

PRACTICES AND CHALLENGES OF ENTREPREUNERSHIP IN ETHIOPIA

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Abstract

Purpose: The main aim of this study is to assess practices and challenges of entrepreneurship in Ethiopia. **Research Design:** In this research qualitative and quantitative research designs were used for structured questions to address the research's objective. Entrepreneurship has multidimensional benefits like political, social, economic, and cultural. **Research questions:** This research tried to answer the following study questions: what are the main opportunities and challenges of enterprises in Ethiopia? Is there a correlation between the income, innovation, globalization, marketing policy, supply-demand chain, inflation with effectiveness of enterprises? To what extent do these service sectors affect the effectiveness of enterprises in the service sector? **Methodology:** The sources of data for this study were primary data which was collected through structured close ended questionnaire from enterprises and experts of entrepreneurship in telegram channel. The researcher used William G. Cochran formula to calculate representative sample size of the target population because the population of this study was too large. In this study, Amos version 26 software was used to find the results of statistical analysis of individual studies. The collected data was analysed via means the use of correlation analysis and structural equation model. **Findings:** Most variables were moderate positive relationship with effectiveness of enterprise. The study result revealed that enterprise income and enterprise effectiveness was highly positively related to each other. Innovation, supply-demand chain imbalances, marketing policies, and inflation had a moderately positive relationship with enterprise effectiveness, and the effects of globalization had a low positive relationship with enterprise effectiveness.

Keywords: Innovation, revolving fund, Inflation, Islamic financing system, innovation

1. INTRODUCTION

An entrepreneur is someone who starts a new business, takes the biggest risks, and gets the biggest returns. Entrepreneurs are seen as innovators, sources of innovative ideas, products, services and businesses.

Successful entrepreneurs who take the risk of starting a start-up are rewarded with opportunities for profit, prestige, and continued growth. A failed entrepreneurship leads to loss of stakeholders and loss of market presence.

Over the past 10 years, Ethiopia achieved high economic growth averaging double digit annually, making it one of the fastest growing economies in both Africa and the developing world. With a population of over 121 million, Ethiopia is fast becoming a hotspot for entrepreneurs, with hundreds of Ethiopians living abroad returning to the country following the prime minister's reforms. From total population of Ethiopia, 86.6% are youths, from this more than 28% is aged 15 to 29. Youth unemployment is estimated 27%. This value indicates that there is high number of unemployed youths in Ethiopia.

Alongside the government, the United Nations, World Bank and Alibaba are encouraging youths and women entrepreneurship to curb unemployment in Ethiopia.

1.1. Problem statement

Enterprise effectiveness faced the effects of globalization. That is, the increase in foreign exchange has made it impossible for enterprises to purchase and invest manufactured products. A shortage of supply causes a sudden increase in demand, which affects the effectiveness of the business. The country's free marketing policy makes it easier for traders to deceive consumers. A low level of innovation leads to enterprises duplicating the same business.

1.2. Research objectives

The main aim of this study is to assess practices and challenges of entrepreneurship in Ethiopia.

- To indicate entrepreneurial opportunities in Ethiopia.
- To identify Entrepreneurship Challenges in Ethiopia
- To identify relevant problems and areas for improvement in terms of enterprise effectiveness
- To make valuable suggestions for improving the service sector of entrepreneurship.

1.3. Scope and significance of study

Sampling issue researcher selected only enterprise members and experts not included customers of enterprises.

This study will have the following significances.

- i. The youths will benefit in terms of improved service sector and reduced unemployment in Ethiopia.
- ii. Government will formulate appropriate marketing policy and strategy in terms of decreasing inflation in Ethiopia.
- iii. The youths will get suitable environment to be effective in entrepreneurship.

2. LITERATURE REVIEW

2.1. Income

Lack of tax education, high tax rates, low-income levels, and high household consumption levels are the dominant and influential factors for tax compliance of Micro, small, medium scale enterprises (Peprah et al., 2020).

Internal savings and group corpora have positive and significant effects on beneficiary income growth, but bank loans do not. Socially and economically advanced regions are more likely to benefit from this program (Tripathy & Jain, 2012).

The active role of microenterprises in household income reduces rural poverty. The size of the family's labour force and whether the household's primary breadwinner has at least secondary education also have a positive impact on household income (Thapa, 2008).

2.2. Innovation

The current problems facing small enterprises stem from three sources: (I) loss of sales due to loss of customers; (ii) increased production costs; (iii) increased competition due to globalization; Small and micro enterprises seize the chance to survive in adverse conditions. Service innovation can improve business performance, facilitate new business value creation, and enhance competitiveness. Innovation determines the economic success of an organization. Having a desire to improve performance results is not easy. In today's world of innovation, organizations need factors to sustain their viability, competitiveness, and economic growth prospects (Prokhorova et al., 2016).

Most students see themselves as creative people, believing that creativity is strongly linked to innovation and entrepreneurship, and are more aware than Spanish students that creativity is important for entrepreneurial skills (Edwards-Schachter et al., 2015).

There is no lack of entrepreneurship in developing countries. However, the political and institutional environment are important determinants of innovative behaviour. Government support for innovation is important. This includes from reforming the environment in which to do business, providing venture capital, leveraging migrant workers and the diaspora, providing technical and management training, infrastructure, and more active state-private sector partnerships. and various other forms (Naudé et al., 2011).

2.3. Globalization effect

Internal and external environmental factors had a significant positive impact on the performance of SMEs, while globalization had a small negative impact on the performance of SMEs (Adekunle et al., 2020).

Globalization has changed economic realities. First, multinational enterprise (MNE) capabilities are becoming increasingly mobile and knowledge intensive. Therefore, multinationals pay more attention to the availability and quality of assets created elsewhere. Second, in developing countries, there is a significant difference between "catching up" with developing countries and "lagging behind" them (Narula & Dunning, 2000).

2.4. Marketing policy

Globalization and the emergence of internationally active small and medium enterprises (SMEs) are important global trends. The authors examine the relationship between entrepreneurial orientation, marketing policy, tactics, and corporate performance in globalization-influenced SMEs (Knight, 2015).

An entrepreneurial marketing strategy concept that reflects the confluence of social performance goals, corporate entrepreneurship direction, and marketing strategy by integrating environmental considerations into the development of marketing policies and practices (Menon & Menon, 1997).

Effective development of marketing strategies in trading and service enterprises are highly dependent on the environment of the chosen sales segment. In this case, if the sales department is highly competitive, the trading company is obliged to formulate perfect communication and service policies (Azimovna et al., 2022).

Marketing strategy development has long been pursued by scientists and practitioners who have created countless algorithms, mechanisms, and schemes for successful marketing strategy development. However, in the current situation all these developments are obsolete for one main reason. Buyer behaviour has fundamentally changed. For this reason, there is a renewed need to develop effective recommendations for designing marketing strategies for enterprise financial growth (Laburtseva et al., 2021).

2.5. Inflation

The economic crisis, along with the unemployment it has caused, has contributed to the development of forced entrepreneurship, which is a business activity based on natural entrepreneurial intentions and the exploitation of existing and emerging market opportunities (Pavlova & Sagov, 2020).

The perception that the economic crisis is an obstacle to starting a new business does not affect entrepreneurship, but it has a large negative impact on the likelihood of starting a business. Second, when distinguishing between opportunity-based and necessity-based types (Arrighetti et al., 2016).

The economic crisis makes people assess what they are willing and want to buy. In a way, the product is worth buying for the money, in the sense that more consideration is given to where the money is spent. Goods with high delivery value and innovative products such as honey with berries are highly rated by customers and therefore have a competitive advantage during the economic crisis (Dombrovska, 2014).

Opportunities of Entrepreneurship in Ethiopia

- Large sources of natural resources i.e., agricultural resources.
- Youths get loan from a microfinance institution for start-up funding. In contrast to regular borrowers, they offer low interest rates and no interest.
- Experts help youths by raising awareness of entrepreneurship. i.e. How to develop business plans, record transactions and Audits?
- There are 6(six) months of relief to pay tax.
- The Ethiopian government facilitates shades to production and sale of its products.

Challenges of Entrepreneurship in Ethiopia

- Institutional constrains like Omo micro finance and enterprise offices bureaucracy.
- Lack of innovation. It means that similar packaging or products are repeated by other enterprise
- Electric city Power and water shortage for the manufacturing enterprises.
- Illiteracy of enterprise members means skill gap
- Financial problems mean limited fund for initial capital from lending institution.
- Unsustainable marketing chains between product demand and supply.
- Less quality of products.
- Economic crises i.e., high inflation (imbalance between input and output).
- Workplace problems i.e., Scarcity of shades to manufacture and sell the products of enterprise especially in urban area enterprises.
- Age limit from 18-34
- Low interest of youths to start low-income job meaning they are seeking to start high-income business.

There are two types of enterprises organization in Ethiopia

1. Islamic financing system

- In this case enterprises pays their debt without interest i.e.; they pay item instead of cash.

2. With interest

- In this case enterprises pay their debt with interest.

1. There are also two types of Islamic financing system

A. Tahurik

- In this case it is possible to change items to cash but only 10% from total capital depending on business plan.

B. Muhuraba

- In this case only exchange of items is possible, so exchange of cash is totally forbidden.
- 100% item exchange

Table1: Types of work and initial capital fund from Omo micro finance institution

No	Type of work	Loan amount (birr)
	Manufacturing	
1	Metal work	175,220
2	Cultural clothing work	106,560
3	Traditional clothing	101,447
4	For animal skin and leather products	161,470
5	Bake the Injera work	52,650
6	For baking bread	60,060
7	Processing of milk and milk products	82,350
8	For modern honey processing	79,650
9	For liquid soap work	85,333
	Construction	
1	Block production	144,270
	For urban agriculture sector	
1	Dairy cattle breeding work	177,000
2	For meat and poultry farming (chicken)	60,288
1	Egg chicken breeding	68,500
2	One day chicken developing work	66,300
3	Ox fattening	117,000
4	Sheep fattening	88,000
	Service sector	
1	Café service	50,000
2	Men's beauty salon	50,000
3	Women's beauty salon	55,000
4	Internet café service	145,250

• There are two types of funds in Ethiopia

1. Regular fund

2. Revolving fund

1. **Regular fund** is type of fund that is distributed to enterprises with interest rate 1st year 15%, 2nd year 19% ...

2. Revolving fund

✓ is type of fund that is distributed to enterprises with interest with 1st year 10%, 2nd year 15%....

- ✓ For revolving fund Ethiopian government fund more than 10 (ten) billion birr to achieve 5(five) years transformation goal.
- ✓ In general, both types of funds are available for youths in Ethiopia but regular fund is also available to private borrowers including business man and farmers.

3. METHODOLOGY

3.1. Research approach

The constructs presented in this study were latent since they were tested using several questions. In this situation, SEM method is preferred over alternative techniques. Statistical analyses research approach was used to answer the research questions. The questionnaires designed to analyse the impact of income, innovation, supply and demand chains, globalization, marketing policies, and inflation on enterprises effectiveness. Questionnaires Distributed in a convenient Google Form, the survey was intended to target enterprise members using smartphones through the Telegram channel.

3.2. Target population and sample size

The study was carried out in entrepreneurship of Ethiopia. It was also conduct through a survey of enterprises and experts in Ethiopia.

As a target population of my study was large. For population that are large, William G. Cochran developed the equation to yield a representative sample.

$$No = \frac{Z^2pq}{e^2}$$

The parameters used in the above formula have the following explanation

e is the margin of error

p is the proportion of the success

q is proportions of failure

z2 is the abscissa of the normal curve that cuts off an area

Confidence level 95% (1-0.95)

$$z^2pq = (1.96) * (1.96) * (0.85) * (0.15)$$

$$= 0.489804$$

$$Z^2pq/e^2 = 0.489804 / (0.05)^2$$

$$\text{Sample size}(n) = 196$$

3.3. Data sources and data collection techniques

Primary data was used for the study:

Primary data was obtained by way of questionnaire that was structured close ended and these was distributed to the enterprises and enterprise office experts those are member of telegram group.

3.4. Data analysis methods

The examined variables were analysed using IBM AMOS version 26. Participants were asked to rate their responses on a Likert scale from 1 to 5. 1 is very poor, 2 is poor, 3 is neutral, 4 is good, and 5 is very good on the enterprise's effectiveness scale. Cronbach's alpha can be used to measure the reliability of inter-consistency, and validity tests can be used to measure the accuracy of research results. Structural Equation Modelling (SEM) was used to answer research questions.

4. DATA ANALYSIS AND FINDINGS

4.1 Descriptive statistic

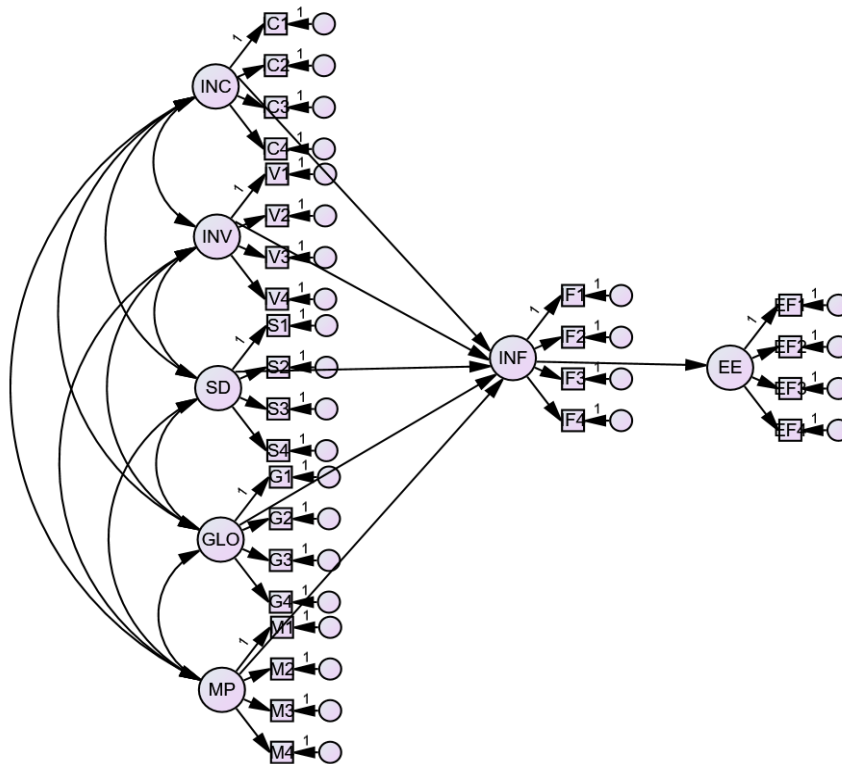
Table 1

	N Statistic	Range Statistic	Mean Statistic	Std.Dev Statistic	Variance Statistic	Skewness Statistic	Kurtosis Statistic
Income	196	3.25	2.1207	.71220	.507	2.130	.845
Supply	196	3.00	2.7586	.95076	.904	.210	.845

Innovation	196	3.50	1.9655	.75511	.570	1.679	.845
Global	196	3.50	2.6379	1.05979	1.123	.484	.845
Market	196	3.25	2.2414	.82235	.676	.912	.845
Inflation	196	3.00	2.1466	.72739	.529	1.106	.845
Ent. Eff	196	3.75	2.3707	.90539	.820	1.367	.845
Valid N	196						

Normality tests were conducted for the all independent and dependent variables. Table 2 shows the results along with descriptive statistics. The standard deviation of Globalization is relatively more volatile than other variables. A skewness value between -1 to +1 and a kurtosis value of 3-5 indicate that the data are normally distributed. Skewness values of income, Innovation, enterprise effectiveness, inflation are largely skewed and Marketing policy is over skewed and Supply-demand chain is purely symmetric. All variables are leptokurtic feature of data distribution shows that data is not normally distributed.

Measurement model for Enterprise Effectiveness



Source: IBM Amos version 26 output

4.2. Reliability

Table 2

Construct	No of items	Alpha
INCA	4	.743
INVB	7	.806
SDC	5	.776
GLOD	5	.834
MPE	6	.719
INFF	6	.767
EFG	8	.808

Reliability is a measure of internal consistency of construct in a study. The construct is reliable if the alpha value is greater than 0.70 (Hair et al., 2013). Construct reliability was assessed using Cronbach's alpha. As a result, the income scale has 4 items ($\alpha=.743$), the innovation scale has 7 items ($\alpha=.806$), the supply chain scale has 5 items ($\alpha=.776$), and the globalization scale has 5 items ($\alpha=.834$), marketing policy scale has 6 items (alpha = .719), inflation scale 6 items (alpha = .767), enterprise effectiveness scale has 8 items (alpha = .808), So alpha values of all variables were above 0.70 and satisfy assumption shows that the study was reliable. The reliability results are summarized in Table 2

4.3. Validity Test (Convergent and Discriminate validity)

Table 3

	CR	AVE	MSV	ASV	Income	Innovation	Supply - Demand	Globalization	Marketing policy	Inflation
Income	.743	.6155	.37	.59	.78					
Innovation	.806	.687	.36	.65	.36	.83				
Supply-demand	.776	.71	.58	.69	.29	.20	.85			
Glob	.834	.76	.68	.74	.37	.23	.84	.87		
MP	.767	.58	.57	.57	.37	.21	.49	.58	.76	
Inflation	.808	.59	.39	.55	.25	.10	.20	.25	.39	.77

Source: Primary data

1. Reliability: Cronbach alpha and CR>0.7

2. Convergent validity: CR>0.7, CR>AVE, AVE>0.5

Above table shows that composite reliability of all variables is greater than 0.7 and CR value of all variables are greater than average variance extracted and, also average variance extracted value of all variables are greater than 0.5.

3. Discriminate validity: MSV AND ASV<AVE

The above table shows that the maximum shared variance and Average shared variance (ASV) value of all variables are less than the average variance extracted (AVE). The square root of the Average Variance extracted (AVE) is greater than the inter-construct correlation value. As above output value, convergent and discriminatory validity satisfy the validity assumptions, increased the reliability of the study and the accuracy of the study results.

4.4. Correlation analysis

Table:4

			Estimate
F1	<-->	F2	0.734
F1	<-->	F3	0.464
F1	<-->	F4	0.534
F1	<-->	F5	0.691
F1	<-->	F6	0.711
F2	<-->	F3	0.506
F2	<-->	F4	0.516
F2	<-->	F5	0.603
F2	<-->	F6	0.615
F3	<-->	F4	0.802
F3	<-->	F5	0.767
F3	<-->	F6	0.465
F4	<-->	F5	0.803
F4	<-->	F6	0.522
F5	<-->	F6	0.804

Source: Primary data

Table 3 shows that all independent variables are significantly correlate to inflation. The highest correlation is between marketing policy with Inflation (0.804), Globalization with Marketing policy (0.803), Supply and demand chain with Globalization (0.802). The weakest correlation is between Income and supply-demand chain (.464), between supply-demand chain and Inflation (.465), between Innovation and supply-demand chain (.506). From the above table we can conclude that all independent variables have significant correlation with Inflation.

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

There are many enterprise opportunities in Ethiopia and there are also challenges in Ethiopia in entrepreneurship. Challenges include institutional constraints, energy shortages, financial problems, unsustainable marketing chains, economic crises, job shortages, age restrictions, declining product quality, and the effects of globalization. The study results show that enterprise income and enterprises effectiveness are highly positively related to each other. Innovation, supply-demand chain imbalances, marketing policies, and inflation have a moderately positive relationship with enterprise effectiveness, and the effects of globalization have a low positive relationship with enterprise effectiveness.

5.2. Recommendation

Effectiveness of enterprises should be improved by increasing enterprise income levels, promoting various innovation start-ups, narrowing the gap between supply and demand, and expanding manufacturing. The Ethiopian government needs to resolve bureaucracy in the service sector, resolve energy and water scarcity issues, and adopt effective marketing policy strategies. The government should also work hard to raise awareness of entrepreneurship among Ethiopian youth. Therefore, the Ethiopian government should be developed a strategy on how to achieve the goal of entrepreneurship transformation and increase the effectiveness of enterprises and managerial decision-making, areas that researchers have identified as weaknesses in the effectiveness of enterprises in Ethiopia. The omo microfinance funds are not enough and need to be increased due to the economic crisis.

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