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Perceived performance challenges for small and medium enterprises in manufacturing and construction sector (Case of Shambo Town, Oromia, Ethiopia)

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Abstract
The purpose of this study was to identify major factors perceived as performance challenges by people operating in Small and Medium Sized Manufacturing and Construction Sector Enterprises in Shambo Town. Data were collected from 70 respondents. Primary data were collected from owner-managers using personal interviews and semi-structured questionnaire. Collected data were analyzed using descriptive statistics and factor analysis with the help of statistical package for social science (SPSS 20). The results indicated operators were technically less experienced, state-of-art machineries and equipment were less utilized and less collaboration work among some government sectors in facilitating performance of small and medium enterprises. The study underscores technological innovations need to be adopted to facilitate the production of better quality products. Further, government sectors need to form an integration so as to lessen challenges faced by small and medium enterprises.

Keywords: perceived performance challenges, small and medium enterprises, manufacturing and construction sector, shambo town, oromia, ethiopia

Introduction
Small and Medium Enterprises (SMEs) form a significant element for economic development and employment (ILO, 1998 in Richardson, Howarth & Finnegan, 2004) [4]. They are the engines of employment, alleviate poverty and upgrade the standard of living of citizens in both developed and developing nations.

As a result, country leaders began allocation of a larger proportion of their economic development budgets in funding these enterprises in terms of research and support service initiatives (Chaston, & Mangles, 2002).

Nevertheless, SMEs had shown little growth and unable to offer real sustainable employment (ILO, 2003) [1]. For instance, studies in Sub-Saharan African countries indicated 1% of the micro and small enterprises universe contributed to employment growth (ILO, 2003) [1]. As per the findings of (ILO, 1989), lack of access to credit, inadequate managerial and technical skills, inhibitive regulatory environment and lack of access to technology are among the major challenges facing small and medium enterprises. Hence, this study was conducted to fill gaps of limited researches and scholarly studies about manufacturing and construction sectors in study area.

Methods
The study was limited to Small and Medium-sized Enterprises (SMEs) operating within Shambo Town, Oromia Regional State, Ethiopia under micro and small enterprise (MSE) agency. It focused on identifying factors challenging performance of small and medium enterprises and exclude enterprises run by individuals themselves as well as large businesses. Descriptive survey design was employed for conducting the study as it is helpful in obtaining pertinent and precise information as well as to draw valid conclusion about the target population.

Before data collection, face to face contact with MSEs Agency leaders were done to have cooperation in the journey of data collection. Accordingly, data were collected from 75 manufacturing and construction sector enterprises with help of semi-structured questionnaire and personal interview. Descriptive statistics such as percentage and frequency distributions were used to analyze data. Factor analysis was, also employed to reduce factors to small and principal components by correlating similar items.

Results and Discussions
Sample Characteristics
The first part of the questionnaire was designed to gather information about enterprise's characteristics. There 78 questionnaires which were distributed for the enterprises' owner-managers of which 75 were completed by respondents and returned during the data collection.

Out of the collected questionnaires, five questionnaires were discarded as a result of incompleteness and considerable number of missing values.

Table 1: Sex and Marital status

Item		Frequency	Percent
Sex	Male	47	67
	Female	23	33
	Total	70	100.0
Marital status	Married	39	56
	Unmarried	31	44
	Total	144	100.0

Source: survey 2016

As it was seen in table 1, most respondents (67%) were male and married (56%). This clearly shows that relatively few female have been engaged in small and medium enterprises which still require further mobilization to promote their engagement.

Table: 2: Financial Sources and origin of enterprises

No	Items	Alternatives	Frequency	Percent
1	Sources of finance	Personal saving	39	56
		Family investment	13	19
		Credit and saving institution	18	25
		Total	70	100.0
2	Origin of enterprises	newly established	62	89
		Inherited from family	7	10
		Purchased from others	1	1
		Total	70	100

Source: survey 2016

As table 2 depicts, respondents were asked issues related to sources of finance and origin of the enterprise. As regards financial sources, 39(56%) and 13 (19%) of the respondents said their personal saving and family investment were their sources to begin their enterprises respectively. Credit and saving institutions contributed 18 (25%).

This implies personal saving was found to be the main sources. The rationale was that the enterprise owners have faced difficulty of getting warranty to borrow money they need.

In respect of origin of enterprises, 62(89%) and 7(10%) of the respondents confirmed that the enterprises under their operation were newly established and inherited from their family respectively. This implies that a majority of the enterprises were newly established following limited employment opportunities in the country.

Table 3: Plan and bookkeeping

No.	Items	Responses	Frequency	Percent
1	Do you have plan for your business?	yes	56	80
		no	11	16
		Missing System	3	4
		Total	70	100
2	Have you taken training on business plan?	yes	55	79
		no	13	18
		Missing System	2	3
		Total	70	100
4	Have you faced accounting and bookkeeping problems in your enterprise?	yes	37	52.5
		no	33	47.5
		Total	70	100

Source: survey 2016

As it was seen in table 3, 56 (80%) of the enterprises had a plan for their business while 11 (16%) of the them did not. This indicates that there were encouraging attempts by small and meduim manufacturing and construction sector owners on having a plan for their business. With reference to training on business plan, 55 (79%) of the respondents were trained while 13 (18%) of them did not. The trained individuals pointed out the training would be supported by knowledgeable and skillful professionals. Moreover, 37 (52.5%) of the owner respondents confirmed that there was poor accounting and bookkeeping practices in their business indicating the need for more practical oriented training.

Factors Analysis

The objective of the paper being identification of major factors challenging performance of manufacturing and construction small and medium sized enterprises, factor analysis was employed as it was used to reduce and categorize the variables considered as factors. Kaiser-Meyer-Oklin (KMO), an instrument for measuring sampling adequacy, was deployed to measure the appropriateness of data for factor analysis (Kaiser, 1970 in Yibeltal, 2010) [3]. It measures the factors homogeneity and a KMO measure of greater or equal to 0.6 is acceptable.

In this study, the KMO measure of the data used is reckoned at 0.6 which shows the suitability and significance of the data for factor analysis. Furthermore, the Bartlett test should be significant (i.e., a significance value of less than .05); which that the variables are correlated highly enough to provide a reasonable basis for factor analysis. In this case, Bartlett test significant with 0.000 value is below 0.05. Hence, suitable to undertake factor analysis.

Eighteen factors that were believed to have an effect on the performance of SMEs have been identified. By the help of factor analysis, these factors have been reduced to six. All the eighteen factors were accepted because they have factor loadings of 0.50 and above which is feasible to be accepted (Hair *et al*., 1998, in Oly and kok, 2005) [1]. Reduction was made by bringing together all the factors having the same nature (i.e. highly correlated). The factors in each column with bold color are highly correlated with the corresponding columns headings.

Table 4: Rotated Component Matrix[a]

	Component					
	1	2	3	4	5	6
Owner-managers lack experience in marketing	.839					
Lack of support from banks and other micro finance institutions	.809					
Lack of promotion for products of small and medium enterprises	.766					
Lack of access to fund for business expansion	.687			.		
lack of linkages b/n enterprises and credit providing institutions	.561					
Lack of reliable power supply		.830				
Lack of transportation facilities		.675				
Lack of access to information on business opportunities		.595				
There is high interest rate that limit the finance to be obtained		.582				
Lack of water supply services		.485				
There is poor demand for products			.871			
There are lack of managerial and technical known how			.832			
Lack of professional assistance for entrepreneurs in their working environment				.832		
The location of the enterprise is bad				.691		
The tax rate to be paid for government is high					.778	
Lack of awareness about the existing credit providing institutions					.775	
The enterprise lack market linkage for its products						.736
There is lack of appropriate technologies and machineries						.631
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 13 iterations.						

Source: survey 2016

In order to have this structure of factors challenging performance of SMEs, factor analysis has been repeated thirteen times. The rotation is to ensure the best factor structure or organization.

Labeling the Structured Factors

Now the factors were identified as shown in table 4 in the six columns. The next step is cataloging of these factors based on the variable coefficients and researcher's know-how of them. The higher the variable coefficient indicates that the variable and the corresponding factors are highly correlated. Based on this, the labeling was given for each factor that challenging performance of small and medium enterprises as follows:

Lack of marketing experience and finance

Five elements namely lack of experience, lack of access to capital, weak networking, less focus on promotion, and less support of financial institutions came together under this subtopic.

Accordingly, most individuals running the SMEs were less experienced; mainly used personal saving and family investment as sources for financing their business due to difficulty of presenting collateral for financial institutions to borrow money; shortage of capital adversely affects the performance of SMEs via limiting expansion of existing manufacturing and construction sectors; zonal SMEs agency and individual owners failed to promote manufacturing and construction sector; there were weak linkage among the urban land adminstration office, zonal SMEs agency and the credit and financing institutions; and absence of integrated work among enterprise has been conspicuous.

Lack of Infrastructure

Lack of water supply, reliable power supply, transportation facilities, high interest rate and lack of access to information on business opportunities were grouped under infrastructure. In this line, owner-managers assured the absence of access to information on government directions, market and raw materials; manufacturers (e.g., wood and metal workers) have been challenged by interruption of power supply; high interest rate of borrowing money from financial institutions challenged performance and expansion of the sectors and due to absence of transportation facilities; the enterprises couldn't find new markets at new places and import cheaper raw materials from where it was widely available.

Knowledge

Owner-managers have mentioned they don't know how and where to search markets, how to keep record of their expenses and revenues, how to control their activity even if few of the enterprises had plan for their business. The respondents remarked the need to take training on business skills such as marketing, management, and financial record keeping etc. In sum, lack of managerial, technical and business skills have challenged their performance.

Less Professional assistance

The sample entreprises also stated their trainers did not provide training exactly on the required area and even it was very short in which the trainees didn't acquire no in-depth know-how and skills. Furthermore, most SMEs have bad location for their business. It is because it was far from downtown in which there is market. Since the location is far from buyer area, enterprises incurred additional transportation costs to get buyers. Besides, some enterprises faced challenges related to working place.To tackle work related problems, city administrations in collaboration with agency of Micro and Small enterprises have been building shades. However, in most cases the built shades were given to individuals with enough money and work place.

Access to Financial institution

Very few entrepreneurs have little awareness about the existing micro financing institutions and how to deal with them to get fund for expansion of their businesses. Furthermore, the other

potential constraining legal force for SMEs is taxation.
The problem for SMEs is the extreme variability of taxes and their unpredictability. so, it is important to mention taxation as a potential constraining force to the performance of SMEs.

Market linkage
Market linkage can be made by making contacts with different sectors (organizations). In addition, enterprises could form market linkage at trade exhibition and bazaar by presenting their goods and services and then exchanging their adresses with potential and actual customers there. Enterprises can have forward linkage with customers or other resellers and backward linkage with their raw material suppliers to get needed quality and quantity of the materials which in turn help to produce quality goods or services that could satisfy customer's needs and wants. If customers are satisfied, they buy repetitively the enterprise's product and promote it. This also results in an increase of enterprise's product sales and its growth. Buyers need better products time after time. To produce quality product/better product, enterprises (especially,wood woork and metal work) need modern machinneries and equipments that is very crucial for producing quality output that is prefered by buyers. On the contrary, most enterprises under study lacked market linkage, modern machinery and equipment.
The above six factors were chosen based on Eigen value greater than one rule of thumb. For this particular study, the Eigen value (amount of variance in the original variables accounted for by each component) greater than one rule is used to determine the number of factors. According to this rule, those factors having greater than one are significant while the remaining (i.e. less than one) are insignificant because of the low correlation they have (Kaiser 1970, in Yibeltal, 2010) [3].

Table 5: Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	%of Variance	Cumulative %
1	3.522	19.568	19.568	3.522	19.568	19.568	3.055	16.974	16.974
2	3.253	18.072	37.640	3.253	18.072	37.640	2.385	13.250	30.224
3	1.760	9.776	47.416	1.760	9.776	47.416	2.346	13.034	43.259
4	1.544	8.575	55.992	1.544	8.575	55.992	1.786	9.922	53.180
5	1.311	7.283	63.275	1.311	7.283	63.275	1.572	8.734	61.915
6	1.169	6.497	69.772	1.169	6.497	69.772	1.414	7.857	69.772
7	.971	5.394	75.166						
8	.813	4.516	79.682						
-	-	-	-						
-	-	-	-						
18	.140	.778	100.000						
Extraction Method: Principal Component Analysis.									

Source: survey 2016

Table 5 reveals a percentage of total variance of the original variable as explained by each factor. The first factor, lack of support, summarizes 19.568 percent of the variance; the second factor lack of infrastructure, summarizes 18.072 percent; the third factor, lack of knowledge, summarizes 9.776 percent; the fourth factor, lack of professional assistance, summarizes 8.575 percent; the fifth factor, lack of awereness of credit providing instituition and government tax, summarizes 7.283 and finally the last factor, market linkage, summarizes 6.497 percent.
Together, the six factors summarize 69.772 percent of the total variance. This explanation of variance is equivalent to the R^2 in multiple regressions (Zikmand, 1997) [4]. Therefore, the remaining (30.228 %) variation in performance is explained by factors that were not included in this factor analysis such as probably attitudes of youth, leaders and family. In other words, with the possible error of 30.228%, the SME's performance is affected by the identified factors.

Others
Other factors such as society and leaders also challenges performance of manufacturing and construction sector enterprises. Societies challenge existing enterprises by undermining enterprises' product quality. On the other hand, there were conflicts between government policies which make difficulty on leader in solving the sector problem. For example, wood workers require lumber but it is prohibited by natural forest protection agency to exploit forests for lumbering.

Conclusion and Recommendation
Many youth have shown adverse attitude towards working under umbrella of micro and small enterprises (MSEs) agency. Zonal micro and small enterprise agency failed to serve as broker between small and medium enterprises (SMEs) and supporting institutions (e.g, urban land adminstration and micro financing institutions). In addition, products of SMEs neither promoted nor did get market access information timely. Absence of state-of-the art machinery and equipments resulted in poor product quality and lack of differentiation. Raising fund for expanding the existing business was the cause of concern for many. Almost all owner-managers needs training on business skill such as business planning, marketing, record keeping, business management and financial analysis. In addition, poor infrastructural facilities especially power interruption challenged performance of manufacturing sector enterprises.

Recommendation
Strengthened implementation of legal system could be a driving force in Ethiopia. In this context, the enforcement of

laws governing implementors in MSEs related sectors is especially important.

MSE agency expected to work in collaboration with MSE supporting institutions as a broker. The access to finance to afford additional appropriate technologies could be a driving force to improve the competitiveness of SMEs. Besides, owner/managers should seek for modern machinery and equipment to differentiate themselves from competitors. Universities and professionals should deliver training for entrepreneurs on business skills. Federal, regional government and partly zonal adminstrative should pay attention to the improvement of infrastructures such as roads, electricity and timely information dissemination.

Further research area

Study that comprises businesses run by individuals and wider area (urban and rural area) is recommended.

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