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Determinants of Performance of a Micro and Small Enterprises and their Role in Enhancing Local Economic Development: The Case Study Alibo Town, Oromia, Ethiopia

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ABSTRACT: The objective of this paper was to investigate the determinants of micro and small enterprises performance and their role in enhancing local economic development in Alibo Town, Oromia, Ethiopia using Primary data collected from 281 respondents from questionnaire and interview. Data obtained shows that the majority (25.45%, 16.25%,6.45,3.42 and 12.50) of the MSE respondents in manufacturing, construction, urban agriculture, service and trade sub-sectors respectively respond that their saving amount had increased. While 1.42%, 2.15%,2.40%,1.75% and 2.01% respondents in manufacturing, construction, urban agriculture, service and trade sub-sectors respectively disagree to the increase in saving amount. However 0.75%,1.25%,2.25%,0.45%and 0.25% respondents in manufacturing, construction, urban agriculture, service and trade sub-sectors respectively did not response to increase in saving amount. Hence, results indicate working in MSEs helps to save more and saving condition of the respondents also improved through time.

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Economic development is a multifaceted endeavor that encompasses various factors, strategies, and actors working together to foster sustainable growth, prosperity, and improved living conditions within a community (Hariram *et al.*, 2023). It serves as a cornerstone for achieving social progress, reducing poverty, and creating opportunities for individuals and businesses alike (Dzisi, 2014). Small business sector is very important force to generate employment and more equitable income distribution, activate competition, exploit markets, enhance productivity, and bring technical to stimulate local economic development (Fufa, 2015). Small and Medium Enterprises (SMEs) play a major role in most economies. Micro and Small Enterprises (MSEs) has garnered significant attention and recognition. MSEs represent about 90 percent of businesses and provide 50 percent of worldwide employment. Additionally, MSEs contribute up to 40 percent of the gross domestic product in emerging economies. It is estimated that 600 million jobs will be needed by 2030 to absorb the growing global workforce, SME development a high priority for many governments around the world. In emerging markets, most formal

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jobs are generated by SMEs, which create 7 out of 10 jobs (World Bank, 2019). Micro, small, and medium enterprises (MSMEs) are a basic source of income and employment opportunities for the least developed countries; more emphasis has recently been given to those enterprises. Ethiopia is one of the developing countries which have taken measures to enhance the operation of MSEs by considering their contributions (Anne, 2014). The importance of micro and small enterprises sector in Ethiopia is evident from their relatively large presence, share in employment and small capital requirement. Thus, at the level of strategy and policy, these roles of MSEs have received recognition. They are seen as means of providing employment, alleviating poverty, ensuring food security, and private sector development (Gebrehiwot *et al*., 2006). MSEs Sector is the second largest employment-generating sector in Ethiopia, following agriculture (Tsegaye, 2019).

MATHERIALS AND METHODS

Data sources and Collection Methods: The study was used quantitative data and collected through household survey based questionnaires and interview. The questionnaire was designed and formulated to collect information about socio economic and demographic determinants of micro and small enterprise in town. Qualitative data was also used to collect data through focus group discussion (FGDs). The FGDs was administered with who involved in micro and small enterprise at the time of survey. It will be carrying out together information in order to substantiate the findings obtained through structure questioner. In addition, secondary data was obtained from records of administrative office, publication, books and other source was relevant for this study.

Sampling Techniques and Sample Size Determination: A cross sectional survey design was used to collect data from the respondents. A random sampling technique was employed to select respondents from different micro and small enterprises in Alibo town. This means the study was conducted at individual level and the required number of sample was drawn randomly from micro and small enterprises. Both primary data and secondary data were collected from micro and small enterprises representative respondents and different sources respectively. The data was collected from selected respondents in the study area through interview questionnaire and key informant's discussion.

The member of samples or representative respondents was taken by employing the appropriate sampling technique and the required number of samples calculated as follows. Since the number of the respondents is finite, the researcher used determination of size through the approach based on precision rate and confidence level. In order to determine sample size Yemane (1967) finite and large population sample size formula with 95% confidence level .The formula used to obtain this sample size is presented in equation 1.

The simplified formula provided by Yamane (1967) will be used to determine the required sample size as follow:

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

$$n = \frac{N}{1 + N(e)^2} = \frac{942}{1 + 942\ (0.05)^2} \approx 281$$

Where: n = is the representative sample size, N = total youth population of woredas and e = is level of precision defined to determine the required sample size at 95% confidence level. Therefore, a total of 281 sample households were selected for this particular study.

Therefore, the maximum sample size was 281 micro enterprises and small. The probability sampling technique was used to select sample form 281 micro and small scale enterprises to give equal chance to the all small and micro and to select representative sample for the study. Accordingly, the target population of the study was taken according to the table 1.

Table 1: Sample size in enterprises sectors

NO	MSEs Sector	Number of Enterprises	Sample size Enterprises
1	Manufacturing	146	44
2	Construction	112	33
3	Urban agriculture	89	27
4	Service	330	98
5	Trade	265	79
	Total	942	281

Methods of Data Analysis: Both descriptive and Econometric model was employed to analyze the collected data**.**

Descriptive statistics: The descriptive statistics such as mean, percentages, standard deviation; table of frequency, minimum, maximum was used to have a clear picture of the characteristics of sample units**.**

Econometric Analysis: A performance of micro and small enterprises is dependent variable of the model that is dichotomies or dummy variable that take value 0 = if the performance of micro and small

enterprises is low,1= if the performance of micro and small enterprises is medium and 2= the performance of micro and small enterprises is high. The appropriate econometric technique deal with such type of data is using binary logit and probit models and the most popular statistical techniques was used to analysis the probability of a dichotomous outcome (such as low, medium and high) with a set of explanatory variables. For this data analysis binary logistic regression model will be used to identify determinants of performance of micro and small enterprises. It is a special type of logistic regression model which is used to describe the relationship between one or more independent variables and a binary outcome variable that has only two possible values. Logistic regression is used in a wide range of applications leading to categorical dependent data analysis (Habtamu *et al*, 2013).

Gujarati (2004) the logistic model could be written in terms of the odds ratio and log of odds ratio, which enable one to understand the interpretation of the coefficients. Hence, ordered

logit model was used to analyze factors that influence performance of small scale enterprises having three distinct sorts that is low, medium and high performance categories. Succeeding Greene (2008) and Liao (1994) the functional form of ordered logit model is stated as follows:

$$Y^* = \sum_{k=1}^{k} \beta_k X_k + U \quad (2)$$

Y* = is unobserved and thus can be thought of as the underlying tendency of an observed phenomenon and assumed it follows a certain symmetric distribution with zero mean such as logistic distribution. It will be observed from equation (2) to equation (3) :

$$Y = 1 \; if \; Y^* \leq u_1 (= 0) \quad (3)$$

$$Y = 2 \; if \; u_1 < Y^* \leq u_2 \quad (4)$$

$$Y = 2 \; if \; u_2 < Y^* \leq u_3 \quad (5)$$

Where y is observed in j number of ordered categories, μs are unknown threshold parameters separating the adjacent categories to be estimated with βs. The overall form for the probability that the observed y falls into category j and the μs and the βs are to be estimated with an ordinal logit model is that:

$$Prob(Y = j) = 1 - L\left(u_{1-j} - \sum_{k=1}^{k} \beta_k X_k\right) \quad (6)$$

β =Measures the change in L (logit) for a unit change in explanatory variables (X_k)
Y =Dependent variable that take value 0 = if the performance of micro and small enterprises is low,1= if the performance of micro and small enterprises is medium and 2= the performance of micro and small enterprises is high.

RESULTS AND DISCUSSION

The Role of MSEs for Enhancing Income Generation: The survey result reveals that the income condition of MSEs respondents shows an increment compared to their previous income. Thus, about 60% responded that their income condition has increased compared to the same time one year ago (Fig.1). While only 19% responded that their income has decreased, the remaining 21% said that there is no change in income of the household in comparison to last year.

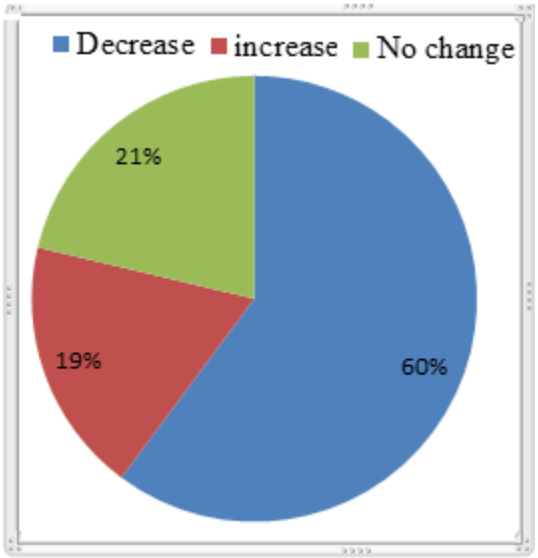

Fig 1: Role of MSEs for Enhancing Income Generation in Alibo town

The Role of Micro and Small Enterprises in Household Savings: The majorities 81.5% of the MSE respondents were saving part of their earning and only 18.5% were not capable of saving. Looking at sub-sectors contribution, 23.95% and 2.25% of respondents responded Yes and No to saving respectively under construction sub-sectors. Under manufacturing sub-sectors 34.4% responded Yes and 6.4% of respondents responded No to saving. While 5.2% and 2.25% of the respondents responded Yes and No to saving respectively under Service sub-sectors. Under urban agriculture sub-sector 8.45%

respondents responded Yes and 4.5% of respondents responded No to saving. Finally, 9.5% and 3.1% of the respondents responded Yes and No to saving respectively under trade sub-sectors. Hence, results the respondents also improved through time. Among many ingredients, local economic development can be enhanced through saved amounts generated from the local people (Fig.2).

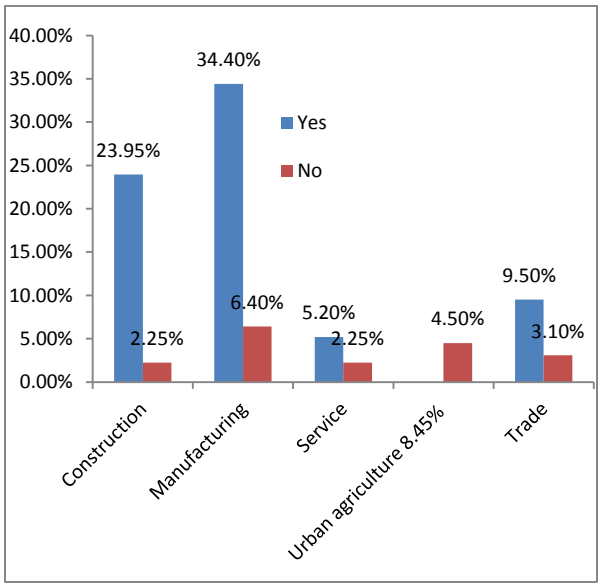

Fig 2: Household Savings

Analysis of Fig.3 below, shows that the majority (25.45%, 16.25%,6.45,3.42 and 12.50) of the MSE respondents in manufacturing, construction, urban agriculture, service and trade sub-sectors respectively respond that their saving amount had increased. While 1.42%, 2.15%,2.40%,1.75% and 2.01% respondents in manufacturing, construction, urban agriculture, service and trade sub-sectors respectively disagree to the increase in saving amount. However 0.75%,1.25%,2.25%,0.45%and 0.25% respondents in manufacturing, construction, urban agriculture, service and trade sub-sectors respectively did not response to increase in saving amount. Hence, results indicate working in MSEs helps to save more and saving condition of the respondents also improved through time. Generally, Micro and Small Enterprises (MSEs) occupy a strategic position to accelerate structural changes in order to improve the standard of living of many people and are a forum for joint business activities for producers and consumers. Economic development can be defined as every activity carried out by a country in order to develop economic activities and the standard of living of its people (Ayele, 2018). The role of MSEs in is expected to be able to expand the provision of employment opportunities, make a significant contribution to economic growth, increases income and as well as increase the household increased Saving which enhancing local economic development.

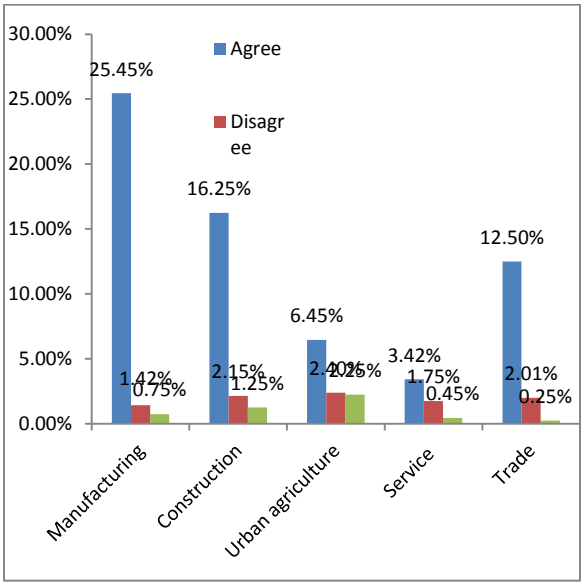

Fig 3: Household increased Saving Condition

The Models Results: Pearson's correlation and Logit model are the main inferential statistical methods employed in this study to analyze the relationships between the dependent variable (MSEs Performance) and the independent Variables (Technology factors, financial factors (Inadequate finance), government policy and bureaucracy, marketing, Working Premise factors, infrastructural factors and Management Factors on performance of MSEs). The result on Table 2 shows that 0.871 implies that about 87.1percent of the changes in performance of micro and small-scale business (POM) could only be explained by independent. While 12.9% percent of the changes in Performance of micro and small enterprises (POM) could be explained by other exogenous factors that are not incorporated in the model. The likelihood ratio chi-square of 161.56 with a p-value of 0.0000 tells us that the model as a whole is statistically significant. Consequently, the regression result of this study, shows that marketing factor with calculated Z value (Z =1.93) has significant relationship with performance of micro and small business because it is more than table Z value which is (Z=1.67) at 10% significance level with positive regression coefficient of (s= 1.4259). Hence, hypothesis that stated marketing is positively related with performance of small and micro enterprises is accepted. It is, therefore implied that the better improvement of marketing factor, the more effective the performance of MSEs.

Table 2: Ordered Logistic Regression result: dependent variable (Performance)

Variable	Coef.	Std. Err	Z	P –value
Marketing Factor(MF)	1.4259000*	0.7383155	1.93	0.053
Technology Factor(TF)	0.8737347**	0.3558449	2.46	0.014
Financial Factor(FF)	1.635163***	0.5031141	3.25	0.001
Government policy (GP)	2.793198***	0.6840069	4.08	0.000
Working Premise(WP)	1.440893*	0.760601	1.89	0.058
Infrastructural(IF)	1.352766**	0.539528	2.51	0.012
Management Factor(MN)	2.418677***	0.5610626	4.31	0.000
Constant(Cons)	15.34946	3.441758	-5.52	0.000

***Note: - ***, *** and *** are represents statistically significance at 1%, 5% and 10% level of significance, respectively. Ordered logistic regression; Number of obs = 281; LR chi2(10) = 161.56; Prob > chi2 = 0.0000; Log likelihood = -32.773365*

With regards to Technology Factor calculated Z value (Z =2.46) has significant relationship with performance of micro and small business because it is more than table Z value which is (Z=1.96) at 5% significance level with positive regression coefficient of (s= 0.8737347). Hence, as increase in Technology from time to time has positive influence on performance of micro and small-scale business is accepted since the skill and knowledge of respondents' to be increase. It is, therefore implied that the better improvement of Technology Factor, the more effective the performance of MSEs.

When it comes to the impact of access to external source of finance, the result of this shows that access to external source of (Z =3.25) has positive and significant relationship with performance since it is more than table Z value which is (Z=1.96) at 5% significance level with positive regression coefficient of (s =1.635163). Hence, hypothesis that stated as access to external source of finance has positive impact on performance of micro and small-scale business is accepted. This result is consistent with finding of other studies results (Osotimehin et al., 2012). As per interview developed with MSEs in the Holota town, micro and small scale enterprises has accessed to external source of finance mostly from informal financial institutions or indigenous capital accumulating institutions like Equb and Arad (private lenders) but less access to external source of finances from formal financial institutions such as banks and micro finance institutions due to collateral requirement; group requirement, high interest rate, fear due to cultural backwardness that lending money form formal institutions will leads people to go to jail, lack of awareness on how to ask and obtain loan from formal financial institutions. It is, therefore implied that the better improvement of financial factor, the more effective the performance of MSEs.

A finding of this study with regard to government policy towards micro and small business has calculated table value of (Z = 4.08) is more than Z table value (Z =1.96) with coefficient of ordered logistic model (s= 2.793198) which is positive and most statistically significant. Therefore, hypothesis that stated Government policy and Legal has positive impact on micro and small scale Enterprises is accepted. As per interview conducted with MSEs developing body, the government policy towards MSEs is good but lack of location facility and fluctuation in electric power were major factors affecting performance of MSEs in the study area. It is, therefore implied that the better improvement of Government policy and Legal, the more effective the performance of MSEs.

When it comes to the influence of Working Premise(selling place), the result of this shows that access to external source of (Z =1.89) has positive and significant relationship with performance since it is more than table Z value which is (Z=1.96) at 5% significance level with positive regression coefficient of (s = 1.440893).Hence, hypothesis that stated as Working Premise(selling place) in doing business is positive related with performance of small and micro enterprises is accepted. Therefore implied that the better improvement of Working Premise(selling place), the more effective the performance of MSEs.

With regarding to impact of Infrastructure officials that supporting small and micro enterprises on performance the calculated Z value (Z =-2.51) in absolute is more than Z table value (Z =1.96) with coefficient of ordered logistic model (s= 1.352766) which is positive and statistically significant. Therefore, hypothesis that stated as Infrastructure establishing has positive impact on micro and small scale Enterprises is accepted. The researcher intervened micro and small scale enterprises representatives and Infrastructure is one of the key factors that hinder the performance of Enterprises in the Alibo town. This consistent with study contacted by H/Michael (2014) that find out that Infrastructure obstacle for the startup, expansion and the performance of micro and small-scale business

enterprises in Yeka sub city of Addis Ababa. Finally, concerning the impact that Management for products produced by micro and small business, the calculated Z value (Z = 4.31) is more than Z table value (Z =1.96) with coefficient of ordered logistic model (s= 2.418677) which is positive and most statistically significant. Therefore, hypothesis that stated Management has positive impact on micro and small scale Enterprises is accepted. This finding is consistent with result of Marom (2014) and Lussier that have used descriptive and find out that Management problem is one of the factors affecting in Addis Ababa and Shashamene cities respectively. Besides, Abebe and Gemeda., (2020) in their find out that Management has statistically significant impact on performance of micro and small scale business in Arbamnich town. According to interview conducted with MSE,s representatives' revealed that most of the Management factors affect performance of the MSE's in study areas were manufacturing and construction than service sectors.

*Conclusions***:** This study has proved that the factors affecting MSE performance in Holota town。 MSEs operating throughout the country, to address for best performance end-to-end in an efficient and effective ways, working with factors affecting the MSEs performances a key strategy. Therefore, for addressing better MSEs performance, determination and consideration of factors affecting MSEs performance have great effect on MSEs performance.The findings of the study shows that management has positive effect on performance of MSEs. Small enterprises owners should set vision and goals in terms of what is to be accomplished selection of technology and to improve the productivity and the commitment of governmental bodies should increase in making awareness about the role of management in competitive advantages and in producing visionary entrepreneurs there should be included in policy of MSEs.

Declaration of Conflict of Interest: The authors declare that there is no any conflict of interest.

Data Availability Statement: Authors declare the availability of research data from corresponding author or any of the other authors upon request.

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