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Factors Affecting Performance of Micro and Small Scale Enterprises (Case of Karat Town, Konso)

Mr. Gedeno Gemeda Negash*

**Lecturer, Department of Logistics and Supply Chain Management, Arbaminch University, Sawla Campus, Southern Region, Ethiopia.*

*Corresponding Email: *gedemangm@gmail.com*

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Abstract: ***The aim of the study was to examine factors that affects the performance of micro and small scale enterprises with the special emphasis on manufacturing, construction, service, trade and urban agriculture sector in Karat town. The study sought to achieve the following objectives: examining effect of business information services, analyzing the effect of access to finance, determining the effect of access to infrastructure, examining the effect of managerial experience and lastly investigating the effect of working premises on performance of MSEs in karat town. The study was applied explanatory research design. In order to get the representativeness of each sector stratified random sampling technique was used to select sample of 185 MSEs. The study used close- ended questionnaires to collect the primary data from the sample respondents. Correlation and multiple regression analysis were used to analyze the data. The result of the study indicated that there is positive and significant relationship between the dependent and the independent variables, but the effect of access to infrastructure on MSEs's performance was found positive and insignificant. 62.5 percent variations in performance were explained by the predictor variables.***

Keywords: Micro and Small Scale Enterprises, Performance, Karat Town.

1. INTRODUCTION

1.1 Study Background

Governments everywhere have realized that via boosting wages, generating jobs, and enhancing people's quality of life, small and micro enterprises (SMEs) contribute positively to the economy as a whole. The word "SMEs" is defined in a complicated way by authors who use indicators such as the gross asset value, total revenue, and personnel count to assist define the phrase (Nieman & Pretorius, 2004). It is well acknowledged that the small company sector is essential to both economic expansion and the endeavor to eradicate poverty in nations

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expansion, employment creation, and poverty alleviation. (Wolfenson, 2007). In emerging nations, small enterprises are the main engines of economic
They are essential to achieving rapid economic growth and industrialization. Furthermore, it is accepted that huge corporations can obtain supplies from small businesses (Fabayo, 2009).
MSEs have proven to have a significant accelerator effect for rapid economic growth in emerging nations due to their scale, capital investment, and employment-generating ability. The MSE sector has also played a significant role in the economic transition by offering a variety of people fairly priced, adequate quality goods and services and by efficiently utilizing the skills and talents of a large number of people without requiring large sums of money or sophisticated technology, or high-level training (ILO, 2006). Although it is widely accepted that MSEs may help Ethiopians escape poverty and find work, until recently, the industry has not gotten enough support to grow. According to a study by Tegegne (2010), neither at the federal nor regional levels of government has yet to conduct an impartial evaluation of the MSE development strategy's impact on reducing poverty, generating jobs, or fostering business expansion in Ethiopia.

A wide range of factors affect SMEs. A number of significant factors were identified by Hallberg and Kristin (2000) as having an impact on the performance of SMEs. These factors included limited capital, restricted access to business information services, restricted access to financing, restricted access to infrastructure, the availability of managerial expertise, and restricted access to workspaces. Furthermore, the performance of micro-small businesses (MSEs) is influenced by individual attitudes that are linked to one's training, technical expertise, and attitude (Assefa, 2010). Antenane (2017) categorized these factors as external (contextual) and internal factors that keep having an effect on MSE performance. e.t al. Mubqua (2014) added to the list of elements already discussed by mentioning the influence of availability of financing, managerial experience, and accessibility to business information as stand-alone interventions in rural settings.
Numerous studies on small and micro firms have been carried out both domestically and abroad, with the bulk of these investigations concentrating on companies located in cities and urban areas. For instance, research on the variables influencing MSE performance conducted by Admasu (2012) and Antenane (2017) was primarily conducted in big cities like Addis AbabaMbugua et al. (2014) carried out a study in Kenya and observed that the influence of the accessibility of managerial experience, access to finance, and business information accessibility have not yet been studied as a single intervention in a rural setting.
To the best of the researcher's knowledge, no one has been able to integrate the availability of managerial expertise and access to business information in the study variables despite the researcher having evaluated a number of research studies carried out by local researchers to be researched; however, those variables were the subject of this study; Similar studies carried out by Gebreeyesus (2009) had only examined the factors influencing micro and small businesses' access to financing in Dilla Town; a different study carried out by Haftom (2014) in Shire Indasselassie Town, Tigray, also exclusively examined external factors influencing the performance of micro and small businesses. Eliminating the internal factors, including the availability of managerial expertise, that affect micro and small business success. However, the suggested study was based on the local literature on the variables influencing the

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performance of the micro and small businesses in the rural market vendors in Karat Town. Finally, and maybe most importantly, the study focused less on the external factors and included internal ones as well, such as the availability of management experience. Previously, it was thought that the only factor limiting a firm's performance was its access to finance.

A substantial portion of the micro and small businesses in Karat Town have not yet demonstrated the required performance level, and some of them have exited the market at an early stage. Statistics from the Karat Micro and Small Enterprises Office (2016) show that 60 MSEs out of 246 MSEs weren't able to stay open at the end of the year (Karat MSEO, 2016). The investigator was motivated to conduct the study by this.

Thus, the primary focus of this study was on the variables influencing the success of micro and small businesses across all industries, including construction, manufacturing, services, urban agriculture, and commerce.

In the end, the researcher sent the following research inquiries to be answered for the investigation's goal at the study's conclusion:

- Does access to business intelligence solutions affects performance of SMEs in karat town?
- Does the performance of SMEs in Karat Town depend on their ability to acquire finance?
- Does the performance of SMEs in Karat Town depend on their access to infrastructure?
- How does managerial experience affect the way SMEs perform in Karat Town?
- What impact do working conditions have on the productivity of MSEs in Karat Town?

1.1 Study Objectives

1.1.1 Main Research Objective

The main objective of this particular research is to examine factors affecting the performances of micro and small enterprises in Konso, karat town.

1.1.2 The Particular Goals of the Research

For the purpose of the investigation the researcher forwarded the following specific objectives. Those are:

1. To examine the effect of business information services on performance of SMEs in karat town.
2. To analyze the effect of access to finance on performance of SMEs in karat town.
3. To determine the effect of access to infrastructure on performance of MSEs in karat town.
4. To examine the effect of managerial experience on performance of SMEs in karat town.
5. To examine the effect of working premises on performance of MSEs in karat town.

Source: Conceptual framework Adopted from Nabintu, (2013).

2. EMPIRICAL REVIEW

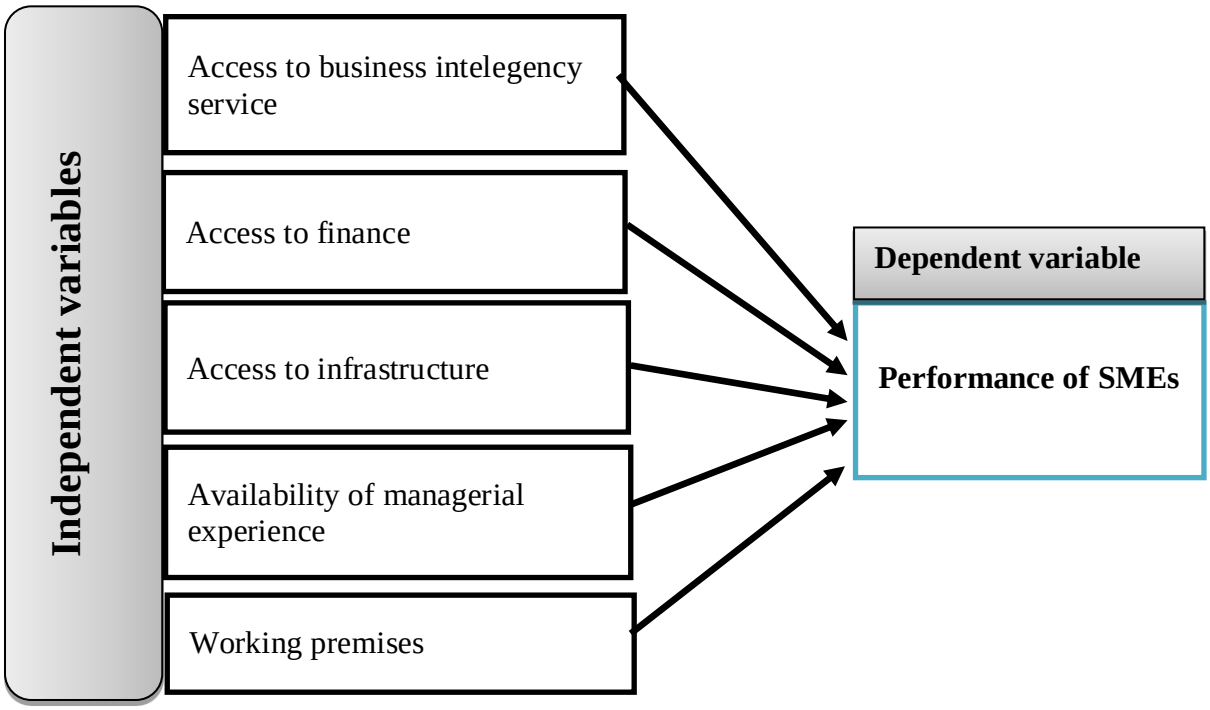
Achieving long-term and sustainable economic growth for both developed and developing countries requires the development of a thriving SMEs sector and the efficient use of first-rate business information (Corps, 2005). One of the things preventing SMEs from effectively competing is limited access to critical business information (Hategа, 2007). According to Jorosi's (2006) research, SMEs can obtain business information primarily via government agents, competitors' businesses, customers, business partners, newspapers, journals,

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periodicals, trade and industry groups, broadcast media, government publications, and electronic sources. Entrepreneurs obtain their information from a variety of sources. The sources differ according on the type of issue, the rewards that are accruing, and the limitations associated with operating and managing a firm (Moyi, 2000). SMEs are less aware of market potential when they have limited access to market information. Inadequate market research, inadequate marketing capabilities, and a lack of market knowledge all hinder SMEs' ability to enter new markets and create a gap in the relationship between supply and demand. (KIPPRA, 2006). Schleberger (1998) proposed that the following services should be included in the scope of business information services: business management, customer service, business expansion and diversification, business organization, business trends and markets, legal and regulatory assistance, business management, and new technologies, business opportunity identification and communication, access to links, finance, and markets, and assistance in forming business partnerships. Due to specific mechanisms designed to meet the financial demands of small scale enterprises, one of the main obstacles to the quick growth and development of MSEs is access to financing. Most banks are reluctant to offer small businesses credit facilities unless they have appropriate collateral, and the majority of micro and small firms do not have access to microfinance organizations. The main challenges that small businesses face are the high standards of loan appraisal, the lengthy processing times of the minimal collateral requirements, which surpass 100% of the loan amount, the banks' unwillingness to issue loans, and their negative attitude toward small loans (Commission on Legal Empowerment of the Poor, 2006).

Figure 2.1 conceptual framework



Source: Conceptual framework Adopted from Nabintu, (2013).

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3. METHODOLOGY OF THE STUDY

3.1. Research Method

In order to evaluate theories and examine the cooperation between the variables, the researcher used the quantitative research method for the investigation. This method allowed the researcher to obtain answers to research questions through survey methods or by taking a sample from the entire population in order to create 3.4 3.3 3.2.

3.2. Research Type and Purpose

Based on the study's goals and research questions, the researcher used causal research to carry out the investigation by clarifying the cause-and-effect link between such factors.

3.3. Target Population

In Konso Karat Town, there are roughly 344 micro and small businesses that are officially registered. These businesses are involved in five distinct industries, which include manufacturing (52), construction (47), service providers (101), trading (97), and urban agriculture (47).

3.4. Sample Size

Using Yamane's formula (quoted in Israel, 1992) for stratified simple random sampling, for this study, researchers were able to create the smallest possible sample of the population. N = N/1 + N (e) 2

Where N is the population size, e is the margin of error, 1 is the constant number, and n = 344/1+344(0.05)) is the sample size.

n equals 185.

As a result, out of the 344 MSEs in the study area, a sample size of 185 were chosen. The sample size drawn from each stratum is displayed in Table 3.1.

Table 3.1: sample size of each stratum

MSEs by sector	#MSES/Stratum	Sample size of stratum nh= (Nh/N)*n
Manufacturing	52	28
Construction	47	25
Service	101	55
Trade	97	52
Urban agriculture	47	25
Total	344	185

Source: Personal table displaying each stratum's sample size.

The following formula was used to determine the sample size for each stratum representation based on table 3.1 above: The population in stratum H, N, the overall population, and n, the sample size of the entire population, are represented by the formula nh = (Nh/N)*n.

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3.5 Sampling Technique

Stratified simple random sampling was employed in the study to gather data from several MSE sectors. This method is advised since it reduces prejudice while interacting with the public. With the use of this technique, the sampling frame might be arranged before sample items were chosen into typically homogeneous groups known as strata. Janet (2006) states that this stage increases the probability that the final sample will accurately reflect the stratified groups. The industries that make up the stratum are trade, manufacturing, services, construction, urban agriculture, and construction-related SMEs.

3.6. Method of Data Collection

A well-crafted, self-administered questionnaire using a 5-point Likert scale was the most effective method for achieving the goal. The businesses' managers, owners, and/or operators complete this.

3.7. Data Analysis

In this step, correlations and patterns between and/or among data groupings are searched for by further transforming the processed data using descriptive and inferential (statistical) analysis. An analysis of the data collected from primary sources was conducted using SPSS version 20. To be more precise, the quantitative data was summarized using regression and correlation as inferential statistics and charts and the mean standard deviation as descriptive statistics. Using multiple linear regression helped the study better understand, predict, and explain the factors that were mentioned. The relationship between the dependent and independent variables was determined using Pearson moment correlation.

Regression Functions

The dependent variable in this study, performance, and the independent variables, access to business information services, finance, infrastructure, managerial experience, and workspace, were the main components of the equations of regressions used in this research.

Regress Performance on Selected Variables

$Yi = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5$

Where: Y is the response or dependent variable- performance: - it is the efficiency and effectiveness of an enterprise to realize their objectives and being profitable.
X1= Accessibility to business information service: - the availability of relevant information.
X2= Access to finance: - presence of credit institutions, working capital, collateral is requirements.
X3= access to infrastructure: - physical infrastructures like; electric power, water supply, quick transportation service and dry waste and sewerage.
X4= managerial experience: - availability of training and experience, ability to deal with dynamic business environment, financial record keeping and ability to manage cash flow.
X5= working premises: - the presence of a building site or acreage with a home.
Thus, the explanatory variables are those that are given above, X1–X5.
The intercept term ($\beta 0$) is a constant that, in the case where all slope coefficients are 0, would equal the mean. The coefficients $\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$, and $\beta 5$ correspond to each independent

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variable, indicating the variation in the average value of Y for every unit change in the corresponding independent variables.
As shown below, this statistical method uses multiple regressions to regress performance (as the dependent variable) on the chosen linear combination of the independent factors.

3.8. Instrumental Validity and Reliability

3.8.1 Validity

To modify the test instrument, which consisted of a questionnaire, a pilot study was carried out methodology prior to the administration of the final phase. John Adams et al. recommended that questionnaires be evaluated on potential responders to make sure they were impartial, relevant, situation-appropriate, and trustworthy (2007:136). Respondent-identified problems were fixed, and questionnaire design was improved. Additionally, appropriate detection was carried out by an advisor to guarantee the authenticity of the tools. Ultimately, the refined versions of the surveys are produced, copied, and distributed.
The selected tools can help shed light on the factors affecting MSE performance. A detailed analysis was conducted about the influence of these parameters on the performance of MSEs in Karat Town. To get a logical conclusion, the link between the variables was further examined using an inferential statistical model.

3.8.2 Instrumental Reliability

Reliability, as described by Creswell (2009:190–92) as the degree of consistency exhibited by the instrument or technique, serves as a proxy for consistency in an instrument. The correlation coefficient, which measures the degree of relationship between variables and spans from -1.00 to +1.00, is commonly used to describe the reliability of standardized tests. The former denotes ideal negative reliability, while the latter denotes perfect positive reliability. The study employed a 5-point Likert response scale, with the options being strongly disagree, disagree, moderate, agree, and strongly agree. An alpha value of 0.80 or higher is generally considered a good indication of reliability; however, some scholars argue that an alpha value of 0.67 or above is acceptable (Cohen et al., 2007:506). Therefore, the alpha value fell between those ranges, indicating that reliability was maintained. The instruments were chosen based on the research questions and objectives, which increased the likelihood of gathering the data from participants. Consequently, the instruments were consistent with the study's objectives. The reliability of the questionnaire is displayed in the table below, and it was above the acceptable level (0.7).

Table 3.2Cronbach's Alpha value of Variables in the study (Reliability)

No	Variables	No. of Items	Cronbach's alpha
1	Obtaining access to business intelligence services	4	.76
2	Financial accessibility	6	.742
3	Infrastructure accessibility	5	.758
4	Accessibility of managerial expertise	5	.795
5	Working premises	3	.733
6	Performance	6	.801

Source: own survey, 2019

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4. RESULT AND DISCUSSION

4.1. Association between Performance of MSEs and Factors Affecting their Performance

Table 4.4 Correlation among the variables

No	Variables	1	2	3	4	5	6
1	Obtaining access to business intelligence services	1.000					
2	Financial accessibility	0.52**	1.000				
3	Infrastructure accessibility	-.019**	.230**	1.000			
4	Accessibility of managerial expertise	.097**	.325**	.065**	1.000		
5	Working premises	.760**	.495**	.085**	.394**	1.000	
6	Performance	.192**	.699**	.207**	.475**	.554**	1.000

Source: personal 2019 survey

Remark N is 163.
* The correlation is significant at the 2-tailed 0.01 level;
**The correlation is significant at the 2-tailed 0.05 level.
A low and significant positive relationship (r=.192**, P<0.05) exists between performance and access to business information services; a very strong and significant positive relationship (r=.699**, P<0.01) exists between performance and access to finance; and a third, more substantial relationship (r=.475**, P<0.01) exists between performance and the availability of managerial experience. The correlations between the variables are further supported by the investigation's findings.

4.2. Analysis of Regression

Table 4.5: Regression Analysis Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.791[a]	.625	.613	.40594
Predictors: (Constant), working premises, access to business information service, access to infrastructure, availability of managerial experience and access to finance b. Dependent variable: performance				

Source: own survey 2019

Table 4.6 ANOVA Result of Regression Analysis

ANOVA[a]					
Model	Sum of Squares	Df	Mean Square	F	Sig.

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1	Regression	43.102	5	8.620	52.311	.000[b]
	Residual	25.872	157	.165		
	Total	68.973	162			
a. Dependent Variable: performance						
b. Predictors: (Constant), working premises, access to business information service, access to infrastructure, availability of managerial experience and access to finance						

Source: personal 2019 survey

The ANOVA findings showed that the 0.000 p-value was less than 0.05 and even less than 0.001. This implied that every factor the study found had a noteworthy effect on the firms' performance and that the model it produced could be utilized for forecasting and decision-making because it was significant at the 95% confidence level.

Table 4.7 Coefficients of Regression Analysis

Coefficients							
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.351	.261		-1.347	.180		
access to business information service	.127	.048	.129	2.633	.009	.988	1.012
access to finance	.628	.069	.512	9.121	.000	.758	1.320
access to infrastructure	.089	.077	.058	1.153	.251	.946	1.057
availability of managerial experience	.185	.052	.194	3.578	.000	.810	1.235
working premises	.294	.067	.248	4.394	.000	.749	1.335
a. Dependent Variable: performance							

Source: own survey 2019

Y = $\boldsymbol{\beta o}$ + $\boldsymbol{\beta}$1 (ABIS) + $\boldsymbol{\beta}$2 (AF) + $\boldsymbol{\beta}$3 (AI) + $\boldsymbol{\beta}$4 (AME) + $\boldsymbol{\beta}$5 (WP) + $\boldsymbol{\varepsilon}$ ABIS equals access to business information services, AF to finance, AI to infrastructure, AME to managerial experience available, and WP to working premises.
Performance is now equal to -.351 +.129 (ABIS) +.512 (AF) +.194 (AME) +.248 (WP).
According to the regression model's findings, there would be increases of 0.512, 0.248, 0.194, 0.129, and 0.058 in the following areas: working premises, managerial experience availability, access to finance, and infrastructure respectively in performance. There are five factors that affect the performance of micro and small businesses, with the strongest impact being access to financing (beta value = 0.512). Infrastructure accessibility is a positive but non-significant feature compared to the other four, which are all positive and significant. The availability of

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managerial experience, access to business information services, infrastructure availability, and the working premises rank second, third, and fourth, respectively.
Determining the impact of business information services on small- and medium-sized enterprise (SMEs) merchant performance was the main objective of this study conducted in Karat Town. The results of the regression and correlation analyses show that the degree of agreement for access to corporate information and the performance of micro and small firms were significantly and favorably correlated. This study's second goal was to determine how MSE performance in Karat Town was impacted by their ability to obtain financing. The impact of infrastructure accessibility on MSE performance in Karat Town was the third goal of this investigation. The results of this study demonstrate that infrastructure availability has a positive, albeit negligible, impact on the performance of micro and small businesses. The P value was greater than 0.05, indicating that the effect is above the significance level.

5. SMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of Major Findings

The study found a significant positive relationship (r=.554**, P<0.01) between working premises and business performance, a moderate and significant positive relationship (r=.475**, P<0.01) between managerial experience availability and performance, and a low association and significant positive relationship (r=.207**, P<0.01) between access to infrastructure and performance. The correlation results indicate that there was a low and significant positive relationship between access to business information service and performance with (r=.192**, P<0.05).
With a R Square score of 0.625, the components of the regression model explained 62.5% of the variation in performance. It was found that the F value was 52.311.
The variables with the greatest significant impact on performance were working conditions (β =.248, p<0.01), management experience availability (β =.194, p<0.01), access to business information services (β =.129, p<0.05), and access to finance (β =.512, p<.01). Stepwise regression progress was used to eliminate the influence of infrastructure access, which was found to have a beneficial effect on performance but was not statistically significant.

5.2. Conclusions

The primary goal of this study, which was carried out in Karat Town, was to critically analyze the variables impacting MSE operators' productivity in the industries of trade, manufacturing, construction, services, and urban agriculture. The study's specific objectives were to look into the following: how business information services affected the performance of small- and medium-sized enterprise (SME) traders in Karat Town; how financing availability affected SME traders' performance; how infrastructure accessibility affected MSEs' performance; how managerial experience affected SME traders' performance in Karat Town; and how the working environment affected MSE performance in Karat Town. The following conclusions can be made in light of the study's objectives and findings.
impacting the productivity of MSE operators in the industries of trade, manufacturing, construction, services, and urban agriculture. Particularly, the study sought to look into the following: how business information services affected the performance of small and medium-

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sized enterprise (SME) traders in Karat Town; how financing availability affected SME traders in Karat Town; how infrastructure accessibility affected MSE performance in Karat Town; how managerial experience affected SME traders in Karat Town; and how the working environment affected MSE performance in Karat Town. The objectives and findings of the study support the following conclusions.

Descriptive statistics were therefore used to assess the MSEs' performance and the accessibility of business information services. The outcome shows that most respondents had a medium level of access to business information services, making it a medium-access resource overall. The majority of respondents indicated a medium degree of agreement, followed by a low level, with their access to finance being likewise medium, according to the respondents. This indicates that low performance results from the medium access to business information services that micro and small businesses in Karat Town have. Respondents' levels of agreement about access to infrastructure are low, followed by medium, and this lack of infrastructure can further contribute to the underwhelming performance of micro and small businesses. The respondent's response shows a low degree of agreement regarding having managerial experience, followed by a medium level of agreement on its availability. Respondents show a medium degree of agreement regarding working premises, followed by a low level of agreement.

The average score reveals that the respondents have a comparatively high mean score for the availability of management experience. This is followed by working space, financial accessibility, and business information service accessibility, with the least amount of points awarded for infrastructure access.

Working conditions and performance have a moderately strong and significant positive relationship, while access to finance and infrastructure have a very strong and significant positive relationship; the availability of managerial experience and infrastructure have a low but significant positive relationship; and the correlation analysis's findings show that performance and the availability of business information services have a positive relationship. The best predictor of success, according to the results of linear regression, was access to financing, which was followed by the availability of managerial expertise, working space, business information services, and infrastructure.

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