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BISHOFTU CAMPUS



**SCHOOL OF ACCOUNTING AND TAX
ADMINISTRATION**

DEPARTMENT OF ACCOUNTING & PUBLIC FINANCE

**ASSESSMENT OF FACTORS THAT INFLUENCE
THE FINANCIAL PERFORMANCE OF SELECT
SMALL ENTERPRISES (IN CASE OF BISHOFTU
TOWN)**

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CHAPTER ONE

1.INTRODUCTION

1.1 BACK GROUND OF THE STUDY

Small enterprise are sensitive and responsive to market changes they often perceive market opportunity with the owners managerial new work of contacts and information's because of their small size better able to form personal relationships with customars. Micro and small enterprise are sensitive and responsive to market changes they often perceive make opportunities with the owners managerial new work of contact and information. Small and micro enterprises caught the attention development production and policy market the regional governments of Oromia or Bishoftu nation and nationalities also develops. Original strategy is not seeing BISHOFTU TOWN as micro and small Enterprises development Agency in 1984. The purpose of Micro and small Enterprises strategy of touch to create an enabling environment for the development growth the micro and small enterprise sector in Bishoftu town.

An important services element particularly selling relatively source in differentiated product the number of small firms it likely to increase not only because of the push factors of social change such us increasing unemployment and early retirement. The recent evidence points to importance of Micro and small Enterprises (SME) in providing employment across countries. Job creation and economic growth through private sector development have become primarily areas of focus for policy makers around the world in the global financial Crisis. Yunusm,(2008) Creating A World without poverty, New York Public Affairs measuring performance of Micro finance institution (2005) (frame),seep Network.

Small enterprise can respond more quality and at least cost than big business to the quickness rate change in product and service process and markets .It has become more attractive to flinted, Individualistic

men & women small enterprise has the potential to create or capture on entries on industry.

Micro and source small enterprise caught the attention of development practitioner and policy makers recently not only because of its, important Interims of generation of employment also because of other attributes some of these are.

- Small enterprises are breeding ground for entrepreneurs
- The sector has high employment generating capacity and is less capital intensive.
- It is high complete flexible and innovative having recognized the importance of small business enterprise sector to the only.

The regional government of Oromia nation and nation and nationalities also develops a regional strategy and Bishoftu town as micro and small development agency in 1998. The objective of the micro and small enterprise strategy of town to create on enabling environment for the development growth the micro and small enterprise sector in Bishoftu

2.BACKGROUND OF ORGANIZATION

Micro and small enterprise are sensitive and responsive to market changes they often perceive make opportunities with the owners managerial new work of contact and information.

In Bishoftu Micro and small Enterprises are given Different Meaning at different times and the detention given by central Static's Authority in using information analysis and that given by the Ministry of the trade area in 1984 basic Application Micro trade work Enterprises means trade organization whose Capital is not exceeding from birr 40,000.00 and consultancy services organization and high technological Enterprises are not included.

Small and business organizations mean trade work organizations whose Minimum paid up capital is not less than birr 400,000.00 and not exceeding from birr 60,000.00 not including service organization. (Ethiopian Ministry of Trade and Industry (MoTI))

Small and Micro Enterprises work sectors without including those mentioned by the two capital given above (higher technical consultancy services and other higher technological institution) trade industry and technical (hand craft) institution

3. STATEMENT OF THE PROBLEM

Micro and small enterprises have a vital role to play in the economy with information of the country. It needs of capital, knowledge skill, and attitude and experience contribution by individual to establish an enterprise cooperatively.

Small enterprise owner is an individual who established and manager enterprise for the principal purpose of furthering personal goals most small firms are unlikely to be expert much influence on their market. They are price takers in classis sense and are likely to flue significant changes. The tax system of any government is general the product of its own environment. The tax collect from the operating business has a great important for raising revenue for government. Several factors that influence the performance of small enterprise such as production technology availability of raw material, managerial skills taxation systems imposed, by the government availability and owner awareness about products modification. But micro and small enterprises also face many challenges in day to day operations and to development of the population.

Micro and small enterprises are mainly characterized by under developed and rapidly increasing challenges on the basis of social and economic, unemployment gender disparity and dependency in economic activities, subsistence income; poverty and poor access in the town.

This in large extent affecting the prevalence of illiteracy or especially poor women, crime, divorce loss of munificence to this end the major aggravating factor for arises

This in large extent affecting the problems exist severely on the disadvantaged group or poor and unemployed in Bishoftu town to this end the major aggravating factor for arises from fast urban rural migration and inadequate infrastructures and services has made Bishoftu town incapable and wide spread socio economic problems are prevalent. Lack of explicit local socio economic development intervention in the area has made the problem to exist .therefore it is appropriate intervention mechanism and requires huge investment of resources commitment of all stake holders. Accordingly the local government of Bishoftu adopts micro and small enterprises development as one of the intervention mechanisms.

Based on the above classification the researcher raise the following basic question to be answer in this course of study

1. What are the major factor that influence of small enterprise and entrepreneurs?
2. How the amounts of tax imposed by government affect performance of small enterprise and entrepreneurs?
3. Why small entrepreneurs have not sufficient capital with their activities?

4. OBJECTIVES OF THE STUDY

4.1.1 General Objective

The general objective of the study is to identify the factors that Influence the performance of micro and small enterprise Business in BISHOFTU TOWN.

4.1.2 Specific objectives

- To assess the influence of capital on performance of small enterprise and capital seeking power of small enterprise.
- To assess government impose of tax on small enterprise and how it will instruction their enterprise activity
- To identify factors that influences each firm to make product modification.

5. SIGNIFICANCE OF THE STUDY

The study focuses on factors that influence performance of small enterprise Business in BISHOFTU TOWN

The outcome of this study will be use full for the owner of small enterprise generally study is believed to the following importance

It provides useful information for the owner of small enterprise concerning problem facing small enterprise develop strategies to minimize those problems

What factors influence of small enterprise and suggestion to save those problems

To suggest some possible solution with the factors Influence small enterprise it may help as great importance for the further research who like study on similar in depth

6 .SCOPE OF THE STUDY

The scope of the study was limited to an analysis of the challenges facing small enterprises and their prospects in Bishoftu Town using a descriptive and qualitative research design and covers assumption the problem that influence of performance in small enterprise Business in BISHOFTU TOWN such as managerial skill of owners financial problems, taxations system imposed on those small business enterprise and awareness of small enterprise about product modification.

7. ORGANIZATION OF THE PAPER

The proposed research proposal is organized into different chapters according to the contents pertaining. The first chapter contains back ground of the study, back ground of the organization, statement of the problem, objective of the study, significance of the study, limitation of the study and data analysis of the study and the last chapter contains summery conclusion and recommendation.

The second chapters represent the literature review. The third chapter represents methodology of the study .The forth includes work plan and budget and the last chapter contain the summer of the proposal.

CHAPTER TWO

8 .Literature Review

Starting a business is not an event but a process which may take many years to evolve and come to fruition. Small scale industries in Ethiopia have not been able to contribute substantially as needed to the economic development particularly because of technical knowledge financial production and marketing problem .these problem are still major hand japer to be development .lack of adequate ,finance and credit has always been a majority problem of Ethiopian small business enterprise. An enterprise is an individual who established and manger business enterprise for the principal purposes of profit and growth .but small scale enterprise find it difficult to get. The current national micro and small enterprise development strategy of Ethiopia different theories of growth and the rational for the development of small enterprise are discussed in this paper.

8.1 An overview of small enterprise

Niemen et al (2008:44-49) and Kolvereid and Isakson (2006:243-244), who studied the nature of small enterprise have distinguished between promising start -ups and marginal start -ups. Promising start -ups are those enterprise with the potential for attaining significant size and profitability ,while marginal start -ups lack such prospects .the few business that have such glowing prospect for growth are called high potential business and these are strong that

after substantial of small business financial reward for their owners (Lied Holm -2001:67; Menial 2005:98-99) even in these groups, there are variations in style of operations and approaches to growth, when the business with high technology start-ups usually grow faster and make their founders wealthier.

8.2 Definition of small Enterprises

There is no single or universally acceptable definition of small enterprise as the criteria and ways of categorizing enterprises as small vary from initiation to institution and from country to country's depending essentially on the country's level of development (Emmet 2009 7-9) within the same country, the criteria for categorizing small enterprises may change over time as a result of factors such as changes in costs and technology (Solomson and Penna 2000:47). The commonly used definitions of small enterprises focus on annual turnover as a key variable although the acceptable figure differs from country to country depending on the population and stage of economic development (Lied Holm and Mead 1999:302-309; Little Lane and Negate 2003:278-283). As there is no uniform definition of a small enterprises, an operational definition used for the purposes of this study is the one offered by ministry of trade and industry in Ethiopia. This defines an enterprises according to the number of employees and paid up capital. According to the revised micro and small scale enterprises growth stage Guideline of the federal democratic Republic of Ethiopia (FDRE No 004/2001 (FDRE 2011:-15-18) The industrial sector comprises urban agriculture, manufacturing construction and mining subsector and so on is a business enterprise as it employs between six to 30 workers including the business owner and family labor and or with the monetary value of enterprises total assets, that is not more than 100,000 Et. Br. The trade and service sector includes retail trade transport hotels and tourism information technology and repairs. It is made up of business enterprises that employ not more

than five people including the business owner and family labor and or with the monetary value of an enterprises total assets being not more than 50,000 ET .br.

8.3 Characteristics of small Enterprises

Characteristics of small enterprises refer to those features such as size, age, location and the legal form of business.

8.3.1 Age of the Business

Studies of small enterprises have recognized that business age plays an important role in an enterprises price's performance and growth (charmers 2000:17 -19 chinois 2001:118-120 and Elkan 1988:11-13) Hyytinen and peek (2007:2009-120 and Jovanovich (1982:694-670) argue that younger businesses grow faster than older ones because of the willingness of their managers to take risks.

8.3.2 Size of the Business

In relation to firm size, the general belief is that smaller grow more rapidly than larger ones (Andreff and Dominique 2001:16-18))However, a number of Scholars have rejected this viewpoint For example, chin (2005:14-116), Harabi (2003:102-103 and whole (2004:25-28)all note that a small firm has less like hood of survival, suggesting a significant relationship between the size of the firm and the level of growth achieved.

8.3.3 Legal of form of the Business

Theoretically,a firm that enjoys limited liability partnership has been said to have greater incentive to pursue risky projects and Can therefore expect higher profits and growth rates than sole

proprietorship and can therefore expect higher profits and growth rates than sole proprietorship and joint ventures (berkhametal .1996:22-25 kolvereid and isaksen 2006:67-67)Arimah (2001 :23-25) argues that firms with limited legal responsibility have above average growth showing a significant relationship between the legal status of the firm and level of growth achieved

8.3.4 Location

Location can play a central role in determining the survival of small enterprises. Those enterprises that operate in commercial district or on roadsides shown greater growth rates than those based in homes, or far from main roads (berkham etal 1996 :320-321:liedlhom 2002:20) geographical location have implications foraccess to customers and other resources such as finance trained labor distribution and transport logistics. The achievements of small enterprises also depend on neigh bound hood appearance and status of future business operations in that location.

8.3.5 Small Entrepreneur with a Business plan

The business plan is a very important of the business that helps to decide whether to invest or not and helps to counter balance one's emotions to avoid serious faults. Lied Holmand mead (1999:89-90) also argue that entrepreneurs need to develop a business plan to establish strategy. Set targets for new alliances and allocate resources according to strategic priority.

8.4 Challenges to Small Enterprises

Despite their significant contribution to the economy. Small enterprises face serious challenges. According to Muma[2002;99-115]

Hall berg [1999;24] and Ishengoma and Keppel [2006;35-36] this sector is often referred to a small business with big problem sector type is an important determinant of enterprise growth as different sectors face different product demands and encounter various cost structures on the supply side [Hollander 1999;104-108] A second variable likely to affect the growth of existing enterprises is location. Complementary enterprises grouped close together or located close to the final demand sources might be expected to grow more rapidly than their more isolated counterpart (Arimah 2001:105-107; Harding 2002:23-26). Despite the numerous determinants of growth and expansion in small enterprises market factors, working premises, policy and legal factors and institutional linkage related problems are identified as a major obstacles in the way of optimal performance of the small enterprise sector in Ethiopia (Moti 1997:47-60)

8.4.1 Financial challenges.

The accessibility of finance is crucial for dynamic enterprises whose growth potential exceeds their internal sources of finance. However because of limitation in the credit markets of developing countries, the majority of entrepreneurs start their business with little or no support from formal financial institutions (Barney 1991:112-113) Furthermore, the low returns expected from small loans provided to small enterprises have jeopardized their relationship with formal financial institutions. The inability of entrepreneurs in small enterprises to provide precise information about themselves has also contributed to the lack of access to credit (Kava Namur

2002:206; Rosmay 2001:98) Banks are unfamiliar with small enterprises because they consider them high-risk, not dependable and involving excessive administrative costs (Michael teal 1996: 389-

396) Results of the 1997 CSA survey in Ethiopia show that for about 50% of the sectors operators, the main difficulty when starting their operation is a lack of sufficient initial capital (CSA 2003:22-24). This issue becomes more critical when they decide to expand their businesses.

8.4.2 Business Development Services

Business development services (BDS) are defined as a wide variety of non-financial services such as training, counseling technology development and its diffusion (Peterson et al 1983:41-65). According to Gores Berry (1987:23-27) business development services enable small enterprises to become productive and effectively reduce poverty by contributing to the development of local economies. Information related to market, raw materials, technology business opportunities, government policies and regulation is a prerequisite for growth and expansion of small enterprises (Berkham et al 1996:57-63).

8.4.3 Marketing Challenges

Access to market is crucial not having access to markets has an adverse effect on the entrepreneur (Beck and Levin 2003 121-130). According to Andulem (1997:33-40) and Negash and Kena (2003:102-108) market constraints experienced by small enterprises have been listed as among the most serious obstacles to growth beyond subsistence level. The CSA's report (2003:80-91) on Ethiopia, which is based on 31,863 small-scale industries all over the country indicates that 48% of all establishments faced difficulties related to demand or access to markets and weakness in or total absence of appropriate marketing channels, exhibition, trade fairs and display centers.

8.4.4 Working location challenges

The obstacles experienced by entrepreneurs running small enterprises include unavailability of work premises, high rent and poor access to good quality business infrastructure

[lied Holm1992;185-202] according to the CSA,S 2003 survey result, problems associated with working premises are mentioned as one major constraint hindering the smooth performance of small enterprises [CSA 2007;77-82]

8.4.5 Technology related challenges

According to back and Levine [2003;167-171], technology designates a combination of machinery labor skills and techniques. These technologies need to be consistent with local resources and conditions in order to make effective use of relatively abundant resources .however ,the issue of adopting appropriate technology and the limited access to this type of technology have presented serious problems and obstacles for operators of small -scale enterprises[lied Holm 1992;39-44]. Among the entrepreneurs studied by the CSA in Ethiopia 29% reported machinery failure as the major reason for their inability to be operational (CSA 2003 2-13)

8.4.6 Policy Related challenges

In money countries, the overall economic policies such as trade, pricing, taxation and credit policy are biased in favor of large enterprises (hag blade, lied Holm and mead 1990:8-9) under trade policy, for example, government can directly allocate import inputs and this favors large enterprises that are more likely than smaller ones to gain access to import quotas.

Chapter three

3. Data and Methodology

In this section attempts had been made to describe the study area discuss the sources of data and specify models used to analyze the data.

3 .1 description of the study area

Bishoftu city is located in Oromia national regional state, east shoe zone at a distance of 47km from Addis Ababa. According to the national population and housing census carried out in 2007. The population of the city was 99,928 out of these 47860[47.8%] were males 52068[52%] were females regarding age distribution 27568[27.58%] were with in the age group of 0-15years 66501[66.5%] 16-60 years and 5859[5.86%] 60 years and above. The population growth rate of the town at medium variant 2.9%while the average house hold size in the town is calculated to be 3.7%. The town services as werada administration industry and tourist center. There are 80 manufacturing nine whole sale trades around 4000 micro enterprise. There are ten banks and ten micro financial institution giving services in the town. Economic rate activity for both sexes was 56.7%while unemployment rate was 18.4% the average annual revenue of the municipality with in the 2009-2011 years was 40,044,666.67 birr and the major sources of revenue were land lease, different rent, tax and service charge .the major investment opportunities in the town are agro industry processing, hotel and truism development. (*EshetuBekele & Mammo Muchie (2009)*)

Promoting micro, small and medium Enterprises (MSMEs) for sustainable rural Livelihood, Development, Innovation and International Political Economy Research)

3.2 Research design (longitudinal one)

This study will conduct on small enterprise in Bishoftu town. Which has its own contribution on the industry base economy formation of the country in employment creation. Longitudinal is the select of direct conduct of small enterprise.

3.3 Data Type

This study will use both quantitative and qualitative research approaches. Qualitative research approach will be used to triangulate the quantitative data so as to deduce dependable results. Quantitative research approach will be used to collect and analyze data quantitatively using numerical values and expressions.

3.4 Data sources and method of data collection

To attain the stated objectives data will be collected both from primary and secondary sources a cross sectional primary data will be collected from selected micro enterprises in the study area through structured questionnaires to supplement the primary data secondary data will be collected from published and unpublished sources so as to generate information about the general back ground enterprises of the city structured questionnaire is prepared and used to collect primary data through enterprises survey the questionnaire is designed in such a way that in can the help the researcher to dig out detailed information on the factors that influence the financial performance of the help the researcher to dig out detailed information on the factors that influence the financial performance of the selected enterprises to make it simple and understandable, the questionnaire was translated in to local language, Afaan Oromoo with the help of research and police unit of the questionnaire was pretested and pilot survey is conducted so as to develop it and make enumerators familiar with the research. Valid, it is submitted for commented to research advisor and other colleagues final so as to collet necessary data this questionnaire is presented to household through enumerators

3.5. Data Collection instrument

In this study the researcher will use judgmental sampling the researcher a complete freedom in choosing the sample respondents according to the study so this sampling method depends entirely on the researcher. The reason why, the researcher used for judgmental sampling techniques is that it has low cost in terms of money and save time as well its convenience to use effectively and select target respondent that provide relevant information.

3.6. Sample design and sample size

An appropriate sample size would be taken from the total population to distribute quaternaries the target groups for this research are 660 population mainly the owners of small enterprise from total population 290 service 300 merchandise and 20 small scale industries.

3.7 Data processing procedures

Actual data from primary sources are processed by ending coding classifying and tabulating. To avoid error that reduces the accuracy and consistency of facts gather attention will give by using different techniques through data processing procedures similar response group all together by using codes for different format

3.8 Method of Data Analysis

Both descriptive and econometric analyses will be employed to meet the specific objective of the study in the case of descriptive analysis percentage, cross tabulation + test and chi square tests will be employed. The collected data will be edited classified and error will be omitted, examined and collected. While the econometric analysis employed binary log it model to identify the major determinants of factors that influence small enterprises of selected the financial performance.

3.9 Operational Definition of concepts

Enterprise: it refers to a unit of economic organization or activity whether public or private engaged in to the manufacturing of goods.

Small Enterprise: means a business engaged in commercial activities whose capital is less than or equal to birr 1,500,000:00 and

hired 6-30 labor for industry and for service whose capital is less than or equal to birr 50,000:00 and 6-30 labor.

12. Work plan and budget break down

WORK PLAN

While we will do this research the following work plan should be needed

- ✓ Organize our members to do research and research proposal
- ✓ Identify the problem that exists in our country especially in urban area relating with small enterprise.
- ✓ Organization and collection of materials that required during analysis.
- ✓ Prepare the strategic guide line for development of small enterprise

Table: - work schedule

DATE	WORK	REMARK
One per week	Contact with advisor for comment	
Nov 02-2019	Collection of materials and discussion	
Nov 9-16/2019	Data analysis	
Nov 17- Dec16/2019	Data collection	
Dec 17-21/2019	Proposal writing	
Dec 28/2019	Proposal summit	

13. BUDGET PLAN

Table:-cost plan

S.No	Items	unit	Quantit y	Unit price(bi rr)	Total	Sub- Total
1	Paper	pack	1/2	125	125	125

2	Pen	PC	1/3	40	40	40
3	Transport	Km/ person	20	2.5	50	50
4	Internet	Megabyte	500	.20cents	100	100
5	Cost for print	Per page	30	2	60	60
Total						375

This chapter is the main part of the study in which small enterprise practice in BISHOFTU TOWN is made together with problems prevailing in it. The presentation analysis and interpretation of the data are made depending up on the factors that influence performance of small enterprise practice in BISHOFTU TOWN.

14. References

Niemental (2008:44-46) and Kolveried (2006:243-244) who study the nature of small enterprise.

According to the revised micro and small scale enterprise growth stage guideline of the Federal Democratic Republic OF Ethiopia (FDRE) No 004/2001(FDRE 2001-15-16)

Studies of small Enterprise have recognized that business age plays an important role in an enterprises performance and growth (Charmers 2000:17-19 Chills 2001:118-120 and Elkan 1988 11-13) Hyytinen and Peck (2007; 2009-120 and Jovanovich (1982:694-670)

The government policies and regulation is a prerequisite for growth and expansion of small enterprise (Barkhametal 1996:57-63) access to market is crucial not having access to market has an adverse effect on the entre (Beck and Levin 2003;121-130).

Woldyamaha and Andualem (1997) small enterprises development Ethiopia Addis Ababa Ethiopia economics association and department of economics AAU

Gebrehwot (2000) Ethiopian development research institute. Report investment proclamation on 242/1966.