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# Exploring internal business factors and their impact on firm performance: small business perspective in Ethiopia

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## Abstract

Mainly, the study is aimed at exploring the internal business factors and their impact on firm performance in micro- and small-scale enterprises. The study employed a descriptive and explanatory research design and used a quantitative research approach. The study is conducted on Amhara region, North Wollo zone, Lalibela city administration micro- and small-scale enterprise operators, and in this study, the dependent variable is the performance of SMEs while independent variables are managerial factors, workplace factors, and entrepreneurial factors. To achieve the objectives of the study, 199 sample micro and small enterprises are selected from the 395 target populations. It used an explanatory design with stratified and simple random sampling techniques. The study employed descriptive and inferential statistical data analysis methods. The finding shows that the independent variables managerial factors and workplace-related factors have a positive and significant effect on small business performance in the study area. Also, there is an insignificant relationship between entrepreneurial factors and the dependent variable.

**Keywords:** Managerial factors, Workplace factors, Entrepreneurial factors, Small business performance

## Introduction

Micro and small enterprises play a significant role in job creation, source of wealth for owners, and source of income for the government in Ethiopia. However, their journey in many instances is short-lived with a high rate of failure due to several factors. There is now a wide-ranging recognition of the influence of micro and small enterprises on economic development; recently, the role of MSE in economic growth and employment creation has occupied most of the discussions among government, policymakers, academicians, researchers, and economists in both developed and emerging countries. By generating larger volumes of employment and higher levels of income, the MSEs would not only have contributed towards poverty reduction, but have enhanced the welfare and standard of living of the many in the society (Mukras, 2003). Micro and small enterprises generally account for the bulk of the total enterprise population, irrespective of the level of economic and social development of a country. In many countries of the world,

particularly those in Africa and Asia, the microenterprise sector constitutes the majority of the working population. Micro and small enterprises play various roles in the economic development of a nation that includes building up local production structure, creating employment opportunity, and achieving a fairer distribution of national resource, income, knowledge, and power, and help to promote rural industrialization and promote export market specifically (Mulugeta, 2008).

According to the African Development Bank (ADB, 2005), SMEs account for 60% of the continent's output and 80% of employment, and they also create 80% of new jobs. As stated by the Central Statistical Authority (CSA) survey, there are almost 570,000 MSEs in Ethiopia, 99.4% of which are microenterprises with fewer than ten employees, accounting for 88.2% of private sector employment. Microenterprises are very small. On average, they employ one and a half workers (this includes the owner and perhaps one occasional helper) and earn an annual operating surplus of 1300 birrs. Sole proprietors operated 82% of urban enterprises. Of the entire employment in these urban microenterprises, family members accounted for 60%. Beyond family members, apprentices constituted a huge proportion of the remaining MSE workforce (CSA, 2003). Small business performance is often measured by financial and nonfinancial criteria although the previous has been given more attention within the literature. Traditional measures of business success are supported by employee numbers or financial performance, like profit, turnover, or return on investment. Inherent in these measures is an assumption of growth that presupposes all small business who owners want to grow their businesses (Walker & Brown, 2004).

Bouazza, Ardjouman, and Abada (2015) found the critical factors that determine the growth of SMEs in Algeria, namely, factors of the business external environment which were away from control, and internal factors. External factors include the legal and regulatory aspects, access to sources of finance, and human resource capacity improvement. Internal factors more emphasize entrepreneurial character, capacity management, marketing capabilities, and technological capacity. Admasu (2012) analyzed the factors that affect the performance of MSEs in Addis Ababa, Arada, and Lideta sub-cities using sample household survey data collected in 2011. He used both descriptive data analysis and multiple regression models to identify the factors affecting micro and small enterprises. His finding indicates that finance factors, marketing factors, infrastructure factors, technological factors, work premise factors, management factors, and entrepreneurial factors hindered the performance of MSEs.

In the real business world, there are many internal and external factors that hinder its success, which means the ever-changing business environment requires enterprises to adapt quickly to associated new factors and competition, and current particular problems for small businesses given their small size and scarce resources. Small businesses increasingly face competition not only from their peers but also from large enterprises participating in markets once regarded as the preserve of smaller businesses. In fact, reliance on domestic markets for business growth is a thing of the past for many SMEs. Therefore, in order to be more competitive and relevant in the business world, they must identify, prioritize, and address these challenges effectively.

Generally, as per the researcher's knowledge, previously, there was no research conducted relating to internal factors that affect the business performance of micro and small enterprises in Lalibela city, and there is inconsistency of previous study results in the world. So, this research tried to fill this gap.

**Objectives and contributions of the study**

The central aim and the contribution of this research are resulting from the deficient knowledge about SMEs, compared to what we know about large enterprises and the inconsistency between the findings of SMEs in the developed countries and those in developing countries. By growing the quantity and quality of knowledge about SMEs, preconditions are created for increasing the level of adapting the existing theory and the worth of scientific knowledge for developing an effective SME practice, which is indeed the final goal and purpose of this research and is the reason to conduct this research.

**General objective**

The general objective of the study was to explore the internal business factors and their impact on firm performance, in micro and small-scale enterprises working on the case area.

**Specific objectives**

To fill the study gap and to achieve the general objective of the study, the following specific objectives are investigated:

1. Examining the effect of managerial factors on business performance
2. To evaluate the effect of workplace factors on the performance of small businesses
3. To measure the effect of entrepreneurial factors on enterprise performance in the study area

**Review of related literature****The micro and small enterprise sector in Ethiopia**

Ethiopia has prioritized MSE development to alleviate the problems of unemployment, low levels of working skills, and poverty reduction, and improve the levels of skills, contributing towards economic growth. In 1997, the Ethiopian government has established a national MSE development and advertising strategy which encourages or facilitates the legal ground for the growth and development of the enterprises. The primary objective of the strategic framework was to create a favorable environment for MSEs so that MSEs could facilitate economic growth; create long-term jobs; strengthen cooperation between MSEs, the starting point for medium and large-scale enterprises; and promote trade activities. Small businesses contribute immensely in terms of the redefining of social structure, economic emancipation, resource allocation, and income generation in all regional states (FDRE Ministry of Trade and Industry, 2002). The Federal Micro and Small Enterprises Development Agency (FeMSEDA) was designed or established by the Council of Ministers Regulation Number 33/1998 to run Ethiopia's MSE development and growth. To establish the MSE strategies and policies, Regional Micro and Small Enterprise Development Agencies have been designed.

Micro and small enterprise development hold a strategic place within Ethiopia's Industrial Development Strategy. Enterprises are the key instruments of job creation in urban centers, while job creation is the centerpiece of the country's development plan. The role of MSEs varies among those; the principal job creators are promoted not only in low-income countries like Ethiopia but also in high-income countries. Accordingly, because MSEs play a pivotal role in employment creation, stimulating and strengthening MSE development should be one of Ethiopia's top development priorities.

### **Internal factors' influence on performance of MSEs**

#### ***Management factor effect on the performance of MSEs***

Managerial ability in the context of micro and small enterprises indicates the capacity of owners or operators to produce sound enterprise plans, function-trendy bookkeeping, auditing, and record-keeping duties, introducing gorgeous applied sciences and expertise, dedication in terms of empowering employees, investing in skills-associated training opportunities for employees, capacity in resolving commercial enterprise related disputes amicably, etc. Successful organizations and corporations have been associated with managers who loved what they have been doing, whereas unsuccessful corporations and businesses were associated with managers with little or no motivation and commitment (Worku, 2014). According to Fetene (2017), management elements had been revealed as one of the robust influential elements for the enterprise overall performance of MSEs. The entrepreneur/commercial enterprise owner must surely and scientifically arrange his/her employer with clear obligations and duties to put off confusion and collision among personnel that will create nerve-racking surroundings and impact man or woman and group performance.

#### ***Entrepreneurial factors' effect on performance of MSEs***

**Entrepreneur competencies** According to Kebede and Simesh (2015), the considered entrepreneur is an individual who organizes and manages a business mission with the ultimate purpose of earning making a return on investment. An entrepreneur can be described as an innovating man, path-breaker, and a pacesetter of monetary and industrial growth. Entrepreneur's personality (owner's and/or managers) is a specific internal business environmental factor. All research has proven it has a considerable impact on the existence and operation of businesses, especially SMEs. According to Fetene (2017), specifically, its strong influence on the enterprise strategic framework has been set up (vision, mission, commercial enterprise orientation, way of life, and goals), which, indirectly and implicitly, influences all the elements of the inner environment, approach, and performance. The problem of examining this element is mirrored in the complexity of deeper analysis (of motives, attitudes, personality traits) that would require a professional psychological approach.

#### ***Access to working place effect on performance of MSEs***

Another critical factor for MSE growth is working space. In response, although the government has massively built working spaces for MSEs in major cities and towns, working space remains a critical challenge. According to Amwele's (2013) study entitled *Empirical investigation into the elements affecting the overall performance of SMEs in the retail quarter in Windhoek, Namibia*, he determined that over 90% (90.9%) of the 22 respondents revealed that rent or lease of a place for their commercial enterprise in Windhoek has prevented their performance. He discovered that it was once pricey to hire working vicinity for business use in their present-day locations; therefore, most MSEs are unable to grow financially as the massive element of the income goes into the rental expenses. Access to land for business use in Windhoek used to be one that additionally hinders business.

### ***Micro and small enterprises development strategy and Ethiopian economy***

The micro and small enterprises sector is described as the countrywide homes of entrepreneurship. It gives the ideal environment, enabling entrepreneurs to exercise their talents to the full and to attain their goals. In comparison with other countries, it is known that in all the successful economies, MSEs are viewed as a springboard for growth, job creation, and social development at large in Ethiopia. MSEs serve as sources for sustainable job opportunities, not only in developing countries like Ethiopia, but also for developed countries like the USA and Japan. For instance, for globally recognized giants like Toyota and Sony, more than 50% of their manufactured products are produced by MSEs (Federal Democratic Republic of Ethiopia FDRE, 2013).

Having recognized the importance of this sector, the Government of Ethiopia established the MSE development strategy in 1997 (Wasihun & Paul, 2010) and revised it in Wasihun & Paul, 2011 (Drbie & Kassahun, 2013). The FDRE (Federal Democratic Republic of Ethiopia, 2013) also identified the challenges of MSEs at the startup level, at growth level, and at maturity level with corresponding support at each stage. Accordingly, section 2 of the strategy lists the MSE development support framework. This includes human resource and technological development support (consisting of developing attitudinal change and initiation, training on the development of TVET, MSE technology development, facilitation of common property, and an extension service for industry), market development and marketing supply system (which includes strengthening the system of subcontracting, outsourcing, franchising and out-grower and marketing, raw material supply, constructing organized market centers, exhibition and bazaar of MSE, and preparing the enterprise website and directory), and credit service system (i.e., strength in the credit guarantee system, identifying focus areas of credit system, lease machine services), under the condition that production and sales centers and establishing a system of one center service to be provided to MSEs involved in production and services legally, to be a beneficiary from government support, and to enable the provision of services in an integrated, transparent, and efficient way.

### **Empirical literature review**

Past studies indicate that many factors affect the business growth of micro and small enterprises in a different scope, and the use of different variables among that in this empirical literature discusses its use of variables and its finding in the following ways.

Kebede and Simesh (2015) investigated the effect of internal and external business environmental factors on the performance MSEs in East Gojjam Zone, Ethiopia. The findings of the regression analysis show that infrastructure and monetary environment, technological environment, and factors related to entrepreneurial commitment have a clear significant relationship with performances of MSEs. Primarily, based on the signal of the slope coefficients, researchers found that infrastructure and finance had positive impacts on the overall performance of MSEs, while the rest has negative roles.

Fetene (2017) was intended to explain the influential business factors that affect the business performance of small and medium enterprises (SMEs) in Addis Ababa Nifas Silk Lafeto Sub-city. The regression results have shown that the eight hypothesized factors, financial, management, marketing, entrepreneurial, technology, politico-legal, infrastructural, and working premises factors, were found significantly affecting the business performance of SMEs operating in the sub-city, and it was found that the

financial factors were the most influencing predictor variable for SME business performance followed by infrastructure and politico-legal factors. Working premises were at the fourth position in terms of their strength in influencing business performance followed by management and marketing factors. In the seventh and eighth ranks were technological and entrepreneurial factors, respectively.

Seo and Lee's (2019) findings also indicate that knowledge-based factors, such as discovery and exploitation, in the innovation system of start-ups are positively associated with the dynamic capabilities for exploring new market dynamics. By the nature of knowledge, defined as exploring new things and collecting new information, discovery can be recognized as the engine of new market dynamics, and it leads to more innovative outcomes, which are the crucial part of dynamic capabilities of start-ups, than exploitation. Moreover, the dynamic capabilities of start-ups can be affected by the social norms and performance-based culture in their local community due to the shortage of information and scarce financial resources. And in terms of the total effect on business performance of start-ups, both the discovery in the innovation system of start-ups and the local community support for starting new businesses are the most significant factors for increasing the business performance of start-ups. Moreover, two intervening variables, social norms and performance-based culture, and dynamic capabilities have a positive and significant impact on the business performance of start-ups. Although a variety of factors can affect the start-ups' business performance, the findings might tell us that the combination of the discovery in the innovation system of start-ups for new market dynamics and the local community support plays a significant role in improving the business performance of start-ups amid a rapidly changing market environment.

Janeska-Iliev and Debarliev (2015) study on factors affecting the growth of the small business, the case of developing country having experienced transition. The results strongly confirm among the resources and processes of enterprises, skills, and knowledge possessed by the owners and workers of MSEs the strategic approach and orientation of small business, the degree of inclusiveness of the planning activity, and the nature of the external environment of small business independent variables; three independent variables: limitations in the internal environment, additional forms of education of the owner, and development of a strategic plan have a statistically significant impact on the growth of the small business. According to Alemu (2015) researching entrepreneurs' characteristics as a determinant of MSE growth, this paper is to explore how owner-manager characteristics may affect MSE growth in Ethiopia; the findings indicated that enterprises owned/managed by individuals with high previous experience show better growth. Again, education level which is expected to have an effect on MSE growth does not affect growth here.

The other crucial factor for MSE's growth is the working space. In response, although the government has massively built working spaces for MSEs in major cities and towns, working space remains a critical challenge. Amwele's (2013) study entitled *Empirical investigation into the elements affecting the overall performance of SMEs in the retail quarter in Windhoek, Namibia* revealed that rent or lease of a place for their commercial enterprise in Windhoek has prevented their performance. He discovered that it was once pricey to hire working vicinity for business use in their present-day locations; therefore, most MSEs are unable to grow financially as the massive element of the income goes into the rental expenses. Access to land for business use in Windhoek used to be one that additionally hinders business performance



Abera (2012) finds out the eight most important challenges which appear to affect the overall performance of MSEs include the following: inadequate finance, lack of working premises, advertising and marketing problems, inadequate infrastructures, negative management practices, and technological, entrepreneurial, and politico-legal problems which includes bureaucratic bottleneck system. The findings similarly point out that there exists linear and superb massive ranging from tremendous to the strong relationship located between independent variables and dependent variable (Islami, Mulolli, & Mustafa, 2018). The study found that internal business factors have a larger positive impact on a firm's performance than industry factors. And in a study by Ibrahim and Harrison (2019), the results show that external factors, in particular, competitors' marketing mix elements, have a greater influence on a company's business performance than internal (marketing and non-marketing) strategy variables. Implications for marketing theory and management are discussed. This study result contradicts with the finding of Islami et al.'s (2018) research.

The other study conducted by Nimlaor, Trimetsoontorn, and Fongsuwan (2014) revealed that the factors influencing the business performance included higher customer response capacity in terms of customer wants and needs cost, and competitive advantages over other competitors. It is found that the empirical factors affecting the business outcome of the Thai garment industry comprise the firm's characteristics which include organizational leaders and teamwork. Additionally, other key factors include a firm's strategy which comprises product differentiation, R and D, and brand building. The firm's environment also plays a role that includes international trade, business alliances, and government policy. Thus, it is recommended that entrepreneurs must create brand awareness through R and D, focus on how to optimize their international trade, and enhance their networking as well as their global alliances.

### Conceptual framework

In this study, the dependent variable is the performance of SMEs while the independent variables are managerial factors, workplace factors, and entrepreneurial factors (Fig. 1).

### The current study

The main purpose of this study was to measure the effect of internal factors on small business performance in the case of Lalibela city MSEs. In this study, there are three independent variables (managerial factor, entrepreneurial factors, and workspace factors), and there is one dependent variable (small business performance). Based on the overall findings of the study, general conclusions and recommendations are drawn. Accordingly, the study has three major hypotheses:

Hypothesis #1: Managerial factor has a significant effect on small business performance in the study area.

Hypothesis #2: Workspace factor has a significant effect on small business performance.

Hypothesis #3: Entrepreneurial factors have a significant effect on small business performance.

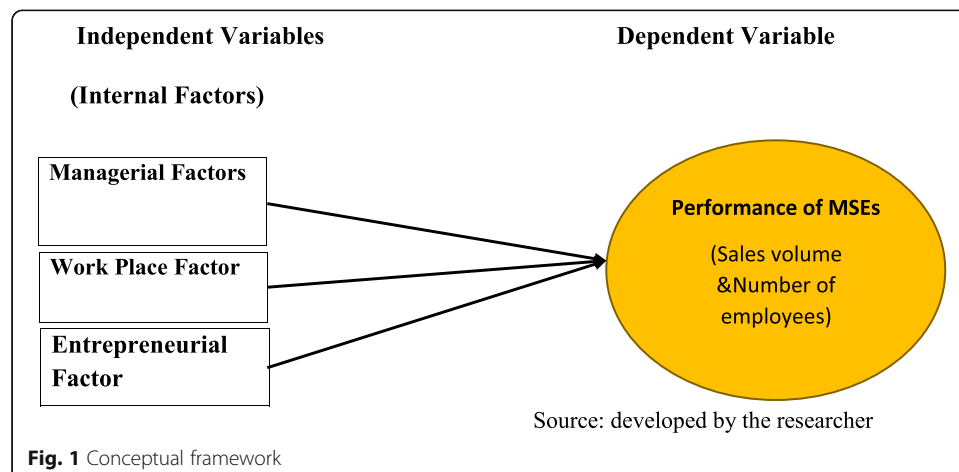
### Study methods

The study used an explanatory design with a quantitative research approach, and it used a cross-sectional survey design. To explain the position of variables studied and the effect of independent variables on the dependent variable, it is advisable to use this design. To meet the objectives of this study, both the primary and secondary sources of data are utilized. Primary data was collected directly from the owners of the MSEs with standardized close-ended questionnaires. And also, secondary data was collected through various sources like previously published materials as a literature review especially research papers, organization reports, and internet websites. The target population was considered as all MSE owners working on manufacturing, service, and trade industries in Lalibela city, which is found in the Amhara region, North Wollo zone of Lasta Woreda. The total population of the study was 395 MSE owners. Based on Yamane's (1967) sample size determination formula ( $n = N / (1 + Ne^2)$ ), the researcher got a grand total sample size of 199, at 95% confidence level and 0.05 precision levels. The researcher employed stratified and simple random sampling techniques to collect the data. And also, the collected data was analyzed through correlation and multiple linear regression analysis methods, and the study examined the cause and effect relationships between dependent and independent variables.

### Study materials

#### *Measures of variables (internal factors and small business performance)*

The independent variables were measured using a 15-item questionnaire including five (5) managerial factors, five (5) workplace factors, and five (5) entrepreneurial factors. And also, the dependent variable was measured using five (5) small business performance factor item questions. Both the independent and dependent variables are measured with a 5-point Likert scale response range (from 5 = strongly agree to 1 = strongly disagree). The variables used to measure the items on the instrument had been ordinal scale (strongly agree to strongly disagree) because the nature of this study is quantitative.





## Results and discussions

### Descriptive analysis

In this descriptive analysis, the response for each specific statement is compared using the mean and standard deviation scores. The degree of agreement or disagreement of the respondents for each statement is analyzed by summarizing the 5-point Likert scale response into three by considering the strongly agree and agree on responses into one positive response and strongly disagree and disagree responses into one negative response, and the neutral response is taken as it is. That is, the higher the mean score, the more that the respondents agreed with the statement and vice versa. The figure for the standard deviation (SD) also indicates the degree to which responses varied from each other: the higher the figure for SD indicates the more variation in responses.

Therefore, the end result of this study is analyzed using this standard to decide the relative importance for interpretation whether it falls in 1–1.80 very low, 1.80–2.60 low, 2.60–3.40 median, 3.40–4.20 high, and 4.20–5.00 very high.

The summary statistics of Table 1 (descriptive statistics) results show that the grand mean of independent variables, managerial factors, entrepreneurial factor, and workplace factor is 3.1447, 3.0915, and 2.9357 with standard deviation value of 0.66542, 0.65557, and 0.79002, respectively. And also, the mean and the std. deviation for the dependent variable small business performance is 2.9035 and 0.76695, respectively. This mean result clearly shows that the majority of the respondents' response level of agreement for all variables falls into the medium range. And additionally, the standard deviations recorded indicate the extent to which the respondents' opinions about the statements on dependent and independent variables varied.

### Correlational analyses

Pearson product-moment correlation analysis was used to analyze the relationship between independent variables (managerial factor, entrepreneurial factor, and workplace factors) and the dependent variable (small business performance). The correlation result is interpreted using the Cohen (1992) interpretation range. An interpretation of the range of the coefficient of correlation has been described in the following:  $-0.3$  to  $+0.3$  weak,  $-0.5$  to  $-0.3$  or  $0.3$  to  $0.5$  moderate,  $-0.5$  to  $-0.9$  or  $0.5$  to  $0.9$  strong, and  $-0.9$  to  $-1$  or  $0.9$  to  $1$  very strong.

According to Cramer and Howitt (2004), the correlation coefficient can range from  $-1$  to  $+1$ . The value of  $-1$  represents a perfect negative correlation while a value of  $+1$  represents a perfect positive correlation. A value of 0 correlations represents no relationship.

As it is clearly indicated in Table 2, there is a moderate statistically significant positive relationship between independent variables (managerial factor, entrepreneurial factor)

**Table 1** Descriptive statistics

	Mean	Std. deviation	Number
Managerial factor	3.1447	.66542	199
Entrepreneurial factor	3.0915	.65557	199
Small business performance	2.9035	.76695	199
Workplace	2.9357	.79002	199

Source: own survey, 2020

and dependent variable (small business performance) at a correlation coefficient of 0.352 ( $p = 0.000$ ) and 0.362 (0.000), respectively, in the study area. And also, the study result showed no significant relationship between workspace factors and small business performance at a significance level of 0.643 in the study area. Generally, the study finds out there is the existence of a positive significant relationship between overall internal factors and small business performance at a significance level of  $r < 0.01$  in the case area.

### Assumption tests

There are primary assumptions that justify the use of a linear multiple regression model for the purpose of inference or prediction. The ultimate outputs were worried about checking the model assumptions of multicollinearity, normality, and linearity. This study's result showed that there is not a problem of multicollinearity, normality, and linearity in the study variables.

### Multiple linear regression analysis and hypothesis testing

Multiple linear regressions were used to be estimated to determine the effect/influence of each independent variable on the dependent variable.

Tables 3 and 4 analysis results show that the regression model accounted for 17.8% of the variations on MSE performance which can be explained by internal factors; the remaining 82.2% of the variance in the dependent variable is explained via other variables which are not included in this study.

In addition, based on the ANOVA table's result, the significance value of F statistics indicates a value of 0.000, and it was less than  $p < 0.05$ , so it means the model was significant enough, and there is not a model fitness problem.

As indicated in Table 5, it can be concluded that managerial factor and entrepreneurial factors both have a positive significant effect on MSE overall performance at  $B = 0.282$ ,  $P = 0.001$  and  $B = 0.294$ ,  $P = 0.001$ , respectively, in the study area. From this result, we can observe that the entrepreneurial factor is the most predicting factor for small business performance, and the managerial factor is the next one. This result supports the previous findings of Fetene (2017), Abera (2012), and Islami et al. (2018).

**Table 2** Correlation analysis between independent variables and the dependent variable

		Managerial factor	Entrepreneurial factor	Small business performance	Workplace
Managerial factor	Pearson correlation	1	.438	.352	-.100
	Sig. (2-tailed)		.000	.000	.161
	N	199	199	199	199
Entrepreneurial factor	Pearson correlation	.438	1	.362	.113
	Sig. (2-tailed)	.000		.000	.111
	N	199	199	199	199
Small business performance	Pearson correlation	.352	.362	1	.033
	Sig. (2-tailed)	.000	.000		.643
	N	199	199	199	199
Workplace	Pearson correlation	-.100	.113	.033	1
	Sig. (2-tailed)	.161	.111	.643	
	N	199	199	199	199

Correlation is significant at the 0.01 level (2-tailed). Source: own survey, 2020

Contrarily, workplace factor has no significant effect on small business performance in the study area at  $B = 0.028$  and  $P > 0.05$ . This finding contradicts with the study result of previous researchers (Abera, 2012; Amwele, 2013 and Fetene, 2017) because they find out the significant relationship between workplace factor and small business performance.

The unstandardized beta coefficient had proven that when managerial factors are increased in one unit, there will be change/increment in small business overall performance by 28.2%, and also, when entrepreneurial factors are increased in one unit, there will be change/increment in small business overall performance by 29.4%. As a result, the regression coefficient clarifies that the average amount of change in small business performance was affected by a unit of change in internal factors by the stated beta value for each factor (Table 6).

### Discussions of major findings

This study is concentrated on examining the effect of internal factors on small business performance of Lalibela city administration (Appendix). A total of 199 questionnaires contained twenty items that have been administered and used at a 100% response rate. This mean result of independent and dependent variables clearly shows that the majority of the respondents' response level of agreement for all variables falls into the medium range. And additionally, the standard deviations recorded indicate the extent to which the respondents' opinions about the statements on dependent and independent variables varied.

In the inferential statistical analysis of the study, the end result proved that there is a moderate statistically significant positive relationship between independent variables (managerial factor, entrepreneurial factor) and dependent variable (small business performance) at a correlation coefficient of 0.352 ( $p = 0.000$ ) and 0.362 (0.000), respectively, in the study area. And also, as the study result showed, there is no significant relationship between workspace factors and small business performance at a significance level of 0.643 in the study area. Generally, the study finds out that there is the existence of a positive significant relationship between overall internal factors and small business performance at a significance level of  $r < 0.01$  in the case area.

The study's result showed that there is not a problem of multicollinearity, normality, and linearity in the study variables, and the study result shows that the regression model accounted for 17.8% of the variations on MSE performance which can be explained by internal factors; the remaining 82.2% of the variance in the dependent variable is explained via other variables which are not included in this study (at  $R^2 = 0.178$ ). In addition, based on the ANOVA test result, the model was significant enough, and there is not a model fitness problem.

From the multiple linear regression analysis results, it can be concluded that managerial factors and entrepreneurial factors both have a positive significant effect on MSEs' overall

**Table 3** Model summary

Model	R	R square	Adjusted R square	Change statistics			Durbin-Watson
				F change	df1	df2	
1	.422	.178	.165	14.059	3	195	1.795

Source: own survey, 2020

Predictors: (constant) workplace factor, managerial factor, and entrepreneurial factor

Dependent variable: small business performance

**Table 4** ANOVA

Model <sup>a</sup>		Sum of squares	df	Mean square	F	Sig.
1	Regression	20.711	3	6.904	14.059	0.000
	Residual	95.756	195	.491		
	Total	116.468	198			

Source: own survey, 2020

Dependent variable: small business performance

Predictors: (constant) workplace factor, managerial factor, and entrepreneurial factor

performance at  $B = 0.282$ ,  $P = 0.001$  and  $B = 0.294$ ,  $P=0.001$ , respectively, in the study area. From this result, we can observe that the entrepreneurial factor is the most predicting factor for small business performance, and the managerial factor is the next one. The unstandardized beta coefficient had proven that when managerial factors are increased in one unit, there will be change/increment in small business overall performance by 28.2%, and also when entrepreneurial factors are increased in one unit, there will be change/increment in small business overall performance by 29.4%. In general, the regression coefficient clarifies that the average amount of change in small business performance was affected by a unit of change in internal factors by the stated beta value for each factor. In conclusion, these study objectives are accomplished well by originated findings as previously supposed.

## Recommendations

Based on the above findings and study objectives, the researcher forwarded the following recommendations.

Entrepreneurial factors are self-motivated and drive for commercial enterprise success through readiness to improve and to change to take responsibility for the sound decision-making in the business. These factors have been among the internal factors that had been the most considerable influential factors affecting small business performance in the study area. Therefore, as shown in the finding of the study, entrepreneurs had better determine the availability of entrepreneurship pieces of training and take the training and exploiting the on-hand enterprise opportunities and desirable ample to research and benchmark high-quality practices of others to be more effective in their business activity. In relation to entrepreneurial factors, the entrepreneurs should work on avoiding the problems of lack of business skill training, lack of persistence and courage to take responsibility for one's failure, and lack of entrepreneurship training in their business. Also, in this study, management factors have a statistically significant effect on the small business overall performance of MSEs. Therefore, it is recommendable that business owners should facilitate and take training regarding managerial skills and strategic business plan preparation, and they should prepare their organization's structure with clear work and duty division among members and employees to create a participative, motivational, and attractive work environment in their business, in the study area.

**Table 5** Regression model coefficient table

Model		Unstandardized coefficients		Standardized coefficients		Sig.
		B	Std. error	Beta	t	
1	Constant	1.026	.338		3.034	0.003
	Managerial factor	.282	.084	.245	3.340	0.001
	Entrepreneurial factor	.294	.086	.251	3.425	0.001
	Workplace factor	.028	.064	.029	.438	0.662

Source: own survey, 2020

Dependent variable: small business performance

**Table 6** Hypothesis testing

No.	Hypothesis	Decision rule
1	<b>Hypothesis A1:</b> Managerial factor has a positive significant effect on small business performance in the study area.	Accept alternative hypothesis and reject null hypothesis
2	<b>Hypothesis A1:</b> Workplace factor has a positive significant effect on small business performance in the study area.	Accept null hypothesis and reject alternative hypothesis
3	<b>Hypothesis A1:</b> Entrepreneurial factor has a positive significant effect on small business performance in the study area.	Accept alternative hypothesis and reject null hypothesis

Source: own survey, 2020

In addition, the micro and small enterprises development offices (government) had better start presenting business planning training, entrepreneurship training, leadership training, fundamental business, and marketing management ability training and provide commercial enterprise development service as this will enable entrepreneurs to make sound decisions and improve the entrepreneurial competencies that enable them to apprehend and take advantage of the handy business opportunities in their business area.

## Conclusions

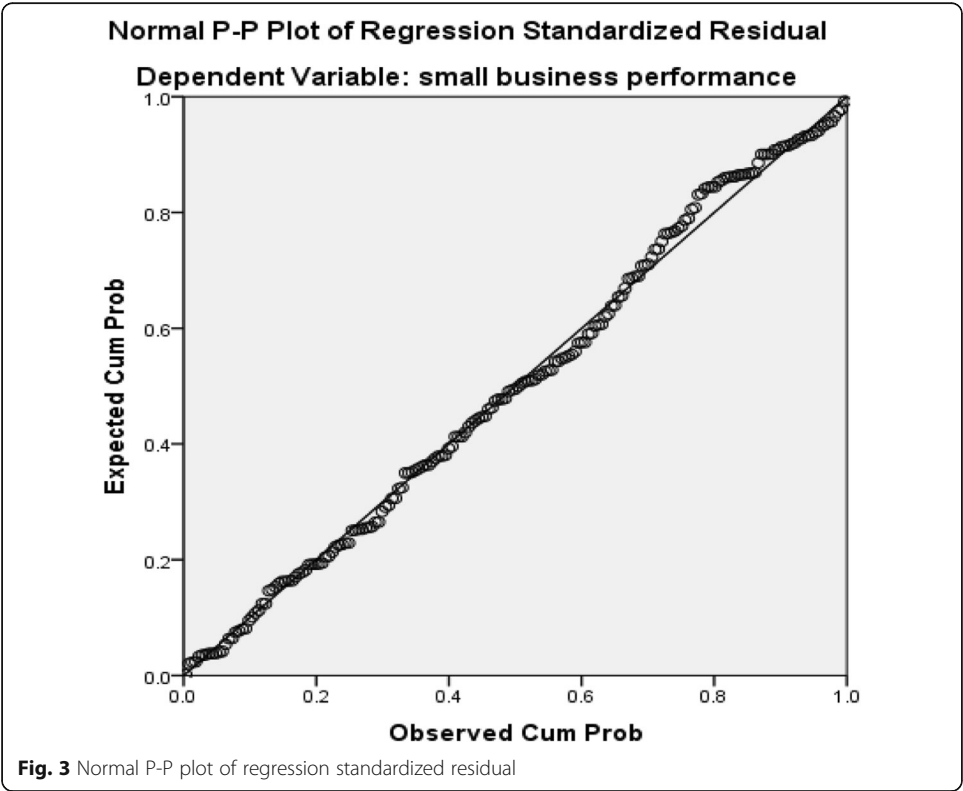
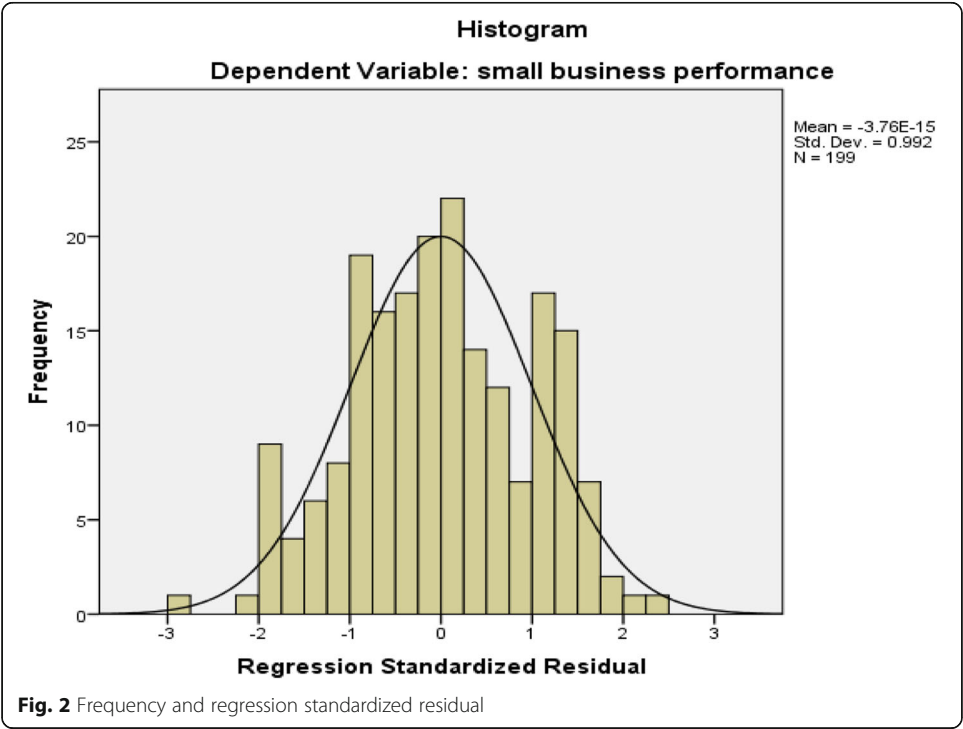
The main purpose of this study is to measure the effect of internal factors on small business performance in the case of Lalibela city MSEs. In the study, various parameters are used to evaluate the performance of MSEs and internal factors. The study has three independent variables (managerial factor, entrepreneurial factor, and workplace factor) and one dependent variable (small business performance). To attain the study objectives, the statistical association of each independent variable with the dependent variable is well measured and presented in the study in line with the study questions using descriptive, correlation, and regression analysis. After assessing all the factors entirely, the study found that the independent variables managerial factor and entrepreneurial factors have a positive significant effect on small business performance in the study area, and entrepreneurial factor was the most contributing factor for MSE performance in Lalibela city MSEs. Henceforth, in the end, we can conclude that an internal business factor has a significant effect on small business performance in the study area.

Based on the overall findings of the study, the researcher recommends that owners of MSEs are better to determine the achievable market plans that are consistent with their product/service in the domestic or worldwide market, scan new market opportunities, develop sufficient and suitable marketing strategy, formulate an approach and mechanism to enhance their market share, and continuously enhance their customer relationship and handling, and they have to forecast demand primarily based on the ample information. Therefore, the finding recommends that policymakers should develop different supportive policies for those enterprises by doing similar investigations and appropriate analysis of the situation because their support is fundamental for the top performance of any enterprise venture, and provide commercial enterprise development service as this will enable entrepreneurs to make sound decisions on their business and improve their performance.

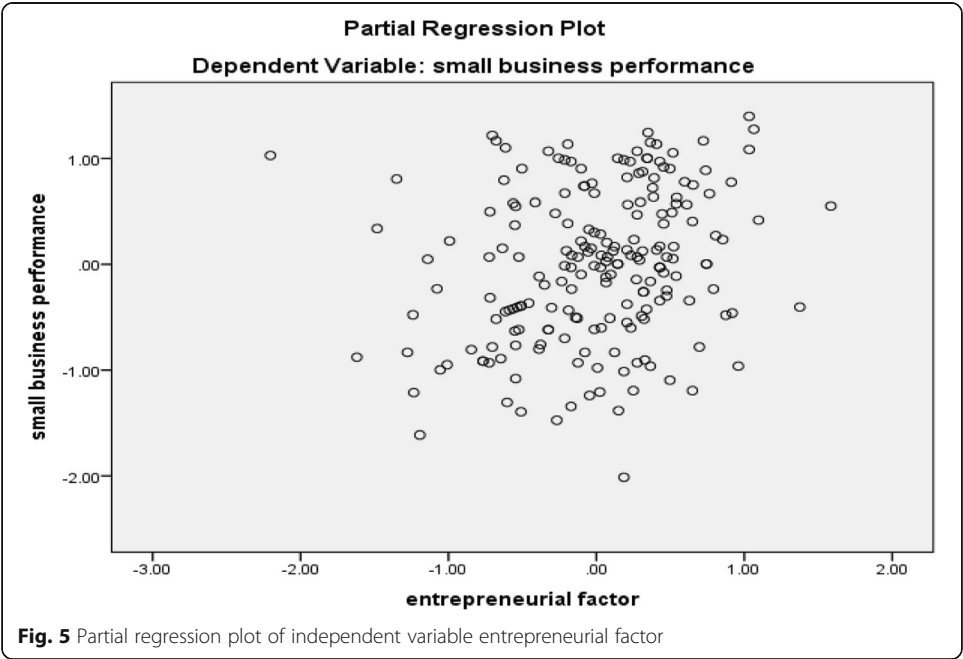
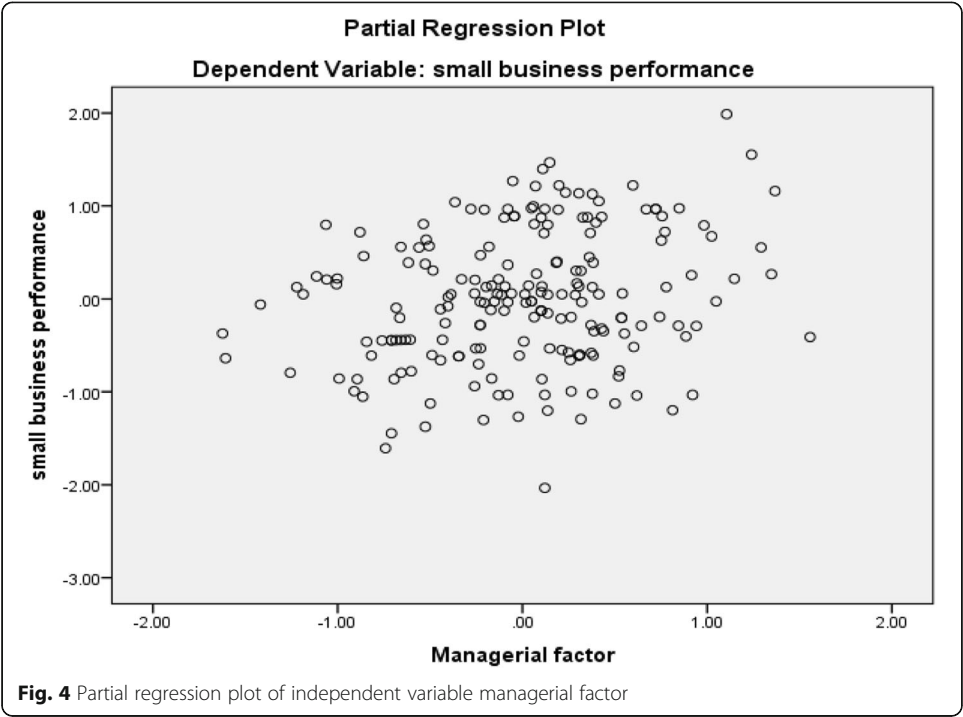
## Suggestion for future study

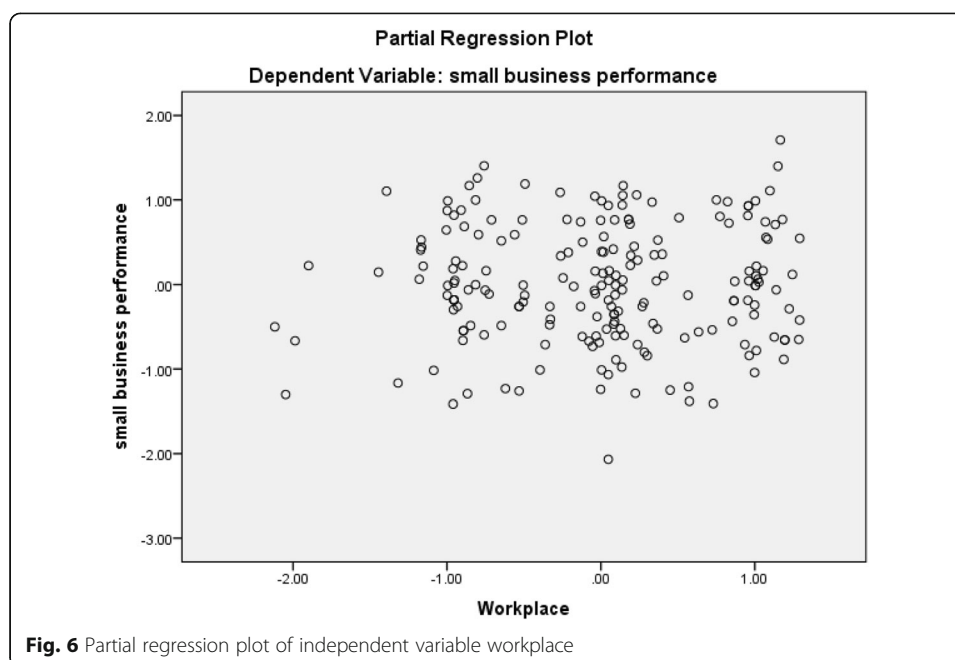
In this study, the researcher conducted only a quantitative study; a deep qualitative study could also be done to validate the results of this study. From the findings of the study, it is concluded that the model included in internal factors explained only 17.8% of the variance of small business performance, the rest 82.2% may be due to the other variables which were not included in this study and left for further study.

Appendix









#### Abbreviations

MSEs: Micro and small enterprises; ADB: African Development Bank; IF: Internal factors

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NA

#### Author's contributions

I am the only author of this article (Mr. Abriham Ebabu Engidaw). The author read and approved the final manuscript.

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#### Availability of data and materials

Not applicable

#### Declarations

#### Competing interests

The author declares that there are no competing interests.

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