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Factors Affecting Entrepreneurial Psychological Certainty over Business Planning: A case of MSEs Sector in Benishangul Gumuz Regional State in Ethiopia

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Abstract

Micro and Small enterprise sector in Ethiopia is gradually growing it stand in Ethiopian Economy. The Ethiopian industrial sector is majorly composed with micro and small scale organisations. Contrary to the breadth of the micro and small scale enterprise sector, the rate of closure of the business organisations is very high in this sector. One of the widely argued reasons for this business closure is that the poor business planning efforts. Hence this study is tried to explore the major factors that affect the business planning in BGRS MSEs Sector. This Study found that Entrepreneur age, experience, education, exposure and financial status are positively and significantly affecting the business planning in MSEs sector in BGRS in Ethiopia.

Keywords: micro-small scale enterprises; entrepreneur; business environment.

INTRODUCTION

Micro and Small scale Enterprises (MSEs) are defined differently by different researchers and organizations in different contexts. All these definitions are based on the number of employees, the sales value and the value of firm (OECD 2004b). According to the World Bank report, if business organisations employ not more than 50 employees and the overall value of the total assets not exceeds 3 million USD, such organisations can be considered as micro and small enterprises. However, Meghana, Beck, and Demirgüç-Kunt (2003) argues that using employees number to define MSEs is common practice, in spite of the variation on the upper and lower limits of number of employees. In the thiopian context, the Ministry of Urban Development and Construction (MUDC) (2013) defines MSEs based on the employee number and the assets owned by the enterprises. If an enterprise employs not greater than 30 employees and total assets do not exceed 1,500,000 ETB, it can be defined as micro and small enterprises. It is observed that 31% of MSEs in Ethiopia were found to be operating informally (MUDC, 2013). This is the definition we followed in this paper. Since micro enterprises are typically informal (Bigsten, Kimuyu, and Lundvall, 2000; CSA, 2003, Hussmanns, 2001; Malhotra, 2007; Sujatha and Kumar, 2021).

The development of MSEs in an economy is taken as a key strategy for inclusive development, job creation, poverty alleviation and economic development in developing countries. According to a study by Beck and Demirguc-kunt (2005), the contribution of MSEs along with medium enterprises accounted for about 30% of employment and 17% of GDP in developing countries. The Association of Southeast Asian Nations (ASEAN), estimates that small and medium-sized enterprises (SMEs) account for more than 96% of all enterprises and 50% to 85% of domestic employment in those member countries. The contribution of SMEs to ASEAN members' gross domestic product (GDP) is between 30% and 53%, and the contribution of SMEs to exports is between 19% and 31% (ADB, 2014; Sujatha and Kumar, 2017). In developed countries, the share of the enterprises is also large, and accounts for, on average, about 50% of GDP and 60% of employment (Robu, 2013; Tasew and Sujatha, 2021).

According to the 2002 nationwide survey of the Central Statistics Authority (CSA), in Ethiopia there were 974, 676 micro manufacturing establishments employing more than 1.3 million individuals. The Small Scale Manufacturing Survey (CSA, 2003) also shows that there were 31, 863 small-scale manufacturing industries employing 97, 782 people. According to Aregash (2005), 98% of business firms in Ethiopia are micro and small enterprises, out of which small enterprises represent 65% of all businesses enterprises. Among these enterprises, the service sector represents the majority (46.4%), followed by the trading sector (40.0%), the manufacturing sector (9.2%) and the construction sector (4.4 %) (Bekele and Muchie, 2009; Sujatha and Kumar, 2021). Even though a small portion of these enterprises are engaged in the industry sector, they contribute the biggest number of enterprises in the industry sector. Like many other African countries, the industrial sector in Ethiopia is characterized by a large number of very small enterprises, and a small number of large firms (Page and Söderbom, 2012; Bayissa and Kumar, 2021).

The government of Ethiopia has given considerable importance on MSEs potential to transform the economy. The 2010/11-2014/15 Mid-term plan of the Ethiopian government entitled the Growth and Transformation Plan (GTP, 2011/12), for instance, anticipated three million employment opportunities from MSEs sector during this period. It would thereby enhance income and domestic savings, so as to reduce unemployment and poverty, particularly to benefit women from the sector (MoFED, 2014). Despite these efforts, the rate of business closure has been very high in MSEs sector in Ethiopia. The present study is planned to answer this phenomenon by identifying the major factors that affect the business planning in MSEs sector.

Literature Review

The Ethiopian Micro-Small Scale Enterprises sector is providing employment to the major proportion of the working population. It is second largest employment sector, . The total workforce engaged in micro and small enterprises is eight times larger (740,000 employees) than the combined workforce of medium and large scale enterprises (740,000 employees). The role of MSEs in economic development through employment generation and production of goods and services is very significant. Hence, the Ethiopian government has prepared "Micro and Small Enterprise Development Strategy" in 1997 and it is subsequently amended in 2011. Ethiopian government has established several MSEs Development agencies at central and state level to extended support to MSEs business operations.

The first MSE development strategy was outlined in 1997. It promotes equitable growth and development, creates lasting jobs and promotes exports, and is based on enhanced cooperation between MSE, medium and large enterprises. The strategy affirms that food, fiber and apparel production, metal structures and handicrafts, agriculture, small farming and fishing, builders and small entrepreneurs, exporters small, small exporters, small and large private and travel agencies. The federal government established a federal agency to develop FEMSDA (Micro and Small Enterprises) in 2008 following the publication of a strategy document.

In addition, the Regional State has also developed a similar strategy in the context and parallel of promoting the implementation of these strategies. FeMSEDA becomes the focal

point for formalizing the policy and coordinating its implementation. The institution also conducts instructor training, distributes developed prototypes, provides information and advice, facilitates the development of marketing opportunities, and develops a technical database for institutions to develop. To promote MSE, it is also responsible for building partnerships with local governments, local agencies in charge of MSE development, NGOs and the private sector.

All MSEs are grouped across three stages namely, startups, growing and maturity stages. Start-up enterprises are at their establishment stage and seeking various supports to make their enterprise operational. In order to support SMEs to overcome their challenges, FeMSEDA has designed a programme to provide initial capital, to facilitate MSEs in formalization and legalization process and to offer training on business management, entrepreneurship, supply chain management and production technique.

The Federal Democratic Republic of Ethiopia in 2011) identified potential challenges faced by MSEs across supply of finance, development of production and sales cluster, industrial extension service, man power development, technological development lack of detailed understanding of the MSE development package, and work commitments.

Drbie and Kassahun (2013) and Wasihun and Paul (2010) have summarized the MSEs challenges In Ethiopia as "Finance-related problems-- Many MSEs suffer from inadequate capital investment and run their businesses with little or no access to economic resources, and no or insufficient access to loans and ineffectual financial marketing. Lack of managerial and entrepreneurial skills—many entrepreneurs are lacking the necessary managerial skills on how to run a business and cope with potential problems. Working place and marketing problems --- many are producing and competing with identical products, with an absence of market linkages which results in them experiencing marketing problems without having own working premises, with some renting from private landlords or from the government. Inadequacy of infrastructure facilities-- infrastructure facilities have their own implication on the establishment and success of MSEs. Poor infrastructure such as access to roads, power interruptions, lack of sufficient provision of water, and telecommunication problems significantly affect the performance of their business productivity and sustainability. Unpredictable supply of raw materials-- Since MSEs are value-adding enterprises, they do not sell on the raw materials they buy without some form of processing. They require a permanent supply of raw materials, but the problem is whether or not there is adequate regular supply of raw materials or the price is very high".

Research Methodology

Researchers have selected mixed approach for this study as a means to achieve the study objectives. The required data is collected from both primary and secondary sources. The data collected for this study is analysed through both inferential and descriptive techniques.

Researchers have used simple percentage method to describe the sample responses over business planning and regression technique to explore the relationship between dependent and independent variables.

This study is conducted in the Assosa which is the capital city of Benishangul Gumuz Regional State of Ethiopia. The estimation of micro and small enterprises number in Assosa is difficult due to the improper registration and licensing procedures. Since there are many active MSEs that are not yet registered in Assosa, the researchers have resorted to select the sample size by unknown population sample size determination method.

Researchers have used the 'RaoSoft' sample size calculator to determine the required minimum sample size for the study. The online sample size calculator, i.e. Raosoft sample size calculator, estimated the minimum sample size required for this study as 377 MSEs at 5% margin of error and 95% confidence interval with 50% response distribution.

Hence the researcher has included 400 MSEs as the sample units for this study to increase the chances for adequate primary data collection. One key entrepreneur among the partners or proprietor was selected from one business organisation to solicit response across various section of the questionnaire. Researchers have

used purposive sampling method to select the sample units from the population.

A structure questionnaire was used to collect the primary data from these MSEs operators. The questionnaire is comprised demographic questions, business challenges related questions and the business planning related questions. During the survey, the MSEs operators were asked to respond across various questions related to business planning.

The primary data that is collected through the questionnaire is analyzed through descriptive and inferential techniques. Researches have used simple percentage techniques to describe the profile of the sample MSEs and business challenges that the enterprises encountered. A regression technique was used to explain the relation between variables related to demographic factors and business planning factors.

In this study, the researchers have developed a construct to estimate the effort of development and utilization of business plan in MSEs in the form of 'Business Plan Development and Utility Index.' The index value represents the MSEs effort in developing and utilizing the business plan to achieve business objectives.

The researchers interpret that the higher the index value, the higher the effort of MSEs in developing and utilizing an effective business plan. Hence the researchers have used this index score as dependent variable and demographic variables as independent variables in the regression analysis to explore the major factors that affects business planning in MSEs. The dependent variable, i.e. Business Plan Development and Utility Index, is measured through following construct.

Table.1 *Construct of 'Business Plan Development and Utility Index'*

S. No.	Items	Measurement Scale	Quantification
1.	How much time, in months, did you take to prepare the business plan	Continuous	Continuous value
2.	How many external people have evaluated the business plan before put it to implementation	Continuous	Continuous value
3.	How many times the business plan was revised based on the comments of external evaluators before put it to implementation	continuous	Continuous value
4.	How many aspects of your business are thoroughly discussed in the business plan	Ordinal- all aspects; most aspects; half of the aspects; some aspects; very few aspects.	All aspects=5; most aspects=4; half of the aspects=3; some aspects=2; very few aspects=1.
5.	How many times did you refer the business plan to correct your course of action during implementation	Ordinal- so many times; many times; sometimes; few times; very few times.	So many times=5; many times=4; sometimes=3; few times=2; very few times=1.
6.	How many times have you revised the business plan after implementation due to contingent requirements	Ordinal- so many times; many times; sometimes; few times; very few times.	So many times=5; many times=4; sometimes=3; few times=2; very few times=1.

Data Analysis

The distribution of sampled MSEs across different types business areas are presented in the following table.

Table 2- *Sample MSEs distribution across business type*

S.No.	**Business type**	**No of Sampling Units**	**% in Overall Sample**
1.	Grocery Shops	25	6.25
2.	Furniture	13	3.25
3.	Metal Works	15	3.75
4.	Small hotels	25	6.25
5.	Coffee shops	40	10.00
6.	Medical shops	10	2.50
7.	Stationary shops	30	7.50
8.	Super markets	5	1.25
9.	Restaurants	10	2.50
10.	Mess/General Eatery	40	10.00
11.	Alcohol Retailers	63	15.75
12.	Games [pool]	55	13.75
13.	Theaters	5	1.25
14.	Consultancy	12	3.00
15.	Mobile and electronics	17	4.25
17.	Electric	16	4.00
18.	Others	19	4.75
	Total--	400	100

The respondents' profile across various demographic organisational factors is described in the following table with the help of simple percentage method.

Table 3- *Demographic/Organisational profile of the respondents*

S.No.	Demographic/Organizational Parameter		No. of Respondents	% in Overall Sample
1.	Age	18-30	109	26.75
		31-40	80	20
		41-50	174	43.5
		>50	37	9.25
2	education	School	166	41.5
		High school	98	24.5
		Degree and above	136	34
3.	experience	0-5	68	17
		6-10	106	26.5
		>10	226	56.5
4.	Gender	Male	317	79.25
		female	83	20.75
5.	Business Exposure	High	196	49
		Medium	121	30.25
		Low	83	20.75
6.	Communication skill	High	147	36.75
		Medium	136	34
		Low	117	29.25
7.	Leadership Skill	High	123	30.75
		Medium	235	58.75
		Low	42	10.5
8.	Firm size (No. of Employees)	1-10	145	36.25
		11-20	125	31.25
		21-30	130	32.5
9.	Capital level	<500,000	81	20.25

		500,000-1,000,000	125	31.25
		1,000,001-1,500,000	194	48.5

The business plan development and utility effort of SMEs are measured through the construct. Following table describes the average responses of sample across different items in the construct. The sum of all item values in the construct is considered to denominate the values of independent variable in the regression analysis. The cornbach alpha value is estimated for the all the items of the construct and it is found that the coefficient value for all the items in the construct exceeds acceptable value, i.e. 0.7. The validity of the construct is estimated through experts in this field of study. The objectivity of the questionnaire is estimated through pilot study and some items are rephrased based on the results of the pilot study.

Table 4- *Average responses of the sample on SMEs effort in developing and utilization of Business plan*

S. No.	Items	Range of responses	Average Response
1.	How much time, in months, did you take to prepare the business plan	2 – 24	11
2.	How many external people have evaluated the business plan before put it to implementation	1 – 8	5
3.	How many times the business plan was revised based on the comments of external evaluators before put it to implementation	1 – 20	4
4.	How many aspects of your business are thoroughly discussed in the business plan	1 – 5	3
5.	How many times did you refer the business plan to correct your course of action during implementation	1 – 5	2
6.	How many times have you revised the business plan after implementation due to contingent requirements	1 – 5	3
	Total	7-67	28

Researchers have used 'Business Plan Development and Utility Index' as dependent variables and various demographic/organisational factors as independent variables. The list variables used for the regression analysis is presented in the following table

Table 5- *Variables of Regression Analysis*

Variables	Nomenclature	Nature of the variable
Age	Age	Independent
education	education	Independent
experience	experience	Independent
Gender	Gender	Independent
Business Exposure	Exposure	Independent
Communication skill	Communication	Independent
Leadership Skill	Leadership	Independent
Firm size (No. of Employees)	Firm size	Independent
Capital level	Capital	Independent
Business Plan Development and Utility Index	BPDI	Dependent

Findings and Conclusions

It is found from the analysis of the primary data that majority (43.5%) of respondents age falls between 41-50 years. About 41.5% of the sampled entrepreneurs had primary school education. Majority of the respondents, i.e. 56.5%, possessed more than 10 years of experience. Among the sample entrepreneurs, 79.25% of the respondents are male and 20.75% are female. It is observed from the table 3 that 49% of the entrepreneurs have a high level exposure to contemporary business practices. It is also evident from the table 3 that substantial number of entrepreneurs had high level leadership skill, little majority respondents, i.e. 34%, had medium level leadership skill. About 36.25% of entrepreneurs hired 1-10 employees in their enterprises. Majority of the entrepreneurs, 48.5%, are operating their business enterprises with the capital ranges between 1,000,001 – 1,500,000 birr. It is observed from the table 4 that entrepreneurs have not shown much effort in developing and utilizing the business plan to stream line their business process.

Table 6- *Regression Analysis*

Source	SS	df	MS		
				Number of obs =	400
				F(8, 391) =	184.61
Model	112685.089	8	14085.6361	Prob > F =	0.0000
Residual	29833.2212	391	76.2997983	R-squared =	0.7907
				Adj R-squared =	0.7864
Total	142518.31	399	357.188747	Root MSE =	8.735

BPDI	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Age	.9864391	.1654313	5.96	0.000	.661193	1.311685
education	-2.493341	1.09115	-2.29	0.023	-4.638596	-.3480868
experience	.7482769	.3688954	2.03	0.043	.0230101	1.473544
Exposure	6.483638	.9351783	6.93	0.000	4.645031	8.322245
Communication	.3207208	.6553849	0.49	0.625	-.9677984	1.60924
Leadership	-1.190508	1.048206	-1.14	0.257	-3.251332	.8703167
Firmsize	-.2292615	.1337833	-1.71	0.087	-.492286	.033763
Capital	2.388069	.950713	2.51	0.012	.5189205	4.257218
_cons	-13.78203	3.426367	-4.02	0.000	-20.51844	-7.045618

It is observed form the regression analysis report that the independent variables are explaining the 78% of the variation in the dependent variable and the proposed model for the regression analysis is statistically significant. It is inferred from the regression result that Age, Education, Experience, Exposure and Capital are significantly affecting the effort of business plan development and utilization in MSEs. Among these major influencing factors, except education, all are showing positive correlation with dependent variable. One unit rise in the value of independent variables Age, Experience, Exposure and Capital is predicting 0.98, 0.74, 6.48 and 2.38 unit rise, respectively, in dependent variable. Whereas the unit rise in education is predicting 2.49 unit decrease in the dependent variable. Based on the study results, the researchers are providing following suggestions and recommendations:

- The entrepreneurs should participate in various training programmes and expos in order to increase their exposure to the current trend of business practices and customer nature.

- Entrepreneurial experience is a key requirement to plan the business in right way. Hence the entrepreneurs should concentrate to earn good experience over their respective field. Organisation should give more emphasis to provide the good opportunity to the individuals to get expert in their field.

- Entrepreneur should be mature enough to tackle all the operations of the business. Hence it is suggested to individuals to take up entrepreneurial activities when they are mature enough to understand the intricacies and nature of the business

- Before venturing into entrepreneurial efforts, all individual must estimate their financial status in current state. They have to take up the enterprise for which they have sufficient capital to meet the needs of the business

- It is suggested to the future researchers to take up further research to explore the relation between education level and the entrepreneurs' effort for planning and utilizing the business plan. This study explores there is significant negative relationship between these variables. This fining is contradicting with many of the studies which has established a strong evidence of positive association between these variables.

Hence we suggest the researchers to take up detailed studies to explore it further.

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