FACTORS THAT AFFECTING SOCIAL ENTREPRENEURSHIP PERFORMANCE IN ETHIOPIA

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Abstract: The essence of this research was to identify factors that affect the performance of social entrepreneurship in Ethiopia. To achieve the aim of the study a survey design with a systematic integration of quantitative and qualitative methods. In this study the required data was be collected by Questionnaire (both closed-ended and open-ended responses) with the manager or owner of 342 small- and medium-sized social enterprises. Secondary data was collected from financial and audited statements. The results of findings showed that the variables associated with individual factors, organizational resources, and organizational factors and environmental factors have a positive and significant relationship with social enterprises performance. The study recommended that for the enterprise to improve their performance, they should continuously improve personality traits and enhance firm attributes, strategies and firm specific resources; exploitation of potential of individuals; optimum use of human and physical resources as well as effective and efficient use of financial and experiential resources; the enterprises should consider dynamic and hostile aspects of the environment planning and consider heterogeneity and competitive intensity in strategic planning.

Index Terms - Ethiopia, Factor, Social entrepreneurship, Performance.

I. INTRODUCTION

In the emerging environment, Enterprises need entrepreneurship aspects which are innovation, progressiveness and risk-taking to redistribute and to reconcile resources to create new values (Frishammar and Åke Hörte, 2007). Social entrepreneurship and market orientation are the key success factors of today ‘s enterprises as they make it possible for new enterprises to survive and endure(Sciascia, Naldi and Hunter, 2006). Social entrepreneurship is the application of the mindset, processes, tools, and techniques of business entrepreneurship to the pursuit of a social mission that uses power of economic markets to generate and deliver solutions to social problems. Social enterprises are those firms that produce and sell goods and services by putting the highest priority on social purposes such as the provision of social services and jobs to the marginalized members of the society, and the enhancement of the quality of life of communities.
Social enterprises can be said to be in between profit organizations and non-profit organizations (Defourny and Nyssens, 2010). The Social Enterprise World Forum (SEWF) is the leading forum for international exchange and collaboration in social entrepreneurship and social investment. The success of the event in galvanizing the global movement of social enterprise has created a platform for learning, sharing of good practice, ideas and creating partnerships has made it the main forum for the social enterprise sector. Social enterprise is increasingly capturing the imagination across Africa and around the world, with Ethiopia one of the country’s leading the way, according to a report (Simon Francis, 2019) and (Zeleza, 2019). It is estimated that there are about 55,000 such social enterprises in Ethiopia according to a British Council research.

Among these is Tebita Ambulance, the first private ambulance service founded by Social Enterprise Ethiopia current president Kibret Abebe. According to Social Enterprise Ethiopia (SEE) started in 2018, it was founded on the principles of bringing to the table, “the larger community of social enterprises, aspiring social entrepreneurs, government bodies, supporting partner organizations and individuals” and to help in their growth and expansion via a combination of mentorship and network skills to accomplish their end goal. Social enterprises need customers who understand the positive impact of their purchase — and can afford to pay for it. The business environment needs to improve: Ethiopia ranks well below Kenya and Rwanda, and below average for sub-Saharan Africa, in the World Bank’s ease of doing business rankings. And appropriate investment is needed. Currently, access to finance is a much bigger challenge for social businesses (58% of those surveyed by British Council said it was their main barrier to growth) than for mainstream ones (20%).

Attaining legal recognition for social enterprises which exist in various forms, including micro and small businesses, cooperatives, sole proprietorships and NGOs is one of Social Enterprise Ethiopia’s major tasks ahead. There are no policies supporting social enterprise; they compete with mainstream businesses, while being unable to access grants or tax exemptions available to charities. Majority of previous studies on social entrepreneurship (S.E) have evolved within the domain of not-for-profit organization (Urbano, Toledano and Soriano, 2010), factors that affecting social entrepreneurship have been studied in various disciplines, such as economics, strategy, psychology, network theory and innovation perspectives. Nevertheless, it is observed that limited knowledge from firm’s performance perspectives and the existing literature is highly fragmented.

There are abundant of studies within the Ethiopian context regarding the problem of enterprises for profit in relation to their customer, service quality, competition; effect, role and performance and commitment. However, there is lack of empirical study that assessed the social enterprises from Ethiopian context expect that undertaken by the British embassy. Thus, this study was focused on identifying factors that hindering Social enterprises entrepreneurship performance in Ethiopia.

Specifically, the study was planned to achieve:
To identify the current status of Social enterprises in Ethiopia.
To examine the influence of individual factors on Social entrepreneurship performance.
To ascertain the effect of organizational factors on Social entrepreneurship performance.
To examine the influence of organizational resources Social entrepreneurship performance.

To determine the effect of environmental factors on Social entrepreneurship performance.

2. Research Hypothesis

Hypothesis 1: Individual specific factors have positive significant effect on Social enterprises performance
Hypothesis 2: Organizational specific factors have positive significant effect on Social enterprises performance
Hypothesis 3: Organizational resources have positive significant effect on Social enterprises performance
Hypothesis 4: Environmental specific factors have positive significant effect on Social enterprises performance

3. Conceptual Framework

A conceptual framework is a diagrammatic representation of variables and illustrates the relationship between the independent and dependent variables. The study adopted a multidimensional model of social entrepreneurship developed by (Weerawardena and Mort, 2006). This model describes as individual factors, organizational factors, organizational resources and environmental factors determines enterprises performance.

Fig 1. Conceptual Framework

4. Theoretical foundation of the study

In the current study, the relationship between dependent variable (performance of social enterprise) and the independent variables (social entrepreneurship factors) were investigated with considering Agency Theory, Stakeholder Theory, Resource Dependency Theory and Social Contract Theory as the foundational theories.

Agency Theory

Agency theory was developed by Jensen and Meckling (1976) and is defined as the relationship between the principals, such as shareholders and agents (social enterprise managers). In this theory, shareholders who are the owners or principals of the companies hire the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents. Thus shareholders must accept the effects associated
with individual factors, organizational factors, organizational resources and environmental factors in order to maintain social enterprise performance and bonding managers in order to preserve their rights. The agency theory provides a framework for deriving useful information for understanding organizational and environmental factors and their possible effect on firm performance.

**Stakeholder Theory**
Stakeholders have been broadly defined as any group or individual who can affect or is affected by the achievement of an organization’s objectives (Freeman and Medoff, 1984). The theory argues that social enterprise organizations should serve all groups or individuals who have a stake in the organization, typically including employees, customers, suppliers, and local communities. Understanding the constructs in stakeholder’s theory is critical to understanding the activities of social entrepreneurs as agents of change.

**Resource Dependency Theory**
The resource dependency theory concentrates on the role of board of directors in providing access to resources needed by the firm. Hillman, Cannella and Paetzold (2000) contended that resource dependency theory focuses on the role that directors play in providing or securing essential resources to a social enterprise organization through their linkages to the external environment. Drawing from Resource Dependency Theory, this study has confirmed that organizational resources as a key social entrepreneurship factor has a positive significant effect on the firm performance.

**Social Contract Theory**
Social contract theory sees society as a series of social contracts between members of society and society itself (Gray, Owen and Adams, 1996). Based on the views of the Social Contract Theory discussed above, the current study sees a direct connection between social enterprise and the society that it is meant to serve. The concern here is that Social entrepreneurship process combines the passion of a social mission with an image of business-like discipline and innovation.

5. **Regression Model Equation**
This model uses to predict the possible effect of individual factors, organizational factors, organizational resources and environmental factors on firm performance as indicated by the regression model equation: 

\[
PF = -1.121 + 0.257\beta_1 + 0.261\beta_2 + 0.184\beta_3 + 0.501\beta_4
\]

6. **RESEARCH METHODOLOGY**
The types of research that was employed in this study were both descriptive and explanatory research. The major purpose of descriptive research is description of the state of affairs as it exists at present. So, this study will describe and assesses the current status of socials enterprises. Besides, the study was applied explanatory research in which the relationship between dependent and independent variables identified with an aim of predicting factors that influence of Social entrepreneurship performance in Ethiopia. Moreover, the study employed mixed research approach (qualitative and quantitative research approach). The target population of the study was includes the
owners/manager of small and medium enterprises located in Oromia Regional State which are Jimma Administrative Zone, Addis Ababa and Adama town those applied social affairs.

Since the study focused on Small and Medium enterprises that emphasized on social affairs that such enterprises headquarter are densely populated around the capital city especially in Addis Abeba and its surrounding thereby, that the enterprise located in Adama and Addis Ababa city will be considered as target population. Additionally, Enterprises found in Jimma City administration will be considered judgmentally. This is mainly due to the difficulties encountered in surveying large samples of the same respondents over time because of high firms entering and exiting the market. The primary data was collected by Questionnaire (both closed-ended and open-ended responses) with the manager or owner of 342 small- and medium-sized firms which are selected with the help of simple random sampling. Secondary data source will be Journals, Books and Documents of the target organizations. Besides, both qualitative and quantitative types of data will be used for this stud. Yemane (1997) formula used to determine sample size.

Once the raw data are collected, the next activity is processing of them for analysis and discussion. The method of data processing in this study will be both manual and computerized system. The collected raw data will be first checked and edited to detect errors and omissions in responses. After data were edited, they will be coded and classified based on common characteristics of variables. Finally, the coded and classified data will enter in to Microsoft office excel to make ready for analyze by Using STATA 14 and results shown in terms of frequency distribution and percentages. Data will be analyzed using both descriptive and inferential statistics. The relation of each explanatory variable was analyzed using descriptive statistical tools percentages. Finally, descriptive narrations through concurrent triangulation strategy will be applied to analyze the interview questions. Beyond the descriptive analysis, econometric model which is multiple regression analysis models will be used to test the relationships between and among variables and to draw conclusions.

7. **Validity and reliability**

Validity also refers to the degree to which an instrument measures what it purports to measure (Becker, Bryman and Ferguson, 2012). Internal validity refers to correct mapping of the phenomenon with findings. This is through triangulation which is make use of multiple and different sources, methods, investigators, and theories to provide corroborating evidence. Here the result of factor loading of all variables are above significant value of 0.3. External validity refers to generalizability of findings. To assure the generalizability of the study the researcher was collect the information from target population which is interdependent group systematically as it describes the detail of the participants or setting under study using strong action verbs, and quotes. Therefore, the groups will be satisfied to the improvement that will occurred as the result of the studies finding and recommendation. Further, the proposal was demonstrated to university research committees and community to question the researcher critically about his method, practices and processes. Drost (2011) states that reliability is the extent to which a given measuring instrument produces the same result each time it is used. The researcher used the internal consistency method to
determine the reliability of the questionnaires. Reliability was ensured by use of Cronbach Alpha Test of being not less than 0.7 and hence all questions were retained in the study.

8. Result and discussion

This section presents the analysis, discussion and inferences made on the basis of the responses obtained. All the data were coded and entered in to STATA 14 and inferences were made based on the statistical results. The research instrument used in the study was survey questionnaire. The study population comprised managers and employees. The response rate comprises 85% of target population.

8.1 Descriptive Analysis

8.1.1 Demographic Information

The study investigated the length of service of individual respondents in the organizations, the sizes, Age, profit trends and Employment opportunity of respective enterprises.

<table>
<thead>
<tr>
<th>SN</th>
<th>Item</th>
<th>Alternatives</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Service year</td>
<td>Less than 1 year</td>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1-5 years</td>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Above 5 years</td>
<td>245</td>
<td>84</td>
</tr>
<tr>
<td>2</td>
<td>Size of organization</td>
<td>Micro</td>
<td>212</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Small</td>
<td>79</td>
<td>27</td>
</tr>
<tr>
<td>3</td>
<td>Age of firms</td>
<td>Less than 1 year</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1-5 years</td>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Above 5 years</td>
<td>253</td>
<td>87</td>
</tr>
<tr>
<td>4</td>
<td>Profit trends</td>
<td>Less than expenses</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Half of expense</td>
<td>247</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than half of expense</td>
<td>29</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>Employment opportunity of the organization</td>
<td>Low</td>
<td>87</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Average</td>
<td>172</td>
<td>59</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High</td>
<td>32</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>291</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey, 2020

Table 1 shows that a majority of employees (84%) in the enterprise had worked in the organization for more than five years. Only 8% of the respondents had worked for less than one year in the firms. As well as 8% of the respondents had worked between 1 to 5 years. These results imply that majority of employees had worked for long periods of time, thus gaining the necessary experience required to propel the enterprise into greater height of growth performance. Based on the results contained in Table 1, the majority of respondents (73%) were drawn from the Micro firms. While 27% of the respondents were from small sized firms. The inclusion of questions seeking size of the firm was essential in this study because one crucial indicator of positive performance of enterprises is defined in terms of the number of employees. The result is consistent with studies of (Davidsson, Delmar and Wiklund, 2002; Yasuda (2005); Oliveira and Fortunato, 2006).

Based on the results contained in Table 1 above the majority (87%) of respondents were from enterprise which have been in existence for more than 5 years with only (13 %) having been in existence for less than five years. The results
of profit trends for the enterprises involved in the study showed that as the majority of enterprises (85%) make a profit of half of their expenses. While 10% and 5% of them make a profit of more than half of firm’s expense and less than the expense they made respectively. Additionally, the table 1 indicated as majority of enterprises (59%) creates average employment opportunity, while 30% of respondents showed as the firm creates low employment opportunity with 11% of high employment opportunity. This indicated as the enterprises have its own contribution on employment opportunity creation in the country.

8.2 Partial correlation
Partial correlation is the correlation between an independent variable and a dependent variable after controlling for the influence of other variables on both the independent and dependent variable. Accordingly, to assess the nature of inter-relationships between the social entrepreneurship factors and firm performance, partial correlation was performed.

The matrix of the dependent variable against each independent variable is presented in table below and with the interpretation of each coefficient.

Table 2: Partial correlation of Firm performance and predictors

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>IFAV</td>
<td>0.1601</td>
<td>0.0456</td>
<td>0.0256</td>
<td>0.0021</td>
<td>0.0065</td>
</tr>
<tr>
<td>OFAV</td>
<td>0.1762</td>
<td>0.0503</td>
<td>0.0310</td>
<td>0.0025</td>
<td>0.0027</td>
</tr>
<tr>
<td>ORAV</td>
<td>0.1276</td>
<td>0.0362</td>
<td>0.0163</td>
<td>0.0013</td>
<td>0.0303</td>
</tr>
<tr>
<td>EFAV</td>
<td>0.3557</td>
<td>0.1070</td>
<td>0.1265</td>
<td>0.0115</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Table 2 shows the correlation results which indicate that there was a positive and significant relationship between individual factors and firm performance. This was evidenced by the p value of 0.000 obtained which is less than that of critical value of 0.05. The positive association between individual factors and firm performance measures implies that individual factors such as personal traits can affect positive performance. These findings suggest that social enterprises in Ethiopia support a great deal in improving firm attributes, strategies, resources and individual capabilities through bold and aggressive initiative in investing in activities that enable increase in profit and employment opportunity creation. On the basis of these findings the null hypothesis that there is a positive relationship between individual factors and financial performance of the firms is supported. This finding is supported by (Mazzarol and Reboud (2009); Di Zhang and Bruning (2011); Pereira and Gomes (2012).

Correlation results indicate that there was a positive and significant relationship between organizational factors and firm performance. This was evidenced by the p value of 0.001 which is less than the critical value of 0.05. This implies that an enhancement in organizational factors leads to increased employment opportunity and profit margin. The positive and significant association between individual organizational factors and firm performance measures
implies firm attributes and strategies can stimulate performance. These findings suggest that social enterprises in Ethiopia support improvement of organizational factors through investments organizational factors and activities that enable increase in profit and employment opportunity creation trends of the firm performance. The findings therefore support the null hypothesis through the observed positive relationship between organizational factors and performance of the firms.

The result also supported by the study of (Rauch, Frese and Utsch, 2005; Aktan and Bulut, 2008).

Results obtained from this study show that there was a positive and significant relationship between organizational resources and firm performance as shown in Table 2. This argument is supported by the p value of 0.000 which is less than recommended critical value of 0.05. This implies Physical resources such as the plant, machinery, equipment, production technology and capacity contribute positively towards firm competitive advantage and eventually result in superior firm performance. These findings suggest that social enterprises in Ethiopia support a great deal of tolerance for improving firm attributes, strategies, resources and organizational capabilities through bold and aggressive posture in investments in organizational resources that enable increase in sales construct of the firm performance. On the basis of these findings, the null hypothesis is supported by the observed positive relationship between organizational resources and firm performance constructs. These results are consistent with those of (Morgan and Rego, 2009; Ainuddin et al., 2007) studies.

To assess the nature of inter-relationships between the environmental factors and firm performance, Pearson correlation was performed. A positive and significant relationship between the two was observed. This was evidenced by the p value of 0.000 which is less than that of critical value of 0.05. The effects of business environment factors on firm performance have been discussed in several theoretical contributions and empirical studies. These findings suggest that social enterprises in Ethiopia have a support on improvement of firm attributes, strategies, resources and organizational capabilities through investing in organizational activities that enable increase the financial performance. On the basis of these findings therefore, the null hypothesis that there is a positive relationship between environmental factors and financial performance of the firms is supported. The result of the findings is supported by (Garengo, Biazzo and Bititci, 2005) and (Barua, 2016).

8.3 Regression Analysis

The regression analysis was conducted to know by how much the independent variable explains the dependent variable. Before we go to in detail of multiple regression assumption of were first tested. Normality of Residuals was checked using the estimates of kernel density figure. Hence, the result indicated as the residuals are symmetrically distributed. Therefore, the residual has not the issue normality. Homoscedasticity of Residuals was checked by using two tests on heteroskedasticity given by imest is the White’s test and the second one given by hettest is the Breusch-Pagan test. Hence, the estat imtest of the null hypothesis that the variance of the residuals homogenous have the respective P-values are larger, we would not reject the null hypothesis of variances of residuals is homogeneous.

Also, Model Specification was checked by using both the linktest and ovtest. The result indicates as linktest, the test _hatsq is not significant and the P-value for ovtest is fine greater than 5% significant level. This is to say that
linktest has failed to reject the assumption that the model is specified correctly. Therefore, it seems that there is no a specification error as it is possible to do further analysis. Lastly, multicollinearity was checked and 1/VIF of all independent variables are greater than 0.1 and the VIF value of all the independent variables are also less than 10. Therefore, there is no multicollinearity problem among each independent variable.

Table 3 Regression summary of Performance of firms and predictors

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 291</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>260.065706</td>
<td>4</td>
<td>65.0164265</td>
<td>F(4, 286) = 832.73</td>
</tr>
<tr>
<td>Residual</td>
<td>22.3299124</td>
<td>286</td>
<td>.07807617</td>
<td>Prob &gt; F = 0.0000</td>
</tr>
<tr>
<td>Total</td>
<td>282.395619</td>
<td>290</td>
<td>.97377995</td>
<td>R-squared = 0.9209</td>
</tr>
</tbody>
</table>

|                  | Coef.    | Std. Err. | t      | P>|t|  | [95% Conf. Interval] |
|------------------|----------|-----------|--------|-----|---------------------|
| IFAV             | .2567708 | .0935918  | 2.74   | 0.006| .0725548 - .4409869 |
| OFAV             | .2615651 | .0864295  | 3.03   | 0.003| .0914465 - .4316837 |
| ORAV             | .1848545 | .0849365  | 2.18   | 0.030| .0176745 - .3520345 |
| EFAV             | .5010677 | .0778565  | 6.44   | 0.000| .3478234 - .6543121 |
| cons             | -1.12112 | .1029637  | -10.89 | 0.000| -1.323783 - .9184573 |

As the Model summary result of regression analysis on table 3 shows the individual factors, organizational factors, organizational resource and environmental factors explain firm performance by the value of R² is .9209 and the reming .0791 by others variables. Further, a regressions summary indicated as all independent variables have positive influence on firm performance. The results of the study support the hypothesis that social entrepreneurship factors like individual factors, organizational factors, organizational resource and environmental factors influence significantly contribute to firm performance. The result from this study also supported by the study of Lekmat and Selvarajah (2008) and Goosen (2002).

9. Conclusions

Based on the result of the study it can be concluded that individual factors, organizational factors, organizational resources and environmental factors have a positive influence the firm’s performance in Ethiopia. The overall study established that the stated independent variables has a strong effect on the dependent variable namely performance of the firms in terms of profit and employment creation trends.

10. Recommendations

Based on the conclusion provided what highly the firm recommended is institutionalization of social entrepreneurship in the country. The firm should continually improve employee personality traits for enhancing their performance, exploit the potential through motivating individuals for enhancing performance and always recognize personal backgrounds and foster individual competencies for enhancing performance as the result of individual factor are the one that affect firm performance. Further, Enhancing firm attributes, strategies and firm specific resources for enhancing performance and always foster organizational structures and dynamic capabilities; Utilize optimally the human and physical resources at their disposal for improving firm performance and make effective
and efficient use of financial and experiential resources; consider dynamic and hostile environment aspects when undertaking strategic planning for enhancing performance and consider heterogeneity and competitive intensity for improving performance.

**Areas for Further Research**

The study is not free from limitation. Future research should add independent variable, consider replicating this study in other institutions, business unit, cultures, regions and country to overcome the limitations to the study.

**References**


ownership structure En: Journal of Finance Economics, 3.


