

## **Critical Factors of Entrepreneurial Competencies for Successfully Managing Micro and Small enterprise in Ethiopia.**

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**Abstract:** *The objective of this study is to investigate the critical factors of entrepreneurial competencies for Successfully Managing Micro and Small enterprise in Ethiopia. A structured questionnaire, containing 20 variables, has been used to collect data by survey and the target populations are manufacturing micro and small enterprise in Dessie, Kombolach and Haik City Administration. Total sample size was 200 and the researcher used Factor Analysis to identify the critical factors of entrepreneurial competencies for Successfully Managing Micro and Small enterprise. The study has identified 8 key factors from 20 factors have been selected by conducting factor analysis as significant for successfully Managing Micro and Small enterprises. Those are Strategic competencies, Conceptual competence, Opportunity Recognition competence, Personal competence, Organizing competence, Relationship competencies, Network competence and Commitment competence. This study also may have implications for counselors, policy makers, trainers and also entrepreneurs. The findings of this research have revealed some implications for future practitioners and researchers whose aim is to study about entrepreneurs' competence. Another implication that can be taken in to consideration for future research is the fact that factors identified by this research can be used to build a model for entrepreneurs' competence.*

**Keywords:** *Entrepreneurial Competencies; Micro and Small enterprise; Ethiopia*

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### **I Introduction**

There is general recognition that the success, performance and growth of a SME is to a great extent dependent on the competencies of the entrepreneur (Mitchellmore and Rowley, 2013). The management structure and independence of a small enterprise places the entrepreneur in a critical position in the business operation (Capaldo et al., 2004). What is more, the all people has given a great understanding of emphasis to Micro and Small Enterprises (MSEs) sector under the premise that it plays a critical role in addressing both poverty reduction and economic growth goals. Micro and small scale enterprise gives a significant contribution to low-income countries GDP growth and total employment (Ayyagari, Beck and Demirgüç-Kunt, 2003). However, SMEs in developing countries face numerous barriers such as; relate to high administrative costs, high collateral requirements and the lack of willingness of banks and micro finance institutions to lend to SMEs, inadequacy of availability of finances, poor business management skills, poor marketing and entrepreneurial attribute (Olomi, 2006; Bereket, 2010).

In Sub-Saharan Africa, given the rapid rural-urban migration and deficiency to absorb this migration, MSEs have become important urban economic activities particularly providers of urban employment (Berhanu, 2005).

In Ethiopia, micro and small enterprise have the major role for industrial development, since their products being utilized in Medium or larger scale industries as semi-products or raw materials. They utilize and add value to local resources and are better positioned to meet local needs in small markets. The creation of more successful SME's could potentially create new jobs, increase trade, consequently, the GDP of the country (CSA, 2007; Bereket, 2010). However, their contribution is very low as compared to that of other countries and facing various challenges and issues such as insufficient skilled labour force that resulted low productivity and low quality output, competition from global market low capability to meet the requirements of globalization standards and lack of management skills and expertise (CSA, 2007).

Despite the fact that MSEs have been acknowledged as a major contemporary source of employment and income in a growing number of developing countries, yet relatively little is known and emphasized about the Entrepreneurial characteristics and performance of these enterprises specific to the chosen study area in the present study (Molla, 2016). Moreover, entrepreneurial competencies could offer a practical view of the know

how of the running a business(Kiggudu ,2002). Though, SME's are still faced by lack of appropriate knowledge and skills and limited access to relevant information on technology. Moreover, SME has been difficult to assure why in similar situations some entrepreneurs fail while others succeed, this study focuses on the critical factor of entrepreneurial competencies for successfully managing micro and small enterprise in Ethiopia to offer a practical means of addressing the phenomenon.

In Ethiopia the research made by Belay (2000), it is reported that 98% of business firms are micro and small enterprises out of which small enterprises represent 65% of all businesses. This indicated that the majority of enterprises in micro and small established business find it difficult to grow to the next stages of middle and large scale industries. Although the MSE sector takes large proportion in the industrial sector, it contributes about only 3.4% of the GDP, 33% of the industrial sector's contribution to the GDP of the same year (Amha & Ageba, 2006; Molla, 2016). Therefore, the MSEs are ineffective to grow at their full potential and hence contribute less to the national economy due to the existence of so many business constraints in the sector.

According to the study by Amha & Ageba (2004) the leading factors contributing to the performance of the MSEs are limited access to finance, market, business services, working premises. Other research made by Shabudin, Ashenafi & Emnet(2016) on the challenges inhibiting the flourishing of entrepreneurial competencies of MSE's in Jimma Zone. The study found that sex, start-up experience, training, and education the major factors of competency. However, according to the researcher's knowledge no studies have been carried out on the what are the critical factors of entrepreneurial competencies with the firm's performance in manufacturing industry in the study area. Therefore, the objectives of the study is to identify key critical factors the the entrepreneurial competencies for Successfully Managing Micro and Small enterprise in Ethiopia.

## **II Literature Review**

The word entrepreneur competency has a number of explanation which depends on the specific task to be performed by individuals under different conditions. Kaur & Bains(2013) defined entrepreneurial competency as the individual characteristics of an individual that is casually related to criterion referenced effective and superior performance in a job or situation. Man et al. (2002)also defined entrepreneurial competencies as the total ability of the entrepreneur to perform a job role successfully. It is ordinarily understood that entrepreneurial competency is a combination of knowledge, personality traits, skills abilities and other characteristics which are required for successful job performance (Man ,2001). Hence, the entrepreneur's energy, creativity & motivation that trigger the production of superior product & services(Baum & Locke ,2004).

One of the objectives of the development of classifications of entrepreneurial competencies is to be able to measure such competencies. It is essential to observe that the approaches taken by the various researchers to measuring competencies are multifaceted by different assumptions. For example, Fatoki(2014) identified that owners' education and prior work experience of entrepreneurial a significant relationship with the firm performance. Markman et al. (2002) also attempting to portrayed key knowledge or abilities thought to reflect entrepreneurial and managerial competencies.

Other study made by Baum & Locke (2004) also identified certain factors which are required by entrepreneur to give the success to the business such as: initiative, see and act on opportunities, persistence, knowing, concern for high quality of work, commitment to work contract, persuasion, efficiency orientation, systematic planning, problem solving, self-confidence, assertiveness, use of influence strategies, monitoring and concern of employee welfare. Other researchers also, focussed on the relationship between entrepreneurial cognitions and entrepreneurial decisions and their outcomes, have taken a process perspective in measuring constructs related to entrepreneurial competence (Mitchell et al., 2002)

Orser and Riding (2003) on his study developed 25 competency scales, which were grouped into nine main functional areas. Similarly, Mitchelmore and Rowley(2013) also made research on entrepreneurial competencies of women entrepreneurs and They investigated that personal and relationship, business and management, entrepreneurial , and human relations competencies were the main cluster that influence women business growth. Man et al. (2002), in their process/behavioural approach based on a review of previous empirical studies, identified six competency areas under entrepreneurial competencies. These were opportunity, relationships, conceptual, organising, strategic, and commitment competencies. Baum et al. (2001) also formed the following entrepreneurship competencies: knowledge, cognitive ability, self-management, administration, human resource, decision skill, leadership, opportunity recognition, opportunity development and organisation skill.

From other research made by Man(2001) identified 10 clusters of entrepreneurial competencies framework which is consist of ,opportunity, relationship, analytic, innovative, operational, human, strategic, commitment, learning, and personal strength competencies. Such competencies show both direct and indirect influence on performance of SMEs. Ahmad and Seet (2009) also generated eight significant competencies that are recommended for further investigation which include strategic, conceptual, opportunity, organizing, relationship, technical and personal competencies. Furthermore, Vijay and Ajay(2011) listed the major

competencies that contribute the performance of the firms such as: Initiative, sees and acts on opportunities, Persistence, information seeking, concern for quality of works, commitment to work contract, efficiency orientation, systematic planning, problem solving, self-confidence and assertiveness.

Other study conducted by Lopa & Bose (2014) identified six groups of competencies including opportunity, organising, relationship, strategic, commitment, and conceptual competencies and the study result shown that among them, opportunity, organising, relationship, and strategic competencies have significant impact on the performance of the firms. Other two competency areas-commitment and conceptual competencies are not significant for firm performance. In a subsequent study, Chandler & Hanks (1994) found evidence of the direct relationship between the founders' entrepreneurial and managerial competencies and firm's performance. Tehseen & Ramayah (2015) also shown that the effects of entrepreneurial competencies on success of businesses and found that entrepreneurial competencies alone are not enough to ensure the survival and success of businesses hence, SMEs have scarce resources of finance, skills, technology and knowledge.

In summary, over the last two decades there have been a number of investigations in different contexts that have sought to generate lists of entrepreneurial competencies, with varying levels of categorisation. In a previous article, Mitchelmore and Rowley (2010) have been summarised the competencies generated by previous researchers in entrepreneurial competencies as a literature review. Therefore, this list was used as the basis for the design of the research instrument for this study, where the focus is specifically on critical factors of entrepreneurial competencies for successfully managing micro and small enterprise in Ethiopia.

### **III . Research Methodology**

#### **3.1. Research Design and approach**

This research relies on quantitative types of research approach. The quantitative type is used more to explore the status of entrepreneurs' competence that the SME owners and managers from three city administrations (Dessie, Kombolcha and Haik) of the south Wollo zone. Then it was identified key critical factors of the entrepreneurs' competence areas and firm's performance through Factor Analysis. Furthermore, the researchers were used cross-sectional data which would be collected at the year 2018. It studied the relation between variables at a point in time.

#### **3.2. Sampling design and Data Collection Tools procedures**

The data set used for this study is based on primary data collected from three city administrations (Dessie, Kombolcha and Haik) of the south Wollo zone in Amhara region through a sample survey of enterprises. These towns of city administrations are chosen using purposive sampling method as they are areas with a high concentration of MSEs and are the primate cities in the zone.

The target population of the study is all the SME owners, managers or their representatives in from three city administrations (Dessie, Kombolcha and Haik) of the south Wollo zone, which accounts (500). Out of the target population, the researchers were selected 200 sample size using the slovin's formula.

Using a proportional stratified sampling technique to include representative enterprises in each city under each city, a total of 200 enterprises were taken under the study from the above stated towns. Since, it aimed at giving every SME in the target population have an equal chance of being selected.

A structured questionnaire was used for data collection which contains personal information, company information, entrepreneurial competencies, and firm's performance. A survey questionnaire was developed to fit the situation of the study areas and to collect all the necessary data and thus to test the hypotheses developed. During the survey three local enumerators were recruited and they received two days training. These enumerators were well experienced and they collected the data under strict supervision by the researcher. The subjects given the questionnaire in their place of work.

#### **3.3. Method of Data Analysis**

In order to identify the significant factors which determine the competence of entrepreneurs to manage the enterprise, Factor Analysis has been used in the present study with the help of software package such as SPSS.

### **IV Data Analysis and Finding**

#### **4.1. Factor Analysis**

Factor analysis is a technique that is used to reduce a large number of variables into fewer numbers of factors. This technique extracts maximum common variance from all variables and puts them into a common score. Factor Analysis, as variable reduction technique, reduces large set of potential constraints into smaller set of constraints by extracting certain number of components.

The researcher have been used Bartlett's test for testing appropriateness of the factor model.

**Table 1 KMO and Bartlett's Test for Success Factor**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.668
Approx. Chi-Square		911.462
Bartlett's Test of Sphericity	df	190
	Sig.	.000

The Kaiser-Meyer-Olkin (KOM) is a measure of sampling Adequacy. From table 1 is clear that Kaiser-Meyer-Olkin(KOM) measure of sampling Adequacy is 0.668, which is greater than the required 0.5 for a satisfactory factor analysis to proceed. Since the KOM test tells one whether or not enough items are predicted by each factor. The approximate chi-square value is 911.462 with 190 degree of freedom which is also high. So it can be said that the factor Analysis is appropriate here as it fulfil the requirement to proceed.

In case of Bartlett's Test of Sphericity should be significant (that is a significant vale of less than 0.05), this means that the variables are correlated highly enough to provide a reasonable basis for factor analysis. So, based on this information our research Bartlett's Test of Sphericity ,the observed significance level is 0.000, which means the relationship among variables is strong. Hence, the data set complies with the requirements of the factor analysis.

**4.2. Determining the number of Factors**

Although the number of components extracted in Factor Analysis is equal to the number of observed variables being analysed, only those Principal Axis Factoring with an eigenvalue greater than one (i.e., the first eight components) are derived from 20 potential constraints (See table 3). Eigenvalues are scalars that give the variance of the Principal Axis Factoring and thus eigenvalue greater than one criteria (or Kaiser’s criteria) is the default criteria used to determine the number of Principal Axis Factoring that are retained, interpreted and used in subsequent analyses (Kaiser, 1960). Compared to the other alternative criteria that determine the number of Principal Axis Factoring extracted, the Kaiser’s criterion gives a meaningful and maximum amount of variance of the model.

Based on their respective eigenvalues as indicated in below table,the Total Variance Explained table shows how the variance is divided among 20 possible factors. From this table it can easily be seen that only 8 factors have eigenvalue grater than 1.0, which is a common criterion for a factor to be useful. Eigenvalue refer to the variance explained or accounted for. When the eigenvalue is less than 1.0, this means that the factor explains less information than a single items would have explained. So these 8 factors from 20 variables have been used for analysis. Hence all the PCs together accounted for 68.116% of the variation in the data.

Factor 1 accounts for a variance of (3.656/20) 0.18281 or 18.281% of total variance. Factor 2 accounts for (2.225/20)11.12% of total variance. Factor 3 accounts for 8.496% of total variance. Factor 4 accounts for 6.950%. Thus factor 5, factor 6, factor 7 and factor 8 accounts 6.706%, 5.833%,5.396% and 5.330% respectively of total variance. The Rotation Sum of Squared Loading gives the variances associated with the variables are not explained unless all the factors are retained.

**Table 2. Total Variance Explained**

Factor	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.656	18.281	18.281	1.688	8.438	8.438
2	2.225	11.124	29.404	1.465	7.325	15.763
3	1.699	8.496	37.900	1.459	7.294	23.058
4	1.390	6.950	44.850	1.258	6.291	29.348
5	1.341	6.706	51.556	1.258	6.288	35.636
6	1.167	5.833	57.389	.984	4.921	40.557
7	1.079	5.396	62.785	.881	4.407	44.964
8	1.066	5.330	68.116	.561	2.807	47.771
9	.823	4.113	72.229			
10	.800	4.000	76.228			
11	.712	3.558	79.786			
12	.627	3.135	82.921			
13	.578	2.891	85.812			
14	.564	2.821	88.633			
15	.512	2.559	91.192			
16	.423	2.116	93.308			
17	.403	2.015	95.323			
18	.366	1.831	97.154			
19	.292	1.458	98.612			
20	.278	1.388	100.000			

Extraction Method: Principal Axis Factoring.

**4.3. Factor Loadings for the Rotated Factors**

This section discusses about correlation among the variables. The simple correlation between the original and the new variables, also called factor loadings, give an indication of the extent to which the original variables are influential in forming new variables. Therefore, each principal component is formed based on the factor loadings of the variables. The higher the loadings of a variable, the more influence it has in the formation of a given PC and vice versa and hence the loadings were used to determine which variables are influential in the formation of a given PC and to assign a meaning or label for the PC. This was done by rotating the components using orthogonal varimax rotation method. In the varimax rotation the main objective is to have a factor structure in which each variable loads highly on one and only one factor. That is, a given variable should have a high loading on one factor and near zero loadings on the other factors.

The Rotated Factor Matrix table, which contains factor loading, is key for understanding the results of the analysis and it displays the items and factor loadings for the rotated factors, with loadings less than 0.30 omitted to improve clarity. Usually, factor loadings lower than |.30| are considered low, which is why we suppressed loadings less than |.30|.

**Table 3. Rotated Factor Matrix<sup>a</sup>**

Item	Factor Loading							
	1	2	3	4	5	6	7	8
The ability to plan the operations of the business	.716							
Make large personal sacrifices in order to ensure the venture succeed	.509							
Develop the long terms direction of the firm	.483							
Monitor Progress toward strategic goals	.447							
Perceived unmet consumer needs		.668						
Identify customer's wants		.607						
Actively look for products or servies that provide real benefit to customers		.498						
Coordinates of tasks and lead employees			.572					
Maintain a Personal network of work contacts			.555					
Dedicate to make the venture work whenever possible			.526					
Develop long term trusting relationships with others			.486					
Evaluate the Advantage and disadvantage of potential business opportunities			.350					
Align the current actions with the strategic goals				.914				
Acquire resources and capabilities from inside and outside environments					.616			
Take remedial actions to solve operation problems					.475			
Negotiate with others						.546		
Communicate with others effectively						.393		
Evaluate results against strategic goals						.354		
Strong internal drives							.655	
Commit to long term business goals								.387

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.<sup>a</sup>

**Note that :Loadings< 0.30 are omitted**

**4.4. The Critical Factors Influence the Competence of Entrepreneurs**

The investigator should examine the content of the variables that have high loadings from each factor to see if they fit together conceptually and can be named. Now let us look at the rotated loadings again and try to name the eight Factors.

**Table 4. identified Variables with the highest factor loadings for competencies of the Entrepreneurs**

Factor	Name of Newly Extracted dimensions (Factors)	Variables	Loading	Selected Statement (Variable)	Factor Loadings
<b>Factor 1</b>	<b>Conceptual competence</b>	The ability to plan the operations of the business	0.716	The ability to plan the operations of the business	<b>0.716</b>
		Make large personal sacrifices in order to ensure the venture succeed	0.509		
		Develop the long terms direction of the firm	0.483		
		Monitor Progress toward strategic goals	0.447		
<b>Factor 2</b>	<b>Opportunity Recognition competence</b>	Perceived unmet consumer needs	0.668	Perceived unmet consumer needs	<b>0.668</b>
		Identify customer's wants	0.607		
		Actively look for products or services that provide real benefit to customers	0.498		
<b>Factor 3</b>	<b>Relationship competencies</b>	Coordinates of tasks and lead employees	0.572	Coordinates of tasks and lead employees	<b>0.572</b>
		Maintain a Personal network of work contacts	0.555		
		Dedicate to make the venture work whenever possible	0.526		
		Develop long term trusting relationships with others	0.486		
		Evaluate the Advantage and disadvantage of potential business opportunities	0.350		
<b>Factor 4</b>	<b>Strategic competencies</b>	Align the current actions with the strategic goals	0.914		<b>0.914</b>
<b>Factor 5</b>	<b>Organizing competence</b>	Acquire resources and capabilities from inside and outside environments	0.616	Acquire resources and capabilities from inside and outside environments	<b>0.616</b>
		Take remedial actions to solve operation problems	0.475		
<b>Factor 6</b>	<b>Network competence</b>	Negotiate with others	0.546	Negotiate with others	<b>0.546</b>
		Communicate with others effectively	0.393		
		Evaluate results against strategic goals	0.354		
<b>Factor 7</b>	<b>Personal competence</b>	Strong internal drives	0.655		<b>0.655</b>
<b>Factor 8</b>	<b>Commitment competence</b>	Commit to long term business goals	0.387		<b>0.387</b>

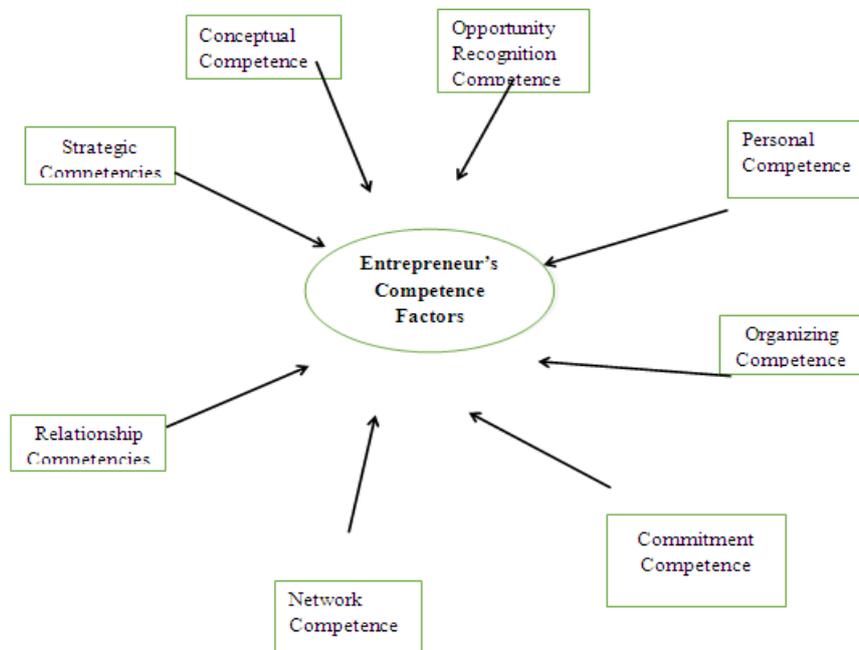
Table shows the Rotated Factor matrix. This matrix represents correlation between the factors and the variables. A coefficient with a large absolute value indicates that the factor and the variable are closely related. Here Varimax procedure has been used for rotation.

It is apparent from the Table above that the statements, Conceptual competence to start the business with a factor loading (0.716), Opportunity Recognition competence with a factor loadings( 0.668), Relationship competencies with factor loading (0.572), Align the current actions with the strategic goals(Strategic competencies) with factor loading (0.914), Organizing competence with factor loading (0.616), Negotiate with others (Network competence) with factor loading (0.546) ,Strong internal drives(Personal competence) with

factor loading(0.655) and Ability to commit to long term business goals with factor loadings ( 0.387) are the statements with highest factor loading under the dimensions namely, Strategic competencies (F4), Conceptual competence (F1), Opportunity Recognition competence (F2), Personal competence (F7), Organizing competence (F5), Relationship competencies (F3), Network competence (F6) and Commitment competence (F8) respectively. Hence, these are the identified dimensions (Factor) which influence the competence of entrepreneurs.

#### 4.5. Finding of the Study

From factor analysis 8 factors have been identified which are contributing to the critical factors which influence the competence of entrepreneurs. Those are Strategic competencies, Conceptual competence, Opportunity Recognition competence, Personal competence, Organizing competence, Relationship competencies, Network competence and Commitment competence. From the finding a framework of factors contributing to the competence of entrepreneurs in Ethiopia can be emerged.



**Figure 1.** Framework of factors contributing to the competence of entrepreneurs in Ethiopia

### V Conclusion and Further Research

This study has attempted to identify those factors which are contributing to their way of success. From 20 factors 8 factors have been selected by conducting factor analysis as significant for their success. Those are Strategic competencies, Conceptual competence, Opportunity Recognition competence, Personal competence, Organizing competence, Relationship competencies, Network competence and Commitment competence. This study also may have implications for counsellors, policy makers, trainers and also entrepreneurs. The finding of this research have revealed some implications for future practitioners and researchers whose aim is to study about entrepreneurs competence. Another implication that can be taken in to consideration for future research is the fact that factors identified by this research can be used to build a model for entrepreneurs competence. And this model can be used for further analysis of how much significant those factors are for entrepreneurs competence.

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