

Analysis of Small Scale Enterprise Performance in Ethiopia: Evidence on Selected Small Scale Enterprises in Addis Ababa

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Abstract: *The main objective of study is to empirically examine how well small scale enterprises are performing in Ethiopia with special emphasis on selected small scale enterprises that are operating in Addis Ababa. Small scale enterprise performance can be measured using various indicators that would be broadly classified as financial and non financial and hybrid measure. Similarly, in this article small firm performance is measured using quantitative employment and qualitative perceived profit growth. To achieve the main objectives of the study, primary cross sectional data that would particularly elicit the information with regards to employment and profit growth status are collected from 250 small scale enterprise owners-managers that were selected using stratified random sampling techniques. The collected data is analyzed mainly using descriptive method of data analysis. The result of the descriptive data analysis reveals that small scale enterprises on average grow 11.55% annually in their employment and the deviation from the mean is 18%. The annual growth rate of small scale enterprise is varying from decrease of 63% to increases of 130%. Moreover, the data computation revealed that, about 71.6 percent of SSEs in the survey are growing and about 28.4 percent are non-growing (surviving) in their employment growth performance. However, among growing SSEs the larger proportions about 79.35 percent of SSEs were slow-grower firms and about 20.65 percent are rapidly growing firms in their annual employment growth in this survey. The descriptive data analysis result also revealed that, the majority about 55 percent of small firms are growing in profit status and about 45 percent of the SSEs that are found non-growing (surviving) in their profit growth status. Finally, based on the finding of the study suggestions have been forward for practitioners and policy makers on the issues that help to improve the performance of the firm*

Keywords: small scale enterprise, performance, Addis Ababa

1. Introduction

Despite the controversy among scholars on approaches to define and measure small firm performance, Sandberg (2003), attempt to define small business performance as ability of small business to contribute for jobs and wealth creation through business start-up, survival and growth.

In various studies, it is suggested that firm performance would be measured using various indicators depending on the objectives that firm pursued. Gerba and Viswanadham (2016) comprehensively reviewed various empirical and theoretical literatures on pertaining issues, how small scale enterprise performance is measured and come up with a conclusive consensus and conclusion that presents the evidences the absence of single over reaching model to measure the performance of small scale enterprises due to multi-dimensional aspects of performance.

Gerba and Viswanadham(2016) further added measuring small scale enterprise performance using a single indicator would result in wrong inferences as small scale enterprise owner-managers pursue different objectives. With objective to overcome pitfalls of single measure of firm performance and incorporate its multi-aspect features performance, firm performance should be measured using various tools depending up on the objectives that firm pursue. In broadly speaking small scale enterprise performance measure/indicators falls under the category of either financial and non-financial measures or hybrid measure (Wiklund and Shepherd 2005; Chong, 2008; Forsman,

2008). Consistent with various empirical studies, small scale enterprise performance in this study measured using quantitative employment growth and qualitative perceived profit growth.

2. Objectives of the Study

The main objectives of this article to present the evidence, how well small scale enterprises are performing in Ethiopia with special emphasis on selected Small scale enterprises that are operating in Addis Ababa and forward suggestion for practitioners and policy makers on the issues how to improve the performance of firm.

3. Data Sources and Sampling Techniques

Both primary and secondary data are used. study mainly rely on primary cross-sectional data collected using structured questionnaires from 250 small business owner-managers that are selected using stratified random sampling techniques. Secondary data are compiled from related empirical studies, articles, books, etc.

4. Methods of Data of Analysis

The collected data is analyzed mainly using descriptive data analysis such mean, percentage, histograms.

4.1 How to compute quantitative employment growth as proxy measure of firm performance

Consistent with the study of Rietz and Henrekson (2000);Wiklund and Shepherd (2005) and Blackburn et al. (2013) growth in employment and profit are used as proxy measure of SSEs performance. Due to differences in owner-mangers growth aspirations and other determinants, it is expected to observe a great deal of variation in SSEs performance in the sample.

Due the absence of well organized secondary data on the performance, SSEs owner-mangers were asked to quantitatively indicate total numbers of employees over the last three years of operations(2012) and numbers of employees for the year (2015) consistent with work of (Tefera et al.,2013). Therefore, the objective measure of SSEs performance using employment size is computed, following Evans (1987) model as follows:

$$Gr = \frac{Lnt - Lnt - 1}{n}$$

Where,

Lnt = numbers of employees for the year (2015)

$Lnt-1$ = numbers of employees for initial year or base year (2012)

n =intervening year (3 years)

Gr = annual employment growth rate of the enterprise

5. Major Findings of the Study

The survey data computation revealed that, the SSEs average log annual employment growth is 11.55% and the deviation from the mean is 18%. The log annual growth rate in employment is varying from decrease of 63% to increases of over 130% log annual growth.

Table 5.1: Descriptive Statistics for SSES log annual employment growth

| | <i>N</i> | <i>Minimum</i> | <i>Maximum</i> | <i>Mean</i> | <i>Std. Deviation</i> |
|---------------------|----------|----------------|----------------|-------------|-----------------------|
| Employment growth | 250 | -0.63 | 1.3 | 0.1155 | 0.18249 |
| Valid N (list wise) | 250 | | | | |

Source: author computation from survey data

The employment growth status for sample SSEs is revealed in figure 5.1. SSEs that experienced positive employment growth rate are considered to be growing or expanded in their employment for the reference period (2012-2015), while SSEs with zero employment growth rates for the reference period (2012-2015) are considered as no change in employment status and SSEs that experienced negative growth rate are assumed to be Contracted (declined) in employment growth rate status using the formula specified above.

Accordingly, the survey data computation as shown in figure 5.1, about 71.6 percent of sample SSEs in the survey are growing or expanding in employment growth status , while about 21.2 percent of SSEs were experienced no change in employment growth status for the reference period and

about 7.2 percent were contracted or experienced negative annual employment growth.

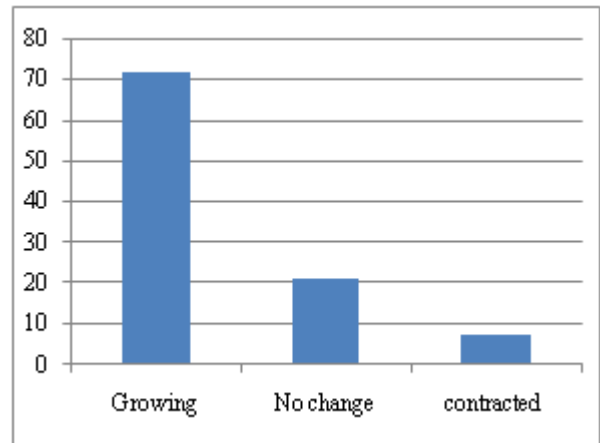


Figure 5.1: The percentage share SSEs annual employment growth status

Source: Author computation from survey data

For more understudying purpose employment growth status of SSEs can be categorized in to two general categories :(a) growing SSEs (b) non-growing SSEs ,by merging SSEs with zero and negative annual employment growth as non growing following Tefera et al. (2013) framework. Accordingly, the majority about 71.6 percent of SSEs in the survey were growing, while about 28.4 percent were non-growing [SSEs that experienced negative and zero annual employment growth for the reference period (2012-2015) in this study were referred as non-growing]. It is important to note that the majority of SSEs were growing in their annual employment growth for the reference period (2012-2015) under consideration.

The result is approximately consistent with the finding of Blackburn et al. (2013) that revealed majority of SSEs are expanding their work force.

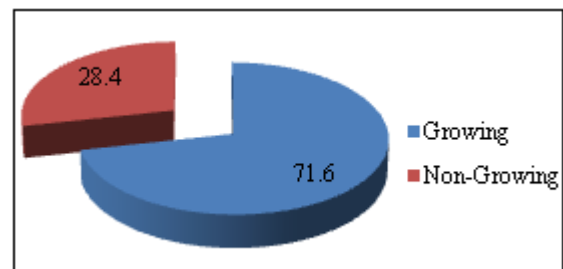


Figure 5.2: Employment growth performances of the SSEs

Source: Author computation from survey data

The above general classification of firm growth category (growing and non- growing) fails to put the boundary between rapid growth, slow growth and non-growing small firms. However, Wiklund (1998) growth classification attempted to introduce the boundary between rapid growing and slow-growing small firms. Accordingly, Firms exhibiting annual employment growth figures of 25% or above were classified as rapid growers. Those reporting growth figures between 5 and 25% were considered as slow growers. Size changes between a negative and a positive 5% were considered as non-growth. Firms that reports annual

employment growth figures below negative 5% were considered as shrinking firms.

Consistent with these definitions, out of total of 250 SSEs surveyed, 32(12.8%) are considered as rapid grower firms, 123(53.6%) are considered as slow grower firms, 67(26.8%) non growing firms and about 17(6.8) firms are considered as shrinking in employment growth.

It is sound to conclude that majority of SSEs in survey are slow-grower firms. However, the possible determinant factor that affects SSEs growth could be investigated later in empirical analysis part (chapter seven).

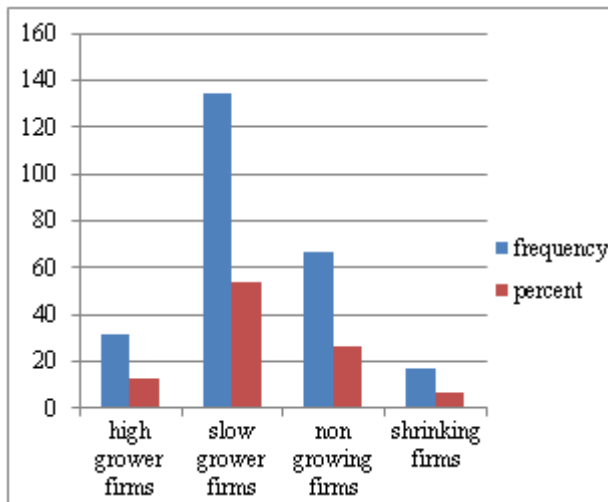


Figure 5.3: The percentage share of SSEs for various employment growth categories
 Source: Survey data computation

Further, SSEs owner-managers were asked to indicate qualitatively the profit status of their business enterprises category, i.e whether 'increased or not' over that last three years of their operations (2012-2015) as in (Blackburn et al., 2013), due the absence of well organized secondary data on the performance (profit) SSEs.

Descriptive data computation revealed that, about 55 percent of the small business enterprise reported growing (increased) in their profit, while about 45 percent of small businesses in survey were non-growing [for convenience and calcification purpose SSEs that reports the profit status other than increase is considered as survivalist (non- growing).This implied that, SSEs that reports their perceived profit seems decreased ,remains unchanged and loss were assumed to be survivalist (not growing)SSEs in profit for the survey period] in their profit status for the reference period.

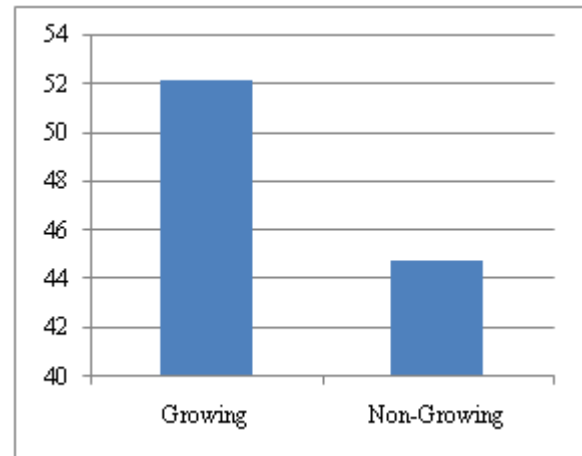


Figure 5.4: Perceived profit performances of SSEs
 Source: Author computation from survey data

A numbers of possible justification could have been suggested for variation in small business enterprise performance particularly from perspective of growing and non-growing SSEs in terms employment and profit. One of the possible reasons for such performance variation is due to motives and goals that SSEs owners pursued other than growth orientation but may be quality of life, job satisfaction and satisfaction clientele (Reijonen, 2008). Second, the environmental context in which SSEs operates would be vary and consequently, produce variation in SSEs performance.

The implication of Reijonen (2008) suggestion to this finding is non-growing small business enterprise would have less tendencies for growth orientation but satisfaction of customers, job satisfaction and quality of product would be their primary goal and intention . The Second arguable reason that is responsible for such SSEs performance variation would be effect internal and external factors. Such environmental factors would not equally affect SSEs and resulted variation in SSEs performance that could be tested later in this study in chapter seven.

6. Conclusions and Recommendations

6.1 Conclusions

In this study, it is noted that, SSEs average annual employment growth rate is 11.55% and the deviation from the mean is 18%. The annual growth rate of small scale enterprise is varying from decrease of 63% to increases of 130% annual growth.

Consistent with previous studies, small scale enterprise with positive employment growth rate are considered to be growing, while SSEs with zero and negative growth rate are assumed to be not growing (surviving). Accordingly, about 71.6 percent of SSEs in the survey are growing and about 28.4 percent are non- growing (surviving) in their employment growth performance.

Moreover, considering framework developed by Wiklund (1998), out of total of 250 SSEs surveyed, 32(12.8%) are considered as rapid growing firms, 123(53.6%) are considered as slow growing firms, 67(26.8%) non growing

firms and about 17(6.8) firms are found to be shrinking in employment growth.

It is sound to conclude that majority of SSEs in survey are growing but among growing SSEs the large proportion about 79.35 percent of SSEs were slow- grower firms and about 20.65 percent are rapid growing firms in their annual employment growth during the survey.

From the perspectives of profit performance, it is observed that, about 45 percent of the SSEs that are found in Addis Ababa city are non- growing (surviving) in their profit and about 55 percent of SSEs are growing in profit status. According to descriptive data analysis result, in general the majority of SSEs in this survey study were growing ,while small proportions of SSEs were experienced non-grown in their employment , profit and sales growth performance.

6.2 Recommendations

The general implication of this finding is that performance of small scale enterprise (employment and profit growth) is not evenly distributed to all firms in the survey. It seems due to the fact that the effect various environmental factors which may includes internal and external factors are not equally affects small scale enterprise performance and responsible for variation in performance. Perhaps this would leads to cautiously investigate in future research which factors are more important in determining small scale enterprise performance.

It is observed the large proportions of SSEs in this survey study are found growing, while small proportions of SSEs are found non-growing in employment and profit status. Therefore, it is suggested owner-manager of SSEs that experienced under performance or non-growing should take lesson and experiences of growing SSEs owner-managers. Moreover, the choices of owner-managers growth orientation (growth or survival) are crucial to development of the firms. Therefore, intervention strategies which would make by the policy makers should consider the objectives that small scale owner-managers pursued (growth or survival).

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