



ISSN: 0975-833X

Available online at <http://www.journalcra.com>

INTERNATIONAL JOURNAL  
OF CURRENT RESEARCH

International Journal of Current Research  
Vol. 11, Issue, 07, pp. 5175-5179, July, 2019

DOI: <https://doi.org/10.24941/ijcr.35880.07.2019>

## RESEARCH ARTICLE

### SUSTAINABILITY OF SMALL AND MICRO ENTERPRISES

\*Asefa Abahumna

Adama Science and Technology University

#### ARTICLE INFO

##### Article History:

Received 10<sup>th</sup> April, 2019  
Received in revised form  
16<sup>th</sup> May, 2019  
Accepted 06<sup>th</sup> June, 2019  
Published online 25<sup>th</sup> July, 2019

##### Key Words:

Sustainability,  
Enterprises,  
Small Scale,  
Medium Scale.

#### ABSTRACT

This paper presents a survey conducted on Sustainability of Small and Micro Enterprises. Small and Micro Enterprises (SMEs) has a vital place in the economic development of any nation. In the State of Oromia, for example Small and Micro Enterprise (SMEs) sector contributed over 50 percent in the economic development and created significant number of new jobs despite number of difficulties that the SMEs are facing. Past statistics indicated that two out of five unable to survive during the first six months. This study investigates the way SMEs handle the challenges and sustain to exist in the computing business. This study employed simple random sampling to collect data from 57 registered and licensed small and micro enterprises. Data collected using Questionnaire and interviews was analyzed and presented. Access to finance, land, Electricity, trained workforce, transportation, political instability, licenses & permits and tax rates are major challenges of small and micro enterprise (SMEs). Before and on job training for members of small and micro enterprise (SMEs) is found so essential to capacitate the members for strengthening and identifying business areas where SMEs can further play a part in promoting research projects that can help them to copy or adopt technologies already exists in order to enhance their production and become competitive in the labor market as well as manage to the enterprises sustain. In spite of challenges and different measures taken since its inceptions, SMEs are increased in number and sizes; however they are still facing hard conditions. Disparities among the SMEs are significantly escalating by creating excessive pressure on enhancing the productivity of the SMEs and hamper the important role it can play in the economic sector. As similar studies indicate, such challenges can be addressed if the government is to providing various support services such as setting strategies to overcome the challenges; fair price to their products, better-quality customer service and continuously on job training can enhance the sustainability of small and micro enterprises.

\*Corresponding author: Asefa Abahumna

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Citation: Asefa Abahumna. 2019. "Sustainability of Small and Micro Enterprises", *International Journal of Current Research*, 11, (07), 5175-5179.

#### INTRODUCTION

Various Studies confirmed that micro enterprise plays an important economic role in many countries. Despite their significance and challenges they are faced with the threat of failure, In Ethiopia for example, micro enterprise sector contributed over 50% percent of new jobs created in 2010. According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often large r companies are selected and given business for their clout in the industry and name recognition alone. Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management have been posited as the m a in ca uses of failure of small enterprises (Longenecker *et al.*, 2006).

Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tom e c ko and Dondo, 1992; Kiiru, 1991). Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of hum a n capital, in term s of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998). Infrastructure as t relates to provision of access roads, adequate power, water, sewerage and Telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo and Mutiso, 1999). As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 1999 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provides the most recent comprehensive picture of SMEs in Kenya. Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector.

When the state of the macro economy is less favorable, by contrast, the opportunities for profitable employment expansion in SMEs are limited. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programs for SMEs, but also for the growth of the economy as a whole. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there was need to conduct an empirical enquiry to investigate the challenges SMEs in Nairobi face and how they manage those challenges.

### Research Questions

- What are the challenges of small and micro-enterprises in Adama City Administration to function?
- What approaches are employed for the small and micro-enterprises to trounce its challenges?

### Objectives

- To investigate the challenges that small and micro-enterprises are being encountered to perform properly and maintained their sustainability.
- To identify strategies employed by small and micro-enterprises to minimize the challenges and improve their performance.

**Sampling:** Descriptive research design is employed. Of 57 registered and licensed small and micro enterprises a total of (57x7) 399 members of which (17x7) 119 (which is 30%) was taken using simple random sampling technique. The total sample of this study is 119 members of SMEs. The average member in each small and micro enterprise was ranging seven people. Out of 119 respondents, 76.87 percent were owners while the remaining 23.13 percent were employees. The respondents were composed of 53.7 percent females and 46.3 percent males.

**Data Collection Tools:** Individual data form and Questionnaire were used to collect data. Majority of the respondents were owners of small and micro enterprise who are involved in the start-up and running the enterprise. Data gathered was interpreted and presented in tables using percent.

**Review Literature:** As Osotimehin, K.O., Jegede, Charles, A. Akinlabi, Babatunde. H, Olajide, O.T. (*American International Journal of Contemporary Research Vol. 2 No. 4; April 2012*) indicated that micro and small scale enterprises have been accepted worldwide as instrument of economic growth and development. In most cases, predominantly in the developing countries government is making great efforts and set up policies to enhance the competency of micro and small enterprises (MSEs). On the other hand, regardless of government institutional and policies support to enhancing the capacity of small and small enterprises is encountering with factors affecting its sustainability. The role played by SME sector in job creation, economic growth and poverty reduction etc, is well recognized. Despite of this, the sector is facing with various factors that affecting its sustainability in terms of Access to Finance, Access to Land, Licenses and Permit, Corruption, Customs and Trade Registration, Electricity, Inadequately educated workforce, Labor Regulation, Political instability, Practices of Informal Sector, Tax Administration,

Tax Rates and Transportation. (Business Environment and Enterprise Performance Surveys, Challenges of SMES in Nigeria 2007. According to nationwide survey on Micro and Small Enterprises (MSEs) in Selected Major Cities of Ethiopia by Ministry of Urban development and construction, Federal Democratic Republic of Ethiopia (2010/2011-2013/2014), the sector created 8,333,293 new job opportunities in Ethiopia. The contributions of the small and micro enterprises towards the economic, social and political development are so significant despite number of constraint revealed in number of studies on the subject. As Michael Bowen (2009) cited in Bokea, Dondo and Mutiso, 1999), Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs. Despite the prevailing of such challenges, the SMEs in Ethiopia mainly focused on manufacturing, construction, trade, service and urban agriculture sectors. In-order to make the SMEs to be productive the micro and small enterprises development sector (MSED) at the federal level has made significant effort in line with human resources development, technology development, industry extension service, market development and marketing support system, finance and credit support system, production center and market area development, one stop shopping service, governmental support provisions and services (Federal Micro & Small Enterprises Development Agency Information & Technology Directorate, 2015) As the Five Years GTP Targets of the sector (FMSEDA) 202010/2011-2014/2015 reveals, 12,364,254,659 birr loan was given while the business saved 13,397,291 244 birr. In many countries, study indicates a wide recognition is given to holistic contribution of small and micro enterprises. For instance, the European Commission Annual Report on European SMEs emphasized the size, structure and importance of SMEs to the European economy and their contribution to growth and jobs creation capabilities ([www.fssethiopia.org/publicationdetail.php?pubid=151](http://www.fssethiopia.org/publicationdetail.php?pubid=151)).

According to Ministry of Urban Development and Construction a Survey conducted on Micro and Small Enterprises (MSEs) in Selected Major Cities of Ethiopia (2013), indicated that in any angle, there is no doubt that SMEs have already become major features of the economic landscapes in most developing countries since it is major sources of jobs and incomes (Cited by Thorbeche, 2000; Eric Ronge, et al, 2002). In spite of existing challenges that SMEs is facing, it is (SMEs) a window to the progress achieved by businesses across the EU28 countries. Total value added generated by SMEs is forecasted to rise by 2.8% in 2014 and 3.4% in 2015. Employment in SMEs is also forecasted to rise, with another 740,000 jobs. It is often argued that Micro and Small enterprises (MSEs) play significant roles in the creation of employment opportunities and generations of income for quite a large proportion of the population. Reviews of studies in the area confirm that the contributions of MSEs in this regard have long been recognized all over the globe (Liedholm, 2001, ILO, 2003a, Vandenberg, 2004, Mazumdar, 2004, Haftu, et al, 2009 cited in Survey on Micro and Small Enterprises (MSEs) in Selected Major Cities of Ethiopia 2013). According to conducted survey on Micro and Small Enterprises (MSEs) in Selected Major Cities of Ethiopia, (2013) has indicated that the government of Ethiopia has long recognized the limits to markets and has thus taken an active role in promoting the private sector and indicated that MSEs are largely believed to provide means of livelihood to quite a large proportion of the population in Ethiopia.

In a similar manner, Central Statistics Authority (CSA), in its report on the informal sector survey indicates that the informal sector operators contribute to more than 50% of the urban employment (CSA, 2003). As reported by Kombo, Justus, Murumba and Makworo (2011) cited in American International Journal of Contemporary Research Vol. 2 No. 4; 2012), in Kenya, the sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihoods for the majority of low income households in the country accounting for 12-14% of GDP. As various studies have indicated, SMEs are hampered due to financial constraints and Lack of management skill. In view of this, it is suggested that government and other non-governmental organization should regularly organize seminars for potential and actual small and micro enterprise operators on how to plan, organize, direct and control their businesses. (American International Journal of Contemporary Research Vol. 2 No. 4; April 2012).

Underlining the issue of Micro and Small Enterprise finance which is the first empirical work on trade credit in Ethiopia, Gebrehiwot Ageba and Wolday Amha proposed the importance of a new venue to channel funds to MSEs by linking suppliers credit and bank lending by setting strategies designing mechanism of supporting MSEs. ( Eastern Africa Social Science Research Review, Volume 22, Number 1, January 2006, pp. 63-86 (Article) Published by Michigan State University Press DOI: 10.1353/eas.2006.0002).

In a similar manner Minilek Kefale and K. P. M Chinnan, (April 2012) findings showed that shortage of working capital and working space are the most significant problems for MSE enhancement. (Employment growth and challenges in small and micro enterprises Woldiya, North East Amhara region, Ethiopia Educational Research and Essays Vol. 1(2), pp. 21 - 26, April 2012. <http://www.wudpeckerresearchjournals.org/ERE> 2012 Wudpecker Research Journals). A study conducted based on a survey covering 80 randomly selected MSEs, by Brhane Tadesse (2014) has also stated same indicating the appropriateness of access to finance in relation to the fairness of interest rate, loan size, time delay in dispersing loan, high transaction costs associated with creditors of MSEs, and functional pre - conditions of borrowing. (Global Journal of Current Research Vol. 2 No. 2. 2014). The overall studies show that the needs for collaboration between the public and private sectors are so vital for the efficient performance of SMEs. As it has been observed from the aforementioned discussions on the role of SMEs in the economy, has long won recognitions. Predominantly, SMEs has significant contribution towards job creations and income generations for great portion of unskilled and semi-skilled labor force which stimulates significant interest among policy makers and practitioners.

## RESULTS

As shown in Table -1 above, 82.29 % of the respondents indicated that frequent electric power interruption is major

**Table 1. Rating Access**

SN	Variables	Very Achievable		Achievable		Difficult to Achieve	
		No	%	No	%	No	%
1.	Access to working capital	21	18.58%	45	39.82%	47	41.58
2.	Access to working space (land)	11	9.73%	23	20.35%	96	69.90
3.	Access to Work Permit	38	33.62	47	41.59	28	24.77
4.	Access to Market	17	15.04	25	21.12	71	62.82
5.	Access to Supply and fair price of electricity	7	6.19	13	11.50	93	82.29
6.	Working culture of the workforce	35	30.97	49	43.36	29	25.65
7.	Access to Quality services provided by authorities.	30	26.54	46	40.70	37	32.73
8.	Managing Practices of illegal Sector	18	15.92	26	23.00	69	61.05
9.	Transparency of Tax Rates	9	7.96	35	30.97	69	61.05
10.	Access to fair Transportation cost	13	11.50	37	32.74	63	55.74
11.	Access to fair Trade Registration services	28	24.77	58	51.32	27	23.88

**Table 2. Most Pressing Challenges of SMEs.**

Most Crucial Challenges	No. of Respondents	%
Unfavorable Capital access	47	41.58
Access to working space or land	79	69.9
Lack of Market Linkage	71	62.82
Increased power interruption and supply	93	82.29
Illegal sector competition	69	61.05
Tax Rate instability	69	61.05
Increased Transport cost	63	55.74

**Table 3. Rank of the Most Pressing Challenges of SMEs.**

Challenges	Ranked 1st		Ranked 2nd		Ranked 3rd	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Unfavorable Capital access	47	41.59	21	18.58	45	39.82
Access to working space or land	79	69.91	23	20.35	11	9.73
Lack of Market Linkage	71	62.83	25	22.12	17	15.04
Increased power interruption and supply	93	82.30	13	11.50	7	6.19
Illegal sector competition	69	61.06	26	23.00	18	15.92
Tax Rate instability	69	61.06	35	30.97	9	7.96
Increased Transport cost	63	55.75	37	32.74	13	11.50

**Table 4. Approaches to overcome the most pressing challenges.**

STRATEGIES	No of Respondents	%
Improving bank loan provisions	31	27.43
Providing adequate marketing premises	21	18.58
Supporting to have solar energy	16	14.15
Setting legal protection mechanisms for SMEs	10	8.84
Regulating tax collection system as per the capacity of SMEs.	11	9.73
Providing appropriate location for working premises	19	16.81
Making legal agreement with transport associations to make cost affordable	5	4.42

pressing challenges by which small and micro enterprises are facing whereas 69.90% expressed the difficulty of having access to working space or owning land. Similarly, 62.82% expressed their worries of not having access to market which consecutively forces them to store their products for longer time and even leads to deterioration of their business and that unable the business to become competent enough in the world market. Practices of illegal Sector (61.05 %) and unfair Tax Rates (61.05 %) are labeled as major challenges of small and micro enterprise sectors. On the basis of respondents' views, coping of best practices to overcome major constraints in the development of SMEs, having fair access to finance, market, working space or land, supply of electric power and managing practices of illegal Sector are crucial ingredients to be fulfilled. Major challenges that SMEs business encountered with are indicated in Table 2 above. Increased power interruption and supply, Access to working space or land, Lack of Market Linkage, and Illegal sector competition were indicated as top four challenges facing small and micro business sectors. 93% of the respondents revealed increased power interruption and supply is crucial while 79% indicated working space or land as a major challenge. 71 percent, 69 percent, 63 percent and 47 percent of the respondents expressed that Lack of Market Linkage, Illegal sector competition, Tax Rate instability, Increased Transport cost and Unfavorable Capital access remaining major challenges.

As shown in Table 3 above, 93 percent of respondents ranked increased power interruption and supply as first pressing challenges of small and micro business where as access to working space or land placed as second challenge. Lack of market link and illegal sectors competition ranked third and fourth while increased transport cost and unfavorable capital access indicated as fifth and six challenges of the business. Out of the 113 respondents participated in this survey, 105 (93 percent) reported Increased power interruption and supply was ranked the most pressing challenges of small and micro business sectors while Access to working space or land 79 percent Lack of Market Linkage 71 percent, Illegal sector competition 69 percent Tax Rate instability 69 percent, Increased Transport cost 63 percent and t Unfavorable Capital access 47 percent ranked by the respondents respectively. The reaction of the respondents implies that the challenges encountered with small and micro enterprises are crucial and similar across such businesses. Hence, if small and micro enterprises is to play its vital role in the national economy, it has to be given the necessary support and attention so-that it would meet the desired objectives and become hubs of jobs.

As it is indicated in Table 4 above improving bank loan provision can be one of the approaches by which the sustainability and productivity of the small and micro business maintained. If small and micro enterprises are expected to perform well and play significant role in economic growth, suitable strategies have to be employed to counter the challenges that the sector facing. Small and Micro Enterprises are good source of generating employment and can be even

more if the sector gets support in terms of infusion of technology, capital, appropriate location of working space and market premises. It can be inferred from the figures in table 4 above that sectors not stepped up efforts to promote itself through increased schemes such as sustainable savings and fair access to bank loan, may perform poorly or deteriorate by which consequently lead to collapse.

### Conclusion

Even though Small and Micro business is regarded as the major sources of employment and great contributor of economic growth, this sector is facing enormous difficulties. Increased power interruption and supply (93%), Access to working space or land (79%), Access to Market (71%) and Illegal competition (69 %) were reported the top four challenges facing small and micro enterprises. As studies on the subject reveal, SMEs meet with different challenges in different ways, however, the strategies employed to tackle the challenges observed similar. Improving bank loan provisions, providing adequate marketing premises, Supporting to have solar energy, setting legal protection mechanisms, regulating tax collection system as per the efficiency of SMEs, Providing appropriate location for working premises and making legal agreement with transport associations to make transport cost affordable are strategies practiced to counter SMEs' challenges. Capacitating and supporting the sector through financial support only do not maintain sustainability and success but technical and business management training, assisting in identifying business areas where MSEs can successfully participate as supplier are crucial. It is revealed that SMEs can be sources of employments and vital actor in economic growth if the necessary support Improving business management or entrepreneurial skills like record keeping and product, practicing in opening separate bank account as to substantiate its financial problem. Adapting technologies that enable to capacitate the working forces in –order to maintain the skill of using production machineries.

### Recommendations

Finally, based on the survey conducted and viewed literature for the sake of triangulation, following are recommended. Basically small businesses of all kinds should have interact and share information, technology and products in-order to enrich their knowledge and skills so-that there is a possibility of boosting their products and combat the challenges that they may face as a result of competitions in the global market. Such interactions and sharing information fills the gaps that one may need to meet. Further training which is relevant to their business has to be considered on need basis. Information on customer satisfaction has to be gathered as required for the sack of improving quality of their products and services. Studies have shown that lack of access to credit which result in shortage of working capital, availability of working space (land), frequent fluctuation of electric power and its unfair

price and not practicing to open own savings and reinvested profits to finance their business are unique challenges. Therefore, failing to realize the consequences and not taking immediate actions, can affect sustainability as well as the development of the business.

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