Influence of Demographic Factors on Business Performance in Ethiopia

Yimer Ayalew Ahmed, Brajaballav Kar

Abstract: Ethiopia, as a developing country has a higher level of youth unemployment combined with a higher level of growth in the economy, in the recent past. In Ethiopia, the youth entrepreneurship has been regarded as a tool for employment creation. However, the country is facing the challenge of high youth unemployment rates. Still, the country is one of the lowest rates of youth entrepreneurial activity and business survival in the sub-Saharan African region. This research is supposed to fill the gaps by investigating the major effect of demographic variables with youth owned business performance. Further, the research employed both a descriptive survey and exploratory research design with a sample size of 350 youth entrepreneurs. The results obtained from a multiple regression model indicate that age, educational level and prior work experience of the youth entrepreneur were found to be positive and significantly important in explaining the perceived business performance. The implications of this study are that specific policy measures are necessary to encourage the many well trained but unemployed young people to engage in businesses. Additionally it also implies that specific training programmes are necessary to equip the practitioners with necessary theoretical and practical capacities to enhance performance of their firms.

Keywords: Entrepreneur, Demographic, Performance, Micro and Small Enterprises, Ethiopia.

1. INTRODUCTION

Now a day, the Ethiopian government has grasped youth entrepreneurship development via formulating favorable policies and strategies in MSE’s. Cognizant of this, the Ethiopian government has build up the “Federal Micro and Small Enterprise Development Agency” (FMSEA) outfit to take the advantage of such strategy (Tarfasa, Ferede, Kebebe, & Behailu, 2016). Subsequently, the government has emphasized on the function of MSE’s and it greatly invested ample resources to support this sector (Gebreyesus, 2007). The micro and small enterprises sectors are strategically vital for entrepreneurship development due to the fact they act as the seedbeds for entrepreneurial skill development (Amentie, Negash, &Kumera, 2016). In many parts of the world, the contribution of these micro and small businesses are important to job creation and economic growth (Amentie et al., 2016). Although micro and small enterprises are the most important drivers of economic growth and employment opportunities for the globe, its contribution is less in developing countries. According to Beck, Demirgüç-Kunt, & Maksimovic (2005) micro and small enterprises share greater than fifty percent to GDP and sixty percent to employment growth in developed countries, while 17% of GDP and less than 30% to employment in developing countries. This bravura contribution of the sectors shows that it is important to investigate the factors that contribute to the performance of these firms.

An overview of past studies works in Ethiopia documented that micro and small enterprises (MSE’s) play a major role in the economy of a country and much attention has been devoted to business skills and the problems faced by small businesses,(Kokobe, 2015; Abdissa, & Fitwi, 2016; Molla, 2016). Other studies in Ethiopia also have been conducted on the major bottlenecks of women entrepreneurs in MSEs without focusing age differences among women business owners (Singh, & Belwal, 2008 and Mulatu & Prasad, 2018). Furthermore, many scholars have examined the various factors that contribute towards the superior performance of the businesses and researchers have given more importance to the external factors and the personality trait factors (Frese, Brantjes, & Hoorn, 2002). Besides external factors and personality trait, entrepreneur demographics and firm characteristics (Rutherford & Oswald, 2000) are also key determinants of small-scale business success. Demographic characteristics such as gender, age, education, and experience are basic fundamentals to determine business success (Islam, Khan, Obaidullah, & Alam, 2011). According to Abdul Wahab and Al-Damen (2015) entrepreneurs required specific characteristics for performance and these factors reflect the competency of the entrepreneur to success. However, in most studies little attention has been paid to demographic factors and their impact on the performance of the business. So this paper argues that entrepreneurs’ demographic factors play more vital role for the success of any business. Thus, the impact of their demographic characteristics is important to examine for the superior firm’s performance. Therefore, the aim of this study is to address these gaps and to identify the major effect of demographic factors such as gender, age, education level and work experience on firm performance.

II. REVIEW OF LITERATURE

2.1. Demographic Characteristics and Firm performance

In this section the researcher analyzes four demographic variables of youth entrepreneurs and their relationship with business performance. The discussion starts with the gender variable, followed by age, education, and prior work experience of youth entrepreneurs.
2.1.1. Gender and firm performance

Gender is one of the variables that can be considered in the study. Various scholars conducted on gender differences in entrepreneurial performance in many countries and found different results. For instance, Fairlie (2005) shows the “relationship between entrepreneurship and earnings among youth in the USA” and the study found that male youth entrepreneurs are more than male youth employed as well as women. Furthermore, the study made by Blanchflower and Meyer (1994) in the USA and Australia with related to youth self-employment and found men has higher probability to move to self-employment than female. Rosti and Chelli (2005) in Italy also found that women self-employed were less likely to survive than men. On the other hand, in many African scholars analyzed entrepreneurs gender differences in the overall performance of the business, but most of them have not found main differences between men and women (Bardasi, Blackden, & Guzman, 2007). Similarly, other scholars in USA and India also found not major gender differences in business performance (Robb and Watson, 2012; Kalleberg and Leicht, 1991). Based on the above literature, we concluded that female youth entrepreneurs more constraints than youth male entrepreneurs. Therefore, this implies that there is a gender difference for youth entrepreneurs in entrepreneurial activities.

2.1.2. Entrepreneur’s Age and Firm performance

Many scholars mentioned that the age cohort of the entrepreneur has a significant outcome on self-employment (Ahiaibwe, & Kasiyire, 2015). Most of the scholars argued that young entrepreneurs have a better aspiration than older entrepreneurs (Welter, 2001). Other authors also confirm that young entrepreneurs are more likely to be energetic, and more inclined to test their capability than older entrepreneurs (Dockel & Ligthelm, 2005). De Gobbi (2014) also found that older youth (aged 25-29) are more likely to be self-employed than younger individuals whose ages between 20-24 years.

2.1.3. Education and Firm Performance

Access to good education has a positive impact on firm performance since it enhances entrepreneur’s self-confidence and self-efficacy (Kelley, Singer, & Herrington, 2012). Business owners who have attended the highest school completed, they can have an immense ability to learn a new system, process, and technical knowledge, access information, new technology and innovation than those who have less access to education (Amha, 2015). This result is also consistency with result of Lee and Pennings (2001) who argued that entrepreneurs, who have higher education, have positive associations with business survival and expansion. Another empirical survey also confirmed that the individuals higher educational level has the positive relationship with entrepreneurship in general and the business performance in a particular (Ghani, Kerr, & O’Connell, 2011). Hence, education can be used by people to equip themselves with the basic Know-how and skills to confront daily problems (Pantea, 2016).

Therefore, from the above literature, we can generalize that the higher educated level have a relationship with self-employed. So, in this study, this variable is assumed to have a positive relationship with formal education attended and business performance.

2.1.4. Prior work Experience and firm performance

Studies show that the owners of the business with prior work experience have relatively higher growth than those who had no prior work experience. Research by Harris and Gibson (2008) investigated that individual’s previous work experience has significant influence their choice to start a business than individuals with no previous work experience. Other scholars also argue that prior work experience of an entrepreneur has a positive relationship with business growth (Morrison, 2000; Todorovic and McNaughton, 2007). This indicated that past work experience has a vital role for the entrepreneur in acquiring managerial skills to run their successful business. Another investigation made by Mwangi and Namusonge (2015) in Kenya found that the perceived business performance of youth entrepreneur has a positive significant correlation with their prior work experience.

2.2. Measuring the Business Performance

The perceived performance of the micro and small enterprise sectors can be seen from the satisfaction of the business owners on profit, turnover and business development perspective (Abdelrahim, & Alasadi, 2007). Many studies show that perceived business performance is measured as financial and non-financial related measures. For example, financial related performance can be measured as return on investment, returns on equity, return on sales and net profit margin while non-financial related performance can be measured as customer satisfaction, sales growth, employee growth, and market share (Li, Huang, & Tsai, 2009). Micro and small enterprise’s often measured their performance by turnover and employment growth (Leitner & Gudenberg, 2010). Other scholars also stressed that the performance micro and small business measured by employment size growth, and the growth of sales were (Abor & Quartey, 2010). Similarly, the number of employees, profitability, seals and total assets also the other parameters measures the business performance (Sharu, &Guyo, 2015).

III. METHODOLOGY

This research relies on quantitative types of research approach. The quantitative type is used more to explored the impact of demographic and firm characteristics on business performance. The quantitative type is used more to analyze the association between entrepreneurs’ demographic characteristics variables and perceived business performance. The target population of the study was the small scale enterprise owners from the study areas. Of the 420 survey questionnaire distributed, 350 completed responses were collected, accounting for 83% response rate. The data employed to undertake the research was gathered from primary sources, by using survey questionnaire.

In this study, the questionnaires embraced different parts:

The first section of the questionnaire was the demographic profile of the respondents. The objective of these questions was to relate and analyze demographic related variables to different constructs, including respondents’ age, gender, educational level, and prior work experience. The second part of the questionnaire consists of the perceived business performance, the measurement adopted from previous studies. The instrument was pilot tested. The internal consistency of the instrument was checked by Cronbach Alpha.
T-test, ANOVA and multiple linear regression analysis were performed to establish and test the hypothesis for the existence of relationships between the demographic characteristics as independent variables in understanding its influence on the perceived business performance as the dependent variable.

IV. RESULTS AND DISCUSSION

It is one of the forms of quantitative analysis techniques, which entails the relationship analysis of two variables. In this study, the various bivariate and multivariate analyses were conducted for below mentioned cases to test the differences, among different constructs.

4.1. Demographic Characteristics and Business Performance

An attempt is made here to find out whether youth entrepreneur’s business performance varied with the demographic variables such as gender, age, level of education and prior work experience. To describe this variation, independent t-test and one-way ANOVA were used.

4.1.1. Gender and Business Performance

As it is shown in table 1 gender of the owner/operator was the first factor which expected to vary with the business performance of youth-owned enterprise. Out of the total 350 samples, 266 (76%) are male and 84 (24%) are female. This shows that female has less performance compared with male in youth-owned business activities in the study areas. The male group (N=266) was associated with youth-owned business performance (Mean=12.88, SD=4.31). By comparison, the female group (N=84) was associated with youth-owned business performance (M=11.28, SD = 4.14). This indicates that the male seems to perform higher than female youth entrepreneurs. For this study, it is hypothesized that there are no differences between male and female in youth owned business performance. The study used independent-samples t-test for gender variable was tested whether or not the mean differences between male and female in youth owned business performance. As it is shown in table 1 the t-test value obtained was significant (t=3.052, df=384, P= 0.003). This indicates that male and females have difference in perceived business performance at a significant level of 5%. Therefore, based on this, the study accepted the alternative hypothesis and rejected the null hypothesis.

Table 1: Perceived business performance and demographic factors

<table>
<thead>
<tr>
<th>Variab le</th>
<th>Categor y</th>
<th>Observation No.</th>
<th>Observation Mean</th>
<th>Observation SD</th>
<th>T-test/ANOVA</th>
<th>P- Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td>84</td>
<td>11.28</td>
<td>4.14</td>
<td>-3.05</td>
<td>0.000</td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td>266</td>
<td>12.88</td>
<td>4.31</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Age group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-19</td>
<td></td>
<td>16</td>
<td>8.43</td>
<td>4.11</td>
<td>0.075</td>
<td>0.000</td>
</tr>
<tr>
<td>20-25</td>
<td></td>
<td>166</td>
<td>11.09</td>
<td>4.51</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>26-29</td>
<td></td>
<td>168</td>
<td>12.61</td>
<td>4.57</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>350</td>
<td>11.70</td>
<td>4.63</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illiterate</td>
<td></td>
<td>21</td>
<td>10.23</td>
<td>4.40</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Primary school complete d</td>
<td></td>
<td>63</td>
<td>11.44</td>
<td>4.60</td>
<td>5.419</td>
<td>0.000</td>
</tr>
<tr>
<td>Secondary school complete d</td>
<td></td>
<td>137</td>
<td>10.75</td>
<td>3.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical and</td>
<td></td>
<td>88</td>
<td>12.75</td>
<td>4.60</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.1.2. Age Group and Business Performance

Table 1 illustrates that about 168 (48%) of the sampled youth entrepreneurs were found within the age range of 26-29 and 166 (47.4 percent) of the sampled youth business owners were found within the age range of 20-25. Only 16 (4.6%) of the sample respondents were found within the age range of 15-19. The study also reveals the association between the consecutive age categories of youth entrepreneurs and perceived business performance as the mean of 8.43, 11.09, and 12.61 respectively. From this, we can understand that age of the owner/operator has a positive relation with the perceived performance of the youth-owned small enterprise. The study is also testing the differences between age groups of the youth entrepreneurs in relation to the performance of their business. In order to do this research, the researcher used the one-way ANOVA, to compare means between three age groups on business performance. As shown in (table 4.1), the Mean score for age group of 15-19 years (Mean= 8.43, Standard deviation= 4.11), age group of 20-25 years (Mean= 11.09, Standard deviation= 4.51) and age group of 26-29 years (Mean = 12.61, SD = 4.57), and also (F=9.075, d1=2, d2=347, p = 0.000). We can see that the level of significance is 0.000(P-value=0.000) which is below 5% level of significance. Therefore, the study concludes that perceived business performance is significantly different across age groups of the entrepreneurs. This means that the null hypothesis was rejected. This result also consistent with the argument of Schoof (2006) who argued that youth entrepreneur’s age increased, the perceived performance of their business also increased.

4.1.3. Education and business performance

As it is depicted in (table 1), educational level of the youth entrepreneur’s is the third independent variable of this study. It indicates that most of the sampled respondents were completed, their secondary and preparatory education. The study also found that the performance of youth-owned small enterprise has a positive relationship with an education level and it was found that the educational level of youth’s increase their business performance also increases. Table 4.1 indicates that the performance of youth MSE owners, who had first degree graduate and above (Mean=13.75), is much higher compared to other youth MSE owner’s educational level, such as technical and vocational college (Mean =12.75), Secondary school completed (Mean= 10.75), Primary school completed (Mean=11.44), and Illiterate (Mean=10.23). Furthermore, the study had used the one-way ANOVA test, to check whether the educational level group means have a significant difference on the perceived business performance or not.
The result of the study shows there was a significant difference in perceived business performance score of the five educational groups of youth entrepreneurs \((F(4, 345) = 5.419, P-value = 0.000)\). We can see that the p value is less than 0.05. Therefore, there was a statistically significant difference in the performance score between the five different educational groups of the independent variable. The finding suggested that the highest school completed of the youth entrepreneurs, the more likely perceived their business performance. This study finding also consistence with the finding of (Amha et al., 2014) who argued that level of education increased, the entrepreneurial opportunities also increased.

### 4.1.4. Previous work experience perceived business performance

The table also shows that most 255 (72.9 percent) of the surveyed youth business owners had no work experience before starting this business. Only 95 (27.1 percent) of the respondents had work experience before starting this business. With regard to the effect of owner/operator prior work experience difference in youth owned business performance, table 1 indicates that the performance of youth MSE owners, who had prior work experience (Mean=14.36), is so higher than had no work experience(Mean=10.70). The researcher had used independent-samples t-test for prior work experience variable was tested whether or not the mean differences between youth entrepreneurs who had prior work experience and youth entrepreneur who not had prior work experience in youth owned business performance. The result of the study shows there was the significance difference in score for had prior work experience (Mean = 14.36, SD = 3.75) and not had prior work experience (Mean = 10.70, SD = 4.53; t = -7.02, df, 348, P = 0.000) in youth owned business performance. We can see that the p value is less than 0.05. This implies the youth entrepreneurs who had prior work experiences; the more likely it is to have significant difference in their business performance. In view of these findings, it follows that accepted the alternatives hypothesis and rejected the null hypothesis. This finding also consistent with the finding of Morrison (2000) and Todorovic and McNaughton (2007) who argued that there is the positive relationship between business performance and prior work experience of entrepreneurs.

It is observed the above analysis all variables gender, age, education level, and previous work experience were found statistically significant in determining youth owned business performance. It indicates there were significant differences in the demographic profile of the respondents such as gender, age, education level, and previous work experience in determining youth owned business performance.

### 4.2. Multiple Linear Regression results

The following sections analyze the regression results for predictors variables included in the model that contribute to the predicted of the dependent variable used for the aim of this thesis. The following is given to significant variables across the dependent variable. From the hypothesized variables that represented the demographic characteristics attribute, three variables such as age in years, educational level and the prior work experience were found to be statistically significant effect on perceived business performance.

### Table 2: The Effect of Entrepreneur Demographic Characteristics on Firm Performance

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R</th>
<th>Std. Error of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0.434</td>
<td>0.188</td>
<td>0.179</td>
<td>4.197</td>
</tr>
<tr>
<td>ANOVA</td>
<td>Model</td>
<td>Sum of Square</td>
<td>df</td>
<td>Mean Square</td>
<td>F</td>
</tr>
<tr>
<td>Regression</td>
<td>1406.891</td>
<td>4</td>
<td>351.723</td>
<td>19.963</td>
<td>0.000</td>
</tr>
<tr>
<td>Residual</td>
<td>6078.609</td>
<td>345</td>
<td>17.619</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7485.500</td>
<td>349</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Model</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>1.820</td>
<td>2.147</td>
<td></td>
<td></td>
<td>848</td>
<td>0.397</td>
</tr>
<tr>
<td>Gender</td>
<td>0.530</td>
<td>0.543</td>
<td>0.049</td>
<td>0.976</td>
<td>0.330</td>
<td></td>
</tr>
<tr>
<td>Age in years</td>
<td>0.295</td>
<td>0.091</td>
<td>0.174</td>
<td>3.237</td>
<td>0.001</td>
<td></td>
</tr>
<tr>
<td>Educational level</td>
<td>0.596</td>
<td>0.222</td>
<td>0.135</td>
<td>2.682</td>
<td>0.008</td>
<td></td>
</tr>
<tr>
<td>Prior Work Experience</td>
<td>2.980</td>
<td>0.534</td>
<td>0.287</td>
<td>5.579</td>
<td>0.000</td>
<td></td>
</tr>
</tbody>
</table>

From Table 2, the coefficient of determination \((R^2)\) of the four entrepreneur demographic characteristics (independent) on the firm performance as dependent variable was 0.188. The Adjusted R Square value was 0.179 and closer to R Square value implying that 18.8 percent of variance in firm performance in the population was explained by the model.

The F statistic (19.963) for the model was statistically significant at five percent significance level \((p < 0.05)\) and, therefore, the overall model was significant. Thus, the null hypothesis that there is no significant relationship between entrepreneur demographic characteristics and firm performance was rejected in favour of alternative hypothesis, that there is a significant relationship between entrepreneur demographic characteristics and performance.

The calculated t-values for the estimated coefficients of Age in years \((0.295)\), Educational level \((0.596)\), and Prior Work Experience \((2.980)\) were significant at five percent significance level \((p < 0.05)\). Accordingly, age in years, which has been found that keeping other things remain constant, has statistically positive significant associated with youth owned business performance. This shows that the age of individual’s increases will have a better experience and skill for different economic activities so it leads increases their business performance than less aged. Furthermore, the positive relationship between firm performance and age indicates that micro and small enterprise’s operated by young adult entrepreneurs had better performance than competition. This finding supports the results by other studies that business firms operated by young entrepreneurs have better performance.

Similarly, an increase in educational level and prior work experience by one unit each that would result in an increase in firm performance by 0.596 and 2.980 respectively, ceteris paribus. It was also found that youth entrepreneur’s who had prior work experience run a more successful business compared to not having prior work experience counterparts. Being a youth entrepreneur’s who had prior work experience is associated with higher business performance compared to entrepreneur’s who had no prior work experience statistically significant at 1%.

It could indicate that experience gathering that...
could be used subsequently in the experiential learning; could indicate accumulate capital base for future endeavor. Therefore, youth entrepreneurs who had prior work experience have positively associated higher business performance.

V. CONCLUSIONS

The objective of this was to examining the influence of entrepreneur demographic characteristics on firm performance in Ethiopia. The entrepreneur demographic characteristics have a strong and direct effect on the business performance. From the findings, it is concluded that entrepreneur demographic characteristics and business performance are empirically related. Entrepreneur demographic characteristics of age, educational level and experience affect firm performance; firms operated by youthful and experienced owners/managers with high educational knowhow perform better than competition. This view that entrepreneur demographic characteristics and firm performance are empirically related is consistent with positions by various studies. In addition, the signs and magnitude of influence of entrepreneur demographic characteristics on firm performance help enrich the theories of entrepreneurship that; SMEs run by relatively young, well-experienced and well educated entrepreneurs are competitive and register better performance.

VI. IMPLICATIONS OF THE STUDY

Arising from the key findings, this study has a number of implications. The personal attributes of an entrepreneur in this sector has been found to have effect on the performance of their businesses. This study gives additional evidence to the existing body of knowledge in entrepreneurship research by investigating the effects of entrepreneur demographic characteristics on perceiving business performance. It contributes to the policymakers and other stakeholders to encourage the many well trained young people but with high unemployment to engage in businesses are necessary. Besides, owners and practitioners of the micro and small-scale enterprise can take findings of this research as the source of useful information to understand the importance of entrepreneurial strategy so that they can take necessary actions to enhance their entrepreneurial ability so as to sustain the success of their business.

REFERENCES

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