



## SMALL MANUFACTURING INDUSTRY PERFORMANCES AND THEIR TRANSITION TO MEDIUM MANUFACTURE INDUSTRY IN AMHARA REGION

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**Abstract:** *Globalization has brought new forms of economic organization such as knowledge-based economy termed as Entrepreneurial economy. Scholars referred the new economic organization also as entrepreneurial mode of production. As part of this shift, there has been the emergence of the micro and small-scale enterprise (MSE) sector as a significant component in economic development and employment. A total sample size of 400 micro and small manufacturing enterprise operators from all zones of Amhara region was selected as a sample size. Primary data were generated through questionnaire-based survey on different items. Qualitative and quantitative data was collected for descriptive analysis for the enterprise's challenges on growth and transition. The research result showed that the average years of the business operations are 7 years and four months. On average, there are 3 employees during the establishments of the business, while 6 employees in current. The current capitals investments, on average of each manufacturing enterprises are 875,700birr. Majority of small business manufacturing enterprises (80.2%) has less than 75% capacity utilization and majority of small business manufacturing enterprises (97.1%) cannot maintain transition for the next level in next year (2019). Finally, the major current small enterprise constraints for growing to the next level are insufficient financial strength and insufficient market.*

**Keywords:** *Small Manufacturing Industry, Capacity Utilization Challenges, Growth Challenges, Transition, Amhara Region*

### 1. INTRODUCTION

In the period of globalization of world trade, the assigned role to the private sector is increased in many developing countries. Similar to, and as part of this shift, there has been the emergence of the micro and small-scale enterprise (MSE) sector as a significant component in economic development and employment. In many countries they have been the major engine of growth in employment and output over the last decades. In developing countries, they are seen as a major “self-help” instrument for poverty eradication (ILO, 1998). Due to lack of capacity in the public sector and lack of large-scale private Enterprises to absorb new entrants into the labor force, the role to be played by Micro and Small-Scale Enterprises is critical for a country like Ethiopia.

According to Bartholdy and Mateus (2008) the role of small-scale businesses can be as instruments of employment and income generation, human development and poverty alleviation, export promotion, import substitution, stimulation of private ownership, competition and

entrepreneurship. That's way in the recent time, the driving forces behind the growth of a vibrant industrial market economy, has generated considerable interest among the policymakers, academics, business circle and the international donor agencies.

The role of Micro and Small Enterprises (MSEs) is indispensable in poverty reduction through employment generation. Cognizant of this, a national MSEs Development Strategy was formulated in 1997. The strategy was revised in 2010/11 with renewed interests and more ambitious targets on employment and number of entrepreneurs and transition to medium size level (Berihun, Abebew and Biruk 2014).

Although agriculture is found to be the most important economic activity in the country, in the long-run, the government of Ethiopia envisions growth in the industrial sector with a view to making a significant transformation of the economy from agriculture to non-agricultural sectors.

Despite all facts recognized the importance MSEs, they still face major challenges to survival and growth are often substantial. As stated by werotaw (2010) micro and small enterprises (MSEs) in Ethiopia have been confronted with several factors that affect their performance. Major factors include financial problems, lack of qualified employees, lack of proper financial records, marketing problems and lack of work premises. Besides, environmental factor affects the business which includes social, economic, cultural, political, legal and technological factors. In general, although the government give emphasis to support MSEs Development and extensions, while their growth and transition from micro to small, small to medium and medium to large enterprise is not properly addressed and studied.

Various studies are conducted, at country and regional level, to describe and understand micro and small businesses. However, little studies had taken regarding the challenges that small business enterprises faced to grow into medium and large sized enterprises, in our country. Therefore, inadequacy of data on small enterprises varied aspects of involvement and contribution in the economy appears to have slowed down stakeholders from pulling resources to facilitate further developments of the sector. Hence this mega research proposal improves our understanding of the state of the small enterprise sector and the obstacles that hold the sector back, through situational analysis of, small enterprises development and their transition to medium scale industry with a particular reference of micro and small manufacturing enterprises in Amhara region.

## 2. OBJECTIVES OF THE STUDY

The general objective of the study is to identify compiled challenges that small business enterprises faced to grow into medium sized enterprises with particular reference of Amhara regional state. In order to achieve this general objective, the following specific objectives are drafted.

- ✓ To assess the status of enterprises currently operating at small business level.
- ✓ To identify critical small business capacity utilization challenges.

- ✓ To analyze and explain growth challenges small businesses encounters to grow into a next stage

## 3. RELATED LITERATURE

### 3.1 *Overviews of micro and small business manufacturing*

The main development agenda of the Ethiopian government is poverty reduction. All the country's development policies and strategies are therefore, geared towards this end. Micro and small enterprise development projects can serve four major objectives: poverty reduction, empowerment of women, employment generation and enterprise development as an end in itself (FDRE 2010; UN Economic Commission for Africa 2008; Moyi 2013; Markos et al. 2015; Brenda and Gregory 2015).

The micro and small enterprises (MSEs) have been regarded to play significant roles of job creation, poverty alleviation and economic development of many countries worldwide. MSEs play a key role in triggering and sustaining economic growth and equitable development in both developed and developing countries (Lawrence & Maurice, 2012; Stella, 2014). That why MSEs are one of the priorities among the programs addressing African development (UN 2008), and are seen as a means of achieving smooth transition from tradition to modern industrial sector and have a huge contribution to the growth and development of the country in terms of employment generation with a relatively low capital cost (Stephen and Wasuu 2013).

In light of this, Ethiopian government has recognized the contributions of MSEs to the national development efforts, and MSEs' strategy was formulated and implemented since 1997 (MSE 2011). In this regard, the country industrial development strategy issued in 2003 singled out the promotion of MSEs development as one of the important instruments to create productive and dynamic private sector. The strategy puts a means to support the MSEs such as infrastructure, finance, raw material, and training (Ageba and Amaha 2004).

### 3.2 **Factors influencing micro and small business enterprises growth**

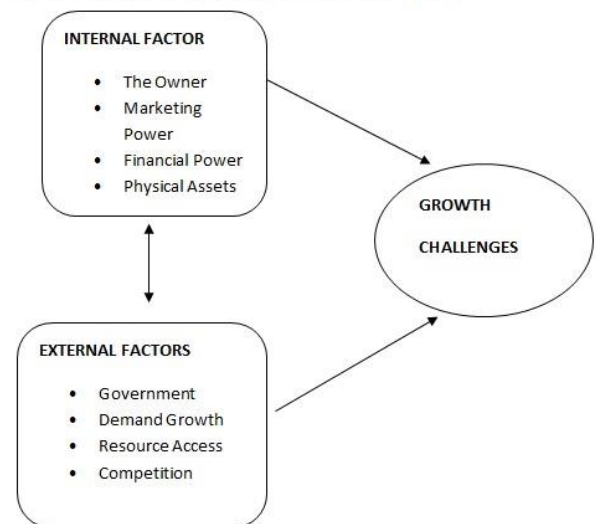
There are no conclusive formulas for growing a business. It is unlikely that there ever will be. However, studies tried to identify different internal and external success and failure factors that can determine small business enterprises growth. Internal factors comprise of phenomena existing within the firm, external factors are originated from the environment (Perenyi, 2008, p-26).

According to Jukka (2003) variables of external context are in particular industry, markets, economic situation and competition. From the internal factors are sizes of organization, culture, value, stage of life cycle, ownership structure, etc, these factors from the strategy logic of the new venture, which is subjective logic representing the thinking of top management, founders and other external owners in the venture. Firm's strategy based on these core beliefs and background of key persons, but the intended strategy is not the realized one. Logic of action describes the real strategy of the firm and therefore influence directly to the performance of the firm. Studies also proven that access to growth opportunities in the environment and resources directly influences the actual growth of the company (Davidsson et al, 2006).

### 3.3 Theoretical framework

Running small business enterprises are very difficult and constrained by different conditions. Several factors can limit enterprises growth. While it may be possible to identify challenges affecting small businesses growth, it's far more difficult to define conclusive formulae. In order to identify challenges of small business growth into a medium sized enterprise the researcher developed a framework, shown on figure 2.1, based up on the theories discussed in previous sections. This framework set the boundary of the research and will provide a guide for discussion during the research process. The framework incorporates two groups of influential factors which affect small business growth-internal and external challenges.

Figure1: *Key factors influencing small business growth*



## 4. RESEARCH METHODOLOGY

For the proper execution of the study different procedures were used from the initial of the study to its final conclusion. It includes the following: research approach, collection of primary and secondary data, data collection methods, sampling size determination and sampling method, and the data processing and analysis that used in arriving at final conclusions.

This study had conducted a survey to find out small business growth challenges into a medium sized one. The sample districts were determined through stratified sampling technique to include different forms of micro and small manufacturing enterprises such as wood, metal, chemical and constriction textile and leather agro processing. Thus, the study was considered enterprise types as stratum and respondents was selected randomly. The researcher was used the sample size determination formula, which is developed by Yamane (1967), to determine the sample size of SMEs for the study. Accordingly, 400 respondents were selected from the total of 14330 SMEs.

Questionnaire was used to obtain information from sample small and medium enterprises. All questions in the questionnaire are designed in the way to ensure the validity and reliability of the data to be collected. Simple and multi-item scale measurements, i.e. nominal, ordinal and interval levels of measurement are used in designing the questionnaire to measure growth characteristics of small enterprises under the study. The researcher

has used ten business graduates to distribute to and collect questionnaires from the samples after training them on each question in the questionnaire. All the data had thoroughly examined by the researcher to ensure its accuracy.

Once the necessary data are collected, the data was analyzed and summarized in a readable and easily interpretable form. First the collected data are checked for its completeness and translated the data into codes and then analyzed to know the result. Descriptive statistics, i.e. percentage, median, mean, tables and graphs, were used to explain important variables related to the study subjects.

## 5. RESULTS AND DISCUSSION

Under this section, data collected from the enterprises are presented and the analysis is made based on the information obtained from those respondents. In this manner, questionnaires were distributed to a total of 400 respondents and 385 (96.3%) respondents' questionnaire were returned

back. Out of 385 respondents, 378 were found usable for the study which was 94.5% from the total respondents. Hence the result and discussion part are classified into different major sections: duration of business operation, number of employees at start up and current, capital at startup and current, ambition and vision of owners, capacity utilization, transition level and factors affect their growth and transition to medium enterprises. Each of these issues is discussed separately in this part of the paper.

### 5.1 Durations of business operations

In this case the study analyzed the length of their business operation to understand how long they operate in these business activities. To survive and growth companies need to stay certain time in the business. Existence, survival and growth of a company in a market can be achieved through time. Therefore, a firm's age has certain implication in the analysis of growth challenges even though its impact varies from business to business.

**Table 5.1 Descriptive Statistics of lengths of operation**

	N	Minimum	Maximum	Mean	Std. Deviation
how long you operate in this business	378	2.000	14.000	7.42063	2.527367
Valid N (listwise)	378				

Source: survey 2018

Table 5.1 shows minimum, maximum and the average years of business operation. As we can see from the above descriptive statistics result, the minimum years of operations of the business were 2 years and the maximum year of operations were 14years. In addition, the average years of the business operations were 7 years and four months. From this we can concluded that the oldest sample business in the survey established in 1996 E.C were 14years old and the youngest one is 2 years old which was established in 2008 E.C.

### 5.2 Number of employees and capitals

One of the most commonly used to measures of enterprises' growth are employment and capital, while due to its simplicity and the easy of collection of data, employment used in most research studies. Turnover and assets employed can

also be measured, but both are problematic since enterprise owners are not willing to disclose the true information. While in this study, capital investment are also considered to evaluate their transition. In the improved definition of MSEs of Ethiopia (MSE strategy, 2010), Ethiopian Ministry of Trade and Industry and Central Statistical Authority (CSA) define MSEs based on the number of employees and capital. According to MSE strategy, for small industry, they should have 6-30 employees and 1.5 million startup capitals.

As a result, to know the small enterprises growth, the respondents were asked to write the numbers of persons engaged at the first year of its establishment and from the year 2010 EC as appropriate. Accordingly, the collected data are presented in table 5.2.

Table 5.2 number of employees and capital of the enterprises

category	period	minimum	maximum	average (mean)	sum
Employees	during startup	1	17	3	1266.00
	current (2010 E.C)	3	30	6	2367.00
Capital	startup capital	15000	500,000	56,638	21,400,000
	current capital (2010E.C)	75,000	1.8million	875,700	331 million

Source: survey 2018

**5.2.1. Person engaged:** Table 5.2 depicted the on average there are 3 employees during the establishments of the business, also the result showed that one minimum and 17 maximum employees as working in the enterprise. In addition, 378 enterprises create job opportunity to 1266 employees during their establishment.

When we see the current number of employees, each manufacturing enterprises are involving 6 persons on average, which is almost double in comparison with their establishments, also a minimum of 3 employees and a maximum of 30 employees are working in the manufacturing enterprise. Furthermore, 378 enterprises create job opportunity to 2367 employees which is almost double while comparing with their establishments. From the above result, we can see that there are still some micro enterprises which are not transformed to small industry since to categorize small industry, their minimum number of employee must be 6, while the result showed, in the current business operations, there are industries employed only 3 people.

**5.2.2 Capital invested:** As table 5.2 depicted the on average, they invested 56,638 birr during the establishments of the business, also during establishment, 15000 birr as minimum and 0.5 million birr as maximum were invested by the enterprise. In addition, 378 enterprises invested a total of 21,400,000 birr during their establishment. From the above result, we can conclude that there are micro enterprises that start their business with the investment of 15000 birr.

When we see the current capitals investments, average manufacturing enterprises invested 875,700 birr, also in current capital investment, 75,000 birr was recorded as the minimum investment and 1.8 million birr as the maximum investment of small manufacturing enterprises. In addition, 378 enterprises invested a total of 209,000,000 birr for current (2010 E.C) business operations. From the above result, we can see that there are still micro enterprises which are not transformed to small industry since to categorize small industry in terms of investment capital for their minimum capital should be 100,000, while the result showed, in the current business operation, there are industries with their capitals of 75, 000 birr.

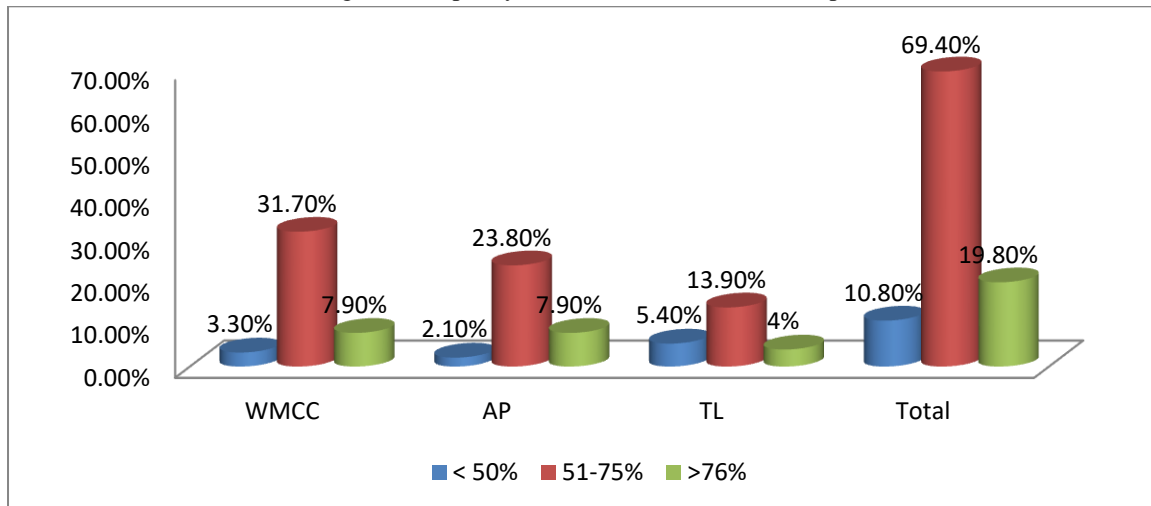
In general, the growth and transformation mainly are evaluated by either capital or number of employees, while the study result showed that there are still certain business enterprises which cannot be transformed to small business enterprises lit alone for medium enterprise transitions.

### 5.3 Capacity Utilization

The capacity utilizations of each business indicate the sustainability and their future business transition to next business level, thus in this study the respondents are asked what look like their capacity levels and what factors affect them for under capacity if any, according their response, analysis is as follows.



Figure 2: Capacity utilization levels of the enterprises



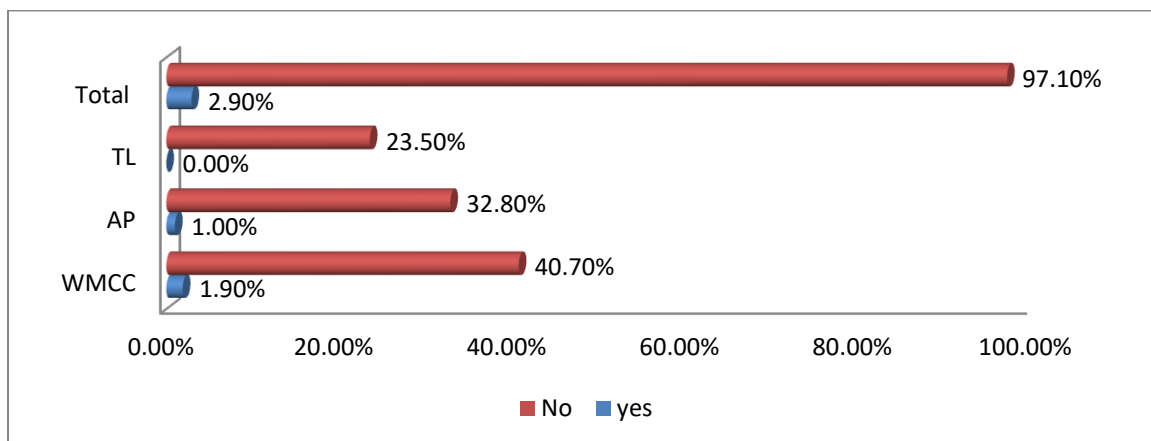
As shown in figure 2, majority of small business manufacturing enterprises (80.2%) have less than 75% capacity utilization, while the remaining 19.8% of them utilized more than 75% of their capacity. From under capacity (> 75%) of them Wood, Metal, Chemical and Construction contained in greater number than other which is 35%, while 25.9% are agro processing and 19.3% are Textile and leather enterprises. Also, when we saw more than 75% capacity utilizations of enterprises Wood, Metal, Chemical and Construction (WMCC) and Agro Processing (AP) have 7.9% utilization while Textile and Leather have 4 % of capacity utilization. The respondents

addressed the factors affecting their capacity utilization such as Lack of infrastructures (electricity), Inadequate working premises, Lack of market Shortage of working capital, Shortage of input and Political unrest

**5.4 Enterprises transition to medium manufacturing**

To know when the enterprise is transformed to the next level, the respondents are asked from current your levels of performance “Do you think your enterprises can transform the next level in the next year (2011)?” According to their response, it is analyzed as follows.

Figure 3: Enterprise transition to medium manufacturing in the next year



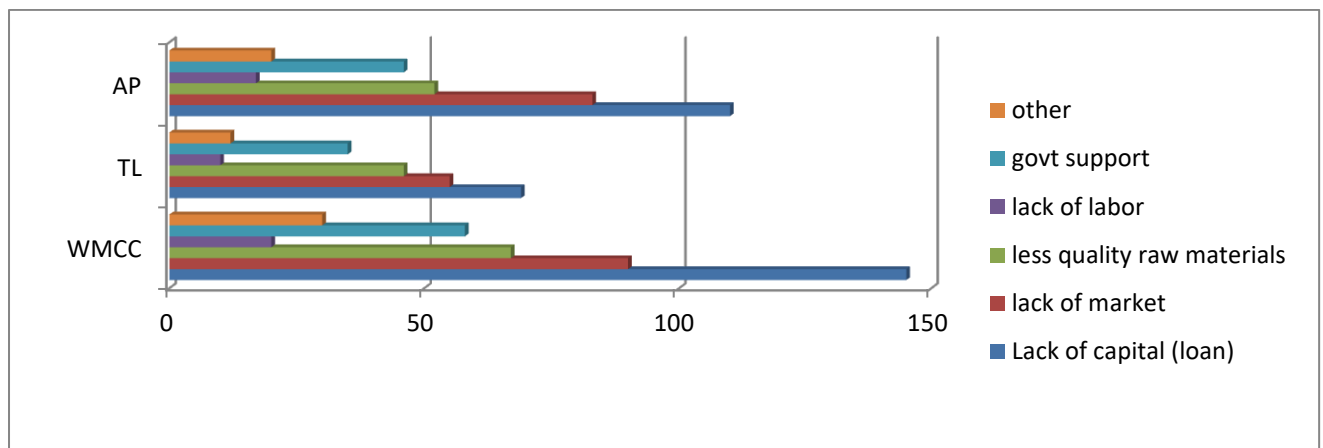
As shown in figure 3, majority of small business manufacturing enterprises (97.1%) answered ‘No’, which means their transition for the next level cannot be maintained to next year (2011 E.C), while remaining 2.9% of them have planned and hoped to be transformed to the next year for the

next level. And the respondents also asked when they would plan to transform the next level (medium levels) if they can’t transform in the next year. Among 367 respondents, those responded ‘NO ‘are more than 205(55.9%) and it will take more than five years, while 162(44.1%)

respondents are responded they will transform within the next five years. Thus, from the above responses, we can conclude that majority of the enterprise will not be transformed to the next levels of stage within the coming five years.

### 5.5 Challenges affect enterprise for transforming the next stage

Figure 4 enterprises challenges for transition



The first two major constraints of current small enterprise are insufficient financial strength and lack of market. The third biggest problem affecting the enterprise today is poor quality of raw materials and/or other inputs or goods purchased for sale. Thereafter, unfavorable government regulations and lack of labor comes next. Hence, financial (capital) problem and lack of market make the enterprise growth and their transitions to next stage (medium enterprise) holding back and still majority of the enterprise are at small level.

### 6. CONCLUSION

- The respondents addressed the factors affecting their capacity utilization as follows; Lack of infrastructures (electricity), Inadequate working premises, Lack of market, Shortage of working capital, Shortage of input, Political unrest. Thus, the responsible body (the government) should facilitate necessary infrastructures like electricity, land and market linkage for small business enterprises.
- Insufficient finance and market were the first and most problems of small enterprises. Thus, to solve marketing problems, small businesses should:

- Extend their target to other areas and establish market linkage with other enterprises.
- Use simple and effective promotion tools that they can afford the cost like pamphlets, brushers, business cards, direct marketing, and public relations.

- For financial aspects, the government should facilitate and support enterprises to get the loan on time with proper evaluation of their capacity and also the loan procedure should consider the ability of the enterprises.
- To set off the drawbacks such as lack of relevant expertise in finance, market and personnel management of the government need to extend efficient and effective counseling and training services than ever before.

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