



Research Paper

## Role of Customer Relations on the Productivity of Small Business Enterprises in Ethiopia: The Study of Hawassa City

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### ABSTRACTS

*Fifty four male and four female owners of metal and wood work enterprises were involved in the study. The study focuses on the role of customers relations on the productivity of small businesses in Hawassa City. The quantitative and qualitative data were used in the stud to be analyzed and based on the following questions: how the customer relations, competitor's relations, relations with the family members, relations with government and financial institutions affect the productivities of small enterprises in the study area under discussion using questionnaires, interviews, document analysis, field observations and percentage analysis.*

*The research result revealed that the productivity of small businesses in the study area was affected by shortage of marketing management skills, price instability due to lack of contract agreement between each other and suppliers, absence of legal transfer of the products of Micro and Small Enterprises, flourished illegal business in the town and lack of display room.*

*Finally, it was suggested that problems related with the owners of Micro and Small Enterprises, government and financial institutions should be solved to avert the causes for less productivity in the operations of small businesses in the study area.*

**KEY WORDS:** *Customer Relations, Micro and Small Enterprises and Productivity*

*Received 03 Feb, 2021; Revised: 15 Feb, 2021; Accepted 17 Feb, 2021 © The author(s) 2021.  
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## I. INTRODUCTION

### 1.1. General Over Views of the Study

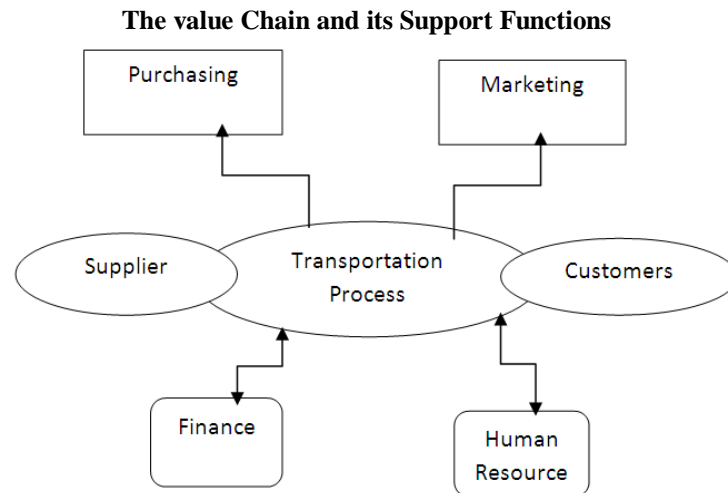
The relation between people and productivity goes beyond the relation with people working for you. It goes for all people that are in contact with your business. Good external relations and a good reputation can help business attraction for more customers, investors, good suppliers and not least, good employees. So, keeping good external relations will ultimately result in higher profit (ILO, 2003).

The agencies and group of people, which are very important for the productivity of small businesses are including customer relations, relation with family members, suppliers' relation, competitors' relation, and relation with neighbors and the community, relations with government agencies, business associations, training institutions, trade unions and financial institutions (Zimmerer, T. W., & Scarborough, N. M. 1998).

As information technology becomes more closely intertwined with the very fabric of doing business, information becomes a critical resource enabling a company to complete in the market place and a service in its own right that the company can offer and sell to its customers. Ray Port and Sviokla assert that a company competes in two words: a word of physical resources, the market place, and a virtual world of information, the market places. Information changes the way a company creates value and competes with in virtual value chain. As well-known example is Federal Express's System which allows its customers to dial in to the FedEx data base and verify where a letter or parcel is in the system. Whether it is in route, whether it was delivered providing such information allows FedEx to provide an additional service of the customer, differentiating itself from competition and building customer loyalty and increasing repeat business (TERPSTRA: V: SARATHY, 1997).

A value chain is a set of linkages between actors where there are no binding or sought after formal or informal relationships, except when the goods, services financial agreements are actually transacted. A value chain is a specific type of supply chain one where the actors actively seek to support each other's so that can

increase their efficiency and competitiveness. They invest time, effort and money, and build relationships with other actors to reach a common goal of satisfying consumer needs. So, they can increase their profits (KIT, Faida Mali, and IIRR, 2006).



The value chain activities in the physical world involves clustering of micro and small enterprises which are producing similar commodities in order to increase productivity of firms operating near one another due to joint action and external economies of scale. The types of the economies of scale derived from clustering of small scale enterprises are access to market, labor market pooling, intermediate input effects, and technological spillovers (ACEG, No. 30, August, 2001).

In this particular study, I will focus on the role of business relations on the productivity of metal and wood work enterprises as one of the small business in Hawassa City. This is because small scale enterprises have greater role and contributions in developing countries including Ethiopia and in study area for the economic and social growth than the medium and small scale industries. According to Ethiopian Central Statistics Authority (ECSA), May, 1997, there were 584,913 informal (micro) sector and 2,731 small-scale manufacturing industry's operators together employing 739,898 workers.

In developing countries, like Ethiopia, micro and small enterprises, by the virtue of their size, location, capital investment, and their capacity to generate greater employment, have demonstrated their powerful propellant effects for rapid economic growth. The MSE's Sectors have also been instrumented in bringing about economic transition by providing goods and services that are of adequate quality and are reasonably priced to large numbers of people without requiring high level of training, large sums of capital or sophisticated technology.

The micro and small enterprise sector is also described as the natural home of entrepreneurship. This is because it has the potentials to provide the ideal environment for enabling entrepreneurs to optimally exercise their talents and to obtain their personal and professional goals. In all successful economies MSEs are seen as an essential springboard for growth, job creation and social progress. The small business sector is also seen as an important force to generate employment and more equitable income distribution, activate competition, and exploit niche markets, and enhance productivity and technical change and through the combination of these measures, to stimulate economic growth.

While we can not deny the importance of large and medium enterprises for the growth of Ethiopian economy, there are ample evidences to suggest that the absorptive capacity of the small business sector is high; the average capital cost per job created is usually lower than in big business and its role in technical and other innovative activities is vital for many of the challenges facing in Ethiopia. According to the study of ECSA, the whole labor engaged in micro and small Scale Manufacturing industries are more than eight folds (739,898 workers) that of medium and large scale manufacturing industries which employed only 90,213 workers.

## **1.2. Background to the Study**

The study focuses on the role of the business relations for the productivity of small businesses in the cases of Metal and Wood work enterprises in Hawassa City. This is because this sector contributes more in creating jobs for unemployment, transforming existing knowledge in to new technology such as metal and woodwork furniture for home and office consumption, different agricultural tools, construction materials, and other metal engineering technologies. Therefore, through these efforts, this sector can pave the way to industrialization in the country as well as in the study area. According to the survey held by Hawassa Town

MSEs Development Desk Office in 2006, the total number owners of Metal and Woodwork Enterprises are 250, from which 231 are males and 19 are females. Additionally, the survey reveals that the employment opportunity created including the owners enterprises, their families and hired workers in the companies were 943. The enterprises are also located dispersedly in seven sub city's administration and had registered capital of 3,791,946 birr.

### **1.3. Statement of the Problem**

Things that attract the attention of developing countries including our country, with regard to the small business enterprises are their significance to the development of social and economic growth. According to Andu-Alem Tegegne (1993), "the small business enterprises are widespread, vibrant, dynamic and turbulent sector with multitudes of business activities moving in and out". Most importantly, they are strategically significant for the development of developing countries. Understanding the formidable inhibitive factors to the growth and development of small business enterprises and removing their constraints are crucial for the developing countries to pullout the current poverty syndrome and march into the development horizon. The sector also gradually improves the international competitiveness of developing countries and enables them to join the comp of lately developed countries.

Hence, in the view of the current Ethiopian situation, where population is growing at an increasing rate and substantial increase in urban population is taking place, is accompanied by high unemployment rates which is resulting from educational attrition/dropouts, retrenchments, dislocations, unavailability of formal sector employment opportunities, and a host of other factors, the small scale enterprises (SSEs) sector need to be given urgent and due attention to foster development.

Therefore, the study tries to find out the role of Business Relations on the productivity of Small business enterprises by focusing on the cases of Metal and Woodwork activities in Hawassa City. The study also tries to pin out the types of business relations affecting the productivity of small businesses in the study area by focusing on the following relations: relations with customers, suppliers, competitors, neighbors and competitors, government institutions, trade associations, financial institutions and other relevant organizations.

### **1.4. Objectives of the study**

#### **1.4.1. General Objective**

The purpose of the study is to find out the role of business relations on the productivity of Small Business especially in metal and woodwork enterprises and to recommend possible solutions.

#### **1.4.2. Specific objective of the study is to:**

- Analyze the effect of business relations on the productivity of metal and woodwork enterprises.
- Point out the problems related to the business relations in the study area.
- Recommend possible solutions.
- Provide secondary input for researchers.

### **1.5. Significance of the Study**

The major benefit of the study is pouring the way between business relations and actors of business the productivity of metal and woodwork enterprises mainly:

- ✓ The direct benefit could be grasped by the owners of metal and woodwork enterprises for building appropriate relations with their customers to increase their productivity.
- ✓ Interested individuals, agencies, associations, trade unions, etc., might use the findings for further their study.
- ✓ Could add-up something to the existing volume of knowledge.

### **1.6. Limitation of the Study**

Obviously, small-scale industrial development approach is the new phenomenon that needs more research in developing countries. As a result there were the shortages of secondary data sources. Additionally, there were problems related to internet access, shortage of finance for data collection, to buy materials needed, and timely delivery of data by participants.

## **II. REVIEW OF THE LITERATURE**

This part is exclusively focus on the review of the related literature on researcher's findings, books, texts, journals, government policy documents and reports. The section is started with brief review of two parts of Micro and Small Enterprises (MSEs) : over views of MSEs in Ethiopian Economy and the Role of Business Relations for the Productivity of Small Business Enterprises in Ethiopia as well as in Ethiopia.

### **2.1. An overview and size of Micro and Small Enterprises Sector in Ethiopian Economy**

#### **2.1.1. Definition of Small and Medium Enterprises**

Small and Medium firms have no similar meanings in both developed and developing countries. To show some of the overviews of its meaning and status,

1. The Small-Scale Manufacturing Sector employed, including owners, on average 3 persons per industry and the average employees per industry is 2 persons, while the average operating surplus per industry is Birr 18,934 which shows that income generated by small manufacturing activities is much better than those engaged in the informal activities. As highlighted above, the MSE sector is characterized by highly diversified activities, which can create job opportunities for a segment of the population. This indicates that the sector is a quick remedy for unemployment and facilitates the environment for new job seekers and self-employment. So, the issues of Small-Scale Enterprise and entrepreneurship development have received a great deal of attention as priority areas that are crucial for simulating economic growth in both developing as well as in developed countries.

2. There has been a substantial growth in both public and private interest in the development of SSEs in the last two decades, particularly in the developing countries, and also throughout the world. As a result, in order to channel the support facilities to this diversified sector, categorize the sector according to the size of the sector. For this purpose, the definitions of MSEs vary from country to country based on the level of economic development and their capacity to support the sector. In relation to this, the definition of MSEs is to become dynamic in all over the world. In our country the sector's role and contribution has been neglected for a longer period of time due to bad attitude of people towards MSEs, the cultural influence and lack of awareness to change. But after the reform the meaning of MSEs is basically defined by Ethiopian Central Statistics Authority and Ministry of Trade and Industry in 1997:-

3. According the ECSA, Micro and small business meaning is defined based on number of employees employed in the business organization. Accordingly, Micro enterprises mean the enterprise Handicrafts and informal business organizations those have no license and are in different areas, while small interprets are those business enterprises which are employing below 10 workers.

4. Another meaning of MSEs which is commonly used in Ethiopian context is the meaning given by the Ministry of trade and Industry in 1997:-

**Micro Enterprises:** - are those small business enterprises with a paid-up capital of not exceeding birr 20,000 and excluding high technology consultancy firms and other high technology to establish.

**Small Enterprises:-** are those business enterprises with a paid-up capital of above birr 20,000 and not exceeding birr 500,000 and excluding high technology consultancy firms and other high technology establishments (Ministry of Trade and Industry, Nov 1997).

#### **2.1.2. Size and Diversity of the Sector**

According to the survey of Ethiopian Central Statistics Authority (ECSA), in May, 1997, there are 584, 913 informal sector operators (Micro Enterprise operators) and Small Scale Manufacturing Industries operators, respectively absorbed 739,898 labor forces. The survey also revealed that a Micro Enterprises on average engage, one person and average annual surplus is about birr 1,300. Regarding diversity of the informal sectors (Micro Enterprises), the survey indicated that a large number of informal sector operators are concentrated in a limited area of activities such as 47% in Manufacturing, 42% in Trade, Hotel, and Restaurant activities, about 6% in community and personal services and 5% are involved in agriculture, hunting, forestry, and fishing, mining, and quarry construction and transport activities. On the other hands, the survey on Small Scale Manufacturing Industries showed that they are engaged in the manufacture of food, fabricated metal, furniture, and wearing apparels. These sub sectors constitute more than 85% of the surveyed small scale manufacturing industries.

### **2.2. International Vs National Role and Contribution of the Small-Scale Enterprises**

In successful developing countries, MSEs by virtue of their size, location, capital investment, and their capacity to generate great employment, have demonstrate their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in bringing about economic transition by providing goods and services, of those are of adequate quality and are reasonably priced, to a large number of people without

requiring high-level training, large sums of capital or sophisticated technology (Zewde and associate, SEED-ILO, Addis Ababa, 2002).

Additionally, SSEs are the basic for industrial development. Even the famous industrial Revolution of Great Britain was initially accomplished largely through the SSIs, which employed modes of capital, few workers; and were owned and managed by a single industrial family (World Bank, 1978-59). The small-scale industries have now relatively decreased in these countries and most of the manufacturing value added (MVA) is generated in large-scale manufacturing industries. But the role of SSIs is still significant in the production of goods that are uneconomical for the large firms. Although most of developing countries have been overlooking the role of SSIs in the industrialization process, they still constitute a significant portion of their manufactured value added (see table1). On the average, SSIs account for 37% of contribution of the total manufacturing value added generated in the seven countries. The SSIs play a comparable role in the generation of MVA (41%) and total GDP (2.6% in Ethiopia (Abriham Tekeste, Ministry of Economic Development and Coordination, 2002, Addis Ababa).

**Table1: Contribution of Small-Scale Manufacturing Enterprises to GDP**

Country (Period)	Small-scale manufacturing as a percentage of	
	Manufacturing (%)	Total GDP (%)
Bangladesh (1977-78)	50	4.6
Burundi (1980)	64	8.2
Ghana (1970)	26	2.9
Pakistan (1970-80)	30	4.6
Sierra Leon (1975)	43	2.9
Indonesia (1974-75)	26	N.A
Jamaica (1978)	22	3.5
Average	37	-
Ethiopia (1987-1994)	41	2.6

**N.B Includes Handicrafts**

➤ **Source: Lied Holm and Mead (1987) MOFEP 2002**

Small-scale industry is also helping in mobilizing domestic resources and foreign exchange savings. Unlike large-scale industries, which mainly depend on imported spare-parts, and inputs, small-scale industries use local resources. Thus, small-scale industries can save foreign exchange by depending on local resources and may even generate foreign exchange if successfully nurtured to become exporters. SSIs appear to be less import-intensive and have a stronger backward linkage effects than large ones. For the small-scale as a whole, imported inputs accounts for about 18% of total input consumption (MOI, 1987).

Micro and small enterprises also play a vital role in poverty reduction, employment generation as well as economic development in poor countries like Ethiopia. In developing countries, the Ethiopian micro and small enterprise's sector has a wide range of operators:- Petty traders to Shoe Factory owners, a peddlers in the streets to a grocery business operators, etc. Therefore, a vibrant private sector has never dropped from the blue but is a product of a rent less effort of the governments, private sector, promotional institutions and the general public at large. MSEs Take the lion share of private business operations in terms of numbers, specialization, and product diversifications. MSEs Work with relatively smaller capital, is labor intensive, and creates more jobs per unit of investment as compared to larger firms. According to CSA, 1997, MSEs create jobs for 739,898 workers while medium and large enterprises create jobs for 90,129 workers. MSEs can also serve as business incubation centers and can be considered as homemade school of entrepreneurship (Fantahun Melese, 2002).

### **2.3. International and National Role of MSEs**

Micro and small enterprises have greater role in developed and underdeveloped countries in solving social and economic problems, mainly for developing countries. According to the paper presented in the national conference by the Federal Micro and Small Enterprises Development Agency (from October 1-2/2003), in India 3.57 million micro and small enterprises are registered, and the amount of production produced by them accounts for 16.4 Billion American dollar and they absorb 20 million workforce. Likewise from 41,364,531 total enterprises found in Indonesia 41,301,263 (99.84%) are MSEs and they accounts 58% of total share of production. According to the survey made by ECSA, in 1997E.C. from 1,048,984 registered total MSEs in Ethiopia, 799,358 were none-informal 217,763 were handcraft and 31,863 were small industries. They all together were absorbing 2,402,027 employees.

The survey was also revealed that the MSEs in Ethiopia accounts \$5,587,849,660 from the total of production produced in the country. Moreover, the survey indicated that 965 Medium and large industries were opened the working opportunity for 90,213 employees. Therefore, according to the figure shown above, MSEs have greater role in solving social and economic problems of our country than large and medium industries.

#### **2.4. The Role of MSEs in the Southern Nations, Nationalities and Peoples Region**

According to the survey of central statistics held in 2004, there were 112,078 non-informal, 54,764 handcrafts and, 3,687 small industries totally 170,527 MSEs found in the region. The ECSA survey also revealed that the above MSEs were employed 250,665 employees and they account birr 641,618,628 from the total production share produced in the region. MSEs in the Southern Nations, Nationalities and Peoples Region are mainly subdivided into different business like industry, service, handcrafts and different petty trade activities. The regional sample survey carried on 1,566 MSEs in 1995, identified that 51% were wholesale and merchandising and Tourism Bureau, MSEs under sample (1,566) were employing 4,217 workforces in the region. And also it revealed that MSEs under the study, 55% of the sample population were using agricultural products and other local products as their main inputs. So, they are the main source of market for local products and services and they provide their products and services at the lower prices (Trade, Industry and Urban Development, June 2006).

#### **2.5. The Role of Business Relation for the Productivity of the Small Businesses**

The relation between people and productivity goes beyond the relation with people working directly for you. It goes for all people that are in contact with your business. Good external relations and reputation can help a good attract of more customers, more investors, good suppliers, and not least, good employees. So, keeping good external relations will ultimately result in higher profit (ILO, 2003, Business relation and productivity). The following business relation between agencies and group of people are important to the productivity of small business, and will be further discussed next.

##### **2.5.1. Customer Relations**

As all we know customers are the main sources of profit of any business. Without customers there will be no revenue and the business will fail. Customers will most probably come to the same community, as your workers. Their family and friends may even be customers. Therefore, your workers will also be keen to see that the business has good relationships with its customers.

Customers that are satisfied usually come back for and are likely to recommend the business to their family and friends, while dissatisfied customer tell their family and friends about their bad experience and advise them not to use the business. Losing a customer is not just losing the value of an individual sale, but it is a lost customer sale for ever and other customers may be lost too. When a customer's complaint is treated with respect and the customer is satisfied with the action taken, the customer will usually keep buying from the business and business enterprise can get sustainable profit (ILO, 2003, Business relation and productivity).

Customers purchase a business organization's products or services. They may be individuals (with different age, education, income, and life styles) or customers may also be organization. Customers may differ in their requirements for service, quality, and delivery time. The customers' decision to buy or not to buy the firm's output directly determines the company's sales volume and ultimately its survival. Customers also affect the characteristics of a company's product or service, its quality, features, sales prices, and even point of sale (Bantie workie, 2001, Addis Ababa commercial college).

##### **2.5.2. Suppliers Relations**

Suppliers are your partners in the chain of business that connects the raw materials to the end customer. Establishing and keeping good relation with your suppliers mean steady suppliers, higher productivity, and more profit for both your business and suppliers. Like any business owner, supplier wants to keep good customers. They seek to do this by producing good service and quality goods. Suppliers are a good source of information about business friends. They know about new products, possible material shortage and price rises. Equipment supplier can help with good after sales services, advice and supplies of spare parts. Therefore, maintain good relations with suppliers by placing your order well in time, by making good displays of his goods, by having empties ready and importantly by paying on time (ILO, 2003, Business Relation and productivity).

All organizations require resources-fund, energy, equipment, and services and materials to produce product or services that provide these resources. The problem includes quality, cost and timeliness as related to suppliers (Ban tie workieis, 2001, Addis Ababa Commercial College).

##### **2.5.3. Competitors Relation**

Competitors are an organization's opponents, the companies against the business organization competes for customer and needed resources (e.g. employees, raw materials, even other business organization focuses most of their competitive efforts on customers. In this regard, competition can be viewed as dynamic, ongoing processes of moves and counter moves (Ban tie workie, 2001 Addis Ababa).

Often your competitors would live in the same community as you. This is a good reason for keeping good relations. But in addition to your competitors also want their business to succeed. They may find that the

only way to fill a large order is to work with other similar businesses. Competitors can get better prices by together to place a bigger order. In other words: - cooperate in order to compete (ILO, 2003, Business relation and productivity).

#### **2.5.4. Relation with Own Family**

Your family is perhaps your most important business contact. As a result you can obtain the following advantage from your family relation:-

- ✓ You may obtain guarantees perhaps some of start-up capital from members of your Family.
- ✓ Some of your family members may work for you and more is your customer.
- ✓ Family members may help to get you in contact with important customers and Suppliers.
- ✓ Your family is important in providing the moral support needed to start and improve your business.

If you maintain good and constructive relations with your family, you can be assured of good ambassadors of your business and this will help towards improved productivity and higher profits (ILO, 2003, Business relation and productivity).

#### **2.5.5. Relations with Neighbors and Community**

Your business operates with in a community; people living in the community may be customers and may recommend (or discourage) their friends to support your business. The people will form a bad opinion of your business if it is damaging the environment of the local community. It could also lead to formal complaints and expensive legal action. Good relations with community will minimize the risk of theft and damage of your business. And also providing good jobs opportunity increase the amount of money in the community, leads to greater purchasing power, more customer, and satisfied employees. So, being a good neighbor is good for business (ILO, 2003, Business relations and productivity).

#### **2.5.6. Relation with Government Agencies, Association's, Institutions and Bank**

The business owners must be aware of the condition agreed with trade unions, associations, and must conform to the country's in which it is operating they need to know the legal standing of their businesses. Business owners need not know all laws and regulation in detail, but they should have a good knowledge of those that directly concern their business.

Good relation should therefore be maintained with government agencies and trade unions in order to know exactly what should be done to comply with the relevant regulations once such relation are established they can become a source valuable information and advice and would help you to save both money and time. The owner of a business may find advantages in being member of business associations. Through these you will be able to voice your concerns and assignments, and possibly to influence government policy decisions. You will meet and learn from owners of similar businesses and this will help you increase your market opportunities and competitiveness and should you ever need a loan or an overdraft, you will obviously find advantage in maintaining very good relations with banks and other financial institutions. Good relations should also be maintained with technical training institutions, as they are an excellent source of skilled workers (ILO, 2003, Business Relations and Productivity).

### **III. PRESENTATIONS AND DISCUSSIONS OF DATA**

*Table 1 General Characteristics of Respondents*

	Males	Females	Total	%
Total Metal & woodwork Enterprise owners	54	4	58	92
Age group 20-30	28	3	31	53.45
31-40	22	1	23	39.66
41 and above	4	-	4	6.99
Total	54	4	58	=100
Work experience 3-6	18	2	20	34.48
7-10	24	2	26	44.83
Above 11	12	-	12	20.70
Educational background 1-8 Grade	8	-	8	14
Grade 9-10 & 12	10	-	10	17
TVET	36	4	40	69

**Source: Primary data**

#### **3.1. Discussion and Presentation of Data**

The following section is used to present and analyze the data gathered through questionnaire, Interviews and observation. Firstly, percentage analysis was used to analyze the gathered data through tables.

Out of the total of 63(58 males and 5 females) questionnaires distributed to respondent of Hawassa town metal and woodwork business enterprise owners, 58 (54 males and 4 females) were completed and returned i.e. equal to 92% of the total sample size. Overall 93.10% of the males and 80% of the females' respondents have completed the questionnaires. As shown above 44.83%, 22.70%, 48.34 % were 3-6 years' experience, 7-10 years' experience and 11 and above respectively were the experiences of operators engaged in the sector. Secondly, the situation forced to start this business by the owner's will be discussed and analyzed in the subsequent part of the paper. The presentation begins with the summary of respondents given by the owners of the business. After they are presented the discussion and implication section will follow:

**Table 2: Summary of data given by the owners on how to start their Existing Business**

How do you start the business	Number the responder	%	MEs	SEs
Due to the technical Knowledge	26	44.83	11	15
Due to work experience on job	26	44.83	8	18
To create job opportunity due To absence of other job	6	10.34	4	2
Total	58	100	23	35

*Source: Primary data*

Table 3-2-1 shows technical knowledge and work experiences which are forcing the business to start their metal and woodwork enterprises equally and they all together account about 89.60% and only 10.34% of operators started this business due to lack of other jobs.

**Table 3: Summary of data on employment creation by the metal and woodwork under the study**

Category of the workers	Males	Females	Total	MEs	SEs
Technical workers	430	30	460	100	360
Administrative workers	30	10	40	10	30
Total	460	40	500	110	390

*Source: primary data*

The above table depicts that 92% of technical and administrative male workers were employed in the 58 metal and woodwork enterprises while female workers account only 8% of the total workers employed in the business enterprise under discussion. This shows that technical and administrative skills for female are much less than the males in such areas. And also the table portrays 78% of the workers were employed in small-scale enterprises and 28% of them were in micro-scale enterprises. This is because most of the micro businesses were operated with owners and their family.

**Table 4: Summary of data given by the owners about the capital registered**

Number of enterprise participated	Category of Enterprises	Investment by males	Investment by female	Total capital Registers	%
26	MES	226,500	Birr 40,000	266,500	44
32	SES	1,869,500	Birr 100,000	1,969,500	56
	MSES	2,096,000	Birr 140,000	2,236,000	100

*Source: primary data*

Table 3.2.3 Depicts that MEs were mostly operated with low capital and mainly labor intensive and they are generally operated by the owners and their family labor intensive and they are generally operated by the owners and their family force while somehow small business enterprises were operated with larger capital as compared to micro businesses in the data depicted above and they absorb larger work forces than MEs.

**Table 5: Responses on cause and effect relationship between business productivity and customer relations:**

No	Problem identified	Causes	Result	Number of responses	Percentage (%)
1	Product invisibility to the customers	Lack of display room & place	Shortage of income (revenue)	58	100
2	Inability of selling more products	Poor selling strategy	Shortage of income(revenue)	53	91.38



3	Customers loss	Lack of experienced and skilled sales personnel	Absence of revenue and shutdown of an enterprise	50	86.21
4	Lack of customers attraction	Un competitiveness of my products with price, quality and modern design	Absence of revenue and shutdown of an enterprise	48	82.76
5	Low customers buying capacity	Most of people are lower and medium income group	Inability to buy products	40	68.97

**Source: Primary data**

As the above data portrayed 100% of respondents were faced with lack display room that enables the customers to buy or to visit their products, and 91.38% of them were because of their poor selling strategy MSEs in the town were unable to sell their more products and they can't get more profit from their products. And more than 80% of enterprises were losing their customers due to lack of skilled and experienced personnel and lack of competitiveness of their products.

**Table 6: Responses given on the impact of suppliers on the business profitability:**

No	Problems identified	Causes to the problem	Outcome	Number of responses	(%)
1	Lack of raw materials in the town	Shortage of suppliers around the enterprises	Low productivity of enterprises and low quality of production	50	86.21
2	Dynamic change of the price of raw materials	Lack of contractual agreement b/n suppliers & producers	High product price that leads to the loss of customer and low profit	55	94.8
3	Lack of buying capacity	Lack of shortage to store raw materials for a longer period of time, lack of capital to buy more raw materials and lack of transportation	Limited production to be produced, low market share, and low economics of scale.	51	98.3

**Source: Primary data**

From the summary of 3.2.5.table, one can conclude that suppliers relation to the metal and woodwork enterprises in Hawassa is the dominant factor at an average of >93% of the total relation was affected the productivity of business. Accordingly, 98.3%, 94.8, and 86.21 the most affecting factor that limited the suppliers relations are lack of buying capacity of operators, dramatic change of the price of raw materials, and shortage of the legal suppliers in the town respectively.

**Table 7: Summary of data given the influence of competitors on business productivity**

N o	Problem identified	Causes of problems	Effects of problems	# of resp	(%)
1	Lack of completion b/n enterprises in quality, price and time	Lack of technical knowledge and marketing skill	Losing customers and profit	56	96.6
2	Focusing on profit without considering other components	Lack of marketing knowledge and skill	Producing unwanted products that consumers not to buy	46	79.31
3	Inability of differentiating products by the customers	Lack of specification and design to MSEs products	Lack of sales that leads to loss	58	100
4	Some enterprises sale their products at very low price without producing quality products	Flourishing of some illegal business those were not taxed	Loss of legal business enterprises	57	98.3
5	Unfair competition b/n business enterprises	Some enterprises decrease prices of their products without providing right products to the customers and to monopolize the market.	Loss of loyal customers to the enterprise and economic loss both for MSEs and for the country.	50	86.21

**Source: primary data**

Table3.2.6. Portrays that the main problems affecting the business relations between competitors are customers inability to differentiate the product quality produced by various metal and woodwork enterprises due to the absence of specification of products under production, flourishing of illegal products at lower price, and lack of marketing skill and knowledge to handle their customers and do not understand competition should be with quality, quantity, prices and time.

According to the data shown above, the problems of business relation under discussion account all together about 98.3% at average. Unfair competition between different metal and woodwork enterprise and producing products without willingness of customers also account 82.76% at an average. In general the above data depicts that providing specialization and design of products is the major problems of MSEs in Hawassa.

**Table 8: Summary of Data Given on Effects of Family Relation an business profitability**

No	Item	Number of responses	Percentage (%)
1	Do you think members of your family are committed to your Business development?		
1.1	YES	20	34.48
1.2	NO	38	65.52
2	If your answer is no, what is your reason?		
2.1	They are unpaid and lack of specific job to perform	18	47.37
2.2	Lack of Technical knowledge and marketing skill	20	52.63
	Total	38	100

*Source: Primary data*

As the data indicate in the table 3.2.7, 65.5% of the total owners of enterprises responded that most of the family members working with them were not committed to their baseness organization. The reason they identified with regarded to their family members commitment is categorized in to 3.52% of the enterprise owners said that their members had shortage of technical knowledge and skill of marketing management. But others said that >47% of their family members working with them were not committed to their organizations development, because they were not paid and they had not given specific job to perform.

**Table 9: Summaries of data given on the effects of government and financial institution on the productivity business**

No	Item	Numbers of responses	Percentage (%)
1	Government should legally allow movement of products of MSEs		
1.1	YES	58	100
1.2	NO	-	-
2	Government should control illegal business enterprises		
2.1	YES	58	100
2.2	NO	-	-
3	Micro finances and banks should fast their credit facilities	58	100

*Source: Primary data*

As shown in the above metal and woodwork enterprise in Hawassa had serious problems of transferring their products from their residents to other town legally, the existence of illegal business by selling their products at lower price because they did not pay tax to the government, and financial institutions should not give credit facilities at short time.

**Table 10: Summary of Data Collected from Owners of Metal and Woodwork Enterprises on the Solution for the Problems of Business Relations**

This part is discussing about the solutions given by the MSEs Operators to improve their poor business relation in the process of development of their Enterprises.

No	Item	Numbers of responses	(%)
1	Enterprise should be organized in association to solve their common problems like: > To buy raw material from the source > To deal with government on common issues such as policy implementation & to get experience	56	96.6
2	To complete with each other by producing products with best quality, price, design (type) and producing on time	58	100
3	Increasing marketing skill of an enterprise from time to time	50	86.21
4	Government should control illegal business organization those may not pay government tax	58	100
5	Government must allow the movement of products which are legally produced by the metal and woodwork enterprise from town to town	58	100
6	Increasing the knowledge of owners and workers through training	45	77.59
7	Development of working culture should be increased in society	35	60.35
8	Creating positive business relation with others	49	84.48

*Source: Primary data*

Table 3.2.9. Depicts that 100% of the metal and woodwork enterprises in Hawassa should take care of customer's relations in producing quality products with best design, and with fair quantity at fair price, products at lower prices, and government should allow the movement of the products of enterprises from town to town because most of their products were not pass through custom station legally. Another solution given by the enterprise owners according to the above data, in order to solve the supply of raw materials they should be organized in association to get material from the source were accounted about 56 (96.6%) of the total responses to solve business relation with compiler by improving customers handling through training of marketing skill, creating positive business relation with others at an average about 81.1%.

**Table 11: Summary of Data given By the Enterprise Owners on the Role of Government to Enhance the Development of Metal and woodwork**

No	Item	Number of responses	Percentage (%)
1	Providing working premises	58	100
2	Providing training facilities	56	96.6
3	Providing License for accreditation of their products	58	100
4	Facilitating workshop and discussion panel on their common issues through their association	52	89.66
5	Allow the movement of products of MSEs from place to place with legal ground	58	100
6	Creating fast loan support system and allow with minimum for longer period of time	57	98.3

Source: Primary data

As shown above, government role is critically important in solving the problems of display room, manufacturing area, accreditation problems of products MSEs, and problems of passing their products legally through custom stations. This shows that the government should solve these 3 critical problems of the sector urgently.

### **3.2. Results from Observations & Interviews**

The enterprises researcher originally distributes the questionnaires by reaching facedly to the enterprises owners and representatives at hand within one week of period. Additionally the researcher started to collect the questionnaires for two weeks and looking for more additional points to be added through observation and interviews. During the observation and interview period, the researcher selected 15 metal and woodwork enterprises from the total sample of 63. Accordingly, the results are presented below:

#### **3.1.1. Efficiency of manpower Management**

Comparatively there was difference between: one enterprise to another in managing manpower in business enterprises. But both of them have no written documents used to guide their organization. This means they did not have short term and long term planning's, no clear job description to their workers, no assigned quality control workers, no design and standard of products to be produced, no experienced sales personnel who will give every information to the customers, no systematic way of evaluating workers in the organization, no way of getting customers suggestion, some of owners had no technical and administrative knowledge as shown in the table 3.1. Accordingly, only about 69% of owners had technical knowledge and 31% of enterprises were primary and secondary school graduates. As a result there exists 40% of workers turn over or attrition.

#### **3.1.2. Financial Management of Enterprises**

At the time of observing enterprise by the research, there were no sufficient accounting record which shows current assets and liabilities, and long term asset and liabilities in the organizations, no financial flow account and no annual demand of capital exactly known throughout the years. This was because of the absence of trained accountants: from 15 enterprises interviewed, there were only 40% of enterprises had an account while 605 of them had no accountant.

#### **3.1.3. Marketing Management Aspects of the Enterprises**

Marketing management aspects of the enterprises under discussion, deal with customers handling, linkage between suppliers, selection and focusing of target group, marketing plan, display and sales room, marketing research and about sales personnel. Accordingly, 15 metal and woodwork enterprise were interviewed by the researcher on marketing management aspects: As they were answered 10% of them had no market plan to select the target group to make their market sustainable and to attract loyal customers. While 5 organizations had inexperienced and not skilled sales personnel, and 10 were without sales personnel, which

account 67%. 100% of 15 enterprises have no agreement between suppliers and had no display rooms and selling rooms. They also had no market research development throughout their life. In the marketing aspect one critical issue raised by female entrepreneurs was that society's attitudes towards females' technical knowledge and products produced by them had questions of acceptance. This can be seen at the time of starting period that no customers were willing to buy the products produced by females are technically inefficient. Anyhow according to the survey of Micro and Small Enterprises Development Desk of Hawassa in 2006, there were only 19 females started metal and woodwork business enterprises out of the total of 250.

### **3.2. Summary of Results**

Metal and woodwork enterprises in Hawassa are one of the MSEs Sector that absorb large number of workforce. They are located dispersedly in seven kifle ketemas and found naturally in the same areas within kifle ketemas. According to the data in table 3.1, 69% of metal and woodwork enterprises under discussion were committed to start the business because of their technical knowledge while 31% them were started it by their local knowledge of getting from grades of 1-8 and 9-10 and 12.

Metal and woodwork enterprises in Hawassa play important role in solving social and economic problems of the town through employing large number of labor force, and mobilizing large amount of capital. As shown in table 3.2.2 and 3.2.3, 58 metals and woodwork enterprises absorb about 500 work forces of the town and mobilizing birr 2,236,000 in their organization.

Moreover, the owners of metal and woodwork enterprises identified that the role of business in relation with customers, suppliers, competitors, family members, government and financial institutions are very important in the productivity and profitability of their business enterprises.

Finally further research seems to be necessary to identify factors affecting business relations on the productivity of small businesses.

## **IV. CONCLUSION AND RECOMMENDATIONS**

### **4.1 Conclusions**

It is found in this study that development program of MSEs is very important for developing countries like Ethiopia. If we all believe that we are poor, we can increase our commitment to work hard and consuming the products locally produced by our MSEs, even though the quality, the design, and price of the products may not be competitive, we should buy the products and services produced by us, rather buying foreign products in order to encourage the sector. This is because perfections come through time, knowledge, and experience.

As shown in the study, the focus of this paper is on the role of business relations on the productivity of metal and woodwork enterprises. In Hawassa, metal and woodwork enterprises faced with various problems which hinder the productivity of business relations deal with customers, suppliers, competitors, Family members working with owners of enterprises, and implementation of government's policy and financial institution.

In general, metal and woodwork enterprises had the following four major problems which are:-

1. Lack of working premises
  - Four production(workshop)
  - For display room(show room)
2. Lack of marketing and management skill such as:-
  - ✓ Poor selling strategy that is necessary for analysis of the marketing segment could be carried out to identify the target consumer and to know how best to appeal to that customer.
  - ✓ Poor product strategy that refers to the lack of creation of linkage between producers and suppliers, which hinders MSEs to get continuous supply. It also leads to poor design of products that cannot enable to establish brand names in creating more acceptability and command lighter price stability and command higher prices with quality product.
  - ✓ Poor pricing strategy refers to inability to offer reduced price as a valuable tool to attract customers to buy a product. However, this should be only for a given period.
  - ✓ Poor promotion development of products.
3. Shortage of government support to facilitate the movement of products of Metal and Woodwork Enterprises from Hawassa to other places, and also taxation system of revenue and Income Agency is not clear to those tax payers.
4. Price instability of raw materials from time to time that affects the productivity of Enterprises.
5. Poor man power management that decrease the productivity of an enterprise and that increases turnover of workers.

### **4.2 Recommendations**

Therefore, to avoid the above problems, the following remedies should have to be taken by the owners of metal and woodwork enterprises, government, and financial institutions.

#### **4.2.1 The Owners of Metal and Woodwork Enterprises**

- They should focus on customer's relations that can be developed through time by increasing customers' loyalty.
  - They should prepare short term and long term plans to their enterprise.
  - They should improve their manpower management system throughout time in order to decrease workers turnover or attrition.
  - They should organize themselves in association in order to avoid common problems by dealing with government, suppliers of raw materials, training institutions and to share experience with each other and abroad.
  - They should try to keep any information about their business in written form.
- They should try to improve their skill from time to time through training and visiting others organization.

#### **4.2.2 The Government bodies**

- Government should control illegal business enterprises those denote pay income tax.
- Government should allow movement of the products of metal and woodwork enterprises legally.
- Government should make fair payment of income tax and improve the system.
- Government should facilitate working premises to the enterprises fairly.
- Government should introduce its policy and regulation to the MSEs from time to time to encourage legal business operation and discourage illegal business operations.
- Facilitating training conditions to help operators in improving their productivity.

#### **4.2.3 Financial Institutions**

- They should improve the loan size and unnecessary long bureaucracy from loan process.
- They should give the loan according to the market demand of the business men to expand and operate their business
- They should extend the repayment schedule of the loan according to the type of the business and the business plan of the business operators.
- They should have to improve generally the system of dispersing the loans.
- They should release the loan on time when the market is available.

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