

Challenges and Opportunities of Networking Women Owned Business Engaging in Agro Processing Business Cluster in Bahir Dar City

Bedilu Yismaw¹, Belaynew Asrie²

¹ Lecturer, College of Business and Economics, Bahir Dar University, Bahir Dar, Ethiopia

² Lecturer, College of Business and Economics, Bahir Dar University, Bahir Dar, Ethiopia

Abstract

Small business enterprises contribution in employment and income generation is increasingly recognized and has become a major concern for policy makers with dual objective of enhancing growth and alleviating poverty. In the global economy small and medium enterprises are now playing a pivotal role in regional economic sustainability and growth, yet there is relatively little research that examines SME clustering processes, and in particular the nature of knowledge creation in local/regional SME networks. This paper discusses challenges and opportunities of small business clustering and network among Women Owned Business Engaging in Agro Processing Business. The survey was conducted on 40 selected woman owned agro processing enterprises. The data were collected through a structured questionnaire and analyzed using descriptive methods. The results of the research show that Working place, Absence of market linkage, Raw material scarcity/seasonality, Electric Supply, Capital, Market information problem are the major constrains hindering the expansion of woman owned agro processing enterprises.

Keywords: challenges, business clustering, business opportunities, women entrepreneur

1. Introduction

Micro and small enterprises (MSEs) provide crucial industrial linkages to set off a chain reaction of broad-based industrial development. Without MSEs as subcontractors and suppliers of intermediate inputs to multinational enterprises and domestic large scale enterprises, industrial growth in developing countries may not be able to sustain increasing domestic value, employment, productivity, and industrial linkages (Perry, 2005). In the past decade, remarkable development in clusters has been linked to the growth of micro and small enterprises. According to Smyth (1992), clustering of producers of small enterprises had resulted in creating many small-scaled satellite industries in nearby locations. Zeinalnezhad, Mukhtar, and Sahran (2010) pointed out the significance of the development of policies for clusters among the SMEs and the way in which these could be introduced into nations' industries. Success of micro and small enterprises (MSEs) in many countries derives from the degree to which they

are able to overcome market and institutional failures by being embedded in private institutional support systems (Abera, 2015).

In the context of global competition and different business models, linking enterprises in networks and clusters is believed to enhance competition and regional innovation (Porter 1990). Clustering simulates large firm behavior, since small firms are not in a position to internalize externalities through economies of scale. In other cases, private institutional support mechanisms are provided by large firms to MSEs by way of various business linkages. In still others, cooperative relations among groups of MSEs, organized in business networks and in associations or local community clusters, perform these functions.

Despite the inherent problems associated with the growth of Small-scale businesses, women entrepreneurs are increasingly venturing into ownership of small-scale enterprises either on their own or in partnership with male entrepreneurs (Osarenkhoe, 2017). This has been made possible primarily because of ease of entry, limited access to other enterprises and lack of employment opportunities in formal sector of the economy. Also, given the growth of entrepreneurship among women, understanding the social and economic factors influencing their success performance is of critical importance.

2. Objectives of the study

- To identify the major challenges of women owned business engage in agro processing cluster
- To determine the factors influencing the performance of women owned business engage in agro processing business cluster
- To suggest possible solution to make women entrepreneurs in the cluster network competitive and sustainable.

3. Review of Related Literature

3.1 Small Business Clustering: The Benefits of Network

In the current market environment, characterized primarily by an increase in regional and global competition, plus an increase in customer expectations, rapid changes in techniques and in the used technology, most businesses are moving towards the development of collaborative systems, alliances to allow them to improve their competitiveness (Porter,1990). Among these collaboration solutions networks and clusters have become a central point. In the context of global competition and different business models, linking enterprises in networks and clusters is believed to enhance competition and regional innovation (Porter 1990). Clustering simulates large firm behaviour, since small firms are not in a position to internalize externalities through economies of scale. MSEs cluster to access resources, to reduce costs, to compete with larger firms, and to innovate. By networking and sharing knowledge, SMEs are able to compete for and access specialized resources and information systems as well as internalize competencies and assets (Andersson, 2009).

3.2 Why do small firms cluster?

SMEs are limited in their access to specialized resources and intelligent capital. Biggs (2006) conceive that clustering simulates large firm behavior, e.g., when small firms are not in a position to internalize externalities through economies of scale, they cluster to access resources, to reduce costs, to compete with larger firms, and to innovate. In other words, by networking and sharing knowledge, small firms are able to compete for and access specialized resources and information systems as well as internalize competencies and assets that typically are internalized by large firms with economies of scale (Tayler &

McRae-Williams, 2005). Clustering hence provides SMEs benefits that would be unavailable or be available at a greater cost to non-clustering members. While value-added and activities such as R&D, access to a global client base and advanced business services/production are clearly major contributing factors for small business clustering, the need for access to localized explicit and tacit knowledge networks has proven to be a central driver for clustering (OECD, 2004).

3.3 Helping SMEs to Network

According to Dini (1993) three stages are required in helping small businesses to network development:

- **Preparation.** This involves identifying firms in a particular locality, diagnose their problems. SME owners are not easily convinced that intervention is good for them, particularly in a highly individualistic and anti-State entrepreneurial culture of the type (Montero 1992). Skepticism has to be overcome by personal contacts and problem-solving directed at individual firms. Any group of firms can ask to form itself into a cluster must be convinced that a basis for collaboration exists and that there are clear short-term and medium-term goals which might be met. The number of firms will be small - usually between 10 and 30.
- **Consolidation.** This is the main part of the process. The first step is to appoint a manager/coordinator. The manager's role is, to act as an interface between the PROFO's members and their institutional and market environment. One first task of the manager is to improve the delivery and take-up of support services, and this requires other local agencies, both private and public. Zeinalnezhad and Muriati mukhtar, (2010) argues that once firms are organized into a group they can more easily make their needs felt to institutions and markets. Their size has more of an impact in the market for services to firms. A second task is to develop better relations between the participating firms. This is done through such activities as visits to each others' factories. UNIDO has promoted the formation of 34 groups of enterprises in the food. The manager will also work towards building the self-esteem of the group and promoting its activities (Dini 1993:47). Once this is achieved, the participants and the managers can work towards developing competitive advantage based on cooperation. At the same time, the work of the PROFOs is directed towards particular areas of improvement through the biannual evaluations of progress, which focus on particular areas of activity, such as product design, process improvement and human resource management (Dini 1993:63).
- **Independence.** The aim clustering and networking is to create groups of enterprises which can develop and sustain their competitiveness, and at the same time encourage other firms in the locality to emulate the experience and inject dynamism into the local economy. The benefits to the participants will be great enough for private initiative alone to sustain it.

3.4 The Power of the Networking and Firm Performance

In the presence of economic instability, market imperfections, and weak government-provided legal institutions, the power of the African business network rests partly on the exchange of information through it and on group enforcement, and partly on the ready ability of the group to support transactions that benefit from relation-based governance, such as financing, sales, and distribution to customers outside the immediate neighbourhood. Evidence of such network externalities (or social capital) in SSA has been provided by (Andersson, 2009).

Community connections play a crucial role in the membership of African business networks. Different surveys show that ethnicity is a strong indicator of network activity in manufacturing. Ethnic minority groups, for example, dominate many of the major manufacturing activities. Asgedom (2015) argue that the distinct patterns of ethnic concentration in business, observed across SSA, can be explained to a great degree by a restricted entry process in business networks and by network externalities. Since network externalities confer comparative advantages in business on network members, important ethnic

communities earn rents and become dominant in particular segments of the economy. Networks reinforce themselves through a referral process and statistical discrimination. To examine the activities of these ethnically-based business networks and network externalities confer advantages on members of the group. Four countries provide the backdrop for the investigation – Kenya, Tanzania, Zambia and Zimbabwe. It was in these countries that the surveys gathered data on ethnic business networks.

3.5 Benefit of Networking for Small Businesses

One of factor that hinders growth and expansion of MSEs is the effectiveness with which they interact with similar firms. In other words, formal and informal linkages or business cooperation through networking are not common. A study conducted by Michael (2009) also indicates that there is poor linkage between enterprises. Despite the existing market problems, only 14.26% of respondents considered linkage as being important for development. According to that research finding one factor that could explain this low level of partnership and other forms of business undertakings could be the capacity of MSEs in Ethiopia.

Observing that a particular architecture of private institutional arrangements plays a role in SME success is not a clear cut argument for intervening to encourage its development. Other alternatives may be superior – such as strengthening formal market institutions. It may also be that efficient private institutional support mechanisms for SMEs will emerge naturally on their own via market forces. Moreover, if intervention were called for, what types of policies would make sense? Experienced Africa development specialists often point out that decentralized markets in the region are not reaching efficient outcomes because of the form that private institutional arrangements take, that market fragmentation is frequent, and that entry in certain industries is restricted because of the activities of business networks. Such incongruities can have substantial implications for what development programs do in this area. A better understanding of the institutions that support market exchange in SSA would seem essential in developing effective policy prescriptions.

4. Research Methodology

4.1 Research Design

The study is a descriptive research design aims to describe the Challenges and Opportunities of Networking woman enterprises engaged in food processing sector in Bahir Dar town.

4.2 Population and sample

The study selects 40 enterprises from 130 women owned enterprises engaged food processing sector in Bahir Dar town on simple random base. As there is much homogeneity between these enterprises, the considered sample size is assumed to be sufficient. Primary data was collected through questioner from 40 woman owned registered enterprises engaged in food processing cluster in Bahir Dar town.

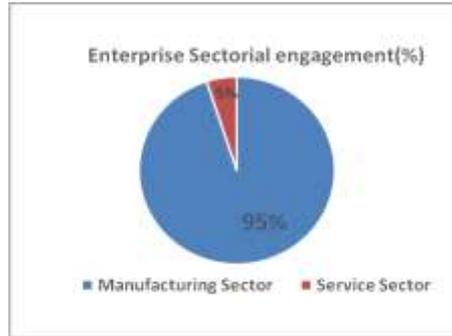
4.3 Data Analysis

Accordingly the study has get insight of the data collected based on the respective theories to answer the research question. The analysis were done based on descriptive methods such as averages, Percentages, and ratios to examine the challenges of women owned business engage in agro processing business sector.

5. Analysis and Interpretation

5.1 Enterprise Sectorial Engagement

Figure 1: Enterprise Sectorial engagement of food processing sub sector



As we can see from the above figure most women owned enterprises in food processing is engaged in manufacturing. 95% of women owned enterprises are participating on food items processing what is locally called “Balitina”. As most literatures shows manufacturing business require certain level of literacy and high effort (Asgedom, 2015). If we see the enterprises under study they are probably at good position since 82% of owners are below age 40 with high physical and mental strength to expand their enterprises.

5.2 Employment opportunity and capital amount

Table 1: Employment Opportunity and current Capital Amount

Questions	Amount	Number	Percentage
No. of employment including owner	Less than 5	33	82.5
	6 -30	6	15
	31 and above	1	2.5
Capital range	Less than or equal to 50,000.00 Birr	34	85
	Less than or equal to 100,000.00 Birr	5	12.5
	Greater than or equal to 500,000.00 Birr	0	0
	Greater than or equal to 1.5 million Birr	1	2.5

According to Federal Micro and Small Enterprises Development Agency (2011) small scale establishment comprises an employee between 6 to 30 workers and/or with the monetary value of the enterprise’s total assets that is not more than 1,500,000 Birr for in industrial sector and 500, 000 Birr For trade and service sector. Micro establishment comprises an employee less than 5 workers and/or with the monetary value of the enterprise’s total assets that is not more than 100,000 Birr for in industrial sector and 50,000 Birr For trade and service sector. When we see enterprises under study they are far behind the average as most of them (82.5%) only have less than 5 employees and 85% of enterprises capital is below 50000 birr which shows us enterprises are absolutely micro.

5.3 Input-Supplier Relation

➤ Source of raw materials/ingredients

Raw material is a basic component for the existence of the MSEs. An enterprise must have sustain, appropriate and known raw material provider. In most developing countries, according to Kebede, 2015 the majority of enterprises in developing countries have no a well known input provider. Production interruption is a common practice to most enterprises due to raw material unavailability and irregular raw materials supply. Strong forward and backward linkages between actors of this sector in supply of raw materials facilitate market for the output goods and services (Eshetu, 2009). Enterprise in this study do not have a known established supplier; they buy the input from different places with high uncertainty of not getting the right quality, quantity and at the right time.

Table 2: Input –Supplier relationship

Questions	Response	Number	Percentage
Do you have a known input supplier	Yes	8	22.5
	No	31	77.5
Do you have an integration with your suppliers	Yes	1	12.5
	No	7	87.5

One of the most common challenges facing the growth of small enterprises is weak links among themselves and with other institutions. To this end, entrepreneurs in the study were asked whether they had links with suppliers. As we can see from table 4.3, 77.5% of women owned entrepreneurs do not have a known supplier. And out of those (22.5%) which has a known supplier 87.5% of them do not integrate with their suppliers. This suggests that links to suppliers pose serious problems in Bahir Dar women owned food processing enterprises. Clearly, this will slow down growth in small enterprises unless this state of affairs is improved. The asked respondents express their reason why fail to create integration with suppliers. Quality and price variation of the inputs are frequently raised reasons for enterprises not to integrate with their supplier.

The other factor that hinders growth and expansion of MSEs is the effectiveness with which they interact. In other words, formal and informal linkages or business cooperation through networking are not common. Large public enterprises and the few foreign affiliates do not outsource some of their operations to local MSEs. The legal and institutional mechanisms to enforce contractual obligations and government policy to design appropriate incentive mechanism to encourage the expansion of business linkages/sub contracting managements is at its infant stage.

5.4 Entrepreneurship and Business support

Table 3: Entrepreneurship and Business support

Questions	Response	Number	Percentage
Is your business registered?	Yes	40	100
	No	0	0
Do you keep business records?	Yes	10	25
	No	30	75
Does your enterprise have Business plan	Yes	12	30
	No	28	70

5.5 Entrepreneurship and Business support

Being registered and have business license is magnificent for businesses to get opportunities and support from government and other organizations (Perry, 2005). Having business license will also create a positive image on customers since it is a sign of discharging responsibility. Business registration under the study is in a very good position as 100% of them are registered.

When it comes to keeping your business's records, saving everything "just in case" can prove to be an expensive proposition. Business record keeping is a starting point for controlling the venture efficiently. Many business decisions normally need appropriate information. And record keeping a base for all information to be generated. When we evaluate enterprises under the study; 75% of them did not record their transactions. In addition 70% the respondents did not have proper business plan. As the document is heading and explaining how it is going to reach its destination, Business plan is indispensable for firms and MSEs under the study lack one important ingredient for success.

5.6 Major Constraints for MSEs

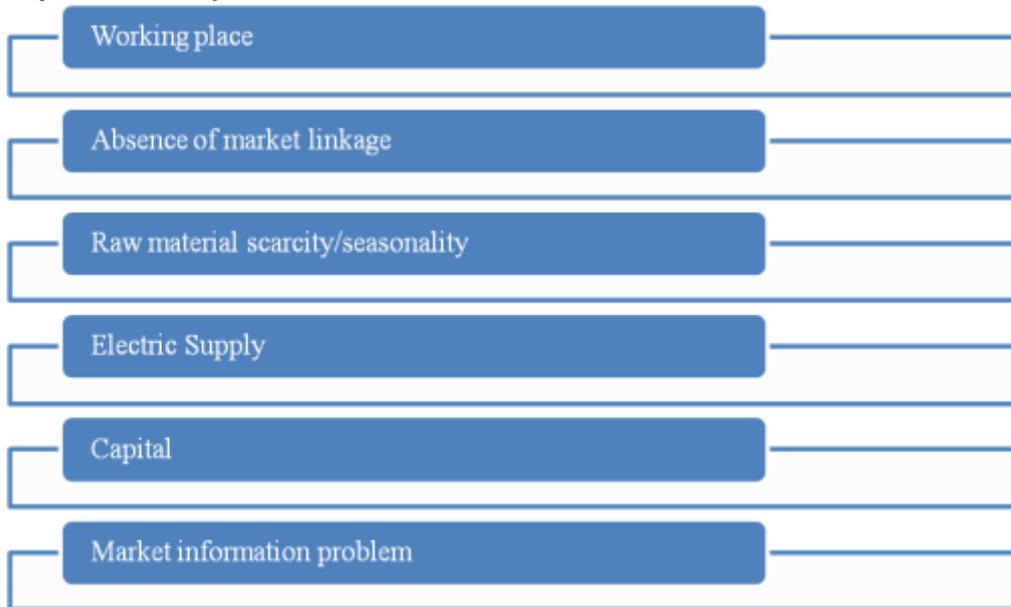


Figure 2: MSEs Challenges

This sector is often referred to as small with big problems. Despite their significant contribution to the economy, small enterprises face serious challenges. Different obstacles experienced by entrepreneurs running small enterprises. As indicated in the above list, of the many factors hindering female owned food processing small businesses in the town the major ones are:

- Working place
- Absence of market linkage
- Raw material scarcity/seasonality
- Electric Supply
- Capital
- Market information problem

Location can play a central role in determining the survival of small enterprises. Those enterprises that operate in commercial districts or on roadsides show greater growth rates than those based in homes, or far from main roads (Berkham et al. 2002) cited by porter (1990). The achievements of small enterprises also depend on neighbourhood appearance and status of future business operations in that location. For

instance, in terms of location, the majority of small enterprises are home-based with limited markets for their products and services (Paul and Rahel 2010: 78). Their interaction with other businesses increases transaction costs and this contributes to limited access to marketing information. The CSA's report (2003) on Ethiopia indicates that 48% of all establishments faced difficulties related to demand or access to markets, and weaknesses in or total absence of appropriate marketing channels, exhibitions, trade fairs and display centre. Market linkage, in which small enterprises supply medium and large ones and which is believed to have a positive effect on the performance of the small enterprise is not very common in developing countries. As we see get from the data collecting tool; market linkage is a prominent problem (74%) in food processing enterprises in Bahir Dar town.

5.7 Marketing and Promotion

Table 4: Marketing and Promotion

Questions	Response	Number	Percentage
Do you have access to information to exploit business opportunities?	Yes	17	42.5
	No	23	57.5
What is your major problem regarding marketing your products?	Demand problem	12	30
	Promotional problem	9	22.5
	Strong competition	7	17.5
	Networking problems	12	30

Table 4 briefly shows us most enterprises (57.5%) engaged in agro processing cluster do not have access to market information. This is normally a great headache for business to expand as information is power in every dimension. Studies conducted by Gebrehiwot and Welday (2004) on small enterprises have revealed that demand constraints exist, which limit the opportunities for production. Ken (2003) believes that small enterprises are facing "too much competition", citing the existence of overcrowding in the market and failure of demand to grow, at least not as rapidly as the supply. The finding of this study is consistent with most research papers done before as the mentioned problems are equally exist in the town.

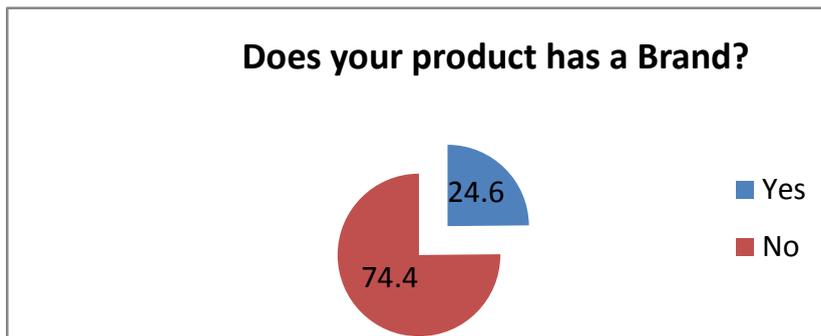


Figure 3: product brand

Researches done on international market reveals; a branded product will have a 12% of additional sales volume than the unbranded product (Eshetu, 1999). Brand has many merits to the enterprise which will bring sales increment by building equity for the product in various ways. In our study 74.4% of

enterprises do not brand their products. These shows female owned food processing enterprises are not addressing the main technical elements in business which can show us business development service might be advisable to reduce these problems.

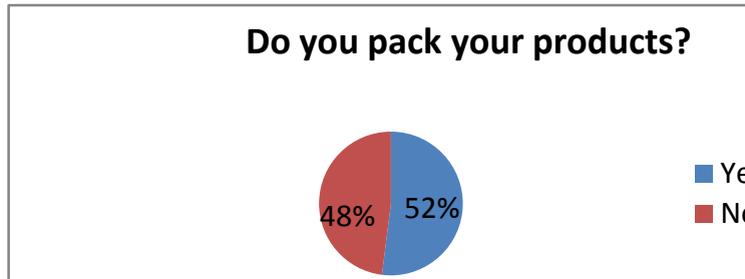


Figure 4: product package

The so called 'Baltina' products need to be packed in hard, shine and good looking materials. Again proper packaging will improve the performance of firms in making the product comfortable to use, reducing loss and etc (Foghani, 2017). Almost half of the enterprises under the study did not pack their product properly. Technical assistance by different institutions might be desirable to fix such enterprises issues. Continuous training provides a particular entrepreneur with the skills and competencies necessary for successful entrepreneurship.

5.8 How to improve your market related problems

Respondents were asked to suggest how their problems will be solved. Most enterprise forwards the following remedies:

- Creating market linkage
- Designing proper market information strategy
- Backward integration with suppliers
- Working premises
- Promotion
- Addressing the technical problems-BDs support
- Capital fulfillment.

5.9 Customer Type

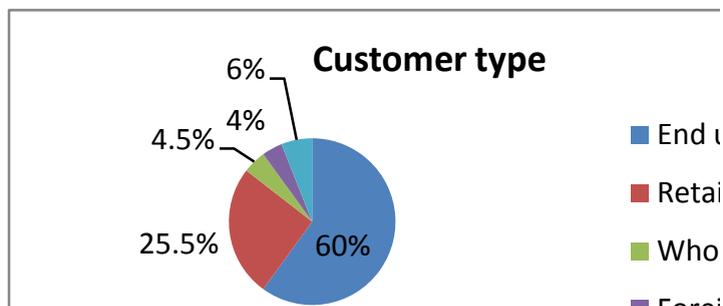


Figure 5: customer type

The customer types for most food processing enterprise are end users at family level which constitute 60% followed by retailers which account 25.5%. customers have high implication for business organizations. Enterprise business strategy is a derivation of their customer type, location, number and other demographic considerations. Specifically marketing strategies like distribution and promotion are designed taking customers characteristics as a base (Kotler, 2000).

5.10 Relationship between Enterprises and Customers

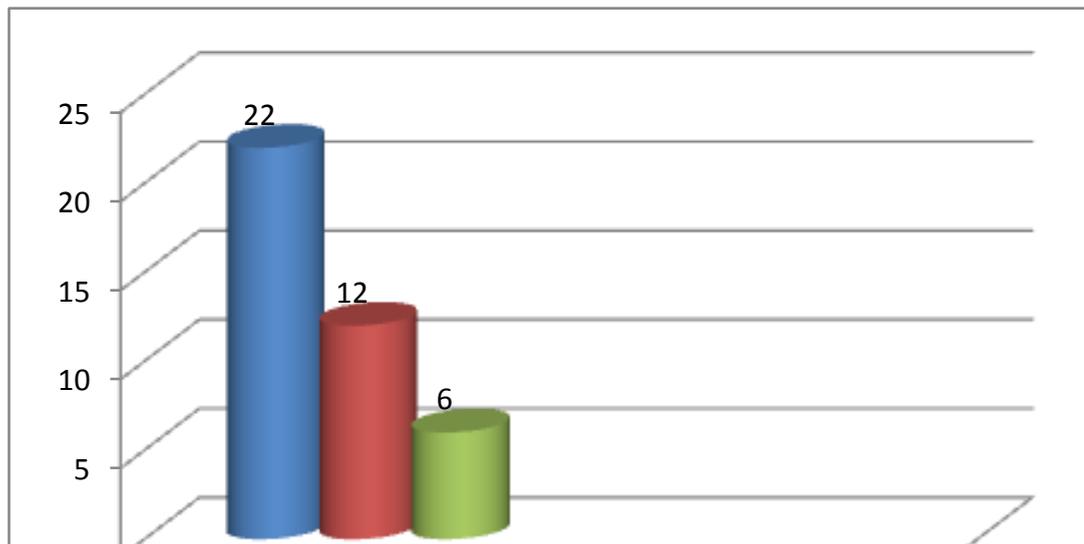


Figure 6: Enterprises relationship with Customers

As we can see from the bar graph; most enterprises (55%) have only business relationship with their customers. Firms in the 21st century have gone a lot concerning their interaction with their customers and after sale service. Most companies today are moving away from transactional marketing to the practice of relationship marketing: a philosophy of doing business, a strategic orientation that focuses on keeping and improving current customers. Again women owned food processing enterprises in Bahir Dar also miss this integral concept of the century.

6. Conclusions

Women entrepreneurs encounter more operational and strategic impediments than their male counterparts. The analysis part clearly shows us food processing women owned enterprises are characterized by many barriers. Most of the obstacles like integration with suppliers, record keeping, business plan, and branding, packaging, relationship with customers are technical which can be reduced in training or Business development support. Other obstacles like market linkage and integration, working premise, capital availability and market information highly needs the intervention of government and other organizations.

7. Recommendation

Enterprises should get professionals service from respective government and Non government organizations so as to fix the technical problems we came across in the analysis part. So

organizations which are working on entrepreneurship shall take this case seriously as most problems raised can be solved by giving technical assistance for enterprises (agro processing cluster).

- ✚ Enterprises should form a cluster and linkage as most problems identified can be reduced by having a network among participants in this sector. Stronger inter-firm relations provide a platform for excellence through the integration of varied production techniques and capabilities. So market linkage integration has to be considered as appropriate tool to reduce the aforementioned problems.
- ✚ The MSEs in Bahirdar City Administration have been suffering from the constraints like, limited access to alternative financing sources and access to infrastructure. This has been recommended many times for the city administration but still it is a prominent challenge and serious attention should be given to this challenge.

References

- Abera, A. (2015). Opportunities And Challenges Of Small Business Enterprises In Gedeo Zone- Ethiopia. *Asia Pacific Journal Of Applied Finance* , 12-22.
- Aihie Osarenkhoe*, D. F. (2017). Clusters' Vital Role in Promoting International Competitive Advantage. *Journal of Regional Research* , 175-194.
- Andersson, A. (2009). *The influence of network relationships in the internationalization of SMEs*. Jonkoping International Business School.
- Asgedom, D. B. (2015). Challenges And Opportunities Of Micro And Small Manufacturing Enterprises The Case Of Easter Zone. *International Journal Of Science And Research* , 1679-1686.
- Biggs, T. (2006). *African Small And Medium Enterprises, Networks, And Manufacturing Performance*. New York: World Bank Policy Research Working Paper.
- Foghani, S. (2017). Promoting Clusters and Networks for Small and Medium Enterprises to Economic Development in the Globalization Era. *sage open* , 1-9.
- Kebede, B. (2015). *The Challenges Of Micro And Small Enterprises and Business*. Addis Ababa.
- Kotler, P. (2000). *Marketing Management, Millenium Edtion*. Newjersy: Pearson Education Company.
- Masoomeh Zeinalnezhad and Muriati mukhtar, S. s. (2010). The Roll of Clusters and Networks in development of Industrial SMEs . *International Conference on Business and Economics Research* , 76-80.
- Michael, E. (2007). *Micro Clusters And Networks*. Sydney : Elsevier.
- Oecd. (2004). Promoting Entrepreneurship And Innovative Smes In A Global Economy. *Organisation For Economic Co-Operation And Development*, (Pp. 1-78). Istanbul, Turkey.
- Perry, M. (2005). *Business Clusters: An International Perspective* . New York: Routledge.
- Porter, M. (1990). *The cmpetitive advantage of Nations*. Harvard Business Review