



Assessing Factor Affecting the Performance of Small and Medium Enterprise (In the Case of Wolkite City)

Prepared By: Debela Abera

A senior research paper submitted to Department of Accounting and Finance for the partial fulfilment of the requirement of Bachelor of Art (BA) Degree in Accounting and Finance

Advisor: Birhanu Yirga (MCS)

College Of Business and Economics

Department Of Accounting and Finance

Wolkite University

June, 2019

Wolkite, Ethiopia

ABSTRACT

Literature review indicates that SMEs play an important role in the economy of many countries across the globe, be they developed or developing Nations. However, SMEs have been said to report high rate of failures with many enterprises dying at an infant stage. Very few of the SMEs grow to become big enterprises. The reason to this failure was pegged on the various factors that continue to inflict stagnation of the industry in terms of performance. They include: lack of access to credit, regulatory framework, management issues, market barriers and education and training. Therefore this study was aimed at assessing the factors affecting the performance of SMEs enterprises within wolkite city, Ethiopia. The research targeted SMEs enterprises in wolkite city and the unit of analysis comprised Owners-managers of manufacturing businesses, constructions, merchandising and service enterprises. Target population was 172 and a sample size of 63 was taken. The researcher used simple random and stratified sampling techniques to sample its respondents. Questionnaires were used for the data collection. The research utilized descriptive analysis of each of the questions asked in the questionnaires presenting their reliability. Research findings might be used for all the stakeholders involved in the SME.

Acknowledgements

First of all, I would like to thank Jesus Christ who enabled me to complete this research paper.

I would like to extend my heartfelt gratitude and indebtedness to my advisor, Mr. Birhanu Yirga (MCs), whose unreserved guidance and constructive comments encouraged me to timely and successfully carry the research paper. I greatly benefited from his quick response, expertise and exceptional practical advice during the course of my research work.

Many thanks go to staff of small and medium enterprise and trade and industry of Wolaita city for providing me the data.

I am also grateful to my family, friends for their encouragement and moral support while I was doing the paper.

ABBREVIATIONS AND ACRONYMS

SME	Small and medium Enterprise
CBD	Central Business District
MNCs	Multi Nationals Corporations
ICT	Information and Communication Technology
UPS	United Parcel Services
EEs	Emerging Economies
EIU	Economist Intelligence Unit
ECA	Economic commission for Africa
OECD	Organization for Economic Cooperation and Development
SACCO	Saving and Credit Co-operative Societies
ROSCAS	Rotating and accumulating Savings and Credit Associations

Contents

ABSTRACT.....	i
Acknowledgements.....	ii
ABBREVIATIONS AND ACRONYMS.....	iii
List of tables.....	vi
List of Figures.....	vi
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1 BACKGROUND OF THE STUDY.....	1
1.2 STATEMENT OF THE PROBLEM.....	2
1.3 RESEARCH OBJECTIVES.....	4
1.3.1 General Objective.....	4
1.3.2 Specific Objectives.....	4
1.4. RESEARCH QUESTIONS.....	4
1.5. SIGNIFICANCE OF THE STUDY.....	4
1.6. SCOPE OF THE STUDY.....	5
1.7. LIMITATIONS OF THE STUDY.....	5
1.8. ORGANIZATION OF THE PAPER.....	5
CHAPTER TWO.....	6
LITERATURE REVIEW.....	6
2.1. INTRODUCTION.....	6
2.1.1 Education and Training.....	6
2.1.2 Access to finance.....	7
2.1.3 Regulatory Framework.....	8
2.1.4. Management.....	9
2.1.5 Informatics.....	10
2.2. EMPRICAL REVIEW.....	10
2.3. Conclusion and knowledge Gaps.....	11
RESEARCH METHODOLOGY.....	12
3.1. Introduction.....	12
3.2. Research Design.....	12
3.3 Target Population.....	12
3.4 Sampling Procedures.....	13
3.5 Data source and type of data.....	15
3.6. Method of Data Analysis.....	15
CHAPTER FOUR.....	16
DATA ANALYSIS AND INTERPRETATION.....	16

Introduction.....	16
4.1 Background information	16
4.3 Study Variables.....	19
4.3.1 Access to Finance as a Factor Affecting SMEs Performance	19
4.3.2 Informatics as a Factor Affecting SMEs Performance.....	23
4.3.4 Education and Training as a Factor Affecting SMEs Performance	28
Figure 4.11. How often respondent's enterprises send staff for refresher courses or training programs	28
4.3.5 Management as a Factor Affecting SMEs Performance	30
CHAPTER FIVE	32
CONCLUSIONS AND RECOMMENDATIONS	32
5.1. Introduction.....	32
5.2. Summary of the Findings.....	32
5.3. Conclusion	32
5.4. Recommendations.....	33
REFERENCES	35
APPENDIX.....	37

List of tables

page

4.1 Respondents agreement on role of various financial institutions in financing SMEs ...	24
4.2 Respondents agreement on challenges related to regulation those hinder SMEs performance and growth.....	28
4.3 Respondents agreement on trained professionals will leads to improvement in SMEs...	31

List of Figures

4.1 Back ground information about respondents.....	17
4.2 The main business activities of respondents.....	19
4.3 Number of permanent employees.....	20
4.4 Number of casual employees.....	21
4.5 How respondents finance their business.....	22
4.6 What prevent respondents from borrowing money.....	23
4.7 Respondents agreement that marketing is barrier to SMEs performance.....	25
4.8 Respondents agreement on ICT is important for SMEs performance and growth.....	26
4.9 Respondents agreement on government policies had impact on SMEs performance.....	27
4.10 Regulation policy had goodwill for growth and performance of SMEs.....	29
4.11 Respondents agreement on how often they take training program.....	30
4.12 program respondents apply to develop their skill and experience.....	31
4.13 respondents agreement on having mission and vision were critical for success.....	33
4.14 respondents agreement on developing business plan leads to development.....	34

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

There is no universally accepted definitions of SMEs because in each economic system every country has its own classification according to their industrial regulations. The categorization of SMEs depends qualitative judgements such as a number of paid up employees, size of enterprise, and amount of capital employed.

The Ethiopian Ministry of trade and Industry (MOT) defines SMEs as follows;-

Micro enterprise; - are small business with total capital investment not exceeding Birr 20,000 and excluding these enterprises with high technical consultancy and other high-tech establishments.

Small enterprise;- are businesses with a total investment between Birr, 20,000 up to Birr,500,000 and do not include these enterprises with advanced technology and high technical consultancy.

Medium enterprise;- are these business enterprises with a total investment between Birr,500,000 up to Birr 1 million and including those enterprises that have high technical consultancy and excluding other high technical establishments. Therefore, MOTI classifies SMEs in Ethiopia based on capital investment and on the bases of establishment. This is important because the sector accounts for large businesses throughout the country so that proper definition and classification is of essence for policy makers in their dealing with SMEs.

The small and medium business sector is recognized as an integral component of economic development and a crucial element in the effort to lift countries out of poverty wolfenson (, 2007). The dynamic role of small and medium enterprises (SMEs) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognized.

The sector has potential to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to attain their personal and professional goals (MoTI, 1997). In all successful economies, SMEs are seen as an essential springboard for growth, job creation and social progress.

The small business sector is also seen as an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, and enhance productivity and technical change and, through the combination of all of these measures, to stimulate economic development. This is not denying the importance of large industries and other enterprises for the growth of the Ethiopian economy. There is ample evidence to suggest that the labour absorptive capacity of the SMEs sector is high. The average capital cost per job created is usually lower than in big business, and its role in technical and other innovative activities is vital for many of the challenges facing Ethiopia (MoTI, 1997)

Research shows that majority of the lot carrying out micro and small enterprises in Ethiopia are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the SME sector (King and McGrath 2002). As such, for small businesses to do well in Ethiopia, people need to be well informed in terms of skills and management.

Wolkite is a market town in south Province Ethiopia located about 157km south of Addis Ababa. Wolkite city has an estimated population of about 70,000 with wolkite Municipality being the densely populated. Internally, the town is a centre of markets in the Guraghe zones and is also the capital city .The Economic activities of the town include, urban agriculture, services, mining (building stones), constructions, manufacturing, and merchandizing. There were many micro enterprises, a hundred of small and medium business enterprises and small numbers of major factories exist in and around the wolkite city. The SMEs exist in wolkite city faces different challenges internally and externally and the researcher wants to assess those challenges affects the enterprises performance.

1.2 STATEMENT OF THE PROBLEM

According to the economic survey (2006), SME's contributed over 50% of new jobs created in the year 2005. Despite their potential to contribute to the world economy, SMEs face many challenges. The Citigroup EIU report cited inadequate access to financial resources and investment capital as significant barriers to growth for SMEs (Newberry, 2006). These challenges might have accounted for the high rates of failure among SMEs , ranging from a high of 80% in the first 3 years of operation in the U.S. to over 50% in Australia, France and New Zealand (Mason,2007; Switzer, 2007;)

Wanjohi and Mugure (2008) in their study on an analysis of strategic factors affecting performance of small and medium industries in Borne State of Nigeria found that SME faced serious market constraints, including inability to sell their products, and lack of access to appropriate and relevant information and advice. Because most SMEs lack adequate staff with managerial skills, proper marketing planning and strategies are absent. Increase globalization and trade liberalization has encouraged the dumping of cheap, fake and substandard products on markets .This has dampened the demand for products. Further, the state of infrastructure in Nigeria has forced industrialist to provide many of the infrastructural facilities themselves. The additional cost of providing these facilities leads to increase in cost of production with resultant effect on prices of local products. Consequently, local products were rendered uncompetitive relative to imported equivalents.

Several studies in Kenya (Abuodha, 1996; Kinyanjui, 2000), found out that, although many SMEs continue to be established, most of them are unable to grow and are barely surviving. Past statistics indicate that three out of five businesses fail within the first few months of operations (Kenya National Bureau of Statistics, 2009)

Ting (2004) review shows that factors such as lack of accessibility to finance, lack of managerial skills, lack of Education and training, Scanty market information, Government policies and regulations and also market competitiveness by SMEs in developed countries are some of the major challenges that leads to failure in growth of most SMEs. Given the importance of SMEs businesses to the Ethiopian economy and the evidence that they were often exposed to failure, there was need to conduct empirical enquiry to investigate assessing factors affecting the performance of SME's in Ethiopia and how to manage those factors. The study was targeted SMEs Enterprises within Wolkite city.

At the national level Ethiopian small and medium-sized enterprises in all economic sectors are characterized by an acute shortage of entrepreneurial and technical skills and difficulty in raising finance from micro-lending institutions at favourable rates (Ethiopian Small Enterprise Development Agency, 2013). To overcome these problems the necessary preconditions should be taken in to account and try to expand awareness about the importance of those enterprises for the society as well as for the development of the country. The purpose of these study was to identify, describe and assess key factors that affect the performance of small and medium-sized enterprises operating in the wolkite city.

1.3 RESEARCH OBJECTIVES

1.3.1 General Objective

To assessing factors that affect performance of small and medium enterprises with specific Reference to the SMES at Wolkite city (Ethiopia).

1.3.2 Specific Objectives

The study was based on the following specific objectives:

- To assess the impacts of finance accessibility on the performance of small and medium enterprises.
- To examine influence of managerial ability on the performance of small and medium enterprises.
- To assess the role of education and training on the performance of small and medium enterprises.
- To assess the role of informatics on the performance of small and medium enterprises.
- To examine the impact of regulatory frame work on the performance of small and medium enterprises.

1.4. RESEARCH QUESTIONS

The study was guided by the following research questions:

- ❖ How does finance accessibility affect the performance of small and medium Enterprises?
- ❖ What is the impact of Management style on the performance of small and medium enterprises?
- ❖ How does education and training affect performance of small and medium enterprises?
- ❖ How does Informatics affect the performance of small and medium enterprises?
- ❖ How does regulatory frame work affect the performance of small and medium enterprises?

1.5. SIGNIFICANCE OF THE STUDY

The study would facilitate the availability of information for SMES businesses on factors that can affect the performance of their businesses and what they can do to overcome them as well as protect them from failure. The knowledge they were acquire from the outcome of the research, was not only improve the performance of their businesses, but also survival. The findings from the research were also assist the relevant ministry in formulating policies which will enhance the Performance and survival of SMEs. The study was contribute to the body of knowledge on the Effect of factors affecting performance of small medium enterprises in Ethiopia. It was useful to the scholars as a source of knowledge for further research on SMEs.

Scholars were also find the outcome of the research useful, as a source of literature review when carrying out research on other areas related to SMEs. It was also used by owner-managers of SMEs in Planning for the training programs of their staff as it was highlight some of available programs and their benefits.

1.6. SCOPE OF THE STUDY

This study was particularly emphasized on assessing factors that affecting the performance of small and medium enterprises. The study was confined to the SMEs within Wolkite city. For the purpose of this study, a target of population of 172 SMEs and sample size of 63 were deemed sufficient by the researcher.

1.7. LIMITATIONS OF THE STUDY

The researcher anticipated the reluctance of some respondents to complete the questionnaires promptly and or fill them at all. The researcher intended to overcome this by explaining the importance of the study and the potential benefit to them. Time, manpower and financial constraints contributed to the smaller sample taken for the purpose of this study. The researcher nature of work involved a lot of travelling and this was anticipated to hinder the completion of the research on time. The researcher intended to utilize all free available time to carry out the research. The researcher also anticipated challenges in determining which enterprises to choose as correspondents to the research questionnaires, especially medium firms as they fall somewhere between large corporations and small firms.

1.8. ORGANIZATION OF THE PAPER

This paper has five chapters. Chapter one contents the introduction part of the research, chapter two presents the theoretical and empirical related literature to the study, while chapter three provides research methodology, chapter four is about data analysis and interpretations, and finally chapter five recommendation and conclusion of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1. INTRODUCTION

This chapter looks at the related literature involving factors affecting the SME industry globally, regionally and in Ethiopia the challenges include education and training, informatics, regulatory framework, management and access to funds. The study also reviews previous studies carried out by other authors on the subject of factors affecting SME industry. The study also looks at the research gaps. The literature on SMEs (Small and Medium Enterprises) shows that they face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development (King and McGrath, 2002). Some of the major challenges include the following: Lack of credit accessibility, Lack of Managerial Training and Experience, Inadequate Education and Skills, National Policy and Regulatory Environment, Technological Changes, Poor Infrastructure and Scanty Markets information, (Wanjohi and Mugure, 2008).

2.1.1 Education and Training

In a study carried out by Saleh et al (2006) on perceptions of business challenges facing Malaysian SMEs, findings indicated that factors related to human capital were observed to be the greatest challenge facing SMEs. The factors were indicated by dominance of unskilled work force in the industry and lack of motivation among the workforce, there was also lack of managerial skills and labour productivity. The study sought to determine if there was a relationship between business performance and level of training in the line of business. The results showed that 49.5 percent of those who had received training in their areas of business reported that their businesses were doing well. Given that 51 percent received training and nearly all of them (49.5 percent) said their businesses were doing well, the researchers concluded that relevant training could produce positive results in the running of businesses.

(Wanjohi and Mugure, 2008) shows that majority of the lot carrying out micro and small enterprises in Ethiopia are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the SME sector (King and McGrath 2002).As such, for small businesses to do well in Ethiopia, people need to be well informed in terms of skills and management.

Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure, 2008).

2.1.2 Access to finance

Holland(2004) in his analysis of Chinese SMEs and their access to credit facilities found that as much as 56% of the companies funds were from personal savings/sources while 20% came from the banks and a mere 1% from equity. State banks in China traditionally preferred lending to large state owned enterprises, however, with the economic restructuring in place, private SMEs are finding their access to credit increasingly limited as a result of new credit restrictions. Analysts in China estimate that a majority of small businesses owners in China are now forced to resort to the underground market in order to gain access to much needed finances. A shortage of capital affects SMEs in particular, as they do not have the ability to absorb the risk of experimenting in new markets (Etemad, 2004).

In a study carried out by ECA (2001) on enhancing the competitiveness of small and medium (Placeholder1)Enterprises in Africa, the mission found out that shortage and inadequacy of financial institutions for SME support was a major obstacle for SME development. For example, the Senegalese Private sector was found to remain handicapped by the fact that most financial institutions were ill equipped to serve the SME sector. Such institutions appeared to have serious internal managerial weaknesses and unqualified staff, which explained poor quality of the service provided. The mission further reported that commercial banks often discriminated against SMEs because they were considered high risk clients with little or no resources to provide collateral.

They quoted Gabon and Cameroon where they found out that interest rates could go up to 25%, and although development banks exist, they operate like commercial banks with the same loan conditions. IN countries like Nigeria, it was observed that SMEs access to capital in the form of short-term loans and overdraft facilities were highly limited. Banks and other financial Institutions had no confidence in SMEs as they are perceived as high-risk ventures with high rate of failure. They also establish prohibitive collateral conditions that most SMEs cannot afford (ECA,2001).

Ibrahim(2008) in his study on an analysis of strategic factors affecting performance of small and medium industries in borne State of Nigeria found that the small and medium sized industrialists need funds for expansion and working capital. To obtain the necessary funds for expansion and working capital, SMEs would have to compete in the financial market with large and more reputable companies for funds.

From the records, the study established that SMEs were denied required funds/loans because of their doubtful ability to repay the loans in time, and where they could obtain the funds/loans it was usually at a very high cost. The peculiar problems of these industries have made them unattractive to banks which rather than meet the statutory minimum investment/lending to the sub-sector, prefer to pay the penalty for noncompliance enforced by the Central bank. Besides, the study found that the banks demanded for collateral on any advance which sometimes the SMEs could not provide (Ibrahim, 2008).

A study carried out by Kapila (2006) on challenges facing SMEs in Ethiopia established that limited access to financing was a problem that was experienced across the board. In spite of Ethiopia's relatively large financial services sector, only about 10 per cent of the population is estimated to have access to banking services. The bulk of the poor, who mostly live in the rural Areas have no access to formal financial services. Consequently, small entrepreneurs' start their business by investing their own savings and/or using funds obtained from relatives or friends and supplemented by loans from informal lenders or by credit from suppliers. The report indicated that the main reason why commercial banks are reluctant to lend to the SMEs is that this type of Business seldom has any credit history or marketable assets to use as collateral.

The study also established that there are a large number of micro-finance institutions involved in providing financial services to people with low incomes, as well as to SMEs.

2.1.3 Regulatory Framework

The small and medium sized enterprises (SME) sector has attracted significant and increasing attention from policy makers in many jurisdictions. In the developed economies, this attention has focused on business birth rates, entrepreneurship and SME's development. Despite the Ethiopian government having put in place a variety of programs to help SMEs upgrade their technologies; the extent of support in this area seemed to be quite limited. The respondents argued that assistance in this area was not yet effective and was less accessible by many SMEs.

Further, it was found that very few SMEs actively seek to contact chambers of commerce, and other trade organizations about information such as potential markets to enter. However, government and trade organizations was identified as essential to SMEs in order to help them keep up and be aware of the latest marketing trends, consumer preferences and technologies and make contact with potential buyers or agents. Yet Zafawillah et al (1998) also found that the assistance provided by the government of Pakistan was often limited to the lists of potential

importers as set out by export promotion bureau of Pakistan, and in a collective culture such as that of Pakistan, face-to-face contact with potential importers and wholesalers was crucial in order to build trust and respect.

The commission observed that in other African countries, the problem has often been the governments 'inconsistency and lack of transparency in implementing policies. In some countries like Nigeria for example, in recognition of the key role played by SMEs, the government formulated special policy measures and programmes to encourage their development .It included favourable laws and regulations on contracts, leasing, and corporate tax as well as fiscal and export incentives for SMEs. However, the political will for proper implementation was never there. Corruption diverted the support programmes from the original beneficiaries' .illegal permits and licenses were given at all levels to family members and friends operating informal micro enterprises that did not qualify for tax relief and other incentives.

2.1.4. Management

Chung(2008) in an analysis of deficiencies of financial management of SMEs in China and Counter measures found that there was poor financial control, supervision and management. Poor Management of cash resulted in idle or insufficient funds. Staff were reported to be unaware of Capital gains, business activities, there was emphasis of cash transactions, early withdrawal delayed settlement which resulted in idle and waste of funds, loss of interest income and Investment income.

Further, it was found that in order to win customers and maintain their competitive advantage, SMEs resulted in credit approach, but the collection measures were Inadequate, resulting in increased risk of bad debt. It was also noted that inventory control was Weak, resulting in slow capital turn over. This was aggravated by lack of supervision of the stock of SMEs as there was no standard stock place and this resulted to ineffective productivity, assets loss damage and waste of funds .Onugu (2005) in his study on challenges facing SMEs in Nigeria observed that poor Management inadequate competent personnel were one of the major challenges facing SMEs.

The study also established that weaknesses in organizations were information technology, administration, finance and human resources management and accounting arise from the dearth of personnel with adequate educational and technical background among the SME promoters

and their staff. Inadequate managerial, scientific and technological competence among the SME result in: Importation of equipment which would, in addition to its cost, require expatriate skill to install at high costs; Payment of royalties, technology transfer fees due to inadequate capacity on process technology, design and patents; poor and substandard product that cannot compete locally nor internationally; poor and substandard product that cannot compete locally nor internationally; and poor managerial ability also manifests in and is reinforced by lack of appropriate training and leadership development in various aspects of SME management(Onugu,2005).

2.1.5 Informatics

The emergence of the internet has allowed small- and Medium size enterprises to compete effectively and efficiently in both domestic and international markets (UNDP, 2004).Information and Communication Technologies (ICT) play a prominent role in the field of commerce and Trade now a days. While the developed world forges ahead with e-transformation of businesses.

The developing world struggles to keep pace with emerging technologies. In a challenging global Society effective use of ICT is critical for the success of businesses especially SMEs. Despite Advances in IT and the acceptance by large organizations of such technologies, the same level of adoption is not evident among SMEs.

Thomola (2008) in his study on perception of SMEs regarding to factors contributing to failure in South Africa found out that it is an apparent issue that when businesses are not properly marketing their products, it is likely for such business to perform poorly. He therefore argued that it was imperative for SMEs to improve the way they market their products as reflected in the responses where most of the respondents (65.8%) agreed that many businesses collapse because of poor product marketing. He observed that the findings confirmed what Gbadamosi (2006:4)(q.t.) found on SMEs' limited marketing capacity that the economic power of many of these SMEs is small, hence they mostly serve their localities local markets and environment, And that there is a need for marketing orientations and market expansion.

2.2. EMPRICAL REVIEW

Ibrahim (2008) in his study on an analysis of strategic factors affecting performance of small and medium industries in borne State of Nigeria found that the small and medium sized industrialists need funds for expansion and working capital. To obtain the necessary funds for expansion and working capital, SMEs would have to compete in the financial market with large

and more reputable companies for funds. From the records, the study established that SMEs were denied required funds/loans because of their doubtful ability to repay the loans in time, and where they could obtain the funds/loans it was usually at a very high cost. The peculiar problems of these industries have made them unattractive to banks which rather than meet the statutory minimum investment/lending to the sub-sector, prefer to pay the penalty for noncompliance enforced by the Central bank. Besides, the study found that the banks demanded for collateral on any advance which sometimes the SMEs could not provide (Ibrahim, 2008).

Sha(2004) carried out a survey to investigation into problems facing small-to-medium sized Enterprises in achieving growth in the Eastern Cape and found that access to finance, stringent Government policy, lack of government support of programs and poor management were the major challenges affecting the SMEs in that region, however, the researcher observed that the scope of the study did not allow delving into reasons why the above are a hindrance to growth performance, rather it dwelt on identifying whether they were challenges the researcher. Therefore recommended a comprehensive study on the factors and why they cause stagnation. This study therefore seeks to fill in this gap by going further to find out why they are major challenges.

A study carried out by Kapila (2006) on challenges facing SMEs in Ethiopia established that limited access to financing was a problem that was experienced across the board. In spite of Ethiopia's relatively large financial services sector, only about 10 per cent of the population is estimated to have access to banking services. The bulk of the poor, who mostly live in the rural Areas, have no access to formal financial services. Consequently, small entrepreneurs' start their business by investing their own savings and/or using funds obtained from relatives or friends and supplemented by loans from informal lenders or by credit from suppliers.

2.3. Conclusion and knowledge Gaps

As shown on the above literature, many researchers study on the factors influencing the performance of small and medium enterprises in different countries. But, most studies in Ethiopia not give attention for the factor affecting performance of small and medium enterprises. Also as per knowledge of the researcher, there was no studies be carried out on the assessing factors affecting the performance of small and medium enterprises in wolkite city. So, this study helps to fill the gap by finding out factors that can affect the performance of small and medium enterprises in wolkite city.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

The chapter gives an explanation of the research designs and methodology and justification for having used this research design. It also describes the characteristic of the population which will be used in the study, detailed description of sampling methods used and procedures, data collection instruments and the procedure of data collection, finally it describes the appropriate data analysis method which will generate the data.

3.2. Research Design

As stated by Bryana and Bell (2007), research design refers to the structure that guides the execution of a research method, and the subsequent analysis of acquired data. It provides a framework for the generation of evidence that is suited both to a certain set of criteria and to the research question in which the investigator is interested. The study adopted the descriptive research design. Creswell (2002) observes that a descriptive research design is used when data are collected to describe persons, organizations, settings, or phenomena. The study aimed at observing and describing the behaviour of the subjects under study without influencing it in any way and therefore considered the descriptive research design to be the most appropriate for this study.

3.3 Target Population

Neumann (2000) observed that nothing comes out at the end of a long and involved study that is any better than the care and the careful selection of the population. The population refers to the group of people or study subjects who are similar in one or more ways and which forms the subject of the study in a particular study. The target population of this study comprised of 172 drawn from SME's with in wolkite. This is shown on the table below.

Table 3.1 Target population

SMEs type	Strata Target population
Manufacturing	12
Service	80
Merchandizing	60
Construction	20
Total	172

Source: Business List Directory (wolkite)

3.4 Sampling Procedures

Sampling is a procedure of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population. The researcher will use stratified and simple random sampling. Stratified sampling is the process of selecting a sample in such a way that identified subgroups in the population are represented in the sample in the same proportion as they exist in the population (Patton, 2002), while a simple random sample is one in which each and every member of the population has an equal and independent chance of being selected as respondents (Mugenda and Mugenda, 1999). From the 172 owners of SMEs, a sample size of 63 respondents within wolkite city was chosen from each of the strata where by the target population was divided in to sample by Yamane formula. This ensured that all the strata within the study area are included in the study and thus taking into consideration the socio-economic dynamics of the area by spreading the sample in the whole wolkite city.

Table3.2 Sample size of respondents

SMEs	Strata Target population	Sample size
Manufacturing	12	4
Service	80	30
Merchandizing	60	22
Constructions	20	7
TOTAL	172	63

Source; List of SMEs (wolkite business list)

- Each Sample taken was like $12/172*63 = 4$ for manufacturing and each of their proportions to the total numbers of populations as stratified sampling techniques because they are heterogeneous populations. It is crucial that for heterogeneous populations stratified random sampling techniques is more advantageous than others. Because it shows the selected sample size is existed in proportions as they exist in populations.

The sample size is determined based on Yamane's formula (Glenn D. Israel, IFAS); with an error 5% and with a confidence coefficient of 95% and the following equations applied;

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

Where,

n= sample size

N= the total size of population

e= acceptable sampling error, 95% confidence level with 10% precision. Accordingly, the sample is determined as follows:

$$n = \frac{172}{1 + 172 * (0.1)^2}$$

$$n = 63$$

To fix the 63 SMEs stratified sampling was applied in each of the SMEs sectors based on their proportion to the total number of population. Accordingly, 4 SME from manufacturing, 30 SMEs from service sector, 22 from merchandizing, and 7 SMEs from constructions selected to fill the questionnaire.

3.5 Data source and type of data

The researcher used primary data. Primary data was collected by questionnaires. The researcher was collected data by use of questionnaires. The researcher was prepared questionnaire that has open and close ended questions. The questionnaire was typed and taken to each respondent. The main reasons for using a questionnaire are that that they focus directly on the issues of the research and can be used to collect more data. It can also be send to respondents with return stamps or use research assistants to take them to respondents, have them filled and collect them later or immediately as per the convenience of the respondent.

Questionnaires are brief and comprehensive. To ensure the reliability and validity of the questionnaires, a pre-test was undertaken.

3.6. Method of Data Analysis

In order to meet the research objectives, the collected data was analysed based on the nature of the objective. Accordingly, questionnaires and data was analysed qualitatively with descriptive statistics like tables, percentages and charts. Furthermore, Wolcott (1994) cited in Creswell (2003), suggested that qualitative research is fundamentally interpretative i.e. the researcher makes an interpretation of the data.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

Introduction

This chapter presents data analysis and findings of the study as set out in the research methodology.

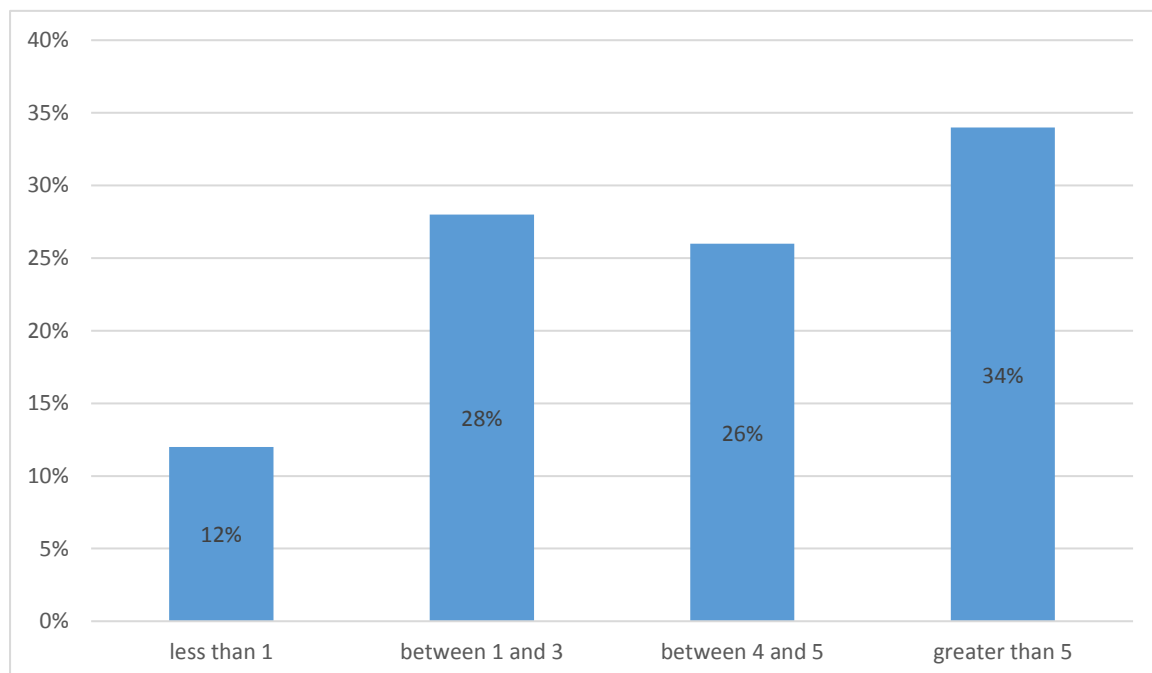
The study findings are presented on to establish the factors that affect performance of small and medium enterprises with specific reference to the SMES in Wolkite city. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

Response Rate

The study targeted 63 respondents in collecting data with regard to assessing factors that affect Performance of small and medium enterprises with specific reference to the SMES in Wolkite city. From the study, 40 out of the 63 sample respondents filled-in and returned the questionnaires making a response rate of 63.5%. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

4.1 Background information

Figure 4.1;-Duration of time the Respondent's business has been in existence

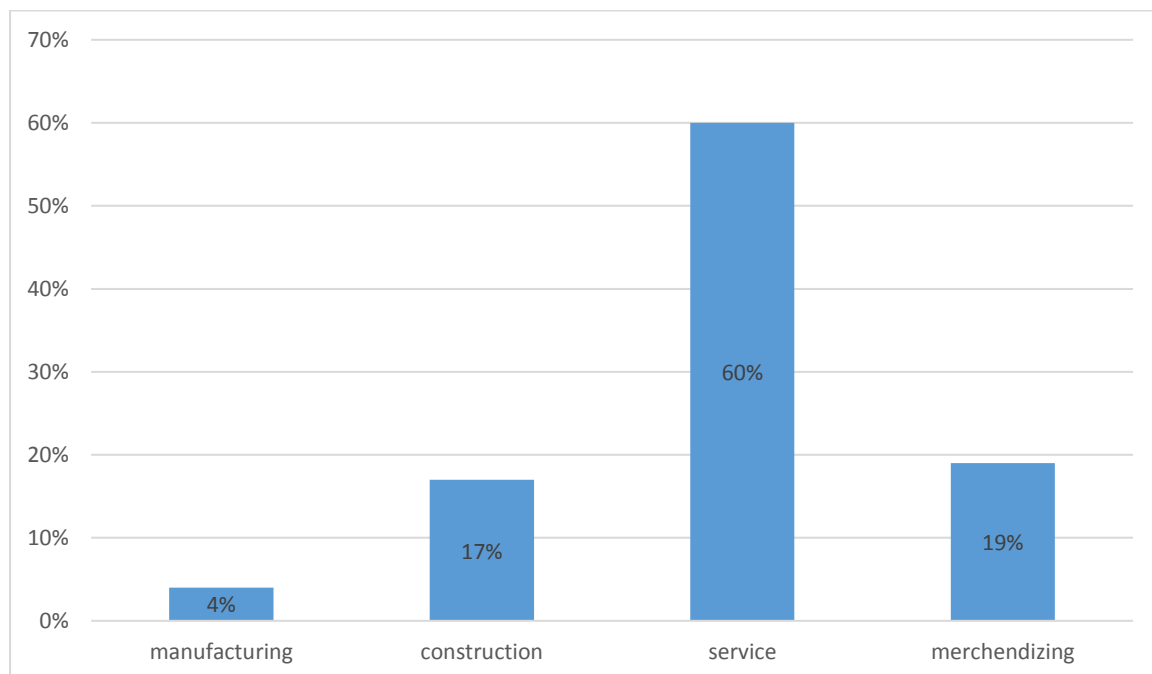


Source; questionnaires

The study sought to find out the duration of time the respondent's business has been in existence. From the findings, 12% of the respondents indicated that their businesses had been in existence For less than 1 years, 28% of the respondents indicated that their businesses had been in existence for 1-3 years, 26% of the respondents indicated that their businesses had been in existence for 4-5 years while 34% of the respondents indicated that their business had been in operation for greater than 5 years. The data analysed expressed above indicates that duration of time the respondents business in existence was almost more than five years.

4.2. The main business activities of the Respondent's Business

Figure 4. 2: The main business activities of the Respondent's Business

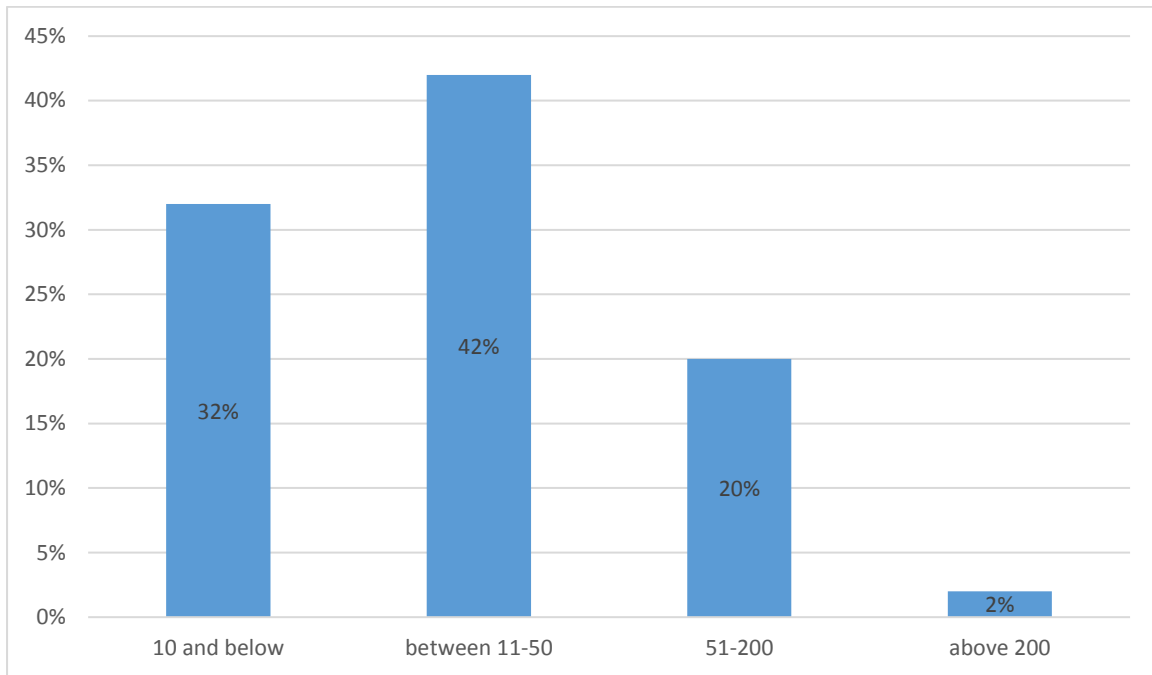


Source; questionnaires'

The study sought to find out the main business activities of the Respondent's Business. From the findings, 4% of the respondents indicated that they were in the manufacturing industry, 17% of the respondents indicated that they were in the constructions, 60% of the respondents Indicated that they were in the service, 19% of the respondents indicated that they were in the merchandising respectively From the study more business enterprises were participated in service sectors than other type of business enterprises.

From the study there various business enterprises around and in wolkite city .However, the researcher tried to identify those enterprises fulfil the categories of small and medium enterprises. Since the growth of business enterprises were not constant they were fail or develop to the next business enterprises type. Micro enterprises to small, small enterprises to medium, and also from medium enterprises to the large enterprises according to their capital and employee attractions capacity.

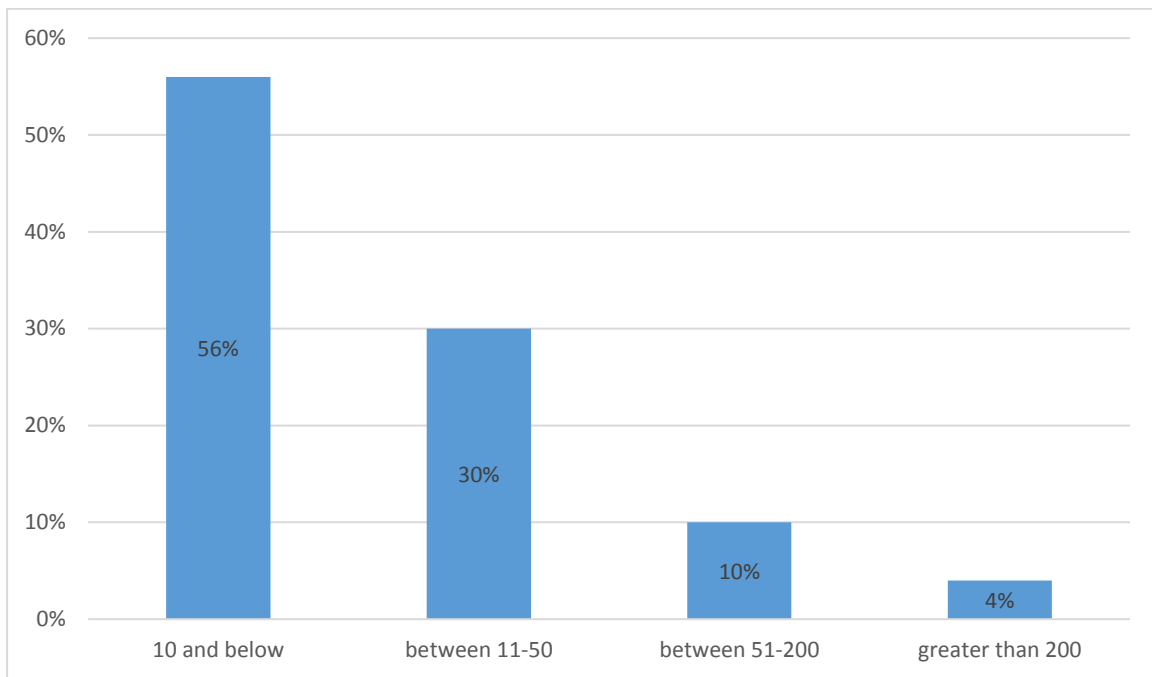
Figure 4.3 Number of permanent employees in the Respondent's Business



Source; questionnaires

The study sought to find out the number of permanent employees in the Respondent's Business. From the findings, 32% of the respondents indicated that they had below 10 Employees in their businesses, 42% of the respondents indicated that they had between 11 and 50 Permanent employees in their businesses, 20% of the respondents indicated that they had between 51 and 200 permanent employees in their businesses while only 2% of the respondents indicated that they had between above 200 permanent employees in their business.. The study sought that there were a minimum amount of permanent employees in business enterprises. However the enterprises should employ more permanent employees as it was grown. Attracting employee is depend up on the enterprises development and capitals.

Figure4.4 Number of casual employees in the Respondent's Business



Source; questionaries'

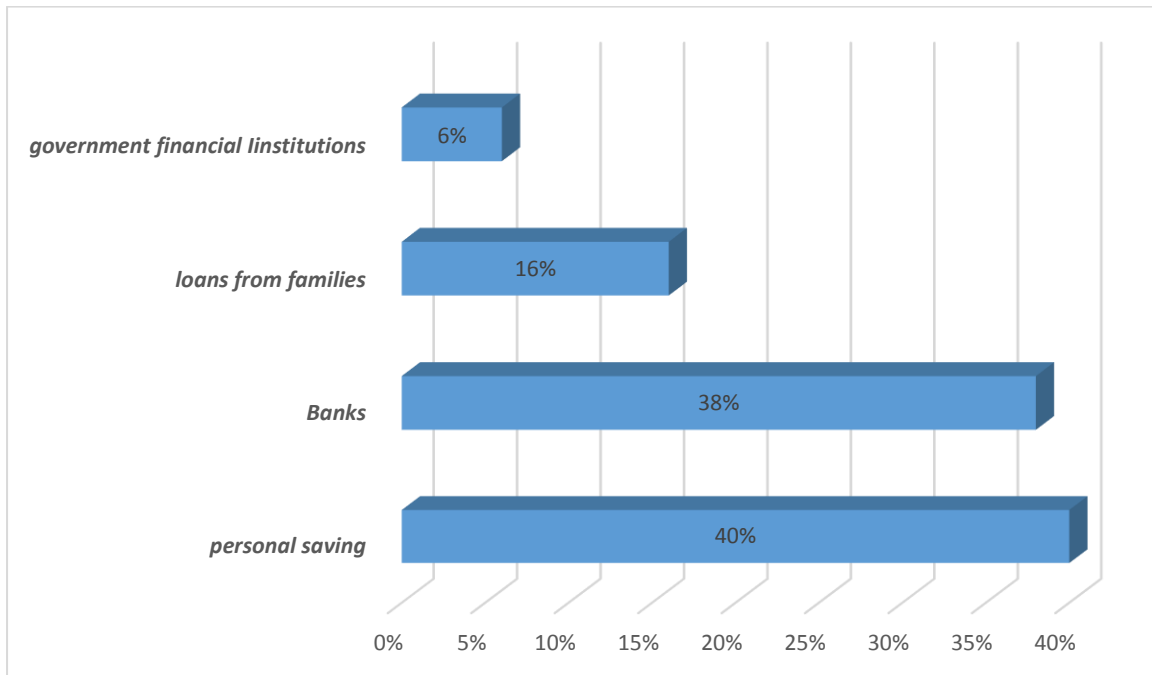
The study sought to find out the number of casual employees in the Respondent's Businesses. From the findings, 56% of the respondents indicated that they had 10 and below casual employees in their businesses, 30% of the respondents indicated that they had between 11 and 50 casual employees in their businesses, 10% of the respondents indicated that they had between 51 and 200 casual employees in their businesses while only 4% of the respondents indicated that they had between above 200 casual employees in their businesses. .There was greater amount of casual (temporary) workers in the studied business enterprises.

4.3 Study Variables

4.3.1 Access to Finance as a Factor Affecting SMEs Performance

The study sought to find out the influence of access to finance on SMEs Performance. Particularly, the study focused on how respondents finance their businesses and what prevents Respondents from borrowing money from banks.

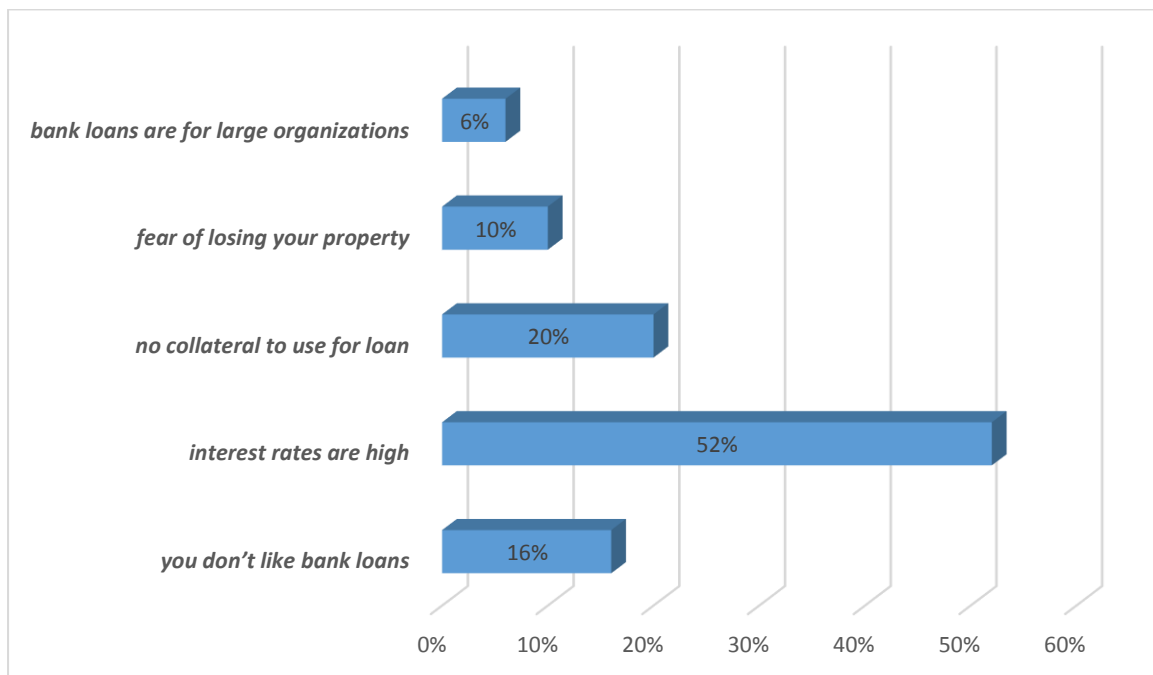
Figure 4.5 How Respondents finance their businesses



Source; questionnaires

The study sought to find out how respondents financed their businesses. From the findings, 6% of the respondents indicated that they financed their businesses from loans and families, 38% of the respondents indicated that they financed their businesses from banks 40% of the respondents indicated that they financed their businesses from loans from personal saving, family and relatives. From the study the enterprises financed their business enterprises more probably by personal saving which was advisable and made them free from borrowing and risk associated with interest rates. From the study that was more essential financing business enterprises by personal saving than other because more probably it has less risk than others. In addition to financing business enterprises by personal saving commercial bank also play a major role by borrowing money for the interested business enterprises.

4.6. What prevents Respondents from borrowing money from bank



Source; questionnaires

The study sought to find out what prevented respondents from borrowing money from banks. From the findings, 52% of the respondents indicated that high interest rates prevented them from borrowing money from banks, 20% of the respondents indicated that lack of collateral to use as security prevented them from borrowing money from banks, 16% of the respondents indicated that they did not like to borrow credit from commercial banks, 6% of the respondents indicated that they thought that loans were for big companies and therefore did not see the need to borrow money from banks while the rest of the respondents, (8%) indicated that fear of losing property Prevented them from borrowing money from the banks. The respondents were prevented to borrow money from the bank more over because recently the bank imposes high interest rates on borrowed money.so, it was advisable for the respondents that financing their business by their own contribution than waiting other help.

Table 4.1; Respondent's level of agreement about the role of various institutions in Financing and growth of SMEs

Source of finance	Strongly agree		Agree		Nether		Dis agree		Strongly dis agree	
	frequency	%	Freq	%	Freq	%	Freq	%	freq	%
Micro financé	20	50%	8	20%	2	5%	8	20%	2	5%
Government FI	15	37.5%	10	25%	0	0%	5	12.5%	5	12.5%
Commercial banks	20	50%	10	25%	0	0%	7	17.5%	3	7.5%
Family saving	30	75%	5	12.5%	5	12.5	0	0%	0	0%

Source; questionnaires

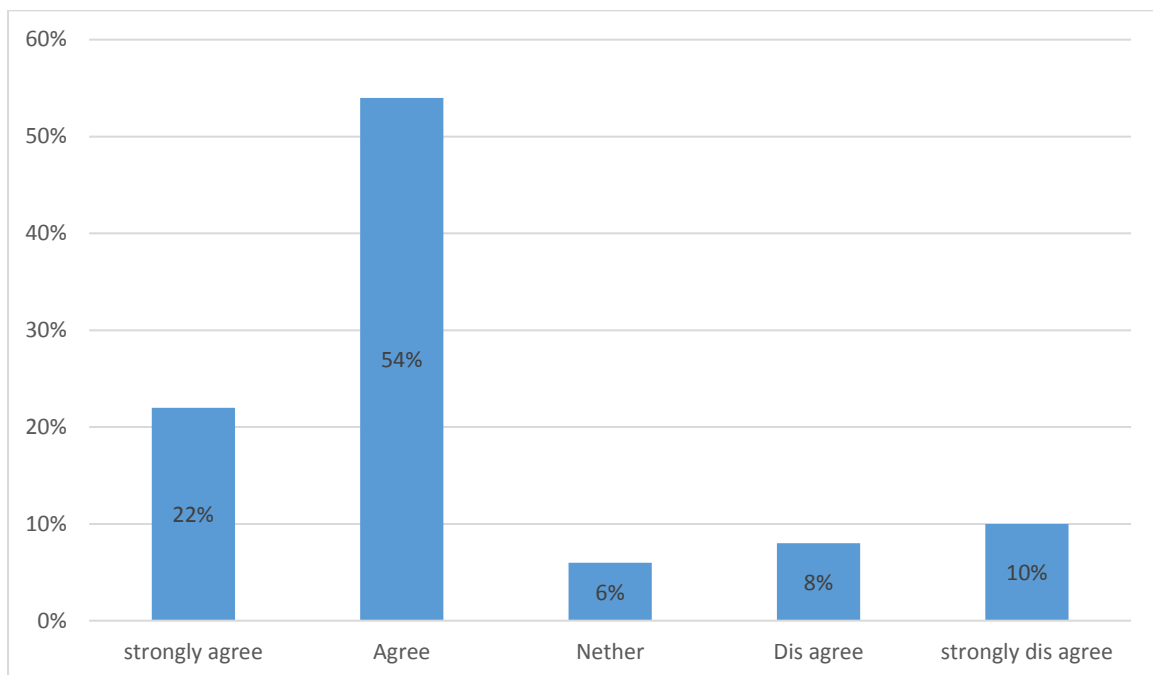
As Indicated on the above table ,20 respondents representing (50%) strongly agree that micro finance institutions has a great role in financing and growth of SMEs, while 8 respondents representing (20%) were agree that micro finance institutions has a great role in financing SMEs, 2 respondents representing (5%) were in Neither of the condition. 8 respondents representing (20%) were dis agree with the role of micro finance institutions and 2 respondents representing 5% were strongly dis agree that micro finance institution had a great role in financing and growth of SMEs. The study shows that micro finance institution had a role to the growth of various enterprises by borrowing money them and other service.

While 15 respondents representing (37.5%) were strongly agree and 10 respondents representing (25%) agree, 5 respondents representing (12.5%) dis agree and 2 respondents representing (12.5%) strongly dis agree that government financial institutions has a role in financing SMEs. The study shows that government financial institutions is available everywhere to serve business enterprises. 20 respondents representing (50%) strongly agree, 10 respondents representing (25%) agree, 7 respondents representing (17.5%) were dis agree, and 3 respondents representing (7.5%) strongly dis agree that commercial banks play a major role in financing SMEs and growth of enterprises. The researcher identified that among the financial institutions commercial bank is more accessible even if it charges interest.

30 respondents representing (75%) strongly agree, 5 respondents representing (12.5%) agree, 5 respondents representing (12.5%) and the remaining were neither of that family saving has a great role in financing SMEs. From the study under taken by the researcher concluded that financial institutions has a great role in financing SMEs, However personal saving is the major financing institutions to finance business enterprises which is free from other financial institutions those charges interest on the principal.

4.3.2 Informatics as a Factor Affecting SMEs Performance

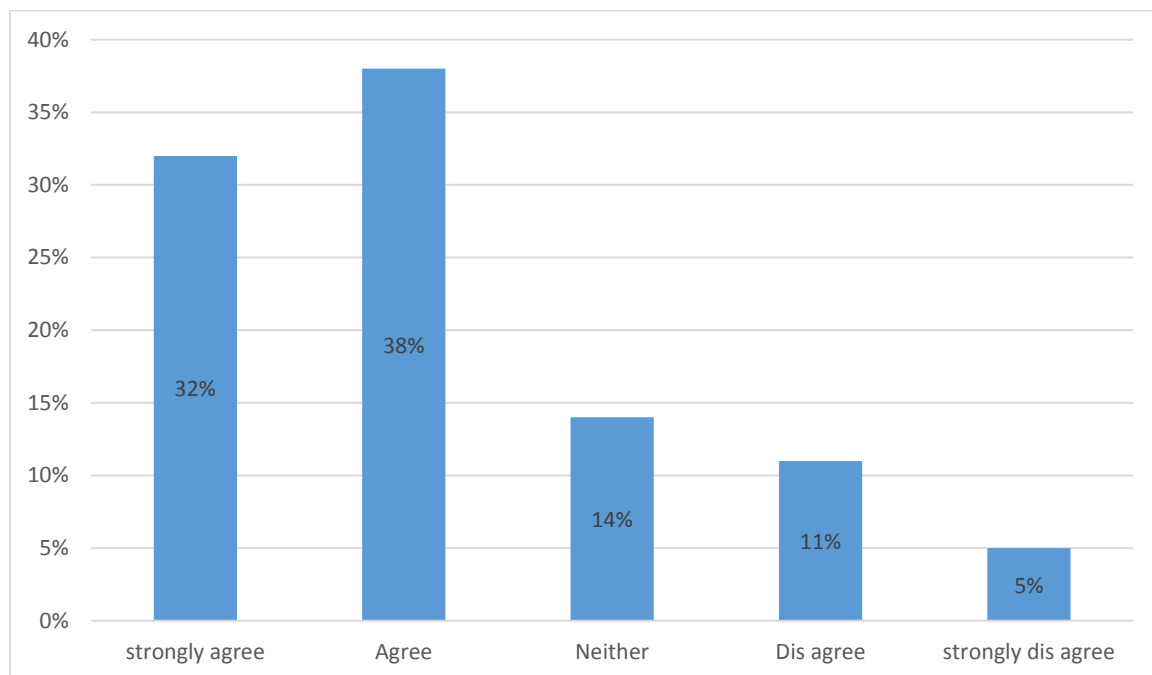
4.7. Respondent's opinion as to whether marketing is a barrier to enterprise performance



Source; questionnaires

The study sought to find out the respondent's opinion as to whether marketing is a barrier to enterprise performance. From the findings, 22% of the respondents strongly agreed that marketing is a barrier to enterprise performance, 54% of the respondents agreed that marketing is a barrier to enterprise performance, 6% of the respondents indicated neither on whether marketing is a barrier to enterprise performance, 8% of the respondents dis agree that marketing is a barrier to enterprise performance, while only 10% of the respondents strongly disagreed that marketing is a barrier to enterprise performance.

Figure 4.8 Respondent's level of agreement on whether Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs



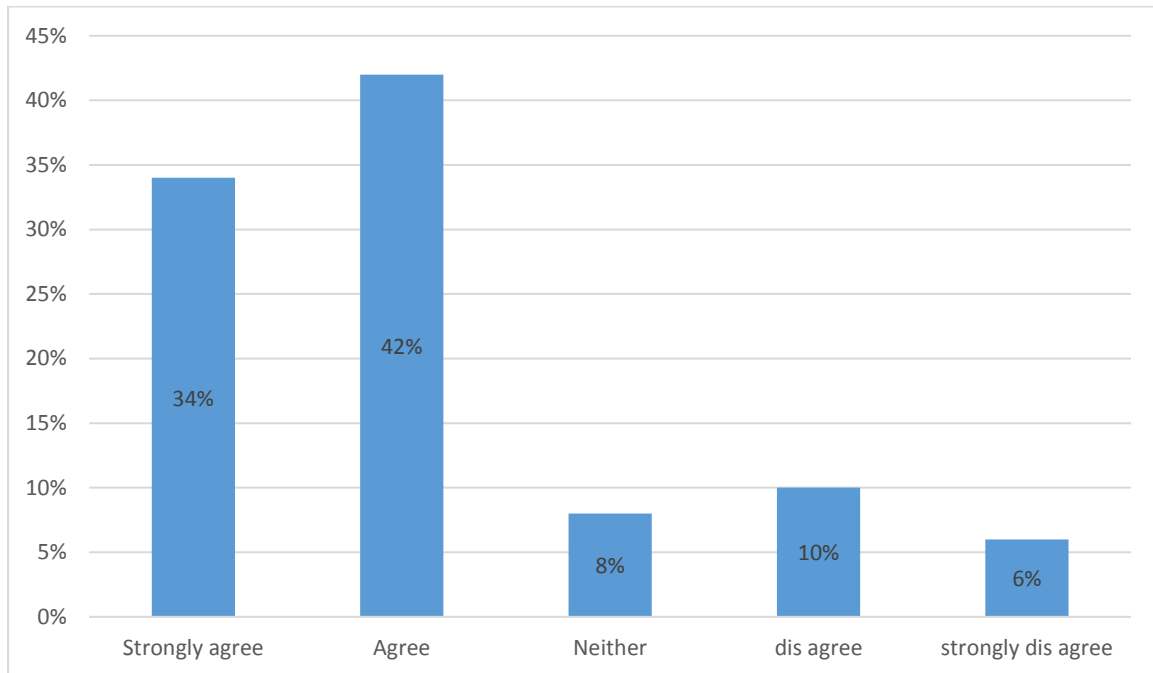
Source; questionnaires

The study sought to find out the respondent's level of agreement on whether Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs. From the findings, 32% of the respondents strongly agreed that Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs, 38% of the respondents agreed that Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs, 14% of the respondents indicated neutrality on whether Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs, 11% of the respondents disagreed that Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs while only 5% of the respondents strongly disagreed that Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs.

From the study analysed above the researcher concluded that for every business enterprises knowledge of ICT is very crucial element. Without information technology it is difficult to survive because in modern sense the world is in complex situation. Every activities changed over time. So, for every business enterprising having a good information about their market is crucial element.

4.3.3 Regulatory Framework as a Factor affecting SMEs Performance

4.9. Respondent's level of agreement on whether Government policies have a great impact on Performance of SMEs.



Source; questionnaires

The study sought to find out the respondent's level of agreement on whether Government Policies have a great impact on performance of SMEs. From the findings, 34% of the respondents strongly agreed that Government policies have a great impact on performance of SMEs, 42% of the respondents agreed that Government policies have a great impact on performance of SMEs, 8% of the respondents neither that Government policies have a great impact on performance of SMEs, 10% of the respondents strongly disagreed that Government policies have a great impact on performance of SMEs while only 6% of the respondents indicated strongly dis agree that Government policies have a great impact on performance of SMEs.

From the study the researcher concluded that government policies had a great impact on the survival of every business enterprises and it was depend up on the government of the country that investor's attraction and investing demand of those investor depend on. If political stability of one country is good and also tax law is attractive the demand of investors to invest in that country increases.

Table 4. 2: Respondent's level of agreement on whether challenges related to regulations Hinder their enterprise's growth.

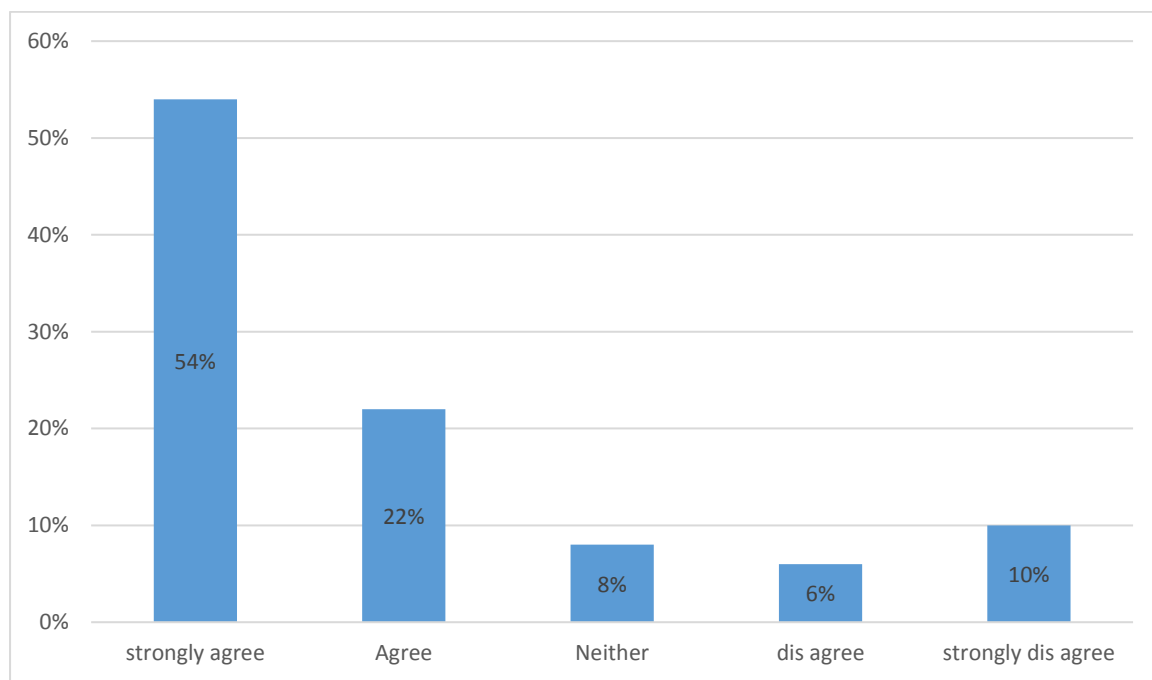
Statement	RATING									
	Strongly dis agree		Dis agree		Neither		Agree		Strongly agree	
	frequ ency	%	Freq	%	freq	%	freq	%	freq	%
Lack of government support	0	0%	3	7.5%	2	5%	10	25%	25	62.5%
High compliance cost	2	5%	3	7.5%	0	0%	5	12.5%	30	75%
Political instability	2	5%	5	12.5%	3	7.5%	5	12.5%	25	62.5%
High cost of tax	0	0%	0	0%	3	7.5%	5	12.5%	32	80%
Illegal permits	5	12.5%	10	25%	0	0%	10	25%	15	37.5%

Source questionnaires

The study sought to found out respondents level of agreement on challenges related to regulations hinder enterprise growth. As indicated on the above table there were respondents agreement on challenges related to regulation hinder the SMEs growth. From the analysis of the table, 3 respondents representing 7.5% dis agree, 2 respondents representing 5% neither of, 10 respondents representing 25% agree, and 25 respondents representing 62.5% were strongly agree that lack of government support hinder the growth of SMEs. while, 2 respondents representing 5% strongly dis agree, 5 respondents representing 12.5% dis agree, 5 respondent representing 12.5% agree, and 30 respondents representing 75% strongly dis agree that high compliance cost hinder SMEs growth, while 2 respondents representing (5%) strongly agree, 5 representing (12.5%) dis agree, 3 respondents representing (7.5%) neither at all, while 5 respondents representing (12.5%) agree, and while 25 respondents representing (62.5%) strongly agree that political instability had impact on the above explanation. From the study political instability affects enterprises growth and their performance. 3 respondents representing (7.5%) neutral, 5 respondents representing (12.5%) were agree, and 32 respondents representing (80%) strongly agree that high cost of tax hinder the growth and performance of small and medium enterprises.

From the study sought out above 5 respondents representing (12.5%) strongly dis agree, while 10 respondents representing (25%) were dis agree, while no employee gave suggestions at all,10 respondents representing (25%)were agree, and while 15 respondents representing (37.5%)were strongly agree that illegal permits play in hindering small and medium enterprises. From the study the researcher concluded that there were various elements which hinder the performance of the enterprises. The government should take a corrective action to develop the business enterprises.

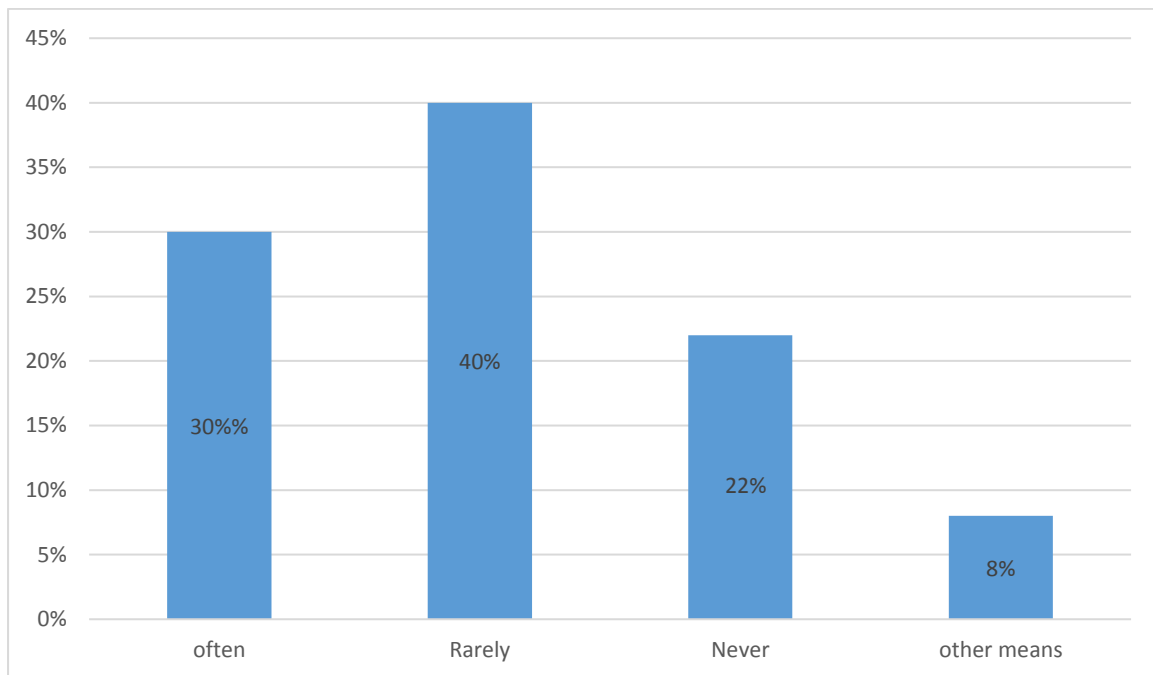
Figure 4.10 Respondent's opinion on whether the Government through its policies has a good will for the growth of SMEs



The study sought to find out the respondent's level of agreement on whether the Government through its policies has a good will for the growth of SMEs. From the findings, 6% of the respondents disagreed that the Government through its policies has a good will for the growth of SMEs, 22% of the respondents agreed that the Government through its policies has a good will for the growth of SMEs, 8% of the respondents indicated neutrality on whether the Government through its policies has a good will for the growth of SMEs, 16% of the respondents strongly agreed that the Government through its policies has a good will for the growth of SMEs while only 10% of the respondents strongly disagreed that the Government through its policies has a good will for the growth of SMEs. From the study government policies was a good will for the growth of the business enterprises and also regulating policies influence the enterprises survival.

4.3.4 Education and Training as a Factor Affecting SMEs Performance

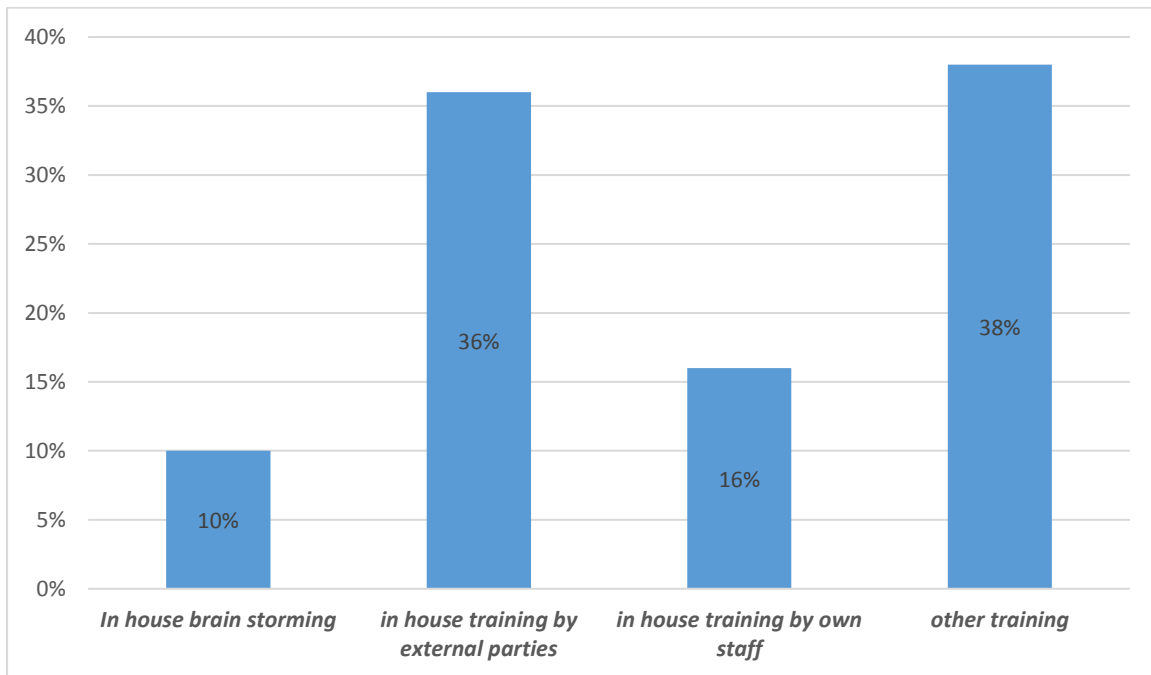
Figure 4.11. How often respondent's enterprises send staff for refresher courses or training programs



Source; questionnaires

The study sought to find out how often respondent's enterprises sent staff for refresher courses or training programs. From the findings, 40% of the respondents indicated that their enterprises rarely send staff for refresher courses or training programs, 30% of the respondents indicated that their enterprises often send staff for refresher courses or training programs while 22% of them indicated that their enterprises never sends staff for refresher courses or training programs and also they give training program by other mean of refreshing activities 8%. From the study the respondents most probably took refresh course or training program rarely or occasionally.

Figure 4.12 Programs respondents apply to develop skill for their staff



Source; questionnaires

The study sought to find out the programs respondents apply to develop skill for their staff. From the findings, 36% of the respondents indicated that they arrange for in-house training by external trainers to develop skill for their staff, 16% of the respondents indicated that they arrange for in-house training by own trainers to develop skill for their staff, 10% of the respondents indicated that they arrange for in-house brainstorming to develop skill for their staff, while 38% of the respondents indicated that they trained by other means of skill development techniques. From the study most respondents develop their skill while they were on job rather than by send them to other training centre and developing employees skill crucial in the success and growth of the business enterprises.

Table 4.3: Respondents level of agreement on whether trained professionals handling various areas will lead to improvement in the enterprises performance

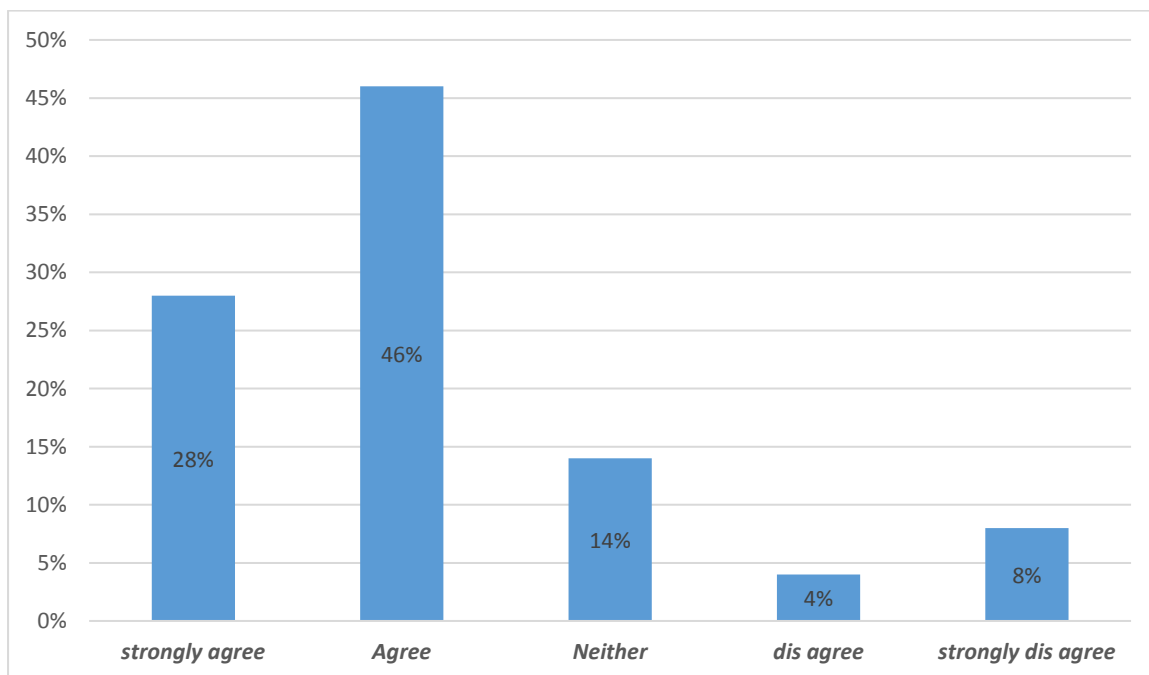
	Strongly dis agree		Dis agree		Neither		Agree		Strongly agree	
	frequency	%	freq	%	freq	%	freq	%	freq	%
Finance department	15	37.5%	5	12.5%	0	0%	10	25%	10	25%
Administration department	12	30%	10	25%	5	12.5%	10	25%	3	7.5%
Production department	11	27.5%	9	22.5%	7	17.5%	3	7.5%	10	25%
Marketing department	25	62.5%	5	12.5%	0	0%	8	20%	2	5%

Source; questionnaires

As indicated on the above tables, 15 respondents representing 37.5% were strongly dis agree ,5 respondents representing 12.5% dis agree, while 10 respondents representing 25% agree and also 10 respondents representing 25% were strongly agree that Finance department trained professionals were handling various areas was lead to improvement in the enterprises performance. 12 respondents representing 30% were strongly dis agree,10 respondents representing 25% were dis agree,5 respondents representing 12.5% were neither at all,10 respondents representing 25% were agree ,and while 3 respondents representing 7.5% were strongly agree that Administration department trained professionals leads to improvements in the enterprise performance. While, 11 respondents representing 27.5% were strongly dis agree,9 respondents representing 22.5% dis agree,7 respondents representing 17.5% neither at all ,3 respondents representing 7.5% were agree and 10 respondents representing 25% were strongly agree, and while 25 respondents representing (62.5%) strongly dis agree, while 5 respondents representing (12.5%) dis agree, while none of them were neutral with the situations. While 8 respondents representing (20%) agree and 2 respondents representing (5%) were strongly agree that production department trained professionals' leads to improvements in the enterprise performance. From the study the researcher could conclude that trained professionals were the bench mark for the success of the small and medium enterprises.

4.3.5 Management as a Factor Affecting SMEs Performance

4.13 Whether having a mission and vision is critical for the success of the business

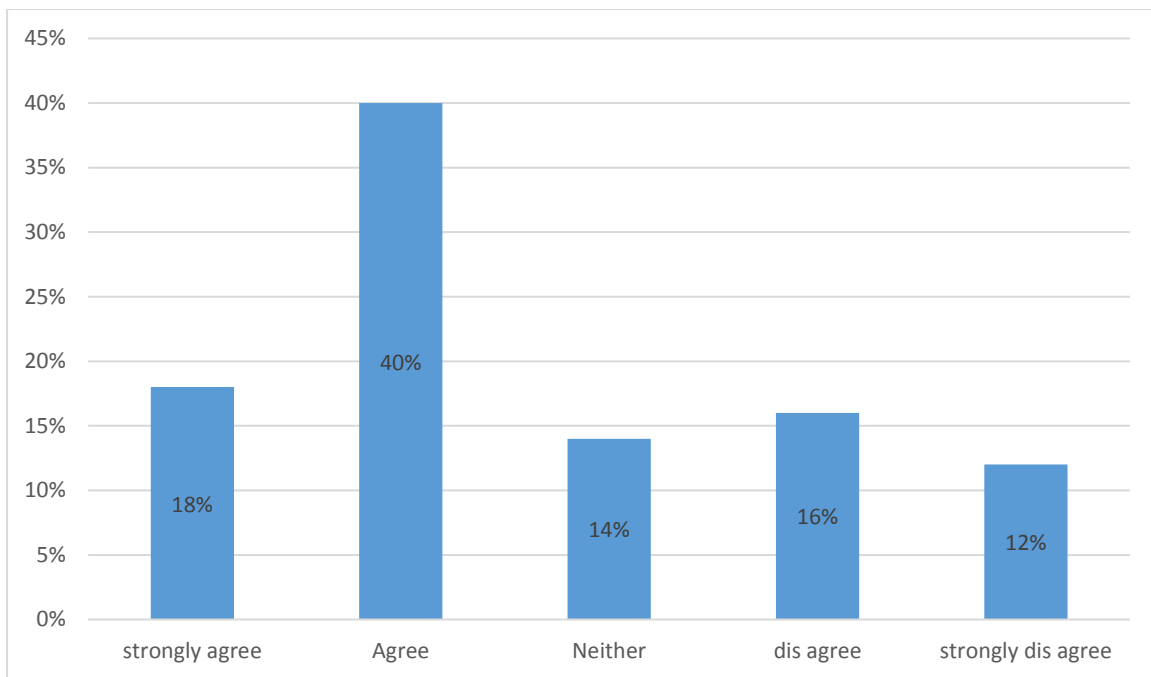


Source; questionnaires

The study sought to find out whether having a mission and vision is critical for the success of the business. From the findings, 46% of the respondents agreed that having a mission and vision is critical for the success of the business, 28% of the respondents strongly agreed that having a mission and vision is critical for the success of the business, 14% of the respondents indicated neutrality on whether having a mission and vision is critical for the success of the business, 8% of the respondents strongly disagreed that having a mission and vision is critical for the success of the business while only 4% of the respondents disagreed that having a mission and vision is Critical for the success of the business. From the stud undertaken by the researcher nearly half of the respondents accept that having mission and vision is the essential element in determining the success of the business enterprises.

4.14. Whether developing a business plan leads to improvement in respondent's management

Style



Source; questionnaires

The study sought to find out whether developing a business plan leads to improvement in respondent's management style. From the findings, 18% of the respondents strongly agreed that developing a business plan leads to improvement in their management style, 40% of the respondents agreed that developing a business plan leads to improvement in their management style, 14% of the respondents neither at all that developing a business plan leads to Improvement in their management style, 16% of the respondents indicated dis agree on whether developing a business plan leads to improvement in their management style, while only 12% of the respondents strongly disagreed that developing a business plan leads to improvement in their Management style. From the study the researcher identified that almost half of the respondents accept the idea that developing a business plan leads to improvements in respondent's management style.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the Conclusions and recommendations of the study based on the objectives of the study. The Objectives of this study were to assess the factors affecting performance of small and medium enterprises with specific reference to the SMES in wolkite city.

5.2. Summary of the Findings

The study aimed to assess the factors affecting performance of small and medium enterprises with specific reference to the SMEs in Wolkite city. It was shown that small and business enterprises faces different challenges which hinders their performance and growth and those challenges laid down to failure before they were matured. When eve they raised their capital from financial institutions and they might be insolvent and couldn't cover their original cost. It was found out that respondents financed their businesses from different sources of finance. The study found out that marketing is a barrier to enterprise performance and growth. The study also found out that the enterprises kept employee records, accounting records, sales records, production records, and costs records; that respondents had no internal control systems in their businesses

Further, the study found out that having a mission and vision is critical for the success of the business, and that developing a business plan leads to improvement in respondent's management style.

5.3. Conclusion

The study concludes that most SMEs in wolkite city finance their businesses from bank loans, personal savings, loans from family and relatives, through government institutions, and that respondents accessed finance for their businesses from commercial banks, from microfinance institutions, from government institutions, that high interest rates, lack of collateral, dislike to borrow from banks, and fear of losing property prevented them from borrowing money from then banks; that they were denied the loan because they had a too small equity base, lacked managerial experience and bank statements due to non-banking.

Further, the study concludes that marketing is a barrier to enterprise performance; that respondents market their products locally through media print, through word of mouth, and through television; that respondents market their products abroad through the internet, through trade agents, that they had a base abroad for advertising their products, that they market their products abroad through print media and other marketing products.

The study also concludes that Government policies have a great impact on performance of SMEs; that lack of support from the judiciary and Government inconsistency and lack of transparency in implementing policies hinders enterprise's growth, respectively, that corruption diverting support programs from original beneficiaries, Cumbersome laws and regulations, Political instability, High compliance costs and High cost of tax/complexity of the custom system hinder enterprise's growth, that lack of government support programs for SMEs hinders enterprise's growth and that illegal permits and licenses hinder enterprise's growth and that the Government through its policies did not have a good will for the growth of SMEs.

The study concludes that enterprises rarely send staff for refresher courses or training programs, that respondents arrange for in-house training by external trainers and own trainers, in-house brainstorming, send their staff for training at various Industrial Training to develop skill for their staff, that trained professionals handling marketing department will lead to improvement in the enterprises performance; that trained professionals handling Production department will lead to improvement in the enterprises performance; and that trained professionals handling Administration and Finance departments will lead to improvement in the enterprises performance respectively and that the use of modern technology without good training programs does not lead to performance improvement in their enterprises and SMEs.

5.4. Recommendations

Since most SMEs in wolkite city finance their businesses from personal Savings banks, loans from family and relatives, through government institutions, indicated above, the commercial banks should avail more credit facilities to the SMEs. Further, government institutions should grant SMEs some capital to help the fund their businesses. The Central Bank should liase with Commercial banks to lower interest rates to encourage more SMEs to borrow money from the banks. Further, the banks should review their security to pledge criteria so as to encourage more SMEs to borrow money from the banks, Since marketing is a barrier to enterprise performance SMEs should market their products locally through media print, through word of mouth, and through television; through trade agents, that they had a base abroad for advertising their products, that they market their products abroad through print media and the marketing departments should be more aggressive so as to reach more customers both locally and abroad. The fact that Information and marketing tools is vital for growth of SMEs, the enterprises should assign a substantial amount of their budgets to develop Information and marketing structures for their businesses.

The Government should develop policies that do not allow foreign businesses to suppress local

SMEs; enhance support of SMEs from the judiciary and Government, and reduce inconsistency and be transparent in implementing policies to promote enterprise's growth. Further, it should do away as it hinders SMEs growth.

Enterprises should send staff for refresher courses or training programs to develop skill for their staff, this should be through in-house training by external trainers and own trainers, in-house brainstorming, on job training to develop their skill and make them trained professionals hence improvement in the enterprises performance.

Generally a study should be carried out to investigate the challenges faced in accessing credit by SMES at Wolkite city. The study also recommends organizations to have a mission and vision as they are critical for the success of the business, keep employee records, accounting records, sales records, production records, and costs records; that respondents had no internal control systems in their businesses; that accounting ratios are important in determining the performance of the business enterprises.

REFERENCES

- Ahwireng-Obeng, F. (2003). *Youth economic empowerment in South Africa*:
Ahwireng-Obeng, F. & Piaray, D. (1999). *Institutional obstacles of South African an application of S.Eville. Entrepreneurship and regional Development, 13 and countermeasures. Retrieved on 8th March 2011, from <http://eng.hi138.com>*
Approaches. Nairobi: Acts Press. approaches. Thousand Oaks: Sage Publications.
Approaches; Boston: Allyn and Bacon Publishers. areas of Kenya: A case of ICT firms in Kiserian Township, Kajiado District of Kenya
Badrinath, R (1994). *Helping small and medium sized firms to enter export markets.*
Baron, RA. (2004). *Potential benefits of the cognitive perspective: Expanding*
Bokea, C., Dondo A., and Mutiso J. (1999). 'Physical infrastructure.' In: A. Mullei and Borno State of Nigeria. *Unpublished Thesis (management) business Success- A longitudinal study of moderators and mediators. ISSB businesses. Journal of Economic and Management Sciences, N.S, 8(1): 54-62.*
C. Bokea, eds. *Micro and Small Enterprises in Kenya: Agenda for Improving*
Caputi, P. (2006). *Perceptions of business challenges facing Malaysia SMEs: Some Case*
Chung, C. (2008). *Analysis of deficiencies in financial management of SMEs in China*
Cloete, E., S. Courtney, and J. Fintz (2002). "Small businesses' Acceptance and
Clover, T.A. & Darroch, M.A. (2005). "Owners", *perceptions of factors that constrain CoLLECTeR, Adelaide comparative Perspective from India, Kenya and South Africa; organized by the Conference of the International Council for small businesses (Dublin, 9th June contributing to failure. A case of Tshwane Metropolitan Municipality.*
Cooray, M.N.R (2003) *Walk through Cleaner Production Assessment in SME's – A countries. African Entrepreneurship and Business Development, Creswell, J. W. (2002). Research design: Qualitative, quantitative, and mixed method*
Czinkota, M.R. & Ronkainen, T.A. (2003). *Have lunch or be lunch. Marketing developing countries-Exploratory research from Pakistan. Journal of Global developing economies, Journal of Education and Training, vol 45 iss 8/9 dialogue and response. Paper prepared for presentation at the urban Research*
Dockel, J.A. & Lightelm, A.A. (2005). *Factors responsible for the growth of small Eastern Cape: Enhancing the Strategy for developing small "Growth potential"*
EC, (2006). *Kenya Economic Survey. European Commission.*
ECA, (2001). *Enhancing the competitiveness of small and medium in Africa. effect on aspirant entrepreneurs. Education and training, (US (6): 308-316*

Electronic Journal on Information Systems in Developing Countries 10(4), 1-employers amongst young European higher education graduates. *European Enterprises in Kenya: Agenda for improving the Policy Environment*. Nairobi: entrepreneurs in micro and small enterprises in Kenya. ILO.

Entrepreneurship and Regional Development. *Entrepreneurship versus small business policy. Proceedings at the 48th*

Fin mark, (2006). *Fin mark Trust. Making financial market work for the poor. Retrieve on futures for young entrepreneurs. Futures*35 (4):393-401.

Government of Kenya, *Economic Survey 2008*, The Government Printer, 2008, Nairobi. Government printers.

Guzman, J. & Santos, F.G. (2001). *The boosters function and the entrepreneurial quality: Hall, Harlow*.

Henning, T.T. (2003). *Optimizing the closely held corporation to enhance commercial*

Holland, T. (2004). *Exposed: China's shadowy private sector. Far Eastern Economic* <http://www.mca.org.my>

Ibrahim, U. (2008). *An analysis of strategic factors affecting the performance of SME in ICEG*.

ILO, (2008). *Women entrepreneurs in Kenya and factors affecting the women Informal Economy, Panel on 'Urban Responses to Street Traders: A International trade Forum,2,4-1 0*

Journal of Economic Development, Journal of education.42 (1):99-177

Kapila, S. (2006). *Unleashing the entrepreneurial potential of MSE in Kenya*

APPENDIX
WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

Appendix I: Questionnaire

This questionnaire is to collect data for purely academic purposes. The study seeks to investigate assessing factors affecting the performance of SME in Wolkite city. The information that you offer me with this questionnaire will be used as a primary data in the research which I am conducting as a partial requirement for BA degree in accounting and finance. All information will be treated with strict confidence. Do not put any name or identification on this questionnaire. Answer all questions as indicated by either filling in the blank or ticking the option that applies.

Research Topic: Assessing factors affecting the performance of small and medium enterprises in Wolkite city.

Researcher: Debela Abera

Dear Respondent, I would like to express my sincere appreciation for your time, honest and prompt responses.

General Instructions

- ❖ *there is no need of writing your name.*
- ❖ *in all cases, where answers to options are available, please tick (√) in the appropriate box.*
- ❖ *for questions that demand your opinion, please try to honestly describe your responses on the space provided.*

Confidentiality

I want to assure you that this research is only for academic purpose authorized by Wolkite University. In this regard, no other person shall access the data collected. In any sort of report, I will not include any information that will make it possible to identify any respondent.

SECTION A: GENERAL INFORMATION

1. For how long has your business been in existence?

- less than 1 years
- 1-3 years
- 3-5 years
- more than 5 years

2. What are the main business activities?(tick appropriately)

Manufacturing

- Service
- Merchandising
- Urban Agriculture
- Constructions

3. How many employees do you have in each of categories below?

- Permanent (tick appropriately)
 - i. 10 and below
 - ii. between 11 and 50
 - iii. between 51 and 200
 - iv. above 200

- Casual (tick appropriately)
 - i. 10 and below
 - ii. Between 11 and 50
 - iii. Between 51 and 200
 - iv. above 200

4. Has your business grown since you started?

- i. yes
- ii. No
- iii. Not sure

5. What is the annual estimate of your annual returns (sales) in birr.....

SECTION B: ACCESS TO FINANCE AS A FACTOR AFFECTING SMEs PERFORMANCE

6. How do you finance your business?(tick appropriately)

- I. Personal saving
- ii. Banks
- iii. Loans from family and relatives
- iv. Government financial institutions

7. In which of the institution(s) below does your enterprise find it easy to access finance?

- i. Personal saving
- ii. Commercial Banks
- iii. Micro finance institutions
- vi. Government financial institutions

8. Tick item(s) below that has prevented you from borrowing money from a bank

- i. You don't like bank loans
- ii. Interest rates are too high
- iii. No collateral to use as security for the loan
- iV. Bank loans are meant for large organizations
- v. Fear of losing your properties

9. The following institutions below play major roles in financing and growth of SMEs?

Source of finances	Strongly agree	Agree	Neither	Dis agree	Strongly dis agree
Micro finance					
Government FI					
Commercial Bank					
Family saving					

SECTION C: INFORMATICS AS A FACTOR AFFECTING SMEs PERFORMANCE

10. Do you think marketing is a barrier to your enterprise performance?

- i. Strongly agree
- ii. Agree
- iii. Neither
- iV. Disagree
- v. Strongly disagree

11. Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs (tick appropriately)

- i. Strongly agree ii. Agree iii. Neither iv. Disagree v. strongly disagree

12. In your own opinion is information technology (IT) useful for SMEs? Explain your answer

SECTION D: REGULATORY FRAMEWORK AS A FACTOR SMEs PERFORMANCE

13. Government policies has a great impact on performance of SMEs.(Tick appropriately)

- i. Strongly agree ii. Agree iii. Neither iv. Disagree iv. Strongly disag

14. Below are some of the challenges related to regulations that hinder your enterprise's growth, please tick the ones that apply to you.

STATEMENT	RATING				
	Strongly disagreed	Dis agree	Neither	Agree	Strongly agree
Lack of government support					
High compliance cost					
high cost of tax					
Illegal permits and licences					

15. Do you think the Government through its policies; have a good will for the growth of SMEs in general?

i. Strongly agree ii. Agree iii. Neither iv. Disagree v. strongly disagree

16. What do you think the government need to do to improve performance of SMEs?

.....

SECTION E: EDUCATION AND TRAINING AS A FACTOR AFFECTING SMES PERFORMANCE

17. How often does your enterprise send staff for refresher course or other training programs?

1. Often 2. Rarely 3. Never

18. What programs do you apply to develop skill for the staff?(Tick methods) you use)

i. In house brain storming

ii. In house training by external trainers

iii. In house training by own staff

iv. other training

19. Do you believe that trained professionals handling the areas listed below will lead to improvement in your enterprise performance? (Tick appropriately)

	Strongly disagree	Dis agree	Neither	Agree	Strongly agree
Finance department					
Administration department					
Production department					
Marketing department					

SECTION F: MANAGEMENT AS A FACTOR AFFECTING SMEs

PERFORMANCE

20. Is having a vision and mission critical for the success of business such as yours?

i. Strongly agree ii. Agree iii. Neither iv. Disagree v. strongly disagree

21. developing a Business plan will lead to improvement in your management style. Do you agree?

i. Strongly agree ii. Agree iii. Neither iv. Disagree v. strongly agree

Dear Respondent,

I sincerely appreciate for your time you have taken to fill this questionnaire. The information you have given will be treated with utmost confidentiality and I hope that the outcome of the research will be useful for small and medium enterprises operating in the country.