external actors (person or organization) in order to obtain information, moral support and other resources.

#### *Limited Access to Business Development Services*

Business Development Services are designed to help micro, small, and medium-sized enterprises overcome barriers to increased profitability, by improving their productivity and access to high value markets. In this way, the sector can create and sustain productive, remunerative and good quality jobs, as well as reduce poverty, and contribute to the development of the local economies.

However; since informal enterprises do not comply with government regulations, the majority of them have no access to business development services offered or coordinated by governments. Some of them are unaware that business development services are offered while others are ignorant to its worth (Endalkachew, 2008).

#### *Marketing problems*

Tiruneh (2011: 3) Conduct a study on analysis of the success factors of micro and small enterprise in Addis Ababa and found that, as there is no significant variation in the performance of SMEs operating in Addis Ababa in relation to difference in age and education this is the different conclusion compared to previous studies.

#### *Access to finance*

SMEs in developing countries apply for and receive formal bank loans relatively infrequently, and thus rely on other types of credit such as trade credit, overdrafts, and informal loans. Microfinance institutions also provide important sources of financing for SMEs, but their outreach is more limited than that of traders (Simeon and Lara, 2005: 21-22). This indicates the high likelihood of MSE's Success to be constrained by lack of access to finance.

#### *Education and training*

Enock (2010: 45) made, a study on the factors limiting the success/growth of small business in Tanzania. As seen in his study, the educated entrepreneurs showed more promising results in terms of how their business is doing.

#### *Social network*

Scholars (Renzulli et al., 2000: 523-547) also support this, according to them social networks help entrepreneurs from conception to growth. They argued that before starting any operation, a small enterprise sector operator is highly influenced by the surrounding friends, families, and ethnic groups to embark on a specific activity social cohesion and mutual support help firms to survive and learn their surroundings. From this it can be inferred that social network serves as crucial assets for firm's success/growth.

### **2.3. Conceptual framework**

The theoretical and empirical literature reviewed in the preceding sections allows me to develop the conceptual framework depicted below. Although, it is not possible to list all factors that determine enterprises success, considering time and other resource factors the following variables from the reviewed literature are presented as depicted below.

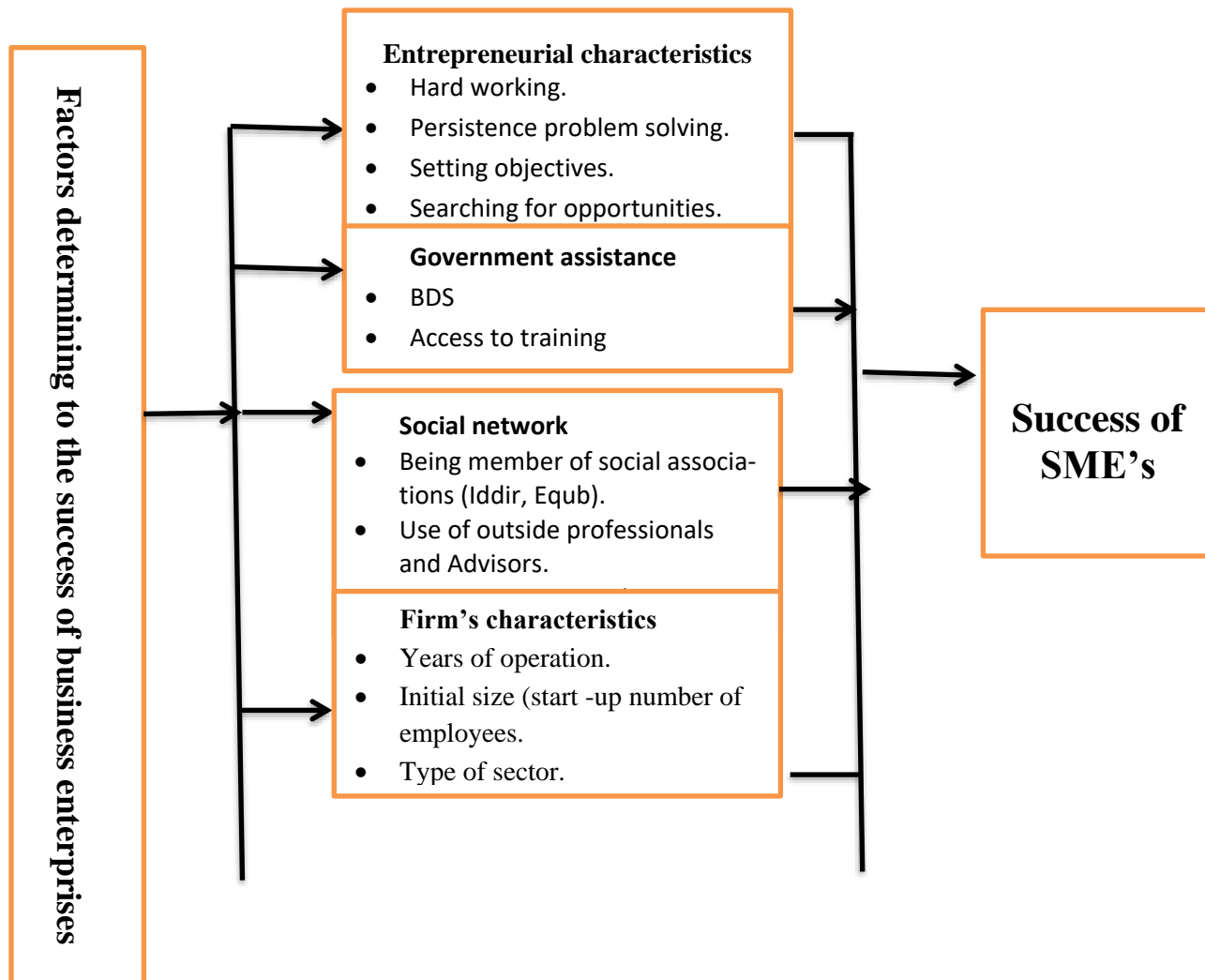


Figure 1. Factors affecting the success of SME's

Source: compiled from the review of literature and empirical evidences.

### 3. Research methodology

#### 3.1. Research design

Table 1. Distribution of SMEs in Wereda Hintalo Wejerat

| Sub cities  | Enterprise type | Number of SMEs |
|-------------|-----------------|----------------|
| Adigudom    | Manufacturing   | 18             |
|             | Service         | 121            |
|             | Trade           | 35             |
|             | <b>Total</b>    | <b>174</b>     |
| Hiwane      | Manufacturing   | 25             |
|             | Service         | 140            |
|             | Trade           | 34             |
|             | <b>Total</b>    | <b>199</b>     |
| Grand Total |                 | <b>373</b>     |

Source: Registry of Hintalo Wejerat Trade and Industry Bureau 2019.

The study was descriptive research design, whose purpose was, Factors Determining the Success of Small and Medium Enterprises in Tigray region; the Case of Hintalo Wejerat Wereda some selected town. The study was employ qualitative and quantitative research approach; particularly descriptive sample survey was selected for the appropriateness with cross sectional of the study. After the data obtain from questionnaires the research was analyzed. The target populations of the study were from the owners of small and medium scale enterprise. The research project is going to apply both primary and secondary data sources. The primary data was collected using survey questionnaire from the concerned bodies. Also, the secondary data was collected from different sources such as documents, other research findings, and reports, in order to support the primary data by some related theoretical concepts.

### 3.2. Study population

As the data obtained from the report of Hintalo Wejerat Wereda Trade and Industry office in 2019, indicates the total number of SME's that are registered legally and functioning in Adigudom and Hiwane are 373, which are engaged in the activities of Service, Manufacturing, and Trade.

### 3.3. Sampling procedure

Micro and small enterprises located in Adigudom and Hiwane and which are in operation for at least two years were stratified according to the sector in which they are operating.

### 3.4. Sample Size Determination

The study was used both probability and Non-probability sampling design. The Nonprobability sampling was used Judgmental or purposive sampling method to select from the different town. In addition to this a stratified random sampling method was used the study to select the number of sample respondents proportionally from each stratum. After this the researcher was used systematic sampling method to select the respondents from each town. Sample size for the population of SMEs is determined by using the formula from (Cochran, 1963: 53-57; Israel, 1992: 39) as below:

$$n = N / (1 + N(e)^2)$$

Where  $n$  = Sample size from the total population of SMEs,  $N$  = Total population,  $SMEs = 373$ ,  $e$  = non-response rate: 5%.

Therefore, the calculated sample size was 193.

$n_h = (N_h/N_s) n$  where  $n_h$  is sample size from each stratum,  $N_h$  is total population in each sector, and  $N_s$  population of the sum of strata for the study (373)  $n$  is total sample size from the study population (193) using this formula, sample the computed sample size from each stratum is provided in table below. From each stratum, proportionate sample size was computed based on the formula indicated below.

Table 2. Proportionate sample size from each stratum

| Enterprise Sector | Number of Enterprises | Proportional Sample Size From Each Type of SMEs<br>( $N_h/N_H$ )*Sample of SMEs |
|-------------------|-----------------------|---|
| Manufacturing     | 43                    | $(43/373)*193=22$   |
| Service           | 261                   | $(261/373)*193=135$   |
| Trade             | 69                    | $(69/373)*193=36$   |
| Total             | 373                   | 193   |

Source: own survey (2019).

### 3.5. Data collection method

To collect the primary data from the target source, a self-administered questionnaire and unstructured interview were used.

The questionnaire was first prepared in English and translated into Tigrigna then retranslated back to English by another person who was blinded for English version to check consistency of questionnaire.

### 3.6. Method of data entry & analysis

Multi regression linear model method was used. This method was employed to test whether or not the key independent variables were related to the dependent variable.

As noted earlier, this study relies on compound employment and capital growth, indicators of success. As the effect of some success determinant, vary between the two measurements, consideration of success in such a way is relevant. Hence, both compound employment and capital growth were used in the regression analysis as indicator of success. The general formula for multi regression linear mode as referred from (ANDY, 2009: 197-262; Morgan et al., 2004: 126-131) is

$$Y_i = (b_0 + b_1X_{i1} + b_2X_{i2} + \dots + b_nX_n) + \varepsilon_i$$

$Y$  is the outcome variable,  $b_1$  is the coefficient of the first predictor ( $X_1$ ),  $b_2$  is the coefficient of the second predictor ( $X_2$ ),  $b_n$  is the coefficient of the  $n$ th predictor ( $X_n$ ), and  $\varepsilon_i$  is the difference between the predicted and the observed value of  $Y$  for the  $i^{\text{th}}$  participant.

Specifically, the determinants of success factors in the study expressed as referred from (ANDY, 2009: 197-262; Morgan et al., 2004: 126-131) is

$$EGTH = a_0 + b_1(FAG) + b_2(ABDS) + b_3(INE) + b_4(SECTOR) + b_5(BP) + b_6(TR) + b_7(SNW) + b_8(AMI) + b_9(EC) + e$$

## 4. Results and discussion

This chapter is deals with the presentation, analysis and interpretation of data collected through questionnaires information collected from the owners and secondary sources. The questionnaires were distributed to sampled SMEs owner/managers of Hintalo Wejerat Wereda town as illustrated in Figure 2.

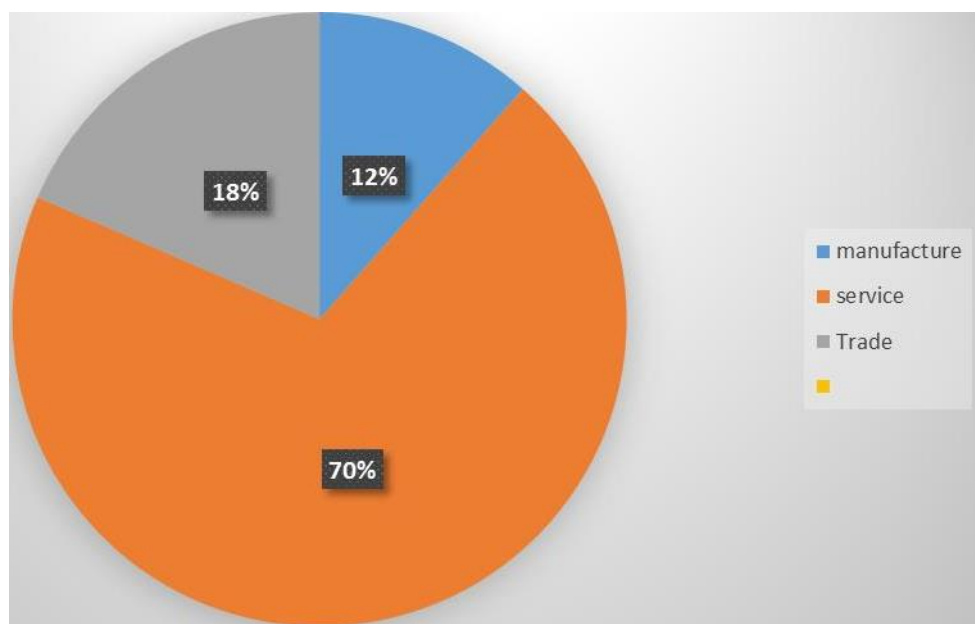


Figure 2. Distribution of Sampled SMEs by Type of Sectors

Source: own survey (2019).

Above, the sampled firms are operating in three sectors of the economy. Most of them are engaged in service sector 70% followed by trade 18%, and manufacturing sector 12%. Therefore, among the SMEs operating at Hintalo Wejerat Wereda the service sector is the largest in number.

### 4.1. Result of Descriptive Statistics

#### 4.1.1. Firm Growth - Descriptive





**Figure 3. Firm's growth based on years of operation**

Source: Hintalo Wejerattrade and industry office (2019).

As it can be seen in Figure 3 above the growth, status of SMEs at Hintalo Wejerat Wereda is highly fluctuating. For example, starting from the year 2013/14-2016, there is the same number of enterprises at expansion and maturity levels, which is 31 and 18 respectively. This indicates that the number of enterprises that graduate to the upper level of growth (expansion & maturity) between the years 2013/14-2016 is zero.

Ironically, though it is said that the support to the SMEs currently is improving the fact in the fig 4.2 above shows that the number of enterprises graduating to the upper level presently is not as expected as the support.

The main stake holders involved in the provision of training support is the small and medium scale enterprise office. As the information obtained from the unstructured interview, reveals the personnel responsible for the provision of training support for the Enterprises are not motivated for such tasks. They mentioned lack of human power and incentives as the main reason. Moreover they added that it is the same employees who are engaged in the regular work that are assigned to provide supervision and training services to the enterprises found throughout the Hintalo Wejerat.



**Figure 4. Training support given on recent years**

Source: Hintalo Wejerat trade and industry office (2019).

As seen from Figure 4, the largest number of SMEs Work force who are given with managerial training is in 2013/2014. The managerial training in 2015/2016 and 2017/2018 was less as compared to the 2013/2014. Considering the business development services support 70 work force obtained training in 2013/2014 whereas the number declines to 32 employees in 2017/2018. Generally, the training support given by the government shows unsteadiness in terms of the number of employees it participates.

Table 3. Personal information of the owner /managers

| Characteristics    | Category              | Frequency | Percentage |
|--------------------|-----------------------|-----------|------------|
| Sex                | Male                  | 121       | 63         |
|                    | Female                | 72        | 37         |
|                    | Total                 | 193       | 100        |
| Age                | less than 20 years    | 8         | 5          |
|                    | 21 up to 30 years     | 97        | 50         |
|                    | 31 up to 40 years     | 66        | 34         |
|                    | Greater than 40 years | 22        | 11         |
|                    | Total                 | 193       | 100        |
| Educational status | Elementary            | 80        | 39         |
|                    | Junior                | 57        | 30         |
|                    | High school           | 48        | 25         |
|                    | Diploma               | 10        | 5          |
|                    | Degree                | 2         | 1          |
|                    | Total                 | 193       | 100        |

Source: own survey (2019).

Table 3 shows the profile of the business owners/managers of 193 respondents involved in the survey. Male respondents account for 63% while females were 37%, this shows majority of respondents were male. Common respondents age 21to30 years accounted for 50.1%. Most of the respondents were with educational level of elementary school 39% followed by junior school of 30%. In addition, 25% of the total operators have completed high school and above. As illustrated in table 4, above the percentage value for compound employment and capital growth increases with increase in educational level of the enterprises owner/managers. Except for high school levels the percentage values of the success indicators (employment and capital) percentage scores shows improvement, leading to the conclusion that higher education favors the success of SMEs at Hintalo Wejerat Wereda. Similar findings were reported by authors such as (Cantuche et al., 2010: 195; Enock, 2010: 45; Garoma, 2012: 177; Solomon, 2004: 91).

Table 4. Characteristics of the firm

| Characteristics              | Category                 | Frequency | Percentage |
|------------------------------|--------------------------|-----------|------------|
| Ownership form               | Private                  | 125       | 65         |
|                              | Union (association)      | 68        | 35         |
|                              | Total                    | 193       | 100        |
| Age of the firm operation    | two                      | 61        | 31         |
|                              | three                    | 54        | 27         |
|                              | four                     | 37        | 19         |
|                              | five                     | 30        | 16         |
|                              | six                      | 11        | 7          |
|                              | Total                    | 193       | 100        |
|                              | Initial employees number | 1-5       | 135        |
| 6-10                         |                          | 41        | 20         |
| 11-16                        |                          | 17        | 10         |
| Total                        |                          | 193       | 100        |
| Present employees number     | 1-10                     | 93        | 48         |
|                              | 11-20                    | 65        | 34         |
|                              | 21-30                    | 35        | 18         |
|                              | Total                    | 193       | 100        |
| Reason to start the business | Increasing my income     | 79        | 41         |
|                              | Self-employment          | 94        | 49         |
|                              | Requires low investment  | 20        | 10         |

Table 4 (cont.). Characteristics of the firm

| Characteristics             | Category | Frequency | Percentage |
|-----------------------------|----------|-----------|------------|
|                             | Total    | 193       | 100        |
| Do you have a business plan | yes      | 65        | 34         |
|                             | no       | 128       | 66         |
|                             | Total    | 193       | 100        |

Source: own survey (2019).

Table 4 presents the profile of business background using frequency and percentage. Business ownership forms of the private are larger of 65% compared with the union forms, which contains the rest 35%. Age of the firm in operation of 31% and 27% are the most common, which are two and three years respectively. Second common of 19 is four years; the third of 16% are with five years of age. Numbers of workers of 1 to 5 people of 70% are majority respondents followed by 6 to 10 people of 20% and next are above 11 to 16 people accounted for 10%.

It can be observed that according to the definition given to SMEs in Ethiopia based on the initial number of employee's majority of the enterprises are at their micro level at establishment. 41% of the respondents indicated that they started their business as a tool to increasing their income. 49% alluded to the fact that they started their businesses in order to create their own self-employment. 10% started associated with low investment requirements of their business. Based on this result it can be concluded that most SMEs in Hintalo Wejerat Wereda town were started to address socio-economic aspects such as unemployment and poverty. This can be attributed to the fact that most developing countries are faced with the challenge of high rates of unemployment and high levels of poverty. Owners/managers were also asked whether they use business plan in order to get finance and to perform their business effectively and efficiently. As indicated the above table 66% replied that did not use business plan while the remaining 34% they use business plan.

Table 5. Proportion of respondents on BDS and marketing related issue

| Statements   | Strongly agree |    | Agree |    | Neutral |   | Disagree |    | Strongly disagree |    | Total |     |
|--|----------------|----|-------|----|---------|---|----------|----|-------------------|----|-------|-----|
|  | f              | %  | f     | %  | f       | % | f        | %  | f                 | %  | f     | %   |
| a. It shows your agreement to the following statements concerning BDS issues   |                |    |       |    |         |   |          |    |                   |    |       |     |
| There is sufficient access to training for improving my skill.                 | 15             | 8  | 45    | 23 | 5       | 3 | 68       | 35 | 60                | 31 | 193   | 100 |
| There is an opportunity to display the business product through bazaars.       | 37             | 19 | 33    | 17 | 9       | 5 | 55       | 28 | 59                | 31 | 193   | 100 |
| There is good business extension and counseling from BDS support institutions. | 40             | 21 | 37    | 19 | 3       | 2 | 48       | 25 | 65                | 33 | 193   | 100 |
| There is market opportunity creation associated with access to BDS.            | 63             | 32 | 43    | 22 | 7       | 4 | 36       | 19 | 44                | 23 | 193   | 100 |

Table 5 (cont.). Proportion of respondents on BDS and marketing related issue

| Statements   | Strongly agree |    | Agree |    | Neutral |   | Disagree |    | Strongly disagree |    | Total |     |
|--|----------------|----|-------|----|---------|---|----------|----|-------------------|----|-------|-----|
| b. It shows show your agreement to the following statements concerning marketing factors |                |    |       |    |         |   |          |    |                   |    |       |     |
| There is good distribution channel to my business product.                               | 33             | 17 | 17    | 9  | 4       | 2 | 79       | 41 | 60                | 31 | 193   | 100 |
| Market potential of the business product is promising.                                   | 36             | 18 | 37    | 19 | 7       | 4 | 48       | 25 | 65                | 34 | 193   | 100 |
| There is no difficulty in searching for market for my product.                           | 19             | 10 | 39    | 20 | 14      | 7 | 53       | 27 | 68                | 35 | 193   | 100 |
| I have enough marketing knowledge to run the business.                                   | 25             | 13 | 13    | 7  | 5       | 3 | 87       | 45 | 63                | 32 | 193   | 100 |
| There is sufficient demand for the business product.                                     | 22             | 11 | 31    | 16 | 11      | 6 | 75       | 39 | 54                | 28 | 193   | 100 |
| The business has information on sources of market.                                       | 41             | 21 | 42    | 22 | 14      | 8 | 49       | 25 | 47                | 24 | 193   | 100 |
| The business has no problem in customer handling.  | 26             | 13 | 41    | 21 | 13      | 7 | 46       | 24 | 67                | 35 | 193   | 100 |

Source: own survey (2019).

Responses to items checking for availability of sufficient access of business development services and market related issues of Hintalo Wejerat Wereda SMEs are given in table 4, as sub section of 4.3a and 4.3b respectively.

Sufficient access to training was disagreed by 66% of the total respondent and 59% disagreed on the there is an opportunity to display the business product through bazaars because of BDS. In addition, 58% of the respondents disagreed to a statement there is good business extension and counseling from BDS support institution. Majority, of the respondents had indicated their disagreement to positively stated items related with BDS.

When it comes to the responses of market related issues as can be discerned from sub section 4.3b of table 4.3a large portion of the sampled owners/managers respond negatively to positively stated items. The enterprises most likely faces challenge of obtaining distribution channel to their products and associated with lack of knowledge in marketing they might face problem of obtaining market information as per the data in the table.

Generally, as per the respondent's response indicated in the above there is a potential gap with access to business development services and marketing factor of SMEs at Hintalo Wejerat Wereda town.

Respondents were asked to tell their perception on each items of the entrepreneurial behavior. In this regard only 71% of the total respondents answered negatively to an item asking that Success of the firm is strongly dependent on hard working. Similarly, very high portion of respondents 62% responded negatively with the statement during the past 2 years, the firm has marketed large number of new products.

Table 6. Entrepreneurial characteristics of the Owner/manager of SMEs

| Statements  | Responses      |      |       |    |         |     |          |    |                   |    |       |     |
|---|----------------|------|-------|----|---------|-----|----------|----|-------------------|----|-------|-----|
|   | Strongly agree |      | Agree |    | Neutral |     | Disagree |    | Strongly disagree |    | Total |     |
|   | f              | %    | f     | %  | f       | %   | f        | %  | f                 | %  | f     | %   |
| I believe that success of the firm is strongly dependent on hard working            | 27             | 14   | 22    | 11 | 7       | 4   | 73       | 38 | 64                | 33 | 193   | 100 |
| I search for opportunities while facing with problems in dealing with our business. | 28             | 15   | 58    | 30 | 37      | 19  | 40       | 21 | 29                | 15 | 193   | 100 |
| I setup goals for our business and work according to these goals.                   | 24             | 12   | 11    | 6  | 3       | 2   | 81       | 42 | 74                | 38 | 193   | 100 |
| I have experience of evaluating the strengths and weakness of my business.          | 37             | 19   | 53    | 27 | 11      | 6   | 56       | 29 | 36                | 19 | 193   | 100 |
| I search actively for innovative product/services and new production process.       | 51             | 25.5 | 39    | 20 | 1       | 0.5 | 63       | 33 | 40                | 21 | 193   | 100 |
| During the past 2 years, the firm introduced a number of new methods of production. | 21             | 11   | 32    | 17 | 34      | 18  | 49       | 25 | 57                | 30 | 193   | 100 |
| During the past 2 years, our firm has marketed large number of new products.        | 46             | 24   | 41    | 21 | 5       | 3   | 47       | 24 | 74                | 38 | 193   | 100 |

Source: own survey (2019).

Statements that experience of evaluating the strengths and weakness of my business and searching the actively for innovative product/services, and new production process was responded negatively by 48% and 54% of the respondents respectively. The data in the above table reveals that in general entrepreneurial behavior is low among microenterprise operators in Hintalo Wejerat Wereda.

In addition, to see the overall Entrepreneurial traits of the respondents' percentage result on the Entrepreneurial trait items was computed. Only the six items, which says during the past 2 years the firm, introduced a number of new methods of production has been found the respondent responds accounted 55%. Most operators disagree with the positively stated items indicating that this key success factor is weak among the sampled enterprises.

Although entrepreneurial character is a critical success factor for micro and small enterprises as advocated by experts such as (Werotew, 2010: 172-273), lack of it might have hampered enterprise successes in Ethiopian. He stated that "had there been a good awareness on entrepreneurship, SMEs in Ethiopian would have handled things differently and create more job opportunities." This implies that SMEs Operators in Ethiopia are limited by conservative actions than making entrepreneurial decisions.

#### 4.2. Regression result of success determinant factors of SMEs

Tables 5 and 6 below present the regression output of the success indicators independent variables of compound employments, capital growth respectively. Stepwise method (criterion) is used in order to identify the

significant level of the explanatory variable, and the outcome of the analysis is discussed below. The level of significance is kept 0.05 because of the primary nature of data that has the probable chances of being uncertain.

Table 7. Result from linear regression of the compound annual employments growth

| Variables                               | Unstandardized coef. (B) | Standardized coef. (Beta) | t-ratio       | sig.   |
|---|--------------------------|---------------------------|---------------|--------|
| (Constant)                              | .250                     |                           | 1.875         | .000   |
| Average entrepreneurial characteristics | -.011                    | -.032                     | -.786         | .098   |
| Coded years of operation                | -.021                    | -.396                     | -.0538        | .000*  |
| Type of sector coded                    | .013                     | .069                      | .310          | .010*  |
| Presence of business plan               | .004                     | .072                      | .0056         | .044** |
| Training support                        | .14                      | .64                       | .400          | .089   |
| Initial number of employees             | -.010                    | -.355                     | -3.333        | .000*  |
| Access to market information            | .001                     | .001                      | .025          | .017** |
| Involvement in social networking        | .088                     | .155                      | 2.146         | .035** |
|   | Multiple R               | =0.713                    | Durbin-Watson | =1.821 |
|   | Adjusted R <sup>2</sup>  | =0.630                    | Tolerance     | >0.2   |
|   | Std. error               | =3.226                    | VIF           | <10    |
|   | F-statistic              | =19.162                   |               |        |
|   | N                        | =193                      |               |        |

Source: own survey computation (\*1% level of significance, \*\*5% level of significant).

As illustrated in table 7, above Compound employment growth= 2.5-2.1(FA) +1.3(ST) +0.4(BP) -1(IS) +0.1(AMI) +8.8(ISN). The Adjusted R<sup>2</sup> value of 0.630 means that about 63% of the variation in compound employments growth of SMEs is explained by the explanatory variables.

The intercept value 2.5 means that if the values of firms age, sector type, business plan, initial size, access to market information and involvement in social networking value were zero, the mean compound employment growth of SMEs would be about 2.5 employment. Compound Employment growth indicator was given priority (must significant) considering the variable significant.

Looking at the p-value entrepreneurial characteristics of the owner/manager of SMEs do not appear to have a significant impact on the success of SMEs at Hintalo Wejerat Wereda. The finding goes against expectations. This is in line with the findings of Garoma, (2012: 177) who found insignificant association between Entrepreneurial character of the owner and success on micro enterprises in Addis Ababa.

Firm's year of operation found to be significantly exerting a negative effect at 5% significant level on the compound employments growth of the enterprises. The increment of firm's year of operation by one year, accounts for 2.1 times decrease in the compound employment growth assuming other variables keep constant. This result is consistent with the work of Mulu (2007: 88).who confirmed the inverse relationship between firm age.

Sector type appeared with significant p-value this is good news for those enterprises that are in service sector. Keeping other factors, constant Operating in service sector contributes a 1.3 rate increment in compound employment growth as compared with other sectors. Indicating that service sector is a success advantage compared to all other sector. Hence the decision is accepted the significance level at P<0.05. This finding is in consistent with a study by Cabal (1995: 79) who came out with the result that successes of the business vary among the type of sector the business operates. It was found that there is a statistically significant and positive relationship between usage of business plan and the success of SMEs.

A firm that use business plan; are advantages by a rate of 0.4 increment in compound employments growth assuming other things remain constant. Consistent with the research findings of (Lussier, 1995), this result shows statistically significant contribution of using business plan. Firm's initial size was found to be statistically significantly to both employment and capital growth at 5% significant level, exerting a negative effect

on the employment growth and positive on capital growth of the enterprises. The outcome of employment growth is in line with studies conducted by Mulu (2007: 88) that contend for the existence of inverse relationships between growth and firm initial size. Access to market information appeared with a statistically significant value. Evidence from the regression of employment growth revealed SMEs with access to market information at 5% level of significance. This result is consistent with the work of (Chittithaworn, 2010).

The study has found involvement of social networking is an important variable for the success of SMEs. For both success indicators used in the study social involvement appeared with positive and statistically significant at  $P < (5\%)$ . The result concerning involvement of social networking confirms the findings of (Annen, 2007: 93; Garoma, 2012: 177) who found the positive and significant relationship between social networking and success of SMEs. Generally, excluding the insignificant variables the compound employments growth regression output indicated above shows that, all the variables included in the study could significantly explain at 95% confidence level to the variation on the dependent variable.

Table 8. Result from linear regression of the compound annual capital growth

| Variables                               | Unstandardized coef. (B) | Standardized coef. (Beta) | t-ratio       | sig.   |
|---|--------------------------|---------------------------|---------------|--------|
| (Constant)                              | .638                     |                           | .438          | .032   |
| Average entrepreneurial characteristics | -.141                    | -.084                     | -.916         | .114   |
| Coded years of operation                | -.070                    | -.027                     | -.326         | .025*  |
| Type of sector coded                    | .207                     | .040                      | .463          | .064   |
| Presence of business plan               | .628                     | .124                      | 1.405         | .093   |
| Training support                        | .135                     | .158                      | 1.911         | .038*  |
| Initial number of employees             | .098                     | .010                      | 2.65          | .039*  |
| Access to market information            | .111                     | .431                      | .258          | .087   |
| Involvement in social networking        | .091                     | .095                      | .958          | .041*  |
|   | Multiple R               | =0.618                    | Durbin-Watson | =1.060 |
|   | Adjusted R <sup>2</sup>  | =0.57                     | Tolerance     | >0.2   |
|   | Std. error               | =2.54350                  | VIF           | <10    |
|   | F-statistic              | =15.932                   |               |        |
|   | N                        | =193                      |               |        |

Source: own survey computation (\*1% level of significance, \*\*5% level of significance).

Compound capital growth regression was made for supporting purpose. Considering the capital growth as success indicator outcome variable table 4.6 indicates the Compound capital growth=63.8-7 (FA) +13.5 (TS) +9.8 (IS) +9.1(ISN).

Firm age, training support, initial size and involvement in social were found statistically significant. The firm age coefficient indicates that the inverse relationship between the capital growth and the firm's year of operation. It can be interpreted one-year increment in firm's year of operation results in an average decrease of birr 7 in compound capital growth. The training support appeared with 13.5 coefficients revealing that a unit increase in training support on average contributes birr 13.5 increments in compound capital growth.

Concerning the firms, initial size (start-up number of employees) a unit increment in firm's initial number of employee contributes to birr 9.8 increments in the compound capital growth of the enterprises.

As far as involvement in social network is concerned, the interpretation is a unit increase in involvement of social network contributes on average to birr 9.1 increments in compound capital growth. Considering the statistically significant explanatory variables from the regression result of capital growth direct relationship was found between capital growth and explanatory variables of training support, initial size and involvement in social network while inverse relationship was appeared with variable firm's year of operation.

## 5. Findings & Conclusion

### 5.1. Summary of findings

The descriptive analysis part has revealed that the growth stage of majority of the SMEs found in the study area is at start-up. However, establishment of these enterprises were started five years ago. Moreover, the bar graph in the descriptive analysis indicated that the overall trend of transferring to the upper stages of growth declines in recent years compared with previous time. Furthermore, from the descriptive part of it was found that the percentage compound employment and capital growth of the enterprises that use business plan were found to be larger than those enterprises without. The other result of the descriptive discussion confirmed that government-supporting service is concerned; the respondent's witness that support given by the government has been increasing them added that the increase in the support results in positive contribution to the success of the SMEs.

Concerning the BDS and marketing factors, as responses of the sample respondent reflect enterprises at Hintalo Wejerat are constrained by the absence of these variables. In this context, the official responses as discussed in the interview part also supports there is a potential problem of marketing and business development services that hampers the performances of the enterprises.

Unsteadiness of the training given from the government side in terms of the number of employees it participates. Assuming all things being constant, it was found that enterprises that use business plan appeared to come with better percentage employment and capital growth. On the other hand, as per the majority of respondents the content of their business plan are without the basic elements of financial, human resource and sales plan.

Recognizing the response from the study also noted that the negligence act of the support provision staff members of SMEs organizing unit.

Evidence from the compound employment regression shows explanatory variables like sector type, usage of business plan, access to market information and involvement in social networking have a statistically positive and significant impact on the success of SMEs at Hintalo Wejerat. On the other hand, statistically inverse relationship was observed between the compound employment growth and the variables firm's age and initial number of employees.

### 5.2. Conclusions

This research was conducted in Hintalo Wejerat with the prime intent of investigating the factors affecting the success of sampled SMEs at Hintalo Wejerat. More Specifically, the researcher tried to scrutinize the attempted to evaluate the growth statuses of SMEs, to investigate whether social networking have relationship with the success of SMEs, to verify whether government-supporting services affects the success of SMEs, to identify and analyze how significantly entrepreneurial characteristics is affecting SMEs' success, to analyze whether the sector in which the SMEs operate can have significant impact on the success of SMEs, to analyze whether access to BDS have a significant impact on the success of SMEs, to investigate whether marketing factors are affecting the success of SMEs. From the descriptive part, it was found that only few enterprises transferred to the upper growth stages.

Findings of this study also showed that the personnel involved in provision of support are less shouldering their due responsibilities for promoting the effectiveness of the SMEs at Hintalo Wejerat. Associated with the identified weak entrepreneurial traits of the owner/manager the SMEs at Hintalo Wejerat most would cause enterprises to Engage in an enforced business activity.

Both the operators and official responses confirm the potential marketing and business development services problem. The finding from this data reinforces the conclusion that success of SMEs at Hintalo Wejerat would most likely be affected by inadequacy of marketing and BDS issues; moreover, the manifested weak Entrepreneurial Traits of the owner/manager is another factor that could affect their success because this causes operators to run non-creative and non-innovative simple short-term income generating activities. The raised less motivation and commitment of concerned officials is the other areas that causes adverse effect on the success of the enterprises.



From the output of the linear regression Initial size, firm's year of operation, market information, usage of business plan and involvement in social networking are statistically favored variables; this shows that these variables are the major success determinants of SMEs at the study area.

### 5.3. Recommendations

- Based on the foregoing concluding remarks, the following suggestions have been forwarded, so that it would enhance the success, and sustainable contribution of the MSE's when implemented.
- In relation to improving the Entrepreneurial, traits of the Owner/manager of MSE's micro and small enterprise office supporting body is advised to review and design responsive, and country context training on entrepreneurship.
- Provision of entrepreneurial training with the context of the country is very crucial for sustainable growth of SMEs. In this regard, support agencies need to modify their training and advisory services to meet the specific needs and situation of SMEs.  
Support organizations can also play facilitating roles by referring and linking SMEs to other organizations for special skills training.
- Enterprises operating without business plan are advised to prepare business plan. Online service providers of the enterprises had better convince and aid such enterprises to prepare business plan.
- To address the issue of marketing and business development services the trade and industry office has to organize and facilitates marketing promotional programs like trade fairs and bazaars this will give them opportunity to display their respective products so as to expand their market share, exchange experiences, knowledge transfer as to how to utilize marketing instruments, and so on.
- The supporting agencies and organizations such as, government and donors need to Strengthen, through providing the necessary incentive and capacity building training to the work forces of the Hintalo Wejerat enterprises establishing unit.
- Policy makers are also advised to design policies that improve the facilities and skill development programs of SMEs establishing bodies.
- In relation to the regression output, concerned bodies are advised to give stronger focus on the statistically favored variables. Since, all of these variables are the statistically significant factors to influence the success of SMEs at Hintalo Wejerat.

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